W

WRIGHT JOHNSON

professional authors and analysts

An Economic Analysis
Of the Regional Center Project Encompassing the
Counties of Monterey and Santa Cruz
of the State of California

Final Report

Prepared for

California Sunshine Regional Center, LLC

By

Wright Johnson, LLC

June 2015

TABLE OF CONTENTS

1. EXECUTIVE SUMMARY

- This economic analysis report, utilizing RIMS II, was prepared to evaluate the economic impacts of a specific project located within Watsonville, California, which is being developed under the sponsorship of the USCIS-approved regional center, California Sunshine Regional Center ("CSRC"). The project involves the construction of a 242-unit mixed market rate and affordable rate condominium complex located in Watsonville, California. This project's activities will be collectively referred to as the "Sunshine Garden Project."

- The Sunshine Garden Project will result in the creation of **536.9 new jobs** from the construction of the project.

- Sunshine Garden Project will increase investment in the region by a one-time amount of **$79,969,039**. This impact analysis finds that the project will generate significant and positive economic benefits for the regional economy.

- The Sunshine Garden Project would result in annual growth in the regional economy of the region by a gain of **$25,023,000** in regional household earnings.

- The regional economy will experience increased need for business services of **$3,087,000** annually.

- The regional economy will experience annual increased demand on utilities of **$262,000**.

- Increased demand for maintenance and construction on an annual basis will be **$47,721,000**.

- The regional economy will experience increased demand on new supplier and vendor links with manufacturers of **$3,467,000**.

- Based on the combined total financing for the projects of $79,969,039—which will include up to $21 million in EB-5 capital from 42 EB-5 Investors will be raised—the individual EB-5 investors in the projects can be credited with the creation of **12.7 jobs** each. The construction of the project provides enough jobs to meet or exceed the requirements of the EB-5 program.

- The following chart summarizes the total permanent new jobs for construction of the Sunshine Garden Project. These figures assume that the expenditures for the project given in this table are met.

Table 1-1. Summary of Employment Projection for Sunshine Garden Project					
Project (with NAICS Code)	Projected Expenditure/ Revenue	RIMS II Final Demand Multiplier	Total New Direct Jobs Created	Total New Indirect Jobs Created	Total New Permanent Jobs Created
Residential Building Construction (NAICS 2361)	$47.564	11.2891	327.5	209.4	536.9
Total					**536.9**

Dollar figures in millions, 2010 dollars

1-1 INTRODUCTION

Wright Johnson, LLC, ("WJ") has been retained by California Sunshine Regional Center, LLC ("CSRC") to perform an economic assessment of a planned investment of the construction of a specific project located within a contiguous two-county area within the State of California. The following industry clusters were analyzed as part of this project:

1. Residential Building Construction—NAICS 2361

California Sunshine Regional Center is an approved EB-5 regional center with a geographic area encompassing the following two contiguous counties in California: Monterey and Santa Cruz. WJ analyzed commuter data to determine commuter patterns for the workforce for the project location. Based on information provided by CSRC, WJ performed an analysis for the target industry economic cluster in the proposed project specific geographic area. RIMS II was utilized.

The focus of the study is analyzing the Regional Center impacts of the construction of a 242-unit condominium complex located in Watsonville, California within the county of Santa Cruz.

WJ used RIMS II to model the total economic impact associated with various levels of site investment and operational employment. To quantify the net economic impact (direct and indirect) of the development, RIMS II modeled the following effects:

- Direct Effects of construction employment, household earnings, taxation and output

WJ examined the project provided by California Sunshine Regional Center using a multi-industry sector, segregated-region model. Using this model, WJ was able to develop independent forecasts for the proposed use of the project. This segregation of forecasts allowed WJ/RIMS II to capture the total net effects of the proposed target industry. By analyzing the regional developments with different underlying assumptions for the specific industries, WJ established a realistic prediction of a potential outcome.

The RIMS II economic model employed for the economic and job creation impact assessment study, forecasts the economic impact a specific event will generate throughout a determined area—the two counties in California. Over time, competitive pressures emerge and then tend to revert back to equilibrium. The process, in that way, depicts the so-called "ripple effect" impacts economic changes have on a region. In this case, the initial economic stimulation reverberates through the regional economy, spreading outward from the site of the new investment and business activity and across the state of California and the nation. Eventually, the new waves of the economic activity are absorbed into the larger economy, creating a new level of economic equilibrium. In the long run, the project will materially alter the regional geographic area by the substantial amount of new investment and related business development activities, including a corresponding higher level of output, taxation, investment, employment, and household earnings in the regional economy. This report is intended to demonstrate the increased economic impacts within the region.

