

Westgate Development Fiscal Impact Analysis

Prepared for:

City of Pasadena, CA

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Table of Contents

Section I. Executive Summary	5
<i>Introduction</i>	5
<i>Methodology</i>	5
<i>Organization</i>	5
<i>Summary of Findings</i>	6
Figure ES1: Annual Fiscal Impact of Westgate Development to Pasadena.....	7
Figure ES2: Summary of Fiscal Results - Residential.....	9
Figure ES3: Summary of Fiscal Results -Nonresidential.....	10
Section II. City of Pasadena Budget and Allocation to New Growth.....	11
METHODODOLOGY.....	11
Figure 1: Current Demographic Statistics – Pasadena.....	11
GENERAL FUND OPERATING REVENUE – PASADENA	11
Figure 2: Pasadena General Fund Revenues Year 2006.....	12
Figure 3: Property Tax – Residential Component.....	13
Figure 4: Property Tax – Commercial Component	14
<i>Sales Tax</i>	14
Figure 5: Sales and Use Tax.....	15
Figure 6: Estimated Power and Water Usage and Gross Receipts - Westgate.....	16
Figure 7: Water and Power Utility Users Tax.....	17
Figure 8: Operating Transfers In.....	17
Figure 9: Contributions from Water and Power.....	18
Figure 10: Other Taxes	19
Figure 11: Construction Tax	19
<i>Charges for Current Services – Quasi-External</i>	19
<i>Charges for Current Services</i>	20
Figure 12: Franchise Fees	20
Figure 13: State Non Grant Direct.....	21
Figure 14: Non Building Licenses and Permits	21
Figure 15: Building Licenses and Permits.....	22
Figure 16: Transfers Out	22
Figure 17: Other Revenues – Real Property Transfer Tax.....	23
SPECIAL REVENUE FUNDS	24
Figure 18: Building Services Fund.....	24
Figure 19: Transportation Sales Tax Fund.....	24
Figure 20: Proposition C Local Transit Fund.....	25
Figure 21: Gas Tax Fund.....	25
Figure 22: Library Services Fund.....	26
Figure 23: Library Special Tax.....	26
CAPITAL REVENUE.....	27
REVENUE SUMMARY – PASADENA	28
GENERAL FUND EXPENDITURES – PASADENA.....	29
Figure 24: FY 2006 General Fund Expenditures – Pasadena.....	29
<i>Police Expenditures</i>	29
Figure 25: Police Expenditures	30
<i>Fire Expenditures</i>	30
Figure 26: Fire Expenditures.....	31
<i>Non-Departmental Expenditures</i>	31
Figure 27: Non-Departmental Expenditures	31
Figure 28: Public Works Expenditures	32
Figure 29: Human Services and Recreation Expenditures.....	33
Figure 30: Transportation Expenditures	33
SPECIAL FUND EXPENDITURES.....	34

Westgate Development Fiscal Impact Analysis

Figure 31: Transportation Sales Tax Fund Expenditures.....	34
Figure 32: Proposition C Local Transit Fund Expenditures	34
Figure 33: Gas Tax Fund Expenditures.....	35
Figure 34: Library Services Fund Expenditures	35
CAPITAL EXPENDITURES	36
Figure 35: Capital Expenditures – Pasadena.....	36
EXPENDITURE SUMMARY – PASADENA.....	37
Section III. Demographic Data – Pasadena, CA.....	38
CURRENT RESIDENTIAL ESTIMATES	38
Figure 36: Persons per Housing Unit - Pasadena, CA.....	38
CURRENT NONRESIDENTIAL ESTIMATES	39
Figure 37: Floor Area Per Employee and Nonresidential Trip Rates	39
<i>Job & Nonresidential Square Footage Estimates</i>	<i>39</i>
Figure 38: Job and Nonresidential Square Footage Estimates	40
Average Daily Vehicle Trip Estimates	40
Figure 39: Average Daily Trips	42
PROPORTIONATE SHARE	42
Figure 40: Pasadena Proportionate Share – Residential and Nonresidential.....	44

Section I. Executive Summary

Introduction

This report provides an estimate of fiscal impacts to the operating and capital budgets of the City of Pasadena, California resulting from the Westgate development once it is completed. A summary of the report findings is provided in Figure ES1.

The development scenario analyzed in this report includes 820 multi-family units and 22,154 square feet of commercial space. It is expected that the development will bring an addition of 1,600 people and 55 jobs. The focus of the summary is the annualized fiscal impact based on a full build out of the development. The level of service and cost and revenue factors are from the City's fiscal year 2006 budget documents, including the adopted FY2006 Operating Budget and the FY2006 Capital Improvement Program Budget.

