THE CITY OF SAN DIEGO

REPORT TO THE PLANNING COMMISSION

DATE ISSUED:	July 30, 2007	REPORT NO. 07-123
ATTENTION:	Planning Commission Agenda of August 2, 2007	
SUBJECT:	Workshop on the Otay Mesa Community Plan Update	
REFERENCE:	Planning Commission Workshop Report Nos. PC-06-196, PC-05-222, PC-06-300, PC-07-026, and PC-07-092	

SUMMARY:

THIS IS A WORKSHOP TO DISCUSS INFRASTRUCTURE FINANCING AND PHASING ISSUES RELATED TO THE OTAY MESA COMMUNITY PLAN UPDATE. NO ACTION IS REQUIRED ON THE PART OF THE PLANNING COMMISSION AT THIS TIME.

BACKGROUND

Community Plan Update Status

To date, three draft land use scenarios, in addition to the adopted community plan land use map, have been developed for public discussion and review in association with the Otay Mesa Community Plan Update (See Attachment 1). Currently, City staff and its consultants are developing a hybrid scenario as the staff recommendation, which should be available for the final workshop. The City has determined to enter into contractual agreements directly with the consultants needed to complete the update process.

Over the past eight months, the Planning Commission has held a series of focused workshops in association with the Otay Mesa Community Plan Update. The workshops focused on residential development opportunities and policy direction, supply and demand of industrial lands, and circulation and transportation issues and how they would impact policy decisions for the Otay Mesa Community Plan Update. The focus of this report and workshop is infrastructure financing and phasing issues and how they may affect policy decisions for the Otay Mesa Community Plan Update.

DISCUSSION

Facilities Financing Process

The first Public Facilities Financing Plan (PFFP) and Developer Impact Fee (DIF) were approved for the Otay Mesa Community on May 12, 1986. A "mini-update" to the Financing Plan was approved on November 26, 1991. This update allowed for the partial funding of the

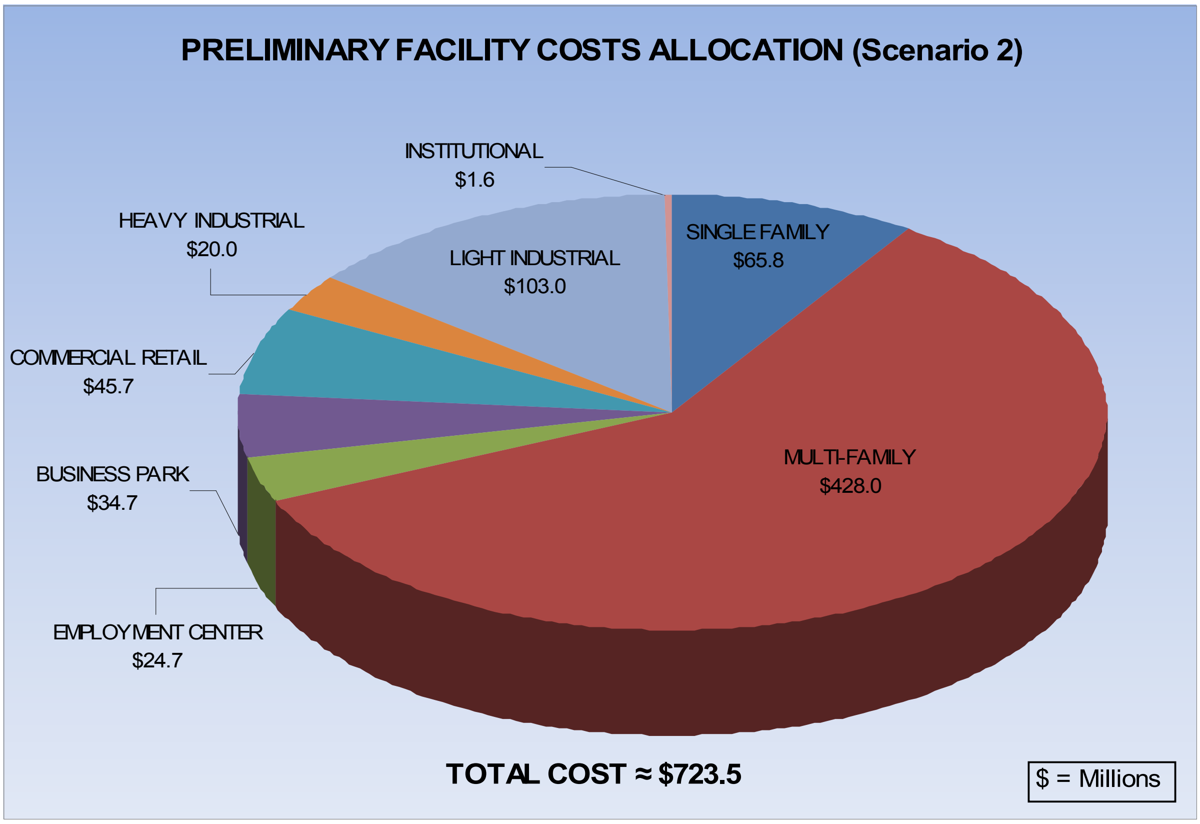
Police Sub-station, which is located in Otay Mesa-Nestor and currently serves the communities of Otay Mesa, Otay Mesa-Nestor and San Ysidro. A comprehensive update to the Financing Plan was approved by the City Council on June 23, 1994. This update reduced the non-residential DIF fees by approximately 45% and split the Community into two distinctive subareas, i.e. East and West, principally to acknowledge that residential development was planned to occur on the West portion of the Community while non-residential development was programmed for the East mesa (see Attachment 2). On November 30, 1999, the DIF was replaced with the Facilities Benefit Assessment (FBA) program. In addition to these particular milestone events, the Otay Mesa Public Facilities Financing Plan has been updated on numerous other occasions as part of the "annual update" process called for in Council Policy 600-28. The last update to the Financing Plan was approved on November 13, 2006.

