

LOCAL AGENCY FORMATION COMMISSION
SAN BENITO COUNTY

2301 Technology Parkway
Hollister, CA 95023
Phone: (831) 637-5313

January 28, 2016 (Agenda)

Local Agency Formation Commission
2301 Technology Parkway
Hollister CA 95023

Contract with BAE Urban Economics to Prepare Fiscal Analysis

Dear Members of the Commission:

RECOMMENDATION

It is recommended the Commission approve and authorize the Chair to sign a contract with BAE Urban Economics to prepare a fiscal analysis related to mitigating the fiscal impacts of new residential development, funding for the contract is provided by the County of San Benito and City of Hollister.

DISCUSSION

Enclosed, as background information, is our May 28, 2015 report to the Commission which provides a useful explanation of this subject.

At that time the Commission authorized the LAFCO staff to supervise a consultant, if one is selected, to prepare an analysis related to mitigating the fiscal impacts of new residential development, subject to funding being provided by the affected agencies.

In conjunction with the County and City of Hollister your staff distributed a Request for Proposals (RFP) to firms that provide fiscal analysis to determine costs and revenues for the County and the City based on whether new residential development occurs (a) within the limits of the City of Hollister or (b) within the unincorporated area.

The RFP was sent to 22 firms that perform these types of studies. Proposals were received from BAE Urban Economics and David Taussig & Associates.

After review it is the consensus of the County, City of Hollister and LAFCO staffs that BAE Urban Economics should be retained to complete this analysis. It is agreed the expense of the contract will be borne by the County and the City and the LAFCO staff will administer the consulting services agreement

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Consulting Agreement with BAE Urban Economics
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The BAE Urban Economics proposal is enclosed for Commission review. A contract between the Commission and the consulting firm will be provided prior to the meeting but we wanted to get this report to the Commission without further delay

Please contact the LAFCO staff if you have any questions.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Bob Braitman", followed by a horizontal line.

BOB BRAITMAN
Executive Officer

Enclosures: May 28, 2015 LAFCO staff report to the Commission
BAE Urban Economics Consulting Proposal

cc: Bill Avera, City Manager, City of Hollister
Ray Espinosa, County Administrative Officer
Joe Paul Gonzalez, County Clerk, Auditor & Recorder
Roger Grimsley, City Manager, City of San Juan Bautista
Brent Barnes, Director, County Resources Management Agency
Matt Granger, LAFCO Legal Counsel
Barbara Thompson, Assistant County Administrative Officer
Janet Smith-Heimer, President, BAE Urban Economics

LOCAL AGENCY FORMATION COMMISSION
SAN BENITO COUNTY

2301 Technology Parkway
Hollister, CA 95023
Phone: (831) 637-5313

May 28, 2015 (Agenda)

Local Agency Formation Commission
2301 Technology Parkway
Hollister CA 95023

**Consider Contracting with Consultant to Prepare Fiscal Analysis
Related to Mitigating Fiscal Impacts of Residential Development**

Dear Members of the Commission:

RECOMMENDATION

It is recommended the Commission if requested by the County of San Benito and the City of Hollister agree that the LAFCO staff be authorized to supervise work of a consultant to prepare a fiscal analysis related to mitigating the fiscal impacts of new residential development, provided funding is provided by the affected agencies.

DISCUSSION

State law prohibits the LAFCO staff from issuing a "Certificate of Filing" and setting a proposed annexation for hearing until there is a tax exchange agreement approved by the Board of Supervisors and the City Council of the annexing city.

A contentious issue in San Benito County is the existing tax exchange requirement for annexations to the City of Hollister to proceed. For residential annexations to the City, in addition to reapportioning the property taxes in the annexation area once the territory is within the City, the standard agreement requires the City to pay to the County a specific amount of money for each projected residential unit. That amount is passed directly to the landowner/developer as a cost of development.

However, such per-unit obligations do not apply if the property is developed in the unincorporated area, which leads developers to resist or oppose annexation to the City and to pursue County land use approval in order to avoid having to pay that per unit fee.

A problem of allowing unincorporated residential development, often within the Sphere of Influence of the City, is the creation of illogical and cumbersome service areas which are costly and difficult for the County to serve and increase demands on the City to provide services for properties that are not technically within the City.

