

City of Costa Mesa
3150 Bear Street - Fiscal Impact
Analysis
December 11, 2024

Prepared for:

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1. INTRODUCTION

On behalf of MLC Holdings, Inc. (“Developer”), Zimmerman Group, Inc. has completed a fiscal impact analysis (“FIA”) for the proposed residential home development located at 3150 Bear Street (“Property”) in the City of Costa Mesa (“City”). The Property is currently being used for hosting luxury events, but Developer is proposing to develop 142 residential units (“Project”), which includes seven affordable housing units on the Property. The Project is proposed to include 122 4-story stacked flats and 20 cluster motor court homes. This FIA report calculates the estimated annual recurring fiscal impact on the City’s general fund (“General Fund”) that will result from development of the proposed Project.

2. FISCAL IMPACT ANALYSIS

2.1 PURPOSE & METHODOLOGY

The FIA analyzes the additional revenues and expenses to the General Fund expected to result from the development of the Project. The additional revenues are then compared to the additional expenses to determine the net fiscal impact (surplus or deficit) on the General Fund. Revenues and expenses are calculated using the case study method (“Case Study Method”) or the per capita method (“Per Capita Method”). The Case Study Method uses Project specific variables, such as estimated home values, to determine the estimated impact on the General Fund. The Per Capita Method is based on the City’s total revenue or expense from the Adopted 2024-25 Budget, divided by the current service population to determine the average revenue or expense per person. For certain revenue and expense categories, adjustments are made to account for the marginal impact differing from the existing citywide average per capita amount. For example, there are certain fixed costs that are not expected to increase as a result of the Project development.

The estimated projected revenues and expenditures are based on information and assumptions for the proposed Project, data from the City’s Fiscal Year 2024-25 Operating Budget, 2024-25 tax rates and tax allocations from the Orange County Auditor Controller, 2024-25 assessed values and tax rate area information from the Orange County Treasurer, as well as statistical data from the California Department of Finance and the U.S. Bureau of Statistics.

2.2 CONCLUSIONS

A. Summary

The increase in General Fund revenues following the buildout of the Project is estimated to be approximately \$440,593 per year, and the increase in General Fund expenses is estimated to be approximately \$362,535 per year. Accordingly, there is expected to be an annual surplus of approximately \$78,058 to the General Fund following Project buildout. The table below summarizes the estimated annual General Fund revenues, expenses and surplus. As indicated, the revenue to expense ratio is 1.22, meaning the revenues exceed the expenses by approximately 22%.

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TABLE 2-1
GENERAL FUND – FISCAL IMPACTS

Annual General Fund Revenues	<u>Amount at Buildout</u>	<u>Percent of Total</u>
Property Tax	\$204,145	46.4%
Prop Tax-In Lieu VLF	92,585	21.0%
Property Transfer Tax	8,786	2.0%
Sales Tax	64,982	14.7%
Sales Tax - Prop 172	1,221	0.3%
Franchise Fees	17,186	3.9%
Business Licenses	2,422	0.5%
Fines and Forfeitures	3,352	0.8%
Licenses and Permits	12,354	2.8%
Fees and Charges	33,559	7.6%
Total Revenues	\$440,593	100.0%

Annual General Fund Expenditures	<u>Amount at Buildout</u>	<u>Percent of Total</u>
Parks and Community Services	23,267	6.4%
Police Department	159,417	44.0%
Fire and Rescue Department	97,249	26.8%
Development Services	21,691	6.0%
Public Works	60,912	16.8%
Total Expenditures	\$362,535	100.0%

Annual Recurring Surplus/(Deficit) at Buildout	\$78,058
Revenues to Expenditure Ratio	1.22

B. Recurring Revenues

Property Tax

The County Auditor-Controller identifies property tax rates as a percentage of total assessed valuation by Tax Rate Area ("TRA"). The Project is within TRA 15-139. Property tax revenues are calculated using the TRA apportionment factors to forecast property tax revenues expected from the Project. Based on information provided by the Auditor-Controller's office, the General Fund receives approximately 14.92% of the basic one percent ad valorem property tax levy. Based on the projected assessed value for the Project, less the existing assessed value of the Project site, additional property tax revenues to the General Fund are projected to be \$204,145

annually at build-out. See Tables 2 and 3 of the Appendix for details of the property tax calculations.

