

CITY OF ESCONDIDO

Report For:

Fiscal Impact Analysis of Future Development

November 2023

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SECTION 1 | INTRODUCTION

The City of Escondido ("City") is undertaking a comprehensive review of the net fiscal impact to its General Fund ("General Fund") in anticipation of projected future development within the City. A review of the revenues expected to be generated by projected development, as compared with expenditures the City will incur to provide certain public services, determined that projected Townhome, Apartment/Condo and Affordable Housing developments within the City will have a negative fiscal impact on the City's General Fund, whereas Single-Family, Small Lot Single-Family, Commercial and Industrial developments will have a positive fiscal impact. To offset negative fiscal impacts created by projected development, the City should consider establishing a new funding source through a special financing district.

This fiscal impact analysis will provide background information, applicable financial information, and recommended actions for the City's consideration. To accomplish these objectives, this report includes the following information:

- **Background Information.** The introductory portion of the report focuses on the City and public services/operations under review. Existing development information is also addressed in this section.
- **Revenues.** The revenue section of the report identifies the various revenue sources and the potential recurring revenues, given certain reasonable assumptions.
- **Expenditures.** The expenditure section of the report identifies the estimated recurring cost burden placed upon the City's operations.
- **Fiscal Impact.** Using projected development's identified revenues and expenditures, this section of the report identifies the overall fiscal impact on the City's operations. Fiscal impacts are addressed on a land use category basis using either a per dwelling unit, building square foot, lot square foot, or acre factor.
- **Recommendations.** The report concludes with a summary of fiscal analysis findings and recommendations for the City's consideration.

SECTION 2 | BACKGROUND

As part of the overall decision-making process to move forward with proposed development, it is important to evaluate the contributions and demands that future development will place upon a public agency's operating funds. This analysis seeks to determine the fiscal impact of future development throughout the City and the accompanying impact placed upon the City's General Fund. The General Fund is used to account for all the general revenues of the City not specifically levied or collected for other City funds or related expenditures. The General Fund accounts for all financial resources of a governmental unit not accounted for in another fund. To determine the anticipated fiscal impacts placed upon the City, this fiscal impact analysis is designed to quantify the approximate cost of providing services to the City's projected future population.

Analysis Methodology

The revenue portion of the fiscal impact analysis focuses on various taxes, fees, and other City revenues collected to fund ongoing operational costs. The expenditure portion of the fiscal impact analysis focuses on recurring expenditures incurred by the City to provide ongoing services to its population.

This analysis utilizes data from various sources including, but not limited to, the California Department of Finance, the San Joaquin Council of Governments, the General Plan, and financials of the City. Data sources are detailed where applicable in this report. Current-day dollar values are used in this analysis due to the inability to project with accuracy revenues and expenditures at the time of buildout. The rounding of decimals may cause marginal variances between calculated and listed figures that appear in this report.

There are several industry-accepted methods for allocating a public agency's recurring revenues and expenditures to future development. This fiscal analysis primarily employs two industry-standard approaches: the case study approach and the multiplier approach. Both approaches are described below.

CASE STUDY APPROACH

When data used in a fiscal impact analysis is specific to the analysis itself and is not dependent on industry-accepted generalized multipliers such as the number of residents, employees, etc., the case study approach is utilized. The case study approach relies on development-specific data to estimate the fiscal impacts of projected future development. Data used in the case study approach may include anything applicable to the future projections, including assessed valuations, property turnover rates, residential and employee populations, household incomes, estimated sales, and taxable expenditures.

MULTIPLIER APPROACH

The multiplier approach is used in a fiscal impact analysis when relationships between projected future development and revenues or expenditures generated from projected future development are difficult to quantify. This approach anticipates that certain revenues and expenditures are indicators of future anticipated revenues and expenditures, which can be quantified based on changes in, for example, the number of persons served by a public agency. To apply the multiplier approach, this report determines an average revenue or expenditure amount based upon a per person served basis. Depending on the type of revenue or expenditure, persons served can include residents, employees, or a combination of both.

Current City Persons Served

To best apply the multiplier approach in this fiscal impact analysis, and to allocate applicable revenues and expenditures, population information is utilized.

RESIDENTIAL POPULATION

Current residential population data was obtained from the California Department of Finance ("CA DOF"). Per the California Department of Finance, as of 2023, the residential population of the City was 149,799.

EMPLOYEE POPULATION

Current employee population data was estimated using data from the San Diego Association of Governments' ("SANDAG") Series 14 Regional Growth Forecast Documentation and Subregional Allocation. This report refers to the Regional Growth Forecast as the SANDAG Report.

Per the SANDAG Report, in 2016 the employee population of the City (i.e., number of jobs within the City) was 57,670 and was expected to grow annually by approximately 1.07% through the year 2050. Using the 2016 employee population and projected annual growth rate, this analysis estimates that as of 2023 the employee population of the City was 62,129.

PERSONS SERVED

Using residential and employee population estimates, the total number of persons served within the City can be determined. When establishing the total number of persons served within the City, this analysis recognizes that an employee population does not have the same impact on demand for public services as a residential population. This is especially true for the portion of the employee population which works within the City but resides outside of its boundaries. While the exact service-demand relationship between an employee and a resident is difficult to quantify with accuracy, an industry-standard correlation of one-half employee to one resident is commonly used. This 50% adjustment suggests that a resident will have twice the impact on a public agency's revenues and demand for services as that of an employee within the City. The 50% adjustment also seeks to account for employees included within the identified employee population count that are also residents of the City. Applying the 50% adjustment to the City's existing employee population base, the total number of persons served within the City is calculated in the following table.

TABLE 1. CURRENT PERSONS SERVED

Description	Total
Current Residential Population ⁽¹⁾	149,799
Current Employee Population ⁽²⁾	62,129
Adjusted Employee Population ⁽³⁾	31,065
Current Persons Served ⁽⁴⁾	180,864

(1) Per CA DOF.

(2) 2016 Employee Population per the SANDAG Report adjusted to 2023.

(3) Current Employee Population adjusted by 50%, rounded to the nearest whole number.

(4) Equal to (Current Residential Population) + (Adjusted Employee Population).

Future City Persons Served

FUTURE RESIDENTIAL POPULATION

Per the SANDAG Report, the City's residential population is projected to grow to 167,211 by the year 2050.

FUTURE EMPLOYEE POPULATION

The SANDAG Report projects that the City's employee population will grow to 82,806 by the year 2050.

FUTURE PERSONS SERVED

Using projected future residential and employee population estimates, the total number of future persons served within the City can be determined. Applying the 50% adjustment (described earlier in this report) to the City's projected future employee population, the total number of future persons served within the City is provided in the following table.

TABLE 2. FUTURE PERSONS SERVED

Description	Total
Future Residential Population ⁽¹⁾	167,211
Future Employee Population ⁽¹⁾	82,806
Adjusted Future Employee Population ⁽²⁾	41,403
Future Persons Served ⁽³⁾	208,614

(1) In 2050, Per the SANDAG Report.

(2) Future Employee Population adjusted by 50%, rounded to the nearest whole number.

(3) Equal to (Future Residential Population) + (Adjusted Future Employee Population).

CHANGE IN PERSONS SERVED

A summary of the change in persons served as a result of projected future development within the City is presented in the following table.

TABLE 3. CHANGE IN PERSONS SERVED

Description	Total
Change in Residential Population	17,412
Change in Employee Population ⁽¹⁾	20,677
Change in Persons Served	27,750

(1) Reflects change in employee population prior to application of 50% adjustment. Figure used to estimate future non-residential development & certain revenues.

SECTION 3 | REVENUE ESTIMATE

The City relies on revenue received from several sources. A majority of the City's operating revenue derives from property taxes, sales taxes, property taxes in lieu of vehicle license fees, property transfer taxes (i.e., documentary transfer taxes), and various other taxes and fees. The case study approach is used to determine the estimated property tax revenue generated from projected future development within the City, and the multiplier approach is used to allocate certain types of other revenue the City receives.

