

CITY OF MODESTO
COMMITTEE AGENDA REPORT

DATE OF MEETING:
March 8, 2010

Date: February 9, 2010

TO: Economic & Development Committee
Kristin Olsen, Chair
Brad Hawn, Vice-Chair
Dave Geer, Member

THROUGH: Greg Nyhoff, City Manager

FROM: H. Brent Sinclair, AICP, Director of Community & Economic Development

SUBJECT: Village One – Status Update

CONTACT: Tina Rocha, Administrator, Infrastructure Financing Program
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DESCRIPTION:

Provide a status update on Village One and discuss the Facilities Priority List.

FISCAL IMPACT:

There is no general fund impact.

BACKGROUND:

In 1989-1990, the City of Modesto initiated planning of the area now known as the Village One Specific Plan area ("Village One"). The original Village One plan contemplated a pedestrian oriented, self-contained neighborhood concept that offered housing to accommodate various income levels. In addition, the original plan called for a number of landscaped areas as well as other amenities. Over the years, substantial revisions to the original plan occurred including a reconfiguration of streets, a reduction of landscaped areas, and a modification to the financing strategy.

In 1990, the first of several Financing Plans for Village One was adopted. The main financing strategy called for a combination of funding sources including Capital Facilities Fees ("CFF")* and either a Mello-Roos Community Facilities District ("CFD") or Assessment District. The total public facilities and infrastructure cost for the 1990 plan were conservatively estimated at \$215,000,000. In 1992, the City Council lowered CFF by 20% to encourage development. This was followed by a Village One feasibility study in 1994 to determine what was inhibiting the development of Village One and what steps the City could take as corrective action to stimulate development. This report identified several factors including the economic climate at that time, lack of landowner and developer confidence in the City's ability to implement the plan, design

* The CFF program is a city-wide development impact fee whereas the Village One CFD is a special taxing district created to provide a funding and reimbursement mechanism for public facilities and services required to serve the Village One area.

concerns, and excessive costs built in from initial development through finished product (25-30% higher than other recently developed Modesto neighborhoods.) Subsequently, several different financing plans were approved and utilized by the City. The cost estimates changed significantly from plan to plan and ultimately reduced the cost estimates of the public facilities and infrastructure from \$215,000,000 in 1990 to \$125,854,677 in 1996/97 while the public improvements to be funded stayed relatively the same.

In 1996, City of Modesto Community Facilities District No. 1996-1 (Village One) was formed. By the end of 2000, approximately one-third of the Village One Specific Plan area had been developed and there was concern that the financing strategy in place at the time would be inadequate to support existing and future development needs. The following events then took place:

- 2001: The City contracted with Goodwin Consulting Group, Inc. (GCG) to study the infrastructure financing for the Village One Specific Plan area and to provide a plan for the timely funding of facilities needed as development of Village One progressed. The administrative draft of the GCG Infrastructure Financing Plan (IFP) identified a possible shortfall of up \$25.8 million in the CFD and stated that “CFF may be insufficient to pay for CFF-funded infrastructure in Village One.”
- May 28, 2002: An updated Village One IFP was presented to and accepted by the City Council.
- June 4, 2002: The City Council adopted an ordinance imposing a 45-day moratorium within the Village One Specific Plan Area.
- July 9, 2002: The City Council extended the 45-day moratorium by 10 months and 15 days to allow staff time to evaluate and initiate changes to the Village One Specific Plan, the Village One FMP, and the Village One IFP and to implement the revised IFP through the creation of a new CFD.
- October 22, 2002: The City Council adopted the Village One Facilities Prioritization List and provided administrative direction associated therewith.
- October 22, 2002: The City Council hired the firm of Vavrinek Trine Day & Col. LLP (the “Auditor”) to perform audits of the financial statements and administrative practices of the City’s Community Facilities Districts. The firm made general findings with respect to the City’s CFDs and specific findings related to the factors that contributed to the Village One shortfall. Following is a summary of the Village One findings:
 - CFD special taxes were not sufficient to meet the 2002 infrastructure estimates.
 - CFF was not sufficient to meet the 2002 infrastructure estimates
 - Briggsmore (Oakdale to Claus)
 - Claus (Sylvan to Briggsmore)
 - 9 Traffic Signals & Connectors
 - 4 Community Parks
 - Fire Facilities

