# Morena Blvd Station Area Planning Study

## Appendix F:

## Financial Feasibility Analysis

# Preliminary Findings (version 2): Development Prototypes Financial Feasibility -- Morena Blvd. Station Area Planning Study

bae urban economics

BAE • June 25, 2013

# Overview

- **BAE conducted financial feasibility analysis to help understand financial feasibility for 4 projects based on current zoning and revised "ideal TOD" zoning**
- **Financial feasibility refers to whether the value of a built project exceeds the total costs to develop**
  - The is the approach used by developers to decide whether to proceed with a project – does it "pencil out"?

# The Prototype Projects

- **Looked at two hypothetical sites in the northern and southern ends of the Study Area, each 3.6 acres**
- **For each site, a mixed-use development program was created based on existing zoning and revised "ideal TOD" zoning allowing denser development**
- **Projects included ground floor retail/commercial, with upper story rental/for-sale residential**
  - Projects on "South Site" includes additional office on upper floors, in addition to upper floor residential

# Summary of Development Programs

| | #1: North Site, Current Zoning | #2: North Site, TOD Zoning | #3: South Site, Current Zoning | #4: South Site, TOD Zoning |
|---|---|---|---|---|
| Stories | 3 | 4 | 3 | 5 |
| Residential du | 105<br>(29 du/acre) | 267<br>(74 du/acre) | 105<br>(29 du/acre) | 280<br>(77 du/acre) |
| Retail gross sf | 24,000 | 56,000 | 40,000 | 32,000 |
| Office gross sf | 0 | 0 | 72,000 | 72,000 |
| Parking spaces | 215 | 505 | 441 | 648 |
| Parking - configuration | Surface | Podium – 2 level | Commercial: surface, partial 2nd floor deck<br>Residential: Podium, 2 level | Podium – 2 level |

# Feasibility Analysis

- **Prepared "pro formas" that model financial results at stabilization (i.e. built-out and fully leased)**
- **Prepared a separate pro forma for each project with rental residential, along with two for-sale residential pro formas for the "ideal TOD zoning" sites**
- **Pro formas measure "residual land value" – how much developers can afford to pay for sites**
  - Compared it with current market values, what developers interviewed said can be paid to have a project pencil out

# Key Assumptions from Pro Formas

- **Hard construction costs for residential is $130/sf; for commercial space $100/sf – excludes TI, parking**
- **Per space parking costs range from $5,000 for surface, to $13,500 for one-level podium, to $18,000 for two-level podium**
- **Includes all City impact fees**
- **Soft costs at 20% of hard costs**
- **Developer profit at 10% of value of project**

# Key Assumptions from Pro Formas, *cont'd*

- **Residential unit sizes range from 550 sf for studios; 700 sf for 1-BR; 1,050 sf for 2-BR; 1,300 sf for 3-BR**
- **Monthly rental residential rates are $1,600 for studio; $1,800 for 1-BR; $2,250 for 2-BR**
- **For-sale residential prices are $300,000 for 1-BR; $375,000 for 2-BR; and $450,000 for 3-BR**
  - More competitive than Downtown, Mission Valley (Civita)

# Key Assumptions from Pro Formas, *cont'd*

- **Monthly retail rents at $2.50 per sf/mo, triple-net**
  - Higher than most existing space, but lower than existing Morena Station TOD project retail space
- **Monthly office rents at $3.33 per sf/mo, full-service gross**
  - Current market rent of $2 per sf/mo makes office infeasible
  - Represents future rents with much stronger office market
- **Capitalization rates for valuation are 6% for rental residential, 6.5% for office, 7.5% for retail**

# Findings

- **The projects using existing zoning are not feasible**
  - Only able to support approximately half of the land value needed for the projects to proceed
- **Rental residential projects with TOD zoning is just feasible – supports land values $80 - $85 per site sf**
- **Office is not feasible at present – rents need to rise by 2/3 to support including office**

# Findings, *cont'd*

- **For-sale residential projects support considerably higher land value - $135+ per site sf**
  - Lack of for-sale development reflects financing challenges for both developer and buyers, not fundamental economics
  - For-sale residential project is strengthening, and has the potential to support near-term development (next 5 years)

# Summary of Findings

| MIXED-USE RENTAL RESID'L | #1: North Site, Current Zoning | #2: North Site, TOD Zoning | #3: South Site, Current Zoning | #4: South Site, TOD Zoning |
|---|---|---|---|---|
| Total Development Cost | $25.8 million | $70.3 million | $52.7 million | $87 million |
| Residual Land Value | $47 per sf | $79 per sf | $38 per sf | $86 per sf |

Note: values for #3, #4 assume higher future market office rent at $3.33/mo. vs. current market rent of $2/mo.

- **#1 and #3 are only feasible with substantial subsidy from City or another source**
  - Would require $6 million+ subsidy per project

# Recommendations

- **Feasibility can be enhanced in a couple ways that could increase supportable land value up to 40%+**
  - Allow up to 4 stories above ground floor uses
  - Reconfigure parking for 1-level rather than 2-levels of podium parking – means less ground floor commercial
- **Allowing zoning more supportive of TOD will be key to attracting new development to the area**
  - Larger projects also help attract more capable developers
  - Application of City's TOD Overlay parking standards

# Recommendations

- **Provide flexibility on amount and types of commercial in mixed-use projects**
  - Avoid two-level podiums to reduce costs; providing flexibility on commercial space benefits parking, helps financing
  - Parking districts that capture reduced parking need for mixed-use development and share parking, reducing parking for individual projects is an example of how to implement this
  - Office development likely to be medium-term or beyond
  - Office buildings for tenants wishing to own a building may be feasible sooner – these tenants are not as price-sensitive. Same applies to potential design district-type office.

# Morena Blvd Station Area Planning Study

## Appendix G:

## Fiscal Impact Analysis

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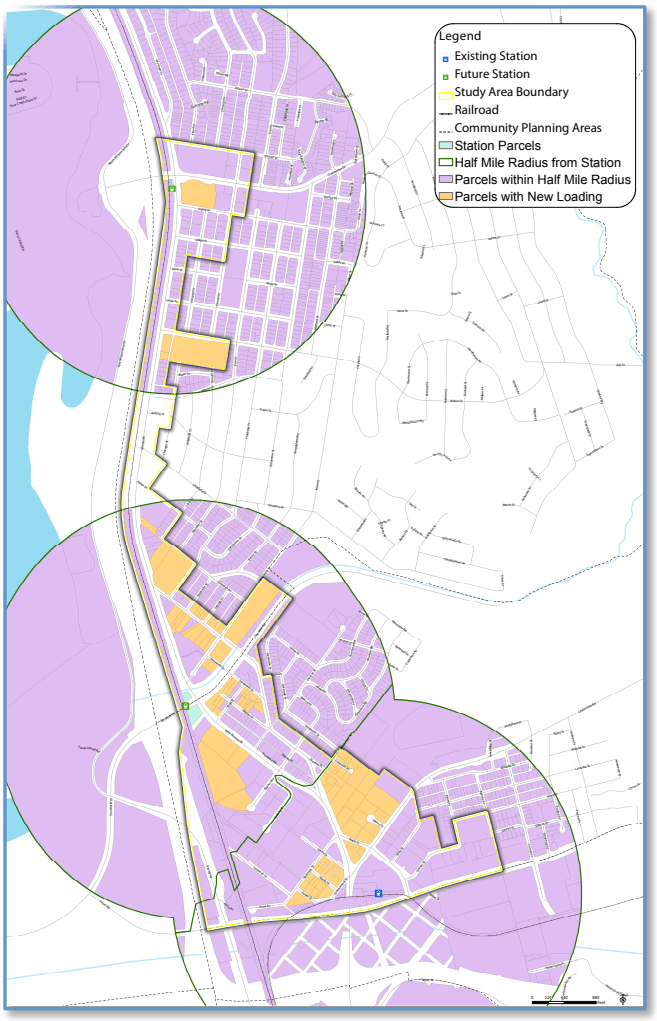


## *Fiscal Impact Analysis*

Morena Boulevard
Station Area Planning Study

City of San Diego

February 2014

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# bae urban economics

February 6, 2014

Messrs. Mike Singleton and Robert Efird
KTU+A
3916 Normal Street
San Diego, CA 92130

Dear Mike and Robb:

Enclosed is the final fiscal impact analysis for the Morena Boulevard Station Area Planning Study. This final report is based on the revised project and addresses the comments submitted by the City. Due to the unique issues raised by this project in terms of fiscal impact, it is important for readers to review the narrative explanation that accompanies the tables and charts.

