



**The Economic and Fiscal
Impact of Commerce Center
II on the City of Hesperia**

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The Economic and Fiscal Impact of Commerce Center II on the City of Hesperia
(Key Findings)

- The Hesperia Commerce Center II project is expected to infuse up to \$1.7 billion into the local economy through the construction of the warehouse and through the ongoing operations of the facility by 2026.
- The Center will generate over \$3 million in annual taxes by 2023.
- By 2023, ongoing operations from the Center is projected to support between 2000 - 2400 permanent jobs both directly and indirectly in the region.
- By 2023, ongoing operations from the Center is projected to increase personal earnings in the region by \$91 - \$114 million annually.
- By 2023, ongoing operations from the Center is projected to increase regional economic output by \$502 - \$560 million annually.

1. Introduction

The Covington Group has proposed to develop the Hesperia Commerce Center II in Hesperia, California. The site is located in the eastern part of the City at the northwest quadrant of US Highway 395 and Phelan Road/Main Street. The site is bound by Yucca Terrace Drive to the north, US Highway 395 to the east, Phelan Road to the south, and Los Angeles Department of Water and Power Road to the west. Regional access to the site is provided by US Highway 395 adjacent to the east, and Interstate 15, located approximately 1 mile east. The proposed project is approximately 194.8-acres and currently consists of vacant, undeveloped land. The proposed Center consists of three industrial/warehouse buildings with associated office spaces, surface parking, and loading areas totaling of 3,716,429 square feet.

The Center would support a variety of activities associated with the three industrial/warehouse buildings, including the ingressing and egressing of passenger vehicles and trucks, the loading and unloading of trucks with designated truck courts/loading areas, and the internal and external movement of materials on and around the site via forklifts, pallet jacks, and similar equipment. In addition, the office space would support general internal office activities related to the industrial/warehouse uses.

To better inform the planning discussions regarding the development, Andrew Chang & Company, LLC has been retained to conduct an economic and revenue impact analysis of the proposed development on the City of Hesperia. The purpose of this study is to analyze the economic impacts to the City, including the employment, household earnings, and economic output effects. In addition, this study assesses the one-time revenue impact to the City resulting from the development and construction of the project, and the ongoing fiscal impact on the City's revenues resulting from the operations of the Commerce Center. Key questions addressed in this study include the following:

- What is the impact on City General Fund revenues on a one-time and ongoing basis?
- What are the direct and indirect impacts (multiplier effect) of the initiative on employment in the local area on a one-time and ongoing basis?
- What are the direct and indirect impacts (multiplier effects) of the initiative on regional economic output on a one-time and ongoing basis?
- What are the direct and indirect impacts (multiplier effects) of the initiative on regional personal earnings on a one-time and ongoing basis?

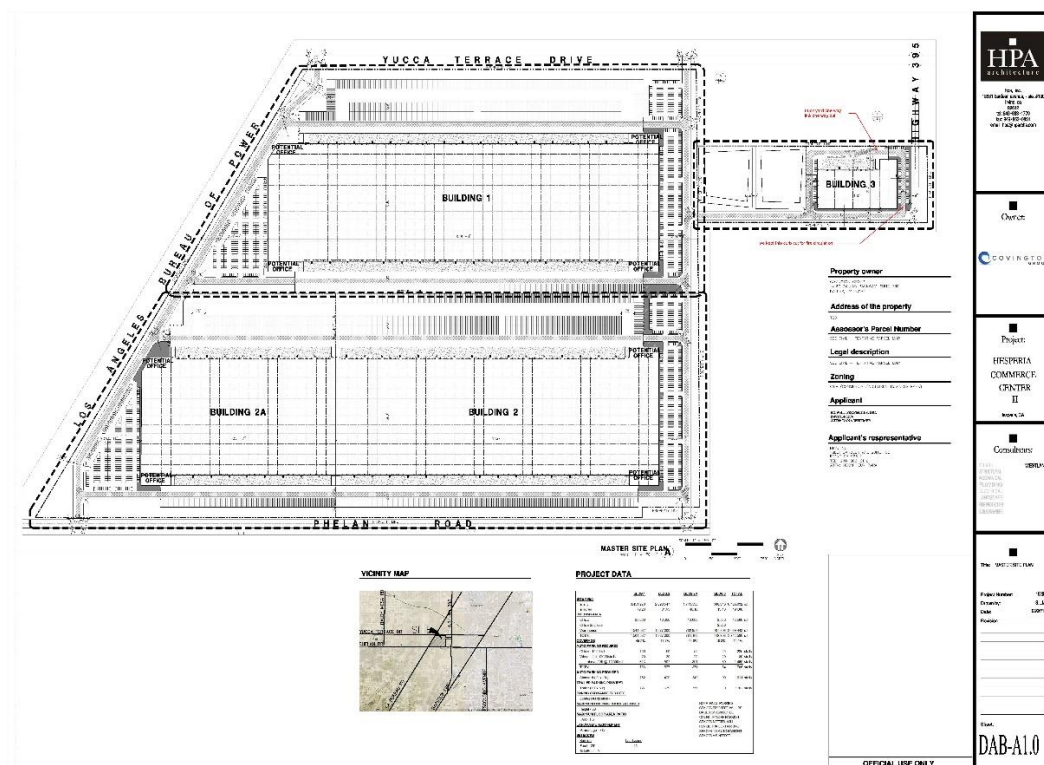
In conducting this analysis, the study team has applied generally accepted principles of public policy analysis, finance, economics, and mathematics. In addition to reporting findings, this study documents the approach, data sources, and assumptions of our assessment. It should be noted that there may be other impacts, such as the effects on adjacent property values that were not assessed within the scope of this study due to the high degree of uncertainty. Depending on how the property will ultimately be used and how the market reacts, property values could marginally increase, decrease, or remain unaffected.

2. Background

Current & Proposed Land Use

The proposed Center is located north of Phelan Road Avenue, south of Yucca Terrace Drive, east of Los Angeles Department of Water and Power Road, and west of US Highway 395. The siting of the Merrill Commerce Center is exhibited in Figure 2.1

Figure 2.1
Hesperia Commerce Center
Siting



As shown in Table 2.1, the Center is proposed to be developed in two phases. Phase I is planned to begin in the fourth quarter of 2021. Phase I will incorporate the development of Building I and will be completed in 24 months. Phase II will incorporate the development of Building 2 and Building 3 and will begin in Q4 of 2023 and also be completed in 24 months.

