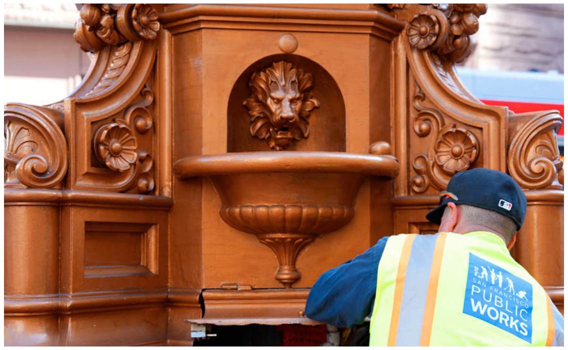
05. Capital Sources



Lotta Fountain

For details about the policies that govern the planning for the Pay-Go Program, the General Obligation Bond Program, the General Fund Debt Program, and Infrastructure Financing Districts, as well as general policies for the Plan overall, please refer to the Introduction.

Overview

San Francisco uses a variety of funding sources to implement the broad array of building and infrastructure projects planned each year. These include the San Francisco General Fund, publicly issued debt, federal and state grants, and other local funding sources. These funds have been used for countless facilities, parks, streetscapes, and transportation initiatives.

Pay-As-You-Go Program

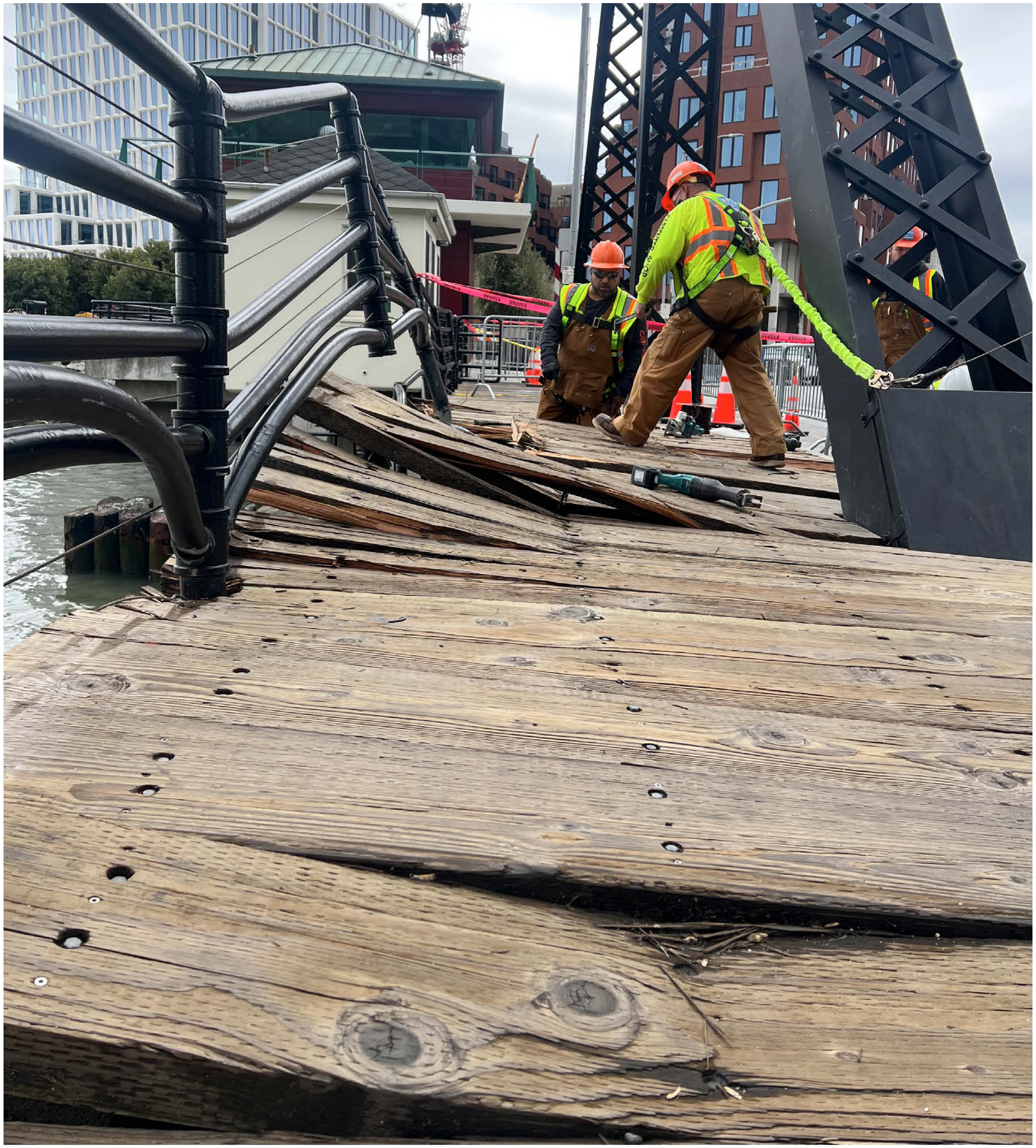
Over the 10-year timeframe of this Capital Plan, the primary source of revenue to fund our ongoing annual needs or Pay-As-You-Go Program ("Pay-Go"), is the San Francisco General Fund. The General Fund is comprised of various taxes collected by the City, which include property, sales, business, and hotel taxes. It serves as the primary funding stream for ongoing programs and services for the entire city. As infrastructure underpins these programs and services, it is appropriate for the General Fund set-aside funds to ensure buildings, streets, parks, and related infrastructure are in a state of good repair. All San Francisco residents, businesses, and visitors benefit from investments in local infrastructure.

