

PICO RIVERA

THE MERCURY PROJECT Fiscal Impact Analysis Prepared For: Optimus Properties, LLC



Prepared By:



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REVISED DRAFT

Mr. Jerome Mickelson
Executive Vice President
Optimus Properties, LLC
1801 Century Park East Suite 2100
Los Angeles, CA 90067

RE: Fiscal Impact Analysis – Pico Rivera The Mercury Project

Dear Mr. Mickelson:

Kosmont & Associates, Inc. doing business as Kosmont Companies (“Consultant” or “Kosmont”) is pleased to submit this Fiscal Impact Analysis (“Analysis”) for Optimus Properties, LLC’s (“Client”) proposed The Mercury Project mixed-use residential and retail complex (“Project”). The Project is located at 8825 Washington Blvd. in Pico Rivera (“City”), California.

Background

As an accommodation to City Planning, Client retained Kosmont to do an independent Analysis to evaluate the fiscal impact of the proposed 255-unit apartment and 5,500 SF retail Project being processed.

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 utility taxes. Fiscal expenditures such as public safety, public works and administration were estimated on a per capita basis using the City’s Fiscal Year 2021-2022 Adopted Budget, and the resident and employee population within the City.

The Analysis also examines the construction period jobs and wages, as well as the ongoing jobs from commercial operations and indirect/induced jobs from the future resident spending.

The analyses, projections, assumptions and any examples presented herein are for illustrative purposes and are not a guarantee of actual and/or future results. Actual results may differ from those expressed in this Analysis, as results are difficult to predict as a function of market conditions, natural disasters, pandemics, significant economic impacts, legislation and administrative actions.



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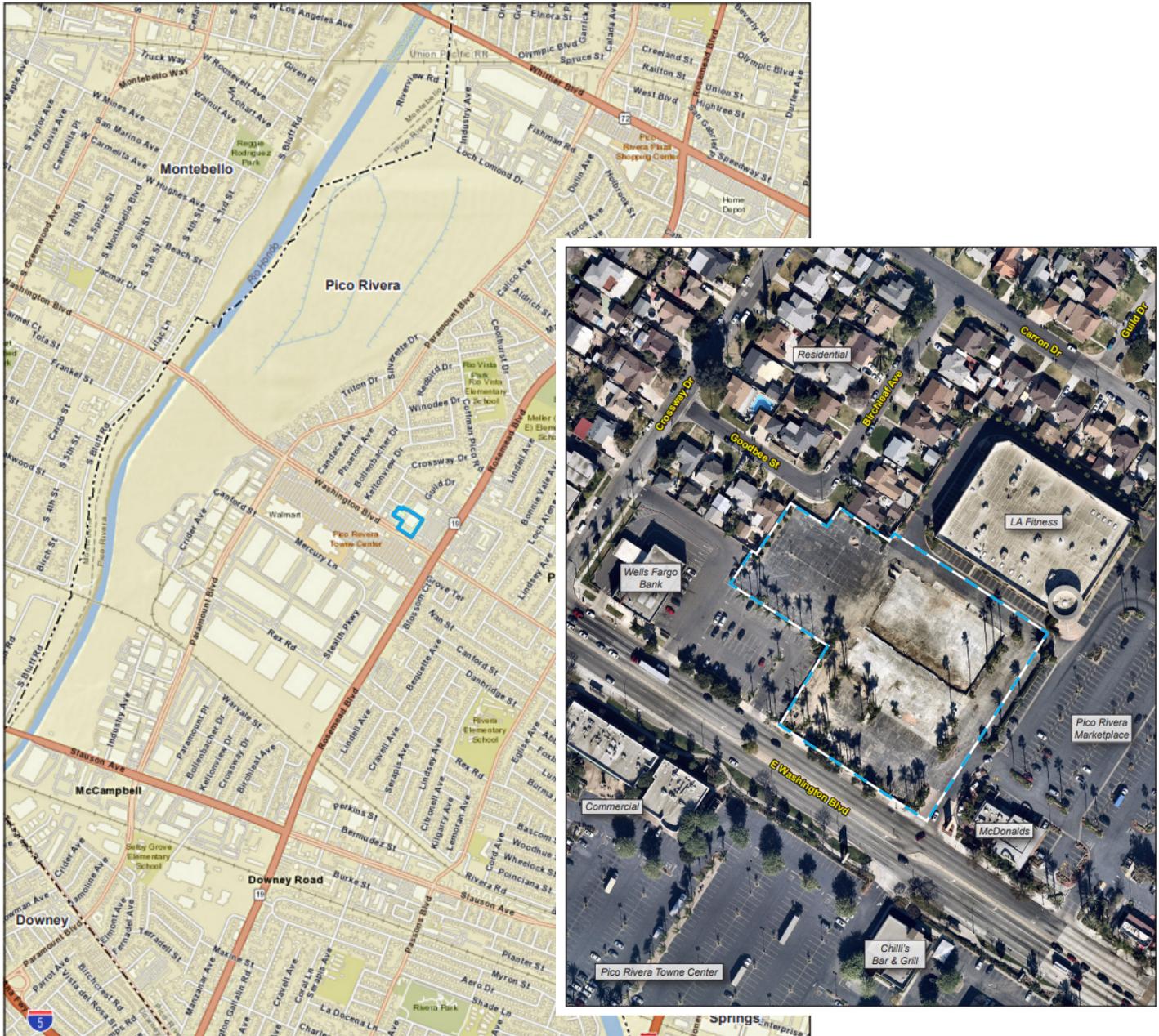