Methodology

To estimate the revenues and costs resulting from new development, TischlerBise, in consultation with finance, planning and other department officials, identified those budget items expected to be impacted by new development. In the majority of cases, an average approach is used, taking the FY06 budget numbers and dividing them by the City's current demographic estimates. This produces a cost per person, per job, per vehicle trip, etc. Multiplying this cost by the demographic estimates for the residential units (persons per housing unit) and commercial square footage (employees or trips per 1,000 sq. ft.) provides the current level of service. This cost is then applied to the number of housing units and amount of commercial square footage for the Westgate development.

Only direct revenues are considered in the analysis. Secondary revenue sources for which significant assumptions are required are not included in the calculations. For example, while secondary revenues may result through increased transient occupancy tax revenue when residential unit's guests stay in Pasadena hotels, these revenues are excluded from the analysis.

Some costs and revenues are fixed. For example, new growth, in some cases, will not necessarily prompt an increase in City Council or City Clerk operating expenses. In the case of select revenues, such as property taxes, construction tax, real estate transfer tax, sales tax, and other revenue items, a marginal approach is used.

Organization

This report is organized into three sections. Section I provides an overview and summary of report methodology and findings. Section II presents information about the City's operating and capital budgets and the allocation of revenues and expenses to the new development. Section III presents supporting demographic data on population, housing and employment for the City of Pasadena.

Summary of Findings

Based on the analysis, the Westgate project is expected to have a small negative impact on the City of Pasadena's annual budget. If developed, the Westgate project is estimated to generate a loss of \$15,065 to the City of Pasadena annually.

Section II presents the City of Pasadena's operating and special fund revenues that are impacted by new development, including ongoing and one-time payments. Figure ES1 presents a summary of these figures for the Westgate development. It shows that the City is expected to generate an average *gross revenue* of \$1,432 for each multi-family unit and \$3,639 for every 1,000 sq. ft. of commercial space. This totals \$1.2 million ($\$1,432/\text{multi-family unit} \times 820 \text{ multi-family units} + (\$3,639/1,000 \text{ sq. ft. of commercial space} \times 22) = \1.2 million).

In order to show annual revenues, revenues from the real estate transfer tax are annualized over a ten-year period to correspond with the time period the property is expected to change ownership. Revenues from the construction tax are annualized over a 20 year period to correspond with the term assumed for the financing of capital costs. Enterprise funds are excluded from the analysis.

Impact fees for parks and developer contributions for transportation will offset all park and transportation-related capital costs and therefore are not included in the analysis. Impact fees are expected to total \$8.5 million and contributions will amount to \$2.2 million.

Section II also presents annual *expenditures* expected to be generated by new growth. As shown in Figure ES1, the Westgate development is expected to generate \$1,448 annually in *gross expenses* for each multi-family unit and \$3,739 for every 1,000 sq. ft. of commercial space. This totals \$1.2 million ($(\$1,448/\text{multi-family unit} \times 820 \text{ multi-family units}) + (\$3,739/1,000 \text{ sq. ft. of commercial space} \times 22) = \1.2 million).

The population demand factor used in this report is 1.98 persons per multi-family housing unit per the 2000 U.S. Census. This reflects the average of all multi-family housing in the City in that year. The City reports that the average persons per unit for multi-family housing of 50 units or more was 1.62 in the 2000 Census. If the Westgate development has closer to 1.62 persons per unit, revenues would be reduced by approximately 2% and expenses by 16%, resulting in net annual revenue of approximately \$150,000. This report uses the more conservative figure of 1.98 to calculate the fiscal impact of the Westgate development.

In summary, Figure ESI shows that annual expenditures for the City of Pasadena are expected to slightly exceed revenues by \$15,065 annually as a result of the Westgate development. The following charts, Figures ES2 and ES3, show the fiscal results by the two components of the development – residential and non-residential.

