MEMORANDUM			
TO:	Daniel Inloes, AICP Senior Planner City of Costa Mesa	**DATE:**	April 18, 2016
FROM:	Roger Dale, Managing Principal The Natelson Dale Group, Inc. (TNDG)	**FILE:**	#4034
SUBJECT:	**Costa Mesa General Plan Update – Documentation of Market Research Completed for Fiscal Impact Model**		

TNDG's work on the General Plan update included limited market research to develop realistic factors/assumptions for the Fiscal Impact Model (FIM). This memorandum provides documentation of that research.

Executive Summary

As described in greater detail below, TNDG's market analyses project potential market demand for new development in Costa Mesa based on the City's established position in the Orange County and southern California real estate markets, existing and projected demographic trends (for the City and the larger region), and available land capacity. ***In short, the market analysis is intended to answer the question: Will there be enough market demand for the development amounts proposed in the General Plan to actually be built over the next 20 years (the timeframe of the study)? For residential, industrial and hotel development, the answer is: Yes, there will be enough market demand to fully "build out" the General Plan capacity by 2035. For retail development, TNDG projects that the City will reach 85% of the potential development capacity by 2035. For office development, TNDG projects that the City will reach 78% of the potential development capacity by 2035.***

The market forecasts are an important input to the Fiscal Impact Analysis (FIA) completed for the General Plan update. The FIA is summarized in a separate memorandum and concludes that new development over the next 20 years will result in a mix of land uses that generates a positive fiscal balance for the City (i.e., General Fund revenues exceed General Fund costs).

TNDG's market projections are briefly summarized as follows:

- ***Housing.*** The City currently has a total housing stock of 42,623 dwelling units. Per the proposed General Plan update, the capacity for new housing development would be 9,271 additional units, resulting in a total of 51,894 units at buildout. As this new development would be responding to Orange County's strong demand for new housing, TNDG projects that full buildout of the General housing capacity would be reached by 2035.

- ***Retail.*** The City has an existing inventory of approximately 10.2 million square feet of retail space. Based on the relatively conservative methodology used for this analysis (in which increases in retail market demand are assumed to proportionate to population growth), TNDG projects that the City could support approximately 600,000 square feet of new retail space by 2035. This would bring the City's total inventory of retail space (existing plus new) to approximately 10.8 million square feet, representing approximately 81% of the General Plan buildout capacity (12.7 million square feet).

- ***Office.*** Costa Mesa has an existing inventory of 7.2 million square feet of office space. TNDG projects that the City could absorb approximately 1.4 million square feet of additional office space by 2035. This would bring the City's total inventory of office space (existing plus new) to approximately 8.6 million square feet, representing approximately 78% of the General Plan buildout capacity (11.0 million square feet).

- ***Industrial.*** The City has an existing inventory of 13.1 million square feet of industrial space. Per the proposed General Plan update, there would be no additional capacity for new industrial space in the City. Thus, the City is already at 100% buildout for industrial land uses.

- ***Hotels.*** The City has an existing inventory of 1,877 hotel rooms. Under the proposed General Plan designations, the buildout capacity hotel facilities in the City would be 2,077 rooms (i.e., an addition of 200 rooms). TNDG believes that the incremental hotel demand of 200 rooms is likely to be readily achievable by the 2035 horizon considered in this analysis.

Overview

The Fiscal Impact Model (FIM) is designed to forecast City revenues and costs associated with new development as the City reaches buildout. As explained below, the FIM assumes that full buildout of the General Plan's residential development capacity will occur by 2035. For non-residential land uses, The Natelson Dale Group, Inc. (TNDG) has completed focused market research to estimate the degree to which the General Plan buildout capacities are likely to be reached by the residential buildout year of 2035. Based on the market research, TDNG has estimated "market adjustment factors" for land uses for which full buildout is not likely to occur by 2035. The market adjustment factors represent the percentage of full buildout which is likely to be achievable by 2035 based on order-of-magnitude market forecasts. The primary intent of market-testing the non-residential land uses is to ensure that the FIM does not provide an overly optimistic financial forecast for the City based on unrealistic assumptions regarding the absorption of revenue-generating land uses (e.g., generation of sales taxes from new retail development).

Based on TNDG's market analysis, the fiscal projections provided in the FIM reflect the following land use assumptions:

Land Use	**Existing Development**	**Theoretical Buildout**	**Market Adjustment Factor**	**Evaluated Buildout**
Low density residential (DU's)	14,210	14,791	100%	14,791
Medium density residential (DU's)	4,370	4,992	100%	4,992
High density residential (DU's)	23,593	31,661	100%	31,661
Age-qualified housing (DU's)	450	450	100%	450
Retail square feet	10,232,000	12,737,000	85%	10,826,450
Office square feet	7,224,000	11,004,000	78%	8,583,120
Industrial square feet	13,087,000	13,078,000	100%	13,078,000
Hotels (rooms)	1,877	2,077	100%	2,077
Motels (rooms)	2,272	946	100%	946

Scope and Limitations of the Research

In order to develop realistic land use assumptions as inputs to the Fiscal Impact Model (FIM), TNDG completed focused market research on the following topics:

- Potential sales prices of future new housing units in the City;
- Total potential absorption of future new retail space;
- Total potential absorption of future new office space;
- Total potential absorption of future new industrial space;
- Total potential absorption of future new hotel rooms.

It should be emphasized that, consistent with the scope of the General Plan assignment, TNDG's market research was not intended to provide a full-blown feasibility analysis for specific, near-term development projects. The market research provided here is limited in scope and is not intended to serve as an "official forecast" of market demand in the City. Instead, the scope of TNDG's market analysis was narrowly focused on ensuring that the long-term land use assumptions in the FIM are conservative from the standpoint of potential budgetary impacts to the City. In this context, "conservative" means that the assumptions are intended to err on the side of under-estimating revenues and over-estimating costs. In this regard, TNDG's approach to defining "market tested" land use assumptions for the FIM is based on the following considerations:

- The FIM assumes full buildout of the residential development capacity indicated in the General Plan. This assumption is conservative (i.e., errs on the side of overstating fiscal costs) in that it represents that maximum potential impact in terms of population growth and related demands for municipal services. For this reason, TNDG has not forecasted an absorption rate for residential development, but has focused on projecting the potential future *pricing* of new housing in the City. In an essentially built-out environment such as Orange County where there is strong market pressure for population growth, it is typically assumed that housing products that are competitively priced and responsive to market trends will be fully absorbed in the long term. For purposes of the fiscal impact analysis, the focus of TNDG's market research related to housing was on defining realistic price points for the housing densities (and associated product types) envisioned in the General Plan. Again with the conservative orientation in mind, it was important to ensure that the market price assumptions are not overly aggressive (which would tend to overstate the City's property tax revenue).

