Santa Monica Airport Campus

Current Economic and Fiscal Impacts
in the City of Santa Monica

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HR&A is a national economic development, real estate advisory and public policy consultant. The firm has extensive experience preparing economic and fiscal impact analyses of development projects, existing facilities and planning initiatives. Recent work of this kind for the City of Santa Monica includes fiscal impact analysis of the LUCE and four of its EIR Alternatives.

HR&A’s Los Angeles area office is located in Santa Monica, on 28th Street and Donald Douglas Loop North, adjacent to the Santa Monica Airport Campus.
Our assignment was to:
1. Estimate the contribution that operation of the Airport Campus makes to the City’s economy as of today;
2. Estimate net fiscal impact of the Airport Campus on the City’s budget, as of FY 2010-11, counting all revenues sources and expenditures; and
3. And thereby, to set a baseline against which alternative futures for the Airport Campus can be measured
4. Our scope of work did not, however, involve analyzing any alternative future scenarios for the Airport Campus.

It is important to note that the geographic focus of both analyses is the 8.3-square mile area of the City, despite the fact that the Airport Campus contributes to the regional economy beyond the City’s borders, including:

1. supporting the organ transplant program at UCLA Medical Center;
2. supporting the daily operation of the largest citrus grower in California;
3. supporting the operation of the region’s entertainment industry; and
4. Playing a critical role in regional emergency preparedness system.

This evening, we will summarize the topics shown on this slide.
Santa Monica Airport’s Historic Role in the City’s Economy
As noted in the Staff Report, SMO has played an important role in both the history of U.S. aviation and in the development of the City.

This is due primarily to the activity of Douglas Aircraft, and the DC line of aircraft it manufactured there, starting in the late 1920s, with planes that helped establish the nation’s commercial aviation system.

Beginning in the years immediately preceding U.S. entry into WW II, and continuing through the Korean War period, the Douglas plant at the Airport Campus was one of the nation’s most important military aircraft manufacturing plants.

At its height, Douglas employed about 44,000 workers working round-the-clock daily shifts, seven days per week.

This scale of activity also created a demand for housing and services that led to development of the Sunset Park neighborhood, and supported a considerable amount of other economic activity in the City and region.

Military aircraft production at SMO ceased in the late 1950s. Douglas then began to focus on manufacturing commercial jets, like the DC-8. But for various reasons, Douglas Aircraft, by then renamed McDonnell-Douglas, left the City in 1975.
Today, the Airport Campus occupies a smaller footprint than during the Douglas years. As defined for purposes of this analysis, the Airport Campus includes 187 acres of aviation land related to airport operations, and 40 acres of non-aviation land on the south side of the runway.

The current 227-acre Airport Campus does not include the Santa Monica Business Park, Clover Park or the Santa Monica College campus on the former Lear-Siegler Astronics property.
The next section summarizes how we constructed a model to simulate the scale and functioning of the City’s current economy, and how we estimated the contribution that the Airport Campus makes to the City’s economy, including an explanation for some of the economic impact metrics used in measuring that contribution.
The impact measurement is made using a model of the City’s economy based on the IMPLAN input-output economic analysis software system that is in wide use around the U.S. The modeling approach and software were developed in the 1970s, and have been continuously refined ever since.

In form, an IMPLAN model resembles a giant matrix of producing and consuming industry sectors and commodities, for a specific geographic area; in this case, the City. The model excludes “leakage,” or economic activity that occurs outside the area of the City.

An IMPLAN model allows one to measure the total economic impact of adding, or in this case “subtracting,” a form of economic activity from a local economy, and tracing all of its “direct” effects and “multiplier” effects in each of its component industry sectors.

The IMPLAN model of the City’s economy is based on abstracting 2009 economic data for the Los Angeles County economy, and further calibrating the results using employment data from other sources, including payroll by industry data from the State’s Employment Development Dept., total employment data from SCAG, and related data from the U.S. Census Bureau.

The result is a robust model that simulates the scale and structure of the City’s economy at this point in time.
IMPLAN models include many variables and metrics, but the two most commonly used for describing the economic impact of a development project, planning initiative or exiting facility, like the Airport Campus are: (1) jobs; and (2) economic output.

“Jobs” = Individual full-time and part-time jobs; not full-time equivalents (FTEs).

“Annual Economic Output” = A summary measure of economic activity, including

1. Sales by companies, sole proprietor income, worker compensation, net business profits, and indirect business taxes, among others. In this case, it also includes direct governmental expenditures (by the City and SMC) at the Airport Campus, and estimated visitor spending in the City by arriving air passengers.

