



# CITY COUNCIL AGENDA STATEMENT



**March 16, 2021**

**File ID: 21-0579**

## **TITLE**

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA, ACTING IN ITS CAPACITY AS THE LEGISLATIVE BODY OF COMMUNITY FACILITIES DISTRICT NO. 17-I (WESTERN CHULA VISTA DIF FINANCING PROGRAM), EXTENDING THE TERM OF ANNEXATION OF PROPERTY INTO SUCH COMMUNITY FACILITIES DISTRICT AND TAKING CERTAIN OTHER ACTIONS RELATING THERETO

## **RECOMMENDED ACTION**

Council adopt the resolution.

## **SUMMARY**

In March 2016 the City Council formed Community Facilities District 17-I (“CFD No. 17-I” or the “District”) the Western Chula Vista Development Impact Fee (DIF) Financing Program. CFD No. 17-I was established for the purpose of financing the payment of certain DIF obligations for apartments, commercial or industrial properties in Western Chula Vista (i.e., the area generally located between Interstate 5 and Interstate 805), and the Chula Vista Auto Park, which is situated to the east of Interstate 805 and to the west of Heritage Road. CFD No. 17-I was established for a period of five years, expiring in March 2021. The proposed resolution would extend the program for an additional five years and allow annexations into CFD No. 17-I through March 2026.

## **ENVIRONMENTAL REVIEW**

The Director of Development Services has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a “Project” as defined under Section 15378 of the State CEQA Guidelines because it will not result in a physical change in the environment; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines, the activity is not subject to CEQA. Thus, no environmental review is required.

## **BOARD/COMMISSION/COMMITTEE RECOMMENDATION**

Not applicable.

## **DISCUSSION**

The District was formed in March 2016 with the expectation that it would induce investment in the Western Chula Vista area by allowing the deferral of Development Impact Fees. Increasing construction costs and high equity requirements presented a financing challenge for the development of infill projects. To date, six separate properties have annexed into the District and are either completed or under construction, providing much-needed new housing in Western Chula Vista. These projects collectively represent an investment value

of over \$100 million into Western Chula Vista and will bring over 500 new rental units to the City and up to 1,200 new residents to the area. The total amount of fees deferred for these projects represents about 10% of the total investment costs, approximately \$10 million to-date.

Below is a list of projects that have annexed into CFD No. 17-I and the amount of fees deferred to-date:

CFD 17-I Projects							
Year	Project	Dwelling Units	Commercial SF	PAD	PFDIF	WTDIF	Total Fees Deferred
2016	Villa del Oro	80	2,114	\$ 614,960	\$ 751,840	\$ -	\$ 1,366,800
2017	Urbana	135	0	\$ 1,056,375	\$ 1,295,050	\$ 135,690	\$ 2,487,115
2018	260 Broadway	62	0	\$ 593,092	\$ 583,555	\$ 30,319	\$ 1,206,966
2018	288 Center	43	0	\$ 411,338	\$ 444,491	\$ 48,715	\$ 904,544
2018	230 Church	26	0	\$ 277,414	\$ 299,773	\$ 32,854	\$ 610,041
2020	Bonita Glen	170	0	\$ 1,642,030	\$ 1,796,730	\$ 25,784	\$ 3,464,544
<b>Total</b>		<b>516</b>	<b>2,114</b>	<b>\$ 4,595,209</b>	<b>\$ 5,171,439</b>	<b>\$ 273,362</b>	<b>\$ 10,040,010</b>

The Western Chula Vista Financing Program allows the deferral of the following three Development Impact Fees:

1. Public Facilities Development Impact Fee (PFDIF) which includes: Civic Center expansion, Police Department facilities, Corporation Yard relocation/expansion, Library system expansion, Fire Suppression system expansion and Recreation Facilities.
2. Western Area Parkland Acquisition and Development Fee (PAD) (residential projects only) for acquisition and construction of parks.
3. Western Transportation Development Impact Fee (WTDIF) for construction of facilities listed in the WTDIF program. Only that portion that is not allocated to the San Diego Association of Governments (SANDAG) pursuant to the Regional Transportation Congestion Improvement Program, as required by SANDAG’s TransNet Extension Ordinance may be deferred.

