

# **Economic Impact of St. Mary Victorville Oasis On Victorville & Victor Valley**



**Final Report**

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**By John E. Husing, Ph.D.**

**Economics & Politics, Inc.**

961 Creek View Lane  
Redlands, CA 92373  
(909) 307-9444 Phone  
(909) 748-0620 FAX  
[john@johnhusing.com](mailto:john@johnhusing.com)  
[www.johnhusing.com](http://www.johnhusing.com)

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St. Joseph Health System is proposing to build a new 248,460 square foot hospital, a 50,000 square foot medical office building and a 50,000 square foot ambulatory care center in Victorville. This complex would be Phase 1 and anchor a wider three stage project entitled the St. Mary Victorville Oasis (*Victorville Oasis*). The full project may ultimately include additional medical office buildings, a church, daycare center, two hotels, a bank, a pharmacy, restaurant, a specialty food store, a wellness-fitness center and retail outlets plus significant open space and two recreational areas. The project would be located along the I-15 freeway's western edge, south of Mesa Street.



For an economist, four questions arise about this:

- What would be the job creation, payroll and economic activity that Phase 1 of the project would add into the economy of Victorville and the Victor Valley once it is fully operational? The estimated date of this occurring is roughly June 2016, assuming local and state approvals are reached in a timely fashion.
- During the construction of this development from June 2012 to June 2016, what would be the economic impact of the \$260.8 million spent creating it?
- Looking longer term, what is the estimate for the economic impact of the construction of Phases 2 and 3 of the project?
- Once the full project is completed, what would be its full economic impact?

## Phase 1

As indicated, Phase 1 of the St. Mary Victorville Oasis project includes development of a new 248,460 square foot hospital, a 50,000 square foot medical office building and a 50,000 square foot ambulatory care center. The hospital would start out as a 128 bed facility. While it could ultimately be expanded to 300 beds, this analysis will concentrate on its initial size. The new facilities is needed as the Victor Valley market is grossly underserved by local general hospitals with 33% of area patients leaving the valley for care.



In looking at the economic impact of the facilities, two areas will be studied. First, is the entire Victor Valley defined by the following zip codes. Second will be solely the four zip codes in the city of Victorville.

92301 Adelanto	92344 Hesperia	92371 Phelan	92394 Victorville
92307 Apple Valley	92345 Hesperia	92372 Pinon Hills	92395 Victorville
92308 Apple Valley	92356 Lucerne Valley		92392 Victorville
92342 Silver Lakes	92368 Oro Grande		92393 Victorville

### Phase 1 Construction Impact

**Victor Valley.** Altogether, the Phase 1 development budget is estimated at \$260.8 million including the design, entitlement and construction phases (*Exhibit 1*). **70%** of the construction activity is assumed to be by firms located in the Victor Valley. Half the legal and accounting work is assumed to occur in firms located there, with 25% of the architecture, engineering and agency entitlement effort assumed to be by valley firms. That amounts to **\$173,980,000** of effort occurring in the Victor Valley. All of this is assumed to be financed by the St. Joseph Health

System from funding originating outside of the area. This amount is thus the “direct” impact of the construction and entitlement phase of developing the new hospital and associated facilities.

<b>Exhibit 1.-Construction &amp; Entitlement Budget, Victorville Oasis, Victor Valley</b>			
<b>Line Item</b>	<b>Budget</b>	<b>Local Share</b>	<b>Local</b>
Construction	\$240,000,000	70.0%	\$168,000,000
Entitlement-Legal	\$2,080,000	50.0%	\$1,040,000
Entitlement-Accounting	\$1,040,000	50.0%	\$520,000
Entitlement-Architecture, Engineering, agency contact	\$17,680,000	25.0%	\$4,420,000
<b>Development Budget</b>	<b>\$260,800,000</b>		<b>\$173,980,000</b>

To estimate the full impact of the development of the facilities on the Victor Valley, it is important to recognize how local economies work. Here, an analogy to a gold mining town in the Old West is useful. There, the miners dug up the gold and shipped it away bringing new money to an otherwise non-existent economy. That is the “direct” impact of the miners. In the case of the construction and entitlement of the Victorville Oasis, this is the role played by the \$173,980,000. It is a fresh “direct” injection of funds into the Victor Valley economy.

In the Old West, once the money reached the miners, they began spending on items they wanted or needed. Thus, the same dollars that directly went to them, now support people and activity in the general store and the saloon. This is called the “secondary” impact of the new funds reaching the town. In the case of Phase 1 development of Victorville Oasis, once the \$173,980,000 directly reaches the Victor Valley, it is necessary to measure how much “secondary” impact it has on jobs, payroll and economic activity.

This is done using economic models. Specifically, the IMPLAN input-output model developed for this purpose and generally used by regional economists for economic impact work is used here. That model is based on U.S. Bureau of Economic Analysis data. In this case, it is used for the Victor Valley’s zip code listed above.

When the new funds that are assumed to be “directly” injected into the valley’s economy are entered into this model, it yields the full “secondary” impact they would have on the region’s economy. That impact includes new jobs, new payroll, the new value added and the new output (*total sales activity*) as well as added retail sales taxes and property taxes (*Exhibit 2*).

