THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Overview and Challenges Related to Public Facilities Financing Plan Updates

OVERVIEW

The City's General Plan provides a long-term vision and comprehensive policy framework for how the City should grow and develop; provide public infrastructure and services; and maintain the qualities that define the City of San Diego. The City's 46 community plans are components of the General Plan, and provide land use designations, assign density ranges, and include detailed policies and guidelines at the community level. Community plans also identify public infrastructure needed to serve the community over a number of years until full community development is anticipated. The Public Facilities Financing Plan (PFFP) is the implementation document for the community plan and identifies and prioritizes public facilities infrastructure projects, including police, fire, library, park & recreation, and transportation facilities. The PFFP also identifies costs for those projects and existing and potential funding sources.

At least a portion of the cost of public facilities identified in the PFFPs are funded through Facilities Benefits Assessments (FBA) or Development Impact Fees (DIF), which are fees assessed on developers to mitigate the impact of new development. The schedule of proposed fees included in each PFFP is developed based on whether the community is funded through FBA or DIF, which differ significantly. Attachment 1 includes a map identifying FBA and DIF communities in the City.

The City has 12 communities that are relatively early in their planned development and have an FBA which provides up to 100% of funds for public facilities projects included in the community's PFFP. In contrast, more than 30 communities are at or near build out and collect DIF fees on infill or revitalization efforts which provides only 7-10% of funding needed for public facilities on the community's PFFP. To qualify for DIF or FBA funding, the project must be included in the community plan and PFFP and capital in nature ("bricks and mortar"). DIF and FBA funds cannot be used for operations or maintenance.

Community Plan and PFFP Updates

Many community plans and PFFPs have not been updated in the past several years or more and are considered to be significantly out of date. Attachment 2 provides the status of community plan and PFFP updates, including those scheduled to be completed in fiscal years 2015 and 2016. The City recently began a process to update community plans and PFFPs, which are generally updated as part of the community plan update process. Currently, 10 community plans and 11 PFFPs are in various stages of the update process.

Three PFFP updates are coming to Council for approval in June 2014. The Downtown and Mid-City PFFPs were presented to the Infrastructure Committee on May 14, 2014 and are going to Council for approval on June 10, 2014. The Ocean Beach community plan update and PFFP was presented to the Smart Growth and Land Use Committee on April 30, 2014 and are going to Council for approval on June 30, 2014. An additional 12 PFFP updates have been identified to be conducted in the next two fiscal years.

Given that addressing infrastructure issues is one of the highest priorities for the City, updating the PFFPs is important to ensure that they accurately reflect a community's public infrastructure needs and priorities, and provide an impact fee structure that is proportionate with the current costs of facilities. However, conducting PFFP updates has raised challenges for staff particularly with regard to DIF communities. Many PFFP updates will be coming before Council for approval in the coming months and years and challenges exist to varying degrees in each community. This report provides an overview of the PFFP update process and highlights some of these ongoing challenges as well as issues to consider as part of the broader discussion regarding how to comprehensively fund the City's significant infrastructure needs.

FISCAL AND POLICY ANALYSIS

THE PROCESS OF UPDATING PFFPS

PFFPs are typically updated concurrently with the community plan update, but interim updates are also conducted when circumstances warrant a change. Updates for PFFPs in FBA communities are conducted about every two years to accurately reflect current project costs and facility needs, since they are based on projected development and cash flow in each community. PFFPs for DIF communities are updated on a five-year schedule, since these communities are mostly built out and do not use cash flow or need to be updated as often as FBAs.

The typical process for updating PFFPs includes four primary phases and takes about 15 months to complete.

1. **Initiation (90 days) –** Identify public facilities projects needed due to new or infill development, costs, and a schedule of projected development.
2. **Analysis (60 days) –** Calculate impact fee for residential and non-residential development, project cash flow, and prepare draft PFFP.

