

# The Village at Laguna Hills

## **Attachment k**

### Fiscal Impact Analysis (Kosmont)



# **PROPOSED VILLAGE AT LAGUNA HILLS:**

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## **MIXED USE REDEVELOPMENT PROJECT**

### **Fiscal Impact Analysis**

**Prepared For:**

**City of Laguna Hills**

**Prepared By:**



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**APRIL 6, 2021**

April 6, 2021

Kenneth H. Rosenfield, P.E.  
Interim City Manager  
City of Laguna Hills  
24035 El Toro Road  
Laguna Hills, CA 92653

**RE: Fiscal Impact Analysis – Proposed Village at Laguna Hills Project**

Dear Mr. Rosenfield:

Kosmont & Associates, Inc. doing business as Kosmont Companies (“Consultant” or “Kosmont”) is pleased to transmit this Updated Fiscal Impact Analysis for Merlone Geier Partners (“MGP”) proposed Village at Laguna Hills (“Project”) to the City of Laguna Hills (“City”). The Project is located at the southwest corner of El Toro Road and I-405 Freeway in Laguna Hills, California.

Background

As part of the entitlement and development agreement negotiations process with MGP, the City requested an analysis to evaluate the fiscal impact of the most recent Project master plan.

As a result of the tremendous challenges facing department stores and retail malls, the current Project plan and CEQA clearance calls for a new concept with a blend of uses with a maximum of 1,500 apartments, 250,000 SF of retail/entertainment/fitness, 150-room hotel and 465,000 SF of office. The proposed improvements are further described in the report.

Analysis Description

This analysis evaluates the stabilized annual fiscal revenues and expenditures expected for the City’s General Fund. Fiscal revenues were derived from estimating the various taxes associated with the Project including property taxes (secured and unsecured), business taxes, franchise taxes, direct and indirect sales taxes, and transient occupancy taxes. Fiscal expenditures such as public safety were estimated on a per capita basis using the City’s Fiscal Year 2020-2021 Adopted Budget, and the resident population within the City. An IMPLAN econometric model was utilized to estimate direct, indirect, and induced economic benefits (jobs, wages, output) resulting from the construction and operations within the Project.



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# Table of Contents

Section	Page
1.0 Project Description .....	4
2.0 Executive Summary .....	7
3.0 Development Plan .....	10
4.0 Fiscal Revenues and Expenditures .....	11
5.0 Employment and Economic Benefits.....	18



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## 1.0 Project Description

Merlone Geier Partners (“MGP”) acquired the Laguna Hills Mall in 2013 (excluding the major department stores Macy’s, JCPenney and Sears) with the intent to renovate the shop space and add residential units to help revitalize the mall. As Sears faced operational challenges, MGP negotiated a buyout shortly after acquisition. Sears closed in summer of 2014. In 2016 the City approved a master plan for Five Lagnas. However, both Macy’s and JCPenney also faced operational challenges and MGP negotiated buyouts accordingly in 2017, with those stores closing in 2018. MGP was not able to proceed with the Five Lagnas retail plan and the mall ceased operation beginning in 2019.

MGP has spent the past several years refining the Five Lagnas plan with significantly reduced retail, a new hotel and expanded office and residential units in response to further evolving market conditions. MGP has submitted its most recent Village at Laguna Hills plan (Figure 1). As part of the entitlement process, the City is examining the fiscal implications of allowing significant residential and office development.

### 1.1 Full Buildout

The City requested a fiscal analysis of the current Project plan per CEQA. A description of the land use components is presented below.

Figure 1 below represents the Project Master Plan recently submitted to the City. The proposed improvements consist of up to 1,500 apartment units with an average unit size of 1,000 square feet, ~23,000 square feet of existing retail/restaurants, 227,000 square feet of **new** retail/restaurant/entertainment (including relocation of existing Nordstrom Rack), 150-room hotel, and 465,000 square feet of office to be developed in multiple phases with initial opening expected by FY 2024.



