# City of Rialto

## Legislation Details (With Text)

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| **Title:** | Request City Council to Approve Professional Services Agreement with Stanley R. Hoffman & Associates to Prepare a Citywide Fiscal Impact Analysis for the Purpose of Establishing a Mitigation Fee Schedule in the amount of $20,000. | | |
| **Sponsors:** | | | |
| **Indexes:** | | | |
| **Code sections:** | | | |
| **Attachments:** | 1. Exhibit A City Fiscal Policy for New Development Annexations, 2. Exhibit B Proposal Letter_3-22-2019, 3. Exhibit C Disclosure Form SRHA.pdf, 4. Exhibit D PSA with SRHA for Citywide Analysis | | |

| Date | Ver. | Action By | Action | Result |
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For City Council Meeting [April 23, 2019]

TO: Honorable Mayor and City Council

APPROVAL: Sean Grayson, Interim City Administrator

FROM: Robb Steel, Assistant CA/Development Services Director

Request City Council to Approve Professional Services Agreement with Stanley R. Hoffman & Associates to Prepare a Citywide Fiscal Impact Analysis for the Purpose of Establishing a Mitigation Fee Schedule in the amount of $20,000.

**BACKGROUND:**

The Mello-Roos Community Facilities Act of 1982 provides the foundation for establishing Community Facilities Districts. The Mello-Roos Act allows cities to levy a special tax upon real property to finance facilities or services by forming a CFD. Most cities have used CFD's to finance facilities, but many have also financed services. The City establishes the CFD after a vote by the affected landowner(s), usually the land developer conditioned by the City to create one to mitigate the impacts of the project.

The Act places limitations on the scope of services payable via a special tax. The permissible services include police protection, jail or detention facilities, fire protection and suppression services, ambulance and paramedic services, park and open space maintenance, flood control and environmental remediation services. The City may not levy special taxes for recreation programs, library, museums, cultural facilities, or schools.

A key legislative requirement is that the CFD may only finance services "to the extent they are in addition to those provided within the area of the district before the district was created" and the additional services may not supplant services already within that territory when the district was created". Landowner vote CFD's could only be used to mitigate the impacts of new development, and not to address existing service deficiencies (in effect, to finance existing service levels).

*Existing CFD's in Rialto*
On November 1, 2005, the City Council adopted a policy for new development and annexations, which requires all new residential development to mitigate for all operating costs imposed upon the City by that development (**Exhibit A**). The City has adopted three active CFD's in accordance with this policy: CFD 87-1, and 2006-1, and 2016-1:

- CFD 87-2 encompasses the Las Colinas community in northwest Rialto. CFD 87-2 paid for police and fire services required by the Project. Since approval of the Utility Tax in 2003, the City has annually set the levy for the 2,128 parcels encompassed within this CFD at $0. The special tax was approximately $200 per unit.

- CFD 2006-1 encompasses the Elm Park residential community of 130 homes. Lewis Investment Company and Shea Homes voted to create the CFD to finance infrastructure (Special Tax "A") and Police/Fire/Public Works services (Special Tax "B"). The City set the original Special Tax B at $612 per unit, and it has since inflated to $817 per unit. The Special Tax B continues without cessation, while the Special Tax A will cease once the bonds are defeased. Special Tax A (infrastructure) is currently levied at approximately $2,500 - $3,000 per unit depending upon square footage.

- On December 13, 2016, the City Council adopted Ordinance No. 1581 forming CFD 2016-1 to encompass the Serrano Place Project on Willow Avenue currently under construction by RC Hobbs. The City conditioned the 33-unit project to form a service CFD to mitigate the negative fiscal impacts upon the General Fund. The current levy for the Serrano Place Project is $297 per unit.

- On April 25, 2017, the City Council adopted Resolution No. 7110 and annexed the Cadiz Project under construction by Crestwood Communities on Cactus Avenue into CFD 2016-1. The City conditioned the 75-unit project to form a service CFD to mitigate the negative fiscal impacts upon the General Fund. The current levy for the Cadiz Project is $297 per unit.

- On February 12, 2019, the City Council adopted Resolution No. 7465 annexing an 8-unit project and establishing an annual levy of $297 per unit.

The City adopts Resolutions each fiscal year to levy the special tax, with adjustments for inflation as authorized by the original formation documents. On July 24, 2018, the City Council adopted Resolution No 7371, 7372, and 7373 setting the current rates for each of the CFD's.

