ATTACHMENT 6

MEMORANDUM			
TO:	Daniel Inloes, AICP Senior Planner City of Costa Mesa	**DATE:**	June 6, 2016
FROM:	Roger Dale, Managing Principal The Natelson Dale Group, Inc. (TNDG)	**FILE:**	#4034
SUBJECT:	**General Plan Fiscal Impact Analysis – Responses to City Council Comments**		

During the General Plan presentation and discussion at the May 17, 2016 City Council meeting, members of the City Council provided three questions/comments on the Fiscal Impact Analysis:

1. How many future hotel rooms does the analysis assume? How would the fiscal impact projections change if all currently approved hotel rooms in the City are assumed to be built by the study's 2035 horizon year?

2. What is the "most revenue-generating" land use?

3. What budget year was used for the Analysis? The current budget is over $150 million.

This memorandum provides responses to the three questions, based on follow-up analysis completed by TNDG. As background to the individual responses, the baseline fiscal forecasts for General Plan buildout (summarized at the May 17 City Council meeting) are recapped 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	

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How many future hotel rooms does the analysis assume? How would the fiscal impact projections change if all currently approved hotel rooms in the City are assumed to be built by the study's 2035 horizon year?

The baseline fiscal impact analysis (summarized at the May 17 City Council presentation) assumes that 200 additional hotel rooms would be built in the City by 2035. This is consistent with the assumptions in the General Plan traffic analysis.

As we emphasized during the City Council presentation, the fiscal impact analysis is purposely based on relatively conservative assumptions in order to avoid overstating potential City revenues as Costa Mesa approaches buildout. Given the number of currently proposed/approved hotels in the City, the assumption of 200 additional rooms would appear to be very conservative. As a supplemental analysis, TNDG has evaluated the potential enhancement to the City's General Fund cash flow from an additional 450 hotel rooms (i.e., the 200 new rooms already assumed plus 450 more, for a total increment of 650 rooms). The results of this supplemental analysis are summarized as follows:

General Fund Cash Flow	FY 2014-2015 Actual	Projected Cash Flow at Buildout (2015 $)
Baseline Projection	$3.6 million	$3.1 million
Enhanced Projection (with 450 additional hotel rooms)	$3.6 million	$4.2 million
Difference (over baseline)	–	$1.1 million

As noted previously, the baseline fiscal impact forecast for 2035 is a positive General Fund cash flow of $3.1 million per year. Under the "enhanced" projection (i.e., with the 450 additional hotel rooms), the General Fund cash flow would increase to $4.2 million per year, or approximately $1.1 million more than the baseline scenario. This enhanced scenario assumes that the 450 additional hotel rooms would displace 483 high-density residential units.

What is the "most revenue-generating" land use?

In order to answer this question, TNDG utilized the fiscal impact model to test the net fiscal impact of one acre of prototypical development for each land use category. The calculations assume that the hypothetical one-acre development would be built to the following densities for each land use category:

- Low density residential – 8 dwelling units per acre (DUA)
- Medium density residential – 12 DUA
- High density residential – 20 DUA
- Overlay zone residential – 40 DUA
- Retail – 0.35 floor-area ratio (FAR)
- Office – 0.40 FAR
- Industrial – 0.40 FAR
- Hotels – 100 rooms per acre

Based on these assumed development densities, the per-acre net fiscal impact of each land use is estimated as follows:

Land Use Category	Annual Fiscal Impact Per Acre
Low density residential (8 DUA)	+ $4,000
Medium density residential (12 DUA)	+ $4,500
High density residential (20 DUA)	+ $500
Overlay zone residential (40 DUA)	– $3,000
Retail (0.35 FAR)	+ 70,000
Office (0.40 FAR)	Neutral
Industrial (0.40 FAR)	+ $4,500
Hotel (100 rooms per acre)	+ $270,000

We should emphasize that, for purposes of this simple comparison, the residential land uses have been evaluated as "stand alone" development projects; the per-acre estimates above do not take into account the retail sales (and associated sales tax revenue) that the residents of these projects would generate in the City. If the sales tax revenues attributable to new residents were included in the analysis, the net fiscal impact of residential development would be more favorable.

What budget year was used for the Analysis? The current budget is over $150 million.

TNDG's detailed calculations are based on the latest (2015/2016) adopted budget. However, for comparison purposes, the summary slides shown at the May 17 City Council meeting showed information for <u>FY 2014/2015</u> (since 2014/2015 is the latest year for which "actual" numbers were available at the time TNDG completed the analysis). Actual General Fund revenue in FY 2014/2015 totaled $109,451,662. The General Fund is only a portion of the total budget; it is the component of the budget used for the fiscal impact analysis because it represents the discretionary portion of the City's budget that will be most significantly impacted by new development. The budget discussed by the City Council was the 2015/2016 total budget which is $154,189,869 and includes General Fund revenue of $115,202,900.

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

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