Prop Tax-In Lieu VLF

Historically, approximately three-fourths of Vehicle License Fee (VLF) revenue was allocated to cities and counties as general-purpose funding. Beginning in 1998-99, the State reduced the VLF payment required from vehicle owners. However, the State made up the revenue impact of the VLF rate reductions with State General Fund revenue (the “VLF Backfill”). The VLF Backfill was eliminated in the 2004-05 State Budget. In that year, the VLF Backfill to cities and counties was permanently replaced with an equivalent increase in property tax revenues (Property Tax In Lieu of VLF). This increase was funded by decreases in property tax revenues allocated to schools and community colleges.

Annual Property Taxes in Lieu of VLF are estimated to be \$92,585 for the Project as shown in Table 2 of the Appendix. Revenues from Property Taxes In Lieu of VLF are estimated at .06765% of the increase in assessed valuation of \$136,855,950. This percentage is based on the total Property Tax In Lieu of VLF in the Adopted Budget of \$16,734,432 divided by the total City assessed valuation of \$24,736,139,990.

Property Transfer Tax

Property transfer tax applies to all sales of real property at a rate of \$1.10 per \$1,000 of sale or resale value, excluding assumed liens or encumbrances. The City receives 50% of the Documentary Stamp Tax, and it is assumed the Project will have a 10% turnover rate each year estimated to generate \$8,786 per year in revenues to the General Fund as shown in Table 2 of the Appendix.

Sales Tax

Sales tax revenues are generated by taxable purchases made within the City. As shown in Table 4 of the Appendix, it is anticipated that the Project will generate approximately \$45,762 in annual taxable sales per unit totaling \$6,498,204 in taxable sales at buildout. This includes only the taxable sales expected to be captured by the City. The City will receive 1.00% of taxable sales resulting in an estimated recurring annual sales tax revenue of \$64,982 to the General Fund.

Sales Tax – Prop 172

The Sales Tax – Prop 172 revenue is the Proposition 172 half-cent sales and use tax approved by voters in 1993 to cushion the impact of the “Educational Revenue Augmentation Fund” (ERAF) property tax shifts. The State collects the Proposition 172 tax and apportions it to each county based on their proportionate share of statewide taxable sales. Each county is then required to allocate this revenue to the cities for public safety services only. It is estimated the City receives 3.76% of the Sales Tax – Prop 172 revenues and the increase to the General Fund will be \$1,221 for the Project as shown in Table 4 of the Appendix.

Franchise Fees

Franchise Fees are the fees paid by utility companies for franchise rights and use of City streets and rights of way. The Project is estimated to generate additional revenues of \$17,186, based on the Per Capita Method, as shown in Table 5 of the Appendix.

Business License Tax

Business licenses are issued for either regulatory or cost recovery purposes, to applicants who conduct business activities within the City. The regulatory authority provides cities the means to protect overall community interests. The Project is estimated to generate additional revenues of \$2,422, based on the Per Capita Method, as shown in Table 5 of the Appendix.

Fines and Forfeitures

Fines and Forfeitures primarily come from municipal code violations, motor vehicle code violations, and parking fines. Amounts paid by a defendant include fines and various penalties, assessments, and restitution. The Project is estimated to generate additional revenues of \$3,352, based on the Per Capita Method, as shown in Table 5 of the Appendix.

Licenses and Permits

Licenses and Permits are issued for either regulatory or cost recovery purposes, to applicants who conduct business activities within the City. The regulatory authority provides cities the means to protect the overall community interests. An example of licenses issued is animal licenses. Major categories of permits are street permits, building permits, electrical permits, plumbing permits,

and mechanical permits. The Project is estimated to generate additional revenues of \$12,354, based on the Per Capita Method, as shown in Table 5 of the Appendix.

Fees and Charges for Services

The City's fees and charges include: user fees charged to a person or entity participating in the various recreation classes offered by the City, plan check fees, other services provided by the Planning Division related to zoning and conditional use permits, fingerprinting, false alarms, police reports, fire inspection, ambulance transportation, and hazardous materials disclosure fees. The Project is estimated to generate additional revenues of \$33,559, based on the Per Capita Method, as shown in Table 5 of the Appendix.