Improvements paid through the Pay-Go Program tend to be smaller in scale than programs that require debt financing over a multi-year period. By using the Pay-Go Program for maintenance and repair projects, the City is less reliant on debt financing and ultimately spends less to deliver those projects.

Capital Planning Fund

The Capital Planning Fund supports critical project development and pre-bond planning outside the regular General Fund budget. This investment in planning helps increase public confidence and the likelihood that these projects will be delivered on time and on budget. The advance work helps improve cost estimation reliability and refine project delivery methods.

Historically, the General Fund supported pre-bond critical project development on the condition that once bonds for that project were issued, the General Fund would be reimbursed. This Plan assumes that bond reimbursements will flow into the Capital Planning Fund and be used for future project development. The Capital Planning Fund may be used for planning projects that are funded through sources other than bonds, but those funds are not reimbursable. Capital Planning Funds to support the next planned bond programs will be appropriated through the annual budget process.



Third Street Bridge Storm Damage

Debt Programs

Many of San Francisco's capital improvements are funded with voter-approved general obligation bonds (G.O. bonds) and General Fund debt called Certificates of Participation (COPs), or revenue bonds. Issuing debt is a typical method for financing capital enhancements with long useful lives and high upfront costs, which the City would not be able to cover through the Pay-Go Program. The use of debt also spreads the financial burden of paying for facilities between current residents and future generations who will also benefit from the projects.

Merced Heights Playground

General Obligation Bonds

G.O. bonds are backed by the City's property tax revenue and are repaid directly out of property taxes through a fund held by the Treasurer's Office.

The Plan structures the G.O. bond schedule around the notion of rotating bond programs across areas of capital need, although the City's debt capacity, election schedules, and capital needs also inform these levels. This approach was established in the original Capital Plan and has been maintained ever since.

Priority areas of capital investment include Earthquake Safety & Emergency Response, Parks & Open Space, Affordable Housing, Transportation, Public Health, and the Waterfront. The Plan occasionally recommends bonds outside these categories if there is a demonstrated capital need that the City would otherwise not be able to afford. Table 5.1 lays out the planned G.O. bond schedule for upcoming elections.

