

Attachment N

Fiscal Impact Analysis



KEYSER MARSTON ASSOCIATES

MEMORANDUM

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Affordable Housing
Economic Development

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Subject: General Plan Housing Implementation Program – Program EIR Fiscal Impact

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Pursuant to your request, Keyser Marston Associates, Inc. (KMA) evaluated the potential fiscal impact of the City of Newport Beach General Plan Housing Implementation Program – Draft Program Environmental Impact Report (Program EIR). The fiscal analysis considers the ongoing effects of the potential residential development on the General Fund for the City of Newport Beach (City). This overview is organized as follows:

1. Fiscal Impact Methodology
2. Program EIR Summary
3. Fiscal Impact Model Summary and Assumptions
4. Program EIR Fiscal Impact
5. Evaluation Summary

FISCAL IMPACT METHODOLOGY

The approach used in a fiscal analysis is to estimate public revenues based on specific parameters of the proposed development where appropriate (i.e. number and value of residential units, commercial square footage, value and sales per square foot for commercial uses) or based on the projected number of residents or employees for revenues that generally vary by population and/or employment. This analysis utilizes the unit projections found in the Program EIR and estimates the impact developing these units and their residents will have on City General Fund

revenues. City service costs are estimated based on the number of persons served (residents). The public service costs are deducted from the public revenues to derive the net benefit of the potential development to the City. Initial capital requirements and obligations are usually addressed through development impact fees or other project mitigations.

HOUSING IMPLEMENTATION PROGRAM – PROGRAM EIR

A summary of the project description found in Program EIR is below:

1. The Program EIR identified opportunity sites in five overlay zones plus the Banning Ranch area in the City. As shown in the table below, 247 sites totaling 537 acres were identified as candidate residential sites.

Focus Area Opportunities			
	Sites	Acres	Density (DU/Ac)
Airport Area	100	176	50
West Newport Mesa	26	47	50
Dover-Westcliff	15	20	50
Newport Center	85	230	50
Coyote Canyon	2	34	60
Banning Ranch	<u>19</u>	<u>30</u>	50
Total	247	537	

2. The Program EIR indicates the residential capacity of the opportunity sites is 9,630 units, which would include a mix of low, very low, moderate and above moderate-income units as summarized in the table below. The buildout assumptions in the Program EIR represent a “net” development capacity, adjusted to consider existing residential development on housing sites and input from developers.

Focus Area Development Capacity				
	Low/Very Low	Moderate	Above Moderate	Total
Airport Area	773	258	1,546	2,577
West Newport Mesa	332	111	664	1,107
Dover-Westcliff	156	52	312	521
Newport Center	732	224	1,463	2,439
Coyote Canyon	383	153	995	1,530
Banning Ranch	<u>443</u>	<u>148</u>	<u>885</u>	<u>1,476</u>
Total	2,819	946	5,865	9,630

3. The Program EIR identifies a total development capacity of 9,914 units, which includes the 9,630 units of future development capacity identified above, 25 units of pipeline projects and 240 ADUs.

These estimates provide the basis of the fiscal impact evaluation.

EXISTING MARKET CONDITIONS

The residential market conditions are summarized below in the table below: ¹

1. A summary of the key inventory and performance metrics for apartments in the City is shown below.

Apartment Market Summary				
	Unit Share	Sq. Feet	Rent	Rent PSF
Studio	14%	477	\$2,111	\$4.55
1-Bdr	36%	773	\$3,017	\$3.93
2-Bdr	44%	1,140	\$3,940	\$3.47
3-Bdr	6%	1,495	\$5,320	\$3.68

2. Consistent with market area and regional trends, one-bedroom and two-bedroom units account for the majority (80%) of the apartment units in the City.
3. Average unit sizes for studios are less than 500 square feet, with one and two-bedroom units averaging 773 and 1,140 square feet respectively.
4. For 2023, the average effective rent in the City across all unit types was \$3,520 (\$3.67/sf). Average rents per square foot range from \$4.55 for studios to \$3.68 for three-bedroom units.
5. The rental market has seen robust rent growth in recent years, with average rents increasing by 33.7% since 2018, from \$2.75 per square foot to \$3.67 per square foot.
6. The vacancy rate in the City was 2.5% in 2023, which was lower than the 10-year average of 5.1%.
7. Over the last 10 years, the median home sales price in the City increased 80.6%.