The proposed Sunshine Garden Project will require a total expenditure of **$79,969,039** to provide for development of the project. **$21,000,000** of the total investment will be through EB-5 investor funds.

1-2 INDUSTRY CLUSTER DEFINITIONS[1]

Residential Building Construction—NAICS code 2361

This U.S. industry comprises general contractor establishments primarily responsible for the construction of new multifamily residential housing units (e.g., high-rise, garden, town house apartments, and condominiums where each unit is not separated from its neighbors by a ground-to-roof wall). Multifamily design-build firms and multifamily housing construction management firms acting as general contractors are included in this industry.

---

1. NAICS code definitions provided by the U.S. Census Bureau

1-3 DISCUSSION OF COUNTY GROUPING SELECTED BASED ON COMMUTING DATA

To determine the appropriate size of the study region, Wright Johnson uses U.S. Census Bureau data on commuting patterns to approximate the regional center's sphere of economic influence. Using data on work site and place of residence at the county level, we examined each of the counties included in the project proposal to calculate where the preponderance of workers lives in each county, ranking them by absolute number of commuters to the county. A cutoff threshold was determined for each ranked list of worker-supplying counties; lists were truncated at the cumulative 95% level of all commuters. Below a 90% level will exclude areas that are significantly affected by the proposed project.

Commuting patterns tend to be more spatially concentrated than the flow of goods, which have much wider dispersion into and out of the region. However, a tradeoff must be made between capturing the indirect economic effects of trade and the induced economic effects of increased consumer spending.

An important distinction must be made between the regional center's composition and the composition of the "study region," the area that is affected by economic activity in the proposed regional center. Because of the interdependence of economic activities, investments within the regional center will have impacts beyond—and potentially far beyond—their borders.[2] Consideration must be given to the sizing of the study region so that important regional effects are not neglected in the analysis. If a region is sized too small, much of the effect of a project will be obscured as expenditures on goods originating outside the region (known as "leakages") diminish the impacts. Conversely, if a region is sized too large, the economic multipliers might be overstated and the ability to claim final demand will be diminished.

WJ analyzed the commuting patterns for the project's location.

The combined percentage of workers from Santa Cruz County and Monterey County, CA that commute into Santa Cruz County (where the project is located) is 93.74%.

Commuting to Santa Cruz County		
Area	*Employment*	*Share*
Santa Cruz and Monterey Counties	100,685	93.74%
Rest of California	6,481	6.03%
All Other	263	0.23%
Total	**107,407**	**100.00%**

U.S. Census Bureau, County-to-County Work Flows. (http://www.census.gov/population/www/cen2000/commuting/index.html#CA)

---

2.   USCIS has interpreted that while the regional center's EB-5 capital investment activity may produce a legitimate economic benefit outside its formal jurisdictional regional center boundaries, the data set used to estimate job creation should fit within the intended impact of the capital investment project. Where appropriate, regional data should be used as the basis for a regional center's job creation analysis in keeping with 8 CFR 204.6(m)(3)(i). It is understood that USCIS may not accept statewide data or data from a broader area outside a regional center as suitable for the job creation analysis when regional data is readily available that focuses solely on an RC's geographic area. However, if the prospective impacts of the capital investment project provided in the project's business plan and associated economic analysis indicate that a broader geographic area should be considered, USCIS will do so. (See, USCIS "EB-5 Immigrant Investor Program Stakeholder Meeting, October 14, 2010" slides (PDF version of document downloaded November 19, 2010).

1-4 EFFECT OF HOUSEHOLD EARNINGS, DEMAND FOR BUSINESS SERVICES, UTILITIES, MAINTENANCE AND CONSTRUCTION, AND NEW SUPPLIER/VENDOR RELATIONSHIPS WITH MANUFACTURERS

If the project was to be operating at the stated capacities given in this report, the economic impact as measured by household earnings, demand for business services, utilities, maintenance and repair, and new supplier and vendor relationships is summarized in the chart below.