This pattern of development and municipal boundaries also creates confusion regarding service areas for law enforcement, street maintenance, recreation services and so forth. It deprives many residents of the Hollister area from being able to vote in municipal elections despite the fact they are affected by decisions made by the City Council.

The results of a fiscal analysis may conclude that similar fees should be levied for similar projects proposed either inside or outside the City, thereby reducing or alleviating opposition by developers being required to annex in order to develop their project.

The LAFCO staff has recently been engaged in productive discussions with County and City staff regarding revisions to the property tax exchange agreement. It is felt that such a revision should require a fiscal analysis by a qualified consultant so that costs and revenues related to new residential development can be accurately calculated.

In such discussions, the question has been raised of whether the LAFCO staff would be willing and available to supervise the work of the fiscal consultant, once one is selected, to ensure that the interests of both the County and the City are carefully and objectively taken into consideration.

I indicated that if the County and City would request the Commission to authorize the LAFCO staff to manage the contract with the fiscal consultant, and these agencies would provide necessary funding for the consultant contract, I would be willing to recommend that the Commission authorize the staff to provide this service.

Should such a request be forthcoming, it will be after the start of the new fiscal year and we would expect that funding for the contract with the consultant would be provided by the interested agencies to augment the Commission's adopted budget.

Please let me know if you have any questions.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Bob Braitman", followed by a long horizontal flourish line.

BOB BRAITMAN
Executive Officer

cc: Bill Avera, City Manager, City of Hollister
Ray Espinosa, County Administrative Officer
Joe Paul Gonzalez, County Clerk, Auditor & Recorder
Roger Grimsley, City Manager, City of San Juan Bautista

bae urban economics

December 2, 2015

Bob Braitman Executive Officer
San Benito Local Agency Formation Commission
2301 Technology Parkway
Hollister, CA 95023

Dear Mr. Braitman:

We are pleased to submit the enclosed proposal to prepare the Fiscal Study Related to Residential Development the Vicinity of the City of Hollister. Our firm is well-suited to conduct this analysis, due to past work experience on these same issues. In 2010, we prepared a similar analysis for San Benito County and the City of Hollister, which sought to incorporate the then-rising costs of service provision to apply to new annexations through an updated Revenue Sharing Agreement. More recently, we conducted a peer review of another consultant's fiscal impact study for the proposed San Juan Oaks project. Through both of these and additional related tasks conducted for San Benito County, we have developed a strong understanding of the challenges facing both the City of Hollister and the County as the area continues to develop, adding substantial residential and commercial service populations with different service demands than the historic rural land uses.

Due to our recent work for the County in 2015, we have reviewed the County budget and formulated an understanding of the challenges related to lower current funding than actual matching between demanded services and those true costs, posing a challenge for upcoming development approvals. We stand ready to support this much-needed update on the fiscal effects of rapid urbanization, so that both the City of Hollister and San Benito County can better align fiscal policies with efforts to manage annexations and provide public services.

Please note that due to page limits, we have not provided information about multiple LAFCo assignments completed by BAE, including work for the Santa Cruz County, Santa Clara County, and San Mateo County LAFCo within the past 3 years. That information is available upon request.

This enclosed proposal is effective for the next 90 days. We look forward to working with you on this study.

Sincerely,



Janet Smith-Heimer, MBA
President

San Francisco

2600 10th St., Suite 300
Berkeley, CA 94710
510.547.9380

Sacramento

803 2nd St., Suite A
Davis, CA 95616
530.750.2195

Los Angeles

706 S. Hill St., Suite 1200
Los Angeles, CA 90014
213.471.2666

Washington DC

1400 I St. NW, Suite 350
Washington, DC 20005
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New York City

49 West 27th St., Suite 10W
New York, NY 10001
212.683.4486

Proposed Scope of Work

Approach

The County of San Benito and the City of Hollister face several important fiscal challenges related to new development. First, as outlined in the RFP for this study, there is an uneven current fiscal impact mitigation situation affecting developers' decisions regarding whether to annex new development projects located within Hollister's Sphere of Influence (SOI). The City charges a per-residential unit mitigation fee to offset its project fiscal deficit, and the County does not¹. The RFP to which this proposal responds, seeks to address this fundamental difference, and the effects it has on developer decisions to apply for annexation versus County development approvals.