Property Tax Revenue

Under California law, non-exempt property pays an *ad valorem* property tax equal to 1% of the assessed value of the property. Any additional voter-approved taxes or assessments will result in a total property tax rate burden that can exceed 1% of the property's assessed value. The property tax revenue received from the 1% *ad valorem* property tax rate is then allocated to various overlapping public agencies based upon their authorized allocation for each Tax Rate Area ("TRA"). Across the City's various TRAs, of the 1% *ad valorem* property tax collected from property within its boundaries, the City receives approximately 10.30%.

There is also one former redevelopment project area ("RDA Zone") managed by the City Successor Agency ("Successor Agency"). The 1% *ad valorem* incremental property tax generated within this former project area is allocated each January 2 and June 1 per redevelopment dissolution statutes. The 1% *ad valorem* tax increment revenue is allocated on these dates by first deducting County administrative costs and then by the payment of pass-through obligations. The tax increment revenue remaining is available for payment of the former redevelopment agency's obligations and the administrative costs of the Successor Agency. Tax increment revenue remaining after payment of all obligations is referred to as Residual Revenue ("Residual Revenue"). The Residual Revenue is allocated to relevant taxing entities based on their proportional shares of the total tax increment revenue. Residual Revenue was 51.56% of the total 1% *ad valorem* tax increment revenue in Fiscal Year 2022/23. The City's share of the Residual Revenue allocated in Fiscal Year 2022/23 was approximately 10.64% of the total residual amount, which equates to approximately 5.50% of the 1% *ad valorem* property tax revenue; it is therefore assumed that within RDA Zones, the City receives approximately 5.50% of the 1% *ad valorem* property tax revenue. The recognized obligations of the Successor Agency will terminate on December 31, 2035, after which time properties within the RDA Zone will contribute the same property tax percentage as the properties not in the RDA Zone (10.30%).

RESIDENTIAL DEVELOPMENT

To calculate the amount of property tax revenue projected to be generated for the City by future residential development, the projected increase in households is considered. Per the CA DOF, as of 2023, there were 50,655 housing units in the City, with approximately 57% of the total consisting of single-family residential units and 43% of the total consisting of multi-family residential units. Per the SANDAG Report, the number of housing units within the City is projected to grow to 58,201 by 2050.

TABLE 4. GROWTH IN HOUSEHOLDS

Description	Total
Housing Units in 2023 ⁽¹⁾	50,655
Households in Future ⁽²⁾	58,201
Growth in Households ⁽³⁾	7,546

(1) Per CA DOF.

(2) In 2050, per the SANDAG Report.

(3) Equal to (Housing Units in Future) - (Housing Units in 2023).

In March of 2021, the City published its 6th Cycle Housing Element for the years 2021-2029 ("Housing Element"). Housing Element is concerned with specifically identifying ways in which the housing needs of existing and future resident residents can be met. The Housing Element contains a Regional Housing Needs Assessment ("RHNA") that details numerous sites within the City with additional capacity for low-income, moderate-income, and above moderate-income capacity ("RHNA Sites"). These allocations are detailed in the following table.

TABLE 5. ALLOCATION OF FUTURE HOUSING TO VARIOUS HOUSEHOLD INCOME CATEGORIES

Income Category	Number of Units Allocated to Income Category ⁽¹⁾
Above Moderate-Income Capacity	3,417
Moderate-Income Capacity	1,462
Low-Income Capacity	4,524
Total Capacity	9,403

(1) Per the RHNA in the City's Housing Element.

This analysis assumes that housing constructed through 2050 will follow similar guidelines as those detailed in the RHNA and the City's most recent Housing Element. This report also recognizes that low-income units (Affordable Housing) will be exempt from certain taxes examined further in Section 3 of this report.

For purposes of this report, the capacities shown in Table 5 have been reduced by 19.75%, as we've established above that the growth in households by the year 2050 will only be 7,546 housing units ($[(9,403 - 7,546) / 9,403 = 19.75\%]$).

The following table shows the adjusted allocations:

TABLE 6. ADJUSTED ALLOCATION OF FUTURE HOUSING TO VARIOUS HOUSEHOLD INCOME CATEGORIES

Income Category	Number of Units Allocated to Income Category ⁽¹⁾
Above Moderate-Income Adjusted Capacity	2,742
Moderate-Income Adjusted Capacity	1,173
Low-Income Adjusted Capacity	3,631
Total Adjusted Capacity	7,546

Data from the Housing Element indicates that approximately 55% of lower-income households are either very low-income or extremely low-income. This percentage has been applied to the Low-Income Adjusted Capacity income category to carve out the estimated number of Affordable Housing Units. Using the projected change in dwelling units from 2023 to 2050 calculated in Table 4, the allocations detailed in Table 6, as well as the maximum density allowable for each of the RHNA Sites based on data provided by the City (*REVISED_Escondido_SSI_pendingProjectsUpdated.xlsx*), the number of future residential units projected to develop within the City is calculated in the following table.

TABLE 7. FUTURE RESIDENTIAL DEVELOPMENT WITHIN CITY

Development Type	Density Category	Total Unit Count
Single-Family	Less than 5.5 DU/Acre	635
Small Lot Single-Family	5.5 to less than 18 DU/Acre	270
Townhomes	18.0 to less than 30 DU/Acre	455
Apartments/Condos	30 DU/Acre or Greater	4,197
Affordable Housing (Low Income)	18.0 to less than 30 DU/Acre or 30 DU/Acre or Greater	1,989
Totals		7,546

Property is subject to the 1% *ad valorem* tax rate unless it can qualify for an exemption under existing California laws. Certain types of property that are granted this property tax exemption, also known as the Welfare Exemption (“Welfare Exemption”), include hospitals, universities, churches, affordable housing, and other non-profits. If the Welfare Exemption is granted, the property will not be subject to the 1% *ad valorem* property tax. However, the property may still be subject to other assessments, taxes, and charges levied by local governments. Future Single-Family, Small Lot Single-Family, Townhome, and Apartment/Condo developments will be subject to the 1% *ad valorem* property tax rate, whereas future Affordable Housing development will qualify for the Welfare Exemption and will not be subject to the 1% *ad valorem* property tax.

To calculate the amount of property tax revenue projected to be generated for the City by residential development, the estimated sales price of each property type as of September 2023 is considered.

TABLE 8. TOTAL FUTURE ASSESSED VALUE OF RESIDENTIAL DEVELOPMENT – RDA ZONE

Description	Single-Family	Small Lot Single-Family	Townhomes	Apartments / Condos	Total
Estimated Price per Unit ⁽¹⁾	\$870,000	\$783,000	\$600,500	\$425,750	N/A
Unit Count ⁽²⁾	6	43	390	3,946	4,383
Total Future Assessed Value ⁽³⁾	\$4,887,285	\$33,303,356	\$234,085,824	\$1,679,808,941	\$1,952,085,405

- (1) Sales price data drawn from Redfin.com. Median sales price for single-family homes, townhouses, and condos/co-ops. Figures reflect market conditions as of September 2023 and are subject to fluctuation.
- (2) Number of units on the RHNA sites identified in Table 7 within the RDA Zone.
- (3) Equal to (Assessable Value per Unit) x (Unit Count).

TABLE 9. TOTAL FUTURE ASSESSED VALUE OF RESIDENTIAL DEVELOPMENT – NON- RDA ZONE

Description	Single-Family	Small Lot Single-Family	Townhomes	Apartments / Condos	Total
Estimated Price per Unit ⁽¹⁾	\$870,000	\$783,000	\$600,500	\$425,750	N/A
Unit Count ⁽²⁾	629	228	65	251	1,173
Total Future Assessed Value ⁽³⁾	\$547,375,910	\$178,455,718	\$38,849,566	\$106,996,497	\$871,677,690

- (1) Sales price data drawn from Redfin.com. Median sales price for single-family homes, townhouses, and condos/co-ops. Figures reflect market conditions as of September 2023 and are subject to fluctuation.
- (2) Number of units on the RHNA sites identified in Table 7 not within the RDA Zone.
- (3) Equal to (Assessable Value per Unit) x (Unit Count).

