Methodology

Property Tax Revenue: Cost to develop project is $32,756,057. Eliminate affordable units and cost is approximately $26,000.000. Assume initial assessment at cost and allocated at 75% ($19,500,000) to allow for 50% occupancy at opening up to 100% 6 months later. Rate = .01125, which when multiplied by $19,500,000, equals $219,426—YEAR 1.

Succeeding years—12 residences valued at $325,000 (tax @ .01125 = $43,875) and net operating income ($1,953,500 Year 2--capitalized at 8.5% to full value of $20,994,265 (tax @ .01125 = $236,185)—total tax = $280,060—YEAR 2

Tier-One pass-throughs of 20% are assumed (pending confirmation from City staff), reducing the net property tax to the Redevelopment agency to $175,541 in Year 1 and $224,048 in Year 2 Increase thereafter at 2% per year. Appreciation on resale to be same 2% per year, so no additional adjustment required.

Further divided 80-20 general use and affordable housing set aside

NOTE: Transfer tax inconsequential—included in other revenues.

Sales Tax Revenue: Three sources of sales taxes: 1) Mercado commercial development; 2) resident spending; and 3) Multiplier.

1) Sales taxes from commercial development: Using $800 per square foot taxable sales in the Mercado/In-Line Retail units (37,370 sf), $600 per square foot in the grocery store (34,235) and $700 per sf for the restaurant (12,855 sf), total sales will be $59,435,500 in Year 2. Taking 60% of the grocery sales as non-taxable, this total is reduced to $47,110,900 taxable. The City of San Diego receives 1% and various recipients—most notably Transnet—receive ¾%. Including the 1% plus 1/3 of 97% of the ½% that goes to the City from Transnet as benefiting San Diego, this represents sales tax receipts of $547,272 in year 2.

   Then allowing for a portion of these taxes to be substitutions from other shopping in San Diego (20% Mercado/In Line Retail because of uniqueness and 50% groceries/restaurant—under assumption that 50% of residents will have moved from South Bay or other non-City locations), the substitution effect deducts approximately 31% of these taxes as transfers of taxable spending from elsewhere in the City. New sales taxes from the commercial development = **$377,617** in year 2.

2) New residents will be spending at the Mercado also. According to the Bureau of Labor Statistics, affordable housing qualifying families' spending patterns include the purchase of approximately $7,100 of sales taxable items per year—or $440,200 from the 62 affordable households. Those families who will purchase the $325,000 town homes will require incomes of at least $65,000 per year to do so. Again according to the BLS, such families spend 21.3% of their annual income on taxable items—or $13,650 per household—totaling $163,800 in taxable sales. Applying the 50% new resident assumption from above, sales taxes will total **$3,020 (1% City) and $489 Transnet = $3,509**.

3) Retail Multiplier: Retail sales multipliers range between 1.5:1 and 2:0:1 depending upon the relative market strengths and leakages within particular economies. San Diego being part of a large, easily accessible region, including the international border is at the lower end of this multiplier. Applying an additional 0.5 of the taxable sales (net of the substitution effect) as the effect of the rippling of spending throughout the region yields $18,441,740 of additional taxable sales, with taxes of **$190,563**.

Total of 1), 2), and 3) =$571,689 = Year 2. Year 1 –75% and Years 3 on increase by 1.023 (using increase in commercial pro forma)

Safety Sales Tax: Averages 3.5% of the 1% sales tax.

Other Public Revenues and Expenditures: All other revenues and expenses were calculated based upon the City of San Diego 2008-2009 budget using the Equivalent Dwelling Unit method. The three exceptions to this are that no Transient Occupancy Taxes were attributed to the Mercado nor were any real estate asset income for the City from its existing holdings, and no costs associated with planning, engineering, and development services were included. Development Impact Fees will cover all such initial planning, engineering and development services fees by the City, and further expenses associated with this development, especially within the first 10 years, can be expected to be inconsequential.

Average revenue and cost is the most common fiscal impact approach taken to assessing revenues expenses associated with proposed development. This method attributes costs and revenues to new development according to average cost per unit of service in the subject jurisdiction multiplied by the number of units the growth is estimated to create. It does not take into account excess or deficient capacity to deliver services. Alternatively, marginal costing relies on analysis of demand and supply relationships for public services. It views growth not in a linear context but rather in inconsistent and cyclical terms, sometimes costing very little and at other times costing more than average. Marginal costing is very difficult to apply in actuality.

The units by which average costs and revenues are multiplied can be any of a number of different options, including new residents and/or employees to be brought into the community by the development, acres or square footage being developed, or housing units, among others. The determination of the applicable unit of analysis depends upon the nature of the new development. If the development is exclusively housing, new residents or housing units might be applicable. If the development has no residential component, employees might be the applicable unit of analysis. Of late, fiscal impact analyses are making increased use of the concept of Equivalent Dwelling Units (EDUs).

Equivalent Dwelling Units (EDUs) are used frequently for allocating costs and benefits, particularly for open space, parks, wastewater, sewage, development mitigation fees, public works, and transportation. EDUs seek to standardize all land uses in terms of how their public costs and revenues compare to a single family detached home. EDU methodology assigns an EDU value of 1.0 to the single family detached home and assigns values relative to the single family detached home to other land uses.