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1.0 Project Description

As a voluntary accommodation to City Planning, Client wants to demonstrate the fiscal implications of the Project to be developed.

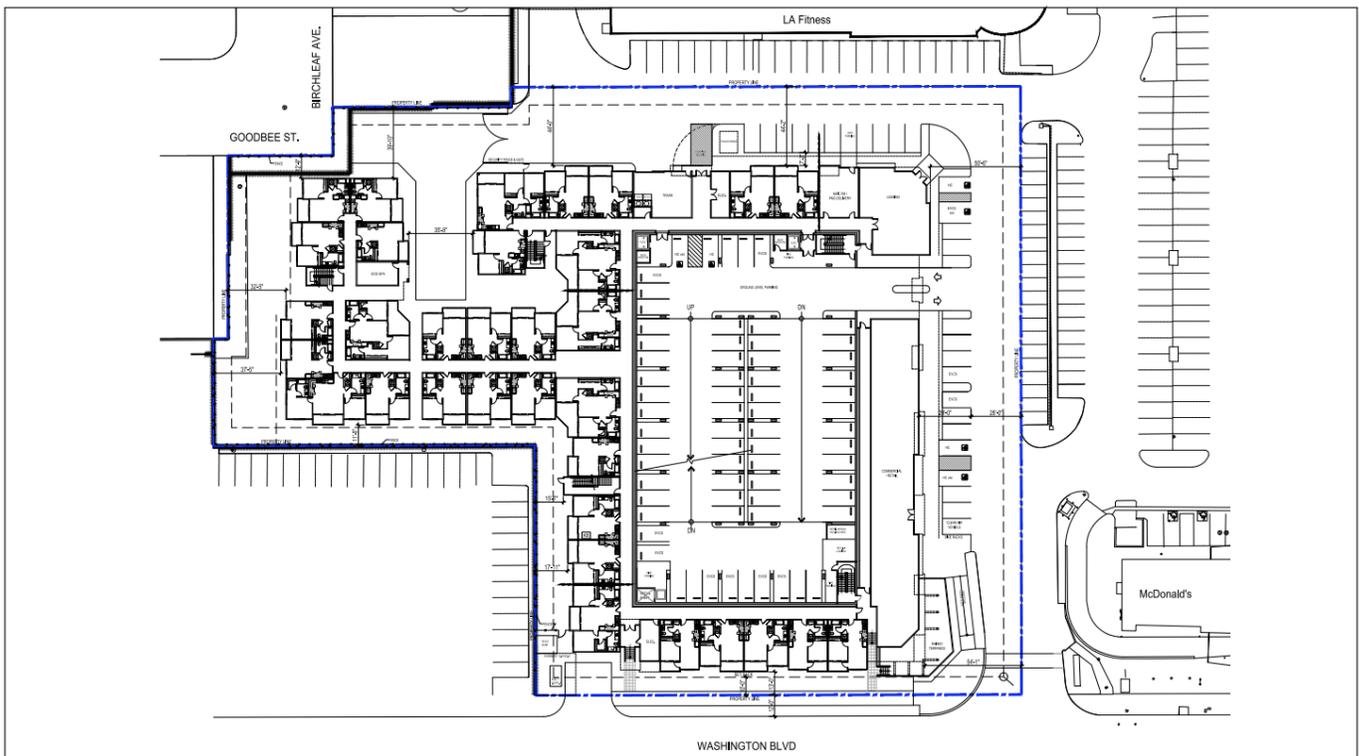
Figure 1.1 Site Map & Aerial Photo



1.2 Project Summary

The proposed improvements for the Project consist of 255 apartment units (35 studio units, 159 1-bedroom, 57 2-bedroom units and 4 3-bedroom units) with a weighted average size of approximately 700 square feet, and approximately 5,500 square feet of new retail along Washington Blvd. Five percent of units (13) may be set aside for low/moderate household incomes.

Figure 1.2: Site Plan



2.0 Executive Summary

Economic Benefits

The Project will yield economic benefits to the City, Los Angeles County (“County”), and the region, as buildout is estimated to bring approximately \$72 million in capital expenditures, excluding land acquisition and financing costs. Per IMPLAN analysis, that is estimated to yield an additional \$49 million in indirect and induced regional economic output, totaling approximately \$121 million Countywide.

Exhibit 2.1 Economic Benefits from Construction

Economic Benefits from Construction (One-Time / Short-Term)			
	Employment	Labor Income	Economic Output
Direct (On-Site)	684	\$50,292,000	\$72,000,000
Indirect	63	\$4,357,000	\$11,450,000
Induced	210	\$12,664,000	\$37,496,000
Total Countywide	957	\$67,313,000	\$120,946,000
Estimated City Capture	698	\$51,143,050	\$74,447,300

Source: IMPLAN, Kosmont Companies (2021)

Construction is estimated to provide 684 Full Time Equivalent (FTE) jobs on site, with a total of 957 jobs Countywide (\$67 million in wages), including indirect and induced impacts.

Operations

At full buildout, resident spending from the Project is estimated to support 143 Countywide service sector jobs (\$8.2 million in wages) as shown in Exhibit 2.2. The City is expected to see a significant percentage of the new employment and economic activity.

