

Attachment No. CC 6

Fiscal Impact Analysis

**FISCAL IMPACT ANALYSIS
OF THE PROPOSED
NEWPORT BANNING RANCH ANNEXATION
TO THE CITY OF NEWPORT BEACH**

**FINAL DRAFT
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Prepared for
City of Newport Beach

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1. INTRODUCTION

The proposed Newport Banning Ranch Project would entail annexation of 360 acres from Orange County jurisdiction into the City of Newport Beach. This report is prepared pursuant to City Council Policy D-2, which requires analysis of the fiscal impact of such annexations on City finances and related City services and facilities. The report also provides information for use by the Orange County Local Agency Formation Commission (LAFCo) pursuant to requirements under the Knox-Cortese Act related to the ability of local jurisdictions to provide adequate public services to areas proposed for annexation.

The analysis in the report has been coordinated with the Public Services Analysis in the DEIR for the Newport Banning Ranch Project. However, the standards of significance under CEQA focus on physical impacts to City facilities where expanded capacity may be needed to serve the proposed project. In contrast, the fiscal analysis also addresses impacts to City Departments' operations and maintenance budgets in addition to any new facilities that may be needed.

The fiscal analysis uses the Newport Beach Fiscal Impact Model to help calculate revenue and cost impacts of the proposed project. This model was initially developed in support of the General Plan Update, which was adopted in 2006.¹ The model has been updated to reflect Fiscal Year 2010-2011 costs and revenues from the Newport Beach City Budget. The fiscal impact model calculates public service impacts for specific land uses that support the residential population, the employment base and the visitor population in Newport Beach. It also calculates the public revenues that each type of land use typically generates for the City, including property taxes, sales taxes and other taxes as well as a variety of user charges and fees.

The fiscal impact model is designed to calculate the average cost of public services required by new development, on the assumption that new development affects City services in approximately the same way that existing development does. The model nets out certain costs that are unlikely to change with expansion of City government, such as the number of City Department Directors and Division managers, as well as the City Council and City Clerk expenditures, but otherwise assumes that City administrative support and overhead tends to increase as City government activities grow to provide services to an expanding population and employment base. Over the long term, this is clearly the dynamic that local governments experience. In the short term, development projects may have lower or higher cost impacts depending on the existing capacity of City services to accommodate more development, and the level of expenditure needed to expand services incrementally if existing capacity is not available. The output from the fiscal impact model can be modified to address these circumstances for each individual project. In the case of Newport Banning Ranch, maintenance costs for certain facilities that have community wide benefit, such as the community park and the Bluff Rd. on the periphery of the project site, have been prorated to reflect the fact that the proposed project does not by itself require these facilities.

¹ A technical description of the fiscal impact model may be found in: Applied Development Economics, *Fiscal Impact Analysis and Model, Newport Beach General Plan Update*, January 2004.

2. PROJECT DESCRIPTION

The proposed Newport Banning Ranch Annexation Area extends in the northwest direction from the City of Newport Beach and is currently located within the Newport Beach Sphere of Influence (SOI). The annexation includes parcels that total approximately 360 acres. An additional 41 acres are part of the proposed project site and currently within Newport Beach City limits.² These parcels are along the eastern edge of the site and include portions of the Mixed Use/Residential development, the Community Park and the Medium Density residential. The proposed project could result in the additional development of up to 1,375 dwelling units, 75,000 sq. ft of commercial space, and 75 overnight accommodations in a Resort Inn. The following maps identify the project area and vicinity.

PROJECT ECONOMIC AND DEMOGRAPHIC CHARACTERISTICS

The public services needs for the project, as well as its fiscal impact on the City, are a function of the population, jobs, and visitors it supports and the economic characteristics of the development, including its assessed value and the taxable sales and lodging revenues it generates. The 1,375 dwelling units in the development are projected to house 3,012 residents, based on an average household size of 2.19 persons. It is also estimated that the retail and lodging components of the project will employ 422 workers.³

The assessed value of the project at buildout is estimated at \$1.52 billion, based on an average price per residential unit of \$1.2 million and values of \$300 to \$350 per sq.ft. for the retail and lodging development. The estimate also accounts for about half of the required 206 inclusionary below market rate units, valued at \$309,000 per unit, being provided on-site. The project plan calls for the remainder of the inclusionary units to be provided offsite or through in-lieu fees.