Using commonly accepted EDUs, it is determined that the City of San Diego consists of 788,721 EDUs and that the Mercado development will be comprised of 162.8 EDUs (74 residential multi-family units @ 0.75 EDU per unit (= 55.5) and 1.12 EDU's per 1000 square feet retail (= 107.3)

Revenues:

Franchise Fees	$88/EDU
Police/Fire Permits/Fees*	$65/EDU
City Treasurer	$39/EDU
Environmental Services	$36/EDU
Other (including Motor Vehicle Fees, Fire-Rescue Revenue, City Attorney Charges, Transfers from Other Funds)	$214/EDU

*Likely less than average because of affordable housing component, but more than average for special events at Mercado —use average.

Expenditures:

Police	$494/EDU
Fire	$229/EDU
General Services/Citywide Programs	$199/EDU
Parks and Recreation	$109/EDU
City Attorney/Treasurer/CFO/Auditor	$100/EDU
Libraries	$48/EDU
Other	$88/EDU

Water revenue, golf fees, and other forms of user fee charges are part of separate funds within the City that receive the revenue and incur expenses. These funds are deigned to be self-supporting and to neither accrue big surpluses nor big deficits. Any net gain or loss in these funds is frequently incorporated by the City of San Diego into the General Fund as either transfers into it or out of the General Fund and would then appear in the above categories.

Once again, Year 2 reflects these costs and revenues per EDU. Year 1 is shown at 75% of Year 2 and all future years show either a 2% or 2.3% growth, as in the tax estimates above.

Economic Impact---
Jobs, Payroll, Economic Activity from non-payroll construction spending:

Job creation:
Permanent Retail and Property Management/Maintenance: Using standard estimates of job creation—1 job per 500 sf grocery store and 1 job per 150 sf restaurant, the grocery store and restaurant can be expected to generate 154 full-time annual job equivalents. The difference in the Mercado arises in the retail component, where industry standards call for 1 employee for every 350-500 sf; however, this development is planned to consist, in part, of very small "booth-like' retail of as little as 200 sf. Each such store will require at least 1 employee at all times, likely generating 3 full-time employment opportunities (including weekends) at a minimum—or 1 per 67 sf = 251 jobs for the 16,830 leaseable square feet. Lastly, the traditional retail, in-line stores (20,540 sf) can be expected to provide 57 jobs at 1 per 350 sf, for a total of 462 employees at the

grocery, restaurant, and retail stores. Further, one full-time property manager must be on –duty at both the commercial and residential developments and that results in 6 such full-time jobs, Factoring in weekends. Also, at least one maintenance worker for each component (6 jobs) must be on –duty for a total of 474 direct new jobs.

The retail jobs multiplier of 1.5 can be applied to generate 237 indirect and induced jobs as a result of these new jobs, causing the **total of 711 direct, indirect, and induced permanent jobs** in Year 2. This growth is assumed to level after Year 3. Year 1 allows for the lease-up period of 6 months.

Construction Jobs: The development pro forma provides for a 3-month construction period. Also to be considered are 4 and 6 month time frames. For all time frames, total direct labor cost is estimated at 25% of the subcontractor total ($27,081,708 @ 25% = $6,770,427) plus estimated direct man hours of 403, costing $22,132. Utilizing the total of $6,792,559 and allocating $60,000 per full-time construction worker on a prevailing wage project (approximately $30/hour), results in **113 full-time annual construction jobs.**

Construction multipliers can range up to 2.5 but generally average in the 1.9-2.0 range. **Using the most conservative (1,9), these short-term construction jobs will generate an additional 102 jobs over the course of the construction.**

Payroll: Using 2006 Employment Development Department data, retail workers earn an average of $28,750 per year and real estate managers earn $40,000. For this analysis, the $28,750 is applied to the 404 (Year 2) retail workers and to the six maintenance workers. That is 431 employees at $28,750 = $12,391,250 plus the senior commercial manager at $60,000 and two assistants at $40,000 and 2 residential managers at $40,000 plus an assistant at $30,000—total = $12,037,500. The retail multiplier of 1.5 is applicable, causing an additional $6,018,750 as the spending by these employees ripples through the community, for a total increase in permanent payroll of **$18,056,250**. Year 1 is at 75% for retail with 2 assistant managers (one at $40,000 and one at $30,000) not yet employed. Increases after Year 2 are at 2%.

In addition, the $6,792,559 of construction payroll will be a benefit in the short run and multiply at 1.9 for a total of **$12,905,862**.

Non-Payroll Construction Spending: The additional costs of construction, including materials, office overhead, fees, commissions, insurance, and profits, among others will all benefit the community to some extent. Using standard construction multipliers, the $25,963,498 of such spending can be expected to ripple through the local economy for an additional (0.9) of 23,267,148—or $49,330,646 in direct, indirect, and induced economic activity.

Development Impact Fees:

The developer will be responsible for the payment of approximately $2,391,707 of commercial development impact fees and permits plus approximately $23,350 per residential unit ($3,710 sewer fee, $2,550 water capacity, $3,095 water meter, $7,227 public facility, $4,154 SD County Water Authority, and $2,614 schools). Seventy-four units will result in $1,727,900. **Total residential and commercial fees and permits = $4,119,607.**