Exhibit 2.2: Economic Benefits from Annual Operations

Economic Benefits from Ongoing Operation (Annual)			
	Employment	Labor Income	Economic Output
Direct (On-Site)	22	\$839,000	\$1,603,000
Indirect	3	\$219,000	\$620,000
Induced	118	\$7,156,000	\$21,463,000
Total Countywide	143	\$8,214,000	\$23,686,000
Estimated City Capture	52	\$2,683,000	\$7,124,000

Source: IMPLAN, Kosmont Companies (2021)

Annual Fiscal Impact

The Project is estimated to generate an annual fiscal revenue of approximately \$346,600 at full buildout in 2021 dollars, before inflationary adjustments. Annual incremental municipal service costs before inflation are estimated at \$178,300, yielding an annual surplus of approximately **\$168,300** as shown in Table 2.1 below:

Table 2.1: Summary of Fiscal Impact

Project Net Annual Fiscal Impact	
City General Fund Revenues	Estimated Annual Total
Property Tax (Secured & Unsecured)	\$68,400
Property Tax in Lieu of MVLFF	\$120,500
Sales & Use Tax (Direct On-Site)	\$34,700
Sales & Use Tax (Indirect Off-Site)	\$80,300
Utility Users Tax	\$22,100
Franchise Fees: Gas, Electric, and Cable	\$12,500
Business Licenses	\$1,700
Fines/Forfeitures	\$6,400
Total Estimated General Fund Revenues:	\$346,600
City General Fund Expenditures	
Public Safety	\$71,700
Public Works	\$30,400
General Government	
Administration	\$6,800
Human Resources	\$3,800
Non-Departmental	\$22,000
Parks & Recreation	\$22,100
Community Economic Development	\$8,100
Other	\$3,800
Total Estimated General Fund Expenditures:	\$178,300
Estimated City Net Fiscal Impact (Rounded):	\$168,300

Source: Kosmont Companies, City of Pico Rivera Budget

Based on its blend of uses, the Project will provide significant tax revenues from a variety of sources and is expected to provide a more favorable level of revenue protection from future economic downturns for the City General Fund.