Routinely, Public Facilities Financing Plans are prepared and updated to implement the goals and objectives of the respective adopted Community Plans. With an Otay Mesa Community Plan Update it is anticipated that a draft Public Facilities Financing Plan would be introduced concurrent with the community plan update Due to Facilities Benefit Assessment noticing requirements, subsequent to City Council approval of the financing plan, the plan would be implemented upon approval of the Designation of Assessments (identified in the financing plan) and the conclusion of the hearing process. In anticipation of this process, staff is prepared to produce working drafts of the financing plan(s) reflecting the different community plan land use alternatives to be considered for public review and comment prior to the adoption hearings.

Preliminary Estimates

Because the Otay Mesa Community Plan Update process includes three different land use scenarios, the costs for new development could be different and City staff is reviewing a Fiscal Impact Analysis prepared by ERA (provided under separate cover). The three scenarios, with their different land use inventories, generate different public facilities requirements with different timing requirements for the delivery of those facilities. Timing is driven by a number of factors including, but not limited to, type, mix, and status of development, population-based thresholds as well as transportation phasing plan milestones.

The consultants, under the direction of City staff, are continuing to prepare cashflow modeling which incorporates infrastructure requirements, timing, and costs for each scenario. Facilities Financing staff continues to review the consultants' preliminary work which requires further review by the appropriate City staff including Engineering, Police, Fire, Library, and Park Planning. For the purpose of this workshop, Figure 1 provides Preliminary Facility Costs Allocation for Scenarios 2 and 3 as prepared by the consultants and reviewed by City staff.


