

**FISCAL IMPACT ANALYSIS
1300 EL CAMINO REAL
MENLO PARK, CALIFORNIA**

Prepared by

MUNDIE & ASSOCIATES
Consultants in Land Use & Economics
3452 Sacramento Street
San Francisco, CA 94118

for
The City of Menlo Park



July, 2009

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CHAPTER 1

DESCRIPTION OF THE PROJECT, PROJECT VARIANTS AND EIR ALTERNATIVE

The Proposed Project would be located on a 3.4-acre site at 1300 El Camino Real. This site, on the east side of El Camino immediately south of Glenwood Avenue, was previously occupied by a Cadillac auto dealership.¹ The location of the project is shown in Figure 1.

The proposed development project would provide 110,065 square feet of nonresidential building space in two structures, along with 422 parking spaces. A two-story building located in the front of the site (adjacent to El Camino Real), would contain 51,365 square feet of retail space on the ground floor, and is intended to accommodate a new supermarket. The second story of this building along with a second building located toward the rear of the site, would contain 58,700 square feet of non-medical office space in a two-story structure.

The project sponsors have defined alternative scenarios for the retail occupants of the Proposed Project. If a grocery store cannot be secured for the entire retail structure, then a different set of uses would be sought:

- In “Variant 1,” the retail space would be occupied by a smaller grocery store (about 15,000 square feet) along with retail stores and restaurants (11,365 square feet) and a health/fitness center (25,000 square feet).
- In “Variant 2,” there would be no grocery store. The retail space would be occupied by retail stores and restaurants (26,365 square feet) and a health/fitness center (25,000 square feet).

With both variants, the office component would remain the same as in the Proposed Project.

For this fiscal analysis, one additional configuration for tenancy of the space intended for a grocery store is considered: the retail space (51,365 square feet) would be completely occupied by retail stores (with no grocery store) and restaurants (there would be no fitness center). This variant, referenced throughout this report as “Proposed Project with Retail,” is evaluated in Appendix D.

This fiscal analysis also considers the fiscal impacts of one of the alternatives evaluated in the environmental impact report: a project that includes multi-family housing along with the retail and office space. In this “EIR Alternative,” the retail uses would occupy 22,895 square feet and the offices would occupy 58,700 square feet of building space. The residential building would contain 36 two-bedroom housing units. The retail space would not include a grocery store or supermarket.

¹ The Cadillac dealership vacated the site in 2005, and the site remains vacant at this time.

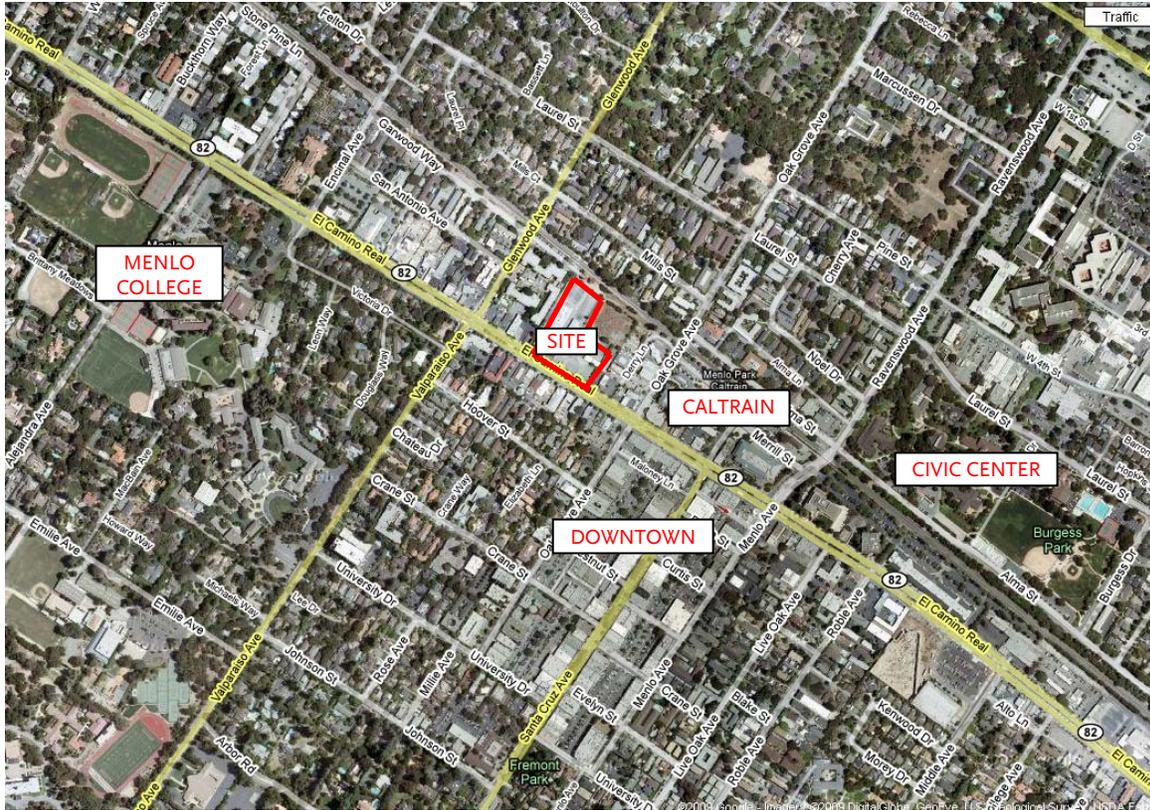


Figure 1

Project Location

The uses in the Proposed Project, Variant 1, Variant 2, and the EIR Alternative are summarized in Table 1. Estimates of employment in the project, variants, and EIR Alternative, and population in the EIR Alternative, are summarized in Table 2.

Table 1
1300 El Camino Real: Uses

	Proposed Project	Variant 1	Variant 2	EIR Alternative
Nonresidential Uses (Sq. Ft. of Building Space)				
Grocery Store/Market	51,365	15,000		
Other Retail/Restaurant		11,365	26,365	22,895
Health/Fitness Center		25,000	25,000	
Non-medical Office	58,700	58,700	58,700	58,700
<i>Total Nonresidential</i>	<i>110,065</i>	<i>110,065</i>	<i>110,065</i>	<i>85,595</i>
Residential Uses				
Sq. Ft. of Building Space				40,445
Units ^a				36
Total Nonresidential + Residential Uses				
Sq. Ft. of Building Space	110,065	110,065	110,065	122,040
Units				36

a All residential units have two bedrooms.

Source: City of Menlo Park, 1300 El Camino Real Project EIR

Table 2
1300 El Camino Real: Employment and Population

	Proposed Project	Variant 1	Variant 2	EIR Alternative
Estimated Employment				
Retail @ 500 sq. ft./job	103	53	53	46
Health/Fitness Center @ 500 sq. ft./job		50	50	
Office @ 300 sq. ft./job	196	196	196	196
Total	299	299	299	242
Estimated Population				
Average household size in Menlo Park				2.43
Estimated project population				87

Source: City of Menlo Park, 1300 El Camino Real Project EIR; Mundie & Associates

CHAPTER 2

BACKGROUND AND ASSUMPTIONS FOR FISCAL ANALYSIS

WHAT IS FISCAL ANALYSIS?

Fiscal analysis is an examination of the revenues, costs, and fiscal balance (revenues minus costs) associated with public agency activities. It provides a reasonable planning-level estimate of fiscal impacts, useful for anticipating whether a new project will pay its own way, generate surplus revenues that can be used by the city to improve services, or generate deficits that will require the city to reduce services or find offsetting sources of funds. These projections are not appropriate for budgeting purposes – that is, estimating actual revenues and costs – because the number of assumptions and estimates that must be made render long-term fiscal predictions uncertain at best. They are nevertheless useful in assessing whether a proposed plan or project is likely to exert pressure on the operating budget of a government agency; in this case, the City of Menlo Park and several special districts that provide services within the city.

This fiscal analysis has the following key characteristics:

- **Focus on one public agency at a time.** Each public agency has its own budget: revenues collected and costs incurred by one agency do not affect those of the others (although the same factors may affect costs and revenues in more than one agency). This analysis would focus on the City of Menlo Park.

The study also addresses fiscal impacts on the following special districts that provide services to the project site:

- Menlo Park Fire Protection District
- California Water District
- West Bay Sanitary District
- Menlo Park Elementary School District
- Sequoia Union High School District

The expected fiscal impact on each of these districts is reported separately.

- **Focus on operating costs and revenues.** Operating costs are the annually-recurring costs of providing public services, such as public safety, public works, recreation, and general city administration. Typically, they cover staff salaries and benefits, office supplies, vehicle operating expenses (fuel, insurance, maintenance), maintenance of City facilities and infrastructure, and smaller items of equipment (those intended to be used for up to three years).

Operating revenues are the funds that are collected on an ongoing or recurring basis; they include taxes, license and permit fees (excluding one-time development-related fees), funds it receives from the state and federal government, and others. These funds are not earmarked for any particular use; instead, they are collected in the General Fund, and the city allocates them as it sees fit to cover the operating costs of public safety, public works, general government, recreation, and other services.

These ongoing/recurring costs of providing services and sources of revenue are the focus of the fiscal analysis.

- **Exclusion of capital costs and revenues.** Capital costs are the one-time costs that are incurred to buy or improve land, buildings, infrastructure, and major pieces of equipment. They are typically covered by development impact fees or major grants from the state and/or federal government. In some cases, a city or other public agency will borrow money (in the form of bonds) to pay for a major improvement, and repay that loan with impact fees, revenues from a service that is related to the improvement, special taxes, property tax increments (in the case of redevelopment projects), or other earmarked sources of funds.

Expenditures made for the infrastructure and other public improvements needed specifically to serve 1300 El Camino Real – e.g., new drainage facilities or modifications of traffic signal operations – will be paid for by the developer, as part of the project. These expenditures are developer costs, not public costs, and consequently are not addressed in this study.

Similarly, impact fees paid by the project developer to pay for new or modified infrastructure that would be needed to accommodate a project are not included in the analysis. These fees are required to be set at a level that would pay for the needed changes; therefore, they generate no net revenue or cost to the public agency.

- **Focus on the General Fund.** The General Fund of a city’s budget receives the greatest portion of revenues that are available for discretionary appropriation, and is used to fund the day-to-day operations of the city. Therefore, fiscal analysis focuses on the revenues that accrue to and the costs incurred by this fund.

Other funds in the city’s budget are “special funds,” which collect revenues that are designated for specific uses – which may be capital costs or operating costs – and distribute the money to pay for those uses. To the extent that other funds are linked directly to the General Fund, however, they are considered in this analysis.

- **Focus on direct costs and revenues.** Fiscal analysis considers the revenue and cost changes that result directly from actions or changes that occur within the city; for example, new property or sales tax revenues that may be generated by new development, or the cost of new demands for police services. It does not consider the indirect impacts, such as impacts on property values of adjacent properties, that may result from a project.

This analysis does, however, consider the potential for shifts in taxable retail spending from existing supermarkets in Menlo Park to the market that is proposed to occupy all or part of the retail space in the project.

PREDICTING FUTURE REVENUES AND COSTS

Methodology

Predicting future revenues and costs requires identifying the existing relationships between revenues and development characteristics (including population and employment) and between costs and development characteristics, and then applying these relationships to

future development characteristics. This process may be summarized as a sequence of four steps, which are described below.

Step 1: Identify Existing Revenue and Cost Relationships

Identifying existing revenue and cost relationships requires examining the effects that particular development characteristics have on specific General Fund revenues and costs. For example, revenue from property taxes may be estimated based on a combination of the value of new development, the tax rate, and the proportion of the tax that is collected by each of the public agencies considered in this analysis (as opposed to the portions that go to the county and other public agencies). Sales taxes may be estimated based on expected spending in new retail space, the sales tax rate, and the proportion of sales tax that is distributed to the city.

To formulate revenue relationships for the City of Menlo Park, Mundie & Associates staff first reviewed the City's operating budget for FY 2008-09 to identify current conditions, and then met with key City staff to discuss how revenues would be likely to change in response to new development. The relationships identified through this process are summarized in Table 3. Assumptions are detailed further in Appendix A.

Two alternative approaches were used to formulate cost relationships for Menlo Park:

- Case study approach (marginal costs): Mundie & Associates staff interviewed key City staff and staff at the other agencies considered in this analysis to discuss how costs would change specifically in response to the project at 1300 El Camino Real. Because the project would be located on an infill site that has been served in the past, few new costs were anticipated. The “marginal costs” – that is, the actual changes in out-of-pocket expenditures – that were estimated by staff or by the methods suggested by staff generally yielded the lower cost estimates shown in this report.
- Average cost approach: Working with the analysts who are evaluating the fiscal impacts of the Independence/Constitution project, Mundie & Associates staff formulated cost estimates based on the current average costs of service delivery. In some cases, these estimates assign a portion of costs to employment-related uses and a portion to residential uses, and then assume that the cost of providing services to the Proposed Project at 1300 El Camino Real will be the same as the current average per job or per resident. This approach generally yielded the higher cost estimates shown in this report.²

These two approaches are summarized in Table 4 (p. 10), with further detail provided in Appendix A.

² The higher cost estimates are used in the “more conservative” sensitivity analysis that is presented in Appendix D. The lower cost estimates are used in the “most likely” case, presented in the main text of this report, and the “less conservative” sensitivity analysis presented in Appendix D.

**Table 3
Assumptions about Revenues^a**

General Fund	Basis for Projection
Property Tax	Anticipated project value; property tax rate (1 percent); City's share of tax in this tax rate area (12.25 percent less ERAF shift; net rate is 10.2 percent). ^b Assessed value is assumed to increase by 2 percent per year (but see text on p. 30 for a discussion of potential differences if residential units in the EIR Alternative are sold as condominiums rather than rented).
Sales Tax	<ul style="list-style-type: none"> ▪ Grocery store (Proposed Project, Variant 1, EIR Alternative): estimated taxable sales of \$161 per square foot, adjusted for estimated spending shifts from existing stores in Menlo Park. Also adjusted for inflation over time. ▪ Other retail (Variants 1 and 2 and EIR Alternative): estimated sales of \$350 per square foot, adjusted for inflation over time. ▪ Health/fitness club (Variants 1 and 2): total taxable sales of \$800,000 per year, based on information about a comparable club in another city (average of the range of estimates provided), adjusted for inflation over time. ▪ Office space (all projects): estimated taxable sales per square foot of \$0 to \$50 per square foot per year, based on information about existing office space in Menlo Park (range of estimates), adjusted for inflation over time.
1/2 Cent Sales Tax/Public Safety	Current average of \$6.35 per resident, adjusted for inflation over time. This revenue source is assumed only for the EIR Alternative.
Property Tax In-Lieu Sales Tax	Current percentage of regular citywide property tax, applied to projected future property tax from the project (and alternatives)
Electric Utility Users Tax	Proportion generated by nonresidential use (estimated at 31.3 percent) vs. residential use (estimated at 68.7 percent); current average (for all sources) of \$27.32 per job and \$12.45 per household, adjusted for inflation over time.
Gas Utility Users Tax	
Water Utility Users Tax	
AT&T Utility Users Tax	
Wireless Svcs Utility Users Tax	
Cable Utility Users Tax	Current average of \$2.62 per household, adjusted for inflation over time.
Garbage Franchise	Proportion generated by nonresidential use (estimated at 31.3 percent) vs. residential use (estimated at 68.7 percent); current average (for all sources) of \$32.28 per job and \$14.71 per household, adjusted for inflation over time. Revenues from the garbage franchise increased by 18 percent on January 1, 2009 and will increase again on January 1, 2010. These increases are incorporated into the projection.
Electric Franchise	
Gas Franchise	
Water Franchise	
Cable TV Franchise	Assume 100 percent generated by residential use; current average of \$11.33 per household, adjusted for inflation over time.
Business Licenses	Current average of \$60.82 per job, adjusted for inflation over time (assumes that business gross receipts increase with inflation)
Motor Vehicle In-Lieu	Assume 100 percent generated by residential use; current average of \$5.70 per capita, adjusted for inflation over time (assumes that vehicle prices increase with inflation).

Table continues on next page

Table 3 (cont'd)

General Fund	Basis for Projection
Traffic Fines – Violations	Current average of \$19.17 per capita for residents + workers (jobs), adjusted for inflation over time.
Traffic Fines- Parking	
Traffic Fines – RLC	
Fingerprint Fees	Current average of \$8.73 per residents and \$4.37 per worker (job) (assumes that average cost per worker is one-half of the cost per resident), adjusted for inflation over time.
Library Book Fines	
Recreation Rental Income	
Swimming Pool- Belle Haven	
Resident Recreation Fees	Current average of \$93.61 per resident, adjusted for inflation over time.
Child Care Fees/Certified	
Child Care Fee/Non-Certified	
Printing - Outside Agency	

- a Revenues per capita are based on 2008 population of 31,490 (from California Department of Finance); revenues per worker (job) are based on 26,816 jobs in 2008 (interpolated from ABAG, *Projections 2007* estimates for 2005 and 2010). Estimates of taxable sales per square foot from Urban Land Institute, *Dollars and Cents of Shopping Centers/The SCORE, 2006*.
- b ERAF, the Educational Revenue Augmentation Fund, shifts a portion of property taxes away from taxing entities other than school districts.

Source: Mundie & Associates, based on interviews with City staff

It is considered unlikely that the actual change in City costs associated with the development of a project 1300 El Camino Real would be equal to either of the estimates shown. These two approaches define a rather wide field within which the realized cost changes are likely to fall. The average cost approach may provide a more comprehensive look at the expenditures that are required to maintain the City's current level of service, complete with reserve capacity, as future development occurs throughout the City. The case study/marginal cost approach, in contrast, may provide a more accurate picture of "must spend" changes that the City would make to provide services to development on the project site.

**Table 4
Assumptions about Costs**

Use (Cost)	Basis for Projection	
	Case Study Approach	Average Cost Approach
Administrative Services	Current average cost of \$232.49 per resident, adjusted for inflation over time.	Current average cost of \$163.06 per resident and \$81.56 per job, adjusted for inflation over time. ^a
Community Development	No additional ongoing costs are expected to result from this project.	Current average net cost of \$2.07 per resident and \$1.04 per job, adjusted for inflation over time. "Net cost" is total cost minus costs covered by permit and service fees. ^a
Community Services	Current average current cost per resident, adjusted for inflation	Assume 74 percent of costs are associated with residents and 26 percent with employment; ^b of the latter, one-half (13 percent of total costs) change with employment. Current average cost of \$85.48 per resident and \$35.27 per job, adjusted for inflation over time.
Library Services	Current average current cost per resident, adjusted for inflation	Same as for Community Services, but assume 50 percent of costs are associated with employment. Current average costs are \$16.49 per resident and \$19.37 per job.
Public Works	Current average cost of \$17,154 per mile of public streets (applied to Garwood Way frontage abutting 1300 El Camino Real)	
Police Services	Estimate by Police Department staff ^c	
Employee Support	Percent of total budget currently allocated to employee support	

^a Assumes that average cost per job is equal to one-half of the average cost per resident.

^b Allocation based on estimated Winter, 2008 enrollment in department programs.

^c Police estimated that the project could require no new personnel (low estimate) or as much as one half-time officer (high estimate). Estimates based on the same methodology as was used for Administrative services yielded cost estimates between these two figures.

Source: Mundie & Associates, based on interviews with City staff

Both the rules that govern municipal finance and the specific revenue and cost relationships in a given city are subject to change over time. When these changes occur, and if they are substantial, it may be useful to repeat Step 1 to provide a clear picture of the implications of those changes for future fiscal conditions.

Step 2: Adjust the Cost and Revenue Relationships to Account for Inflation

Once existing revenue and cost relationships have been defined, adjustment factors are applied where appropriate in order to account for the effects of inflation in future years. Applying an inflation factor to both revenues and costs effectively holds the current value of the relationship constant over time.

Because this analysis involves a projection of future conditions, the actual rate of inflation during the forecast period is not known.

Experience has shown that some revenues are likely to change at rates that are different from the general inflation rate. In recent years, for example, utility rates have risen more rapidly than the general inflation rate (as indicated by the Consumer Price Index, or CPI). At the same time, revenues that rely on local governments' ability to raise existing taxes and fees, or revenues that come from the state government, have not always increased at the general inflation rate.

The assumptions about inflation used in this analysis are summarized in Table 5.

Table 5
Assumptions about Inflation Rates

Revenue or Cost Affected	Average Annual Increase
General (affects sales tax, vehicle license fee)	4%
Assessed value (project is assumed not to be sold)	2%
Utilities (affects utility users tax, franchise fees)	4%
Water	10%
All other utilities	4%
Locally-imposed taxes, fees, and charges (affects business license, user fees)	4%
Fines	4%
City Costs	4% ^a

- a City costs of water are expected to increase at an average rate of 10 percent per year. Because the cost of water in FY 2006-07 (the most recent year for which information is available) comprised approximately 0.5 percent of total General Fund costs in that year, it was considered unnecessary to incorporate this detail in the fiscal analysis.

Source: Mundie & Associates, based on interviews with City staff

Adjusting costs and revenues allows the analysis to take explicit account of revenues and costs that behave differently, by applying different adjustment rates. For example, increases in assessed values of properties not sold are limited by the California constitution (the outcome of Proposition 13, adopted by voters in 1978) to a maximum of two percent per year no matter how much the CPI increases. Because the general inflation rate (as indicated by the consumer price index) is seldom as low as two percent, the "real" value of property taxes – that is, their value in constant dollars, adjusted for inflation – declines over time.

The effects of differential rates of inflation on constant dollar calculations are described in Appendix B.

The current recession has fueled speculation that inflation may be very low, or disappear altogether, for several years into the future. To reflect concerns about lower inflation rates, fiscal results that assume a general inflation rate of two percent or three percent instead of four percent (as assumed in the “base case” analysis) are presented in Appendix D.

Step 3: Articulate Assumptions about the Characteristics of Future Development

The fiscal analysis presented in this report considers development proposed for 1300 El Camino Real. To project the revenue and cost characteristics of this project requires not only that the amount of development be identified, but that some assumptions about other characteristics – such as the value of new development, capture of taxable spending that is new to Menlo Park, and population (in the EIR Alternative) – be articulated, because these characteristics are among the determinants of project revenues and costs. These assumptions are summarized briefly in the next part of this chapter.

Step 4: Project Future Revenues and Costs

The adjusted revenue or cost relationships calculated in Step 2 are applied to the future development characteristics projected in Step 3 to predict the impacts of new development on City revenues and costs.

Reporting the Fiscal Results

This analysis considers a period of 20 years, beginning with project completion. The project is assumed to be completed in the Fiscal Year 2011 (FY 2010-11³).

The 20-year study period was chosen to allow a look at how revenues and costs might change over time after the project is completed. This look permits the effects of differential inflation rates (for costs vs. revenues) to become apparent. Results are reported for three “indicator” years: 2011 (the year of completion), 2021 (10 years after completion), and 2031 (20 years after completion).

The discussion presented in Chapter 3 is considered to be the “most likely case”: it assumes that the change in revenues that results from the Proposed Project is best approximated by the lower estimate of revenues (see the discussion of retail spending, below on pp. 13-14) and that the change in costs is best approximated by the lower estimate of costs (the case study approach; see discussion on p. 7, above). Fiscal results with a more conservative case (low estimate of revenues combined with high estimate of costs) and a less conservative case (high estimate of revenues combined with low estimate of costs) are presented in Appendix D.⁴

³ For Menlo Park, FY 2011 is the 12-month period that begins on July 1, 2010 and ends on June 30, 2011.

⁴ The range between these two outcomes – while informative in providing perspective on the theoretical range of outcomes – was considered too wide to present in the main text of this report, but may provide useful guidance to decisionmakers in identifying the extreme possible outcomes.