Table 2.1
Hesperia Commerce Center

Proposed Land Use Summary

Phase	Proposed Timing	Development	Maximum Building Size (Thousand Square Ft.)
Phase I	Q4/2021	Building 1	1,567
Phase II	Q4/2022	Building 2	2,046
		Building 3	103
Total	NA	NA	3,716

Office space within each building totals up to 20,000 square feet. Depending on the number of future tenants, office areas may be distributed among four individual office spaces in building, or may be concentrated within one office in each building.

Study Scope & Approach

The purpose of this study is to estimate the economic and fiscal impact of the proposed Hesperia Commerce Center II project on the City of Hesperia. In calculating these impacts, this study answers the following questions:

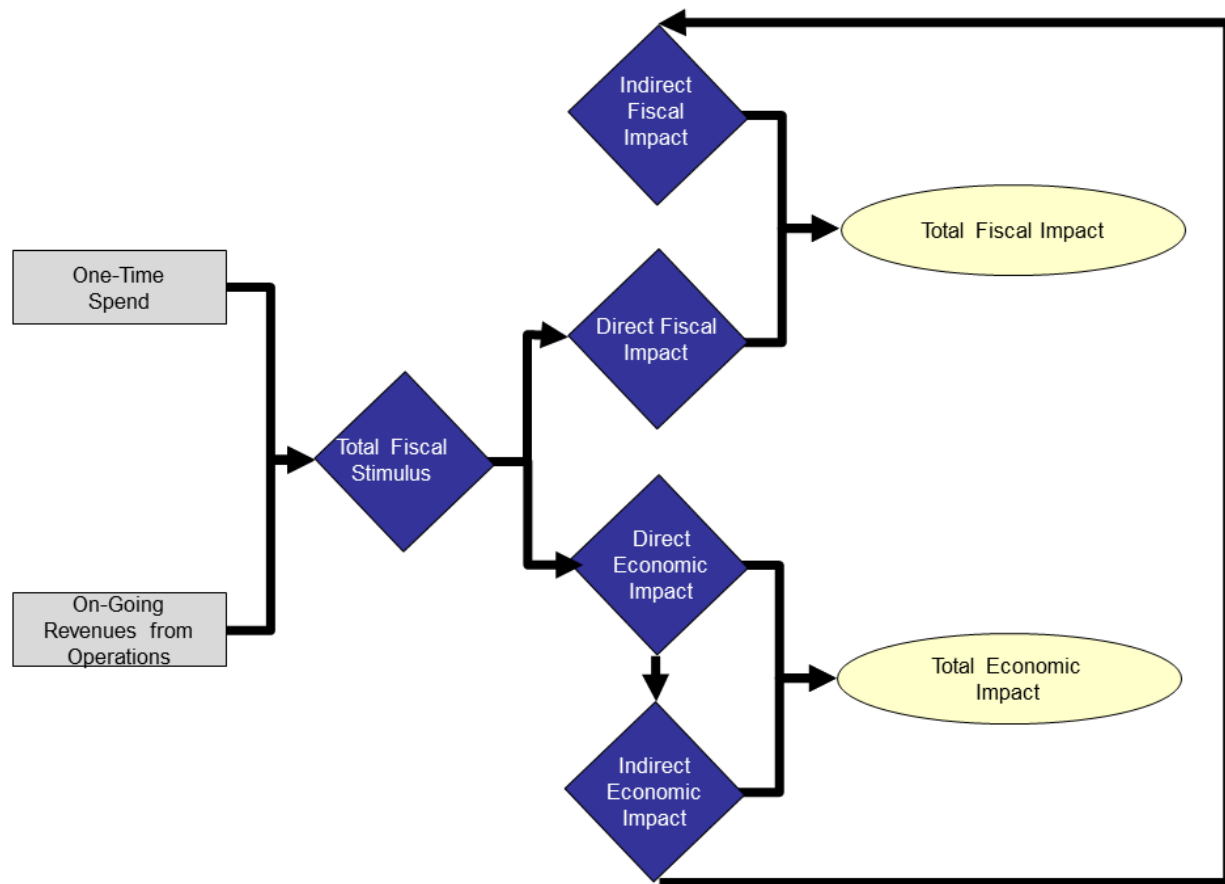
- What are the one-time and ongoing fiscal impacts to the City's General Fund revenues?
- What is the one-time and ongoing effect of the Project on job creation within the City?
- What is the one-time and ongoing impact of the project on economic output within the City?

- What is the one-time and ongoing effect of the Project on household earnings within the City?

This study relies on generally accepted principles of public policy analysis, public finance, economics, and mathematics to construct cash flow/direct spend and economic models specific to the proposed project. The models are constructed using publicly available information, and current market data provided by Covington Group and its agents. When there were data gaps or requirements were not readily available or could not easily be found, assumptions were made according to industry practices and standards. All assumptions are documented in the body and Appendixes of this study.

Figure 2.2 illustrates the construct of this study's economic and fiscal model. One-time new spend from construction of the project and new ongoing revenues from operations of the Center produce both a fiscal and economic impact on the City. The injection of this new spending from construction and business operations ripples through the local economy and creates new jobs and support jobs (direct and indirect jobs), increases personal income for local residents and creates new economic output. The injection of new spending will also provide the City with additional revenues stemming from additional property taxes as well as additional sales taxes.

Figure 2.2
Hesperia Commerce Center
Fiscal and Economic Impact Approach



Regional input-output multipliers were utilized to quantify the total effects of new monies put into the local economy. The economic multiplier approach is a common and generally accepted means of assessing the direct and indirect economic impact of new developments. The injection of extra spending from new business operations generally leads to more income which generally leads to more consumption and more monies being circulated within the economy. This in turn, creates more taxable sales. The multiplier effect refers to the increase in final economic activity arising from any new injection or depletion of spending within an economic region. The multipliers used in this study were specifically obtained for this project from the US Bureau of Economic Analysis.

This study generally utilized assumptions that tended to underestimate both economic and fiscal benefits to guard against overstating benefit, as discussed in the text of this study. Actual benefits will likely be higher. To further account for uncertainty in operations and market conditions, baseline and low benefits scenarios were constructed for this analysis as follows:

- Baseline Scenario: The Baseline Scenario assumes that all facilities would be fully occupied and operational following project completion.
- Low Scenario: The Low Scenario assumes that all facilities would increase to and maintain 80% occupancy and operations linearly in three years following project completion.

The Baseline Scenario represents what we believe to be conservative, but likely scenario based on our experience with and survey of speculative logistics and warehousing markets in Southern California. However, the Low Scenario is presented to illustrate impacts resulting from recent market fluctuations caused by the 2020 COVID pandemic or other economic uncertainties.