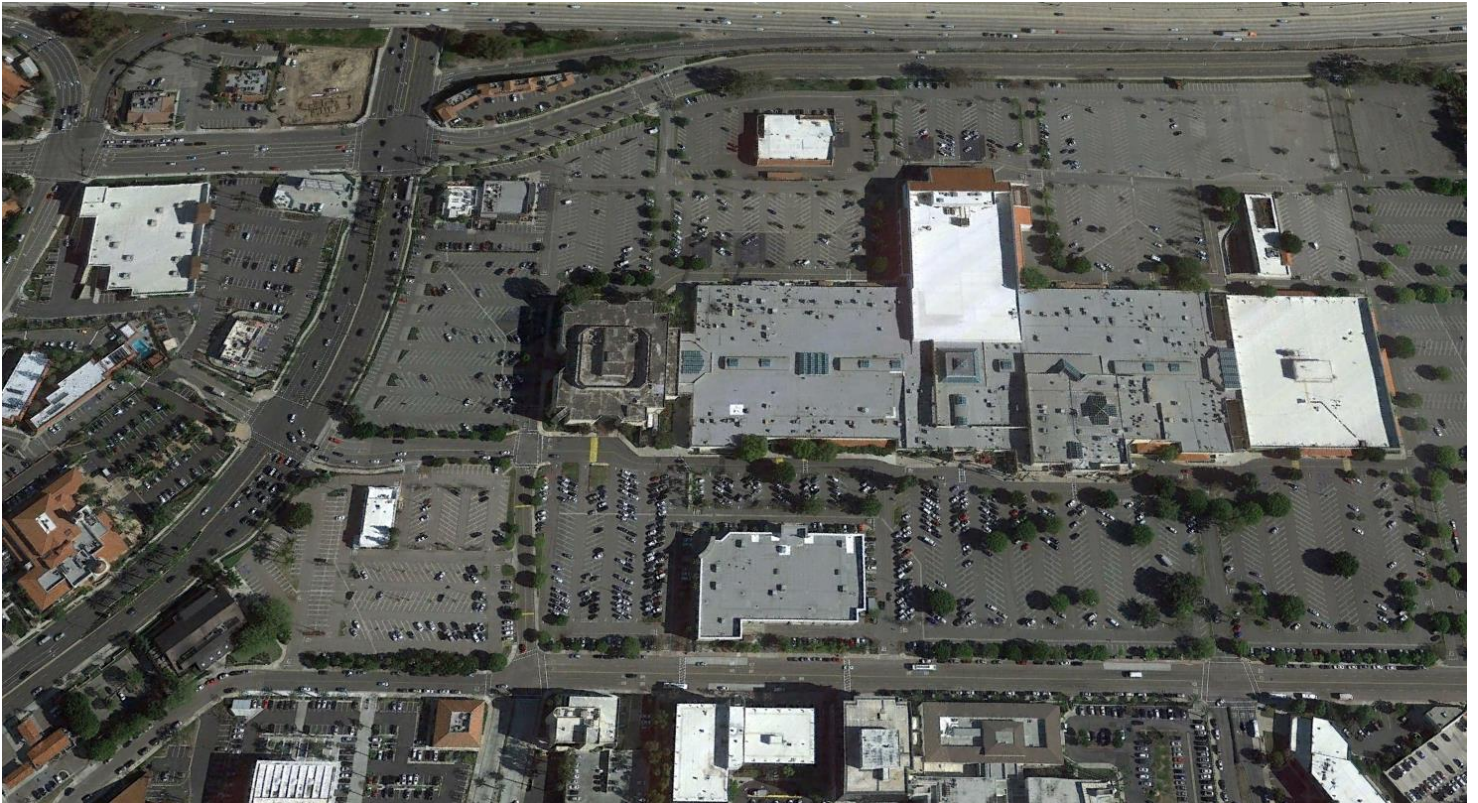
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Figure 1: Village at Laguna Hills Master Plan





Figure 2: Laguna Hills Mall Aerial Photograph (2016)



## 2.0 Executive Summary

The proposed master plan allows for significant development within the four major land use categories. A summary of the full buildout development program for the fiscal analysis of the Project is delineated in Table 2.1.