Very truly yours,

Ron Golem, MCP
Principal

Sherry Rudnak, MA
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# Executive Summary

BAE prepared a fiscal impact model based upon the City of San Diego's Fiscal Year 2014 budget to estimate the potential net fiscal impact to the City from buildout of the Morena Boulevard Station Area Planning Study (Study) land use alternatives. The alternatives would allow for development of varying amounts of new residential and non-residential land uses within approximately one-half mile of three proposed transit stations along Morena Boulevard, between Clairemont Drive and Tecolote Road. This report presents the findings from the fiscal impact analysis for the preferred land use alternative (the Project).

Fiscal impact analysis is a tool to project the long-range cost and revenue implications of new development so that the City can understand the effects of a given land use program for the General Fund's long-term fiscal health. Because of the long-term nature of fiscal projections, and the potential for changes in many of the cost and revenue variables that cannot be foreseen in advance, the results of any fiscal impact analysis should be interpreted with care. Fiscal impact results should be considered as a high level order of magnitude indication of the trend in fiscal conditions that could be expected. Used in this way, the results of the fiscal impact analysis, along with the results of other analyses (e.g., traffic, environmental, etc.), can be a useful tool to inform consideration of land use alternatives.

The methodology for the fiscal impact analysis is presented in detail in the report. New General Fund revenues were calculated based on how new development increases property values and property taxes, as well as how the change in the number of residents and employees increases sales taxes and other City revenues. New General Fund service costs were calculated based on the increase in service population (the change in residents plus one-half the change in employees, to account for the lesser demand on services created by employees), applied to departmental costs that vary with changes in service population.

The beginning point for the fiscal impact analysis is the *net* change in built area by land uses, and associated service population, being considered by the Study. The City already collects tax revenues and provides services to existing land and built improvements, even if those improvements will be demolished for future development. Therefore, the fiscal impact bases its calculations on just the *net* change in property values and service population, for the various land uses, in order to avoid double-counting new revenues or new service costs.

Table ES-1 on the next page summarizes the development program for the Project, which would result in an increase of 4,718 dwelling units of various types of residential, and a *decrease* of approximately 164,000 square feet of retail and 492,000 square feet of office space. The decrease in existing commercial space is necessary in order to create the development sites for new residential, commercial, and mixed-use development. Most of the commercial space that would be demolished is economically obsolescent, and therefore is not generating the level of fiscal revenues, employment, and other economic benefits possible based on current market trends. It is worth noting that while the Study area would experience a decrease in commercial square footage, this does not impact the ability of the City to retain and increase its office-based employment and taxable retail sales; this activity would be expected to shift to other parts of the City, based on the availability of sites elsewhere to accommodate these uses.

**Table ES-1: Project Development Program**
(figures in parentheses indicate a decrease)

| Land Use/Product Type | Project |
|---|---|
| **Residential Dwelling Units** | |
| Community Village | 1,610 |
| Residential - High | 2,076 |
| Residential - Medium High | 966 |
| Residential - Medium | 66 |
| **TOTAL: Residential Dwelling Units** | **4,718** |
| | |
| **Commercial Square Feet** | |
| Community Village - Retail | (164,016) |
| Community Village - Office | (492,049) |
| **TOTAL: Commercial Square Feet** | **(656,065)** |

Sources: KTU+A; BAE, 2013.

Table ES-2, below, summarizes the net annual fiscal impact to the City's General Fund at full build-out for the program in Table ES-1. There would be a minor net negative fiscal impact (deficit) of approximately $229,000 per year at build out. While this may seem more than a minor amount, in terms of the City's $1.2 billion annual General Fund, it represents a deficit of 0.02 percent (two one-hundreds of one percent). This amount is well within the normal budgetary variation that can occur from year to year in either revenues or expenses. It is reasonable to expect that net revenues from other more intensive commercial areas of the City, such as Mission Valley and Downtown, could more than offset the negative fiscal impact that could occur in the Study area at buildout. The Study area could be complementary to these areas by offering more housing choices to employees who work in these areas.

**Table ES-2: Summary of Project Net Fiscal Impact**

| City of San Diego General Fund Fiscal Impacts | Project |
|---|---|
| Net New Revenues | $3,808,462 |
| Less Net New Service Costs | ($4,037,647) |
| **Net Fiscal Impact: Surplus / (Deficit)** | **($229,185)** |
| | |
| City of San Diego FY2014 General Fund Budget (a) | $1,200,367,373 |
| **Net Fiscal Impact as % of General Fund** | **-0.02%** |

**Notes:**
Excludes capital costs, or mitigation payments, impact fees, etc. to fund new capital costs.
(a) FY2014 General Fund expenditure amount. This is slightly higher than revenues due to fund balances, as noted in the budget report.

Sources: City of San Diego; BAE, 2013.

It should be noted that an average cost approach was used to project new fiscal costs for police and fire services, due to a lack of more detailed information that could be provided by those departments. Average cost methods can overestimate the new fiscal costs for police and fire services that result from new development. This means that a more detailed study based on further assessment of the exact timing and need for new facilities, personnel, and other costs might reduce the projected net fiscal impact to a lower figure.

The above projected fiscal impact would only occur at full build-out, which could be 15 to 20 years or more in the future. Development proceeds in tandem with general economic growth and market cycles, and periods of active development are followed by periods with minimal new development. Future market shifts may also change the findings in this report.

This fiscal impact analysis is limited to annual General Fund operating revenues and costs, and does not evaluate capital improvement costs associated with Study improvements, project mitigations, or new municipal facilities. It is assumed that these capital costs would be covered by a combination of developer mitigations, development impact fees, grant funds, and other capital funds typically used by the City.

# Table of Contents

# Introduction

This report presents the findings of the fiscal impact analysis of the Morena Boulevard Station Area Planning Study (Study) land use preferred alternative (the Project). This analysis projects the operating revenues and costs that would accrue to the City of San Diego General Fund as a result of new potential development under the maximum potential development projected in the Study. The analysis focuses on the General Fund, which receives the majority of the City's discretionary revenues and funds critical public services, such as law enforcement, parks, and community services, as well as other services.

The objective of this report is to provide Study stakeholders, including the public, the consultant team, City staff, and City policymakers with a common understanding of how the Study's land use alternatives could impact the City's discretionary budget. This is essential given the City's goal to ensure that the City maintains a fiscally sustainable budget as the community grows.

The report presents the Project and general methodologies for projecting revenues and costs, followed by detailed revenue and cost projections, concluding with an analysis of the net fiscal balances for the Project.

# Methodology

The major objective of any fiscal impact analysis is the determination of changes in public revenues and costs associated with new development. This study examines the potential impact that the potential new development under Project would have on revenues and expenditures accruing to the City's General Fund, based on the revenue and expenditure patterns reflected in the City's Fiscal Year 2013-2014 budget.

This analysis focuses on impacts to the City's General Fund, which represents the portion of the City's budget that finances the ongoing provision of basic services, such as police, parks and recreation, and streets. To pay for these services, the City's General Fund is dependent on discretionary revenue sources such as property taxes, sales taxes, business taxes, and various other local taxes, as well as other funds received from the State. Within this report, except as otherwise noted in the text, the annual ongoing fiscal impact of the Project is described terms of constant 2013 dollars (based on the start of Fiscal Year 2014).

The cost and revenue projections are tied to the point in time when the Project would be fully built out and new development would be fully leased up and units sold. It is important to note that there may be shifts in expenditures and revenues before the City reaches buildout, due to the service demands of ongoing development. For example, Development Services functions could require increases in staffing to handle development review and inspections during the buildout period beyond what is covered by fee recovery, which could decline once the Study area reaches buildout. It is important to note that the cost projections reflect net General Fund expenditure increases. Actual departmental budgets may increase more substantially than indicated, due to increased expenditures which are offset by new program revenues. For example, staffing increases for recreation that are funded by recreation user fees would not be reflected in the cost projections, nor would the off-setting parks user fees be reflected in revenue projections. Thus, the expenditure projections should not be interpreted as actual departmental budget forecasts, or indicative of overall staffing levels.

In addition, it should be noted that the fiscal impact analysis is structured to project the net impacts of new development only. The analysis does not project changes in costs or revenues over time associated strictly with provision of services to the City's existing base of development. For example, to the extent that increased services are provided to existing tenants, or other factors cause those services to cost more, it will not be reflected in the fiscal analysis.