Other Benefits

In addition to General Fund revenues and local job creation, the Project will provide indirect benefits to City and El Rancho Unified School District (“School District”) including:

- Increased State and County Highway funds (Measure M and SB 1) that are partially distributed based on population. The formula is somewhat complex, but Kosmont estimates approximately \$5,000 per year based on the estimated 500 new residents.
- The City will receive estimated development impact fees of \$360,000 based on City fee schedule of 0.5% of residential construction cost.
- The School District will receive 20.4% of the basic 1% property tax levy, yielding \$157,200 per year as shown in Exhibit 4.2.1 in a following section.
- The School District will also receive \$475,000 in developer school fees estimated at \$2.63 per square foot of residential area.

3.0 Market Overview

Kosmont prepared a summary evaluation of market data on inventory, absorption rates, lease rates and vacancy rates, as well as other factors that illustrate local market demand conditions for the multifamily and commercial retail product types proposed in the Project.

3.1 Multifamily Residential Market Trends

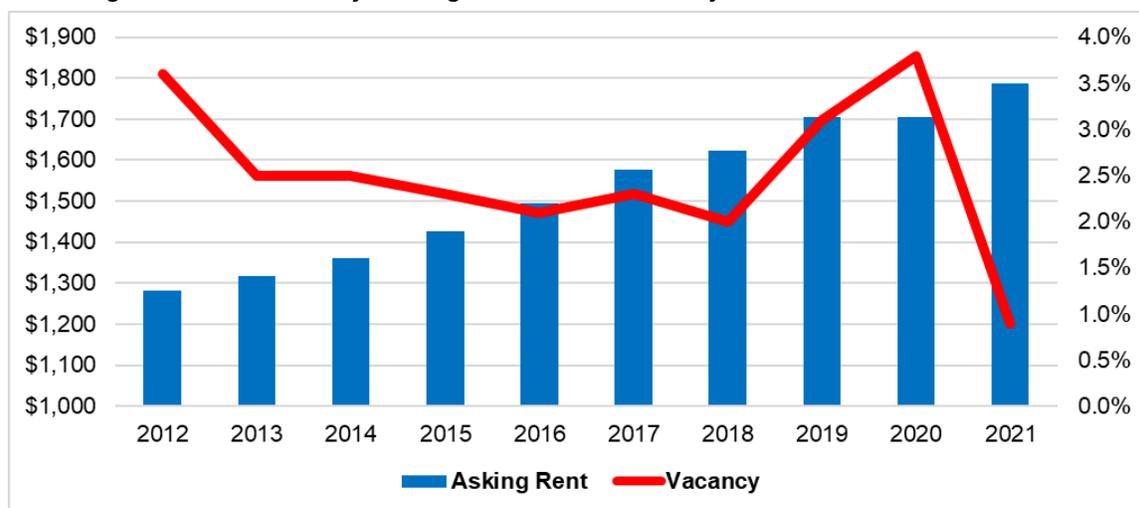
The residential market in Southern California is particularly robust, due to the high demand for housing and low housing production for decades. The eastern Los Angeles County market is relatively affordable by Southern California standards, with demand supported by migration from more expensive submarkets in Los Angeles and Orange Counties.

Kosmont examined data provided by CoStar and other data sources for Class A & B multifamily properties within a 3-mile radius of the Project site. Virtually all of the existing apartment inventory in the area is over 30 years old. There is only one other multifamily project proposed / under construction in the area, the 825-unit Modelo project located at 7316 E. Gage Ave. in Commerce, expected to be completed in 2023.

- Average asking rents have steadily increased ~4.4% per year to \$1,787 per unit in 2021
- Vacancy rate consistently remained under 4%, dropping to 0.9% in 2021.

A history of asking rents and vacancy rates is provided in the chart below.

Figure 3.1: Multifamily Asking Rents and Vacancy Rate



Source: CoStar (2021)

