



KEYSER MARSTON ASSOCIATES™
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

ADVISORS IN:
REAL ESTATE
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

To: John W. Helmer, Consultant, Planning Division
City of Escondido

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From: KEYSER MARSTON ASSOCIATES, INC.

Date: December 16, 2019

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Subject: Harvest Hills – Peer Review of Fiscal Impact Analysis

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I. INTRODUCTION

The City of Escondido (City) has requested that Keyser Marston Associates, Inc. (KMA) update our 2017 peer review of the Fiscal Impact Analysis (FIA), submitted by Concordia Communities LLC (Developer) and prepared by Development Planning & Financing Group, Inc. (DPFG), for the proposed Harvest Hills development (Project). The Project, proposed for development by Concordia Communities LLC (Developer), is planned to contain 550 single-family homes on a 1,100-acre site (Site) located in unincorporated San Diego County north of the San Pasqual Valley, known as Specific Plan Area No. 4. The Project is also planned to include significant open space, agricultural uses, a fire station, and recreation facilities. Under the Developer's proposal, the Site would be annexed into the City.

The City requested that KMA update our 2017 peer review of the FIA to reflect current market conditions and the City's Fiscal Year 2020 (FY 2020) General Fund Budget. In response to the City's objectives, KMA undertook the following principal work tasks:

1. Reviewed background data, City budget information, and third-party market data.
2. Updated the 2017 peer review to reflect: (a) current market conditions, (b) per capita revenue/expenditures based on the City's FY 2020 General Fund Budget, and (c) updated expenditure estimates associated with police and fire services.

II. KEY FINDINGS

Table II-1 below summarizes the updated KMA fiscal impact conclusions related to the Project. KMA estimates that the Project will generate an annual fiscal deficit to the City of (\$850,000) at completion and stabilization (FY 2020 dollars). Refer to Table 1, attached, for a detailed itemization of the KMA projected revenues and expenditures.

Table II-1: Recurring Annual Fiscal Impact to City General Fund ⁽¹⁾	
	Total (FY 2020\$)
Total Revenues	\$1,375,000
Total Expenditures ⁽²⁾	(\$2,225,000)
Net Fiscal Impact	(\$850,000)
(1) Allow for rounding. (2) Includes the portion of the annual estimated cost for a new three (3)-person fire station allocated to the Project. Additionally, the City will incur further recurring annual expenditures of \$463,132 to operate the fire station, representing the allocated cost to provide services to existing and future residents of Specific Plan Area No. 4.	

The City also evaluated an alternative scenario based on a two (2)-person fire station. Table II-2 summarizes the KMA fiscal impact conclusions related to this alternative scenario. As shown, KMA estimates that this alternative scenario would generate an annual fiscal deficit to the City of (\$747,000) at completion and stabilization (FY 2020 dollars).

Table II-2: Recurring Annual Fiscal Impact to City General Fund – Two (2)-Person Fire Station Alternative ⁽¹⁾	
	Total (FY 2020\$)
Total Revenues	\$1,375,000
Total Expenditures ⁽²⁾	(\$2,122,000)
Net Fiscal Impact	(\$747,000)
(1) Allow for rounding. (2) Includes the estimated annual cost of \$1,514,907 for a two (2)-person fire station.	

KMA understands that the City and Developer are in discussions to form a Community Facilities District (CFD) encompassing the Project such that future homeowners would pay annual assessments to cover the estimated fiscal deficit.

III. REVIEW OF PROJECTED REVENUES

The following provides a breakout of the KMA projected General Fund revenues as a result of the build-out of the Project. As shown in Table III-1, KMA projects that the proposed Project will generate \$1,375,000 in gross revenues to the City’s General Fund annually. Refer to the attached Table 2 for details regarding the KMA projected revenues.

Table III-1: Recurring Annual Revenues to City General Fund (1)		
	Total (FY 2020\$)	% of Total
Property Tax In-Lieu of VLF	\$555,000	40.4%
Property Tax	\$488,000	35.5%
Indirect Sales Tax	\$153,000	11.1%
Other Revenues	\$146,000	10.6%
Property Transfer Tax	\$33,000	2.4%
Total Annual Revenue	\$1,375,000	100.0%
(1) Allow for rounding.		