<b>Exhibit 2.-Economic Impact Victorville Oasis, Construction &amp; Entitlement Victor Valley</b>					
<b>Impact Type</b>	<b>Employment</b>	<b>Labor Income</b>	<b>Value Added</b>	<b>New Output</b>	<b>Sales/Property Tax</b>
Direct Effect	1,235	78,446,011	88,647,290	173,980,000	
Secondary Effect	551	\$25,523,424	\$44,678,475	\$74,646,152	
<b>Total Effect</b>	<b>1,786</b>	<b>\$103,969,435</b>	<b>\$133,325,765</b>	<b>\$248,626,152</b>	<b>\$4,591,816</b>
Years	4	4	4	4	4
<b>Annual Impact Per Year</b>	<b>447</b>	<b>\$25,992,359</b>	<b>\$33,331,441</b>	<b>\$62,156,538</b>	<b>\$1,147,954</b>

*Note: Value Added only includes new value created by each operation in a region. Thus, if total output or sales are \$100 million, but \$25 million of what is sold involves products (e.g., flour) used by the sellers to make the items sold (e.g., bread), then the value added is \$75 million.*

Over the four year period of its construction and entitlement effort, Phase 1 of the Victorville Oasis project will create 1,235 new direct jobs and \$78.4 million in new income to local workers. The economy of the Victor Valley will be directly increased by \$88.6 million in new value added and new output (*sales*) will be increased by \$1,734.0 million. **In addition, 551 new jobs, \$25.5 million in new payroll,** \$44.7 million in new value added and \$74.6 million in new output will be secondarily created as the spending set off by the project continues moving through the valley's businesses and households. Altogether, there will thus be 1,786 in added jobs, \$104.0 million in extra payroll, \$133.3 million in new value added and \$248.6 million new output (*sales*) created over the period of the project's construction and entitlement. In the development time frame, \$4,591,816 in additional sales and property taxes to local government will be generated.

Since Phase 1 of the Victorville Oasis project will take *four years* to be entitled and built, on an annual average basis, there will be **447 additional jobs**, and \$26.0 million in extra income going to local workers. The economy of the Victor Valley will be increased by an annual average of \$33.3 million in value added and output (*sales*) will rise \$62.2 million. Local government will receive an annual average of \$1.15 million in added sales and property tax revenue.

**Victorville.** Narrowing the impact's focus to Victorville, it seems reasonable to assume that the great bulk of the direct impact of the project will occur in that city. However, the secondary impact will move through the entire Victor Valley. Here, an important consideration is that \$3,121,378,511 was the size of the city's economy in 2009. At the same time, the full valley economy had \$6,433,278,456 in activity. Thus, the city represented **48.5%** of activity in the full area economy. Since these measures capture the full output of the workers, firms and agencies operating in both the city and the valley, it is assumed that roughly that percentage of the secondary impact of the Victorville Oasis project will occur in the city (*Exhibit 3*).

<b>Exhibit 3.-Economic Impact Victorville Oasis, City of Victorville Construction &amp; Entitlement Period</b>					
<b>Impact Type</b>	<b>Employment</b>	<b>Labor Income</b>	<b>Value Added</b>	<b>New Output</b>	<b>Sales/Property Tax</b>
Direct Effect	1,235	\$78,446,011	\$88,647,290	\$173,980,000	
Secondary Effect	267	\$12,378,861	\$21,669,060	\$36,203,384	
<b>Total Effect</b>	<b>1,502</b>	<b>\$90,824,872</b>	<b>\$110,316,350</b>	<b>\$210,183,384</b>	<b>\$2,227,031</b>
Years	4	4	4	4	4
<b>Annual Impact Per Year</b>	<b>376</b>	<b>\$22,706,218</b>	<b>\$27,579,088</b>	<b>\$52,545,846</b>	<b>\$556,758</b>

Over the four year period of the construction and entitlement phase, the Victorville Oasis project will create the same 1,235 new direct jobs and \$78.4 million in new income to workers with jobs in the city. The economy of Victorville will be directly increased by \$88.6 million in new value added and \$174.0 million in new output (*see Exhibit 2*). In addition, with 48.5% of the Victor Valley's overall activity in the city, 267 new jobs, \$12.4 million in new payroll, \$21.7 million in new value added and \$36.2 million in new output (*sales*) will be secondarily created as the spending set off by the project continues moving through the city's share of the valley's businesses and households. Altogether, the city will thus see 1,502 in added jobs, \$90.8 million in extra payroll, \$110.3 million in new value added and \$210.2 million in new output (*sales*) created over the period of the project.

Again, since Phase 1 of the Victorville Oasis project will take four years to be entitled and built, on an annual average basis there will be 376 additional jobs, and \$22.7 million in extra income available to local workers in the city. The Victorville’s economy will be increased by an annual average of \$27.6 million in value added and \$52.5 million of new output over this period. The city’s 48.5% of new sales and property taxes will total \$2.23 million over the construction period or \$557,000 per year.

### **Phase 1 Operational Impact**

**Victor Valley.** In 2016, with the new Victorville Oasis hospital complex completed, the Victor Valley would see permanent increases in jobs, payroll, value added and economic activity. To measure these impacts, a three step process is necessary:

- Step one requires an estimate of the share of funding for the new hospital complex’s operations that are expected to come to it from outside of the Victor Valley.
- Step two is to determine how much of this new money is expected to pass through the hospital operation to its local employees, suppliers and service providers. These funds represent the “direct” impact that the hospital complex’s operation will have on the valley’s economy. Here, it is important to determine both the gross amount of funds making this journey as well as the sectors with which the funds will be spent.
- Once these determinations have been made, the IMPLAN model can be used to estimate the “secondary” and total impact of the hospital operation on the Victor Valley economy.

