DRAFT MEMORANDUM

To: De Novo Planning Group

From: Economic & Planning Systems, Inc. (EPS)

Subject: Updated Fiscal Impact Analysis for the San Marcos General Plan Update; EPS #194040

Date: November 9, 2022

This memorandum evaluates fiscal impacts associated with the land use alternatives being considered as part of the San Marcos General Plan Update. It has been prepared by Economic & Planning Systems, Inc. (EPS) as part of a consultant team hired by the City of San Marcos and led by De Novo Planning Group to complete the General Plan Update.

The analysis looks at four (4) Alternatives of varying levels of potential new residential and non-residential land use development types. Three of the Alternatives are focused on two areas of the City: (1) the area between San Marcos Boulevard and West Mission Road between Rancho Santa Fe Road and Twin Oaks Valley Road (the "West" focus area), and (2) the area east of the Civic Center between SR-78 and East Mission Boulevard (the "East" focus area).

The first Alternative, also called the "Activity Node" alternative, focuses land use changes in and around existing and planned activity centers, such as transit stations, major intersections, and employment destinations. The second Alternative, called the "Corridor" alternative, involves expanded land use changes more broadly beyond activity nodes to north/south and east/west corridors. Finally, a third alternative, the "Proposed Land Use Plan," was developed based on further discussion with the City and involves a combination of the changes proposed in the two Alternatives. The maps showing the areas and land use changes associated with the three alternatives are shown in **Figures 1 through 3**. The fourth Alternative evaluated in this analysis reflects the buildout projected in the City's current General Plan. The residential and employee growth over existing conditions that would result from the Alternatives are summarized in **Table 1.**

This fiscal impact analysis compares the expected increase in City General Fund revenues with the increase in General Fund costs from increased demand for public services as a result of new development and the corresponding growth in the City's service population, which includes new residents and workers.

The Economics of Land Use

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Figure 1 Map of Land Use Changes for Alternative 1: Activity Nodes