## Average Revenues and Costs

In many cases, discretionary revenues, as well as the cost of providing municipal services, increase proportionately with the number of residents and/or employees. As an example, when the resident and daytime populations increase, there is a need to hire additional public safety and other government employees. Likewise, when there are more local residents and employees, the City will collect more traffic fines and franchise fees. In these cases, costs and revenues are projected on an average "service population" basis.

### *Service Population*

Accepted practice in fiscal impact analysis is to define the service population as 100 percent of residents residing within a jurisdiction plus 50 percent of employees. Calculating service population in this manner is intended to reflect the fact that local employment contributes to a jurisdiction's daytime population, thereby increasing demands for governmental services. Nonetheless residential population is generally considered to generate a larger share of demand for services; thus the discount factor for employees relative to residents when calculating service population. Table 1 shows the City of San Diego's 2013 service population.

**Table 1: City of San Diego Service Population, 2013**

| Service Population | 2013 |
|---|---|
| Population | 1,326,238 |
| Employment | 837,884 |
| **Service Population (a)** | 1,745,180 |

**Note:**
(a) Service population equals the resident population plus okys one-half the employment population

Sources: California Dept. of Finance, 2013; ACS 2012; BAE, 2013.

## Marginal Revenues and Costs

While a fiscal impact methodology based on service population is an important and useful means for estimating increased revenues and costs, in some instances other approaches are more appropriate, such as estimation of the increase in revenues or costs directly attributable to a project. For example, property tax revenues are estimated on a marginal basis using the value of new construction in conjunction with the City's allocations of the one percent ad valorem property tax. Detailed marginal revenue and cost methodologies are provided in each of the relevant sections below.

# Study Land Use Alternatives

KTU+A, the City's consultant for Study preparation, provided development projections at the parcel level for additional uses, local floor area ratios, and local zoning and use requirements. Although this analysis assumes that development would fully build out from the Project, real estate development is subject to market conditions that will likely fluctuate. New development could take longer to occur and stabilize than this analysis anticipates and/or demand for uses could change, resulting in developers' desiring a change in the mix of allowable uses. Table 2 shows the Project elements and the resulting net new service population.

**Table 2: Study Development Program**

| Land Use/Product Type | Project |
|---|---|
| **Residential Dwelling Units** | |
| Community Village | 1,610 |
| Residential - High | 2,076 |
| Residential - Medium High | 966 |
| Residential - Medium | 66 |
| **TOTAL: Residential Dwelling Units** | **4,718** |
| | |
| **Commercial Square Feet** | |
| Community Village - Retail | (164,016) |
| Community Village - Office | (492,049) |
| Office | 0 |
| **TOTAL: Commercial Square Feet** | **(656,065)** |
| | |
| **New Residents (a)** | |
| Total Residents | 9,955 |
| | |
| **New Employment (b)** | |
| Retail Workers | (328) |
| Office Workers | (1,968) |
| Total Workers | (2,296) |
| | |
| **Change in Service Population (c)** | **8,807** |

**Notes:**
Project involves a decrease in commercial sf. See report for details.
(a) Average number of residents per unit 2.11
(b) Based on the following employment densities or sq.ft./worker
Retail 500
Office 250
(c) Service population equals the resident population plus one-half the employment population.

Sources: California Dept. of Finance, 2013; KTU+A; BAE, 2013.

In total, Project includes 4,718 new housing units, but a decrease of 656,065 square feet in all types of commercial space. Under the Project, the Study area would see a population increase of more than 9,955 new residents, but a decrease of 2,296 employees, resulting in a net service population increase of 8,807 persons. The decrease in commercial space arises from the replacement of economically obsolescent commercial space with new residential, commercial, and mixed-use development. This can allow for new types of retail, service, and office space, but in a smaller footprint than that occupied by current commercial buildings.

# Projected General Fund Revenues

The City receives General Fund revenues from a variety of sources. The largest sources include property taxes, property taxes in-lieu of vehicle license fees (ILVLF), and sales taxes. Other General Fund revenue sources include property transfer taxes, business taxes, other licenses and permits, franchise fees, and fines, forfeitures, and penalties. Although the City also receives revenues from Transient Occupancy Taxes (TOT), since neither development program includes a new hotel, new TOT revenues would likely be negligible.

This section of the report presents the anticipated revenues resulting from development from the Project and the methodologies and assumptions by which they are derived.

## Property Taxes

Property tax revenues typically represent the largest single source of discretionary revenues that the General Fund receives, making the decrease in home values and thus property taxes in the recent Great Recession very difficult for California cities. Since the passage of Proposition 13 in 1978, property owners pay an ad-valorem property tax equal to one percent of the assessed value of their properties. The assessed value is either the sale price of the property, or the prior assessed value plus the value of any new improvements, for property for which ownership has not changed. Thus, properties are reassessed when they are sold or improved, or in the case of the economic downturn, when property owners request a reassessment. Otherwise, the increase in assessed value is statutorily capped at two percent per year.

In order to project property tax revenues from new development, this analysis estimates the net new assessed value of development using current market data, and uses parcel-level data to apply the value of land and/or improvements to the specific Tax Rate Areas (TRAs) where development is planned to occur.

### *Assessed Values*

New development will increase the assessed value of each parcel on which development occurs. Thus, in order to project property tax revenues, the analysis first determines the assessed value of new development using market data for residential and commercial uses. Market data from the earlier Morena Boulevard Study market and financial feasibility analysis provided the basis for estimating the assessed values of new commercial and residential development, specifically $215,000 per residential unit and $205 per square foot of retail and office space.

Because land within the City is currently generating property tax revenues, this analysis excludes the existing land value from assessed value calculations. This provides a net assessed value to project the incremental property tax revenues that the City could expect under the Project.

### *Tax Rate Areas (TRAs)*

The City receives a share of the one percent ad-valorem property taxes based on the applicable tax increment allocation factor within the Tax Rate Area (TRA) in which the development is located, with the remaining shares doing to schools, the County, and other

property-tax receiving jurisdictions. Development in the Study area would fall within one of three TRAs.[1] Depending on the TRA in which the property is located, the County Auditor-Controller allocates to the City of San Diego either 17.0 percent or 20.9 percent of the one percent ad valorem property tax.

### *Projected Property Tax Revenues*

As Table 3 shows, building out all land uses from the Project would generate approximately $1.8 million in new annual General Fund property tax revenues.

**Table 3: Property Tax Revenue Projections**

(figures in parentheses indicate a decrease)

| **Land Use Types** | **Values (a)** |
|---|---|
| Multifamily Residential, Value per Unit | $215,000 |
| Retail, Value per Square Foot | $205 |
| Office, Value per Square Foot | $205 |
| | |
| **New Assessed Value** | **Project** |
| Residential | $1,014,370,000 |
| Retail | ($33,623,280) |
| Office | ($100,870,045) |
| **Total New Assessed Value** | **$879,876,675** |
| | |
| **City General Fund's Allocation of One Percent Ad Valorem (b)** | |
| TRAs 08256 and 08987 | 0.20942190 |
| TRA 08001 | 0.17067948 |
| | |
| **Projected Net New Property Tax Revenues** | |
| TRAs 08256 and 08987 | $1,469,367 |
| TRA 08001 | $355,438 |
| **Total New Property Tax Revenues to General Fund** | **$1,824,805** |

**Notes:**

(a) Does not include land values that currently contribute to the City's property tax base.

(b) The City receives an allocation of the one percent ad valorem property tax based on the tax rate area (TRA) in which the project is located.

Sources: San Diego County Auditor-Controller; KTU+A; BAE, 2013.

## Property Transfer Taxes

When properties are sold, the City receives Property Transfer Tax revenues equal to $0.55 per $1,000 of assessed value, or $0.00055 per dollar of assessed value. Because the City receives this revenue when property changes ownership, the assessed value calculations include land, which currently sells for approximately $4.4 million per acre, as well as improvements for both residential and non-residential properties.

Long term trends show that owners who occupy their residential units, as well as multifamily rental and commercial property owners tend to sell their units approximately every seven years. In order to project the annual property transfer taxes that would accrue to the City's General Fund under the Project, this analysis assumes that one-seventh of all properties sell

[1] TRAs: 08001, 08256, or 08987.

each year, at which point they are reassessed to current market value pursuant to Proposition 13.

As Table 4 shows, the City could anticipate potential annual property tax transfer revenues of approximately $86,900 from the Project.