3. Construction & Infrastructure Stimulus

The planned construction start is Q4 of 2020. Phase I and Phase II are planned to be completed by the end of 2023. The total project site development costs totals \$204 million as exhibited in Table 4.1. Please note that this does not include additional improvements for infrastructure and utilities. Though there may be significant spending as a result of infrastructure and utilities costs, they were not included due to the fact that they were not available at the time of the writing of this report. As a result, both the economic and fiscal impacts reported in this project will tend to understate actual benefits that will result from the Center.

Table 4.1
Hesperia Commerce Center
Estimated Site Development Costs
(\$Thousands)

Land Use	Labor	Materials	Total
Site Construction: Phase I Phase II	\$51,722 \$70,900,000	\$34,500 \$47,300	\$86,200 \$118,200
Infrastructure, Utilities	TBD	TBD	TBD
Total	\$122,600	\$81,800	\$204,400

Total site construction costs were estimated utilizing typical per square foot construction costs for similar projects. Based on our experience with similar fiscal and economic assessments, we assumed that labor and materials costs represented 60% and 40% of total costs respectively. Please note that these estimates do not include additional costs associated with tenant improvements to conform the building to the needs of the specific tenant. These costs can be significant, but are omitted because these costs are highly dependent on the

needs of the specific tenant. Because total costs are understated, the estimated fiscal and economic benefits to the region are conservative and will tend to understate actual total benefits.

4. Revenue from Operations Stimulus

Revenues from operations are the gross revenues that the occupants would generate from business operations. Revenues are calculated by factoring average revenue per square foot with the square footage of the facilities. The per square foot revenue estimate used to derive operations revenues is \$92 per square foot based on a survey of available comparable facilities. To avoid overstating benefits, we utilized the low end of the warehouse survey which ranged from \$92 to \$102 per square foot annually.

This study assesses two scenarios for operations of the Commerce Center after construction. The Baseline Scenario assumes that the facility would be fully occupied and operational following project completion. The Low Scenario assumes a three-year ramp-up period at which point the facility would only reach 80% occupancy and operations. The Baseline Scenario represents an optimistic but reasonable outcome based on recent market conditions. However, the Low Scenario represents what could occur if less optimistic economic conditions manifest themselves. The actual scenario is dependent on the specific economic and market conditions at the completion of the project. Table 3.1 exhibits projected operations revenues under the Baseline and Low Scenarios.

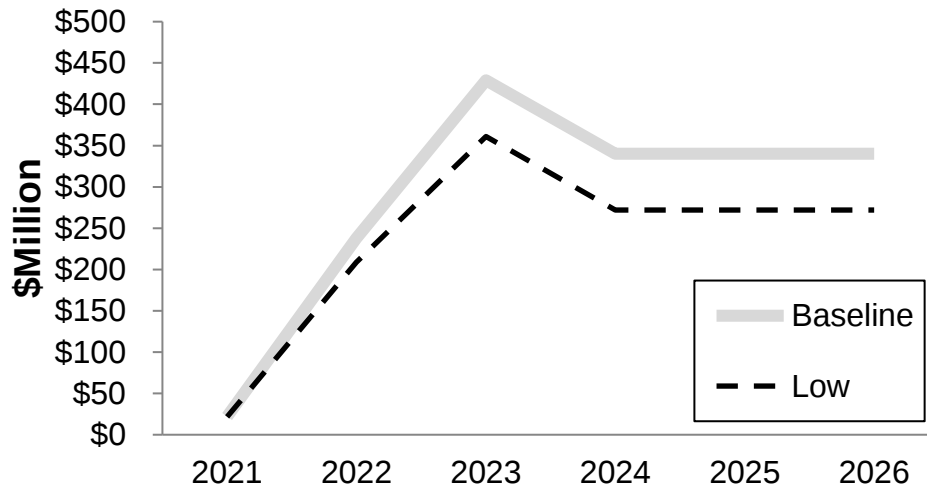
Table 3.1
Hesperia Commerce Center
Estimated Revenues from Operations

Scenario (\$Thousands)	2022	2023	2024	2025	2026
Baseline	\$143,500	\$340,200	\$340,200	\$340,200	\$340,200
Low	\$114,800	\$272,100	\$272,100	\$272,100	\$272,100

5. Total Fiscal Stimulus

Total new direct spend in the region is comprised of the spending to develop the Commerce Center, as characterized in Section 3, and the ongoing revenues from operations of the Center, as characterized in Section 4. The Baseline and Low estimates for the project Direct Spend Analysis are exhibited in Figure 5.1.

Figure 5.1
Hesperia Commerce Center II
Total New Direct Spend



As shown in Figure 5.1, new direct spend from construction of the Center is expected to total \$204 million over the course of 2021 to 2023. Under the Baseline Scenario, as Phase I construction completes in 2022, revenue from operations are expected to begin. In addition, construction of Phase II will also begin at that time. The total fiscal stimulus will peak in 2023 at \$429 million. As construction spending stops, revenue from operations will level and continue at \$340 million from 2024 through 2026. Under the Low Scenario, the Commerce Center will linearly ramp to 80% occupancy and operations in the three years following construction. The

total fiscal stimulus will peak in 2023 at \$361 million. As construction spending stops, operating revenues will level to \$272 million in 2024. In total, the Center will generate between \$1.4 billion and \$1.7 billion in new fiscal stimulus for the region by 2026 from construction and operations. As the monies from the new monies ripple through the economy, it will create jobs both directly at the Commerce Center as well as indirectly in the surrounding community. Moreover, these economic activities will generate additional tax revenues for the City. The next sections will detail these estimated economic and fiscal benefits to City.

6. Tax Revenue Impact

General Fund Revenue Analysis

This study reviewed the most recent adopted budget for the City and identified four tax categories that will be impacted by the proposed Center. These City General Fund tax basis are listed below:

- One-time sales tax from construction of the Project;
- Ongoing sales tax from increased personal earnings and operations;
- Utilities tax; and
- Property tax.

Both direct and indirect tax impacts are calculated to sales taxes resulting from the stimulus of the development of the Center as well as its continued operations. The proposed Center will produce more than \$3 million annually in new tax revenues from the cited taxes between 2020 and 2026 as shown in Figure 6.1. The methodology to calculate each tax is cited in the appendices.

Table 6.1
Hesperia Commerce Center
Average Annual New Taxes for the City of Hesperia
(2021 -2027)

Tax (\$Thousands)	Baseline Scenario	Low Scenario
Property Tax	\$1,842	\$1,842
On-going Sales Tax	\$471	\$323
Utilities Tax	\$722	\$578
One-time Sales Tax from Development	\$400	\$320
Total	\$3,435	\$3,063

7. Jobs Impact

Jobs created or sustained for each year was derived by factoring the direct stimulus with industry specific regional input-output jobs multipliers produced by the US Bureau of Economic Analysis. Between 2021 and 2026, the Commerce Center is estimated to directly and indirectly induce the production of approximately 2000 jobs under both scenarios. The Baseline Scenario assumes that the Center will be completed and fully operational by 2022. Utilizing economic multipliers produced by the US Bureau of Economic Analysis for the region, the Center will support 2,400 jobs by 2023. Even under the Low Scenario the Center would support approximately 2,000 jobs directly and indirectly by 2023. Table 7.1 details the annual breakdown of jobs during the first five years of operation.

