CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, MAY 16, 2006

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, May 16, 2006, commencing at 7:04 a.m.

A. ROLL CALL

Present: Council Members – Beckman, Hansen, Johnson, and Mayor Hitchcock

Absent: Council Members – Mounce

Also Present: City Manager King, City Attorney Schwabauer, and Deputy City Clerk Perrin

B. TOPIC(S)

B-1 "Receive presentation on an option to close the gap between revenue and expenses resulting from new annexations and residential development and report prepared by the consulting firm of Economic & Planning Systems (EPS)"

City Manager King stated that this presentation is on the concept of a Community Facilities District (CFD) for maintenance related to cost of new development. This is a technique that cities are using to close the gap that exists between the taxes that are generated in new development and the cost to provide services. This does not apply to commercial or retail development; only to new residential development.

Community Development Director, Randy Hatch, reported that there are three types of costs associated with new residential development for the City: 1) one-time costs for processing (i.e. environmental documents, review of permits, annexations, etc.); 2) one-time costs for City services for capital projects (i.e. extension of and capacity to treat sewer and water, drainage, roads, fire stations, etc.); and 3) on-going costs for fire personnel to staff the new fire station, police officers to patrol the new residential area, and park maintenance workers to maintain the new neighborhood park and median landscaping, as well as the additional patrons for cultural and recreational activities, library services, etc. Council recently approved the update to application fees and charges to address costs associated to process development, and the capital costs are now on a regularly updating schedule. The on-going costs for operation are more problematic to recapture. In the past, those costs have been provided by property taxes, but over the last several decades, that mechanism has undergone significant change and has become a challenge for cities. Lighting and landscaping districts have been utilized as a way to deal with maintenance of the parks, streetlights, and median strips; however, it only provides for lighting and landscaping and not for new firefighters, police officers, roads, and maintenance workers. CFDs were derived from the Mello-Roos Community Facility Act of 1982, which is mainly used to cover capital costs, but it also allows for on-going maintenance costs. The goal is for new residential development to pay its fair share and not receive a subsidy from other sectors of the city. California communities are dealing with Proposition 13 and the Educational Revenue Augmentation Fund (ERAF) shift, as well as master tax sharing agreements with the county. Master tax sharing agreements set forth how much of the property tax stays within the county and how much goes into the city for newly annexed areas. The City retained the services of the consulting firm, Economic and Planning Systems (EPS), which specializes in revenue and expense studies.

Russ Powell, Vice President of EPS, presented its analysis on the fiscal impact of new growth in Lodi (filed). The purpose of the analysis was to look at the specific impacts on City services, particularly on general fund supported services, as well as street maintenance, in order to plan for long-term fiscal stability. Annexations of new development have an initial impact on services as the property tax increases; however, long-term analyses show that this base is not strong enough to support the level of services.

The fiscal analysis input included the land use plans for the Reynolds Ranch, Southwest-Gateway, and Westside annexations, and the budget input was Lodi's adopted budget for fiscal year 2005-06. EPS quantified the general fund and street fund revenues into a per capita (or per person served) basis for projecting what the costs and revenue sources might be for new development. Per capita considers those services that primarily serve only the residents of the city; per person served also analyzes the employee population of the city. Revenues that were analyzed included property and sales taxes and the Vehicle License Fee transfer tax. The methodology looked at the projection of trends long term by using either the estimation of per capita service level cost or revenue generation by each of these categories. In some instances, it is necessary to perform a separate analysis of a service area, and EPS looked at park maintenance to determine if the current per capita derivation from the budget is truly funding park maintenance at this level, and it was determined that it was not. In analyzing the revenues and expenditures, EPS backed out the revenues for services to determine the true cost per unit that is attributable to the sales tax base. The analysis also looked at current trends in the source or stability of each financing mechanism and evaluated ERAF to ensure the analysis accounted for any shifts of revenue that are destined for sources other than the City. In Lodi's master tax sharing agreement with the County, it is estimated that 7.5% of the property tax will come from new annexation areas. The bottom line is a $381 per dwelling unit shortfall once these areas are annexed into the City and built out. The alternative methodology would be to look at the expected absorption of all of those units over a period of time, which shows an eroding tax base.

In response to Council Member Hansen regarding the time period for the master tax sharing agreement, Mr. King stated that he was unsure if there was an automatic sunset on the agreement but anticipated that it would carry forward until it was renegotiated. Tax sharing agreements can be unilaterally canceled by either party. A city is typically not going to cancel since an agreement must be in place in order to annex property; therefore, the county has the stronger hand in negotiations. Additionally, there is a county facilities impact fee that is imposed upon developers to pay for the capital costs of new county facilities.

Council Member Hansen expressed concern that the City ought to have a contingency plan should the County change its formula with the tax sharing agreement or the State does not live up to its obligation regarding the ERAF shift, as this would alter the data in the analysis performed by EPS.