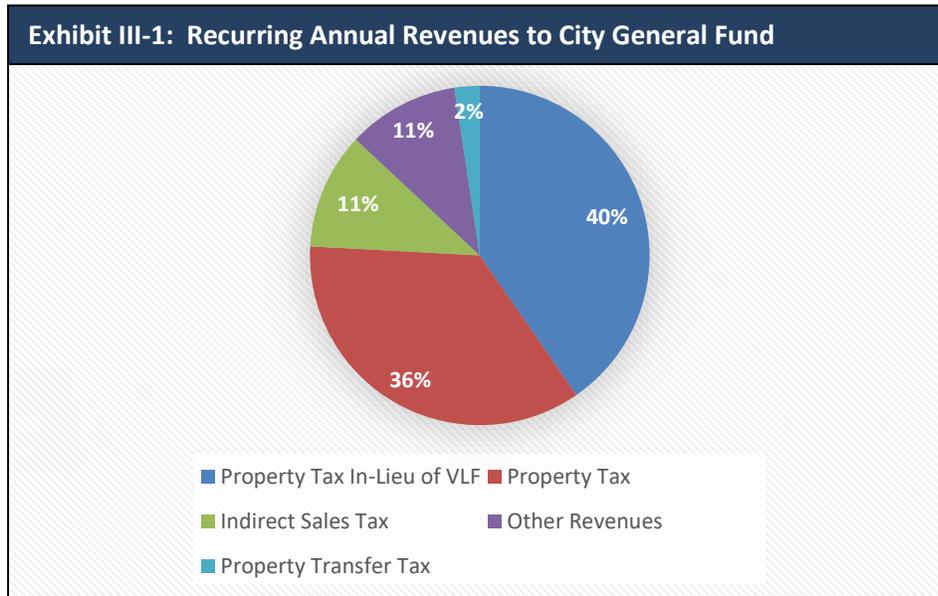
Property Tax In-Lieu of Vehicle License Fee (VLF) represents the largest component of General Fund revenues as a result of the development of the Project. The increase in gross assessed value will generate approximately \$555,000 in additional motor vehicle license fee revenues to the City, representing 40.4% of the total General Fund revenues to be generated by the Project.

Property Tax revenues are the second largest source of General Fund Revenues to be generated by the Project’s 550 residential units. At build-out, the Project is projected to generate approximately \$488,000 per year in property tax revenues, comprising of 35.5% of total General Fund revenues generated by the Project.

Indirect Sales Tax in the form of new resident spending represents the third largest component of General Fund revenues. At build-out, the Project’s estimated 1,698 residents are expected to generate \$153,000 in new sales tax revenues to the City. This represents approximately 11.1% of total revenues generated by the Project.

Other Revenues, including Property Transfer Tax, are anticipated to account for the remaining 13.0% of General Fund revenues generated by the Project.

The breakout of revenues at build-out is further illustrated in Exhibit III-1 below.



IV. REVIEW OF PROJECTED EXPENDITURES

Table IV-1 below provides a breakout of the KMA projected General Fund expenditures as a result of the build-out of the Project. As shown in Table IV-1, KMA projects that the proposed Project will generate \$2,225,000 in annual expenditures to the City’s General Fund. Refer to Table 3, attached, for details regarding the KMA projected expenditures.

Annual recurring expenditures, including Public Works, Community Services, General Government, and Other Revenues, were estimated by applying a per capita, or “per resident equivalent,” cost estimate to the number of new residents anticipated from build-out of the Project, with the exception of Fire/Emergency Management and Police.

Fire/Emergency Management expenditures were estimated based on data provided by the City’s Fire Department. The Fire Department indicated that a three-man crew at the new fire station is optimal. As such, the Fire Department provided personnel and operating cost estimates associated with a three-man crew at approximately \$1,618,000 (rounded). It should be noted that this estimate excludes annual expenditures of \$463,132 that the City will incur further to operate the fire station, representing the allocated cost to provide services to existing and future residents of Specific Plan Area No. 4.

Similarly, Police expenditures were estimated based on data provided by the City’s Police Department. Based on KMA estimates of population, it is estimated that the Project will trigger

an additional need of 1.80 police officers. Based on the personnel and operating costs for two (2) police officers (\$475,487.12), it was estimated that the Project’s pro rata share requirement for 1.80 police officers would generate police expenditures of approximately \$428,000.