PRELIMINARY FACILITY COSTS ALLOCATION (Scenario 2)
INSTITUTIONAL
$1.6
HEAVY INDUSTRIAL
$20.0
LIGHT INDUSTRIAL
$103.0
SINGLE FAMILY
$65.8
COMMERCIAL RETAIL
$45.7
MULTI-FAMILY
$428.0
BUSINESS PARK
$34.7
EMPLOYMENT CENTER
$24.7
TOTAL COST ≈ $723.5
$ = Millions

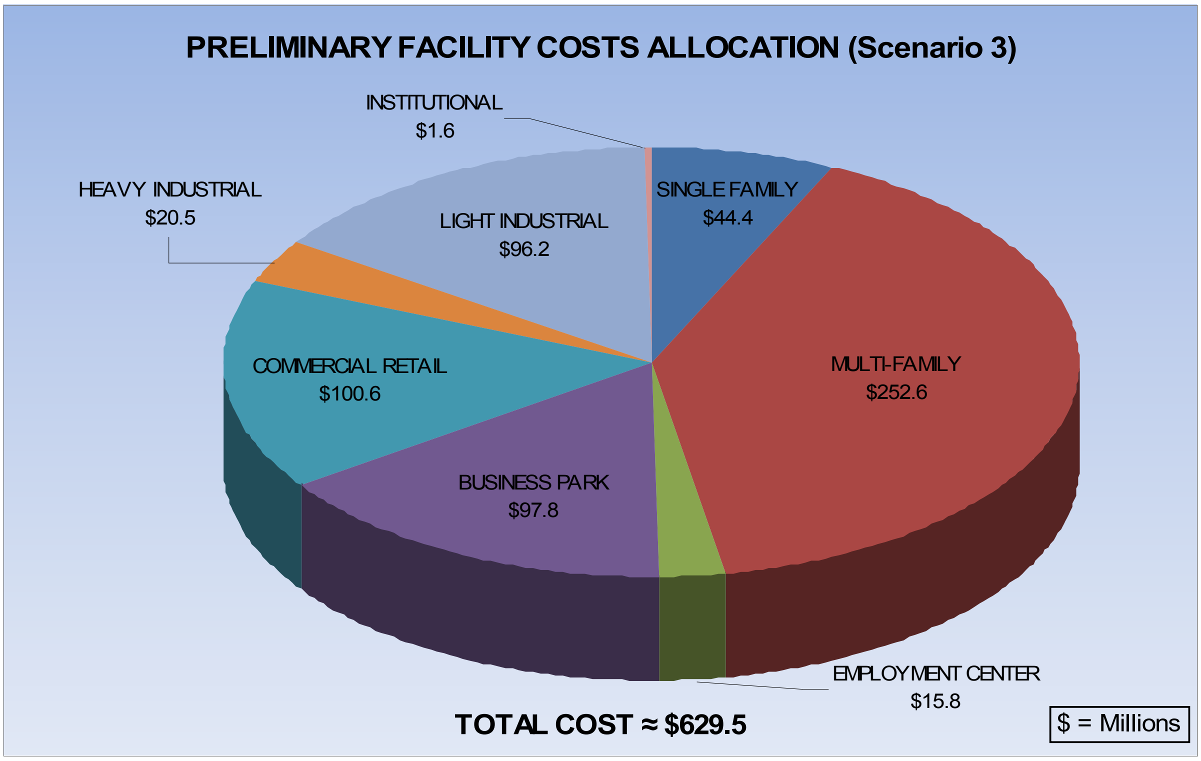

PRELIMINARY FACILITY COSTS ALLOCATION (Scenario 3)
INSTITUTIONAL
$1.6
HEAVY INDUSTRIAL
$20.5
LIGHT INDUSTRIAL
$96.2
SINGLE FAMILY
$44.4
COMMERCIAL RETAIL
$100.6
MULTI-FAMILY
$252.6
BUSINESS PARK
$97.8
EMPLOYMENT CENTER
$15.8
TOTAL COST ≈ $629.5
$ = Millions

Figure 1

The information provided during the workshop should be recognized as preliminary in nature and subject to revision While the values presented in this workshop may be used for comparison purposes to arrive at certain conclusions, the fees that have been calculated should not be construed as what the fees would be following approval of the CPU. Once the land use plan and environmental document has been finalized, significant effort would still be required to complete the Financing Plan document with adequate review of the document by City Departments as well as the public.