3. **Review (180 days) –** Conduct outreach and review with Community Planning Groups (CPGs) and the public.
4. **Approval (120 days) –** Obtain approval of the proposed PFFP from Mayor, Council committee, and full Council.

CHALLENGES RELATED TO PFFP UPDATES

Economic Impacts on Private Development

During the recent economic recession, Mayor Sanders' Administration made the decision to not update impact fees due to concerns that increases in fees would further impact declines in private development. As public facilities needs and costs have changed over time, many of the PFFPs are now significantly underestimated and fees being charged to developers do not reflect the cost of needed public facilities. This is particularly true for DIF communities since PFFPs in these communities are updated less frequently, and only recently incorporated a construction cost index in 2009.[1]

Now that PFFP updates are underway, the related fee increases are significant, ranging from 80-400%. The challenge for staff is to determine the appropriate fee that will generate revenue needed to fund public facilities, but will not negatively impact development (which would subsequently reduce fee revenue).

Staff are also seeking ways to mitigate the larger than normal fee increases. For example, part of the staff recommendation in the Downtown PFFP update is to delay the effective date of the fee increase until July 1, 2015. The intent is to provide reasonable lead time for implementation of fees in a unique area that has large-scale projects, such as 20-story buildings which are require a significant, upfront capital investment. However, this approach also misses the opportunity to collect significant fees over the one-year time period.

Calculating Impact Fees

The amount of fees imposed on new development is based on the extent or degree to which each type of development (residential and non-residential) generates demand for public facilities. For example, new development generates traffic and the demand for new fire rescue services. The fees in both FBA and DIF communities must be reasonably related to the burdens posed by new development; however, there are different methodologies used to calculate the amount of the fees in FBA and DIF communities as discussed below. A schedule of current fees for each community is included in Attachment 3.

FBA Fees

FBA fees are calculated by adding up the cost of facilities needed to serve the community and then dividing those facilities by the remaining development anticipated to occur in the community. This results in up to 100% of costs for these facilities being covered by the fee, as FBD fees are used in newer green field communities such as Carmel Valley and Torrey

[1] The Municipal Code was amended to provide an annual automatic increase to the DIF fee schedule to occur every July 1st beginning July 1, 2010, based on the one-year change in the Construction Cost Index for Los Angeles.

Highlands. The challenge in calculating the fee in FBA communities is to ensure that deficiencies attributable to existing development are not charged to new development.[2]

At the time of building permit issuance, the owner of the parcel being developed is assessed the fee depending on the type and size of the development and the FBA fee schedule, which is based on anticipated development and projected cash flow, among other things. Since needed facilities are directly related to the growth rate of the community, PFFP schedules are contingent upon actual development within the community. Therefore, an economic downturn in the economy will result in less revenue coming in from development and cause delays to the PFFP schedule for funding projects in FBA communities.

DIF Fees

DIF fees are calculated by adding up the cost of the facilities needed to serve the community and then dividing the cost of those facilities by the total existing and new anticipated development in the community. This is based on the concept of fair share funding and ultimately provides only 7-10% of the cost needed to fund new public facilities. The City Attorney's Office has noted that this approach has the potential for not fully capturing the cost of providing public facilities to new development in DIF communities. The fee increases in recent updates for DIF communities generally are not fully recovering the cost of the impacts of new development. As discussed earlier in this report, this is because staff are striving to find a balance between generating revenue needed to fund public facilities while not providing a disincentive for development in the community.

Staff are tailoring their approach to determining what the appropriate fee should be for each community based on existing and projected development through a horizon year (when full development is expected) as well as considering the unique needs and priorities of each community. As part of their analysis, staff are informally assessing economic impacts, but formal economic impact analysis are not currently being utilized. As more PFFP updates are conducted for DIF communities, a more consistent and reliable approach may be beneficial.