C. Recurring Expenses

Parks and Community Services

The Parks and Community Services Department provides the citizens of the City with a variety of high-quality recreation facilities, programs, and services. These facilities include the Balearic Community Center, the Downtown Aquatic and Recreation Centers, the Norma Hertzog Community Center, the Costa Mesa Senior Center, and the Jack Hammett Sports Complex. In terms of programs, the Department provides a large offering of youth, teen, and adult recreation programs and classes, as well as Citywide special events. The Project is estimated to generate additional costs of \$23,267 based on the Per Capita Method as shown in Table 6 of the Appendix.

Police Department

The Police Department is tasked with protecting life and property while preserving the peace. The department is comprised of three divisions: Police Administration, Police Field Operations, and Police Support Services. The Project is estimated to generate additional costs of \$159,417, based on the Per Capita Method, as shown in Table 6 of the Appendix.

Fire and Rescue Department

The Fire and Rescue Department is a public safety function that protects life, property and the environment through its mitigation, prevention, preparedness, response, and recovery services. The 3 divisions of the Fire and Rescue Department are Fire Administration, Fire/Rescue Operations/Emergency Medical Services, and Community Risk Reduction. The Project is

expected to generate additional costs of \$97,249, based on the Per Capita Method, as shown in Table 6 of the Appendix.

Development Services

The Development Services Department implements community development programs and functions. The Department is comprised of five divisions and are as follows: Administration, Planning, Building Safety, Community Improvement, and Housing and Community Development. The Project is expected to generate additional costs of \$21,691, based on the Per Capita Method and a marginal cost impact adjustment, as shown in Table 6 of the Appendix.

Public Works

The Public Works Department provides services related to engineering design, construction management, transportation, street, energy and sustainability, park and city facilities maintenance, water quality, waste management and recycling street sweeping, and fleet management. The Project is expected to generate additional costs of \$60,912, based on the Per Capita Method, as shown in Table 6 of the Appendix.

APPENDIX
FISCAL IMPACT CALCULATIONS
PROPOSED RESIDENTIAL PROJECT

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TABLE 1
ESTIMATE OF PROJECT POPULATION
3150 BEAR STREET - FISCAL IMPACT ANALYSIS
PROPOSED RESIDENTIAL PROJECT

City-Wide Household Population (a)	106,907
Number of Housing Units (a)	42,432
City-Wide Average Persons Per Unit	2.52

Residential Units at Buildout	142
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Total Project Population at Buildout	358
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Footnotes:

(a) Source: E-5 City/County Population and Housing Estimates, 1/1/2024 from the California Department of Finance.

TABLE 2
ESTIMATE OF REVENUES FROM PROPERTY TAXES
3150 BEAR STREET - FISCAL IMPACT ANALYSIS
PROPOSED RESIDENTIAL PROJECT

				Property Tax Levy	1.00%	In-Lieu Property Tax Per \$1,000 of		Transfer Tax Rate (d)	0.055%
				City Portion (b)	14.92%	AV Growth (c)	\$0.6765	Turnover Rate (e)	10.00%
			Total	Property Tax	Property Tax		In-Lieu		Property
	Unit	Assessed	Assessed	Revenue/	Revenue at	Property Tax	Property	Property	Transfer Tax
Floor Plan	Mix (a)	Value (a)	Value	Unit	Buildout	In-Lieu	Revenues at	Transfer Tax	Revenue at
						Revenues/ Unit	Buildout	Revenue/Unit	Buildout
Plan 1	13	\$1,420,000	\$18,460,000	\$2,118	\$27,536	\$961	\$12,489	\$78	\$1,015
Plan 2	7	\$1,555,000	\$10,885,000	\$2,320	\$16,237	\$1,052	\$7,364	\$86	\$599
Plan 3	42	\$990,000	\$41,580,000	\$1,477	\$62,024	\$670	\$28,130	\$54	\$2,287
Plan 4	12	\$1,080,000	\$12,960,000	\$1,611	\$19,332	\$731	\$8,768	\$59	\$713
Plan 5	45	\$1,190,000	\$53,550,000	\$1,775	\$79,879	\$805	\$36,228	\$65	\$2,945
Plan 6	16	\$1,305,000	\$20,880,000	\$1,947	\$31,146	\$883	\$14,126	\$72	\$1,148
Plan 3A	4	\$193,000	\$772,000	\$288	\$1,152	\$131	\$522	\$11	\$42
Plan 4A	3	\$219,250	\$657,750	\$327	\$981	\$148	\$445	\$12	\$36
Total at Buildout	142		\$159,744,750		\$238,287		\$108,070		\$8,786
Less Existing Assessed Value (f)			-\$22,888,800		-\$34,143		-\$15,485		\$0
Total Increase to General Fund			\$136,855,950		\$204,145		\$92,585		\$8,786