Summary Measures of Economic Impact for the Sunshine Garden Project	
Household Income from	
Construction	$25,023,000
Total Household Income	**$25,023,000**
Demand (Output) for:	
Professional and business support services	$3,087,000
Utilities	$262,000
Maintenance and repair construction	$47,721,000
Supplier/vendor links with manufacturers	$3,467,000
Total Demand	**$54,537,000**

Household Earnings (Labor Income)

The jobs created by the various components of the regional center will subsequently create new sources of household income. The total household income from the project will be $25.02 million. This income calculation comes from the RIMS II input-output model, which measures the average income per job by industry. The model calculations are based on the types of jobs that will be created within the regional center, with indirect impacts allocated based on the types of commodity inputs required by the businesses that would potentially locate in the regional center.

Demand for Business Services, Utilities, Maintenance and Construction, and New Supplier/Vendor Relationships Created with Manufacturers

The total economic impact of the regional center from the supplier purchases and business relationships for the regional center will create approximately $54.54 million in additional economic activity across the region. These supplier purchases are calculated from the indirect increase in output generated by the RIMS II model. It should be noted that some of these supplier industries might potentially locate within the regional center, and their economic output is included in this total.

The estimate of supplier purchases is based on the commodity data in the RIMS II input-output model. This data specifies the amount and type of commodity input needed to maintain specific types of business operations. The model estimates the supplier purchases based on the types of jobs and number of jobs that will be created within the regional center. In addition, the model allocates the supplier purchases to businesses within the region, based on trade flow data from the U.S. Bureau of Economic Analysis.

The regional center will create demand for business services including, professional services, and business services and support services. The impact of this activity totals about $3.09 million annually.

Utilities include services such as electricity, natural gas, and water and sewer facilities. The economic impact on utility services totals about $0.26 million.

Maintenance and repair services include some building and construction activity on existing buildings. The regional center would create an economic impact of about $47.72 million within these sectors in the region. Because most of the construction activity is either upfront during building construction or integrated into repair and maintenance services, the economic impact for construction sectors is minimal on an ongoing basis.

New supplier/vendor relationships with manufacturers would create an economic impact of about $3.47 million. These activities include purchases of locally manufactured goods plus purchased materials for construction, plus any locally produced materials used in food services.

2. METHODS & ASSUMPTIONS

2-1 ASSUMPTIONS

For the project, WJ examined the economic effects of site development. WJ systematically reviewed each set of assumptions used to properly customize the sector outputs that make up the set matrices. In the following assumptions, WJ applied specific sector data resulting in a very detailed, realistic and logical range of likely outcomes.

The tables within this analysis show the expected spending as well as increases in employment and household earnings for ongoing operations.

The definition of "direct jobs" through RIMS II used in this report should not be confused with the concept of "direct job" creation measurable by Forms I-9, payroll records or other similar documentation as set forth in 8 C.F.R. § 204.6(j)(4)(i)(A). That section contemplates individually identifiable "direct hire" type jobs created which can individually identify the actual employees of the Job Creating Enterprise (JCE), most often in the non-regional center context.

When economists use the term "direct" jobs in the context of an econometric methodology such as RIMS II, what is meant are jobs created directly by revenues (which in the EB-5 Immigrant Investor Program results from an immigrant investor's investment). For example, where a regional center-based new commercial enterprise comprised of immigrant investors renovates a building it purchases, the employees of the various unaffiliated tenants of that building would be considered "direct" jobs in the context of an econometric report. However, as noted in USCIS' stated EB-5 policy, those jobs are not "direct" in the sense set forth in 8 C.F.R. § 204.6(j)(4)(i)(A) where the new commercial enterprise is itself the employer that can provide Form I-9 or other similar documentation on its own employees. The tenants' employees are not "direct" employees of the regional center-based new commercial enterprise, nor may they be counted for other job creation credit calculations "unless" the tenant jobs were not pre-existent somewhere else, and merely were existing jobs transferred to the new tenant location from a prior location where they had existed.

To be clear, this report does in fact also set forth the number of EB-5 "direct" jobs that are likely to be created by the JCE within its expanded production capacity as a result of the expansion project, and that by the point of filing to remove conditions by way of the form I-829 process, the JCE will be fully compliant with 8 C.F.R. § 204.6(j)(4)(iii) in providing probative evidence for the proof of "direct" EB-5 job creation. In addition, and within the context of regulations which apply particularly to regional centers, for calculation of the resultant and newly induced and indirect job creation, is not Forms I-9, payroll records or similar documentation that will be the needed to meet the USCIS' preponderance of evidence standard, but rather "reasonable methodologies" such as used for this report.