Chart 5.1 illustrates the impact on the local tax rate of issued, expected, and planned G.O. bond debt. The red line represents the property tax limit policy established in 2006 that sets the annual level of bond debt repayment. The space

TABLE 5.1

G.O. Bond Debt Program

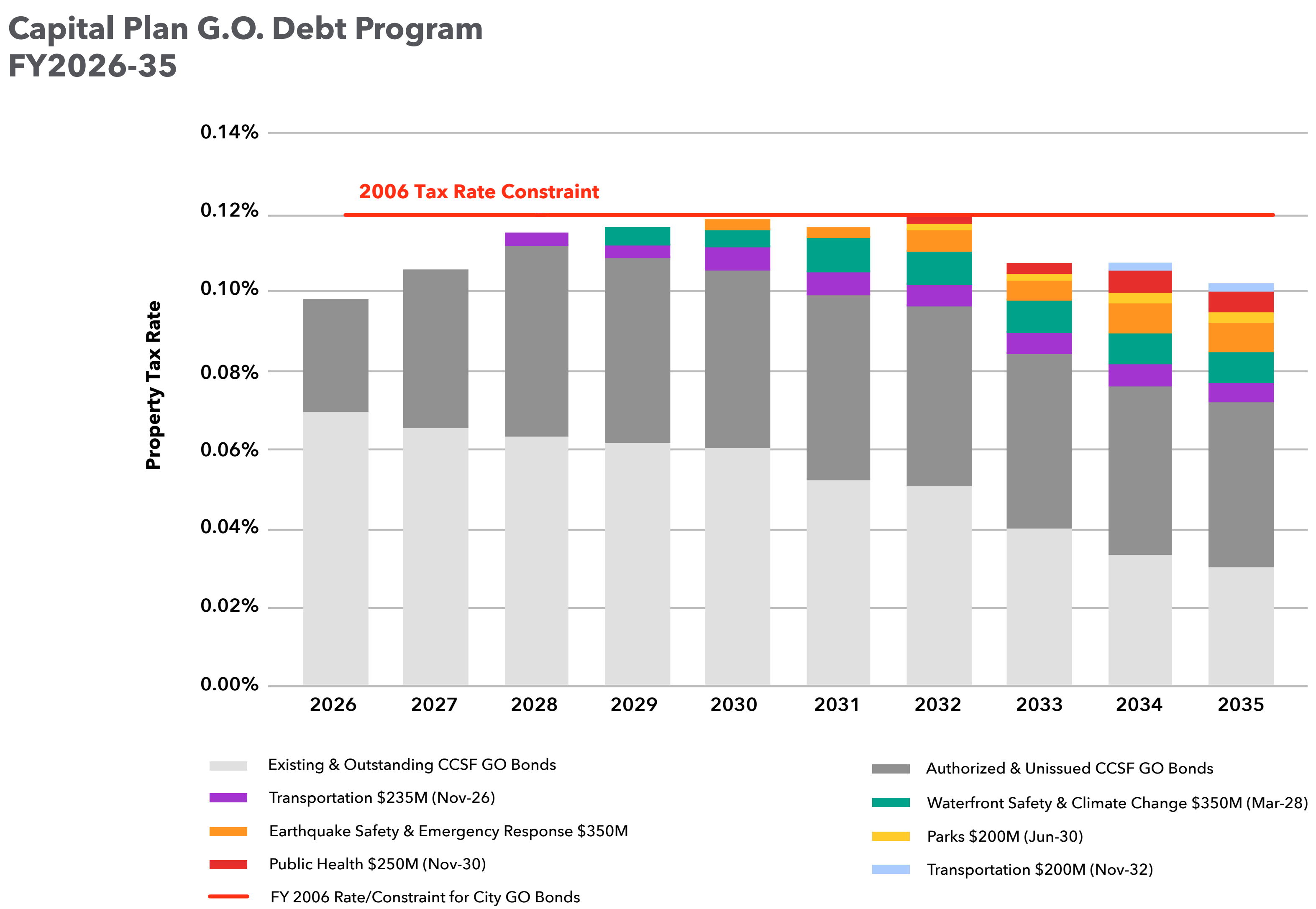
(Dollars in Millions)

Election Date	Bond Program	Amount
Nov 2026	Transportation	235
Mar 2028	Waterfront Safety and Climate	350
Nov 2028	Earthquake Safety & Emergency Response	350
Jun 2030	Parks and Open Space	200
Nov 2030	Public Health	250
Nov 2032	Transportation	200
Nov 2034	Affordable Housing	200
Total		**1,785**

between the red line and the bars on the chart illustrates the projected capacity for bond debt for each year. All amounts attributed to future bonds are estimates and may need to be adjusted to account for new federal and state laws, programmatic changes, site acquisition, alternate delivery methods, changing rates of construction cost escalation, and/or newly emerged City needs.