TABLE 10. CURRENT ASSESSED VALUE OF FUTURE RESIDENTIAL DEVELOPMENT (RHNA SITES) – RDA ZONE

Description	Single-Family	Small Lot Single-Family	Townhomes	Apartments / Condos	Total
Current Assessed Value ⁽¹⁾	\$1,369,958	\$5,870,180	\$49,961,125	\$281,243,494	\$338,444,757

- (1) Per San Diego County Assessor’s data, as of January 2023.

TABLE 11. CURRENT ASSESSED VALUE OF FUTURE RESIDENTIAL DEVELOPMENT (RHNA SITES) – NON- RDA ZONE

Description	Single-Family	Small Lot Single-Family	Townhomes	Apartments / Condos	Total
Current Assessed Value ⁽¹⁾	\$49,116,907	\$25,228,584	\$8,785,638	\$16,035,360	\$99,166,489

- (1) Per San Diego County Assessor’s data, as of January 2023.

TABLE 12. INCREMENTAL ASSESSED VALUE OF FUTURE RESIDENTIAL DEVELOPMENT – RDA ZONE

Description	Single-Family	Small Lot Single-Family	Townhomes	Apartments / Condos	Total
Total Future Development Assessed Value ⁽¹⁾	\$4,887,285	\$33,303,356	\$234,085,824	\$1,679,808,941	\$1,952,085,405
Current Assessed Value ⁽²⁾	1,369,958	5,870,180	49,961,125	281,243,494	338,444,757
Incremental Assessed Value ⁽³⁾	\$3,517,327	\$27,433,176	\$184,124,699	\$1,398,565,447	\$1,613,640,648

(1) Calculated in Table 8.

(2) Calculated in Table 10.

(3) Equal to (Total Future Development Assessed Value) - (Current Assessed Value).

TABLE 13. INCREMENTAL ASSESSED VALUE OF FUTURE RESIDENTIAL DEVELOPMENT – NON-RDA ZONE

Description	Single-Family	Small Lot Single-Family	Townhomes	Apartments / Condos	Total
Total Future Development Assessed Value ⁽¹⁾	\$547,375,910	\$178,455,718	\$38,849,566	\$106,996,497	\$871,677,690
Current Assessed Value ⁽²⁾	49,116,907	25,228,584	8,785,638	16,035,360	99,166,489
Incremental Assessed Value ⁽³⁾	\$498,259,003	\$153,227,134	\$30,063,928	\$90,961,137	\$772,511,201

(1) Calculated in Table 9.

(2) Calculated in Table 11.

(3) Equal to (Total Future Development Assessed Value) - (Current Assessed Value).

TABLE 14. PROPERTY TAX REVENUE GENERATED BY FUTURE RESIDENTIAL DEVELOPMENT – RDA ZONE

Description	Single-Family	Small Lot Single-Family	Townhomes	Apartments / Condos	Total
Incremental Assessed Value ⁽¹⁾	\$3,517,327	\$27,433,176	\$184,124,699	\$1,398,565,447	\$1,613,640,648
1% Ad Valorem	\$35,173	\$274,332	\$1,841,247	\$13,985,654	\$16,136,406
Allocation of 1% Ad Valorem	5.50%	5.50%	5.50%	5.50%	5.50%
Projected Property Tax Revenue to City	\$1,933	\$15,077	\$101,193	\$768,634	\$886,837

(1) Calculated in Table 12.

TABLE 15. PROPERTY TAX REVENUE GENERATED BY FUTURE RESIDENTIAL DEVELOPMENT – NON-RDA ZONE

Description	Single-Family	Small Lot Single-Family	Townhomes	Apartments / Condos	Total
Incremental Assessed Value ⁽¹⁾	\$498,259,003	\$153,227,134	\$30,063,928	\$90,961,137	\$772,511,201
1% Ad Valorem	\$4,982,590	\$1,532,271	\$300,639	\$909,611	\$7,725,112
Allocation of 1% Ad Valorem	10.30%	10.30%	10.30%	10.30%	10.30%
Projected Property Tax Revenue to City	\$513,207	\$157,824	\$30,966	\$93,690	\$795,687

(1) Calculated in Table 13.

NON-RESIDENTIAL DEVELOPMENT

To calculate the amount of property tax revenue projected to be generated for the City by future Commercial and Industrial development, estimated current employee allocations to each property type and the projected increase in the employee population are considered.

Between 2023 and 2050, the employee population of the City is projected to grow by 20,677 employees. Per City Data, approximately 85.4% of current employees are employed in Commercial businesses, while 14.6% of current employees are employed in Industrial businesses. For purposes of this analysis, the projected increase in the employee population within the City is attributed to Commercial and Industrial development according to these existing proportions, as shown in the following table.

TABLE 16. FUTURE DEVELOPMENT EMPLOYEE POPULATION

Description	Value
Projected Change in Commercial Employee Population ⁽¹⁾	17,662
Projected Change in Industrial Employee Population ⁽²⁾	3,015
Projected Change in Employee Population ⁽³⁾	20,677

(1) Equal to 85.4% of Projected Change in Employee Population. Estimated, subject to change.

(2) Equal to 14.6% of Projected Change in Employee Population. Estimated, subject to change.

(3) Identified in Table 3.

Average employee density figures specific to the City or the County could not be obtained. As such, for purposes of this analysis, estimated employee density figures for the City were calculated by averaging non-residential density figures presented in the UC Davis Building Area per Employee by Business Type assumptions ("UC Davis Assumptions"). The estimated building square feet per employee of non-residential development are presented in the following table and multiplied by the projected change in Commercial or Industrial employee population to arrive at the amount of non-residential building square feet projected to develop.

TABLE 17. ESTIMATED NON-RESIDENTIAL BUILDING SQUARE FEET TO DEVELOP

Description	Value
Commercial Bldg. Sq. Ft. per Employee ⁽¹⁾	331
Industrial Bldg. Sq. Ft. per Employee ⁽¹⁾	543
Commercial Bldg. Sq. Ft. Projected to Develop ⁽²⁾	5,846,122
Industrial Bldg. Sq. Ft. Projected to Develop ⁽²⁾	1,635,638

(1) Average of employee density figures within the UC Davis Assumptions.

(2) Equal to (Projected Change in corresponding Employee Population identified in Table 16) x (Corresponding Bldg. Sq. Ft. per Employee).

Undeveloped land zoned for non-residential use currently generates a level of property tax revenue for the City. For purposes of assigning current assessed value to property that will contain projected future Commercial and Industrial development, Floor Area Ratios ("FAR"), or the maximum ratio of building to lot square footage, are considered. On average, the FAR of existing non-residential uses that contain Commercial development is 0.40. The FAR of existing non-residential uses that contain Industrial development 0.37. This analysis assumes that on average, future Commercial development will have a FAR of 0.40 and Industrial development will have a FAR of 0.37. The current assessed value of property projected to develop to accommodate future non-residential development is calculated in the following table using FARs, amount of building square feet projected to develop, and County Secured Roll Data.

TABLE 18. CURRENT ASSESSED VALUE OF FUTURE NON-RESIDENTIAL DEVELOPMENT

Description	Commercial	Industrial	Total
Building Square Feet Projected to Develop ⁽¹⁾	5,846,122	1,635,638	7,481,760
FAR ⁽²⁾	0.40	0.37	N/A
Lot Square Feet Projected to Develop ⁽³⁾	14,615,305	4,420,643	19,035,948
Acreage Projected to Develop ⁽⁴⁾	335.52	101.48	437.01
Undeveloped Non-residential Acreage ⁽⁵⁾	896.84	106.25	1,003.09
Undeveloped Non-residential Assessed Value ⁽⁵⁾	\$104,436,207	\$45,390,881	\$149,827,088
% of Total Undeveloped Acreage ⁽⁶⁾	37.41%	95.52%	N/A
Current Assessed Value ⁽⁷⁾	\$39,071,184	\$43,356,441	\$82,427,624

(1) Identified in Table 17.