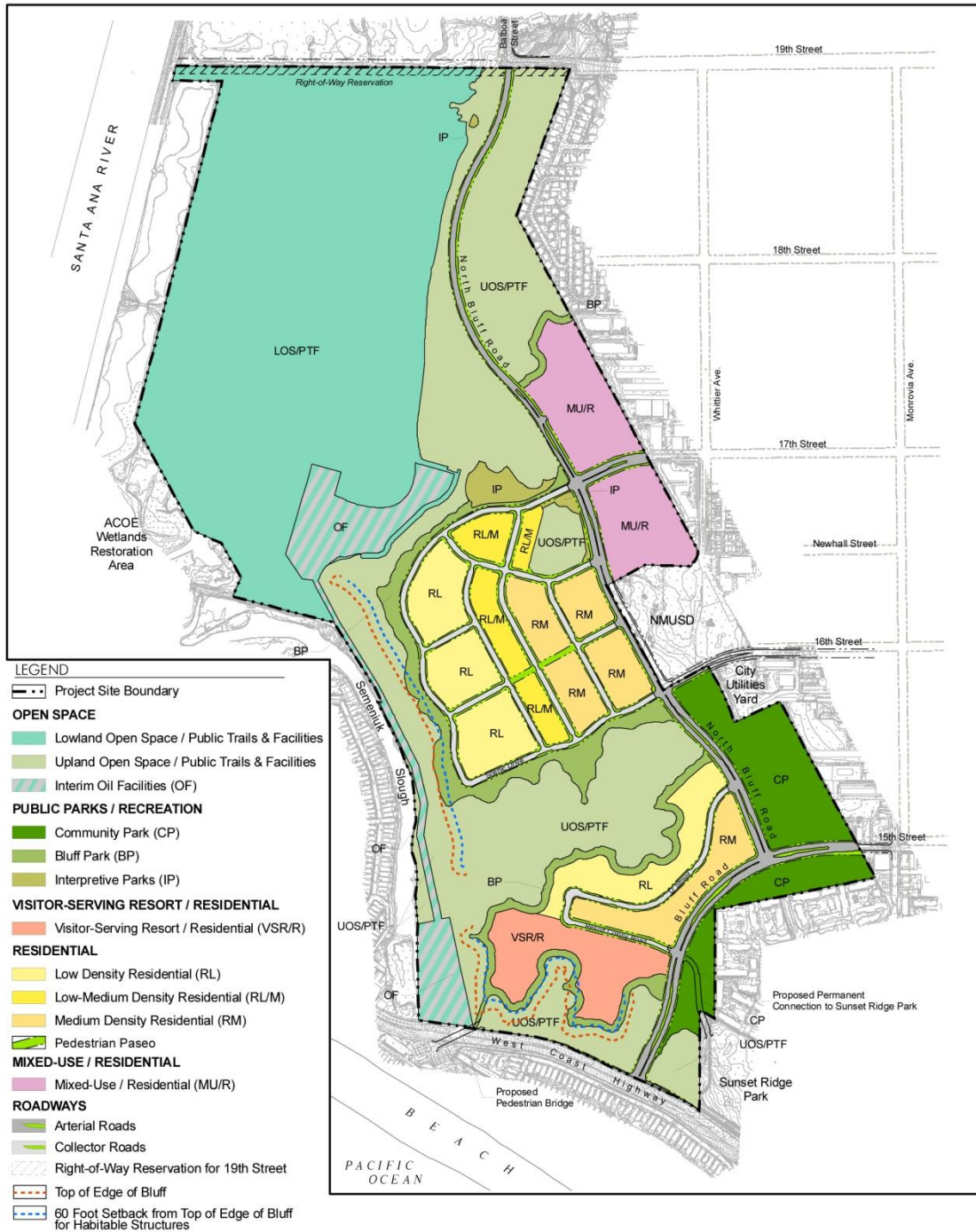
The retail components of the project include both the restaurants and gift shops in the Inn as well as ground floor commercial in the mixed use portion of the project. For this analysis, it is estimated that the retail space overall would generate about \$355 per sq.ft in taxable sales. This is slightly below the expected sales performance for retail in Corona del Mar and the Lido/Cannery area.⁴ This estimate assumes a mixture of resort level visitor spending as well as local serving retail in the mixed use development.

² Parcels within the City limits include 114-170-049 (1.424 ac.), 114-170-050 (9.823 ac.), 114-170-063 (10.238 ac.), 114-170-083 (28.457 ac.).

³ The employment estimate is based on employee density factors developed for the 2006 General Plan Update, which range from 303 sq.ft. per retail employee to 707 sq.ft. per employee for the lodging development. The jobs for the 22,000 sq.ft. of restaurants, gift shops and fitness center in the Inn are calculated at the retail rate. Therefore, for purposes of the employment calculations, the analysis assumes a total of 97,000 sq.ft. of retail uses. However, the 15,000 sq.ft. fitness center in the hotel would not generate much sales tax so it is not included in the sales tax calculations.

⁴ Applied Development Economics, *General Plan Update Retail and Commercial Market Analysis*. December 2002. Adjusting the 2002 figures for inflation plus the current retail downturn, comparable current average sales for these two areas would be \$363/sq.ft.