¹ Data Sources: CoStar Analytics, City of Newport Beach. CoStar Capital Market Report – Newport Beach-Multi-Family; Redfin Data Center; Applied Development Economics (ADE) City of Newport Beach Fiscal Impact Model

8. The average sales price of attached homes in the City was \$1.7 million in 2023. The average market value of 4-5 Star apartments was \$807,000 per unit in 2023, with values projected to increase to \$1.1 million in 2028.
9. Historic fiscal analyses prepared in the City rely on an established library of values based on recent transactions. These values include an average of \$1.35 million for the for-sale product, \$1.05 million for apartments and \$310,200 for affordable units.

FISCAL MODEL SUMMARY & ASSUMPTIONS

A summary of the key fiscal model inputs and assumptions is provided below.

PROPERTY TAX

Given the nature of the land use the majority of the City revenues will be generated by property taxes. The property tax assumptions include the following:

- Properties in California are taxed at a 1.0% general rate applied to the assessed value of the property.
- Traditionally, a city receives an allocated share of the 1% general property tax, with the balance going to other governmental agencies (e.g. County). The City receives 16.1% of the 1.0% general rate.
- Assessed values for residential can range considerably depending on product quality, unit size and other salient factors. The assessed value of for-sale units is based on sales price. For apartments, unit cost and/or unit value will be the determining factor.
- In addition to the base property tax, the City receives additional property taxes in lieu of Vehicle License Fees (VLF). The City's VLF funds are 10.0% of the basic levy.

SALES TAX

The sales tax projections are based on taxable retail spending by residents of new units in the City:

- The City's share of sales tax is 1.0% of taxable sales.
- To estimate household income levels, it is assumed that residents spend 30% of their income on rent and/or mortgage payment.
- Taxable retail sales are projected to account for approximately 20% of household incomes.

- It is assumed the City captures two-thirds of the taxable retail sales generated by households.²

OTHER CITY REVENUES

The Other City revenues include revenues such as business licenses, franchise fees, licenses & permits, charges for services and other miscellaneous revenues sources. The key assumptions include:

- The projections are based on a per capita basis. The average household size in the City is 2.07 residents per unit based on the California DOF E-5 report. After accounting for vacancies the average household size of all units is 1.84 persons.³
- The per capita revenues are based on line-items taken from the Fiscal Year 2023/24 City Budget.
- Based on the total per capita revenues in the City, a discount is assumed that reflects the likely impact of development on these revenue streams. The discount ranges from 0% to 100% depending on the fixed nature of the revenue stream and likely impact of the development. The analysis makes this adjustment for both franchise taxes and business licenses.

CITY OPERATING COSTS

The City operating costs assumptions are addressed below:

- City operating cost projections are made on a per capita basis.
- Consistent with the Other City revenues a discount is assumed for those Project costs that are considered fixed.
- Fire and Police estimates are based on the City's historic allocation of the cost for these services and constitute the bulk of City service costs.⁴

PROGRAM EIR FISCAL IMPACT

The fiscal impact of the Program EIR will ultimately be determined on a case-by-case basis as new developments are proposed. This is particularly important to note, as the bulk of the residential units are potentially in overlay zones, which would replace existing land uses. These existing uses may already have a negative impact on the City's general fund, thus mitigating the potential negative impact of the

² Source: ADE City of Newport Beach Fiscal Impact Model

³ Based on CA DOF E-5 estimates for the City which assume average household size of 2.17 person and 15.1% vacancy rate.

⁴ Source: ADE City of Newport Beach Fiscal Impact Model

residential units. In addition, there is a significant range of outcomes depending on the assessed value of the proposed units, projected rents/sales prices and resultant income levels. Finally, the assessed value of the proposed units is critically important, as property tax revenues account for approximately two-thirds of the City general fund revenues generated by residential projects. To provide context for the full buildout of the unit mix (market rate and affordable) in the Program EIR, the following assumptions were utilized:

- The estimated unit breakdown includes 8,923 apartments and 990 for sale units:

Unit Allocation⁵	
	Units
Apartment	8,923
For Sale	<u>991</u>
Total	9,914

- The analysis assumes the low/very low-income units will be in apartments, with the following unit distribution.⁶

Apartment Mix	
	Units
Low/Very Low	2,612
Moderate/Above Moderate	<u>6,311</u>
Total	8,923

- Based on a review of the available market data the average assessed values for the fiscal analysis are summarized below. The property tax assumptions are set forth above.

Average Assessed Value	
	Value/Unit
Affordable Apartments ⁷	\$310,200
Moderate/Market Apartments ⁸	\$1,100,000
For Sale Residential	\$1,700,000

⁵ Based on information provided by the City.

⁶ Unit income distribution derived from the Program EIR.

⁷ Includes low/very low apartments.

