COMMUNITY DEVELOPMENT DEPARTMENT

Council Meeting Date: May 9, 2006
Staff Report #: 06-084

Agenda #: F1

REGULAR BUSINESS: **Review of and Potential Direction on the Fiscal Impact Study and Peer Review for the Proposed Hotel and Office Development at 2825 Sand Hill Road.**

RECOMMENDATION

Staff recommends that the City Council consider the Fiscal Impact Study prepared by CBRE Consulting/Sedway Group, and the peer review analysis conducted by Conley Consulting Group, to evaluate the fiscal impacts of the proposed hotel and office development, and make a determination whether the Fiscal Impact Study provides sufficient information.

BACKGROUND

At a study session on May 24, 2005, the City Council requested that the applicant prepare a Fiscal Impact Study to better understand the fiscal implications of the proposed hotel and office development on the City's General Fund. The proposed project consists of an approximately 170,000 square-foot hotel with 120 guest room and suites, five extended stay villas, restaurant, spa/fitness center, and meeting/conference/banquet facilities, and approximately 100,000 square feet of office space in four buildings on a 21-acre site.

Following the direction from the City Council, the applicant submitted a Fiscal Impact Study prepared by CBRE Consulting/Sedway Group (CBRE Consulting), which is included as Attachment A. To assist staff in review of the report's assumptions, methodology and conclusions, the City selected Conley Consulting Group (CCG) to prepare a peer review of the Fiscal Impact Study, which is included as Attachment B.

ANALYSIS

CBRE Consulting/Sedway Group Fiscal Impact Study

CBRE Consulting conducted an analysis of the fiscal benefits and costs to the City of Menlo Park resulting from the proposed development at 2825 Sand Hill Road. The fiscal impact analysis focuses on key General Fund revenue sources, including property tax, transient occupancy tax (TOT), sales tax, business license fees, and franchise fees. The analysis was conducted in 2008 and 2011 dollars, which are when the project's first full year of operation is expected and when the hotel operation is expected to stabilize, respectively.

The calculations for the TOT are shown in Exhibit 8 of Attachment A. The Fiscal Year 2005-2006 budget estimated TOT revenue from existing hotels in the City at approximately $1,070,000. According to the CBRE Consulting study, the development of the proposed hotel is expected to be approximately $1,099,000 in 2008, which would double the City's current transient occupancy tax revenue. Upon stabilization in 2011, the study states that the hotel is projected to increase the City's TOT revenue for the City's General Fund by approximately $1.6 million due to increased occupancy levels and room rates.

In addition, the report also identifies other net new revenues as a result of the proposed project, which are summarized in the Executive Summary. The report states that no additional General Fund expenditures are expected to arise as a result of the proposed project. Therefore, in 2008, the projected net revenue to the City's General Fund, including TOT, property tax, sales tax, and other fees would be approximately $1.35 million as a result of the proposed development. In 2011, the projected net revenue to the City's General Fund would be $1.93 million.

Conley Consulting Group – Peer Review

Conley Consulting Group conducted a "peer review" of the CBRE Consulting Fiscal Impact Study on behalf of the City. The peer review memorandum and its findings are intended as a companion analysis to the CBRE Consulting report. As part of the review, CCG reviewed the assumptions and methodology of the CBRE Consulting study, conducted independent research on the property tax rates and assessed values of the subject property, reviewed relevant studies regarding fiscal impacts, interviewed Menlo Park staff to discuss fiscal impact assumptions, and reviewed the Menlo Park hotel market and transient occupancy tax trends.

The CCG memorandum concurs with the overall conclusion of the CBRE Consulting study that the proposed project would create a positive fiscal impact to the City, but states that the CBRE Consulting analysis overestimates the potential fiscal benefits. The CCG peer review identifies several areas that could reduce the overall net revenue, including how the proposed project would impact the City's current tax revenue generators and the cost of providing City services to the new development. The CBRE Consulting study does not explicitly consider whether the new development will result in transfer of existing hotel or sales tax revenue from other businesses in Menlo Park. The amount of transfer, if any, has not been fully analyzed or quantified.

The CCG memorandum states that the CBRE Consulting study also underestimates the cost of providing City services to the new development since operating costs were assumed to be zero. CCG states that there would be municipal operating costs, particularly since the hotel and employees would use Menlo Park services and patronize Menlo Park businesses outside of the project area. CCG prepared an analysis for municipal service costs, which is estimated at $230 per job per year. The proposed project includes an estimated 333 office jobs and 267 hotel jobs for a total of 600 new jobs. In 2008 dollars, the calculated cost would be approximately $146,000. This cost was not identified in the CBRE Consulting report.

The CCG memorandum identifies several technical critiques of the CBRE Consulting Fiscal Impact Study. However, despite potential reductions for such factors, the proposed project would have a net fiscal positive impact on the City of Menlo Park. The CCG memorandum states that even if the projected revenues were reduced by as much as 20 percent to account for possible transfer of tax-generating business activity, and City operating costs are subtracted based on an average cost per employee, fiscal revenues exceed fiscal costs.

CBRE Consulting /Sedway Group – Response to Peer Review Analysis

To respond to CCG's memorandum, CBRE Consulting prepared a memorandum, included as Attachment C. Specifically, the memorandum addresses two issues raised by CCG, including the potential overstatement of tax revenues from the proposed hotel and the assumption that operating costs for the project would be zero.

CBRE Consulting believes that the proposed hotel would not likely reduce the City's existing tax revenue because the hotels in Menlo Park are not direct competitors. The proposed hotel is a five-star hotel that would potentially compete with other five-star hotels outside of Menlo Park. Additionally, CBRE Consulting states that the CCG memorandum assumes a "zero-sum game", in which there is a stagnant market that would not create new demand to replace guests lost to other hotels. The memorandum states that the hotel market in Menlo Park and surrounding area is in a recovery mode and increasing occupancy rates and rising room rates can justify new construction in the nearby areas over the next several years.

In response to CCG's question about operating cost assumptions, CBRE Consulting states that their analysis was intended to look at net new costs to the City of Menlo Park General Fund specifically associated with the Police and Public Works services associated with the project rather than averaging costs for general municipal services as identified in the CCG memorandum. Additionally, CBRE Consulting states that its analysis was confirmed by conversations with staff from those Departments. However, CBRE Consulting agrees with the cost analysis results of the CCG memorandum, which, despite different methodologies, still results in a net positive fiscal impact to the City of Menlo Park.

IMPACT ON CITY RESOURCES

The applicant paid for the Fiscal Impact Study prepared by CBRE Consulting, the peer review analysis performed by a City-selected consultant for the City, and associated staff time. Any direction received from the City Council at this time would not result in any direct costs. The decision on the proposed project could have positive implications for the City's General Fund if approved.

POLICY ISSUES

Consideration of potential fiscal benefits has policy implications to the extent that there are potential environmental impacts associated with the proposed project. The General

Plan contains goals, policies and implementation measures that deal with the issue of revenue-generating land uses and the determination of fiscal impacts.

ENVIRONMENTAL REVIEW

The Fiscal Impact Report and peer review are not subject to environmental review. The proposed hotel and office development is subject to compliance with the California Environmental Quality Act (CEQA). An Environmental Impact Report (EIR) has been prepared for the proposed hotel and office project and will be considered by the City Council at a later date.

Deanna Chow Senior Planner Report Author	Justin Murphy Development Services Manager

PUBLIC NOTICE: Public notification was achieved by posting the agenda, with this agenda item being listed, at least 72 hours prior to the meeting.

ATTACHMENTS

A. Fiscal Impact Study, prepared by CBRE Consulting/Sedway Group, dated January 2006
B. Conley Consulting Group memorandum, dated March 30, 2006
C. CBRE Consulting/Sedway Group memorandum, dated April 7, 2006

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FISCAL IMPACT STUDY FOR PROPOSED HOTEL /OFFICE DEVELOPMENT AT I-280 AND SAND HILL ROAD

MENLO PARK, CALIFORNIA

Prepared for:

STANFORD MANAGEMENT COMPANY

JANUARY 2006

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January 12, 2006

Mr. William Phillips
Managing Director, Real Estate
Stanford Management Company
2770 Sand Hill Road
Menlo Park, CA 94025

Re: Fiscal Impact Analysis for the Proposed Sand Hill Road Development

Dear Mr. Phillips:

CBRE Consulting/Sedway Group ("CBRE Consulting") is pleased to submit this report regarding Stanford Management Company's proposed hotel and office development at I-280 and Sand Hill Road in the City of Menlo Park, California. The report projects the fiscal benefits and costs to the City of Menlo Park's General Fund resulting from development of the proposed project upon its completion in 2008 and in 2011 when hotel operations are estimated to stabilize.

One-time and recurring revenues relevant to this analysis included incremental increases in property, sales, and transient occupancy taxes, as well as in business license and franchise fees. The City of Menlo Park Police and Public Works departments were contacted to determine additional service-related costs associated with the proposed Sand Hill Road development. The results of CBRE Consulting's fiscal impact analysis indicate that this project will generate an estimated net positive revenue flow of $1.36 million to the City of Menlo Park General Fund during its first year of operation (2008). Revenues will increase in subsequent years as a result of inflation, stabilization of hotel occupancy, and improved market conditions. In 2011, upon stabilization of the hotel operation, the project is expected to generate a net revenue flow of $1.94 million to the General Fund. Thus, it would be beneficial to the City of Menlo Park from a revenue standpoint to support the proposed hotel/office project.

It has been a pleasure working with you on this project. Please let us know if you have any questions or additional needs.

Sincerely,

Lynn M. Sedway

Lynn M. Sedway, CRE
Executive Managing Director

Kimberley Player

Amy L. Herman, AICP
Managing Director

Kimberley J. Player
Managing Director

KJP:kjp
Enclosure

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I. EXECUTIVE SUMMARY

OVERVIEW

The purpose of this study is to analyze the net fiscal impacts of Stanford Management Company's proposed hotel and office development on the City of Menlo Park's General Fund. Stanford Management seeks to develop a 21.14-acre site located adjacent to Interstate 280, south of Sand Hill Road. The proposed project includes construction of the following uses:

- An approximately 165,000-square-foot hotel with 120 guest rooms and suites, five extended stay villas, a first-class restaurant, a spa/fitness center, meeting/conference/banquet facilities of approximately 8,675 square feet; and
- Approximately 100,000 square feet of office space in four or five buildings.

CBRE Consulting/Sedway Group (CBRE Consulting) conducted an analysis of the fiscal benefits and costs to the City of Menlo Park resulting from development of the proposed project, including an analysis of the marginal costs of providing services and the revenues associated with the planned development at projected build out (2008).

SUMMARY OF FINDINGS

CBRE Consulting's fiscal impact analysis indicates that the proposed office/hotel development will generate a net positive revenue flow of $1,357,761 to the City of Menlo Park General Fund during its first year of operation in 2008 (see Exhibit 1). Revenues will increase in subsequent years, consistent with inflation, improved market conditions, and stabilization of hotel occupancy and room rates. Estimated net revenue increases for both 2008 and 2011 (the year the hotel operation is expected to stabilize) are summarized in the table below; no additional General Fund expenditures are expected to arise as a result of the development of the Sand Hill Road project.