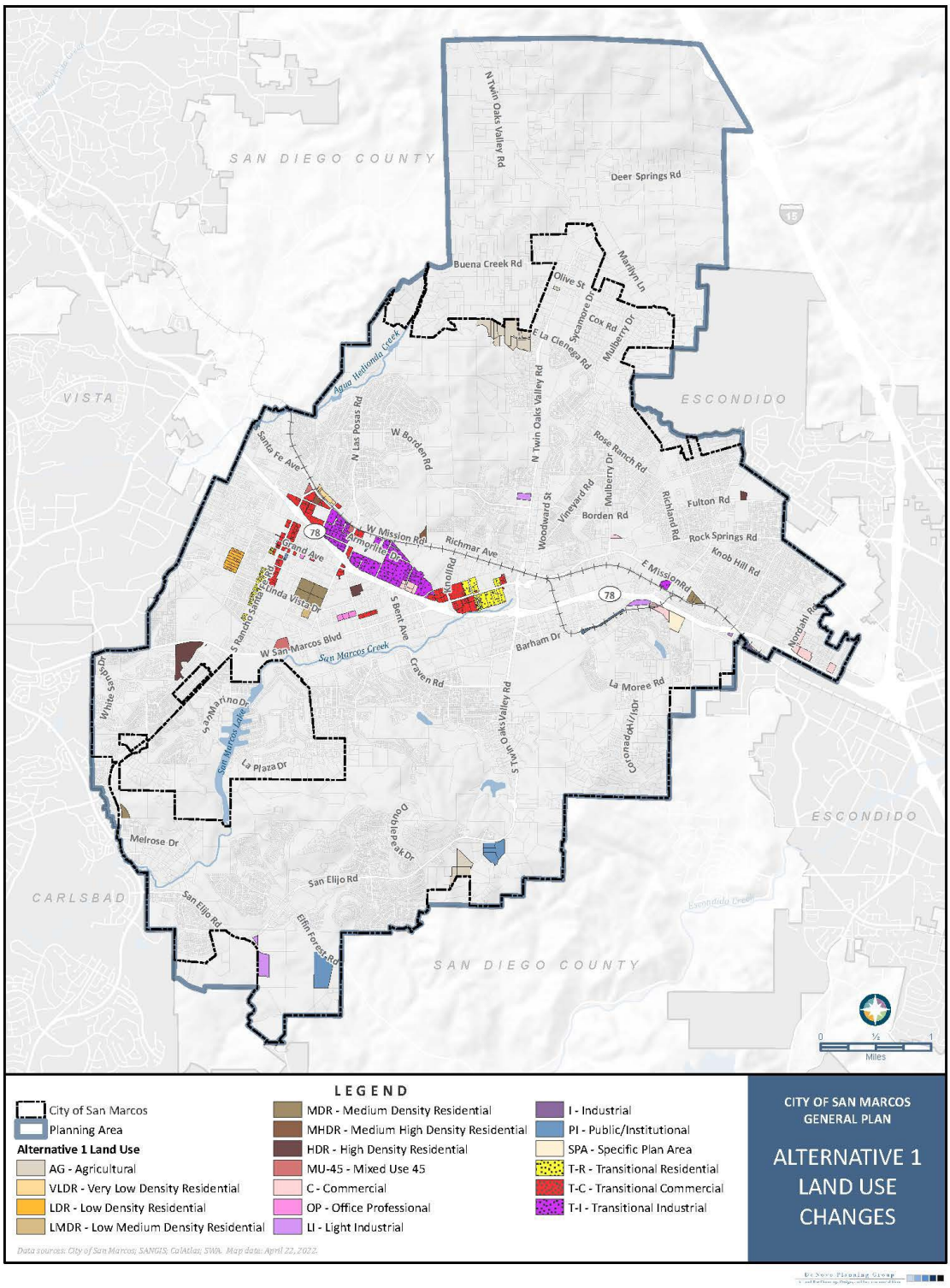


Figure 2 Map of Land Use Changes for Alternative 2: Corridors

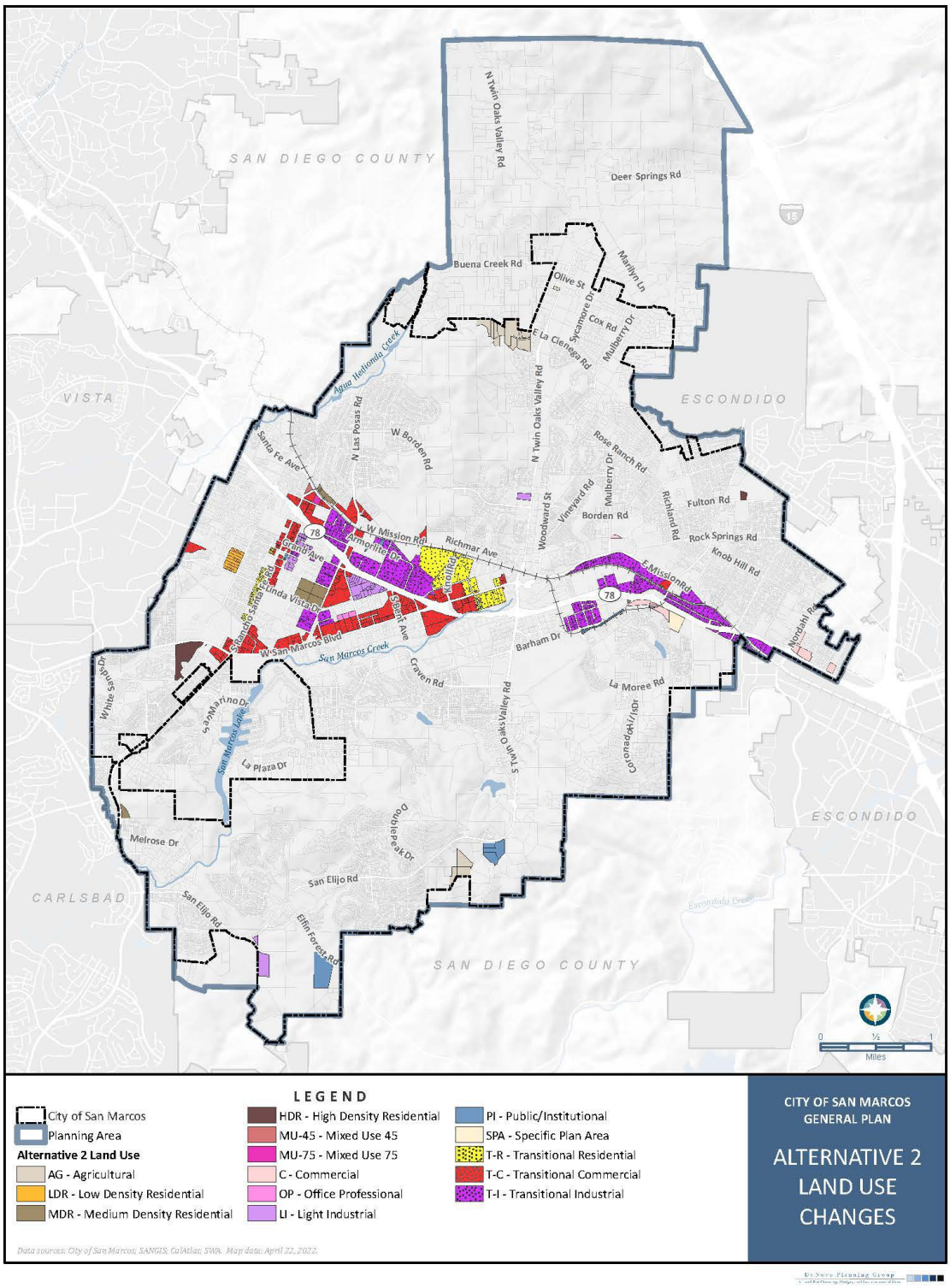
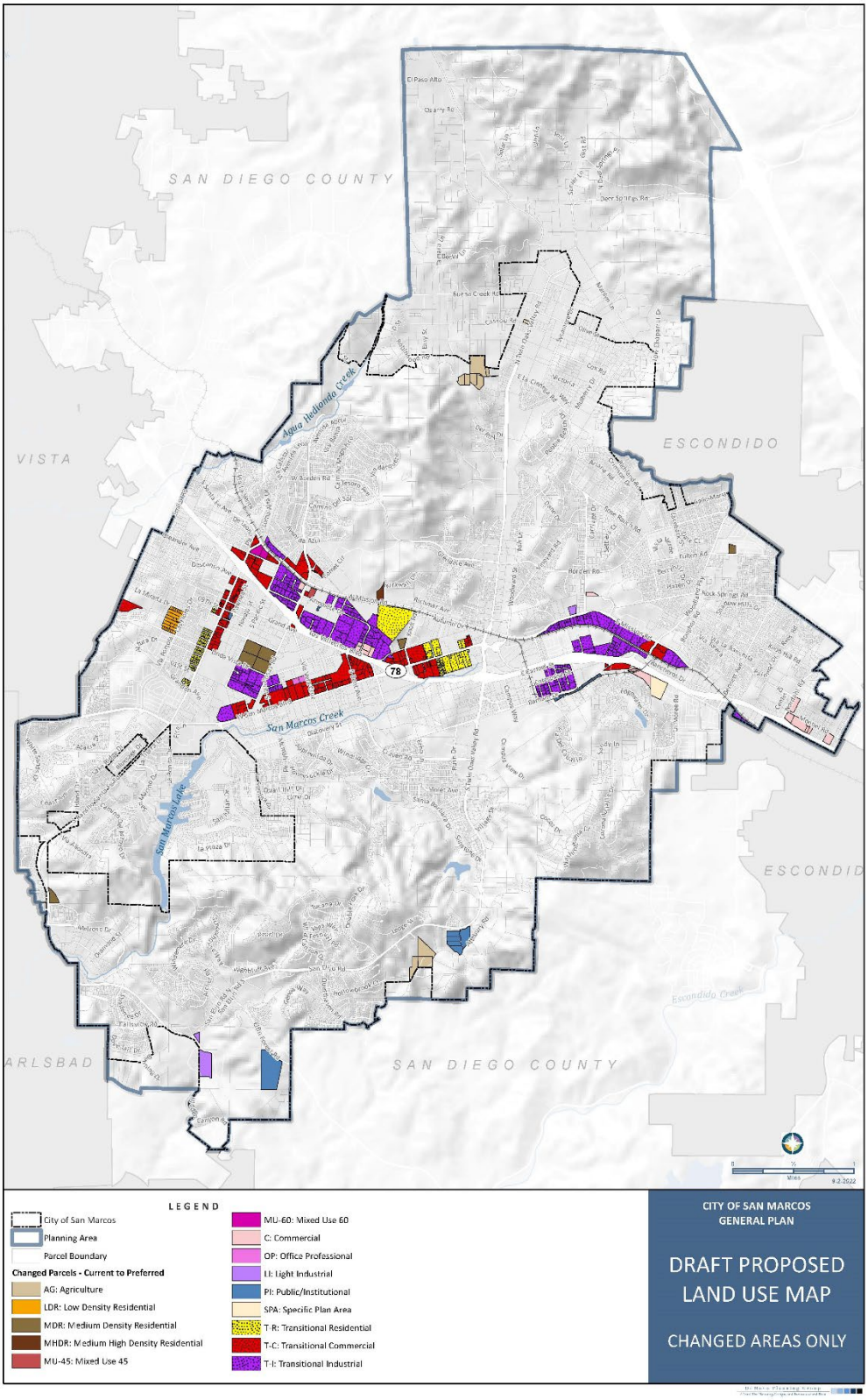