**Table 4: Property Transfer Tax Revenue Projections**

| **Assumptions** | |
|---|---|
| Transfer Tax Rate per $1 of Assessed Value | $0.00055 |
| Holding Period for Development, Years | 7 |
| | |
| **New Property Transfer Tax Revenues** | **Project** |
| Assessed Value of Improvements | $879,876,675 |
| Land Value | $195,976,440 |
| Total Assessed Value | $1,105,855,233 |
| **Total New Property Transfer Tax Revenues** | **$86,889** |
| | |
| **Note:** | |
| (a) Includes the value of land and improvements (per acre) | $4,356,000 |

Sources: City of San Diego FY 2014 Adopted Budget; BAE, 2013.

## Property Taxes In-Lieu of VLF (ILVLF)

Beginning in Fiscal Year 2005/06, the State ceased to provide "backfill" funds to counties and cities in the form of Motor Vehicle In-Lieu Fees (VLF) as it had through Fiscal Year 2004/05. As a result of the complicated financial restructuring enacted as part of the State's budget balancing process, counties and cities now receive revenues from the State in the form of what is known as property tax in-lieu of vehicle license fees, or ILVLF. This State-funded revenue source is tied to a city's total assessed valuation. In Fiscal Year 2005/06, former VLF revenues were swapped for ILVLF revenues, which set the local jurisdiction's ILVLF "base." The base increases each year thereafter in proportion to the increase in total assessed valuation within the jurisdiction. For example, if total assessed valuation increases by five percent from one year to the next, the ILVLF base and resulting revenues would increase by five percent.

In order to calculate the incremental increase in ILVLF revenues that would result from new development under the Project, the analysis first determines the total assessed value within the City, and the City's current ILVLF revenues. The analysis then determines the percentage by which full development under the Project would increase the City's assessed valuation, and applies the percentage increase to the current ILVLF revenues, generating incremental ILVLF revenues.

As Table 5 on the following page shows, from the Project, potential new development would generate a 0.48 percent increase the City's total assessed value. Applying these percentages as increases to the City's ILVLF revenues for Fiscal Year 2014, shows that development under the Project could result in new annual ILVLF revenues of approximately $527,000 from the Project.

**Table 5: Property Tax In-Lieu of VLF Revenue Projections**

| Assumptions | FY 2014 Budget |
|---|---|
| Base Citywide Assessed Value | $183,848,107,679 |
| Property Tax In Lieu of VLF Revenues | $106,400,000 |
| | |
| **New ILVLF Revenues** | **Project** |
| Assessed Value from New Development (a) | $879,876,675 |
| Percentage Increase from Base | 0.48% |
| **New ILVLF Revenues** | **$526,582** |

**Note:**
(a) Does not include land values

Sources: San Diego County Auditor-Controller; City of San Diego FY 2014 Adopted Budget; BAE, 2013.

## Sales Tax

Along with property taxes, sales tax revenues are typically one of the top two General Fund revenue sources for California cities. Sales tax revenues come from three sources: residents' taxable retail purchases, employees' taxable retail purchases, and business-to-business transactions involving taxable goods. Cities receive the vast majority of their sales tax revenue allocations for taxable sales that occur within their own jurisdiction, but they also receive a smaller portion of their sales tax revenue allocations from sales taxes that are pooled at the County level.

Under California law, cities are eligible to receive up to one percent of all taxable sales as sales tax revenues. According to the State Board of Equalization, the City of San Diego receives the entire one percent of taxable sales in the form of sales tax revenues.

### *Taxable Sales*

In order to project sales tax revenues, it is necessary to estimate the taxable sales from new development. Taxable sales for potential development under the Project can either be calculated based on an average of taxable sales per commercial square foot, or using taxable sales estimates per resident and employee. Because not all retail sales are taxable in California[2] and it is not possible to know the types of commercial uses that will locate in new development,[3] this analysis uses taxable sales per resident and per employee to project new sales tax revenues associated with the Project.

### *Resident-Generated Sales Tax Revenues*

In 2013, taxable retail sales in San Diego were approximately $13 billion.[4] This translates into approximately $9,800 per resident, excluding estimated taxable retail expenditures made by local employees and taxable non-retail expenditures. Because the City is relatively large and

[2] For example, groceries and pharmacy purchases, as well as services, are non-taxable.
[3] Including whether office users will generate business-to-business sales tax revenues or the amount they could generate.
[4] Based on 2011 State Board of Equalization data inflated to 2013 dollars using the Consumer Price Index.

has a sufficient variety of taxable retail goods available within its boundaries, the analysis assumes that the City would capture all retail sales expenditures from new residents and uses this per capita factor to project sales tax revenues that would accrue to the City from new residents under the Project.

### *Employment-Generated Sales Tax Revenues*

In addition, local employment generates taxable sales through employee retail purchases and non-retail taxable sales. On average, employees can be expected to spend approximately $7.50 per day near their places of business. In addition, San Diego businesses registered approximately $5.5 billion on taxable non-retail (i.e., business-to-business) sales.[5] In total, local taxable sales associated with employees and businesses were equal to approximately $8,400 either directly (retail sales) or indirectly (non-retail sales). The analysis uses this per employee expenditure factor to project sales tax revenues that would accrue to the City from new employees under the Project.

### *Sales Tax Revenue Projections*

As Table 6 on the following page shows, multiplying taxable sales per resident and employee by the number of new residents and employees, and applying the City's share of the one percent sales tax provides estimates for potential sales tax revenues. Under the Project, the City could anticipate approximately $785,000 in new annual sales tax revenues.

[5] Based on 2011 State Board of Equalization data inflated to 2013 dollars using the Consumer Price Index.

## Table 6: Sales Tax Revenue Projections

(figures in parentheses indicate a decrease)

| **Assumptions** | |
|---|---|
| Taxable Sales, Resident Generated | |
| Taxable Retail Sales, Residents (a), (b) | $13,027,195,232 |
| Population | 1,326,238 |
| Taxable Retail Sales per Capita | $9,823 |
| | |
| Taxable Sales, Employment Generated | |
| Taxable Retail Sales, Employees (c) | $1,571,032,500 |
| Taxable Sales, Business to Business (Non-Retail Outlets) (b) | $5,458,071,614 |
| Total Taxable Sales, Employment Generated | $7,029,104,114 |
| Employment | 837,884 |
| Taxable Sales per Employee | $8,389 |
| | |
| **New Sales Tax Revenues** | **Project** |
| New Residents | 9,955 |
| New Taxable Retail Sales | $97,784,461 |
| | |
| New Employees | (2,296) |
| Total Taxable Sales, Employment Generated | ($19,263,318) |
| SUBTOTAL: New Taxable Sales | $78,521,143 |
| City's share of one percent sales tax (d) | 1.00% |
| | |
| **Total Sales Tax Revenues** | **$785,211** |

**Notes:**
(a) Equals total taxable retail sales, less the amount spent by employees.
(b) Based on 2011 taxable sales, increased to 2013 dollars using the Consumer Price Index.
(c) Based on average daily employee taxable sales expenditures of $7.50.
(d) Local jurisdictions are eligible to receive up to 1% of total taxable sales in sales tax revenues.

Sources: California State Board of Equalization, 2011; Bureau of Labor Statistics, 2013; BAE, 2013.

# Business Taxes

The City receives business taxes from all businesses operating within its jurisdiction and rental unit business taxes from all residential rental unit owners.

### *Business Taxes*

Currently the City charges business taxes based on the total number of employees per establishment. Businesses with 12 or fewer employees pay $35 per year, while those businesses with 13 or more employees pay $125 per year plus $5 per employee. Based on the proposed densities, types of development, and geographic location of the Project, the analysis assumes that one-third of all retail employees and one-half of the office workers would be employed at establishments with 12 or fewer employees. The remaining employees would work at establishments that have more than 12 employees.[6]

[6] Employment density assumptions used to project total employment are used for the total establishment projections.

### *Rental Unit Business Taxes*

The City also charges a business tax on residential rental units based on the number of units available for rent, per parcel. Property owners with up to ten multifamily units available per parcel pay $50 per year plus $5 per rental unit. At the other end of the spectrum, owners of developments with more than 100 units per parcel pay $150 per year plus $8 per unit. Because all of the residential units in the Project would be multifamily, but would likely include for sale condominium units, the analysis assumes that 50 percent of all residential units would be available for rent and therefore, subject to the rental unit business tax.