- With respect to commercial and industrial land uses, the focus of TNDG's market analysis is to identify the potential amounts of development that could be absorbed over the next 20 years (i.e., by the 2035 buildout horizon assumed for residential development). As further described below, TNDG's non-residential market projections are essentially "reality check" comparisons to the maximum development capacities proposed in the General Plan. In this regard, the analysis generally assumes that Costa Mesa's potential for future non-residential development will generally reflect "fair shares" of regional demand based on historic trends, and will also generally mirror local/regional population and employment growth.

Summary of Research by Land Use

Residential Development. TNDG's market research for residential development focused on estimating average prices for new housing in the City. Three housing categories are considered:

Low Density (8 DUA maximum) – $1,200,000
Medium Density (12 DUA maximum) – $950,000
High Density (20 DUA maximum) – $700,000

The estimated values are for ownership housing and are based on new projects currently selling in the City. Table A-1 provides a summary of this research.

Retail Space. The City has an existing inventory of approximately 10.2 million square feet of retail space. This space supports existing[1] taxable sales of $3.6 billion per year. Not surprisingly (given the extraordinary concentration of retail sales in the City), taxable sales per capita in Costa Mesa are approximately three times the Statewide average. TNDG's analysis assumes that Costa Mesa's retail sales potential will grow in proportion to projected population growth. Based on this relatively conservative methodology (in which increases in retail demand are assumed to be constrained by population growth), TNDG projects that the City could support approximately 600,000 square feet of new retail space by 2035. This would bring the City's total inventory of retail space (existing plus new) to approximately 10.8 million square feet, representing approximately 85% of the General Plan buildout capacity.

Given Costa Mesa's well established status as a retail "powerhouse," it is conceivable that retail development will be added at a rate higher than population growth. However, for purposes of budget forecasting (which is inherently conservative), it would be highly speculative to predict how long it would take for the City to achieve full buildout of its retail development capacity. TNDG has therefore relied on the more conservative projection of new retail space supportable by 2035.

TNDG's retail demand calculations are shown on Tables B-1 through B-3.

Office and Space. TNDG's demand calculations for office space are provided on Tables C-1 through C-6. The office demand calculations are based on a top-down methodology whereby TNDG first projected potential demand for Orange County (based on projected employment

[1] The base year for the retail analysis is 2013 – the latest full year for which taxable sales data are available from the State Board of Equalization.

growth in industry sectors that utilize office space) and then projected the shares of countywide growth that could potentially be achieved in Costa Mesa.

Costa Mesa has an existing inventory of 7.2 million square feet of office space. Based on TNDG's demand projections, the City could potentially absorb an additional 1.4 million to 2.1 million square feet of office space by 2035. To be conservative (from the standpoint of the fiscal analysis), TNDG has assumed the low end of this range (approximately 1.4 million square feet) for projection purposes. This would bring the City's total inventory of office space (existing plus new) to approximately 8.6 million square feet, representing approximately 78% of the General Plan buildout capacity.

Industrial Space. The City has an existing inventory of 13.1 million square feet of industrial space. Per the proposed General Plan update, there would be no additional capacity for new industrial space in the City. Thus, the City is already at 100% buildout for industrial land uses.

Hotel Rooms. The City has an existing inventory of 1,877 hotel rooms. Under the proposed General Plan designations, the buildout capacity hotel facilities in the City would be 2,077 rooms (i.e., an addition of 200 rooms). Based on contemporary sizing standards for full-service hotel facilities, the increment of 200 rooms would essentially represent one new hotel in the City. Although it is beyond the scope of this study to provide a specific forecast of hotel demand (which tends to be somewhat site/project specific), TNDG believes that the incremental hotel demand of 200 rooms (one new hotel) is likely to be highly achievable by the 2035 horizon considered in the FIM. Thus, the FIM assumes that the City will achieve 100% of its hotel development capacity. This assumption is premised on the following indicators of hotel demand strength in the City:

- According to data from Smith Travel Research (a leading provider of hotel market information globally), no new hotels have been constructed in the City since 1989, suggesting that there is likely pent up demand for new facilities.

- Based on the 2014 and 2015 annual reports of the Costa Mesa Conference and Visitor Bureau, hotel occupancy rates in Orange County and Costa Mesa are strong and getting stronger. The City's hotel occupancy rate in 2014 (the year reported in the 2015 report) was approximately 80%. The hotel industry generally regards an occupancy rate above 70% as indicative of pent up demand. That is, hotels can typically operate profitably at an average annual occupancy level of 70%. Thus, existing demand (without even considering potential demand growth) would be sufficient to support additional rooms in the City. The existing occupancy level of 80% (applied to the inventory of 1,877 rooms) translates to demand of approximately 548,000 occupied room nights per year. At the industry standard occupancy level of 70%, this number of room nights could support a total inventory of approximately 2,144 rooms. Thus, TNDG believes that the General Plan development capacity of 2,077 rooms will be readily achievable by 2035.

Please feel free to contact us if you have questions about our market projections.

