



**KEYSER MARSTON ASSOCIATES™**  
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

**MEMORANDUM**

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REAL ESTATE  
AFFORDABLE HOUSING  
ECONOMIC DEVELOPMENT

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**To:** Lynn Kelly-Lehner, Principal Management Analyst  
City of Temecula

**From:** KEYSER MARSTON ASSOCIATES, INC.

**Date:** November 3, 2020

**Subject:** Proposed Harveston Specific Plan Residential Overlay  
Fiscal Impact Analysis of Non-Residential Development

**I. INTRODUCTION**

*A. Objective*

The City of Temecula (City) is currently considering a proposal for a residential overlay (Overlay) on an 87.54-acre site west of Ynez Road at its intersection with Date Street (Planning Area 12 Site) within the Harveston Specific Plan (Specific Plan). This Overlay will require amendments to both the Specific Plan and the City's General Plan. The Planning Area 12 Site is currently zoned for Service Commercial (SC), allowing for non-residential uses such as office, retail, warehouse, and manufacturing uses. Under the proposed Overlay, it is projected that the Planning Area 12 Site can accommodate up to 1,000 residential units. The City requested that Keyser Marston Associates, Inc. (KMA) analyze the potential fiscal impact of non-residential development (existing zoning) vs. residential development (proposed Overlay) on the Planning Area 12 Site.

Exhibit I-1 on the following page presents a map of the Planning Area 12 Site. Table I-1 presents the net area of the Planning Area 12 Site. As shown, the net site area considers an estimated reduction factor of 20% for internal circulation, streets, and open space. In addition, a reduction of 14.19 acres is applied to account for a previously approved senior housing project (Lantern Crest).

Table I-1: Net Site Area	
Gross Site Area	87.54 Acres
(Less) Lantern Crest Project	<u>(14.19)</u> Acres
Adjusted Site Area	73.34 Acres
(Less) Internal Circulation/ Streets/Open Space @ 20%	<u>(14.67)</u> Acres
Net Site Area	58.68 Acres

Based on a review of current residential market conditions and recent development proposals in the City, KMA estimated the potential residential unit mix for the Planning Area 12 Site developed in accordance with the proposed Overlay shown in Table I-2 below.

Table I-2: Potential Residential Unit Mix	
Single-Family Attached Townhomes (2-Story)	188 Units
Single-Family Attached Townhomes (3-Story)	466 Units
Single-Family Detached	<u>346 Units</u>
Total Units	1,000 Units

The purpose of this FIA is to estimate, on an order-of-magnitude basis, the stabilized annual fiscal impact resulting from build-out of the proposed Overlay vs. potential non-residential development scenarios on the Planning Area 12 Site.



### B. Methodology

In completing this assignment, KMA undertook the following principal work tasks:

- Reviewed background materials and planning/zoning documents relevant to the Planning Area 12 Site.
- Reviewed the City's FY 2020 General Fund Operating Budget to understand the City's fiscal condition and revenue/expenditure parameters.
- Interviewed key City staff regarding cost of service structure and approach to provide municipal services.
- Collected and reviewed trade area non-residential real estate market data and project comparables.

- Prepared hypothetical development programs for potential non-residential development scenarios.
- Estimated annual recurring revenues and municipal service expenditures resulting from build-out of both the Overlay and potential non-residential development scenarios on the Planning Area 12 Site.

It should be noted that this FIA was completed between July 2019 and March 2020, just prior to the Coronavirus (COVID-19) pandemic. Therefore, the estimates of fiscal impact contained in this report do not consider the potential adverse impacts of the pandemic and national recession that may follow.

### *C. Report Organization*

- Section II presents a summary of the KMA key findings.
- Section III presents the key fiscal impact assumptions.
- Section IV provides a projection of the fiscal impact of the Overlay on the Planning Area 12 Site.
- Section V provides a projection of the fiscal impact of potential non-residential development scenarios on the Planning Area 12 Site.
- Finally, Section VI lists limiting conditions pertaining to this report.

