



STAFF REPORT

December 13, 2023
File Number 0685-10

SUBJECT

FISCAL IMPACT ANALYSIS OF FUTURE DEVELOPMENT AND CONSIDERATION OF CHANGES TO THE CITY'S SERVICES COMMUNITY FACILITIES DISTRICT LEVIES

DEPARTMENT

Development Services

REQUEST

Request that the City Council receive and file the Fiscal Impact Analysis ("FIA") of Future Development. Additionally, staff recommends the City Council adopt Resolution No. 2023-156 amending the previously set levy of special taxes ("levy" or "levies") for the City's Services Community Facilities District ("Services CFD"). Multiple options are presented in this report and will be presented at the City Council meeting for the City Council's consideration.

Staff recommend that the City Council adopt the resolution and select "Option H" from among the presented options. This option will eliminate the existing levies by setting all of them to \$0 per unit per year for all residential housing types (Single Family – Large Lot, Single Family – Small Lot, Townhomes, and Apartments/Condos).

The draft resolution includes several other options that the City Council could select. More information regarding these options and the FIA results can be found in the "Background" section of this report. A summary of the options follows:

1. "Option A" is to take no action and leave the Services CFD levies as they were set on August 9, 2023 by the City Council via Resolution 2023-82. The City Council would then reconsider the levies in August 2024 as part of the annual levy setting process. This option is not recommended by staff because it would ignore the analysis of the FIA and would therefore not account for the changes that have occurred since the original Services CFD was analyzed, including increases in projected property tax revenue and the number of anticipated future developed units.
2. "Options B, C, and D" would set no levies for Single Family – Large Lot and Single Family – Small Lot because these two residential development types were found to have a net positive fiscal impact. Levies would be set for Townhomes and Apartments/Condos, with the cost of Affordable Housing recovered via increased levies to Townhomes and Apartments/Condos. The three options would each fund: ("Option B") all projected General Fund needs, including Public Safety Target Service Levels; ("Option C") only Public Safety Departments (i.e., Police Department and Fire Departments), including Public Safety Target Service Levels; or ("Option D") only Public Safety Departments, *not* including Public Safety Target Service Levels. "Option B" is the baseline recommendation of the FIA study because the study assumes that the City



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Council will set policy to recover the costs of services to Affordable Housing. These options are not recommended by staff because the policy of distributing the cost of service for Affordable Housing to other categories of housing would raise questions about the fairness of such a policy. An attempt to collect levies from Affordable Housing would run counter the City Council past practice of incentivizing Affordable Housing by exempting development with affordable units from the Services CFD. Additionally, the levy in "Option B" for Apartments/Condos is in excess of those allowed under the current CFD Ordinance.

3. "Options E, F, and G" would set no levies for Single Family – Large Lot and Single Family – Small Lot because these two residential development types were found to have a net positive fiscal impact. Levies would be set for Townhomes and Apartments/Condos, *without* the cost of Affordable Housing being recovered. The three options would each fund: ("Option E") all projected General Fund needs, including Public Safety Target Service Levels; ("Option F") only Public Safety Departments, including Public Safety Target Service Levels; or ("Option G") only Public Safety Departments, *not* including Public Safety Target Service Levels. These options are not recommended by staff. "Option E" will not bring the City's Services CFD into better alignment with other North County cities' CFDs, and "Options F and G" would set levies that are too low to recover a meaningful amount of revenue in excess of the City's cost of administration.
4. "Option H" would set the levies to \$0 per unit per year, effectively eliminating the Services CFD through at least August 2024. As described earlier, this option is recommended. The City Council may, at its discretion, direct staff to prepare a draft Ordinance for consideration to repeal Ordinance 2020-10, which authorized the levy of special taxes.

Staff Recommendation: Receive and File FIA and adopt Resolution No. 2023-156, selecting "Option H".
(Development Services: Christopher W. McKinney, Interim Director of Development Services)

Presenter: Christopher W. McKinney, Interim Director of Development Services

FISCAL ANALYSIS

Since the existing Services CFD was created in 2020, revenues from the CFD have grown from approximately \$134,000 at 216 parcels in FY 2022 to a projected amount of \$443,000 at 556 parcels in the current fiscal year. If the City develops residential properties as predicted by the San Diego Association of Governments ("SANDAG") projection by 2050, the existing Services CFD is projected to generate approximately \$4.6 million annually in revenue in today's dollars, assuming the City Council updates the CFD levies periodically to adjust for inflation. The projected annual revenue via the Services CFD in 2050, in today's dollars and assuming periodic inflationary increases for each option presented in this report, is as follows:

Option A:	\$4.6 million
Option B:	\$4.5 million
Option C:	\$1.8 million
Option D:	\$1.1 million



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Option E:	\$2.3 million
Option F:	\$0.5 million
Option G:	Less than \$0.1 million
Option H:	\$0

These projected annual revenues assume that approximately 5,560 housing units have been constructed by 2050.