Table 7.1
Hesperia Commerce Center
On-going Direct and Indirect Jobs Impacts
(2022-2026)

Jobs	2022	2023	2024	2025	2026
Baseline	1000	2400	2400	2400	2400
Low	800	2000	2000	2000	2000

Approach and specific methodology is detailed in the appendices.

8. Earnings Impact

Incremental earnings generated for each year was derived by factoring the direct stimulus with industry specific regional input-output earnings multipliers produced by the US Bureau of Economic Analysis. The economic activity generated by the ongoing operations of the businesses within the Commerce Center will increase the household earnings in the City of Hesperia by \$114 million by 2023 as new monies are introduced into the region and continue to ripple throughout the local the economy. Even under the Low Scenario, personal earnings within the City of Hesperia would increase by an average of \$80.7 million during the first five years of operations. Table 8.1 details

Table 8.1
Hesperia Commerce Center
On-going Direct and Indirect Earnings Impacts
(2022 -2026)

Personal Earnings (\$Thousands)	2022	2023	2024	2025	2026
Baseline	\$48,100	\$114,000	\$114,000	\$114,000	\$114,000
Low	\$38,500	\$91,300	\$91,300	\$91,300	\$91,300

Approach and specific methodology is detailed in the appendices.

9. Output Impact

The new monies introduced into the region as a result of the new construction and new business activity taking place will also increase the economic output of the region. Economic output is a measurement of value created through economic activity and is akin to Gross State Product (GSP) and Gross Domestic Product (GDP) measurements of economic activity. Incremental economic output created by the development and operations of the proposed center was derived by factoring the direct stimulus with industry specific regional input-output output multipliers produced by the US Bureau of Economic Analysis.. Under the Low Scenario, economic output for the region is estimated to increase by \$502.3 million by 2023. Under the Baseline Scenario, economic output increases by \$700 million by 2023.

Table 9.1
Hesperia Commerce Center
On-going Direct and Indirect Output Impacts
(2022 -2026)

Output (\$Thousands)	2022	2023	2024	2025	2026
Baseline	\$236,000	\$559,600	\$559,600	\$559,600	\$559,600
Low	\$188,800	\$502,300	\$502,300	\$502,300	\$502,300

Approach and specific methodology is detailed in the appendices.

10. Conclusion

The Covington Group proposed Hesperia Commerce Center would significantly add to the regions industrial warehousing and business park capacity. In addition to expanding regional capacity, the City of Hesperia would obtain significant tax revenues and economic benefits as a result of the development and ongoing operations of the Commerce Center:

- The Hesperia Commerce Center II project is expected to infuse up to \$1.7 billion into the local economy through the construction of the warehouse and through the ongoing operations of the facility by 2026.
- The Center will generate over \$3 million in annual taxes by 2023.
- By 2023, ongoing operations from the Center is projected to support between 2000 - 2400 permanent jobs both directly and indirectly in the region.
- By 2023, ongoing operations from the Center is projected to increase personal earnings in the region by \$91 - \$114 million annually.
- By 2023, ongoing operations from the Center is projected to increase regional economic output by \$502 - \$560 million annually.

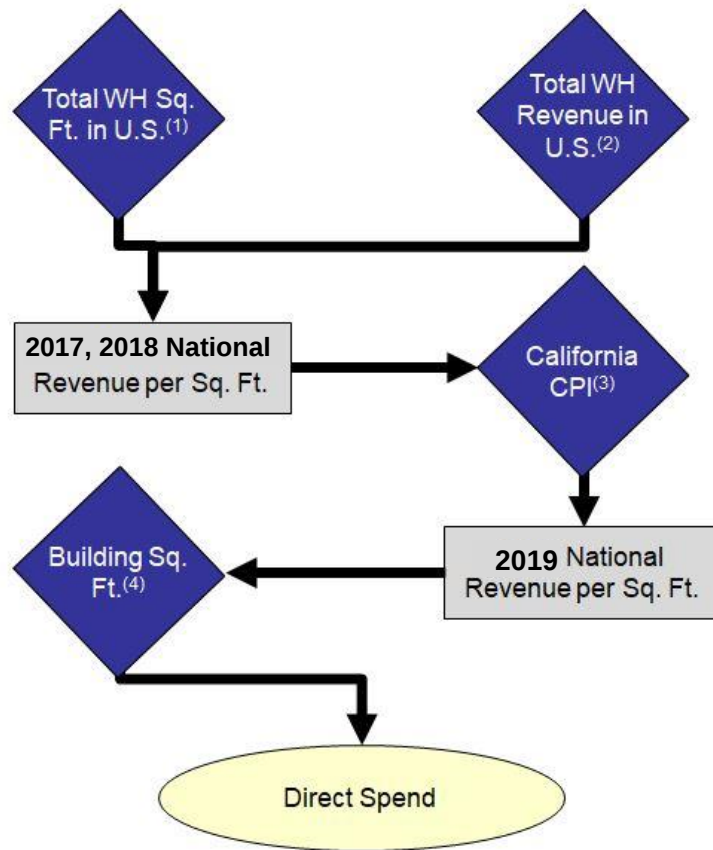
Appendix A – Estimated Fiscal Stimulus Methodology

The fiscal stimulus of the Commerce Center is comprised of two components:

- Dollars spent in the construction and infrastructure; and
- Revenue through on-going operations of the Commerce Center.

Ongoing operation was projected utilizing average per square foot annual revenues from warehouses based on a review of publicly available data. The revenue per square foot estimates were factored by the Project's total active square feet (i.e. square feet currently being utilized/occupied by a tenant). To create high-low cost estimates, it is assumed the high estimate will be fully utilized for the entire first year of operations. In contrast, the low estimate will require a three-year ramp up period to reach full utilization. Additional details regarding the methodology used to derive each revenue estimate are shown in Flowchart A.1.