## **II. KEY FINDINGS**

### *A. Residential Overlay*

Based on recent market and fiscal analyses conducted for the City, KMA estimated the probable fiscal impact per net acre resulting from potential residential development on the Planning Area 12 Site in accordance with the proposed Overlay. The stabilized annual fiscal impact at build-out of this potential residential development was estimated to be *negative* \$6,370 per net acre (FY 2020 dollars). As a result, KMA estimates that the total annual fiscal impact of the Overlay on the Planning Area 12 Site will be approximately *negative* \$374,000 (FY 2020 dollars).

### *B. Non-Residential Development*

KMA also estimated the fiscal impacts resulting from potential non-residential development scenarios for the Planning Area 12 Site. These scenarios range from single-use projects in the form of hotel, retail, and office to mixed-use development combining all three uses. It should be noted that these scenarios were identified based on a review of the existing zoning allowances for the Planning Area 12 Site. These estimates and project descriptions are not based on inputs from the Developer. KMA has not conducted

comprehensive market and financial feasibility analyses to determine the near-term viability of these uses. The scenarios are intended for illustrative fiscal impact purposes only.

Table II-1 below summarizes the KMA fiscal impact findings for both single-use and mixed-use development scenarios assumed to be developed on the Planning Area 12 Site.

<b>Table II-1: Estimated Stabilized Annual Recurring Fiscal Impact (FY 2020\$) – Non-Residential Development</b>				
	<b>Assumed Development Program</b>			
	<b>Single-Use</b>			<b>Mixed-Use</b>
<b>Planning Area 12 Site</b>	<b>Hotel</b>	<b>Retail</b>	<b>Office</b>	
A. Hotel (Rooms)	2,934	---	---	722
B. Retail (SF)	---	1,022,000	---	361,000
C. Office (SF)	---	---	1,278,000	512,000
<b>D. Stabilized Annual Fiscal Surplus/(Deficit)</b>	<b>\$11,039,000</b>	<b>\$6,638,000</b>	<b>\$76,000</b>	<b>\$5,090,000</b>
<b>Per Net Acre</b>	<b>\$188,000</b>	<b>\$113,000</b>	<b>\$1,300</b>	<b>\$87,000</b>

As shown in the table, of the single-use development scenarios, hotel use is projected to generate a stabilized annual fiscal surplus of \$11.0 million, or \$188,000 per net acre (FY 2020 dollars). Single-use retail is estimated to generate a stabilized annual fiscal surplus of \$6.6 million, or \$113,000 per net acre (FY 2020 dollars). Office use is projected to generate the lowest stabilized annual fiscal surplus of the single uses at \$76,000, or \$1,300 per net acre (FY 2020 dollars). The mixed-use development scenario, which combines all three uses, is estimated to generate a stabilized annual fiscal surplus of approximately \$5.1 million, or \$87,000 per net acre (FY 2020 dollars).

### III. KEY ASSUMPTIONS TO FISCAL IMPACT PROJECTION

This section presents an overview of the key fiscal impact assumptions utilized as part of this analysis.

#### A. Demographic and Economic Overview

Table III-1 presents key demographic and economic factors for the City. The data consist of population, number of housing units, and total jobs.

<b>Table III-1: Demographic and Economic Overview, City of Temecula</b>	
	<b>2019 Estimate</b>
Population	113,826
Housing Units	34,078

Table III-1: Demographic and Economic Overview, City of Temecula	
	2019 Estimate
Jobs	49,647

*B. Overview of City General Fund Budget*

Table III-2 below provides an overview of the City's FY 2020 General Fund budget. As shown, the City was operating at a net surplus of \$1.8 million in FY 2020.