Figure 3 Map of Land Use Changes for Proposed Land Use Plan



While the impacts of the San Marcos General Plan land use alternatives are quantified based on a stabilized buildout outcome (Buildout Potential), these impacts might evolve during buildout as well as subsequent years after completion. Due to uncertainty about budgetary and economic factors, this analysis does not consider the effect of external changes affecting the City's General Fund such as changes to State or federal laws affecting municipal budgets. In addition, the analysis is premised on the City's existing budgetary structure, and we assume that there will not be any significant changes in the way in which the City provides services or levies local tax and fee rates. Finally, the analysis assumes that the current City compensation structure remains constant in real terms (e.g. adjusted for inflation).

It is also important to stress that net fiscal impacts illustrated in this analysis (annual surpluses or deficits) are simply indicators of fiscal performance; they do not mean that the City will automatically have surplus revenues or deficits, because it must have a balanced budget each year. Persistent shortfalls shown in a fiscal analysis may indicate the need to reduce service levels or obtain additional revenues; persistent surpluses will provide resources to reduce liabilities such as deferred maintenance, or to improve service levels.

Table 1 Growth over Existing Development by Development Theme

Summary of Land Use Alternatives									
	Existing Development	Alternative 1: Activity Nodes		Alternative 2: Corridors		Proposed Land Use Plan		Current General Plan	
		Growth from Existing	Percent Growth	Growth from Existing	Percent Growth	Growth from Existing	Percent Growth	Growth from Existing	Percent Growth
Development Space									
Housing Units	33,999	17,521	34.0%	34,217	50.2%	26,763	44.0%	8,706	20.4%
SF Units	*19,270*	*1,887*	*8.9%*	*1,846*	*8.7%*	*1,967*	*9.3%*	*1,956*	*9.2%*
MF Units	*14,729*	*15,634*	*51.5%*	*32,371*	*68.7%*	*24,796*	*62.7%*	*6,750*	*31.4%*
Nonresidential Space (Sq. Ft.) [1]	17,085,175	6,872,177	28.7%	8,967,362	34.4%	8,227,521	32.5%	7,078,595	29.3%
Retail Sq. Ft.	*5,296,404*	*2,130,375*	*28.7%*	*2,779,882*	*34.4%*	*2,550,532*	*32.5%*	*2,194,364*	*29.3%*
Office Sq. Ft.	*1,879,369*	*755,939*	*28.7%*	*986,410*	*34.4%*	*905,027*	*32.5%*	*778,645*	*29.3%*
Industrial Sq. Ft.	*9,909,402*	*3,985,863*	*28.7%*	*5,201,070*	*34.4%*	*4,771,962*	*32.5%*	*4,105,585*	*29.3%*
Population									
Residents	106,304	52,472	33.0%	100,872	48.7%	79,305	42.7%	27,189	20.4%
SF Residents	*63,591*	*6,218*	*8.9%*	*6,082*	*8.7%*	*6,483*	*9.3%*	*6,446*	*9.2%*
MF Residents	*42,713*	*46,254*	*52.0%*	*94,790*	*68.9%*	*72,822*	*63.0%*	*20,743*	*32.7%*
Jobs	35,362	15,677	30.7%	25,628	42.0%	23,865	40.3%	18,022	33.8%
Retail Jobs	*10,593*	*4,261*	*28.7%*	*5,560*	*34.4%*	*5,101*	*32.5%*	*4,389*	*29.3%*
Office Jobs	*3,759*	*1,512*	*28.7%*	*1,973*	*34.4%*	*1,810*	*32.5%*	*1,557*	*29.3%*
Industrial Jobs	*14,156*	*5,694*	*28.7%*	*7,430*	*34.4%*	*6,817*	*32.5%*	*5,865*	*29.3%*
Other Jobs	*6,854*	*4,210*	*38.1%*	*10,665*	*60.9%*	*10,137*	*59.7%*	*6,211*	*47.5%*
Total Service Population [2]	119,742	58,429	32.8%	110,611	48.0%	65,867	35.5%	34,037	22.1%

[1] The distribution of non-residential space among different use types in the Alternatives is based on the current distribution in the City.

[2] See definition of "Total Service Population" on Page 12.

Source: De Novo Planning Group; EPS

Changes in Development Assumptions

As part of the Land Use Alternatives Report, the project team identified development assumptions for:

- realistic potential density (to generate the potential number of units that could be developed);
- floor area ratio intensity (to generate the potential square footage of nonresidential development that could be developed);
- average household size (to generate population totals); and,
- and typical employment densities (to generate employment totals).

These assumptions were based on data available from the US Census, the California Department of Finance, and other professional data sources available to the City as of May 2022 and represented appropriate estimates for land use projections as part of the Land Use Alternatives review process.