3.2 Retail Market Trends

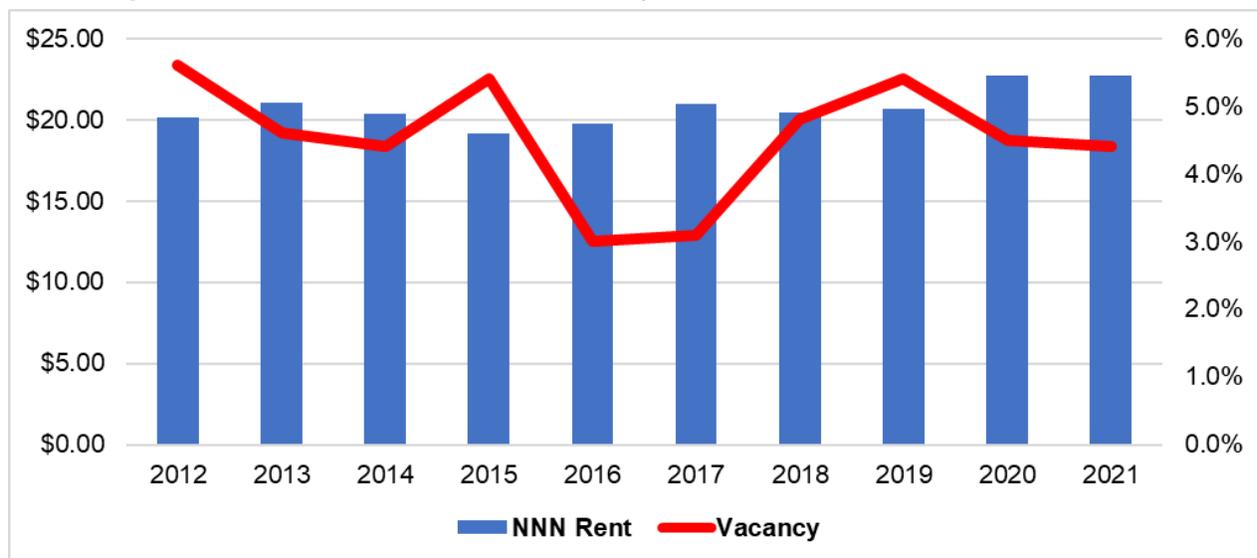
Retail Market Data

To understand the retail market, Kosmont examined data provided by CoStar and other data sources for retail properties within a 3-mile radius of the Project site. There is likely limited demand for significant new retail shopping center in the vicinity, as there are many existing shopping centers nearby, including over 700,000 SF of retail space within half a mile of the Project site.

- NNN rents have remained relatively flat reaching \$22.71 psf in 2021
- Vacancy rates varied between 3.0 – 5.5%, holding steady at ~4.5% over the past two years

A history of retail asking rents and vacancy rates is provided in the chart below.

Figure 3.2: Retail NNN Rents and Vacancy Rate



Source: CoStar (2021)

4.0 Fiscal Impacts

This 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"), and ESRI.

4.1 General Assumptions

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 2021 dollars. Other assumptions include:

- 3.3 employees per 1,000 SF of retail/restaurant, plus 4 apartment employees
- Average of 1.5 to 3.5 residents per household (studio through 3 bedroom)
- Fiscal impacts are estimated at stabilized occupancy

4.2 Fiscal Revenue Analysis

4.2.1 Property Tax

Property tax revenues are based on the anticipated assessed value of the Project upon full build-out and the applicable City property tax rates. The School District receives 20.4%, the General Fund receives 6.67% and the Lighting Maintenance District receives 2.2% of the annual 1.0% secured property tax general levy placed by the County. Based on the expected construction cost of \$80 million, the Project is estimated to generate **\$157,200 and \$68,400** in property taxes to the School District and City, respectively.

Exhibit 4.2.1 Property Taxes

		Full Buildout
Baseline: Existing Assessed Value		\$ 4,450,000
Estimated New Assessed Value		\$80,000,000
Net Assessed Value		\$75,550,000
Total Secured Property Tax General Levy	1.00%	\$755,500
Estimated Unsecured Property Value		\$1,511,000
Unsecured Tax Levy	1.00%	\$15,110
Total Estimated Secured + Unsecured Property Tax		\$770,610
<i>Distributions to Taxing Entities</i>		
Pico Rivera LTG Maintenance	2.20%	\$17,000
Pico Rivera General Tax Levy	6.67%	\$51,400
El Rancho Unified School District	20.4%	\$157,200

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 16% share of the basic levy, or estimated VLF revenues of **\$120,500** in 2021 dollars.

Exhibit 4.2.2 Taxes in Lieu of VLF

	Full Buildout
Total AV within City (Roll Year 2019)	\$5,473,000,000
Current Property Tax In-Lieu of MVLF (FY2020-21)	\$8,729,000
Prop. Tax In-Lieu of MVLF per \$1,000 of AV	\$1.59
Increased Project Assessed Value	\$75,550,000
Incremental Property Tax In-Lieu of MVLF to City	\$120,500

Source: Kosmont Companies, City of Pico Rivera 2021-22 Budget

4.2.3 Sales Tax (On-Site / Direct)

The Project plan provides up to 5,500 square feet of designated retail/restaurant space. Annual taxable sales are estimated at \$1.65 million.