Table III-2: City of Temecula, Mid-Year FY 2020 General Fund Budget	
General Fund Revenues	\$80,128,000
General Fund Expenditures	<u>(\$78,312,000)</u>
Net Surplus/(Deficit)	\$1,816,000
Revenues to Expenditures Ratio	1.02

This FIA utilizes the City's General Fund budget to project net new revenues and expenditures as a result of new development based on a modified per capita measure known as "resident equivalents." This approach combines residents and employees to form a single service population. As summarized in Table III-3 below, the resident equivalent approach weighs an employee as 0.33 residents, such that three employees are viewed as having the same impact as one resident. By dividing General Fund departmental revenues and expenditures by resident equivalents, a "cost per resident equivalent" factor can be calculated. Projected revenues and expenditures as a result of new development can then be calculated by applying this factor to the development's estimated new residents and/or employees.

Table III-3: Total Citywide Resident Equivalents				
	Total Population	Total Employment	Total Population + Jobs	Total Resident Equivalents <sup>(1)</sup>
City of Temecula	113,826	49,647	163,473	130,210
(1) Assumes a resident equivalent factor of 0.33 (three employees have approximately the same impact as one resident).				

Other revenues such as property and sales tax were estimated based on projected increases in assessed value and taxable sales as a result of incremental development, respectively. Similarly, KMA estimated most General Fund expenditure impacts using a "per resident" or "per resident equivalent" factor from the existing General Fund. The projection of expenditure impacts reflects a deduction for citizen/user payments in the form of Charges for Services to yield net (unreimbursed) expenditures.

### General Fund Revenues

This section discusses the annual recurring General Fund revenue assumptions utilized in this analysis. Annual recurring revenues generated by new development, such as Property Tax and Sales and Use Tax, were estimated based on assumed real estate market factors such as market values of the residential uses. One-time revenues such as Development Impact Fees and building permits used to offset one-time City costs were not evaluated in this FIA.

Franchise Fees, Licenses and Permits, Fines and Forfeitures, and other revenues were estimated by applying a per capita or “per resident equivalent” to the number of new residents and/or employees anticipated as a result of new development.

### General Fund Expenditures

This section discusses the annual recurring General Fund expenditure assumptions utilized in this analysis. Annual recurring expenditures, including Fire, Public Works, and City Council, were estimated by applying a per capita or “per resident equivalent” cost estimate to the number of new residents and/or employees anticipated from new development, with the exception of Police. To estimate Police expenditures, KMA applied each new development’s pro rata share of one (1) new police officer at an approximate annual cost of \$327,000 per 1,000 population added to the City.

KMA also applied a marginal cost adjustment to each expenditure category to reflect that General Fund expenditures do not typically have a 1:1 relationship between projected population growth and demand for municipal services, such as overhead and administrative functions within City government. As shown in Table III-4, the marginal cost adjustments assumed by KMA ranged between 0% (no adjustment to per capita assumptions) to 100% (expenditures not impacted by new development).

Table III-4: Annual Expenditure Marginal Cost Impact Adjustments	
	Marginal Cost Impact Adjustment <sup>(1)</sup>
Police	5.0%
Public Works – Land Development, Public Works, etc.	10.0%
Fire	5.0%
Public Works – Parks & Maintenance	10.0%
Community Development	20.0%
Finance	30.0%
City Clerk	30.0%
Retiree Medical Contribution	90.0%
City Attorney	40.0%
City Council	40.0%
Community Support	80.0%
PERS Replacement Benefit	100.0%
Property Tax Administration	30.0%
Asset Management Fund	0.0%
General Government	40.0%
(1) Reflects adjustment to expenditure categories that do not typically have a 1:1 relationship between population growth and demand for municipal services. For example, an increase in population will demand 95% of Police municipal services expenditures per net new resident equivalent.	