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Table A-1
Sample of Current Housing Projects Used to Estimate Average Price by Density Level
City of Costa Mesa Fiscal Impact Model

Name	Number of Units	Price Low	Price High	Price Midpoint	Price Used in FIM
Low Density Residential					
1053 Regatta Run	1	$854,900	$854,900	$854,900	
1963 Rosemary Pl	1	1,100,000	1,100,000	1,100,000	
2040 Paloma Dr	1	1,425,000	1,425,000	1,425,000	
274 Virginia Pl	1	995,500	995,500	995,500	
262 Esther St	1	1,690,000	1,690,000	1,690,000	
LDR Average		*$1,213,080*	*$1,213,080*	*$1,213,080*	***$1,200,000***
Medium Density Residential Units					
Westreef	17	$800,000	$800,000	$800,000	
Easthaven	14	1,000,000	1,100,000	1,050,000	
The Edge	19	806,647	823,389	815,018	
Latitude	11	1,000,000	1,250,000	1,125,000	
312 Nautica Way		949,000	949,000	949,000	
MDR Average		*$911,129*	*$984,478*	*$947,804*	***$950,000***
High Density Residential Units					
Seabright	26	$600,000	$650,000	$625,000	
Brickyard West	14	675,000	690,000	682,500	
Maple Crossing	37	675,000	690,000	682,500	
Palmilla	11	675,000	690,000	682,500	
Superior Pointe	49	775,000	790,000	782,500	
Brickyard East	15	575,000	590,000	582,500	
Poet's Place	6	740,000	760,000	750,000	
Seahouse	33	575,000	800,000	687,500	
The Collective Eastside	8	900,000	1,000,000	950,000	
Bungalow 7	30	500,000	650,000	575,000	
City Common	28	700,000	800,000	750,000	
West Place	38	540,000	560,000	550,000	
HDR Average		*$660,833*	*$722,500*	*$691,667*	***$700,000***

Source: The Natelson Dale Group, Inc. (TNDG).

Table B-1
Calculation of Current (2013) Per Capita Taxable Sales by Retail Category
California and Costa Mesa

	Per Capita Taxable Sales in 2013		2013 Actual/ Expected	Projected Future Attraction Factor	Projected Incremental Taxable Sales Per Capita
	Costa Mesa	California	(Costa Mesa)	(Costa Mesa)	(Costa Mesa)
Retail Category					
Motor Vehicle and Parts Dealers	5,306	1,788	297%	100%	1,788
Home Furnishings and Appliance Stores	3,075	668	460%	250%	1,670
Bldg. Matrl. and Garden Equip. and Supplies	1,172	780	150%	100%	780
Food and Beverage Stores	1,269	665	191%	100%	665
Gasoline Stations	2,349	1,495	157%	100%	1,495
Clothing and Clothing Accessories Stores	9,213	918	1003%	500%	4,591
General Merchandise Stores	3,700	1,352	274%	150%	2,029
Food Services and Drinking Places	3,714	1,651	225%	150%	2,476
Other Retail Group	2,651	1,264	210%	150%	1,897
Total Retail and Food Services	32,448	10,582			17,391

Source: State Board of Equalization; State Department of Finance; TNDG.

Table B-2
Projected Growth in Retail Sales (dollars)
City of Costa Mesa
2013-2035

Population by Year:	**2013**	**2035**	**Growth 2013-2035**
Costa Mesa	111,568	131,208	19,640

Future Demand by Category (total taxable sales)	**2013**	**2035**	**Growth 2013-2035**
Motor Vehicle and Parts Dealers	591,944,000	627,053,972	35,109,972
Home Furnishings and Appliance Stores	343,121,000	375,928,271	32,807,271
Bldg. Matrl. and Garden Equip. and Supplies	130,765,000	146,092,555	15,327,555
Food and Beverage Stores	141,609,000	154,669,005	13,060,005
Gasoline Stations	262,069,000	291,433,292	29,364,292
Clothing and Clothing Accessories Stores	1,027,837,000	1,117,999,930	90,162,930
General Merchandise Stores	412,815,000	452,655,541	39,840,541
Food Services and Drinking Places	414,328,000	462,957,028	48,629,028
Other Retail Group	295,712,000	332,962,030	37,250,030
Total Retail and Food Services	3,620,200,000	3,961,751,623	341,551,623

Future Demand Growth (Food sales adjusted to include non-taxable sales)	**Growth 2013-2035**
Motor Vehicle and Parts Dealers	35,109,972
Home Furnishings and Appliance Stores	32,807,271
Bldg. Matrl. and Garden Equip. and Supplies	15,327,555
Food and Beverage Stores	45,710,018
Gasoline Stations	29,364,292
Clothing and Clothing Accessories Stores	90,162,930
General Merchandise Stores	39,840,541
Food Services and Drinking Places	48,629,028
Other Retail Group	37,250,030
Total Retail and Food Services	374,201,636

Source: TNDG

Table B-3
New Supportable Retail Space (in square feet)
City of Costa Mesa
2013-2035

Sales Per Square Foot Support Factors		
Auto Parts Stores	$250	
Home Furnishings and Appliance Stores	$600	
Bldg. Matrl. and Garden Equip. and Supplies	$300	
Food and Beverage Stores	$500	
Clothing and Clothing Accessories Stores	$600	
General Merchandise Stores	$500	
Food Services and Drinking Places	$600	
Other Retail Group	$500	
Additional Supportable Retail Space		
Auto Parts Stores	13,482	(1)
Home Furnishings and Appliance Stores	54,679	
Bldg. Matrl. and Garden Equip. and Supplies	51,092	
Food and Beverage Stores	91,420	
Clothing and Clothing Accessories Stores	48,940	
General Merchandise Stores	180,326	
Food Services and Drinking Places	66,401	
Other Retail Group	97,258	
	603,598	

(1) Assumes that auto parts sales account for 9.6% of total Motor Vehicle and Parts sales category.