### *Business Tax Revenue Projections*

As Table 7 shows, from the Project, new commercial and rental residential development would generate approximately $4,000 in new annual business tax revenues.

**Table 7: Business Tax Revenue Projections**

(figures in parentheses indicate a decrease)

| Assumptions | Base Annual Fee | Additional Fee per Unit / Employee |
|---|---|---|
| Business Taxes Schedule | | |
| Businesses with 12 or fewer employees | $35 | $0 |
| Businesses with 13 or more employees | $125 | $5 |
| | | |
| Rental Unit Business Tax Schedule, Multifamily Units | | |
| 2-10 Units | $50 | $5 |
| 11-100 Units | $57 | $9 |
| 101+ Units | $150 | $8 |
| | | |
| **Projected Revenues from New Development** | | **Project** |
| New Employees | | (2,296) |
| New Employees in Firms of 12 or less (a) | | (1,093) |
| New Firms with less than 12 employees | | (92) |
| | | |
| New Employees in Firms of 13 or more | | (1,203) |
| New Firms with 13 or more employees | | (80) |
| SUBTOTAL: New Business Taxes, Local Businesses | | ($19,234) |
| | | |
| New Rental Units (b) | | 2,359 |
| Number of Parcels | | 29 |
| Average Number of Units per Parcel | | 84 |
| SUBTOTAL: New Business Taxes, Rental Units | | $23,224 |
| | | |
| **Net New Business Tax Revenues** | | **$3,991** |

**Notes:**

(a) Assumes 1/3 of retail establishments and 1/2 of office establishments have 12 or fewer employees.

(b) Assumed percentage of units available as for rent: 50%

Sources: City of San Diego FY 2014 Adopted Budget, 2013; ACS, 2012; BAE, 2013.

## Licenses and Permits Fees

The City receives revenues from parking meters and alarm permit fees, as well as cost recovery revenues from regulating activities.[7] As the service population increases, these revenues would be expected to increase proportionately. In order to project these additional revenues, the fiscal model calculates the existing revenues on an average per service population basis. As Table 8 on the following page shows, in Fiscal Year 2014, the City estimates that its General Fund will receive approximately $17.4 million in License and Permit revenues, or $10 per service population. Applying this average revenue factor to the new service population shows that from the Project, the City could receive $88,000 in new annual License and Permit revenues.

**Table 8: Licenses and Permits Revenue Projections**

(figures in parentheses indicate a decrease)

| **Assumptions** | **2014 Budget** |
|---|---|
| Parking Meters | $8,369,891 |
| Other Licenses and Permits | $9,058,743 |
| Total Licenses and Permits, Excluding Business Taxes | $17,428,634 |
| | |
| Service Population, 2013 | 1,745,180 |
| General Fund Revenues per Service Population | $9.99 |
| | |
| **Projected Revenues from New Development** | **Project** |
| New Residents | 9,955 |
| New Employees | (2,296) |
| New Service Population (a) | 8,807 |
| **Net New Licenses and Permits Revenues** | **$87,952** |

**Note:**
(a) Service population equals the resident population plus one-half the employment population.

Sources: California State Department of Finance, 2013; City of San Diego FY 2014 Adopted Budget, 2013; ACS, 2012; BAE, 2013.

## Franchise Fees

The City receives Franchise Fee revenues from SDG&E, cable companies, and private refuse haulers, based on their gross receipts.[8] As the service population increases, demand for electricity, cable services, and refuse hauling would also increase proportionately, which would increase the providers' gross receipts. In order to project these additional revenues, the fiscal model calculates the existing revenues on an average per service population basis. As Table 9 on the following page shows, in Fiscal Year 2014, the City estimates that its General Fund will receive approximately $68.4 million in Franchise Fee revenues, or $39.19 per service population. Applying this average revenue factor to the new service population shows that from the Project, the City could receive $345,000 in new annual Franchise Fee revenues.

[7] City of San Diego Fiscal Year 2014 Adopted Budget, page 105.
[8] City of San Diego Fiscal Year 2014 Adopted Budget, page 104. By State law, telephone companies do not pay franchise fees.

**Table 9: Franchise Fee Revenue Projections**

(figures in parentheses indicate a decrease)

| Assumptions | 2014 Budget |
|---|---|
| General Fund Budget | $68,400,000 |
| Service Population, 2013 | 1,745,180 |
| General Fund Revenues per Service Population | $39.19 |
| | |
| **Projected Revenues from New Development** | **Project** |
| New Residents | 9,955 |
| New Employees | (2,296) |
| New Service Population (a) | 8,807 |
| **Net New Franchise Fee Revenues** | **$345,173** |

**Note:**

(a) Service population equals the resident population plus one-half the employment population.

Sources: California State Department of Finance, 2013; City of San Diego FY 2014 Adopted Budget, 2013; ACS, 2012; BAE, 2013.

## Fines, Forfeitures, and Penalties

According to the City's Fiscal Year 2014 budget, Fines, Forfeitures, and Penalties revenues come from the violation of laws or regulations in the form of parking and other vehicle related violations, negligent impounds, collection referrals, and litigation awards.[9] As the service population increases, these revenues would also likely increase proportionately. In order to project these additional revenues, the fiscal model calculates the existing revenues on an average per service population basis. As Table 10 on the following page shows, in Fiscal Year 2014, the City estimates that its General Fund will receive approximately $29.3 million in Fines, Forfeitures, and Penalties revenues, or $16.79 per service population. Applying this average revenue factor to the new service population shows that from the Project, the City could receive $148,000 in Fines, Forfeitures, and Penalties revenues.

[9] City of San Diego Fiscal Year 2014 Adopted Budget, page 106.

## Table 10: Fines, Forfeitures, and Penalties Revenue Projections

(figures in parentheses indicate a decrease)

| Assumptions | 2014 Budget |
|---|---|
| General Fund Budget | $29,300,000 |
| Service Population, 2013 | 1,745,180 |
| General Fund Revenues per Service Population | $16.79 |

| Projected Revenues from New Development | Project |
|---|---|
| New Residents | 9,955 |
| New Employees | (2,296) |
| New Service Population (a) | 8,807 |
| **Net New Franchise Fee Revenues** | **$147,859** |

Note:
(a) Service population equals the resident population plus one-half the employment population.

Sources: California State Department of Finance, 2013; City of San Diego FY 2014 Adopted Budget, 2013; ACS, 2012; BAE, 2013.

# Projected General Fund Costs

This fiscal impact analysis utilizes average cost multipliers derived from the City of San Diego's current budget to project increased General Fund costs for public services as a result of buildout of the Project. All cost projections are for the point in time that development would reach buildout, but are expressed in terms of 2013 dollars.

The analysis uses net General Fund average service population cost factors to project the costs associated with providing increased municipal services to new development. The net General Fund cost for each function is the total expenditures for the function, less any program revenues or transfers of funds in from other sources (e.g., user fees/charges for services, state grants, reimbursements, etc.). The net General Fund cost thus provides an indicator of the City's costs for the different services which must be funded using the revenues from the general discretionary sources projected in the Revenues section of this report.

This analysis excludes those departments whose costs are not expected to be affected by new development (e.g., debt management, department of information technology). Although these departments are funded through the General Fund, they would not experience increased costs to serve new development, either directly because of new resident and employee demands for municipal services, or indirectly because they provide services to other City departments and would need to increase as the City hires additional staff. The City's Finance Department's staff provided information on which departments would not be expected to expand as a result of new development.

## Current Net General Fund Costs for Services

The following subsections provide brief explanations of the calculations of net General Fund variable service costs for each function. The General Fund service cost for each function, net of other function-specific revenues, provide the basis to calculate a current City cost per service population. The resulting cost figure is then used to project increased City costs associated with new development that can be expected at buildout based on the development potential identified in the Project.

### *Police Costs*

Police represents the largest annual expense category in the City budget. According to the City's Fiscal Year 2014 budget, there are approximately 1.48 sworn officers per 1,000 population,[10] which translates into net General Fund expenditures of $202.6 million or $116.08 per service population at current service levels. Assuming that service levels remain constant and all Police costs, excluding debt, would increase with new development, the City could anticipate increased Police costs of $1.02 million per year from the Project. Table 11 on the next page shows the projected Police costs from the Project.

[10] City of San Diego Fiscal Year 2014 Adopted Budget, page 444.