*Table 2.1: Development Program*

	Full Buildout
Residential DU	1,500
Existing Restaurant SF	23,000
Retail & Restaurant SF	227,000
Office SF	465,000
Hotel Rooms	150

Source: Merlone Geier, Kosmont

### Village at Laguna Hills

The Project is estimated to generate a fiscal revenue of approximately \$2.99 million per year at full buildout in 2020\$. Annual incremental municipal service costs are estimated at \$1.69 million, yielding an annual surplus of approximately **\$1.31 million** as shown below:

*Table 2.2: Summary of Fiscal Impact*

	Full Buildout Stabilized
<b>Primary Fiscal Revenues</b>	
Property Tax (Secured & Unsecured)	\$701,000
Property Tax In-Lieu of VLF	\$304,000
Sales & Use Tax (On-Site/Direct)	\$846,000
Sales & Use Tax (Off-Site/Indirect)	\$310,000
Transient Occupancy Tax	\$670,000
Recreation Fees	\$54,000
Franchise Taxes	\$107,000
<b>Total General Fund Revenues (Rounded):</b>	<b>\$2,992,000</b>
<b>Primary General Fund Expenditures</b>	
General Government	\$33,100
Public Safety	\$1,501,100
Public Services	\$114,700
Non-Departmental	\$15,000
Community Development	\$0
Community Services	\$21,400
<b>Total General Fund Expenditures:</b>	<b>\$1,685,000</b>
<b>NET FISCAL IMPACT (Rounded):</b>	<b>\$1,307,000</b>

Source: Kosmont Companies



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With a blend of uses, the Project will provide significant tax revenues from a variety of sources, rather than concentration of sales taxes that is subject to significant economic cycles. This diversification will protect the City general fund from future economic downturns.

### Economic Impact

This Analysis uses the IMPLAN (Impact analysis for PLANning) econometric input/output model developed by the IMPLAN Group to quantify the economic impact to the local region from full Project construction and ongoing operations. Table 2.3 shows over 7,000 fulltime equivalent jobs, \$507 million in labor income and \$1.2 billion in total County economic output from the multi-year construction period. In addition to the direct on-site spending, the City will benefit from a fair share of the indirect and induced spending.

*Table 2.3: Summary of Economic Benefits from Construction of Village at Laguna*

<b>Economic Benefits from Construction (One-Time)</b>			
<b>Full Project</b>			
	<b>Employment</b>	<b>Labor Income</b>	<b>Economic Output</b>
Direct (On-Site)	4,125	\$338,786,000	\$781,000,000
Indirect	1,271	\$79,428,000	\$196,464,000
Induced	1,616	\$89,450,000	\$258,614,000
<b>Total Countywide</b>	<b>7,013</b>	<b>\$507,664,000</b>	<b>\$1,236,078,000</b>

Notes: 100% of direct benefits from the site are estimated to be captured within the City. Values in 2020 dollars.

Source: Kosmont Companies, IMPLAN (2020)

Table 2.4 on the following page shows the Project could support 3,953 local jobs, provide \$187 million in labor income and \$377 million in total regional economic output annually at full buildout and stabilization (in 2020 dollars).



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Table 2.4: Summary of Annual Economic Benefits from Ongoing Operation of Village at Laguna

<b>Economic Benefits from Operations</b>			
<b>Full Project</b>			
	<b>Employment</b>	<b>Labor Income</b>	<b>Economic Output</b>
Direct (On-Site)	2,961	\$127,200,000	\$213,130,000
Indirect	370	\$25,305,000	\$64,547,000
Induced	622	\$34,276,000	\$99,135,000
<b>Total Countywide</b>	<b>3,953</b>	<b>\$186,781,000</b>	<b>\$376,812,000</b>

Notes: 100% of direct benefits estimated to be captured on-site within the City. Estimated ongoing benefits upon build-out. Values in 2020 dollars

Source: Kosmont Companies, IMPLAN (2020)

### Other Benefits

In addition to the General Fund revenues and local job creation, the Project will provide other indirect benefits such as increased State and County Highway funds (Measure M and SB 1) that are partially distributed based on population. The formula is very complex, but Kosmont estimates it could be over \$10,000 per year based on the projected growth in population.

The addition of 1,500 apartment units will help the City meet almost half of the State Regional Housing Needs Assessment allocation.



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## 3.0 Development Plan

The Project master plan envisions an approximately 2.7 million SF mixed/blended-use development and is designed for multiple phases to be built over the next 20 years.