Since the Land Use Alternatives Report was prepared and circulated in May 2022, the City has continued to review and refine the assumptions based on new analysis and data that is more accurate and complete and has incorporated that data as needed. It is important that the assumptions used to quantify the development potential associated with the Draft Proposed Land Use Plan are as accurate as possible because the environmental analysis conducted for the General Plan will rely on these totals. Through this continued research and analysis, and based on input received from the community, Planning Commission, and Council, the City made several adjustments to its development assumptions to better represent the development potential of the land use plan. These revisions include:

- Reducing the effective target density for Transitional-Residential (T-R) from 32 du/ac to 22 du/ac to more accurately reflect the density of existing residential uses in this area that are not expected to redevelop during the planning period (a reduction of approximately 30% of the potential units and population generated under this proposed designation)
- Increasing the employment density for commercial uses (i.e., increasing the number of jobs associated with nonresidential development) to account for changes in labor force and jobs projections, expected trends associated with commercial jobs in the region, and more accurate data available from the US Census

In order to compare "apples to apples" development potential between the Land Use Alternatives circulated for public review and the Draft Proposed Land Use Map, the City has recalculated the development potential of the Land Use Alternatives using the updated assumptions. This allows for a fair comparison between land use plans, so that an informed decision can be made regarding the land use changes presented as part of the Alternatives analysis and the land use changes included in the Draft Proposed Land Use Map.

The specific assumption modifications are summarized in **Table 2**.

Table 2 Changes in Land Use Development Assumptions Post Alternatives Analysis

Land Use	Factor	Original Assumption	Revised Assumption
Transitional-Residential	Density	32 du/ac	22 du/ac
Mixed Use-0	Employment	500 sf/employee	325 sf/employee
Mixed Use-45	Employment	600 sf/employee	400 sf/employee
Commercial	Employment	600 sf/employee	400 sf/employee
Office Professional	Employment	600 sf/employee	325 sf/employee
Transitional-Residential	Employment	450 sf/employee	400 sf/employee
Transitional-Commercial	Employment	450 sf/employee	400 sf/employee
Transitional-Industrial	Employment	550 sf/employee	500 sf/employee

Key Findings

The key findings from this analysis are summarized in **Table 3** and **Table 4** and further described below. All results are expressed in constant 2021 dollars.

- ***All four of the Alternatives are estimated to have a positive net fiscal impact on the City's General Fund at buildout.*** As shown in **Table 3**, the net fiscal surplus from new development in San Marcos is estimated to range between $2.1 million to $2.7 million for the four alternatives, which represents an approximate three to four percent increase over the General Fund's current revenues. These net new fiscal benefits would provide funds that the City could use to expand levels of public services and facilities throughout San Marcos. The Alternative 2 buildout has the highest net fiscal benefit, the Proposed Land Use Plan buildout would generate the next-highest net benefit, and Alternative 1 and the Current General Plan buildout have the lowest net benefit.

Table 3 Estimated Annual Fiscal Impacts of Net New Development at Buildout

	Alternative 1	Alternative 2	Proposed Land Use Plan	Current General Plan
Annual Growth in General Fund Revenues	***$29,040,450***	***$53,361,762***	***$43,164,830***	***$18,239,950***
Property Tax	$11,653,372	$20,731,510	$16,775,711	$7,273,094
Sales Tax	$6,342,315	$11,852,304	$9,679,066	$4,246,266
Other Revenues	$11,044,762	$20,777,948	$16,710,052	$6,720,590
Annual Growth in General Fund Expenditures	***$26,861,513***	***$50,634,268***	***$40,635,998***	***$16,123,010***
General Government	$2,123,909	$4,003,593	$3,213,042	$1,274,828
Development Services	$2,750,972	$5,185,615	$4,161,661	$1,651,208
Public Works	$3,647,631	$6,875,826	$5,518,122	$2,189,407
Parks and Recreation	$1,483,506	$2,796,427	$2,244,243	$890,441
Public Safety	$16,855,495	$31,772,807	$25,498,931	$10,117,126
Net Fiscal Impact of Proposed Growth	**$2,178,936**	**$2,727,494**	**$2,528,832**	**$2,116,941**
% of Current GF Revenues *$77,744,631*	**3%**	**4%**	**3%**	**3%**

Source: 2021-2022 Adopted Operating Budget; EPS

The finding that General Fund revenues will increase faster than costs stems in part from the assumption that many of the City's functions include a fixed cost component that will accommodate increased growth without proportional increase in costs. For example, none of the Alternatives necessitate a major expansion in City owned or

operated infrastructure or facilities such as road, parks, public safety or community buildings (e.g. police, fire, library, etc.), relative to baseline trends. In addition, many City Departments include administrative components that do not need to expand proportional to service population growth. While the results do not account for major infrastructure investments or changes to City policy that might impact municipal revenues or costs (e.g., taxes or service levels), the positive results under these "business-as-usual" conditions suggests that there is likely an opportunity as growth occurs for the City to make some level of investment or change to serve community goals and needs while still maintaining a balanced budget.

- ***The analysis suggests that the net fiscal benefit per resident overall is lower than the net fiscal benefit per worker, and that the net fiscal impact of single-family residential units is positive while the net fiscal impact of multifamily units is just slightly negative.*** While the property values of non-residential uses are lower than those of residential uses, the relatively lower impacts of workers on municipal services relative to residents results in higher net fiscal benefits related to new workers, as shown in **Table 4**. Within residential uses, single family units have a strongly positive net fiscal impact, while the net fiscal impact of multifamily units is negative. This is driven by the higher property values associated with single family units, which more than offsets the higher costs associated with their larger household sizes relative to multifamily units.

  However, while the household sizes of single family and multifamily units are relatively similar under current conditions (approximately 3.3 persons versus 2.9 persons), trends in multifamily development suggest that newer units are likely to be smaller in size and have smaller household sizes in the future. This will in turn reduce municipal service costs associated with these units and likely improve their net fiscal impacts. In addition, to the extent that future multi-family units are developed as condos rather than rental, the fiscal impact will improve and may even surpass the fiscal benefits of single-family because of more frequent re-sale rates (which re-sets the units' assessed values).

Table 4 Costs and Revenues Per Person and Unit

Category	Density Per Unit/Sq. Ft.	Cost Per Person/Unit	Revenue Per Person/Unit By GF Category				Revenue Per Person/ Unit	Net Fiscal Impact Per Person/ Unit
			Sales Tax	Property Tax*	TOT	All Other GF		
Residents	3.1	**$445.39**	$58.03	$227	$3.03	$177.25	**$465**	**$20**
Single Family	3.3	**$1,469.60**	$191.49	$880	$9.99	$584.86	**$1,666**	**$197**
Multi-Family	2.9	**$1,291.62**	$168.30	$507	$8.78	$514.03	**$1,198**	**-$94**
Employees		**$210.39**	$51.84	$181	$12.11	$88.63	**$334**	**$123**

* The per person revenue for property tax is based on a weighted average of distribution of land uses under existing conditions. This factor will be different under different land use mix scenarios.