UNDERSTANDING DIF AND FBA:

- Both DIFs and FBAs are collected, placed in an interest-bearing revenue account, and used within the community solely for administrative costs and those capital improvements identified in the applicable community plan and PFFP.
- DIFs and FBAs cannot be used for repairs, maintenance, or operation of facilities.
- Communities that have FBAs also have a DIF equal to the FBA to mitigate the impact of additional development on properties that have either already paid FBAs and/or that have never been assessed.
- Communities transition from FBA to DIF upon collection of all FBA revenue and subsequent expenditure of all funds within the interest-bearing FBA account.

The Park & Recreation Component of DIF

Since DIF fees are based on the need for public facilities, the components that are included depend on what types of facilities are needed in each community. These components include transportation, park and recreation, fire rescue, library, and in some cases police.[3]

[2] Office of the City Attorney, Public Facilities Financing Plan Update Considerations, Sept. 6, 2013.
[3] An 8% administrative cost is also included in the fee for personnel time spent on administering the community's DIF program.

One particular challenge for DIF communities, which are mostly built out, is in meeting the park standard established in the General Plan of 2.8 acres of parkland per 1,000 residents. In some communities, this standard may not be realistically achievable since land is limited or not available and would require tearing down existing development to construct a park. Even in the cases where land is available, it is generally cost prohibitive to acquire, especially given limited resources for DIF communities. <u>The existing park deficiency cannot be fully funded with DIF, but park deficiencies based on this standard still contribute to higher DIF fees, even if the standard is not achievable.</u>

The General Plan discusses the use of a parks master plan to help meet the standard, but the City has not prepared such a plan due to competing priorities for limited funds. Staff have developed draft park equivalencies criteria to provide interim standards until a parks master plan is developed. Utilization of the equivalencies will provide a flexible means of providing park land and facilities where development of useable park acreage is limited by land constraints. The draft criteria were discussed at a May 15, 2014 joint workshop of the Planning Commission and Park and Recreation Board. Planning Department staff are developing a series of strategies to meet park needs as well as continuing to work with the public and build expertise in identifying equivalencies through the community plan update process. For example, Ocean Beach has utilized park equivalencies in its community plan/PFFP update.

<u>Allocating FBA and DIF Funds to Projects</u>

After the PFFP update is complete and fees go into effect, revenue is generated by the fees as development permits are issued by the Development Services Department (DSD). Facilities Financing staff prepare the FBA or DIF fee calculation for each development project as the project is submitted by developers for DSD review. The revenue is deposited into the applicable FBA or DIF account and must be used for facilities solely within the area of benefit. The process for funding capital projects differs between FBA and DIF.

FBA-Funded Projects

As noted earlier in this report, FBA fees cover up to 100% of funding for public facilities on the community's PFFP. Capital projects in FBA communities are generally implemented in one of two ways. The developer may decide to construct the facility and be reimbursed through a reimbursement agreement.[4] Projects in FBA communities are also implemented as a City capital project by the Public Works – Engineering & Capital Projects Department. In this case, projects are created by an asset owning department like Park & Recreation. Facilities Financing staff advise the asset owning department when funding is available for the project. The project will be approved as part of the Capital Improvement Program (CIP) budget by the City Council.

DIF-Funded Projects

DIF only covers a small percentage of the project, so DIF is either used to fund small-scale projects, for example American with Disabilities Act (ADA) improvements, or must be supplemented with other funding sources like TransNet. Facilities Financing staff request recommendations for projects eligible to be funded with DIF from asset owning departments via

[4] The developer is reimbursed because the FBA fee has still been charged, so the developer essentially has been charged twice.

a call memorandum. Staff hold an annual "DIF Bowl" to compete for these limited funds and prioritize projects. City Council offices also provide input into which projects are funded with DIF for communities in their respective districts. Finally, the CIP Review and Advisory Committee (CIPRAC) makes a recommendation for funding projects to the Mayor. Given limited resources and valid competing priorities, staff also face challenges identifying funding sources to supplement DIF funds so that needed public facilities can be built.