(2) Average FAR for existing commercial or industrial properties within the City.

(3) Equal to (Building Square Feet Projected to Develop) / (FAR).

(4) Lot Square Feet Projected to Develop converted to acres.

(5) Per County Secured Roll Data, total acreage and assessed value of undeveloped property zoned for non-residential uses.

(6) Equal to (Acreage Projected to Develop) / (Undeveloped Non-residential Acreage).

(7) Equal to (% of Total Undeveloped Acreage) x (Undeveloped Non-residential Assessed Value).

To calculate the total assessed value of projected future Commercial and Industrial development, the average sales price per building square foot of each property type was calculated. An average price per building square foot was calculated for Commercial and Industrial property using sales price data of property within the City within the last six months.

TABLE 19. COMMERCIAL AND INDUSTRIAL PRICE PER BUILDING SQUARE FOOT

Description	Commercial ⁽¹⁾	Industrial ⁽¹⁾
Average Price per Bldg. Sq. Ft.	\$359	\$236

(1) Listing price data drawn from the online commercial real estate marketplace CoStar.com. Listing price data of Commercial and Industrial property for sale within the City. Figures reflect market conditions as of April 2023 and are subject to fluctuation.

The total assessed value and the incremental assessed value of projected Commercial and Industrial development are calculated in the following table.

TABLE 20. INCREMENTAL ASSESSED VALUE OF FUTURE NON-RESIDENTIAL DEVELOPMENT

Description	Commercial	Industrial	Total
Total Assessed Value ⁽¹⁾	\$2,098,757,798	\$386,010,568	\$2,484,768,366
Current Assessed Value ⁽²⁾	39,071,184	43,356,441	82,427,624
Incremental Assessed Value ⁽³⁾	\$2,059,686,614	\$342,654,127	\$2,402,340,742

(1) Equal to (Building Square Footage Projected to Develop identified in Table 17) x (Average Price per Bldg. Sq. Ft. identified in Table 19).

(2) Identified in Table 18.

(3) Equal to (Total Assessed Value) – (Current Assessed Value).

As with future residential development, the amount of property tax revenue expected to be generated by projected non-residential development is dependent on whether property on which it will develop is within the RDA Zone. Per County Secured Roll Data, of the total amount of undeveloped land zoned for non-residential use, approximately 11% is within the existing RDA Zone. For purposes of this analysis, it is assumed that 11% of projected non-residential development will occur within the RDA Zone. Given this assumption, the amount of property tax revenue projected non-residential development is expected to generate for the City is calculated in the following table.

TABLE 21. PROPERTY TAX REVENUE GENERATED BY FUTURE NON-RESIDENTIAL DEVELOPMENT

Description	Commercial	Industrial	Total
Incremental Assessed Value ⁽¹⁾	\$2,059,686,614	\$342,654,127	\$2,402,340,742
1% Ad Valorem – RDA Zones ⁽²⁾	\$2,265,655	\$376,920	\$2,642,575
1% Ad Valorem – Non-RDA Zones ⁽³⁾	\$18,331,211	\$3,049,622	\$21,380,833
Allocation of 1% Ad Valorem - RDA Zone ⁽⁴⁾	5.50%	5.50%	5.50%
Allocation of 1% Ad Valorem - Non-RDA Zone ⁽⁴⁾	10.30%	10.30%	10.30%
Property Tax Revenue Generated for City ⁽⁵⁾	\$2,012,632	\$334,826	\$2,347,458

(1) Calculated in Table 20.

(2) Equal to (Incremental Assessed Value) x (1.00%) x (11%, the percent of future residential development expected to occur within the existing RDA Zone). 11% is estimated and subject to change.

(3) Equal to (Incremental Assessed Value) x (1.00%) x (89%, the percent of future residential development expected to occur outside of the existing RDA Zone). 89% is estimated and subject to change.

(4) Estimate.

(5) Equal to [(1% Ad Valorem – RDA Zones) x (Allocation of 1% Ad Valorem – RDA Zones)] + [(1% Ad Valorem – Non-RDA Zones) x (Allocation of 1% Ad Valorem – Non-RDA Zones)].

Property Tax in Lieu of Vehicle License Fee (“VLF”) Revenue

Property tax in lieu of VLF is revenue the City receives in addition to the City’s share of *ad valorem* property tax revenues. In 2004, the California Legislature permanently reduced the VLF rate from 2.00% to 0.65% and compensated cities and counties for their revenue loss with a like amount of property taxes, dollar for dollar.

A public agency's property tax in lieu of VLF revenue allocation changes in proportion to the growth or decline in gross assessed valuation.

Per assessed value data provided by the CA BOE, and the Fiscal Year 2022/23 Property Tax in Lieu of VLF revenue received by the City, the ratio of property tax in lieu of VLF received by the City to the City's assessed value is calculated, as shown in the following table.

TABLE 22. PROPERTY TAX IN LIEU OF VLF RATIO

Description	Fiscal Year 2022/23 Value
City Total Assessed Value ⁽¹⁾	\$19,452,099,000
VLF Revenue ⁽²⁾	16,140,100
Property Tax in Lieu of VLF Ratio ⁽³⁾	0.0830%

(1) Per the CA BOE.

(2) Per City's 2022/23 Operating Budget.

(3) Equal to (VLF Revenue) / (City Total Assessed Value).

The property tax in lieu of VLF ratio is applied to the incremental assessed value of projected future development within the City to estimate the amount of property tax in lieu of VLF to be generated by said development.

TABLE 23. PROPERTY TAX IN LIEU OF VLF REVENUE

Description	Incremental Assessed Value ⁽¹⁾	Property Tax in Lieu of VLF Ratio	Property Tax in Lieu of VLF Revenue ⁽²⁾
Single-Family	\$501,776,330	0.0830%	\$416,474
Small Lot Single-Family	180,660,309	0.0830%	149,948
Townhomes	214,188,627	0.0830%	177,777
Apartments/Condos	1,489,526,584	0.0830%	1,236,307
Affordable Housing (Low Income)	-	0.0830%	-
Commercial	2,059,686,614	0.0830%	1,709,540
Industrial	342,654,127	0.0830%	284,403
Totals	\$4,788,492,591		\$3,974,449

(1) Identified in Tables 12, 13 and 20.

(2) Equal to (Incremental Assessed Value) x (Property Tax in Lieu of VLF Ratio).

(3) Affordable Housing is expected to qualify for the Welfare Exemption and thus not expected to generate property tax in lieu of VLF revenue.

Documentary Transfer Tax

When property is sold, a documentary transfer tax is charged and distributed to the City and County. The documentary transfer tax is charged at a rate of \$0.55 per \$500 of assessed value, or \$1.10 per \$1,000 of assessed value. To determine the annual documentary transfer tax revenue, estimated property turnover rates are considered. This analysis assumes that residential units will turnover approximately every 13 years, which results in an annual turnover rate of about 8%. Commercial and Industrial land uses typically have minimal ownership turnover. However, to consider the potential for land use turnover, a conservative

estimate of once every 20 years, or an annual turnover rate of 5%, is applied in this analysis to the projected non-residential development. Utilizing the estimated incremental assessed value of projected future development and estimated annual turnover rates, the City's share of the documentary transfer tax is calculated in the following table.

TABLE 24. DOCUMENTARY TRANSFER TAX GENERATED BY FUTURE DEVELOPMENT

Description	Single-Family	Small Lot Single-Family	Townhomes	Apartments / Condos	Commercial	Industrial
Incremental Assessed Value	\$501,776,330	\$180,660,309	\$214,188,627	\$1,489,526,584	\$2,059,686,614	\$342,654,127
Estimated Annual Turnover Rate ⁽¹⁾	8%	8%	8%	8%	5%	5%
Annual Turnover Assessed Value ⁽²⁾	\$40,142,106	\$14,452,825	\$17,135,090	\$119,162,127	\$102,984,331	\$17,132,706
Annual Turnover Assessed Value / \$1,000	\$40,142	\$14,453	\$17,135	\$119,162	\$102,984	\$17,133
Documentary Transfer Tax Rate per \$1,000 ⁽³⁾	\$0.55	\$0.55	\$0.55	\$0.55	\$0.55	\$0.55
Documentary Transfer Tax Revenue	\$22,078	\$7,949	\$9,424	\$65,539	\$56,641	\$9,423

(1) Source for residential rates: "Latest Calculations Show Average Buyer Expected to Stay in Home 13 Years," Economic and Housing Policy, National Association of Homebuilders.