- The City lowered its standards for subdivision map requirements by not requiring the installation of public street improvements. This practice change unduly burdened the City's CFD tax base and the CFF Program
- Infrastructure costs had escalated since the 1997 financing plan was adopted.
- Costs were consistently decreased each time the financing plan was revised to encourage development in Village One. Costs were reduced to at least 20% below the level need to adequately fund the Village One infrastructure.
- Administrative costs were underfunded.
- Cash-flow shortages were to be expected with the "pay-as-you-go" approach and issuance of debt would have assisted with timely funding of needed infrastructure.
- Land costs, originally programmed at \$40,000/acre, increased significantly to \$150,000/acre. Even by 1991 standards, the \$40,000/acre estimate was too low.
- Numerous credit arrangements were not formally documented.

(Provided as Attachment 1 is an excerpt from the *CFD Performance Audit* ("Auditor's Report") regarding efforts and changes implemented by the City and the Auditor's analysis of the shortfall issues for Village One.)

- January, 2003: The City Council adopted a revised Facilities Priority List, provided as Attachment 2. This list prioritized the authorized facilities to be funded by a future CFD and provided that projects within a Priority needed to be completed or have sufficient monies allocated to the project before a project in a lower priority could be funded.
- April, 2003: The City Council adopted a revised IFP.
- April, 2004: CFD No. 2004-1 (Village One #2) was formed.
- January, 2006: The City Council authorized the sale of Special Tax Bonds.
- March 8, 2006: CFD No. 2004-1 issued Special Tax Bonds with a principal balance of \$31,085,000, primarily to finance public improvements within the Village One area.

Current Status

Since formation of CFD No. 2004-1 (Village One #2), approximately 339 acres, comprised of 280 acres of single family residential, 34 acres of multi-family residential and 25 acres of commercial, have annexed to CFD No. 2004-1. To date, these properties have generated approximately \$11.8 million in one-time facilities special taxes. The one-time special tax revenues, combined with the net proceeds from the 2006 Special Tax Bond issuance, have allowed CFD No. 2004-1 to complete many capital projects for the Village One area.

The 2003 IFP indicated that it would be highly unlikely that all authorized facilities could be funded based on existing cost estimates and revenue projects. Therefore, when the Facilities Priority List was established, there were five projects that were listed in Priority 6 and identified

as “unlikely to be funded.” Due to an increase in land values between the time that CFD No. 2004-1 was established and sale of the bond in 2006, more net construction proceeds were generated than were originally anticipated. Additionally, most, if not all, of the recent capital projects funded by CFD No. 2004-1 special tax revenues have been constructed for less than was originally contemplated in the FMP and IFP. These savings have allowed Priority 5 projects to be funded sooner than originally contemplated. Staff believes it would be a good time to review the projects remaining to be funded and, perhaps, make changes to the priority of those remaining projects.

STRATEGIC PLAN ELEMENT:

General Infrastructure – This project supports the Council’s goal to focus resources on modern, efficient, attractive and cost competitive infrastructure.

Approved by:

H. Brent Sinclair, AICP
Director of Community & Economic Development

Greg Nyhoff, City Manager

Attachments:

1. Excerpt from the CFD Performance Audit regarding efforts and changes implemented by the City and the Auditor’s analysis of the shortfall issues for Village One.
2. Facilities Priority List
3. Village One Map

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Background and Project Narrative

Beginning in 1990's, the City of Modesto adopted various specific plans for several developing areas located in the City. In conjunction with the specific plans, the City assisted landowners in forming community facility districts as financing mechanisms for installing and maintaining certain aspects of the needed infrastructure that will serve those areas. Over the span of several years, six specific plans and corresponding community facility districts were adopted and formed. Five of the six of these areas are located in the northern and northeastern part of the City. The following table provides a brief synopsis of the formation:

