

Exhibit M



MEMO

Date: October 7, 2020 **Project No.:** 190285
To: Israel Trejo, Senior Planner, City of Fresno
From: Jerome Keene, Senior Planner, QK
Subject: Fiscal Analysis – Dakota II (P20-00734)
cc: Chris Lang, Planner, City of Fresno
Ernie Escobedo, Clovis Branch Manager, QK
Trevor Stearns, Associate Planner, QK

Introduction

This memorandum will explain the fiscal impact of the Dakota II Project (Project) proposed by DR Horton. The Project consists of a tentative subdivision map that proposes to divide a 7.5-acre parcel into 38 single family residential lots.

The City of Fresno recently conducted an evaluation of the most recent Tax Sharing Agreement (Agreement) with the County of Fresno to determine if proper revenues were being collected to provide appropriate levels of service to recently annexed territory without impacting the General Fund. The report, completed by EPS in October 2019 (Report), which was presented to the City Council in June 2020, stated that the Agreement was not allowing the City of Fresno to collect appropriate funds to support newly annexed projects. As a result, the City of Fresno did not renegotiate or extend the Agreement and allowed it to expire.

As a result of the findings of the report, the City of Fresno has recently begun requiring projects to conduct a fiscal analysis to determine the overall cost of the proposed project. That cost would then be compared to the estimated taxes collected by the City to determine if a project is fiscally neutral. This memorandum provides that fiscal analysis using the methodology provided within the Report as well as a general estimate of sales tax generated by residents to evaluate potential impacts of the Project to the General Fund.

Cost Methodology

The methodology for this fiscal analysis relies on the EPS Report analysis as well as the financial information provided within that document. The Report provides the overall cost for services generated the list of services (Table 1) provided by the City of Fresno as well as the total expenditure for each line item annually. Those services were then compared to the tax allocation collected through the Agreement for newly annexed property. Under the since expired agreement, the City received 38 percent of property tax revenues from property annexed after 2003.



Table 1
List of City Services

Administration	Public Safety	Public Works	Other Services
City Council	Police	Public Works	General City Purpose
Office of the Mayor	Fire	Transportation (FAX)	Development and Resource Management (DARM)
City Clerk			Convention Center Debt Service
Finance			Parks and Recreation
Personnel Services			
Information Services			

Source: EPS 2019

The expenditures of these services were then totaled, showing the total spent but also subtracting out dedicated, non-operating revenues, from each line item to create a net cost. These totals are shown in Table 2.

Table 2
City General Fund Costs

Item	FY 2018-19 General Fund		
	Total	Net	% of Net Total
City Council	\$4,637,100	\$4,637,100	100%
Office of the Mayor	\$4,133,600	\$4,133,600	100%
City Clerk	\$910,200	\$910,200	100%
Finance	\$7,388,500	\$5,913,100	80%
Personnel Services	\$35,989,600	\$3,215,700	9%
Information Services	\$356,400	\$356,400	100%
Police	\$180,875,300	\$154,314,000	85%
Fire	\$69,266,300	\$54,428,000	79%
Public Works	\$9,092,700	\$5,833,500	64%
Parks and Recreation	\$29,529,500	\$14,927,500	51%
Transportation (FAX)	\$9,394,200	\$9,097,200	97%
City Attorney	\$6,380,900	\$6,230,900	98%
General City Purpose	\$46,088,900	\$0	0%
DARM	\$51,617,300	\$7,891,000	15%
TOTAL	\$455,660,500	\$271,888,200	60%

Source: EPS 2019



There are two populations which can be used for determining the per capita cost for each of the aforementioned services. The Report identifies a resident city population of 531,580 and a city service population of 630,422. To determine the per capita costs of each service, the total net expenditure is divided by the corresponding population number. The per capita costs for both service and resident populations are shown in Table 3. These would be the per person cost of services without any other debt service or other costs added.

Table 3
City General Fund Costs

Item	Net	Per Capita Cost (Service Population)	Per Capita Cost (Resident Population)
City Council	\$4,637,100	\$7.36	\$8.72
Office of the Mayor	\$4,133,600	\$6.56	\$7.78
City Clerk	\$910,200	\$1.44	\$1.71
Finance	\$5,913,100	\$9.38	\$11.12
Personnel Services	\$3,215,700	\$5.10	\$6.05
Information Services	\$356,400	\$0.57	\$0.67
Police	\$154,314,000	\$244.78	\$290.29
Fire	\$54,428,000	\$86.34	\$102.39
Public Works	\$5,833,500	\$9.25	\$10.97
Parks and Recreation	\$14,927,500	\$23.68	\$28.08
Transportation (FAX)	\$9,097,200	\$14.43	\$17.11
City Attorney	\$6,230,900	\$9.88	\$11.72
General City Purpose	\$0	\$0.00	\$0.00
DARM	\$7,891,00	\$12.52	\$14.84
TOTAL	\$271,888,200	\$431.28	\$511.47

Source: EPS 2019

The Report then provides insight to some of the costs above and beyond basic services which need to be paid by the City of Fresno. These costs include existing debt service for the Convention Center as well as Chukchansi Park in addition to any added deferred infrastructure costs for areas that are annexed that need improvement. The added per capita cost for debt service is \$13.26 per capita service population and \$15.72 per capita resident population for revised overall totals of \$444.54 and \$527.20, respectively.