Methodological Overview

This section describes the methodology used in calculating impact of the proposed Alternatives on the City of San Marcos' General Fund. The analysis is based on a variety of sources, including the City's Fiscal Year 2021-22 Adopted Operating Budget (which was the most current adopted Operating Budget when the methodology for this analysis was prepared in the Spring of 2022), the proposed buildouts estimated by De Novo Planning Group, and demographic and market data for San Marcos. EPS utilized estimates of potential growth in population, employment, and residential units and square feet of non-residential space for each land use provided by De Novo Planning Group, as detailed in **Table 5**. In addition, the estimates rely on factors such likely market values and budget practices. All results are expressed in constant 2021 dollars.

Table 5 Existing Development Conditions and Development Themes

Summary of Land Use Alternatives									
	Existing Development	Alternative 1: Activity Nodes		Alternative 2: Corridors		Proposed Land Use Plan		Current General Plan	
		Buildout Potential	Change from Existing	Buildout Potential	Change from Existing	Buildout Potential	Change from Existing	Buildout Potential	Change from Existing
Housing Units	**33,999**	**51,520**	**17,521**	**68,216**	**34,217**	**60,762**	**26,763**	**42,705**	**8,706**
SF Units	*19,270*	*21,157*	*1,887*	*21,116*	*1,846*	*21,237*	*1,967*	*21,226*	*1,956*
MF Units	*14,729*	*30,363*	*15,634*	*47,100*	*32,371*	*39,525*	*24,796*	*21,479*	*6,750*
Residents	**106,304**	**158,776**	**52,472**	**207,176**	**100,872**	**185,609**	**79,305**	**133,493**	**27,189**
SF Residents	*63,591*	*69,809*	*6,218*	*69,673*	*6,082*	*70,074*	*6,483*	*70,037*	*6,446*
MF Residents	*42,713*	*88,967*	*46,254*	*137,503*	*94,790*	*115,535*	*72,822*	*63,456*	*20,743*
Nonresidential Space [1]	**17,085,175**	**23,957,352**	**6,872,177**	**26,052,537**	**8,967,362**	**25,312,696**	**8,227,521**	**24,163,770**	**7,078,595**
Retail Sq. Ft.	*5,296,404*	*7,426,779*	*2,130,375*	*8,076,286*	*2,779,882*	*7,846,936*	*2,550,532*	*7,490,769*	*2,194,364*
Office Sq. Ft.	*1,879,369*	*2,635,309*	*755,939*	*2,865,779*	*986,410*	*2,784,397*	*905,027*	*2,658,015*	*778,645*
Industrial Sq. Ft.	*9,909,402*	*13,895,264*	*3,985,863*	*15,110,471*	*5,201,070*	*14,681,364*	*4,771,962*	*14,014,987*	*4,105,585*
Jobs	**35,362**	**51,039**	**15,677**	**60,990**	**25,628**	**59,227**	**23,865**	**53,384**	**18,022**

[1] The distribution of non-residential space among different use types in the Alternatives is based on the current distribution.

Source: DeNovo Planning Group; EPS

As noted, the fiscal analysis assumes that certain basic City services can be expanded without proportional increases in costs. Accordingly, a proportion of the budget for all City Departments is assumed to be fixed. Increases in the variable component are entirely attributable to population and / or employment growth.[1]

[1] This approach excludes the impact that visitors to the City might have on City costs and revenues, an assumption that is equivalent to assuming they have a neutral impact on the City budget (i.e. revenues off-set costs)

For each revenue and expenditure item in the budget, EPS used one of the two forecasting methodologies described below, depending on which was most appropriate for the item:

- **Per Service Population:** The relative impacts of residents and workers on City revenues and expenditures are different, given the differing amounts of time they spend in the City and differing usage of City services. In order to account for these differing impacts, EPS calculates the revenues and costs generated by new population on a per service population basis. For most budget items, this service population consists of all residents plus 38 percent of all workers. This "resident equivalency" factor for workers is based on analysis of commute patterns in and out of the City. The exceptions to this formula for service population are transient occupancy tax (TOT) on the revenues side, and parks and recreation on the expenditures side. The different service populations for these items are described in the relevant sections below. The current revenue or expenditure amount for each budget item is divided by the appropriate existing service population given current conditions, and then multiplied by the increase in the service population associated with each alternative.
- **Case Study:** A case study approach is used to calculate budget items for which there is a set formula related to the item, such as property tax and sales tax.

General Fund Revenues

This section describes the methodology and assumptions used for each revenue item estimated in this analysis.

Property Tax

Property taxes are based on the net assessed value increase of land and improvements driven by new development. The assessed value is estimated on a per unit basis for housing units, and a per square foot basis for non-residential uses, including office, retail, and industrial space. The values are based on current sale and rental rates in San Marcos reported by Zillow and CoStar.[2]

San Diego County collects property tax based on 1.0 percent of the assessed value, and the City receives on average 8.8 percent of the County's property tax base. The median values per unit and per square foot of space for each land use category, and the associated property tax generated, are shown in **Table 6.** It is important to note that this analysis does not project growth in revenues from new development in the City's existing special assessment districts, such as community facility districts (CFD), as those assessments are not based on property value and vary among different districts. EPS also

[2] Sale and rental rates represent the averages for 2021. The rents for multifamily rental units are based on average reported rents for units built since 2012.

understands that the City does not charge a property transfer tax on sales of property, which is a common General Fund revenue source in other cities. If the City was to adopt such a tax, the fiscal impacts of new residential development on the General Fund would be more positive.

Table 6 Median Property Value and Tax Generation by Land Use Category

Land Use Category	Per Unit/Sq. Ft. Assessed Value	Property Tax	Share to City
Rate		*1%*	*8.80%*
Single Family (Per Unit)	$1,000,000	$10,000	$880
Multifamily (Per Unit)	$576,000	$5,760	$507
Retail (Per Sq. Ft.)	$400.00	$4.00	$0.35
Office (Per Sq. Ft.)	$400.00	$4.00	$0.35
Industrial/Flex (Per Sq. Ft.)	$300.00	$3.00	$0.26
TOTAL			

Sources: Zillow; CoStar: City of San Marcos, DeNovo; EPS

Based on these per unit and per square feet factors, the net new assessed property tax associated with each alternative is shown in **Table 7**. The growth ranges from $7.3 million under the Current General Plan buildout to $20.7 million under the Alternative 2 buildout. This result reflects that Alternative 2 projects the highest level of growth in new development as compared to the other alternatives, while the Current General Plan projects a much lower level of residential development growth compared to the other alternatives (less than half of the growth projection for Alternative 1) and a similar level of non-residential development growth as in Alternative 1. The Proposed Land Use Plan buildout is estimated to generate annual net new assessed property tax of $16.8 million, between the estimates for Alternatives 1 and 2.