CFD Number Specific Plan Name	Date Formed	Specific Plan Acreage	Approx. Dwelling Units	Percent Built Out	Approximate Location
1996-1 Village One	Apr 1997	1784	8000	31%	Northeast side of City
1997-1 North Breyer	June 1997	160	1200	33%	North of Mable, East of Coffee
1998-1 Enterprise	June 1998	80	Industrial	100%	South Central side of City
1998-2 Carver/Pelandale	Mar 1999	480	3400	84%	North of Snyder, East of Dale
2000-2 Coffee-Claratina	Nov 2000	131	1000	39%	East/McHenry, South /Claratina
2002-1 NorthPointe	Feb 2002	55	Commercial	64%	North/Pelandale, East/Hwy. 99

Village One CFD 1996-1

The City of Modesto formed the Village One Community Facilities District to generate funding (through a one-time tax) for the installation of street arterials, storm drains and drainage basins. The specific plan calls for the area to have primarily residential with some portions set aside for mixed commercial use.

North Beyer CFD 1997-1

The City of Modesto formed the North Beyer Community Facilities District to generate funding for the installation of road improvements and the maintenance of parkways and open space. The District assesses a one-time tax for installing street medians and an annual maintenance tax for median and landscaping maintenance. The specific plan calls for the area to be primarily residential with about 16% of the land (26 acres) set aside for mixed commercial use.

For a more complete understanding of the current conditions of this CFD, please read the recently issued *Community Facilities District No. 1997-1 North Beyer Park Specific Plan CFD Status Report, Status as of June 30, 2002* issued by the Goodwin Consulting Group.

Enterprise Business Park CFD 1998-1

The City of Modesto formed the Enterprise Business Park Community Facilities District to generate funding for the installation of road improvements, water mains, sewer mains, drainage improvements and the maintenance of parkways and open space. The specific plan calls for the area to be primarily

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industrial for the development of warehouses, distribution facilities, manufacturing and other related uses.

The Enterprise Park CFD represents a clear example of how the City utilized debt financing in an effective manner to stimulate development. The developer/property owner had prior experience in other jurisdictions in utilizing assessment districts and assisted the City in setting up the financial features of the CFD. These efforts resulted in the successful completion of the development without burdening the City's infrastructure.

The District issued \$2 million of CFD bonds to finance the installation of public improvements. The District assessed taxes on a quarterly basis to pay the annual debt service of the bonds and the maintenance costs of the parkways and open space. The property owners accelerated the payment of their taxes and resulted in the CFD bonds to be retired early.

Carver-Bangs/Pelandale-Snyder CFD 1998-2

The City of Modesto formed the Carver-Bangs/Pelandale-Snyder Community Facilities District to generate funding for the installation and maintenance of drainage and road improvements. The District assesses a one-time tax for installation cost and an annual tax for the maintenance. In actuality, two specific plans make up the District (Carver-Bangs and Pelandale-Snyder). The CFD formation documents establish two tax areas consistent with each specific plan. Carver-Bangs parcels reside in Tax Area 'A' and Pelandale-Snyder parcels reside in Tax Area 'B'. The maximum tax rate for each area is different. The specific plans call for the area to be primarily residential with about 16% of the land (26 acres) set aside for mixed commercial use.

Coffee-Claratina CFD 2000-2

The City of Modesto formed the Coffee-Claratina Community Facilities District to generate annual funding for the maintenance of the area drainage basins and landscaping associated with the medians, bikeways, parkways and roundabouts within the CFD. The District will also assess a one-time special tax for parcels that annex to the District in the future. The special one-time tax will reimburse the landowner who made the initial deposit to the City for forming the CFD.

NorthPointe CFD 2002-1

The City of Modesto formed the NorthPointe Community Facilities District to generate funding for the installation and maintenance of landscaping, along with the eventual replacement of the storm drain pump station. The specific plan calls for the area to be developed for commercial and industrial uses. Most of the commercial development has already occurred within the District and retail establishments include Costco, Lowes, Pier One and Aaron Brothers.

