

LAGUNA HILLS HILLSIDE PLAZA REDEVELOPMENT PROJECT

**Net Fiscal Impact Analysis
Prepared For: Toll Brothers, Inc.**

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Executive Summary

Toll Brothers (“Client” / “Developer”) is currently pursuing entitlements for the development of a 36-unit duplex residential project (“Project”) on an approximately 2.43-acre property (APN 588-142-07) (“Site”) located at 23161 Mill Creek Drive in the City of Laguna Hills (“City”). In order to assist the City’s evaluation of the proposed Project, Client requested that Kosmont Companies (“Kosmont”) prepare a Fiscal Impact Analysis (“Analysis”) to estimate the projected net fiscal impacts of the Project to the City. Kosmont’s Analysis also estimates the approximate impact of the existing office properties located on the Site, which would be redeveloped.

Kosmont’s Analysis demonstrates that the redevelopment of the Project has a potential financial benefit to the City General Fund, driving ~\$58,500 in annual fiscal revenues and ~\$48,700 in annual fiscal costs, resulting in an annual net fiscal benefit of approximately \$9,800.

Annual Fiscal Impact

The Project is estimated to generate an annual fiscal revenue of approximately \$58,500 at full buildout in 2024 dollars, largely due to the significant increase in property value – the existing office properties have an estimated value of \$15,000,000, compared to the Project’s estimated value of \$57,120,000 at completion.

The Project is expected to result in approximately \$48,700 in General Fund expenditures, yielding a positive annual net fiscal impact of \$9,800. The existing office properties are estimated to generate \$18,500 in annual fiscal revenues and result in an estimated \$24,400 in General Fund expenditures, yielding a current negative annual fiscal impact of (\$5,900). In this regard, the Project compares favorably to the existing land use.

Fiscal revenues and expenses are summarized in the table on the following page.

Table 1.1: Summary of Annual Fiscal Impact

	Current: Office	Full Buildout: Residential	Full Buildout: Residential (Per Unit)
Primary Fiscal Revenues			
Property Tax (Secured & Unsecured)	\$4,900	\$17,600	\$ 489
Property Tax In-Lieu of VLF	\$5,900	\$22,500	\$ 625
Property Transfer Taxes	\$400	\$4,500	\$ 125
Sales & Use Tax (On-Site/Direct)	\$0	\$0	\$ -
Sales & Use Tax (Off-Site/Indirect)	\$2,800	\$4,900	\$ 136
Transient Occupancy Tax	\$0	\$0	\$ -
Other Taxes and fees	\$200	\$300	\$ 8
Franchise Fees	\$1,500	\$3,000	\$ 83
Fines & Forfeitures	\$200	\$500	\$ 14
Charges for Services	\$2,600	\$5,200	\$ 144
Misc. Revenue	\$0	\$0	\$ -
Total General Fund Revenues (Rounded):	\$18,500	\$58,500	\$1,625
Primary General Fund Expenditures			
General Government	\$400	\$700	\$ 19
Public Safety	\$16,100	\$32,300	\$ 897
Public Works	\$3,500	\$6,900	\$ 192
Non-Departmental	\$200	\$400	\$ 11
Community Development	\$1,000	\$2,000	\$ 56
Community Services	\$3,200	\$6,400	\$ 178
Total General Fund Expenditures:	\$24,400	\$48,700	\$1,353
NET FISCAL IMPACT (Rounded):	(\$5,900)	\$9,800	\$270

Source: Kosmont Companies, Laguna Hills, Toll Brothers

Other Benefits

In addition to General Fund revenues, the Project will provide indirect benefits to City, County, the Saddleback Valley Unified School District (“School District”), and the Moulton Niguel Water District (“Water District”).