ASSUMPTIONS ABOUT THE CHARACTERISTICS OF THE PROJECT

As indicated in the description of Step 3, above, it is necessary to formulate assumptions about the characteristics of new development that affect city revenues and costs. Several of the critical assumptions – e.g., amount and uses of the building space – were presented in Chapter 1. Additional information required for the fiscal analysis includes:

- **Value of the project.** For the calculation of property taxes, it is necessary to estimate the value of the Proposed Project. The project sponsor estimates the cost to develop the Proposed Project at approximately \$45 million. Added to the land value set by the County Assessor, the total assessed value upon completion would be about \$63,360,000⁵. The cost of each variant would be the same as the cost of the Proposed Project. The cost of the EIR Alternative, which would contain residential space in combination with retail and office space, is estimated at \$71,360,000.

These values are used to approximate the assessed value of the project upon completion.⁶

- **Retail spending.** Retail space is included in all of the project alternatives:
 - The Proposed Project would have 51,365 square feet of retail space. This space would be occupied either by a supermarket/grocery store or by other types of retail/restaurant space.⁷
 - Variant 1 would have a smaller market (15,000 square feet) and 11,365 square feet of other retail/restaurant space.
 - Variant 2 would have no market, but would have 26,365 square feet of retail/restaurant space.
 - The EIR Alternative would have no market, but would have 22,895 square feet of retail/restaurant space.

To estimate the potential impacts of the Proposed Project, project variants, and the EIR Alternative on sales tax revenue, the following assumptions were used:

- It is possible that the grocery store (Proposed Project and Variant 1) would attract new spending to Menlo Park, but it is equally likely that all spending at a supermarket or grocery store on the site would be shifted from other stores already located in Menlo Park. To attract new spending, the grocery store would have to address a target market segment whose needs or preferences are not currently

⁵ The current (2008) assessed value of the land is \$17,646,484. The total value of \$63,360,000 assumed here anticipates increases of two percent per year, as allowed, for two years between 2008 and the expected project completion date.

⁶ To establish the assessed value of a property, the County Assessor's office typically considers the replacement cost (for which the development cost cited here is a surrogate), the capitalized value of the income generated by the property, and the sales values of comparable properties. Because only the replacement value (based on expected construction cost) is used here, the actual assessed value could differ.

⁷ In the base case "most likely" analysis, presented in the main text of this report, these two options – supermarket vs. other retail tenants – yield identical fiscal results. For that reason, the "Proposed Project with Retail" option is not presented separately. Appendix D, which presents the results of sensitivity tests in which the two options yield different results, reports both the "With Groceries" and "With Retail" options.

being met in Menlo Park. For example, if a store with extensive name recognition and customer loyalty, and with stores in neighboring or nearby communities, were to locate on the site, shoppers currently making purchases at those nearby stores may shift their patronage to the Menlo Park location. A different store with fewer distinctions from the mainstream could rely more on purchases that shift from other, existing stores in Menlo Park, bringing fewer (or no) net new sales to the city.

To reflect the range of possibilities, a low estimate and a high estimate of grocery spending were formulated:

- The low estimate assumes that none of the grocery store purchases at 1300 El Camino Real are new to Menlo Park. This estimate is consistent with the notion that people who currently shop for groceries in Menlo Park will find that the new store offers some foods/products they prefer to those offered by the stores they currently patronize, and simply shift some of their spending from those stores to the new store at 1300 El Camino Real.
- The high estimate assumes that all of the grocery store purchases are new. This estimate is consistent with an assumption that shoppers who would be attracted to the new store at 1300 El Camino Real currently find no stores in Menlo Park that meet their grocery needs, and do all of their grocery shopping in other cities (e.g., Palo Alto, Los Altos, or Redwood City).

The high estimate of sales taxes from retail sales suggests that if 100 percent of grocery store purchases at the Proposed Project were recaptured from stores outside of Menlo Park, these sales would contribute between \$75,000 and \$80,000 per year in sales tax revenues upon project completion.⁸

An analysis of the potential for supermarket/grocery store purchases at 1300 El Camino Real to be shifted from other, existing stores in Menlo Park is provided in Appendix C. This analysis concludes that spending on food for consumption at home by Menlo Park households alone is unlikely to support additional grocery store space (that is, none of the grocery store purchases at the Proposed Project would be new to Menlo Park), but that spending by households residing in Menlo Park, Atherton, and East Palo Alto could support additional grocery store space.⁹ In the most optimistic case, if Menlo Park were to capture 100 percent of the grocery purchases by households in these three communities, the city could support approximately 60,000 square feet of additional grocery store space.

- It is similarly possible that spending at other retail and restaurant space as well as at the health club in the project variants and the EIR Alternatives could either be

⁸ If the space intended to be occupied by a grocery store is instead occupied by other outlets in which sales are 100 percent taxable (the "Proposed Project with Retail" configuration), the capture of 100 percent net new purchases in Menlo Park would yield about \$170,000 per year in sales taxes upon project completion; Variant 1 would yield about \$60,000; Variant 2 about \$90,000, and the EIR Alternative between \$75,000 and \$80,000.

⁹ Neither Atherton nor East Palo Alto currently has a supermarket-type grocery store, although East Palo Alto does have some convenience stores that would continue to capture some purchases of food for consumption at home. Given the difference in median household incomes between Atherton (estimated by the US Census at \$200,000 per year in 2000) and East Palo Alto (estimated at \$49,000 in 2007 by the Census Bureau's *American Community Survey*), it is considered unlikely that the same store would capture new sales from both communities.

shifted from other, existing outlets in the city or entirely new to the city, depending on the specific tenants who occupy the space. For this reason, low and high estimates for sales in the other retail/restaurant space were also formulated.

- **Retail sales in the other types of nonresidential building space.** Assumptions for the health/fitness club (Variants 1 and 2) and the office space (all project definitions) are based on experience with existing uses in Menlo Park:
 - The project sponsor anticipates that if a health club is included in the project (Variant 1 or 2), the facility would be different from those currently located in Menlo Park. Based on taxable sales at a nearby facility considered to be comparable, the sponsor estimates that a club within the project would contribute sales taxes of about \$7,600 per year.¹⁰ Based on input provided by the project sponsor, it is anticipated that such a health club would be sufficiently different from those currently available in Menlo Park that all of its retail sales would be new to the city.
 - Experience with offices in Menlo Park (all project definitions) indicates a narrow range of taxable sales per square foot. This analysis uses a low estimate of no sales tax revenues and a high estimate of about \$0.50 per square foot (equivalent to taxable retail sales of about \$50 per square foot per year),¹¹ based on observed taxable sales in existing office space in Menlo Park.

Table 6 summarizes the assumptions about taxable retail spending for the different types of retail and non-retail-nonresidential building space in the Proposed Project, project variants, and EIR Alternative.

- **Businesses/employment.** Employment is estimated based on the following “employee density” assumptions:¹²
 - Retail and restaurant space: one job per 500 square feet.
 - Health/fitness center: one job per 500 square feet.
 - Office space: one job per 300 square feet.
- **Population.** The Proposed Project and two variants would have no housing units, and therefore would have no population. The EIR Alternative, with 36 housing units, would have an estimated 87 residents. This estimate of population assumes an average of 2.43 residents per household¹³

¹⁰ The project sponsor estimates that taxable sales – including retail sales, café sales, and spa product sales - would be between \$700,000 and \$900,000 per year. These amounts would yield sales tax revenues for the City of Menlo Park of \$6,650 to \$8,550 per year. The estimate of \$7,600, used in this analysis, is the average of these two figures.

¹¹ The total sales tax, which in Menlo Park is currently 9.25 percent, is distributed as follows: 7.25 percent to the State of California, 1.00 percent to the City of Menlo Park, 0.50 percent to the San Mateo County Transportation Authority, and 0.50 percent to the San Mateo County Transit District. The City’s share of the total proceeds on sales of \$50 per square foot per year is, therefore, \$0.50 per square foot.

¹² These assumptions about employee density are consistent with those used in the 1300 El Camino Real Project EIR.

¹³ 1300 El Camino Real Project EIR, p. 60.

Table 6
Assumptions about Taxable Retail Sales by Type of Nonresidential Building Space

	Taxable Sales
Sales per Square Foot per Year	
Grocery stores ^a	\$161 ^b
Other retail/restaurant ^a	350
Office	
Low Estimate	0
High Estimate	50
Total Sales per Year	
Health/Fitness Center	\$800,000

- a Figure shown is the high estimate described in the text on p.14 (used only in the “less conservative” case reported in Appendix D). The low estimate (assuming all purchases at this location are shifted from other stores in Menlo Park) is \$0.
- b Taxable sales equal about 35 percent of total sales, according to the State Board of Equalization (telephone communication with Mundie & Associates, September, 2008). Total sales would equal about \$460 per square foot.

Sources: Estimates for grocery stores and other retail/restaurant space from Urban Land Institute and International Council of Shopping Centers, *Dollars and Cents of Shopping Centers/The SCORE 2006*; estimates for office space from City of Menlo Park based on selected existing office developments and existing health/ fitness facilities; estimate for health/fitness center from project sponsor, e-mail communication with City staff, June 2, 2009.

CHAPTER 3 FISCAL IMPACTS ON THE CITY OF MENLO PARK

CONTEXT: SOURCES AND USES OF FUNDS

The Fiscal Year

Cities observe fiscal years that may differ from calendar years. In Menlo Park, the fiscal year begins on July 1 of one calendar year and ends on June 30 of the following year. This convention is similar to the practice used by the State of California and most other California cities.

This analysis is based on Fiscal Year 2010-11 (“FY 2010-11”), which begins on July 1, 2010 and ends on June 30, 2011. This is the year in which the project – if approved – is assumed to be completed and occupied.

Cost and revenue estimates are based on FY 2008-09, the current fiscal year, because it is the most recent year for which revenue and cost estimates for the City of Menlo Park are available. These estimates are inflated to FY 2010-11 values using the general inflation rate of four percent assumed in the analysis (see Table 5, p11).¹⁴

Fiscal Year 2008-09: Revenues and Costs¹⁵

The City of Menlo Park budget for FY 2008-09 anticipates that the General Fund will collect revenues of approximately \$37.2 million and spend approximately \$38.2 million to provide services throughout the city. The difference (deficit) is made up by transfers from other funds (approximately \$1.0 million) and the City’s reserve fund.¹⁶

Table 7 summarizes budgeted revenues by general source. The majority of the City’s revenue (59 percent) in FY 2008-09 was expected to come from taxes, with more than one-half of taxes (32 percent of all revenues) coming from property taxes.

Table 8 summarizes budgeted costs by type of service. The greatest proportion of City expenditures (35 percent) are devoted to police protection.

¹⁴ Inflating all revenues and costs at a rate of four percent per year between FY 2009 and FY 2011 understates the increases in both the cost of water to the city and revenues from utility user taxes and utility franchise fees. (Water costs and water-related revenues are expected to increase by 10 percent per year.) The error introduced by this simplification is considered to be too small to affect the analysis.

¹⁵ Revenue and cost figures in this section are drawn from the City of Menlo Park, Budget Report 2008-2009, June 2008.

¹⁶ The City’s Reserve Fund gets its money from annual surpluses, should they occur, in the General Fund and other funds.

Table 7
City of Menlo Park:
Budgeted General Fund Revenues, FY 2008-09, by Source

Source	Includes (Detailed Categories) ^a	Amount	Pct. of Total
Property Taxes	Secured, supplemental, unsecured; prior year; supplemental; redemptions, property transfer tax, homeowner property tax relief	\$11,885,000	32%
Sales Tax	1% allocation, public safety sales tax, property tax in lieu of sales tax	7,220,000	19%
Transient Occupancy Tax	Tax on hotel and motel stays	1,810,000	5%
Utility Users Tax	Taxes from the following utilities: electric, gas, water, AT&T, wireless services, cable TV.	1,075,000	3%
Franchises	Franchise fees from the following utilities: garbage, electricity, gas, water cable TV	1,445,600	4%
Licenses & Permits	Business licenses and business license penalties, building-related permits, parking permits, residential parking permits, other permits	3,927,400	11%
Intergovernmental Revenue	Motor vehicle in-lieu fee, other revenues from state and federal governments	1,803,507	5%
Fines & Forfeitures	Traffic and parking fines	1,033,520	3%
Interest and Rent Income	Interest, gain/loss on sale of investments, rental income, investment advisory service	1,522,455	4%
Charges for Current Services	Fees charged for Police services, Library, Recreation, Child Care, Community Development, Public Works	4,769,693	13%
Other Revenue	Donations, sale of property, transfers from other funds	707,744	2%
Grand Total^b		\$37,199,919	100%

^a Some detailed categories are not fully included in the fiscal analysis; see Appendix A.

^b Detail and total may not agree because of independent rounding.

Source: City of Menlo Park, Budget Report 2008-2009, June 2008

Table 8
City of Menlo Park:
Budgeted General Fund Costs, FY 2008-09, by Use

Use	Budgeted Total	Pct. of Total
Administrative Services	\$7,652,721	20%
Community Development	3,211,097	8%
Community Services	6,725,949	18%
Library	2,081,852	5%
Police	13,363,116	35%
Public Works	5,201,432	14%
Total General Fund	\$38,236,167	100%

Source: City of Menlo Park, Budget Report 2008-2009, June 2008

Revenues Included in This Analysis

As noted on p.5, this analysis considers only those ongoing and recurring revenues collected by the General Fund, and only those ongoing and recurring costs incurred by the General Fund. To assure clarity in this report, therefore, Appendix A details the sources of funds (revenues) in the FY 2008-09 budget and indicates how each of these sources is treated in this fiscal analysis.

The analysis considers all costs incurred by the General Fund, and sorts them into three categories:

- Ongoing and recurring revenues likely to be affected by the Proposed Project or alternatives. These sources, which account for nearly three-quarters (74 percent) of General Fund revenues, are explicitly included in the fiscal analysis.
- One-time revenues – typically incurred to cover the cost of processing for proposed and approved development projects. These revenues account for about six percent of the General Fund. They are assumed to offset the costs of services for which they are collected, and are not estimated specifically in this analysis.¹⁷
- Revenues that are not expected to be affected by the Proposed Project or alternatives. These sources include, for example, transient occupancy taxes, grants from the state and federal governments, and interest on reserves. These revenues comprise about 20 percent of the General Fund

Costs Included in This Analysis

The treatment of costs in the fiscal analysis is also detailed in Appendix A. The analysis considers all costs covered by the General Fund. These costs are also sorted into three categories:

¹⁷ Revenues from impact fees and other exactions intended to cover the costs of capital improvements required for the project are also omitted from this analysis, consistent with the approach outlined in Chapter 2 (p. 6).

- Ongoing and recurring costs likely to be affected by the Proposed Project or alternatives. These costs are explicitly included in the analysis.
- One-time costs that are covered by the collection of one-time revenues; e.g., for processing of proposed and approved development projects. These costs are assumed to be covered by fees, and are not estimated in the study.¹⁸
- Costs that are expected to be unaffected by the Proposed Project or alternatives. These costs include, for example, maintenance of public buildings, facilities, vehicles and equipment; and stormwater management. These costs are excluded from the analysis.

FISCAL IMPACTS OF THE PROPOSED PROJECT

Projected Revenues

Table 9 summarizes the amounts of revenue, by source, expected to be contributed by the Proposed Project in each of the three indicator years. All revenues in Table 9 are shown in constant (FY 2010-11) dollars. (See Appendix B for a discussion of constant dollars.) The revenue estimates are illustrated in Figure 2.

Table 9 shows that the Proposed Project would contribute revenues estimated at about \$96,000 per year upon completion, decreasing to about \$83,000 per year (in constant FY 2010-11 dollars) in FY 2030-31, 20 years after completion. The reason for the decline is the limit on property tax increases: if the property is not sold (as is assumed in this analysis), the increase in property tax revenue is limited to two percent per year. (See Appendix B for a discussion of the effects of differing inflation rates on constant dollars.)¹⁹ Because property taxes would account for a significant portion of the total revenues contributed by this project,²⁰ the impact of the limited increase on this source of revenues is noticeable.

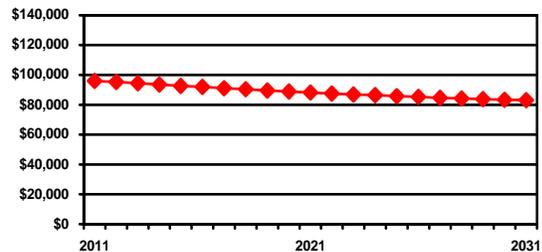


Figure 2
Proposed Project:
Projected Annual Revenues (City)

¹⁸ Consistent with the approach outlined in Chapter 2 (p. 6), the costs of capital improvements required for the project (which are one-time costs and are typically covered by impact fees or other exactions) are also omitted from this analysis.

¹⁹ The estimate of sales taxes is also affected by the limit on property tax increases: part of the sales tax revenue (“property tax in lieu sales tax”) is collected by the State and then allocated back to local jurisdictions based on assessed value (which is subject to the limitation on increases in value imposed by Proposition 13). The limit on this portion of the sales tax results in a decline in total sales tax revenues over time in terms of constant dollars.

²⁰ About 45 percent in FY 2010-11; about 36 percent in FY 2030-31.

Table 9
Proposed Project: Projected Revenues (Net Change from Existing Condition)
City of Menlo Park
Constant (FY 2010-11) Dollars

Source	FY 2010-11	FY 2020-21	FY 2030-31
<i>Annual Revenues</i>			
Property tax	\$44,622	\$36,747	\$30,261
Sales tax ^a	8,070	6,645	5,473
Utility Users Tax	8,169	8,705	9,644
Franchise Fees	9,872	10,935	12,412
Business License Fees	18,186	18,186	18,186
Vehicle License Fees	0	0	0
Other Revenues ^b	7,038	7,038	7,038
Total	\$95,957	\$88,257	\$83,014
<i>Cumulative Revenues</i>	<i>\$96,000</i>	<i>\$1,012,000</i>	<i>\$1,863,000</i>

- a Assumes all taxable retail sales at 1300 El Camino Real are shifted from other locations in Menlo Park. Revenue in this line is from property tax in lieu of sales tax (see description of this source in Appendix A).
- b Other revenues are detailed in Appendix A, p. A4.

Source: Mundie & Associates

Table 9 also summarizes the cumulative revenues projected from the Proposed Project through each of the indicator years. In all, the city could expect to see a cumulative net revenue gain of about \$1.3 million in the first 10 years after project completion, and a cumulative net gain of about \$2.4 million per year 20 years after completion.

Projected Costs

Table 10 summarizes the estimated costs, by type, upon project completion 10 years after completion, and 20 years after completion. The only increases in costs would be associated with (1) the extension of Garwood Way across the rear of the site²¹ and (2) employee support functions, which are calculated as a percent of total costs. Details about the calculation of these costs are provided in Appendix A. Like the revenue estimates shown in Table 9, the costs are shown in constant (FY 2010-11) dollars.

²¹ The 1300 El Camino Real project would be allocated the costs of maintaining the portion of the roadway that abuts the project site.

Table 10
Proposed Project: Projected Costs (Net Change from Existing Condition)
City of Menlo Park
Constant (FY 2010-11) Dollars

Use	FY 2010-11	FY 2020-21	FY 2030-31
<i>Annual Costs</i>			
Administrative Services	\$0	\$0	\$0
Community Development	0	0	0
Community Services	0	0	0
Library	0	0	0
Public Works ^a	1,137	1,137	1,137
Police ^b	0	0	0
Employee Support ^c	27	27	27
Total	\$1,164	\$1,164	\$1,164
<i>Cumulative Costs</i>	<i>\$1,000</i>	<i>\$13,000</i>	<i>\$24,000</i>

- ^a Includes cost of road maintenance on Garwood Way abutting the project site.
- ^b Assumes no new police position.
- ^c Calculated as a percent of the total budget.

Source: Mundie & Associates

Table 10 shows that, once project development is completed, the constant-dollar costs of providing services are expected to remain constant at about \$1,200 per year. (The effects of inflation on these costs are shown in Appendix B.)

Cost increases expected to result from development of the Proposed Project are illustrated in Figure 3.

The projected cumulative cost increase associated with the Proposed Project is also summarized in Table 10. The table indicates that the project could generate total costs for the City about \$24,000 over the 20-year period, based on the annual estimates shown.

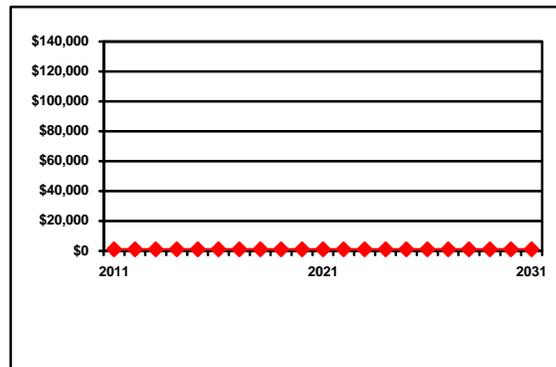


Figure 3
Proposed Project:
Projected Annual Costs (City)

Net Fiscal Balance

Based on the revenue estimates shown in Table 9 and the cost estimates shown in Table 10, the Proposed Project would yield a positive fiscal impact.

Upon completion, the Proposed Project would yield a net surplus of about \$94,800 per year. This surplus would decrease to about \$81,850 per year by the end of the 20-year study period. The decrease is a result of property tax revenues that would not keep up with inflation (and would, therefore, decrease in constant dollar terms) if the property is not sold during that time.

For the 20-year period following project completion, the cumulative net balance would be a surplus of about \$1.8 million.

The projected impacts in the three indicator years are summarized in Table 11 and illustrated in Figure 4.

Table 11
Proposed Project: Projected Net Fiscal Balance (Net Change from Existing Condition)
City of Menlo Park
Constant (FY 2010-11) Dollars

	FY 2010-11	FY 2020-21	FY 2030-31
Annual Revenues and Costs			
Revenues this year (lower estimate) ^a	\$95,957	\$88,257	\$83,014
Costs this year (higher estimate) ^b	1,164	1,164	1,164
Net Balance	\$94,793	\$87,093	\$81,850
Cumulative Revenues and Costs			
Cumulative Revenues (lower estimate) ^a	\$96,000	\$1,012,000	\$1,863,000
Cumulative Costs (higher estimate) ^b	1,000	13,000	24,000
Cumulative Net Balance	\$95,000	\$999,000	\$1,839,000

^a See footnotes to Table 9. Cumulative estimates are rounded to the nearest \$1,000.

^b See footnotes to Table 10. Cumulative estimates are rounded to the nearest \$1,000.