The revenues in the intervening years until 2050 will depend on the pace of residential development in the City. Assuming a constant rate of development, the revenues earned via the Services CFD would rise linearly from the present to the projected 2050 levels. If any option other than Option A (Options that change the levies) is chosen, the City will be subject to a fee of \$8,340 (\$15 per parcel) for the changes.

PREVIOUS ACTION

On January 15, 2020, the City Council adopted Resolution No. 2020-02 directing staff to prepare documents necessary for the formation of a Citywide Community Facilities District (the Services CFD).

On April 8, 2020, the City Council adopted Resolution Nos. 2020-24 and 2020-25 declaring its intent to establish Community Facilities District ("CFD") No. 2020-1, a Citywide CFD.

On May 13, 2020, the City Council adopted Resolution No. 2020-44 establishing Community Facilities District ("CFD") No. 2020-1, a Citywide CFD. The City Council also considered, for the first time, Ordinance 2020-10 authorizing levy of special taxes. This Ordinance was formally adopted at a subsequent City Council meeting.

On November 16, 2022, the City Council received an informational update concerning the Services CFD and directed staff to initiate another FIA of Future Development.

On August 9, 2023, the City Council adopted Resolution 2023-82, setting the Special Tax Levy for Community Facilities District No. 2020-1 ("Public Services CFD") for Fiscal Year 2023/24. Adoption of this resolution was the most recent setting of the Services CFD levies.

BACKGROUND

In November 2022, the City Council, based on public comments and an internal review of priorities and opportunities, directed staff to initiate another study of the fiscal impacts of development. Specifically, the City Council expressed concern about the reality of the future buildout projection used in the analysis, the negative impact on development that CFD levies might have, and the areas of the future General Fund budgets that would be funded (i.e., all the General Fund or the Public Safety departments only).

The City contracted with NBS, based in Temecula, CA, to complete the Report for Fiscal Impact Analysis of Future Development. A copy of the Fiscal Impact Analysis is attached to this Resolution as Attachment



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"1". Based on feedback from the City Council and stakeholders, NBS performed the study with several differences in underlying assumption and methodology, which are summarized below:

1. The new study examined costs assuming General Plan and SANDAG buildout projections for the City, including an assumption that future development will include larger numbers of multi-family units and fewer single-family residential ("SFR").
2. The previous study focused on the *unit costs* of each development type (i.e., Large-lot SFR, small-lot SFR, Townhomes, and Apartments/Condos). Since SFR unit types are expected to be smaller in number than the other types in the final buildout, their impact on the cost to the City of their development was larger compared to the new study with its projection of fewer SFR units.
3. The new study includes consideration of unbudgeted needs to bring staffing levels in the Public Safety departments of the General Fund up to "Target Service Levels." If adopted by the City Council, some options for levies include funding to not only meet the funding needs to provide service to future new development residents, but also to correct existing deficiencies in the Public Safety Departments.
4. The new study scaled expenditures by a "Demand Adjustment %" to account for the fact that a certain percentage increase in the population will not cause the same % increase in cost. For City Services related to Public Safety, Public Works, and Development Services, these percentages are high because increased population translates to a similar increase in costs. The Demand Adjustment for these services is high (as high as 95%). For governmental services (e.g., Clerk, Finance Department), the staff and resources needed to provide these services in a larger City do not grow in proportion with the population, so the Demand Adjustment for these Departments is smaller (~50%).
5. The study updated projected property tax revenues to reflect property value increases since the original FIA completed in 2019 and the FIA completed earlier in 2023.

SUMMARY OF THE REPORT RESULTS

The report first estimates the number of additional persons to be receiving services from the City in 2050, based on SANDAG projections of population growth. "Employee population" does not refer specifically to employees of the City government, but it refers to all persons employed within the City while living outside the City. The report assumes that the cost to provide services to each such person is approximately half of the cost to provide services to a resident of the City. Tables 1 through 3 of the report show that by 2050, the effective increase in the number of people receiving City services will be about 28,000 people.