Deferred infrastructure costs are calculated on a per project basis, as different project areas have varying infrastructure needs and different costs to bring those facilities to City standards. Projects which are more fringe projects may take in more areas that require larger up-front or ongoing maintenance costs, as they may include existing development



within the County. For projects closer to the existing city limits, there may be limited or even no deferred infrastructure that be considered. As a result, some projects may have little to no additional costs to be added on top of the existing general fund costs and debt service.

Although service population was considered, it does not appear to be applicable to this project as it is solely a residential development. Therefore, the resident per capita costs will be used to calculate the Project's fiscal impact. Furthermore, in order to convert the per capita costs to a per housing unit cost, the cost per resident will be multiplied by **3.07 persons per household**. This value is the most current, available total number of occupied housing units (172,815) provided divided into the current population (531,581) provided by the Census Bureau American Community Survey (Tables DP04 and DP05).

Therefore, for the typical residential unit, the total per home anticipated cost would be approximately **\$1,618.49** annually.

Project Revenue Analysis

The Dakota II project is a 38 lot, single family residential subdivision. The project is located on the north side of Dakota Avenue, approximately 600 feet west of the intersection of Dakota Avenue and Polk Avenue. The site is directly adjacent to an existing single-family residential subdivision to the east as well as unincorporated, rural residential properties to the west and undeveloped vacant land to the north.

In order to be able to develop the property tax revenues to be generated by the Project, an analysis of adjacent property values was conducted utilizing the available property values of the adjacent, development subdivision. This adjacent neighborhood just happens to have been developed by the same applicant as the proposed Dakota II project. Of the completed homes that have been finalized and assessed appropriately by the Assessor's Office, the average assessed value to be utilized for comparative purposes is **\$317,845**.

The Property Tax collected from a property is limited to the 1 percent allocation under Proposition 13 to be distributed to the various receiving agencies, such as schools, county, cities and other special districts. According to Fresno County Tax Collector's Schedule of Levies for 2018/2019 for Tax Rate Area 005-367 directly east of the Project, the County and City received approximately 44.63 percent of the 1 percent property tax allocation. Therefore, the projected property tax revenue to the City of Fresno would be as follows:



Average Assessed Value	X	Proposition 13 Allocation	X	County and City Allocation	X	Tax Sharing Agreement City Allocation
\$317,845		.01		0.4463		0.38

The average property tax to be collected per home based on this formula allocated to the City of Fresno would be about **\$539.20**.

Sales tax is not included within the Report or added for consideration as part of the overall review of costs. For the purposes of this analysis, sales tax per capita was calculated by reviewing the reviewing the City’s Adopted Fiscal Year 2019/2020 Budget and identifying the sales tax revenue received and dividing it by the population of the City identified by the Department of Finance for the corresponding year (542,012). The City’s revenue for sales tax collection was \$102,501,000 according to the adopted budget. Thus, the per capita sales tax generation for the City of Fresno was approximately **\$189.11** (\$102,501,000 / 542,012).

When added with the sales tax generated per home of **\$580.57** (\$189.11 X 3.07), the total taxes generated by the Project would be approximately **\$1,119.78** annually. If the tax allocation were split evenly between the City and County (50 percent each), the property tax to be collected annually on behalf of the City of Fresno would be **\$1,290.05**.

Apart from sales and property tax revenues, other revenues were considered within this fiscal analysis to provide a full snapshot of what the Project could generate. According to the Fresno Adopted Budget for Fiscal Year 2020/2021, revenues collected from residents also includes Room Tax, Real Estate Transfer Tax, Franchise Fees and License and Permit Fees. All these revenues could be expected to be generated by the Project at some level annually. Each item was calculated in a similar method as Sales Tax, ultimately converting a per capita contribution to a per unit total. Therefore, the revenue per capita received from these additional sources totals approximately **\$108.51** (\$58,814,800 / 542,012).

With all the revenues includes, the total revenue generated while utilizing a 38 percent allocation of property taxes would be **\$1,452.91**. With a 50 percent allocation, the revenue generated by the Project would be **\$1,623.18**.

Conclusion

Based on the aforementioned assessed value, it is anticipated that the Dakota II project would have a net deficit to the General Fund of approximately **\$6,292.14** total when utilizing the prior property tax allocation of 38 percent, per capita sales tax revenue and other revenues. This equates to a total deficit of approximately **\$165.58 per lot**.



If a 50 percent allocation is utilized, the City would receive a total surplus of **\$4.69**, or approximately **\$0.12 per lot**, making the Project effectively revenue neutral.

Estimated Costs per EPS Report per Lot	-	Estimated Total Tax Collected per Lot (38%)	=	Surplus (Deficit)
\$1,618.49		\$1,452.91		(\$165.58)

Estimated Costs per EPS Report per Lot	-	Estimated Total Tax Collected per Lot (50%)	=	Surplus (Deficit)
\$1,618.49		\$1,623.18		\$4.69

Therefore, depending on the property tax negotiation process that would occur in accordance with Tax and Revenue Code 99 prior to the annexation process, the City would need to obtain a minimum of a 50/50 property tax split in order to keep the Project as revenue neutral. Anything less than a 50/50 split would require a separate assessment in order to make up the deficit created from the lack of property tax generated by the Project.

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