**In-Flow of Funds.** To estimate the anticipated operational budget for the 138 bed Victorville Oasis hospital complex and the share financed from outside the Victor Valley, the starting point is the budget of its sister operation, the 202 bed St. Mary Medical Center in Apple Valley (*Exhibit 4*). The new operation will be managed in a similar manner. **However, based upon the relative size of the two facilities, its budget will be 64.0% of the larger operation (138 /202 = 64.0%). This is a conservative assumption in that there are fixed operational costs that would apply to Victorville Oasis despite its smaller size making its operational costs higher than 64.0%.**

<b>Exhibit 4.-In-Flow of External Funds, Victorville Oasis, Annual</b>				
Source of Funds	St. Mary Medical Center	Victorville Oasis (64.0%)	External Share	External
Patient Revenue	\$1,199,319,000	\$767,564,160	99.0%	\$759,888,518
Other Patient Based Revenue	\$19,301,036	\$12,352,663	3.9%	\$480,012
<b>Patient Revenue Booked</b>	<b>\$1,218,620,036</b>	<b>\$779,916,823</b>	<b>97.5%</b>	<b>\$760,368,530</b>
Service Without Payment	(\$61,070,000)	(\$39,084,800)	97.5%	(\$38,105,156)
Contractual Allowances	(\$880,112,000)	(\$563,271,680)	97.5%	(\$549,153,508)
Other	(\$500,000)	(\$320,000)	97.5%	(\$311,979)
<b>Non-Payment</b>	<b>(\$941,682,000)</b>	<b>(\$602,676,480)</b>	<b>97.5%</b>	<b>(\$587,570,643)</b>
<b>Net Patient Based In-flow</b>	<b>\$276,938,036</b>	<b>\$177,240,343</b>	<b>97.5%</b>	<b>\$172,797,887</b>
Other Revenue	\$2,764,886	\$1,769,527	11.9%	\$1,201,280
<b>Total In-Flow</b>	<b>\$279,702,922</b>	<b>\$179,009,870</b>	<b>97.2%</b>	<b>\$173,999,167</b>

In 2012, St. Mary Medical Center anticipates booking roughly \$1.2 billion a year in services to patients. At 64.0%, Victorville Oasis would annually book \$767.6 million. Since patients pay

very little out of pocket costs for their health care, it is assumed that 99.0% of this funding would come from sources outside of the Victor Valley via payments like Medicare, insurance companies and Medical. Thus, \$759.9 million is the estimated share of patient revenue booked that would be paid by external sources. Other patient based revenue from group and insurance contracts is estimated at \$19.4 million at St. Mary Medical Center. Using the 64.0% factor, that would represent \$12.4 million for the Victorville Oasis medical complex. Much of this funding is internal to the Victor Valley with only 3.9% or \$480,000 estimated to come from the outside world. Combined then, the Victorville Oasis complex is estimated to book \$779.9 million in patient care with \$760.4 million or 97.5% of the potential funding from sources external to the Victor Valley.

However, general hospitals never see the amounts of money they book for patient care. First, there is their obligation to treat patients whether or not they are insured and whether or not they can pay for care. Since people without health care coverage often treat hospital emergency rooms as their health providers, St. Mary Medical Center's actual cash flow from such care is lowered by -\$61.1 million a year. Using the 64.0% factor, Victorville Oasis would annually lose -\$39.1 million for this reason. Since 97.5% of potential revenue from such work would normally have been paid by entities from outside the Victor Valley, this represents a loss of -\$38.1 million that the new hospital would have been expected to receive from outside the valley.

*Note: This \$39.1 million in health care that Victorville Oasis would provide without compensation effectively would represent a donation for the betterment of the community by the hospital and its doctors and staff.*

Another major difficulty for any hospital complex is due to group and insurance contracts they end up having to sign that has them performing patient care at rates well below their estimates of the revenue they should receive for it. That is anticipated to reduce actual annual revenue received by -\$880.1 million at St. Mary Medical Center. At 64.0%, this consideration would mean a reduction of -\$563.3 million in actual cash flow to Victorville Oasis from its patient bookings. As this care would not be performed at full value, it would mean a loss of -\$549.2 million per year in funds flowing into the facility from outside the Victor Valley. Again, this is the case since 97.5% of revenue for patient care is estimated to come from external sources. Minor losses would cost the Victorville facility -\$320,000 of which -\$312,000 would have been from outside cash flow.

These considerations result in the net patient-based flow of money coming to the Victorville Oasis hospital complex from the outside world of \$172.8 million. That is the \$760.4 million in funds that would have entered the Victor Valley for patient care at full price, less the \$587.6 million that is not paid for the reasons cited.

In 2012, St. Mary Medical Center expects to receive \$2.8 million in funds from such sources as fundraising and investment income. At 64.0%, Victorville Oasis would see an estimated \$1.8 million from similar sources. Only 11.9% of these funds are assumed to be external to the valley, given that items like fundraising tend to be internal to the area. That would represent \$1.2 million in external funds to the Victorville operation.

Combined, the \$177.2 million of net cash flow coming to hospital complex at Victorville Oasis from patient services, plus the \$1.8 million from other sources means that it would receive \$179.0 million in cash flow from all sources. Of this, \$172.8 million would come to it from outside the Victor Valley for patient services, plus \$1.2 million from other sources, yielding total external funding of \$174.0 million. **External funding thus represents 97.2% of the \$179.0 million in total flow of funds estimated to be received by the Victorville Oasis operation.**

**Expenditure Flow.** To track how the funds expected to annually flow into the Victorville Oasis will be used, the starting point is the \$279.7 million expected to flow into St. Mary Medical Center (*Exhibit 4*). The various items on which these funds are spent (*Exhibit 5*) is equal to that amount since the gain/loss from operations is the balancing item (*next to last line item in italics*).

