

# Introduction:

Chat GPT was asked to analyze the EIFD Staff report for December 2, 2026, City Council Meeting.

Below is the full output.

Chat GPT has no “horse in the race” –

It provides a more objective critical analysis of the EIFD proposal than included in the staff report. It includes issues, questions and concerns the city council should be asking if it intends to move forward with the proposal.

It also shows how AI can be helpful to council and city staff.

## Key Issues & Concerns in the EIFD Proposal

### 1. Long-Term Fiscal Risk to the City

Even though the feasibility analysis suggests a positive net fiscal impact, EIFDs inherently involve **diverting future property tax increments away from the General Fund for up to 45–50 years.**

#### Why this is a concern:

- **Once bonds are issued, revenues are “locked in.”** The staff report notes this explicitly: once debt is **pledged**, those revenues are no longer available to the General Fund.
- Forecasts rely heavily on **assumptions about future development** (absorption over 5–10 years, buildout of 399+ total residential units and a 147-room hotel). If this development does not occur—or is delayed, the fiscal benefits may not materialize.
- Large capital projects funded by EIFDs often require **front-loading expenditure** before revenue growth is certain.

#### Key question to ask:

What happens if property values grow more slowly than projected or development stalls—does the City have adequate safeguards to prevent General Fund exposure?

---

## 2. Dependence on Full County Participation

The feasibility analysis and staff recommendation assume a **County dollar-for-dollar match** of the City's 25% property tax increment allocation.

### Concerns:

- Sonoma County is moving forward with its **own separate unincorporated EIFD**, removing the joint City/County EIFD option.
- County participation for the *City* EIFD is **not guaranteed**.
- Without County matching funds:
  - Revenues could drop by ~50%.
  - Bonding capacity and project feasibility would diminish significantly.

### Key question:

Is the City prepared to proceed (or issue bonds) without County participation? If not, the City may be vulnerable to County negotiation leverage.

---

## 3. Boundary Definition and Risk of Over-Encumbrance

The EIFD boundary includes **290 acres**, ~24% of Sebastopol's land area, and ~39% of its assessed value.

### Concerns:

- Diverting increment from such a significant portion of the City could **undermine General Fund flexibility**.
- The analysis itself warns that overly large EIFD boundaries risk "fiscal unsustainability."
- The corridor-focused approach still captures major commercial and redevelopment sites—i.e., many of the City's most tax-productive parcels.

### Key question:

Has the City modeled a downside scenario (recession, slower appreciation, or reduced development intensity) to understand General Fund stress?

---



## 4. Extremely Broad List of Eligible Projects

Exhibit B authorizes an **expansive list** of projects, including:

- Roads, parks, transit, water/sewer, flood control
- Library expansion, childcare, broadband
- Affordable housing
- Brownfield work and environmental mitigation
- Even private industrial/commercial building acquisition under certain circumstances.

Agenda-Item-Number-10-Enhanced-...

The staff report states the list is intentionally broad at this stage.

### Concerns:

- A list this broad makes it difficult to assess:
  - actual **funding priorities**,
  - expected **outcomes**, and
  - potential **community disagreement**.
- Without a prioritization framework, the PFA may face political conflict or inefficient allocation.
- Some listed projects (e.g., new wells, sewer upgrades, firehouse) are essential services normally funded through enterprise funds or capital budgets—allocating EIFD funds could reduce accountability or existing funding discipline.

### Key question:

Is it prudent to adopt a Resolution of Intention **before** establishing clear project prioritization criteria?

---

## 5. Governance and Representation Issues

The EIFD will be governed by a **Public Financing Authority (PFA)** consisting of:

- 3 Councilmembers and 2 public members (initially)
- Revised to 2 Councilmembers + 1 County Supervisor + 2 public members if County participates.

### Concerns:

- Risk of **politicization** of funding decisions over decades.
- Public members have equal voting power—raising questions about:
  - selection process,
  - accountability,
  - conflicts of interest (ethics compliance is required but oversight is limited).
- Changes to PFA membership after County participation could **reduce City control** over City-generated tax revenue.

### Key question:

How will the City ensure that PFA decisions remain aligned with long-term City priorities (especially once Council seats change over time)?

---

## 6. Administrative & Reporting Burden

After formation, City staff must manage:

- Annual reporting,
- PFA staffing,
- Project tracking,
- Long-term compliance,
- Potential coordination with County staff and outside consultants.

### Concerns:

- Small cities often underestimate the **ongoing administrative workload** for EIFDs.
- The proposal notes the City may need outside consultants funded by EIFD revenue reducing the funds available for projects.

### Key question:

Does the City have the internal capacity to manage a multi-decade financing district?

---

## 7. Up-Front Costs and Future Funding Needs

The proposal identifies formation costs of **\$55,000–\$75,000** (beyond current funding).

### Concerns:

- No dedicated funding source for these costs is identified.
- If the City pays these costs upfront and the EIFD does not generate sufficient early revenue, there is risk of sunk costs without return.

### Key question:

Is the City prepared to commit staff and funds for formation even if County participation remains uncertain?

---

## 8. Legal Considerations and CEQA

The Resolution asserts that the EIFD formation is **not a project under CEQA**, meaning no environmental review is required at this stage

### Concerns:

- While procedurally correct, early political approval without CEQA analysis may raise public concerns.
  - Any future project could trigger CEQA, potentially creating **delays** or **litigation** that undermine expected development timing.
- 

## 9. Community Opposition / Majority Protest Risk

Landowners and residents within the EIFD can halt formation through majority protest

### Concerns:

- Several proposed projects (new housing, infrastructure expansion, corridor redevelopment) may generate pushback.
- Lack of clear project prioritization amplifies risk of public resistance.