CONCLUSION/RECOMMENDATION

Addressing infrastructure issues is one of the highest priorities for the City, and PFFP updates and fees charged are part of a broader discussion on infrastructure needs of communities and how to fund those needs. Decisions made regarding the size of fees in DIF communities impact revenue available to fund needed public facilities, but we agree that determining the appropriate fee requires a balanced approach to ensure that the fee increase does not provide a disincentive for private development. The introduction of the Multi-year Capital Improvements Plan at the Infrastructure Committee meeting on July 23, 2014, will provide a catalyst for discussions regarding identifying a comprehensive approach for funding the City's significant infrastructure needs. The approach for determining the appropriate level of DIF fees will be an important part of the larger discussion. Council may want to consider providing policy direction in this area, including a more consistent approach and utilizing formal economic impact studies to guide staff in determining a balanced and appropriate fee.

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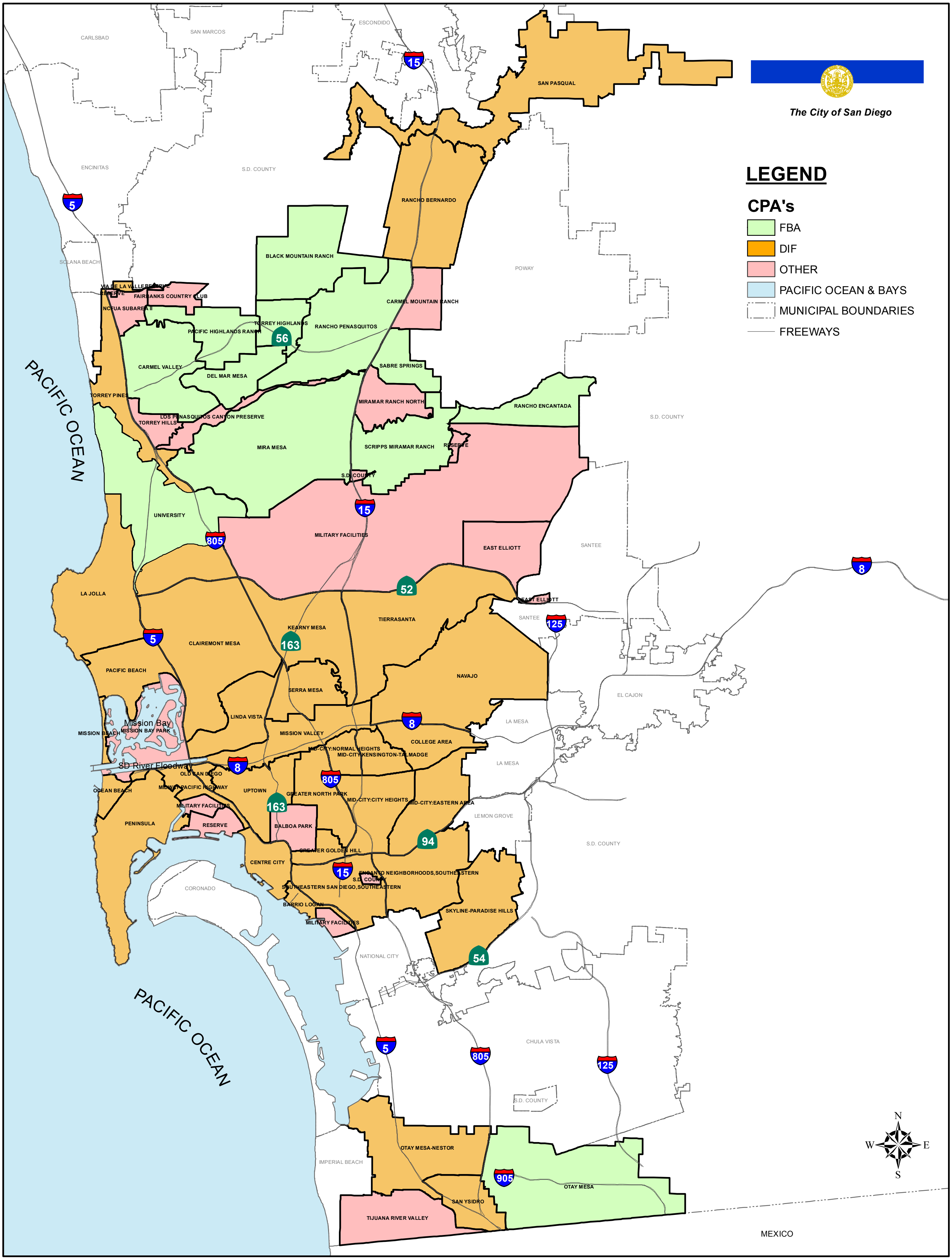
Attachment 1: Map Identifying FBA and DIF Communities in the City