- Local businesses will benefit from \$1.85 million in increased spending from new residents, with an estimated \$424,000 of taxable spending captured by businesses in the City of Laguna Hills;
- The City is estimated to receive one-time permit and plan check fees of ~\$13,700 per unit, or ~\$470,700;
- The School District is estimated to receive one-time developer school impact fees of ~\$9,660 per unit, or ~\$347,800.
- The Water District is estimated to receive one-time developer impact fees of ~\$4,300 per unit, or ~\$155,100.
- The School District is estimated to receive 47.73% of the increased basic 1% property tax levy, yielding an estimated \$259,000 per year.
- The Orange County Fire Authority will receive 11.83% of the increased basic 1% property tax levy, yielding an estimated \$64,200 per year.

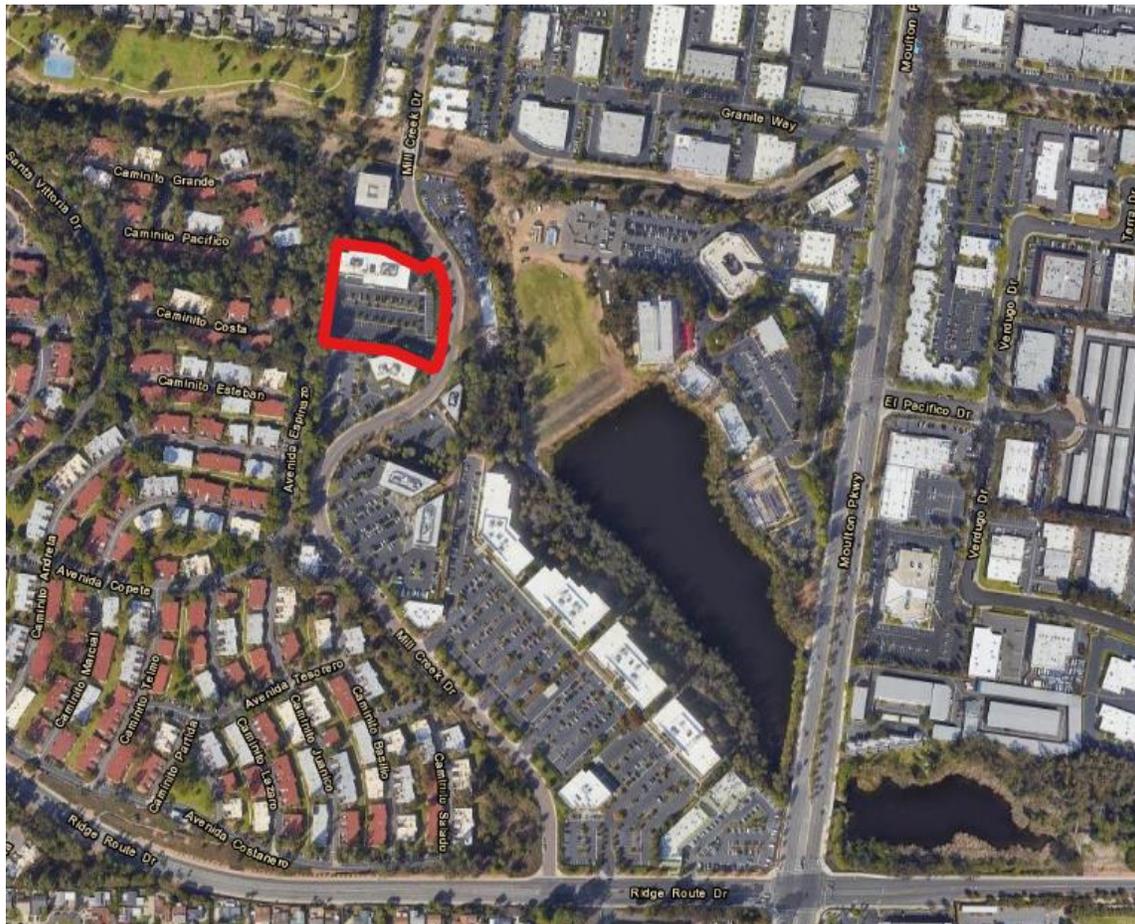
As discussed above, the Project has indirect and direct benefits to the local community and City General Fund.

