



MEMORANDUM

DATE: January 25, 2005
TO: City Council
FROM: Finance and Budget Commission
SUBJECT: COVELL VILLAGE FISCAL ANALYSIS

This memorandum serves to provide the City Council with an update on the status of the Finance and Budget Commission's review of the Fiscal Analysis prepared for the Covell Village Project.

Following staff's presentation of the Covell Village Fiscal Analysis to the City Council at its Workshop of January 8th, the Finance and Budget Commission has held two meetings devoted exclusively to this topic. The first being the regular commission meeting on January 10th, and the second being a Special Meeting held on January 19th. The Commission scheduled the second, special meeting specifically in an effort to formulate recommendations and provide comments to the City Council in time for its January 25th meeting related to the Covell Project.

To date, the FBC has identified issues within three separate areas related to fiscal implications of the Covell Project. These include a) the Fiscal Model, which focuses on operating revenues and expenditures, b) the proposed Affordable Housing Program, and c) the application of Development Impact Fees.

The following summarizes issues identified within each area:

A) Fiscal Model – Operating Revenues and Expenditures

The Commission has focused considerable time reviewing the methodology and assumptions used in the model developed to assess the fiscal impact of the project, and have directed a number of questions to staff. At this time, there remain a number of outstanding issues that preclude the commission from endorsing the model as a tool to evaluate the impact of the project. As staff (and the consultant) clarify questions of methodology and provide sufficient rationale for several key assumptions, the commission may be in a position of making a formal recommendation as to the integrity of the model.

Issues include:

- *Dwelling Unit Equivalent (DUE) assumption.* It is unclear why the model uses a DUE factor of 2.64 persons per unit for all single-family units. It may be reasonable to assign different factors depending on the size of the unit. In addition, the DUE factor used by the City in the Development Impact Fee model is 2.83. The commission suggests that consistent (if not more accurate) DUE factors be used in this analysis.
- *Property Resale Rates* – The fiscal model assumes that for-sale single-family homes sell, on average, every 7 years. The analysis does not provide a basis for this assumption, and the commission would be interested in additional information supporting this assumption. In addition, the model applies this assumption by assuming that no properties are subject to resale in years 1 through 7. As an alternative, the model could apply a consistent resale rate for every year (in essence assuming that 1/7th of the homes sell every year). This could provide a more accurate annual projection and have the effect of ‘smoothing’ increases in revenues that are expected in 7-year increments. Relates to this issue, the commission needs additional clarification on the relationship between the resale rate assumptions used in the calculation of property transfer tax revenues and the overall property tax revenues modeled for the project.
- *Property Appreciation Rate* – The model assumes a 5% annual property appreciation rate applied to properties subject to resale. Staff has indicated a high-degree of model sensitivity relative to this assumption. The commission is concerned that the analysis lacks, again, any stated rationale for this assumption. Project proponents have argued that regional housing statistics support a more favorable appreciation assumption, while others caution that recent trends may not be supportable over the 15-year time horizon used in the analysis. The City council has expressed an interest in the commission “weighing-in” on this assumption. The commission believes that the analysis would be better served if Davis-specific data from County Assessor’s data could be evaluated and used as a basis for formulating this assumption. Staff has indicated that county property records are being reviewed, but no information has been provided to date in support of this important assumption.
- *Additional Sensitivity Analysis Warranted* - Staff and the consultant have conducted sensitivity analyses on selected independent variables used in the fiscal model. While these analyses are informative, the commission would recommend that this analysis be extended to provide a “best-case” and “worst-case” analysis for a number of the variables. This would provide a “range” of fiscal outcomes for the project and better convey how the project could impact the City.

B) Affordable Housing Program

The Commission is interested in better understanding the Affordable Housing Program proposed by the project applicant. In addition to the program’s impact on the overall fiscal analysis, the commission is interested in how the proposal addresses long-term affordability, what level of

risk will be borne by the City, and how the program addresses low-income as well as middle-income affordability goals. Specific questions of the Affordable Housing Program include:

- Rate of appreciation of the silent second financing
- Interest rate to be charged on the silent second
- Impact of capping appreciation rate on affordable homes to overall appreciation rates used in the fiscal analysis
- Home-ownership requirement
- How is long-term affordability maintained if incomes do not keep pace with rising housing costs
- Are affordable housing units expected to turn-over at the same rates as all other units
- What is the cost to the City of administering the affordable housing program?

C) Development Impact Fees / Developer Agreement

A major fiscal component of the Covell Project is the applicability of the City's Development Impact Fees. The fiscal analysis prepared to date focuses exclusively on the annual operating revenues and expenditures and excludes any analysis of applicable development impact fees.

The Commission believes that an analysis of the fiscal impact of this project necessitates a review of development impacts and corresponding impact fees. The Commission has been advised that a study of development impacts is currently underway; however, in the absence of this study, the commission – and indeed, the public – can not fully assess how this project will affect the community nor the City's fiscal condition. The commission sincerely hopes that ample time will be provided in the public review process to evaluate all of the project's fiscal impacts, including operating and capital components.