



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

MEMORANDUM

ADVISORS IN:
REAL ESTATE
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

To: Andrea Ouse, Community and Economic Development Director
City of Vallejo

SAN FRANCISCO

A. JERRY KEYSER
TIMOTHY C. KELLY
KATE EARLE FUNK
DEBBIE M. KERN
REED T. KAWAHARA
DAVID DOEZEMA

From: David Doezema

Date: April 20, 2017

Subject: Peer Review of Fiscal and Economic Impact Study for the VMT and Orcem Projects

LOS ANGELES
KATHLEEN H. HEAD
JAMES A. RABE
GREGORY D. SOO-HOO
KEVIN E. ENGSTROM
JULIE L. ROMEO

Keyser Marston Associates, Inc. (KMA) has completed a peer review of the Fiscal and Economic Impact Study (“Study”) for the VMT Project and the Orcem Project (together the “Project”) prepared by Field Guide Consulting (“FGC”) and dated November 2014. The purpose of this peer review is to evaluate the reasonableness of FGC’s analysis and findings. The review is focused on fiscal and economic impacts findings for the City of Vallejo as summarized in the table below.

Summary of FGC On-Going Fiscal and Economic Impact Findings Applicable to the City of Vallejo			
	Average Over Initial 6 Years, (Construction & Operations)	Stable Year ⁽²⁾	
City Taxes and Lease Revenues	\$351,000	\$534,000	/Year
Jobs	70	97	Jobs
Employee Compensation ⁽¹⁾	\$5,602,000	\$7,803,000	/Year
Per Worker ⁽¹⁾	\$80,000	\$80,000	Per Worker
Economic Output	\$27,458,000	\$47,915,000	/Year
Value Added to GDP	\$8,714,000	\$12,982,000	/Year

(1) Includes benefits.

(2) Uses 2021 figures from the FGC analysis.

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Upon completion, FGC estimates that the Project will generate approximately \$534,000 in revenue to the City, 97 direct jobs, \$7.8 million in direct employee compensation and \$48 million in direct annual economic output. Only FGC's direct economic impact findings are summarized above based on our understanding that FGC's indirect and induced findings relate to the County as a whole rather than the City specifically.

KMA's review was based on the information presented in the Study, the Draft Environmental Impact Report, a City staff report on the Project and the lease between the City and VMT. KMA also accessed additional sources including California Employment Development Department local compensation data, Solano County Auditor-Controller property tax allocation information, and pricing data on ground granulated blast furnace slag from the United States Geological Survey.

KMA Evaluation of FGC Findings

Following is a summary of KMA's review of FGC's findings for the City of Vallejo:

City of Vallejo Fiscal Impacts

- FGC's revenue estimate is not reliable due to inadequate support for key estimates and significant errors and omissions.
- City service costs are not considered. The City can anticipate added municipal service costs such as wear and tear on City streets from Project-related truck traffic.

City of Vallejo Economic Impacts

- FGC estimates 97 direct on-site jobs; however, the 85 jobs referenced in the DEIR (65 full time and 20 part time) is probably a better estimate since it is based on specific operational plans for the Project.
- Worker compensation of \$7.8 million in the aggregate or \$80,000 per worker including benefits appears reasonable based on local compensation data for relevant occupations. Aggregate compensation would be somewhat lower if adjusted to 85 jobs per the DEIR.
- Direct economic output and value added estimates appear reasonable.
- Indirect and induced impacts appear to represent County-wide findings despite labeling of support tables that suggests findings are City-specific.
- Construction related economic impacts could not be readily evaluated because findings are aggregated with operations period impacts.

- Findings include Phase 2 of the VMT project and would presumably be lower with removal of the second phase which is no longer being proposed.
- Access to a new marine terminal is cited as an advantage for Vallejo's industrial sector; however, since it is unclear how important of a factor this will be, FGC appropriately excludes potential synergies from the quantified impacts.

KMA Review of Revenue Estimates

The following table summarizes KMA's evaluation of FGC revenue estimates.

Annual Fiscal Revenues to the City of Vallejo Upon Buildout Per Field Guide Consulting VMT and Orcem Projects		
City Revenue Source	Annual Total	Summary of KMA Evaluation
Utility User Taxes	\$250,000	Inadequate support
Lease of City Property	\$109,000	Overstated
Sales Taxes - Direct	\$69,000	Unlikely
Sales Taxes - Indirect	\$59,000	Too high
Property Taxes	\$47,000	Too low
Property Tax In-Lieu of VLF	\$0	Omission
Total	\$534,000	Not reliable
City Service Costs	\$0	Not Considered

Note: Table summarizes 2021 findings per FGC Study.

➤ Utility User Tax (\$250,000)

KMA Evaluation: Unsupported. The utility user taxes estimate lacks support. The estimate implies utility costs of \$3.3 million per year; however, no source or reference for the utility usage estimate is provided. Cement manufacturing is energy intensive¹ and Orcem may well generate significant utility taxes even if it is far more energy efficient than traditional cement making processes. However, the FGC estimate cannot be relied upon without any identifiable basis or source.

➤ Lease Revenue (\$109,000)

KMA Evaluation: Too high. FGC has included the full lease payment in its analysis; however, a lease provision provides for an offset for capital improvements that would reduce the payment from \$109,000 to \$16,000. If the Project is eligible for the maximum rent offset under the lease of \$8 million, the

¹ U.S. Energy Information Administration. <https://www.eia.gov/todayinenergy/detail.php?id=11911#>

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reduced rent would apply for approximately the next 50 years. In addition, compensation to the City for lease of its property arguably should not be included as a Project-generated revenue, particularly given payment is not contingent on the Project moving forward.