## Table 11: Police Cost Projections

| Assumptions | 2014 Budget |
|---|---|
| Administration | $7,233,063 |
| Administrative Services | $12,026,844 |
| Centralized Investigations | $617,058 |
| Family Justice Center | $169,122,582 |
| Neighborhood Policing | $7,272,716 |
| Patrol Operations | $19,182,799 |
| Logistics | $5,222,757 |
| Less: Other Sources of Revenue (a) | ($18,101,951) |
| Net Charges to General Fund | $202,575,868 |
| | |
| Service Population, 2013 | 1,745,180 |
| General Fund Costs per Service Population | $116.08 |

| Projected Costs from New Development | Project |
|---|---|
| New Residents | 9,955 |
| New Employees | (2,296) |
| New Service Population (b) | 8,807 |
| **Net General Fund Costs** | **$1,022,278** |

**Notes:**

(a) Other sources of revenue include money that would not increase and comes from outside of the General Fund.

| | |
|---|---|
| Charges for Service | $10,862,285 |
| Revenue from Federal Agencies | $2,756,720 |
| Revenue from Money and Property | $216,149 |
| Revenue from Other Agencies | $758,423 |
| Transfers In | $3,508,374 |

(b) Service population equals the resident population plus one-half the employment population

Sources: California State Department of Finance, 2013; City of San Diego FY 2014 Adopted Budget, 2013; ACS, 2012; BAE, 2013.

### *Fire-Rescue Costs*

The City's Fire-Rescue department provides fire suppression, emergency medical treatment and transport, technical rescue, hazardous materials response, fire investigation, explosives disarmament, fire safety inspection and education programs, equipment and facilities maintenance, boating enforcement and rescue, beach safety and swimmer rescue, and the operation of two 911 communications centers to the City of San Diego and its inhabitants.[11] According to the City's Fiscal Year 2014 budget, there are approximately 0.63 sworn firefighters and 0.11 lifeguards per 1,000 population, which translates into net General Fund expenditures of $200 million or $114.71 per service population at current service levels.

According to the Department's Assistant Fire Chief, Station 25 would primarily serve the Study area, until such time as the Community Plan area reaches a threshold that warrants the development of a new station, which would be located at I-5 and Balboa Avenue, north of the Study area. Although the Study area development levels presented in this analysis would not push the area over that threshold, the Department is concerned about the impact of new development on response times, and indicated that the City would need to hire additional staff to maintain existing service levels.

[11] City of San Diego Fiscal Year 2014 Adopted Budget, page 261.

Even without new development, the Department has a goal of increasing its service standards from existing levels, which would require additional firefighters. An increase in standards would require a study that would need to be completed and adopted by the City Council. Since this is a currently a preliminary goal and has not yet been adopted by the City Council, this analysis projects Fire-Rescue costs based on existing service levels.

Assuming that response times remain at their current levels, and all Fire-Rescue costs excluding debt would increase with new development, the City could anticipate increased Fire-Rescue costs of $1.01 million per year from the Project. Table 12 shows the projected Fire-Rescue costs under the Project.

**Table 12: Fire-Rescue Cost Projections**

| **Assumptions** | **2014 Budget** |
|---|---|
| Administrative Operations | $7,233,063 |
| Communications | $12,026,844 |
| Emergency Medical Services - Fire | $617,058 |
| Emergency Operations | $169,122,582 |
| Fire Prevention | $7,272,716 |
| Lifeguard Services | $19,182,799 |
| Logistics | $5,222,757 |
| Special Operations | $2,001,487 |
| Less: Other Sources of Revenue (a) | ($22,498,106) |
| Net Charges to General Fund | $200,181,200 |
| | |
| Service Population, 2013 | 1,745,180 |
| General Fund Costs per Service Population | $114.71 |

| **Projected Costs from New Development** | **Project** |
|---|---|
| New Residents | 9,955 |
| New Employees | (2,296) |
| New Service Population (b) | 8,807 |
| **Net General Fund Costs** | **$1,010,193** |

**Notes:**

(a) Other sources of revenue include money that would not increase and comes from outside of the General Fund.

| | |
|---|---|
| Charges for Service | $18,635,703 |
| Revenue from Federal Agencies | $218,000 |
| Revenue from Money and Property | $0 |
| Revenue from Other Agencies | $136,029 |
| Transfers In | $3,508,374 |

(b) Service population equals the resident population plus one-half the employment population

Sources: California State Department of Finance, 2013; City of San Diego FY 2014 Adopted Budget, 2013; ACS, 2012; BAE, 2013.

### *General Government*

General Government includes those departments that provide City administrative functions. City Department of Finance staff were interviewed to determine which departments would need to expand as a result of new development. While the City Council would likely need to devote resources to reviewing projects within the Study area, the City Comptroller's Office would not be impacted. Per City staff, the following legislative and administrative departments

would likely be impacted either directly by the new development, or indirectly as they serve other municipal departments:[12]

- City Attorney
- City Council
- City Treasurer
- Citywide Program Expenditures
- Office of the Mayor
- Personnel
- Purchasing and Contracting

According to the City's Fiscal Year 2014 budget, the City anticipates 2014 net General Fund expenditures of $92.8 million or $53.16 per capita on General Government functions that would be impacted by new development. As Table 13 shows, applying this average cost factor to the new resident population indicates that from the Project, the City could spend an additional $468,000 per year on General Government services.

**Table 13: General Government Cost Projections**

| **Assumptions** | **2014 Budget** |
|---|---|
| City Attorney | $45,689,443 |
| City Council | $13,029,699 |
| City Treasurer | $20,495,483 |
| Citywide Program Expenditures (a) | $3,823,343 |
| Office of the Mayor | $3,671,233 |
| Personnel | $7,012,193 |
| Purchasing and Contracting | $4,804,683 |
| SUBTOTAL: General Government (b) | $98,526,077 |
| Less: Other Sources of Revenue (c) | ($5,744,561) |
| Net General Government Charges to General Fund | $92,781,516 |
| | |
| Service Population, 2013 | 1,745,180 |
| General Fund Costs per Service Population | $53.16 |
| | |
| **Projected Costs from New Development** | **Project** |
| New Residents | 9,955 |
| New Employees | (2,296) |
| New Service Population (d) | 8,807 |
| **Net General Fund Costs** | **$468,212** |

**Notes:**

(a) Only includes cost related to property tax administration.

(b) Includes those aspects of City administrative functions expected to increase with new development or service population.

(c) Other sources of revenue include money that would not increase and comes from outside of the General Fund.

| | |
|---|---|
| Charges for Service | $5,380,184 |
| Revenue from Money and Property | $0 |
| Revenue from Other Agencies | $364,377 |
| Transfers In | $0 |

(d) Service population equals the resident population plus one-half the employment population

Sources: California State Department of Finance, 2013; City of San Diego FY 2014 Adopted Budget, 2013; ACS, 2012; BAE, 2013.

[12] For example, the Personnel department would need to expand to serve the additional police, fire, and other service providers hired due to increased demand for those departments' services.

### *Park and Recreation*

The Park and Recreation department operates and maintains the City's 41,000 acres of park, open space, and aquatic areas, as well as oversees and maintains recreation facilities and programs.[13] Although residents and workers are eligible to use the City's park and recreation resources, residents use local park and recreation services at a much higher rate than employees. Therefore, this analysis projects park and recreation costs from new development on a per capita basis, rather than per service population.

According to the City's Fiscal Year 2014 budget, the City anticipates 2014 net General Fund expenditures of $57.8 million or $43.59 per capita. As Table 14 shows, applying this average cost factor to the new resident population indicates that from the Project, the City could spend an additional $434,000 per year on Park and Recreation services.

**Table 14: Park and Recreation Cost Projections**

| **Assumptions** | **2014 Budget** |
|---|---|
| Administrative Services | $2,637,403 |
| Community Parks I | $21,211,451 |
| Community Parks II | $21,189,110 |
| Developed Regional Parks | $35,117,576 |
| Open Space | $9,812,440 |
| Less: Other Sources of Revenue (a) | ($32,158,956) |
| Net Charges to General Fund | $57,809,024 |
| | |
| Resident Population, 2013 (b) | 1,326,238 |
| General Fund Costs per Service Population | $43.59 |
| | |
| **Projected Costs from New Development** | **Project** |
| New Residents | 9,955 |
| **Net General Fund Costs** | **$433,925** |

**Notes:**

(a) Other sources of revenue include money that would not increase and comes from outside of the General Fund.

| | |
|---|---|
| Charges for Service | $30,990,656 |
| Revenue from Money and Property | $465,300 |
| Transfers In | $703,000 |

(b) Based on resident population to reflect that local parks primarily serve the resident population.

