



# Pro Forma

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To: Ms. Viki L. Copeland  
Finance Director  
City of Hermosa Beach  
From: G. Krekorian  
Date: June 13, 2016  
Subject: Skechers Cost/Benefit Analysis  
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Sketchers U.S.A. is in the process of securing development entitlements for a new design center (100,300 square feet) and executive office building (20,400 square feet) on multiple contiguous sites on the west side of Pacific Coast Highway in Hermosa Beach. As part of this pre-development process, Sketchers retained Kosmont Companies to prepare a fiscal impact and economic benefit analysis of the proposed project.

As the governing jurisdiction, the City of Hermosa Beach retained Pro Forma Advisors LLC, an independent land use economic consulting firm, to conduct a review of the study's work scope and analysis. This review is not intended to validate the actual results of the Kosmont study, but rather is focused on ensuring that the study approach and methodology are consistent with industry accepted practices and standards. The following summarizes Pro Forma Advisors review.

### **Net Fiscal Impact Analysis**

The fiscal impact analysis projects ongoing annual stable-year fiscal revenues generated by the project which accrue to the City of Hermosa Beach, as well as corresponding City service costs resulting from the project's operation. The methodology employed in the analysis is consistent with industry standards, and revenue estimates are based on acceptable industry sources.

Under the proposed project plan, the City's share of the property tax revenue generated by the project represents about 60 percent of total annual fiscal proceeds. The property tax estimate, as well as all other fiscal revenues, is well documented and each of the estimates appears reasonable.

City service costs are estimated using two alternative approaches. The base analysis essentially determines estimated service costs using an "average cost" methodology whereby employees are treated as "equivalent residents" using a .5 residency equivalent factor. While this is a typical approach often employed in fiscal impact analysis, it often substantially overstates the fiscal service costs. An alternative approach offered in the analysis is to apply "marginal" service costs based on more realistic factors (such as comparable project experience).

Using the average cost basis for projecting service costs, the ongoing annual net fiscal impact of the proposed project is indicated at about \$84,000, expressed in 2016 constant dollars. As noted above, this approach typically yields a very conservative estimate of the annual fiscal impact. The more realistic marginal cost alternative approach which is employed in estimating service costs yields annual positive



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net fiscal impact of about \$150,000. Both methodologies are reasonable, responsive to the scope of work, and consistent with standard industry practice.

### **Construction-Related Economic Benefits**

Construction-related economic benefits stemming from development of the proposed project are based on the estimated construction cost. This cost factor represents the principal input in an industry-accepted input/output econometric model, IMPLAN (Impact analysis for PLANing) developed by the Minnesota IMPLAN Group, which is used in this analysis. Outputs from the model include direct, indirect and induced (multiplier effect) employment, payroll and economic production (gross product) at the County and Statewide levels. Again, the methodology meets industry standards, and the results appear to be reasonable based on the parameters of the proposed project.

### **On-Going Economic Benefits**

The economic benefits associated with the ongoing operation of the proposed project are based on the anticipated direct employment related to the project at stabilization. Again, the IMPLAN input/output econometric model is used to project annual ongoing employment, payroll and economic production benefits measured at the County and Statewide levels. As with the construction-related economic benefits, the methodology meets industry standards, and the results appear to be reasonable based on the parameters of the proposed project.

### **Retail Alternative**

For analysis purposes, Kosmont formulated and analyzed a retail development alternative to the proposed Skechers design center and executive office building. The alternative development program consists of an 18,000 square foot retail building on the southern portion of the site, plus a 2,500 square foot freestanding restaurant on the north portion of the site.

The methodology employed in estimating the net fiscal impact, construction-related economic benefits, and ongoing economic benefits from operations is identical to that used in estimating impacts of the proposed project alternative. Again, the methodology is consistent with accepted industry practice, and the results of the analysis appear to be reasonable.

Compared with the proposed project baseline, the retail alternative produces comparable positive annual net fiscal benefits, but much smaller construction-related and ongoing operational economic benefits due to the much smaller scale of the project.