Based on the basic 1.0% sales tax allocated to cities, plus the 1.0% tax from Measure P that was approved in 2008, and a 10% add-on for State and County Pool use tax distributions, direct sales tax revenues to the City General Fund at stabilization are estimated at \$34,700 per year, as shown.

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

		Stabilized
Washington Blvd Retail SF		5,500 SF
Estimated Taxable Sales - Retail	\$300.00 PSF	\$1,650,000
Sales Tax to City	1.00%	\$16,500
Measure P Tax	1.00%	\$16,500
Use Tax as % of Sales Tax	10.00%	\$1,650
Total Direct Sales & Use Tax to City:		\$34,700

Source: BOE, City of Pico Rivera, 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.

At stabilized occupancy, the total annual resident retail spending is estimated at \$6.38 million. Based on the Project's location amid major shopping area, the Analysis assumes 60% Citywide capture rate for annual resident spending, yielding sales and use tax revenue to the General Fund estimated at **\$80,300** per year.

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

		Full Buildout
Estimated # Households		255
Estimated Annual Taxable Retail Spending / HH		\$25,000
<hr/>		
Estimated Taxable Retail Spending by New Residents		\$6,375,000
Estimated Capture within City	60.0%	\$3,825,000
Sales Tax to City	1.00%	\$38,250
Measure P Tax	1.00%	\$38,250
Use Tax as % of Sales Tax	10.00%	\$3,825
Total Indirect Sales & Use Tax to City:		\$80,300

Source: BOE, City of Pico Rivera, and Kosmont Companies

4.2.5 Other Tax Revenues

Exhibit 4.2.5: Other tax Revenue Per Capita Estimate

City Budget Category	2021/22 City Budget	Allocation Basis	Relevant City		Per Capita Factor
			Population	Discount	
<i>General Fund Revenues</i>					
Utility Users Tax	\$3,131,000	Service Population	72,525	0%	\$43.17
Franchise Fee: Gas, Electric, and Cable	\$1,767,000	Service Population	72,525	0%	\$24.36
Business Licenses*	\$1,433,000	Employee Population	18,750	0%	\$76.43
Parking Citations, & Other Fines/Forfeit	\$903,000	Service Population	72,525	0%	\$12.45
Total Selected Revenues	\$7,234,000				

Source: City of Pico Rivera City Budget and Kosmont Companies

Utility Users Tax

The City generates \$3,131,000 per year in utility tax from local residents and businesses, which equates to \$43.17 per resident/employee times 511 resident-equivalents at stabilized occupancy results in incremental increase of \$22,100 per year.

Franchise Taxes

The City generates \$1,767,000 in franchise fees, which equates to \$24.36 per resident-equivalent times 511 resident-equivalents results in incremental increase of \$12,500 at stabilized occupancy.

Business License Taxes

The City generates \$1,433,000 per year in business license and misc. permits from local businesses and employees, which equates to \$76.43 per employee, times estimated 22 employees at stabilized occupancy results in incremental City revenue increase of \$1,700 per year.

Fines & Forfeitures

The City generates an estimated \$903,000 per year in fines and forfeitures from local residents and visitors, which equates to \$12.45 per resident-equivalent times 511 resident-equivalents at stabilized occupancy results in incremental increase of \$6,400 per year.

5.0 Fiscal Expenditure Analysis

General Fund expenditures such as Public Safety, Administration, Public Works, Community Development Services are estimated on a per capita basis.

At 95% stabilized occupancy, the Project is estimated to house 500 residents, based on the following per unit occupancy:

- 35 Studio Units @ 1.5 residents per unit
- 159 1-Bdrm Units @ 2.0 residents per unit
- 57 2-Bdrm units @ 2.5 residents per unit
- 4 3-Bdrm units @ 3.5 residents per unit

There are an estimated 22 employees to be working in the apartments and at the retail/restaurant space. At 95% apartment occupancy and 50% resident-equivalent factor for the employees, there is a total of 511 resident-equivalents. Using the City’s Fiscal Year 2021-2022 Adopted Budget, and the 63,150 resident population and 18,750 local employees (per U.S. Census Bureau Economic Studies) within the City, yields a resident-equivalent population of 72,525 as shown in Exhibit 5.1 below.