Flowchart A.1
Direct Spend Methodology



(1) Total warehousing (WH) square footage in the United States by Industrial Space Type as listed in Jones Lang LaSalle's United States Industrial Outlook 2018 Q4 for Warehouse and Manufacturing and in the U.S. Energy Information Administration 2012 Commercial Buildings Energy Consumption Survey Data for Professional, Scientific, Technical Services. ¹

(2) Total warehousing (WH) revenue as provided by the United States Census Bureau.²

¹ "Industrial Outlook: United States, Q4 2018," JLL, 2018, <https://www.us.jll.com/content/dam/jll-com/documents/pdf/research/americas/us/united-states-industrial-outlook-q4-2018-rd-1.pdf> ; "2012 Commercial Buildings Energy Consumption Survey Data Revised on May 2016," U.S. Energy Information Administration, 2012, <https://www.eia.gov/consumption/commercial/data/2012/bc/pdf/b7.pdf>

² "Transportation and Warehousing: Summary Statistics for the US: 2017," United States Census Bureau, 2017, <https://data.census.gov/cedsci/table?q=revenue%20warehousing&hidePreview=false&tid=ECNBASIC2017.EC1748BASIC&t=Value%20of%20Sales,%20Receipts,%20Revenue,%20or%20Shipments&vintage=2017>

(3) The California CPI is used to convert the 2017 and 2018 revenue estimates to a 2019 value.³

(4) Building square footage provided by applicant.

³ "Inflation," *State of California Department of Finance*, 2020, <http://www.dof.ca.gov/Forecasting/Economics/Indicators/Inflation/>.

Appendix B – Tax Revenue Methodology

Based on information from the 2019-2020 City of Hesperia Adopted Annual Operating Budget,⁴ three tax categories were identified that would be impacted by the development of the Commerce Center:

- Sales tax;
- Property taxes; and
- Utility users tax.

The Commerce Center will also generate one-time sales tax gains for the materials purchased to construct the industrial warehousing and business park facilities and the infrastructure expansion. An overview of the calculation for each tax impact is outlined below.

One-Time Sales Tax

One-time sales tax revenue is composed of two components:

- Sales tax revenues from the cost of materials during construction; and
- Sales tax revenue from the increase in household earnings.

Sales tax revenues from the cost of materials are found by factoring the cost of materials estimated at 40% of the total construction cost, per industry standards,^{5, 6} by the statutory city tax rate as listed in the California Department of Tax and Fee Administration.⁷ According to the California Department of Tax and Fee Administration, the City retains 1% of sales tax for

⁴ “2019-2020 City of Ontario Adopted Operating Budget,” *City of Ontario*, June 2019, <https://www.ontarioca.gov/sites/default/files/Ontario-Files/Administrative-Services/Annual-Operating-Budgets/2019-2020%20Adopted%20Operating%20Budget%20ONLINE.pdf>.

⁵ “CLMA Project Labor Cost Allocation,” *Construction Labor Market Analyzer*, 2016, <http://myclma.com/wp-content/uploads/2015/02/CLMA-Allocation-of-Project-Cost-2014Oct27.pdf>.

⁶ Hedley, George, “Construction Labor Costs – 5 Percent Factor,” *Construction Business Owner*, Accessed May 11, 2016, <http://www.constructionbusinessowner.com/topics/accounting/accounting-finance/construction-labor-costs-5-percent-factor>.

⁷ “California City & County Sales & Use Tax Rates (effective April 1, 2020),” *California Department of Tax and Fee Administration*, April 2020, <https://www.cdtfa.ca.gov/taxes-and-fees/rates.aspx>.

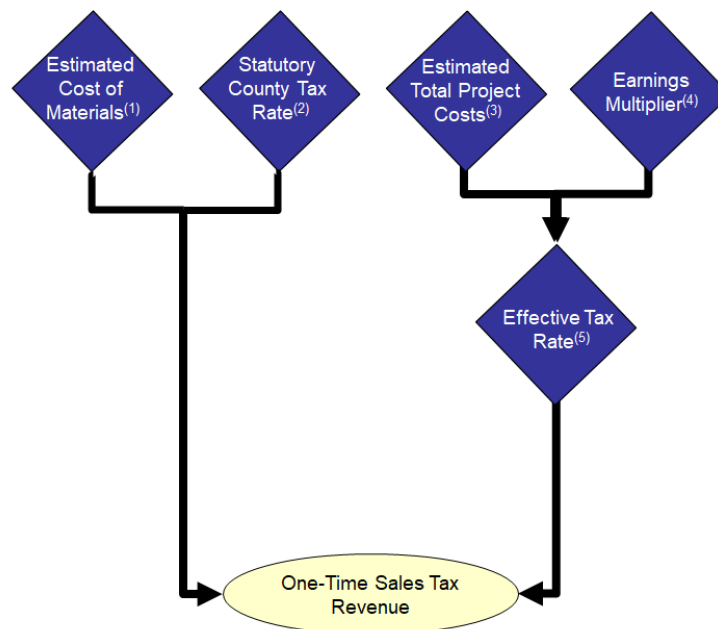
transactions occurring in the City.⁸ Sales tax revenue on earnings is found by first factoring the total construction costs as provided by Covington Group with the earnings multiplier produced by the U.S. Bureau of Economic Analysis (BEA)⁹ in order to find the increase in household earnings resulting from construction of the Project. Those earnings are then factored by the effective sales tax rate¹⁰ to find the one-time sales tax revenue. See Flowchart B.1 below for a graphical representation for this approach.

⁸ "California City & County Sales & Use Tax Rates (effective April 1, 2020)," California *Department of Tax and Fee Administration*, April 2020, <https://www.cdtfa.ca.gov/taxes-and-fees/sut-rates-description.htm>.

⁹ "Regional Multipliers," U.S. *Bureau of Economic Analysis*, Series: 2017 U.S. Annual I-O Data and 2017 Regional Data. Region: San Bernardino County.

¹⁰ See "Effective Sales Tax Calculation" at the end of this Appendix (Appendix B – Tax Revenue Scope and Methodology).

Flowchart B.1
Sales Tax Methodology



Notes

(1) Cost of materials estimated at 40% of total construction costs as provided by the applicant per industry standards.^{11, 12}

(2) Statutory County tax rate is 1% based on information provided by The California Tax and Fee Administration.¹³

(3) Total construction costs as provided by the applicant.

(4) Earnings regional multipliers (RIMS II) for San Bernardino County produced by the U.S. Bureau of Economic Analysis.¹⁴

(5) See “Effective Sales Tax Calculation” at the end of Appendix B – Tax Revenue Scope and Methodology for methodology.

¹¹ “CLMA Project Labor Cost Allocation,” *Construction Labor Market Analyzer*, 2016, <http://myclma.com/wp-content/uploads/2015/02/CLMA-Allocation-of-Project-Cost-2014Oct27.pdf>.