Source: TNDG

Table C-1
Employment Forecasts by Industry Group
2015-2035
Orange County

Industry Group	**2015**	**2020**	**2035**
Natural Resources, Mining, & Construction	78,438	90,683	116,407
Manufacturing	155,974	152,333	146,300
Wholesale Trade	82,192	91,834	111,129
Retail Trade	150,850	163,187	186,773
Transportation & Utilities	28,614	29,668	31,565
Information	25,164	26,672	29,473
Financial Activities	114,954	127,162	151,247
Professional & Business Services	280,464	318,418	396,117
Educational & Health Services	185,589	207,040	249,876
Leisure & Hospitality	191,432	210,948	249,244
Other Services	44,600	44,600	44,600
Government	147,900	152,363	157,292
Total Nonfarm	**1,486,171**	**1,614,906**	**1,870,025**

Source: The Natelson Dale Group, Inc. (TNDG) based on estimates and forecasts prepared by the California Employment Development Department

Table C-2
Allocation of Employment by Land Use Category
Orange County

Industry Group	**Office Space**	**Industrial Space**	**Other**	
	Percentage Distribution of Employees by Land Use:			
Natural Resources, Mining, & Construction	20.0%	30.0%	50.0%	100.0%
Manufacturing	0.0%	100.0%	0.0%	100.0%
Wholesale Trade	20.0%	80.0%	0.0%	100.0%
Retail Trade	5.0%	5.0%	90.0%	100.0%
Transportation & Utilities	20.0%	30.0%	50.0%	100.0%
Information	100.0%	0.0%	0.0%	100.0%
Financial Activities	90.0%	0.0%	10.0%	100.0%
Professional & Business Services	50.0%	20.0%	30.0%	100.0%
Educational & Health Services	25.0%	0.0%	75.0%	100.0%
Leisure & Hospitality	5.0%	0.0%	95.0%	100.0%
Other Services	25.0%	50.0%	25.0%	100.0%
Government	0.0%	0.0%	100.0%	100.0%

Source: The Natelson Dale Group, Inc.

Table C-3
Projected Employment by Land Use Category
2015-2035
Orange County

Land Use Category	Employment by Year: 2015	2020	2035
Office	381,365	424,380	510,894
Industrial	339,778	366,048	390,457
Other	765,028	834,479	968,673
Total Nonfarm Employment	1,486,171	1,614,906	1,870,025

Source: The Natelson Dale Group, Inc.

Table C-4
Projected Change in Employment by Time Period
2015-2035
Orange County

Land Use Category	Change in Employment by Time Period: 2015-2020	2020-2035
Office	43,015	86,515
Industrial	16,269	34,409
Other	69,451	134,194
Total Nonfarm Employment	128,735	255,118

Source: The Natelson Dale Group, Inc.

Table C-5
Projected Demand for New Office Space
2014-2035
Orange County

Square Feet per Employee: 250

Office Demand		2014-2020	2020-2035	Total
		Demand in Square Feet (SF)		
Demand for New Space		10,753,675	21,628,692	32,382,367
Construction Demand @	110%	11,829,043	23,791,561	35,620,604
Net Demand for New Space		***11,829,043***	***23,791,561***	***35,620,604***

Source: The Natelson Dale Group, Inc.

Table C-6
Projected Demand for New Office Space - Costa Mesa
2014-2035

Projection Factors:

Share of Employment, 2012	5.5%
Share of Population, 2012	3.6%
Share of Employment, 2035	4.9%
Share of Population, 2035 (SCAG)	3.4%
Share of Employment Growth	2.4%
Share of Population Growth	1.5%
Share of Office Space, 2015	6.4%

		2014-2020	2020-2035	Total
Office Space @	6.0%	709,743	1,427,494	2,137,236
Office Space @	5.0%	591,452	1,189,578	1,781,030
Office Space @	4.0%	473,162	951,662	1,424,824

<table>
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Senior Planner
City of Costa Mesa</td><td>DATE:</td><td>April 18, 2016</td></tr>
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The Natelson Dale Group, Inc. (TNDG)</td><td>FILE:</td><td>#4034</td></tr>
<tr><td>SUBJECT:</td><td colspan="3">Costa Mesa General Plan Update –
Summary of Fiscal Impact Model</td></tr>
</table>

The attached report ("User's Manual") provides detailed documentation of the Fiscal Impact Model (FIM) that TNDG has developed as part of the General Plan Update process. This memorandum provides an overview of the FIM forecasts and projection methodology.

Executive Summary

The Fiscal Impact Model forecasts changes in the City's General Fund revenues and costs that will result from future development in the City. The primary purpose of the model is to ensure that the proposed General Plan update will result in a Citywide land use mix that is fiscally balanced for the City. The model can also be used to evaluate the fiscal impacts of individual development projects.

Market Validation of General Plan Land Uses. TNDG has evaluated the fiscal impact of the General Plan based on a horizon year of 2035. For residential, industrial and hotel/motel development, TNDG has projected (based on market research summarized in a separate memo) that the City would achieve full buildout of the General Plan development capacity by 2035. However, for retail development TNDG projects that the City would only achieve 85% of buildout capacity by 2035, and for office development TNDG projects that the City would only achieve 78% of buildout capacity by 2035.

Current General Fund Cash Flow. During FY 2014-2015, the City's general fund had a $3.6 million surplus (i.e., revenues exceed expenditures by $3.6 million)[1].

Projected General Fund Cash Flow at Buildout. Based on the General Plan land use mix (adjusted, as noted, for retail and office market constraints), TNDG projects that the General Fund will achieve a surplus of $3.1 million per year at buildout. This number is projected in constant (2015) dollars (i.e., it reflects "real" dollar increases over and above inflation). Thus,

[1] Per the Comprehensive Annual Financial Report (CAFR) dated June 30, 2015. FY 2014-2015 is the latest year for which "actual" historic data are available.

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TNDG projects that the proposed General Plan land use mix will have a positive fiscal impact on the City.

Land Use Assumptions

The fiscal projections summarized in this memorandum reflect General Plan buildout, and are based on the following land use, demographic and traffic assumptions:

Land Use	Existing Development	Theoretical Buildout	Market Adjustment Factor	Evaluated Buildout
Low density residential (DU's)	14,210	14,791	100%	14,791
Medium density residential (DU's)	4,370	4,992	100%	4,992
High density residential (DU's)	23,593	31,661	100%	31,661
Age-qualified housing (DU's)	450	450	100%	450
Retail square feet	10,232,000	12,737,000	85%	10,826,450
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Industrial square feet	13,087,000	13,078,000	100%	13,078,000
Hotels (rooms)	1,877	2,077	100%	2,077
Motels (rooms)	2,272	946	100%	946
Parks (acres)	592	618	N/A	618

Demographic / Traffic Factors	Existing	Evaluated Buildout
Resident Population[2]	110,524	131,690
Jobs	87,657	92,823
Traffic (Citywide ADT)[3]	944,853	1,042,726

[2] The buildout population of 131,690 residents assumes a residential vacancy rate of 5.14%. At full (100%). This assumed vacancy factor is based on the current vacancy rate in the City and is consistent with normal housing market conditions.