Assumptions

With the preparation of each public facilities financing plan, a number of assumptions need to be made. These assumptions come in the form of updated cost estimates, development forecasts, interest rates, inflation expectations, and review of experiential information, etc. For this workshop, the following assumptions have been made in order to develop a comparison between several of the land use scenarios.

<u>Rate of Residential Development</u>: As Scenario 2 would permit residential development across a wider geographical base than Scenario 3 or the adopted community plan, it is anticipated that the annual rate of residential development for Scenario 2 could be greater than for Scenario 3. Scenario 1 was not modeled as it was anticipated that the results would essentially mimic those of Scenario 2. The anticipated rate of residential development for each scenario continues to be under discussion.

<u>Rate of Non-Residential Development</u>: The annual absorption rate of non-residential development, as measured in acres, was taken from the Fiscal Impact Analysis prepared by ERA (provided under separate cover). Because Scenario 3 has more acreage earmarked for non-residential development, it would take longer to reach full community development with this scenario. A sensitivity test will be conducted to test the input of different absorption rate assumptions.

<u>Population Forecast</u>: As reported in the residentially focused workshop, an average household size population forecast study was prepared by SourcePoint to approximate the population that would result from the type of residential development anticipated in Otay Mesa. Based on this information, average household sizes anticipated in Otay Mesa are 3.98 persons per household for single family units and 3.45 persons per household for multi-family units. For comparison purposes, previous Public Facilities Financing Plans in Otay Mesa used 3.7 persons per household for single family development and 2.5 persons per household for multi -family. The population-based facilities analysis has anticipated population totals based on the Source Point information.

<u>Funding for Major Roads</u>: In the current Public Facilities Financing Plan, many major road projects are funded as subdivider exactions and are not included in the FBA fee structure. The current analysis, however, assumes that all major roads, i.e. four lanes and larger, would be funded by the FBA. The anticipated result for making this switch in funding source is that the roadway network on the Mesa would be delivered sooner rather than later, and in a comprehensive manner rather than the existing piece meal development. While the FBA fees would go up because of this assumption, there would also be a corresponding offset, e.g. reduction in development costs allocated to a specific project.

Timing of Projects: Some projects have population-based thresholds which dictate when a particular facility is required. Population-based public facilities include libraries, neighborhood and community parks, recreation centers and community swimming pools. This analysis assumes that all population threshold requirements would be honored, and that the timing for the improvements would not be delayed as a means of managing the FBA fee. Transportation facilities would be scheduled consistent with the Transportation Phasing Plan (TPP) being prepared with the Update. Based on the draft TPP and the development schedule, it is currently assumed that Phase I transportation improvements would be required by approximately FY 2020. Of significance, the analysis has assumed that very little new development, i.e. development that has not already received its entitlements, would commence until SR-905 has been assured and is under construction. For the purpose of this analysis, FY 2011 has been assumed as the first year for significant new development.