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2.0 Project Description

The Project is planned to be developed on the ~2.43 acre Site at 23161 Mill Creek Drive, located north of the intersection of Mill Creek Drive and Ridge Route Drive in Laguna Hills, California. The Project is adjacent to small commercial / office buildings and is also proximate to residential neighborhoods.

Figure 2.1 Aerial Photo of Site and Immediate Neighborhood

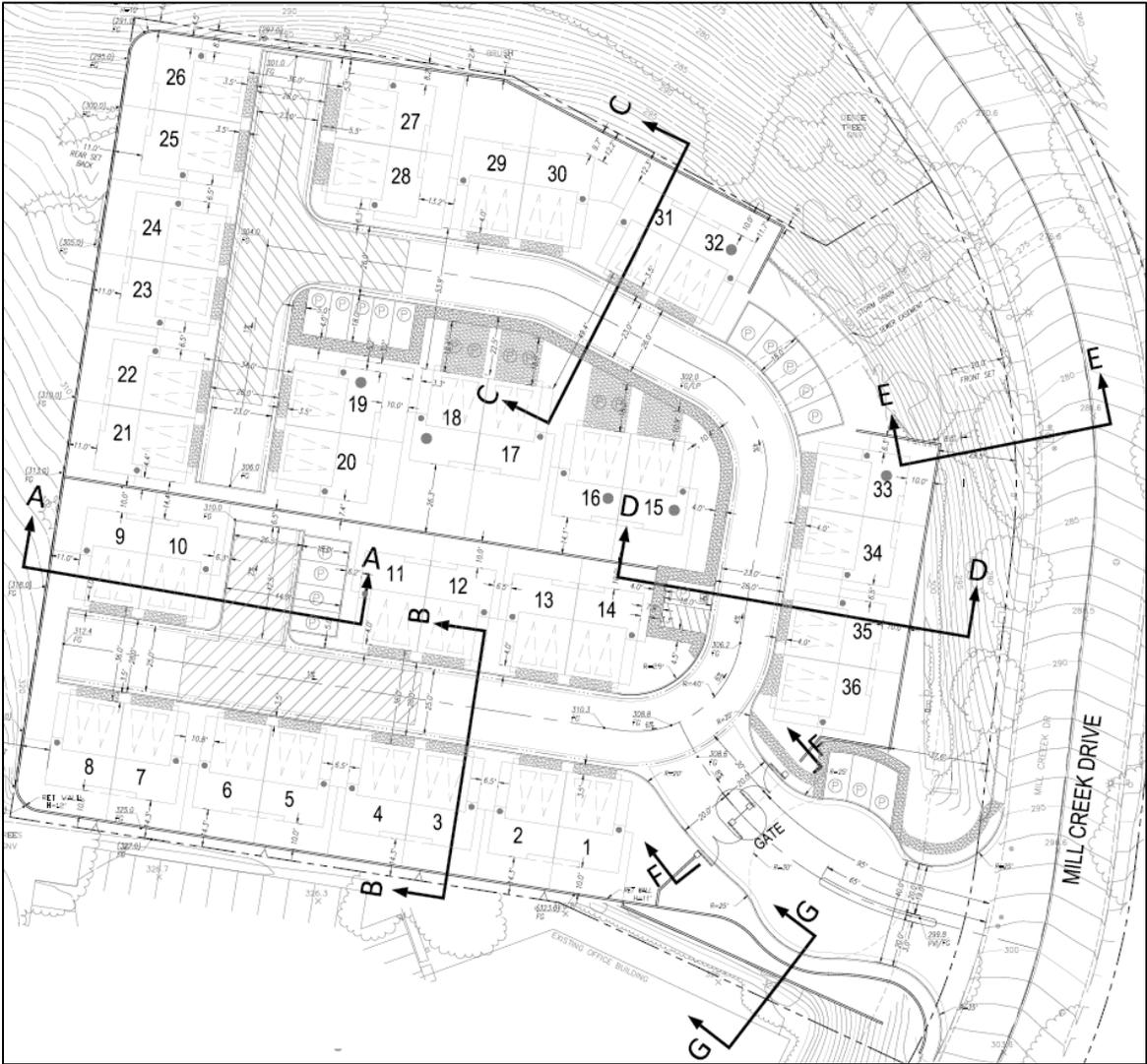


2.2 Project Summary

The ~2.43-acre Site is currently occupied with a Class B office building (also known as Hillside Plaza) totaling ~48,800 SF (estimated current occupancy of 60%) built in 1987, as well as surface parking lots. The proposed Project will redevelop the site with 36 duplex housing units (with 2 of those units being affordable housing units). Figure 2.2 on following page shows the conceptual site plan.

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Figure 2.2 Site Plan



Source: Toll Brothers

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3.0 Fiscal Impacts

The Analysis evaluates the stabilized annual fiscal revenues expected for the City’s General Fund for the proposed Project at completion. Fiscal revenue estimates were derived from estimating the various taxes including property taxes (secured and unsecured), property transfer taxes, indirect sales taxes, and other taxes and revenue. The Analysis is based on information provided by the Client, City, County Property Tax Auditor-Controller’s Office, California Department of Finance (“DOF”), California Board of Equalization (“BOE”), CoStar, and ESRI.

3.1 General Assumptions

Given the uncertainty of actual development timing and future inflation rates for revenues and expenses, Kosmont has focused the fiscal analysis on annual impacts at stabilized occupancy in 2024 dollars.

3.2 Fiscal Revenue Analysis

3.2.1 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 rate for the City. The Site is located in County tax rate area (“TRA”) #31096. The City’s General Fund receives approximately 3.25% of the annual 1.0% secured property tax general levy placed by the County on the assessed value of the property (\$0.03245131944 of each \$1.00 of secured property tax revenue) within this TRA.