2-2 SIMULATION INPUTS

The data used includes an estimated construction timeline and development costs provided by CSRC.

Information from the business plan for the proposed industry cluster was provided by CSRC and such information within the plan was evaluated and then incorporated into this analysis for area specific background and demographic purposes.

Based on the data provided and corroborated, inputs were created for use in the RIMS II system to model the economic impact of the operation phase of the project. The relevant information and data used to develop the model inputs of the project was provided by California Sunshine Regional Center.

A summary of the proposed project follows:

Sunshine Garden Project

A 242-unit mixed market rate and affordable rate condominium complex located in Watsonville, California within the county of Santa Cruz. The total investment into the project will be $79,969,039 and the EB-5 investment is projected to be $21 million. The remaining amount will come from loan financing and developer equity.

Development Costs—Sunshine Garden Project	
Direct Costs	
Living Area (242 units, 371,283 SF)	$47,726,658
Garage (1398,896 SF)	
Site development Costs ($19,903 per unit)	$4,816,471
Contingency	$2,631,146
Total Direct Costs	$55,174,275
Indirect Costs	
Construction Interest	$1,875,260
24 Months Operational Cost	$1,890,000
Indirect Costs (Legal, Title, Ins., Taxes, Warranty @ 4% ARP)	$687,000
City & Professional Fees	$3,802,540
Impact Fees	$7,244,971
Contingency	$494,993
Total Indirect Costs	$15,994,764
Total Direct and Indirect Costs	**$71,169,039**
Land Price	$8,800,000
Total Development Costs	**$799,690,369**

Construction

Construction will last approximately 43 months and the total direct construction costs of this project will be $55,174,275 (in current dollars).[3] The current RIMS II multipliers are from 2010; therefore, we must deflate the expenditures to 2010 dollars.

According to the Turner Construction Building Cost Index, the cost index in 2010 was 799, compared to the 1st Quarter 2015 cost index of 927.[4] Therefore, the construction costs for this project *will need to be further reduced* to reflect 2010 dollars.

Turner Construction Building Index		
Quarter	*Index*	*% Change*
1st Quarter 2015	927	1.09
4th Quarter 2014	917	0.99
3rd Quarter 2014	908	1.34
2nd Quarter 2014	896	1.24
Year	*Average Index*	*% Change*
2014	902	4.4
2013	864	4.1
2012	830	2.1
2011	812	1.6
2010	799	−4.0
2009	832	−8.4
2008	908	6.3
2007	854	7.7
2006	793	10.6
2005	717	9.5
2004	655	5.4
2003	621	0.3
2002	619	1.0

To convert this figure to 2010 dollars we use the 1st Quarter 2015 cost index of 927 and divide it by the 2010 cost index of 799. This gives us a figure of $927/799 = 1.16$. To convert the $55,174,275 in current dollars to 2010 dollars, the expenditure is divided by 1.16, to yield $47,564,030.

Construction Expenditure—Current Dollars vs. 2010 Dollars	
Current Dollars	*2010 Dollars*
$55,174,275	$47,564,030

Construction employment was derived through expenditure modeling based upon detailed construction cost figures supplied by CSRC. Verification at the I-829 stage of the EB-5 process would be receipts, tax documents, and other expense records.

---

3. According to the June 4, 2015 USCIS EB-5 Interactive Series "Expenses that are Includable (or Excludable) for Job Creation", "… generally speaking, USCIS considers contingency and reserve funds that adhere to acceptable industry practices to be permissible inputs into an economic model for estimating job creation".
4. www.turnerconstruction.com/content/files/CostIndex2015Qrtr1.pdf

2-3 RIMS II FINAL DEMAND AND EMPLOYMENT MULTIPLIERS

Shown in the chart below are the actual RIMS II final demand and employment multipliers used in the project for this analysis specific for the counties within the Regional Center.

RIMS II Final Demand and Employment Multipliers						
	Final Demand Multiplier				**Direct Effect Multiplier**	
Industry	*Output ($)*	*Earnings ($)*	*Employment (jobs)*	*Value-added ($)*	*Earnings ($)*	*Employment (jobs)*
230000—Construction	1.5971	0.5262	11.2891	0.8523	1.4709	1.6393

Region Definition: Monterey, CA; Santa Cruz, CA.