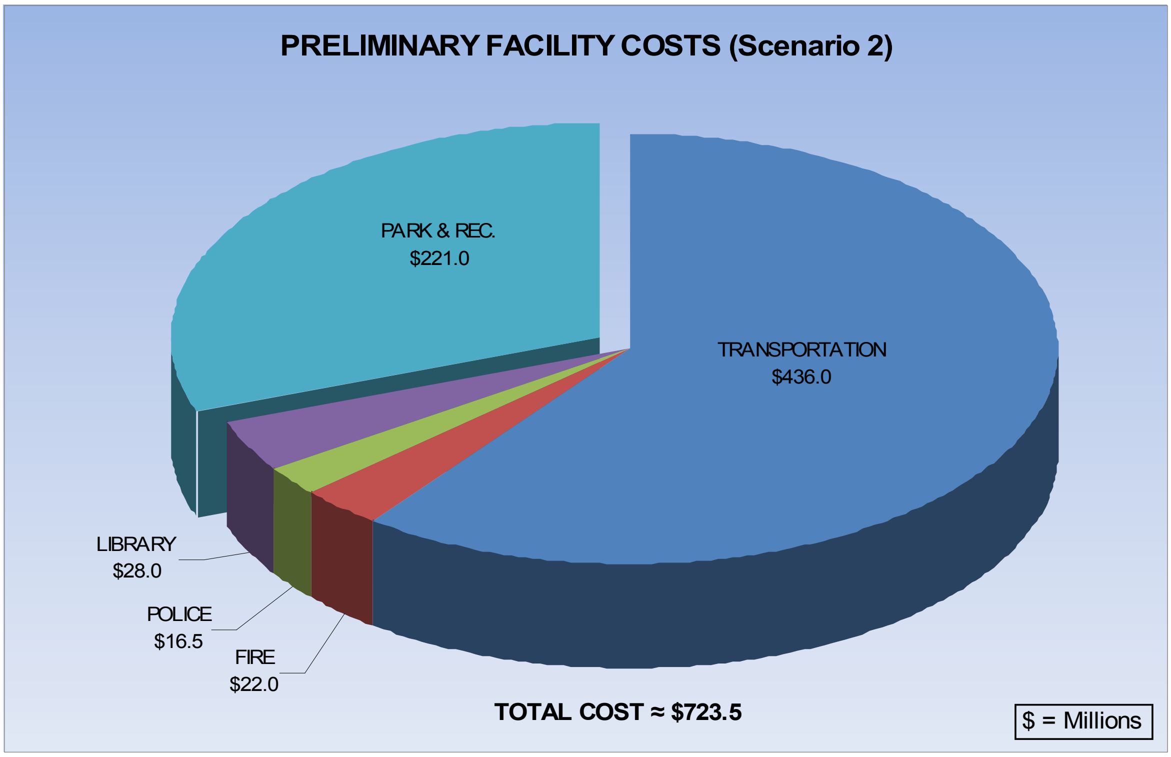
Police and Fire facilities are generally basedon calls for service and on response times , as opposed to population served. The assumptions are that Police and Fire facilities would be provided concurrent with calls for service and response time criteria

Cash Flow Modeling

Based upon the assumptions, cash flow models utilizing one cash flow for the planning area have been developed based on acreage for both Scenarios 2 and 3. Fees have been calculated based upon the models and are provided in Figure 2 below. As stated above, Scenario 1 was not modeled as it was anticipated that the results would essentially mimic those of Scenario 2. Figure 2 shows that the Police, Fire, Transportation and Library costs are the same for both scenarios, with population-based parks costs having significant difference between the scenarios.

In order to provide the funding for all the required public facilities, including the draft TPP Phase 1 roadway network, the fee schedule for Scenario 3 would need to be approximately 6% higher than that of Scenario 2. While fewer population-based public park facilities are required with Scenario 3, the amount of development that would be paying FBA fees with Scenario 3 is also lessbecause a greater percentage of residential development has already occurred. Essentially, the same transportation improvement requirements are required regardless of scenario. The same police, fire and library facilities are also required for both scenarios. If the FBA fees are increased by a percentage less than 6% as a means of controlling costs, some of those public improvements identified as being FBA-funded would no longer be fully funded.

Funding for the roadway network identified in Phase 1 of the draft TPP could be provided within essentially the same timeframe, regardless of which scenario is selected. Previous preliminary cash flow modeling studies computed that the roadway network would take longer to deliver with Scenario 3 than it would for Scenario 2. That is no longer the case based upon the assumption that development, whether residential or non-residential, would proceed in each scenario and reach the transportation phasing plan thresholds at about the same rate.