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Revenue Projections

Section 3 of the report estimates the increased revenue projected for the City as a result of new development through 2050, primarily through property taxes and sale taxes. This analysis examines the allocation of housing over various income categories and housing types (Tables 4 through 7), recognizing that low-income units (i.e., Affordable Housing) will be exempt from certain property taxes.

Further calculations estimate the property taxes to be realized by the City from the different categories of residential development, using valuation estimates based on property values in September 2023, and adjusting for reductions in taxes that can be collected on properties in the former Redevelopment Project Area ("RDA Zone") through 2035 (Tables 8 through 15). Similar calculations estimate property tax revenue projected from future non-residential development (e.g., commercial and industrial development), property tax in lieu of Vehicle Licensing Fees ("VLF"), and other taxes related to the sale and transfer of property (Tables 16 through 24).

The report then projects sales tax revenue to be realized from new residents and those employed within the City but living elsewhere. Some notable assumption from these calculations include: 1. The median home price to income ratio is 8.54, according to the 2021 State of the Nation's Housing Report by the Joint Center for Housing Studies of Harvard University ("Harvard Study"); 2. The average household income of residents of Affordable Housing is 60% of income of residents of apartments and condos; and 3. Approximately 19% of income is spent on Taxable Retail Sales. The analysis also assumed that 60% of the spending by non-residents who are employed in the City is subject to sales tax within the City (Tables 25 through 28).

The report also summarizes other projected City revenue, including permitting fees and charges for services (Tables 29 through 31). In summary, the total projected annual revenue from new development is projected to be approximately \$30.6 million, with \$16.7 million from sales taxes and \$8.2 million from property taxes. Using data from the previously described revenue analysis, these projected future revenues are allocated across the development types, with the majority - \$21.8 million - allocated to commercial property, and \$4.3 million allocated to Apartments/Condos – the largest allocation to a residential property type (Table 33).

Expense Projections

In analyzing the projected expenses, the report first focuses on the current expenses by applying the Demand Adjustment Percentages previously described for each department to the estimated FY 2023 expenses, leading to an adjusted annual expense of \$116.0 million. Applying this figure to the approximately 181,000 people served, yielding an expense per person of \$641 (Table 34 through 36).

The analysis then delves into Target Service Levels for the Police and Fire Departments. The Target Sworn Police Ratio is 1.30 per 1,000 persons served, compared to the actual ratio of 1.06. To meet its Target Sworn Police Ratio and provide a target level of Police Services to all future residents, the City would



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require an additional 37 sworn Police Officers, with the portion of the cost of these Officers being \$850,000 annually. (Tables 37 through 39).

Similar Target Service Levels are analyzed for the Fire Department, though the method used is not a target number of employees per 1,000 persons served. Instead, the Fire Department provided an additional 25 positions needed to achieve target service levels, with eight of these positions being Emergency Medical Technicians. Using similar calculations to those used to calculate the cost of achieving target service levels for the Police Department, the cost achieving these service levels for the Fire Department is \$383,000 (Tables 40 and 41).

The projected Target Service Level expenditures are combined with the projected overall expenditure to yield at total future expenditure of \$19.0 million. These expenditures are distributed across the various development types, using assumption about occupancy of the various residential types. For example, it is assumed that newly developed Single-Family and Small Lot Single-Family have 2.49 persons per unit, while new development Townhomes and Apartment/Condos have 2.06 persons per unit, maintaining the current MFR/SFR persons per unit ratio in the City of 0.83. Applying these assumptions to the number of assumed units, and assumption about the number of employees served by commercial and industrial development allows for allocation of the future expenditure to each development type (Tables 42 and 43). The highest allocated expenditures are to Commercial development and Apartments/Condos with \$6.0 million and \$6.5 million annually, respectively.

Fiscal Impact

With projected revenues and expenses allocated to each development type, the fiscal impact of each can be estimated (Table 45). The table makes clear that future residential development, when taken separately from commercial and industrial development, results in more expenditures to provide services to new residents than these new residents contribute in revenue (e.g., sales tax, property tax, other fees). However, closer examination of the different residential property development types reveals significant differences in the impacts, with large-lot single family residential and small-lot single family residential generating more revenue than expenses. All other residential property types (Townhomes, Apartments/Condos, and Affordable Housing) are projected to generate less revenue than future expenses.