Mr. King stated that one of the reasons municipal entities are considering CFDs is that it is a locally controlled tax. Once it is imposed, it is not subject to an ERAF shift and it cannot be taken away by other entities. Other than an inflation index, the tax typically does not change. The development applicant controls the property, as the property owner, with voting rights to impose the tax. Prior to the sale of the property, the developer discloses the annual tax; once the homebuyer owns the property, it then becomes more difficult to change the tax.

Mr. Powell stated that there are a number of factors included in the analysis and any change would shift the numbers, which is why many municipalities revisit the analysis periodically as new developments come in to see if it still stands or if it needs to change.

The analysis considered only the residential shortfall; however, when considering the commercial components to the proposed annexation areas, the difference drops to $280 per unit. This may lead to a policy decision on how to handle the non-residential component and whether or not to impose a special tax or assessment for retail services. Another component that was not considered, but should be evaluated as a separate case study, was that new annexation areas have a higher level of landscaping amenities along the major roads. It was estimated that this would add an additional $100 per unit to maintain.

Mayor Hitchcock questioned if the City would implement both a CFD and a lighting and landscaping district, or if it would be included as one, to which Mr. King responded that this would be a policy decision for the Council to make; however, he recommended having one for simplicity and ease of administration.

Council Member Beckman stated that a lighting and landscaping district is a direct benefit to the residents that live there; however, a CFD tax is passed onto a specific class of citizen that is not realizing a direct benefit, since this is an additional tax for police, fire, and other services for which no one else is paying.

Mr. King responded that the CFD is a benefit to both new and existing residents because, without it, the service levels would deteriorate.

Mayor Hitchcock added that, whatever the mechanism, the need to increase police and fire services would not exist if it were not for new residents and, therefore, it is a direct benefit.

City Attorney Schwabauer commented that the City's master tax sharing agreement with the County provides Lodi with 6 to 7 cents on the dollar of new property taxes; whereas, existing homes pay 17 cents.

Council Member Beckman countered that there is a wide variation in percentages that the City receives from property taxes, to which Deputy City Manager Krueger responded that there are areas that were not subject to the property tax sharing agreement, and the variance has to do with whether the properties have been annexed or not.

Council Member Hansen stated that, if cities want to grow, there needs to be a system in place to close the gap and the responsibility is on policymakers to find ways to keep cities vibrant and financially healthy. Implementing a CFD would provide a greater chance for new homes to be built and would address growth. There are communities that have had exponential growth and they outgrew their ability to provide services; now they do not have enough parks, fire stations, or recreational programs because of the inability to provide funding.

Mr. Powell reviewed the base assumptions EPS used to calculate persons served, land uses, and other data such as the cost of a typical house in each zoning category and what amount of tax will be generated. The numbers were input into the model to derive the estimated primary tax revenue sources. EPS estimated that there are 40 commercial acres proposed for the area; however, it only reduced the shortfall by $100. It was estimated that 20% of sales tax from new residents would stay in the City; the remainder would be spent elsewhere.

Some municipalities have dealt with the gap by collecting a one-time impact fee at the time a building permit is issued; however, this only funds services for a finite period of time. Until there are changes at the state level, there will be a continual drain of revenues from cities and, if left unaddressed, a continual reduction in the amount of services a city can provide. As new areas are annexed, the City will receive an increasingly smaller portion of the tax dollar.

In response to Mayor Hitchcock, Mr. Powell stated that Lodi's percentage of the master tax sharing agreement is on the high side, and many jurisdictions receive less. He believed that Lodi would not be successful in negotiating a higher share as the County is in a worse position than the City.

Mr. Hatch added that municipalities can update and recalculate the study and add additional CFD districts (with a different tax amount) to address changes in city revenues and expenditures, as well as changes in the demand for services for new residents.

Mayor Hitchcock stated that she would prefer a fee with a built-in escalator so that all districts are paying the same amount.

In response to Mayor Hitchcock, Council Member Beckman stated that there are alternatives to consider, one of which is the development agreement process that can bring in revenue in a more equitable manner. Mayor Hitchcock countered that development agreements are a one-time fee.

PUBLIC COMMENTS:

- Myrna Wetzel questioned if money from developments could be put into a fund to gain interest to pay for future needs.

  Mayor Hitchcock responded that the one-time fee, which has been done in the past for lighting and landscaping districts, is insufficient and it is a matter of predicting what the future costs will be for the next 50 to 100 years.

Mr. King stated that staff will continue to discuss this matter with the development community and return to Council with a rate method of apportionment and the necessary documentation to implement the process.

C. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

None.

D. ADJOURNMENT

No action was taken by the City Council. The meeting was adjourned at 8:17 a.m.

ATTEST:

Jennifer M. Perrin
Deputy City Clerk