While some public facilities may be potentially delayed, the interest charged on the fees deferred to-date will earn over \$4 million of interest that will accrue to each of these funds, in addition to the positive fiscal impact of over \$100 million investment in Western Chula Vista. This new investment increases property values and the City in turn receives incremental additional property tax revenues.

A “future annexation area” was established when CFD No. 17-I was formed. Only properties within the boundaries of the annexation area can annex into the District. The process for annexation in CFD No. 17-I takes approximately 4 to 6 months and requires City Council approval. Upon annexation, a lien is recorded against the property which documents the payment obligation in the public record. The fees are deferred for a period of 10 years and then payments are collected twice a year via property tax payments for the subsequent 20 years. The deferred fees accrue interest at a rate of two percent per annum on the outstanding balance. If a property is sold or subdivided, the obligation to repay the fees runs with the land. The non-payment period aligns with standard commercial lending practices. Often these types of projects are refinanced at the 10-year mark, providing an opportunity for the debt to be paid in full. The goal of the fee deferral program was to incentivize development and, while this has been accomplished, the projects took longer to come to market

than previously anticipated. Now, five years later smaller infill projects are still difficult to commercially finance mainly due to the increasing cost of infill construction, including the practice of building podium parking to maximize efficient use of the site, and rents that don't yet support these increased costs. When CFD No. 17-I was formed, the City Council determined that in any one year, after a project was approved that increased the number of units annexing into the District over 200, staff would schedule an action item to be discussed by the City Council to address the impacts and the need to continue the program. Less than 200 units were annexed in any given year and only 516 total units were annexed over the past five years; therefore, that requirement was never triggered.

There are many opportunities for redevelopment in Western Chula Vista and staff has been approached by developers inquiring about the status of the CFD No. 17-I fee deferral program for their proposed projects. It has become an essential tool for infill projects to be financially feasible and attract equity. In order to support continued redevelopment in Western Chula Vista, staff proposes to extend the program for an additional five years, through March 2026. When the District was formed, it was anticipated that the annexation area could produce approximately 1,000 residential units. Since approximately 500 units have been annexed to-date, it is proposed that an additional 500 be authorized to annex over the next five years, and after an annexation is approved that puts the total number of units over 500, staff will schedule an action item to be discussed by City Council to address the impacts and the need to continue the annexation of properties into CFD No. 17-I.

In May 2020 the City Council adopted the COVID-19 Economic Recovery Plan which included the extension of the CFD No. 17-I Fee Deferral Program for an additional 60 months as part of an initiative to encourage a more business-friendly environment that would minimize additional costs and burdens to do business in Chula Vista. This action provides additional parameters in the resolution for the extension of CFD No. 17-I that were not included in the Economic Recovery Plan.

To date, the CFD No. 17-I program has been successful as evidenced by the new development that has occurred which translates into increased assessed valuation, a positive impact on the neighboring property values, while also helping new residents and employees support the surrounding businesses located along the retail corridors.

#### **DECISION-MAKER CONFLICT**

Staff has reviewed the decision contemplated by this action and has determined that potential individual projects/annexations are not site-specific and consequently, the real property holdings of the City Council members do not create a disqualifying real property-related financial conflict of interest under the Political Reform Act (Cal. Gov't Code § 87100, *et seq.*).

Staff is not independently aware, and has not been informed by any City Council member, of any other fact that may constitute a basis for a decision-maker conflict of interest in this matter.

#### **CURRENT-YEAR FISCAL IMPACT**

Development Impact Fees are enterprise funds and therefore there is no fiscal impact to the General Fund due to the fee deferrals. There are no new annexations in process as of this date and the developer is required to advance funds to the City to cover the costs incurred by the City in undertaking the annexation

proceedings. Given the length of time for project approval, annexation to the District and project construction, it is unlikely that there would be any fiscal impacts to the Development Impact Fee funds in the current fiscal year because there is not likely to be new units to pay the fees. Therefore, there is no current year fiscal impact as a result of this action.

#### **ONGOING FISCAL IMPACT**

Development Impact Fees are enterprise funds and therefore there is no on-going fiscal impact to the General Fund. Developers will continue to pay for all costs associated with the annexation of properties into CFD No. 17-I.

New development will continue to mitigate impacts resulting from each respective project by paying Development Impact Fees; however, the deferred collection of these funds may delay the construction of some public facilities.

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