[3] The projected ADT is based on factors from the General Plan traffic analysis completed by Stantec. However, the projected ADT for the FIM's "evaluated buildout" is lower than Stantec's buildout forecast since the FIM assumes that the City would achieve only 85% of buildout for retail development and 78% of buildout for office development.

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The "evaluated buildout" numbers reflect reductions in the projected amounts of retail and office development based on market constraints. For example, whereas the theoretical buildout numbers would accommodate 12.7 million square feet of retail space (an addition of 2.5 million square feet over the existing base of 10.2 million square feet), the adjusted buildout number for retail (based on TNDG's market analysis) would be 10.8 million square feet. This adjustment is critical to the reasonableness of the model results since the theoretical buildout numbers could potentially overstate retail development (and related sales tax revenue) by approximately 1.9 million square feet.

Fiscal Projections

Based on the above land use, demographic and traffic assumptions, the fiscal forecasts for General Plan buildout are as follows:

General Fund	FY 2014-2015 Actual	Projected Budget at Buildout (2015 $)	Percentage Change Through Buildout
Total Revenues	$113.0 million	$128.1 million	13%
Total Expenditures	$109.4 million	$125.0 million	14%
Net Fiscal Cash Flow	$3.6 million	$3.1 million	

During FY 2014-2015, the City's general fund had a $3.6 million surplus (i.e., revenues exceed expenditures by $3.6 million).Based on the General Plan land use mix (adjusted, as noted, for market constraints), TNDG projects that the General Fund will achieve a surplus of $3.1 million per year at buildout. This number is projected in constant (2015) dollars (i.e., it reflects "real" dollar increases over and above inflation). As described further below, the indicated General Fund cash flow at buildout is based on relatively conservative revenue assumptions.

The attached printout includes selected tables from the General Plan component of the model; these tables summarize the major assumptions utilized to derive the revenue and cost projections. The projection methodology is documented in detail in the attached User's Manual.

"Per capita" forecasting methodology

As noted on the attached tables, certain revenue and cost line items are projected using a per capita forecasting methodology, based on existing per capita factors derived from the City's budget. Given that some revenues and costs are affected by both residential and non-residential development, the analysis considers employee and visitor "populations" in addition to the resident population. For purposes of estimating population "equivalents" the following factors are applied to the employee and visitor populations:

- 1 employee is equivalent to 0.24 full-time residents
- 1 visitor (hotel guest) is equivalent to 0.75 full-time residents

These factors are consistent with generally accepted methodologies for this type of analysis and have been calibrated to Costa Mesa's budget for purposes of this FIM.

Key Factors Affecting the Fiscal Impact Projections

Conservative Orientation of Projections. In developing the General Plan fiscal impact forecasts, TNDG has endeavored to be conservative from the standpoint of potential budgetary impacts to the City. In this context, "conservative" means that the assumptions are intended to err on the side of under-estimating revenues and over-estimating costs. Key assumptions in this regard include the following:

- The FIM assumes full buildout (by 2035) of the residential development capacity indicated in the General Plan. This assumption is conservative (i.e., errs on the side of overstating fiscal costs) in that it represents that maximum potential impact in terms of population growth and related demands for municipal services.

- The FIM assumes that, by the 2035 horizon year for the analysis, the City will achieve only 85% of the General Plan capacity for retail development. This assumption is based on the focused market analysis (summarized in a separate memorandum) completed by TNDG, which conservatively assumes that growth of the City's retail base will be constrained by projected population growth. Given Costa Mesa's well established status as a retail "powerhouse," it is conceivable that retail development will be added at a rate higher than population growth. Hypothetically, if the City achieved full buildout of the General Plan's retail development capacity, it would increase the projected annual surplus by approximately $8.6 million (i.e., instead of the projected General Fund surplus of $3.1 million per year, the General Fund would have a surplus of $11.7 million per year). However, for purposes of budget forecasting, it would be highly speculative to predict how long it would take for the City to achieve full buildout of its retail development capacity. TNDG has therefore relied on the more conservative projection of new retail space supportable by 2035.

- The FIM reflects relatively conservative assumptions regarding future growth in the City's assessed valuation (the basis for property tax calculations). Two major factors will contribute to future increases in the assessed valuation: 1) new development, and 2) periodic ownership changes of existing properties (allowing the sold properties to be re-assessed pursuant to Proposition 13 provisions).

  For new housing development, TNDG believes that the FIM's assumed valuations are relatively conservative (sales prices ranging from $700,000 for new high-density units to $1.2 million for new low density units).

  With respect to assessed value changes resulting from property turnovers, TNDG has assumed that 7% of properties will change ownership annually and that these turnovers will result in the sold properties being re-assessed at valuations 3% higher than their pre-sale (i.e., Proposition 13-restricted) assessed values.

  Overall, the growth in total (Citywide) property tax revenue between now and buildout translates to an average annual growth rate of 1.3% (this is a "real" rate of increase over and above inflation). In comparison, the real average annual growth rate of the City's property tax revenue for the 16-year period between FY 1998-1999 and FY 2014-2015 was 2.6%. Thus, at approximately half the historic growth rate, the FIM projections are relatively conservative (which TNDG believes is appropriate for budgeting purposes given potential volatility in real estate prices).

One-time Budget Adjustments. Whereas most of the revenue and cost projections represent continuations of existing "trend lines" (adjusted as appropriate for changes in development, population, etc.), two key cost factors reflect major one-time shifts based on changing circumstances in the future:

- The model includes a cost adjustment of $4.1 million to cover anticipated increases in the City's retirement (pension) obligations. This is assumed to be an annually-recurring additional cost.

- By buildout, the model assumes that the City's annual debt service costs will be reduced by $3.7 million. This cost reduction reflects retirement of debt obligations between now and buildout.

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Please feel free to contact us if you have questions or would like to discuss any aspect of the Fiscal Impact Model.