Table IV-1: Recurring Annual Expenditures to City General Fund (1)		
	Total (FY 2020\$)	% of Total
Public Safety		
Fire/Emergency Management (2)	\$1,618,000	72.7%
Police	<u>\$428,000</u>	<u>19.2%</u>
Total Public Safety	\$2,046,000	91.9%
<hr/>		
Public Works	\$75,000	3.4%
Community Services	\$54,000	2.4%
General Government	\$33,000	1.5%
Non-Departmental	\$9,000	0.4%
Recycling and Waste Reduction	\$4,000	0.2%
Community Relations/Center for the Arts	\$4,000	0.2%
Community Development	\$0	0.0%
Total Recurring Expenditures	\$2,225,000	100.0%
(1) Allow for rounding. (2) Includes the portion of the annual estimated cost for a new three (3)-person fire station allocated to the Project. Additionally, the City will incur further recurring annual expenditures of \$463,132 to operate the fire station, representing the allocated cost to provide services to existing and future residents of Specific Plan Area No. 4.		

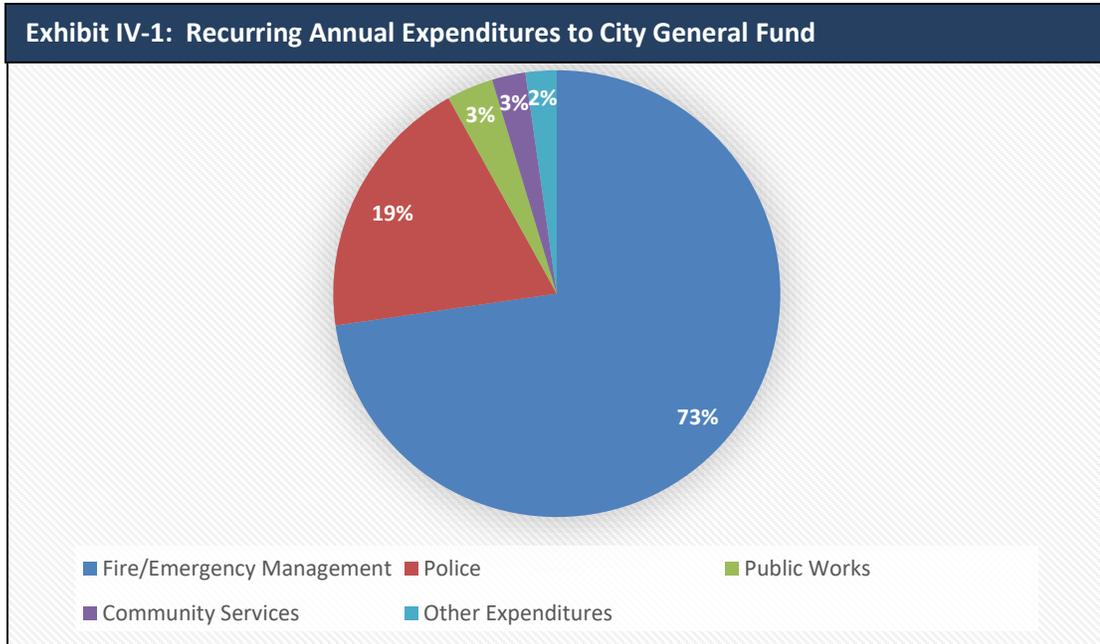
As shown, Public Safety (Fire/Emergency Management and Police) expenditures represent the largest of Project-generated General Fund Expenditures at \$2,046,000, or 91.9% of total expenditures.

Costs associated with Public Works represent the second largest expenditure at \$75,000, or 3.4% of total expenditures.

The third largest expenditure is expected to be generated by Community Services, at \$54,000 annually, or 2.4% of total expenditures.

The remaining departmental expenditures, including General Government, Non-Departmental, Recycling and Waste Reduction, Community Relations/Center for the Arts, and Community

Development account, for a combined \$50,000 (2.2% of total). The breakout of expenditures generated by the Project at build-out is further illustrated in Exhibit IV-1 below.



V. LIMITING CONDITIONS

1. KMA has made extensive efforts to confirm the accuracy and timeliness of the information contained in this study. Such information was compiled from a variety of sources deemed to be reliable including state and local government, planning agencies, real estate brokers, and other third parties. Although KMA believes all information in this study is correct, it does not guarantee the accuracy of such and assumes no responsibility for inaccuracies in the information provided by third parties.
2. The findings are based on economic rather than political considerations. Therefore, they should be construed neither as a representation nor opinion that government approvals for development can be secured.
3. The analysis, opinions, recommendations, and conclusions of this study are KMA's informed judgment based on market and economic conditions as of the date of this report. Due to the volatility of market conditions and complex dynamics influencing the economic conditions of the building and development industry, conclusions and recommended actions contained herein should not be relied upon as sole input for final business decisions regarding current and future development and planning.