<b>Exhibit 5.-Internal Spending of External Funds, Victorville Oasis, Annual</b>					
<b>Use of Funds</b>	<b>St. Mary Medical Center</b>	<b>Victorville Oasis (64.0%)</b>	<b>Local Share</b>	<b>Local Spending</b>	<b>Externally Finance Local (97.2%)</b>
Salaries and Wages	\$101,314,484	\$64,841,270	90.0%	\$58,357,143	\$56,723,656
Employee Benefits	\$47,563,853	\$30,440,866	80.0%	\$24,352,693	\$23,671,031
Professional Fees	\$15,216,131	\$9,738,324	50.0%	\$4,869,162	\$4,732,868
Supplies	\$42,559,226	\$27,237,905	25.0%	\$6,809,476	\$6,618,871
Purchased Services	\$34,138,401	\$21,848,577	21.5%	\$4,703,744	\$4,572,081
Other Operating Expenses	\$9,626,794	\$6,161,148	50.0%	\$3,080,574	\$2,994,345
Depreciation and Amortization	\$8,896,528	\$5,693,778	0.0%	\$0	\$0
Interest Expense	\$2,563,387	\$1,640,568	0.0%	\$0	\$0
Insurance	\$3,005,446	\$1,923,485	0.0%	\$0	\$0
Utilities	\$2,370,294	\$1,516,988	100.0%	\$1,516,988	\$1,474,526
Charitable & Community Outreach	\$1,321,357	\$845,668	100.0%	\$845,668	\$821,997
Net Gain(Loss) Office Rental	\$266,707	\$170,692	100.0%	\$170,692	\$165,915
Other Non-Operating Income/Expen.	\$1,821,713	\$1,165,896	50.0%	\$582,948	\$566,631
<i>Gain Loss &amp; Local &amp; Local Re-Invest</i>	<i>\$9,038,601</i>	<i>\$5,784,705</i>	<i>50.0%</i>	<i>\$2,892,352</i>	<i>\$2,811,392</i>
<b>Use of Inflow Funds</b>	<b>\$279,702,922</b>	<b>\$179,009,870</b>	<b>60.4%</b>	<b>\$108,181,441</b>	<b>\$105,153,312</b>

As with the calculation for the in-flow of funds, it is assumed that the Victorville Oasis hospital complex will use 64.0% of the amounts that are expected to be annually available to the St. Mary Medical Center. The total is thus the same \$179.0 million expected to flow to the smaller operation.

For each line item, the management of St. Mary Medical Center was asked to estimate the percentage of the expenditures that would flow to workers, suppliers and services providers located within the Victor Valley. They ranged from 100% for utilities, community outreach and office rent and 90% for the hospital complexes workforce to 0% for items like insurance purchases, interest and depreciation and amortization (*a non-cash item*). 50% of the net gain from operations is estimated to be reinvested in plant, equipment and supplies with the Victorville facility.

**Primary & Secondary Impact.** When these local spending percentages are applied, the result is \$108.2 million of the funds expected to annually come into the Victorville Oasis hospital complex being spent in the Victor Valley (*60.4%*). As indicated earlier, since **97.2%** of all funds available to the Victorville operation are anticipated to come from the outside world, applying

that factor to each line item means that **\$105.2 million** per year represents the estimated direct injection of money into the Victor Valley economy by the new hospital. This is the “direct” impact of the operation on the valley’s economy. Without the Victorville Oasis hospital complex, these funds would not be available to the area’s economy. To understand the impact of these funds, it is necessary to divide the analysis into two parts:

- The impact of the increased household spending by the hospital staff

Based upon the 64% ration of Victorville Oasis to St. Mary Medical Center, line item #1 shows that the payroll going to hospital workers would be \$64.8 million or the same \$58,260 per job as the workers at their existing sister facility. Of these funds, the St. Joseph analysis estimated that 90% would go to workers living in the Victor Valley. Earlier, it was estimated that 97.2% of the monies supporting Victorville Oasis would come from outside the valley. These twin deductions put the outside money flowing as wages and salaries into local households at \$56.7 million. **As St. Mary Medical Center had 1,739 doctors, nurses, technicians and other staff, 64.0% would put the staff at Victorville Oasis at 1,113 with 90% or 1,002 living in the Victor Valley.**

Treating the household sector as a separate entity, \$56.7 million of new money would reach the sector through the 1,002 local employees. They would not, however, spend all of it. Based upon income tax rules and saving habits, it is assumed that 30% would go to those purposes, leaving 70% or \$39.7 million actually being spent. That amount was entered into the IMPLAN model for households making \$50,000 to \$75,000. The model allows for the share of this spending that would be spent *on each sector* as well as the percentage spent in that sector that would go to firms in the Victor Valley versus elsewhere. It further yields the primary and secondary effects that this money would have as it changes hands within the valley. The full impact of the payroll spending would include 243 new local jobs, \$10.7 million in new labor income, \$19.9 million in value added, \$31.8 million in new output (*sales*) and \$1.6 million in added local sales and property taxes (*Exhibit 6*).

<b>Exhibit 6.-Economic Impact Victorville Oasis, Victor Valley Local Spending of Wages &amp; Salaries</b>					
<b>Impact Type</b>	<b>Employment</b>	<b>Labor Income</b>	<b>Value Added</b>	<b>New Output</b>	<b>Sales/Property Tax</b>
Direct Effect	171	\$7,542,608	\$13,991,107	\$22,088,123	
Secondary Effect	72	\$3,130,562	\$5,880,205	\$9,668,863	
<b>Total Effect</b>	<b>243</b>	<b>\$10,673,170</b>	<b>\$19,871,312</b>	<b>\$31,756,986</b>	<b>\$1,604,881</b>

Importantly, these impacts are **over and above** the **1,002 new local jobs** created at Victorville Oasis and the **\$56.7 million in added new payroll** that the local households would receive.

- The impact of other spending by the hospital complex

The \$105.2 million of new direct spending that would come out of the Phase 1 Victorville Oasis complex, less the \$56.7 million going to households as payroll, would leave \$48.4 million flowing to the local economy through the hospital complex’s purchases of local goods and services. Entering the sector by sector breakdown of this spending into the IMPLAN model yields the direct and secondary impact of this spending on the Victor Valley economy. This would include another 598 new jobs, \$32.4 million in new labor income, \$49.0 million in value

added, \$75.0 million in new output (*sales*) and \$2.22 million in added local sales and property taxes (*Exhibit 7*).