FIGURE 1 – NEWPORT BANNING RANCH PROJECT SITE



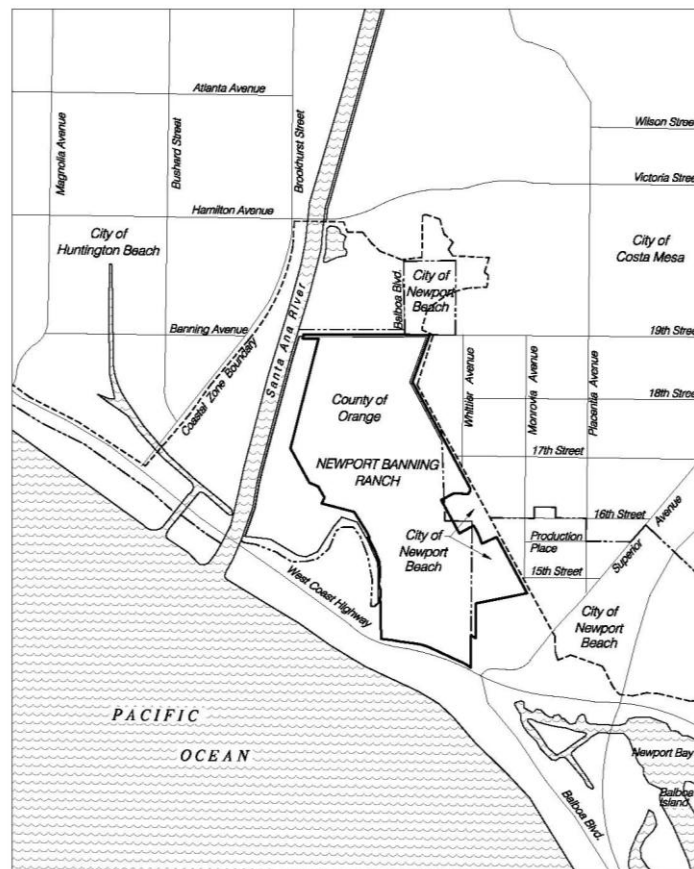
Source: City of Newport Beach Planned Community Development Plan

The 75 overnight lodging units are anticipated to attract nearly 160 visitors per day, at an average group size of 3.0 persons and a 70 percent occupancy rate.⁵ The transient occupancy tax calculations in this report assume an average published room rate of \$200 per night and 70 percent occupancy of the facility. This rate is about 25 percent above the average level of lodging rooms in the City currently. However, for comparison, the Pelican Hill Resort reports a minimum rate of \$495 per night.

Based on the taxable sales calculations discussed above, the restaurants and gift shop would generate about \$2.8 million in taxable sales per year. In addition to this amount, the Resort Inn visitors would be expected to spend another \$2.7 million per year on taxable items elsewhere in Newport Beach, based on the 2007 visitor surveys conducted by Lauren Schlaw Consulting (LSC).

FIGURE 2 – NEWPORT BANNING RANCH VICINITY

Source: Newport Banning Ranch Master Site Plan



⁵ These factors represent City averages as presented in: Lauren Schlaw Consulting (LSC), *Economic Impacts and Profile of Newport Beach Visitors*. September 2007. Market conditions have deteriorated since the time of this report, but it is anticipated that by the time the Newport Banning Ranch Inn project is built, market conditions will have rebounded.

3. PUBLIC SERVICES PLAN

This section of the report addresses five major service categories that would provide services directly to the project and its residents and businesses: police services, fire protection, libraries, parks and recreation, including cultural and senior citizen programs, and facilities maintenance, including parks and streets maintenance. The analysis below discusses any staffing and facilities expansions needed to serve the proposed project and provides estimates of the annual cost to extend services to the site. The City would also incur additional expenditures for general government services indirectly provided to the project. The costs for these services are provided in the next chapter that discusses the overall fiscal impact of the project. Sources reviewed and utilized in the analysis presented in the Public Services Plan include the Draft Environmental Impact Report commissioned for the proposed Newport Banning Ranch annexation application, and the most recent Municipal Services Review (MSR) for Newport Beach, the *Orange County LAFCO Municipal Services Review/ Sphere of Influence Report* dated July 2006.

FIRE DEPARTMENT

EXISTING CONDITIONS

The portion of the project site which is an unincorporated area, is currently served by the Orange County Fire Authority. The City provides protection to the entire City, with some assistance from the Costa Mesa Fire Department through automatic aid agreements. Eight Newport Beach fire stations are strategically located throughout the City, each serving its immediate surroundings with:

- Fire protection
- Fire prevention
- Hazards reduction
- Emergency medical services

Staffing reported in the Newport Banning Ranch Draft EIR (“DEIR”) includes 117 full-time fire fighters. Of the eight fire stations, each has one engine company; three have paramedic vans; and two have ladder trucks. A fire engine and paramedic ambulance responds to each emergency call.

Each type of emergency has different total response time objectives which include the time from receipt of the call until the appropriate responding unit is on scene.

The total response time objectives of the Department are broken up into dispatch processing expectations, turnaround time, and travel time objectives (Table 1). The Fire Department expects the MetroNet dispatch center to complete dispatching within 50 seconds for 90 percent of calls and within 90 seconds for the remaining 10 percent. For dispatches requiring the donning of full Personal Protective Equipment (PPE), turn around should be completed within 80 seconds, while the standard for non-PPE calls is 60 seconds. Travel time objectives vary and are presented in Table 2 below.

**TABLE 1
TOTAL RESPONSE TIME OBJECTIVES**

UNIT	OBJECTIVE**
First Due Response requiring P.P.E.*	Less than 5 Minutes and 20 Seconds
First Due Response without P.P.E.	Less than 5 Minutes
Advanced Life Support Response requiring P.P.E.	Less than 9 Minutes and 20 Seconds
Advanced Life Support Response without P.P.E.	Less than 9 Minutes
Effective Response Force requiring P.P.E.	Less than 9 Minutes and 20 Seconds
Effective Response Force without P.P.E.	Less than 9 Minutes

Source: Newport Banning Ranch DEIR, page 4.14-5.