Source: Mundie & Associates

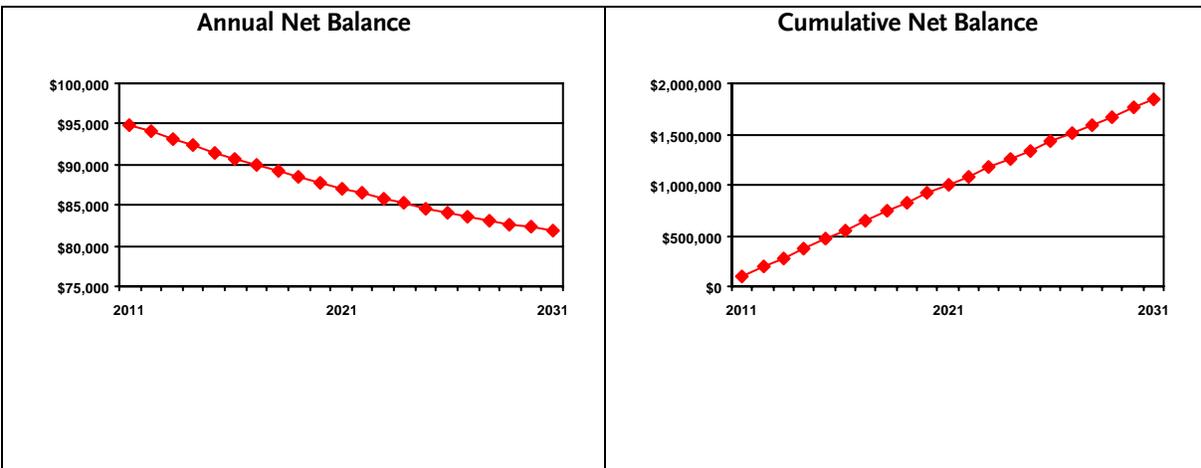


Figure 4 Proposed Project: Net Fiscal Balance (Revenues Minus Costs) (City)

FISCAL IMPACTS OF PROJECT VARIANTS AND ALTERNATIVES

This fiscal analysis considers four alternatives to the Proposed Project. To recap:

- In the Proposed Project with Retail, the supermarket space would be occupied by non-supermarket retail and/or restaurant space.
- In “Variant 1,” the retail space would be occupied by a smaller grocery store (about 15,300 square feet) along with retail stores and restaurants (11,127 square feet) and a health/fitness center (25,277 square feet).
- In “Variant 2,” there would be no grocery store. The retail space would be occupied by retail stores and restaurants (26,266 square feet) and a slightly larger health/fitness center (25,415 square feet).
- In “the EIR Alternative,” the project would have retail space (but no supermarket/grocery store), office space and housing. In this alternative, the nonresidential uses would occupy nearly 82,000 square feet of building space. The residential building would contain 36 two-bedroom housing units.

The process and assumptions for evaluating these alternatives are the same as those for the Proposed Project. The fiscal results differ because of the different mixes of uses that would occupy the building. In particular:

- In a supermarket/grocery store, only 35 percent of total sales are expected to be taxable.²² Therefore, a project with a greater proportion of its retail space devoted to that type of use (e.g., the Proposed Project) would yield less sales tax revenue than a project with other types of retail and restaurant space, if at least some of the purchases made at the site are new to Menlo Park.

²² State Board of Equalization, telephone communication with Mundie & Associates, September, 2008.

- A health/fitness center could have different taxable sales from conventional retail space. The analysis uses an estimate that is based on the recent experience of a facility similar to the one that would be located at 1300 El Camino Real (see Table 6, p. 15).
- Some revenues and costs are assumed to increase with population/housing units but not with employment/nonresidential building space.
 - Revenues in this category include vehicle license fees and some fines and service charges. (Other fines and service charges may increase in relation to population *and* employment.) Revenues from utility user taxes and franchise fees are affected differently by residential development as well.
 - Costs in this category include Administrative Services, Community Services, and Library Services.

Projected Revenues

Table 12 compares the projected revenues for the Proposed Project (from Table 9) to those for Variants 1 and 2 and the EIR Alternative. The table is presented in three sections: the projections for FY 2010-11 (project completion), projections for FY 2020-21 (10 years after completion), and FY 3030-31 (20 years after completion).

The projected revenue trends over time for the Proposed Project, project variants, and EIR Alternative are illustrated in Figure 5.

The figures in Table 12 and illustrations in Figure 5 indicate that the EIR Alternative would generate the greatest revenues, followed by Variants 1 and 2 and then the Proposed Project.²³ The differences between Variants 1 and 2 on the one hand and the Proposed Project on the other are small enough to be considered insignificant. The greater revenues in the EIR Alternative result from the attribution of new sales tax revenues to the residents of the project, vehicle license fees, and some additional revenues from fines and some service charges.

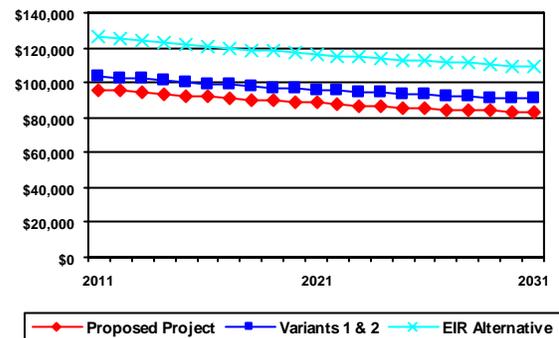


Figure 5
Proposed Project and Alternatives:
Projected Annual Revenues (City)

²³ Because all retail sales are assumed, in this “most likely” case, to be shifted from other locations in Menlo Park, the project would generate no net new taxable sales. Therefore, the results for the Proposed Project with Retail are the same as for the Proposed Project.

Table 12
Proposed Project, Project Variants, and EIR Alternative: Projected Annual Revenues
(Net Change from Existing Condition)
City of Menlo Park
Constant (FY 2010-11) Dollars

Projected Annual Revenues in FY 2010-11 (Upon Completion)

Source	Proposed Project*	Variant 1	Variant 2	EIR Alternative
Property tax	\$44,622	\$44,622	\$44,622	\$52,788
Sales tax ^a	8,070	15,670	15,670	31,674
Utility Users Tax	8,169	8,169	8,169	7,154
Franchise Fees	9,872	9,872	9,872	8,939
Bus. Lic. Fees	18,186	18,186	18,186	14,719
Veh. Lic. Fees	0	0	0	496
Other Revenues ^b	7,038	7,038	7,038	10,049
Total	\$95,957	\$103,557	\$103,557	\$125,819

Projected Annual Revenues in FY 2020-21 (10 Years After Completion)

Source	Proposed Project	Variant 1	Variant 2	EIR Alternative
Property tax	\$36,747	\$36,747	\$36,747	\$43,471
Sales tax ^a	6,645	14,245	14,245	29,989
Utility Users Tax	8,705	8,705	8,705	7,618
Franchise Fees	10,935	10,935	10,935	9,858
Bus. Lic. Fees	18,186	18,186	18,186	14,719
Veh. Lic. Fees	0	0	0	496
Other Revenues ^b	7,038	7,038	7,038	10,049
Total	\$88,257	\$95,857	\$95,857	\$116,200

Projected Annual Revenues in FY 2030-31 (20 Years After Completion)

Source	Proposed Project	Variant 1	Variant 2	EIR Alternative
Property tax	\$30,261	\$30,261	\$30,261	\$35,799
Sales tax ^a	5,473	13,073	13,073	28,602
Utility Users Tax	9,644	9,644	9,644	8,429
Franchise Fees	12,412	12,412	12,412	11,134
Bus. Lic. Fees	18,186	18,186	18,186	14,719
Veh. Lic. Fees	0	0	0	496
Other Revenues ^b	7,038	7,038	7,038	10,049
Total	\$83,014	\$90,614	\$90,614	\$109,228

* Results are the same for the Proposed Project and the Proposed Project with Retail.
a,b See footnotes to Table 9.

Source: Mundie & Associates

Projected Costs

Table 13 compares the projected annual costs that would be incurred by the City of Menlo Park to provide services to the Proposed Project, project variants, and EIR Alternative. In this case, the projected costs are the same in all three indicator years (because all are assumed to increase at the general inflation rate); therefore, the three years are shown together.

Table 13
Proposed Project, Project Variants, and EIR Alternative: Projected Annual Costs
(Net Change from Existing Condition)
City of Menlo Park
Constant (FY 2010-11) Dollars

FY 2010-11, FY 2020-21, and FY 2030-31^a

Use	Proposed Project*	Variant 1	Variant 2	EIR Alternative
Admin. Services	\$0	\$0	\$0	\$35,273
Comm'ty Dev't	0	0	0	0
Comm'ty Svcs	0	0	0	0
Library Svcs	0	0	0	0
Public Works ^b	1,137	1,137	1,137	1,137
Police ^b	0	0	0	0
Employee Support ^b	27	27	27	862
Total	\$1,164	\$1,164	\$1,164	\$37,272

* Results are the same for the Proposed Project and the Proposed Project with Retail.

^a Projected costs are the same in all three indicator years (FY 2010-11, FY 2020-21, and FY 2030-31).

^b See footnotes a, b, and c to Table 10.

Source: Mundie & Associates

The cost projections are illustrated in Figure 6.

Table 13 and Figure 6 indicate that the cost of providing services to the EIR Alternative is projected to be higher than the cost of providing services to the Proposed Project and Variants 1 and 2. The reason for this difference is that certain costs – Administrative Services, Community Development, Community Services, and Library Services – are attributed to residents but not to workers.

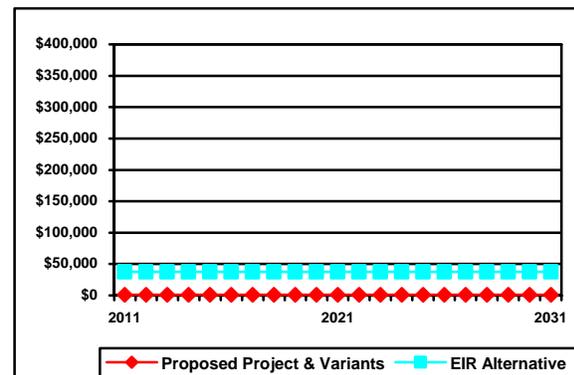


Figure 6
Proposed Project and Alternatives:
Projected Annual Costs (City)

Net Fiscal Balance

All four of the alternatives to the Proposed Project would yield annual surpluses, as shown in Table 14 and Figure 7.

- The projected fiscal impacts of Variants 1 and 2 would be slightly better than those of the Proposed Project.²⁴ The annual surplus would be about \$102,400 upon project completion, and would decline to about \$89,450 after 20 years. The cumulative surplus after 20 years would be about \$2.0 million.

The difference between the results for the Proposed Project and the results for Variants 1 and 2 lies in the estimate of sales tax revenues from the health club that would replace part of the grocery store in these two designs.

- The projected fiscal impacts of the EIR alternative are of the same order of magnitude as those of the Proposed Project. Revenues would be higher, because (1) the construction costs – and, therefore, the assessed value and resulting property taxes – are expected to be higher and (2) new residents are expected to create new taxable sales in the City. Costs would also be higher, because a number of services are expected to be demanded by residents but not employees. The increase in costs for the EIR alternative would be about \$72,000 greater per year by FY 2030-31 than the increase in revenues, yielding a cumulative net fiscal benefit of about \$1.7 million over the 20-year period (compared to \$1.8 million for the Proposed Project and \$2.0 million for Variants 1 and 2).

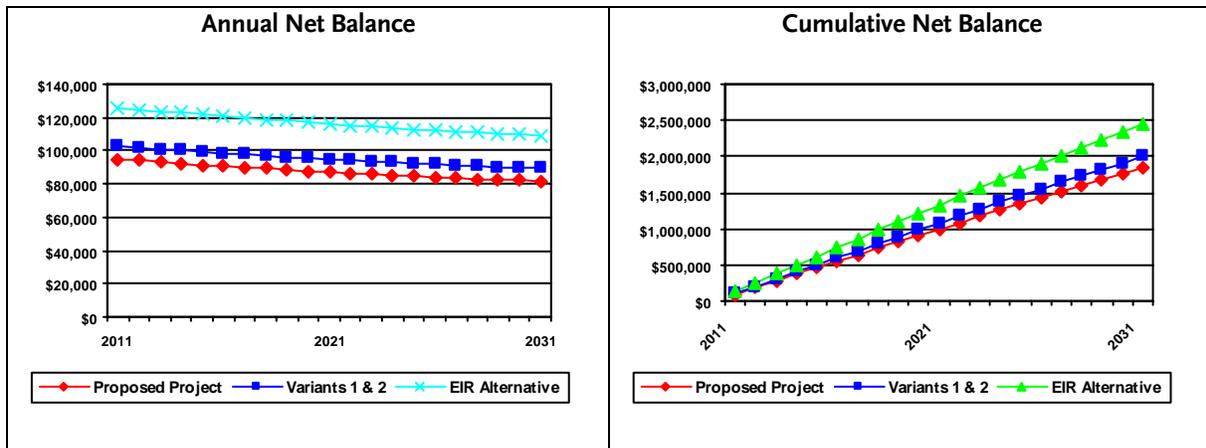


Figure 7
Proposed Project, Project Variants, and EIR Alternative: Net Fiscal Balance (City)

²⁴ The results for the Proposed Project with Retail are the same as the results for the Proposed Project.

Table 14
Proposed Project, Project Variants and EIR Alternative: Projected Net Fiscal Balance
City of Menlo Park
Constant (FY 2010-11) Dollars

FY 2010-11 (Upon Completion)

	Proposed Project*	Variant 1	Variant 2	EIR Alternative
<i>Annual Net Balance</i>				
Revenues this year	\$95,957	\$103,557	\$103,557	\$125,819
Costs this year	1,164	1,164	1,164	37,272
Net Balance	\$94,793	\$102,393	\$102,393	\$88,547
<i>Cumulative Net Balance</i>				
Cum. Revenues	\$96,000	\$104,000	\$104,000	\$126,000
Cum. Costs	1,000	1,000	1,000	37,000
Cum. Net Balance	\$95,000	\$103,000	\$103,000	\$89,000

FY 2020-21 (10 Years After Completion)

	Proposed Project*	Variant 1	Variant 2	EIR Alternative
<i>Annual Net Balance</i>				
Revenues this year	\$88,257	\$95,857	\$95,857	\$120,699
Costs this year	1,164	1,164	1,164	37,272
Net Balance	\$87,093	\$94,693	\$94,693	\$83,427
<i>Cumulative Net Balance</i>				
Cum. Revenues	\$1,012,000	\$1,096,000	\$1,096,000	\$1,355,000
Cum. Costs	13,000	13,000	13,000	410,000
Cum. Net Balance	\$999,000	\$1,083,000	\$1,083,000	\$945,000

FY 2030-31 (20 Years After Completion)

	Proposed Project*	Variant 1	Variant 2	EIR Alternative
<i>Annual Net Balance</i>				
Revenues this year	\$83,014	\$90,614	\$90,614	\$109,228
Costs this year	1,164	1,164	1,164	37,272
Net Balance	\$81,850	\$89,450	\$89,450	\$71,956
<i>Cumulative Net Balance</i>				
Cum. Revenues	\$1,863,000	\$2,023,000	\$2,023,000	\$2,451,000
Cum. Costs	24,000	24,000	24,000	783,000
Cum. Net Balance	\$1,839,000	\$1,999,000	\$1,999,000	\$1,668,000

* The results for the Proposed Project with Retail are the same as the results for the Proposed Project.

Source: Mundie & Associates

The estimates for the EIR Alternative assume that the residential component of the project is not sold during the period of the analysis. If the housing units were to be sold as condominiums, it is reasonable to expect that approximately 10 percent of the units might be sold each year. In that case – and assuming that housing price increases slightly exceed the rate of inflation over the long term – then property taxes from the residential space would keep up with inflation. The net annual balance in FY 2030-31 would be about \$80,200 if the housing is sold and resold periodically (compared to \$72,000 with the assumption that the housing is not sold) The results for the EIR Alternative with and without housing sales are compared in Table 15.

Table 15
EIR Alternative:
Projected Net Fiscal Balance With and Without Sales of Residential Property
City of Menlo Park
Constant (FY 2010-11) Dollars

	FY 2010-11	FY 2020-21	FY 2030-31
Without Housing Sales			
Revenues this year (lower estimate) ^a	\$125,819	\$116,200	\$109,228
Costs this year (lower estimate) ^b	37,272	37,272	37,272
Net Balance	\$88,547	\$78,928	\$71,956
With Housing Sales			
Revenues this year (lower estimate) ^a	\$125,819	\$120,699	\$117,432
Costs this year (lower estimate) ^b	37,272	37,272	37,272
Net Balance	\$88,547	\$83,427	\$80,160

^a See footnotes to Table 9.

^b See footnotes to Table 10.

Source: Mundie & Associates

CONCLUSIONS ABOUT FISCAL IMPACTS ON THE CITY OF MENLO PARK

The fiscal analysis for the Proposed Project presented in this chapter suggests that the impact of the Proposed Project at 1300 El Camino Real on the City of Menlo Park would be positive. This conclusion relies on the following key assumptions:

- Revenues generated by the project will include property taxes in an amount indicated by the project sponsor’s estimated cost of development, net new sales taxes from the health club, and increases in other revenues in amounts typical (per employee or per square foot of space) of existing commercial building space and employment uses in Menlo Park.²⁵

²⁵ New revenues from sales taxes in lieu of property taxes (see Appendix A) are also included in these figures.

- Costs of providing public services for a project of this scale in this location are expected to be minimal, limited to the cost of maintaining the portion of the Garwood Way right-of-way that abuts the property and a small increase in employee support services.

If the project does capture net new taxable sales for the City of Menlo Park, then the net fiscal impact would be more positive than shown in this analysis. For example, if all taxable sales at 1300 El Camino Real were new to Menlo Park, then revenues could be greater by \$70,000 per year with the Proposed Project, \$160,000 with the Proposed Project with Retail, and between \$60,000 (Variant 1) and \$87,000 (Variant 2) per year upon project completion with the alternatives. Revenue estimates that include this assumption are provided in Appendix D.

If, in contrast, the increase in costs is higher than estimated here, the net impact would be less positive. For example, the analysis presented in this chapter assumes that no new police officers would be needed as a result of this project. In the worst case, if 0.5 new position were required, costs would increase by about \$95,000 per year.²⁶ Cost estimates that include this assumption are also provided in Appendix D.

With the Proposed Project:

- **Revenues would increase by about \$96,000 per year upon project completion.** At present, the site is occupied by a vacant building. The site is currently assessed at a value that would pay an estimated \$19,270 in property taxes to the City of Menlo Park.

With the Proposed Project, the site would pay an estimated \$44,600 in property taxes. In addition, the uses on the site could be expected to pay business license fees, and would contribute to franchise fees, utility user fees, and some other city revenues.

As noted above, this analysis assumes that the sales taxes collected from retail sales in the Proposed Project would not represent net increases in revenues: all purchases would be shifted from other locations within Menlo Park.

In constant dollar terms – that is, adjusted for inflation – revenues would decrease gradually over time. The net addition to city revenues by the end of the study period, 20 years after completion of the project, would be in the range of \$83,000 per year.

- **Costs would increase by about \$1,200 per year upon project completion.** As noted above, this estimate includes the cost of maintaining Garwood Way adjacent to the project site. It also includes a small increase in the cost of employee support functions.

In constant dollar terms, costs are expected to remain about the same over the study period.

- **On balance, the Proposed Project would yield a surplus of about \$95,000 per year upon project completion. This surplus is projected to decrease to about \$81,900 per year after 20 years.²⁷**

The cumulative surplus after 20 years would total about \$1.8 million.

²⁶ As noted in Appendix A, this cost estimate “loads” the cost of an officer position with departmental overhead in proportion to the existing ratio. It is likely that the real cost would be slightly lower.

²⁷ Results for the Proposed Project with Retail are the same as for the Proposed Project.

With Variants 1 and 2:

- **Revenues would increase by slightly more than with the Proposed Project.** The difference between the results for the Proposed Project and the results for Variants 1 and 2 lies in the estimate of sales tax revenues from the health club that would replace part of the grocery store in these two designs. The amount of retail space that is occupied by outlets selling a higher proportion of taxable items than would be sold in a grocery store does not affect the results, because this analysis assumes that none of the retail sales on the project site net new sales in Menlo Park.
- **Costs would be the same as with the Proposed Project.**
- **The net fiscal impact would be slightly more advantageous with Variants 1 and 2 than with the Proposed Project.**

Over the 20-year study period, the cumulative surplus with Variants 1 and 2 would be about \$2.0 million, compared to \$1.8 million with the Proposed Project.

With the EIR Alternative:

- **Revenues would increase by more than they would with the Proposed Project.** Property taxes would be slightly higher, because the development cost of this alternative is expected to be greater than the cost of the Proposed Project. Revenues associated with population –vehicle license fees, some fines, and some service fees – would grow with the addition of city residents. Some additional sales tax revenue is also attributed to residents, who would be expected to make purchases in Menlo Park. Net new revenues are projected to total about \$125,800 per year upon project completion, or nearly \$30,000 more than new revenues with the Proposed Project.
- **Costs would also be higher than with the Proposed Project.** The cost of providing public services to residents is estimated to be higher per resident than the cost per employee of providing services to people working in Menlo Park. The increase in City service costs is estimated to be about \$37,300 per year, compared to about \$1,200 per year with the Proposed Project.
- **Overall, the EIR Alternative would be expected to yield a surplus of \$88,500 per year upon project completion.** This annual surplus would decline to about \$80,200 per year in FY 2030-31, 20 years after project completion.

On a cumulative basis, the EIR Alternative would yield a surplus after 20 years of about \$1.7 million, compared to about \$1.8 million for the Proposed Project.

- **The results summarized here for the EIR Alternative assume that the housing units are never resold.** If the units are offered for sale, however (e.g., as condominiums), then it is likely that some resales will occur. In that case, the fiscal impacts of this alternative would be slightly more positive: the cumulative surplus over 20 years would be about \$1.8 million.

These conclusions about fiscal results are based on estimates of revenues and costs assuming that the current rules governing municipal finance remain in effect: that is, sources of revenues, and the bases on which they are generated, remain substantially the same, and the determinants of City service costs remain substantially the same as they are now. If the “fiscal rules of the game” were to change, then the projections and conclusions here would be subject to reconsideration.

CHAPTER 4 FISCAL IMPACTS ON THE MENLO PARK FIRE PROTECTION DISTRICT

ABOUT THE DISTRICT

The Menlo Park Fire Protection District provides fire protection and related services in the cities of Menlo Park, Atherton, and East Palo Alto and some unincorporated areas of San Mateo County. The District operates seven stations, strategically placed throughout the service area. Stations in Menlo Park are Station 6, at 700 Oak Grove Avenue, and Station 1, and 300 Middlefield Road.

SOURCES AND USES OF FUNDS: FY 2008-09

The District's budget for 2008-09 anticipates revenues of about \$30 million. These revenues are derived from taxes (primarily, property taxes), licenses and permits, service charges, interest income, funds from the state and federal governments. Sources of revenues are summarized in Table 16, which shows that the vast majority of District funds (91 percent) come from property taxes.

**Table 16
Menlo Park Fire Protection District:
Budgeted General Fund Revenues, FY 2008-09, by Source**

Source	Amount	Pct. of Total
Taxes	\$27,644,000	91%
Licenses & Permits	484,800	2%
Current Service Charges	26,800	0%
Use of Money & Property	794,800	3%
Intergovernmental	1,402,900	5%
Total	\$30,353,300	100%

Source: Menlo Park Fire Protection District, 2008-2009 Fiscal Year Budget

The District's budget anticipates General Fund expenditures totaling \$29.7 million in 2008-09.

FISCAL IMPACTS OF THE PROPOSED PROJECT, VARIANTS, AND ALTERNATIVES

Projected Revenues

The Proposed Project at 1300 El Camino Real will generate new ongoing revenues for the Menlo Park Fire Protection District in the form of property taxes. The District receives about 16 percent of the basic one percent property levy, reduced to about 14.3 percent by the amount redirected to the Educational Revenue Augmentation Fund (ERAF).

The estimated net increase in annual revenues for the Proposed Project, Variants 1 and 2, and the EIR Alternative are shown in Table 17, and the cumulative increases over the 20-year study period are shown in Table 18. The projections for the Proposed Project and each of the two variants are identical because the value of the project is expected to be the same in all three cases.

Table 17
Proposed Project, Project Variants, and EIR Alternative: Projected Annual Revenues^a
(Net Change from Existing Condition)
Menlo Park Fire Protection District
Constant (FY 2010-11) Dollars

	FY 2010-11	FY 2020-21	FY 2030-31
Proposed Project ^b	\$62,421	\$51,404	\$42,332
Variant 1	62,421	51,404	42,332
Variant 2	62,421	51,404	42,332
EIR Alternative			
Assuming rental units	73,843	60,810	50,078
Assuming condominiums	73,843	67,104	61,554

^a Revenues are from property taxes. The Menlo Park Fire Protection District collects 14.28 percent of the 1 percent general property tax levy (net of ERAF redistribution).