(2) Equal to (Incremental Assessed Value) x (Estimated Annual Turnover Rate).

(3) \$1.10 tax rate is split \$0.55 to the County and \$0.55 to the City.

Sales Tax Revenue

A sales tax is a tax levied on the sale, transfer, or exchange of a taxable item or service. The base sales tax rate in California is 7.25%. Revenue generated from the sales tax is allocated to certain state and local jurisdictions, with the City receiving 1.00% of the base sales tax rate.

In addition to the base sales tax, the County levies and collects an additional 0.50% sales tax. In total, the sales rate in the City is 7.75%. The rate used to project sales and transactions and use tax revenue for the City referred to collectively as sales tax revenue in this report, is 1.00%.

FUTURE RESIDENTS

To determine the amount of sales tax revenue expected to be generated by the residential population that will result from projected residential development, the median income per household within the City, the

median home price to median household income ratio, and the percentage of income spent on taxable retail sales per household are considered.

In 2021, the Joint Center for Housing Studies of Harvard University authored the State of the Nation's Housing report ("Harvard Study"). Per the Harvard Study, in 2020 within the San Diego-Carlsbad metropolitan area, the median home price to median income ratio was 8.54. Together with the projected median sales price of projected various residential developments, this ratio is used to estimate the income of households within future residential developments. This analysis assumes that, on average, households within projected Affordable Housing development will have incomes equal to 60% of Apartment/Condo households. The projected income of households within projected the various residential developments are detailed in the following table.

TABLE 25. RESIDENTIAL HOUSEHOLD INCOMES

Description	Median Price per Unit ⁽¹⁾	Median Home Price to Median Income Ratio ⁽²⁾	Household Income ⁽³⁾
Single-Family	\$870,000	8.54	\$101,874
Small Lot Single-Family	783,000	8.54	91,686
Townhomes	600,500	8.54	70,316
Apartments/Condos	425,750	8.54	49,854
Affordable Housing (Low Income)	N/A	N/A	29,912

(1) Identified in Table 8.

(2) For taxable residential property, San Diego-Carlsbad metropolitan area median home price to median income ratio. Affordable Housing incomes are considered separately.

(3) Taxable residential property household income equal to (Median Price per Unit) / (Median Home Price to Median Income Ratio). Affordable Housing household income equals 60% of Apartment/Condo household income.

Per the CA BOE, approximately 29.5% of a household's spending is spent on taxable retail goods. This percentage is discounted by 35% to attempt to account for purchases made outside of City boundaries and shifts in taxable sales from one point of sale to another within the City. The estimated sales tax revenue generated by projected future households is calculated in the following table.

TABLE 26. SALES TAX REVENUE GENERATED BY INCREASE IN RESIDENTIAL POPULATION

Description	Single-Family	Small Lot Single-Family	Townhomes	Apartments / Condos	Affordable Housing (Low Income)
Median Household Income ⁽¹⁾	\$101,874	\$91,686	\$70,316	\$49,854	\$29,912
Percentage of Income Spent on Taxable Retail Sales per Household ⁽²⁾	19.18%	19.18%	19.18%	19.18%	19.18%
Income Spent on Taxable Retail Sales Within City per Household ⁽³⁾	\$19,534	\$17,581	\$13,483	\$9,559	\$5,736
Number of Households	635	270	455	4,197	1,989
Sales Tax Revenue – Residential Population ⁽⁴⁾	\$124,001	\$47,547	\$61,283	\$401,194	\$114,106

(1) Identified in Table 25.

(2) 29.5%, per BOE.gov household spending for California taxable retail goods, discounted by 35% to account for shifts in taxable sales and purchases made outside of the City boundaries. Estimate; subject to change.

(3) Equal to (Median Household Income) x (Percentage of Income Spent on Taxable Retail Sales per Household).

(4) Equal to (Income Spent on Taxable Retail Sales Within City per Household) x (Number of Households) x (1.00%).

FUTURE EMPLOYEES

In addition to the increased residential population, the increase in employees resulting from projected non-residential development will generate a certain amount of sales tax revenue for the City. The International Council of Shopping Centers conducted a survey that determined the approximate dollar amount an average employee spends per year on taxable goods and services. After adjusting this amount to the year 2022 using the change in Consumer Price Index ("CPI") of the San Diego-Carlsbad region, it's estimated that an average employee within the City will spend approximately \$6,625 per year on taxable goods and services. While personal spending is unique to each individual, this analysis assumes that approximately 60% of the employee's annual spending will be on taxable purchases that will occur near their place of employment within the City's boundaries. Using this information, the estimated sales tax revenue generated from future employees is calculated in the following table.

TABLE 27. SALES TAX REVENUE GENERATED BY INCREASE IN EMPLOYEE POPULATION

Description	Commercial	Industrial
Average Annual Taxable Spending per Employee ⁽¹⁾	\$6,625	\$6,625
Additional Employee Count ⁽²⁾	17,662	3,015
Estimated % of Taxable Sales within City ⁽³⁾	60%	60%
Employee Taxable Sales within City	\$70,206,450	\$11,984,625
Sales Tax Revenue – Employee Population ⁽⁴⁾	\$702,065	\$119,846

(1) Drawn from a survey conducted by The International Council of Shopping Centers, adjusted to the year 2022 using the change in CPI of the San Diego-Carlsbad region.

(2) Identified in Table 16.

(3) 40% reduction seeks to account for taxable sales made outside of the City boundary.

(4) Equal to (Average Annual Spending per Employee) x (Additional Employee Count) x (Estimated % of Taxable Sales within City) x (1.00%).

NON-RESIDENTIAL SALES TAX REVENUE

Sales tax revenue will be generated from taxable sales that occur within future non-residential development. Economic activity within future Industrial development may generate sales tax revenue; though due to an inability to accurately determine the types of businesses that will reside within future Industrial development, this analysis takes a conservative approach and does not attempt to estimate the amount of sales tax revenue that may be generated by Industrial property.

To best estimate the increase in sales tax revenue that will be generated by future Commercial property, this analysis considers the estimated taxable sales per square foot for commercial property calculated within a retail benchmarking report authored by PwC in 2013.¹ After adjusting the PwC estimate to the year 2022 using the change in CPI for the San Diego-Carlsbad region, it's estimated that future commercial property will generate approximately \$517 per building square foot.

This analysis recognizes that some taxable sales generated from future Commercial development will not be new taxable sales for the City. A portion of these taxable sales will come from shifts from one existing place of business within the City to a place of business located within the projected Commercial development area. Furthermore, a portion of the sales tax revenue generated by projected Commercial development will derive from purchases made by the projected increase in the residential and employee population, purchases which are quantified separately in this analysis. Therefore, to account for shifts in taxable sales from one point of sale to another point of sale within the City and separately calculated sales tax revenue from the increased residential and employee population, an estimated 50% reduction has been applied. Applying the estimated taxable sales per square foot and the sales tax revenue reduction percentage, the estimated sales tax revenue from projected commercial development can be determined.

¹ *Measuring Up Retail Benchmarking Survey, PwC Consulting, 2013.*

TABLE 28. SALES TAX REVENUE GENERATED BY FUTURE COMMERCIAL DEVELOPMENT

Description	Amount
Estimated Taxable Sales per Bldg. Sq. Ft. ⁽¹⁾	\$517
Commercial Bldg. Sq. Ft. Projected to Develop ⁽²⁾	5,846,122
Taxable Sales ⁽³⁾	\$3,022,445,074
Sales Tax Revenue – Commercial Development ⁽⁴⁾	\$15,112,225

(1) Figure drawn from the Measuring Up Retail Benchmarking Survey prepared by PwC, adjusted to the year 2022 using the change in CPI for the San Diego-Carlsbad. Figure from PwC report is derived from the median sales per square foot estimates for various retail categories.