<b>Exhibit 7.-Economic Impact Victorville Oasis, Victor Valley, Operations</b>					
Impact Type	Employment	Labor Income	Value Added	New Output	Sales/Property Tax
Direct Effect	381	\$22,758,816	\$32,333,175	\$48,429,653	
Secondary Effect	217	\$9,608,586	\$16,680,900	\$26,612,295	
<b>Total Effect</b>	<b>598</b>	<b>\$32,367,402</b>	<b>\$49,014,075</b>	<b>\$75,041,948</b>	<b>\$2,220,690</b>

Adding together the 1,002 new local jobs that would be created at the Victorville Oasis, plus the 243 added local jobs created by the staff’s household spending, and the 598 new local jobs created by the hospital’s non-staff local spending, yields the full employment impact of Phase 1 of the Victorville Oasis project of **1,843 new jobs** in the Victor Valley (*Exhibit 8*).

Adding the \$58.7 million in additional outside funded payroll going to local workers in the Phase 1 Victorville Oasis complex to the \$10.7 million in new local payroll when household spending hits the economy and the \$32.4 million in new payroll created locally by the hospital complexes local purchases of goods and services gives the full direct and secondary payroll impact of Phase 1 of the Victorville Oasis project of **87.0 million** in the Victor Valley.

<b>Exhibit 8.-Economic Impact Victorville Oasis, Victor Valley, Operations</b>					
Impact Type	Employment	Labor Income	Value Added	New Output	Sales/Property Tax
Direct Effect	1,554	\$87,024,567	\$46,324,282	\$70,517,776	
Secondary Effect	289	\$12,739,148	\$22,561,105	\$36,281,158	
<b>Total Effect</b>	<b>1,843</b>	<b>\$99,763,715</b>	<b>\$68,885,387</b>	<b>\$106,798,934</b>	<b>\$3,825,571</b>

Similar logic would mean an extra \$68.9 million in direct and secondary value added by local firms as well as primary and secondary total output (*sales*) increasing by \$106.8 million. Altogether, there would also be \$3.83 million in extra local sales and property taxes.

*Note: The U.S. Navy once paid its sailors in \$2.00 bills when they reached a port. As this money was spent, and moved through the economy, local leaders could see the “secondary” impact of the Navy payroll changing hands and creating additional sales, jobs and tax revenues.*

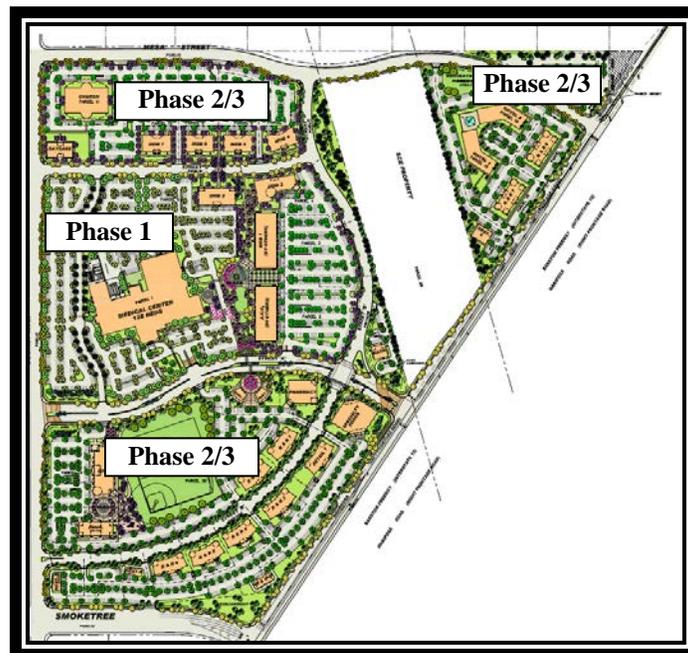
<b>Exhibit 9.-Economic Impact Victorville Oasis, City of Victorville, Operations</b>					
Impact Type	Employment	Labor Income	Value Added	New Output	Sales/Property Tax
Direct Effect	754	42,206,915	22,467,277	34,201,121	
Secondary Effect	140	6,178,487	10,942,136	17,596,361	
<b>Total Effect</b>	<b>894</b>	<b>\$48,385,402</b>	<b>\$33,409,413</b>	<b>\$51,797,483</b>	<b>\$1,855,402</b>

**Victorville.** As indicated above, Victorville’s economy represents 48.5% of activity in the Victor Valley. The staff of the hospital complex is assumed to live and conduct their economic lives randomly throughout the valley. Similarly, the suppliers and service providers of the medical operation are assumed to be scattered according to the shares of the region’s economy in its various communities. For that reason, the 48.5% factor is applied to each of the conclusions about the Victor Valley to estimate the impact on the city of Victorville (*Exhibit 9*):

- 894 jobs would be added for people *living in* the city
- \$48.4 million in added payroll would be released into the city
- \$33.4 million in value would be created in the city economy
- \$51.8 million in new output (*sales*) would be added to the city economy
- \$1.86 million in local sales/property taxes would be created in the city (*an underestimate as the hospital project would add taxes on \$240 million in assessed value in the city*)

### **Phases 2 & 3**

Victorville Oasis is planned to be much more than a hospital complex. Rather, the concept is for that operation to serve as anchor for a major long term development which may include additional medical office buildings, a church, daycare center, two hotels, a bank, a pharmacy, restaurant, a specialty food store, a wellness-fitness center and retail outlets plus significant open space and two recreational areas. (*Phase 2/3*).