Summary of Net Revenues, 2008 and 2011

Revenue Source	2008	2011
Property Tax	$121,905	$129,366
Sales Tax	$101,451	$155,710
Transient Occupancy Tax	$1,099,098	$1,613,855
Other Fees	$33,695	$37,180
TOTAL	$1,356,149	$1,936,111

The hotel operation, in particular, should be a strong revenue generator. The addition of the hotel is expected by 2008 to more than double the City's current transient occupancy tax revenue, which was estimated at $1,070,000 million in the 2005-2006 Budget. Upon stabilization in 2011, the hotel is projected to generate $1,613,855 in transient occupancy tax revenue for the General Fund.

In addition to General Fund revenue generation, the proposed hotel/office development will make significant contributions to other key Menlo Park services, most notably schools. A portion of the net new property tax revenue will flow to Menlo Park schools although the project itself will not place an additional burden on the school system, as it lacks a residential component. Together, the Las Lomitas Elementary and Sequoia High general purpose funds are anticipated to receive $467,140 of the incremental property tax generated by the Sand Hill Road project in 2008, and $495,733 in 2011.

In summary, this fiscal impact analysis suggests that it would be beneficial to the City of Menlo Park from a revenue standpoint to support the development of the proposed hotel/office project.

II. INTRODUCTION

Study Background and Project Description

Stanford Management Company, in conjunction with Rosewood Hotels, has proposed a new hotel and office development for a 21.14-acre site located adjacent to Interstate 280, south of Sand Hill Road, in the City of Menlo Park. The proposed project includes construction of the following uses:

- An approximately 165,000-square-foot hotel with 120 guest rooms and suites, five extended stay villas, a first-class restaurant, a spa/fitness center, meeting/conference/banquet facilities of approximately 8,675 square feet; and
- Approximately 100,000 square feet of office space in four or five buildings.

The City of Menlo Park is preparing an Environmental Impact Report for this project. To supplement this work, Stanford Management Company has asked CBRE Consulting to analyze the net fiscal impacts of the proposed hotel and office development on the City of Menlo Park's General Fund.

Methodology

CBRE Consulting conducted a quantitative analysis of the fiscal benefits and costs to the City of Menlo Park's General Fund resulting from development of the proposed project, including an analysis of the marginal costs of providing services and the revenues associated with the proposed hotel/office development at projected build out. The fiscal impact analysis focused on key General Fund revenue sources, including property taxes, transient occupancy taxes, sales taxes, business license fees and franchise fees. The analysis was conducted in both 2008 and 2011 dollars. The year 2008 is expected to be the project's first full year of operations; 2011 is the year the hotel operation is expected to reach stabilization.

CBRE Consulting's approach to this fiscal impact study involved thoroughly researching issues from the perspective of the City of Menlo Park. To assure the report's credibility, all relevant data and sources are fully documented and included in the report. In addition, independent research was conducted to validate key information, including anticipated hotel room rates, office rental rates, occupancy assumptions, and employment density. Tasks completed by CBRE Consulting in the course of this study are summarized below.

- Developed a comprehensive list of assumptions for the project, detailed in the next section of this report;
- Identified local service agencies funded by the General Fund likely to be affected by the project and estimated the impact of the proposed project on these agencies;
- Estimated recurring service costs and revenues;
- Estimated one-time service costs and revenues;

- Developed a computer model to assess the net fiscal impact of the proposed project; and
- Presented relevant findings in a concise report.

MAJOR ASSUMPTIONS

To support the analysis, key parameters and assumptions required to estimate fiscal revenue impacts were defined, all of which are fully documented in the exhibits presented in the Appendix. CBRE Consulting utilized reasonable assumptions throughout the analysis. Details of the development, including building sizes, descriptions, and the expected completion date, were obtained from Stanford Management and Rosewood Hotels (see Exhibit 2). Further details regarding incremental revenue and cost assumptions are provided below.

Incremental Revenue Assumptions

Property Tax Rate and Value. In order to determine the incremental property tax revenue associated with the proposed development, research was conducted with the San Mateo County Controller's Office to determine the appropriate Education Revenue Augmentation Fund (ERAF)-adjusted City of Menlo Park property tax rate for the subject site, which is 9.47 percent of the 1.0 percent property tax rate for San Mateo County Tax Rate Area 008-006 (see Exhibit 3). This tax rate was confirmed by the City of Menlo Park's Finance Director. Consistent with California's Proposition 13, property taxes were assumed to increase at a rate of two percent per year.

The estimated $130,668,552 value of the proposed hotel/office development upon completion in 2008 is based on data provided by Stanford Management and Rosewood Hotels (see Exhibit 4). Land values per buildable hotel room and per buildable office square foot were estimated at $40,000 and $175, respectively. Improvement values of $584,310 per room for the hotel component and $351 per square foot for the office component reflect Stanford Management's and Rosewood Hotels' estimates of hard and soft construction costs plus imputed interest. These estimates were compared with Marshall and Swift Valuation Service data on construction costs for reasonableness. Contingency costs are (conservatively) not included in these improvement value estimates.

Sales Tax and Employee/Hotel Guest Expenditures. Per Exhibit 3, the City of Menlo Park's retail sales and use tax rate is 1.0 percent of taxable sales. Annual inflation relevant to retail sales and expenditures is projected at 3.0 percent.

The analysis assumes annual hotel and office employee spending of $623 and $1,388 in 2008 within the City of Menlo Park, respectively (see Exhibit 3). These figures are based on office worker spending information from the International Council of Shopping Centers and on the differential between office and hotel worker salaries from the US Census Bureau's County Business Patterns. In order to avoid double-counting of estimated on-site restaurant sales, office employee expenditures were conservatively reduced by 25 percent, to account for the likelihood that these people will occasionally eat lunch at the hotel restaurant. Hotel employee meals will not generate sales taxes at the hotel restaurant; per Rosewood Hotels, employee meals are written off as non-transactions. To take into account the proximity of retail in Palo Alto, it was conservatively assumed that the City of Menlo Park would capture 75 percent of hotel employee expenditures and a slightly lower 50 percent of office employee expenditures. Given their higher incomes, the latter group is likely to frequent some of the high-end shops and restaurants in Palo Alto.

Based on an industry standard assumption, hotel guest spending is generally similar to the hotel's average daily room rate. At 65 percent occupancy in 2008, a total of 78 guests are estimated to spend $385 per day per room, or a total of $10,960,950 per year on taxable retail items. Of these total expenditures, the hotel restaurant, spa, and gift shop are likely to capture at least 25 percent, resulting in hotel guest spending outside the hotel of $8,220,713 per year. Taking into account the likelihood that nearby cities with larger retail concentrations, most notably Palo Alto, will capture as much as 75 percent of this spending, annual hotel guest expenditures within Menlo Park are assumed to be $2,055,178, or $26,348 per guest (see Exhibit 3). Using the same methodology for 2011 hotel guest expenditures, and taking into account a stabilized occupancy rate of 76 percent and an average daily room rate of $485, results in annual guest spending of $3,026,004, or $33,180 per guest.

Transient Occupancy Tax. The City of Menlo Park's transient occupancy tax rate is 10.0 percent (see Exhibit 3). This analysis assumes no future change in this rate.

Business License Fees. The City of Menlo Park's business license fees are based on revenues generated by business activity (annual gross receipts). Rosewood Hotels provided revenues for the hotel component of the proposed development, including data for the hotel operation, restaurant, spa, and gift shop. Relevant assumptions from the City of Menlo Park's revenue-based business license fee schedule are as follows:

City of Menlo Park
Business License Fees Relevant to Proposed Hotel/Office Development

Annual Gross Receipts (Over Amount)	Annual Gross Receipts (At or Below Amount)	Annual License Fee
$500,000	$600,000	$310
$700,000	$800,000	$390
$800,000	$900,000	$425
$900,000	$1,000,000	$460
$1,000,000	$2,000,000	$750

Source: The City of Menlo Park Revenue and Claims Division; and CBRE Consulting.

Another $250 fee is added to the annual license fee for each additional million above $2 million in gross receipts, or portion thereof up to $30 million, with a maximum business license fee of $8,000 (see Exhibit 3). The City's Business License Fee Schedule is assumed to remain constant through 2011.

Because of the difficulty involved in estimating revenues generated by potential office tenants, average business license fees paid by traditional office and venture capital companies were used in this analysis (see Exhibit 3). According to the City of Menlo Park Revenue and Claims Department, the average business license fee paid by a traditional business in Menlo Park is $455 per year in 2005. The average fee paid by a venture capital firm is higher, at $2,200 per year. Additionally, each fund managed by venture capital firms is required to have its own business license at an annual fee of $50 each. For the purpose of this analysis, these fees were conservatively assumed to remain constant through 2011.

Franchise Fees. According to the City of Menlo Park Finance Director, electric and gas, garbage, water, and cable TV services generate revenue to the General Fund in the form of franchise fees. As of 2005, theses fees (as a percentage of total charges) were as follows:

Electric and Gas	1.0%
Garbage	5.8%
Water	1.0%
Cable TV	5.0%

These franchise fees have been conservatively assumed to stay constant through 2011.

Marginal Cost Assumptions

Additional service-related costs were considered for two departments funded by the General Fund – Police and Public Works. This analysis does not include an assessment of additional fire-related service costs as the proposed development falls under the jurisdiction of the Menlo Park Fire District, which is not funded out of the City of Menlo Park General Fund. Rather, this entity is funded by property taxes collected in the cities of Menlo Park, Atherton, and East Palo Alto, plus unincorporated areas of San Mateo County.

Assumptions relating to the details of the proposed development, including employment estimates (see Exhibits 1 and 4) were provided to contacts within the Police and Public Works departments in an effort to secure estimates of additional service requirements.

Employment and Service Population Estimates

Proposed Hotel/Office Development Employment. As shown in Exhibit 4, the proposed project is expected to generate 600 full-time jobs. Per data from Rosewood Hotels, the hotel component will generate 267 of this total. The office component will generate an additional 333 jobs. This figure assumes a total of 300 square feet per employee in the 100,000-square-foot office project.

Service Population Base. Although a marginal cost approach was used to estimate additional costs associated with the proposed development, CBRE Consulting also developed an estimate of an appropriate service population base (see Exhibit 5). The 2008 service population base of 44,727 was calculated using the Menlo Park resident population plus one-half the employment base. Assumptions used in this estimate are summarized below.

- **Menlo Park Population.** According to the Association of Bay Area Governments (ABAG), the City of Menlo Park had an estimated population base of 30,800 in 2005 and is estimated to have a population base of 31,100 in 2010. Using the average annual increase (0.2 percent) implied by these numbers results in an estimated population base of 30,980 in 2008.
- **Menlo Park Employment Base.** According to ABAG, employment in the City of Menlo Park was estimated at 25,810 in 2005 and 28,680 in 2010 (an average annual increase of 2.1 percent). This implies an employment base of 27,496 in 2008.

III. ONE TIME COSTS AND REVENUE

ONE-TIME REVENUES

One-time processing fees, such as building permit fees, were (conservatively) not included in this analysis as they are assumed to be charged on a cost recovery basis. The only one-time revenue source applicable to this analysis of General Fund fiscal impacts is the franchise fee associated with the installation of cable TV services at the proposed hotel development. As shown in Exhibit 4, Comcast conservatively estimated the cost to bring a signal to the subject site at $4,000. This cost accommodates trenching from the "pedestal" (an existing CATV pedestal is located near the entry to the property, eliminating the need to bring plant out to the site) to the "minimum point of entry" (the point where the structure cable first enters the building). This $4,000 cost does not include the following:

- Amplifiers: Amplifiers ensure quality signal to guest rooms, the need for which will be determined by the distribution of services from the "line of demarcation" (the point at which responsibility for the line/signal transitions from Comcast to the hotel). More detailed information is needed to determine amplifier costs, which are generally $800 per amplifier. However, a conservative assumption would exclude these costs as the developer's electrician often supplies this equipment.
- Modulation: Modulation, which runs about $2,000 per channel, manages the serialization of channel numbers and continuity of guest programming from one type of television to another. Again, more detailed information is needed to determine these costs; they have conservatively been eliminated from the analysis.
- Filters: Individual channel filters, which cost approximately $450 per channel, are used to customize programming format and/or notch-out channels. As with amplifier and modulation costs, filter costs are not included in this analysis.