Additionally, unsecured property taxes are collected based on the assessed value of real property not affixed to the underlying land, such as business fixtures, and some types of vehicles. The rate of taxation and apportionment is generally the same as for secured property taxes. For the purposes of this Analysis, the assessed value of unsecured property associated with the Project is estimated to be 0.0% of the assessed value of secured property for the Project, and the assessed value of unsecured property associated with the existing office development is estimated to be 5.0% of the assessed value of secured property.

Based on an estimated average sale price of ~\$1,680,000 per unit (and assuming an assessed value of \$0 for the two affordable units), the Project is expected to yield an assessed value of ~\$57,120,000 at completion. The Project is estimated to generate **\$17,600** in property taxes to the City. The current office property, when valued based on the transacted price of \$15,000,000, is estimated to generate \$4,900 in property taxes to the City.

Additionally, the Orange County Fire Authority General Fund receives 11.83% of the annual 1.0% secured property tax general levy (\$0.11834584895 of each \$1.00 of secured property tax revenue) to fund fire services, and the Saddleback Valley Unified School District General Fund

receives 47.73% of the annual 1.0% secured property tax general levy (\$0.47725744067 of each \$1.00 of secured property tax revenue) to fund educational services.

Exhibit 3.2.1 Property Taxes

	Current: Office	Full Buildout: Residential
Total Project Value (Rounded)	\$15,000,000	\$57,120,000
5% Adjustment to Assessed Value:	<u>\$750,000</u>	<u>\$2,856,000</u>
Total Estimated Assessed Value	\$14,250,000	\$54,264,000
Property Tax Rates		
General Levy - Secured	1.00%	\$142,500
City General Fund Distributions - Secured	3.25%	\$4,624
Unsecured Property as Percent of Secured	5.0%	0.0%
Estimated Unsecured Property Taxes to City	\$231	\$0
Total Property Tax to City (Secured + Unsecured) - Rounded:	\$4,900	\$17,600

Source: Toll Brothers, County Assessor, Kosmont Companies

3.2.2 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. Property Tax In-Lieu of VLF resulting from the Project is estimated based on the incremental amount of assessed value the development will add to the City, thereby increasing the City’s apportionment or estimated VLF revenues of **\$22,500** in 2024 dollars. The current office property is estimated to generate \$5,900 of VLF revenues in 2024 dollars.