The study concludes with a recommendation for the CFD levies of "Option B". However, staff are not recommending "Option B", primarily because it distributes the fiscal impact of Affordable Housing to other housing categories. The levy amounts in all other options are calculated by staff based on the data produced in the FIA report.



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TABLES SHOWING OPTIONS FOR ADJUSTMENTS TO THE EXISTING SERVICES CFD LEVIES

The table on the following page shows the existing levies set by the City Council on August 9, 2023, and the projected revenue in 2050 if the anticipated number of units are constructed. These levies were set during the County's typical cycle of setting levies that appear on property owners' property tax bill. The deadline for setting levies in each fiscal year (FY) is August 10 of the year (about six weeks into the FY). Agencies may adjust levies at any time during the FY, *as long as levies are reduced*. The County charges a fee for these "out of cycle" changes of \$15 per parcel. There are presently 556 parcels in the Services CFD, resulting in a total fee to be paid to the County by the City of \$8,340. "Option A" would retain these levies.

"OPTION A" - DO NOT CHANGE FY 2024 SERVICES CFD LEVIES SET BY ADOPTION OF RESOLUTION 2023-82 ON AUGUST 9, 2023

Land Use Category	Type	Density	Existing Levy	Anticipated Number of Units	Projected Revenue in 2050 (2020 \$)
1	Large Lot SF	Less than 5.5 DU/Acre	\$575	658	\$378,475
2	Small Lot SF	5.5 to less than 18 DU/Acre	\$797	280	\$223,252
3	Townhomes	18.0 to less than 30 DU/Acre	\$778	471	\$366,443
4	Apartments/Condos	30 DU/Acre or Greater	\$840	4,348	\$3,653,407
			TOTAL	5,757	\$4,621,577

Tables reflecting the optional levies of "Option B", "Option C", and "Option D" can be found in the attached draft Resolution 2023-156.

Tables reflecting the option levies of "Option E", "Option F", and "Option G", with additional information for each, can be found on the following pages.



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FY 2024 SERVICES CFD LEVIES

"OPTION E" - GENERAL FUND, WITH TARGET SERVICE LEVELS FOR SAFETY

Land Use Category	Type	Density	Optional Levy	Anticipated Number of Units	Projected Revenue in 2050 (2020 \$)	Change from Existing Levy
1	Large Lot SF	Less than 5.5 DU/Acre	\$0	635	\$0	-\$575
2	Small Lot SF	5.5 to less than 18 DU/Acre	\$0	270	\$0	-\$797
3	Townhomes	18.0 to less than 30 DU/Acre	\$299	455	\$136,045	-\$479
4	Apartments/Condos	30 DU/Acre or Greater	\$525	4,197	\$2,203,425	-\$315
			TOTAL	5,557	\$2,339,470	

"Option E" would collect no revenue from Single Family Residential units (Large- and Small-Lot) because these development types were shown to have a net positive fiscal impact in the updated FIA. Existing levies would be decreased by 62% for Townhomes and by 38% for Apartments/Condos. These reductions reflect that this option does not recover the fiscal impact of Affordable Housing, but it does recover the impact of Townhomes and Apartments/Condos for all General Fund impacts, totaling \$2.3 million annually. This option would *not* bring the Services CFD into alignment with other North County CFDs, which fund only Public Safety costs.



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FY 2024 SERVICES CFD LEVIES

"OPTION F" - PUBLIC SAFETY DEPARTMENTS ONLY, WITH TARGET SERVICE LEVELS

Land Use Category	Type	Density	Optional Levy	Anticipated Number of Units	Projected Revenue in 2050 (2020 \$)	Change from Existing Levy
1	Large Lot SF	Less than 5.5 DU/Acre	\$0	635	\$0	-\$575
2	Small Lot SF	5.5 to less than 18 DU/Acre	\$0	270	\$0	-\$797
3	Townhomes	18.0 to less than 30 DU/Acre	\$0	455	\$0	-\$778
4	Apartments/Condos	30 DU/Acre or Greater	\$120	4,197	\$503,640	-\$720
TOTAL				5,557	\$503,640	