**Construction & Entitlement.** Obviously, the economic impact of the completion of a project like this is more speculative than that of the hospital complex since direct operational data and proposed construction budgets are not available. However, it is possible to model the construction and operational costs for such an undertaking based upon known ratios of various types of building square footage to cost per square foot of construction as well as operational employment and payroll per worker in various sectors. That is done below. All dollar estimates are in 2012 dollars, with inflation not a factor in the analysis. All funding for the effort is seen as coming from the national money market and thus represents fresh dollars flowing into the region's economy. The project is presented as being entirely the result of local workers and local companies undertaking the design, entitlement and construction effort.

Altogether, the project assumed to involve 734,000 square feet of construction. This would include two-story medical office buildings with a 120,000 square foot footprint and 240,000 square feet of space. There would be two four story hotels each with a 35,000 square foot footprint and 280,000 square feet of space. Also, there would be a church, eight 5,000 square foot restaurants, retail outlets, a wellness center and a day care center. Construction is assumed to be conducted using union workers for church owned facilities and open shop for those built by other developers. A standard reference for construction data is RSMMeans Construction Cost Estimating. They provide estimate costs per square foot for each of these types of facilities. In this case, their data for the Palm Springs area was used since it is the closest Southern California desert environment for which they provide information (*Exhibit 10*).

<b>Exhibit 10.-Construction &amp; Entitlement Costs, Phases 2 &amp; 3, Victorville Oasis</b>					
Facility	Foot Print Sq. Ft.	Total Sq. Ft.	Cost per Sq. Ft.	Construction Cost	Style
Medical Offices	120,000	240,000	\$171.24	\$41,097,600	Stucco on Concrete Block / Wood Joists
Church		26,000	\$154.66	\$4,021,160	Stone with Concrete Block Back-up / Wood Arch
Hotels	70,000	280,000	\$135.68	\$ 37,990,400	Precast Concrete Panels / Steel Frame
Restaurants		40,000	\$161.39	\$6,455,600	Face Brick with Concrete Block Back-up / Steel Joists
Retail		120,000	\$92.60	\$ 11,112,000	Stucco on Concrete Block / Steel Joists
Wellness Center		20,000	\$133.62	\$ 2,672,400	Reinforced Concrete Block / Rigid Steel Frame
Day Care Center		8,000	\$123.80	\$990,400	Wood Siding / Wood Frame
<b>Total</b>		<b>734,000</b>	<b>\$142.15</b>	<b>\$104,339,560</b>	
Design	10.0%			\$10,433,956	
Entitlement	10.0%			\$10,433,956	
<b>Total Cost</b>				<b>\$125,207,472</b>	

Source: RSMMeans Construction Cost Estimating

For Phases 2 and 3 of Victorville Oasis, the construction cost would be \$104,339,560 or an average of \$142.15 per square foot for the 734,000 square feet of development. To provide economic impact estimates, this work is assumed to take place in a five year time frame with no change in construction costs from 2012. Local design and entitlement would each be \$10,433,956.

<b>Exhibit 11.-Construction Impact on Victor Valley, Phase 2 &amp; 3</b>					
Impact	Employment	Labor Income	Value Added	New Output	Sales/Property Tax
Direct Effect	886	\$58,060,649	\$65,028,955	\$125,207,445	
Secondary Effect	426	\$19,445,080	\$33,935,025	\$56,333,930	
<b>Total Effect</b>	<b>1,312</b>	<b>\$77,505,729</b>	<b>\$98,963,980</b>	<b>\$181,541,375</b>	<b>\$3,398,122</b>
Years	5	5	5	5	
<b>Annual Totals</b>	<b>262</b>	<b>\$15,501,146</b>	<b>\$19,792,796</b>	<b>\$36,308,275</b>	<b>\$679,624</b>

***Victor Valley Impact.*** Using the IMPLAN model, as discussed earlier, over the five year entitlement and construction period, spending of \$125,207,445 would generate 1,312 person-years of direct and secondary employment would be created in the Victor Valley or an average of 262 new jobs per year (*Exhibit 11*). New labor income from this work would total \$77.5 million

over the life of the project, adding an average of \$15.5 million of payroll into the valley's economy each year. The project would create \$99.0 million in value added for the region or \$19.8 million a year. Primary and secondary output (*sales*) would increase by \$181.5 million or \$36.3 million on average each year. During the course of the project, \$3.4 million in local sales and property taxes would be created in the Victor Valley or \$680,000 per year.

***Victorville Impact.*** As the city of Victorville represents 48.5% of the economic activity in the Victor Valley, it is again assumed to maintain that average for *secondary activity* during phases two and phase three construction efforts.

<b>Exhibit 12.-Construction Impact on City of Victorville, Phase 2 &amp; 3</b>					
<b>Impact</b>	<b>Employment</b>	<b>Labor Income</b>	<b>Value Added</b>	<b>New Output</b>	<b>Sales/Property Tax</b>
Direct Effect	886	\$58,060,649	\$65,028,955	\$125,207,445	
Secondary Effect	207	\$9,430,864	\$16,458,487	\$27,321,956	
<b>Total Effect</b>	<b>1,093</b>	<b>\$67,491,513</b>	<b>\$81,487,442</b>	<b>\$152,529,401</b>	<b>\$1,648,089</b>
Years	5	5	5	5	5
<b>Annual Totals</b>	<b>219</b>	<b>\$13,498,303</b>	<b>\$16,297,488</b>	<b>\$30,505,880</b>	<b>\$329,618</b>

In the city, 1,093 person-years of direct and secondary employment would be created in the city of Victorville or an average of 219 new jobs per year. Labor income would increase by \$67.5 million over the life of the project, adding an average of \$13.5 million per year of labor income into the city's economy. The project would create \$81.5 million in new value added for the c or \$16.3 million per year. Direct and secondary output (*sales*) would increase by \$152.5 million or \$30.5 million on average each year. Over the five year life of the construction effort, the project would cause \$1.6 million in local sales and property taxes to be created in Victorville or \$330,00 per year (*Exhibit 12*).