Sources: California State Department of Finance, 2013; City of San Diego FY 2014 Adopted Budget, 2013; ACS, 2012; BAE, 2013.

### *Transportation and Storm Water*

The Transportation and Storm Water department "provides operating and maintenance services for streets, sidewalks, and storm drains; leads efforts to protect and improve the water quality of rivers, creeks, bays, and the ocean; performs traffic and transportation system engineering; manages the Utilities Undergrounding Program; and plans and coordinates work in the public right-of-way"[14] in San Diego. Although development in the Study area would be infill, new residents and employees using the existing transportation network and future transit

[13] City of San Diego Fiscal Year 2014 Adopted Budget, page 399.
[14] City of San Diego Fiscal Year 2014 Adopted Budget, page 651.

would add to the existing user base, thereby increasing demand for maintenance. Thus, this analysis assumes that new development would proportionately increase demand for transportation and storm water services.

According to the City's Fiscal Year 2014 budget, the City anticipates 2014 net General Fund expenditures of $77.2 million or $44.25 per service population. As Table 15 shows, applying this average cost factor to the new service population indicates that from the Project, the City could spend an additional $390,000 per year on Transportation and Storm Water services.

**Table 15: Transportation and Storm Water Cost Projections**

| Assumptions | 2014 Budget |
|---|---|
| Admin and Right-of-Way Coordination | $1,398,151 |
| Storm Water | $35,100,865 |
| Street | $44,519,889 |
| Transportation Engineering Operations | $11,093,564 |
| Less: Other Sources of Revenue (a) | ($14,887,941) |
| Net Charges to General Fund | $77,224,528 |
| | |
| Service Population, 2013 | 1,745,180 |
| General Fund Costs per Service Population | $44.25 |

| Projected Costs from New Development | Project |
|---|---|
| New Residents | 9,955 |
| New Employees | (2,296) |
| New Service Population (b) | 8,807 |
| **Net General Fund Costs** | **$389,705** |

**Notes:**

(a) Other sources of revenue include money that would not increase and comes from outside of the General Fund.

| | |
|---|---|
| Charges for Service | $11,322,284 |
| Revenue from Money and Property | $57,283 |
| Revenue from Other Agencies | $0 |
| Transfers In | $3,508,374 |

(b) Service population equals the resident population plus one-half the employment population

Sources: California State Department of Finance, 2013; City of San Diego FY 2014 Adopted Budget, 2013; ACS, 2012; BAE, 2013.

### *Library*

The City of San Diego's Library System includes a Central Library, 35 branch libraries, and an adult literacy program.[15] The Clairemont Branch Library located at 2920 Burgener Boulevard would primarily serve new development in the Study area. Although the library serves both residents and workers, residents use local library services at a much higher rate than employees. Therefore, this analysis projects library costs from new development on a per capita basis.

According to the City's Fiscal Year 2014 budget, the City anticipates 2014 net General Fund expenditures of $41.8 million or $31.50 per capita. As Table 16 on the following page shows,

[15] City of San Diego Fiscal Year 2014 Adopted Budget, page 305.

applying this average cost factor to the new resident population indicates that from the Project, the City could spend an additional $314,000 per year on Library services.

**Table 16: Library Cost Projections**

| Assumptions | 2014 Budget |
|---|---|
| Branch Libraries | $20,557,812 |
| Central Library | $19,976,934 |
| Library Administration | $3,277,171 |
| Less: Other Sources of Revenue (a) | ($2,033,500) |
| Net Charges to General Fund | $41,778,417 |
| | |
| Resident Population, 2013 (b) | 1,326,238 |
| General Fund Costs per Service Population | $31.50 |
| | |
| **Projected Costs from New Development** | **Project** |
| New Residents | 9,955 |
| **Net General Fund Costs** | **$313,596** |

**Notes:**

(a) Other sources of revenue include money that would not increase and comes from outside of the General Fund.

| | |
|---|---|
| Charges for Service | $1,395,500 |
| Revenue from Money and Property | $638,000 |
| Transfers In | $0 |

(b) Based on resident population to reflect that libraries primarily serve the resident population.

Sources: California State Department of Finance, 2013; City of San Diego FY 2014 Adopted Budget, 2013; ACS, 2012; BAE, 2013.

### *Environmental Services*

The Environmental Services department provides refuse collection, as well as energy and waste conservation education and programming in San Diego. Its four divisions include: Collection Services; Energy, Sustainability, and Environmental Protection; Waste Reduction and Disposal; and the Office of the Director.[16] According to the City's Fiscal Year 2014 budget, the City anticipates 2014 net General Fund expenditures of $35.2 million or $20.19 per service population. As Table 17 on the following page shows, applying this average cost factor to the new service population indicates that from the Project, the City could spend an additional $178,000 per year on Environmental Services.

[16] City of San Diego Fiscal Year 2014 Adopted Budget, page 219.

## Table 17: Environmental Services Cost Projections

| Assumptions | 2014 Budget |
|---|---|
| Collection Services | $32,257,985 |
| Energy Sustainability and Environmental Protection | $2,147,205 |
| Office of the Director | $1,764,655 |
| Less: Charges for Services | ($939,829) |
| Net Charges to General Fund | $35,230,016 |
| | |
| Service Population, 2013 | 1,745,180 |
| General Fund Costs per Service Population | $20.19 |

| Projected Costs from New Development | Project |
|---|---|
| New Residents | 9,955 |
| New Employees | (2,296) |
| New Service Population (a) | 8,807 |
| **Net General Fund Costs** | **$177,785** |

**Note:**
(a) Service population equals the resident population plus one-half the employment population

Sources: California State Department of Finance, 2013; City of San Diego FY 2014 Adopted Budget, 2013; ACS, 2012; BAE, 2013.

### *Public Works*

The City's Public Works department provides a range of services for the City including contracting and procurement, overseeing engineering and capital projects, and providing general services. The contracting group provides procurement services for Capital Improvements Programs contractors and consultants.[17] The Engineering and Capital Projects group works on "various public infrastructure assets to rehabilitate, restore, improve, and add to the City's capital facilities,"[18] while the General Services group provides basic maintenance, repair, and publishing services to other City departments.[19]

According to the City's Fiscal Year 2014 budget, the City anticipates 2014 net General Fund expenditures of $18.4 million or $10.53 per service population. As Table 18 on the following page shows, applying this average cost factor to the new service population indicates that from the Project, the City could spend an additional $93,000 per year on Public Works.

[17] City of San Diego Fiscal Year 2014 Adopted Budget, page 515.
[18] City of San Diego Fiscal Year 2014 Adopted Budget, page 523.
[19] City of San Diego Fiscal Year 2014 Adopted Budget, page 535.

**Table 18: Public Works Cost Projections**

| Assumptions | 2014 Budget |
|---|---|
| Public Works - Contracting | $2,107,234 |
| Public Works - Engineering and Capital Projects | |
| Architectural Engineering and Parks | $7,886,898 |
| Business and Support Services | $339,196 |
| Field Engineering | $19,812,714 |
| Project Implementation | $18,135,326 |
| Public Works - Contracting | $0 |
| Right-of-Way Design | $15,733,129 |
| Public Works - General Services | |
| Administration | $151,280 |
| Facilities | $15,678,795 |
| Less: Charges for Service | ($61,462,332) |
| Net Charges to General Fund | $18,382,240 |
| | |
| Service Population, 2013 | 1,745,180 |
| General Fund Costs per Service Population | $10.53 |
| | |
| **Projected Costs from New Development** | **Project** |
| New Residents | 9,955 |
| New Employees | (2,296) |
| New Service Population (a) | 8,807 |
| **Net General Fund Costs** | **$92,764** |

**Note:**
(a) Service population equals the resident population plus one-half the employment population

Sources: California State Department of Finance, 2013; City of San Diego FY 2014 Adopted Budget, 2013; ACS, 2012; BAE, 2013.

### *All Other Departments*

This section provides a combined cost projection for the following five departments that individually have much smaller new service costs than the other General Fund departments: Development Services; Economic Development; Public Utilities; Civic and Urban Initiatives; and Office of Homeland Security. Each department's net General Fund Costs represented no more than 2 percent of overall net new general fund costs from the Project. The projected new service costs are described below and summarized in Table 19 at the end of this section.