⁸ Includes moderate/above moderate apartments.

- The mix of apartment units by bedroom count is assumed to be consistent with the current City inventory, with average rents shown in the table below.

Average Apartment Rent	
	Avg. Rent
Affordable Apartments	\$1,250
Moderate/Market Apartments	\$3,800

- Sales tax is estimated based on the average per household income levels shown in the table below and the expenditure assumptions detailed above.

Average Household Income Levels	
	HH Income
Affordable Apartments	\$58,000
Moderate/Market Apartments	\$153,000
For Sale Residential	\$317,000

- The Other City revenues are estimated on a per capita basis. Assuming an average of 1.84 persons per household there would be 18,257 additional residents at buildout. The Other City revenues are based on the City budget and include franchise taxes; business licenses; other intergovernmental; charges for services; fines, penalties and forfeitures; licenses and permits; use of property; other revenue and interest income.⁹
- The City’s operating expenses are also estimated on a per capita basis assuming 18,257 residents. Based on the City budget, these costs include general government; police; fire; public works/utility; streets/transportation; community development; community services and net transfers out.
- Under these assumptions the net fiscal impact of the Program EIR is a negative \$8.3 million as shown in the table below.

⁹ Source: City of Newport Beach Fiscal Year 2023-24 Proposed Budget

General Fund Impact	
<u>General Fund Revenues</u>	
Property Tax	\$15,188,300
Property Tax in lieu of VLF	\$1,557,200
Sales Tax	\$1,763,200
Transient Occupancy Tax	\$0
Franchise Taxes	\$376,900
Business Licenses	\$116,300
Other Intergovernmental	\$255,700
Charges for Service	\$2,044,100
Fines, Penalties, and Forfeitures	\$424,300
Licenses and Permits	\$52,300
Use of Property	\$1,789,600
Other Revenue	\$398,400
Interest Income	\$138,000
General Fund Revenue	\$24,104,100
<u>General Fund Expenditures</u>	
General Government	\$3,321,900
Police	\$8,424,300
Fire	\$7,447,800
Public Works/Utilities	\$4,542,100
Streets/Transportation	\$1,109,100
Community Development	\$331,000
Community Services	\$5,509,500
Net Transfers Out	\$1,727,300
General Fund Expenditures	\$32,413,000
Net General Fund Impact	(\$8,308,900)

- The potential units would be developed over an extended period; consequently, the impact shown above would not occur at one time. The per unit fiscal impact is a negative \$840 as shown below:

Net General Fund Impact per Unit	
City Revenue	\$2,430
City Expenditures	(\$3,270)
Total	(\$840)

- The estimates shown above provide a high-level summary of the potential impact of the Program EIR; however, these may be mitigated due to the land use being replaced and/or the assessed value/household incomes of new development as it is proposed. For example, a fiscal analysis of the 1400 Bristol St. North Project was prepared in March 2024, which included a proposed apartment project replacing an existing office building. The analysis compared the fiscal impact of the proposed project to the existing office building and found that both developments had a negative impact on the City’s general fund with the office’s negative impact being about 40% of the residential impact. In addition, the negative impact on the general fund of the proposed project was less than \$500 per unit due to the affordability mix (10% affordable), assessed values and project rents.

General Fund Impact - 1400 Bristol St. North Project		
	Residential	Office
City Revenue	\$567,570	\$80,390
City Expenditures	<u>(\$673,870)</u>	<u>(\$123,970)</u>
Project Total	(\$106,300)	(\$43,580)
Per Unit/SF	(\$460)	(\$1.10)

EVALUATION SUMMARY

The Program EIR identified opportunity sites in five overlay zones plus the Banning Ranch area in the City. Many of the sites identified for potential residential developments are already improved with land uses; consequently, the overall fiscal impact of the Program EIR is highly speculative and will ultimately be determined on a case-by-case basis as new developments are proposed. Some key issues to consider:

- Rents, sales prices and assessed values in the City are all very high, benefiting General Fund revenues.
- Total buildout of all the potential residential would have a net negative impact on the City’s General Fund. This may be mitigated if projects continue to be developed at higher price points.
- The replacement of land uses that generate minimal public revenues can offset the negative impact of the residential. As the 1400 Bristol St. North project demonstrates, office development can have a net negative impact on the General Fund and higher rents/values can significantly reduce the residential impact.
- Cities will often adopt a development fee program, negotiate development agreements and pursue other methods to mitigate the fiscal impact of residential development. As KMA understands the situation, the City is currently preparing a development fee program, which could potentially offset some of the projected impact.