The City Council approved two Development Agreements that require the developers to form CFD's to mitigate the negative fiscal impacts of residential development: (1) Lytle Creek and (2) Renaissance. Both projects expect to commence residential construction within the next 1-2 years. Lytle Creek will pay $104 per unit (escalating at a maximum of 2% per year) and Renaissance will pay up to $390 per unit (escalating at a maximum of 2% per year) to mitigate negative fiscal impacts of residential development.

*Budget Advisory Committee Recommendation*
The Budget Advisory Committee recommended in its final report to the City Council dated July 24, 2018 that the City Council annex all residential properties into the CFD (to the maximum extent feasible even for smaller projects) giving priority to the funding of police, fire, and street maintenance services.

**ANALYSIS/DISCUSSION**:
*Methodology for Establishing the Special Tax Amount for Services*
The City conditions all new residential development projects to complete a fiscal impact analysis and mitigate any negative fiscal impact by forming or annexing into a Services CFD prior to occupancy. The City requests a deposit and then commissions a fiscal consultant to identify the net costs, if any, to the City for the delivery of services to the proposed project. The fiscal consultant uses the current City budget to determine the revenues and costs attributable to the proposed project, and identifies the deficit per unit for establishing the special tax. The City Council must then adopt several resolutions to create the CFD and levy the assessment. The owner of the subdivided lots must then pay the special tax with the property tax bill, and this burden passes on to the subsequent owners. The City may increase the special tax by an escalation factor that each formation prescribes. The standard escalation factor is based upon an index, subject to a maximum increase of 2%-3%.

Table 1 summarizes a recent residential project fiscal impact report prepared by Stanley R Hoffman & Associates, showing the revenues and expenses allocated to a 29 unit residential project. The special levy on this project is $310 per unit, with expenses per unit of $2,410 per year offset by revenues per unit of $2,720 per year. These results will vary depending upon each project's unique characteristics, and typically, the deficits have run approximately $300-$400 per unit. The CFD levy ensures that the new project produces a neutral fiscal impact (that revenues equal expenditures, based upon current service standards and costs).

Table 1
Summary of City Operating Fiscal Impacts
Tentative Tract 20084

| General Fund | Total | Per Unit | % | | Total | Per Unit | % |
|---|---|---|---|---|---|---|---|
| **Assumptions** | | | | | | | |
| No. of Units | 29 | | | | | | |
| Population (at 4/unit) | 115 | | | | | | |
| Estimated Unit Value | 410,000 | | | | | | |
| **Revenues** | $ 69,770 | $ 2,410 | 100% | **Expenses** | $ 78,870 | $ 2,720 | 100% |
| In Lieu Property Tax (VLF) | $ 16,280 | $ 561 | 23% | Police | $ 32,020 | $ 1,104 | 41% |
| Property Taxes | $ 15,750 | $ 543 | 23% | Fire | $ 20,810 | $ 718 | 26% |
| Utility Users Tax | $ 13,730 | $ 473 | 20% | General Government | $ 10,310 | $ 356 | 13% |
| Sales and Use Tax | $ 12,710 | $ 438 | 18% | Public Works | $ 6,880 | $ 237 | 9% |
| Franchise Fees | $ 3,320 | $ 114 | 5% | Cost Contingency | $ 3,760 | $ 130 | 5% |
| Current Services | $ 2,740 | $ 94 | 4% | Community Services | $ 2,930 | $ 101 | 4% |
| Transfers In | $ 2,230 | $ 77 | 3% | Development Services | $ 2,160 | $ 74 | 3% |
| Use of Money & Property | $ 990 | $ 34 | 1% | | | | |
| Other Revenues | $ 820 | $ 28 | 1% | | | | |
| Fines & Forfeitures | $ 410 | $ 14 | 1% | | | | |
| County LF Excavation Charges | $ 340 | $ 12 | 0% | | | | |
| Other Taxes | $ 280 | $ 10 | 0% | | | | |
| Licenses & Permits | $ 170 | $ 6 | 0% | | | | |
| **Net Annual Surplus/(Deficit)** | (Revenues minus Expenses) | | | | $ (9,100) | $ (310) | |

The City's current methodology allocates both direct and indirect recurring operating revenues to the projects, providing the most equitable portrayal of the fiscal impacts. The City's fiscal consultant advises that some cities discount the speculative indirect revenues associated with a residential project, resulting in a higher annual levy. This discounting must have justifiable foundation to pass legal muster under the Mitigation Fee Act. The higher fees may also have the consequence of delaying residential development.