Footnotes:

- (a) Unit mix and assessed value based on estimated home pricing received from Developer. Plans 1A and 2A represent affordable housing units.
(b) The Subject Property's Tax Rate Area is 15-139 and the City of Costa Mesa receives 0.14917% of the 1% Ad Valorem from the County.
(c) AV Growth is calculated by taking the Property Taxes-In Lieu amount of \$16,734,432, from the Adopted FY 2024-25 Budget, divided by the City AV Estimate of \$24,736,139,990, from the 2023-2024 District Values for Publication of Assessed Valuations Booklet Equalized Roll Values from the Orange County Auditor Controller, multiplied by \$1,000 to equal \$0.6765 of every \$1,000 of AV Growth.
(d) Transfer tax is 0.11% of the sale price of residential property and the City receives 50% of the taxed amount.
(e) Assumes a 10% turnover rate each year.
(f) Project site has assessed value of \$22,888,800 per the 2024-25 property tax bills.

TABLE 3
TRA: 15-072

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BREAKDOWN OF 1% AD VALOREM TAX

District	District Name	Agency Pct of Revenue	Property Taxes at Buildout
001C	ORANGE CO GEN. FUND	0.0678159786	\$92,810
002A	ORANGE COUNTY PUBLIC LIBRARY	0.0183476652	\$25,110
710A	O C FLOOD CONTROL DISTRICT	0.0217608000	\$29,781
713A	O C PARKS CSA 26	0.0168204303	\$23,020
001C	EDUCATIONAL REVENUE AUGMENTATION FUND	0.1124933430	\$153,954
002A	EDUCATIONAL REVENUE AUGMENTATION FUND	0.0211005817	\$28,877
065B	EDUCATIONAL REVENUE AUGMENTATION FUND	0.0372952273	\$51,041
703A	EDUCATIONAL REVENUE AUGMENTATION FUND	0.0008054134	\$1,102
708A	EDUCATIONAL REVENUE AUGMENTATION FUND	0.0020587714	\$2,818
710A	EDUCATIONAL REVENUE AUGMENTATION FUND	0.0089396001	\$12,234
713A	EDUCATIONAL REVENUE AUGMENTATION FUND	0.0032177102	\$4,404
744A	EDUCATIONAL REVENUE AUGMENTATION FUND	0.0010062745	\$1,377
757B	EDUCATIONAL REVENUE AUGMENTATION FUND	0.0011051571	\$1,512
922A	EDUCATIONAL REVENUE AUGMENTATION FUND	0.0052848214	\$7,233
703A	ORANGE CO CEMETRY FUND-GENERAL	0.0005470431	\$749
065B	COSTA MESA CITY	0.1498604348	\$205,093
757B	COSTA MESA SANITARY DIST-GEN.FUND	0.0016577357	\$2,269
744A	ORANGE CO VECTOR CONTROL DIST	0.0012287604	\$1,682
960A	ORANGE COUNTY WATER DISTRICT	0.0077993053	\$10,674
961A	ORANGE WATER DIST-WATER RESERVE	0.0001171022	\$160
708A	ORANGE TRANSIT AUTHORITY	0.0030881571	\$4,226
916H	OC SANITATION #7 GEN FUND	0.0158287550	\$21,663
320B	NEWPORT-MESA UNIF GEN FUND	0.3804494669	\$520,668
300B	COAST COMM COLLEGE GEN FUND	0.1060513015	\$145,138
600A	O C DEPT OF EDUCATION-GEN FUND	0.0153201640	\$20,967
Total		1.0000000000	\$1,368,560