Table 7 Property Tax Estimates

	Estimated Growth in Property Tax at Buildout			
Land Use Category	Alternative 1	Alternative 2	Proposed Land Use Plan	Current General Plan
Single Family	$1,660,560	$1,624,480	$1,730,960	$1,721,280
Multifamily	$7,924,562	$16,408,212	$12,568,596	$3,421,440
Retail	$749,892	$978,519	$897,787	$772,416
Office	$266,091	$347,216	$318,570	$274,083
Industrial/Flex	$1,052,268	$1,373,082	$1,259,798	$1,083,874
TOTAL	**$11,653,372**	**$20,731,510**	**$16,775,711**	**$7,273,094**

Sources: Zillow; CoStar: EPS

Sales Tax

Growth in sales tax generation due to the proposed land use alternatives is based on four categories of taxable sales: (1) sales generated by new residents and households; (2) sales generated by new workers; (3) sales occurring through business-to-business taxable transactions in the City; and (4) the City's share of the County sales tax pool.[3] Some portion of the City's sales tax is also generated by consumers who are neither residents, workers, or businesses. This includes visitors and students who are not also residents of the City. Given that the land use alternatives do not specifically project growth in visitor or student populations, the analysis does not estimate any growth in sales tax associated with these categories of consumers.

The methodology for estimating each of the analyzed categories of consumers is described in the following section:

Resident-Generated Sales Tax

New taxable sales by residents are estimated based on median household income, average spending on taxable items,[4] and the portion of spending captured in the City, as shown in **Table 8**. Average spending on taxable items is estimated using the Consumer Expenditure Survey, which provides national averages for share of household incomes spent on different consumer products, broken out by income bracket. As the median household income in San Marcos is approximately $86,000, EPS used the share of spending on taxable items reported for households earning $70,000-$99,999, which is approximately 28 percent of household income. EPS also assumed that resident households spend approximately 75 percent of their taxable spending in the City of San Marcos. This capture rate includes daily spending by residents who also work in the City, as well as residents who may normally commute out of the City for work but in the future are likely to work at least part-time from home given current trends in work-from-home (WFH) arrangements.

[3] Sales tax collected on certain types of taxable transactions, including some types of online sales, are allocated to a pool on a countywide basis, which is then allocated to cities in each county based on the city's pro rata share of total countywide sales tax generation.

[4] Taxable items include food eaten away from the home (i.e. dining out), apparel, vehicle purchases, motor fuels, household supplies and furnishings, personal care products, reading products, and tobacco products.

Table 8 Retail Spending and Sales Tax Generation Per Household

Category	Amount
Median Household Income	$86,408
Percent of Income Spent on Taxable Items	28.00%
Annual Household Spending on Taxable Items	$24,194
Capture in San Marcos	75%
Annual Household Taxable Spending in San Marcos	$18,146
City's Share of Sales Tax Rate	1%
Total Sales Tax Captured Per HH	**$181.46**

Sources: Consumer Expenditure Survey 2019-2020, BLS; EPS

Worker-Generated Sales Tax

New taxable sales by workers are based on estimates of daily spending by workers during the workday, spending on taxable items, and the portion of spending captured in the City, as shown in **Table 9.** These estimates are based on data from various surveys of average expenditures by workers per day on food and beverages, plus some additional spending assumed for personal and household goods that workers may buy near their place of employment rather than their place of residence. The analysis also assumes that the average worker will only work in San Marcos four days per week, reflecting current trends in WFH arrangements. The analysis assumes that 90 percent of worker's workday spending would occur within the City.

Table 9 Retail Spending and Sales Tax Per Worker

Category	Amount
Daily Worker Spending To/ From Work on Taxable Items	$30
Annual Worker Spending on Taxable Items [1]	$5,760
Capture in San Marcos	90%
Worker Spending in San Marcos	$5,184
City's Share of Sales Tax Rate	1%
Total Annual Sales Tax Captured Per Worker	**$51.84**

[1] Assumes four on-site workdays per week, or 192 workdays per year, accounting for some level of workers that will work part-time from home.

Sources: Visa; MoneyCrashers; EPS

Business-To-Business Taxable Transactions

In addition to workers, residents, and other consumers, businesses in the City also engage in taxable spending. To estimate the proportion of taxable sales attributable to businesses, EPS reviewed the sales tax generation from the Business and Industry business group reported in the City's quarterly sales tax reports, which are assumed to represent sales tax revenues related to business-to-business transactions. EPS also assumed that the proportion of the sales tax generated in this group relative to the sales tax generated from new workers would remain constant, as growth in workers would be associated with growth in local business activity. The City's 2021 sales tax revenues from the Business and Industry category were equivalent to approximately 95 percent of the estimated sales tax generated by workers. Therefore, this analysis assumes that growth in the sales tax revenues attributable to business-to-business activity will equal 95

percent of the sales tax generated by new workers, estimated according to the methodology described above.

County Pool Sales Tax

Sales tax collected on certain types of taxable transactions are allocated to a countywide pool, which is then allocated to cities in the County based on each city's pro rata share of total countywide sales tax generation. Since this allocation does not scale directly with an increase in residents or workers, but rather with changes in amount of taxable sales in the City relative to the whole County, EPS assumed that the proportion of the City's sales tax revenues coming from the County pool relative to the proportion collected from residents and workers would remain constant. In other words, the City's pro rata share of the Countywide sales tax generation would scale proportionally with spending by new residents and workers. The City's 2021 sales tax revenues from the pool were equivalent to approximately 50 percent of the estimated sales tax generated by residents and workers. Therefore, this analysis assumes that growth in the sales tax revenues collected from the pool will equal approximately 50 percent of the sales tax generated by new residents and workers, estimated according to the methodologies described above.