Exhibit 3.2.2 Taxes in Lieu of VLF

	Current: Office	Full Buildout: Residential
Total Estimated Assessed Value	\$14,250,000	\$54,264,000
Total Assessed Value within City (2024)	\$8,800,906,000	\$8,800,906,000
Percent Share / Increase in Assessed Value	0.1619%	0.6166%
Estimated Property Tax In-Lieu of VLF in FY 23-24	\$3,646,263	\$3,646,263
Incremental Project Tax In-Lieu of VLF	\$5,900	\$22,500

Source: Toll Brothers, Kosmont Companies, City Budget and ACFR



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3.2.3 Real Property Transfer Tax

Property transfer tax revenue is estimated based on the expected average rate of turnover of ownership of 15.0% for residential product (on average, each property selling once every seven years) and 5.0% for commercial product (on average, approximately once every 20 years), estimated \$2024 values, and the City’s property transfer tax of 0.055% of gross sales price. The Project is estimated to generate an expected annual average of **\$4,500** in property transfer taxes to the City. The current office property, when valued based on the sale price of \$15,000,000, is estimated to generate \$400 in property transfer taxes to the City.

Exhibit 3.2.3: Property Transfer Tax

Program Element	Estimated Assessed Valuation	Property Turnover Rate (per year)	Avg. Annual Property Transferred	Est. Effective Property Transfer Tax Rate	Current: Office	Full Buildout: Residential
Residential	\$54,264,000	15.0%	\$8,139,600	0.055%		\$4,477
Office	\$14,250,000	5.0%	\$712,500	0.055%	\$392	
City Property Transfer Tax Revenue					\$400	\$4,500

Source: Toll Brothers, Kosmont Companies, City Budget and ACFR

3.2.4 Sales Tax (Off-Site / Indirect)

The Project and the current office property are not expected to generate any direct / on-site sales tax.

Off-site / indirect sales tax revenue projections are estimated based on the taxable sales generated by the spending of Project residents, businesses and employees within the area. Employee spending is based on average household incomes and BLS Consumer Expenditure Survey data, which provides spending habits of consumers based on household income, as well as resident consumption patterns and retail sales patterns within the City. Capture rates for spending by employees and residents within the City are approximated by Kosmont based on an evaluation of retail amenities within the local trade area.

Annual Use Tax is given to each City based fair share allocation of online sales taxes through County Pools, averaging ~15% of the local sales taxes generated.

In order to estimate annual spending potential, Kosmont examined the average household earnings for the City residents (i.e. \$172,700), as well as for the Project’s Census Tract (\$140,600)



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and assumed a mid-range household income value of \$155,000 for the Project’s market-rate housing units and \$70,000 for the Project’s affordable housing units, yielding a weighted average of ~\$150,000.

At stabilized occupancy, the total annual resident taxable retail spending is estimated at an average of \$1.41 million. Based on the Project’s location near Irvine, Laguna Woods, and Lake Forest, the Analysis assumes 30% Citywide capture rate for annual taxable spending.

Exhibit 4.2.4 shows the annual sales tax to the General Fund estimated at **\$4,900** per year as shown below. The current office property is estimated to generate \$2,800 of off-site sales tax revenues in 2024 dollars (assuming office employee salaries of \$95,000, 98 employees at the project, and a city capture rate of 10%).

