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ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

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Affordable Housing
Economic Development

To: Christopher E. Jackson, Director
Inglewood Economic & Community Development Department

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Date: June 10, 2020

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Subject: Peer Review – Economic and Fiscal Impact Report: Inglewood Basketball and Entertainment Center

SAN DIEGO
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At your request Keyser Marston Associates, Inc. (KMA) has reviewed the Economic and Fiscal Impact Report: Inglewood Basketball and Entertainment Center prepared by HR&A Advisors (Report). The Report was prepared in support of the proposed development of a new entertainment venue in the City of Inglewood (City) that would house the Los Angeles Clippers and would provide another large-scale entertainment venue in Los Angeles County similar to Staples Center and the Forum. This peer review focuses on the fiscal impact analysis in the Report.

BACKGROUND

Murphy's Bowl, LLC (Developer) has proposed the development of the Inglewood Basketball and Entertainment Center (IBEC) to enable the relocation of the Los Angeles Clippers from Staples Center to the City of Inglewood. The site is located on approximately 27 acres of land on the south side of West Century Boulevard between Yukon Avenue on the east and Freeman Avenue on the west. 103rd Street forms the southern boundary.

The project description contemplates:

- 18,500 seat arena,
- 85,000 square foot practice and training facility,
- 71,000 square feet of team office space,
- 25,000 square foot sports medicine clinic,
- Up to 15,000 square feet of community serving space,
- Up to 15,000 square feet of full-service restaurant space,
- Up to 33,000 square feet of retail space,
- 150-room (key) hotel, and
- 4,125 space parking structure

The Report evaluates the maximum buildout on the site and in Appendix D considers both a smaller buildout and lesser activity at the arena (Reduced Development).

APPROACH

KMA has reviewed the Report and compared the methodology and assumptions with similar reports prepared by KMA and other consultants for both large- and small-scale projects. KMA has reviewed its research for other projects related to employment by use, spending and sales productivity for various uses and development costs for projects. KMA has reviewed City budgets for the current year and the past several years to confirm estimates in the Report. Finally, KMA has reviewed the relevant appendices of the IBEC's environmental impact report (EIR).

HR&A has estimated economic and employment impacts using the IMPLAN model. IMPLAN is one of the two input-output models used in estimating economic and employment impacts for projects.¹ While KMA has some differences in the estimation of project employment, those differences would make almost no difference in the estimation of economic and employment impacts.

ANALYSIS

KMA has focused on the fiscal analysis components of the Report. This portion of the Report focuses on the impact of the project on the budget of the City. As is typical of

¹ The Regional Industrial Multiplier System (RIMS) is the other.

fiscal impact reports, HR&A focuses on the General Fund portion of the budget. The overall City budget also includes a number enterprise funds or special purpose funds. These are not considered, as they have specified funding sources (e.g. user fees or special tax) and expenditures are tied to those revenues.

KMA has reviewed the maximum buildout concept and the Reduced Development or “downside” version of the Project presented in Appendix D. It is KMA’s opinion that maximum buildout scenario presents an optimistic version of the project, while the downside version presents a pessimistic version of the Project. However, the analysis in the Report does provide reasonable upper and lower bounds for evaluating the fiscal impact on the City. This will be discussed further in Results and Conclusions.

It is KMA’s understanding that the development agreement for IBEC includes a provision for Developer to reimburse the City for additional costs incurred on event days. As a result, such costs and reimbursements were not included in the Report and are not addressed here.

Public Revenues

The Report provides a detailed breakout and explanation of the public revenue projections. The two primary revenue sources to the City are the traditional property tax allocation and the property tax allocation to replace VLF funds. The Report estimates the assessed valuation of the completed IBEC at nearly \$959 million. This is consistent with news reports and is slightly less than the current assessed value of the new Warriors Arena complex in San Francisco. Together these two property taxes amount to nearly \$2.7 million annually, which represents nearly 45% of the total general fund revenues. The difference in property taxes between the IBEC and the Reduced Development alternative is approximately \$40,000.