Based on a franchise fee of 5.0 percent of total cable TV installation charges, the one-time revenue expected to flow to the City's General Fund as a result of cable TV installation is estimated at $200. This revenue is not included in the summary of estimated fiscal impacts in Exhibit 1, which includes only recurring revenues.

ONE-TIME COSTS

According to the City of Menlo Park Finance Director, no one-time costs associated with the development of the proposed hotel/office project would affect the City's General Fund.

IV. RECURRING ANNUAL REVENUES

PROPERTY TAXES

As shown in Exhibit 6, the net new property tax revenue estimated to flow to the City of Menlo Park General Fund as a result of the development of the proposed hotel/office project is $121,905 in 2008. This figure is based on the assumption that 9.47 percent of the 1.0 percent property tax on the $130,668,552 value of the new development will flow to the City of Menlo Park General Fund. The current property taxes generated by the site ($18,631 per year, of which $1,765 flows to the City) were netted out of the net new revenue total. Assuming an increase in property taxes of two percent per year, the net new property tax revenue projected to flow to the General Fund in 2011 is $129,366.

RETAIL SALES TAXES AND EMPLOYEE/HOTEL GUEST EXPENDITURES

Taxable retail sales at the proposed hotel development total an estimated $7,461,000 million (restaurant, taxable spa sales, and gift shop) in 2008 and $11,857,778 in 2011 (see table below). As shown in Exhibit 7, applying the 1.0 percent sales tax rate to these figures results in $74,610 in annual revenue to the City of Menlo Park General Fund, increasing to $118,578 in 2011.

Taxable Retail Sales, Hotel Component
2008 and 2011

Revenue	2008	2011
Food and Beverage	$$6,682,000	$10,870,000
Spa (1)	$208,000	$238,778
Gift Shop	$571,000	$749,000
TOTAL	**$7,461,000**	**$11,857,778**

(1) Taxable spa sales estimated to be 7.1 percent of total spa revenue, per Rosewood Hotels.
Source: Rosewood Hotels.

Based on assumptions of 267 full-time hotel employees and estimated annual retail spending of $623 per hotel employee within the City of Menlo Park, an additional one percent, or $1,664, of total annual sales of $166,400 is estimated to flow to the City's General Fund as a result of hotel worker expenditures. Similarly, the office development's 333 employees will generate an estimated $4,625 per year in sales tax, as a result of spending a total of $462,500 per year. Assuming a three percent per year increase in retail sales, sales tax generated by hotel employee spending is anticipated to rise to $1,818 in 2011; office worker spending is forecast to generate $5,054 in retail sales tax.

During 2008, hotel guest spending of $2,055,178 within the City of Menlo Park is anticipated to translate into an additional $20,552 in sales tax revenue. Upon stabilization of the hotel operation in 2011, hotel guest expenditures are forecasted to add an additional $30,260 in sales tax revenue.

In total, the proposed hotel/office project is projected to generate an additional $101,451 in retail sales tax to the City of Menlo Park in 2008 and $155,710 in 2011, upon stabilization of the hotel operation.

TRANSIENT OCCUPANCY TAXES

Based on data provided by Rosewood Hotels regarding revenue per available room ($250) and occupancy (65 percent) in 2008, the proposed hotel development is estimated to generate nearly $10,998,980 in revenue in 2008 (see Exhibit 8). Applying the City of Menlo Park transient occupancy tax rate of 10 percent to this figure results in revenue of $1,099,098 to the City's General Fund.

Upon stabilization in 2011, occupancy rates are assumed to have increased to 76 percent while revenue per available room is expected to have reached $368. These assumptions are consistent with both CBRE Consulting's expectations and forecasts from PKF Consulting. By 2011, the proposed hotel development is projected to generate $16,138,548 in revenue, translating into an annual transient occupancy tax of $1,613,855. Per the City of Menlo Park's 2005-2006 Budget, annual revenue from existing transient occupancy taxes is projected to total $1,070,000. The addition of the proposed hotel project will therefore double the City's current transient occupancy tax revenue during its first year of operation (2008).

BUSINESS LICENSE FEES

Hotel Component

The hotel, restaurant, spa, and gift shop operations will generate revenue to the City of Menlo Park in the form of business license fees. These fees are based on estimated hotel revenues as summarized in the following table.

Total Annual Revenue Projections, Hotel Component
2008 and 2011

Revenue	2008	2011
Rooms	$10,991,000	$16,139,000
Restaurant	$6,682,000	$10,870,000
Spa	$2,933,000	$3,367,000
Gift Shop	$571,000	$749,000

Source: Rosewood Hotels.

As shown in Exhibit 9, the hotel operation can expect to pay an annual business license fee of $3,000 in 2008, based on the assumptions outlined in Exhibits 3 and 4. The restaurant is assumed to pay a business license fee of $2,000, while the spa and gift shop will pay $1,000 and $310, respectively. In total, 2008 revenue expectations for the hotel will translate into business license fees of $6,310.

Using Rosewood Hotels' revenue forecasts, and assuming no change in the City's Business License Fee Schedule, the hotel, restaurant, spa, and gift shop operations will pay a total of $9,140 in business license fees in 2011.

Office Component

Based on the assumptions of average business license fees for both traditional and venture capital office tenants (see Exhibit 3), and on assumptions of tenant mix, the office component of the proposed development can be expected to generate approximately $13,775 in business license fees (see Exhibit 9). This estimate is based on a total of ten office tenants, five of which are assumed to be venture capital firms, each of which are assumed to manage an average of ten funds apiece. Business license fees for the office component were conservatively assumed to remain constant through 2011.

The estimated number of tenants is conservative. According to Costar and local real estate brokers, the average size of a Sand Hill Road office tenant is approximately 5,300 square feet; an estimated 55 percent of these tenants are financial services firms. Five traditional office tenants paying an average business license fee of $455 per year yields a total of $2,275 to the City's General Fund. Similarly, five venture capital firms paying an average business license fee of $2,200 add $11,000 in revenue.

To apply the additional $50 per fund charge for venture capital funds, CBRE Consulting researched the average number of funds per firm. Based on data from the City of Menlo Park Revenue and Claims Department, CBRE Consulting estimated an average of ten funds per venture capital company, resulting in an additional $500 per year to the General Fund.

FRANCHISE FEES

Electric and Gas

Stanford Management provided data from Blum Consulting Engineers outlining expectations for electric and gas usage at the proposed hotel/office development. According to these data, the hotel component is expected to use 3.9 million kilowatt hours (kWh) of electricity, while the office component is expected to use nearly 2.0 million kWh. Based on rates of $0.12 and $0.14 per kWh for the hotel and office components, respectively (2008 dollars, inflated at 1.0 percent per year from 2005 rates), total annual electricity usage is expected to cost $771,675. Natural gas usage, estimated at 113,100 and 8,000 therms per year for the hotel and office components, respectively, is expected to result in a total cost of $155,740, based on an 2005 average annual rate of $1.29 per therm and an average annual increase of 4.1 percent from 2005 to 2008 (based on PG&E data regarding gas rate increases between 1988 and 2004). A 1.0 percent franchise fee on the project's total anticipated electric and gas usage of $927,415 results in additional revenue of $9,274 to the City's General Fund in 2008 (see Exhibit 9). Inflating electricity costs at 1.0 percent per year and gas rates at 4.1 percent per year, results in additional franchise fee revenue of $9,707 in 2011.

Garbage

Per Allied Waste, the provider of garbage services for the area including the proposed development, the hotel/office development can be expected to generate about 90 yards of waste per week – 34.3 yards for the hotel development and 55.2 yards for the office development (see Exhibit 4). However, about 60 percent of this total is assumed to be diverted to recycling and composting programs, as is typical for similar projects. According to Allied Waste, the total cost for garbage-related services, after recycling and inflated at an average annual rate of 3.9 percent from 2005 to 2008 (based on average annual increases from 1996 to 2004), is $31,342. Applying the 5.8 percent franchise fee to this total results in additional revenue of $1,818 to the City's General Fund in 2008 and $2,039 in 2011 (see Exhibit 9).

Water

Stanford Management provided data from Blum Consulting Engineers outlining expectations for water usage at the proposed hotel/office development, including sewer, water, and irrigation (see Exhibit 4). Based on total usage of 38,500,000 gallons at a rate of $2.61 per thousand gallons (provided by the City's Revenue and Claims Department), total annual water costs can be expected to register $100,339 (see Exhibit 9). Water rates were conservatively assumed to remain flat through 2011. According to the Revenue and Claims Department, the City of Menlo Park has not raised water rates in nine years; however, a study regarding these rates is currently underway and could result in an as-yet-unknown rate increase. Applying the 1.0 percent franchise fee to this total results in additional annual revenue of $1,003 to the City's General Fund.

Cable TV

Annual cable TV costs for the 120 hotel rooms and five villas at the proposed hotel development were estimated by Comcast at $30,300. Service included in this total includes standard cable (82 channels), premium programming (Showtime and HBO), financial programming (Bloomberg), and high-definition TV formatting. Pay-per-view and video-on-demand services are not included in this analysis, but could potentially provide additional revenue to the hotel. Data on historic and forecasted cable TV rate increases were not available; therefore, a flat rate through 2011 was conservatively assumed. Applying the 5.0 percent franchise fee to this total results in additional annual revenue of $1,515 to the City's General Fund (see Exhibit 9).

V. RECURRING ANNUAL COSTS

As mentioned previously, additional service-related costs were considered for two departments funded by the General Fund – Police and Public Works. Fire department services are not funded out of the City of Menlo Park General Fund; rather the Menlo Park Fire District is funded through a separate allocation of property taxes.

POLICE

CBRE Consulting provided the City of Menlo Park Police Department with details of the proposed hotel/office development, including information on size and estimated employment. According to the Chief of Police, no additional capital or staffing costs will be associated with this project (see Exhibit 10).

PUBLIC WORKS

Similarly, the City of Menlo Park Public Works Department does not foresee any costs arising as a result of the development of the proposed Sand Hill Road project (see Exhibit 10). No public roads are planned within the site's boundaries, eliminating the need for additional maintenance. According to a Public Works representative, extra wear and tear on Sand Hill Road is not a concern; the traffic generated by the proposed development is not expected to have a significant impact on the physical integrity of the street. Stanford Management will be responsible for their required share of costs relating to landscaping work, the installation of new water meters, and any required traffic signal upgrades.

VI. SUMMARY OF NET FISCAL IMPACT

REVENUE SUMMARY

CBRE Consulting's fiscal impact analysis indicates that the proposed office/hotel development will generate an estimated positive revenue flow of $1.36 million to the City of Menlo Park General Fund during its first year of operation in 2008. Revenues will increase in subsequent years as a result of inflation, stabilization of hotel occupancy, and improved market conditions. In 2011, upon stabilization of the hotel operation, the project is expected to generate a net revenue flow of $1.94 million to the General Fund. Incremental revenue increases are summarized in the table below.

