Exhibit O

# CITY OF FRESNO

***Report For:***

## *Revised* Fiscal Impact Analysis of West Area Neighborhoods Project Area Residential Development

**March 2023**

Prepared by:

helping communities fund tomorrow

nbsgov.com

**Corporate Headquarters**
32605 Temecula Parkway, Suite 100
Temecula, CA 92592
Toll free: 800.676.7516

# TABLE OF CONTENTS

# LIST OF TABLES

# SECTION 1 | INTRODUCTION

The City of Fresno ("City") is undertaking a comprehensive review of the net fiscal impact to its police and fire safety ("Public Safety") operational budgets ("Public Safety Operational Budget") projected as a result of anticipated future residential development within a region of the City identified as the West Area Neighborhoods ("West Area Region"). Of note, the focus of this analysis is not on future development planned within the entirety of the West Area Region, but rather focuses specifically on residential development in a subset of the West Area Region referred to in this report as the Project Area ("Project Area"). A review of the revenues expected to be generated by projected development within the Project Area, as compared with expenditures the City will incur to provide police and fire safety/protection/suppression services ("Public Safety Services") within the boundaries of the Project Area, determined that projected Single-Family Residential ("SFR") and Multi-Family Residential ("MFR") development within the Project Area will have a negative fiscal impact on the City's Public Safety Operational Budget. To offset negative fiscal impacts created by projected development, NBS recommends the City consider establishing a funding source through a special financing district.

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

- **Background Information.** The introductory portion of the report focuses on the City, projected development within specified regions in the City, and public services/operations under review.
- **Revenues.** The revenue section of the report identifies and quantifies the various types of revenue sources projected to be generated for the City by planned development within the Project Area.
- **Expenditures.** The expenditure section of the report identifies and quantifies the recurring cost burden placed upon the City's Public Safety Operational Budget resulting from development within the Project Area.
- **Fiscal Impact.** Using projected development's identified revenues and expenditures, this section of the report identifies the overall fiscal impact on the City's General Fund operations. Fiscal impacts are addressed on a development type basis using either a per dwelling unit, building square foot, lot square foot, or acre factor.
- **Recommendations.** The report concludes with a summary of development-based fiscal impact 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 financial benefits and strains development will have on a public agency's existing and future operations. This analysis seeks to determine the fiscal impact of future development within the Project Area to the City's Public Safety Operational Budget. Of note, the focus of this analysis is on the portion of the City's total Public Safety Operational Budget accounted for within the City's General Fund. Impacts to any Public Safety special funds are outside of the scope of this analysis and thus excluded from consideration. To determine anticipated fiscal impacts to the City's Public Safety Operational Budget, this analysis is designed to quantify the approximate cost of providing Public Safety Services to the City's projected future population within the examined Project Area.

## Analysis Methodology

Figures presented in this report are based on data sources, methodologies, and assumptions deemed reasonable by NBS and City staff as of the date of this report. Data sources, conclusions drawn from data sources, methodologies, and assumptions used in this analysis are subject to change depending on shifts in variables including but not limited to: market conditions, environmental factors, development plans, City objectives, data availability, etc. This analysis utilizes data from various sources that are cited where applicable. Current-day dollar values are used due to the inability to project with accuracy revenue and expenditure amounts at time of buildout. No assumptions are made concerning when projected development examined in this report is expected to be completed, sold, or placed into service. The rounding of decimals may cause marginal variances between calculated and listed figures that appear in this report.

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.

There are several industry-accepted methodologies used 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.

### 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 various items applicable to future projections, including but not limited to: 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 said development are difficult to quantify. This approach assumes that certain revenues and expenditures are accurate 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, current populations are identified.

### RESIDENTIAL POPULATION

Current residential population data was obtained from the California Department of Finance ("CA DOF") and City Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2021 ("2021 ACFR"). Per the CA DOF, in 2021 the residential population of the City was 546,770. Per the 2021 ACFR, between 2012 and 2021, the City's population grew annually by approximately 1%. For purposes of this analysis, the 2021 residential population is adjusted by 1% to estimate the City's 2022 residential population.