^b Results for the Proposed Project with Retail are the same as for the Proposed Project.

Source: Mundie & Associates

Table 18
Proposed Project, Project Variants, and EIR Alternative: Projected Cumulative Revenues
(Net Change from Existing Condition)
Menlo Park Fire Protection District
Constant (FY 2010-11) Dollars

	FY 2010-11	FY 2020-21	FY 2030-31
Proposed Project*	\$62,000	\$624,000	\$1,087,000
Variant 1	62,000	624,000	1,087,000
Variant 2	62,000	624,000	1,087,000
EIR Alternative			
Assuming rental units	74,000	739,000	1,286,000
Assuming condominiums	74,000	774,000	1,414,000

Note: Cumulative estimates are rounded to the nearest \$1,000.

* Results for the Proposed Project with Retail are the same as for the Proposed Project.

Source: Mundie & Associates

The projections indicate that the Fire District could expect revenues of about \$62,400 per year upon completion of the Proposed Project or either of the two variants, and about \$73,800 per year if the EIR Alternative is selected. Annual revenues would decline over time if the project is not sold, because of the limits on property reassessment.

Over the 20-year study period, cumulative revenues would amount to about \$1.1 million for the Proposed Project and Variants 1 and 2, about \$1.3 million for the EIR Alternative with rental units, or about \$1.4 million for the EIR Alternative with condominiums.

The annual and cumulative revenue trends for the Proposed Project, project variants, and EIR Alternative are illustrated in Figure 8.

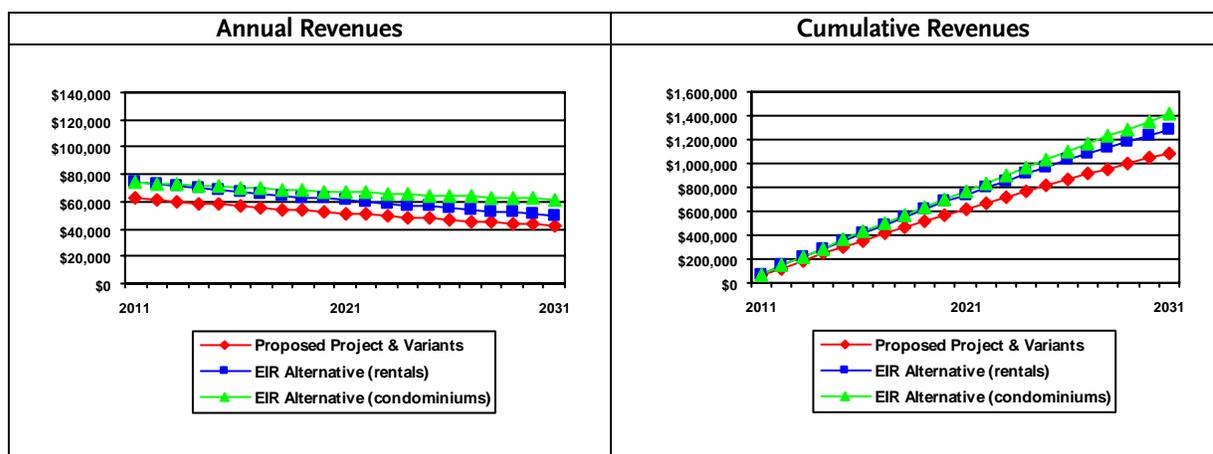


Figure 8
Proposed Project, Project Variants, and EIR Alternative: Projected Revenues (Fire District)

Projected Costs

Fire Protection District staff do not anticipate any increases in operating costs as a result of the Proposed Project or any of the variants/alternatives at 1300 El Camino Real. The site is in an area that is already served (and on a site that was previously and is currently served) by the District from nearby stations. The project would not create the need for any new equipment or personnel.

Net Fiscal Balance

The net fiscal impact of the project at 1300 El Camino Real on the Menlo Park Fire Protection District would be positive. With no added operating costs, this impact would be equal to the net increase in revenue shown in Tables 17 and 18 and Figure 8.

Because the Fire Protection District has only one source of income (property taxes) and only one projection of costs (that is, no new costs), only this single projection of fiscal impacts is presented in this analysis.

CHAPTER 5 FISCAL IMPACTS ON THE WATER AND SANITARY DISTRICTS

The City of Menlo Park relies on the California Water Service Company to provide water to the portion of the city in which the project would be located, and the West Bay Sanitary District to collect and treat wastewater from this area.

Both of these districts are operated as business enterprises. The California Water Service Company requires customers to open accounts, and then bills them for actual water used. The West Bay Sanitary District also requires customers to open accounts, and then bills them for the amount of effluent generated and treated.

Rates are set at a level that covers operating costs.

Staff of both districts anticipate that the revenues collected would cover the cost of operations, and that there would be no adverse fiscal impacts from new development of the scale and type proposed for 1300 El Camino Real. This expectation applies to the Proposed Project and all of the variants/alternatives.²⁸

At the same time, it is possible that the water supply line serving the site, the wastewater collection line, or both would need to be replaced with larger lines to serve this project. The cost of that replacement would be a one-time cost that would be paid by the project developer, and consequently would have no fiscal impact on either district.

²⁸ John Simonetti, West Bay Sanitary District, telephone communication with Mundie & Associates, September 15, 2008; Darin Duncan, California Water Service Company – Bear Gulch District, telephone communication with Mundie & Associates, September 11, 2008

CHAPTER 6

FISCAL IMPACTS ON THE SCHOOL DISTRICTS

The site of the Proposed Project at 1300 El Camino Real lies within the Menlo Park City School District (MPCSD; elementary schools and middle schools) and the Sequoia Union High School District (SUHSD; high schools).

BACKGROUND ON SCHOOL FINANCE

Historically, public schools in California derived most of their operating revenue from local property taxes. Two key events that occurred in the 1970s, however, resulted in important changes in school finance:

- *Serrano v. Priest*, a landmark legal decision affecting school finance, held that spending per pupil could not be based solely on the property tax base of a school district. This ruling was published in 1971.

Following this case, the state acted to reduce inequities in school funding by redistributing a portion of the revenues collected in each district.

- Proposition 13 (Article 13A of the state constitution), adopted by voters in 1978, changed property assessment and taxation in California. The assessed value was set at the fair market value at time of sale; reassessment was permitted only upon sale or major alteration of property (with limited inflation adjustments between sales or major alterations), and the basic property tax levy for all taxing entities was limited to one percent of the assessed value, to be divided among those entities.²⁹

This change effectively reduced the amount of property tax revenue collected by every taxing entity to about one-third of its former level.

To cope with the impacts of *Serrano* and Proposition 13 on school finance, the State of California regulates the amount of money that each district can spend per pupil for operating costs each year. These regulations primarily take the form of subsidies to the local districts from the state, and are dependent on how much money the state has available. State funds are supplemented by property taxes that are shifted from local agencies to the schools via the Educational Revenue Augmentation Fund (ERAF) system.

The state regulations do not, however, reduce the amount of funding per pupil (adjusted for inflation) that was available before the regulations took effect. Nor do they affect funding from revenue sources that are not based on the assessed value of real property.

²⁹ Prior to Proposition 13, reassessment was required no less often than every two years; assessed value was set at 25 percent of fair market value, and the property tax rate was an amalgamation of the rate set by each taxing entity. The total basic levy (excluding additional amounts to pay off general obligation bonds) was typically \$12 to \$13 per \$1,000 of assessed value, equivalent to \$3 to \$3.25 of fair market value.

FUNDING THE MPCSD AND THE SUHSD

The two school districts affected by the Proposed Project receive their funding from a combination of local, state, and federal sources:

- In 2008-09, the Menlo Park City School District anticipates revenues of about \$23.5 million, of which \$18.2 million (61 percent) would come from property taxes and about \$3.8 million (16 percent) from local parcel taxes.

The district receives 17.01 percent of the revenue from the basic one percent property tax levy in the area in which the project site is located.

The amount of the parcel tax in 2008-09 is \$560.68.

- The Sequoia Union High School District anticipates revenues of about \$95.3 million in 2008-09. Of that amount, about \$76.5 million (79 percent) would come from property taxes.

The SUHSD receives 15.91 percent of the revenue from the basic one percent property tax levy in the area in which the project site is located.

To supplement funding from other sources, the district has formed an assessment district to help cover the costs of facilities maintenance. The levy charged to each parcel by this district does not change from year to year, but does vary by land use and location. The maintenance assessment district currently contributes about \$0.9 million per year (about 1 percent of FY 2008-09 revenues). The project site currently pays a levy of \$58.50 per year.

FISCAL IMPACTS ON THE MPCSD

Projected Revenues

The MPCSD will collect revenues from the new development at 1300 El Camino Real in the form of property taxes and parcel taxes.

Tables 19 and 20 show the projected annual and cumulative revenues that would be contributed by the Proposed Project, project variants, and EIR Alternative to the MPCSD. New revenues from the Proposed Project, Variant 1 and Variant 2 would amount to nearly \$74,400 in FY 2010-11, and would decline over time to about \$50,400 in FY 2030-31. In this case, “net revenues” considers only the increase in property taxes.

New revenues from the EIR Alternative would be higher, because this project would have both a greater assessed value and, potentially, a greater number of parcels subject to the parcel tax. The revenue total would be affected by whether the residential units are rented or sold: if rented, it may be assumed that they would be located on a single parcel; if sold, each of the 36 units would occupy a parcel subject to payment of the parcel tax.

Table 19
Proposed Project, Project Variants, and EIR Alternative: Projected Annual Revenues
(Net Change from Existing Condition)
Menlo Park City School District
Constant (FY 2010-11) Dollars

	FY 2010-11	FY 2020-21	FY 2030-31
Proposed Project*	\$74,368	\$61,243	\$50,434
Variant 1	74,368	61,243	50,434
Variant 2	74,368	61,243	50,434
EIR Alternative			
Assuming rental units	87,976	72,449	59,662
Assuming condominiums	109,247	101,218	94,606

* Results for the Proposed Project with Retail are the same as for the Proposed Project.

Source: Mundie & Associates

Table 20
Proposed Project, Project Variants, and EIR Alternative: Projected Cumulative Revenues
(Net Change from Existing Condition)
Menlo Park City School District
Constant (FY 2010-11) Dollars

	FY 2010-11	FY 2020-21	FY 2030-31
Proposed Project*	\$74,000	\$744,000	\$1,295,000
Variant 1	74,000	744,000	1,295,000
Variant 2	74,000	744,000	1,295,000
EIR Alternative			
Assuming rental units	\$88,000	\$880,000	\$1,532,000
Assuming condominiums	\$109,000	\$1,156,000	\$2,131,000

Note: Cumulative estimates are rounded to the nearest \$1,000.

* Results for the Proposed Project with Retail are the same as for the Proposed Project.

Source: Mundie & Associates

With rental units, the EIR alternative would generate about \$88,000 in FY 2010-11, decreasing to about \$59,700 in FY 2030-31. With condominiums, revenues would be about \$109,200 in FY 2010-00, and would decrease to about \$95,600 in FY 2030-31. This revenue projection for condominiums differs from the projection for rental units because it assumes that units are resold periodically and it includes parcel taxes for 36 parcels instead of just one.

Annual and cumulative revenue projections for the Proposed Project, project variants, and EIR Alternative are illustrated in Figure 9.

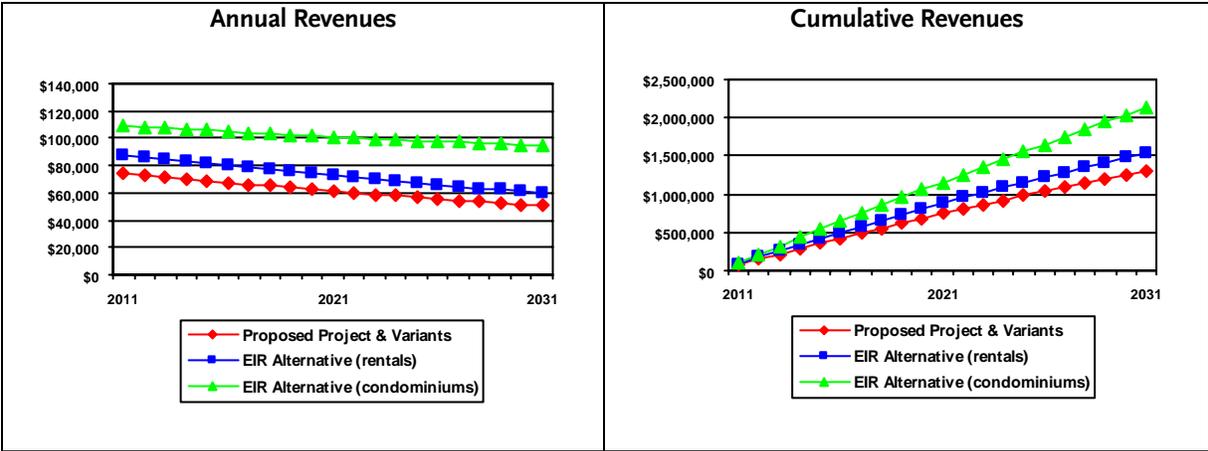


Figure 9
Proposed Project, Project Variants, and EIR Alternative: Projected Revenues (MPCSD)

Projected Costs

The Proposed Project, Variant 1, and Variant 2 would include no residential space, and therefore would house no new MPCSD students. These project concepts would generate no costs for the district.

The EIR alternative, with 36 housing units, would be expected to house about nine students. Current (FY 2008-09) expenditures are estimated at \$11,785 per student.³⁰ Inflating this cost to FY 2010-11 dollars, the total annual cost of the new students is projected to be \$114,720. Assuming that costs increase at the same rate as inflation, this cost would remain constant (in constant dollars) throughout the 20-year study period.

Net Fiscal Balance

The net fiscal balance projected for the Proposed Project, the two variants, and the EIR Alternative summarized in Tables 21 and 22 and illustrated in Figure 10 (p. 45).³¹

³⁰ Information about number of students and cost per student provided by Ken Ranella, Menlo Park Elementary School District, personal communication to Mundie & Associates, September 22, 2008.

³¹ Only one projection of fiscal impacts for each project alternative is presented for the MPCSD because only one approach is used for the forecasts of both revenues and costs.

Table 21
Proposed Project, Project Variants, and EIR Alternative:
Projected Annual Net Fiscal Balance
Menlo Park City School District
Constant (FY 2010-11) Dollars

Projected Annual Net Balance in FY 2010-11 (Upon Completion)

	Proposed Project*	Variant 1	Variant 2	EIR Alternative	
				Rental Units	Condo-miniums
Revenues	\$74,368	\$74,368	\$74,368	\$87,976	\$109,247
Costs	0	0	0	114,720	114,720
Net Balance	\$74,368	\$74,368	\$74,368	-\$26,744	-\$5,473

Projected Annual Net Balance in FY 2020-21 (10 Years After Completion)

	Proposed Project*	Variant 1	Variant 2	EIR Alternative	
				Rental Units	Condo-miniums
Revenues	\$61,243	\$61,243	\$61,243	\$72,449	\$101,218
Costs	0	0	0	114,720	114,720
Net Balance	\$61,243	\$61,243	\$61,243	-\$42,271	-\$13,502

Projected Annual Net Balance in FY 2030-31 (20 Years After Completion)

	Proposed Project*	Variant 1	Variant 2	EIR Alternative	
				Rental Units	Condo-miniums
Revenues	\$50,434	\$50,434	\$50,434	\$59,662	\$94,606
Costs	0	0	0	114,720	114,720
Net Balance	\$50,434	\$50,434	\$50,434	-\$55,058	-\$20,114

* Results for the Proposed Project with Retail are the same as for the Proposed Project.

Source: Mundie & Associates

Table 22
Proposed Project, Project Variants, and EIR Alternative:
Projected Cumulative Net Fiscal Balance
Menlo Park City School District
Constant (FY 2010-11) Dollars

Projected Cumulative Net Balance in FY 2010-11 (Upon Completion)

	Proposed Project*	Variant 1	Variant 2	EIR Alternative	
				Rental Units	Condo-miniums
Revenues	\$74,000	\$74,000	\$74,000	\$88,000	\$109,000
Costs	0	0	0	115,000	115,000
Net Balance	\$74,000	74,000	74,000	-\$27,000	-\$6,000

Projected Cumulative Net Balance in FY 2020-21 (10 Years After Completion)

	Proposed Project*	Variant 1	Variant 2	EIR Alternative	
				Rental Units	Condo-miniums
Revenues	\$744,000	744,000	744,000	\$880,000	\$1,156,000
Costs	0	0	0	1,262,000	1,262,000
Net Balance	\$744,000	\$744,000	\$744,000	-\$382,000	-\$106,000

Projected Cumulative Net Balance in FY 2030-31 (20 Years After Completion)

	Proposed Project*	Variant 1	Variant 2	EIR Alternative	
				Rental Units	Condo-miniums
Revenues	\$1,295,000	1,295,000	1,295,000	\$1,532,000	\$2,131,000
Costs	0	0	0	2,409,000	2,409,000
Net Balance	\$1,295,000	\$1,295,000	\$1,295,000	-\$877,000	-\$278,000

Note: Cumulative estimates are rounded to the nearest \$1,000.

* Results for the Proposed Project with Retail are the same as for the Proposed Project.

Source: Mundie & Associates

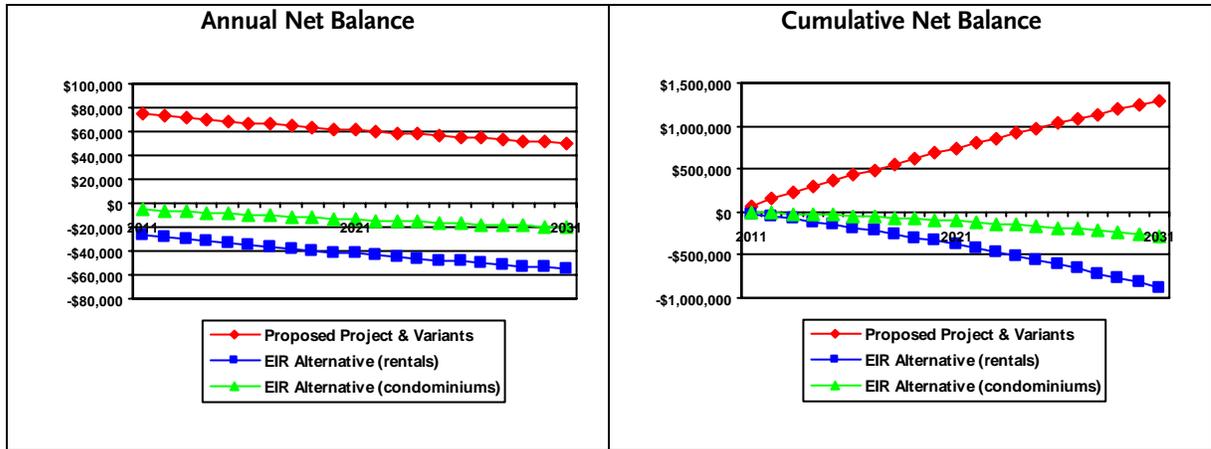


Figure 10
Proposed Project, Project Variants, and EIR Alternative: Net Fiscal Balance (MPCSD)

The figure and tables indicate that, with no new students and no resulting increase in costs, the Proposed Project, and Variants 1 and 2 would generate a net fiscal balance equal to net new revenues. By FY 2030-31, the cumulative net surplus would be about \$1.3 million.

With the EIR Alternative, the net fiscal balance would be negative. If the residential units are offered for rent (as apartments), then the net deficit would be about \$26,700 upon project completion in FY 2010-11, and would increase to about \$55,100 in FY 2030-31. The cumulative net deficit through FY 2030-31 would be about \$877,000.

If the residential units are offered for sale (as condominiums), then the net deficit would be about \$5,500 upon project completion in FY 2011 and would increase to about \$20,100 per year in FY 2030-31. The projected cumulative net deficit at the end of the 20-year study period would be about \$278,000 in that year.

These results emphasize the importance of the parcel tax to fiscal health for the MPCSD:

- The district could expect to be better off financially with no residential units in the 1300 El Camino Real project than with a project that includes housing.
- If the project does include housing, condominiums – which may be sold periodically, and which create a greater number of parcels subject to payment of the parcel tax – would be fiscally less detrimental than apartments.

FISCAL IMPACTS ON THE SUHSD

Projected Revenues

Like the MPCSD, the Sequoia Union High School District will collect property taxes from the new development at 1300 El Camino Real. The SUHSD does not have a parcel tax per se, but does have a maintenance assessment district that collects revenues from all parcels in the school district.

Revenues expected to result from development of the Proposed Project, project variants, and EIR Alternative are summarized in Tables 23 and 24 and illustrated in Figure 11.

Table 23
Proposed Project, Project Variants, and EIR Alternative: Projected Annual Revenues
(Net Change from Existing Condition)
Sequoia Union High School District
Constant (FY 2010-11) Dollars

	FY 2010-11	FY 2020-21	FY 2030-31
Proposed Project*	\$69,559	\$57,282	\$47,172
Variant 1	69,559	57,282	47,172
Variant 2	69,559	57,282	47,172
EIR Alternative			
Assuming rental units	82,708	68,048	55,996
Assuming condominiums	82,708	75,061	68,785

* Results for the Proposed Project with Retail are the same as for the Proposed Project.

Source: Mundie & Associates

Table 24
Proposed Project, Project Variants, and EIR Alternative: Projected Cumulative Revenues
(Net Change from Existing Condition)
Sequoia Union High School District
Constant (FY 2010-11) Dollars

	FY 2010-11	FY 2020-21	FY 2030-31
Proposed Project*	\$70,000	\$696,000	\$1,211,000
Variant 1	70,000	696,000	1,211,000
Variant 2	70,000	696,000	1,211,000
EIR Alternative			
Assuming rental units	83,000	827,000	1,439,000
Assuming condominiums	83,000	866,000	1,582,000

Note: Cumulative estimates are rounded to the nearest \$1,000.

* Results for the Proposed Project with Retail are the same as for the Proposed Project.

Source: Mundie & Associates

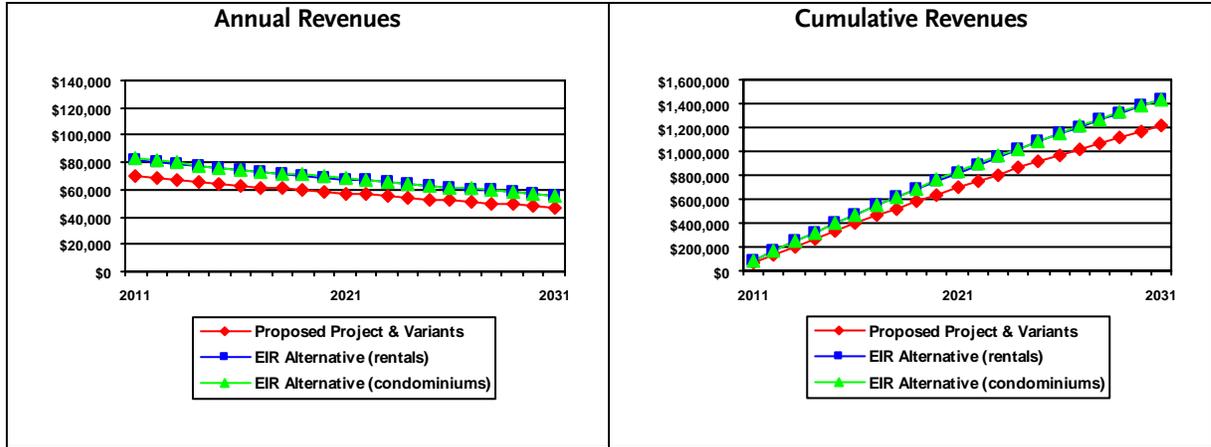


Figure 11
Proposed Project, Project Variants, and EIR Alternative: Projected Revenues (SUHSD)

The tables and figure indicate that revenues would be higher with the EIR Alternative than with the Proposed Project or either of the two variants. They further indicate that for-sale residential units vs. rental units in the EIR Alternative would make a very small positive difference in the amount of revenue generated, and that difference would increase over time.

