

# **Attachment No. PC 5**

Fiscal Impact Analysis

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# MEMO

**TO:** Liz Westmoreland, Senior Planner  
City of Newport Beach

**FROM:** Doug Svensson

**DATE:** August 14, 2023

**SUBJECT:** Fiscal Analysis for the 1400 Bristol St. North Project

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## INTRODUCTION

The fiscal analysis uses the Newport Beach Fiscal Impact Model to help calculate revenue and cost impacts of the proposed project. This model was initially developed in support of the General Plan Update, which was adopted in 2006.<sup>1</sup> The model has been updated to reflect Fiscal Year 2023-2024 costs and revenues from the Adopted Newport Beach City Budget. The fiscal impact model calculates public service impacts for specific land uses that support the residential population, the employment base and the visitor population in Newport Beach. It also calculates the public revenues that each type of land use typically generates for the City, including property taxes, sales taxes and other taxes as well as a variety of user charges and fees.

The fiscal impact model is designed to calculate the average cost of public services required by new development, on the assumption that new development affects City services in approximately the same way that existing development does. The model nets out certain costs that are unlikely to change with expansion of City government, such as the number of City Department Directors and Division managers, as well as the City Council and City Clerk expenditures, but otherwise assumes that City administrative support and overhead tends to increase as City government activities grow to provide services to an expanding population and employment base. Over the long term, this is clearly the dynamic that local governments experience. In the short term, development projects may have

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<sup>1</sup> A technical description of the fiscal impact model may be found in: Applied Development Economics, Fiscal Impact Analysis and Model, Newport Beach General Plan Update, January 2004.

lower or higher cost impacts depending on the existing capacity of City services to accommodate more development, and the level of expenditure needed to expand services incrementally if existing capacity is not available.

## **PROJECT DESCRIPTION**

### **THE PROPOSED PROJECT**

The proposed project would convert two existing 2-story office buildings, with a total of 38,764 sq. ft., to a 6-story apartment building comprised of 230 residential units, podium level amenity space, a business center and parking. Residential units within the project will include a mix of studios, one-bedroom units, and two-bedroom units ranging from 515 sq. ft. to 1,469 sq. ft. Of the 230 total units, 207 will be market rate units and 23 will be affordable units.

### **SOCIOECONOMIC CHARACTERISTICS**

In order to calculate the fiscal effects of the proposed changes, it is necessary to estimate certain socio-economic characteristics of the land uses, including population and employment, assessed value, household spending on taxable retail goods in Newport Beach, and direct sales taxes from the existing non-residential uses. Based on 2023 data from the State Department of Finance, the average household size in Newport Beach is 2.17 persons, which would imply the proposed project would have a resident population of 499 persons. The existing office uses are estimated to support 141 jobs based on standard employee density ratios for office space.

The assessed value for the proposed project has been derived from analysis of estimated rents for the proposed project and multifamily unit sales in Newport Beach over the past year July 2022 – July 2023. The project sponsor provided bedroom counts and units sizes in square feet for one model of studio and six models each for one-bedroom and two-bedroom units. The average units sizes are 515 sq. ft. for studios, 776 sq. ft. for one-bedroom and 1,250 sq. ft. for two-bedrooms.

ADE researched current asking rents for several major apartment complexes in Newport Beach on the Zillow website (Table 1). The average rents for units that are available ranged from \$5.54/sq. ft. for studios to \$3.87/sq. ft. for two-bedroom units. Applying these averages to the units in the proposed project, average rents would range from \$2,850 for studios to \$4,840 for two-bedroom units (Table 2). These are market rate rents. The rents for affordable units are specified under HUD guidelines for Orange County and range from \$1,042 for studios (1-person household) to \$1,340 for two bedroom units (combined 3- and 4-person households).

In terms of assessed value for the units for property tax purposes, ADE obtained sales records for 198 multi-family and condominium units that sold between July 2022 and July 2023 in Newport Beach. As shown in Table 3, while there is some variation in sales price for condos based on the age of the units, there is no correlation with age for units classified as multi-family units in this sample. Also, there is no correlation based on whether the units are owner occupied or rented. In most market settings, however, we would expect for-sale units to carry a higher value than rental units.