Figure ES1: Annual Fiscal Impact of Westgate Development to Pasadena

REVENUES

Residential	Units	Revenue Per Unit	Total	Percent
Property Tax*	806	\$923	\$743,742	63.3%
Construction Tax**	820	\$147	\$120,443	10.3%
Other Funds	820	\$138	\$113,193	9.6%
Utility Taxes - Water and Power	820	\$82	\$66,860	5.7%
Contribution from Water and Power	820	\$83	\$68,247	5.8%
Other General Fund	820	\$54	\$44,633	3.8%
Library Special Tax	820	\$21	\$17,153	1.5%
Transfer Tax***	820	\$0	\$46	0.0%
Average/Subtotal		\$1,432	\$1,174,318	100%

Nonresidential (Commercial)	Sq. Ft.	Revenue per 1,000 sq. ft.	Total	Percent
Sales Tax	22,154	\$2,863	\$63,426	78.7%
Contribution from Water and Power	22,154	\$192	\$4,259	5.3%
Utility Taxes - Water and Power	22,154	\$185	\$4,101	5.1%
Property Tax*	6,540	\$527	\$3,448	4.3%
Construction Tax**	22,154	\$144	\$3,190	4.0%
Library Special Tax	22,154	\$52	\$1,160	1.4%
Other Funds	22,154	\$28	\$614	0.8%
Other General Fund	22,154	\$19	\$413	0.5%
Transfer Tax***	22,154	\$0	\$1	0.0%
Average/Subtotal		\$3,639	\$80,613	100%

TOTAL REVENUES **\$1,254,931**

*A portion of the development's Block 1 (14 housing units and 15,614 square feet of retail space) is included within the boundaries of the Old Pasadena project area, a tax increment finance zone. As such, the Old Pasadena Development Corporation retains the property tax revenues for these units (\$125,048 annually) and are therefore are not included in this analysis.

**These revenues are one-time taxes. The construction tax is annualized over a 20 year period.

***Transfer tax revenue is annualized over a 10 year period.

****The public art contribution is not included above as it is a one-time fee that has a fiscally neutral impact. The developer is required to contribute 1% of the project's construction value to meet the City's public art requirement. This totals \$2.7 million. The City anticipates that these dollars will offset the construction of public art at the site (75% of public art requirement) as well as a contribution to the cultural trust fund (25%).

Westgate Development Fiscal Impact Analysis

EXPENDITURES

Residential	Units	Exp. Per Unit	Total	Percent
General Fund				
Police	820	-\$533	-\$436,765	37%
Fire	820	-\$313	-\$256,258	22%
Non-Dept. Expenses	820	-\$39	-\$32,286	3%
Public Works*****	820	-\$121	-\$99,382	8%
Human Services and Recreation	820	-\$111	-\$90,895	8%
Transportation	820	-\$39	-\$31,765	3%
Capital	820	-\$67	-\$54,991	5%
Other Fund*****	820	-\$225	-\$184,830	16%
Subtotal		-\$1,448	-\$1,187,173	100%

Nonresidential (Commercial)	Sq. Ft.	Exp. Per 1,000 Sq. Ft.	Total	Percent
General Fund				
Police	22,154	-\$1,495	-\$33,125	40%
Fire	22,154	-\$983	-\$21,786	26%
Non-Dept. Expenses	22,154	-\$50	-\$1,103	1%
Public Works*****	22,154	-\$579	-\$12,818	15%
Human Services and Recreation	22,154	\$0	\$0	0%
Transportation	22,154	-\$391	-\$8,673	10%
Capital	22,154	-\$85	-\$1,879	2%
Other Fund*****	22,154	-\$155	-\$3,439	4%
Subtotal		-\$3,739	-\$82,823	

TOTAL EXPENDITURES **-\$1,269,996**

NET **(\$15,065)**

*****Residential expenditures for public works includes traffic lights/signals, street cleaning, street maintenance and parks. Non-residential public works expenditures exclude parks.

*****Other fund expenditures include: transportation sales tax, proposition C local transit fund, gas tax fund and library service fund.

Westgate Development Fiscal Impact Analysis

Figure ES2 below shows a summary of the fiscal results for the residential component of the Westgate development, totaling 820 units.