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For the purpose of installing the facilities, the District was partitioned into two zones. Most of commercial development in Zone 1 has occurred and the one-time tax levy for the existing commercial development was paid this past calendar year. Landscaping improvements associated with the storm drainage facilities are on hold until the final configuration of the basin is determined. Zone 2 of the District remains undeveloped and one-time CFD taxes will be assessed in the future once development occurs. The first annual tax (for the maintenance) was assessed for the current fiscal year (2002-2003).

For a more complete understanding of the current conditions of this CFD, please read the recently issued *NorthPointe Community Facilities District No. 2002-1 CFD Status Report, Status as of June 30, 2002* issued by the Goodwin Consulting Group.

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Village One: City Enhancements to Managing Specific Plan Since 1998

Pursuant to the performance audit engagement letter, the City's Audit Committee desired our response on the following item:

Identify actions and policies that the City has put in place since 1998 to enhance the administration of the CFD's and rectify their funding shortfalls.

The City of Modesto has taken numerous steps to enhance its ability in managing the Village One Specific Plan since 1998. It should be noted that in June 1998, the City Clerk and City Attorney offices assumed responsibility for administering the City's CFD's. From that point in time, the City has only seen improvements in its efforts to manage the CFD's and correct prior City actions. We also understand that the City hired a new City Manager in 2000 and the CFD administration has since been transferred over to the City Manager's office. The City Manager's office staff members have followed in the footsteps of the City Clerk's and City Attorney's offices by continuing the City's improved managerial approach in overseeing the CFD's.

The following items represent the most noteworthy efforts and changes implemented by the City.

1. The City has implemented numerous controls and has a better management system for overseeing the CFD's. The City's management team meets regularly for the sole purpose of monitoring the progress related to the CFD's and resolving issues affecting the specific plans.
2. The City recently began to prioritize the installation of public improvements in the CFD's. The City staff does a good job in presenting the priority list to the City Council for policy direction. There has been productive and inquisitive discussion over the priority list of public improvements.
3. The City staff has improved the amount and the accuracy of information surrounding the CFD's that it provides to policy makers.
4. The City has recently begun to use more realistic financing plans and project costs in addressing the infrastructure needs of the specific plans.
5. The City is in the process of deliberating on the possible increases to the City's CFF fees based upon newly revised cost estimates.
6. The City reconciled the developer credits and resolved the payment issues surrounding the collection of CFD taxes.
7. The City stopped issuing developer credits while it addresses remedies for the financing shortfalls.

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Village One: City Enhancements to Managing Specific Plan Since 1998 (continued)

8. All reimbursement agreements and developer credit arrangements are done through written agreements.
9. The City has improved its drainage standard policy for new development by going to a ten-year flood standard. The City should reconsider possibly increasing that standard even more.
10. The City recently has required new tentative maps to install more street improvements for areas surrounding their development.
11. The City's Finance Department is in the process of gathering data for fulfilling the reporting requirements associated with the City's CFF fees.
12. The City Manager's office has involved the City's Finance Department in addressing the managerial controls over the CFD's.
13. The City has employed Goodwin Consulting Group for assistance related to administering the CFD's. Recently the Goodwin Group released status reports on two of the City's CFD's that provides key information for the monitoring of the districts. The Goodwin Group intends to issue annual reports on all of the CFD's.

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Village One: Factors Contributing to the Funding Shortfall

Pursuant to the performance audit engagement letter, the City's Audit Committee desired our response on the following item:

Identify and analyze the factors contributing to the funding shortfall for Village One, CFD 1996-1, discussed in the recent report of Goodwin Consulting Group, Inc. (dated May 21, 2002).

In May of 2002, the Goodwin Consulting Group performed an analysis of the Village One CFD infrastructure financing plan. In the Goodwin Report, Goodwin identified key issues causing there to be a financial shortfall for the district. VTD performed an analysis of the shortfall issues and identified the contributing factors as described below.