The G.O. Bond Program's capacity is largely driven by changes in assessed value and associated property tax revenues within the city. While the passage of recent bonds is a sign of the effectiveness of the capital planning process, it also impacts the available bond capacity going forward. The passage of six bonds for a total of $2.8 billion since 2018 means there is considerably less capacity for this 10-year capital planning cycle compared to previous ones. For more information on the G.O. bond policies and past bonds, please see the **Introduction**.

CHART 5.1



AV projection assumes AAB reserves in FY26, and growth of 0.52% in FY27, 2.63% in FY28, 3.1% in FY29, 3.28% in FY30, and 3% per year thereafter. Revised 11-26-24

Certificates of Participation

Certificates of Participation (COPs) are secured by a physical asset in the City's capital portfolio and supported through annual General Fund appropriations or revenue that would otherwise flow to the General Fund. Funding from COPs is planned to support basic City responsibilities such as relocating City staff from seismically deficient buildings.

Table 5.2 shows the Capital Plan's COP Program for the next ten years.

Chart 5.2 shows the planned COP Program against the policy constraint for General Fund debt not to exceed 3.25% of General Fund Discretionary Revenue, represented by the red horizontal line. The black line depicts the annual lease costs related to the Hall of Justice Administrative Exit efforts approved in 2018, which are also counted against this Program's constraint.

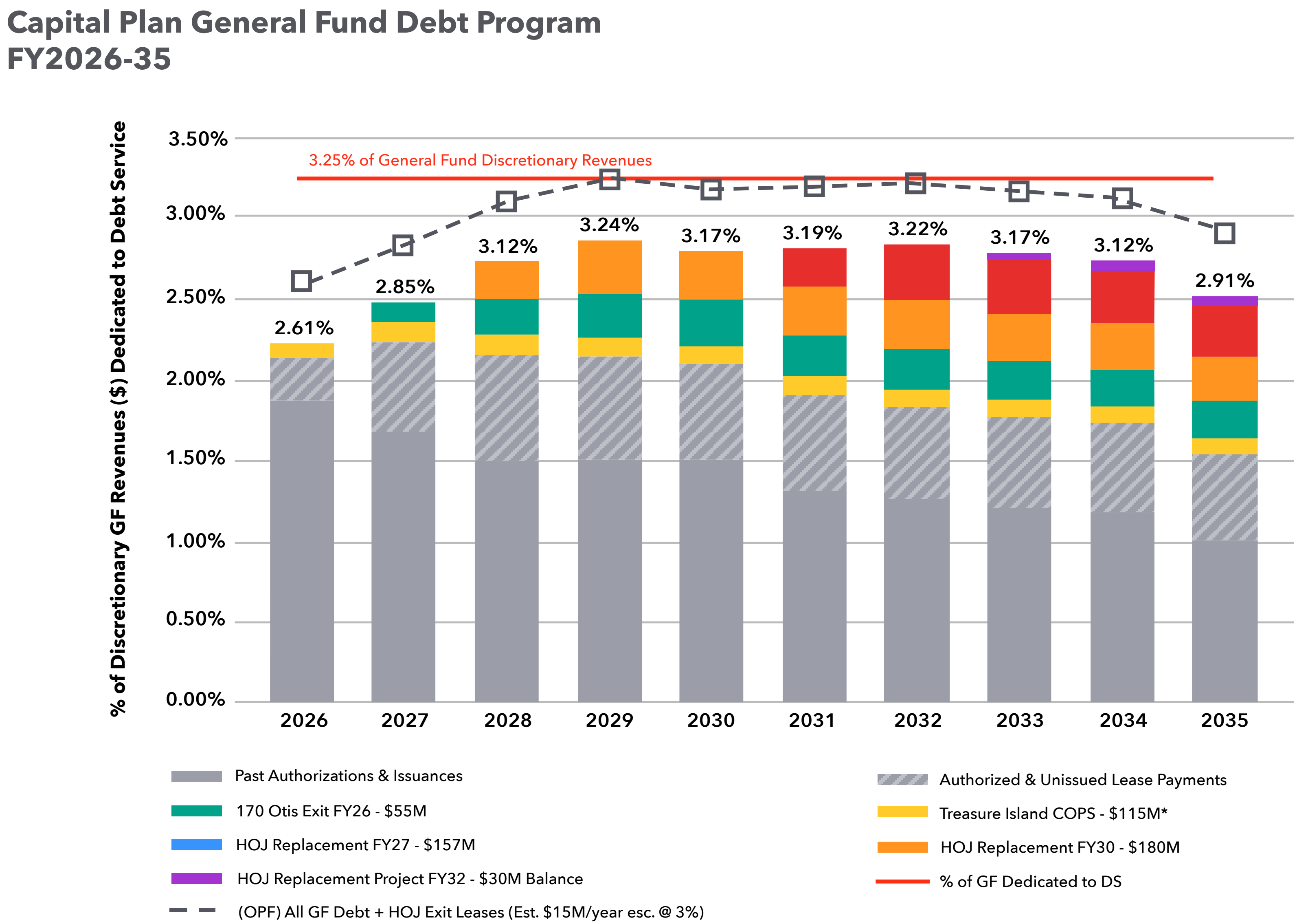
The bottom portions of the columns represent debt service commitments for previously issued COPs as well as authorized but unissued COPs, including the debt issued for the Moscone Center, the War Memorial Veterans Building, and the Animal Care & Control Shelter replacement. New obligations are represented in discrete colors, beginning in FY2026. As with the G.O. Bond Program, all amounts attributed to future COP-funded programs are estimates and may need to be adjusted in future plans to account for new federal and state laws, programmatic changes, site acquisition, alternate delivery methods, changing rates of construction cost escalation, and/or newly emerged City needs.