Given the uncertainty of actual development timing and future inflation rates for revenues and expenses, Kosmont has focused this analysis on the estimated annual revenues and expenses at full buildout in 2020\$.

### Development Costs

Project development costs at full buildout are estimated at \$781 million, which will drive assessed value for property tax purposes.

As shown in Table 3.1 the apartment units represent approximately 60% of the total development budget, with the office component representing a little over 20%.

*Table 3.1: Development Costs*

	<b>Apartment</b>	<b>Hotel</b>	<b>Retail</b>	<b>Existing</b>	<b>Office</b>	<b>Site Work</b>	<b>TOTAL</b>
Units	1,500	150	\$ 227,000	23,000	465,000		
Cost/unit	\$ 320,000	\$ 250,000	\$ 400	-	\$ 350.00		
Total Budget	480,000,000	37,500,000	90,800,000	-	162,750,000	10,000,000	\$780,850,000

Source: Kosmont; Numbers may not add due to rounding

For calculating per capita spending, Kosmont assumed a 95% occupancy for apartments and office use.

## 4.0 Fiscal Impacts

This Analysis is based on information provided by MGP and their subconsultants, City, Orange County ("County") Property Tax Auditor-Controller's Office, California Department of Finance ("DOF"), California Board of Equalization ("BOE"), and ESRI.

### 4.1 General Assumptions

General assumptions follow:

- Dollar amounts are expressed in 2020 dollars.
- Average 1.42 residents per household
- Fiscal impacts are estimated at stabilized occupancy.

### 4.2 Fiscal Revenue Analysis

#### 4.2.1 Property Tax

Secured property tax revenues are estimated based on the anticipated assessed value of the Project upon full build-out and the applicable property tax rates for the City. The City General Fund receives 9% of the annual 1.0% secured property tax general levy placed by the County on the assessed value of the property in this Tax Rate Area. Based on the estimated development budget of \$781 million, less a 5% adjustment factor, the Project is estimated to generate **\$701,000** in annual property taxes as shown below.

*Exhibit 4.2.1 Property Taxes*

		Full Buildout
Total Development Costs (Rounded)		\$780,850,000
5% Adjustment to Assessed Value:		<u>\$39,042,500</u>
Total Estimated Assessed Value		\$741,807,500
<b>Property Tax Rates</b>		
General Levy - Secured	1.00%	\$7,418,075
City General Fund Distributions - Secured	9.00%	\$667,627
Other	0.00%	\$0
Unsecured Property as Percent of Secured		5.0%
Estimated Unsecured Property Taxes to City		\$33,381
<b>Total Property Tax to City (Secured + Unsecured) - Rounded:</b>		<b>\$701,000</b>



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Source: Kosmont Companies

#### 4.2.2 Taxes in Lieu of VLF

Prior to 2004, a percentage of State of California motor vehicle license fee ("VLF") was distributed to cities. In 2005, the State instituted a revenue swap, guaranteeing that municipalities within California receive a distribution equal to the VLF collected, plus a percentage equal to the annual increase in assessed value, which is equivalent to approximately 4% share of the basic levy. Exhibit 4.2.3 shows the estimated VLF revenues to be **\$304,000** in 2020\$.

*Exhibit 4.2.2 Taxes In Lieu of VLF*

	Full Buildout
Total Estimated Assessed Value	\$741,807,500
Total Assessed Value within City (2015-16)	<b>\$6,341,463,415</b>
Percent Share / Increase in Assessed Value	11.6977%
Estimated Property Tax In-Lieu of VLF in 2016	<b>\$2,600,000</b>
<b>Incremental Project Tax In-Lieu of VLF</b>	<b>\$304,000</b>

Source: City of Laguna Hills, and Kosmont Companies

#### 4.2.3 Sales Tax (On-Site / Direct)

The Project master plan provides up to 250,000 square feet of designated retail/restaurant/entertainment space. The existing restaurant space (In-N-Out, King's Fish House and BJ's Restaurant) has annual sales of \$800 per square foot. New retail/restaurant space is projected to generate average taxable sales of \$350 per square foot based on estimated industry sales-per square-foot assumptions. Movie theater and fitness center have much lower taxable sales. The hotel is also projected to generate taxable sales of \$40 per room night. Annual taxable sales are estimated at \$73.5 million.