4. The analysis assumes that neither the local nor national economy will experience a major recession. If an unforeseen change occurs in the economy, the conclusions contained herein may no longer be valid.
5. KMA assumes that all applicable laws and governmental regulations in place as of the date of this document will remain unchanged throughout the projection period of our analysis. In the event that this does not hold true, i.e., if any tax rates change, the analysis would need to be revised.
6. The projections reflect the KMA understanding of the assessment and tax apportionment procedures employed by the County. The County procedures are subject to change as a reflection of policy revisions or legislative mandate. While we believe our estimates to be reasonable, taxable values resulting from actual appraisals may vary from the amounts assumed in the projections. Assumptions have also been made that unitary tax revenues will continue to be allocated in the manner discussed herein and that legislatively-mandated payments to the State will not be required in future fiscal years. These assumptions reflect existing State policies and are subject to future legislative changes.
7. KMA is not advising or recommending any action be taken by the City with respect to any prospective, new or existing municipal financial products or issuance of municipal securities (including with respect to the structure, timing, terms and other similar matters concerning such financial products or issues).
8. KMA is not acting as a municipal advisor to the City and does not assume any fiduciary duty hereunder, including, without limitation, a fiduciary duty to the City pursuant to Section 15B of the Exchange Act with respect to the services provided hereunder and any information and material contained in KMA's work product.
9. The City shall discuss any such information and material contained in KMA's work product with any and all internal and/or external advisors and experts, including its own municipal advisors, that it deems appropriate before acting on the information and material.

attachments

TABLE 1

**ESTIMATE OF STABILIZED FISCAL IMPACT
HARVEST HILLS
CITY OF ESCONDIDO**

I. Annual Recurring Revenues

Property Tax	\$488,000
Property Tax In-Lieu of VLF	\$555,000
Property Transfer Tax	\$33,000
Indirect Sales Tax	\$153,000
Other Revenues	<u>\$146,000</u>
Total Recurring Revenues	\$1,375,000

II. Annual Recurring Expenditures

General Government	\$33,000
Community Services	\$54,000
Community Development	\$0
Public Works	\$75,000
Recycling and Waste Reduction	\$4,000
Public Safety	
Police	\$428,000 (1)
Fire/Emergency Management	\$1,618,000 (1)(2)
Non-Departmental	\$9,000
Community Relations/Center for the Arts	<u>\$4,000</u>
Total Recurring Expenditures	\$2,225,000

III. Net Fiscal Impact	(\$850,000)
Revenues to Expenditures Ratio	0.62

(1) Source: Updated Inputs and Cost Apportionment Methodology, City of Escondido, October 24, 2019.

(2) Includes the portion of the annual estimated cost for a new three (3)-person fire station allocated to the Project. Additionally, the City will incur further recurring annual expenditures of \$463,132 to operate the fire station, representing the allocated cost to provide services to existing and future residents of Specific Plan Area No. 4.

TABLE 2

SUMMARY OF KEY ASSUMPTIONS - ANNUAL RECURRING REVENUES
HARVEST HILLS
CITY OF ESCONDIDO

I. Key Assumptions

A. Project Description

<u>Neighborhood</u>	<u>Units</u>	<u>Unit Size</u>	<u>TRA 78021</u>	<u>TRA 94178</u>
R-1	109 Units	3,569 SF	109 Units	- Units
R-2	119 Units	3,569 SF	119 Units	- Units
R-3	87 Units	3,733 SF	82 Units	5 Units
R-4	51 Units	4,167 SF	- Units	51 Units
R-5	61 Units	4,167 SF	- Units	61 Units
E-1	41 Units	4,805 SF	- Units	41 Units
E-2	<u>82 Units</u>	<u>4,805 SF</u>	- Units	<u>82 Units</u>
Total/Average	550 Units	3,993 SF	310 Units	240 Units

B. Assessed Value

<u>Neighborhood</u>	<u>\$/Unit (1)</u>	<u>\$/SF</u>	<u>Total AV</u>	<u>Total AV</u>
R-1	\$966,000	\$271 /SF	\$105,294,000	\$0
R-2	\$975,000	\$273 /SF	\$116,025,000	\$0
R-3	\$1,027,000	\$275 /SF	\$84,214,000	\$5,135,000
R-4	\$1,107,000	\$266 /SF	\$0	\$56,457,000
R-5	\$1,107,000	\$266 /SF	\$0	\$67,527,000
E-1	\$1,330,000	\$277 /SF	\$0	\$54,530,000
E-2	<u>\$1,324,000</u>	<u>\$276 /SF</u>	<u>\$0</u>	<u>\$108,568,000</u>
Total/Average	\$1,087,000	\$272 /SF	\$305,533,000	\$292,217,000

Total Project Assessed Value **\$597,750,000**

C. Population

		<u>Vacancy</u>		
Number of Units	550 Units	5.0%	3.25 /Persons/Unit (2)	1,698 Persons

(1) KMA estimate based on a review of current and historic market value for single-family homes in San Diego County.