<u>Policy Questions for Service CFD's</u>
City staff proposes to prepare an annual citywide CFD analysis that would establish a fee schedule for all new residential development. The schedule would establish a fixed fee based upon a factor such as unit square footage, bedroom count, and/or value. In this manner, residential developers could choose to pay the scheduled fee or, alternatively, pay for the preparation of a project specific

fiscal impact report as currently required. The fee schedule approach would simplify the entitlement process for the applicant and staff, and provide certainty early on in the development process regarding he conditions of approval. It will also allow small projects to annex into the CFD without the burden of preparing a project specific fiscal impact report, which generally costs approximately $5,000 and requires staff resources to commission and then review the report. The proposed citywide study intends to save money for both the City and developer, increase revenues for the City, and simplify and expedite the entitlement process.

Stanley R. Hoffman and Associates (SRHA) has prepared most of the fiscal impact reports for the City, and has developed a model based upon the City's latest budget. This prior work allows the firm to provide a very reasonable cost proposal, since it will only need to update the data and the methodology as necessary and not create the model from scratch. Because the City Council has expressed concern regarding the service consequences of new development, staff proposes to engage the Economic Development Committee to reconsider the key inputs and methodologies to achieve the most desired and legally defensible result. A couple of the key policy decisions include:

1. Should the City adopt a more conservative methodology for preparing the reports, in effect discounting or eliminating the allocation of indirect revenues to the projects thereby producing higher annual levy amounts?

2. Should the City incorporate the scheduled increases in pension and OPEB obligations?

3. Should the City apply a higher service standard to the new residential projects or maintain the current service standard? The City needs to demonstrate that it will add service to confirm that it is not using the CFD fees from new development to subsidize existing services.

4. Should the City evaluate the fiscal impacts for non-residential development? Generally, previous assessments concluded that non-residential development generated more revenue than its service costs; therefore, the previous assessments did not recommend special taxes for these uses. The proposal includes a detailed analysis of industrial uses to ensure that the City realizes a positive fiscal impact from the growth in the industrial sector.

SRHA submitted a proposal (**Exhibit B**) to perform the citywide analysis for a fee of $18,910. To cover the costs of any additional meetings or subordinate analyses, staff recommends that the PSA set the maximum compensation at $20,000. The required Disclosure Form is attached hereto ( **Exhibit C**)

**ENVIRONMENTAL IMPACT:**
Pursuant to Section 15378 of the California Environmental Quality Act, a "Project' means the whole of an action, which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. A Project does not include the creation of government funding mechanisms or other government fiscal activities, which do not involve any commitment to any specific project that may result in a potentially significant physical impact on the environment

**GENERAL PLAN CONSISTENCY:**
The proposed action is consistent with the following Guiding Principle of the General Plan:

"Our City government will lead by example, and will operate in an open, transparent, and responsive manner that meets the needs of the citizens and is a good place to do business."

**LEGAL REVIEW:**

The City Attorney has reviewed and approved this staff report and the Professional Services Agreement.

**FINANCIAL IMPACT:**

Operating Budget Impact

Funds are available and budgeted in Account No. 010-500-4255-2011 for $20,000. A budget transfer to reassign budget from Account No. 010-500-4150-2011 ($10,000) and from Account No. 010-500-4261-2011 ($10,000) will be processed to establish budget in the directed account.

Staff proposes to see recovery of the costs by charging a fee of $100 per unit up to a maximum of $5,000 to each residential applicant. Based upon residential development activity in 2018, the City would recover $19,000 for deposit into Account No. 010-400-4255-7799 (Miscellaneous Revenue).

Capital Improvement Budget Impact

There is no impact to the Capital Improvement Budget.

Licensing

Prior to execution of the Professional Service Agreement, the vendor shall submit a business license application and pay a Business License tax at the professional services rate, as well as Administration and State fees.

**RECOMMENDATION:**

Staff recommends that the City Council Approve Professional Services Agreement (**Exhibit D**) with Stanley R. Hoffman & Associates to Prepare a Citywide Fiscal Impact Analysis for the Purpose of Establishing a Mitigation Fee Schedule in the amount of $20,000.