Attachment 2: Status of Community Plan and PFFP Updates

Attachment 3: FBA and DIF Fee Schedule for All Communities

Attachment 1



Status of Community and Public Facilities Financing Plans (PFFP)

RECENTLY UPDATED PFFPs
PFFPs PLANNED FOR UPDATE

Community	Type of Community		Most Recent Update Completed/Planned *Fiscal Year*	
	DIF	FBA	**Community Plan**	**PFFP**
Barrio Logan	√		2014	2014
Black Mountain Ranch		√	1999	2013/2015
Carmel Mountain Ranch			1985	**
Carmel Valley		√	1975	2014
Clairemont Mesa	√		1990	2002
College Area	√		1989	2014
Del Mar Mesa		√	2000	2006/2015-16
Downtown (Formerly Centre City)	√		2006	June 10, 2014
East Elliot			1971	2014
Encanto (new plan)	√		2015	2015*
Greater North Park	√		1987/2016	2002/2015-16*
Greater Golden Hill	√		1988/2016	2005/2015-16*
Kearny Mesa	√		1993	2003
La Jolla	√		2004	2002
Linda Vista	√		1999	2004
Mid-City (City Heights, Eastern Area, Kensington-Talmadge, and Normal Heights)	√		1999	June 10, 2014
Midway/Pacific Highway	√		1991/2016	2005/2015-16*
Mira Mesa		√	1993	2014/2015*
Miramar Ranch North			1980	**
Mission Beach	√		1975	1988
Mission Valley	√		1985	2013/2015-16*
Navajo	√		1983/2015	2008/2016*
North University City (University Community Plan)		√	1988	2013/2015-16
Ocean Beach	√		1976/June 30, 2014	June 30, 2014*

* PFFP is being updated with community plan update or amendment.

** Carmel Mountain Ranch, Miramar Ranch North, and Torrey Hills (formerly Sorrento Hills) do not have PFFPs as the public facilities in those communities were provided via development agreements.

Community	**Type of Community**		**Most Recent Update Completed/Planned** *Fiscal Year*	
	DIF	FBA	**Community Plan**	**PFFP**
Old San Diego (Old Town)	√		1988/2016	2004/2016*
Otay Mesa		√	2014	2014
Otay Mesa - Nestor	√		1998	2014
Pacific Highlands Ranch		√	2000	2013/2015
Pacific Beach	√		1995	1994
Peninsula	√		1988	2001
Rancho Bernardo	√		1989	2014
Rancho Encantada		√	2002	2010
Rancho Penasquitos		√	1993	2014
Sabre Springs		√	1983	2009
San Pasqual	√		1995	1996
San Ysidro	√		1990/2016	2008/2015-16*
Scripps Miramar Ranch		√	1979	2013
Serra Mesa	√		1978	2004
Skyline – Paradise Hills	√		1987	2003
Southeastern San Diego	√		1988/2015	2003/2015-16*
South University City (University Community Plan)		√	1988	2013/2015-16
Tierresanta	√		1983	2008
Torrey Highlands		√	1997	2013/2015
Torrey Hills (formerly Sorrento Hills)			1997	**
Torrey Pines	√		1995	2005
Uptown	√		1988/2016	2003/2015-16*
Via de la Valle	√		1985	1996

* PFFP is being updated with community plan update or amendment.