### EMPLOYEE POPULATION

Current employee population data was obtained from the 2021 ACFR. Per the 2021 ACFR, in 2021 the employee population of the City (i.e., number of jobs within the City) was 404,300. Between 2012 and 2021, the employee population of the City grew annually by approximately 8%. For purposes of this analysis, the 2021 employee population is adjusted by 5% rather than 8% to conservatively estimate the City's 2022 employee population.

### PERSONS SERVED

Using residential and employee population estimates identified above, the total number of persons served within the City can be calculated. When establishing the total number of persons served within the City, this analysis acknowledges 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) | 552,238 |
| Current Employee Population (2) | 424,515 |
| Adjusted Employee Population (3) | 212,258 |
| **Current Persons Served (4)** | **764,496** |

(1) 2021 residential population escalated by 1%.
(2) 2021 employee population escalated by 5%.
(3) Current Employee Population adjusted by 50%, rounded to the nearest whole number.
(4) Equal to (Current Residential Population) + (Adjusted Employee Population).

## Project Area Description

The Project Area development will consist of approximately 238 acres of land generally located north of West Shields Avenue, east of North Bryan Avenue, south of West Ashlan Avenue, and west of North Polk Avenue. The parcels comprising the Project Area development are highlighted in the following graphic.


As of the date of this report, two specific SFR developments are planned within the Project Area. Tract Map No. 6234 ("Tract Map No. 6234"), prepared on October 2, 2018, indicates that approximately 90 of the 238 acres comprising the Project Area will develop to contain 486 SFR units with an average density of 5.39 SFR units per acre. Final Map of Tract 6310 ("Tract Map No. 6310"), prepared in January 2021, indicates that approximately seven and a half of the 238 acres comprising the Project Area will develop to contain 38 SFR units with an average density of 5.07 SFR units per acre. Taking a weighted average of the residential densities of Tract Maps No. 6234 and 6310 produces a density of approximately 5.37 SFRs per acre ("Average SFR Density").

For the remaining 140 acres within the Project Area, Map 5-1 of the West Area Neighborhoods Specific Plan ("West Area Specific Plan") titled Specific Plan Proposed Planned Land Use ("Specific Plan Use Map") was considered. Per the Specific Plan Use Map, of the remaining 140 acres, approximately seven will develop into a neighborhood park, 20 will develop into a ponding basin, and the remaining 113 acres will develop into Medium Density residential development defined in the West Area Specific Plan as having a residential density of 5.0-12.0 dwelling units per acre. To account for the possibility of MFR development occurring within the aforementioned 113 acres, this analysis assumes that approximately 93 acres will develop to contain SFR units with a density equal to the Average SFR Density and approximately 20 acres will develop to contain MFR units with a density equal to 20 MFR units per acre ("Average MFR Density"). This split is estimated based on County assigned land use codes and the Specific Plan Land Use Map. The Average MFR Density aligns with the residential development category Urban Neighborhood defined in the West Area Specific Plan as having a density equal to 16 to 30 dwelling units per acre. According to the United States Census Bureau ("US Census Bureau"), as of 2020, the average household density within the City was approximately 3.04 persons per housing unit. The residential density of 3.04 persons per unit is assigned to the SFR development category, and applied to the MFR development category after being discounted by 20%. The 20% discount seeks to reflect that, on average, SFR units have a greater capacity to house individuals than MFR units. The MFR residential density discount of 20% is estimated as of the time of this report and is subject to change.

A summary of the projected development within the Project Area is presented in the following table.

**TABLE 2. PROJECT AREA DEVELOPMENT & POPULATION SUMMARY**

| Development Type | Acres (1) | Units per Acre (2) | Unit Count (3) | Residential Density (4) | Residents (5) |
|---|---|---|---|---|---|
| SFR | 190.70 | 5.37 | 1,023 | 3.04 | 3,110 |
| MFR | 19.97 | 20.00 | 399 | 2.43 | 970 |
| Park | 7.39 | N/A | N/A | N/A | N/A |
| Ponding Basin | 20.00 | N/A | N/A | N/A | N/A |
| **Totals** | **238.06** | | **1,422** | | **4,080** |

(1) Per Fresno County Secured Roll Data ("County Secured Roll Data") available as of the date of this report.
(2) Reflects Average SFR Density and Average MFR density.
(3) Equal to (Acres) x (Units per Acre).
(4) For SFR, sourced from US Census Bureau. SFR density discounted by 20% and applied to MFR development category. Discount is estimated and subject to change.
(5) Equal to (Unit Count) x (Residential Density).