"Option F" would collect no revenue from Single Family Residential units because these development types were shown to have a net positive fiscal impact in the updated FIA. Additionally, no levy would be assessed on Townhomes. The reduction in projected negative fiscal impact of this option, because it funds only Public Safety Departments (with Target Service Levels), results in a net-positive fiscal impact for Townhomes. Existing levies would be decreased by 85% for Apartments/Condos. This option does not recover the fiscal impact of Affordable Housing, and it recovers the impact of Apartments/Condos for only Public Safety Department fiscal impacts, totaling \$0.5 million annually. This projected net revenue in 25 years would not be realized at present, with only about 1/10th of the number of units in the CFD at present. Therefore, the administration cost of the CFD would likely exceed its revenue for several years. This option would bring the Services CFD into alignment with other North County CFDs.

The drastic percentage increases in the proposed levies for this option can be explained by examining the overall negative fiscal impacts of each development type. The net impact of each individual type is relatively small compared to net impact of all development, so the changes to the net impact (e.g., by removing all General Fund impacts excepting Public Safety) can result in large reductions, or even elimination, of the negative impact of an individual development type.



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FY 2024 SERVICES CFD LEVIES

"OPTION G" - PUBLIC SAFETY DEPARTMENTS ONLY, WITHOUT TARGET SERVICE LEVELS

Land Use Category	Type	Density	Optional Levy	Anticipated Number of Units	Projected Revenue in 2050 (2020 \$)	Change from Existing Levy
1	Large Lot SF	Less than 5.5 DU/Acre	\$0	635	\$0	-\$575
2	Small Lot SF	5.5 to less than 18 DU/Acre	\$0	270	\$0	-\$797
3	Townhomes	18.0 to less than 30 DU/Acre	\$0	455	\$0	-\$778
4	Apartments/Condos	30 DU/Acre or Greater	\$20	4,197	\$83,940	-\$820
TOTAL				5,557	\$83,940	

"Option G" would collect no revenue from Single Family Residential units and Townhomes because these development types were shown to have a net positive fiscal impact (see discussion of "Option F"). This option further reduces the impacts addressed by the Services CFD by eliminating Target Service Level funding. Existing levies would be decreased by 98% for Apartments/Condos, to a mere \$20 per unit per year. This option does not recover the fiscal impact of Affordable Housing, and it recovers the impact of Apartments/Condos, totaling less than \$0.1 million annually. This option would bring the Services CFD into alignment with other North County CFDs. The administration cost of the CFD would never be recovered by the revenues generated.



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FY 2024 SERVICES CFD LEVIES

"OPTION H" - SET CFD LEVIES TO \$0 FOR ALL CATEGORIES

Land Use Category	Type	Density	Optional Levy	Anticipated Number of Units	Projected Revenue in 2050 (2020 \$)	Change from Existing Levy
1	Large Lot SF	Less than 5.5 DU/Acre	\$0	635	\$0	-\$575
2	Small Lot SF	5.5 to less than 18 DU/Acre	\$0	270	\$0	-\$797
3	Townhomes	18.0 to less than 30 DU/Acre	\$0	455	\$0	-\$778
4	Apartments/Condos	30 DU/Acre or Greater	\$0	4,197	\$0	-\$840
TOTAL				5,557	\$0	

"Option H" is a very simple option which proposes to set all Services CFD levies to \$0 per unit per year. If the City Council desires to limit the Services CFD to the fiscal impacts of development for Public Safety Departments only, the recent increases in projected property tax revenue – coupled with a low expenditure per capita on services when compared to other cities in San Diego County – lead to dwindling benefit from, and indeed a dwindling need for, continued Services CFD levies.

If the City Council chooses "Option H", they may also consider directing staff to prepare a draft Ordinance that would repeal Ordinance 2020-10, thus formally eliminating the Services CFD. If the levies are set to \$0, but Ordinance 2020-10 is not repealed, the City Council could choose to enact Services CFD levies by simple resolution at any point in the future.

RECOMMENDATION

Staff recommends that the City Council adopt Resolution 2023-156 with "Option H", setting all Services CFD levies to \$0. Staff also request City Council provide direction concerning preparation of a draft Ordinance that would repeal Ordinance 2020-10.

ATTACHMENTS

- Attachment "1" Report on Fiscal Impact Analysis of Future Development

RESOLUTIONS

- Resolution No. 2023-156
- Resolution No. 2023-156 Exhibit "A"