** Carmel Mountain Ranch, Miramar Ranch North, and Torrey Hills (formerly Sorrento Hills) do not have PFFPs as the public facilities in those communities were provided via development agreements.

FBA Communities (FY 2014)							
Community	**SFR**	**MFR**	**Commercial Acre**	**Industrial Acre**	**Institutional Acre**	**Employment Center/1,000 SF**	**Other (Contact PM)**
Black Mountain Ranch	$ 52,936	$37,055 20,116 (a)	$8,999 (b)	$ -	$ 175,218	$ 4,764	$ -
Carmel Valley	$ 30,311	$ 21,218	$ 112,454	$ 104,572	$ 108,211	$ -	$ -
Del Mar Mesa	$105,630/99,292(c)	$ 73,941	$ 217,598	$ -	$ -	$ -	$ -
Mira Mesa	$ 27,981	$ 19,587	$ 173,202	$60,719-79,466	$ -	$ -	$ -
North University City	$ 25,134	$ 17,594	$ -	$ -	$ -	$ -	$ 1,693
Otay Mesa (W. and E.)	$ 28,815	$ 20,171	$165,692-224,558	$57,630-57,445	$ -	$ -	$ -
Pacific Highlands Ranch	$46,800/31,825(d)	$ 32,761	$ 377,588	$ 251,723	$ 134,251	$ -	$ -
Rancho Encantada	$ 3,547	$ 2,482	$ -	$ -	$ -	$ -	$ -
Rancho Peñasquitos	$ 29,777	$ 20,845	$ 178,666	$ -	$ -	$ -	$ -
Sabre Springs	$ 5,518	$ 3,863	$964(b)	$487(b)	$ -	$ -	$ -
Scripps Miramar Ranch	$ 36,391	$ 25,473	$ 142,433	$ 85,864	$ 49,138	$ -	$ -
Torrey Highlands (e)	$ 99,088	$ 69,364	$ 177,368	$ 597,501	$ 148,632	$ 532,964	$ 799,640

DIF Communities (FY 2014)**							
Community	**Residential Development**					**Non-Residential Development**	
	Transportation	Park	Library	Fire	Per DU	Transportation $/ADT	Fire $/1,000 SF
Barrio Logan	$ 973	$ 10,201	$ 331	$ 481	$ 11,986	$ 268	$ -
Carmel Mountain Ranch	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Centre City (f)	$ -	$ 3,653	$ -	$ 526	$ 4,179	$ -	$ -
Clairemont Mesa	$ 308	$ 3,295	$ 767	$ 111	$ 4,481	$ -	$ 476
College Area	$ 1,876	$ 10,100	$ 728	$ 476	$ 13,180	$ 268	$ 476