Figure ES2: Summary of Fiscal Results - Residential

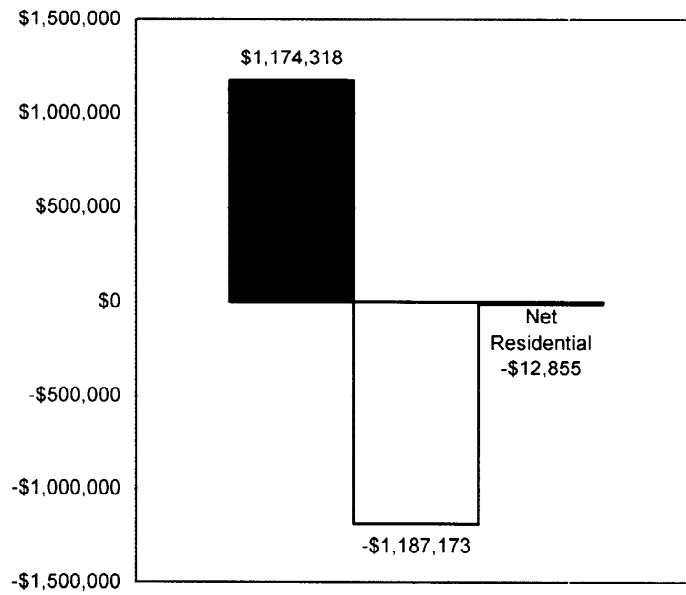
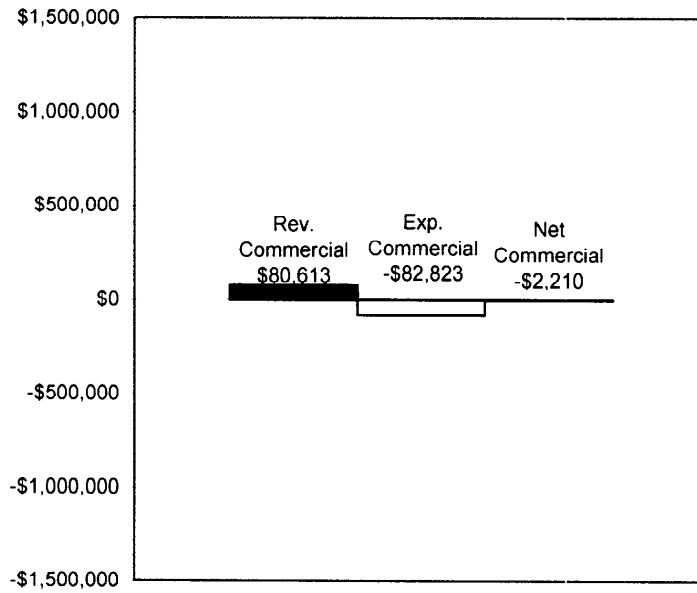


Figure ES3 shows a summary of the fiscal results for the non-residential component of the Westgate development, totaling 22,154 square feet of commercial space.

Figure ES3: Summary of Fiscal Results - Nonresidential



Section II. City of Pasadena Budget and Allocation to New Growth

METHODOLOGY

This fiscal impact analysis measures the annualized fiscal results upon completion of the Westgate development. The impact of the Westgate development on the City of Pasadena's finances is measured using a variety of current demographic statistics and characteristics.¹ Presented in detail in Section III, these factors are summarized in Figure 1.

In the majority of cases, an average approach is used, taking the FY06 budget numbers and dividing them by the City's current demographic estimates (population, jobs, vehicle trips, etc.). This enables the current level of service to be determined and applied to new growth. Some revenues are fixed. For example, new growth typically will not prompt an increase in federal revenue. In the case of select revenues property taxes, construction tax, real estate transfer tax, sales tax, and other revenue items, a marginal approach is used. In these cases, the specific tax rate is applied to the project's value, number of units, square footage or other factor as appropriate.

Figure 1: Current Demographic Statistics – City of Pasadena

Population	146,138
Jobs	85,644
Average Vehicle Trips	
Residential	243,967
Nonresidential	435,213
Total Trips	679,180

Sources:

Population - CA Dept. of Finance, 1/1/06;

Jobs - ESRI Business Info. Solutions, 2005;

Trips - Institute of Transportation Engineers trip rates used to estimate vehicle trips from residential and non-residential uses.

For more discussion on the demographic and development figures used in this report, see Section III.

GENERAL FUND OPERATING REVENUE – PASADENA

The City of Pasadena's General Fund revenues for FY2006 are summarized in the table on the following page. Each of the revenue sources and their associated projection

¹ A note on rounding - calculations throughout this report are based on an analysis conducted using Excel software. Results are discussed in the report using one-and two-digit places (in most cases), which represent rounded figures. However, the analysis itself uses figures carried to their ultimate decimal places; therefore the sums and products generated in the analysis may not equal the sum or product if the reader replicates the calculation with the factors shown in the report (due to the rounding of figures shown, not due to rounding in the analysis).

methodologies in relation to the Westgate development are discussed in the following sections and figures.