Exhibit 3.2.4: Sales Tax (Off-Site/Indirect)

		Current: Office Property	Full Buildout: Residential
Residents			
Estimated Annual Taxable Spending / HH			\$39,300
Estimated Capture within City (Off-Site)	30%	\$0	\$11,790
Estimated # Households			36
Total Resident Taxable Spending within City		\$0	\$424,440
Office Employees			
Estimated Annual Taxable Spending / Empl.		\$24,900	
Estimated Capture within City (Off-Site)	10%	\$2,490	\$0
Estimated # Employees		98	0
Total Employee Taxable Spending within City		\$242,909	\$0
Total Off-Site / Indirect Taxable Sales		\$242,909	\$424,440
Annual Sales Tax to City	1.0%	\$2,429	\$4,244
City Share of Pool Taxes	15%	\$367	\$641
Annual Sales & Use Tax to City (Off-Site/Indirect)		\$2,800	\$4,900

Source: ESRI and Kosmont Companies



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3.2.5 Multiplier Based Revenues

In addition to the specific revenues identified above, a number of other City revenues are identified and evaluated generally based on a per resident, or per equivalent resident metric. These revenue sources include franchise fees, fines / forfeitures, charges for services, other taxes and fees, and miscellaneous revenue. These revenues are estimated based on historic City revenue metrics applied to the residents or equivalent residents attributed to the Project. These multiplier revenues to the General Fund generated by the Project are estimated at **\$9,000** per year as shown below. The current office property is estimated to generate \$4,500 of multiplier tax revenues in 2024 dollars

Exhibit 3.2.5 Multiplier-based Revenues

Budget Category	FY 2024-25 Adopted Budget	Calculation Basis	Relevant City Population	Discount for Operational Efficiency	Per Capita Factor	Current: Office	Full Buildout: Residential
						49 Equiv. Residents	98 Equiv. Residents
General Fund Revenues							
Property Taxes	13,396,286	Equiv. Residents	38,800	100%	\$0.00	\$0	\$0
Sales Taxes	7,377,524	Equiv. Residents	38,800	100%	\$0.00	\$0	\$0
TOT	1,135,000	Equiv. Residents	38,800	100%	\$0.00	\$0	\$0
Other Taxes and fees	609,000	Equiv. Residents	38,800	80%	\$3.14	\$200	\$300
Franchise Fees	1,205,000	Equiv. Residents	38,800	0%	\$31.06	\$1,500	\$3,000
Fines & Forfeitures	190,000	Equiv. Residents	38,800	0%	\$4.90	\$200	\$500
Interest Income	420,000	Equiv. Residents	38,800	100%	\$0.00	\$0	\$0
Charges for Services	2,047,718	Equiv. Residents	38,800	0%	\$52.78	\$2,600	\$5,200
Misc. Revenue	50,000	Equiv. Residents	38,800	80%	\$0.26	\$0	\$0
Total:	\$26,430,528					\$4,500	\$9,000
Total Multiplier Revenues:						\$4,500	\$9,000

Source: Kosmont Companies, City Budget and ACFR, ESRI, CA Dept of Finance

3.3 Fiscal Expenditure Analysis

General Fund Expenditures such as public safety, public works, community services, and community development are estimated on a per capita basis using the City's Fiscal Year 2024-2025 Adopted Budget, and the 30,300 resident population and 16,800 local employees (per Census data / City ACFR) within the City, yielding a resident-equivalent service population of 38,800 as shown in Exhibit 3.3.1 below.

Exhibit 3.3.1 Citywide Service Population

City Resident Population (2024)	30,300
City Employee Population (2024)	16,800
Employee / Resident Weighting Factor	0.5
Effective Employee Population	8,400
Total City Service Population	38,700

Source: Kosmont Companies, City Budget and ACFR, CA Dept of Finance

At stabilized occupancy assuming 2.72 average residents per housing unit (the Citywide average) and with 100% occupancy, there will be 98 residents at the Project. The existing office development is assumed to have an employee count of 98 people (60% occupancy, 300 SF per employee), which are weighted at 50% to yield a population of 49 equivalent residents. Kosmont reviewed each department to estimate the fixed and variable components of the 2023/24 budget in order to estimate the per capita cost impact of the new residents (as well as a comparison with the cost impact of employees at the current office building).