(2) Identified in Table 17.

(3) Equal to (Estimated Taxable Sales per Bldg. Sq. Ft.) x (Commercial Bldg. Sq. Ft. Projected to Develop).

(4) Equal to (Taxable Sales) x (City sales tax rate of 1.00%) x (50% reduction factor). Reduction factor estimated and subject to change.

Other City Revenue

The City receives revenue from various other sources including fees, fines, penalties, charges for services, and other revenues ("Other City Revenues"). For purposes of this analysis, revenues that are not considered include one-time building and planning permits, charges for services, interest from City investments, use of money and property, special project funds, and grants. The following table presents the City's Other Revenues derived from the City's Fiscal Year 2023/24 Adopted Budget.

TABLE 29. OTHER CITY REVENUE

Description	Fiscal Year 2023/24 Value
Other Taxes	\$16,483,370
Licenses & Permits	2,145,500
Fines & Forfeitures	873,000
Charges for Services	15,083,000
Other Revenue	262,000
Other City Revenue	\$34,846,870

To estimate the overall impact that future development will have on the listed Other City Revenue sources, it is assumed that current per capita revenue amounts will serve as the best indicator of future per capita revenue amounts. Therefore, to best allocate Other City Revenues to projected future development, the multiplier approach is utilized. It was previously identified that the total number of persons served within the City is 180,864 and the employee population is 62,129. Using the current City persons served and employee population, the Other City Revenue per person served or employee served can be determined, as shown in the following table.

TABLE 30. OTHER CITY REVENUE PER PERSON SERVED/EMPLOYEE

Description	Fiscal Year 2023/24 Value	Current City Persons Served or Employee Count ⁽¹⁾	Amount per Person Served/Employee ⁽²⁾
Other Taxes	\$16,483,370	180,864	\$91.14
Licenses & Permits ⁽³⁾	2,145,500	62,129	34.53
Fines & Forfeitures	873,000	180,864	4.83
Charges for Services	15,083,000	180,864	83.39
Other Revenue	262,000	180,864	1.45

(1) Identified in Table 1.

(2) Equal to (Fiscal Year 2023/24 Value) / (Current City Persons Served or Employee Count).

(3) Revenue calculated on a per-employee basis due to approximately 60% of revenue deriving from business activity (i.e., business licenses).

To determine the amount of other City revenue allocated to projected residential and non-residential development, the amount per person served/employee calculated in Table 30 is multiplied by the increase in persons served or employees that will result from future development.

TABLE 31. OTHER CITY REVENUE GENERATED BY FUTURE DEVELOPMENT

Description	Increase in Persons Served/Employees ⁽¹⁾	Amount per Person Served/Employee ⁽²⁾	Other City Revenue
Other Taxes	27,750	\$91.14	\$2,529,135
Licenses & Permits	20,677	34.53	713,976.81
Fines & Forfeitures	27,750	4.83	134,032
Charges for Services	27,750	83.39	2,314,072
Other Revenue	27,750	1.45	40,237
Total			\$5,731,454

(1) Identified in Table 3.

(2) Calculated in Table 30.

Revenue Summary

Projected residential and non-residential development will generate various forms of general revenues for the City. A portion of the anticipated revenue was calculated utilizing the case study approach and the remaining City revenue was allocated to projected future development using the multiplier approach. A summary of the revenues projected to be generated by future development is presented in the following tables.

TABLE 32. REVENUE SUMMARY

Revenue Description	Total
Property Tax	\$4,029,982
Property Tax in Lieu of VLF	3,974,449
Documentary Transfer	171,055
Sales Tax	16,682,266
Other ⁽¹⁾	5,731,454
Total	\$30,589,206

(1) Allocated to each development type in Table 33 on a per person served/employee basis. For purposes of this analysis, new development Single-Family and Small Lot Single-Family are assumed to have 2.71 persons per unit, while new development Townhomes, Apartment/Condos, and Affordable Housing are assumed to have 2.25 persons per unit. This maintains the current MFR/SFR persons per unit ratio in the City of 0.83. Allocations of employees for Commercial and Industrial are 50% of the employees determined in Table 16.

TABLE 33. REVENUE SUMMARY BY FUTURE DEVELOPMENT TYPE

Development Type	Total
Single-Family	\$1,389,114
Small Lot Single-Family	511,023
Townhomes	565,723
Apartments/Condos	4,274,346
Affordable Housing (Low Income)	924,208
Commercial	21,799,521
Industrial	1,125,271
Total	\$30,589,206

SECTION 4 | EXPENDITURES ESTIMATE

The revenues identified in Section 3 of this report are intended to pay for recurring expenditures related to general services provided by the City. City General Fund expenditures not considered in this analysis include costs associated with infrastructure improvements, special fund expenditures, governmental transfers, and expenses supported by one-time development fees.

For purposes of determining the overall fiscal impact of projected residential and non-residential development, City expenditures are allocated based upon amounts presented in the Fiscal Year 2023/24 Adopted Budget.

Current Service Level Expenditures

Future development will add residents and employees to the City's existing population base. This residential and employee population increase will place additional demands on existing services provided by the City. To account for increased expenditures associated with additional demand for public services, City expenditures are allocated to projected development using the multiplier approach. However, development-induced increases in demand for public services will not necessarily result in a direct 1:1 relationship increase in expenditures (i.e., there are some "step" functions). For example, a 20% increase in the City's residential population will likely not cause a 20% increase in City Clerk or City Council expenditures. A portion of the City's expenditures are fixed or will increase marginally as a result of population increases. Therefore, to account for relationships between expenditures and population changes that are less than 1:1, City expenditures have been adjusted to conservatively estimate the impact of projected development on City expenditures. Of note, City expenditure adjustments are estimates based on the individual characteristics of projected development and industry-standard assumptions. The original budgeted expenditure amounts, the demand adjustment percentage, and the adjusted expenditure amounts are presented in the following table.

TABLE 34. CURRENT SERVICE LEVEL EXPENDITURES

Description	Estimated Fiscal Year 2023/24 Expenditures	Demand Adjustment Percentage ⁽¹⁾	Adjusted Fiscal Year 2023/24 Expenditures ⁽²⁾
General Government Services	\$7,191,240	50%	\$3,595,620
Community Services	10,748,430	75%	8,061,323
Development Services	8,343,060	90%	7,508,754
Public Works	12,398,470	90%	11,158,623
Radio Communications	-	0%	-
Police	54,209,820	95%	51,499,329
Fire	33,599,220	95%	31,919,259
Center for the Arts	3,247,370	50%	1,623,685
Non-Departmental/Community Relations	1,154,460	50%	577,230
Totals	\$130,892,070		\$115,943,823

(1) Estimated; subject to change.

(2) Equal to (Estimated Fiscal Year 2023/24 Expenditures) x (Demand Adjustment Percentage).

After adjusting the estimated Fiscal Year 2023/24 Expenditures to account for relationships that are less than a 1:1 relationship, the total expenditure amount to be considered is approximately \$115.94 million. This figure is used to determine the current service level expenditures per person served in the City, which in turn is used to calculate what additional current City expenditures will result from projected development.

Allocation of Expenditures to Population Served

Each City expenditure line item was categorized as being tied to serving the residential and employee population, solely the residential population, or solely the employee population. As previously noted, the total number of persons served in the City is 180,864, the number of residents served in the City is 149,799, and the number of employees served is 62,129. The following table provides the persons served category for each of the recurring current expenditure categories.