Estimated Sales Tax Growth

The estimates of net new sales tax generated under each Alternative is shown in **Table 10**. Worker-generated sales tax is calculated using only on the proportion of new workers likely to commute into the City (86 percent[5]), so as to not double-count taxable spending by residents who also work in the City. The greatest amount of net new sales tax is generated in Alternative 2, which is also the alternative that adds the largest amount of new service population to the City. The net new annual sales tax generated in the Proposed Land Use Plan is between Alternatives 1 and 2, and more than double what would be generated under the Current General Plan buildout.

[5] The most recent data on commute patterns in and out of San Marcos (2019 LEHD data from the Census' OnTheMap application) showed that 86% of workers employed at jobs in the City commute in from other places. The remaining 14% are San Marcos residents.

Table 10 Sales Tax Estimates

Category	Estimated Growth in Sales Tax at Buildout			
	Alternative 1	Alternative 2	Proposed Land Use Plan	Current General Plan
Per Household Rate	*$181.46*	*$181.46*	*$181.46*	*$181.46*
Per Worker Rate	*$51.84*	*$51.84*	*$51.84*	*$51.84*
Resident-Generated	$3,179,305	$6,208,907	$4,856,328	$1,579,763
Worker-Generated	$698,060	$1,141,155	$1,062,653	$802,477
County Pool [1]	$1,811,778	$3,434,468	$2,765,766	$1,113,151
Business-to-Business [2]	$653,172	$1,067,774	$994,320	$750,875
TOTAL	**$6,342,315**	**$11,852,304**	**$9,679,066**	**$4,246,266**

[1] Based on proportion of growth in resident and worker-generated sales tax.
[2] Based on proportion of growth in worker-generated sales tax.

Sources: EPS

While new retail space envisioned within the alternatives will likely result in new sales tax generated to the City, the net impact of this space is not included in this analysis. This is a conservative assumption that suggests the orientation of the new space will largely serve new service population located within the City, rather than serve as a destination draw for capturing retail spending from the broader area, and its fiscal impacts are therefore captured in the above analysis.

Transient Occupancy Tax

Transient occupancy tax (TOT) will be generated by new hotel development included as part of new non-residential development. This analysis does not include any specific assumptions about the number of new hotel rooms that will be developed. Instead, the amount of TOT collected by the City is assumed to change proportionally to the change in number of new residents and workers in the City. Given that hotel stays in the City are primarily for business purposes, this analysis assumes that 80 percent of the change in TOT will be associated with the change in the number of workers in the City, and 20 percent of the change will be associated with the change in the number of residents. The net new TOT generated by each Alternative is shown in **Table 12.**

Other Revenues

The City collects additional categories of revenues not specified above that contribute to the General Fund. These revenues include Licenses and Permits, Intergovernmental Revenues, Charges for Services, Fines and Forfeitures, Use of Money and Property, and Miscellaneous Revenue. The impact of the Themes on these revenues is estimated using service population cost factors, shown in **Table 11.** The service population for all budget items is calculated as all residents plus 38 percent of employees, with the exception of TOT (as described in the previous section).

Table 11 Other General Fund Revenues Categories and Revenues Per Service Population

2021/22 GF Revenue Categories	Budget Amount	Service Population [1]	Revenue per Service Population
Transient Occupany Tax	$719,525	47,550	$15.13
Licenses and Permits	$5,603,088	109,740	$51.06
Intergovernmental	$753,476	109,740	$6.87
Charges for Services	$10,361,301	109,740	$94.42
Fines and Forfeitures	$414,800	109,740	$3.78
Use of Money and Property	$1,422,133	109,740	$12.96
Miscellaneous Revenues	$896,650	109,740	$8.17
Total	**$20,170,973**		**$192.38**

[1] The service population is assumed to be 100% of residents plus 38% of City residents, except for transient occupancy tax, which is calculated as 80% of workers and 20% of residents. The service population does not include residents or employees in the City's Sphere of Influence.

Sources: City of San Marcos Adopted 2021-22 Budget; DeNovo Planning Group; EPS

The net new revenue collected from these other General Fund sources in each Alternative is shown in **Table 12.** As with other sources, Alternative 2, which has the highest projected growth in service population, generates the highest amount of new revenues from these sources, while the Proposed Land Use Plan generates an amount in-between that projected for Alternatives 1 and 2.

Table 12 Other General Fund Revenue Estimates

Other General Fund Revenue Categories	Estimated Growth in Other GF Revenues at Buildout			
	Alternative 1	Alternative 2	Proposed Land Use Plan	Current General Plan
Transient Occupany Tax	$348,580	$615,520	$528,908	$300,451
Licenses and Permits	$3,079,337	$5,804,586	$4,658,409	$1,848,301
Intergovernmental	$414,094	$780,572	$626,440	$248,551
Charges for Services	$5,694,348	$10,733,913	$8,614,388	$3,417,902
Fines and Forfeitures	$227,965	$429,717	$344,865	$136,831
Use of Money and Property	$781,574	$1,473,276	$1,182,362	$469,122
Developer Fees	$6,085	$11,470	$9,205	$3,652
Miscellaneous Revenues	$492,780	$928,895	$745,475	$295,780
TOTAL	**$11,044,762**	**$20,777,948**	**$16,710,052**	**$6,720,590**

Sources: City of San Marcos Adopted 2021-22 Budget; DeNovo Planning Group; EPS

General Fund Expenditures

This section describes the methodology and key assumptions for calculating various General Fund expenditure items. The expenditures consist of both fixed and variable costs. While fixed costs are independent of new development, variable costs are assumed to increase based on new growth in the City. Only variable costs are used to estimate General Fund expenditures in this analysis.

As with most General Fund revenues, the costs associated with each Alternative are estimated on a per service population basis. The analysis utilizes the same assumption that residents have double the impact of workers, and so the service population consists of all residents plus 38 percent of workers (as previously discussed, this "resident equivalency" factor for workers is based on analysis of commute patterns in and out of the City). The only exception is for Parks and Recreation Services, which is explained further below.

The variable budgets and cost factors for each expenditure budget item is shown in **Table 13**.

Table 13 General Fund Expenditure Categories and Costs Per Residents and Workers

2021/22 GF Expenditure Categories	Budget Amount	Percent Variable	Amount Variable	Service Population [1]	Variable Cost per Service Population
General Government	$19,323,073	20%	$3,864,615	109,740	$35.22
Development Services [2]	$6,674,139	75%	$5,005,604	109,740	$45.61
Public Works	$8,849,523	75%	$6,637,142	109,740	$60.48
Parks and Recreation	$3,599,137	75%	$2,699,353	109,740	$24.60
Public Safety	$40,893,148	75%	$30,669,861	109,740	$279.48
Total	**$79,339,020**		**$18,206,714**		**$445.39**

[1] The service population is assumed as 100% of City residents plus 38% of employees for all categories except Parks and Recreation, where the service population is assumed to be only residents. The service population does not include residents or employees in the City's Sphere of Influence.