Overall, revenues with the Proposed Project, and Variants 1 and 2 are projected to amount to about \$69,600 per year upon project completion, decreasing over time to about \$47,200 by FY 2030-31 (in constant dollars) as property taxes do not keep up with inflation. Cumulative revenues over the 20-year period would amount to about \$1.2 million.

With the EIR Alternative, revenues would total about \$82,700 upon project completion, decreasing to about \$56,000 (in constant dollars) after 20 years if the residential units are offered as rentals, and to about \$68,800 per year after 20 years if the units are sold as condominiums. Cumulative revenues would total about \$1.4 million through FY 2030-31 with rental units and \$1.6 million with condominiums.

Projected Costs

Because the Proposed Project, and Variants 1 and 2 would include no residential space, they would house no new SUHSD students. These project concepts would generate no costs for the district.

The 36 housing units in the EIR Alternative would be expected to house about seven students. Current (FY 2008-09) expenditures are estimated at \$10,000 per student.³² Inflating this cost to FY 2010-11 dollars, the total cost of the new students is projected to be \$75,510 per year. Assuming that costs increase at the same rate as inflation, this cost would remain constant (in constant dollars) throughout the 20-year study period.

³² Information about number of students and cost per student provided by Don Gielow, Sequoia Union High School District, personal communication to Mundie & Associates, September 22, 2008.

Net Fiscal Balance

With no increase in the number of pupils or in school district costs, the Proposed Project and Variants 1 and 2 would generate a positive net balance for the SUHSD. These results are summarized in Tables 25 and 26, and illustrated in Figure 12.

The EIR Alternative would also generate a positive net balance in FY 2010-11, but the balance would turn negative by FY 2020-21. Both revenues and costs would be lower for the high school district than for the MPCSD; costs would be lower because (1) there would be fewer high school students and (2) annual expenditures per pupil are lower. The projections for the EIR Alternative are also shown in Tables 25 and 26 and Figure 12.

If the residential units are offered as rentals, then the annual net deficit in FY 2030-31 would be about \$19,716, and the cumulative net deficit would be \$151,000. If the units are offered for sale (as condominiums), then the annual net deficit in FY 2030-31 would be about \$7,000, and the cumulative net deficit would be about \$8,000. (Net surpluses through FY 2019-20 yield a cumulative net surplus of about \$33,000 in FY 2020-21, and the relatively small net deficits beginning in FY 2020-21 would not “use up” this surplus until sometime in FY 2028-29.)

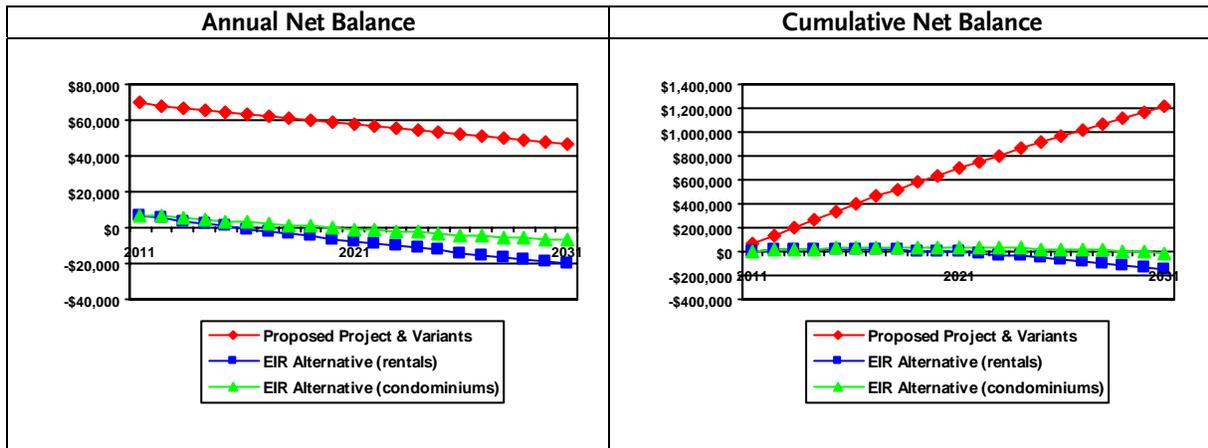


Figure 12
Proposed Project, Project Variants, and EIR Alternatives: Net Fiscal Balance (SUHSD)

Table 25
Proposed Project, Project Variants, and EIR Alternative:
Projected Annual Net Fiscal Balance
Sequoia Union High School District
Constant (FY 2010-11) Dollars

Projected Annual Net Balance in FY 2010-11 (Upon Completion)

	Proposed Project*	Variant 1	Variant 2	EIR Alternative	
				Rental Units	Condo-miniums
Revenues	\$69,559	\$69,559	\$69,559	\$82,287	\$82,708
Costs	0	0	0	75,712	75,712
Net Balance	\$69,559	\$69,559	\$69,559	\$6,575	\$6,996

Projected Annual Net Balance in FY 2020-21 (10 Years After Completion)

	Proposed Project*	Variant 1	Variant 2	EIR Alternative	
				Rental Units	Condo-miniums
Revenues	\$57,282	\$57,282	\$57,282	\$68,048	\$75,061
Costs	0	0	0	75,712	75,712
Net Balance	\$57,282	\$57,282	\$57,282	-\$7,664	-\$651

Projected Annual Net Balance in FY 2030-31 (20 Years After Completion)

	Proposed Project(Variant 1	Variant 2	EIR Alternative	
				Rental Units	Condo-miniums
Revenues	\$47,172	\$47,172	\$47,172	\$55,996	\$68,785
Costs	0	0	0	75,712	75,712
Net Balance	\$47,172	\$47,172	\$47,172	-\$19,716	-\$6,927

* Results for the Proposed Project with Retail are the same as for the Proposed Project.

Source: Mundie & Associates

Table 26
Proposed Project, Project Variants, and EIR Alternative:
Projected Cumulative Net Fiscal Balance
Sequoia Union High School District
Constant (FY 2010-11) Dollars

Projected Cumulative Net Balance in FY 2010-11 (Upon Completion)

	Proposed Project*	Variant 1	Variant 2	EIR Alternative	
				Rental Units	Condo-miniums
Revenues	\$70,000	\$70,000	\$70,000	\$83,000	\$83,000
Costs	0	0	0	76,000	76,000
Net Balance	\$70,000	\$70,000	\$70,000	\$7,000	\$7,000

Projected Cumulative Net Balance in FY 2020-21 (10 Years After Completion)

	Proposed Project*	Variant 1	Variant 2	EIR Alternative	
				Rental Units	Condo-miniums
Revenues	\$696,000	696,000	696,000	\$827,000	\$866,000
Costs	0	0	0	833,000	833,000
Net Balance	\$696,000	696,000	696,000	-\$6,000	\$33,000

Projected Cumulative Net Balance in FY 2030-31 (20 Years After Completion)

	Proposed Project*	Variant 1	Variant 2	EIR Alternative	
				Rental Units	Condo-miniums
Revenues	\$1,211,000	1,211,000	1,211,000	\$1,439,000	\$1,582,000
Costs	0	0	0	1,590,000	1,590,000
Net Balance	\$1,211,000	1,211,000	1,211,000	-\$151,000	-\$8,000

Note: Cumulative estimates are rounded to the nearest \$1,000.

* Results for the Proposed Project with Retail are the same as for the Proposed Project.

Source: Mundie & Associates

The fiscal impact analysis for the Proposed Project presented in this chapter supports a conclusion that the Proposed Project at 1300 El Camino Real or either of the two variants should be expected to be fiscally beneficial for the Sequoia Union High School District throughout the 20-year study period. The EIR alternative would be beneficial upon project completion, but fiscally adverse over the course of the 20-year study period. The adverse impact would be slight if the residential units are sold as condominiums, but more significant if they are offered as rental units.

CONCLUSIONS ABOUT FISCAL IMPACTS ON THE SCHOOL DISTRICTS

With the Proposed Project:³³

- **MPCSD revenues would increase by about \$74,400 per year upon project completion.** This estimate represents the increase in property taxes that would be contributed by the new development.

In constant dollar terms – that is, adjusted for inflation – revenues would decrease gradually over time. The net addition to MPCSD revenues by the end of the study period, 20 years after completion of the project, would be about \$50,500 per year.

SUHSD revenues would increase by about \$69,600 per year upon completion of the project. In constant dollar terms, this increase would decline to about \$47,200 per year by FY 2030-31.

- **The project would include no residential use; therefore, neither school district would expect an increase in enrollment. Operating costs would not be affected.**
- **The Proposed Project is expected to generate net fiscal surpluses for both the MPCSD and the SUHSD.**

For the MPCSD, the cumulative surplus is projected to amount to about \$1.3 million in FY 2030-31.

For the SUHSD, the cumulative surplus after 20 years would total about \$2.1 million.

With Variants 1 and 2, fiscal results would be the same as those for the Proposed Project.

With the EIR Alternative:

- **Revenues would increase by more than they would with the Proposed Project,** because the value of the project would be higher, yielding greater revenues from the property tax.
 - For the MPCSD, if the residential units are offered as rentals, revenues would increase by about \$88,000 upon project completion. This increase would decline (in constant FY 2010-11 dollars) to about \$59,700 in FY 2030-31. If the units are offered as condominiums, then the revenue increase upon project completion would be about \$109,200, declining to about \$94,600 in FY 2030-31. The difference in revenues upon project completion results from the parcel tax revenues that would be paid on a greater number of parcels with for-sale units.
 - For the SUHSD, if the residential units are offered as rentals, revenues would increase by about \$82,700 upon project completion. In constant FY 2010-11 dollars, this increase would decline to about \$68,800 in FY 2030-31. If the units are offered for sale, revenues would increase by about \$82,700 upon project completion, and this increase would decline to about \$68,800 in FY 2030-31.

³³ Results for the Proposed Project with Retail are the same as for the Proposed Project.

- Both districts would expect new students from the project: nine for the MPCSD and seven for the SUHSD. **Costs associated with these new students are estimated at \$114,700 per year for the MPCSD and \$75,700 for the SUHSD.**
- **Overall, the EIR Alternative would be expected to yield a deficit for the MPCSD and a surplus for the SUHSD upon project completion. For the MPCSD, the annual deficit would increase over time; for the SUHSD, the initial annual surplus would disappear by FY 2020-21.**
 - For the MPCSD, the annual deficit would begin in FY 2010-11 at about \$26,700 per year if the residential units are sold as condominiums, and about \$5,500 per year if they are rented as apartments. Revenues from the parcel tax account for the difference in the fiscal outlook between these two cases.

By FY 2030-31, the net fiscal balance is projected to be -\$55,100 if the residential units are rented as apartments, -\$20,100 if they are sold as condominiums.
 - For the SUHSD, the annual surplus would begin at about \$6,600 per year in FY 2010-11 if the residential units are rented and about \$7,000 if they are sold. In either case, the net annual fiscal balance would be negative by FY 2020-21. By FY 2030-31, a project with rental units would generate a net annual deficit of \$19,700 and a project with condominiums a net annual deficit of \$6,900.

The 20-year cumulative net fiscal impact on the MPCSD would be negative; the magnitude of the deficit would depend on whether the residential units are rented or sold.

- If the units are sold (yielding greater parcel tax revenues), the cumulative net deficit is projected to be about \$8,000 in FY 2030-31.
- If the units are rented, then the cumulative deficit would amount to about \$151,000 in FY 2030-31.

CHAPTER 7

COPING WITH REVENUE LOSSES THAT RESULT FROM LAND USE CHANGE

The fiscal results shown in the previous chapters clearly indicate that different land uses generate revenues and costs at different rates. In the case of the proposed 1300 El Camino Real project and the various variants under consideration:

- The Proposed Project would contain a supermarket and office space. Both types of space would contribute property taxes, business license taxes, and revenues related to the use of utilities. The supermarket would generate sales taxes on the estimated 35 percent of items sold that would be taxable.
- Variants 1 and 2 would contain retail space, office space, and a health club. As with the Proposed Project, all space in the project would contribute property taxes, business license taxes, and revenues related to the use of utilities. In both of these variants, the total amount of non-office commercial space would be the same as in the Proposed Project, but the space devoted to sales that are likely to be taxable (in other retail stores and a health/fitness club) would be increased.
- The EIR Alternative would have retail space, office space, and housing. All space would pay property taxes and revenues related to the use of utilities; the nonresidential space would pay business license taxes. The retail space – none of which would be occupied by a supermarket/grocery store – would contribute sales taxes. The residential space would generate several other types of revenues (vehicle license fees, user fees).

In addition, if the residential space were sold (e.g., as condominiums) rather than rented (as apartments), it is likely that individual units would be resold periodically, increasing the property tax contribution and adding a property transfer tax payment with each resale.

None of these project alternatives would generate total revenues of the magnitude generated by the automobile dealership that formerly occupied this site. In fact, a generalized comparison of the revenue generated by different land uses indicates that no other use is likely to make up the revenues that are lost when auto dealers exit a city. New car dealers are likely to generate the greatest revenue per acre, primarily from sales taxes. Newer (more modern) hotels and motels also contribute substantial revenues, primarily from the transient occupancy tax. Retail stores – both big boxes and more conventional stores – also contribute significant amounts of revenue, primarily from sales taxes. Estimated revenues per acre for different types of land uses are compared in Appendix E (Table E1).

The uses that generate the greatest revenues all contribute from sources that have the potential to increase with inflation: sales taxes or transient occupancy taxes.³⁴

³⁴ In Menlo Park, business license taxes on most businesses also have the potential to increase with inflation, because they are based on gross receipts of the business. (A small percentage of businesses – those with no gross receipts – pay based on the number of employees. Businesses with no gross receipts may include, for example, administrative offices and research and development establishments.) Business license taxes are not included in Table E1. Menlo Park caps the business license tax payment, however, so the potential for

In general, therefore, the transformation of land use from automobile dealerships or big box retail stores to offices, Main Street-format retail stores, and other non-retail commercial uses is likely to result in a decline in public sector revenues. While this type of urban evolution has many benefits (for example, it accommodates more jobs, may create more interesting urban forms and improve the pedestrian experience, and may reduce the need for driving trips or the distances of those trips) it may also, over time, have a noticeable impact on a city's fiscal health.

This chapter explores strategies to increase the revenue yielded by office-based uses by identifying a revenue source that would have the potential to increase with inflation.

The exploration that follows first establishes a framework for consideration of such strategies by identifying the sources of revenue currently available to the City of Menlo Park. It then identifies and focuses on those sources that are relevant to office occupancies. Third, it considers which of those sources is subject to adjustment. Finally, it evaluates the potential effectiveness of strategies that could be adopted.

OVERVIEW: SOURCES OF REVENUE

The City of Menlo Park General Fund collects (and this fiscal analysis considers) revenues from seven major categories of sources:

- Taxes: property taxes, sales taxes, transient occupancy taxes, and utility user taxes.
- Franchise Fees (payments to the City by utility companies for the privilege of providing service to City residents and businesses).
- License and Permits: business licenses, parking permits, and permits related to development
- Intergovernmental Revenue: funds received from the state and federal governments, including vehicle license fees, grants, and reimbursements for specific programs.
- Fines from traffic and parking violations.
- Interest and rent: interest on investment of the City's reserves; rent of public facilities.
- Charges for services: recreation and child care fees, some development processing-related fees, library book fines, and other fees charged for direct services.

increase is limited as businesses reach the maximum gross receipts or employees subject to the tax, which is not indexed (indexing mean that the cap increases with inflation).

RELEVANT CHARACTERISTICS OF CITY REVENUE SOURCES

Most of the revenue sources listed above are not directly related to specific sites and land uses, and are not susceptible to adjustment by the local government. Some require voter approval before they may be increased. Table 27 summarizes the relevant characteristics of the various revenue categories.

Table 27
Characteristics of General Fund Revenue Sources

Source	Pertinent Characteristics
Property Tax	Tax rate and assessed value are regulated by the state constitution. Increases in the local tax levy require voter approval.
Property Transfer Tax	Rate in general law cities, such as Menlo Park, is limited by law.
Sales Tax	Local (city) tax rate is limited by law. Increases require voter approval. Office space is not typically a contributor.
Transient Occupancy Tax	Not generated by office space.
Utility Users Tax	Cannot be targeted to specific types of building space. Increases require voter approval.
Franchise Fees	Cannot be targeted to specific types of building space.
Business Licenses	Can be targeted to specific types of building space through targeting of uses. Increases require voter approval.
Other Licenses and Permits	Not generated by office space after it has been built.
Intergovernmental Revenue	Not related to specific types of building space, and not subject to local control. (Includes vehicle license fee.)
Fines	Not related to specific types of building space.
Interest and Rent	Not related to specific types of building space.
Charges for Services	Charges currently in effect are typically not paid by office users; office space does not typically demand city services for which user charges would be appropriate.

Sources: League of California Cities, Municipal Revenue Sources Handbook, 2001 Edition; Institute for Local Government, Understanding the Basics of County and City Revenues; California Local Government Finance Almanac (www.californiacityfinance.org)

The information in the table reveals that few general purpose revenues are both (1) subject to local control and (2) susceptible to targeting for particular land uses. In short, it appears that the business license tax or a similar levy is the only one of these sources that may be a candidate for modification targeted to office space.

CONSIDERING THE BUSINESS LICENSE TAX

Cities in California are permitted to impose business license taxes. According to the League of California Cities' *Municipal Revenue Sources Handbook*:

Business license taxes are most commonly based on a business' overall revenues (a concept known as "gross receipts"). They are also sometimes based on the quantity of goods produced, number of employees, number of vehicles, square footage of space occupied by the business, or a combination of factors.³⁵

The *Handbook* goes on to note that cities set their own rates. In Menlo Park, the business license tax for most businesses is levied on gross receipts, according to the scale shown in Table 28. For businesses that do not have gross receipts in their Menlo Park locations (e.g., some administrative offices, research and development operations, warehouses), the tax may be based on the number of employees at the Menlo Park location.³⁶

In 2008-09, Menlo Park expects to collect about \$1.5 million in business license taxes. This amount would represent about four percent of total revenues (including transfers to the General Fund from other funds).

According to City staff, this amount would be paid by a total of about 3,300 businesses.³⁷ Of those:

- About 740 are home-based businesses. These businesses with gross receipts between \$0 and \$7,500 pay a tax of \$25. Home-based businesses with gross receipts exceeding \$7,500 pay the business license tax at the same rate as businesses in commercial locations.
- About 120 are venture capital management entities; among them, they manage about 900 venture capital funds. Management entities must pay for all funds they manage based either on gross receipts or on employees (whichever calculation yields the higher payment). Each venture fund is considered a "sub-entity" and is subject to an additional payment of \$50 per year.
- About 80 of the city's businesses are classified as administrative offices, and may pay the business license tax based on the number of employees rather than on gross receipts.³⁸ Of these, about half are involved in research and development, and occupy building space in business parks or industrial areas. The remaining half – about 40 businesses – occupy office space.
- The remaining businesses (approximately 2,360) pay the business license tax according to the schedule presented in the "General Business" portion of Table 28; that is, based on annual gross receipts.

³⁵ *Municipal Revenue Sources Handbook, 2001 Edition, p. 27.*

³⁶ Menlo Park also has specific provisions for venture capital groups and multiple entity business structures. Business license taxes on these businesses are generally based on gross receipts.

³⁷ Telephone communication with John McGirr, Menlo Park Finance Department, October 13, 2008.

³⁸ Administrative offices are required to calculate the tax due based on both the number of employees and gross receipts, and to remit the greater amount.

In considering whether a change to the business license tax would be advantageous, it is useful to consider its revenue-producing effects in other cities as well as other factors that could influence the desirability of modifications to the existing structure.

**Table 28
Menlo Park Business License Tax Schedule, 2008:**

General Business

Annual Gross Receipts	Annual License Tax	Average Pct. of Gross Receipts
\$0-\$25,000	\$50	0.40%
\$25,000-50,000	75	0.20%
\$50,000-75,000	100	0.16%
\$75,000-100,000	125	0.14%
\$100,000-200,000	160	0.11%
\$200,000-300,000	200	0.08%
\$300,000-400,000	240	0.07%
\$400,000-500,000	275	0.06%
\$500,000-600,000	310	0.06%
\$600,000-700,000	350	0.05%
\$700,000-800,000	390	0.05%
\$800,000-900,000	425	0.05%
\$900,000-1,000,000	460	0.05%
\$1,000,000-2,000,000	750	0.05%
\$2,000,000-30,000,000	\$250 for each million or portion thereof	

Alternate Calculation Based on Employment*

Employees	Tax
1-5	\$50
6-15	200
16-25	350
26-50	500
51-75	650
76-100	800
101-150	950
151-200	1,100
201+	1,250

* For businesses with no gross receipts and some administrative offices. Administrative offices are required to calculate the tax due based on both the number of employees and gross receipts, and to remit the greater amount.

Business License Taxes in Other Cities

A brief survey of nearby cities reveals a variety of approaches to business license taxes. These survey results are summarized in Table 29 (pp. 59-60).

Appendix E (Tables E1 and E2) provides a comparison of business license tax rates from a different perspective: the taxes that would be paid by firms with given levels of gross receipts (Table E2) or numbers of employees (Table E3), which are the two methods of measurement used in Menlo Park.

Tables 29, E1, and E2 indicate that business license tax rates in Menlo Park are relatively low, especially for firms that pay based on gross receipts: while the city is not the lowest-cost location in terms of business license taxes, it is certainly not the highest-cost location. Based on these comparisons, it appears unlikely that an increase in business license tax liability would create so great a burden that it would make Menlo Park uncompetitive as a business location. It may, therefore, be appropriate for Menlo Park to reconsider its business license tax rates and/or structure.

Considering Changes in the Menlo Park Business License Tax

Two types of changes in the Menlo Park tax might be considered:

- Adjusting the gross receipts-based tax.
- Changing the levy on businesses without gross receipts from a per-employee basis to a payroll basis.³⁹

Adjusting the Gross Receipts-based Tax

The tax rate on gross receipts in Menlo Park is a sliding scale: the smallest businesses pay the highest rates. Table 30 (p. 61) summarizes the rate structure.

Tax rates for the comparison cities are summarized and compared to the rates in Menlo Park in Appendix E (Table E4). This comparison indicates that Menlo Park has the lowest or close to the lowest business license tax rates of the cities included in the survey that use gross receipts as a basis for this revenue source. For this reason, it is considered likely that some amount of increase in the gross receipts tax rate and/or some amount of increase in the maximum tax due would not cause an exodus of businesses from Menlo Park.

Several types of adjustments to the existing tax structure are possible:

- **Change the rate.** At the high end, Menlo Park charges \$250 per million of gross receipts, equivalent to about \$0.25 per \$1,000. Other cities charge between \$0.30 (San Rafael) and \$0.60 (Lodi) per \$1,000. An increase in the rates at the top, and possibly throughout the rate schedule, would generate additional revenue for the city.

Text continues on p. 61

³⁹ This change could also apply to businesses that currently pay the tax based on employment because that calculation yields a higher estimate of tax liability than the estimate based on gross receipts.

