

STAFF REPORT

City Council Business Item

DATE: August 19, 2024

TO: Honorable Mayor and Council Members

FROM: Amy Nilsen, Interim City Manager

SUBJECT: **Authorize the Interim City Manager to Explore the Establishment of a Fortuna Enhanced Infrastructure Finance District**

STAFF RECOMMENDATION:

Receive a report from staff on an Enhanced Infrastructure Finance District (EIFD) and authorize the Interim City Manager to explore the establishment of the Fortuna Enhanced Infrastructure Finance District including but not limited to establishing a Public Finance Authority, and identifying a legal and economic advisor(s).

EXECUTIVE SUMMARY:

EIFD Overview

The California Legislature authorized the formation of an Enhanced Infrastructure and Financing Districts (EIFDs) in 2014 through Senate Bill 628, and the statutory framework for EIFDs, which has been amended multiple times since 2014, is codified in Chapter 2.99 of Part 1 of Division 2 of Title 5 of the California Government Code (commencing with Section 53398.50) (EIFD Law).

An EIFD is a special financing district, a governmental entity comprised of both public and private partners distinct from the entity which establishes it. EIFDs can aid communities in funding a wide and diverse variety of public capital improvement projects and other projects of communitywide significance set forth in state law, by capturing and leveraging property tax increment (PTI) generated within the EIFD area. The EIFD does not impose a new tax. Added improvements gained through EIFD funding supports future development and results in increased property values. This generates increased property tax revenues from the “base year” which can then be leveraged for additional improvements.

Affected taxing entities are not required to contribute their PTI for the EIFD. Participation in the EIFD is voluntary. Each tax sharing entity which elects to join the EIFD has the option to allocate up to 100% of its portion of tax increment to the district. Under the EIFD law, school districts are precluded from participation. Below is a list of agencies who could elect to join the EIFD and their related weighted average share of property tax.

Agency	Weighted Avg. Share of Property Tax (includes ERAF)
County General Tax District	31.74%
Fortuna Fire Protection District	4.13%
County Library	2.99%
H Bay Harbor Rec & Cons	0.92%
Fortuna Cemetery	0.40%
County Flood Sub Zone 1	0.36%
Rohner Community Recreation	0.20%
Total	40.74%

The City receives 7.3% of the 1% percent property tax rate. The City would likely pursue the inclusion of the County not only because they are the highest percentage but because they could benefit from the development of the site through increased sales tax. The County would receive sales tax through their supplemental transaction and use tax commonly referred to as Measure Z and any future transaction and use taxes approved by voters, such as the County’s Disaster Preparedness measure. This increase in sales tax would ideally offset the loss of property tax increment that the County would be giving up to go towards the EIFD. The other agency’s do not receive sales tax and would therefore be unlikely to give up their share of the property tax increment.

The process to create an EIFD is described in Attachment A and can take between 12 to 18 months to establish. City staff have been in communication with the California Governor’s Office of Business and Economic Development (GoBiz) to receive initial feedback on the formation of an EIFD in the City. GoBiz has responded positively to the infrastructure projects staff have described, indicating they would meet the eligibility requirements for EIFD financing.

Mill District

The City of Fortuna’s (City) Community Development and Public Works departments have been engaged in conversations and activity surrounding the development of the former Pacific Lumber Company (PALCO) Fortuna mill site area, which was an important local economic engine for the City from its inception in the 1970’s to its closure in 2004. One of those activities is the recent release of the draft Mill District Specific Plan (MDSP).

The MDSP area is approximately 104 acres, and is comprised of a large, underutilized infill industrial area with several owners, and a mixed residential neighborhood of predominantly single-family homes, with some multifamily and commercial buildings. The largest industrial property has recently changed hands and the area is poised for future growth and redevelopment due to several factors.

The MDSP area is unique in Humboldt County because it is a large infill site with two adjacent highway access points; nearby utility infrastructure with either sufficient or expandable capacity; easy access to restaurants, services, and housing, and the community is generally supportive of its development. The City is taking an active role in Mill District development planning. The City independently initiated specific plan preparation in the fall of 2021, recognizing that the then current owner of the former PALCO Mill property was not engaged in planning, marketing, improving, or developing this important site. And finally, approximately 73 acres of the former PALCO Mill portion of the MDSP Area was sold to a developer in 2023 and is now being actively marketed as the Fortuna Mill Commerce Center (FMCC).

The Mill District, particularly the FMCC as envisioned in the Specific Plan, will be a hub for diverse uses in the region. The area will be a well-designed center of commerce with flex space, transportation, general commercial, advanced manufacturing, medical, government, office, multi-family residential, and compatible industrial uses. In order for the Mill District to be fully actualized, the city's infrastructure will need to be addressed.

City of Fortuna Infrastructure

The City of Fortuna has a number of needed public capital improvement projects, such as improvements to the US 101 interchanges at 12th Street and Kenmar Road. US 101 bisects the City, cutting off the Riverwalk area from downtown and other areas of the City. The existing configuration at both interchanges is confusing, complex and inefficient and results in excessive vehicle queuing and poor levels of service. In addition, there is limited to no pedestrian and bicycle facilities allowing for safe multi-modal transport, no sense of community/place and poor visual presentation. The City has significant residential and commercial development potential, and the current configuration limits economic and residential development opportunities. Improvements to these interchanges will allow for the natural growth of the City, reconnect the City to the Eel River and allow for safe pathways for bicyclists and pedestrians. In addition, due to existing and expanding traffic volumes these intersections will become a failure in 20 years, almost universally falling below identified General Plan performance targets.