2. It is a somewhat more expansive metric than Gross Regional Product, which is the local or regional equivalent of the Gross Domestic Product (GDP) metric used to express the value of national economies.

3. Economic output is measured in producer prices rather than consumer prices, and is expressed in this analysis in today’s dollars.
The economic activity at the Airport Campus ripples through the City’s economy in complex ways, and we measure the total scope of these impacts in three layers:

“Direct” Impacts = In this case, the jobs and economic activity (private and public sectors) that occurs directly at the Airport Campus, plus the jobs and output impacts captured within the City from visitor expenditures by arriving air passengers.

“Indirect” Impacts = The jobs and output associated with businesses located elsewhere in the City which supply of goods and services to meet the needs of activity at the Airport Campus.

“Induced” Impacts = The jobs and output associated with household expenditures in the City made by direct and indirect workers.

Indirect + Induced Impacts = “Multiplier Effect” from Direct impacts.
The relationships between direct and total impact vary by industry sector.

This can be illustrated by comparing the total economic impacts of 16 jobs in two different sectors in the City’s economy.

16 restaurant jobs produce 20 total jobs and $1.6 million in total annual economic output, based on the specific inter-industry relationships, and worker compensation patterns, in the “food services and drinking places” sector of the City’s economy.

However, the air transportation sector of the City’s economy has a larger “multiplier effect,” and therefore an equal number of jobs in that sector produces a total of 29 jobs and $6.7 million in annual economic output, or about $231,000 in total output per job.
The resulting IMPLAN model of the City’s economy, in terms of jobs, includes:

1. 91,014 jobs (payroll + sole proprietors), or about 2% of the Los Angeles County total.
2. Top industry sectors, by jobs, include:
   a. Food and drinking places (8,600 jobs)
   b. State & local government (not including public education) (5,500)
   c. Real estate businesses (3,600)
   d. Office of physicians and dentists (3,500)
   e. Motion picture and video industries (3,400)
   f. Independent artists, writers & performers (3,200)
   g. Hospitals (3,000)
In dollar terms, the City’s economy includes:

1. $13.9 billion in total economic output, or again about 2% of the Los Angeles County total.

2. Top industry sectors, by economic output, include:
   a. Motion picture and video industries ($1.1 billion)
   b. Independent artists, writers & performers ($900 million)
   c. Real estate establishments ($700 million)
   d. Food and drinking places ($570 million)
   e. State and local government (not including public education) ($500 million)
   f. Hospitals ($490 million); and
   g. Offices of physicians and dentists ($450 million).
Having established the IMPLAN model of the City’s economy, we now turn to the scale of economic activity that occurs at the Airport Campus today, and how that multiplies through the City’s economy.
Based on detailed review of the Airport Campus lease inventory and Commercial Operating Permits, other City records, third-party data sources, and interviews with a selection of existing business, we found that:

1. 177 separate business entities are located at the Airport Campus
2. These are primarily small businesses:
   a. Almost two-thirds (62%) have only one or two employees
   b. 85% have less than 6 employees
3. Including also the FAA, the City’s airport administration and the operation of Santa Monica College classrooms located on the Airport Campus, there are 42 different industry sectors represented by economic activity at the Airport Campus
Santa Monica Airport Campus
Quantitative Economic Impacts:

Jobs

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Based on our research and use of the IMPLAN model of the City’s economy, we estimate that the Airport Campus features:

894 Direct Jobs, of which 39% are located on non-aviation land and 61% on aviation land. This number of direct jobs at the Airport Campus would rank it 7th among the City’s top employers, ahead of MTV Networks (648 jobs in FY 2009-10) and Activision (663).

593 Multiplier Effect Jobs – i.e., another 0.66 jobs are supported elsewhere in the City for every job located at the Airport Campus, based on IMPLAN model analysis.

1,487 total jobs in the City’s economy result from current operation of the Airport Campus.
In terms of total jobs impact by industry sector, the sectors with the most jobs supported by operation of the Airport Campus include:

1. Transport by air (178)
2. Restaurants and bars (139)
3. Legal services (113)
4. Scientific research and development (72); and
5. Motion picture and video industries (62).
Another way to think about the scale of the employment impact generated by the Airport Campus is in relation to the employment impacts from other typical forms of development in the City.