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Table 1
FY 2015 Data Inputs
City of Costa Mesa Fiscal Impact Model

Population Factors	
Low Density Residential	3.187
Medium Density Residential	2.296
High Density Residential	2.296
Age Qualified Housing	2.296
Vacancy Rate	5.14%
City of Costa Mesa Assessed Valuation[1]	$16,540,841,000
Property Tax Revenue Factors	
Property Tax Rate (City's Share)[2]	0.146636051
New Low Density Residential Value[4]	$1,200,000
New Medium Density Residential Value[4]	$950,000
New High Density Residential Value[4]	$700,000
New Age Qualified Housing Value[4]	$500,000
New Retail Space (AV/Sq. Ft.)[4]	$200
New Office Space (AV/Sq. Ft.)[4]	$150
New Industrial Space (AV/Sq. Ft.)[4]	$100
New Hotel Space (AV/Room)[4]	$100,000
New Motel Space (AV/Room)[4]	$50,000
New Taxable Sales Rates	
General Commercial[4]	$400.00
Regional Commercial[4]	$600.00
Retail[5]	$480.92
Office[4]	$0
Industrial[4]	$15.00
Property Transfer Tax Revenue Factors	
Property Transfer Tax Rate	0.055%
Property Turnover Rate	7.000%
Transient Occupancy Tax Revenue Factors	
Visitors per Room[3]	1.75
Motel Occupancy Rate[3]	40.0%
Hotel Occupancy Rate[3]	75.0%
Motel Room Rate[3]	$50.00
Hotel Room Rate[3]	$150.00

Source: (1) Orange County Assessor, Annual Roll; (2) City of Costa Mesa, Finance Department; (4) TNDG.

Notes: (2) Property Tax Rate is the average rate of all the tax rate areas in the City.
(3) Estimate based on current transient occupancy tax levels.
(4) Estimate based on current assessed value and sales tax totals.
(5) Weighted Average

Table 2
Existing Land Uses by Category
City of Costa Mesa Fiscal Impact Model

Current Year Population[3]	110,524		
Average LDR Persons per DU[2]	3.19		
Average MDR Persons per DU[2]	2.30		
Average HDR Persons per DU[2]	2.30		
Average AQH Persons per DU[3]	2.30		
Current Year Employees[4]	87,657		

Residential	**Units/SF/Rooms**[1]	**Existing Assessed Value Factors**[2]	**Existing Sales Tax Factors**[2]
Low Density Residential	14,210	$330,000	
Medium Density Residential	4,370	$288,000	
High Density Residential	23,593	$288,000	
Age Qualified Housing	450	$250,000	
Subtotal, Residential	42,623		
Commercial			
General Commercial	6,092,000	$115	$400.00
Regional Commercial	4,140,000	$115	$600.00
Retail	10,232,000	$115	$480.92
Office	7,224,000	$90	$0
Industrial	13,087,000	$75	$15.00
Subtotal, Commercial	30,543,000		
Overnight Lodging			
Hotel Rooms	1,877	$100,000	
Motel Rooms	2,272	$50,000	
Subtotal, Overnight Lodging	4,149		
Parks (Acres)	592		
Landscaped Medians (Acres)	12		

Source: (1) MIG Consulting; (2) TNDG; (3) California Department of Finance, E-5 Poulation Tables; (4) Southern California Association of Governments, Local Area Profiles.

Notes: (2) Estimates based on current population, assessed value, and sales tax totals.

Table 3
Derivation of Other Revenue Projection Factors
City of Costa Mesa Fiscal Impact Model

City of Costa Mesa Population	110,524
City of Costa Mesa, Daytime Employee Population	87,657
City of Costa Mesa, Overnight Lodging Visitor Population	1,314

Employee Weighting Factor	0.24
Visitor Weighting Factor	0.75
Effective Daytime Employee Population	21,038
Effective Overnight Lodging Visitor Population	985

Budget Category	Citywide GF Budget FY 2014/15	Allocation Basis[1]	Relevant Population	Per Capita Revenue
Electric Franchise Fee	$1,272,000	R+E+V	132,547	$9.60
Cable Television Franchise Fee	$1,300,000	R	110,524	$11.76
Gas Franchise Fee	$250,000	R+E+V	132,547	$1.89
Solid Waste Hauler Franchise Fee	$1,945,000	R+E+V	132,547	$14.67
Business License	$954,000	E	87,657	$10.88
Licenses and Permits	$139,100	R	110,524	$1.26
Fines and Forfeitures	$1,190,000	R+E+V	132,547	$8.98
Use of Money and Property	$276,300	NO CHANGE PROJECTED		
Fees and Charges	$2,027,600	R	110,524	$18.35
Other Government Agencies	$1,045,300	R	110,524	$9.46
Other Revenues	$787,300	NO CHANGE PROJECTED		

Table 4
Derivation of Projection Factors for Police Protection Costs
City of Costa Mesa Fiscal Impact Model

City of Costa Mesa Population	110,524
City of Costa Mesa, Daytime Employee Population	87,657
City of Costa Mesa, Overnight Lodging Visitor Population	2,904

Employee Weighting Factor	0.24
Visitor Weighting Factor	0.75
Effective Daytime Employee Population	21,038
Effective Overnight Lodging Visitor Population	2,178

Budget Category	Citywide GF Budget FY 2015	Allocation Basis	Relevant Population	Per Capita Cost
Police Protection	$41,016,560	R+E+V	133,740	$306.69

Table 5
Derivation of Projection Factor for Parks & Community Services Costs
City of Costa Mesa Fiscal Impact Model

City of Costa Mesa Population	110,524

Budget Category	Citywide GF Budget FY 2015	Allocation Basis	Relevant Population	Per Capita Cost
Total Parks & Community Services Budget	$4,958,298			
Less: recreation fees and facility rentals	(4,021,300)			
Net City cost	$936,998	R	110,524	$8.48

Table 6
Derivation of Projection Factors for Development Services Costs
City of Costa Mesa Fiscal Impact Model

City of Costa Mesa Population	110,524
City of Costa Mesa, Daytime Employee Population	87,657
City of Costa Mesa, Overnight Lodging Visitor Population	2,904

Employee Weighting Factor	0.24
Visitor Weighting Factor	0.75
Effective Daytime Employee Population	21,038
Effective Overnight Lodging Visitor Population	2,178