As discussed in the Report, the two alternatives differ in their assumptions regarding the number of events that are considered “new” in the City and the amount of retail space built at the facility. The proposed project includes 33,000 square feet of “plaza dining and retail space”. The Reduced Development alternative only includes 7,500 square feet in this category.

KMA agrees with the methodology and computations used in the Report to compute the rest of the public revenues except for transient occupancy tax. HR&A utilizes an 80%

occupancy rate which represents the rate published in a recent CBRE report. However, this rate is above the long-term averages and the occupancy rate assumed by hotel developers when they are underwriting a project. Therefore, KMA utilized a 75% occupancy rate, which is consistent with hotel developer pro formas for this type of hotel product. The KMA projection reduces public revenues in both alternatives by approximately \$66,000.

As shown in the Summary Table, KMA's estimate of total annual public revenues amounts to \$5.99 million for the IBEC and \$5.39 million for the Reduced Development alternative.

Public Expenditures

KMA generally agrees with the methodology that is in the Report. However, KMA utilizes a slightly different approach and assumptions in evaluating the public expenditures associated with the project. KMA's estimate of public expenditures is shown in Table 1. The three areas where the KMA approach differs from HR&A relates to:

- Inclusion of City overhead costs
- Computation of resident equivalents
- Estimate of onsite employment

The Report has not included any allowance for costs associated with departments that are usually considered the overhead departments.² These departments had a budget cost of approximately \$24.6 million in the 2019 budget. The standard approach in most fiscal analyses is to assume the 50% of the overhead accounts are variable costs, which are affected by the development. KMA has included this cost in its review.

The second difference is in the computation of resident equivalents. The resident equivalent approach recognizes that a city budget is affected by both the resident population and the business population. The general methodology is that the 100% of the local population is counted as a resident for this purpose and employees/workers are counted as 50% of a person. The lower ratio for employees recognizes that employees are only in the city for part of the day and part of the week. HR&A has

² The first eight lines of the city budget beginning with Mayor & City Council and ending with Finance.

reduced the “resident” population factor for the time that they are working out of the City. Likewise, they reduce the worker percentage from 50% to approximately 30% based on the time spent in the City. We have not seen this approach used by any other consulting firm. The Report notes that current population is 110,598. Total employment in the City per ESRI Business Analyst is 29,685. By the traditional formula, total resident equivalents is equal 125,440.³

Finally, HR&A has utilized assumptions from IBEC to estimate the employment at the project. KMA has utilized general published employment factors, data from project EIRs and data from proprietary surveys of projects. KMAs employment estimates and factors are shown in Table 2.

RESULTS AND CONCLUSIONS

As shown in the Table 1, the total expenditures using the KMA methodology amount to \$1,423,377 for the IBEC and \$1,367,436 for the Reduced Development alternative. The KMA estimates are approximately \$60,000 greater than the estimate in the Report. The difference for the Reduced Development is similar, a \$78,000 difference. These differences are small, approximately 4.0% to 5.0% for the two alternatives.

The Report projected an annual net fiscal benefit of \$4.5 million to the City from the IBEC. As shown in the Summary Table, KMA projects a \$4.38 million net benefit, which is very similar to the Report. The result is similar for the Reduced Development Alternative. The Report projects a net benefit of \$3.97 million. The KMA analysis projects a \$3.8 million net benefit.

As noted at the beginning of this memorandum KMA believes that the fiscal analysis using the IBEC assumptions is overly optimistic and the Reduced Development alternative is overly pessimistic. This has to do with the estimates of the number of non-basketball events at the arena. Using the IBEC assumptions all 78 events are assumed to be new to the City. As HR&A acknowledges in Appendix D, the Stone Report only projects 29 new events in the region, much less the City. The Reduced Development alternative uses only the 29 new events as the basis for its projections. This is likely low as some of the other events at the Arena will likely be transfers from Staples Center, so these are also net new events in the City. Based on that, KMA

³ This amount is used in Table 1.

believes that the two alternatives evaluated represent reasonable upper and lower bounds for the fiscal impact of the project.