#### IV. FISCAL IMPACT OF PROPOSED OVERLAY

To assess the fiscal impact of the proposed Overlay on the Planning Area 12 Site, KMA performed the following tasks:

- Estimated the stabilized annual fiscal impact of the Overlay at build-out in FY 2020 dollars. (This estimate was based on recent market and fiscal impact analyses conducted and reviewed by KMA with respect to residential development proposals within the City.)
- Expressed the fiscal impact of the Overlay on a per-net-acre basis.

KMA estimates that, on a per net acre-basis, build-out of the Planning Area 12 Site under the proposed Overlay will generate a stabilized annual fiscal impact of approximately *negative* \$6,370 per net acre (FY



2020 dollars). As such, an Overlay applied to the Planning Area 12 Site is estimated to generate a total annual fiscal impact of approximately *negative* \$374,000 (FY 2020 dollars), as shown in Table IV-1 below.

Table IV-1: Estimated Stabilized Annual Recurring Fiscal Impact (FY 2020\$) – Residential Overlay	
Net Site Area	58.68 Acres
Fiscal Impact Per Net Acre	(\$6,370)
<b>Estimated Stabilized Annual Fiscal Surplus/(Deficit)</b>	<b>(\$374,000)</b>

## V. FISCAL IMPACT OF NON-RESIDENTIAL DEVELOPMENT

In addition to the fiscal impact of the proposed Overlay, KMA estimated the fiscal impact of four (4) potential non-residential development scenarios on the Planning Area 12 Site. These prototypes range from single-use projects in the form of hotel, retail, and office to a mixed-use development comprising all three uses. It should be noted that these scenarios were identified based on a review of the existing zoning allowances for the Planning Area 12 Site. These estimates and project descriptions are not based on inputs from the Developer. KMA has not conducted comprehensive market and financial feasibility analyses to determine the near-term viability of these uses. The scenarios are intended for illustrative fiscal impact purposes only.

Table V-1 presents the key assumptions utilized to formulate the project descriptions and assess the fiscal impact of both the single-use and mixed-use non-residential development scenarios analyzed for the Planning Area 12 Site. These assumptions were based on a review of existing land use/zoning, third party market data for the Temecula area, and industry standards.

Table V-1: Key Assumptions – Potential Non-Residential Development			
	Hotel	Retail	Office
A. % of Gross Site Area Deducted for Internal Circulation	20%	20%	20%
B. Site Reduction for Lantern Crest Project	14.19 Acres	14.19 Acres	14.19 Acres
C. Density (Rooms per Acre/FAR)	50	0.40	0.50
D. Assessed Value (Per Room/Per SF)	\$250,000	\$375	\$325
E. Average Daily Room Rate	\$150	---	---
F. Sales Productivity (Per SF Per Year)	---	\$500	---
G. Retail Expenditures Per Office Worker Per Year	---	---	\$7,090

Based on these assumptions, KMA formulated non-residential project descriptions for the three (3) single-use scenarios and one (1) mixed-use scenario for the Planning Area 12 Site as presented in Table V-2 below.

<b>Table V-2: Assumed Development Programs – Potential Non-Residential Development</b>				
	<b>Single-Use</b>			<b>Mixed-Use</b>
<b>Planning Area 12 Site</b>	<b>Hotel</b>	<b>Retail</b>	<b>Office</b>	
A. Net Site Area (Acres)	58.68	58.68	58.68	58.68
B. Hotel (Rooms)	2,934	---	---	722
C. Retail (SF)	---	1,022,000	---	361,000
D. Office (SF)	---	---	1,278,000	512,000

Utilizing the key assumptions described in this analysis, as well as the methodology from recent market and fiscal impact analyses conducted by KMA, the stabilized annual fiscal impact was calculated for each non-residential development prototype as shown in Table V-3 below.