➤ **Sales Taxes – Direct Sales Taxes (\$69,000) and Indirect Sales Taxes (\$59,000)**

KMA Evaluation: Too High. As the study notes, the project is not expected to be a point of sale and so would not generate any direct sales taxes onsite. The sales tax estimate reflects sales occurring throughout the County derived from the IMPLAN model rather than sales occurring within the City of Vallejo and therefore is significantly overstated.

➤ **Property Tax Estimate (\$47,000 including \$32,000 Direct and \$15,000 Indirect)**

KMA Evaluation: Too Low. Property taxes are understated due to application of an incorrect City share. The City's share of the 1% general levy property tax rate is 19% (after adjusting for the shift to ERAF). FGC used an incorrect 5.3% share applied to the 1.14% total ad valorem tax rate including voter approved debt levies. Existing assessed values are included, which would tend to overstate revenues generated by the Project. The indirect property tax estimate is also unlikely and appears to reflect an allocation of a County-wide IMPLAN model result. However, the understated property tax share more than offsets the overstatement in assessed values and the inclusion of unlikely indirect revenues.

The possibility that property values of nearby residential areas could be adversely affected due to truck traffic or proximity to the Project was not considered; although, it is acknowledged that such an analysis would be difficult.

➤ **Property Tax In-Lieu of VLF (\$0)**

KMA Evaluation: Omission. This revenue source was omitted. The Project will generate approximately \$43,000 in property tax in-lieu of VLF based on FGC's assessed value assumptions as adjusted to remove existing assessed value.

➤ **Permit Fees (One-time revenues of \$150,000)**

KMA Evaluation: Inappropriate to include. Permit fees are included as a one-time revenue to the City during the construction phase. However, permit fees represent a fee for service tied to the City's costs of providing building

department and other services during development of the Project and does not represent a net revenue to the City.

KMA Review of Economic Impact Findings

Following is a summary of KMA’s evaluation of FGC’s economic impact findings for the City of Vallejo.

➤ **Number of Jobs (97 direct jobs)**

KMA Evaluation: 85 jobs per the DEIR is likely a better estimate. The DEIR provides an estimate of on-site jobs which reflects operational plans of VMT and Orcem. For Orcem, 40 full time jobs are anticipated and for VMT, 25 full time jobs and 20 part time jobs when vessels are being loaded and unloaded are estimated for a total of 85 jobs.

➤ **Worker Compensation (\$7.8 million per year)**

KMA Evaluation: Reasonable in relation to 97 jobs, would be 10-15% less at 85 jobs. Compensation estimates equate to approximately \$80,000 per worker per year, as fully loaded with the value of benefits and the employer share of payroll taxes. This figure is generally in line with local pay levels for occupation categories relevant to Project operations as summarized in the following table, after adjusting for the value of benefits.

Selected Occupation Categories	Direct Wages	Total Compensation With 30% load for benefits & employer share of payroll tax
Sales Representatives, Wholesale and Manufacturing	\$72,155	\$94,000
Plant and System Operators, All Other	\$61,847	\$80,000
Office and Administrative Support Occupations	\$40,555	\$53,000
Transportation Workers, All Other	\$56,173	\$73,000
Conveyor Operators and Tenders	\$44,590	\$58,000
Crane and Tower Operators	\$66,442	\$86,000
Excavating, Loading Machine and Dragline Operators	\$72,595	<u>\$94,000</u>
Unweighted Average		\$77,000

Source: California Employment Development Department mean wages for Solano County and Alameda County; KMA estimate for illustration purposes of load for benefits and employer paid payroll taxes.

➤ **Direct Economic Output (\$47.9 million per year)**

KMA Evaluation: Reasonable. Direct economic output represents the final value of goods and services produced. Nearly 90% of the output is attributable to the Orcem component of the Project (\$42 million of the \$47.9 million). The output figure for Orcem represents approximately \$47 dollars per metric ton of final product based on the full production level of 900,000 metric tons per year. The value per ton appears reasonable based on current pricing for ground granulated blast furnace slag (\$35 - \$52 per metric ton per one Chinese seller on Alibaba.com before delivery costs and up to \$110 per metric ton per the U.S. Geological Survey²).

➤ **Value Added (\$13 million per year)**

KMA Evaluation: Reasonable. The value added estimate represents the increase in value attributable to the production process and transportation services provided by Orcem and VMT. The \$13 million figure equates to approximately 27% of the \$48 million in final output, which appears reasonable given raw materials delivered to the site would represent a significant component of the final value of the products produced, which again are primarily associated with the Orcem operations.

FGC's findings for Orcem reflect the ready mix concrete industry rather than the cement industry given the cement industry is not currently present in Solano County. We tested value added as a share of output for both the ready-mix and cement industry categories in Santa Clara County and found that the two categories yielded similar results.

➤ **City and County Indirect and Induced Impacts are Conflated**

FGC's analysis of indirect and induced economic impacts using the IMPLAN model appears to have been conducted at the County level but supporting tables sometimes identify County-wide findings as applicable to the City. For example, page 5 "Total Value Added to GDP within Solano County" is \$21,716,694 in the year 2021, which is the same as "Total Value Added to Vallejo GDP" on page 17. Page 13 indicates job estimates apply County-wide. While not completely clear, our interpretation of the sometimes conflicting labeling in the Study is that all indirect and induced findings are based on a County level analysis even if sometimes labeled as City findings.

² U.S. Geological Survey, Mineral Commodity Summaries, 2016.