Summary of Incremental Revenues, 2008 and 2011

Revenue Source	2008	2011
Property Tax	$121,905	$129,366
Sales Tax	$101,451	$155,710
Transient Occupancy Tax	$1,099,098	$1,613,855
Other Fees	$33,695	$37,180
TOTAL	**$1,356,149**	**$1,936,111**

The hotel operation, in particular, should be a strong revenue generator. The addition of the hotel in 2008 is expected to more than double the City's current transient occupancy tax revenue, which was estimated at $1,070,000 million in the 2005-2006 Budget.

One-time revenues such as processing fees, were not included in this analysis as they were assumed to be charged on a cost recovery basis. The only one-time revenue source applicable to the analysis of General Fund fiscal impacts is the franchise fee associated with the installation of cable TV services at the proposed hotel development, which totals a relatively minimal $200.

COST SUMMARY

According to the two relevant service departments – the City of Menlo Park Police and Public Works departments, no significant additional General Fund expenditures are expected to arise as a result of the development of the Sand Hill Road project. In addition, according to the City of Menlo Park Finance Director, no one-time General Fund costs will be associated with the development of the proposed hotel/office project.

NET FISCAL IMPACT

The proposed hotel/office development is projected to have a net positive fiscal impact on the City of Menlo Park General Fund of $1.36 million in 2008 (the project's first year of operations) and $1.94 million in 2011 (the year the hotel operation is expected to stabilize). In addition to General Fund revenue generation, the proposed hotel/office development will make significant contributions to other key Menlo Park services, most notably schools. Together, the Las Lomitas

Elementary and Sequoia High general purpose funds are anticipated to receive $467,140 of the incremental property tax generated by the Sand Hill Road project in 2008, and $495,733 in 2011. In summary, CBRE Consulting's fiscal impact analysis suggests that it would be beneficial to the City of Menlo Park to support the development of the proposed hotel/office project.

The contents of this report are subject to the appended Assumptions and General Limiting Conditions.

ASSUMPTIONS AND GENERAL LIMITING CONDITIONS

CBRE Consulting has made extensive efforts to confirm the accuracy and timeliness of the information contained in this study. Such information was compiled from a variety of sources, including interviews with government officials, review of City and County documents, and other third parties deemed to be reliable. Although CBRE Consulting believes all information in this study is correct, it does not warrant the accuracy of such information and assumes no responsibility for inaccuracies in the information by third parties. We have no responsibility to update this report for events and circumstances occurring after the date of this report. Further, no guarantee is made as to the possible effect on development of present or future federal, state or local legislation, including any regarding environmental or ecological matters.

The accompanying projections and analyses are based on estimates and assumptions developed in connection with the study. In turn, these assumptions, and their relation to the projections, were developed using currently available economic data and other relevant information. It is the nature of forecasting, however, that some assumptions may not materialize, and unanticipated events and circumstances may occur. Therefore, actual results achieved during the projection period will likely vary from the projections, and some of the variations may be material to the conclusions of the analysis.

Contractual obligations do not include access to or ownership transfer of any electronic data processing files, programs or models completed directly for or as by-products of this research effort, unless explicitly so agreed as part of the contract.

This report may not be used for any purpose other than that for which it is prepared. Neither all nor any part of the contents of this study shall be disseminated to the public through publication advertising media, public relations, news media, sales media, or any other public means of communication without prior written consent and approval of CBRE Consulting.

APPENDIX: EXHIBITS

EXHIBIT 1
FISCAL IMPACT ANALYSIS - STANFORD SITE, MENLO PARK
SUMMARY OF ESTIMATED ANNUAL FISCAL IMPACTS
CITY OF MENLO PARK GENERAL FUND

Revenue and Cost Items		2008		2011
Revenues				
Net Property Tax Revenue (1)	$	121,905	$	129,366
Sales/Expenditures Tax Revenue (2)	$	101,451	$	155,710
TOT Tax Revenue (3)	$	1,099,098	$	1,613,855
Other Fee Revenue (4)	$	33,695	$	37,180
Total Annual Revenues	$	1,356,149	$	1,936,111
Expenditures (5)				
Police Services	$	0	$	0
Public Works Services	$	0	$	0
Total Annual Expenditures	$	0	$	0
NET ANNUAL FISCAL IMPACT (=Revenues-Expenditures)	$	1,356,149	$	1,936,111

Notes:
(1) Refer to Exhibit 6. Property value inflated at 2 percent per year from 2008 to 2011.
(2) Refer to Exhibit 7.
(3) Refer to Exhibit 8.
(4) Refer to Exhibit 9. Other fee revenue includes business license fees and franchise fees.
(5) Refer to Exhibit 10.

Sources: CBRE Consulting.
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EXHIBIT 2
FISCAL IMPACT ANALYSIS - STANFORD SITE, MENLO PARK
SUMMARY DEVELOPMENT SCENARIO ASSUMPTIONS (1)
NOVEMBER 2005

Sand Hill Road Site Description/Use	Data
Site Acreage	21.14
Project Completion Date	2008
Office	
Building FAR SF	100,000
Number of Buildings	4-5
Stories	2
Hotel	
Building FAR SF (2)	165,000
Rooms (2)	125
Stories	1 and 2

Notes:
(1) Development assumptions provided by Stanford Management and Rosewood Hotels.
(2) Plans include 120 hotel rooms and 5 villas.

Sources: Stanford Management; Rosewood Hotels; San Mateo County Assessor's Office; and CBRE Consulting.
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EXHIBIT 3
FISCAL IMPACT ANALYSIS - STANFORD SITE, MENLO PARK
TAX AND REVENUE ASSUMPTIONS (1)

Assumption		Data
Property Tax		
Property Tax Rate (2)		1.00%
Annual Property Tax Increase		2.00%
City of Menlo Park Allocation (3)		11.7%
Total Property Tax Revenue for the City of Menlo Park, 2004 (4)		
Secured plus Unitary Revenue	$	7,398,625
Unsecured	$	522,696
HOPTA	$	74,964
Total Property Tax Revenue, 2004 (all Menlo Park)	$	7,996,285
Total ERAF shift (5)	$	1,517,161
ERAF Shift as % of Total Property Tax Revenue		19.0%
ERAF-Adjusted Property Menlo Park Tax Rate (6)		9.47%
Sales Tax (7)		
Retail Sales Tax Rate to Menlo Park		1.00%
Employee/Hotel Guest Expenditures (in Menlo Park), 2008 Dollars		
Average Annual Expenditures per Hotel Employee (8)	$	623
Average Annual Expenditures per Office Employee (9)	$	1,388
Average Annual Expenditures per Occupied Hotel Room (10)	$	26,348
Transient Occupancy Tax (11)		
City of Menlo Park TOT Rate		10.0%
Business License Fees (12)		
Hotel Component		
Business with Annual Gross Reciepts > $500,000 and <$600,000	$	310
Business with Annual Gross Reciepts > $700,000 and <$800,000	$	390
Business with Annual Gross Reciepts > $1 million and < $2 million	$	750
Additional fee for each additional $1 million up to $30 million	$	250
Office Component		
Traditional Business License (Average Fee)	$	455
Venture Capital Business License (Average Fee)	$	2,200
Venture Captial Fund Fee (per Fund)	$	50
Franchise Fees (13)		
Electric and Gas		1.0%
Garbage		5.8%
Water (14)		1.0%
Cable TV (15)		5.0%

(continued)

EXHIBIT 3
FISCAL IMPACT ANALYSIS - STANFORD SITE, MENLO PARK
TAX AND REVENUE ASSUMPTIONS (1)

Assumption	Data

Notes:

(1) Sales and transient occupancy tax rates assumed to remain constant from 2005-2011. Similarly, no increase anticipated in business license fee schedule or franchise fees.
(2) Per San Mateo County Controller's Office. Composite property tax rate for Tax Rate Area (TRA) 008-006.
(3) Per San Mateo County Controller's Office. Allocation for San Mateo County TRA 008-006.
(4) Per San Mateo County Controller's Office.
(5) Property tax allocated to the Education Revenue Augmentation Fund (ERAF).
(6) Menlo Park property tax allocation (11.7%) reduced by the ERAF shift as a percentage of property tax revenue (19%).
(7) Per California Board of Equalization.
(8) Based on office worker spending (see footnote 9) adjusted for the difference between office and hotel worker salaries. According to the US Census Bureau's County Business Patterns, hotel workers earn about 22.5 percent of average office worker salaries. Per Rosewood Hotels, hotel employee meals at the hotel restaurant are written off as non-transactions. Due to the proximity of Palo Alto's retail, the City of Menlo Park was assumed to capture 75 percent ($623) of hotel employee expenditures.
(9) Projected workday local retail expenditures generated by employees are estimated based on analysis of figures developed by the International Council of Shopping Centers, "Office Worker Retail Spending Patterns." Employees in suburban locations spend approximately $3,290 (2003 dollars, or $3,700 in 2008 dollars) annually within their work communities. Of the total, it is estimated that lunch purchases account for 39 percent of those expenditures. Since it is expected that office employees will occasionally take lunch at the hotel's restaurant, the annual workday expenditures by each employee were conservatively reduced by 25 percent to $2,775 (2008 dollars). Due to the proximity of Palo Alto's retail, the City of Menlo Park was assumed to capture 50 percent ($1,388) of office employee expenditures.
(10) Based on industry standard indicating daily hotel guest spending is roughly equivalent to the room rate ($385 in 2008). Hotel restaurant, spa, and gift shop spending are expected to account for 25 percent of this daily spending. Due to the proximity of Palo Alto's retail, we assumed that the City of Menlo Park would capture 25 percent of these hotel guest expenditures.
(11) Per the City of Menlo Park.
(12) Hotel component fees obtained from revenue-based business license fee schedule from the City of Menlo Park. Office component fees based on the cost of an average traditional/venture capital business license fee (2005), per the City of Menlo Park. VC fund fee is fixed.
(13) Per the City of Menlo Park.
(14) Up to a maximum rate of $1.95/unit of water (748 gallons).
(15) Includes one-time hook up charges and recurring annual cable costs.