TABLE 5.2

COP Program
(Dollars in Millions)

Fiscal Year of Issuance	Project	Amount
FY2026	Relocation of HSA Headquarters	55
FY2026	Treasure Island Infrastructure	50
FY2027	Treasure Island Infrastructure	15
FY2027	HOJ Replacement	157
FY2030	HOJ Replacement	180
FY2032	HOJ Replacement	30
Total		**487**

CHART 5.2



* Treasure Island COPs to be sold in three tranches (FY25, FY26, FY27)

TABLE 5.3

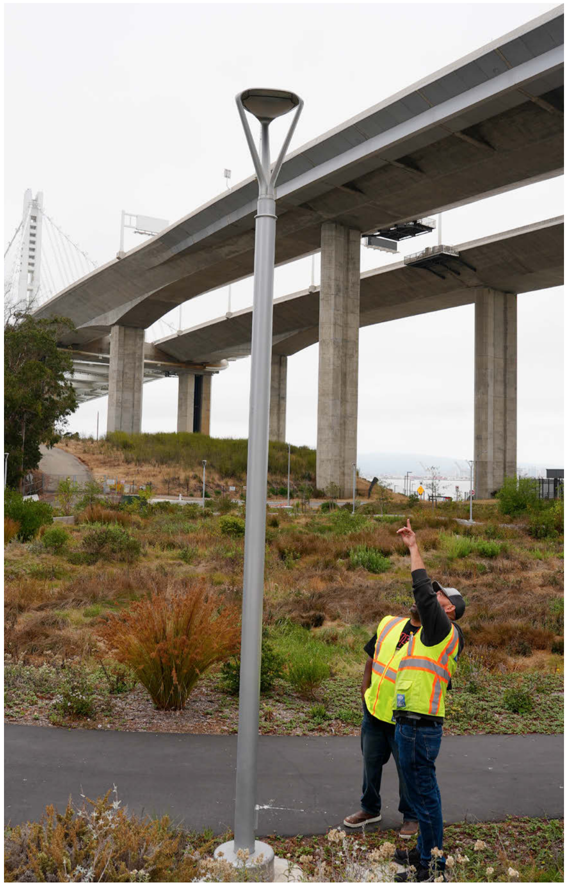
Planned Revenue Bond Issuances FY2026-35
(Dollars in Millions)