Notes:

*P.P.E. stands for Personal Protective Equipment

**It is the objective of the Fire Department to achieve these response times 90% of the time

**TABLE 2
TRAVEL TIME OBJECTIVES**

UNIT	OBJECTIVE	
	90% of Responses	Remaining 10% of Responses
First Due Units	Less than 4 Minutes	Less than 10 Minutes
Advanced Life Support Responses	Less than 8 Minutes	Less than 10 Minutes
Effective Response Force	Less than 8 Minutes	Less than 15 Minutes

Source: Newport Banning Ranch DEIR, page 4.14-5.

PROJECT IMPACT ANALYSIS

A Fire Department study evaluated the City's ability to provide adequate response to the proposed project as well as its existing service area without the provision of an additional fire station. Based on the Fire Department's review of the proposed Master Development Plan and the findings of the study, Station Number 2 could not serve the entirety of the proposed project development within the City's established response time standards. In order to maintain appropriate response times, a temporary fire station would be required on the project site to serve those areas of the site that cannot be served by existing Station Number 2. Site preparation and construction of the temporary fire station, which the Fire Department estimates at about \$192,800, would be paid for by the applicant.⁶

The City has sufficient minimum staffing levels currently in place to staff the temporary fire station; however, these temporary positions would have to be hired as overtime positions, the cost of which would be paid for by the applicant. The Fire Department estimates the annual operations cost for the temporary station at about \$123,800, including personnel, supplies, utilities and other necessary services. The temporary fire station would be required unless a replacement fire station is operational in a location that provides appropriate response times. The temporary fire station would remain in operation until a replacement fire station is operational that could serve the project in its entirety.

There will be an incremental cost to the Fire Department to respond to fire and medical emergencies generated by the project and its residents and visitors. The City's fiscal impact model estimates that this incremental cost would be approximately \$741,000 per year, based

⁶ Ron Gamble, Newport Beach Acting Assistant Chief/Fire Marshal, personal communication, November 14, 2011.

on a per capita service impact approach. More than half of this cost would be associated with responses to medical emergencies.

POLICE DEPARTMENT

EXISTING CONDITIONS

Most of the project area is currently in Orange County unincorporated area and is served by the North Operations Division of the Orange County Sheriff's Department. The Newport Beach Police Department provides police protection to the City of Newport Beach, along with mutual aid from the Costa Mesa Police Department. The Newport Beach Police Department provides the following services:

- Emergency police response
- Non-emergency police response
- Routine police patrol
- Traffic violation enforcement
- Traffic accident investigation
- Animal control
- Parking code enforcement

Staffing at the Newport Beach Police Department includes 285 personnel (1 chief, 3 captains, 8 lieutenants, 22 sergeants, 115 sworn officers, 92 civilian personnel, and 44 seasonal and part-time personnel). The Department does not have a staffing standard. Currently, there are 1.3 officers per 1,000 residents.

PROJECT IMPACT ANALYSIS

To maintain the current officer to resident ratio, the Department would need to employ about three additional officers. In addition, the lodging and commercial portions of the project would generate additional police calls for service. The service analysis conducted for the 2006 General Plan Update indicated that retail and lodging uses comprise 20 percent of the demand for police services in Newport Beach. The project would not require expansion of existing facilities, or the construction of new facilities.

The Police Department currently spends \$267,400 per sworn officer, including all non-sworn support staff, equipment, data analysis and administrative functions and costs. The City's fiscal impact model calculates an average cost impact for the Newport Banning Ranch project of \$1.03 million per year. However, the incremental cost of adding three sworn patrol officers would likely be lower, assuming other department personnel such as community service officers and management staff would not need to be increased. The average cost of a sworn officer is about \$125,600, including direct salary and benefits. Departmental support services, including vehicle replacement and fleet maintenance, adds about 37 percent to this cost, bringing the total per officer to \$172,100. Three new officers at this cost would total \$516,300.

LIBRARY SYSTEM

EXISTING CONDITIONS

The City of Newport Beach Library employs approximately 90 employees and runs four public library branches including the 54,000 square foot Central Library. The Balboa and Mariners branches are four and five miles from the project site, respectively. The Corona Del Mar branch and the Central Library are farther away. The libraries serve “71,784 active borrowers, and the System circulates over 1,701,400 items annually” according to the DEIR.

PROJECT IMPACT ANALYSIS

The DEIR indicates that the City Library System determined that the Project “would not create the need for new or expanded library facilities.” However, there would be increased usage of the system and incremental costs associated with the increased service demands of the project. The City fiscal model estimates this incremental cost impact at about \$209,200 per year, based on an average current expenditure of \$155.53 per capita by the City Library.

PARKS AND RECREATION

EXISTING CONDITIONS

The City currently provides 347.9 acres of parks and also maintains an additional 99.2 acres of Beach Recreation area along the ocean front. On a citywide basis, including the beach areas, the City meets its standard for park acreage but there are areas within the City, including West Newport and Newport Heights that do not have sufficient park space to meet local needs. The City General Plan identifies the needs for a 20-30 acre community park on the Newport Banning Ranch site.