(2) Source: SANDAG Demographic and Socio Estimates for zip code 92027, January 1, 2018.

TABLE 2 (CONT'D.)

SUMMARY OF KEY ASSUMPTIONS - ANNUAL RECURRING REVENUES
HARVEST HILLS
CITY OF ESCONDIDO

II. Annual Recurring Revenues	TRA 78021		TRA 94178	
A. Property Tax Revenues				
Assessed Value		\$305,533,000		\$292,217,000
Property Tax Levy		1.0%		1.0%
Total Property Tax		\$3,055,330		\$2,922,170
County Share of 1.0% Property Tax				
County General	16.8%	\$513,439	17.8%	\$520,538
County Library	3.3%	\$100,954	3.4%	\$98,983
County Flood Control District	0.9%	\$28,751	0.9%	\$26,668
County Service Area No. 135	<u>2.2%</u>	<u>\$66,053</u>	<u>0.0%</u>	<u>\$0</u>
Total Taxes to County	23.2%	\$709,197	22.1%	\$646,188
County Tax Share with City	36.0%	\$255,311	36.0%	\$232,628
Or Say City Share of 1.0% Property Tax		8.4%		8.0%
<hr style="border-top: 1px dashed black;"/>				
B. Property Tax in-lieu of VLF				
Property Tax in Lieu of VLF				\$14,596,000 ⁽³⁾
City of Escondido Assessed Value				\$15,516,843,813 ⁽⁴⁾
License Fee (per \$1,000 in AV Growth)				\$0.9407
Estimated Value				\$597,750,000
(Less) Existing Value				<u>(\$7,606,000)</u> ⁽⁵⁾
Net New Assessed Value				\$590,144,000
License Fee (per \$1,000 in AV growth)				\$0.9407
Property Tax In-Lieu of VLF				\$555,122
<hr style="border-top: 1px dashed black;"/>				
C. Property Transfer Tax				
Total Assessed Value				\$597,750,000
Transfer Tax per		\$1,000		\$0.55
Total Transfer Tax				\$328,763
City Share of Tax		100.0%		\$328,763
Turnover Rate ⁽⁶⁾				10%
Transfer Tax to City				\$32,876

(3) Source: City of Escondido Fiscal Year 2019-2020 Operating Budget, 2019-2020 Budget, page 8.

(4) Source: County of San Diego. Property Valuations, Tax Rates, Useful Information for Taxpayers - FY ending June 30, 2019.

(5) Reflects FY 2020 assessed value for APNs 24027033; 24201002; -36, -37, -38; and 24106003.

(6) Assumes change of ownership every 10 years.

TABLE 2 (CONT'D.)

**SUMMARY OF KEY ASSUMPTIONS - ANNUAL RECURRING REVENUES
HARVEST HILLS
CITY OF ESCONDIDO**

III. Indirect Sales Tax

A.	Average Sales Price		\$1,087,000
	Down Payment	20.0%	\$217,400
	Loan Amount		\$869,600
	Interest Rate		5.5%
	Term		30
	Annual Mortgage		\$59,250
B.	HOA	\$300	\$3,600
	Maintenance/Insurance	\$80	\$960
	Property Taxes	1.09%	\$11,878
	Fixed Assessment Charges		\$29
C.	Total Annual Costs		\$75,700
	% of Income Spent on Housing		35%
D.	Annual Income Required		\$216,300
E.	Total Number of Residential Units		550
	Occupancy Rate		95.0%
F.	Total Full-Time Equivalent Households		523
	Total Household Income (Rounded)		\$113,100,000
G.	Available for Consumer Expenditures	100.0%	\$113,100,000
	Taxable Spending	27.0%	\$30,537,000
	Spending Captured in City	50.0%	\$15,269,000
H.	Annual Sales Tax to City	1.0%	\$152,690

TABLE 2 (CONT'D.)

