



# STAFF REPORT

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November 16, 2022  
File Number 0685-20

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## SUBJECT

### CITYWIDE PUBLIC SERVICES COMMUNITY FACILITIES DISTRICT (CFD) INFORMATIONAL UPDATE

## DEPARTMENT

Development Services

## RECOMMENDATION

No action is required at this time except to provide direction to staff, as appropriate.

Staff Recommendation: Receive and File (Development Services: Andrew Firestine, Director of Development Services)

Presenter: Andrew Firestine, Director of Development Services

## FISCAL ANALYSIS

As a part of the City of Escondido's ("City") ongoing effort to address projected budget shortfalls, the City conducted a Fiscal Impact Analysis ("FIA") for new residential development in 2019. The FIA determined the per capita cost of providing municipal services for new residential development involving police, fire, public works, community services, and general services (support departments) exceeds the anticipated revenue received, including property taxes, property tax in lieu of vehicle license fees, intergovernmental, property transfer tax, fines, forfeitures, permits, licenses, and sales tax generated by new residents. Based on these findings, the current structural budget deficit is anticipated to increase with each new residential development project approved. Below is a summary of the FIA findings by development type for a typical 5-acre site at the time the analysis was conducted:

	Single Family	Small Lot Single Family	Townhomes	Apartment/Condos
Project Size (5-acre site)	25 units	75 units	125 units	200 units
Avg. Density	5 units/acre	15 units/acre	25 units/acre	40 units/acre
Unfunded Cost/Unit	\$536	\$743	\$725	\$783



# CITY of ESCONDIDO

## STAFF REPORT

On May 13, 2020, CFD No. 2020-1 was formed and established a citywide public services Community Facilities District (CFD) with the goal of making new development revenue neutral. The public services CFD provides a streamlined way for projects to offset their impact to ongoing public services through a special tax levied on the annual property tax bill. Annexation of a development to the public services CFD occurs by a vote of the landowners and adopting resolution of the City Council.

The special tax rates are governed by the Rate and Method of Apportionment of Special Tax ("RMA") established at the time CFD No. 2020-1 was formed. The special tax rates were calculated at the time of formation based on the cost of providing public services, less revenue generated by the development for various classifications of residential property, or Land Use Category. The maximum special tax rates for the citywide services CFD were set initially between \$536 and \$783 per residential dwelling in 2020 and increase at the greater of the maximum rate of inflation as determined by the Consumer Price Index (CPI) or 2%. For FY 22/23, the applicable increase was the change in CPI or 5.20807%. The special tax rates adopted through Resolution No. 2022-87 are shown below:

Land Use Category	Density	Unit	Maximum Special Tax <sup>(1)(2)</sup>	Proposed Actual Special Tax <sup>(2)(3)</sup>
1	Less than 5.5 DU/acre	DU	\$575.19	\$575.19
2	5.5 to less than 18 DU/acre	DU	\$797.33	\$797.33
3	18.0 to less than 30 DU/acre	DU	\$778.01	\$778.01
4	30 DU/acre or greater	DU	\$840.25	\$840.25
<p>1) The Assigned Special Tax Rates have been increased by the greater of the CIP or 2% from the tax rates established at the time of formation in accordance with the formation documents.</p> <p>2) The Special Tax Rates shown above have been rounded to the decimals shown, the actual tax rates are not rounded.</p> <p>3) The Proposed Actual Special Tax shown above is the authorized levy for the current fiscal year.</p>				

The City's cost of providing municipal services, including police, fire, public works, community services, and general services, has increased since the special tax rates were calculated in FY19/20. The FY22/23 General Fund Operating Budget increased by 7% compared to the prior fiscal year. Although projected Operating Revenue increased by 8%, the General Fund Operating Budget does not account for the unfunded annual maintenance costs exceeding approximately \$8.0 million for citywide parks, streets building, and fleet maintenance/replacement. As a result of the increasing costs of providing municipal services, the change in CPI of 5.20807% from the prior fiscal year was justified.