*Development Services*

The City's Development Services department provides "Entitlements, Building Construction and Safety, Current and Long Range Planning, Facilities Financing, and Neighborhood Code Enforcement" services to the City of San Diego and its inhabitants.[20] According to the City's Fiscal Year 2014 budget, the City anticipates 2014 net General Fund expenditures of $14.1 million or $8.06 per service population. Applying this average cost factor to the new service population indicates that from the Project, the City could spend an additional $71,000 per year on Development Services.

[20] City of San Diego Fiscal Year 2014 Adopted Budget, page 179.

*Economic Development Costs*

The Economic Development department provides a variety of services to the City that are focused around improving quality of life, growing the local economy and tax base, and creating new opportunities for San Diego residents. The Department is organized into two main sections: Community Development and Economic Growth Services. The Community Development group oversees small business programs and administers HUD grants, while the Economic Growth Services section is responsible for working with businesses on the regulatory landscape; unwinding the former Redevelopment Agency via the Successor Agency and Civic San Diego; administering federal Economic Development Administration grants; and attracting new businesses to the region, particularly those in expanding industry clusters and emerging markets.[21]

According to the City's Fiscal Year 2014 budget, the City anticipates 2014 net General Fund expenditures of $8.8 million or $5.01 per service population. Applying this average cost factor to the new service population indicates that from the Project, the City could spend an additional $44,000 per year on Economic Development services.

*Public Utilities*

The Public Utilities department provides services related to water, wastewater, and recycled water to the City of San Diego. Although Enterprise, Sewer, and other non-General Fund sources provide the majority of funding for this department, the City does anticipate spending approximately $1.0 million in net General Fund expenditures, or $0.59 per service population on Public Utilities, primarily for contracts that this analysis assumes will continue in the future. Applying this average cost factor to the new service population indicates that from the Project, the City could spend an additional $5,200 per year on Public Utilities.

*Civic and Urban Initiatives Costs*

The Civic and Urban Initiatives Program, or "incubator for Civic Imagination," is a new department/program dedicated to improving the local quality of life through innovative approaches to community participation, as well as urban thinking and implementation.[22] In Fiscal Year 2014, the City anticipates spending approximately $946,000 out of the General Fund or $0.54 per service population. Applying this average cost factor to the new service population indicates that from the Project, the City could spend an additional $4,800 per year on Civic and Urban Initiatives.

*Office of Homeland Security*

The Office of Homeland Security's mission is to "mitigate, prepare for, respond to, and recover from natural and mad-made disasters."[23] This includes training City staff and the general population, as well as putting in place emergency response protocols and integrating the City's emergency plans with County, State, Federal jurisdictions' plans. Because this department is responsible for working with City staff and the general public, its costs are expected to increase as new development generates additional service population and demand for other City services (e.g., Police, Fire-Rescue).

[21] City of San Diego Fiscal Year 2014 Adopted Budget, page 207.
[22] City of San Diego Fiscal Year 2014 Adopted Budget, page 119.
[23] City of San Diego Fiscal Year 2014 Adopted Budget, page 350.

According to the City's Fiscal Year 2014 budget, the City anticipates 2014 net General Fund expenditures of $804,200 or $0.46 per service population. Applying this average cost factor to the new service population indicates that from the Project, the City could spend an additional $4,100 on the Office of Homeland Security.

Table 19 summarizes the new fiscal service costs for the above five General Fund departments. Collectively, the new service costs associated with the Project would result in additional costs of $129,000 per year.

**Table 19: All Other Departments Cost Projections**

| Assumptions | 2014 Budget |
|---|---|
| **Development Services** | |
| Admin & Support; City Planning; Code Compliance | $15,048,760 |
| Less Charges for Services | ($980,216) |
| Net Charges to General Fund | $14,068,544 |
| | |
| **Economic Development** | |
| ED; Econ. Growth; HUD Programs; Small Business & Neigh'ds | $12,944,622 |
| Less Charges for Services | ($4,192,638) |
| Net Charges to General Fund | $8,751,984 |
| | |
| **Public Utilities** | |
| Water | $1,969,446 |
| Less Charges for Services | ($940,000) |
| Net Charges to General Fund | $1,029,446 |
| | |
| **Civic and Urban Initiatives** | |
| Civic and Urban Initiatives | $945,987 |
| Less Charges for Services | $0 |
| Net Charges to General Fund | $945,987 |
| | |
| **Office of Homeland Security** | |
| Office of Homeland Security | $1,735,205 |
| Less Charges for Services | ($930,957) |
| Net Charges to General Fund | $804,248 |
| | |
| **All Other Depts. Net Charges to General Fund** | **$25,600,209** |
| | |
| Service Population, 2013 | 1,745,180 |
| General Fund Costs per Service Population | $14.67 |
| | |
| **Projected Costs from New Development** | **Project** |
| New Residents | 9,955 |
| New Employees | (2,296) |
| New Service Population (a) | 8,807 |
| **Net General Fund Costs** | **$129,189** |

**Note:**
(a) Service population equals the resident population plus one-half the employment population

Sources: California State Department of Finance, 2013; City of San Diego FY 2014 Adopted Budget, 2013; ACS, 2012; BAE, 2013.

# Projected Net Fiscal Impacts

Table 20 on the following page summarizes on a line-item basis the fiscal impact analysis results for the Project. As shown in the table, the fiscal impact model projects that at buildout the Study area would generate $3.8 million in new annual General Fund revenues, versus $4 million in new annual General Fund expenditures, resulting in a net annual fiscal impact (deficit) of slightly more than $200,000 per year. Relative to the City's annual General Fund budget of approximately $1.2 billion, this represents a 0.02 percent increase in the deficit. This difference is within the range of what could be expected as normal annual variation in either General Fund revenues or expenditures.

The projected slight fiscal deficits can be attributed to several factors including:

- Use of an average cost approach to forecasting new police and fire-rescue expenditures that may somewhat overstate these expenditures. This method was used due to these department's being unable to provide marginal cost information (often, within a given area existing police and fire-rescue services are able to service some level of new development with no significant increase in costs);
- Comprehensive inclusion of all City services that might be potentially increase additional costs in conjunction with new development, even though the actual rate of use may vary (for example, new Millennial households may use Library services less than the Citywide average);
- Relatively expensive administrative costs compared to similarly sized cities; and
- A development program that adds substantial new residential units, while decreasing commercial uses. Residential uses tend to be relatively higher consumers of public services, compared to commercial uses.

For the Project, the vast majority of projected cost increases are associated with the need to expand the City's Police and Fire-Rescue departments as the City grows. Among all the General Fund budget groups analyzed, Police currently accounts for the largest share of expenditures, followed by Fire-Rescue. The nature of these services are such that the City collects relatively little in the way of offsetting revenues; thus, these services are most dependent upon support from the General Fund's general purpose revenues, such as property tax, sales tax, and sales tax in-lieu of vehicle license fees.

Even though residential users tend to be greater consumers of public services than commercial services, the increase in residential uses within the Study area can create other non-fiscal benefits for the City. Transit-oriented development with a mix of uses, including residential, activates space for longer periods than purely commercial space, can attract new retail uses and services for existing residents, and enhances both the quality of life and public safety. TOD contributes to increased transit ridership, and reduces vehicle miles traveled, which can create significant benefits by accommodating future growth without a commensurate increase in traffic congestion, thereby creating mobility, air quality, and other benefits. Any full consideration of Project benefits and costs should include fiscal as well as non-fiscal items.

## Table 20: Net Fiscal Impact

| Net New Revenues | Project |
|---|---|
| Property Tax | $1,824,805 |
| Property Transfer Taxes | $86,889 |
| ILVLF | $526,582 |
| Sales Tax | $785,211 |
| Business Taxes | $3,991 |
| Other Licenses and Permits | $87,952 |
| Franchise Fees | $345,173 |
| Fines, Forfeitures, and Penalties | $147,859 |
| **Total Net New Revenues** | **$3,808,462** |
| | |
| **Net New Costs** | |
| Police | $1,022,278 |
| Fire | $1,010,193 |
| General Government | $468,212 |
| Park and Recreation | $433,925 |
| Transportation and Storm Water | $389,705 |
| Library | $313,596 |
| Environmental Services | $177,785 |
| Public Works | $92,764 |
| Development Services | $70,995 |
| Economic Development | $44,166 |
| Public Utilities | $5,195 |
| Civic and Urban Initiatives | $4,774 |
| Office of Homeland Security | $4,059 |
| **Total Net New Costs** | **$4,037,647** |
| | |
| **Net Fiscal Surplus / (Deficit)** | **($229,185)** |

Source: BAE, 2013.