Figure 2: Pasadena General Fund Revenues Year 2006

Funding Category	FY2006 Budget	Percent
Property Tax	\$35,130,054	20%
Sales Tax	\$33,732,500	20%
Utility Taxes	\$26,470,811	15%
Operating Transfers In	\$20,017,768	12%
Investment Earnings	\$16,376,327	10%
Other Taxes	\$13,411,024	8%
Charges for Services - Quasi-External	\$11,255,988	7%
Transient Occupancy Taxes	\$7,519,820	4%
Charges for Services	\$6,321,639	4%
Fines and Forfeitures	\$5,872,902	3%
Franchise Taxes	\$1,985,583	1%
State Non Grant Direct	\$1,744,693	1%
Rental Income	\$1,445,500	1%
Non Building Licenses and Permits	\$1,209,301	1%
Miscellaneous Revenue	\$823,310	0%
Building Licenses and Permits	\$800,614	0%
Intergovernmental-Local	\$301,118	0%
Federal Grants Indirect - State	\$102,000	0%
Transfers Out	-\$12,310,371	-7%
Total	\$172,210,581	100%

Property Taxes

The City's largest source of general fund revenue is the property tax, representing 20% of General Fund revenues in Fiscal Year 2006. The property tax rate is collected by the County and is equivalent to one (1) percent of assessed value. Of this 1%, portions are allocated to the County, cities, school districts and redevelopment agencies. For Fiscal Year 2006, the City of Pasadena received .2109% of the assessed value.

A small portion of the development's Block 1 (bounded by Green, Delacey, Dayton and Pasadena Streets) falls within the Old Pasadena Project area. In this area will be fourteen planned residential units and 15,614 sq. ft. of commercial space. Through an agreement with the County (see note to Figure 3), the full one (1) percent of property tax is retained by the Pasadena Community Development Commission for these properties. As these revenues (totaling \$125,048) are received by the Commission and are used primarily to pay debt service, they are not considered in this analysis.

The assessed value for a new development in its first year is equivalent to its market value. Estimated market values, as provided by the developer Sares Regis Group, were used to project property tax generation by the development in its first year. For the residential component, Sares Regis estimates an average market value of \$614,375 for a for-sale unit.

There are 74 units on Block 1 that will not be within the Old Pasadena Project Area, so the City retains the standard amount of property tax on these units. The estimated market value

Westgate Development Fiscal Impact Analysis

for Block 1's remaining for-sale residential units (74) is \$45.4 million (74 for-sale residential units x \$614,375/unit). This generates \$95,883 in property tax for the City (\$45.4 million x .2109%).

The developer estimates a total stabilized value of \$152 million (assuming 7.25% capitalization rate) for the for-rent units on Block 3. Combined, this results in a total estimated market (or assessed value) of \$352 million for the development's residential component. At .2109% of assessed value, new residential property tax revenues total an estimated \$321,338/year from the rental units on Block 3. The annual City property tax revenue from the residential component of the development is estimated at \$743,742.

Figure 3: Property Tax – Residential Component

Block 1 Units (Not in Old Pasadena Project Area)*	74
Estimated Market Value/Unit	\$614,375
Residential Market Value	\$45,463,750
Tax Returned to City- .2109% of Assessed Value	\$95,883
Block 2 Units	252
Estimated Market Value/Unit	\$614,375
Block 2 Residential Market Value	\$154,822,500
Tax Returned to City- .2109% of Assessed Value	\$326,521
Block 3 Units	480
Stabilized Value @ 7.25% cap	\$152,365,023
Tax Returned to City - .2109% of Assessed Value	\$321,338
Residential Property Tax Revenue to City	\$743,742

**14 units in Block 1 fall within the Old Pasadena Project Area. Property tax revenues for these units will be received by the Old Pasadena Development Corporation. As such, only the revenues for the remaining units (74) are considered in this analysis.*

Block 1's retail component falls within the Old Pasadena Project Area, so the Pasadena Community Development Commission will retain property tax revenues for this component of the development. As such, the revenues for Block 1's 15,614 square feet (totaling \$39,035) are not considered in this analysis.

For the commercial component, Sares Regis estimates an average market value of \$250 per sq. ft. The estimated market value for Block 2's 6,540 sq. ft. of commercial space is estimated at \$1.6 million. At .2109% of assessed value, new commercial property tax revenues to the City from Block 2 totals \$3,448/year. The annual City property tax revenue from the nonresidential component of the development is estimated at \$3,448.