The City spends \$5.1 million per year maintaining its parks and an additional \$7.7 million per year providing recreation programs, cultural and arts programs, and senior citizens services. The City has adopted a Quimby Act Ordinance - Dedication and Fees Ordinance (*City of Newport Beach Municipal Code*, §§19.52.010–19.52.090) - requiring new residential subdivisions to provide 5 acres per 1,000 population or contribute to a fund in lieu of actual park dedication or construction or a combination thereof.

PROJECT IMPACTS

The proposed project at Newport Banning Ranch includes approximately 51 gross acres of public parkland in the form of one community park of approximately 27 gross acres, a network of bluff parks totaling approximately 21 gross acres, 3 interpretive parks with approximately 4 gross acres, and a system of bicycle and pedestrian trails. These design elements in the project would meet and exceed the City requirements for approximately 15 acres of parkland under the Quimby Act and the General Plan requirement for a 20-30 acre community park.

The project developer would construct park facilities and offer for dedication the park facilities and the land for the community park and construct the park facilities. The bluff parks and interpretive parks are to be made available for public use. The City General Services Department would assume maintenance responsibilities for the community park

areas and the project HOA would assume maintenance of the remaining parks that are accessible to the public. As noted above, the City spends about \$5.1 million per year maintaining the 347 acres of non-beach parks. Based on this average cost, the community park would require \$352,700 per year to maintain. Since this park is intended to be a citywide asset, this full cost is not counted against the Newport Banning Ranch Project in the fiscal summary below. However, it does represent an increase to City park maintenance costs overall. The average cost impact of project residents' use of all City parks is estimated at about \$151,750 per year.

Also, it is estimated that project residents' use of City recreation facilities, arts and cultural programs and possibly senior services would create additional City costs of about \$259,000 per year. Overall, the City funds about 40 percent of its recreation programs through fees, which would reduce the net cost impact of the project to \$155,400 per year.

STREET/FACILITY MAINTENANCE

EXISTING CONDITIONS

The General Services Department maintains City streets and facilities, including storm drains, street trees and signs, as well as beach cleanup and refuse pickup. The City currently maintains about 83 miles of roads ranging from two lane undivided commuter roads to eight lane divided roads. In addition to General Fund revenues, the City uses State gas tax funds to help maintain streets. The City also receives other regional funds for transportation infrastructure, including Measure M which provides regional sales tax monies to jurisdictions for transportation infrastructure purposes. Including all of these revenue sources, it is estimated the City spends an average of \$89,200 per mile annually on street maintenance, including long-term capital replacement expenditures. This is averaged across all types of streets and does not include related expenditures for street landscaping or storm drains.

PROJECT IMPACTS

In addition to internal circulation, which is estimated at about one mile, the proposed project would add two arterial roads to the City inventory, North Bluff Rd. and Bluff Rd., with an approximate combined length of 1.5 miles. Extension of existing City streets into the site would add about 0.3 mile to the total and the project also proposes to construct a pedestrian bridge over Pacific Coast Highway. The HOA would maintain all parkways and bioswales. In addition, the project traffic analysis indicates that less than 50 percent of the traffic on Bluff Rd and North Bluff Rd. would be directly related to the project. Based on these conditions, it is estimated that annual street maintenance costs would be about \$142,000.

The actual costs in the early years of the project would likely be less, but then would increase in later years. Additional City costs for maintenance of Bluff Rd., North Bluff Rd. and connecting external streets not attributable to the project would be \$71,000.

4. FISCAL IMPACT ON CITY OF NEWPORT BEACH

The public service plan above identifies potential City service expenditures needed to support the proposed development of Newport Banning Ranch. In addition, there would be

other costs for general government functions normally provided by the City to residents and businesses in Newport Beach. This section summarizes the projected City costs and discusses the revenue sources anticipated to help defray the expenses. This section addresses operating costs and revenues for the City. The next section addresses capital improvements needed to implement the project and potential funding sources for those costs.

MUNICIPAL SERVICE EXPENDITURES

The services required to support the proposed project are estimated to cost about \$2.7 million per year (Table 3). These costs were estimated with the aid of the City's fiscal impact model, which was developed for use in the 2006 General Plan Update process. For this analysis, the model has been updated to reflect the 2010-2011 City budget. In addition, certain cost estimates have been adjusted to reflect the specific design features of the project and the public service impacts identified in the DEIR for the Newport Banning Ranch Project.

Most of the direct services required for the project and their related costs were discussed in the previous chapter. The fiscal model also provides an estimate of General Government costs, which reflect administrative and support services provided by City government to the direct line departments and the residents and businesses of the City. The City departments included in the General Government category are the City Clerk, City Manager, Human Resources, City Attorney, and Administrative Services. (The City Council is not assumed to have increasing annual expenditures due to new development.) The budgets for these departments represent approximately ten percent of the City's General Fund budget. In Table 3, the General Government costs are calculated as a percent of the direct service department costs and are estimated to total \$240,000 per year at full build out of the project.