Source: http://www.sandiego.gov/facilitiesfinancing/pdf/feeschedule.pdf

DIF Communities (FY 2014)**							
Community	Residential Development					Non-Residential Development	
	Transportation	Park	Library	Fire	Per DU	Transportation $/ADT	Fire $/1,000 SF
East Elliot	$ -	$ -	$ 768	$ -	$ -	$ -	$ -
Fairbanks Ranch	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Golden Hill	$ 847	$ 7,472	$ -	$ 233	$ 8,552	$ 121	$ 233
Greater North Park	$ 455	$ 3,042	$ 675	$ 121	$ 4,293	$ 65	$ 121
Kearny Mesa	$ 448	$ 6,976	$ 438	$ 69	$ 7,931	$ 64	$ 69
La Jolla	$ 825	$ 3,757	$ 308	$ 156	$ 5,047	$ 180	$ 156
Linda Vista (g)	$ 721	$ 554	$ 309	$ 198	$ 1,782	$ 103	$ 198
Mid-City	$ 553	$ 1,918	$ 63	$ 11	$ 2,545	$ 79	$ 5
Midway/Pacific Highway	$ 6,202	$ 586	$ 63	$ 16	$ 6,867	$ 886	$ 16
Miramar Ranch North	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Mission Beach	$ 1,092	$ 579	$ -	$ -	$ 1,671	$ 156	$ -
Mission Valley	$ 910	$ 9,841	$ 353	$ 211	$ 11,315	$ 130	$ 211
Navajo	$ 2,149	$ 3,035	$ 1,432	$ 294	$ 6,909	$ 307	$ 294
Ocean Beach	$ 1,386	$ 919	$ 638	$ 282	$ 3,225	$ 198	$ 282
Old San Diego	$ 4,529	$ -	$ -	$ 292	$ 4,821	$ 647	$ 292
Otay Mesa-Nestor	$ 776	$ 10,483	$ 204	$ 425	$ 11,888	$ 109	$ 425
Pacific Beach	$ 336	$ 1,911	$ 181	$ 126	$ 2,554	$ 48	$ 126
Peninsula	$ 1,078	$ 1,385	$ 598	$ 120	$ 3,181	$ 154	$ 120
Rancho Bernardo	$ 1,162	$ 726	$ 575	$ 16	$ 2,479	$ 166	$ 16
San Pasqual	$ -	$ -		$ -	SFR $1,768 / MFR $1,238	$ 177	$ -
San Ysidro	$ 2,576	$ 4,931	$ 1,965	$ 24	$ 9,496	$ 368	$ 24
Serra Mesa	$ 1,666	$ 4,159	$ 417	$ 618	$ 6,860	$ 238	$ 618

Source: http://www.sandiego.gov/facilitiesfinancing/pdf/feeschedule.pdf

DIF Communities (FY 2014)**							
Community	Residential Development					Non-Residential Development	
	Transportation	Park	Library	Fire	Per DU	Transportation $/ADT	Fire $/1,000 SF
Skyline/Paradise Hills	$ 903	$ 3,896	$ 884	$ 242	$ 5,925	$ 129	$ 242
Southeastern San Diego	$ 2,135	$ 3,074	$ 567	$ 74	$ 5,850	$ 305	$ 74
South University City	$ 216	$ 524	$ 612	$ 623	$ 1,975	$ 120	
Subarea II	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Tierrasanta	$ 11,277	$ 2,597	$ 755	$ 661	$ 15,290	$ 1,611	$ 661
Tijuana River Valley	$ 2,576	$ 4,931	$ 1,965	$ 24	$ 9,496	$ 368	$ 24
Torrey Hills	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Torrey Pines	$ 2,408	$ 7,252	$ -	$ -	$ 9,660	$ 344	$ -
Uptown	$ 875	$ 6,650	$ 464	$ 78	$ 8,067	$ 125	$ 78
Via de la Valle	$ -	$ -	$ -	$ -	$ 3,364	$ -	$ -

Citywide RTCIP - Residential Development

Type of DU	Fee Per DU
SFR	$ 2,573
MFR	$ 2,059

Citywide HTF - Non-Residential Development

Type of Use	Fee Per SF
Office	$ 1.06
Research and Development	$ 0.80
Retail	$ 0.64
Warehouse	$ 0.27

(a) Senior housing.
(b) Assessment per 1,000 SF of gross building area.
(c) SFDU1 = AR-1-1 Zone / SFDU2 = AR-1-2 Zone.
(d) Del Mar Highlands Estates only.
**Fees are subject to change per Financing Plan update and/or on July 1st.*

(e) Excludes Fairbanks Highlands.
(f) Non-residential also pays $1,790 per 1,000 SF of gross building area.
(g) Add $96 per DU and per 1,500 SF for non-residential development.
***All DIF & some FBA communities are subject to RTCIP*

Source: http://www.sandiego.gov/facilitiesfinancing/pdf/feeschedule.pdf