PRELIMINARY FACILITY COSTS (Scenario 2)
PARK & REC.
$221.0
TRANSPORTATION
$436.0
LIBRARY
$28.0
POLICE
$16.5
FIRE
$22.0
TOTAL COST ≈ $723.5
$ = Millions

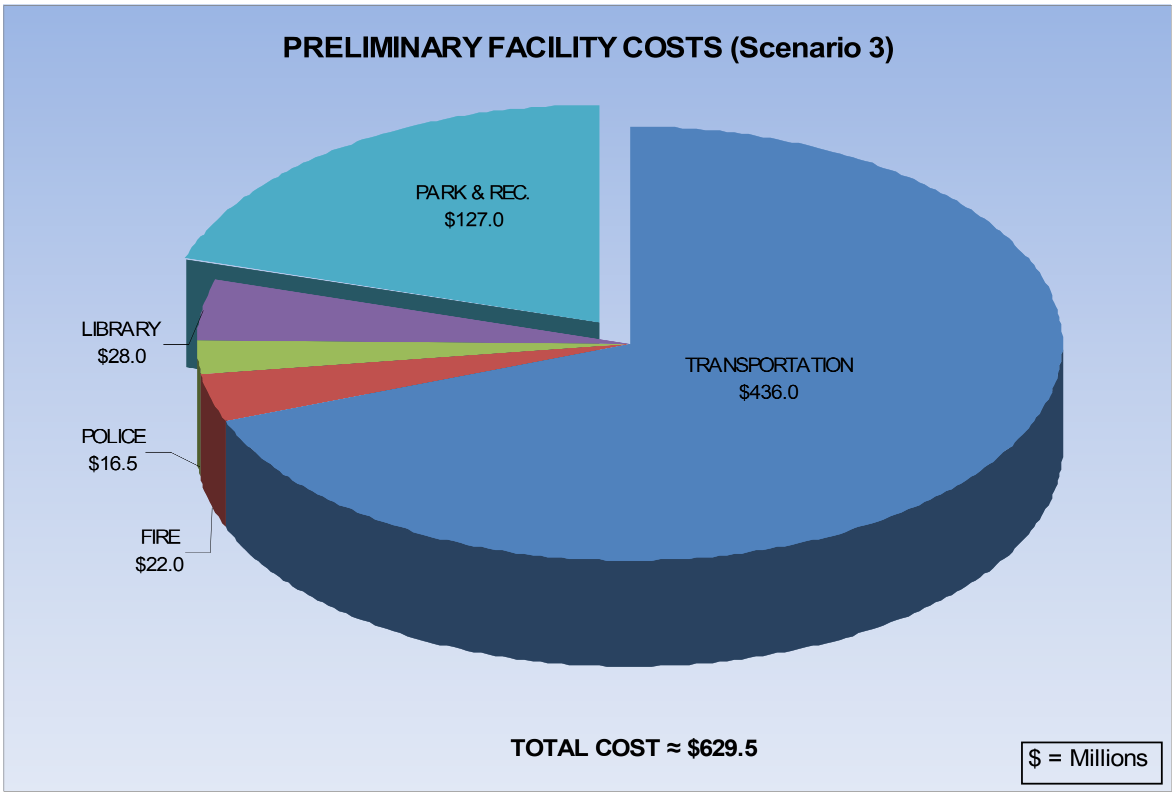

PRELIMINARY FACILITY COSTS (Scenario 3)
PARK & REC.
$127.0
LIBRARY
$28.0
TRANSPORTATION
$436.0
POLICE
$16.5
FIRE
$22.0
TOTAL COST ≈ $629.5
$ = Millions

Figure 2

As a point of clarification, this analysis assumes that all of the Phase 1 road improvements would be built or under construction by the end of the Phase 1 threshold. This does not mean that all roads within the community would be completed by that time. T he Phase I road improvements include the grid system of streets located on the east mesa, i.e. those roadways located southerly of Otay Mesa Road, easterly of Spring Canyon, westerly of SR-905 as it approaches the Border Terminal, and northerly of the U.S. Border.