Table 29
Business License Tax Levies in Selected Cities
(for Types of Businesses Likely to Occupy Offices)

Flat Rate Levies

City	Amount
Palo Alto	\$0
Mountain View	\$30
Burlingame	\$100

Levies based on Gross Receipts

City	Minimum	Gross Receipts Needed To Pay Tax of \$8,000 ^a	Maximum
Oakland: Professional/semi-professional:	\$60	\$2,222,222	None
Oakland: Business/personal services	\$60	\$4,444,444	None
Newark: Professions	None	\$6,163,846	None
Oakland: Media firms	\$60	\$6,666,667	None
East Palo Alto: Professions	\$50	\$7,500,000	None
Lodi	\$50	\$13,333,333	None
Sacramento: "Other office-based firms"	\$30	\$19,935,000	None
San Rafael: Professional and semi-professional services,	\$80	\$25,000,000	None
Menlo Park: General Business	\$50	\$30,000,000	\$8,000
Stockton	\$24	\$39,980,000	None

Levies based on Payroll

City	Minimum	Payroll Needed To Pay Tax of \$1,250 ^b	Maximum
San Francisco: Business registration fee	\$25	not applicable	\$500
San Francisco: payroll tax	None	None: No payment if tax would be less than \$2,500	None
Newark: Administrative offices	None	\$6,250,000	None
Oakland: Administrative Headquarters	None	\$1,041,667	None

Table 29 (cont'd)

Levies based on Number of Employees

City	Minimum	Employees Needed To Pay Tax of \$1,250	Maximum
Campbell	\$15 ^c	not applicable	\$102 (11+ employees)
Santa Clara	\$15	not applicable	\$500 (401+ employees)
South San Francisco: Professional/semi-professional	\$150	9 (partners, members, associates only; excludes clerical, aides, nurses, etc.)	None
Sacramento: Licensed professionals in the firm	\$75 ^d	Professionals licensed up to 3 years: 17 ^e Professionals licensed more than 7 years: 5 ^e	\$5,000
Redwood City	\$37	30	\$3,030 (125+ employees)
San Carlos	\$75	33	\$1,806 (48+ employees)
East Palo Alto: Administrative offices:	\$250	51-75	\$2,000 (151+ employees)
San Jose	\$150	70	\$25,000 (1,389+ employees)
Sunnyvale	\$30	121-125	\$9,500 (946+ employees)
Menlo Park	\$50	201+	\$1,250
South San Francisco: Business/personal services	\$80	236	None beginning in 2009
Milpitas	\$35	1,176	None

Levies with Other Bases

City	Basis	Minimum	Cost Needed To Pay Tax of \$1,250	Maximum
San Rafael: Administrative offices without gross receipts:	cost of operations in San Rafael	\$80	\$4,200,000	None
Cupertino	Occupied building space (85% of total)	\$110	46,577 sq. ft.	None

- ^a Maximum payment for Menlo Park businesses that pay business license tax based on gross receipts.
- ^b Maximum payment for Menlo Park businesses that pay business license tax based on number of employees.
- ^c Amount shown is for renewals; new businesses pay \$25.
- ^d Amount shown is for professionals who have been licensed up to three years. Minimum for professionals licensed for three to seven years is \$150; minimum for professionals licensed more than seven years is \$300.
- ^e Tax is \$30 for each professional who is licensed but not a member, partner, or associate. Non-licensed staff (clerical, aides, nurses) are not subject to taxes.

Source: Mundie & Associates

**Table 30
Gross Receipts Tax Rates in Menlo Park**

Annual Gross Receipts		Annual License Tax	Tax rate per \$1,000*		
Over:	At or Below:		At Low End of Range	At Midpoint of Range	At High End of Range
\$0	\$25,000	\$50	see note a	\$4.00	\$2.00
25,000	50,000	75	\$3.00	2.00	1.50
50,000	75,000	100	2.00	1.60	1.33
75,000	100,000	125	1.67	1.43	1.25
100,000	200,000	160	1.60	1.07	0.80
200,000	300,000	200	1.00	0.80	0.67
300,000	400,000	240	0.80	0.69	0.60
400,000	500,000	275	0.69	0.61	0.55
500,000	600,000	310	0.62	0.56	0.52
600,000	700,000	350	0.58	0.54	0.50
700,000	800,000	390	0.56	0.52	0.49
800,000	900,000	425	0.53	0.50	0.47
900,000	1,000,000	460	0.51	0.48	0.46
1,000,000	2,000,000	750	0.75	0.50	0.38
2,000,000	30,000,000	see note b	0.25	0.25	0.25

* For example, a firm with annual gross receipts of \$25,000 pays an annual fee of \$50, which is equal to \$2.00 per \$1,000 of gross receipts. A firm with annual gross receipts of \$1.5 million pays \$750, which is equal to \$0.50 per \$1,000 of gross receipts.

a Not calculable. Rate for a business with gross receipts of \$1,000 is \$50 per \$1,000.

b Rate is \$250 per million or portion thereof, to a maximum of \$8,000.

Source: City of Menlo Park

- **Change the maximum payment.** Menlo Park limits the maximum business license payment based on gross receipts to \$8,000 per year. None of the other cities surveyed has a maximum payment for the gross receipts-based tax.
- **Change the basis of the tax.** Menlo Park could change all of its business license payments – including both those based on gross receipts and those based on number of employees – to a common basis, such as payroll (as used in San Francisco) or the cost of doing business in the city (used in San Rafael for administrative offices). The “cost of doing business” would be defined as payroll plus rent, utilities, and other operating costs.

Changing the Basis

How would a business license tax based on payroll or cost of doing business be established? A detailed study would likely be required, but some clues may be gathered from the other cities surveyed for this study.

- In Oakland, which charges a payroll-based tax for administrative offices and gross receipts-based taxes for other office-based businesses, the payroll tax rate of \$1.20 per \$1,000 is equal to the gross receipts levy rate on media firms, about two-thirds of the

levy rate on business and personal service businesses, and one-half of the levy rate on professional and semi-professional firms.

- In Newark, which charges a payroll-based tax for administrative offices and gross receipts-based taxes for other office-based businesses, the payroll tax rate of \$0.20 per \$1,000 is about 15 percent (between one-seventh and one-eighth) of the gross receipts levy rate on other office-based businesses.
- In San Rafael, which charges administrative offices a business license tax based on the cost of doing business in the city, the charges are roughly similar to those for gross receipts (see Appendix E, Table E7).

Sample calculations showing the potential revenue yield of a payroll-based tax, assuming no cap on the tax paid by a single firm, are shown in Table 31.

Table 31
Yield of a Payroll-based Business License Tax
on Firms Occupying 100,000 Square Feet of Office Space

Building Space per Employee	Total Employees	Current Payroll Tax ^a	Average Payroll per Employee	Total Payroll	Business License Tax if Tax Rate per \$1,000 of Payroll is:		
					\$0.20 ^b	\$0.50 ^c	\$1.20 ^d
300 sq. ft.	330	\$1,250	\$20,000	\$6,600,000	\$1,320	\$3,300	\$7,920
			50,000	16,500,000	3,300	8,250	19,800
			100,000	33,000,000	6,600	16,500	39,600
250 sq. ft.	400	\$1,250	20,000	8,000,000	1,600	4,000	9,600
			50,000	20,000,000	4,000	10,000	24,000
			100,000	40,000,000	8,000	20,000	48,000

a Maximum for businesses that pay based on the number of employees is \$1,250.

b Current rate in Newark.

c Current rate in

Source: Mundie & Associates

The figures in Table 31 indicate that even at the lowest rate (\$0.20 per \$1,000, as charged in Newark), a payroll-based business license tax on business operations that do not have gross receipts at their Menlo Park address would yield greater revenues than the current maximum limit on the employee-based tax.

OTHER CONSIDERATIONS

Effects and Effectiveness of a Change in the Gross Receipts Tax

Two primary questions may arise in response to the suggestion of a change in the gross receipts tax: (1) would it deter businesses from locating in (or remaining in) Menlo Park? and (2) how much money would it raise?

The information provided in Tables 31, D2, D3, and D4 indicates that the levy rate and structure in Menlo Park is among the less burdensome of those in the cities surveyed. Several cities – notably, Palo Alto, Mountain View, and Burlingame – have either no levy or a flat rate levy that is likely to be less than the amount charged in Menlo Park. Among the other cities considered, Menlo Park has the lowest levy rates (that is, the charge per \$1,000 of gross receipts; see Table E4) and a payment structure that yields license taxes in the lower half of the range for all cities.

Based on these observations, it is considered unlikely that increases in the business license tax based on gross receipts would deter businesses from locating in Menlo Park. This conclusion could be confirmed through a survey of businesses in Menlo Park and other communities, directed at finding out whether the business license tax rate affected their location decisions.

An estimate of how much money might be raised would depend on (1) how much money is raised through this source now (i.e., how much of the \$1.5 million in business license taxes is generated by businesses paying based on gross receipts) and (2) how much of an increase might be adopted. No attempt at answering this question has been made as a part of this study. To provide a careful estimate would require, at a minimum, information about the number of firms currently in each payment bracket.

It is, however, reasonable to think that Menlo Park could adjust the tax schedule by increasing the levy rate at the top bracket. The other cities included in Table E4 charge between \$0.30 and \$0.60 per \$1,000 of gross receipts in their top brackets (compared to Menlo Park's average charge of \$0.25 per \$1,000⁴⁰), and none of those cities sets a maximum business license tax payment (see Table 31). Both of these characteristics suggest that there is room for Menlo Park to adjust its gross receipts tax system without discouraging business activity.

As noted above, it would also be possible to change the business license tax on general business from a gross receipts basis to a payroll basis. This approach is currently used in San Francisco for all businesses, and in Oakland and Newark for administrative offices. An advantage of the payroll-based tax over a gross receipts-based tax is that it more easily audited. This shift in the basis for the tax would be likely to generate increases over time with no need for legislative adjustment in the rate structure.

Effects and Effectiveness of a Change in the Basis for a Tax Based on Employment

As noted earlier, only a handful – about 1.2 percent – of Menlo Park businesses pay their business license tax based on the number of employees. Any change in the rate structure or basis for the tax would not, therefore, be expected to yield a major increase in city revenues.

Changing the basis of the business license tax on these businesses from the number of employees to the payroll or the cost of doing business in Menlo Park would provide a

⁴⁰ The City charges \$250 per \$1 million or portion thereof.

mechanism for the revenue generated by this tax to increase over time. Increases would be expected generally to reflect the rate of inflation.

As with a possible change in the application of the gross receipts tax, the questions about a change from number of employees to payroll or cost of business for the levy on those businesses that currently pay the tax on this basis would focus on (1) would it deter businesses from locating in (or remaining in) Menlo Park? and (2) how much money would it raise? These questions would be even harder to answer for this change than for a change in the gross receipts tax structure: to answer them would require information not only about how many businesses currently pay the tax on this basis, but also information about their payrolls and costs of doing business. These types of information are unlikely to be available from the city: to obtain them would require an extensive survey of Menlo Park businesses.

In the end, however, a change from an employee-based tax to a payroll-based tax would allow the revenue from businesses occupying office space to increase over time, generally at the same rate as inflation.

Other Factors

Beyond the question of whether a change in the business license tax would be effective in replacing the revenue formerly collected from sales taxes, several other issues would influence the attractiveness of a potential change in the current tax structure:

- Any increase in the business license tax rate would require approval by the City's voters. Prior to polling or other survey research to ascertain how the electorate may feel about an increase in this tax, it is not possible to know whether a change would be viewed favorably.
- Any change in the tax or review of its structure could prompt new legal scrutiny of the fee structure. Challenges to business license taxes during the 1990s and earlier part of this decade focused on the apportionment of the tax between business conducted inside and outside the taxing jurisdiction. Some of these questions also touched on the possibility that businesses with operations in multiple locations could be subject to liability for payroll tax in one jurisdiction and for gross receipts tax in another (in effect, double taxation).⁴¹

Questions have also arisen about the legality of a payroll-based tax. According to one source, "typical local business tax schemes include flat rate taxes or a tax based on the businesses' gross receipts, payroll, number of employees or a combination thereof. They may not, however, be levied on a taxpayer's income."⁴² This presentation of the issue would seem to indicate a distinction between a taxpayer's income on the one hand and payroll-based taxes on the other, suggesting that the payroll-based tax currently in use in other jurisdictions is acceptable.

⁴¹ This discussion draws on Morrison & Foerster, "Another California Local Tax Struck Down as Unconstitutional," April 2003 (on line at <http://www.mofo.com/news/updates/bulletins/bulletin975.html>), which focuses on a case involving the City of Modesto.

⁴² Ibid., citing California Revenue and Tax Code Section 17041.5.

OTHER POSSIBLE SOURCES OF REVENUE

The fiscal impact analysis of the proposed development on the Independence and Constitution sites identifies several other sources of revenue as possibilities for generating revenue benefits from non-retail commercial development, such as office and fitness uses. These sources include:

- Impact fees, typically charged to offset the impact of new development on municipal infrastructure.

These fees are not explored in this report as a means of offsetting lost sales tax revenue because (1) their legality to cover ongoing operating costs has not been established and (2) the amount of a fee needed effectively to establish an endowment that would cover ongoing costs in perpetuity would be so large as to have the likely effect of discouraging future development.

- One-time fees agreed upon by the City and the developer, implemented as part of a development agreement.

One-time fees that are not impact fees would also have to be quite large to cover operating costs in perpetuity. They would similarly have the likely effect of discouraging future development.

- Convince contractors on major construction jobs (contract amounts of \$5 million or more) to secure subpermits from the State Board of Equalization that would establish Menlo Park as the point of sale for their contracts.

The taxes collected on construction contracts go to the County pool. Menlo Park typically gets only a small allocation of the county pool of sales and use taxes, which are distributed based on the amount of local sales taxes generated by each city.

Construction contractors may elect to allocate the local sales and use tax derived from construction contracts of \$5 million or more to the local jurisdiction where the jobsite is located. This is accomplished by obtaining a sub-permit of their seller's permit for a specific jobsite and allocating the local tax to that jobsite on Schedule C of their sales and use tax return. This qualifying contract price applies to each contract or subcontract for work performed at the jobsite, and not to the total value of the prime contract. (Thus, for example, each contract on the 1300 El Camino Real project, but not the estimated \$45 million total construction cost, would be subject to the subpermit request. Subcontracts worth less than \$5 million would not be affected.)

This option would not only provide the City with 100 percent of the local tax on materials consumed and fixtures furnished by the contractor of the project directly, it would increase the proportion of the county pool allocation of sales and use taxes for the period of construction.

For example, if as much as one-half of the estimated construction cost of \$45 million were delivered in contracts of \$5 million or more and each of the participating contractors could be convinced by the City to participate in this program, the City could receive more than \$200,000 in direct sales tax revenues from the project, plus an increase in revenues distributed by the County. These revenues would be one-time funds (on the construction of the project).

Although the City cannot require contractors and subcontractors to obtain these sub-permits, it may identify strategies that are effective in convincing them to participate in the program. Such strategies may include, for example, arrangements for the issuance of building permits or the use of redevelopment funds. (Redevelopment funds are not at issue for the proposed project at 1300 El Camino Real.)

- Fees in lieu of sales taxes, which may be imposed by the City on non-retail businesses that are approved, subject to conditional use permits, to occupy viable retail space in certain commercial districts.

In the past, the City of Menlo Park has imposed such a fee on some projects that have replaced retail space with non-retail uses such as health clubs, financial institutions, and offices. These fees have been negotiated by the City and the developer and incorporated into conditional use permits.

The amount of the fee has been established in part on the location of the project site: the fee is highest in downtown locations, and is reduced with distance from downtown. Fees in effect at present range from \$2.11 per square foot per year at a downtown site to less than \$1.00 per square foot per year for a site outside of downtown.

The fee is adjusted each year according to the change in the Consumer Price Index.

If the project subject to the fee requirement generates sales taxes in a given year, then the amount of the fee may be offset by the amount of the tax revenues.

The site at 1300 El Camino Real is located near, but not within, downtown Menlo Park, on the City's major commercial thoroughfare, on a site previously occupied by a major sales tax contributor (an auto dealership) but more recently vacant. To set the fee on this site, which would be completely rebuilt, the City would have to consider not only its location relative to downtown, but also the amount of space to which the fee should be applied.

Several of the possibilities for the amount of space to which fees should be applied include:

- The area of the existing auto sales building, which is 28,584 square feet. This is the amount of (former) retail use that would be replaced by the Proposed Project.
 - The size of a typical single-story retail building, which would cover about 25 percent of the site area, or about 37,000 square feet. This is the amount of potential retail use that would be replaced by the Proposed Project. This area, however, is smaller than the amount of retail space proposed (51,365 square feet), so this revenue mechanism may not be applicable.
 - The amount of ground floor space in the project not occupied by retail space. In the Proposed Project, that area would be 13,582 square feet; in Variants 1 and 2, it would amount to about 38,600 square feet (the ground floor office space plus the health club). The rationale for this approach would be that this ground floor space could theoretically be occupied by retail uses.
- Annual fees agreed upon by the City and the applicant, based on some indicator other than foregone retail sales taxes. Annual fees need not be tied to the amount of sales tax the project would have generated if the site were occupied by retail use: they could be set at an amount that is mutually agreeable to both parties. If embodied in a development agreement or other conditional approval, such as a use permit or planned

development permit, such fees would not be subject to a nexus requirement (establishing a relationship between the amount of fees paid and the costs they are intended to cover) or other regulations that govern legislated municipal revenues.

Any tax considered by the City of Menlo Park as a means to replacing sales tax revenue that is lost when retail sites are converted to non-retail, nonresidential uses should consider four key criteria: breadth of applicability (variety of uses to which it may be applied), understandability of the basis of and structure for the tax (simplicity), ease of administration, and ease of verification (auditing).

APPENDIX A REVENUE AND COST CALCULATIONS

The description of assumptions used for some revenues and costs refers to “the more conservative case” (or “estimate”) and the “less conservative case” (or “estimate”). For revenues, the more conservative case is the set of assumptions that yields a lower estimate and the less conservative case is the set that yields a higher estimate. For costs, the reverse applies: the more conservative case is the set of assumptions that yields a higher estimate and the less conservative case is the set that yields a lower estimate.

The “most likely case,” presented in the main text of this report, is based on the more conservative revenues (lower estimate) and the less conservative costs (lower estimate).

Two sensitivity analyses are presented in Appendix D to represent the best possible and worst possible fiscal outcomes under currently-foreseeable conditions. The “more conservative case” presented there combines the lower revenue estimates with the higher cost estimates; the “less conservative case” combines the higher revenue estimates with the lower cost estimates.

REVENUE CALCULATIONS

Property Tax

Base Levy

Property tax is assessed on all real property. Assessed value – that is, the value on which the property tax levy is based – is equal to the value of the property on the date of sale or completion of construction, adjusted for inflation but not to exceed an increase of two percent per year.

The Proposed Project is expected to have development cost in the range of \$45million. This value, plus \$18,359,000 for the land (based on the current assessed value, adjusted by two percent per year for two years), is used as an indicator of the assessed value of the completed project.

Variants 1 and 2 would have the same cost as the Proposed Project. The EIR Alternative would have an estimated improvement cost of \$53 million, bringing the total estimate of assessed value (including land) to \$71,359,000.

The property tax rate throughout the State of California is one percent of assessed value. The City of Menlo Park receives 12.25 percent of this one percent levy in the area in which

the project site is located. Of that amount, 16.68 percent is shifted to the Education Revenue Augmentation Fund (ERAF), leaving a net of 10.21 percent for the City.⁴³

According to California law, the property tax levied on an individual property may increase no more rapidly than two percent per year except when the property is sold (or undergoes a major improvement or alteration).

- The Proposed Project, Variant 1, and Variant 2 are assumed not to be sold during the period of this analysis; therefore, the assessed value would increase at a rate of two percent per year.
- For the EIR Alternative, it is not known whether residential units would be rented (as apartments) or sold (as condominiums). The revenue projections in this study assume that they would not be sold, and that the assessed value would therefore increase at a rate of two percent per year. Table 15 is included, however, to provide an estimate of the increase in assessed value that would occur if the units were offered for sale (as condominiums) and then resold periodically throughout the 20-year study period.

At present, the total assessed value of the project site (including both land and buildings) is \$18,876,375. That amount would increase to nearly \$19,639,000 by FY 2010-11. The property tax on this value for each of the affected agencies is shown in Table A1.

Table A1
Projected Distribution of Property Tax Revenue in FY 2010-11
from Project Site in Existing Condition^a

	Percent of Levy (Net of ERAF Shift)		Property Tax Due in FY 2010-11
	Before ERAF	After ERAF	
City of Menlo Park	12.25%	10.21%	\$71,813
Menlo Park Fire Protection District	16.05%	14.28%	\$100,458
Menlo Park City School District ^b	17.01%	17.01%	\$119,684
Sequoia Union High School District ^b	15.91%	15.91%	\$111,944

a Assumes assessed value of \$19,639,000.

b No ERAF shift from school districts.

Source: Mundie & Associates, based on information obtained from the San Mateo County Assessor-Tax Collector

⁴³ In San Mateo County, some school districts – including the MPCSD and the SUHSD – obtain sufficient funding from local sources that they do not qualify for ERAF funding. The money shifted to ERAF is redistributed to the jurisdictions from which it was taken. These redistributions are not, however, included in this analysis, because they are not predictable in terms of amount or timing. Excluding the redistributions results in a conservatively low estimate of revenues.

Sales Tax

Basic Levy

Sales tax revenues are collected by the State of California, with a portion returned to the local jurisdictions (cities and counties) based on the point of sale. The City of Menlo Park receives 0.95 percent of taxable sales (that is, 0.95 cents of every 8.25 cents of sales tax collected on taxable items).

Sales taxes would be collected by businesses occupying the retail space at 1300 El Camino Real. In the EIR Alternative, households living in the project would make some of their retail purchases within the City, and sales taxes collected on those purchases would be returned to the City.

Assumptions about sales tax revenues are detailed in Table 3 (pp. 8-9), the text on pp.13-14, Table 6 (p. 15), and Appendix C.

Public Safety Sales Tax

The public safety sales tax was adopted by the passage of Proposition 172 in 1993, as a measure to offset some of the property tax shifts required by ERAF. The revenue raised through this tax is collected by the state and then allocated to counties based on their respective shares of statewide retail sales. The counties, in turn, redistribute their revenues to the cities based on their proportionate shares of net property tax loss to ERAF.

Estimating all of the factors required to make a projection of public safety sales tax revenues is too speculative for most fiscal studies involving local agencies. In this study, revenues from this source are assumed to increase with population. This assumption is consistent with an assumption that increases in sales taxes result from increases in population (rather than, for example, the amount of retail space). This approach is therefore also consistent with the assumption used in the more conservative (lower estimate of revenue) case for this analysis that retail purchases at 1300 El Camino Real will be shifted from other locations within Menlo Park.

Property Tax In Lieu of Sales Tax

In 2004, California voters approved Proposition 54, the California Economic Bond Recovery Act, which allowed the state to purchase bonds to reduce the state budget deficit. To repay these bonds, a portion of the local share of sales taxes was shifted to the state. To repay the lost local sales tax revenues, a portion of the property tax money shifted from local governments to ERAF was set aside and redistributed to local governments.

Revenues from this source are estimated based on population.

Utility Users Tax

Utility users taxes are levied on the use of electricity, natural gas, water, telephone, wireless services, and cable television.

According to information provided by City staff, 68.7 percent of revenues on all of these services except cable television are attributable to nonresidential uses, and the remaining 31.3 percent are attributable to households. One hundred percent of cable television revenues are attributed to households.

In this analysis, tax revenues contributed by nonresidential development are assumed to increase with employment (see Table 2, p 3) for an estimate of employment in the Proposed Project, project variants, and EIR Alternative).

For the EIR Alternative, revenues contributed by residential development are assumed to increase with the number of households.

Utility tax revenues are assumed to increase at the general inflation rate of four percent per year except for revenues based on water sales, which are assumed to increase at a rate of 10 percent per year.