<b>Exhibit 13.-Operation of Phases 2 &amp; 3, Victorville Oasis Project, At Build-Out</b>						
		<b>1.</b>	<b>2.</b>	<b>3.</b>	<b>4. &amp; 5.</b>	<b>6.</b>
<b>Facility</b>	<b>Foot Print Sq. Ft.</b>	<b>Total Sq. Ft.</b>	<b>Square Feet Per Job</b>	<b>Jobs</b>	<b>Payroll Per Job</b>	<b>Payroll</b>
Medical Offices	120,000	240,000	434	553	\$52,176	\$28,853,088
Church		26,000	2,200	12	\$24,650	\$291,318
Hotels	70,000	280,000	2,074	135	\$17,940	\$2,421,986
Restaurants		40,000	528	76	\$17,940	\$1,359,091
Retail		120,000	1,246	96	\$30,168	\$2,905,425
Wellness Center		20,000	1,105	18	\$31,140	\$563,620
Day Care Center		8,000	956	8	\$18,800	\$157,322
<b>Total</b>		<b>734,000</b>		<b>898</b>		<b>\$36,551,851</b>

**Operations.** Once the 734,000 square feet of Phases 2 and 3 of the Victorville Oasis project are completed and occupied, the new operations are estimated to create 898 permanent new jobs with an annual new payroll of \$36.6 million per year in 2012 dollars. This is estimated as follows (*Exhibit 13*):

1. Square feet by type of use is taken from the construction assumptions in Exhibit 10.

2. Square feet per job is based upon the latest available U.S. Energy Information Agency Commercial Building Energy Consumption Survey, released in October, 2008.
3. This yields the estimate of the total number of permanent jobs created by Phases 2 and 3 of the Victorville Oasis project in each of its proposed uses.
4. Average pay per job by sector is estimated from the Longitudinal Employer-Household Dynamics report for San Bernardino County released by the U.S. Census Bureau for the four quarters ended in first quarter 2011.
5. Two sectors were not included in the Census Bureau data (*church, day care*). Average pay per job for those uses were estimated using 2010 data from the Occupational Employment Survey, released by the CA Employment Development Department for the Riverside-San Bernardino Metropolitan Area.
6. This allowed calculation of the payroll to be annually expended by the Victorville Oasis project at build-out.

**Victor Valley Impact.** Using the IMPLAN model, it is possible to estimate the added direct and secondary impact that Phases 2 and 3 of the Victorville Oasis project will have on the Victor Valley economy. The operation of the facilities at build-out would add 760 direct and 353 indirect new jobs to the valley's economy, a total of 1,113 new positions. Labor income from this work would add \$59.0 million in payroll each year into the valley's economy. The project would create \$78.6 million in value added per year for the region. Primary and secondary output (*sales*) would increase by \$129.2 million each year. The operation of the project would add \$4.0 million in local sales and property taxes in the Victor Valley per year (*Exhibit 14*).

<b>Exhibit 14.-Operations Impact on Victor Valley, Phases 2 &amp; 3</b>					
<b>Impact</b>	<b>Employment</b>	<b>Labor Income</b>	<b>Value Added</b>	<b>New Output</b>	<b>Sales/Property Tax</b>
Direct Effect	760	\$43,865,232	\$51,011,323	\$84,597,181	
Secondary Effect	353	\$15,174,205	\$27,570,476	\$44,578,282	
<b>Total Effect</b>	<b>1,113</b>	<b>\$59,039,437</b>	<b>\$78,581,799</b>	<b>\$129,175,463</b>	<b>\$3,988,469</b>

**Victorville Impact.** As the city of Victorville represents 48.5% of the economic activity in the Victor Valley, it is assumed that it maintains that average for Phases 2 and 3 of the operation of the Victorville Oasis project. This assumes that the workforce, suppliers and service providers involved with firms created in the Phases 2 & 3 process are live or are located randomly in the Victor Valley.

<b>Exhibit 15.-Operations Impact on City of Victorville, Victorville Oasis</b>					
<b>Impact</b>	<b>Employment</b>	<b>Labor Income</b>	<b>Value Added</b>	<b>New Output</b>	<b>Sales/Property Tax</b>
Direct Effect	369	21,274,638	24,740,492	41,029,633	
Secondary Effect	171	\$7,359,489	\$13,371,681	\$21,620,467	
<b>Total Effect</b>	<b>540</b>	<b>\$28,634,127</b>	<b>\$38,112,172</b>	<b>\$62,650,099</b>	<b>\$1,934,407</b>

In the city, 540 new direct and secondary employment would be permanently created in Victorville. Labor income would increase by a total \$28.6 million. The project would create \$38.1 million in annual new value added for the region. Primary and secondary output (*sales*)

would increase by \$62.7 million a year. The project would cause \$1.9 million in local sales and property taxes to be created in Victorville each year (*Exhibit 15*).