[2] Development fees are netted out from the Development Services budget, given restrictions on their uses and level of annual variability based on development trends.

Sources: City of San Marcos Adopted 2021-22 Budget; DeNovo Planning Group; EPS

General Government

The City's General Government includes the City Council, City Manager, City Clerk, City Attorney, Human Resources, Economic Development, Finance, Information Systems, and Real Property Services. New development of the scale proposed by the Alternatives typically impacts administrative and legislative government costs by only a fraction of these department's operating budgets. As a result, EPS assumes that 20 percent of the cost of general government services are variable and will be affected by new development.

Development Services

The Development Services Department includes Planning, Building, Engineering, and Watershed Program Management. All of these divisions will be impacted by growth in population and building development. Since the analysis includes an estimate of revenue generated per service population for permits and licenses—which contribute to the Development Services budget—it assumes a variable cost of 75 percent for the Department's costs.

Public Works

This category includes costs associated with maintaining right-of-way, public infrastructure facilities, parks and landscape, streets, City buildings, flood control, storm drains, street lights, traffic signals, public parks and places, and special districts. At buildout, additional staff and equipment may be necessary to provide these maintenance services associated with increased population and employment. Public works costs are assumed to be 75 percent variable.

Public Safety

Costs in this category are related to fire protection and emergency medical services provided by the San Marcos Fire Protection District and law enforcement services provided by the San Diego County Sheriff's department. The costs include expenses for personnel as well as facilities for these services. New development will generate new residents and employees who may require additional public safety personnel and/or staff time and equipment. Total public safety costs are assumed to be 75 percent variable to reflect this increased demand for services.

Parks and Recreation

The Parks and Recreation department is responsible for providing programs and services at the City's parks and recreation facilities. The costs for parks and recreation are allocated to residents only, as these services are assumed to be used at a relatively low rate by workers in the City. Given that the demands for recreation programming and services are likely to directly increase with new population, the costs are assumed to be 75 percent variable.

Total General Fund Expenditures

Total estimated net new General Fund expenditures associated with each Alternative is shown in **Table 14.** As was the case with the General Fund revenues, the largest impact on General Fund expenditures is seen in Alternative 2, where the growth in service population will be the greatest. The impact of the Proposed Land Use Plan on expenditures is between that of Alternatives 1 and 2.

Table 14 General Fund Expenditure Estimates

2021/22 GF Expenditure Categories	Estimated Growth in GF Expenditures at Buildout			
	Alternative 1	Alternative 2	Proposed Land Use Plan	Current General Plan
General Government	$2,123,909	$4,003,593	$3,213,042	$1,274,828
Development Services	$2,750,972	$5,185,615	$4,161,661	$1,651,208
Public Works	$3,647,631	$6,875,826	$5,518,122	$2,189,407
Parks and Recreation	$1,483,506	$2,796,427	$2,244,243	$890,441
Public Safety	$16,855,495	$31,772,807	$25,498,931	$10,117,126
Total	**$26,861,513**	**$50,634,268**	**$40,635,998**	**$16,123,010**

Sources: City of San Marcos Adopted 2021-22 Budget; DeNovo Planning Group; EPS

Net Fiscal Impact on General Fund

Based on the assumptions and analysis described above, the annual net fiscal impact associated with the San Marcos General Plan Update land use alternatives is estimated to be between $2.1 and $2.7 million at buildout, as summarized in **Table 3** (shown again below). Actual fiscal impacts may vary due to the actual timing of new buildout and changes in economic and budgetary conditions.

Table 3 Annual Fiscal Impacts Summary of Net New Development at Buildout

	Alternative 1	Alternative 2	Proposed Land Use Plan	Current General Plan
Annual Growth in General Fund Revenues	***$29,040,450***	***$53,361,762***	***$43,164,830***	***$18,239,950***
Property Tax	$11,653,372	$20,731,510	$16,775,711	$7,273,094
Sales Tax	$6,342,315	$11,852,304	$9,679,066	$4,246,266
Other Revenues	$11,044,762	$20,777,948	$16,710,052	$6,720,590
Annual Growth in General Fund Expenditures	***$26,861,513***	***$50,634,268***	***$40,635,998***	***$16,123,010***
General Government	$2,123,909	$4,003,593	$3,213,042	$1,274,828
Development Services	$2,750,972	$5,185,615	$4,161,661	$1,651,208
Public Works	$3,647,631	$6,875,826	$5,518,122	$2,189,407
Parks and Recreation	$1,483,506	$2,796,427	$2,244,243	$890,441
Public Safety	$16,855,495	$31,772,807	$25,498,931	$10,117,126
Net Fiscal Impact of Proposed Growth	**$2,178,936**	**$2,727,494**	**$2,528,832**	**$2,116,941**
% of Current GF Revenues *$77,744,631*	**3%**	**4%**	**3%**	**3%**

Overall, all four Alternatives generate a net fiscally-positive result for the City, which means that more development will provide more revenues than costs and allow the City to increase its service levels under the assumptions used in this analysis. The greatest fiscal benefit is associated with Alternative 2, which also represents the greatest increase in new development. The Proposed Land Use Plan is estimated to have the second-highest net fiscal benefit, about $200,000 or eight percent lower than Alternative 2 annually. Alternative 1 and the Current General Plan have nearly the same net fiscal impact, which is lower than the other two alternatives.

These results reflect the assumptions contained within this analysis that revenues will increase at a faster rate than costs as new development and service population come into the City. These assumptions reflect static, "business-as-usual" conditions, where the costs of ongoing operations and maintenance of City services do not scale up proportionally with new population. They do not account for any new major infrastructure needs and associated costs that may result from the scale of growth projected in the

Alternatives, nor do they reflect any changes to City policy that may impact the revenue or costs associated with new land uses and population. However, the positive results do reflect that there is likely some level of opportunity as growth occurs for the City to make infrastructure investments or policy adjustments that serve City goals and needs while still maintaining its fiscal health.