Budget Category	Citywide GF Budget FY 2015	Allocation Basis	Relevant Population	Per Capita Cost
TOTAL GENERAL FUND EXPENDITURES				
Development Services Administration	$645,891			
Planning				
Planning	1,627,661			
Planning Commission	27,600			
Building Safety				
Code Enforcement	879,310			
Building Safety	2,025,030			
OFFSETTING REVENUES				
Fire Permits	(106,000)			
Building Permits	(1,460,000)			
Electrical Permits	(227,000)			
Plumbing/Mechanical Permits	(279,600)			
Street Permits	(269,800)			
Zoning/Variance/CUP Fees	(147,500)			
Subdivision/Map Fees	(31,100)			
Environmental Impact Fees	(29,000)			
Plan Checking Fee	(408,000)			
HOME/CDBG Funds (1)	338,902			
NET DEVELOPMENT SERVICES COST	$2,586,394	R+E+V	133,740	$19.34

(1) HOME/CDBG funding in excess of current year Housing & Community Development budget.

Table 7
Derivation of Projection Factors for Fire Protection Costs
City of Costa Mesa Fiscal Impact Model

Occupancy Type	Existing Number of Units, SF, or Rooms	Number of Incidents per Year	Incidents per Unit
Single Family Unit	17,766	2,328	0.1310
Multi-Family Unit	25,304	2,294	0.0907
Retail (in 000's)	9,456	774	0.0818
Office (in 000's)	7,429	439	0.0591
Industrial (in 000's)	12,352	201	0.0163
Overnight Lodging	4,123	445	0.1078
Total		6,481	
Fire Department 2015 Budget		*$20,379,286*	
Total Incidents per Year		6,481	
Cost per Incident		$3,145	

Table 8
Estimate of Existing (2015) Traffic Trips by Land Use
City of Costa Mesa Fiscal Impact Model

Land Use Category	Development Units (2015)	ADT/Unit (2015)	2015 ADT	Total for General Plan Land Uses
Low Density Residential	14,210	9.52	135,290	140,822
Medium Density Residential	4,370	8.09	35,349	40,380
High Density Residential	23,593	6.65	156,896	210,549
Age Qualified Housing	450	3.44	1,548	1,548
Retail (000's square feet)	10,232	40.35	412,814	436,797
Office (000's square feet)	7,224	11.42	82,489	98,008
Industrial (000's square feet)	13,087	6.97	91,217	91,154
Hotel Rooms	1,877	8.17	15,335	16,969
Motel Rooms	2,272	5.63	12,793	5,327
Institutional	N/A	N/A	N/A	N/A
Parks (acres)	592	1.90	1,122	1,171
Other	N/A	N/A	N/A	N/A
Total Trips			944,853	1,042,726

Table 9
Public Services Expenditures
City of Costa Mesa Fiscal Impact Model

Budget Category	Citywide Budget FY 2015	Projection Basis	Number of Units	Percentage/ Per Unit Costs	
Administration	$1,139,355	% Factor	N/A	8.55%	
Engineering	2,184,274	Per Capita (R+E+V)	133,740	$16.33	
Transportation	2,027,273	Per Traffic Trip	944,853	$2.15	
Maintenance Services	11,299,619				
Administration	288,016	% Factor	N/A	2.84%	
Parkway & Median Maintenance	868,040	Per Acre	12	$72,337	
Park Maintenance	3,120,565	Per Acre	592	$5,271	
Streets	1,294,758	Per Traffic Trip	944,853	$1.37	
Graffiti Abatement	190,289	Per Capita (R+E+V)	133,740	$1.42	
Storm Drain Maintenance	97,816	Percentage Input	N/A	1.0%	See Table DI-7
Signs and Markings	524,329	Percentage Input	N/A	1.0%	See Table DI-7
Facility Maintenance	1,555,672	Percentage Input	N/A	1.0%	See Table DI-7
Fleet Services	3,360,135	Percentage Input	N/A	1.0%	See Table DI-7
Total Public Services Expenditures	$16,650,521				

Table 10
Administrative and Overhead Expenditures
City of Costa Mesa Fiscal Impact Model

Budget Category	Citywide Budget FY 2015
City Council	$378,408
CEO's Office	7,872,268
Finance	2,843,051
City Attorney's Office	1,000,000
Information Technology	3,328,366
Non-Departmental	11,231,747
Total Administrative/Overhead Functions	$26,653,840
Other General Fund Expenditures	$81,569,759
Percentage of Administrative/Overhead Costs of Total General Fund	*32.68%*

Table 11
Existing and Projected Citywide Development by Land Use
City of Costa Mesa Fiscal Impact Model

	Existing	Theoretical Buildout	Market Adjustment Factor	Evaluated Buildout	Percentage Change Through Buildout
Residential (Dwelling Units)					
Low Density Residential[1]	14,210	14,791	100%	14,791	4%
Medium Density Residential[1]	4,370	4,992	100%	4,992	14%
High Density Residential[1]	23,593	31,661	100%	31,661	34%
Age Qualified Housing[1]	450	450	100%	450	0%
Subtotal, Residential	42,623	51,894		51,894	22%
Commercial (Square Feet)					
Retail[1]	10,232,000	12,737,000	85%	10,826,450	6%
Office[1]	7,224,000	11,004,000	78%	8,583,120	19%
Industrial[1]	13,087,000	13,078,000	100%	13,078,000	0%
Subtotal, Commercial	30,543,000	36,819,000		32,487,570	6%
Overnight Lodging (Rooms)					
Hotels[1]	1,877	2,077	100%	2,077	11%
Motels	2,272	946	100%	946	-58%
Subtotal, Overnight Lodging	4,149	3,023		3,023	-27%
Parks (Acres)[1]	592			618	4%
Landscaped Medians (Acres)[2]	12			12	0%
Population:					
Residents[3]	110,524			131,690	19%
Employees[4]	87,657			92,823	6%
Overnight Lodging Visitors (average daily)[2]	4,831			3,167	-34%
Total Population Equivalent[2]	135,185			156,343	16%
Traffic (Citywide ADT)[1]	944,853			1,042,726	10%

Source: (1) MIG Consulting; (2) TNDG; (3) California Department of Finance, E-5 Poulation Tables; (4) Southern California Association of Governments, Local Area Profiles.