Final Demand—Output: Each entry in this column represents the total dollar change in output that occurs in all industries for each additional dollar of output delivered to final demand by the industry corresponding to the entry.

Final Demand—Earnings: Each entry in this column represents the total dollar change in earnings of households employed by all industries for each additional dollar of output delivered to final demand by the industry corresponding to the entry.

Final Demand—Employment: Each entry in this column represents the total change in number of jobs that occurs in all industries for each additional 1 million dollars of output delivered to final demand by the industry corresponding to the entry. Because the employment multipliers are based on 2010 data, the output delivered to final demand should be in 2010 dollars.

Final Demand—Value-added: Each entry in this column represents the total dollar change in value added that occurs in all industries for each additional dollar of output delivered to final demand by the industry corresponding to the entry.

Direct Effect—Earnings: Each entry in this column represents the total dollar change in earnings of households employed by all industries for each additional dollar of earnings paid directly to households employed by the industry corresponding to the entry.

Direct Effect—Employment: Each entry in this column represents the total change in number of jobs in all industries for each additional job in the industry corresponding to the entry.

Note. Multipliers are based on the 2002 Benchmark Input-Output Table for the Nation and 2010 regional data.

Source: Regional Input-Output Modeling Systems (RIMS II). Regional Product Division, Bureau of Economic Analysis.

2-4 CALCULATION OF EMPLOYMENT RESULTS USING FINAL DEMAND MULTIPLIER

Construction

Looking at **NAICS code 2361** (**Construction**), the final demand multiplier is 11.2891 and the employment multiplier is 1.6393. The final demand multiplier is used to determine the total number of jobs produced based on the expenditures for construction of the development, which is shown in Table 1-1 of this report. This figure is $47.564 million (in 2010 dollars). Therefore, if all the jobs were counted, there would be $47.564 × 11.2891, or 536.9 jobs. This figure includes direct and indirect jobs.

The employment multiplier is 1.6393, which means that for every 1 direct job, there are 1.6393 total jobs. Hence for every 1 direct job, there are 0.6393 indirect jobs. If there are a total of 536.9 jobs if all categories are counted, then based on this multiplier there are 327.5 direct jobs and 209.4 indirect jobs. This is the figure shown in Table 1-1.

2-5 GUIDELINES AND METHODOLOGY FOR CONSTRUCTION EMPLOYMENT CREATION

USCIS guidelines state that direct construction jobs lasting less than two years should not be counted for the purpose of determining EB-5 job count. However, the indirect jobs can be counted.

The project will include more than two years of construction. Therefore, direct construction jobs will be included in the total census.

Also, the number of developmental jobs must be based upon the capital expended on the EB-5 eligible cost of hard construction. Soft costs, such as development fees and permitting, are not included. These jobs are calculated as indirect effects within the RIMS II model and to use these costs would be double counting.

For this analysis the developer has provided WJ with final estimates of all expenditures of the project. Of the **$79,969,039** in capital expenditure, **$55,174,275** will be spent on hard construction costs for the development.

The economic impact calculations in this report are based on the RIMS II final demand multipliers. The numbers in the following tables are calculated by multiplying expenditures or revenue by the RIMS II multipliers for the region, for example: the hard construction costs by the RIMS II construction multipliers.

2-6 ECONOMIC IMPACTS OF SUNSHINE GARDEN PROJECT

Construction

According to the business plan, the hard construction and site work costs are expected to be $47.564 million (in 2010 dollars). The construction will take approximately 43 months to complete.

The RIMS II final demand multiplier for construction is 11.2891. When multiplied by $47.564 million (2010 dollars) that creates 536.9 new jobs.

Table 2-1 and 2-2 show the economic impact of the construction expenditures for the 20 major industrial classifications in the RIMS II input/output model. Please note that in these and succeeding tables, output and earnings are given in thousands of dollars.