Based on the basic 1 percent sales tax allocated to cities, and 15% add-on for State and County Pool distributions, annual sales tax revenues to the City General Fund at stabilization are estimated at \$846,000 per year, as shown in Exhibit 4.2.3.



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*Exhibit 4.2.3: Sales Tax (On-Site/Direct)*

Sales Generating Components	Full Build	Taxable Sales/Unit	TAXABLE SALES
			Full Buildout Stabilized
Theater	50,000 SF	\$30 PSF	\$1,500,000
New Retail	147,000 SF	\$350 PSF	\$51,450,000
Existing Restaurant	23,000 SF	\$800 PSF	\$18,400,000
Fitness	30,000 SF	\$0 PSF	\$0
Hotel	150 Rm	\$40 /rm	\$2,190,000
<b>Total</b>	<b>250,000 SF</b>		<b>\$73,540,000</b>
Annual Sales Tax to City		1.0%	\$735,400
City Share of Pool Taxes		15.0%	\$110,310
<b>Total Sales and Use Tax to City (On-Site / Direct)</b>			<b>\$846,000</b>

Source: BOE, City of Laguna Hills, and Kosmont Companies

#### 4.2.4 Sales Tax (Off-Site / Indirect)

Off-site / indirect sales tax revenue projections are estimated based on the taxable sales generated by the spending of Project residents and employees, off-site, within the City. Resident spending is based on average household incomes and BLS Consumer Expenditure Survey data, which provides spending habits of consumers based on average household income.

Based on the Project's location, the Analysis assumes 50% Citywide capture rate for annual resident spending and 30% City capture rates for employee spending. Because the residents will spend a substantial portion of disposable income within the Project, Kosmont assumed a 15% reduction factor to avoid double counting the incremental taxable sales.

At full buildout, the total annual off-site sales tax revenue is estimated at **\$310,000** as shown in Table 4.2.4 on the following page.



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Table: 4.2.4: Sales Tax (Off-Site/Indirect)

	Full Buildout
<b>Residents</b>	
Estimated Annual Taxable Spending / HH	\$20,800
Estimated Capture within City (Off-Site) 50%	\$10,400
Estimated # Households	1,425
Total Resident Taxable Spending within City	\$14,820,000
<b>Retail &amp; Restaurant Employees</b>	
Estimated Annual Taxable Spending / Empl.	\$12,343
Estimated Capture within City (Off-Site) 30%	\$3,703
Estimated # Employees	1,250
Total Employee Taxable Spending within City	\$4,628,706
<b>Hotel / Office Employees</b>	
Estimated Annual Taxable Spending / Empl.	\$23,412
Estimated Capture within City (Off-Site) 30%	\$7,024
Estimated # Employees	1,651
Total Employee Taxable Spending within City	\$11,592,398
<b>Hotel Guests</b>	
Estimated Annual Taxable Spending / Guest Room	\$20,531
Estimated Capture within City (Off-Site) 30%	\$6,159
# Guest Rooms - Avg Occupied	101
Total Taxable Sales Captured	\$619,017
Total Indirect Taxable Sales	\$31,660,121
Estimated % Capture On-Site	(15%)
Less Estimated Capture On-Site	(\$4,749,000)
<b>Total Off-Site / Indirect Taxable Sales</b>	<b>\$26,911,121</b>
Annual Sales Tax to City 1.0%	\$269,111
City Share of Pool Taxes 15%	\$41,000
<b>Annual Sales &amp; Use Tax to City (Off-Site/Indirect)</b>	<b>\$310,000</b>

Source: BOE, ESRI, City of Laguna Hills Kosmont Companies



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#### 4.2.5 Transient Occupancy Tax ("TOT")

Transient Occupancy Tax revenues are projected based on estimated average daily room rates (ADR), occupancy, and the City's TOT rate of 10%. The CEQA analysis assumes a 150-room hotel. With ADR of \$170 and average occupancy of 72%, the estimated annual TOT is \$670,000.