In terms of line department costs, the largest expenditure would be for fire protection and emergency medical response after annexation. The cost estimate for fire protection reflects the increased calls for service, both for medical emergencies and structure related emergencies, at the point when the project is served from a new permanent fire station. As indicated in the earlier discussion of Fire Department impacts, the applicant would be obligated for payment for the construction and operation of a temporary station onsite until a new permanent station can be constructed.

As indicated in the public services plan, the Police Department would need three additional sworn personnel to maintain the current sworn officer to resident ratio and the cost estimate also includes related support functions, staff and operating expenses within the Department.

The Public Works/General Services cost estimate reflects maintenance of the community park onsite and project residents' use of off-site parks, as well as streets, storm drains, signage and lighting. As discussed in the previous chapter, the full maintenance of the community park is not directly attributed to the Newport Banning Ranch project since it would be used by all City residents. Some of the costs for street maintenance are also shown under the category of CIP streets, Gas Tax and Measure M. Taken together, these cost categories reflect not only the direct onsite expenditures to maintain project facilities, but also the average cost related to project traffic wear and tear on other City streets and facilities.

Once the project is developed, it would have minimal impact on the Community Development Department. Typical activities include remodels or other owner-initiated physical changes to the development. The City levies planning, building permit fees and other charges for such services so it is likely that little of the \$56,000 per year shown in Table 3 would be a net cost to the City. City charges for service are estimated below in the revenue section and are shown as one of the revenue sources available to defray project related expenses.

The Community Services line item of \$468,000 includes both the Library and the City Recreation Department. It also includes City cultural, arts and senior citizens program costs. Again, residents of the project may also pay certain fees for these services, particularly for recreation programs, so the net cost would be less than shown in Table 3.

**TABLE 3
EXPENDITURE IMPACTS ON THE CITY
OF NEWPORT BEACH**

Expenditure Categories	Annual Costs
GENERAL FUND	
General Government	\$292,000
Police	\$516,000
Fire	\$726,000
Public Works/General Services	\$604,000
Community Development	\$56,000
Community Services	\$468,000
CIP Streets	\$12,000
Other CIP Projects	\$9,000
GENERAL FUND TOTAL	\$2,632,000
Gas Tax	\$34,000
Measure M	\$49,000
TOTAL EXPENDITURES	\$2,715,000

Source: ADE Inc.

REVENUES

The first effect of the proposed annexation would be the transfer of a portion of the property tax currently paid on the property from the County to the City. Orange County and the City of Newport Beach have executed a tax sharing agreement to govern this transfer of revenue for annexations in general, which is discussed in more detail below. Once the annexation is completed and the proposed development of the site begins to occur, then the project would also be subject to other taxes and fees collected by the City of Newport Beach. These revenues would be available to help pay for the cost of services discussed above.

PROPERTY TAX

Under California law, all private property pays a base property tax equal to one percent of the assessed value of the property. The total tax rate may be higher than one percent if the voters in the jurisdiction approve additional amounts by a two-thirds majority. Typically, additional tax amounts are approved to pay for school bonds or other special purpose financing projects. The base one percent tax is distributed to a number of taxing agencies that provide services, either directly or regionally, to the property. Contiguous parcels with similar taxing agency jurisdictions are grouped together into Tax Rate Areas (TRAs) and the

property tax for all the property within the TRA is distributed on a percentage basis to the taxing agencies. In Table 4 below, the middle column shows the distribution of the one percent tax within the unincorporated TRA in which the Newport Banning Ranch property is currently located. The agencies for which the tax distribution will change upon annexation are shaded.

**TABLE 4
ALLOCATION OF BASIC 1% PROPERTY TAX**

Taxing Agency	Existing (TRA 55-051)	Projected
A58-.01 057A Newport Beach City	-	18.96496%
C66-.01 744A Orange Co Vector Control Dist	0.13268%	0.13268%
C84-.01 706A O C Fire Authority-Gen Fund	13.23621%	-
C87-.01 960A Orange County Water District	1.04153%	1.04153%
C87-.02 961A Orange Co. Water Dist-Water Reserve	0.01270%	0.01270%
C89-.01 708A Orange County Transit Authority	0.33532%	0.33532%
C90-.06 916G OC Sanitation #6 Gen Fund	2.39268%	2.39268%
UGA-.01 320B Newport-Mesa Unif Gen Fund	40.69529%	40.69529%
VAA-.01 300B Coast Comm College Gen Fund	11.35150%	11.35150%
ZAA-.01 600A OC Dept of Education-Gen Fund	1.62527%	1.62527%
100-100.01 001C Orange Co Gen Fund	7.25370%	3.48629%
120-120.01 002A Orange County Public Library	1.96133%	-
400-400.01 710A OC Flood Control District	2.32279%	2.32279%
405-405.01 713A OC Parks CSA 26	1.80188%	1.80188%
664-664.01 001C Educational Revenue Augmentation Fund	12.03246%	12.03246%
664-664.01 002A Educational Revenue Augmentation Fund	2.25561%	2.25561%
664-664.01 706A Educational Revenue Augmentation Fund	-0.75050%	-0.75050%
664-664.01 708A Educational Revenue Augmentation Fund	0.22355%	0.22355%
664-664.01 710A Educational Revenue Augmentation Fund	0.95423%	0.95423%
664-664.01 713A Educational Revenue Augmentation Fund	0.34470%	0.34470%
664-664.01 744A Educational Revenue Augmentation Fund	0.10865%	0.10865%
664-664.01 916G Educational Revenue Augmentation Fund	0.66842%	0.66842%
Total	1.00000%	1.00000%

Source: ADE Inc.