Franchise Tax

Franchise tax revenues are collected from companies that hold franchises to deliver specific services – including electricity, natural gas, water, cable television, and refuse collection – within the City of Menlo Park. The tax is based on gross receipts from sales within the city.

The methodology for estimating franchise fees is the same as the methodology for Utility Users Taxes: revenues are allocated between nonresidential and residential uses (68.7 percent and 31.3 percent, respectively; increases in nonresidential revenues are estimated based on the current average per job and increases in residential revenues are estimated based on the current average per household.

Utility tax revenues are assumed to increase at the general inflation rate of four percent per year except for revenues based on water sales, which are assumed to increase at a rate of 10 percent per year.

Business Licenses

Fees for business licenses in the City of Menlo Park are based on gross receipts.

In this analysis, revenues from business licenses are estimated based on the expected number of employees. This approach implicitly assumes that the average gross receipts per employee in the 1300 El Camino Real project will be similar to the average per employee city-wide.

Revenues from business license penalties are not included in this calculation, and are omitted from the analysis.

Business license fees are assumed to increase at a rate of four percent per year.

Vehicle License Fee

Vehicle license fees (“car taxes”) are returned to local governments by the State of California based on the number of motor vehicle registrations.

This analysis assumes that virtually all motor vehicles are registered at their owners’ place of residence, and that the average rate of vehicle ownership by residents of 1300 El Camino Real (EIR Alternative only) will be similar to that of the population of Menlo Park as a whole. Therefore, revenues from this source are estimated based on population (average current revenues per resident).

Vehicle license fees are assumed to increase at a rate of four percent per year.

Other Revenues

The following revenue sources are assumed to grow with population:

- Resident recreation fees.
- Child care fees
- Printing (outside agency)⁴⁴

Revenues from these sources are assumed to average the same amount per capita for residents of 1300 El Camino Real (EIR Alternative only) as the average for current City residents.

Revenues from these sources are assumed to increase at a rate of four percent per year.

The following revenue sources are assumed to grow with the population and employment:

- Traffic and parking fines. For this source, revenues per resident and revenues per job are assumed to be equal.
- Fingerprint fees, library book fines, recreation rental income, and Belle Haven swimming pool revenues. For these sources, revenues per job are assumed to be about 50 percent of revenues per resident.

Revenues from these sources are assumed to increase at a rate of four percent per year.

Excluded Revenues

This analysis excludes revenues from the following sources, because they are expected to be unaffected by the Proposed Project or would result in small amounts of added revenue:

- Property taxes: supplemental taxes, unsecured personal property tax, redemptions-property tax, property transfer tax, and homeowners’ exemptions.

⁴⁴ On occasion, the City provides printing services (or splits the cost of printing) with another entity, such as the Chamber of Commerce or one of the school districts. In those cases, the other entity may reimburse the City for its share of the costs.

- Transient occupancy tax. There would be no space in the Proposed Project or any of the variants/alternatives that would provide visitor accommodations.
- Licenses and permits (except business license). These revenues typically offset direct one-time costs in the Community Development Department for processing and inspection of new development. These revenues are assumed to offset costs in the relevant departments.
- Intergovernmental revenue (except vehicle license fee).
- Interest and rent income.
- Fees charged for Public Works Department and Police Department services. These fees offset the costs of specific services. The associated costs are also excluded from the analysis.
- Other sources: donations, sale of property, and transfers from other funds.

COST CALCULATIONS

All costs are assumed to increase at a rate of four percent per year.⁴⁵ (Appendix D includes a sensitivity analysis that compares the results of the most likely fiscal case with four percent inflation to results with three percent inflation and two percent inflation.)

Administrative Services

Administrative services costs include the following budget categories: Policy Development and Council Support, Service Excellence, Elections and Records, Community Relations, Asset Preservation, Information Support, Internet and WWW, Legal Services, and Business Development.

- In the more conservative (higher cost) scenario, all of these costs are assumed to increase with population and employment. The cost per employee is assumed to equal one-half of the cost per resident. This estimate is based on the average cost approach (see p. 7).
- In the less conservative (lower cost) scenario, all of these costs are assumed to increase with population; that is, residents of the project at 1300 El Camino Real are expected to incur the same costs per capita as do the current residents of Menlo Park. In this scenario, therefore, that the project concepts that do not include residential uses – that is, the Proposed Project, Variant 1, and Variant 2 – would have no impact on the cost of these services. This estimate is based on the case study approach (see p. 7).

⁴⁵ City staff expect the cost of water to increase at a rate of 10 percent year. Because this cost comprises only a small portion of total City operating costs, this differential is ignored in this analysis.

Community Development

New development at 1300 El Camino Real will generate costs for the City of Menlo Park during the approval and construction process. These costs are covered by service charges and permit fees.

To estimate ongoing and recurring costs:

- In the more conservative (higher cost) scenario, revenues collected by the department for permits and service charges are deducted from total costs to find the net operating cost. This cost is assumed to increase with population and employment, with the cost per employee equal to one-half of the cost per resident. (This assumption, which is common in fiscal impact analysis, reflects the fact that employment is typically a week-day, daytime-only event, while residency is an everyday, 24-hour event.)
- In the less conservative (lower cost) scenario, the Proposed Project, project variants, and EIR Alternative are expected to generate no additional ongoing costs of services in the Community Development Department.⁴⁶

Community Services

The Community Services Department is responsible for social services, child care, and recreation/physical activities.

- In the more conservative (higher cost) scenario, 26 percent of costs are allocated to nonresidential uses; of those, one-half (13 percent of the total) are assumed to increase with employment growth. The remaining 74 percent of costs are assumed to increase with population growth.⁴⁷
- In the less conservative (lower cost) scenario, all costs are allocated to residential uses. Department staff expect that the population increase associated with 1300 El Camino Real (EIR Alternative only) will be too small to have any real impact on service costs.⁴⁸ This analysis assumes, however, that the average cost per resident of 1300 El Camion Real will be the same, on average, as the current residents of Menlo Park.

This approach yields no estimated cost increases, therefore, for the Proposed Project, Variant 1, and Variant 2.

⁴⁶ Interview with Arlinda Heineck, Community Development Director, July 30, 2008.

⁴⁷ According to staff, 74 percent of registered participants in Winter 2008 programs were residents of the City of Menlo Park; the remaining 26 percent of participants were non-residents. This distribution was used to calculate the total General Fund costs impacted by growth attributable to residents and non-residents. Of the non-resident costs, an estimated 50 percent of costs are believed to be attributable to people who work in Menlo Park while the remaining 50 percent are related to residents of neighboring jurisdictions who use City facilities and programs. Interview with Barbara George, Community Services Director, July 30, 2008.

⁴⁸ Interview with Barbara George, Community Services Director, July 30, 2008.

Library

Menlo Park has two libraries: one at 800 Alma Street, near the project site, and the other at 413 Ivy Drive, in the Belle Haven neighborhood. The Alma Street branch is closer to the project site.

- In the more conservative (higher cost) scenario, 50 percent of library costs are allocated to nonresidential uses, and one-half of those (50 percent of the total) are assumed to increase with employment growth. The remaining 50 percent of library costs are assumed to increase with population growth.
- In the less conservative (lower cost) scenario, the demand for library services would be expected to increase with population.⁴⁹ In this study, the cost new ongoing services required to serve the residents of 1300 El Camino Real (EIR Alternative only) is estimated based on the average current cost per capita.

Public Works

The Public Works Department is responsible for the planning and maintenance of City-owned infrastructure and essential services (city facilities, vehicles, and equipment; water in some locations; streets and transportation management; and storm drainage). The City does not provide water service to the project site.

The segment of Garwood Way abutting the project site would be improved in conjunction with the Proposed Project, and the city's cost of street maintenance would increase to cover this new portion of roadway.

No other increases in Public Works costs are anticipated.⁵⁰

Police Services

The Police Department projects future changes in costs based on existing and anticipated conditions rather than, for example, on population or other characteristics of new development.

Three approaches were considered to estimate the increase in police costs for this project:

- According to Department staff, providing services to the Proposed Project could require the addition of up to one half-time officer. This estimate is used for the more conservative (higher cost) scenario.⁵¹ The cost of this position is estimated based on the total department budget and the number of authorized positions (76.01) in FY 2008-09, adjusted to FY 2010-11 dollars.
- Police costs were assumed to increase in a manner similar to the (more conservative) estimate for Administrative Services costs: that is, costs increase with population and employment, with the average cost per employee equal to one-half of the average cost

⁴⁹ Interview with Susan Holmer, Library Director, July 30, 2008.

⁵⁰ Interview with Ruben Nino, Public Works Director, July 30, 2008.

⁵¹ Interview with Sergeant Matt Bacon, Menlo Park Police Department, July 30, 2008.

per resident. This approach yielded a cost estimate between the other two, and therefore was not used in the analysis.

- According to Department staff, it is possible that no new staff would be needed to provide services if the project (or one of the alternatives) is built; therefore, costs would not increase at all.⁵² This approach is used for the less conservative (lower cost) scenario.

Employee Support

The Employee Support function is part of Administrative Services, but the cost of this function is based on the number of City employees. This analysis uses the projected increase in General Fund costs as a surrogate for the projected increases in City jobs: the increase in Employee Support costs is calculated by maintaining these costs as a constant percent of all General Fund costs.

⁵² Ibid.

APPENDIX B THE EFFECTS OF INFLATION

INFLATION AND DISCOUNTING

Inflation

The regulations that govern public finance in California virtually dictate that costs and revenues will increase (inflate) at different rates in the future:

- A few revenues – most notably, sales tax – and virtually all costs (except those governed by contracts with no inflation adjustment) are typically expected to increase with the general rate of inflation.
- Some conditions that contribute to revenues or costs are likely to grow more rapidly than the overall rate of inflation. In Menlo Park, water costs and water-related revenues are in this category.
- Property tax revenues are regulated by Article 13A of the state constitution (famously known as Proposition 13). As noted in Appendix A, the assessed value of property may be increased by no more than two percent per year unless the property is sold or major improvements are made. For this project, no sale of the property is anticipated, so the two percent limit would be in effect.

This report provides revenue and cost estimates for the three indicator years – upon completion of the project, 10 years after completion of development, and 20 years after completion – in constant FY 2010-11 dollars. To reflect the differential inflation rates, however, the model first inflates all dollar amounts to their future year values. Table B1 illustrates the effects of inflation on \$1 over time.

**Table B1
Dollars Needed in Future Years to Pay for Goods/Services Selling for \$1 in 2011**

Inflation Rate	Model Applications	Value of \$1 in:		
		FY 2010-11	FY 2020-21	FY 2030-31
2.00%	Assessed value	\$1.00	\$1.22	\$1.49
4.00%	General	\$1.00	\$1.48	\$2.19
10.00%	Water costs and water-related revenues	\$1.00	\$2.59	\$6.73

Source: Mundie & Associates

Future dollars that reflect the effects of inflation are typically called “current” or “nominal” dollars. In this study they are also called “inflated” dollars.

Discounting

After inflating revenue and costs estimates to future year prices, the model “discounts” those future, differently-inflated projections to today’s values at the general inflation rate of 4.0 percent. Because this constant dollar calculation first inflates and then discounts the dollar estimates, amounts expressed in constant dollars may vary in unexpected ways. For example:

- \$1 inflated at a rate of 4.0 percent per year (the assumed general inflation rate) and then discounted back to present value at the same rate has a value of \$1 in constant FY 2010-11 dollars.
- \$1 inflated at a rate of 10.0 percent per year (the assumed rate for water costs and water-related revenues) and then discounted back to present value at a rate of 4.0 percent per year has a value greater than \$1 in constant FY 2010-11 dollars.
- \$1 inflated at a rate of 2.0 percent per year (the rate for assessed value and, therefore, property taxes) and then discounted back to present value at a rate of 4.0 percent per year has a value less than \$1 in constant FY 2010-11 dollars.

Table B2 illustrates the value in constant FY 2010-11 dollars of \$1 inflated at the various rates shown in Table B1 for 10 years and 20 years and then discounted to back to present value.

Table B2
Constant Dollar Value of \$1 Inflated at Different Rates
and Then Discounted at Four Percent to FY 2010-11 Dollars

Inflation Rate	Value in FY 2010-11 Dollars		
	FY 2010-11	FY 2020-21	FY 2030-31
2.00%	\$1.00	\$0.82	\$0.68
4.00%	\$1.00	\$1.00	\$1.00
10.00%	\$1.00	\$1.75	\$3.07

Source: Mundie & Associates

Dollars that are first inflated and then discounted back to FY 2010-11 dollars are called “constant” dollars.

APPENDIX C

ESTIMATING RETAIL SALES

The likelihood that purchases at the supermarket proposed for 1300 El Camino Real will be net new purchases within the City of Menlo Park depends on how well served the demand for supermarket items is in the absence of a new store.

APPROACH

To consider this issue, Mundie & Associates compared estimated spending on food at home by Menlo Park households to estimated spending food purchases at Menlo Park grocery stores. If spending by households exceeded purchases at Menlo Park stores, then it would be reasonable to conclude that some spending occurs outside of Menlo Park, and a supermarket at 1300 El Camino Real would have the potential to capture some of that “leakage.” If, on the other hand, purchases at Menlo Park stores exceeded spending by Menlo Park households, then it would be reasonable to assume that Menlo Park already captures some spending from beyond the city limits, and that at least some of the purchases at the new supermarket would be shifted from other stores within the city.

The analysis also considered potential spending in Menlo Park by households residing in Atherton and East Palo Alto (the “larger market area,” adjacent communities that have no full-service grocery stores, although East Palo Alto is actively seeking such a project.

ESTIMATED SPENDING

Spending by Menlo Park Households

Spending by Menlo Park households was estimated based on the Consumer Expenditure Survey (CES) compiled by the U.S. Department of Labor, Bureau of Labor Statistics. The survey provides information about spending by households in different regions of the country and in different income groups on various goods and services.

This analysis considered information about spending on “food at home” and spending on all goods likely to be purchased in the types of retail/restaurant space that could occupy the Proposed Project in Variants 1 and 2.

The median household income in Menlo Park estimated by the U.S. Census in the three-year period 2005-07 was \$103,702. This figure is based on information gathered for the American Community Survey, which is an ongoing data collection effort intended to provide periodic updates of the decennial census for some types of social, economic, and housing characteristics.⁵³

⁵³ Information about the American Community Survey is provided by the Census Bureau on the internet at http://factfinder.census.gov/jsp/saff/SAFFInfo.jsp?_pagelD=sp1_acs&_submenuId=

This estimate of income lies well within the relevant income bracket used by the CES (\$100,000 to \$119,000). Data for this income range were therefore used to estimate spending by Menlo Park Households.

Household spending in the categories included in this analysis is reported in Table C1.

Table C1
Estimated Spending on Food at Home and Taxable Items
Likely to be Purchased in Stores, 2007

Item	Annual Spending
Food at home	\$4,550
Food away from home	4,307
Alcoholic beverages	628
Housekeeping supplies	875
Household furnishings and equipment	2,830
Apparel and services	2,819
Audio and visual equipment and services	1,382
Pets, toys, and playground equipment	1,174
Entertainment: other supplies, equipment, & services	1,582
Personal care products and services	888
Reading	195
Tobacco products and smoking supplies	280
Total	\$21,510

Source: U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey (on the internet at <http://www.bls.gov/cex/>)

Only some of these items are likely to be sold in the space at 1300 El Camino Real. Table C2 suggests what those items would be for each of the project alternatives.

According to the State Department of Finance, Menlo Park had 12,539 households in 2008. Assuming that the CES figures provide a reasonable estimate of spending by these households, total spending on food at home – the primary category of items offered for sale at a supermarket that would be located in the Proposed Project – would be about \$54.4 million. Total spending by Menlo Park households on food for consumption at home is estimated in Table C3, and spending on all the items likely to be offered at 1300 El Camino Real is estimated in TableC4.

Spending by Households in the Larger Market Area

Spending by households living in the larger market area (Menlo Park, Atherton, and East Palo Alto) on food at home and all of the types of goods likely to be offered at the project site is estimated in Table C5.

Table C2
Estimated Spending per Household
on Goods Likely to be Offered at
1300 El Camino Real (2007 Estimates)

	Proposed Project*		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Food at home	\$4,550		\$4,550		
Food away from home		\$4,307	4,307	4,307	4,307
Alcoholic beverages		628	628	628	628
Apparel and services		2,819	2,819	2,819	2,819
Audio and visual equipment and services		1,382	1,382	1,382	1,382
Personal care products and services		888	888	888	888
Reading		195	195	195	195
Tobacco products and smoking supplies		280	280	280	280
Total	\$4,550	\$10,499	\$15,049	\$10,499	\$10,499

* For completeness, the Proposed Project with Retail is included in this appendix and Appendix D (sensitivity analyses). This configuration assumes that the space planned by the project sponsor for a grocery store/supermarket is instead occupied by conventional retail space (selling items that are 100 percent taxable).

Source: Mundie & Associates, based on Table C1

Table C3
Estimated Total Spending by Menlo Park Households
on Food at Home
(2007 Estimates)

Spending per household (from Table C2)	\$4,550
Total Spending by Menlo Park households	\$57,052,450

Source: Mundie & Associates

Table C4
Estimated Total Spending by Menlo Park Households
on Goods that May be Offered at 1300 El Camino Real
(2007 Estimates)

	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Groceries			
Spending per household (from Table C2)	\$4,550	\$10,499	\$15,049	\$10,499	\$10,499
Total Spending by Menlo Park households	\$57,052,450	\$131,647,000	\$188,699,000	\$131,647,000	\$131,647,000

Source: Mundie & Associates

Table C5
Estimated Total Spending by Households in the Larger Market Area
on Goods that May be Offered at 1300 El Camino Real
(2007 Estimates)

	Menlo Park	Atherton	East Palo Alto
Median Household Income ^a	\$103,702	\$200,001	\$49,267
Relevant CES Income Group	\$100,000-119,999	\$150,000+	\$40,000-50,000
Food at home	\$4,550	\$6,178	\$3,368
Food away from home	4,307	6,671	2,321
Alcoholic beverages	628	1,357	423
Apparel and services	2,819	1,700	544
Audio and visual equipment and services	1,382	5,973	1,350
Personal care products and services	888	5,698	1,517
Reading	195	2,049	886
Tobacco products and smoking supplies	280	1,196	427
Total	\$15,049	\$30,822	\$10,836
Households	12,470	2,481	7,681
Total Spending on Food at Home	\$56,738,500	\$15,327,618	\$25,869,608
Total for Three Cities	\$95,254,676		
Total Spending	\$187,661,030	\$76,469,382	\$83,231,316
Total for Three Cities	\$333,120,988		

a Figures for Menlo Park and East Palo Alto from U.S. Department of Commerce, Bureau of the Census, American Community Survey; figure for Atherton from U.S. Department of Commerce, Bureau of the Census, 2000 Census (all estimates on the internet at <http://factfinder.census.gov>)

Source: U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey (on the internet at <http://www.bls.gov/cex/>)

ESTIMATED PURCHASES IN MENLO PARK

Estimates of supermarket-based purchases in Menlo Park are derived based on sales tax reports and the proportion of supermarket purchases that are taxable.

City records indicate that in 2007, grocery stores in Menlo Park generated about \$382,000 in sales tax revenues. Sales taxes represent 0.95 percent of the value of purchased items. Therefore, total taxable spending would have been about \$40.2 million. This estimate is generally consistent with information available from the State Board of Equalization, which reports \$40.8 million in taxable sales at food stores in Menlo Park in 2006.

Staff at the State Board of Equalization, which collects and distributes sales taxes, estimate that about 35 percent of sales in grocery stores and supermarkets are taxable. Based on this estimate, total sales in Menlo Park grocery stores would amount to about \$116.5 million. The non-taxable portion of those sales (65 percent), which would be food for consumption at home, would total about \$75.8 million.

INFERENCES ABOUT POTENTIAL FOR SHIFTING OF RETAIL SPENDING

Spending in Grocery Stores

Comparing the estimated spending on food at home in existing Menlo Park stores (\$75.8 million) to spending by Menlo Park households (\$55.3 million) strongly suggests that Menlo Park stores currently capture a significant portion of their sales from households that live outside the city. Therefore, it is reasonable to infer that if all grocery sales in Menlo Park are made to City residents, then purchases at the new supermarket in the Proposed Project would be shifted from the existing stores, and would not represent increased sales in Menlo Park.

Spending by households in the larger market area amounted to an estimated \$97.9 million in 2007, based on the estimates drawn from the Consumer Expenditure Survey for households with incomes similar to those in the respective communities. In comparison to total estimated sales of \$75.8 million in Menlo Park, this level of spending would suggest that there is potential for additional capture of grocery purchases if a store at 1300 El Camino Real could appeal to the market segment(s) not currently attracted to existing stores in the City.

The potential for a new grocery store in Menlo Park to capture purchases that are currently made outside the city (in other words, the potential to avoid simply shifting grocery store purchases from existing stores in Menlo Park to a new outlet at 1300 El Camino Real) would be maximized if the new store were to target a segment of the market that is not served by an existing store. Existing stores include Draeger's, which targets a higher-end market; Safeway, which targets mainstream shoppers; Trader Joe's, which targets a broad spectrum of shoppers; and a number of smaller stores that target a variety of ethnicities. Stores that could capture new purchases might include, for examples, a major chain that is located in neighboring/nearby cities but not Palo Alto (for example, Whole Foods or Monterey Market) or a different type of specialty grocery store (e.g., one focusing on prepared foods or an ethnic group not currently served in Menlo Park).

Spending in Other Retail Stores

Variants 1 and 2, the EIR Alternative, and the subalternative of the Proposed Project that has no grocery store would include other (non-supermarket) types of retail/restaurant tenants. Estimates of taxable spending at existing outlets in Menlo Park (from State Board of Equalization reports) and spending by Menlo Park households (from the CES data) suggest that existing spending is significantly greater than would be expected if all purchases in Menlo Park were made by city residents. These estimates are compared in TableC6.

Even with the data inconsistencies that are unavoidable in Table C5, the spending estimates suggest that Menlo Park stores already capture purchases from households that do not live in the city.

Table C6
Estimated Non-Supermarket Total Spending
on Goods that May be Offered at
1300 El Camino Real (2007 Estimates)

	Spending in Existing Menlo Park Stores (\$000s)
Taxable Spending, 2007	
Apparel	\$7,489
General Merchandise	12,134
Eating/drinking places (food away from home)	75,827
Home furnishings/appliances	33,915
Other retail ^a	206,605
Total ^b	\$335,970
Estimated Spending by Households in the Larger Market Area ^c	\$249,426

- ^a Figure for spending in existing stores, from the State Board of Equalization, may include sales at auto dealers and therefore is not strictly comparable to the figure for spending by Menlo Park households.
- ^b Omits spending on building materials and at service stations, both of which are unlikely to be located at 1300 El Camino Real.
- ^c Total spending on goods that may to be offered at 1300 El Camino Real (\$347,362,000) less spending on food for home consumption (\$97,936,000, from Table C5). Detail and total may not agree because of independent rounding.

Sources: State Board of Equalization, Taxable Sales in California 2006; Tables C1 and C3

Consistent with this suggestion, it is reasonable to infer that new retail outlets and restaurants at 1300 El Camino Real would be most likely to capture purchases new to Menlo Park if they target a regional market (that is, they draw people to Menlo Park from the larger market area and perhaps beyond), target a market segment or segments not currently served in Menlo Park, or offer brand-name goods not currently offered (or not offered in sufficient quantity and variety) in Menlo Park that have a committed consumer following.

APPENDIX D

SENSITIVITY ANALYSES

This main text of this report describes the projected fiscal impacts of development at 1300 El Camino Real (Proposed Project and several variants/alternatives) in what the report authors consider the “most likely” case. This case combines the lower estimate of revenues derived during the course of this study with the lower estimate of costs.