The 4,080 residents that will be added to the City's existing residential population as a result of development within the Project Area represents an increase of approximately 0.74%.

# SECTION 3 | REVENUE ESTIMATE

The City relies on various forms of revenues, with a majority of the City's General Fund revenues deriving from property taxes, sales taxes, charges for service, and various other taxes and fees. The case study approach is used to determine the estimated property tax revenue generated for the City by projected future development within the Project Area, and the multiplier approach is used to allocate certain other types of revenue projected to be generated for the City.

## 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 TRAs comprising the Project Area, of the 1% *ad valorem* property tax collected from property within its boundaries, the City receives approximately 16.96%.

### RESIDENTIAL DEVELOPMENT

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 nonprofits. 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 SFR and MFR development within the Project Area is projected to be subject to the 1% *ad valorem* property tax rate. The Project Area is not expected to contain any Affordable Housing development which would be expected to qualify for the Welfare Exemption and thus be exempt from the 1% *ad valorem* property tax.

To calculate the amount of property tax revenue projected to be generated for the City by future SFR and MFR development, the estimated value of each property type given market conditions at the time of this report are considered. This analysis assumes that all SFR units will be owner-occupied, apply, and qualify for a Homeowner Exemption which reduces the assessed value of each unit by $7,000. It is also assumed that all MFR units will be renter-occupied and ineligible to receive a Homeowner Exemption.

**TABLE 3. TOTAL FUTURE ASSESSED VALUE OF SFR AND MFR DEVELOPMENT**

| Description | SFR | MFR | Total |
|---|---|---|---|
| Estimated Total Value per Unit (1) | $399,000 | $155,558 | N/A |
| Homeowner Exemption | 7,000 | - | N/A |
| Assessable Value per Unit (2) | 392,000 | 155,558 | N/A |
| Unit Count (3) | 1,023 | 399 | 1,422 |
| **Total Future Assessed Value (4)** | **$401,016,000** | **$62,067,642** | **$463,083,642** |

(1) Value for SFR drawn from Zillow.com Home Value Index for the City. Value for MFR drawn from an analysis of the average assessed value per unit for MFR prepared by the City of Fresno as of March 2023. Figures reflect market conditions as of the date of this report and are subject to fluctuation.
(2) Equal to (Estimated Total Value per Unit) – (Homeowner Exemption).
(3) Identified in Table 2.
(4) Equal to (Assessable Value per Unit) x (Unit Count).

Undeveloped land zoned for 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 SFR and MFR development, County Secured Roll Data was analyzed. The incremental assessed value of projected future SFR and MFR development within the Project Area is calculated in the following table.

**TABLE 4. INCREMENTAL ASSESSED VALUE OF FUTURE RESIDENTIAL DEVELOPMENT**

| Description | SFR | MFR | Total |
|---|---|---|---|
| Total Future Development Assessed Value | $401,016,000 | $62,067,642 | $463,083,642 |
| Current Assessed Value (1) | 8,180,817 | 342,356 | 8,523,173 |
| **Incremental Assessed Value (2)** | **$392,835,183** | **$61,725,286** | **$454,560,469** |

(1) Per County Secured Roll Data.
(2) Equal to (Total Future Development Assessed Value) - (Current Assessed Value).

The amount of property tax revenue expected to be generated by future taxable residential development within the Project Area is calculated in the following table.

**TABLE 5. PROPERTY TAX GENERATED BY FUTURE RESIDENTIAL DEVELOPMENT**

| Description | SFR | MFR | Total |
|---|---|---|---|
| Incremental Assessed Value | $392,835,183 | $61,725,286 | $454,560,469 |
| 1% Ad Valorem | $3,928,352 | $617,253 | $4,545,605 |
| **Property Tax Generated for City (1)** | **$666,248** | **$104,686** | **$770,935** |

(1) Equal to (1% Ad Valorem) x (City share of 1% Ad Valorem, 16.96%).