Table 2-1. Increase in Employment, Output, and Earnings for $47.564 Million (2010 Dollars) Construction Expenditures			
Industry group	Employment	Output	Earnings
Agriculture, forestry, fishing	1.1	157	33
Mining	1.8	385	76
Utilities	0.3	262	33
Construction	328.6	47,721	17,071
Manufacturing	13.3	3,467	652
Wholesale trade	9.6	1,998	623
Retail trade	56.0	4,690	1,570
Transportation and warehousing	8.8	1,165	385
Information	2.2	628	143
Finance and insurance	6.0	1,436	357
Real estate and rental and leasing	13.3	4,500	300
Professional, scientific, services	10.6	1,722	747
Management of companies	2.8	618	257
Administrative and waste management	11.1	747	295
Educational services	5.0	390	157
Health care and social assistance	25.6	2,692	1,241
Arts, entertainment, and recreation	4.6	309	105
Accommodation	3.8	404	124
Food services and drinking places	17.3	1,084	342
Other services	10.9	1,593	480
Households	4.2	0	33
Total	**536.9**	**75,969**	**25,023**

Table 2-1 shows that there will be a total of 536.9 new jobs created from the construction of the development. Total output will rise about $75.97 million, while total household earnings would increase by about $25.02 million.

Table 2-2. Output and Earnings Per New Worker for $47.564 Million (2010 Dollars) Construction Expenditures

Industry group	Employment	Output/Employee	Earnings/Employee
Agriculture, forestry, fishing	1.1	142.9	30.3
Mining	1.8	211.5	41.8
Utilities	0.3	763.9	97.2
Construction	328.6	145.2	51.9
Manufacturing	13.3	260.7	49.0
Wholesale trade	9.6	207.5	64.7
Retail trade	56.0	83.7	28.0
Transportation and warehousing	8.8	132.8	43.9
Information	2.2	282.7	64.2
Finance and insurance	6.0	239.5	59.5
Real estate and rental and leasing	13.3	338.0	22.5
Professional, scientific, services	10.6	163.1	70.8
Management of companies	2.8	220.0	91.4
Administrative and waste management	11.1	67.6	26.7
Educational services	5.0	78.1	31.4
Health care and social assistance	25.6	105.2	48.5
Arts, entertainment, and recreation	4.6	67.1	22.7
Accommodation	3.8	105.2	32.2
Food services and drinking places	17.3	62.8	19.8
Other services	10.9	146.0	44.0
Households	4.2	0.0	8.0
Total	**536.9**	**141.5**	**46.6**

Table 2-2 shows that output per new worker for the construction sector would be about $145,200, with average annual earnings of about $51,900. For all new workers, the corresponding figures are $141,500 and $46,600.

2-7 VERIFICATION/SOURCE OF INPUTS

Construction

The construction costs used as input to the economic model are verified by Valbridge Property Advisors. The project's direct construction costs are within 0.7% of the appraiser. The cost approach comparison is shown below:

Valbridge
PROPERTY ADVISORS

COST APPROACH SUMMARY - ENTIRE PROJECT						
Direct Costs:	242 Units					
Building Cost					Developer	Appraiser
Building Living Area	371,283 SF				$47,726,658	$44,789,000
Garage	139,896 SF				included	$5,956,920
Site Development Costs		$19,903 Per Unit			$4,816,471	$4,816,471
Contingency					$2,631,146	
Total Direct Costs					$55,174,275	$55,562,391
Indirect Costs:						
Construction Interest					$1,875,260	
	$106,790,000	5.00%	48 Mos.			$6,941,000
	65.00% L/V ratio					
	50.00% utilization					
Construction Loan Fee					included	
	$106,790,000	1.00%				$1,068,000
Permanent Loan Fee					included	
	$106,790,000	65% L/V Ratio	1.00%			$694,000
24 months operational cost					$1,890,000	
Indirect Costs						
Legal, Title, Ins.,Taxes, Warranty @ 4% ARP						$4,236,511
					$687,000	
Marketing @ 4% ARP						$4,236,511
City and Professional Fees					$3,802,540	
Impact Fees					$7,244,971	$7,244,971
Contingency					$494,993	
Total Indirect Costs		44.% of Direct Cost			$15,994,764	$24,420,992
Total Direct and Indirect Costs					$71,169,039	$79,983,383
Developer's Profit & Overhead				17.00%	$18,005,170	$18,005,170
Improvement Replacement Cost					$89,174,209	$97,988,553
Total Accrued Depreciation					$0	$0
Depreciated Replacement Cost					$89,174,209	$97,988,553
Land Value @ $40,000 Per Unit					$8,800,000	$8,800,000
Value Indicated by the Cost Approach					**$97,974,209**	**$106,788,553**
		Rounded To:				**$106,790,000**
		Price Per Unit				**$441,281**
		Price Per SF				**$287.62**

Depreciation
Accrued depreciation is then deducted from the estimated replacement cost new. All types of accrued depreciation potentially affecting the subject were considered. Accrued depreciation is defined as the difference between replacement cost new as of the date of appraisal and the present contributory value of the improvements.