In addition, both the City and the County, like many jurisdictions in California, is still recovering from the fiscal and economic effects of the Great Recession. While recovery is strongly underway in the core urbanized Bay Area, San Benito County's home prices have remained more affordable, spurring renewed interest in developing previously-planned large subdivisions. While public service costs have risen due to general economic recovery, tax revenue growth has been more uneven. Moreover, when BAE worked approximately 12 months ago for the County to peer review the San Juan Oaks Specific Plan Fiscal Impact study, it became clear that the County had not yet been able to update its level of service goals that had been lowered to match revenue declines during the Great Recession. To further complicate County fiscal challenges, growth pressures continue to increase, and its most recent General Plan Update (prepared during the recession), did not anticipate the lags and spurts and resulting fiscal pressures that face the County today. BAE is less familiar with Hollister's underlying fiscal situation at present, but we expect that somewhat similar lags in revenues and spurts in demand for services at higher levels is also occurring.

Another challenge underlying forecasts of future fiscal impacts of development relate to the pace of development and assumed values of new real estate projects. In some real estate markets, home sale price for new product is influenced by the market knowledge of whether municipal services will be provided by the nearby city or the more rurally-focused county, especially with respect to police and fire services. Since police services are contracted for by the County from the City, this may be somewhat lessened as a price factor. Other market perceptions, however, may still be at play related to these different scenarios for service provision.

¹ BAE analyzed this situation in 2009, in the context of updating the County/City of Hollister Revenue Sharing Agreement, and recommended a consistent fee methodology, which included a higher mitigation fee to be charged by the County due to its higher costs.

Scope of Work

Task 1: Start-Up Meeting and Tour

This task will include a start-up meet with key County, City and LAFCO representatives to orient BAE to the current context in which the study is taking place. BAE will also tour the subject areas.

Task 2: Collect, Organize, and Review Data and Background Studies

To best analyze the issues outlined in the RFP, BAE recommends a methodology that is based on a 10-year forward projection of revenues and costs under varying scenarios of service provision. In this way, the absorption of residential units, and the associated timing and relevant orders of magnitude of new, anticipated development, can be best incorporated into the analysis.

For this task, BAE will collect the following materials from relevant parties and will organize the information for further analysis:

- Most recent County budget
- Most recent City budget
- Most recent special districts' budgets as applicable
- Most recent Revenue Sharing Agreement between City and County
- Most recent LAFCo assessment of municipal services provision covering subject area
- General Plan land use designations for subject area
- List of known applications and entitled development projects in subject area
- Any level-of-service studies for roads, infrastructure, social services, or other municipal/county services affecting study area
- Any relevant fiscal impact studies submitted to City or County relevant to this study

BAE will organize and analyze the above data from the perspective of types of services needing to be provided to new residents in the subject area. In particular, BAE will analyze both City and County costs (expenses), both current and forecasted (or any levels of service changes known to be upcoming or under consideration), in order to project the total costs per new household to provide all services to its new resident population over the next 10 years.

Task 3: Estimate Total Service Population or Next 10 Years

Based on planned and proposed projects, as well as any others not yet planned/proposed but can be reasonably expected to occur over the next 10 years, BAE will formulate an estimated total service population for the subject area.

Task 4: Interview Finance Directors and Any Relevant Special Districts

This task will help further parse the costs for the subject area, by differentiating costs that would occur within the City of Hollister versus costs to serve the subject area (e.g., SOI). To the extent the subject area represents a future expanded SOI, these costs will also be analyzed from the opposite perspective (e.g, costs to County that could shift due to expanded SOI).

These costs will also be analyzed based on the metric of initial up-front costs (one-time start up costs for a service), ongoing costs, and one-time emergency costs².

To parse these costs in this manner, BAE will interview the City and County Finance Directors and any relevant Special Districts to develop estimates from the existing budgets and other information, related to the issues identified. These interviews will also review assumptions related to average vs. marginal costs per service population.

Task 5: Estimate Service Costs for Two Scenarios (City-Provided and County-Provided)

BAE will utilize the above information to create the “cost” portion of a 10-year model for fiscal impact analysis purposes (see revenue portion below). One scenario will estimate all relevant residential service costs if provided by the City and special districts, and the second scenario will estimate the same costs if provided by the County and special districts.