## 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.

Using total City assessed values detailed in the 2021 ACFR and property tax in lieu of VLF amounts received by the City, as confirmed by City staff, the ratio of property tax in lieu of VLF received by the City to the City's gross assessed value is calculated in the following table.

**TABLE 6. PROPERTY TAX IN LIEU OF VLF RATIO**

| Description | Fiscal Year 2020/21 Value |
|---|---|
| City Total Assessed Value (1) | $38,558,581,315 |
| VLF Revenue (2) | 49,459,237 |
| **Property Tax in Lieu of VLF Ratio (3)** | **0.1283%** |

(1) Per the 2021 ACFR.
(2) Confirmed by City staff.
(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 Project Area to estimate the amount of property tax in lieu of VLF to be generated by said development.

**TABLE 7. 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) |
|---|---|---|---|
| SFR | $392,835,183 | 0.1283% | $504,008 |
| MFR | 61,725,286 | 0.1283% | 79,194 |
| **Totals** | **$454,560,469** | | **$583,201** |

(1) Identified in Table 4.
(2) Equal to (Incremental Assessed Value) x (Property Tax in Lieu of VLF Ratio).

## 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 SFR will turnover approximately every 13 years, resulting in an annual turnover rate of about 8%, and MFR units will turnover approximately every 20 years, resulting in an annual turnover rate of 5%. 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 8. DOCUMENTARY TRANSFER TAX GENERATED BY FUTURE DEVELOPMENT**

| Description | SFR | MFR |
|---|---|---|
| Incremental Assessed Value | $392,860,046 | $61,725,286 |
| Estimated Annual Turnover Rate (1) | 8% | 5% |
| Annual Turnover Assessed Value (2) | 31,428,804 | 3,086,264 |
| Annual Turnover Assessed Value / $1,000 | 31,429 | 3,086 |
| Documentary Transfer Tax Rate per $1,000 (3) | 0.55 | 0.55 |
| **Documentary Transfer Tax Revenue** | **$17,286** | **$1,697** |

(1) Source for SFR rate: "Latest Calculations Show Average Buyer Expected to Stay in Home 13 Years," Economic and Housing Policy, National Association of Homebuilders. MFR rate estimated and subject to change.
(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. A base sales tax of 7.25% is levied in California, and revenue generated from the sales tax is allocated to certain state and local jurisdictions. The City receives 1.00% of the base state sales tax rate.

In addition to the base state sale tax, the County levies three additional taxes. A 0.50% sales tax is levied through Measure C. Measure C was originally passed by the County's electorate in 1986 and extended for an additional 20 years in 2006. Unless renewed by the County's electorate, Measure C is set to expire in 2027. A 0.10% sales tax is levied through Measure Z. Measure Z was originally passed in 2004, renewed in 2014, and unless renewed by the County's electorate, is set to expire in 2025. A 0.125% sales tax is levied through Measure B. Measure B was originally passed in 1998, renewed in 2012, and unless renewed by the County's electorate, is set to expire in 2029. The City levies an additional 0.375% transaction and use tax through Measure P which the City Council certified in 2021. The Measure P transaction and use tax is levied to generate funds for the City's Clean and Safe Neighborhood Parks Account. Funds may only be used to: beautify streets, expand access to arts, service parks, recreation facilities, after-school facilities, walking/biking trails, and the San Joaquin River Parkway.

This analysis seeks to focus solely on general revenue streams that will be consistently available to the City, therefore voter-approved taxes which expire such as the Measure C and Measure Z sales taxes, or are earmarked for specific uses such as the Measure P sales tax are excluded from consideration in this report. The sales tax rate used to project sales tax revenue for the City in this analysis 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 within the Project Area, estimated household incomes and the percentage of income spent on taxable retail sales per housing unit are considered.