The tax sharing agreement between the City and the County was adopted in 1980. The agreement was amended in 2002 to reflect a slightly different tax distribution for the Newport Coast annexation, contingent upon the City annexing the Bay Knolls area, which occurred in 2003. The amendment also memorialized prior agreements to transfer the tax share from the County Library and the Orange County Fire Authority to the City since the City provides those services directly. This amendment did not specifically reference the future annexation of Newport Banning Ranch. For purposes of this analysis, we have assumed the transfer of the library and fire authority tax but used the older tax split between the City and the County, which slightly favors the County. This has a very minor effect on the resulting tax share for the City. The City would receive about 52 percent of the County's current share, which is only 7.25 percent, compared to 51 percent under the Newport Coast allocation. Under this scenario, the components of the City's new tax share for Newport Banning Ranch would be as follows:

Taxing Agency	Allocation
C84-.01 706A O C FIRE AUTHORITY-GEN FUND	13.23621%
120-120.01 002A ORANGE COUNTY PUBLIC LIBRARY	1.96133%
100-100.01 001C ORANGE CO GEN. FUND	3.76741%
NEW ALLOCATION FOR CITY OF NEWPORT BEACH	18.96496%

The current assessed value for the site is \$43.2 million and the base one percent tax paid by the property owners is estimated at \$432,326. The County General Fund currently receives about \$31,360 of the tax. Upon completion of the annexation, the County General Fund would continue to receive \$15,072 (48 percent of its original amount) and the City would begin to receive \$81,990 (about 18.96 percent of the total). The County Library and the County Fire Authority would no longer receive property tax from the site.

At full build out of the proposed project, the land and improvements are estimated to have a total assessed value of \$1.52 billion as described in the project description above. This valuation includes only the developed portion of the property and does not ascribe assessed value to the parks or open space portions of the site. With this assessed value, the City would receive \$2.89 million per year in property tax and the County General Fund would receive about \$531,200 per year. (The County would also incur some increased costs for services it provides on a countywide basis).

OTHER CITY REVENUES

As shown in Table 4 below, the base property tax represents a little over 60 percent of the total revenue the project would likely generate for the City of Newport Beach. A brief description of the major revenue categories is provided below.

Property Tax in lieu of Vehicle License Fees: Several years ago, as part of the Proposition 1A “triple flip” agreements between the State of California and local government jurisdictions, the State lowered vehicle license fees but agreed to make up the difference to local government through additional property tax allocations. These funds are allocated differently than the base property tax discussed above, but the revenues do increase as assessed value increases in the City. In Newport Beach, this revenue represents about 10.8 percent of the base property tax allocation, and is projected in Table 4 on that basis. It should be noted that the City continues to receive a share of the regular motor vehicle license fees, which is estimated at \$14,000 in Table 4.

Sales Tax: The project planned for Newport Banning Ranch includes 75,000 sq. ft. of retail, plus an additional 7,000 sq.ft. of sales tax generating space in the resort, including the restaurants and gift shops. This commercial space will directly produce sales tax and, in addition, the inhabitants of new residential development as well as additional visitors attributed to the development of the resort will patronize local businesses. The sales tax estimates anticipate these effects. The taxable sales potential from the mixed use retail space is approximately equal to the anticipated spending from the 1,375 households in the project, although the project description does not indicate the mix of retail stores planned for this part of the development. Normally, households do not do all of their shopping in one place so it is likely they will patronize other stores in addition to those onsite.

TABLE 4
ESTIMATED PROJECT ANNUAL REVENUES

Revenue Categories	Annual Revenues
GENERAL FUND	
Property Tax	\$2,890,000

Property Tax in-lieu of VLF	\$292,000
Sales Tax	\$333,000
Transient Occupancy Tax	\$427,000
Franchise Taxes	\$68,000
Business Licenses	\$43,000
Motor Vehicle-in-Lieu	\$14,000
Other Intergovernmental	\$27,000
Charges for Service	\$225,000
Fines, Penalties, and Forfeitures	\$68,000
Licenses and Permits	\$9,000
Use of Property	\$135,000
Other Revenue	\$13,000
Interest Income	\$33,000
SUBTOTAL GENERAL FUND	\$4,594,000
Gas Tax	\$76,000
Measure M	\$19,000
TOTAL REVENUE	\$4,688,000

Source: ADE, Inc.