Exhibit 5.1 Citywide Daytime Population

Total City Population (2021)	63,150
Total City Employee Population (2019)	18,750
Employee Weighting for Service Population	0.50
Total Weighted # Employees	9,375
Total City Service Population	72,525

Source; Kosmont Companies, ESRI

To estimate marginal revenue and costs, Kosmont reviewed select departments to estimate the fixed and variable components of the 2021/22 budget in order to estimate the per capita revenue and cost impact of the new residents and employees.

Exhibit 5.2 General Fund Cost Factors

<i>General Fund Expenditures</i>	2021/22 City Budget	Allocation Basis	Relevant City Population	Discount for Fixed Costs	Per Capita Factor
Public Safety	\$12,713,000	Service Population	72,525	20%	\$140.23
Public Works	\$8,639,000	Service Population	72,525	50%	\$59.56
General Government					
Administration	\$1,940,000	Service Population	72,525	50%	\$13.37
Administrative services	\$2,426,000	Resident Population	63,150	50%	\$19.21
Human Resources	\$1,086,000	Service Population	72,525	50%	\$7.49
Non-Departmental	\$6,233,000	Service Population	72,525	50%	\$42.97
Parks & Recreation	\$5,593,000	Resident Population	63,150	50%	\$44.28
Community Economic Development	\$5,738,000	Service Population	72,525	80%	\$15.82
Other	\$1,065,000	Service Population	72,525	50%	\$7.34
Subtotal General Government	\$24,081,000				\$150.49
Total: Selected Expenditures	\$45,433,000				\$350.28

Source: City Budget, Kosmont Companies

Public Safety

The Public Safety department is the largest budget expenditure item, at \$12.7 million, representing approximately 28% of total expenditures. Assuming 80% variable costs, the per capita cost factor for incremental Public Safety costs are estimated at \$140.23 per year as shown in Exhibit 5.2. With 511 resident-equivalents, the annual increase in service costs is \$71,700.

Fire & EMS

Fire and Emergency Services are provided by the County and are paid by direct assessments from each property owner, so there is no impact on City budgets.

Public Works

Public Works department is second largest expenditure category at \$8.6 million. Assuming 50% variable costs, the per capita cost factor is estimated at \$59.56 per year. With 511 resident-equivalents, the annual increase in service costs is estimated at \$30,400.

General Government

General Government (City Manager, City Clerk, City Manager, Community Economic Development, Finance and Administrative Services) and Non-Departmental (Citywide functions) cost is \$24.1 million per year. As shown in Exhibit 5.3, the per capita cost factors total approximately \$150 per year. Based on the resident and employee population the incremental increase is estimated at \$76,200.

In summary, at stabilized operations the Project will result in total annual allocated municipal service costs estimated at \$178,300 in 2021 dollars, as shown in Exhibit 5.3 below.



Exhibit 5.3 Annual General Fund Costs

		Full Buildout
<i>Expenditures</i>		
Public Safety	Service Population	\$71,700
Public Works	Service Population	\$30,400
General Government		
Administration	Service Population	\$6,800
Administrative services	Resident Population	\$9,600
Human Resources	Service Population	\$3,800
Non-Departmental	Service Population	\$22,000
Parks & Recreation	Resident Population	\$22,100
Community Economic Development	Service Population	\$8,100
Other	Service Population	<u>\$3,800</u>
Subtotal General Government		\$76,200
Total Multiplier Expenditures - Rounded:		\$178,300

Source: Kosmont Companies

As shown in Exhibit 5.4 below, the Project is expected to generate gross annual revenue of approximately \$346,600 at full buildout, before inflation. The major contributors to City revenues are property tax and VLF In-Lieu at \$188,000 or 54% of the total, followed by onsite and offsite sales tax with 33% of the total revenues. After estimated incremental General Fund expenditures of \$178,300 per year before inflation, the net fiscal surplus is projected to be \$168,300 per year.