Sources:

Orange Count Auditor office
Section 99 Factor Report by TRA 2024-2025

TABLE 4
ESTIMATE OF SALES TAXES
3150 BEAR STREET - FISCAL IMPACT ANALYSIS
PROPOSED RESIDENTIAL PROJECT

Estimate of Household Income

Weighted Average Sales Price		\$1,124,963
Down Payment	10%	\$112,496
Loan Amount		\$1,012,467
Interest Rate (a)		6.75%
Term (Years)		30
Annual Mortgage Payments		\$78,802
HOA Dues (Per Month)	\$214	\$2,573
Maintenance / Insurance (Per Month)	\$100	\$1,200
Property Taxes	1.25%	\$14,062
Total Annual Housing Costs		\$96,637
Percent of Income Spent on Housing		37%
Average Annual Household Income		\$263,000

Estimated Sales Taxes Per Unit

Percent of Income on Taxable Spending (b)		34.80%
City Spending Capture		50.00%
Taxable Sales within the City		\$45,762
City Portion of Base Sales Tax (c)	1.00%	\$458
City Portion of Prop 172 Sales Tax (d)		\$9

Estimated Sales Taxes at Buildout

Total Units		142
Taxable Sales within the City		\$6,498,204
City Portion of Sales Tax		\$64,982
Sales Tax - Prop 172 (Safety)		\$1,221

Footnote:

(a) Estimate 30 year mortgage rate based on Bankrate.com.

(b) Per the U.S. Bureau of Labor Statistics, Western Information Office, Consumer Expenditures for the Los Angeles Area - 2021-22. Assumes 50% of the 13.2% spent on food is taxable.

(c) Per Page 36 of the City Operating Budget.

(d) The City receives 3.76% of the Half-Cent Sales Tax (Safety) based on the 2024-25 Adopted Budget.

TABLE 5
ESTIMATE OF ANNUAL RECURRING REVENUES
3150 BEAR STREET - FISCAL IMPACT ANALYSIS
PROPOSED RESIDENTIAL PROJECT

Demographic Profile:	Household Population	Employment Population (a)	Total Population/ Jobs	Total Resident Equivalents (b)
City of Costa Mesa	106,907	64,291	171,198	139,053
3150 Bear Street	358	0	358	358

	City FY 2024-25 Adopted Budget (c)	Per Capita Service Population	Per Capita Revenue	New Residents/ Resident Equivalents	"Marginal Revenue" Impact Adjustment (e)	Annual Revenue at Buildout
Taxes						
Property Tax	\$39,815,092	-----Case Study-----				\$204,145
Prop Tax-In Lieu VLF	\$16,734,432	-----Case Study-----				\$92,585
Property Transfer Tax	\$1,139,605	-----Case Study-----				\$8,786
Sales Tax	\$80,063,389	-----Case Study-----				\$64,982
Sales Tax - Prop 172	\$1,504,501	-----Case Study-----				\$1,221
Other Taxes (d)	\$16,340,474	Res Equiv	\$117.51	358	100%	\$0
Franchise Fees	\$6,675,334	Res Equiv	\$48.01	358	0%	\$17,186
Business Licenses	\$940,807	Res Equiv	\$6.77	358	0%	\$2,422
Fines and Forfeitures	\$1,302,091	Res Equiv	\$9.36	358	0%	\$3,352
Licenses and Permits	\$4,798,456	Res Equiv	\$34.51	358	0%	\$12,354
Fees and Charges	\$13,034,685	Res Equiv	\$93.74	358	0%	\$33,559
Use of Money and Property (d)	\$5,360,700	Res Equiv	\$38.55	358	100%	\$0
Other Government Agencies (d)	\$896,086	Res Equiv	\$6.44	358	100%	\$0
Other Revenues (d)	\$1,288,507	Res Equiv	\$9.27	358	100%	\$0
Total Revenues	\$189,894,159					\$440,593

Footnotes:

- (a) Total Employment of 64,291 is from the City Profile on page 7 of the Adopted 2024-25 City Budget.
(b) Assumes that two employees have the same impact as one resident.
(c) Amounts from the Adopted 2024-25 City Budget.
(d) Revenues assumed to not be affected by the increase of the Project population.
(e) Indicates the adjustment to certain per capita revenue categories not expected to increase based on the citywide average.