In 2021, the Joint Center for Housing Studies of Harvard University authored the 2021 State of the Nation's Housing report ("Harvard Study"). As noted earlier in this report, it is assumed that future residents of MFR units will be renters rather than owners. The Harvard Study notes that many renters in the nation are burdened by the cost of their rent. The study categorizes renters paying more than 30% of their income on rent as being moderately cost-burdened ("Moderately Cost Burdened") and categorizes renters paying more than 50% of their income on rent as being severely cost-burdened ("Severely Cost Burdened"). Per the Harvard Study, in 2019 within Fresno Metro Area, approximately 24% of renters were Moderately Cost Burdened and 29% were Severely Cost Burdened, indicating that approximately 53% of all renters in the region experience some level of cost burden as a result of their rent. Thus, this analysis assumes that residents of future MFR units within the Project Area will need to allocate 35% of their incomes to rent, representing a rent cost burden greater than that defined by "Moderate" but lesser than that defined by "Severe." as described in the Harvard Study. The projected household incomes within SFR and MFR units are calculated in the following table.

**TABLE 9. ESTIMATED TOTAL INCOMES PER SFR & MFR UNIT**

| Description | Value |
|---|---|
| **Estimated Annual Household Income per SFR Unit (1)** | **$101,908** |
| Monthly Rent per MFR Unit (2) | 1,737 |
| % of Income Dedicated to Rent (3) | 35% |
| **Estimated Annual Household Income per MFR Unit** | **$59,554** |

(1) 2022 average household income, per ESRI Demographic and Income Profile for the City of Fresno.
(2) Equal to asking rent per MFR Unit per CoStar average of MFR developments constructed after January 2020. Value reflects market conditions as of the date of this report and is subject to fluctuation.
(3) Estimated using rent cost burden data found within the Harvard Study. Subject to change.

The estimated amount of sales tax revenue generated by residents of future SFR and MFR development are presented in the following table.

**TABLE 10. SALES TAX REVENUE GENERATED BY PROJECT AREA RESIDENTIAL POPULATION**

| Description | SFR | MFR |
|---|---|---|
| Estimated Annual Household Income per Unit (1) | $101,908 | $59,554 |
| Unit Count (2) | 1,023 | 399 |
| % of Household Income Allocated to Taxable Retail Sales (3) | 28% | 37% |
| % of Sales Projected to Occur Within City Boundaries (4) | 70% | 70% |
| **Sales Tax Revenue (5)** | **$204,334** | **$61,544** |

(1) Identified in Table 9.
(2) Identified in Table 2.
(3) Sourced from reports authored by the firm ALH Urban and Regional Economics using data compiled by the United States Bureau of Labor Statistics. Percentages are estimated to apply to the Project Area as of the date of this report. Subject to change in response to market fluctuations or the availability of new data.
(4) Estimated, subject to change.
(5) Equal to (Estimated Annual Household Income per Unit) x (Unit Count) x (% of Household Income Allocated to Taxable Retail Sales) x (% of Sales Projected to Occur Within City Boundaries) x (1.00%)

## Other City Revenue

The City receives revenue from various other sources including fees, fines, penalties, charges for services, and other revenues ("Other Revenues"). For purposes of this analysis, revenues that are not considered include one-time building and planning permits, room taxes, interest from City investments, use of money and property, special project funds, grants, and inter/intragovernmental revenues.

To account for increased Other Revenues associated with additional demand for public services, Other Revenues are allocated to projected development using the multiplier approach. However, development-induced increases in Other Revenues may not necessarily result in a direct 1:1 relationship increase in Other Revenues. For example, a 20% increase in the City's residential population may not cause a 20% increase in Cannabis Revenues for the City. A portion of the City's Other Revenues may increase marginally as a result of population increases. Therefore, to account for relationships between Other Revenues and population changes that are less than 1:1, City Other Revenues have been adjusted to conservatively estimate the impact of projected development on Other Revenues. Of note, Other Revenue adjustments are estimates based on the individual characteristics of projected development and industry-standard assumptions. The original budgeted expenditure amounts, the impact adjustment percentage, and the adjusted Other Revenue amounts are presented in the following table. Fiscal Year 2022/23 Other Revenues are sourced from the City's Adopted Fiscal Year 2022 Budget ("2022 Budget").