# CITY *of* ESCONDIDO

## STAFF REPORT

There are 437 developed lots located within the citywide public services CFD that had building permits issued before March 1, 2022, that will be assessed the special tax levy in FY22/23, generating approximately \$295,000 in revenue. Another 182 lots have annexed into the CFD but were not developed as of March 1, 2022, and an additional annexation zone comprised of voluntary annexation agreements for eight (8) projects and an additional 150 dwelling units is pending presentation to City Council. Together, 23 projects totaling 769 dwelling units have either annexed or have submitted a voluntary annexation agreement, potentially generating over \$500,000 in annual revenue once all of the lots have annexed into the CFD and developed.

### PREVIOUS ACTION

The following is a brief history of the creation, purpose, and implementation of that policy:

- On June 12, 2019, the City Council directed staff to investigate all options to address the structural budget deficit to ensure the budget deficit does not grow as the City develops, including evaluating the feasibility of a Citywide Services Community Facilities District ("CFD") as a streamlined means for projects to offset their ongoing impact to the general fund.
- On April 8, 2020, the City Council indicated its intent to require new residential development to offset the future increased costs of providing public services to the new development.
- On May 13, 2020, the City Council held a duly noticed public hearing and adopted Resolution No. 2020-44 (Resolution of Formation) establishing CFD 2020-1, the Citywide Services CFD.
- On September 16, 2020, the City Council adopted Resolution No. 2020-115 annexing five projects with 66 units into CFD 2020-1 creating the second (2) zone of the Services CFD (Zone 2020-2).
- On September 23, 2020, the City Council restated its intent to require new residential development to offset the ongoing costs of providing public services, specifically noting that the requirement be applied to any project approved after May 13, 2020.
- On October 21, 2020, the City Council adopted Ordinance No. 2020-24 which in part amended Article 18B of Chapter 6 of the Escondido Municipal Code to insert a new Section 6-457 which allowed for the conditioning of permits and development entitlements on the establishment of a lawful funding mechanism which may include the imposition of an exaction or fee, participation in a community facilities district adopted by the City, or an agreement to annex into an as yet formed community facilities district.
- On October 21, 2020, the City Council adopted Resolution No. 2020-147 annexing a 42-unit project located at 2608 S. Escondido Blvd. into CFD 2020-1 and creating the third zone of the Services CFD (Zone 2020-03).
- On November 18, 2020, the City Council adopted Resolution No. 2020-160 annexing two (2) projects containing 21 units into CFD 2020-1 creating the fourth zone of the Services CFD (Zone 2020-04).
- On July 21, 2021, the City Council adopted Resolution No. 2021-77 approving the special tax rate for CFD 2020-1 (Public Services) for FY 21/22.



# CITY of ESCONDIDO

## STAFF REPORT

- On September 15, 2021, the City Council adopted Resolution No. 2021-130 annexing three (3) projects containing 65 units into CFD 2020-1 creating the fifth zone of the Services CFD (Zone 2020-5).
- On March 2, 2022, the City Council adopted Resolution No. 2022-14 annexing two (2) projects containing 44 units into CFD 2020-1 creating the sixth zone of the Services CFD (Zone 2020-6).
- On July 20, 2022, the City Council adopted Resolution No. 2022-87 approving the special tax rate for CFD 2020-1 (Public Services) for FY 22/23.

### BACKGROUND

The citywide public services CFD is one example of a special taxing district allowed by state law to provide an alternate method for public agencies to finance part or all of the cost of providing authorized capital facilities and services, including: police and fire protection; recreational, cultural, and library services; maintenance of lighting of parks, parkways, streets, roads, and open space; flood and storm protection; and the maintenance and operation of capital assets.

Focusing specifically on public services CFDs and as a means of providing local and regional examples that can be compared to the City of Escondido citywide public services CFD, there are several comparisons in San Diego, Riverside, and San Bernardino counties, notably the County of San Diego, and the cities of San Marcos, Temecula, San Jacinto, and Menifee. An account of each of these CFDs is described below:

#### County of San Diego

- The County of San Diego uses CFDs to fund facilities and services and has four (4) public services CFDs that were created in response to new development, the most prominent of which are CFD No. 2008-01 (Harmony Grove Village) and CFD No. 2013-01 (Horse Creek Ridge).
  - CFD No. 2008-01 (Harmony Grove Village) was formed in 2008 and encompasses 418 acres of land with an anticipated build-out of 736 dwelling units and 20,000 square feet of non-residential floor area. The CFD supported bonding for public improvements (Special Tax A) and funding for public services, including fire protection services; ambulance and paramedic services; maintenance of parks, parkways, and open space; and flood and storm protection services (Special Tax B). This Special Tax B is shown in the comparison chart below.
  - CFD No. 2013-01 (Horse Creek Ridge) was formed in 2013 and consists of 277 acres of land with an anticipated build-out of 521 single-family and 230 multi-family residential dwelling units. The CFD was formed to provide county services together with fire and flood protection. The CFD contains separate special tax rates for single-family and multi-family properties, which are shown in the comparison chart below.



# CITY *of* ESCONDIDO

## STAFF REPORT

### **City of San Marcos**

- The City of San Marcos uses CFDs to fund services and conditions development to either pay an in-lieu fee or annex into a CFD to mitigate their impact on those services. Since 1998, it has formed multiple CFDs covering police services (CFD 98-01 IA#1, 4,798 parcels in FY 22/23), lighting and landscape maintenance (CFD 98-02, 18,928 parcels in FY 22/23), fire/paramedic (CFD 2001-01, 5,021 parcels in FY 22/23), and congestion management (CFD 2011-01, 686 parcels in FY 22/23) that apply to multiple land use types, including both residential and commercial land uses. The applicable taxes for new residential land uses are shown in the comparison chart below.

### **City of Temecula**

- The City of Temecula uses CFDs to fund facilities and services and has created multiple CFDs in response to new development for the purpose of funding public infrastructure. They also have a budget and fiscal policy requiring all developments that propose an increase in a higher density residential use than what is currently allowed by the general plan or zoning code to form or annex into a public services CFD for the purposes of providing general municipal services and public safety services for the purpose of offsetting the cost of providing those services to new residents. The special tax rate for their public services CFD (CFD No. 19-01) is shown in the comparison chart below.

### **City of San Jacinto**

- The City of San Jacinto has historically used CFDs to fund public infrastructure and they have created CFDs to replace lighting, landscaping, and parks districts. They also created a citywide public services CFD in 2003 (CFD 2003-1) for the purpose of responding to rapid increases in residential growth without a commensurate increase in retail sales tax and a desire to create a sustainable funding source for police and fire services for new residential development. CFD 2003-1 requires both a one-time special tax paid directly to the City at the time a building permit for new construction is issued together with an annual special tax. It is applicable to all new residential development in the City of San Jacinto and there are currently 5,019 parcels in the CFD. While it is not encompassing of all public services, the annual special tax rate for this CFD is shown in the comparison chart below.

### **City of Menifee**

- The City of Menifee established a citywide public services CFD in 2015 (CFD 2015-2) to provide specific services such as street lighting, road and landscape maintenance, and street sweeping for individual developments that annex into the CFD while contributing to the citywide maintenance of parks, trails, storm drainage, and graffiti removal. Since the CFD was formed, the City of Menifee has annexed 34 development projects (zones) into the citywide public services CFD and