These projections assume full buildout of a project, either the full IBEC proposal or the Reduced Development alternative. Nearly all of the development is under the control of the Developer, however, the hotel is expected to be developed by others. If the hotel is not developed, then public revenues will be significantly reduced, but expenditures will only be reduced slightly. That is a risk to the City, which is not typically addressed in a fiscal impact report. If the hotel is not built the net reduction in revenues to the City approximately \$1.0 million.

In addition, property taxes represent nearly 45% of the public revenues to be received by the City. Given the importance of this revenue source it may be appropriate for the City to require a minimum level of assessed value at project completion as part of the development agreement.

Attachments

SUMMARY TABLE

FISCAL IMPACT SUMMARY IBEC PROJECT INGLEWOOD, CALIFORNIA

	<u>Full Buildout</u>	<u>Reduced Development</u>
Fiscal Revenues		
Property Tax	\$1,342,478	\$1,321,924
MVLF in Lieu	1,356,267	1,335,501
Business License Tax	279,815	231,880
Admissions Tax	784,274	566,439
Utility Users Tax	237,555	236,606
Sales Tax	712,407	488,511
Transient Occupancy Tax	954,293	954,293
Parking Tax	<u>325,804</u>	<u>255,129</u>
Total Annual Revenues	\$5,992,893	\$5,390,283
Existing Uses and Service Costs		
Net Benefit of Existing Uses ¹	(\$192,529)	(\$192,529)
City Service Costs (Incl OH) ²	<u>(1,423,377)</u>	<u>(1,367,436)</u>
Total Annual Uses and Costs	<u>(1,615,906)</u>	<u>(1,559,965)</u>
NET FISCAL IMPACT	\$4,376,987	\$3,830,318

1. Per HR&A

2. See Table 1

TABLE 1**FISCAL EXPENSES
IBEC PROJECT
INGLEWOOD, CALIFORNIA**

	<u>Full Buildout</u>	<u>Reduced Development</u>
Departments		
Police	\$68,178,686	
Fire	14,971,090	
Public Works	59,220,408	
Parks, Rec Community	12,401,568	
Overhead Departments @ 50%	<u>12,306,779</u>	
Total	\$167,078,531	
Resident Equivalents ¹	125,440	
Cost per Resident Equivalent	\$1,332	\$1,332
Project Resident Equivalents ²	1,069	1,027
Total Fiscal Cost	\$1,423,377	\$1,367,436

1. See memorandum text on page 5.

1. See Table 2.

TABLE 2

**ESTIMATE OF RESIDENT EQUIVALENTS
IBEC PROPOSED AND REDUCED PROJECT
INGLEWOOD, CALIFORNIA**

Proposed Project	Rooms or Sq. Ft.	Emp. Per SF or Room	Employees	Resident Equivalent @ 50%
Hotel Visitors ¹				90
Arena Spectators ¹				590
Arena Workers ¹				42
Clippers Team Office ²	71,000	300	237	119
Clippers Practice Facility ³	85,000	1,500	57	29
Sports Medicine Clinic ²	25,000	300	83	42
Community Space ²	15,000	300	50	25
Restaurants ⁴	15,000	200	75	38
Retail ²	33,000	300	110	55
Hotel Workers ⁵	150	0.50	75	<u>38</u>
Total Resident Equivalents				1,069
Reduced Project				
Hotel Visitors ¹				90
Arena Spectators ¹				590
Arena Workers ¹				42
Clippers Team Office ²	71,000	300	237	119
Clippers Practice Facility ³	85,000	1,500	57	29
Sports Medicine Clinic ²	25,000	300	83	42
Community Space ²	15,000	300	50	25
Restaurants ⁴	15,000	200	75	38
Retail ²	7,500	300	25	13
Hotel Workers ⁵	150	0.50	75	<u>38</u>
Total Resident Equivalents				1,027

1. Per HR&A methodology

2. KMA estimates based on ESRI Business Analyst, US Green Business Council and project EIRs

3. KMA estimate

4. KMA estimate base on restaurant industry reports, ESRI Business Analyst

5. KMA estimate. Hotel employment estimates range from 0.4 to 0.9 employees per room.