<b>TABLE 1: SELECTED APARTMENT ASKING RENTS, NEWPORT BEACH, AUGUST 2023</b>				
<b>PROJECT / SIZE</b>		<b>STUDIO</b>	<b>1 BDRM</b>	<b>2 BDRM</b>
One Uptown Newport - 21 Units	Sq. Ft.	515	839	1,147
	Monthly Rent	\$3,039	4,079	5,313
	Rent/Sq. Ft	\$5.90	\$4.86	\$4.63
Newport North - 18 Units	Sq. Ft.		779	1,056
	Monthly Rent		3,170	3,756
	Rent/Sq. Ft		\$4.07	\$3.56
Colony at Fashion Island - 28 Units	Sq.Ft.		1,087	1,395
	Monthly Rent		\$4,480	5,095
	Rent/Sq. Ft		\$4.12	\$3.65
Newport Bluffs - 46 Units	Sq. Ft.	549	795	1,104
	Monthly Rent	\$3,050	3,429	4,141
	Rent/Sq. Ft	\$5.56	\$4.31	\$3.75
Park Newport - 51 Units	Sq. Ft.	513	745	1,163
	Monthly Rent	\$2,650	3,120	3,951
	Rent/Sq. Ft	\$5.17	\$4.19	\$3.40
Total Average	Rent/Sq. Ft	\$5.54	\$4.38	\$3.87

Source: ADE, Inc., based on data obtained from Zillow.com

<b>TABLE 2: AVERAGE UNIT SIZES AND PROJECTED RENT LEVELS FOR PROPOSED 1400 BRISTOL PROJECT</b>								
<b>UNIT TYPE</b>	<b>SIZE</b>	<b>MARKET RATE</b>			<b>AFFORDABLE</b>			<b>TOTAL UNITS</b>
		<b>No.</b>	<b>RENT/ Sq. Ft.</b>	<b>RENT/ UNIT</b>	<b>No.</b>	<b>RENT/ Sq. Ft.</b>	<b>RENT/ UNIT</b>	
Studio	515	36	\$5.54	\$2,850	4	\$2.02	\$1,042	40
1 Bdrm	776	110	\$4.38	\$3,400	12	\$1.53	\$1,191	122
2 Bdrm	1,250	61	\$3.87	\$4,840	7	\$1.07	\$1,340	68
		207			23			230

Source: ADE, Inc.

In order to correlate the anticipated rent levels for the proposed units with the sales data in Table 3, ADE researched recent cap rates in the multi-family real estate market.<sup>2</sup> Data published by CBRE, Inc. indicate that cap rates for multi-family developments in the Los Angeles market area in 2022 ranged from 4.0% to 4.5%.<sup>3</sup> Based on the rent levels estimated for the proposed project in Table 2, the overall average building value of \$1,111 per sq. ft. shown in Table 3 would be equivalent to a cap rate

<sup>2</sup> In investment terms, rental projects create a stream of revenue for the building owner and the capitalization ("cap") rate calculates how much an investor would be willing to pay for that income stream.

<sup>3</sup> CBRE Research, "Underwriting Assumptions Exceed Pre-Pandemic Levels or Prime Multifamily Assets". January 13, 2023.

of about 4.2%, which falls within the reported range. Therefore, for the property tax analysis in this report, we have used an average assessed value for the proposed project market rate units of \$1,100 per sq. ft. For the affordable units, the value is prorated to \$364 per sq. ft. based on the difference in rent levels. Based on these values, the apartment units would have an aggregate assessed value of \$205.6 million.