Issues

The higher land use intensity proposed in the update is one reason to consider other measures of FBA application. Rather than assess fees based on acreage as has been done in the past, another option is to assess fees by ADT's (averagedaily trips). The ADT assessment method allows the height, density, and function of the development to be part of the assessment analysis. Currently an assessment by non residential acre is the same no matter how many stories per development. As most of the development in Otay Mesa has been single storydevelopment , the current assessment methodology has not had to respond to more intense/dense development. With the higher densification/intensification or long term evolution towards service industries and flex space, it is anticipated that more multiple story development would take place. The ADT assessment allows the City to collect fees based on the actual density/intensity created by each development. This facilitates the phasing of intensity on particular parcels in response to market demand. A parcel could begin as truck storage and pay a fee associated with its ADT's, then evolve to warehouse, light industrial, and business park uses and pay new fees associated with new uses at the time of redevelopment.

<u>Development Costs Other than the FBA:</u> The FBA program currently does not fund all offsite public facility improvements within the Otay Mesa Community. School fees, for example, are not funded by the FBA. Instead, they are funded separately by programs administered by the respective school districts that serve Otay Mesa. A major drainage improvement study for eastern Otay Mesa is being analyzed in conjunction with the plan update. The drainage improvement would benefit approximately 6.04 square miles of development, not all of which is located within the City of San Diego. This equates to almost 3,900 acres of development, both existing and proposed. Before finalizing the PFFP, it may be possible for this recommendation to be incorporated into the FBA program. However, further study is required to determine how to appropriately allocate costs across this acreage. There are also some significant sewer improvements required to support much of the Mesa. These improvements are required early in the development of Otay Mesa, making it difficult for the FBA to provide funding commensurate with the need. Further analysis of this project is extremely important because without the timely delivery of the sewer system, development on the Mesa could be curtailed significantly. Creative financing, which might include an FBA component, may be necessary to address this matter. All of these other improvements, if added to the FBA, could result in an even higher FBA fee schedule unless other funding mechanisms could be identified.

Cash Flow and Phasing Strategy

It is important to note that land development which occurs at a lower intensiy than that which the land use designation allows could result in a reduced ADT project assessment resulting in reduced revenue generation. This holds true irrespective if the FBA is calculated by acre or by ADT. Under this scenario where projects develop at a reduced land use intensity, when transportation projects are constructed one of several events could occur: roads could be built in phases (i.e. 4 lanes initially, expanded to 6 lanes at a future date); full width road improvements could be constructed using FBA financing; future Development Impact Fee dollars could be collected from development projects that increase land use intensity; or transportation infrastructure projects could require reprogramming pending the collection of sufficient development impact fee financing.

Reduced residential land use intensity development could result in the ultimate need for fewer parks and affiliated recreation facilities at full community development. As occurs now, any slowing in the projected residential development schedule or reduction in ultimate community population requires a reprogramming of infrastructure improvements so that such facility provision remains consistent with population thresholds.

Due to the broader community serving nature of Library, Fire and Police facilities, fluctuations in land development intensity and population to be served may require infrastructure reprogramming to future years. At this time, ultimate provision of these facilities is not anticipated to require adjustment due to changes in land use.

CONCLUSION

The Otay Mesa Community Plan Update represents a unique opportunity to evaluate the coordination of infrastructure financing and phasing with complex land use decisions. Policy recommendations and complex land use decisions must be comprehensive, well thought out, and sensitive to the public facilities needs and timely phasing of the infrastructure.

In order to assist staff in the development of a comprehensive plan for Otay Mesa, Planning Commission input is requested in the following areas:

1. What other policies and approaches, if any, should staff and the planning team evaluate to coordinate timely provision of infrastructure needs with development based on new land use designations and evolving densities/intensities over time?

Respectfully submitted,

William Anderson, FAICP Director City Planning and Community Investment	Charlene Gabriel Facilities Financing Manager City Planning and Community Investment

ANDERSON/CMG

Attachments:
1. Land Use Scenarios
2. Boundary Map

June 1, 2007 ERA Impact Analysis Report is available under separate cover from the City Planning & Community Investment Department, 202 “C” Street, 4th Floor, 236-5200