Sources: San Mateo County Controller's Office; San Mateo County Assessor's Office; California Board of Equalization; The City of Menlo Park Revenue and Claims Department; International Council of Shopping Centers Retail Spending Patterns (2003); US Census Bureau County Business Patterns (2002); Dean Runyan and Associates; Smith Travel Research; PKF Consulting; and CBRE Consulting.
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EXHIBIT 4
FISCAL IMPACT ANALYSIS - STANFORD SITE, MENLO PARK
PROPERTY VALUE AND OPERATING ASSUMPTIONS
2008 DOLLARS

Assumption	Measure		Hotel		Office
Property Value Upon Completion (1)					
Land Values	per Buildable Hotel Room/Office SF	$	40,000	$	175
Improvement Value	per Buildable Hotel Room/Office SF	$	584,310	$	351
Total Value		$	78,038,802	$	52,629,750
TOTAL ESTIMATED DEVELOPMENT VALUE					$130,668,552
Employment (2)					
Full-Time Employment	Total Employees		267		333
Occupancy (2008) (3)	Percent Occupied		65.0%		100.0%
Hotel (4)					
Available Rooms	Annual Total		43,920		-
Average Daily Room Rate (ADR)	$ per Room	$	385		-
Revenue per Available Room (REVPAR)	$ per Room	$	250		-
Office					
Number of Tenants (5)	Total Tenants		-		10
Number of Traditional Office Tenants (6)	Total Office Firms		-		5
Number of Venture Capital Tenants	Total VC Firms		-		5
Revenue and Retail Sales (7)					
Rooms	Total Annual Revenue	$	10,991,000		
Spa (Total Sales)	Total Annual Revenue	$	2,933,000		
Food & Beverage (Restaurant)	Total Annual Revenue	$	6,682,000		-
Gift Shop	Total Annual Revenue	$	571,000		-
Taxable Retail Sales					
Food & Beverage (Restaurant)	Total Annual Revenue	$	6,682,000		-
Spa (Taxable Retail Sales Only)	Total Annual Taxable Sales	$	208,000		
Gift Shop	Total Annual Revenue	$	571,000		-
Total Taxable Retail Sales	Total Annual Sales	$	7,461,000		-
Electric and Gas Usage (8)					
Electricity					
Annual Use	Kilowatt Hours (kWh)		3,942,000		1,971,000
Average Electricity Rate per kWh (9)	$/kWh	$	0.12	$	0.14
Average Annual Increase (10)			1.0%		1.0%
Gas					
Annual Use	Therms, 1,000 btu/therm		113,100		8,000
Average Annual Gas Rate per Therm (11)	$/Therm	$	1.29	$	1.29
Average Annual Increase (12)			4.1%		4.1%
Garbage Service (13)					
Total Garbage Generation (14)	Total Yards/Week		34.3		55.2
Cost of Service	Annual Cost ($)	$	25,012	$	6,330
Average Annual Increase (15)			3.9%		3.9%
Water Usage					
Annual Use (16)					
Sewer	Gallons (000s)		10,709		2,716
Water	Gallons (000s)		10,676		2,745
Irrigation (17)	Gallons (000s)				11,643
Average Annual Rate per Unit (18)	$/Unit (1 Unit=748 Gallons)	$	1.95	$	1.95
Average Annual Rate per Gallon (000s)	$/Gallon (000s)		$2.61		$2.61
Average Annual Increase (19)			0.0%		0.0%

(continued)

EXHIBIT 4
FISCAL IMPACT ANALYSIS - STANFORD SITE, MENLO PARK
PROPERTY VALUE AND OPERATING ASSUMPTIONS
2008 DOLLARS

Assumption	Measure	Hotel	Office
Cable TV			
Hook-Up Cost (20)	$	4,000	-
Annual Costs (21)	$	30,300	-
Average Annual Increase (22)		0.0%	

Notes:
(1) Land and improvement values provided by Stanford Management and Rosewood Hotels. Contingency costs subtracted. Improvement values compared with Marshall & Swift cost data for reasonableness.
(2) Hotel employment provided by Rosewood Hotels. Office employment assumes 250 SF per employee.
(3) Hotel occupancy data provided by Rosewood Hotels and reviewed for reasonableness with PKF and Smith Travel data for consistency. Office occupancy includes 5% vacancy allowance.
(4) Data provided by Rosewood Hotels and compared with room rate information from local area hotels.
(5) Sand Hill Road average tenant size is 5,250 SF, per Costar. Stanford Management estimates 1-2 tenants per building. CBRE Consulting conservatively used an estimate of 2 tenants per building, or a total of 10 tenants.
(6) Per Stanford Management, the majority of office tenants are expected to be VC firms. Per Costar, 54% of Sand Hill Rd tenants are Financial Services firms. CBRE Consulting estimated a tenant mix with a 50-50 split between traditional office and VC firms.
(7) Data provided by Rosewood Hotels. Room and spa service revenue not included in taxable retail sales.
(8) Data on electric and gas usage provided by Stanford Management.
(9) Data provided by PG&E. Current (2005) charges inflated to 2008 dollars based on average annual increase.
(10) Assumption provided by CBRE Consulting.
(11) Based on data provided by PG&E reflective of average annual gas rates from January to November 2005.
(12) Based on data provided by PG&E reflective of the average annual increase in gas prices from 1988 to 2004.
(13) Data provided by Allied Waste based on garbage production at comparable hotels, spas, and office buildings.
(14) Assumes diversion of 60 percent of total generation to recycling and composting programs, consistent with comparable properties.
(15) Based on data provided by Allied Waste. Reflects average annual increase in service rates between 1996 and 2004.
(16) Data provided by Blum Consulting Engineers.
(17) Total irrigation usage for hotel and office.
(18) Water rate provided by the City of Menlo Park Revenue and Claims Manager.
(19) Per Revenue and Claims Manager, Menlo Park has not raised water rates in nine years. Although a study regarding water rates is currently underway, which will likely result in a rate increase, CBRE Consulting conservatively estimated flat water rates through 2008.
(20) Comcast conservatively budgeted a one-time cost of $4,000 to accomodate trenching to the minimum point of entry. Does not include amplifier, modulation or filter costs.
(21) Fee to provide cable TV to 120 guest rooms and 5 villas. Includes standard cable (82 channels), premium programming, financial programming, and high-definition TV formatting. Pay-per-view and video-on-demand not included but could provide additional revenue to the hotel.
(22) Data on historic and forecast cable TV rate increases were not available. CBRE Consulting conservatively assumed flat rates through 2008.

Sources: Stanford Management; Rosewood Hotels; Marshall & Swift Valuation Service (Class A Office and Class A Full-Service Hotel); PKF Consulting; Smith Travel; City of Menlo Park Revenue and Claims Manager; Costar; PG&E; Allied Waste; Comcast; Blum Consulting Engineers; and CBRE Consulting.
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Property Assumptions[KP] 11-Jan-06

EXHIBIT 5
FISCAL IMPACT ANALYSIS - STANFORD SITE, MENLO PARK
EATIMATED SERVICE POPULATION
2008

Assumption	Year	Data
Menlo Park Population (1)	2005	30,800
Menlo Park Population (1)	2010	31,100
Estimated Menlo Park Population (2)	2008	30,980
Menlo Park Employment (1)	2005	25,810
Menlo Park Employment (1)	2010	28,680
Estimated Menlo Park Employment (2)	2008	27,496
Estimated Service Population (3)	2008	44,727

Notes:
(1) Data provided by ABAG ("Projections 2005").
(2) Estimate for 2008 calculated based on average annual increase from ABAG's 2005 to 2010 projections.
(3) Total Menlo Park population plus one-half Menlo Park employment.

Sources: Association of Bay Area Governments, "Projections 2005"; and CBRE Consulting.
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EXHIBIT 6
FISCAL IMPACT ANALYSIS - STANFORD SITE, MENLO PARK
NET NEW PROPERTY TAX REVENUE TO THE
CITY OF MENLO PARK GENERAL FUND

	2008	2011
New Property Tax Estimate		
Total Estimated Value (1)	$130,668,552	$ 138,666,513
Property Tax Rate (2)	1.0%	1.0%
Total Property Tax	$1,306,686	$1,386,665
Menlo Park General Fund Allocation of Property Tax (2)	9.47%	9.47%
Menlo Park General Fund Property Tax Revenue	$123,777	$131,354
Previous Property Value and Tax Estimate		
Total Assessed Value (3)	$1,977,164	$2,098,182
Property Tax Rate (2)	1.0%	1.0%
Total Property Tax	$19,772	$20,982
Menlo Park General Fund Allocation of Property Tax (2)	9.5%	9.5%
Menlo Park General Fund Property Tax Revenue	$1,873	$1,988
Net New Property Tax Revenue	$121,905	$129,366

Notes:
(1) Based on the value assumptions in Exhibit 4. Year 2008 value increased by two percent per year to 2011.
(2) Based on the property tax assumptions in Exhibit 7.
(3) Per First American Real Estate Solutions value for 21.14-acre site, APN 074-470-100. Year 2005 assessed value of $1,863,126 inflated by two percent per year to 2008.

Sources: San Mateo County Controller's Office; San Mateo County Assessor's Office; First American Real Estate Solutions; and CBRE Consulting.
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EXHIBIT 7
FISCAL IMPACT ANALYSIS - STANFORD SITE, MENLO PARK
ESTIMATED SALES TAX REVENUE TO THE CITY OF MENLO PARK
AS A RESULT OF RETAIL SALES (HOTEL) AND EMPLOYEE EXPENDITURES
2008 AND 2011 DOLLARS

Revenue to General Fund	2008	2011
Estimated Retail Sales Tax Revenue, Hotel		
Estimated Total Taxable Retail Sales (1)	$7,461,000	$ 11,857,778
Retail Sales Tax Rate to Menlo Park (2)	1.0%	1.0%
Sales Tax Accruing to Menlo Park	$74,610	$118,578
Employee Expenditures		
Hotel Employees (3)	267	267
Average Annual Expenditures per Employee (4)	$ 623	$ 681
Total Annual Hotel Employee Expenditures	$ 166,408	$ 181,838
Retail Sales Tax Rate	1.0%	1.0%
Sales Tax Accruing to Menlo Park	$1,664	$1,818
Office Employees (3)	333	333
Average Annual Expenditures per Employee (4)	$ 1,388	$ 1,516
Total Annual Office Employee Expenditures	$ 462,500	$ 505,386
Retail Sales Tax Rate	1.0%	1.0%
Sales Tax Accruing to Menlo Park	$4,625	$5,054
Hotel Guest Expenditures		
Average Occupied Rooms per Night (5)	78	91
Average Annual Expenditures per Occupied Room (6)	$ 26,348	$ 33,180
Total Annual Hotel Guest Expenditures (in Menlo Park)	$ 2,055,178	$ 3,026,004
Retail Sales Tax Rate to Menlo Park (2)	1.0%	1.0%
Sales Tax Accruing to Menlo Park	$ 20,552	$ 30,260
Total Sales Tax Accruing to Menlo Park (Hotel and Office)	$ 101,451	$ 155,710

Notes:
(1) Based on restaurant, gift shop, and taxable spa sales in Exhibit 4.
(2) Based on retail sales tax assumptions in Exhibit 3.
(3) Based on employment assumptions in Exhibit 4.
(4) Based on employee expenditure assumptions in Exhibit 3. Assumed to increase by three percent per year.
(5) Based on occupancy assumptions in Exhibit 4 and occupancy of 76 percent in 2011.
(6) Based on hotel guest expenditure assumptions in Exhibit 3 and on average daily room rate of $485 in 2011.

Sources: CBRE Consulting.
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EXHIBIT 8
FISCAL IMPACT ANALYSIS - STANFORD SITE, MENLO PARK
ESTIMATED TOT TAX REVENUE
2008 AND 2011 DOLLARS

Tax/Fee		Data
First Year of Operation - 2008 (1)		
Revenue per Available Room (2)		$250
Available Rooms		43,920
Total Annual Room Revenue		$10,990,980
TOT Tax Rate (3)		10.0%
Transient Occupancy Tax to Menlo Park (2008)	$	1,099,098
At Stabilization (2011) (4)		
Revenue per Available Room	$	368
Available Rooms		43,800
Total Annual Room Revenue	$	16,138,548
TOT Tax Rate		10.0%
Transient Occupancy Tax to Menlo Park (2011)	$	1,613,855
Total Annual Transient Occupancy Tax		$1.1 - $1.6 million

Notes:
(1) Based on the assumptions in Exhibit 3.
(2) Based on 2008 occupancy rate of 65%.
(3) Based on the tax assumptions in Exhibit 3.
(4) Data based on stabilized occupancy of 76% and an average daily room rate of $485 in 2011, per Rosewood Hotels.