TABLE 6
ESTIMATE OF ANNUAL RECURRING EXPENDITURES
3150 BEAR STREET - FISCAL IMPACT ANALYSIS
PROPOSED RESIDENTIAL PROJECT

Demographic Profile:	Household Population	Employment Population (a)	Total Population/ Jobs	Total Resident Equivalents (b)
City of Costa Mesa	106,907	64,291	171,198	139,053
3150 Bear Street	358	0	358	358

	City FY 2024-25 Adopted Budget	Service Population	Per Capita Expense	New Residents/ Resident Equivalents	"Marginal Cost" Impact Adjustment (c)	Estimated Recurring Expenditures at Buildout
City Council	\$874,089	Res Equiv	\$6.29	358	100%	\$0
City Manager's Office	\$9,594,377	Res Equiv	\$69.00	358	100%	\$0
City Attorney	\$1,086,750	Res Equiv	\$7.82	358	100%	\$0
Finance	\$6,073,764	Res Equiv	\$43.68	358	100%	\$0
Parks and Community Services	\$9,037,068	Res Equiv	\$64.99	358	0%	\$23,267
Information Technology	\$6,402,558	Res Equiv	\$46.04	358	100%	\$0
Police Department	\$61,919,751	Res Equiv	\$445.30	358	0%	\$159,417
Fire and Rescue Department	\$37,772,922	Res Equiv	\$271.65	358	0%	\$97,249
Development Services	\$9,911,803	Res Equiv	\$71.28	358	15%	\$21,691
Public Works	\$23,659,001	Res Equiv	\$170.14	358	0%	\$60,912
Non-Departmental (d)	\$23,562,076	Res Equiv	\$169.45	358	100%	\$0
Total Expenditures	\$189,894,159					\$362,535

Footnotes:

(a) Total Employment of 64,291 is from the City Profile on page 7 of the Adopted 2024-25 City Budget.

(b) Assumes that two employees have the same impact as one resident.

(c) Reflects adjustment to expenditures that do not have a 1:1 relationship between projected population growth and costs for municipal services because of certain fixed costs.

(d) Includes costs assumed not to be affected by Project population such as debt service requirements, interfund transfers, City Manager contingency, Retiree Medical Plan benefits for employees hired before January 1, 2024, and subsidy to the Housing Authority.

TABLE 7
ESTIMATE OF GENERAL FUND FISCAL IMPACT
3150 BEAR STREET - FISCAL IMPACT ANALYSIS
PROPOSED RESIDENTIAL PROJECT

Annual General Fund Revenues	Amount at Buildout	Percent of Total
Property Tax	\$204,145	46.3%
Prop Tax-In Lieu VLF	92,585	21.0%
Property Transfer Tax	8,786	2.0%
Sales Tax	64,982	14.7%
Sales Tax - Prop 172	1,221	0.3%
Other Taxes	0	0.0%
Franchise Fees	17,186	3.9%
Business Licenses	2,422	0.5%
Fines and Forfeitures	3,352	0.8%
Licenses and Permits	12,354	2.8%
Fees and Charges	33,559	7.6%
Use of Money and Property	0	0.0%
Other Government Agencies	0	0.0%
Other Revenues	0	0.0%
Total Revenues	\$440,593	100.0%

Annual General Fund Expenditures	Amount at Buildout	Percent of Total
City Council	\$0	0.0%
City Manager's Office	0	0.0%
City Attorney	0	0.0%
Finance	0	0.0%
Parks and Community Services	23,267	6.4%
Information Technology	0	0.0%
Police Department	159,417	44.0%
Fire and Rescue Department	97,249	26.8%
Development Services	21,691	6.0%
Public Works	60,912	16.8%
Non-Departmental (d)	0	0.0%
Total Expenditures	\$362,535	100.0%

Annual Recurring Surplus/(Deficit) at Buildout	\$78,058
Revenues to Expenditure Ratio	1.22