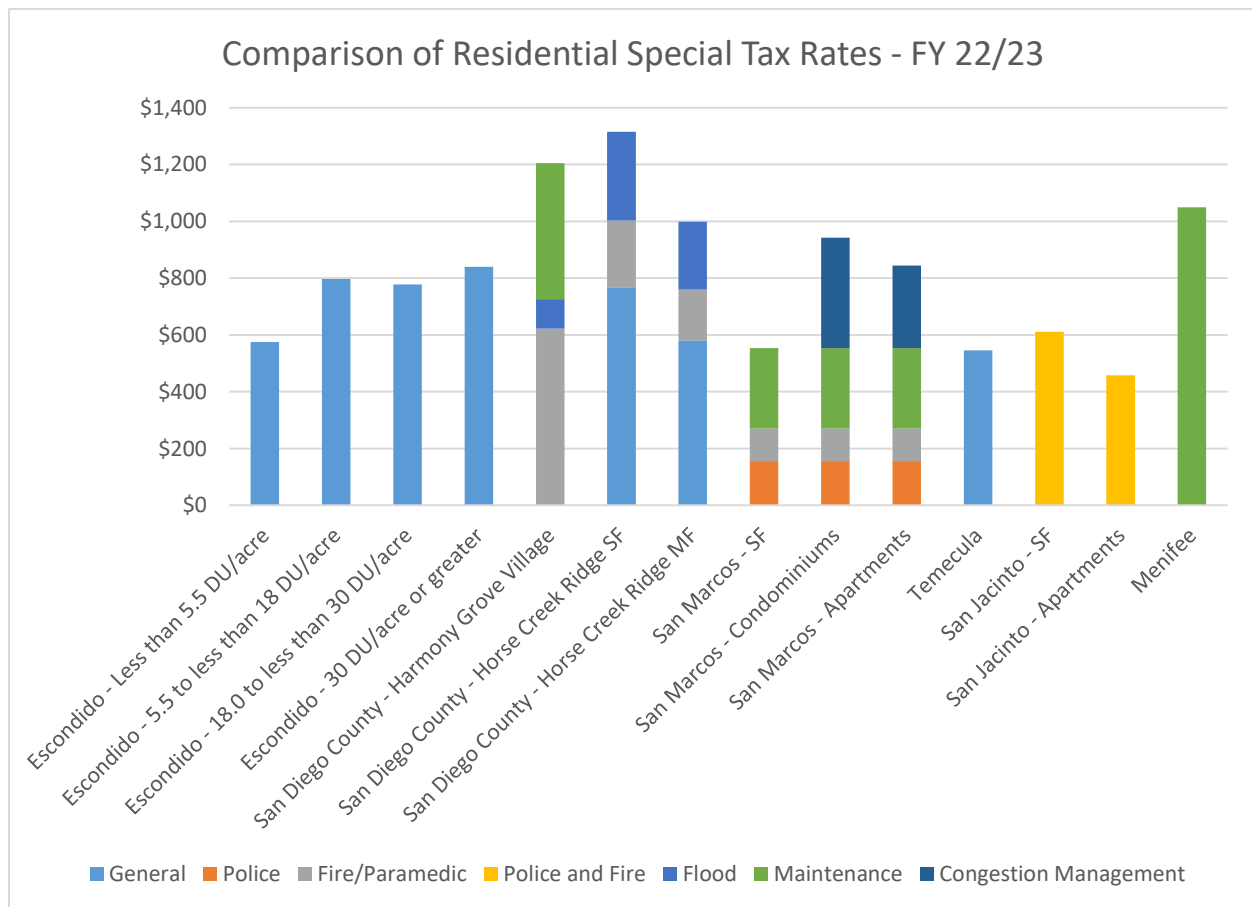


# CITY of ESCONDIDO

## STAFF REPORT

it currently consists of 2,176 parcels. While this CFD does not include public safety, the special tax rate for residential land uses within this CFD are shown in the comparison chart below.

The City of Escondido was the only city or county among those compared that formed a CFD with four different land use categories for residential development. The City of San Marcos has additional land use categories for condominiums and apartments. The City of Temecula includes a separate land use type for multi-family residential, although the maximum special tax is calculated per acre as opposed to per dwelling unit and is not directly comparable. The City of San Jacinto has a separate category for apartments. For simplicity, each of these variants, with the exception of the City of Temecula, is shown in the following chart:



The FY 22/23 special tax rates for the cities of Menifee and San Jacinto are calculated based on the most recent data available on their websites and the annual escalator for each CFD.



# CITY *of* ESCONDIDO

## STAFF REPORT

With respect to options available to the City Council on the public services CFD, generally the Council may choose one or more of the following options:

- Make no changes to the current public services CFD and continue to require that new residential development offset the ongoing costs of providing public services and conditioning permits and development entitlements on the establishment of a lawful funding mechanism, which may include the imposition of an exaction or fee or participation in a community facilities district adopted by the City
- Provide direction to set the actual special tax rate for future fiscal years at a rate lower than the maximum special tax rate
- Provide direction to change the current public services CFD to alter the services or rate and method of apportionment on future zones annexed to the public services CFD
- Provide direction to change the current public services CFD to fund alternate services with an adjusted rate and method of apportionment for parcels already annexed into the public services CFD
- Create a new public services CFD with a different scope of services than the current public services CFD
- Dissolve the current public services CFD