¹² Hedley, George, “Construction Labor Costs – 5 Percent Factor,” *Construction Business Owner*, Accessed May 11, 2016, <http://www.constructionbusinessowner.com/topics/accounting/accounting-finance/construction-labor-costs-5-percent-factor>.

¹³ “California City & County Sales & Use Tax Rates (effective April 1, 2020),” *California Department of Tax and Fee Administration*, April 2020, <https://www.cdtfa.ca.gov/taxes-and-fees/sut-rates-description.htm>.

¹⁴ “Regional Multipliers,” *U.S. Bureau of Economic Analysis*, Series: 2017 U.S. Annual I-O Data and 2017 Regional Data. Region: San Bernardino County.

On-Going Sales Tax

On-going sales tax revenue is composed of two components:

- Local sales tax revenue from business operations; and
- Induced household earnings sales tax revenue.

Local sales tax revenue from business operations at the Project (once leased) represents the tax revenue collected. Due to the business nature of warehousing, it is assumed that no other sales tax will be collected outside of supply expenditures. This approach preserves a conservative estimate of County revenues. The local sales tax revenue is calculated by first factoring the estimated supply spend per square foot (\$27.78), as found in the BizCost report, “Comparative Distribution Warehousing Operating Costs”,¹⁵ by the local spend retention rate, which is assumed at 50%, as the actual rate will depend on what goods are sold and the type of business occupying the Building, both currently unknown. The result is the local supply spend, which is then factored by the statutory sales tax rate as listed in the California Department of Tax and Fee Administration¹⁶ to find the local sales tax revenue.

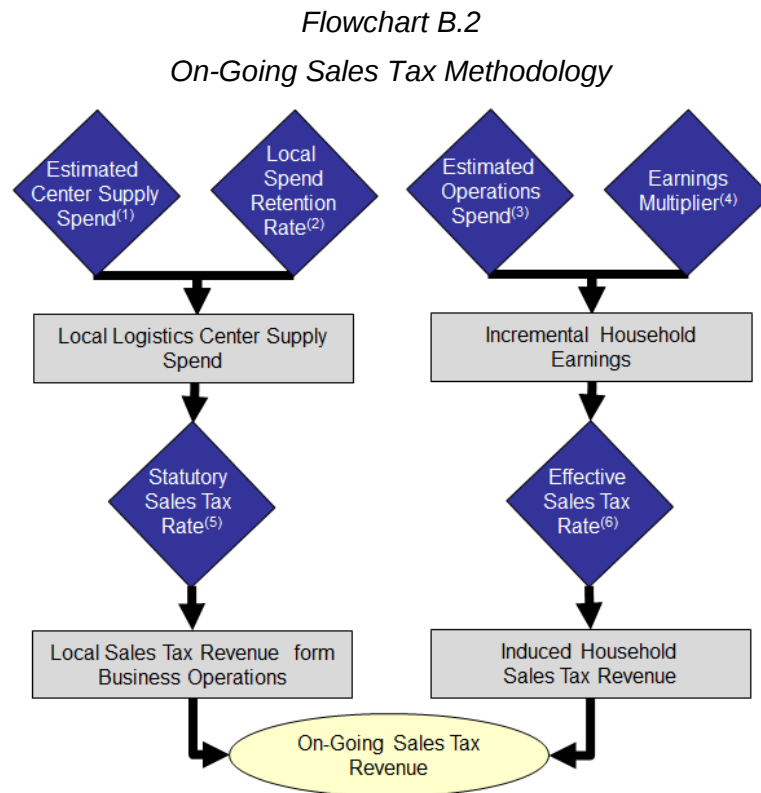
Household earnings sales tax revenue is found by first factoring the total operation revenue as earlier estimated (see “One-Time Sales Tax” in Appendix B – Tax Revenue Scope & Methodology) with the earnings multiplier produced by the U.S. Bureau of Economic Analysis (BEA)¹⁷ in order to find the increase in household earnings resulting from the Project’s operations. Those earnings are then factored by the effective sales tax rate to find the induced

¹⁵ Bizcosts, “Comparative Distribution Warehousing Operating Costs,” *the Boyd Company*, 2012.

¹⁶ “California City & County Sales & Use Tax Rates (effective April 1, 2020),” *California Department of Tax and Fee Administration, April 2020*, <https://www.cdtfa.ca.gov/taxes-and-fees/sut-rates-description.htm>.

¹⁷ “Regional Multipliers,” *U.S. Bureau of Economic Analysis*, Series: 2017 U.S. Annual I-O Data and 2017 Regional Data. Region: San Bernardino County.

household earnings sales tax revenue.¹⁸ See Flowchart B.2 below for a graphical representation for this approach.



Notes

(1) Center supply spend estimated to be \$27.78 per square foot.¹⁹

(2) Local spend retention rate assumed to be 50% of total spend.

(3) Operations spend as determined by estimated revenue of the Project. See “One-Time Sales Tax” in Appendix B – Tax revenue Scope & Methodology for methodology.

¹⁸ See “Effective Sales Tax Calculation” at the end of this Appendix (Appendix B – Tax Revenue Scope and Methodology).

¹⁹ Bizcosts, “Comparative Distribution Warehousing Operating Costs,” *the Boyd Company*, 2012.

(4) Earnings regional multipliers (RIMS II) for San Bernardino County produced by the U.S. Bureau of Economic Analysis.²⁰

(5) Statutory County tax rate is 1% based on information provided by the California Department of Tax and Fee Administration.²¹

(6) See “Effective Sales Tax Calculation” at the end of Appendix B – Tax Revenue Scope and Methodology for methodology.

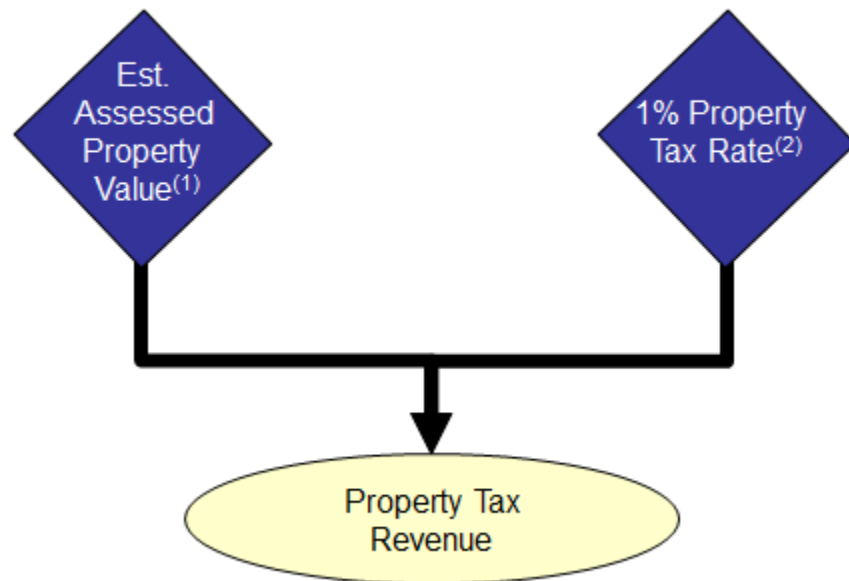
²⁰ “Regional Multipliers,” *U.S. Bureau of Economic Analysis*, Series: 2017 U.S. Annual I-O Data and 2017 Regional Data. Region: San Bernardino County.