Sources: CBRE Consulting.
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EXHIBIT 9
FISCAL IMPACT ANALYSIS - STANFORD SITE, MENLO PARK
ESTIMATED OTHER FEE REVENUE (1)
2008 AND 2011 DOLLARS

Tax/Fee		2008		2011
Hotel Business License Fees				
Hotel Operation	$	3,000	$	4,500
Restaurant	$	2,000	$	3,000
Spa	$	1,000	$	1,250
Gift Shop	$	310	$	390
Total Hotel Business License Fees	$	6,310	$	9,140
Office Business License Fees				
Traditional Office Business License Fees				
Average Business License Fee	$	455	$	455
Number of Traditional Office Tenants		5		5
Total Annual Business License Fees	$	2,275	$	2,275
Venture Capital Business License Fees				
Average Management Entity Fee	$	2,200	$	2,200
Number of Management Entities		5		5
	$	11,000	$	11,000
Per Fund Fee	$	50	$	50
Average Number of Funds per Company (2)		10		10
	$	500	$	500
Total Office Business License Fees	$	13,775	$	13,775
Total Annual Business License Fees	$	20,085		22,915
Franchise Fees				
Electric and Gas				
Total Electric Charges	$	771,675	$	795,057
Total Gas Charges	$	155,740	$	175,693
Total Electric and Gas Charges	$	927,415	$	970,750
Franchise Fee		1.0%		1.0%
Electric and Gas Fee to Menlo Park	$	9,274	$	9,707
Garbage				
Total Garbage Service Costs	$	31,342	$	35,154
Franchise Fee		5.8%		5.8%
Garbage Fee to Menlo Park		$1,818		$2,039
Water				
Total Water Costs (Hotel and Office)	$	100,339		$100,339
Franchise Fee		1.0%		1.0%
Water Usage Fee to Menlo Park	$	1,003		$1,003

(continued)

EXHIBIT 9
FISCAL IMPACT ANALYSIS - STANFORD SITE, MENLO PARK
ESTIMATED OTHER FEE REVENUE (1)
2008 AND 2011 DOLLARS

Tax/Fee		2008		2011
Cable TV				
One-Time Fee to Bring Signal to Hotel	$	4,000		N/A
Franchise Fee		5.0%		N/A
Total One-Time Hook Up Fee		200		N/A
Annual Fee for Cable TV	$	30,300	$	30,300
Franchise Fee		5.0%		5.0%
Annual Cable TV Fees to Menlo Park	$	1,515	$	1,515
TOTAL FRANCHISE FEES (RECURRING ANNUAL FEES ONLY) (3)	$	13,610	$	14,265

Notes:
(1) Based on the assumptions in Exhibits 1-4.
(2) Per City of Menlo Park.
(3) Does not include one-time fee for Cable TV hook up.

Sources: CBRE Consulting.

P:\2005\1005154 Stanford Menlo Park\Working Docs\[Fiscal_Analysis6.xls]Ex4 Property Assumptions[KP]

EXHIBIT 10
FISCAL IMPACT ANALYSIS - STANFORD SITE, MENLO PARK
ESTIMATED INCREMENTAL SERVICE COSTS
2008 DOLLARS

Department		Cost
Police Department (1)	$	0.00
Public Works (2)		
Road Maintenance	$	0.00
Estimated Total Incremental Costs	$	0.00

Notes:
(1) Per the City of Menlo Park Police Department, there will be no additional capital or staffing costs associated with this development.
(2) Per the City of Menlo Park Public Works Department, no additional costs associated with this development will impact the General Fund.

Sources: City of Menlo Park Police and Public Works Departments; and CBRE Consulting.
P:\2005\1005154 Stanford Menlo Park\Working Docs\[Fiscal_Analysis6.xls]Ex4 Property 11-Jan-06

Conley Consulting Group

MEMORANDUM

March 30, 2006

To: City of Menlo Park Community Development Agency
Deanna Chow, Senior Planner

From: Conley Consulting Group
Denise Conley, Principal

cc:

Subject: Peer Review of Fiscal Analysis for the Proposed Sand Hill Road Development

Conley Consulting Group (CCG) is pleased to assist the City of Menlo Park in its review of Stanford Management Company's proposed development at Sand Hill Road. On behalf of the applicant, CBRE Richard Ellis Consulting/Sedway Group (CBRE) prepared a Fiscal Impact Analysis dated January 12, 2006. CCG has undertaken a peer review of that analysis. This memorandum presents our findings and is to be reviewed as a companion analysis to the CBRE report.

CCG Review

To undertake this review, CCG completed the following tasks:

- Review of the assumptions and underlying methodology in the CBRE Study.
- Independent research into the property tax rates and assessed values for the subject parcels
- Review of relevant studies and correspondence regarding fiscal impacts prepared in 2002.
- Interviews with key Menlo Park staff to review fiscal analysis assumptions.
- General review of the Menlo Park hotel market and transient occupancy tax trends.

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I. CONCLUSIONS

The CBRE analysis estimates gross revenues associated with development of the proposed 120-room Rosewood Hotel, with five extended-stay villas, a restaurant, spa, and gift shop, as well as approximately 100,000 SF of office space at I-280 and Sand Hill Road. CCG has reviewed the CBRE projection and finds that while it is likely that revenues will substantially exceed the cost of providing services to the project, the analysis overestimates the potential fiscal or tax revenues from the proposed development because it does not consider whether revenues are net new to the City, or whether a portion represents a transfer of tax revenues that already flow to the City. On the other hand, the analysis seeks to estimate fiscal costs on a marginal, or net new cost, basis. Because revenues and costs are not treated in a parallel manner, the net fiscal benefits of the project are likely overstated.

CCG's analyses and comments are summarized below and detailed in the attached memo.

The CBRE analysis underestimates the cost of providing City services to the new development, since operating costs were assumed to be zero. This seems unreasonable, especially given that revenue estimates are based on hotel guests and employees shopping and patronizing Menlo Park businesses outside of the project. It would only be reasonable to conclude that these employees and guests benefit from and should therefore share the cost of providing municipal services.

A more rigorous approach would be to estimate the true marginal revenue from the project, with appropriate adjustments for revenues transferred from other economic activity in the city, compared to the true marginal cost to provide city services to the proposed development. If, on the other hand, gross revenues are used, it is appropriate to use gross, or average service costs.

CCG's allocation of fiscal costs to the project on an average cost per employee basis results in an estimated total of roughly $138,000 per year in current dollars and roughly $146,000 per year by 2008. However, even if the projected revenues were reduced by as much as 20% to account for possible transfer of activity from other Menlo Park businesses, and fiscal costs were estimated on an average cost basis, fiscal revenues would exceed a reasonable estimate of fiscal costs. In fact, if as much as 85% of the projected TOT revenues are transferred and not net new to Menlo Park, the fiscal impact of the project would still be positive.

We therefore concur with the CBRE conclusion that the proposed project would have a net positive fiscal impact on the City of Menlo Park.

II. OVERVIEW OF FISCAL IMPACT METHODOLOGY

Fiscal impact analysis is intended to determine the net effects of new development on the cost of providing government services, considering new taxes generated by and additional public costs associated with the new project.

Determining the fiscal impact of a proposed project is not as simple as estimating the gross future taxes generated by the proposed land uses at stabilized operations. A careful analysis would also consider all existing tax revenue streams that will be affected by the proposed project. A new development can transfer economic activity from one location in the City to another and thus not proportionately result in new taxes even if it is a success for the developer. In essence, the true fiscal impact to the City is the marginal increase in overall net tax revenue rather than the gross taxes projected from the new development.

The CBRE analysis does not consider how the proposed Stanford development will impact the City's current tax revenue generators in total. That analysis only adjusts for the property taxes currently generated from the site in calculating net new revenue from the proposed project. CBRE does not consider whether the new development will result in transfer of existing hotel or sales tax revenue from other sites in Menlo Park.

As discussed below, the CBRE report applies a narrowly defined marginal cost approach to its analysis of municipal costs. In fact, the CBRE report goes as far as to state there will be no additional costs to the City associated with this proposed project.

III. CBRE FINDINGS

The CBRE report analyzes the gross tax revenues generated by a proposed development consisting of a 120-room hotel, restaurant, spa and meeting facility along with approximately 100,000 SF of office space. There is no attempt to quantify marginal fiscal revenues. As stated above, the CBRE analysis concludes that there will be no marginal costs to provide government services to project.

As shown in Table 1 below, Transient Occupancy Tax (TOT) is the primary source of fiscal revenues from the proposed new project. This table summarizes the projected fiscal impact as presented by CBRE for the initial year of occupancy, 2008 and stabilized operations in 2011.

TABLE 1
CBRE NET FISCAL IMPACT
SAND HILL DEVELOPMENT

	2008	2011
Menlo Park Revenues		
Transient Occupancy Tax	$1,099,098	$1,613,855
Property Tax	$121,905	$129,366
Sales Tax	$101,451	$155,710
Other Fees	$33,695	$37,180
TOTAL	$1,356,149	$1,936,111
Menlo Park Civic Costs	$0	$0
Net Fiscal Impact	**$1,356,149**	**$1,936,111**

With respect to revenues, CBRE estimated the underlying drivers of tax revenue (hotel room revenues, taxable sales, assessed values, etc.) and then applied the relevant tax rates to the projected values. Transient Occupancy Tax (TOT) accounts for over 80% of the projected revenue.

IV. REVENUE PROJECTION REVIEW

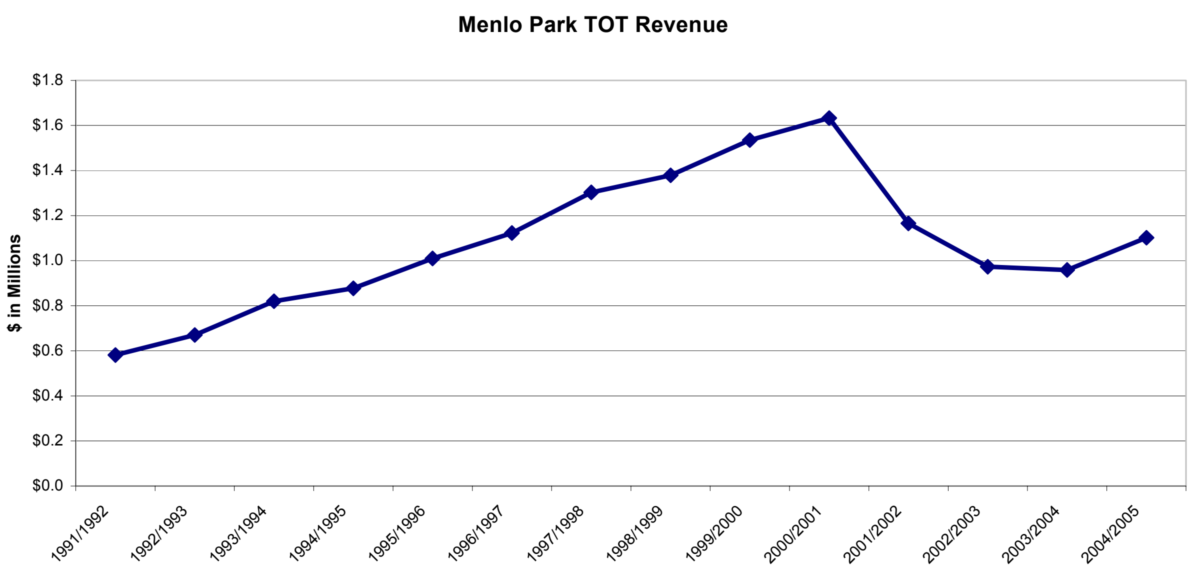
CCG reviewed the assumptions for projection of Menlo Park tax revenues. The discussion below focuses on TOT, Sales Tax, and property tax as these three revenue sources account for almost 98% of the projected revenue. CBRE also projected revenues from business licenses and franchise fees on utilities provided to the site using projected users or usage and applying the relevant fee schedules. These sources represent 2.4% of the total projected tax revenues.

