



To: **Todd Galarneau, Meridian Development**

From: **Lance Harris**

Date: **May 27, 2016**

re: **Millenia Fiscal Impact Analysis - Potential Removal of 450,000 Square Feet of Office Development**

cc:

Introduction

The following provides a discussion of the potential fiscal impact associated with the removal of 450,000 square feet of office development in the Millenia project to the City of Chula Vista's General Fund. It is important to note that this analysis is based on a previous development program that was evaluated in connection with a fiscal analysis for the Eastern Urban Center Specific Plan Area. The development plan envisioned the delivery of this 450,000 gross square feet of office space near the end of the project's 20-year absorption period (6,500 square feet in year 16 and the remaining 443,500 square feet in year 21). *As a result, references herein to fiscal impacts at an illustrative Year 5 and Year 10 would be realized by the City approximately 20 years in the future.*

The analysis uses the the City's approved Fiscal Impact Analysis (FIA) Framework as described in the memorandum "Chula Vista Fiscal Model Update – Overview and User's Guide," dated January 2015. A copy of the model used to perform this analysis is available upon request.

Findings

The annual impact of the potential removal of the planned office development represents a loss of revenues to the City's General Fund, on average, of approximately **\$29,200 per year over a ten year evaluation period** as well as the loss of approximately **1,900 jobs** at project build out. All values are presented in constant 2015 dollars. *The following table and Appendix presents the findings based on the mid-rent scenario described in detail below.*

Net Fiscal Impact - Potential Removal of 450,000 Square Feet of Office Development (\$2015)

	Year 5	Year 10	10 Year Analysis	
			Cumulative	Average
Revenues	\$715,418	\$744,423	\$6,590,694	\$732,299
Expenditures	\$703,099	\$703,099	\$6,327,889	\$703,099
Net Fiscal Impact	\$12,319	\$41,324	\$262,805	\$29,201

Note: Totals may not add; References herein to fiscal impacts at an illustrative Year 5 and Year 10 would be realized by the City approximately 20 years in the future.
Source: City of Chula Vista and Pro Forma Advisors

Sensitivity Analysis

While the baseline estimates are tied to contemporary market assumptions, Pro Forma Advisors provided additional analysis to demonstrate the range of impacts due to achievable office rents to provide a range of fiscal impacts for the City. The following rent scenarios have been used:

- ▶ **Low-Rent Scenario:** Average \$2.50 per square foot.
- ▶ **Mid-Rent Scenario:** Average \$2.70 per square foot.
- ▶ **High-Rent Scenario:** Average \$2.85 per square foot.

**Rent Sensitivity Analysis - Potential Removal of 450,000 Square Feet of Office Development
(\$2015)**

	Low-Rent Scenario (Year 10)	Mid-Rent Scenario (Year 10)	High-Rent Scenario (Year 10)
Revenues	\$713,508	\$744,423	\$767,610
Expenditures	\$703,099	\$703,099	\$703,099
Net Fiscal Impact	\$10,409	\$41,324	\$64,511

Note: Note: Totals may not add; References herein to fiscal impacts at an illustrative Year 10 would be realized by the City approximately 20 years in the future
Source: City of Chula Vista and Pro Forma Advisors

Based on this analysis the potential removal of 450,000 square feet of office space would result in the loss of **\$10,400** to **\$64,500** in net fiscal revenue to the City on an annual basis.

Key Assumptions

Specific assumptions include the following building program, employment, value, and equivalent dwelling unit (EDU) calculation.

It should be noted that although the office development's net leasable square feet has not been adjusted, adjustments have been made to be consistent with the new FIA Framework that defaults to a 90 percent occupancy and one employee for every 300 square feet of leased office space. This change from 93 percent occupancy in the previous analysis to 90 percent is made to be conservative, while the change from one employee for every 300 square feet to 200 square feet in this analysis reflects a contemporary employment density factor for higher intensity Class A office development¹.