SUMMARY OF KEY ASSUMPTIONS - ANNUAL RECURRING REVENUES

HARVEST HILLS

CITY OF ESCONDIDO

	<u>Population</u>	<u>Employees</u>	<u>Resident Equivalents (7)</u>
City of Escondido	152,739 (8)	70,729 (9)	188,104
Harvest Hills	1,698	0	1,698

IV. Other Revenues

**FY 2019-2020
Budget**

A. Franchise Fees	\$7,454,000	\$39.63 /RE	\$67,287
B. Fines and Forfeitures	\$1,226,000	\$6.52 /RE	\$11,067
C. Charges for Services			
Police Services	\$355,000 (10)	\$1.89 /RE	\$3,205
Paramedic	\$6,112,000 (11)	\$32.49 /RE	\$55,173
Other Services	<u>\$976,000</u> (12)	\$5.19 /RE	<u>\$8,810</u>
D. Total Other Revenues	\$16,123,000		\$145,541

V. Total Recurring Revenues	\$1,375,000
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(7) Assumes that two employees have same impact as one resident.

(8) Source: California Department of Finance - City/County Population Estimates as of January 1, 2019.

(9) Source: Source: U.S. Census Bureau American FactFinder - Employment by Place of Work, 2013-2017 5-Year Estimates.

(10) Includes Police Services, False Alarms, DUI Cost Recovery, Fingerprinting Revenue, and Restitution.

(11) Includes Services and Transportation.

(12) Includes Community Development charges for services.

TABLE 3

**SUMMARY OF KEY ASSUMPTIONS - ANNUAL RECURRING EXPENDITURES
HARVEST HILLS
CITY OF ESCONDIDO**

	<u>Population</u>	<u>Employees</u>	<u>Resident Equivalents</u> (1)
City of Escondido	152,739	70,729	188,104
Harvest Hills	1,698	0	1,698

	<u>FY 2019-20 Budget</u>	<u>(Less) Marginal Adjustment</u>	<u>Adjusted Budget</u>	<u>Amount per Resident/ Resident Equivalent</u>	<u>Total Expenditures</u>
I. Recurring Expenditures					
A. General Government					
City Council	\$357,675	40%	\$214,605	\$1.14 /RE	\$1,937
City Manager/Video Services	\$1,089,230	40%	\$653,538	\$3.47 /RE	\$5,899
City Attorney	\$171,490	40%	\$102,894	\$0.55 /RE	\$929
City Clerk	\$583,605	30%	\$408,524	\$2.17 /RE	\$3,688
City Treasurer	\$266,335	30%	\$186,435	\$0.99 /RE	\$1,683
Administrative	\$2,012,195	40%	\$1,207,317	\$6.42 /RE	\$10,898
Information Services	\$1,461,995	40%	\$877,197	\$4.66 /RE	\$7,918
B. Community Services	\$8,164,640	40%	\$4,898,784	\$32.07 /Person	\$54,460
C. Community Development	\$3,804,700	100%	\$0	\$0.00 /RE	\$0
D. Public Works					
Public-Works - Engineering	\$2,737,155	40%	\$1,642,293	\$8.73 /RE	\$14,825
Public-Works - Street Maintenance	\$6,823,165	40%	\$4,093,899	\$21.76 /RE	\$36,955
Public Works - Park Maintenance	\$3,464,980	40%	\$2,078,988	\$13.61 /Person	\$23,112
Public Works - Total					
E. Recycling & Waster Reduction	\$659,885	40%	\$395,931	\$2.10 /RE	\$3,574
F. Public Safety					
Police	\$45,928,260				\$427,938 (2)
Fire/Emergency Management	\$24,746,165				\$1,618,431 (2)(3)
G. Nondepartmental	\$1,674,415	40%	\$1,004,649	\$5.34 /RE	\$9,069
H. Community Relations/Center for the Arts	<u>\$2,491,540</u>	80%	\$498,000	\$2.65 /RE	<u>\$4,495</u>
II. Total Recurring Expenditures					\$2,225,000

(1) Assumes that two employees have same impact as one resident.

(2) Source: Updated Inputs and Cost Apportionment Methodology, City of Escondido, October 24, 2019.

(3) Includes the portion of the annual estimated cost for a new three (3)-person fire station allocated to the Project. Additionally, the City will incur further recurring annual expenditures of \$463,132 to operate the fire station, representing the allocated cost to provide services to existing and future residents of Specific Plan Area No. 4.