LAND ECON GROUP

MEMO I

To: City of Richmond, Economic Development

From: Bill Lee and Tanya Chiranakhon, LEG

Date: November 18, 2020

Re: **Fast Track Review of Campus Bay Fiscal Analysis**

Introduction

This memorandum serves as an independent review by Land Econ Group (LEG) of the fiscal impact analysis detailed in the report: *Campus Bay Mixed-Use Project Net Fiscal Impact & Economic Benefit Analysis*. The report was prepared in November 2020, by Kosmont Companies on behalf of HRP Campus Bay Property LLC, the development company currently pursuing entitlements for the Campus Bay project in the City of Richmond.

The Kosmont Fiscal Impact Report

Cumulative Impact Overstated

In the Kosmont report, the summary of findings states "… the Project would result in net revenues to the City of approximately $269 million over the next 30 years, representing a present value of approximately $121 million."

The Kosmont fiscal impacts are estimated at full build-out and stabilized occupancy. All General Fund revenues and expenditures starting from the first year of the fiscal analysis are calculated for the total number of residential units and square feet of retail, general commercial and office space described in the Campus Bay development program. These calculations of General Fund revenues and expenditures are then summed over 30 years with estimated growth rates of 2.0 percent or 3.0 percent to arrive at the net revenues of $269 million quoted above (then discounted by 5.5 percent to arrive at the present value estimate of $121 million). **Since the Campus Bay development project may take some 20 years to be built out, this method of calculating the fiscal impact to the City significantly overstates the cumulative impact.**

Assessed Value of Below Market Rate Housing

When estimating assessed value per residential unit for property tax calculation, the analysis did not appear to differentiate between market rate units and inclusionary or below market units.

Since county appraisers use capitalized rental income as one technique of determining assessed value and below market units have rental rates constrained by household income, their assessed value would be lower than market rate units. In addition, units developed by non-profit low-income housing developers are often exempt from property tax.

Sales Tax Impacts

The **Sales and Use Tax** calculations double counted spending from the new residents and employees (equivalent residents) within the Campus Bay development area. Kosmont estimated the "on-site/direct" taxable sales from grocery, retail and commercial/office space within the new development on a per square foot basis and added that to spending from the new resident and employee population. While Kosmont did estimate a percentage capture of this spending within the City of Richmond, they did not take into account a percentage of spending the new residents and employees make within the new retail and commercial developments in Campus Bay. This resulted in some double counting.

In addition, some portion of the sales and sales tax generated by the commercial spaces within the Campus Bay development will represent "competitive capture" of non Campus Bay Newark residents spending shifting from existing Newark commercial outlets. **Because of double counting of project resident spending and the competitive capture impact of new Campus Bay commercial outlets, there is likely some over estimation of sales tax revenue.**

Assumptions Requiring Further Clarification

This section summarizes aspects of the Kosmont fiscal impact report where the methodology used is based on underlying assumptions whose sources are not explained, and thus present a risk that the methodology will skew the ultimate impact. It would be reasonable to ask Kosmont to elaborate on the basis for these assumptions in order to determine the extent, if any, of their effect on the resulting net fiscal impact.

Unsecured Property Tax Percentage

For the calculation of **Property Tax**, the Kosmont analysis included an estimated assessed valuation of unsecured property at 1.5 percent of secured property. The property tax rates were then applied to the value of unsecured property. In a predominately multi-family residential development like Campus Bay, there is likely to be very little unsecured property. Unsecured property is more likely for industrial uses where equipment or machinery is present or for low density residential developments where households have a higher propensity to own boats or airplanes. This method to estimate the assessed value of unsecured property resulted in additional $94,500 annual property tax revenue at build-out.

Real Property Transfer Tax

The City of Richmond has four tiers of **Real Property Transfer Tax** rates that range from 0.7 to 3.0 percent depending on the property value. Kosmont estimated the effective property transfer tax rate based on assumptions of assessed value by property type and their rate of turnover. Kosmont estimated a 0.7 percent effective property transfer tax rate for townhomes and flats, 2.89 percent for apartments, 1.97 percent for grocery store, and 0.88 percent for commercial/office space. The report does not detail how Kosmont arrived at these estimated rates for LEG to be able to double-check them.

Retail Spending on Tobacco Products

In **Appendix G: Resident & Employee Spending**, the higher income residents and employees are estimated to spend a much greater percentage of their income for **Tobacco Related** products than lower income households:

Type	Income	Tobacco Percentage	Total Tobacco	Percent in City	Annual in City
Blended Resident	$100,000	**5.0%**	$5,000	70%	$3,500
Office Employee	$75,000	**5.0%**	$3,750	40%	$1,500
Grocery Employee	$36,000	**0.6%**	$216	25%	$54
Retail & Apt Employee	$25,000	**0.6%**	$150	15%	$23

We would like to see more support for these assumptions. Our expectation is that higher income residents or employees would tend to have more education and spend less on tobacco products. In addition, the recent passage of SB 793, which prohibits the sale of flavored tobacco products in California, would likely reduce future spending for tobacco related products.

Use Tax Impacts

For both on-site and off-site sales tax estimates, Kosmont calculated a Use Tax at 10.0 percent of total Sales Tax. We would like to see some support for this 10.0 percent assumption. **By including this estimation of projected Use Tax revenue, Kosmont has shown an additional $305,200 in annual revenue at build-out.**

Per Resident Equivalent Applications

There are multiple line items on both the revenues and expenditures sides that Kosmont used the resident equivalent multiplier methodology. The line items include, on the revenues side: Use of money and property; Intergovernmental transfers; and Rent; and on the expenditures side: Capital outlay and Debt Service. We question the assumed direct relationship between population growth and the change in these revenue or expenditure line items. **Including these line items in the analysis results in higher estimates for both revenues and expenditures, particularly revenues.**