**TABLE 11. OTHER REVENUES**

| Other Revenue Type (1) | Fiscal Year 2022/23 Amount (2) | Impact Adjustment Percentage (3) | Adjusted Fiscal Year 2022/23 Amount (4) |
|---|---|---|---|
| Business License | $21,997,000 | 70% | $15,397,900 |
| Franchise Fees | 15,646,000 | 75% | 11,734,500 |
| Charges for Current Services | 40,037,000 | 70% | 28,025,900 |
| Cannabis | 4,349,200 | 65% | 2,826,980 |
| Other Taxes & Fees | 6,620,000 | 50% | 3,310,000 |
| **Total** | **$88,649,200** | | **$61,295,280** |

(1) Room Tax, intergovernmental revenues, and intragovernmental governmental revenues excluded from consideration due to a low likelihood of revenue amounts changing materially in response to the Project Area development.
(2) Per 2022 Budget. Other Taxes & Fees total includes All Other amount listed in 2022 Budget.
(3) Values are estimated and subject to change.
(4) Equal to (Fiscal Year 2022/23 Amount) x (Impact Adjustment Percentage).

## Allocation of Other Revenues to Population Served

Each City Other Revenue line item was categorized as corresponding to the residential and employee population, solely the residential population, or solely the employee population. The following table provides the persons served category for each of the recurring Other Revenue categories.

**TABLE 12. OTHER REVENUES ALLOCATION TO POPULATION BASE**

| Description | Population Base |
|---|---|
| Business License | Employees |
| Franchise Fees | Persons Served |
| Charges for Current Services | Persons Served |
| Cannabis | Persons Served |
| Other Taxes & Fees | Persons Served |

After adjusting the estimated Fiscal Year 2022/23 Other Revenues to account for relationships that are less than a 1:1 relationship, the total Other Revenue amount to be considered is approximately $61.2 million. This figure is used to determine what additional Other Revenue amounts the City can expect to receive as a result of projected development within the Project Area. It is assumed that current per capita revenue amounts will serve as the best indicator of future per capita revenue amounts, thus, to allocate Other Revenues to projected future development, the multiplier approach is utilized. Using the current City persons served population, Other Revenue per person served is calculated, as shown in the following table.

**TABLE 13. OTHER REVENUE PER PERSON SERVED**

| Description (1) | Adjusted Fiscal Year 2022/23 Amount (2) | Current City Persons Served (3) | Amount per Person Served (4) |
|---|---|---|---|
| Franchise Fees | $11,734,500 | 764,496 | $15.35 |
| Charges for Current Services | 28,025,900 | 764,496 | 36.66 |
| Cannabis | 2,826,980 | 764,496 | 3.70 |
| Other Taxes & Fees | 3,310,000 | 764,496 | 4.33 |
| **Totals** | **$45,897,380** | | **$60.04** |

(1) Business License revenue excluded as no employees are expected to be generated by development within the Project Area.
(2) Calculated in Table 11.
(3) Identified in Table 1.
(4) Equal to (Adjusted Fiscal Year 2022/23 Amount) / (Current City Persons Served).

To determine the amount of Other Revenue allocated to projected residential development, the amount per person served calculated in the previous table is multiplied by the increase in persons served that will result from future development.

TABLE 14. OTHER REVENUE GENERATED BY FUTURE DEVELOPMENT

| Description | Project Area Increase in Persons Served (1) | Amount per Person Served | Other Revenue (2) |
|---|---|---|---|
| Franchise Fees | 4,080 | $15.35 | $62,625 |
| Charges for Current Services | 4,080 | 36.66 | 149,570 |
| Cannabis | 4,080 | 3.70 | 15,086 |
| Other Taxes & Fees | 4,080 | 4.33 | 17,665 |
| **Totals** | | **$60.04** | **$244,947** |

(1) Identified in Table 2.
(2) Equal to (Project Area Increase in Persons Served) x (Amount per Person Served).