The model has applied the full Public Work department expense² to the pro rata share of lane miles associated with the office development. While it is assumed that the community facilities district (CFD14M) will contribute to various aspects of infrastructure and street frontage maintenance, these financial contributions will not offset any of the City's Public Work costs associated with street maintenance in the General Fund. It should be noted that this is very likely a conservative assumption as in addition to CFD14M, the Millenia Master Community Association is obligated to maintain a number of elements within the street rights of way pursuant to recorded Grants of Easement, License and Maintenance agreements ("GELMAs") with the City.

Pro Forma Advisors used a methodology to estimate the current tax value of the 5.1-acres of undeveloped land based on a pro rata share of the project's 2015-2016 total assessed value. An adjustment of the undeveloped office land's assessed value was made to 2011 dollars. Proposition 13 limits properties' annual value to increase at the inflation rate, which is measured by the lesser of the California CPI or 2 percent. The

¹ This reflects the new base employment density in the revised Fiscal Impact Framework

² Per lane mile

memo

California CPI was used because between 2011 and 2015 the annual increase averaged less than 2 percent a year (1.6 percent).

All other model assumptions are consistent with the City's approved FIA Framework.

Office Development Assumptions

Gross Square Feet	450,000
Building Efficiency	94%
Leasable Square Feet	423,000
Occupancy	90%
Occupied SF	380,700
Employees per Occupied SF	200
Employees	1,904
Rent per SF (NNN)	\$2.50 to \$2.85
Capitalization Rate	6.0%
New Lane Miles	0.20
Undeveloped Land Assessed Value (\$2015)	\$1,873,000

Note: Original analysis used a employee per occupied office square feet of 300 and an occupancy rate of 93 percent.
Source: City of Chula Vista and Pro Forma Advisors

Office Development EDU Calculation

Household Population	0
Occupied Dwelling Units	0
Persons Per Occupied Dwelling Unit (ODU)	3.2
Employees (Non Resident)	1,315
Employment Resident Equivalent	35%
Employment Resident Equivalents	460
Employment Resident Equivalents/ Persons Per ODU	142
Induced ODU from Employment (New Residents Households)	454
Equivalent Dwelling Units	596

Source: City of Chula Vista and Pro Forma Advisors



memo

Other Considerations

It is useful to quantify the relative impact of the potential removal of 450,000 square feet of office space within the Millenia project. Using the City approved Eastern Urban Center Fiscal Analysis, dated March 31, 2009, the potential removal of the office space would yield a potential loss of \$25,600 in net revenue per year (in 2008 dollars). This suggests that at project buildout the office component under consideration would represent less than one percent (0.5) of the total net City revenues generated by the Millenia project.