TABLE 35. EXPENDITURES ALLOCATION TO PERSONS SERVED, RESIDENTS SERVED, OR EMPLOYEES SERVED

Description	Persons Served
General Government Services	Persons Served
Community Services	Persons Served
Development Services	Persons Served
Public Works	Persons Served
Radio Communications	Persons Served
Police	Persons Served
Fire	Persons Served
Community Relations	Persons Served
Non-Departmental	Persons Served

Current Service Level Expenditures per Person Served

Using the multiplier approach, the number of persons served within each expenditure category is applied to the corresponding adjusted expenditure line item to determine the allocable expenditure per person. The table below provides the current service level expenditures per person served for each of the listed expenditure categories.

TABLE 36. CURRENT SERVICE LEVEL EXPENDITURES PER PERSON SERVED

Description	Adjusted Fiscal Year 2023/24 Expenditures ⁽¹⁾	Current City Persons Served ⁽²⁾	Amount per Person Served ⁽³⁾
General Government Services	\$3,595,620	180,864	\$19.88
Community Services	8,061,323	180,864	44.57
Development Services	7,508,754	180,864	41.52
Public Works	11,158,623	180,864	61.70
Radio Communications	-	180,864	-
Police	51,499,329	180,864	284.74
Fire	31,919,259	180,864	176.48
Center for the Arts	1,623,685	180,864	8.98
Non-Departmental/Community Relations	577,230	180,864	3.19
Totals	\$115,943,823		\$641.06

(1) Identified in Table 34.

(2) Identified in Table 1.

(3) Equal to (Adjusted Fiscal Year 2023/24 Expenditures) / (Current City Persons Served).

To determine the amount of other current service level expenditures allocated to projected residential and non-residential development, the amount per person served calculated in Table 36 is multiplied by the increase in persons served or residents that will result from future development.

TABLE 37. CURRENT SERVICE LEVEL EXPENDITURES GENERATED BY FUTURE DEVELOPMENT

Description	Increase in Persons Served ⁽¹⁾	Amount per Person Served ⁽²⁾	Current Expenditures ⁽³⁾
General Government Services	27,750	\$19.88	\$551,670
Community Services	27,750	44.57	1,236,817
Development Services	27,750	41.52	1,152,180
Public Works	27,750	61.70	1,712,175
Radio Communications	27,750	-	-
Police	27,750	284.74	7,901,535
Fire	27,750	176.48	4,897,320
Center for the Arts	27,750	8.98	249,195
Non-Departmental/Community Relations	27,750	3.19	88,522
Total		\$641.06	\$17,789,415

(1) Identified in Table 3.

(2) Identified in Table 36.

(3) Equal to (Increase in Persons Served) x (Amount per Person Served).

Target Service Levels – Police

The City seeks to provide an optimal level of Police Services to its population by maintaining a minimum ratio of 1.30 sworn officer per 1,000 residents (“Target Sworn Police Ratio”). Currently, the City’s ratio of sworn officers per 1,000 residents is approximately 1.06. The cost of providing this below-target level of service to the City’s projected total future population is captured in the calculation of current expenditures in Table 37.

To meet its Target Sworn Police Ratio and provide a target level of Police Services to all future residents, the City requires an additional 37 sworn Police Officers. The table below details the positions and annual costs of the additional personnel needed to provide an optimal level of service to the current City population.

TABLE 38. ANNUAL COST OF ADDITIONAL POLICE PERSONNEL FOR TARGET SERVICE LEVEL

Position Title	Number of Positions	Annual Cost per Position ⁽¹⁾	Total Annual Cost
Police Officer	37	\$172,645	\$6,387,865
Total	37		\$6,387,865

(1) Equal to annualized cost at the fully burdened hourly rate per the City’s finance department.

Total Additional Police Expenditures calculated in the previous table are allocated to projected future development based on the projected increase in persons served attributable to future development, as shown in the following table.

TABLE 39. TARGET POLICE SERVICE LEVEL EXPENDITURES ATTRIBUTABLE TO FUTURE DEVELOPMENT

Description	Value
Total Future Persons Served ⁽¹⁾	208,614
Change in Persons Served ⁽²⁾	27,750
Change in Persons Served % of Total Future Persons Served ⁽³⁾	13.30%
Additional Police Expenditures Attributable to Future Development ⁽⁴⁾	\$849,719

(1) Identified in Table 2.

(2) Identified in Table 3.

(3) Equal to (Change in Persons Served) / (Total Future Persons Served).

(4) Equal to (Total Annual Cost of Needed Additional Police Personnel calculated in Table 38) x (Change in Persons Served % of Total Future Persons Served).

Combining the total annual cost of the positions detailed in Table 38 and the Police Services component of the Public Safety Current Expenditures calculated in Table 37, this analysis arrives at the estimated cost of providing Police Services at the City's target service level to the projected increase in persons served attributable to future development.

Target Optimal Service Levels – Fire

The City seeks to provide a target level of Fire Services to its population. The table below details the positions and annual costs of the additional personnel needed to provide an optimal level of service to the current City population.

TABLE 40. ANNUAL COST OF ADDITIONAL FIRE PERSONNEL FOR TARGET SERVICE LEVEL

Position Title	Number of Positions	Annual Cost per Position ⁽¹⁾	Total Annual Cost
Fire Division Chief (Emergency Medical Services)	1	\$254,930	\$254,930
Management Analyst	1	98,200	98,200
Nurse Educator	1	167,800	167,800
Fire Captain (Admin Services & Paramedic Squad)	4	198,700	794,800
Firefighter Paramedic	3	153,910	461,730
Emergency Medical Technicians	8	64,110	512,880
Deputy Fire Marshall	1	116,880	116,880
Fire Prevention Specialist	4	86,100	344,400
Administrative Assistant	1	68,347	68,347
Fire Inspector/Community Risk Reduction Officer-Part Time	1	64,575	64,575
Total	25		\$2,884,542

(1) Equal to annualized cost at the fully burdened hourly rate per the City's finance department.

Total Additional Fire Expenditures calculated in the previous table are allocated to projected future development based on the projected increase in persons served attributable to future development, as shown in the following table.

TABLE 41. TARGET POLICE SERVICE LEVEL EXPENDITURES ATTRIBUTABLE TO FUTURE DEVELOPMENT

Description	Value
Total Future Persons Served ⁽¹⁾	208,614
Change in Persons Served ⁽²⁾	27,750
Change in Persons Served % of Total Future Persons Served ⁽³⁾	13.30%
Additional Police Expenditures Attributable to Future Development ⁽⁴⁾	\$383,704

(1) Identified in Table 2.

(2) Identified in Table 3.

(3) Equal to (Change in Persons Served) / (Total Future Persons Served).

(4) Equal to (Total Annual Cost of Needed Additional Fire Personnel calculated in Table 40) x (Change in Persons Served % of Total Future Persons Served).

Combining the allocable expenditures detailed in Table 40 and the Fire Services component of the Public Safety Current Expenditures calculated in Table 37, this analysis arrives at the estimated cost of providing Fire Services at the City's target service level to the projected increase in persons served attributable to future development.

Total Expenditures Summary

Projected residential and non-residential development will cause the City to incur various forms of expenditures to provide an optimal/target level of public services to its current and future populations. A summary of the expenditures projected to be generated by future development is presented in the following tables.

TABLE 42. EXPENDITURES SUMMARY

Expenditure Description	Total
Current Expenditures	\$17,789,415
Target Service Level Expenditures – Police	849,719
Target Service Level Expenditures – Fire	383,704
Total ⁽¹⁾	\$19,022,838

(1) Allocated to each development type in Table 43 on a per person served/employee basis. For purposes of this analysis, new development Single-Family and Small Lot Single-Family are assumed to have 2.71 persons per unit, while new development Townhomes, Apartment/Condos, and Affordable Housing are assumed to have 2.25 persons per unit. This maintains the current MFR/SFR persons per unit ratio in the City of 0.83. Allocations of employees for Commercial and Industrial are 50% of the employees determined in Table 16.