Figure 4: Property Tax – Commercial Component

Block 2 Sq. Ft.	6,540
Estimated Market Value/Sq. Ft.	\$250
Block 2 Nonresidential Market Value	\$1,635,000
Tax Returned to City- .2109% of Assessed Value	\$3,448
Nonresidential Property Tax Revenue to City	\$3,448

Due to Proposition 13, assessment value for those properties that retain the same ownership will not keep pace with market valuations in future years. Property valuations would be expected to increase at a faster rate for those properties that change ownership, as assessed value would be based on true market value at the time of transfer. As this study provides an estimate of revenues at build-out, these figures reflect revenues in the development's first year. It is important to note that for future years, revenues from property tax would be expected to grow modestly (with inflation), with the exception of those properties that change ownership. In future years, expenses for those units not changing ownership would be expected to increase at a greater rate than revenue from these units (as property tax revenue is essentially "capped" due to Prop 13).

Sales Tax

The commercial component of the Westgate development is expected to generate sales taxes for the City of Pasadena. Of the state's 7.25% sales tax, 1% goes to support local government general funds.

According to the Westgate Environmental Impact Statement, the 15,614 sq. ft. of commercial space on block 1 is planned as two sit-down restaurants. The remaining commercial space on block 2 (6,540 sq. ft.) is planned as retail space for neighborhood services such as a convenience store, coffee shop, dry cleaner, etc.

Data from the Urban Land Institute (ULI) on sales per sq. ft. is used to estimate sales generated by the development and calculate applicable sales taxes. As shown in Figure 5, ULI estimates sales per sq. ft. for an independent neighborhood restaurant that serves liquor at \$272 per sq. ft. (adjusted for inflation). This figure is multiplied by the block 1 commercial square footage of 15,614 to result in a taxable sales volume of \$4.2 million. For block 2, TischlerBise selected the sales per sq. ft. figure for one of the proposed uses – a dry cleaner – to estimate sales tax generated by that commercial space. ULI estimates sales per sq. ft. for an independent neighborhood dry cleaner as \$269/sq. ft. (adjusted for inflation). This brings the total estimated taxable sales volume to \$5.9 million.

Of this, 1% less the State's administrative fee of .81% is considered the estimated local tax share for general government. The City also receives sales tax revenues dedicated to transportation – Proposition A and C – that are funneled first through Metro. After deducting the State's administrative fee, these revenues add close to \$4,000 to the yearly sales tax revenue from the development. In total, the project is estimated to generate \$63,426 in sales tax revenue for the City on a yearly basis, upon build-out.

A calculation of new resident purchases subject to sales tax is not included in the analysis. Such a calculation would be highly speculative, as assumptions would need to be made

Westgate Development Fiscal Impact Analysis

regarding the share of household income toward taxable purchases, as well as the percentage of sales that remain in the City vs. the entire metro area.

Figure 5: Sales and Use Tax

Commercial Sales

Commercial Taxable Sales Volume

Block 1 - proposed restaurant space		
Sales Per Sq. Ft.*		\$272
Sq. Ft.		15,614
Subtotal Taxable Sales Volume		\$4,241,058

Block 2 - proposed neighborhood commercial		
Sales Per Sq. Ft.**		\$269
Sq. Ft.		6,540
Subtotal Taxable Sales Volume		\$1,757,796

TOTAL ESTIMATED TAXABLE SALES VOLUME **\$5,998,854**

Total Sales Tax Local Share

1% of taxable volume	1.00%	\$59,989
State Admin Fee	0.81%	-\$486
SUBTOTAL		\$59,503

Proposition A and C (Transportation)

Proposition A	0.125%	\$2,197
Proposition C	0.100%	\$1,758
State Admin Fee	0.81%	-\$32
SUBTOTAL		\$3,923

TOTAL ESTIMATED SALES TAX GENERATED **\$63,426**

*Source: Urban Land Institute. Dollars and Cents of Shopping Centers, 2004.
Sales per Sq. Ft. for independent neighborhood restaurant (serving liquor). 2003 data adjusted for inflation.

**Source: Urban Land Institute. Dollars and Cents of Shopping Centers, 2004.
Sales per Sq. Ft. for independent neighborhood dry cleaner. 2003 data adjusted for inflation.

Utility Users Taxes

Revenue in this category is expected to increase as a result of the Westgate development, as the power and water usage by the new residential units and commercial property will be subject to the utility tax. To estimate revenues, the City of Pasadena's Water and Power Department estimated approximate power and water usage and by the project's residential and non-residential components. Using usage averages for multi-family and commercial uses, and applying proposed rates (effective 7/1/06), gross utility revenues from the Westgate development are presented in Figure 6.