**Summary**  
**Victor Valley**

**Entitlement & Construction.** Putting together the entitlement and construction phases of developing the Phase 1 hospital complex as well as the Phase 2 and 3 completion of Victorville Oasis, the substantial economic impact of the full project on the Victor Valley would be created (*Exhibit 16*):

<b>Exhibit 16.-Total Economic Impact Victorville Oasis, Victor Valley Construction &amp; Entitlement Periods</b>					
<b>Impact Type</b>	<b>Employment</b>	<b>Labor Income</b>	<b>Value Added</b>	<b>New Output</b>	<b>Sales/Property Tax</b>
Direct Effect	2,121	\$136,506,660	\$153,676,245	\$299,187,445	
Secondary Effect	977	\$44,968,504	\$78,613,500	\$130,980,082	
<b>Total Effect</b>	<b>3,098</b>	<b>\$181,475,164</b>	<b>\$232,289,745</b>	<b>\$430,167,527</b>	<b>\$7,989,938</b>
Hospital Annual ( <i>4 years</i> )	447	\$25,992,359	\$33,331,441	\$62,156,538	\$1,147,954
Phase 2 & 3 Annual ( <i>5 years</i> )	262	\$15,501,146	\$19,792,796	\$36,308,275	\$679,624

- Combined direct and secondary impacts would include:
  - 3,098 person-years of added jobs
  - \$181.5 million in increased labor income
  - \$232.3 million in value added into the economy
  - \$430.2 million in additional output
  - \$8.0 million in added local sales and property taxes

However, these impacts will be spread over several years.

- Over the four year period needed to develop the hospital complex, the impacts would be:
  - 447 added jobs per year
  - \$26.0 million in increased labor income per year
  - \$33.3 million in value added into the economy
  - \$62.2 million in annual new output
  - \$1.15 million in new local sales and property taxes
- Over the five year period needed to develop Phases 2 and 3, the impacts would be
  - 262 added jobs per year
  - \$15.5 million in increased labor income per year
  - \$19.8 million in value added into the economy
  - \$36.3 million in annual new output

- \$0.68 million in new local sales and property taxes

**Operations.** Eventually, all three Phases of the Victorville Oasis will be completed and operational. At that time, the new hospital complex will exist and the various organizations involved in Phases 2 and 3 will be underway. Combined, they will have the following permanent direct and secondary impacts on the Victor Valley’s economy (*Exhibit 17*):

<b>Exhibit 17.-Total Economic Impact Victorville Oasis, Victor Valley, Operations</b>					
<b>Impact Type</b>	<b>Employment</b>	<b>Labor Income</b>	<b>Value Added</b>	<b>New Output</b>	<b>Sales/Property Tax</b>
Direct Effect	2,314	130,889,799	97,335,605	155,114,957	
Secondary Effect	642	27,913,353	50,131,581	80,859,439	
<b>Total Effect</b>	<b>2,956</b>	<b>\$158,803,152</b>	<b>\$147,467,186</b>	<b>\$235,974,396</b>	<b>\$7,814,040</b>

- 2,956 permanent jobs will be added into the valley’s economy
- \$158.8 million in new payroll will be flowing to the area’s workers
- \$147.5 million in value will be permanently added into the economy
- \$236.0 million in permanent new output will be taking place
- \$7.81 million in additional local sales and property taxes

**Victorville**

**Entitlement & Construction.** Putting together the impact of the entitlement and construction Phases for the full Victorville Oasis yields the project’s significant impact on the city of Victorville’s economy where it will be located (*Exhibit 18*):

<b>Exhibit 18.-Total Economic Impact of Victorville Oasis, City of Victorville Construction &amp; Entitlement Periods</b>					
<b>Impact Type</b>	<b>Employment</b>	<b>Labor Income</b>	<b>Value Added</b>	<b>New Output</b>	<b>Sales/Property Tax</b>
Direct Effect	2,121	\$136,506,660	\$153,676,245	\$299,187,445	
Secondary Effect	474	\$21,809,724	\$38,127,548	\$63,525,340	
<b>Total Effect</b>	<b>2,595</b>	<b>\$158,316,384</b>	<b>\$191,803,793</b>	<b>\$362,712,785</b>	<b>\$3,875,120</b>
Hospital Annual ( <i>4 years</i> )	376	\$22,706,218	\$27,579,088	\$52,545,846	\$556,758
Phases 2 & 3 Annual ( <i>5 years</i> )	219	\$13,498,303	\$16,297,488	\$30,505,880	\$329,618

- Combined direct and secondary impacts on the city would include:
  - 2,595 person-years of added construction jobs
  - \$158.3 million in increased labor income
  - \$191.8 million in value added into the economy
  - \$362.7 million in additional output
  - \$3.88 million in added local sales and property taxes

Again, these impacts will be spread over several years.

- Over the four year period needed to develop the hospital complex, the impacts would be:

- 376 added jobs per year
- \$22.7 million in increased labor income per year
- \$27.6 million in value added into the economy
- \$52.5 million in annual new output
- \$0.56 million in new local sales and property taxes
- Over the five year period need for developing Phases 2 and 3, the impacts would be
  - 219 added jobs per year
  - \$13.5 million in increased labor income per year
  - \$16.3 million in value added into the economy
  - \$30.5 million in annual new output
  - \$0.33 million in new local sales and property taxes

**Operations.** When the full three Phases of the Victorville Oasis are completed and operating, they will have the following permanent direct and secondary impact on the city of Victorville’s economy (*Exhibit 19*):

<b>Exhibit 19.-Total Economic Impact of Victorville Oasis, City of Victorville, Operations</b>					
<b>Impact Type</b>	<b>Employment</b>	<b>Labor Income</b>	<b>Value Added</b>	<b>New Output</b>	<b>Sales/Property Tax</b>
Direct Effect	1,122	63,481,553	47,207,769	75,230,754	
Secondary Effect	311	13,537,976	24,313,817	39,216,828	
<b>Total Effect</b>	<b>1,434</b>	<b>77,019,529</b>	<b>71,521,585</b>	<b>114,447,582</b>	<b>\$3,789,809</b>

- 1,434 permanent new jobs will be created for households in the city
- \$77.0 million in new payroll will be flowing to the community’s workers
- \$71.5 million in value will be permanently added into the city’s economy
- \$114.4 million in permanent new output will be taking place in Victorville
- \$3.79 million in local sales and property taxes will be generated