This chart shows:

1. Based on typical employment densities, the 894 direct jobs at the Airport Campus are equivalent to:
   a. the direct jobs in about 1,200 hotel rooms (about four times the Fairmont Miramar),
   b. 365,000 s.f. of shopping center space (about 2/3rds the size of Santa Monica Place), and
   c. 300,000 s.f. of commercial office space (about 30% of the SM Business Park)

2. The relatively large “multiplier effect” of jobs at the Airport Campus means that its 894 direct jobs have a greater total impact in the City’s economy (1,487 total jobs) than the same number of direct jobs in hotels, shopping center space and commercial office space.

3. Or, expressed another way, the total employment impact that the Airport Campus has in the City’s economy is equal to the impact from 2,000 hotel rooms, 607,000 s.f. of shopping center space or 500,000 s.f. of commercial office building space.
Santa Monica Airport Campus
Quantitative Economic Impacts:
Annual Economic Output

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Measured in terms of annual economic output, the current operation of the Airport Campus produces:

$187.5 million in direct output, based on the IMPLAN model analysis.

$87.7 million in output “multiplier effect” – i.e., another $47 in additional output supported elsewhere in the City’s economy for every $100 in output generated at the Airport Campus, based on IMPLAN model analysis.

$275.2 million in total annual economic output in the City’s economy.
In terms of total economic output, by industry sector, the sectors with the largest output impact that are supported by operation of the Airport Campus include:

1. Transport by air ($54 million)
2. Legal services ($24 million)
3. Motion picture and video industries ($22 million)
4. Independent artists, writers & performers ($17 million); and
5. Scientific research and development ($12 million).
Similar to the situation with respect to jobs, this chart shows:

1. Both the direct economic output generated at the Airport Campus ($187.5 million), and the total output ($275.2 million) exceeds the economic output from other typical forms of development in the City with the same number of direct jobs (894) – i.e., more direct and total output than would be generated by 1,200 hotel rooms, 365,000 s.f. of shopping center space, or 300,000 s.f. of commercial office space.

2. Or, expressed another way, the total economic impact that the Airport Campus has in the City’s economy is equal to the impact from about 1,800 hotel rooms, 1.3 million s.f. of shopping center space or 380,000 s.f. of commercial office building space.
Santa Monica Airport Campus Fiscal Impacts
Finally, a few words about the Airport Campus’ impact on the City budget.

It’s clear in the City budget what revenues and expenditures are recorded in the Airport Fund, including the costs to the General Fund for work performed by staff in other City departments. The Airport Fund revenues are derived primarily from land and building lease revenue, hangar rentals, other rentals, among others.

However, there is no separate accounting in the City’s budget of General Fund revenues attributable to the Airport Campus.

Accordingly, HR&A undertook original research, in association with the City’s Finance Dept., to estimate the property tax, sales tax, utility user’s tax and other General Fund revenues that were generated by the Airport Campus in FY 2010-11.

We found that the Airport Campus generated about $1.0 million in General Fund revenues, in addition to about $4.0 million in Airport Fund revenues, in FY 2010-11.
For the 2010-11 fiscal year, total Airport and General Fund Revenues were about equal to total expenditures, including a modest amount of capital expenditures in that particular year. In other years, when capital expenditures have been higher, the operation of the Airport Campus has required a subsidy from the General Fund.

This relatively break-even fiscal situation in FY 2010-11 was accomplished despite the fact that:

1. Some leases are currently below market, for historical or policy reasons;
2. The City does not collect revenue from subtenants of master lessors; and
3. The Airport Campus has a lot of land area that is undeveloped and/or under-utilized.

Thus, the Airport Campus may provide additional revenue opportunities for the City after all existing leases expire 2015.
Conclusions
In summary, our analysis leads to these conclusions.

Conclusions

- In addition to its important role in U.S. aviation history, the Airport Campus has also played an important role in the City’s economy since the early 1900s.

- Today, economic activity at the Airport Campus is spread across 42 different industry sectors and 177 individual business, of which, 85% have less than six employees.

- The Airport Campus accounts for a total of 1,487 total jobs in the City’s economy, of which 894 result from on-site activity and local visitor spending by arriving air passengers.

- The Airport Campus supports $275.2 million in total annual economic output in the City’s economy, of which $187.5 million occurs directly on-site and in local visitor spending venues.

- Jobs and economic activity at the Airport Campus have higher “multiplier effects” in the City’s economy than other typical forms of development.

- In FY 2010-11, the Airport Campus generated enough revenue to offset nearly all operating costs.
Santa Monica Airport Campus

Current Economic and Fiscal Impacts in the City of Santa Monica

Questions?

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