Notes: (1) Retail Category includes General Commercial, Regional Commercial, and Auto Dealership space
(2) Hotel visitor totals are estimated by current transient occupancy tax levels in the City.

Table 12
Existing and Projected General Fund Budgets
City of Costa Mesa Fiscal Impact Model

General Fund	Existing Budget FY 2015	Projected Budget at Buildout	Percentage Change Through Buildout
Revenues			
Property Tax	$24,051,900	$36,057,794	50%
Property Tax in lieu of MVL	9,567,500	14,232,971	49%
Property Transfer Tax	621,700	959,468	54%
Transient Occupancy Tax	8,107,500	7,990,116	-1%
Sales and Use Tax	52,862,000	55,719,494	5%
Electric Franchise Fee	1,303,800	1,514,103	16%
Cable Television Franchise Fee	1,315,700	1,564,612	19%
Gas Franchise Fee	252,200	293,603	16%
Solid Waste Hauler Franchise Fee	2,167,900	2,489,270	15%
Business License Fees	943,900	1,000,107	6%
Licenses and Permits *	139,100	165,769	19%
Fines and Forfeitures	1,190,000	1,386,721	17%
Use of Money and Property *	276,300	276,300	0%
Fees and Charges *	2,027,600	2,415,996	19%
Other Government Agencies	1,045,300	1,245,530	19%
Other Revenues	787,300	787,300	0%
Total Revenues	$106,659,700	$128,099,155	20%
Expenditures			
Police Protection	$41,016,560	$47,735,090	16%
Fire Protection	20,379,286	23,199,663	14%
Public Services	16,650,521	18,839,919	13%
Parks & Community Services **	936,998	1,116,486	19%
Development Services **	2,586,394	3,010,067	16%
Overhead and Administration	26,653,840	30,683,286	15%
Incremental Retirement Obligations	-	4,122,416	N/A
Reduction in Debt Service	-	(3,738,618)	N/A
Total Expenditures	$108,223,599	$124,968,307	15%
Net Fiscal Cash Flow	***($1,563,899) (1)***	***$3,130,847***	

(1) The negative cash flow in FY 2015-2016 does not reflect a structural deficit for the General Fund. The indicated "deficit" is due to the one-time use of fund balance from the prior year (related to the partial prepayment of a park loan and designation of some of those funds for capital projects).

* The amounts for these line items have been adjusted to exclude revenues that are cost-recovery fees and/or facility rental income (see Table DI-2).
** The amounts for these line items have been adjusted to exclude costs that are directly offset by user fees and/or facility income (see Table DI-4).

THE NATELSON DALE GROUP, INC.
Overview

The Natelson Dale Group, Inc. (TNDG) is a real estate economic and financial consulting firm established in southern California in 1974. TNDG provides services to public and private sector clients in the following basic areas:

- Fiscal impact analysis and modeling
- Real estate market forecasts and development feasibility studies
- Economic development strategic plans
- General plan economic development elements
- Downtown and corridor revitalization strategies
- Deal structuring and negotiation of public/private development agreements
- Park, recreation and open space master planning

General Plan Economic Studies. TNDG has served as the project economist for General Plan processes for jurisdictions of all sizes. These assignments typically involve market demand forecasts (for all land use types), pro forma financial analyses to define feasible development densities, fiscal impact evaluations and preparation of Economic Development Elements. TNDG's General Plan clients include the following cities in California:

- City of Agoura Hills
- City of Alhambra
- City of Beaumont
- City of Calabasas
- City of California City
- City of Chino
- City of Fontana
- City of Garden Grove
- City of La Quinta
- City of Los Angeles
- City of Malibu
- City of Ontario
- City of Port Hueneme
- City of Rialto
- City of Redondo Beach
- City of San Bernardino
- City of San Clemente
- City of Santa Monica
- City of Santa Paula
- City of Yorba Linda

TNDG is dedicated to the direct involvement of its principals in all phases of the firm's work and maintains a highly qualified staff of senior professionals to assist the principals in the conduct of each assignment. The company regularly participates on multi-disciplinary consulting teams, both as a prime and a subcontractor.

The firm is headquartered in southern California and has satellite offices in Phoenix, Arizona. Its main office is located at:

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Yorba Linda, California 92887
Phone: (714) 692-9596

Roger A. Dale, Managing Principal. Mr. Dale has been affiliated with TNDG for 28 years (since 1988) and currently serves as the firm's managing principal. His background encompasses the fields of real estate development, economic development, regional economic analysis, environmental and land use policy, financial forecasting, and renewable energy. His project experience with TNDG includes real estate market forecasting, demographic research and modeling, fiscal impact analysis, cost/benefit assessment, redevelopment, business retention/attraction, workforce development program assessments, and preparation of regional-scale economic development strategic plans.

Mr. Dale has completed numerous fiscal impact analyses and developed customized software models to enable municipalities to assess the fiscal impacts of proposed general plan updates, annexations, and individual development projects.

He has also prepared real estate forecasts for municipal planning efforts throughout California and Arizona. He served as the lead economist for the City of Los Angeles General Plan Framework study. This work included long-range demand forecasts for each of the City's 35 planning areas for residential, retail, office and industrial land uses.

In addition to his public sector work, Mr. Dale also has extensive experience in preparing market and financial feasibility analyses for private developers. Key projects include a 4,200-acre subdivision in Moorpark, California; an 885-acre mixed use development on the Big Island of Hawaii; a tourist-oriented retail/restaurant complex in Honolulu; several regional shopping centers in southern California; a 3,200-unit residential development in the Santa Clarita Valley; and a master planned community in Yokohama, Japan.

Reflecting his longstanding interest in sustainability issues, he serves on the Board of the Roberts Environmental Center – a leading publisher of global climate change research and the nation's foremost analyst of corporate sustainability reporting.

Mr. Dale received his B. A. cum laude in Economics from Claremont McKenna College in Claremont, California. He also holds a master's degree in Resource and Environmental Economics from the University of California at Riverside.