<b>TABLE 3: AVERAGE SALES PRICES PER SQ. FT. FOR MULTI-FAMILY SALES IN NEWPORT BEACH, 2022-2023</b>			
<b>UNIT CLASSIFICATION</b>	<b>YEAR BUILT</b>	<b>NO. OF ADDRESSES</b>	<b>AVERAGE SALES PRICE PER SQ. FT.</b>
Multi-Family	1924-1977	37	\$1,337
Condominium	1960-1997	140	\$981
Condominium	2001-2012	12	\$1,098
Condominium	2015-2021	9	\$1,392
Total Average		198	\$1,111
Value Assumed for 1400 Bristol Market Rate Units			\$1,100
Value Assumed for 1400 Bristol Affordable Units			\$364

*Source: ADE, Inc., based on data obtained from CoreLogic, Inc.*

The analysis uses the monthly rent levels to estimate household income and taxable retail spending, as shown in Table 4. We assume that monthly housing cost comprises 30 percent of household income, resulting in household incomes ranging from \$47,450 to \$193,500 per year. ADE has analyzed consumer expenditure surveys published by the Bureau of Labor Statistics, and at these income levels, households typically spend less than 30 percent of their income on taxable retail goods, and the percentages decline as income goes up. We have assumed for purposes of these calculations that households would spend two-thirds of their annual retail budget in Newport Beach, and the remaining one-third would be spent at retail centers in other cities or on out-of-town trips. The City receives sales tax at the rate of one percent of taxable sales.

## FISCAL IMPACTS

The analysis, summarized in Table 5 below, estimates the projected fiscal impact of the proposed project as well as the estimated current impact of the existing office use on the site. For the residential project and office buildings, the primary revenue source generated for the City is the property tax. The City receives about 16 percent of the base property tax that property owners pay, but in addition the City gets a share of property tax from the state in lieu of vehicle license fees, which adds about ten percent to the total property tax revenues for Newport Beach.

<b>TABLE 4: ESTIMATES OF HOUSEHOLD INCOME AND SALES TAX GENERATION FOR NEWPORT BEACH</b>				
<b>UNIT TYPE</b>	<b>INCOME</b>	<b>PERCENT TAXABLE SALES</b>	<b>UNITS</b>	<b>TOTAL ANNUAL SALES TAX</b>
<b>Affordable Units</b>				
Studio	\$47,450	27.5%	4	\$350
1 Bdrm	\$54,200	24.6%	12	\$1,090
2 Bdrm	\$64,375	23.5%	7	\$689
<b>Market Rate Units</b>				
Studio	\$114,124	20.0%	36	\$5,499
1 Bdrm	\$135,955	19.9%	110	\$19,910
2 Bdrm	\$193,500	18.4%	61	\$14,607
Total			230	\$42,145

Source: ADE, Inc.

In addition to the property tax and sales tax, the residents of the proposed project would be expected to generate a variety of other more incidental revenues for the City General Fund, including fees for recreation programs, parking fees and fines, utility franchise fees and other permit revenue. The total General Fund revenue is projected to exceed \$513,800 per year. In terms of non-General Fund revenue, the added population will contribute to the City receiving additional Gas Tax revenues from the state for street maintenance. Also, Measure M is a countywide sales tax fund which is used for transportation projects. The added taxable sales purchases made by project residents will add to these funds.

The proposed project is estimated to cost the City more than \$728,300 per year for services. The bulk of these costs are for police and fire protection, but they also include street maintenance and costs for recreation, library, and senior services as well as general government functions. The project site is in an intensely developed urban area of the City and existing service capacities are likely sufficient to provide services to the proposed uses on the site. However, with the more intensive residential uses, it may be expected that there would be some additional calls for service, particularly for public safety and perhaps traffic related incidents, compared to the existing use on the site. The service cost figures by Department in Table 5 are generally below levels equivalent to hiring an additional fulltime staff person, and it is possible that the service impacts would be an incremental increase of service activity for existing personnel. However, based on the fiscal model analysis the proposed project may cost the City nearly \$174,000 per year over and above the revenues it generates.

The existing office use is also estimated to generate a negative fiscal impact for the City, estimated at about \$56,000 per year. This is consistent with the original General Plan Fiscal Analysis for office uses. Office uses have lower assessed values than residential and therefore create less property taxes. The figures in Table 5 are based on the assessed value of the site in 2022 prior to the recent purchase by

the proposed project sponsors. At \$11.85 million, the assessed value is equivalent to about \$306 per sq. ft. for the office space.