Total expenses related to the Project and the current office development are estimated based on the number of residents or equivalent residents attributed to each. These multiplier expenses to the General Fund generated by the Project are estimated at **\$48,700** per year as shown below. The current office property is estimated to generate \$24,400 of multiplier expenses in 2024 dollars

Exhibit 3.3.2 Multiplier Based Expenses

Budget Category	FY 2024-25		Relevant City Population	Discount for Operational Efficiency	Per Capita Factor	Current: Office	Full Buildout: Residential
	Adopted Budget	Calculation Basis					
<i>General Fund Expenditures</i>						49 Equiv. Residents	98 Equiv. Residents
General Government	\$2,871,903	Equiv. Residents	38,800	90%	\$7.40	\$400	\$700
Public Safety	\$12,780,894	Equiv. Residents	38,800	0%	\$329.40	\$16,100	\$32,300
Public Works	\$5,490,627	Equiv. Residents	38,800	50%	\$70.76	\$3,500	\$6,900
Non-Departmental	\$1,512,506	Equiv. Residents	38,800	90%	\$3.90	\$200	\$400
Community Development	\$1,577,963	Equiv. Residents	38,800	50%	\$20.33	\$1,000	\$2,000
Community Services	\$2,536,163	Equiv. Residents	38,800	0%	\$65.37	\$3,200	\$6,400
Total:	\$26,770,056					\$24,400	\$48,700
Total General Fund Expenditures:						\$24,400	\$48,700

Source: Kosmont Companies, City Budget and ACFR, ESRI, CA Dept of Finance



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3.4 Annual Net Fiscal Impact

Based on the fiscal model discussed herein, the Project is estimated to generate approximately \$58,500 in annual fiscal revenues (~\$1,625 per unit) to the City’s General Fund, and drive approximately \$48,700 in annual fiscal expenses (~\$1,350 per unit). As a result, the Project is expected to generate net positive revenues to the City’s General Fund of approximately \$9,800 per year.

The existing office development is estimated to generate approximately \$18,500 in annual fiscal revenues to the City’s General Fund, and drive approximately \$24,400 in annual fiscal expenses. As a result, the existing office development generates net negative revenues to the City’s General Fund of (\$5,900).

For reference, and as shown in Table 3.3 below, primary revenue drivers include property taxes and off-site sales tax, while primary expenses include public safety, public works, and community services.

Exhibit 3.4.1 Fiscal Benefit Comparison

	Current: Office	Full Buildout: Residential	Full Buildout: Residential (Per Unit)
Primary Fiscal Revenues			
Property Tax (Secured & Unsecured)	\$4,900	\$17,600	\$ 489
Property Tax In-Lieu of VLF	\$5,900	\$22,500	\$ 625
Property Transfer Taxes	\$400	\$4,500	\$ 125
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Fines & Forfeitures	\$200	\$500	\$ 14
Charges for Services	\$2,600	\$5,200	\$ 144
Misc. Revenue	\$0	\$0	\$ -
Total General Fund Revenues (Rounded):	\$18,500	\$58,500	\$1,625
Primary General Fund Expenditures			
General Government	\$400	\$700	\$ 19
Public Safety	\$16,100	\$32,300	\$ 897
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Community Services	\$3,200	\$6,400	\$ 178
Total General Fund Expenditures:	\$24,400	\$48,700	\$1,353
NET FISCAL IMPACT (Rounded):	(\$5,900)	\$9,800	\$270

Source: Toll Brothers, Laguna Hills, Kosmont Companies



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