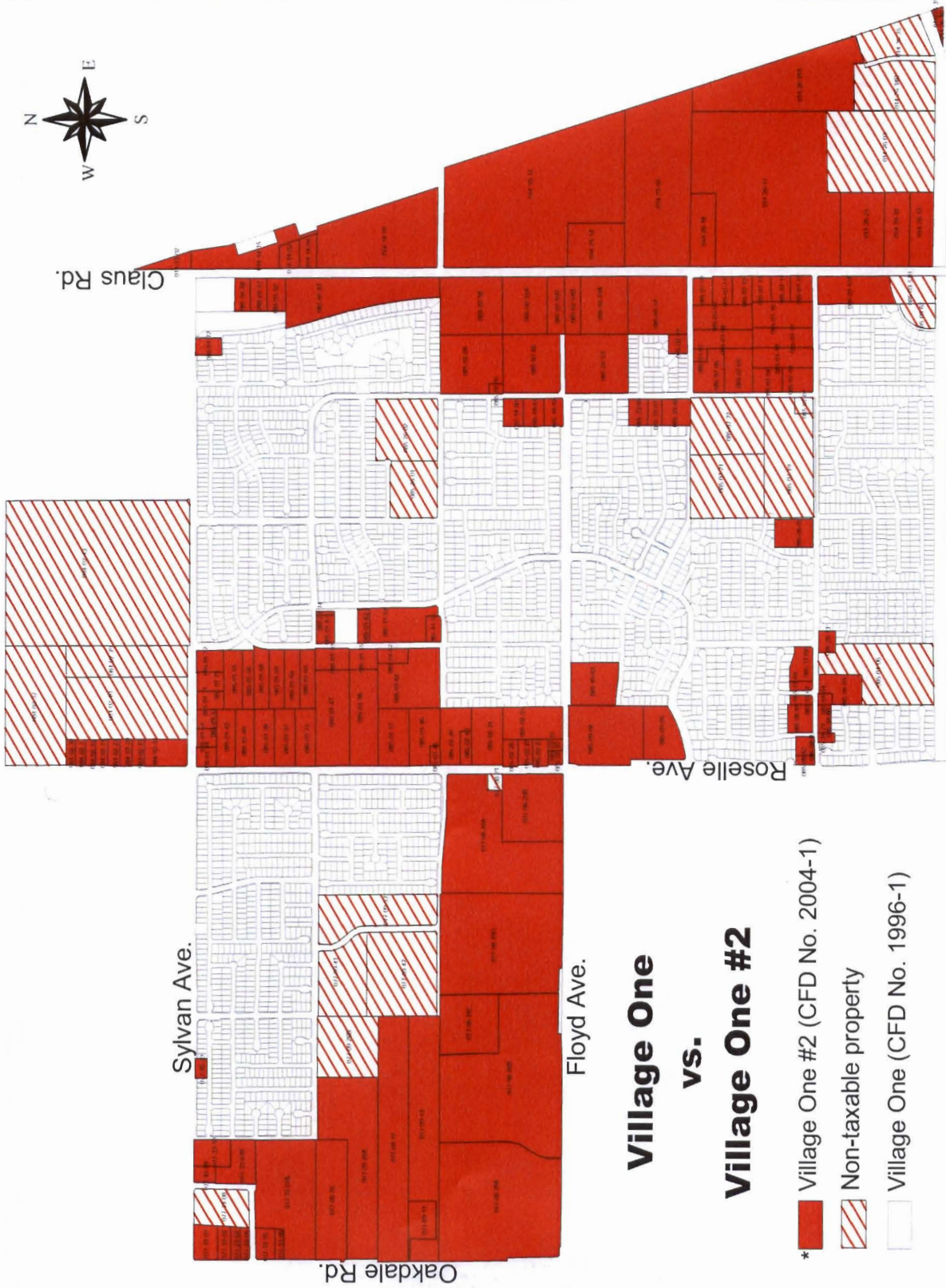
Shortfall Issue Per Goodwin	Contributing Factors	VTD Recommendation Policy Consideration
1. CFD and CFF fees were not sufficient to meet the most recent (2002) infrastructure estimates.	1.a. In the early 90's CFF fees were decreased by the City Council in order to appear more attractive to developers and commercial entities. This was part of the economic environment in Modesto where it was believed that such fees impacted the cost of houses. For example, during this same time period, infrastructure costs were decreased \$131 million of which only \$2 million was for tangible decreases. The remainder was attributed to deflationary components (i.e. discounting everything to current dollar when such work would be performed over time).	1.a. Update the City's CFF rates as recommended by Goodwin and is in process by City staff. 1.a. From a policy position, accept the costs for what they are and impose the fees accordingly. For Village One, it appears that other financing strategies were evaluated to ascertain feasibility such as state funding and area of benefit assessments however; shifting such shortcomings only compounded the problem.
	1.b. Right of way costs estimated in the 1997 plan were estimated at \$40,000 per acre. Goodwin estimated that costs should have been more inline with \$150,000 an acre. In reviewing the 1997 financing plan, right of way was estimated at \$7 million or 5.5% of total infrastructure costs. Using the more realistic estimate, the \$7 million would have approximated \$26 million or 17% of the infrastructure budget. Interestingly, in the 1991 CFF study prepared by an outside consultant showed right of way costs at approximately \$80,000 per acre or double the estimate used 5 years later. In recent years, land costs in the State have increased dramatically.	1.b. Given the benefit of hindsight, the right of way estimates were much to low even by 1991 standards. In determining the infrastructure and land costs, the City employed the assistance of qualified engineers to provide realistic values of ROW. Whether other motivations drove the cost down where they were knowingly unreasonable are unclear. Therefore, this downfall might have been difficult to mitigate.