TABLE 43. EXPENDITURES SUMMARY BY FUTURE DEVELOPMENT TYPE

Development Type	Total
Single-Family	\$1,180,651
Small Lot Single-Family	503,008
Townhomes	701,675
Apartments/Condos	6,479,054
Affordable Housing (Low Income)	3,071,242
Commercial	6,053,500
Industrial	1,033,708
Total	\$19,022,838

SECTION 5 | FISCAL IMPACT

Based on the estimated total revenue calculated in Section 3 and the estimated total expenditures calculated in Section 4, there is a net negative fiscal impact as a result of projected future development within the City. The table below sets forth the total anticipated negative fiscal impact.

TABLE 44. ANNUAL FISCAL IMPACT

Description	Value
Total City Revenue	\$30,589,206
Total City Expenditures	(19,022,838)
City Positive / (Negative) Fiscal Impact	\$11,566,368

The fiscal impact future development is projected to have on the City's General Fund is presented in the following table.

TABLE 45. FISCAL IMPACT BY DEVELOPMENT TYPE

Development Type	Revenue	Expenditures	Fiscal Impact	
Single-Family	\$1,389,114	(\$1,180,651)	\$208,462	Positive
Small Lot Single-Family	511,023	(503,008)	8,015	Positive
Townhomes	565,723	(701,675)	(135,952)	Negative
Apartments/Condos	4,274,346	(6,479,054)	(2,204,708)	Negative
Affordable Housing (Low Income)	924,208	(3,071,242)	(2,147,034)	Negative
Commercial	21,799,521	(6,053,500)	15,746,021	Positive
Industrial	1,125,271	(1,033,708)	91,562	Positive
Totals	\$30,589,206	(\$19,022,838)	\$11,566,368	

The net fiscal impact identified in this section is based on revenues and expenditures projected to be generated by future development within the City. A portion of the expenditures considered when calculating the net fiscal impact are not eligible to be recovered through Community Facilities District special tax revenues. Thus, any revenues generated through Community Facilities District special tax rates proposed through this report must and can only be used to finance eligible services, as detailed in Section 6 of this report. NBS recommends that just the total negative fiscal impact among Townhomes, Apartments/Condos, and Affordable Housing (Low Income) is (\$4,487,693) be factored into the formulation of special tax rates for any potential Community Facilities District, even though the overall impact to the General Fund is positive (mostly due to estimated future Commercial development). This is because non-residential development may or may not develop as anticipated in this report.

SECTION 6 | FISCAL IMPACT FUNDING OPTIONS

To mitigate the negative fiscal impacts identified in Section 5 of this report, the City should consider the establishment of a special financing district (“SFD”), which could include a special tax or a special assessment. Since the City’s negative fiscal impacts are attributable to the provision of general services, a special assessment may not be the most appropriate funding option for the City to mitigate those impacts. Special assessments require the identification and separation of general and special benefits. Special benefits can be assessed to property, but all general benefits must be funded by sources other than the special assessments. Therefore, a special assessment would not entirely alleviate the identified negative fiscal impacts. Alternatively, the City could implement a special tax.

Community Facilities District

A Community Facilities District (“CFD”), also referred to as a Mello-Roos District, is a type of SFD that is established via the Mello-Roos Community Facilities District Act of 1982 (“1982 Act”). Through the levy and collection of a special tax, CFDs provide funding for authorized public improvements and/or public services. The CFD’s Rate and Method of Apportionment includes procedures for identifying and classifying property within the CFD, establishing the initial maximum special tax rates, and the formula for calculating the annual special tax and assigning the special tax to taxable property within the CFD. Since a CFD authorizes the levy and collection of a special tax as opposed to a special assessment, there is no requirement to make a finding of special benefit for the property subject to the special tax. However, the special tax should be based on a benefit received by property, the cost of providing the facilities or services, or some other reasonable basis for assigning the special tax, as determined by the relevant legislative body.

To establish a CFD, the 1982 Act requires two-thirds approval of the registered voters, residing within the proposed CFD boundary, voting in the special tax election. If there are less than 12 registered voters within the proposed CFD boundaries, then a landowner special tax election can take place. In the case of a landowner special tax election, a two-thirds approval is still required, and each landowner receives one vote per acre or portion of an acre of land owned. It should be noted that if a CFD is approved via a landowner special tax election, the CFD is only authorized to fund additional services. In *Building Industry Association of the Bay Area v. City of San Ramon*, the California Appellate Court held that a landowner-approved CFD can only fund the increase in demand for pre-existing services, so long as the special tax revenue is not available for general government purposes. The additional services funded by the CFD shall not replace services already available and provided within the boundaries of the CFD. Furthermore, special tax revenue generated from the CFD can only be used to fund the authorized public services outlined in the 1982 Act. CFD authorized public services include fire protection and park maintenance/lighting services. It should be noted that any CFD formed by the City, as well as any potential annexations to that CFD, would be approved by a landowner special tax election, as new development projects would be required to participate in the CFD as a condition of approval.

FUTURE DEVELOPMENT SPECIFIC COSTS

In addition to using a CFD to mitigate the negative fiscal impacts of future development, the CFD can also fund authorized CFD services that are intended to provide an enhanced level of service or services that are unique to future development. These services would be in addition to any identified negative fiscal impacts

placed upon the City in providing existing levels of public services. Funding for any enhanced and/or additional recurring public service costs, including repairs and replacements, reserves and administration can be accomplished through a CFD.

BENEFITS TO THE CITY

Through the formation of a CFD, the City can establish an ongoing funding source that mitigates negative fiscal impacts created by future residential and non-residential development, as well as provide funding for new or enhanced services within the City. To keep pace with changing costs, the CFD's maximum special tax rate can include an annual escalation factor based on an annual fixed amount or tied to a specific inflation index. Furthermore, the CFD special tax can be established without a sunset date so that the CFD special tax can be levied in perpetuity or until voters choose to end it.

CFD Special Tax Recommendation

For the City to continue to provide vital public services its population base as it continues to grow, the City must ensure that developing property pays their fair share of any additional financial burdens placed upon the City's operational budget, including the cost of additional services required because of such development. To mitigate the negative fiscal impacts identified in Section 5 of this report, the City should consider establishing a CFD. The levy and collection of the special tax could generate sufficient revenue to offset the negative fiscal impacts to the City. Furthermore, a CFD provides the flexibility to generate additional revenue to fund any enhanced or new project specific costs desired by future development. The CFD's Rate and Method of Apportionment establishes the special tax formula and sets the initial maximum special tax rates. A benefit of a CFD is that it allows for a great deal of flexibility in structuring the special tax formula so that the formula and maximum special tax rates best fit and accomplish specific needs. In this case, the CFD special tax rates could be sized to recover the annual negative fiscal impact on development, recover ongoing administrative costs related to the CFD, and could be structured to create both residential special tax rates and non-residential special tax rates.

CFD SPECIAL TAX RATES

Based on the overall fiscal impact to the City's General Fund resulting from projected future residential development, the proposed annual base CFD special tax rates for general City services are provided in the following table for consideration by the City.

TABLE 46. NEGATIVE FISCAL IMPACT CFD SPECIAL TAX RATES

Development Type	CFD Special Tax Rates ⁽¹⁾	Per	Number of Units	Revenue Generated	Rate as % of Value per Unit
Townhomes	\$761	Dwelling Unit	455	\$345,752	0.13%
Apartments/Condos	987	Dwelling Unit	4,197	4,141,941	0.23%
Totals			4,651	\$4,487,693	

(1) Rates for services portion; does not include potential CFD administration or reserve/contingency costs.

The CFD special tax rates presented in Tables 42 would represent initial CFD maximum special tax rates to mitigate the identified negative fiscal impacts.

The City could also increase the total CFD maximum special tax rates to cover the added costs for administering the CFD, as well as establish any reserves or contingency funds. Furthermore, the CFD would be structured to include a special tax escalation factor, which would allow for an annual increase to the initial CFD maximum special tax rates. While the CFD maximum special tax rates would increase on an annual basis, the City is not required to levy the special tax at the CFD maximum special tax rates each year. To meet the CFD annual special tax requirement and fund authorized services and administrative costs, the City has the flexibility to levy a CFD special tax amount that is less than or equal to the CFD maximum special tax.