Table 4.2.5: Hotel TOT

Full Buildout	
Number of Rooms	150
Average Daily Room Rate - 2020\$	\$170.00
Average Occupancy Rate	72%
Annual Hotel Room Receipts	\$6,701,400
City TOT Rate	10.0%
<b>Annual TOT to City</b>	<b>\$670,000</b>

Source: City of Laguna Hills, Kosmont Companies

#### 4.2.6 Recreation Fees

The City generates \$870,000 per year in recreation fees from local residents, which equates to \$26.69 per resident times 2,020 residents at stabilized occupancy results in incremental increase of \$54,000 per year.

#### 4.2.7 Franchise Taxes

The City generates \$1,260,000 in utility transfer taxes and waste disposal fees, which equates to \$30.66 per resident-equivalent times 4,330 resident-equivalents results in incremental increase of \$107,000 at full buildout.



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### **4.3 Fiscal Expenditure Analysis**

Expenditures such as public safety and other fiscal expenditures are estimated based on data from the City's Fiscal Year 2020-2021 Adopted Budget, as well as interviews with each department head to ascertain the fixed and variable components of their departmental budget in order to estimate the cost impact of the new residents.

#### Public Safety

Public safety, which includes police, fire, animal control and emergency management, is the largest budget item, at \$8.9 million, representing approximately 40% of total expenditures. Based on recommendations from the Police Chief, the incremental increase in County contract for public safety costs assumes a full patrol squad of 4 officers and required equipment, with a total annual cost of \$1,501,100.

#### Public Services Costs

Public services, which includes engineering, public works and parks, is the second largest budget category at \$4.8 million. Because the vast majority of those costs are fixed, the incremental increase is estimated at \$114,700.

#### Community Development

Community Development includes Building and Planning. The annual costs total \$1.46 million. Because all of those costs are fixed or unrelated to new residential population, the incremental increase is estimated to be negligible.

#### Community Services

Community Services includes recreation, solid waste and recycling. These costs total \$2.2 million. Because the vast majority of those costs are fixed, the incremental increase is estimated at \$21,400.

#### General Government & Non-Departmental

General government (City Manager, City Clerk, City Attorney, Finance and Administrative Services) and Non-Departmental (Citywide functions such as information technology) cost is \$4.0 million per year. Because the vast majority of those costs are fixed, the incremental increase is estimated at \$33,100 for General Government and \$15,000 for Non-Departmental.

In summary, at full buildout the Project will result in total annual allocated municipal service costs estimated at \$1.69 million in 2020\$, as shown in Exhibit 4.4 on following page.



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#### 4.4 Net Fiscal Analysis

As shown in Exhibit 4.4, the Project is expected to generate gross annual revenue of approximately \$2,992,000 at full buildout. After estimated general fund expenditures of \$1,685,000, the net fiscal impact is projected to be **\$1,307,000 per year**.

*Exhibit 4.4: Summary of Net Fiscal Impact*

	<b>Full Buildout</b>
<b>Primary Fiscal Revenues</b>	<b>Stabilized</b>
Property Tax (Secured & Unsecured)	\$701,000
Property Tax In-Lieu of VLF	\$304,000
Sales & Use Tax (On-Site/Direct)	\$846,000
Sales & Use Tax (Off-Site/Indirect)	\$310,000
Transient Occupancy Tax	\$670,000
Recreation Fees	\$54,000
Franchise Taxes	\$107,000
<b>Total General Fund Revenues (Rounded):</b>	<b>\$2,992,000</b>
<b>Primary General Fund Expenditures</b>	
General Government	\$33,100
Public Safety	\$1,501,100
Public Services	\$114,700
Non-Departmental	\$15,000
Community Development	\$0
Community Services	\$21,400
<b>Total General Fund Expenditures:</b>	<b>\$1,685,000</b>
<b>NET FISCAL IMPACT (Rounded):</b>	<b>\$1,307,000</b>

Source: County Auditor-Controller, City of Laguna Hills, Kosmont Companies

The major contributors to City revenues are onsite and offsite sales tax with 39% of the total, followed by property tax and In Lieu of VLF at 34%, and then hotel TOT at 22% of total. The major factor increasing future municipal service costs is expected to be public safety.