Given the location of the project, it is possible that a significant portion of the residents' offsite spending could occur in Costa Mesa rather than in Newport Beach. In order to avoid double counting sales tax dollars, the analysis is based on typical sales per sq.ft. figures for the retail space rather than on the projected household spending patterns for the resident population. The analysis does include about \$5.5 million per year in taxable sales from the resort and offsite spending from resort visitors. The total regular sales tax from the project under these assumptions is projected at about \$333,000 per year. Measure M is also a regional sales tax revenue which is allocated to local jurisdictions for transportation purposes. It is estimated in Table 4 as a function of regular sales tax generation.

Transient Occupancy Tax (TOT): As described in the project description, the analysis assumes an average room rate of \$200 per room and a 70 percent occupancy rate for the 75 lodging units. The City levies a 10 percent TOT tax on room revenues, which would generate \$383,200 per year for the City. Newport Beach also features a large number of residential units that are used as vacation rentals. Based on the average of approximately \$32 TOT revenues per year for all residential units in the City, the residential portion of the project could generate another \$43,400 in TOT per year.

Other revenues in Table 4 are projected on a per capita basis with the aid of the City fiscal model.

- Franchise taxes are charged on utility bills for electrical, TV and telephone service provided by private utility companies.
- Business license fees are ascribed mainly to the commercial and lodging portions of the project but also include the potential for home based businesses in the residential component of the project.
- Charges for service, fines, and licenses and permits include a wide range of direct charges by the City, mostly for over-the-counter services provided to residents and businesses. This also includes categories such as library and parking fines. Not included in these categories, however, are the initial fees and permits associated with the annexation process and entitlements for the proposed development. These are assumed to be one-time revenues for the City to defray actual expenditures for City

staff and officials to process the development application. The revenues in Table 4 reflect ongoing revenues once the development is completed.

- Use of Money and Property includes parking meter fees among a variety of other revenue sources for the City, including rental or lease of various City facilities. It is assumed that use of City facilities and these related revenues grow generally as more residents and businesses are added to the City.

NET FISCAL IMPACT

Based on the revenue and cost projections shown in Tables 3 and 4, the proposed project would have a net fiscal benefit of nearly \$2.0 million per year at full build out (Table 5). The City would have a somewhat lower benefit overall due to increased maintenance costs for the community park and the Bluff Rd., as shown in the right hand column of Table 5. Thus, the regular tax and fee income generated by the project for the City would be sufficient to cover the operations and maintenance costs associated with providing the full range of City services to the project.

TABLE 5
NET FISCAL IMPACT

	Project Share	Total City Costs
Total Revenues	\$4,688,000	\$4,688,000
Total Expenditures	\$2,715,000	\$2,986,974
NET (COST)/REVENUE	\$1,973,000	\$1,701,026

Source: ADE, Inc.

The next section of the report addresses the issue of funding the public facilities and infrastructure needed to implement the project.

5. CAPITAL FACILITIES FUNDING

Currently, City services are not provided to the proposed annexation site. In order to implement the proposed project, the developer would need to install the following improvements:

- Circulation system including North Bluff and Bluff Roads, local roads, and local residential streets. The project plan also includes a pedestrian and bicycle bridge over the Pacific Coast Highway and off-site improvements to 15th, 16th, and 17th Streets in the City.
- Water, sewer, storm drainage, and water quality treatment infrastructure.
- Street landscaping and lighting.
- Approximately 51 gross acres of parks. The project also includes the dedication of approximately 252 gross acres and approximately 240 net acres of open space, with associated public trails and facilities.

The new development would be subject to the City's Excise tax on new construction and traffic impact fees. It is assumed the development would not be subject to Quimby Act fees since it is providing sufficient park acreage onsite. The excise tax is charged at the rate of \$.21 per sq.ft of new construction is allocated to capital improvements needs related to City fire services and libraries. Based on the potential new development on the project site, Table 6 estimates the anticipated amount of the excise tax at about \$585,000. The City also has a fair share traffic impact fee, which is allocated to citywide traffic improvements. As shown in Table 6, it is estimated that the proposed development would pay nearly \$4.7 million in traffic impact fees, based on current fee levels. It is possible the Fair Share Fee will be updated and increased by the time this project is approved. This could also be adjusted based on developer's construction of roads beyond what is needed for the project.

**TABLE 6
DEVELOPMENT RELATED REVENUE**

			TRAFFIC FEE				EXCISE TAX	
Non-Residential	Square Feet	Rooms	Category	Unit	Fee/Unit	Fee Revenue	Fee/Square Foot	Fee Revenue
Retail	75,000		General Commercial	TSF	\$7,593	569,475	\$0.21	15,750
Lodging	94,000	75	Resort Hotel	Room	1,139	85,425	0.21	19,740
Residential	Square Feet	DUs	Category	Unit	Fee/Unit	Fee Revenue	Fee/Square Foot	Fee Revenue
Low Density	3,230	57	Res-Low (SFD)	TSF	2,088	1,126,288	0.21	113,276
Low/Medium Density	2,240	163	Res-Medium (SFA)	TSF	1,633	310,923	0.21	39,984
Medium Density	2,000	349	Res-Medium (SFA)	TSF	1,633	999,396	0.21	128,520
Mixed Use	1,560	806	Apartment	TSF	\$1,234	1,572,758	\$0.21	267,649
Total	9,741,330					4,664,265		584,919

Source: ADE Inc., City of Newport Beach.