appendix

Summary of FIA - Potential Removal of 450,000 Square Feet of Office Development

The remainder of this page is intentionally left blank

appendix

Summary of FIA - Potential Removal of 450,000 Square Feet of Office Development

The remainder of this page is intentionally left blank

appendix

Summary of FIA - Potential Removal of 450,000 Square Feet of Office Development

The remainder of this page is intentionally left blank

Table 1 - Revenue Summary

Revenue Estimate (2011 Dollars) Account Category	Allocation	Base Year Rate	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Charges for Services	Zero Forecast - Expenditures											
Development Impact Fees	EDU	\$18.64 Per EDU	\$ -	\$ 11,117	\$ 11,117	\$ 11,117	\$ 11,117	\$ 11,117	\$ 11,117	\$ 11,117	\$ 11,117	\$ 11,117
Fines, Forfeitures, Penalties	EDU	\$16.81 Per EDU	\$ -	\$ 10,027	\$ 10,027	\$ 10,027	\$ 10,027	\$ 10,027	\$ 10,027	\$ 10,027	\$ 10,027	\$ 10,027
Licenses and Permits	EDU	\$16.81 Per EDU	\$ -	\$ 10,027	\$ 10,027	\$ 10,027	\$ 10,027	\$ 10,027	\$ 10,027	\$ 10,027	\$ 10,027	\$ 10,027
Other Local Taxes												
Business License Tax	Employee	\$23.86 Per Employee	\$ -	\$ 45,424	\$ 45,424	\$ 45,424	\$ 45,424	\$ 45,424	\$ 45,424	\$ 45,424	\$ 45,424	\$ 45,424
Franchise Fees	EDU	\$115.48 Per EDU	\$ -	\$ 68,883	\$ 68,883	\$ 68,883	\$ 68,883	\$ 68,883	\$ 68,883	\$ 68,883	\$ 68,883	\$ 68,883
Real Property Transfer Tax	Special Model		\$ -	\$ 100,970	\$ 5,048	\$ 5,048	\$ 5,048	\$ 5,048	\$ 5,048	\$ 5,048	\$ 5,048	\$ 5,048
Sales Tax	Special Model		\$ -	\$ 71,556	\$ 71,556	\$ 71,556	\$ 71,556	\$ 71,556	\$ 71,556	\$ 71,556	\$ 71,556	\$ 71,556
Transient Occupancy Tax	Special Model		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Utility Taxes	EDU	\$47.64 Per EDU	\$ -	\$ 28,415	\$ 28,415	\$ 28,415	\$ 28,415	\$ 28,415	\$ 28,415	\$ 28,415	\$ 28,415	\$ 28,415
Other Revenue	EDU (65% Percent Variable)	\$103.54 Per EDU	\$ -	\$ 61,762	\$ 61,762	\$ 61,762	\$ 61,762	\$ 61,762	\$ 61,762	\$ 61,762	\$ 61,762	\$ 61,762
Property Taxes												
Current Taxes Secured	Special Model		\$ -	\$ 193,098	\$ 196,765	\$ 200,316	\$ 203,754	\$ 207,084	\$ 210,308	\$ 213,430	\$ 216,452	\$ 219,379
Current Taxes Unsecured	EDU	\$11.25 Per EDU	\$ -	\$ 6,708	\$ 6,708	\$ 6,708	\$ 6,708	\$ 6,708	\$ 6,708	\$ 6,708	\$ 6,708	\$ 6,708
Delinquent Taxes	EDU	\$1.03 Per EDU	\$ -	\$ 614	\$ 614	\$ 614	\$ 614	\$ 614	\$ 614	\$ 614	\$ 614	\$ 614
Prop Tax in Lieu	EDU	\$0.19 Per EDU	\$ -	\$ 114	\$ 114	\$ 114	\$ 114	\$ 114	\$ 114	\$ 114	\$ 114	\$ 114
State Secured Unitary	EDU	\$11.41 Per EDU	\$ -	\$ 6,808	\$ 6,808	\$ 6,808	\$ 6,808	\$ 6,808	\$ 6,808	\$ 6,808	\$ 6,808	\$ 6,808
Revenue from Other Agencies												
MLFV	Special Model		\$ -	\$ 143,394	\$ 146,116	\$ 148,753	\$ 151,307	\$ 153,779	\$ 156,173	\$ 158,491	\$ 160,736	\$ 162,909
Sales Tax	Household Population	\$3.25 Per HH Population	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers In	Zero Forecast											
Use of Money & Property	Zero Forecast											
Total			\$ -	\$ 748,889	\$ 659,357	\$ 665,545	\$ 671,537	\$ 677,339	\$ 682,957	\$ 688,397	\$ 693,664	\$ 698,764

NA = Not Applicable

Note: References herein to fiscal impacts at an illustrative Year 10 would be realized by the City approximately 20 years in the future.