### Key question:

Has the City conducted sufficient outreach to assess whether a majority protest is likely?

---

# Summary of Highest-Risk Areas

## Critical Concerns

1. Long-term diversion of revenue from General Fund (up to 50 years).
2. Dependence on County matching funds, which are not guaranteed.
3. Extremely broad project scope with no prioritization framework.
4. Governance structure risks (PFA composition, accountability).
5. Large boundary captures major revenue-generating areas, creating fiscal exposure.

## Operational Concerns

6. High administrative burden and need for ongoing consultant support.
7. Up-front formation costs with no guaranteed return.
8. Community opposition risk due to unclear project list.

---

## Conclusion

While the EIFD could provide a useful long-term financing mechanism for capital improvements, the proposal carries **significant fiscal, governance, and political risks**. The City should carefully consider whether the benefits outweigh the long-term commitment of tax increment revenue and whether safeguards, tighter criteria, or conditional triggers should be added before adopting a Resolution of Intention.

---



# 1. Risk-Mitigation Checklist (For Council Use)

## A. Fiscal Safeguards

- ☐ Require **County participation commitment** (in writing) before adopting the Resolution of Intention (ROI).
- ☐ Build in a **City “off-ramp”** if County fails to participate at the assumed match ratio.
- ☐ Require **stress-test scenarios** (e.g., 50% slower development, recession, delayed hotel construction).
- ☐ Establish a policy that **no EIFD bonds may be issued** until:
  - $\geq 5$  years of reliable increment revenue,
  - verified development progress, and
  - a supplemental fiscal impact review.
- ☐ Require that any bonding proposal include **General Fund neutrality certification**.

## B. Boundary Protections

- ☐ Revisit whether the **290-acre boundary** can be reduced to protect General Fund revenues.
- ☐ Consider a **phasing strategy** (Phase 1 core area, Phase 2 optional expansion after revenue verification).

## C. Project Prioritization

- ☐ Direct staff to prepare a **project scoring matrix** (e.g., economic impact, climate resilience, equity benefits).
- ☐ Require annual review and re-adoption of project priorities by Council.
- ☐ Prohibit the PFA from allocating funds to private development without a **public benefit finding**.

## D. Governance & Oversight

- ☐ Define **public member qualifications** (finance, planning, community nonprofit experience, etc.).
- ☐ Establish conflict-of-interest rules beyond state minimums (e.g., limitations on developers serving).
- ☐ Require quarterly reporting to City Council from the PFA.
- ☐ Require independent annual audits of EIFD finances.

## E. Public Transparency

- ☐ Require publication of a **plain-language FAQ** and boundary maps.
  - ☐ Commit to at least one **additional community outreach meeting** prior to ROI adoption.
  - ☐ Implement a formal **community feedback mechanism** (survey, online comment tool).
- 

## 2. Recommended Amendments to the Resolution of Intention (ROI)

Below are language recommendations the City Council could propose before adopting the ROI.

### A. Make County Participation a Condition

Add:

“This Resolution of Intention shall not become operative unless and until the County of Sonoma formally adopts a Resolution of Intention to participate in the Sebastopol EIFD with a matching tax increment contribution.”

### B. Add Fiscal Safeguards

Add:

“No tax increment shall be pledged to debt issuance until an updated fiscal impact analysis confirms General Fund neutrality under conservative economic scenarios.”

### C. Require Development-Dependent Triggers

Add:

“EIFD bonding authority shall only be exercised once verified development within the district reflects a minimum of 50% of projected assessed value growth identified in the feasibility analysis.”

### D. Add Project Prioritization Requirements

Modify Exhibit B to state that:

“The Public Financing Authority shall adopt a project prioritization framework based on economic development potential, climate resilience, community benefit, and equity.”

## **E. Strengthen Governance Rules**

Add:

“Public members of the PFA shall possess relevant professional or lived experience in public finance, community development, infrastructure planning, or related fields.”

## **F. Transparency and Audit Requirements**

Add:

“Annual independent audits of EIFD finances and performance metrics shall be presented to the City Council and made publicly available.”

---

# **3. Key Questions to Ask Staff and Consultants During the Meeting**

## **On Fiscal Impact**

1. *What happens if development occurs slower than predicted?*
2. *What downside scenario would cause the General Fund to experience a net negative?*
3. *What is the total General Fund revenue diverted at peak years under the 25% scenario?*
4. *How sensitive are the projections to the hotel project not materializing?*

## **On County Participation**

5. *Has the County committed to match the City's increment? In writing?*
6. *What is Plan B if the County chooses not to participate?*
7. *Does a standalone City EIFD justify the administrative cost and lower bonding capacity?*

## **On Boundary Size**

8. *What would bonding capacity be under a smaller, more targeted district?*
9. *Are we capturing parcels that we reasonably expect to redevelop, or is the map too broad?*

## **On Bonding & Risk**

10. *What safeguards prevent premature or risky bond issuance?*
11. *Can we structure policies that prohibit bonding until actual revenue performance meets targets?*

## **On Project List & Prioritization**

12. *Which specific projects are likely to receive early funding?*
13. *What criteria will the PFA use to evaluate competing project requests?*
14. *How will we ensure EIFD funds do not substitute for existing enterprise or General Fund responsibilities?*

## **On Public Engagement**

15. *What specific steps will be taken to avoid a majority protest?*
  16. *Have business/property owners in the district been surveyed?*
-