There are three types of depreciation which are defined as follows:

1. **Economic Obsolescence**: Loss in value due to factors external to the subject property itself, such as the existence of incompatible property uses in the neighborhood.

2. **Functional Obsolescence:** Loss in value from cost new due to defects in design, such as poor floor plan or functional inadequacy or over-adequacy.

3. ABOUT RIMS II FINAL DEMAND METHODOLOGY

The following material has been condensed from the RIMS II User Handbook

Introduction and General Comments

Effective planning for public- and private-sector projects and programs at the State and local levels requires a systematic analysis of the economic impacts of these projects and programs on affected regions. In turn, systematic analysis of economic impacts must account for the inter-industry relationships within regions because these relationships largely determine how regional economies are likely to respond to project and program changes. Thus, regional input-output (I-O) multipliers, which account for inter-industry relationships within regions, are useful tools for conducting regional economic impact analysis.

In the 1970s, the Bureau of Economic Analysis (BEA) developed a method for estimating regional I-O multipliers known as RIMS (Regional Industrial Multiplier System), which was based on the work of Garnick and Drake. In the 1980s, BEA completed an enhancement of RIMS, known as RIMS II (Regional Input-Output Modeling System), and published a handbook for RIMS II users. In 1992, BEA published a second edition of the handbook in which the multipliers were based on more recent data and improved methodology. In 1997, BEA published a third edition of the handbook that provides more detail on the use of the multipliers and the data sources and methods for estimating them.

RIMS II is based on an accounting framework called an I-O table. For each industry, an I-O table shows the industrial distribution of inputs purchased and outputs sold. A typical I-O table in RIMS II is derived mainly from two data sources: BEA's national I-O table, which shows the input and output structure of nearly 500 U.S. industries, and BEA's regional economic accounts, which are used to adjust the national I-O table to show a region's industrial structure and trading patterns.

Using RIMS II for impact analysis has several advantages. RIMS II multipliers can be estimated for any region composed of one or more counties and for any industry, or group of industries, in the national I-O table. The accessibility of the main data sources for RIMS II keeps the cost of estimating regional multipliers relatively low. Empirical tests show that estimates based on relatively expensive surveys and RIMS II-based estimates are similar in magnitude.

BEA's RIMS multipliers can be a cost-effective way for analysts to estimate the economic impacts of changes in a regional economy. However, it is important to keep in mind that, like all economic impact models, RIMS provides approximate order-of-magnitude estimates of impacts. RIMS multipliers are best suited for estimating the impacts of small changes on a regional economy. For some applications, users may want to supplement RIMS estimates with information they gather from the region undergoing the potential change. To use the multipliers for impact analysis effectively, users must provide geographically and industrially detailed information on the initial changes in output, earnings, or employment that are associated with the project or program under study. The multipliers can then be used to estimate the total impact of the project or program on regional output, earnings, and employment.

RIMS II is widely used in both the public and private sector. In the public sector, for example, the Department of Defense uses RIMS II to estimate the regional impacts of military base closings. State transportation departments use RIMS II to estimate the regional impacts of airport construction and expansion. In the private-sector, analysts and consultants use RIMS II to estimate the regional impacts of a variety of projects, such as the development of shopping malls and sports stadiums.

RIMS II Methodology

RIMS II uses BEA's benchmark and annual I-O tables for the nation. Since a particular region may not contain all the industries found at the national level, some direct input requirements cannot be supplied by that region's industries. Input requirements that are not produced in a study region are identified using BEA's regional economic accounts.

The RIMS II method for estimating regional I-O multipliers can be viewed as a three-step process. In the first step, the producer portion of the national I-O table is made region-specific by using six-digit NAICS location quotients (LQs). The LQs estimate the extent to which input requirements are supplied by firms within the region. RIMS II uses LQs based on two types of data: BEA's personal income data (by place of residence) are used to calculate LQs in the service industries; and BEA's wage-and-salary data (by place of work) are used to calculate LQs in the non-service industries.