The cost of interchange improvements is beyond what can be funded by development fees, and the City and region have limited funding available to continue to advance the projects described in this staff report, again these infrastructure projects are pivotal to facilitate the mill site buildout. Through the years' staff have applied for many federal transportation grants which could fund all or a majority of these projects, but has so far been unsuccessful in those applications. With these funding limitations in mind, and the demonstrated need to advance and ultimately deliver these projects to facilitate Fortuna's envisioned development, staff have begun exploring other potential funding sources, including establishing an EIFD.



Figure 1. Concept-level visual simulation of the 12th Street/US 101 Interchange Improvements.

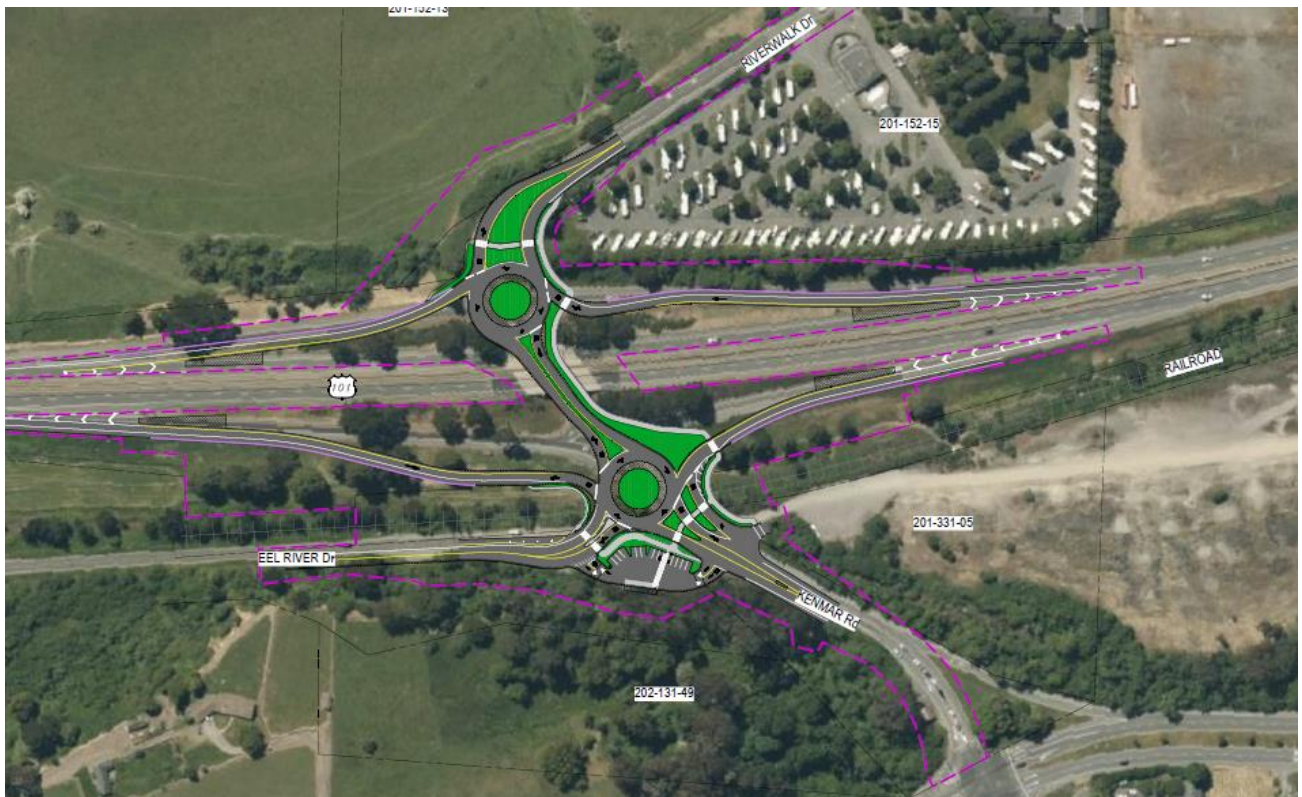


Figure 2. Preliminary design of the Kenmar Road/US 101 Interchange Improvements.

FINANCIAL IMPACT:

The cost to establish an EIFD is not known at this time, and staff will return to Council with estimated costs and possible Supplemental Budget Requests to support this project. Also not known at this time is the boundaries of the EIFD and the approximate amount of PTI (also known as growth) the EIFD could generate and thereby finance public capital improvement projects. Again, staff will return at a later date with more specifics. It should be noted, the creation of an EIFD does not institute a new tax and will not be a lien on property owners in the district. An EIFD uses property tax growth to finance public capital improvement projects.

RECOMMENDED COUNCIL ACTION:

1. Receive staff report and review Council questions with staff
2. Open Public Comments
3. Close Public Comments
4. Authorize the Interim City Manager to explore the establishment of a Fortuna Enhanced Infrastructure Finance District including but not limited to establishing a Public Finance Authority, and identifying a legal and economic advisor(s). Voice vote.

ATTACHMENTS:

- Attachment A - California Association of Local Economic Development's *How to Create an Enhanced Infrastructure Financing District (EIFD)* graphic