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Village One: Factors Contributing to the Funding Shortfall (continued)

Shortfall Issue Per Goodwin	Contributing Factors	VTD Recommendation Policy Consideration
1. CFD and CFF fees were not sufficient to meet the most recent (2002) infrastructure estimates.	<p>1.c. The structure established by the City for Village One limited the City's ability to capture CFD fees in the event of land use changes. CFD taxes were fixed rates based on land uses for residential, commercial and multi-family housing. For example, as a result of our Village One revenue analysis, it appears that a total of 49 acres of multi-family housing will materialize with a CFD fee of \$76,000 per acre (or \$3.7 million). As envisioned in the 1997 finance plan, approximately 84 acres was envisioned (\$6.4 million) thereby yielding a shortfall of \$3.7 million</p> <p>1.d. The City dramatically changed the way they previously handled the development business for Village One. Prior to Village One, developers were required to install curbs, gutters, sidewalks, landscaping and roadways to the centerline as part of the specific plan and tentative map requirements. For Village-One, the City did not require the same building standards. As a result, the City was required to add these costs in calculating the CFD tax. Had the City implemented higher building standards, most of the cost components of the financing plans would have been dramatically reduced. In addition, building standards even varied between developers based on what streets their tracts bordered</p>	<p>1.c. Given the nature of CFD laws, the fee structure in place prevents the City from making any changes. However, it was noted that the City has identified this as an issue and altered the tax per land use structure for subsequent districts. For subsequent districts, the City has implemented a tax per acre structure regardless of the land use.</p> <p>1.d. Going forward and immediately, the City must increase their building standards as requirements to the specific plan. Placing this requirement on the developers is commonly practiced by other cities but is reduces the work and error associated with estimating such costs for the CFD tax.</p>
2. Infrastructure costs have escalated since the 1997 finance plan.	2.a. Although, hindsight indicates that infrastructure costs have increased significantly since the 97 finance plan, it does not appear that the increase in cost was significant to account for the massive shortfall (excluding ROW). Based on the engineering news record (ENR), it appears that construction costs have increased approximately 8% since the 1997. However, it appears that the cost shortfall was a combination of increasing costs and the funding mechanisms used to establish the CFD fees for Village One. Refer to the attached table comparing annual finance plans.	2.a. We noted that the City contracted with external engineers for the purpose of determining the finance plans. However, given the large size of Village One and dramatically changing parameters from 1990 to 1997, it was difficult to pinpoint the costs and revenues sources to fund Village One. Since, Village-One, the City has implemented several other districts smaller in size that have been more manageable and successful.



Village One vs. Village One #2

- * Village One #2 (CFD No. 2004-1)
- Non-taxable property
- Village One (CFD No. 1996-1)

Briggsmore Ave.

*All properties included in the shaded area will be required to annex to the Village One #2 CFD No. 2004-1 prior to development.