Exhibit 5.4: Summary of Net Fiscal Impact

Project Net Annual Fiscal Impact	
	Estimated Annual Total
City General Fund Revenues	
Property Tax (Secured & Unsecured)	\$68,400
Property Tax in Lieu of MVLFF	\$120,500
Sales & Use Tax (Direct On-Site)	\$34,700
Sales & Use Tax (Indirect Off-Site)	\$80,300
Utility Users Tax	\$22,100
Franchise Fees: Gas, Electric, and Cable	\$12,500
Business Licenses	\$1,700
Fines/Forfeitures	\$6,400
Total Estimated General Fund Revenues:	\$346,600
City General Fund Expenditures	
Public Safety	\$71,700
Public Works	\$30,400
General Government	
Administration	\$6,800
Human Resources	\$3,800
Non-Departmental	\$22,000
Parks & Recreation	\$22,100
Community Economic Development	\$8,100
Other	\$3,800
Total Estimated General Fund Expenditures:	\$178,300
Estimated City Net Fiscal Impact (Rounded):	\$168,300

Source: City of Pico Rivera, Kosmont Companies



6.0 Economic and Job Benefits

6.1 Construction Cost

Construction of the Project is expected to take place in one phase. The estimated hard and soft costs for the Project, excluding land and financing are approximately \$72 million. Land acquisition and financing costs are not referenced, as they do not impact the economic benefit calculations.

6.2 IMPLAN Modeling

This Analysis uses the IMPLAN (IMppact analysis for PLANning) econometric input/output model developed by the IMPLAN Group to quantify the economic benefit to the local region from Project construction / renovation 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 direct, indirect, and induced benefits expressed in terms of increased economic activity (“output”), earnings (“labor income”), and job creation.

Direct Economic Benefits: Direct benefits refer to the short-term business activity of general contractors involved in Project construction / renovation and the ongoing business activities of Project tenants.

Indirect Economic Benefits: Indirect benefits will result when local firms directly impacted by the Project purchase materials, supplies or services from other firms. Examples would include increased sales of building materials as a result of construction activity, and increased sales of inputs related to the business operations of tenants within the Project.

Induced Economic Benefits: Induced benefits relate to the consumption spending of employees of firms that are directly or indirectly affected by the Project. These would include the goods and services normally associated with household consumption (e.g., housing, retail purchases, local services, etc.).

Inputs for the IMPLAN economic benefit analysis include the development budget provided by the Client and permanent on-site employment information estimated by Kosmont. The permanent full-time employment estimates were derived from similar projects and industry standard per-square-foot employment densities for corresponding land use types.

6.3 Construction Related Economic Benefits

During the construction period, the Project is expected to produce approximately 684 direct construction jobs, and combined with indirect and induced impacts, a total of 957 FTE jobs, \$67 million in labor income, and approximately \$121 million of economic output are expected to be captured within the County (see Exhibit 6.3.1).

Exhibit 6.3.1: Economic Benefits from Construction

Economic Benefits from Construction (One-Time / Short-Term)			
	Employment	Labor Income	Economic Output
Direct (On-Site)	684	\$50,292,000	\$72,000,000
Indirect	63	\$4,357,000	\$11,450,000
Induced	210	\$12,664,000	\$37,496,000
Total Countywide	957	\$67,313,000	\$120,946,000
Estimated City Capture	698	\$51,143,050	\$74,447,300

Notes: Benefits during construction. 100% of direct benefits are estimated to be captured on-site.

Values in 2021 dollars.

Source: IMPLAN, Kosmont Companies (2021)

6.4 Economic Benefits from On-Going Operations

At Project's completion, the apartments and onsite retail is projected to provide 22 jobs. In addition, resident spending is expected to support approximately 118 induced jobs, for a total of 143 Countywide jobs, \$8.2 million of labor income, and \$23.7 million economic output. (see Exhibit 6.4.1). It is estimated that 52 of the jobs and \$7.1 million of economic activity will be in City establishments.

Exhibit 6.4.1: Economic Benefits from On-Going Operations

Economic Benefits from Ongoing Operation (Annual)			
	Employment	Labor Income	Economic Output
Direct (On-Site)	22	\$839,000	\$1,603,000
Indirect	3	\$219,000	\$620,000
Induced	118	\$7,156,000	\$21,463,000
Total Countywide	143	\$8,214,000	\$23,686,000
Estimated City Capture	52	\$2,683,000	\$7,124,000

Notes: 100% of direct benefits captured within Pico Rivera + 25% of indirect/induced.

Source: IMPLAN, Kosmont Companies (2021)