## Revenue Summary

A summary of the total revenues examined in this report projected to be generated by future development within the Project Area is presented in the following tables.

TABLE 15. TOTAL REVENUE SUMMARY

| Revenue Description | Total |
|---|---|
| Property Tax | $770,935 |
| Property Tax in Lieu of VLF | 583,201 |
| Documentary Transfer | 18,982 |
| Sales Tax | 265,878 |
| Other | 244,947 |
| **Total** | **$1,883,943** |

TABLE 16. TOTAL REVENUE SUMMARY BY FUTURE DEVELOPMENT TYPE

| Development Type | Total |
|---|---|
| SFR | $1,578,587 |
| MFR | 305,356 |
| **Total** | **$1,883,943** |

As noted in Section 1 of this report, the focus of this analysis is to determine the impact future development within the Project Area will have on the portion of the City's Public Safety Operational Budget housed within its General Fund. Thus, the estimated portion of total revenues that may be allocated to the City's Public Safety Operational Budget must be quantified. The 2022 Budget states that Public Safety comprises approximately 64% of all General Fund uses. Thus, to remain consistent with current City expenditures, this analysis assumes that only 64% of total revenues will be allocated to providing Public Safety services.

TABLE 17. REVENUE ALLOCABLE TO PUBLIC SAFETY

| Revenue Description | Total |
|---|---|
| Property Tax | $493,398 |
| Property Tax in Lieu of VLF | 373,249 |
| Documentary Transfer | 12,149 |
| Sales Tax | 170,162 |
| Other | 156,766 |
| **Total** | **$1,205,724** |

TABLE 18. REVENUE ALLOCABLE TO PUBLIC SAFETY BY FUTURE DEVELOPMENT TYPE

| Development Type | Total |
|---|---|
| SFR | $1,010,296 |
| MFR | 195,428 |
| **Total** | **$1,205,724** |

# SECTION 4 | EXPENDITURES ESTIMATE

The revenues identified in Section 3 of this report are intended to pay for recurring expenditures related to Public Safety services provided by the City.

## Current Public Safety 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 Public Safety services provided by the City. To account for increased expenditures associated with additional demand for Public Safety services, City expenditures are allocated to projected development within the Project Area using the multiplier approach. However, development-induced increases in demand for Public Safety services may 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 may not cause a 20% increase in Police or Fire expenditures. A portion of the City's expenditures are fixed or will increase incrementally as a result of population increases. Therefore, to account for relationships between Public Safety expenditures and population changes that are less than 1:1, City Public Safety expenditures have been adjusted to conservatively estimate the impact of projected development on the City's Public Safety Operational Budget. Of note, 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 adjusted expenditure amounts are presented in the following table.

**TABLE 19. CURRENT PUBLIC SAFETY SERVICE LEVEL EXPENDITURES**

| Description | Fiscal Year 2022/23 Expenditures (1) | Demand Adjustment Percentage (2) | Adjusted Fiscal Year 2022/23 Expenditures (3) |
|---|---:|---:|---:|
| Fire | $75,290,500 | 95% | $71,525,975 |
| Police | 194,538,900 | 95% | 184,811,955 |
| **Totals** | **$269,829,400** | | **$256,337,930** |

(1) Per FY 2022 Budget.
(2) Estimated; subject to change.
(3) Equal to (Fiscal Year 2022/23 Expenditures) x (Demand Adjustment Percentage).

After adjusting the estimated Fiscal Year 2022/23 Expenditures to account for relationships that are less than a 1:1 relationship, the total expenditure amount to be considered is approximately $256.3 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 Current Public Safety Service Level Expenditures to Population Served

Public Safety expenditures are categorized as being tied to serving the residential and employee population, solely the residential population, or solely the employee population. The following table provides the persons served category for each of the recurring current Public Safety expenditure categories.