Source: City of Chula Vista; Pro Forma Advisors

Table 2 - Expenditures Summary

Expenditures Estimate (2011 Dollars) Department	Allocation	Base Year Rate	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Administration	EDU	\$14.78 Per EDU	\$0	\$8,819	\$8,819	\$8,819	\$8,819	\$8,819	\$8,819	\$8,819	\$8,819	\$8,819
Boards and Commissions	EDU	\$0.00 Per EDU	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
City Attorney	EDU	\$25.19 Per EDU	\$0	\$15,028	\$15,028	\$15,028	\$15,028	\$15,028	\$15,028	\$15,028	\$15,028	\$15,028
City Clerk	EDU	\$5.60 Per EDU	\$0	\$3,343	\$3,343	\$3,343	\$3,343	\$3,343	\$3,343	\$3,343	\$3,343	\$3,343
City Council	EDU	\$9.56 Per EDU	\$0	\$5,703	\$5,703	\$5,703	\$5,703	\$5,703	\$5,703	\$5,703	\$5,703	\$5,703
Community Development	EDU	\$0.00 Per EDU	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Engineering	EDU	\$0.00 Per EDU	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Finance	EDU	\$37.97 Per EDU	\$0	\$22,648	\$22,648	\$22,648	\$22,648	\$22,648	\$22,648	\$22,648	\$22,648	\$22,648
Fire	Special Model		\$0	\$186,319	\$186,319	\$186,319	\$186,319	\$186,319	\$186,319	\$186,319	\$186,319	\$186,319
General Services	EDU	\$15.52 Per EDU	\$0	\$9,259	\$9,259	\$9,259	\$9,259	\$9,259	\$9,259	\$9,259	\$9,259	\$9,259
Human Resources	EDU	\$16.45 Per EDU	\$0	\$9,813	\$9,813	\$9,813	\$9,813	\$9,813	\$9,813	\$9,813	\$9,813	\$9,813
Information Technology Svcs	EDU	\$26.61 Per EDU	\$0	\$15,876	\$15,876	\$15,876	\$15,876	\$15,876	\$15,876	\$15,876	\$15,876	\$15,876
Library	HH Population	\$11.48 Per HH Pop	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Nature Center	EDU	\$0.00 Per EDU	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Non-Departmental	EDU	\$0.00 Per EDU	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Planning & Building Services	EDU	\$28.10 Per EDU	\$0	\$16,764	\$16,764	\$16,764	\$16,764	\$16,764	\$16,764	\$16,764	\$16,764	\$16,764
Police	Special Model		\$0	\$352,848	\$352,848	\$352,848	\$352,848	\$352,848	\$352,848	\$352,848	\$352,848	\$352,848
Public Works	Lane Mile	\$16,158.81 Per Lane Mile	\$0	\$3,301	\$3,301	\$3,301	\$3,301	\$3,301	\$3,301	\$3,301	\$3,301	\$3,301
Recreation	EDU	\$17.19 Per EDU	\$0	\$10,252	\$10,252	\$10,252	\$10,252	\$10,252	\$10,252	\$10,252	\$10,252	\$10,252
Total			\$0	\$659,974	\$659,974	\$659,974	\$659,974	\$659,974	\$659,974	\$659,974	\$659,974	\$659,974

Note: References herein to fiscal impacts at an illustrative Year 10 would be realized by the City approximately 20 years in the future.

Source: City of Chula Vista; Pro Forma Advisors

Table 3 - Net Fiscal Impact

General Fund (Adjusted to 2015 Year Dollars)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues	\$ -	\$ 797,824	\$ 702,442	\$ 709,034	\$ 715,418	\$ 721,599	\$ 727,584	\$ 733,380	\$ 738,991	\$ 744,423
Expenditures	\$ -	\$ 703,099	\$ 703,099	\$ 703,099	\$ 703,099	\$ 703,099	\$ 703,099	\$ 703,099	\$ 703,099	\$ 703,099
Net Fiscal Impact Estimate	\$ -	\$ 94,725	\$ (657)	\$ 5,935	\$ 12,319	\$ 18,500	\$ 24,485	\$ 30,281	\$ 35,892	\$ 41,324

Note: References herein to fiscal impacts at an illustrative Year 10 would be realized by the City approximately 20 years in the future.

Source: City of Chula Vista; BLS; Pro Forma Advisors