<b>Table V-3: Estimated Stabilized Annual Recurring Fiscal Impact (FY 2020\$) – Potential Non-Residential Development</b>				
	<b>Single-Use</b>			<b>Mixed-Use</b>
	<b>Hotel</b>	<b>Retail</b>	<b>Office</b>	
Per Net Acre Per Year	\$188,000	\$113,000	\$1,300	\$87,000
Total – Planning Area 12 Site	\$11,039,000	\$6,638,000	\$76,000	\$5,090,000

As shown in the table, of the single uses at build-out, the hotel development is anticipated to have the largest stabilized annual recurring fiscal surplus at \$11.0 million, or \$188,000 per net acre (FY 2020 dollars). The annual fiscal impact of retail development is estimated at 6.6 million, or \$113,000 per net acre (FY 2020 dollars). The office development prototype is anticipated to have the lowest annual recurring fiscal surplus at \$76,000, or \$1,300 per net acre (FY 2020 dollars). The mixed-use development scenario, comprising all three land uses, is estimated to generate an annual recurring fiscal surplus of \$5.1 million, or \$87,000 per net acre (FY 2020 dollars).

## VI. LIMITING CONDITONS

1. The KMA analysis is based, in part, on data provided by secondary sources, such as state and local governments, planning agencies, real estate brokers, and other third parties. While KMA believes that these sources are reliable, we cannot guarantee their accuracy.

2. A projection of economic impacts is inherently based on judgment. While KMA considers these projections reasonable for planning purposes, it is the nature of forecasting that some assumptions may not materialize and unanticipated events and circumstances may occur. Such changes may be material to the projections and conclusions herein and, if they occur, may require review or revision of this report.
3. The projections of future economic impact do not consider the potential adverse impacts of the Coronavirus (COVID-19) pandemic and national recession that is likely to follow.
4. The accompanying projections and analyses are based on estimates and assumptions which were developed using currently available economic data, Project-specific data, and other relevant information. It is the nature of forecasting, however, that some assumptions may not materialize, and unanticipated events and circumstances may occur. Such changes are likely to be material to the projections and conclusions herein and, if they occur, require review or revision of this document.
5. Any estimates of revenue or cost projections are based on the best Project-specific and fiscal data available at this time as well as experience with comparable projects. They are not intended to be projections of actual future performance of any specific project.
6. Revenue estimates are based on the assumption that sufficient market support exists for the proposed uses and that the Project will achieve industry standard productivity levels.
7. KMA assumes that all applicable laws and governmental regulations in place as of the date of this document will remain unchanged throughout the projection period of our analysis. In the event that this does not hold true, i.e., if any tax rates change, the analysis would need to be revised.
8. Value estimates assume that any necessary entitlements or zoning changes for development can be obtained in a reasonable time frame.
9. Value estimates assume that property titles are good and marketable; no title search has been made, nor has KMA attempted to determine property ownership. The value estimates are given without regard to any questions of boundaries, encumbrances, liens, or encroachments.
10. Property tax projections reflect KMA's understanding of the assessment and tax apportionment procedures employed by the County. The County procedures are subject to change as a reflection of policy revisions or legislative mandate. While we believe our estimates to be reasonable, taxable values resulting from actual appraisals may vary from the amounts assumed in the projections.

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11. No assurances are provided by KMA as to the certainty of the projected tax revenues shown in this document. Actual revenues may be higher or lower than what has been projected and are subject to valuation changes resulting from new developments or transfers of ownership not specifically identified herein, actual resolution of outstanding appeals, future filing of appeals, or the non-payment of taxes due.
12. KMA is not advising or recommending any action be taken by the City with respect to any prospective, new, or existing municipal financial products or issuance of municipal securities (including with respect to the structure, timing, terms and other similar matters concerning such financial products or issues).
13. KMA is not acting as a municipal advisor to the City and does not assume any fiduciary duty hereunder, including, without limitation, a fiduciary duty to the City pursuant to Section 15B of the Exchange Act with respect to the services provided hereunder and any information and material contained in KMA's work product.
14. The City shall discuss any such information and material contained in KMA's work product with any and all internal and/or external advisors and experts, including its own municipal advisors, that it deems appropriate before acting on the information and material.