Task 6: Formulate Revenue Assumptions

This task will require limited market research to estimate property values for purposes of estimating property tax revenues, a key component of fiscal revenues over the 10-year period. BAE will analyze all available new home sales, as well as existing home sales for newer units, to formulate estimates of likely future new home values.

BAE will also develop absorption estimates to time new development (and commensurate need for initial start up and ongoing thereafter) for each year of the 10-year period under analysis.

Task 8: Estimate All Fiscal Revenues under the Two Scenarios (City-provided vs. County-provided)

BAE will estimate all General Fund, special fund, and special district revenues for the new residential population based on above tasks under the two scenarios. This will include all federal and state funds, as well as locally-generated revenues from property taxes (and periodic resales of homes at higher values) sales taxes, user fees, franchise fees, state subventions, and any relevant special district ongoing assessments for operations. This analysis will exclude the existing Revenue Sharing Agreement payments, since this is among the items being analyzed in this study.

Task 9: Prepare Preliminary Draft Fiscal Study

BAE will prepare a Preliminary Draft Fiscal Study, based on the analysis per the above tasks, and comparing the bottom line net fiscal impacts under the two scenarios. The Preliminary

² It should be noted that the RFP did not include one-time capital costs as translated to impact fees, which would require a nexus study to estimate or update. The “one-time start up costs” is per the RFP, and assumed to capture the “initial” operating costs that might be higher than ongoing costs.

Draft Fiscal Study will be provided in MS Word, for review by County, City and LAFCO staffs.

Task 10: Prepare and Present Final Fiscal Study

Based on review and comments per above, BAE will revise the preliminary draft report and prepare a Final Study. This task will also include up to 3 public presentations of the Study (see budget for per-presentation fees).

Task 11: Provide Additional Information as Necessary

BAE will be available to provide additional information as necessary, on a time and materials basis.

Schedule

The following schedule assumes a contract authorization date no later than December 18, 2015, per the RFP, and a completion date to Preliminary Draft Report by February 19, 2016 (a two-month study period). The following shows BAE's estimate of schedule per task, with this two-month study period incorporated:

Task	Completed by:
1: Start-Up Meeting and Tour	12/20/2015
2: Collect, Organize, and Review Data and Background Studies	1/10/2016
3: Estimate Total Service Population or Next 10 Years	1/10/2016
4: Interview Finance Directors and Any Relevant Special Districts	1/15/2016
5: Estimate Service Costs for Two Scenarios	1/20/2016
6: Formulate Revenue Assumptions	1/25/2016
8: Estimate All Fiscal Revenues under the Two Scenarios	2/10/2016
9: Prepare Preliminary Draft Fiscal Study	2/19/2016
10: Prepare and Present Final Fiscal Study	TBD
11: Provide Additional Information as Necessary	TBD

Budget and Fees

BAE will complete the above tasks in accordance with the following budget:

	Smith-Heimer President	Shiver Principal	Hagar Sr. Assoc.	Schreiber Analyst	Total
Hourly Rate	\$ 300	\$ 265	\$ 200	\$ 100	
1: Start-Up Meeting and Tour	5	5	5	0	\$ 3,825
2: Collect Data & Background Studies	2	8	12	12	\$ 6,320
3: Estimate Total Service Population or Next 10 Years	0	10	15	10	\$ 6,650
4: Interview Finance Directors	0	8	5	0	\$ 3,120
5: Estimate Service Costs for Two Scenarios	2	5	20	5	\$ 6,425
6: Formulate Revenue Assumptions	2	10	5	10	\$ 5,250
8: Estimate All Fiscal Revenues	2	20	5	5	\$ 7,400
9: Prepare Preliminary Draft Fiscal Study	2	20	5	0	\$ 6,900
10: Prepare and Present Final Fiscal Study	2	15	10	0	\$ 6,575
11: Provide Additional Information as Necessary	0	5	0	0	\$ 1,325
Subtotal Labor	17	106	82	42	
Subtotal Fee	\$ 5,100	\$ 28,090	\$ 16,400	\$ 4,200	\$ 53,790
Expenses (travel and data purchase)					\$ 700
Total Fee					\$ 54,490

BAE will invoice monthly for the duration of the contract. Note that Task 11 will be billed only as needed, in an hourly rate basis. Additional availability beyond the amount shown will be billed on the same time and materials basis.