²¹ “California City & County Sales & Use Tax Rates (effective April 1, 2020),” *California Department of Tax and Fee Administration*, April 2020, <https://www.cdtfa.ca.gov/taxes-and-fees/sut-rates-description.htm>.

Property Tax

According to the 2019-2020 Adopted Budget, the City retains roughly 1% of a property's assessed value as property tax revenue.²² Property tax revenue for the Project is found by factoring the assessed property value as provided by the applicant, taking into account the 2% growth in value per year, by the 1% tax rate. See Flowchart B.3 below for a graphical representation of this approach.

Flowchart B.3
Property Tax Methodology



Notes

(1) Estimated assessed property value provided by the applicant.

²² "2019-2020 City of Ontario Adopted Operating Budget," *City of Ontario*, June 2019, <https://www.ontarioca.gov/sites/default/files/Ontario-Files/Administrative-Services/Annual-Operating-Budgets/2019-2020%20Adopted%20Operating%20Budget%20ONLINE.pdf>.

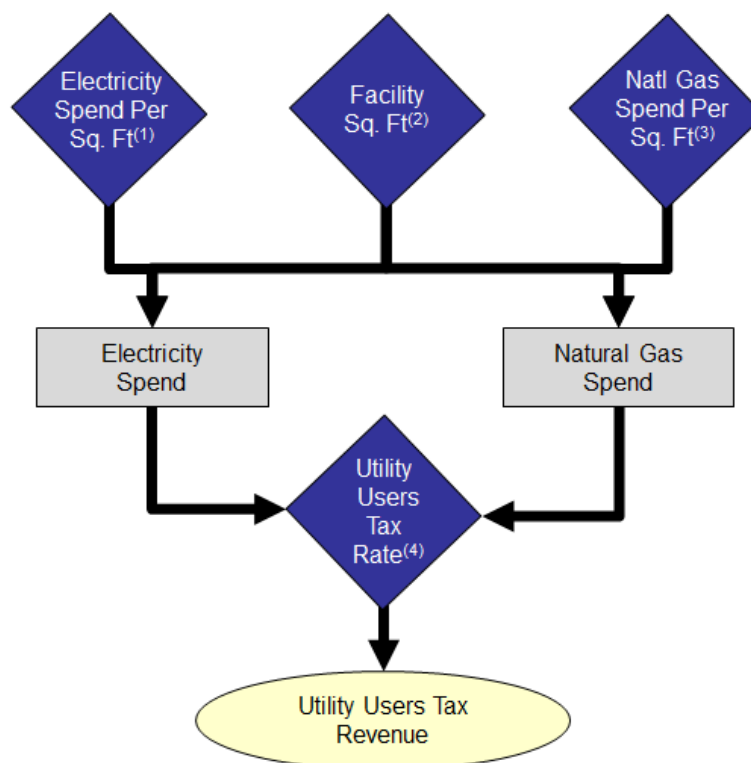
(2) City property tax rate provided by the City of Hesperia 2019-2020 Adopted Operating Budget.²³

²³ "2019-2020 City of Ontario Adopted Operating Budget," *City of Ontario*, June 2019, <https://www.ontarioca.gov/sites/default/files/Ontario-Files/Administrative-Services/Annual-Operating-Budgets/2019-2020%20Adopted%20Operating%20Budget%20ONLINE.pdf>.

Utility Users Tax

Utility users tax (UUT) is a 7.75% charge on all utility activity in the City of Hesperia. The tax is assessed on electricity, gas, and communications services. To preserve a conservative approach, only the electricity and natural gas components were included in this analysis. To find the UUT revenue the electricity and natural gas spend per square foot, as provided in the BizCosts report,²⁴ is factored by the total square footage of the Project, as provided by the applicant. Then both the electricity and natural gas spend is factored by the UUT rate to find the total revenue. See Flowchart B.5 below for a graphical representation of this approach.

Flowchart B.4
Utility Tax Methodology



Notes

²⁴ Bizcosts, "Comparative Distribution Warehousing Operating Costs," *the Boyd Company*, 2012.

- (1) Electricity costs per square foot for Riverside/San Bernardino Metro Area warehouse facilities as provided by the BizCosts report.²⁵
- (2) Facility square footage as provided by Covington Group.
- (3) Natural gas costs per square foot for Riverside/San Bernardino Metro Area warehouse facilities as provided by the BizCosts report.²⁶
- (4) Utility users tax rate for the City of Hesperia as provided by the California State Controller's Office.

²⁵ Bizcosts, "Comparative Distribution Warehousing Operating Costs," *the Boyd Company*, 2012.

²⁶ Ibid.

Effective Sales Tax Calculation

The effective tax rate is the ratio of tax revenues over personal earnings for the City. In order to produce an effective sales tax rate for this study, Andrew Chang & Company first calculated an estimated population for the City for 2019 based on average population growth between 2010 and 2018. Next an estimated per capita income for 2019 is calculated based on the California Price Index (CPI) growth between 2017 and 2019. This figure is factored with the estimated population to find the total income of City residents for 2019. The City sales tax revenue, as provided by the 2019-20 Adopted Budget,²⁷ is divided by the total income of City residents to produce an effective sales tax rate for 2019. See the equation below and the following Table B.1 for data sources and additional information.

$$\frac{\text{City Sales Tax Revenue Projections FY 2019/20}}{\text{Est. 2019 per Capita Income X Est. 2019 City Population}} = \frac{\$96,155,000}{\$4,583,644,588} = 2.10 \%$$