TABLE 20. CURRENT PUBLIC SAFETY EXPENDITURES ALLOCATION TO POPULATION BASE

| Description | Population Base |
|---|---|
| Fire | Persons Served |
| Police | Persons Served |

## Current Public Safety 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 21. CURRENT PUBLIC SAFETY SERVICE LEVEL EXPENDITURES PER PERSON SERVED

| Description | Adjusted Fiscal Year 2022/23 Expenditures (1) | Current City Persons Served (2) | Amount per Person Served (3) |
|---|---|---|---|
| Fire | $71,525,975 | 764,496 | $93.56 |
| Police | 184,811,955 | 764,496 | 241.74 |
| **Totals** | **$256,337,930** | | **$335.30** |

(1) Calculated in Table 19.
(2) Identified in Table 1.
(3) Equal to (Adjusted Fiscal Year 2022/23 Expenditures) / (Current City Persons Served).

To determine the amount of current service level expenditures allocated to projected development within the Project Area, the amount per person served calculated in the previous table is multiplied by the increase in persons served that will result from future development.

TABLE 22. CURRENT PUBLIC SAFETY SERVICE LEVEL EXPENDITURES GENERATED BY FUTURE DEVELOPMENT

| Description | Increase in Persons Served (1) | Amount per Person Served | Current Expenditures (2) |
|---|---|---|---|
| Fire | 4,080 | $93.56 | $381,724 |
| Police | 4,080 | 241.74 | 986,314 |
| **Totals** | | **$335.30** | **$1,368,037** |

(1) Identified in Table 2.
(2) Equal to (Increase in Persons Served) x (Amount per Person Served).

## Total Expenditures Summary

Projected residential will cause the City to incur additional various forms of expenditures to provide Public Safety 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 23. EXPENDITURES SUMMARY**

| Description | Total |
|---|---|
| Current Public Safety Service Level Expenditures | $1,368,037 |
| **Total** | **$1,368,037** |

**TABLE 24. EXPENDITURES SUMMARY BY FUTURE DEVELOPMENT TYPE**

| Development Type | Total |
|---|---|
| SFR | $1,042,793 |
| MFR | 325,244 |
| **Total** | **$1,368,037** |

# 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 Project Area. The table below sets forth the total anticipated negative fiscal impact.

**TABLE 25. ANNUAL FISCAL IMPACT**

| Description | Value |
|---|---|
| Total City Revenues | $1,205,724 |
| Total City Expenditures | (1,368,037) |
| **City Positive / (Negative) Fiscal Impact** | **($162,314)** |

The fiscal impact future development is projected to have on the City's Public Safety Operational Budget is presented in the following table.

**TABLE 26. FISCAL IMPACT BY DEVELOPMENT TYPE**

| Development Type | Revenues | Expenditures | Fiscal Impact | |
|---|---|---|---|---|
| SFR | $1,010,296 | ($1,042,793) | ($32,498) | Negative |
| MFR | 195,428 | (325,244) | (129,816) | Negative |
| **Total** | **$1,205,724** | **($1,368,037)** | **($162,314)** | |

The net fiscal impact identified in this section is based on revenues and expenditures projected to be generated by future development within the Project Area. 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.

# 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 Districts

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 to 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 of 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 resulting from projected future SFR and MFR development, the proposed annual base CFD special tax rates for Public Safety services are provided in the following table for consideration by the City.

**TABLE 27. PROPOSED CFD SPECIAL TAX RATES**

| Development Type | CFD Special Tax Rates (1) | Per | Rate as % of Value per Unit (2) | Average Current Effective Tax Rate (3) | Combined Tax Rate (4) |
|---|---|---|---|---|---|
| SFR | $164 | Unit | 0.04% | 1.23% | 1.28% |
| MFR | 112 | Unit | 0.07% | 1.25% | 1.32% |

(1) Rates for services portion; includes $15 for CFD administration costs.
(2) Taxable value per SFR unit projected to be $392,000. Value per MFR unit projected to be $106,032.
(3) Calculated using the Fiscal Year 2021/22 tax bills of existing residential development. Includes estimated fixed charges.
(4) Equal to (Rate as % of the Value per Unit) + (Average Current Effective Tax Rate). Any discrepancies due to the rounding of decimals.

The CFD special tax rates presented in Tables 27 would represent initial CFD maximum special tax rates to mitigate the identified negative fiscal impacts, as well as the added costs for administering the CFD. 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.