## 5.0 Employment and Economic Benefits

### 5.1 IMPLAN Economic Benefits

This Analysis uses the IMPLAN (Impact analysis for PLANning) econometric input/output model developed by the IMPLAN Group to quantify the economic impact to the local region from Project construction and ongoing operations. This proprietary model estimates the economic benefits on the industries in a given geographic area based on known economic inputs, such as construction costs. The model estimates benefits expressed in terms of increased employment, earnings (“labor income”), and economic activity (“output”). Direct, indirect, and induced economic benefits were evaluated.

Direct economic benefits refer to the initial changes resulting from a specific business activity (construction spending and on-site employment in this case). Applying these initial changes to the multipliers in the IMPLAN model will then simulate how the region will respond economically to these changes.

Indirect economic benefits will result from local industries buying goods and services from other local industries. Examples would include increased sales of apparel inventory for clothing stores, food supplies for restaurant businesses, or other inputs related to the business operations of the Project.

Induced economic benefits occur through the re-spending of income received by employees that are directly or indirectly affected by the Project. Examples would include the goods and services normally associated with household consumption, such as housing, retail purchases, healthcare, and education-related spending.

Inputs for the IMPLAN economic benefit analysis include the hard and soft cost construction budget (excluding fees and finance costs) estimated at approximately \$781 million and permanent on-site employment estimated by this Analysis. Inputs are summarized in Table 5.1.

Table 5.1 IMPLAN Economic Benefit Analysis Inputs

<b>Construction Inputs (Industry Spending)</b>	
	<b>IMPLAN Inputs</b>
<b>Industry NAICS Category</b>	<b>Full Buildout</b>
60 Construction of new multifamily residential structures	\$480,000,000
57 Construction of new commercial structures, including farm structures	\$291,050,000
56 Construction of new highways and streets	\$10,000,000
<b>Ongoing Operation Inputs (Employment Change)</b>	
	<b>IMPLAN Inputs</b>
<b>Industry NAICS Category</b>	<b>Full Buildout</b>
460 Marketing research and all other miscellaneous professional, scientific, and technic	1,550 Jobs
406 Retail - Miscellaneous store retailers	1,250 Jobs
499 Hotels and motels, including casino hotels	101 Jobs
440 Real estate	60 Jobs

Source: IMPLAN, Orange County dataset

During the construction period, the Project is estimated to create approximately 7,000 job-years<sup>1</sup> of employment, approximately \$507 million in labor income (wages), and approximately \$1.2 billion in regional economic output as summarized in Table 5.2. The City will receive 100% of the onsite direct spending benefits and a fair share of indirect and induced impacts.

Table 5.2 Summary of Economic Benefits from Project Construction (Construction Period)

<b>Economic Benefits from Construction (One-Time)</b>			
<b>Full Project</b>			
	<b>Employment</b>	<b>Labor Income</b>	<b>Economic Output</b>
Direct (On-Site)	4,125	\$338,786,000	\$781,000,000
Indirect	1,271	\$79,428,000	\$196,464,000
Induced	1,616	\$89,450,000	\$258,614,000
<b>Total Countywide</b>	<b>7,013</b>	<b>\$507,664,000</b>	<b>\$1,236,078,000</b>

Notes: 100% of direct benefits estimated to be captured on-site within the City.

Source: IMPLAN, Orange County dataset

<sup>1</sup> A job-year is defined as one year of employment for one employee. As an example, 7,013 job-years divided by 10 years of construction yields an annual average construction employment of approximately 701 jobs.

Upon build-out and stabilization, ongoing operation of the Project is estimated to support approximately 3,950 jobs, approximately \$187 million in annual labor income, and approximately \$376 million in regional economic output as summarized in Table 5.3.

*Table 5.3 Summary of Economic Benefits from Ongoing Project Operation (Annual)*

<b>Economic Benefits from Operations</b>			
<b>Full Project</b>			
	<b>Employment</b>	<b>Labor Income</b>	<b>Economic Output</b>
Direct (On-Site)	2,961	\$127,200,000	\$213,130,000
Indirect	370	\$25,305,000	\$64,547,000
Induced	622	\$34,276,000	\$99,135,000
<b>Total Countywide</b>	<b>3,953</b>	<b>\$186,781,000</b>	<b>\$376,812,000</b>

*Notes: Ongoing operation benefits are annual upon build-out and stabilization. 100% of direct benefits estimated to be captured on-site within the City.*

*Source: IMPLAN, Orange County data*