Office uses also generate much less sales tax than do retail uses, which generate a high positive fiscal benefit for the City. At times, office-based businesses have a point of sale operation that generates sales tax even though it is not a store front retail operation, but most often professional services, financial offices and other businesses that occupy office space do not provide taxable goods or services. Office workers do generate some sales taxes in restaurants and other retail stores. In terms of municipal services, however, the high employee densities in offices increase costs for traffic related services. The post-pandemic trends toward increased remote working may lessen this impact, but it also further reduces market values for office real estate.

<b>TABLE 5:</b>		
<b>PROJECTED FISCAL IMPACT OF THE PROPOSED PROJECT AT 1400 BRISTOL AND THE EXISTING OFFICE USE</b>		
<b>Budget Category</b>	<b>Annual Revenues/Costs</b>	
	<b>Proposed Project</b>	<b>Existing Office Use</b>
<b>REVENUES</b>		
<b>GENERAL FUND</b>		
Property Tax	\$328,565	\$18,940
Property Tax in lieu of Vehicle License Fees	\$33,686	\$1,942
Sales Tax	\$42,145	\$17,507
Transient Occupancy Tax	\$0	\$0
Franchise Fees	\$4,681	\$4,551
Business Licenses	\$0	\$8,165
Other Intergovernmental	\$6,224	\$1,762
Charges for Service	\$49,767	\$14,086
Fines, Penalties, and Forfeitures	\$10,331	\$2,924
Licenses and Permits	\$1,160	\$328
Use of Property	\$24,649	\$6,976
Other Revenue	\$9,699	\$2,745
Interest Income	\$2,941	\$460
<b>SUBTOTAL GENERAL FUND</b>	<b>\$513,848</b>	<b>\$80,386</b>
<b>GAS TAX</b>	<b>\$24,304</b>	<b>\$0</b>
<b>MEASURE M</b>	<b>\$16,368</b>	<b>\$2,249</b>
<b>SUBTOTAL OTHER FUNDS</b>	<b>\$40,672</b>	<b>\$2,249</b>
<b>TOTAL REVENUE</b>	<b>\$554,519</b>	<b>\$82,636</b>
<b>EXPENDITURES</b>		
<b>GENERAL FUND</b>		
General Government	\$49,778	\$9,479
Police	\$201,057	\$40,762
Fire	\$171,664	\$41,071
Public Works	\$136,667	\$38,680
Community Development	\$9,918	\$2,807
Community Services	\$150,527	\$0
<b>SUBTOTAL GENERAL FUND</b>	<b>\$719,610</b>	<b>\$132,800</b>
<b>GAS TAX</b>	<b>\$5,095</b>	<b>\$3,439</b>
<b>MEASURE M</b>	<b>\$3,639</b>	<b>\$2,456</b>
<b>SUBTOTAL OTHER FUNDS</b>	<b>\$8,734</b>	<b>\$5,896</b>
<b>TOTAL EXPENDITURES</b>	<b>\$728,343</b>	<b>\$138,695</b>
<b>NET (COST)/REVENUE</b>	<b>(\$173,824)</b>	<b>(\$56,059)</b>

Source: ADE, Inc.



## CONCLUSION

The proposed rental residential use of the site would generate a negative fiscal impact for the City, substantially higher than the negative fiscal impact of the existing office use of the site. This is consistent with the original fiscal analysis of residential uses in the 2006 General Plan, although in recent years some very high value luxury residential projects have shown a positive fiscal benefit. The 2006 General Plan designated the site for non-residential use, consistent with the office use. Overall, the General Plan increased development potential for commercial and lodging uses substantially, in addition to the new residential units it would permit. The net impact of the growth in land uses at buildout of the General Plan compared to existing land uses in 2006 when the plan was adopted, would result in a positive fiscal impact for the General Fund of \$21.7 million per year.<sup>4</sup> Therefore, the negative fiscal impact of the proposed project is well below the potential upside of other sites designated for non-residential development throughout the City.

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<sup>4</sup> Applied Development Economics, *Fiscal Impact Analysis Land Use Element Amendment*, April 4, 2014. p. 3.