A. TOT Revenues

Menlo Park currently has an inventory 308 hotel rooms in six properties, as shown in the attached Exhibit A.

The proposed project, at 120 rooms, will result in a substantial increase in the number of hotel rooms. (Note that, when considered with the 130-room hotel proposed on the Bohannon property, a total of 250 new rooms are proposed to be added to the City's hotel inventory, more than an 80% increase.)

Transient Occupancy Tax (TOT) is assessed at 10% of hotel room revenues. The chart below shows the TOT revenue trends for Menlo Park for the last ten years. City TOT revenues dropped dramatically with the changes in the economy and new additions to supply in the competitive region. The 171-room Stanford Park Hotel is by far the largest lodging facility in the City, and given its higher room rates represents a significant portion of the City's total TOT revenues. The drop in TOT revenues after 2000/2001 occurred after the new Westin Palo Alto came on line in 2000 when the dramatic drop off in travel and the Silicon Valley economy in general following the 9/11 tragedies and the collapse of the dot-com economic expansion.



Prior to 2000, the only local, high-end hotel serving visitors to Menlo Park, Stanford and Palo Alto was the Stanford Park Hotel. With the introduction of the 184-room Westin Palo Alto in 2000, the Stanford Park Hotel experienced a significant drop in revenue. According to local sources, the newly built 200-room Four Seasons Hotel in East Palo Alto will also impact room revenues, and thus TOT receipts from the Stanford Park Hotel.

The proposed Rosewood Hotel will have a spa. By the time the proposed hotel opens, both the Four Seasons and the Stanford Park hotels will also offer spa services. The proposed 120-room Rosewood Hotel will further expand the inventory of high-end hotel rooms. With the construction of the Rosewood Hotel, the area inventory of high-end product will reach 675 rooms, excluding the villas, almost a four-fold increase from the high-end inventory in the year 2000. Hotels serve the demand created by the local economy, which includes the Sand Hill Road office sector, Stanford University and the Palo Alto business base.

Although the proposed Rosewood Hotel will be a higher end hotel than others in the market, only some of its business will come from attracting a new demand segment to a new resort destination. The Corporate demand segment, comprised of business-based travel coming to Menlo Park, and perhaps the broader Silicon Valley, will represent a significant share of the demand for the new hotel. That segment is only now starting to recover from the post dot.com crash decline in demand that has affected lodging facilities throughout the Bay Area. Thus, the performance of the proposed Rosewood Hotel is somewhat dependent upon on the pace and strength of the regional economic recovery.

The proposed hotel is a high-end luxury hotel. CBRE relied on room rate and occupancy assumptions from the hotel operator, Rosewood Hotels & Resorts. The average hotel room rate is projected at $385 in 2008 and $485 in 2011 when hotel is projected to reach stabilized operations. Occupancy rates are projected initially at 65% growing to 76% by 2011. Given the rapid expansion of the inventory of high-end hotels, this projected performance is dependent upon significant growth of demand in this portion of the lodging market. It is also likely that significant demand will be captured from existing hotels in the market area, including the Stanford Park hotel.

According to a limited survey of local hotel operators conducted for this effort, when the Westin Hotel entered the market at the peak of the dot.com boom, some City hotels had as much as a 21% decrease in their occupancy rates.

Extended Stay Villas

The project includes five extended stay villas. The CBRE estimates do not project any TOT revenue from these units. The private villas will have two and three bedrooms and will range from 2,500 to 3,750 square feet according to the project EIR. According to the TOT ordinance, TOT revenue would be due if they are rented for terms less than 30 days. If these are being proposed as furnished housing rentals, a differing level of impact fees, possibly including school fees, should be projected for the project. CCG encourages staff to clarify with the project sponsor how they plan to operate these villas so that appropriate development fees and future occupancy taxes accrue to the City of Menlo Park.

TOT revenues represent 81% of the projected tax revenues from this project. However, the CBRE assertion that the proposed hotel will generate room tax revenues that will double the City's TOT revenues must be qualified by the portion of the projected TOT revenues transferred from other City lodging facilities.

B. Sales Tax

1. Sales Tax from Worker Spending

CBRE estimates sales taxes from the new office workers, the hotel visitors, hotel restaurant, and hotel workers. The overall issue of whether these are new retail sales to Menlo Park or just a transfer of activity that would have occurred in the absence of the development project is not addressed at all.

CBRE estimated office worker spending using at work spending patterns from a survey of suburban office employees (source: International Council of Shopping Centers), deducting 25% of the expenditure potential to account for lunches at the hotel restaurants (estimated separately), and allocating 50% of the expenditures to merchants within Menlo Park. CBRE estimated that 50% of the tenants of the office space would be venture capital firms. If other similar employers rent space in the proposed project, their well-compensated employees should generate food and retail sales at the same rate or better than the typical office worker expenditure patterns on which these estimates are based.

However, there are two concerns that may render this projection unreliable. They are:

a. Given the strength of the food and retail offerings in nearby Palo Alto, it is likely that the workers from the Sand Hill Road offices would actually make more than 50% of their work-day related purchases in Palo Alto.

b. To the extent that the new office buildings attract tenants relocating from other office space in Menlo Park, these sales would not be net new sales tax revenues to the City.

Hotel workers are projected to generate sales tax revenues from purchases during their workdays. CBRE also based projected hotel employee expenditure potential on the ICSC Office Worker Survey. Retail spending was adjusted for the lower wages hotel workers earn compared to office workers, but there was no adjustment for issues such as shift work (they don't, for instance, assume lower spending for shift workers who work at night when stores are closed), meals provided onsite, and the lack of time for or tradition of "business lunches" for most hotel employees. Additionally, hotels employ maids, porters, receptionists and other types of workers that would likely spend far less at their place of work for non-meal purchases like clothing and accessories than typical office workers, even after adjustment for income.

Thus, the estimated sales tax generated by work-day employee spending is overstated. These revenues represent less than 0.5% of the total annual revenue projected from the project.

2. Hotel guest spending

Daily hotel guest spending is estimated to be equal to the hotel room rate or $385 per occupied room night based on industry standards. A 25% deduction is made for the portion of those sales that occur in the hotel restaurant, spa and gift shop. Of the remainder, 25% is projected to occur within the City of Menlo Park.

To the extent that the hotel guests at the Rosewood Hotel were already coming to the region, the retail spending is not new economic activity. The project sponsors need to further analyze the projected revenues to demonstrate that the sales tax will be new to the City.

Sales Taxes from this source are less than 1.5% of the total projected revenues from this development.

3. Restaurant, Gift Shop and Spa Sales

Taxable sales from the hotel restaurant, gift shop and spa are based on volume projections by Rosewood Hotels. These projections appear reasonable, except to the extent that these sales represent a transfer of economic activity from elsewhere in the City of Menlo Park.

C. Property Tax

CCG reviewed the CBRE property tax projections finds that it is perhaps too conservative. CBRE conservatively estimated that the ERAF shift of property tax revenues to the State will reduce property tax revenues from the proposed development. However, the State-mandated ERAF shift is calculated on a statewide basis, and allocated to cities proportionately to their property tax base. While it is true that if all other communities have a fixed tax base, an addition to Menlo Park's base would result in additional mandated revenue transfer to the state, it is not at all clear that additional assessed valuation from the subject will result in an increased ERAF liability. Thus the CBRE analysis is perhaps too conservative in this regard.

The ERAF shift adjustment represents less than 2% of the total projected revenues from this project.

V. MUNICIPAL EXPENSE ANALYSIS

Although project revenues are calculated without consideration of whether revenues are net new, the CBRE report finds that there will be no additional, or marginal, costs to the City of Menlo Park associated with this development. The Draft EIR also finds that there will be no impacts on public services. Based on this assumption of no additional costs, the CBRE report presents the projected revenues as the net new revenue from the project. This result was based on asking the narrow question to personnel in two City departments of whether their costs will increase with the new project.

The proposed Project is in the jurisdiction of Menlo Park and will receive the benefits of City services for the life of the project. A more conventional fiscal analysis would look at how the overall costs of government relate to the population served by the City government. Fiscal analysis studies typically develop a "service population" as a weighted mix of residents and workers in a City. It must be noted that the conventional employment-based cost methodology does not allocate costs to the customers of a facility, such as a hotel or a retail outlet, that attracts guests that are neither City residents nor employees. If it is assumed that these guests patronize other businesses in the City, as it the case in the CBRE analysis, these guests obviously benefit from and should share the cost of Menlo Park municipal services.

The attached memo provides CCG's analysis of services costs, which estimates municipal service costs at $230 per job per year. The project includes 333 office jobs and 267 hotel project jobs, a total of 600 jobs. On an average cost basis this would represent an annual cost of $138,000 per year in current dollars or $146,000 in 2008 dollars, assuming cost inflation at 3% per year.

EXHIBIT A
MENLO PARK HOTEL INVENTORY
STANFORD FISCAL IMPACT PEER REVIEW

Hotel/Motel	Rooms	Suites	Price Range	Notes
Stanford Park Hotel 100 El Camino Real Phone: 650/322-1234	163	8	$295-$725	Four Star Hotel. Complimentary coffee and tea; apples; freshly baked cookies in lobby nightly at 9:30 p.m.; complimentary San Jose Mercury News and Wall Street Journal delivered Mon-Fri; free courtesy van within the Menlo Park/Palo Alto area; Business Center; turn-down service upon request; 24-hour room service; on-command 24-hour movie system in all rooms.
Menlo Park Inn 1315 El Camino Real Phone: 650/326-7530	30	2	$125-$165	Broadband access; restaruant in hotel, hot tub
Best Western Riviera 15 El Camino Real Phone: 650/321-8772	36		$129-$189	Complimentary continental breakfast, free high-speed Internet access, sauna, pool, Jacuzzi and fitness center. Complimentary fresh fruit, freshly baked cookies and coffee served all day. Same day dry-cleaning services available. Laundry facilities on property. Each room equipped with iron and ironing board, hair dryer, microwave and refrigerator.
Red Cottage Inn and Suites 1704 El Camino Real Phone: 650/326-9010	27	2	$79-$159	Garden-style setting, Personalized service. Complimentary continental breakfast, fax/copy services, guest voicemail, microwave/mini-fridge, cable 25-inch TV, iron with ironing boards, direct dial phones with modem data port, and a private patio adjoining each room. Heated pool. DVD VCR and free high-speed Internet access. Each room has a large sliding glass door leading to a private patio garden patio with redwood deck and bistro table set.
Mermaid Inn 727 El Camino Real Phone: 650/323-9481	38		$76-$105	Serves continental breakfast. Microwaves and refrigerators in each room. Cable TV (CNN, HBO, Showtime, HBO, ESPN) and iron/ironing board.
Stanford Inn 115 El Camino Real 650-325-1428	14		$50 to $80	Planning to undergo renovation and will be shutting down for about a month
TOTAL	**308**	**12**		

Source: Conley Consulting Group

March, 2006

MEMORANDUM

March 7, 2006
REVISED: April 17, 2006

To: Carol Augustine, Finance Director
City of Menlo Park

From: Denise Conley, Principal
Conley Consulting Group

Subject: City Service Costs for Fiscal Analysis

Conley Consulting Group (CCG) has been asked by the City of Menlo Park to provide peer review of the fiscal impact analyses of two proposed projects in the City. The purpose of this memo is to serve as the foundation for a conversation on the appropriate approach to measuring fiscal cost impacts for these two projects and for other projects in the future.