Agency	FY26-30	FY31-35	Total
SFPUC	4,973	3,376	8,350
Airport	4,549	648	5,197
Total	**9,522**	**4,025**	**13,547**

Revenue Bonds

Revenue bonds are a type of debt that is repaid from department or other revenue streams. Revenue bonds are typically used by the City's Enterprise departments (SFMTA, Port, SFPUC, and SFO), which generate their own revenues from fees paid by users of services provided by those agencies. This type of debt is repaid solely by users of those projects and therefore does not require payments from the General Fund. Examples of projects funded by revenue bonds are the SFPUC's Water Systems Improvement Program and the Airport's Terminal Renovation Program.

Table 5.3 shows the currently planned amount of revenue bonds to be issued over the 10-year term of this Plan. All revenue bond issuances are subject to change based on market conditions and cash flow needs of the associated projects.



Treasure Island Street Lighting

Development Impact Fees

San Francisco must expand its infrastructure to manage the impacts of a growing population as more residents utilize transportation networks, streets, parks, utilities, and other public assets. Where new growth has been concentrated -- geographies including Eastern Neighborhoods, Market & Octavia, Visitacion Valley, Balboa Park, Rincon Hill, South of Market, and Transit Center -- the City established development impact fees, which are paid by developers, to fund the services that are required by new residents of these areas.

Development impact fees for these high-growth areas are programmed by the City's Interagency Plan Implementation Committee (IPIC), which is chaired by the Planning Department. Each year, IPIC develops an expenditure plan for projects to be funded by impact fees with input from each Plan Area's respective Citizen Advisory Committee. Funding for the expenditure plan is appropriated through the capital budget process each year. While impact fees are collected by the Planning Department, funds are transferred to the departments implementing those projects, such as Public Works, Recreation and Parks, or SFMTA.

The City estimates it will raise approximately $383 million in Plan Area impact fees over the next 10 years. This amount is considerably smaller compared to previous plans. Table 5.4 shows that estimate by area.

Shifts in development patterns beginning in 2020 and new City legislation in 2023 significantly limited impact fee revenue potential. Impact fee revenue is projected to be insufficient to cover all the capital and public works projects needed in their intended areas. The City will continue to seek opportunities to leverage these impact fees and identify complementary funding.

TABLE 5.4

Ten-Year Area Plan Development Impact Fee Projections
(Dollars in Millions)

Program Area	Impact Fees FY2026-2035
Balboa Park	0.4
Eastern Neighborhoods	43.1
Market & Octavia	62.3
Rincon Hill	3.6
SoMa	199.3
Transit Center	64.4
Visitacion Valley	9.9
Total	**383**

Porstmouth Square Rendering

Special Finance Districts

San Francisco has adopted numerous special financing districts to finance public infrastructure and affordable housing to benefit newly developing areas and for infill areas of the city. Projects that may be financed by these districts vary by law but can include streets, water and sewer systems, libraries, parks, public safety facilities, and affordable housing.

Authorized under the Mello-Roos Community Facilities Act of 1982 and/or the City's Special Tax Financing Law, Community Facilities Districts and Special Tax Districts (collectively, CFDs) assess a special tax lien against taxable property within a district to fund capital projects and/or ongoing operations and maintenance costs. These districts are typically established either by a two-thirds vote of property owners or registered voters within the district and by approval of the Board of Supervisors. The following CFDs have been established: Treasure Island, Central SoMa, Pier 70 (Condo and Leased Properties), Mission Rock, Transbay (partnership with the Transbay Joint Powers Authority), Potrero Power Station, and CFDs at Hunters Point/Candlestick Point (OCII) and Mission Bay (OCII).