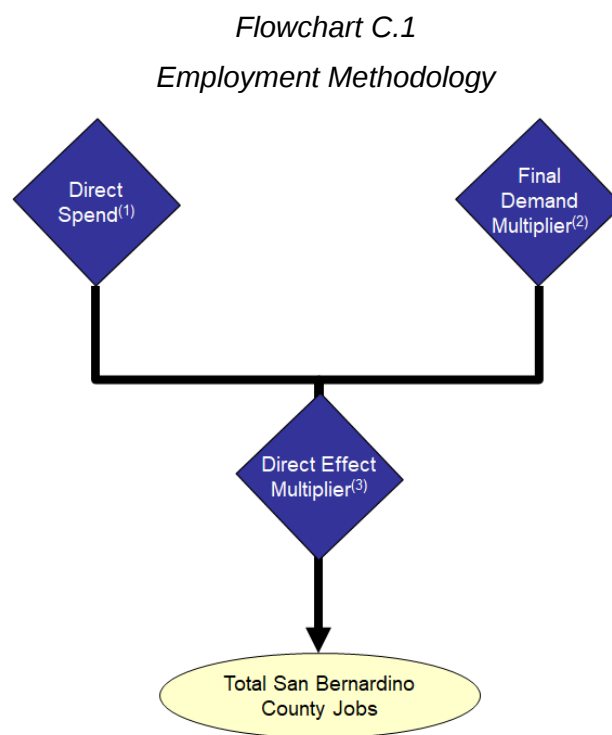
²⁷ "2019-2020 City of Ontario Adopted Operating Budget," *City of Ontario*, June 2019, <https://www.ontarioca.gov/sites/default/files/Ontario-Files/Administrative-Services/Annual-Operating-Budgets/2019-2020%20Adopted%20Operating%20Budget%20ONLINE.pdf>.

Table B.5
Effective Sales Tax Calculation

Element	Value	Source Notes
City of Hesperia population (2018)	181,107	https://www.census.gov/quickfacts/hesperiacitycalifornia , Accessed in July 2020.
City of Hesperia population estimate (2019)	200,123	Andrew Chang & Company estimate based on average population growth between 2010 and 2018.
Consumer Price Index % change (2018)	3.7%	California Department of Finance
Consumer Price Index % change (2019)	3.0%	California Department of Finance
Per capita income for City of Hesperia (\$2018)	\$22,237	https://www.census.gov/quickfacts/hesperiacitycalifornia , Accessed in July 2020.
Estimated per capita income (\$2019)	\$22,904	Andrew Chang & Company estimate based on CPI growth from 2018 to 2019
City of Hesperia Sales Tax Revenue Projections FY 2019-20	\$96,155,000	https://www.cityofhesperia.us/DocumentCenter/View/16199/FY-2020-21-Budget

Appendix C – Employment Methodology

The employment model calculates all jobs created in the County as a result of the Project. The approach utilized in this study first calculates the total County jobs by factoring the Direct Spend²⁸ with the appropriate industry-specific final demand multiplier, as produced by the U.S. BEA.²⁹ The total jobs are then divided by the industry-specific direct effect multiplier³⁰ to find the number of total jobs created in the Project. See Flowchart C.1 below for a graphical representation of this approach.



Notes

(1) Direct spend as calculated in Appendix A – Direct Spend Methodology.

²⁸ See Appendix A – Direct Spend Methodology.

²⁹ “Regional Multipliers,” *U.S. Bureau of Economic Analysis*, Series: 2017 U.S. Annual I-O Data and 2017 Regional Data. Region: San Bernardino County.

³⁰ Ibid.

(2) Final Demand employment regional multipliers (RIMS II) for San Bernardino County produced by the U.S. Bureau of Economic Analysis.³¹

(3) Direct Effect employment regional multipliers (RIMS II) for San Bernardino County produced by the U.S. Bureau of Economic Analysis.³²

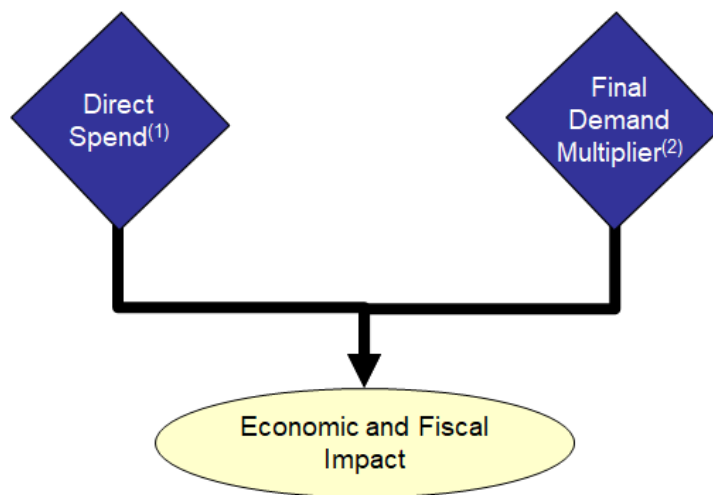
³¹ "Regional Multipliers," *U.S. Bureau of Economic Analysis*, Series: 2017 U.S. Annual I-O Data and 2017 Regional Data. Region: San Bernardino County.

³² Ibid.

Appendix D – Earnings & Output Methodology

The economic and fiscal impact analysis includes the total impact in increased household earnings and economic output to the County. The approach utilized in this study factored the Direct Spend³³ of the project with the correlating final demand multiplier (i.e. industry specific multipliers for construction and warehousing) for earnings and output to find the economic and fiscal impact.

*Flowchart D.1
Earnings & Output Methodology*



Notes

(1) Direct spend as calculated in Appendix A – Direct Spend Methodology.

(2) The final demand regional multipliers (RIMS II) for San Bernardino County produced by the U.S. Bureau of Economic Analysis.³⁴

³³ See Appendix A – Direct Spend Methodology.

³⁴ “Regional Multipliers,” *U.S. Bureau of Economic Analysis*, Series: 2017 U.S. Annual I-O Data and 2017 Regional Data. Region: San Bernardino County.

Appendix E – Multipliers

This study utilizes the most recent regional RIMS II multipliers produced by the U.S. Bureau of Economic Analysis for the County in order to determine the direct and indirect change in output, earnings, and employment as a result of the proposed Project. The industry-specific multipliers utilized for this study are listed below in Table E.1.

Table E.1
RIMS II Multipliers
San Bernardino County

	Final Demand			Direct Effect	
Industry	Output / Dollars	Earnings / Dollars	Employment / Jobs	Earnings / Dollars	Employment / Jobs
Construction	1.7974	0.4364	7.7036	1.5299	1.7344
Warehousing and Storage	1.8458	0.3354	7.6691	1.8488	1.7621
Mix Use Business Park (Sum of the 3 categories below)	1.6450	0.3473	6.2534	1.6578	1.8891
Wholesale trade	1.5104	0.2509	4.0388	1.7332	2.2113
Warehousing and storage	1.8458	0.3354	7.6691	1.8488	1.7621
Professional, scientific, and technical services	1.5789	0.4556	7.0524	1.3915	1.694