We understand that over the years there has been some level of public debate on the subject of fiscal review in the City, and that the authors of the two studies have been active parties in this debate.

Fiscal impact analysis is, at its most basic level, a comparison of the new revenues generated by new development with the costs to provide municipal services the new development. The two studies reviewed are:

Study:	Fiscal Impact Study for Proposed Hotel /Office Development atI-280 and Sand Hill Park
Prepared for:	Stanford Management Company
Date:	January 2006
Prepared by:	CBRE Richard Ellis Consulting/Sedway Group

Study:	Fiscal Impact Analysis of Bohannon Properties: Independence and Constitution Sites
Prepared for:	The David Bohannon Organization
Date:	October 2005
Prepared by:	Brion & Associates

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These two fiscal impact studies differ significantly in the methodology used to estimate the costs of municipal services for the new development. CCG reviewed the cost methodologies in these two analyses and the fiscal impact model developed for the City in 2002 by Applied Development Economics, Inc. and Vernazza Wolfe Associates, Inc. The Brion study relied in part on the 2002 Fiscal Model, but made certain assumptions that reduced the projected fiscal costs of the Bohannon development. The CBRE study differed more substantially from the 2002 Fiscal Model, and assumed that there will be no fiscal costs associated with the proposed Stanford development.

The fiscal analysis prepared by the City's consultants in 2002 developed a per employee average cost factor of $227 using the 2001/2002 City Budget and a city employment base of 31,400 jobs. The Brion analysis relies on the 2004/05 budget and the current estimated employment base of 25,180 jobs to develop a modified marginal fiscal cost estimate of $169 per employee.

In addition to the different base years, these two analyses used different methodologies to attribute the costs of providing City government services to residents and workers and to allocate costs between variable and fixed costs.

The Brion analysis assumes a portion of City costs are fixed and will not increase with growth and then allocates the variable portion of municipal costs by Department to residents and workers. The 2002 City model allocates all costs by Department to residents and workers without a reservation of a portion of costs as fixed.

Table 1, on the following page, presents the allocation of the 2004/5 City Budget as presented by Brion and as updated to allocate costs on an average basis.

Based on this review of fiscal cost studies and City data, CCG concludes that $229 per job per year is a conservative estimate of the municipal costs associated with new employment.

TABLE 1
FISCAL ANALYSIS SERVICE COST CALCULATION
MENLO PARK FISCAL ANALYSIS

Expenditures	FY 2004-5 City Budget Expenditures	Less Depart-mental Revenues	Net Dept Cost	% of Costs that are Fixed	Net Variable Costs	Amount Attributable to Employment Uses		Current per Employee Cost Factor
						%	Amount	
FISCAL ANALYSIS IN OCTOBER 2005 BRION ANALYSIS								
Administration Services	7,132,021	$208,022	$6,923,999	50%	$3,462,000	25%	$865,500	$34.37
Community Development	1,957,131	$1,395,500	$561,631	0%	$561,631	25%	$140,408	$5.58
Community Services	5,353,316	$2,850,213	$2,503,103	10%	$2,252,793	25%	$563,198	$22.37
Library	1,669,602	$162,500	$1,507,102	25%	$1,130,327	10%	$113,033	$4.49
Police	9,312,203	$310,222	$9,001,981	15%	$7,651,684	25%	$1,912,921	$75.97
Public Works	3,804,817	$301,500	$3,503,317	25%	$2,627,488	25%	$656,872	$26.09
Total General Fund	**$29,229,090**	**$5,227,957**	**$24,001,133**	**26%**	**$17,685,921**	**24%**	**$4,251,931**	**$168.86**
2005 Employment per ABAG		25,180						
REVISED COST ANALYSIS (1)								
Administration Services	7,132,021	$208,022	$6,923,999	0%	$6,923,999	25%	$1,731,000	$68.75
Community Development	1,957,131	$1,395,500	$561,631	0%	$561,631	25%	$140,408	$5.58
Community Services	5,353,316	$2,850,213	$2,503,103	0%	$2,503,103	25%	$625,776	$24.85
Library	1,669,602	$162,500	$1,507,102	0%	$1,507,102	10%	$150,710	$5.99
Police	9,312,203	$310,222	$9,001,981	0%	$9,001,981	25%	$2,250,495	$89.38
Public Works	3,804,817	$301,500	$3,503,317	0%	$3,503,317	25%	$875,829	$34.78
Total General Fund	**$29,229,090**	**$5,227,957**	**$24,001,133**	**0%**	**$24,001,133**	**24%**	**$5,774,218**	**$229.32**

(1) cost to provide services to employees based on average cost of that portion of services attributed to employees.
Source: Brion 2005, ADE/Vernazza Wolfe 2002, Conley Consulting Group.

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MEMORANDUM

To: Mr. William Phillips, Stanford Management Company

From: Amy Herman and Kimberley Player, CBRE Consulting

Date: April 7, 2006

Subject: Response to Conley Consulting Group (CCG) Peer Review of CBRE Consulting's Fiscal Impact Analysis for the Proposed Sand Hill Road Development

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Following an assessment of Conley Consulting Group's peer review of the Fiscal Impact Analysis for Stanford Management's proposed hotel/office development, CBRE Consulting has addressed what we consider to be the two most significant issues raised by the CCG report, and those which are likely to have the greatest relative impact on the analysis:

1. The potential overstatement of the net tax revenues from the proposed hotel; and
2. The assumption that operating costs for the proposed project would be zero.

The issue regarding the potential overstatement of tax revenue from the proposed hotel stems, according to the CCG report, from a lack of consideration of the impact the new Rosewood hotel would have on existing Menlo Park hotels. CBRE Consulting does not believe that the Rosewood hotel will significantly reduce the City's income from existing hotels, for the following reasons.

Although the CCG report refers to six existing hotels in Menlo Park, it is clear that five of these are not remotely comparable to the proposed Rosewood hotel (see Exhibit A to CCG report). The only genuine question is whether the Rosewood hotel would reduce the City's tax revenues from the Stanford Park Hotel. CBRE believes that any such effect would be unlikely and, if it occurred, minor.

First, the Stanford Park Hotel is a four-star hotel with room rates beginning at $270 (not $295) per weeknight. The proposed Rosewood hotel, on the other hand, is designed to be a very upscale, five-star establishment, with room rates expected to begin at $385 in 2008. The four-star hotel market is different from the five-star hotel market. Thus it is not surprising that the Stanford Park lost significant business to the Westin Hotel in Palo Alto when the Westin opened. The Rosewood hotel, on the other hand, is expected to compete directly with the five-star Four Seasons in East Palo Alto (2006 weeknight rates beginning at $325-$340), as well as with five-star hotels in San Francisco and San Jose. Accordingly, assuming a stagnant hotel market, the Rosewood hotel would be expected to deprive East Palo Alto, San Francisco and San Jose - not Menlo Park - of tax revenue from existing hotels.

Despite the difference between the four-star and five-star hotel markets, it is, of course, possible that the Rosewood hotel could attract a hotel guest from the Stanford Park Hotel who would not be (or has not already been) attracted by the Westin or the Four Seasons. But any such effect would be speculative and non-quantifiable. The CCG report itself, while suggesting that the Rosewood hotel would have an important negative effect on the Stanford Park, makes no effort to quantify that effect. CBRE Consulting, on the other hand, was asked to provide a quantitative analysis.

Second, the CCG approach assumes a zero-sum game, that is, a stagnant hotel market in which the Stanford Park Hotel could not replace any guest it lost to another hotel. CBRE Consulting assumes, however, that the local hotel market will grow over time, similar to the assumptions of Rosewood and other developers of recent hotel projects. There is no reason to assume that the Stanford Park Hotel could not compete in such an environment.

Third, given that the hotel market in Menlo Park and surrounding area is in recovery mode, increasing occupancy rates and rising room rates can be expected to justify new construction within the next several years. For example, a new, upscale hotel is currently being considered for a site in Mountain View. Should the City of Menlo Park elect not to develop a five star hotel, one is likely to locate in nearby Palo Alto or Mountain View. If this occurred, Menlo Park would lose the opportunity to capture a significant amount of net new tax revenue.

CCG has also questioned CBRE Consulting's assumption that the operating costs associated with the Sand Hill Road project would be zero. This assumption is based on the scope of the study and on validation by City officials, including the City of Menlo Park Finance Director. With regards to the Sand Hill Road project, CBRE Consulting's intent was to assess net new costs to the City of Menlo Park General Fund associated with the following service agencies: police, fire, and public works. As fire department services are not funded out of the City of Menlo Park General Fund, this task was dropped from our scope. CBRE Consulting's goal with respect to the cost analysis was to identify net new costs associated with the proposed office/hotel development, as opposed to allocating existing costs as the CCG study attempts to do. While we do not disagree with the cost analysis results of the CCG study, its methodology differs from that which we, Stanford Management, and the City of Menlo Park agreed to utilize in the scope of our fiscal impact analysis. Despite these differences, the CCG study concurs with the CBRE Consulting conclusion that "the proposed Sand Hill Road project would have a net positive fiscal impact on the City of Menlo Park."[1]

The contents of this memorandum are subject to the appended Assumptions and General Limiting Conditions.

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[1] *Ibid, page 2.*

ASSUMPTIONS AND GENERAL LIMITING CONDITIONS

CB Richard Ellis Consulting/Sedway Group has made extensive efforts to confirm the accuracy and timeliness of the information contained in this study. Such information was compiled from a variety of sources, including interviews with government officials, review of City and County documents, and other third parties deemed to be reliable. Although CB Richard Ellis Consulting/Sedway Group believes all information in this study is correct, it does not warrant the accuracy of such information and assumes no responsibility for inaccuracies in the information by third parties. We have no responsibility to update this report for events and circumstances occurring after the date of this report. Further, no guarantee is made as to the possible effect on development of present or future federal, state or local legislation, including any regarding environmental or ecological matters.

The accompanying projections and analyses are based on estimates and assumptions developed in connection with the study. In turn, these assumptions, and their relation to the projections, were developed using currently available economic data and other relevant information. It is the nature of forecasting, however, that some assumptions may not materialize, and unanticipated events and circumstances may occur. Therefore, actual results achieved during the projection period will likely vary from the projections, and some of the variations may be material to the conclusions of the analysis.

Contractual obligations do not include access to or ownership transfer of any electronic data processing files, programs or models completed directly for or as by-products of this research effort, unless explicitly so agreed as part of the contract.

This report may not be used for any purpose other than that for which it is prepared. Neither all nor any part of the contents of this study shall be disseminated to the public through publication advertising media, public relations, news media, sales media, or any other public means of communication without prior written consent and approval of CB Richard Ellis Consulting/Sedway Group.