California State Government Code allows municipalities to fund improvements within a designated geographic boundary through the formation of infrastructure finance districts (IFDs), infrastructure revitalization and financing districts (IRFDs), and enhanced infrastructure financing districts (EIFDs) (collectively, IFDs). These districts capture future increases in property tax revenue stemming from growth in assessed value as a result of new development. In San Francisco, that incremental increase in property revenue from an IFD is typically shared between the City and the developer of the project. IFD proceeds are used to finance public

TABLE 5.5

San Francisco Existing and In-Process IFDs
(Dollars in Millions)

Title	Agency	Year Formed	Tax Increment Projected at Formation		
			FY2025	FY2026	Aggregate Future Revenue
Pier 70 Historic Core IFD (G-1)	Port	2016	0.8	0.8	43.2
Pier 70 IFD (G-2, G-3, G-4)	Port	2018	4.3	8.0	1,564.2
Mission Rock IFD	Port	2018	5.3	11.0	1,065.8
Treasure Island IRFD	TIDA	2017	11.6	13.5	1,029.5
Hoedown Yard IRFD	Port	2018	1.8	1.9	154.2
Power Station EIFD	City	2024	0	0	1,684.2
Total Approved IFDs			**23.9**	**35.2**	**5,541.2**
Stonestown EIFD	City	In-Process	TBD	TBD	TBD
3333/3700 California Street EIFD	City	In-Process	TBD	TBD	TBD
Piers 30-32 IFD	Port	In-Process	TBD	TBD	TBD

capital facilities or other specified projects of communitywide significance that provide significant benefits to the district or the surrounding community.

Each district has as a unique plan of finance for the use of tax increment or special taxes, which is outlined in each district's legislatively-approved Infrastructure Financing Plan for IFDs or Resolution of Formation for CFDs.

Table 5.5 provides an overview of existing and proposed IFDs in San Francisco. One of the policy constraints approved by the Capital Planning Committee and ratified by the Board of Supervisors is that total IFD debt should not exceed 5% of the City's total annual property tax revenue. The 5% threshold is being tracked by the Controller's Office of Public Finance. For more information on San Francisco's policies for the establishment and use of IFDs, including the relevant fiscal constraints, please see **Appendix D**.

Other Sources

Some funding for capital projects is derived from specific sources and designated for specific purposes. In the first year of the Capital Plan, such funds are expected to provide $12.1 million, as shown in Table 5.6. These figures are pulled from Year 2 of the most recently completed budget cycle.

Recent Ballot Measures

Finally, it's important to note local and state ballot measures that will have varying impacts on San Francisco's infrastructure. This largely depends on how the funds can be used and their availability. Note that municipal G.O. bonds are described in the Introduction rather than this section.

TABLE 5.6

Other Capital Funds and FY2026 Funding Amount
(Dollars in Millions)

Fund Name	
Library Preservation Fund	7.1
Convention Facilities Fund	5.0
Total	**12.1**

City revenue measures passed in the past two years include the following:

Proposition M (November 2024)

This measure reformed the City's business tax structure by delaying previously scheduled tax increases and restructuring tax rates. It aimed to provide immediate tax relief to small businesses and certain sectors, with planned rate increases in 2027 and 2028 to offset initial revenue reductions. The measure is projected to generate approximately $50 million in additional annual revenue after fiscal year 2029–2030.

Proposition C (March 2024)

This measure provided a transfer tax exemption for the first-time conversion of commercial properties into residential use. It was part of broader efforts to address housing shortages by incentivizing the transformation of underutilized commercial spaces into housing units.

Proposition I (November 2020)

This measure doubled the transfer tax rate for property sales of at least $10 million, with the highest tier now at 6%. The revenue was intended for rent relief and affordable housing initiatives. Between January 2021 and March 2024, it raised $324 million, with over $203 million allocated to new affordable housing projects and emergency rent relief.

State of California revenue measures include the following:

Proposition 1 (March 2024)

This measure authorized the issuance of $6.38 billion in bonds to fund housing for veterans and homeless individuals, as well as to provide additional behavioral health services. It also reallocated approximately $140 million annually from existing tax revenues for mental health and addiction care from counties to the state.

Proposition 2 (November 2024)

This proposition approved $10 billion in general obligation bonds to repair and upgrade facilities at K-12 public schools and community colleges, including charter schools. The funds are designated for new facilities, health and safety improvements, and classroom upgrades.

Proposition 4 (November 2024)

This measure authorized $10 billion in general obligation bonds for water infrastructure, wildfire prevention, and the protection of communities and natural lands from climate risks.