In the second step, the household row and the household column from the national I-O table are made region-specific. The household row coefficients, which are derived from the value-added row of the national I-O table, are adjusted to reflect regional earnings leakages resulting from individuals working in the region but residing outside the region. The household column coefficients, which are based on the personal consumption expenditure column of the national I-O table, are adjusted to account for regional consumption leakages stemming from personal taxes and savings. In the last step, the Leontief inversion approach is used to estimate multipliers. This inversion approach produces output, earnings, and employment multipliers, which can be used to trace the impacts of changes in final demand on and indirectly affected industries.

Accuracy of RIMS II

Empirical evidence suggests that RIMS II commonly yields multipliers that are not substantially different in magnitude from those generated by regional I-O models based on relatively expensive surveys. For example, a comparison of 224 industry-specific multipliers from survey-based tables for Texas, Washington, and West Virginia indicates that the RIMS II average multipliers overestimate the average multipliers from the survey-based tables by approximately 5 percent. For the majority of individual industry-specific multipliers within these states, the difference between RIMS II and survey-based multipliers is less than 10 percent. In addition, RIMS II and survey multipliers show statistically similar distributions of affected industries.

Advantages of RIMS II

There are numerous advantages to using RIMS II. First, the accessibility of the main data sources makes it possible to estimate regional multipliers without conducting relatively expensive surveys. Second, the level of industrial detail used in RIMS II helps avoid aggregation errors, which often occur when industries are combined. Third, RIMS II multipliers can be compared across areas because they are based on a consistent set of estimating procedures nationwide. Fourth, RIMS II multipliers are updated to reflect the most recent local-area wage-and-salary and personal income data.

Overview of Different Multipliers

RIMS II provides users with five types of multipliers: final demand multipliers for output, for earnings, and for employment; and direct-effect multipliers for earnings and for employment. These multipliers measure the economic impact of a change in final demand, in earnings, or in employment on a region's economy.

The final demand multipliers for output are the basic multipliers from which all other RIMS II multipliers are derived. In this table, each column entry indicates the change in output in each row industry that results from a $1 change in final demand in the column industry. The impact on each row industry is calculated by multiplying the final demand change in the column industry by the multiplier for each row. The total

impact on regional output is calculated by multiplying the final demand change in the column industry by the sum of all the multipliers for each row except the household row.

RIMS II provides two types of multipliers for estimating the impacts of changes on earnings: final demand multipliers and direct effect multipliers. These multipliers are derived from the table of final demand output multipliers.

The final demand multipliers for earnings can be used if data on final demand changes are available. In the final demand earnings multiplier table, each column entry indicates the change in earnings in each row industry that results from a $1 change in final demand in the column industry. The impact on each row industry is calculated by multiplying the final demand change in the column industry by the multipliers for each row. The total impact on regional earnings is calculated by multiplying the final demand change in the column industry by the sum of the multipliers for each row.

Employment Multipliers

RIMS II provides two types of multipliers for estimating the impacts of changes on employment: final demand multipliers and direct effect multipliers. These multipliers are derived from the table of final demand output multipliers.

The final demand multipliers for employment can be used if the data on final demand changes are available. In the final demand employment multiplier table, each column entry indicates the change in employment in each row industry that results from a $1 million change in final demand in the column industry. The impact on each row industry is calculated by multiplying the final demand change in the column industry by the multiplier for each row. The total impact on regional employment is calculated by multiplying the final demand change in the column industry by the sum of the multipliers for each row.

The direct effect multipliers for employment can be used if the data on the initial changes in employment by industry are available. In the direct effect employment multiplier table, each entry indicates the total change in employment in the region that results from a change of one job in the row industry. The total impact on regional employment is calculated by multiplying the initial change in employment in the row industry by the multiplier for the row.

Choosing a Multiplier

The choice of multiplier for estimating the impact of a project on output, earnings, and employment depends on the availability of estimates of the initial changes in final demand, earnings, and employment. If the estimates of the initial changes in all three measures are available, the RIMS II user can select any of the RIMS II multipliers. In theory, all the impact estimates should be consistent. If the available estimates are limited to initial changes in final demand, the user can select a final demand multiplier for impact estimation. If the available estimates are limited to initial changes in earnings or employment, the user can select a direct effect multiplier.

The EB-5 regulations provide that "jobs created indirectly" by a regional center- affiliated business may be credited to foreign investors who made a qualifying investment in the business. To show this job creation, "reasonable" methodologies may be used. 8 CFR§204.6(m)(7). The RIMS II input/output model has been recognized by the USCIS as an acceptable methodology for showing job creation resulting from a regional center- affiliated investment project.