This appendix presents fiscal impacts of the Proposed Project and variants/alternatives under a range of different assumptions:

- More conservative case: fiscal impact if the lower revenue estimates are combined with the higher cost estimates.
- Less conservative case: fiscal impact if the higher revenue estimates are combined with the lower cost estimates.
- Alternative rates of inflation: fiscal impact in the “most likely” case with inflation/discount rates of three percent and two percent.

Each of the tables in this appendix that considers project alternatives includes one additional project configuration: the Proposed Project with no supermarket/grocery store space. In this configuration, all of the space planned for a supermarket would be occupied by other retail outlets, in which 100 percent of sales would be taxable (compared to about 35 percent taxable sales in a supermarket)

MORE CONSERVATIVE ANALYSIS

The more conservative analysis incorporates the same projections of revenue as does the most likely case (“base case”) presented in Chapter 3: it assumes that all purchases at retail outlets at 1300 El Camino Real are shifted from other locations in Menlo Park, and consequently do not add to the City’s sales tax revenues. For the project variants, this analysis assumes some additional sales tax revenue from the health club (\$7,600 per year, representing total taxable sales of \$800,000) and no sales tax revenue from the office space.⁵⁴ Revenues for the Proposed Project are summarized in Table D1; revenues for the Proposed Project, Proposed Project with Retail, project variants, and the EIR Alternative are shown in Table D4.

The cost projections used in this more conservative analysis differ from those used in the base case: in general, they use the average cost approach summarized in Table 4. In addition, these estimates assume that the Police Department adds an additional half-time position to cover increased demands for service to the project site. Costs for the Proposed Project are presented in Table D2; costs for the Proposed Project, Proposed Project with Retail, project variants, and the EIR Alternative are shown in Table D5.

⁵⁴ Most of the new sales taxes shown in the tables in this section are from sales taxes in lieu of property tax, and are allocated to cities based on changes in assessed value.

In sum, this more conservative analysis projects a net deficit of about \$44,500 per year upon project completion, increasing to about \$57,500 per year in FY 2030-31. The cumulative net deficit over the 20-year period would be about \$1.1 million. The net fiscal balance for the Proposed Project is shown in Table D3; the net balance for the Proposed Project, Proposed Project with Retail, project variants, and EIR Alternative are presented in Tables D6 and D7.

Results for the Proposed Project with Retail would be similar to those for the Proposed Project. Variants 1 and 2 would generate higher revenues (associated with sales taxes at the health club) and, therefore, less negative fiscal results. The EIR Alternative would generate higher revenues and higher costs than the Proposed Project and project variants (because some revenue sources and some costs are estimated based on population). On balance, the fiscal impact of the EIR Alternative would be a larger net deficit than that projected for the Proposed Project and variants.

Table D1
Proposed Project: Projected Revenues (Net Change from Existing Condition)
More Conservative Analysis
City of Menlo Park
Constant (FY 2010-11) Dollars

Source	FY 2010-11	FY 2020-21	FY 2030-31
<i>Annual Revenues</i>			
Property tax	\$44,622	\$36,747	\$30,261
Sales tax ^a	8,070	6,645	5,473
Utility Users Tax	8,169	8,705	9,644
Franchise Fees	9,872	10,935	12,412
Business License Fees	18,186	18,186	18,186
Vehicle License Fees	0	0	0
Other Revenues ^b	7,038	7,038	7,038
Total	\$95,957	\$88,257	\$83,014
<i>Cumulative Revenues*</i>	<i>\$96,000</i>	<i>\$1,012,000</i>	<i>\$1,863,000</i>

a Assumes all taxable retail sales at 1300 El Camino Real are shifted from other locations in Menlo Park. Revenue in this line is from property tax in lieu of sales tax (see description of this source in Appendix A).

b Other revenues are detailed in Appendix A, p. A4.

* Cumulative estimates are rounded to the nearest \$1,000.

Source: Mundie & Associates

Table D2
Proposed Project: Projected Costs (Net Change from Existing Condition)
More Conservative Analysis
City of Menlo Park
Constant (FY 2010-11) Dollars

Use	FY 2010-11	FY 2020-21	FY 2030-31
<i>Annual Costs:</i>			
Administrative Services	\$24,377	\$24,377	\$24,377
Community Development	310	310	310
Community Services	10,545	10,545	10,545
Library	5,791	5,791	5,791
Public Works ^a	1,137	1,137	1,137
Police ^b	95,077	95,077	95,077
Employee Support ^c	3,248	3,248	3,248
Total	\$140,485	\$140,485	\$140,485
<i>Cumulative Costs*</i>	<i>\$140,000</i>	<i>\$1,545,000</i>	<i>\$2,950,000</i>

- ^a Assumes project responsibility for road maintenance costs on extended Garwood Way apply to the street segment abutting the project site and extending south to Derry Lane.
- ^b Assumes the need for one additional half-time police position.
- ^c Calculated as a percent of the total budget.
- ^d Assumes project responsibility for road maintenance costs on extended Garwood Way apply only to the street segment abutting the project site.
- ^e Assumes no new police position.
- * Cumulative estimates are rounded to the nearest \$1,000.

Source: Mundie & Associates

Table D3
Proposed Project: Projected Net Fiscal Balance
More Conservative Analysis
City of Menlo Park
Constant (FY 2010-11) Dollars

	FY 2010-11	FY 2020-21	FY 2030-31
Annual Revenues and Costs			
Revenues this year (lower estimate) ^a	\$95,957	\$88,257	\$83,014
Costs this year (higher estimate) ^b	140,485	140,485	140,485
Net Balance	-\$44,528	-\$52,228	-\$57,471
Cumulative Revenues and Costs			
Cumulative Revenues (lower estimate) ^a	\$96,000	\$1,012,000	\$1,863,000
Cumulative Costs (higher estimate) ^b	140,000	1,545,000	2,950,000
Cumulative Net Balance	-\$44,000	-\$533,000	-\$1,087,000

- ^a From Table D1. Cumulative estimates are rounded to the nearest \$1,000.
- ^b From Table D2. Cumulative estimates are rounded to the nearest \$1,000.

Source: Mundie & Associates

Table D4
Proposed Project, Project Variants, and EIR Alternative: Projected Annual Revenues
More Conservative Analysis
City of Menlo Park
Constant (FY 2010-11) Dollars

Projected Annual Revenues in FY 2010-11 (Upon Completion)

Source	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Property Tax	\$44,622	\$44,622	\$44,622	\$44,622	\$52,788
Sales Tax	8,070	8,070	15,670	15,670	31,674
Utility Users Tax	8,169	8,169	8,169	8,169	7,154
Franchise Fees	9,872	9,872	9,872	9,872	8,939
Bus. License Fees	18,186	18,186	18,186	18,186	14,719
Veh. License Fees	0	0	0	0	496
Other Revenues ^b	7,038	7,038	7,038	7,038	10,049
Total	\$95,957	\$95,957	\$103,557	\$103,557	\$125,819

Projected Annual Revenues in FY 2020-21 (10 Years After Completion)

Source	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Property Tax	\$36,747	\$36,747	\$36,747	\$36,747	\$43,471
Sales Tax	6,645	6,645	14,245	14,245	29,989
Utility Users Tax	8,705	8,705	8,705	8,705	7,618
Franchise Fees	10,935	10,935	10,935	10,935	9,858
Bus. License Fees	18,186	18,186	18,186	18,186	14,719
Veh. License Fees	0	0	0	0	496
Other Revenues ^b	7,038	7,038	7,038	7,038	10,049
Total	\$88,257	\$88,257	\$95,857	\$95,857	\$116,200

Projected Annual Revenues in FY 2030-31 (20 Years After Completion)

Source	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Property Tax	\$30,261	\$30,261	\$30,261	\$30,261	\$35,799
Sales Tax	5,473	5,473	13,073	13,073	28,602
Utility Users Tax	9,644	9,644	9,644	9,644	8,429
Franchise Fees	12,412	12,412	12,412	12,412	11,134
Bus. License Fees	18,186	18,186	18,186	18,186	14,719
Veh. License Fees	0	0	0	0	496
Other Revenues ^b	7,038	7,038	7,038	7,038	10,049
Total	\$83,014	\$83,014	\$90,614	\$90,614	\$109,228

* See footnotes to Table D1.

Source: Mundie & Associates

Table D5
Proposed Project, Project Variants, and EIR Alternative: Projected Annual Costs
(Net Change from Existing Condition)
More Conservative Analysis
City of Menlo Park
Constant (FY 2010-11) Dollars

FY 2010-11, FY 2020-21, and FY 2030-31^a

Use	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Admin. Services	\$24,377	\$24,377	\$24,377	\$24,377	\$56,262
Comm'ty Dev't	310	310	310	310	431
Comm'ty Svcs	10,545	10,545	10,545	10,545	15,971
Library	5,791	5,791	5,791	5,791	6,122
Public Works	1,137	1,137	1,137	1,137	1,137
Police	95,077	95,077	95,077	95,077	95,077
Employee Support	3,248	3,248	3,248	3,248	4,142
Total	\$140,485	\$140,485	\$140,485	\$140,485	\$179,142

^a Projected costs are the same in all three indicator years (FY 2010-11, FY 2020-21, and FY 2030-31).

Source: Mundie & Associates

Table D6
Proposed Project, Project Variants, and EIR Alternative:
Projected Annual Net Fiscal Balance
More Conservative Analysis
City of Menlo Park
Constant (FY 2010-11) Dollars

Projected Annual Net Balance in FY 2010-11 (Upon Completion)

	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Revenues this year	\$95,957	\$95,957	\$103,557	\$103,557	\$125,819
Costs this year	140,485	140,485	140,485	140,485	179,142
Net Balance	-\$44,528	-\$44,528	-\$36,928	-\$36,928	-\$53,323

Projected Annual Net Balance in FY 2020-21 (10 Years After Completion)

	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Revenues this year	\$88,257	\$88,257	\$95,857	\$95,857	\$116,200
Costs this year	140,485	140,485	140,485	140,485	179,142
Net Balance	-\$52,228	-\$52,228	-\$44,628	-\$44,628	-\$62,942

Projected Annual Net Balance in FY 2030-31 (20 Years After Completion)

	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Revenues this year	\$83,014	\$83,014	\$90,614	\$90,614	\$109,228
Costs this year	140,485	140,485	140,485	140,485	179,142
Net Balance	-\$57,471	-\$57,471	-\$49,871	-\$49,871	-\$69,914

Source: Mundie & Associates

Table D7
Proposed Project, Project Variants, and EIR Alternative:
Projected Cumulative Net Fiscal Balance
(Net Change from Existing Condition)
More Conservative Analysis
City of Menlo Park
Constant (FY 2010-11) Dollars

Projected Cumulative Net Balance in FY 2010-11 (Upon Completion)

	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Cumulative Revenues	\$96,000	\$96,000	\$104,000	\$104,000	\$126,000
Cumulative Costs	140,000	140,000	140,000	140,000	179,000
Cum. Net Balance	-\$44,000	-\$44,000	-\$36,000	-\$36,000	-\$53,000

Projected Cumulative Net Balance in FY 2020-21 (10 Years After Completion)

	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Cumulative Revenues	\$1,012,000	\$1,012,000	\$1,096,000	\$1,096,000	\$1,330,000
Cumulative Costs	1,545,000	1,545,000	1,545,000	1,545,000	1,971,000
Cum. Net Balance	-\$533,000	-\$533,000	-\$449,000	-\$449,000	-\$641,000

Projected Cumulative Net Balance in FY 2030-31 (20 Years After Completion)

	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Cumulative Revenues	\$1,863,000	\$1,863,000	\$2,023,000	\$2,023,000	\$2,451,000
Cumulative Costs	2,950,000	2,950,000	2,950,000	2,950,000	3,762,000
Cum. Net Balance	-\$1,087,000	-\$1,087,000	-\$927,000	-\$927,000	-\$1,311,000

Note: Cumulative estimates are rounded to the nearest \$1,000.

Source: Mundie & Associates

LESS CONSERVATIVE ANALYSIS

The less conservative analysis incorporates the same projections of costs as does the base case presented in Chapter 3: it assumes that the only changes from the current condition will be (1) maintenance of a portion of the extension of Garwood Way (the segment that abuts the project site) and (2) some minor costs of employee support services. Cost estimates for the Proposed Project are shown in Table D9; estimates for the Proposed Project, variants, and EIR Alternative are shown in Table D12.

The revenue projections used in this less conservative analysis differ from those used in the base case: they assume that all retail purchases at the project site will represent net new sales in Menlo Park, and therefore that sales taxes on these purchases will contribute net new revenues to the City. In addition, they assume that office space will contribute sales taxes of \$50 per square foot per year (consistent with taxable sales of \$5,000 per square foot per year).⁵⁵ Revenue estimates for the Proposed Project are presented in Table D8; estimates for the Proposed Project, Proposed Project with Retail, variants, and EIR Alternative are summarized in Table D11.

In sum, this less conservative analysis projects a net surplus of about \$201,200 per year upon project completion, decreasing to about \$188,300 per year in FY 2030-31. The cumulative net surplus over the 20-year period would be about \$4.1 million. The net fiscal balance for the Proposed Project is summarized in Table D10; for the Proposed Project, Proposed Project with Retail, variants, and EIR Alternative, this information is provided in Tables D13 and D14.

The projected fiscal impacts of the variants to the Proposed Project are generally similar, but vary somewhat based on the amount of commercial space assumed to be occupied by conventional retail space; that is, stores whose sales are 100 percent taxable. The Proposed Project with Retail (no grocery store), which assumes that all of the retail space is so occupied, yields the most positive result, with an annual projected surplus of \$294,600 upon completion and a cumulative surplus of about \$6.0 million after 20 years.

The EIR Alternative would contribute more revenues than the Proposed Project (but less than the Proposed Project with Retail) and higher costs, yielding a smaller net surplus. For this alternative, the net fiscal balance is projected to be a surplus of \$192,600 upon project completion, declining to just under \$175,000 after 20 years. The 20-year cumulative surplus is estimated at \$3.9 million (compared to \$4.1 million for the Proposed Project).

⁵⁵ The upper end estimate of sales tax revenues from the health club are based on information about a comparable club provided by the project sponsor. The upper estimate of sales tax revenues from the office space is based on a sample of existing office space in Menlo Park. Dollar amounts shown are for the first year after project completion; they are assumed to increase over time with the general inflation rate.

Table D8
Proposed Project: Projected Revenues (Net Change from Existing Condition)
Less Conservative Analysis
City of Menlo Park
Constant (FY 2010-11) Dollars

Source	FY 2010-11	FY 2020-21	FY 2030-31
<i>Annual Revenues</i>			
Sales tax ^a	\$114,515	\$113,091	\$111,918
All other revenues ^b	87,888	81,612	77,542
Total	\$202,402	\$194,702	\$189,460
<i>Cumulative Revenues*</i>	\$202,000	\$2,183,000	\$4,099,000

- ^a Assumes no taxable retail sales at 1300 El Camino Real are shifted from other locations in Menlo Park; also assumes some taxable sales in office space.
- ^b All revenues except sales tax (estimates for the less conservative case are the same as estimates for the more conservative case, Table D1).
- * Cumulative estimates are rounded to the nearest \$1,000.

Source: Mundie & Associates

Table D9
Proposed Project: Projected Costs (Net Change from Existing Condition)
Less Conservative Analysis
City of Menlo Park
Constant (FY 2010-11) Dollars

Use	FY 2010-11	FY 2020-21	FY 2030-31
<i>Annual Revenues</i>			
Administrative Services	\$0	\$0	\$0
Community Development	0	0	0
Community Services	0	0	0
Library	0	0	0
Public Works ^a	1,137	1,137	1,137
Police ^b	0	0	0
Employee Support ^c	27	27	27
Total	\$1,164	\$1,164	\$1,164
<i>Cumulative Costs*</i>	\$1,000	\$13,000	\$24,000

- ^a Assumes project responsibility for road maintenance costs on extended Garwood Way apply only to the street segment abutting the project site.
- ^b Assumes no new police position.
- ^c Calculated as a percent of the total budget.
- * Cumulative estimates are rounded to the nearest \$1,000.

Source: Mundie & Associates

Table D10
Proposed Project: Projected Net Fiscal Balance
Less Conservative Analysis
City of Menlo Park
Constant (FY 2010-11) Dollars

	FY 2010-11	FY 2020-21	FY 2030-31
Annual Revenues and Costs			
Revenues this year (higher estimate) ^a	\$202,402	\$194,702	\$189,460
Costs this year (lower estimate) ^b	1,164	1,164	1,164
Net Balance	\$201,238	\$193,538	\$188,296
Cumulative Revenues and Costs			
Cumulative Revenues (higher estimate) ^a	\$202,000	\$2,183,000	\$4,099,000
Cumulative Costs (lower estimate) ^b	1,000	13,000	24,000
Cumulative Net Balance	\$201,000	\$2,170,000	\$4,075,000

^a See footnotes to Table D8. Cumulative estimates are rounded to the nearest \$1,000.

^b See footnotes to Table D9. Cumulative estimates are rounded to the nearest \$1,000.

Source: Mundie & Associates

Table D11
Proposed Project, Project Variants, and EIR Alternative: Projected Annual Revenues
Less Conservative Analysis
City of Menlo Park
Constant (FY 2010-11) Dollars

Projected Annual Revenues in FY 2010-11 (Upon Completion)

Source	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Sales tax	\$114,515	\$206,741	\$104,283	\$131,216	\$135,682
All other revenues ^a	87,888	87,888	87,888	87,888	94,145
Total	\$202,402	\$294,628	\$192,171	\$219,103	\$229,827

Projected Annual Revenues in FY 2020-21 (10 Years After Completion)

Source	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Sales tax	\$113,091	\$205,316	\$102,859	\$129,791	\$133,998
All other revenues ^a	81,612	81,612	81,612	81,612	86,211
Total	\$194,702	\$286,928	\$184,471	\$211,403	\$220,208

Projected Annual Revenues in FY 2030-31 (20 Years After Completion)

Source	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Sales tax	\$111,918	\$204,144	\$101,686	\$128,619	\$132,610
All other revenues ^a	77,542	77,542	77,542	77,542	80,626
Total	\$189,460	\$281,685	\$179,228	\$206,160	\$213,236

^a See footnotes to Table D8.

Source: Mundie & Associates

Table D12
Proposed Project, Project Variants, and EIR Alternative: Projected Annual Costs
(Net Change from Existing Condition)
Less Conservative Analysis
City of Menlo Park
Constant (FY 2010-11) Dollars

FY 2010-11, FY 2020-21, and FY 2030-31^a

Use	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Admin. Services	\$0	\$0	\$0	\$0	\$35,273
Comm'ty Dev't	0	0	0	0	0
Comm'ty Svcs	0	0	0	0	0
Library	0	0	0	0	0
Public Works ^b	1,137	1,137	1,137	1,137	1,137
Police ^b	0	0	0	0	0
Employee Support ^b	27	27	27	27	862
Total	\$1,164	\$1,164	\$1,164	\$1,164	\$37,272

^a Projected costs are the same in all three indicator years (FY 2010-11, FY 2020-21, and FY 2030-31).

^b See footnotes to Table D9.

Source: Mundie & Associates

Table D13
Proposed Project, Project Variants, and EIR Alternative:
Projected Annual Net Fiscal Balance
Less Conservative Analysis
City of Menlo Park
Constant (FY 2010-11) Dollars

Projected Annual Net Balance in FY 2010-11 (Upon Completion)

	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Revenues this year	\$202,402	\$294,628	\$192,171	\$219,103	\$229,827
Costs this year	1,164	1,164	1,164	1,164	37,272
Net Balance	\$201,238	\$293,464	\$191,007	\$217,939	\$192,556

Projected Annual Net Balance in FY 2020-21 (10 Years After Completion)

	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Revenues this year	\$194,702	\$286,928	\$184,471	\$211,403	\$220,208
Costs this year	1,164	1,164	1,164	1,164	37,272
Net Balance	\$193,538	\$285,764	\$183,307	\$210,239	\$182,937

Projected Annual Net Balance in FY 2030-31 (20 Years After Completion)

	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Revenues this year	\$189,460	\$281,685	\$179,228	\$206,160	\$213,236
Costs this year	1,164	1,164	1,164	1,164	37,272
Net Balance	\$188,296	\$280,521	\$178,064	\$204,996	\$175,965

Source: Mundie & Associates

Table D14
Proposed Project, Project Variants, and EIR Alternative:
Projected Cumulative Net Fiscal Balance
Less Conservative Analysis
City of Menlo Park
Constant (FY 2010-11) Dollars

Projected Cumulative Net Balance in FY 2010-11 (Upon Completion)

	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Cumulative Revenues	\$202,000	\$295,000	\$192,000	\$219,000	\$230,000
Cumulative Costs	1,000	1,000	1,000	1,000	37,000
Cum. Net Balance	\$201,000	\$294,000	\$191,000	\$218,000	\$193,000

Projected Cumulative Net Balance in FY 2020-21 (10 Years After Completion)

	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Cumulative Revenues	\$2,183,000	\$3,197,000	\$2,070,000	\$2,367,000	\$2,474,000
Cumulative Costs	13,000	13,000	13,000	13,000	410,000
Cum. Net Balance	\$2,170,000	\$3,184,000	\$2,057,000	\$2,354,000	\$2,064,000

Projected Cumulative Net Balance in FY 2030-31 (20 Years After Completion)

	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Cumulative Revenues	\$4,099,000	\$6,036,000	\$3,884,000	\$4,450,000	\$4,635,000
Cumulative Costs	24,000	24,000	24,000	24,000	783,000
Cum. Net Balance	\$4,075,000	\$6,012,000	\$3,860,000	\$4,426,000	\$3,852,000

Note: Cumulative estimates are rounded to the nearest \$1,000.

Source: Mundie & Associates

MOST LIKELY CASE, WITH INFLATION = 3 PERCENT

This sensitivity analysis assumes that the general inflation rate will be lower than assumed in the base case: three percent for most costs and revenues (excluding property tax) instead of four percent. This scenario, like the two percent inflation case presented after this one, was prepared in response to economic conditions that prevailed in 2008 and 2009: a recession economy, with some expectations that inflation would be very low or non-existent for the next several years.

Because the general inflation rate is also used at the discount rate, the assumption of lower inflation has the following net effects:

- Estimates of revenues and costs upon completion of the project are lower than the estimates in the base case (with four percent inflation). This difference results because the lower inflation rate is used to adjust FY 2008-09 budget estimates to the FY 2010-11 start date for the analysis.
- Property taxes, which are permitted to increase by no more than two percent per year in the absence of a change of property ownership, lose less value relative to other revenues and costs.
- Total revenues appear greater over time, because the discount rate is lower (see Appendix B for a discussion of the effects of inflation and discounting).
- Total costs appear to be about the same over time, because they (the costs) are so small that the effects of the different inflation/discount rate do not appear.
- The net fiscal balance appears to be slightly more positive, because the effects on revenue (primarily, that property tax holds its value better in this case) outweigh the effects on costs.

These observations apply to the project variants and EIR Alternative as well as to the Proposed Project.

Table D15
Proposed Project: Projected Revenues (Net Change from Existing Condition)
Inflation =Three Percent
City of Menlo Park
Constant (FY 2010-11) Dollars

Source	FY 2010-11	FY 2020-21	FY 2030-31
<i>Annual Revenues</i>			
Property tax	\$44,622	\$40,475	\$36,712
Sales tax ^a	8,070	7,319	6,639
Utility Users Tax	8,013	8,663	9,917
Franchise Fees	9,683	10,921	12,893
Business License Fees	17,838	17,838	17,838
Vehicle License Fees	0	0	0
Other Revenues ^b	6,903	6,903	6,903
Total	\$95,129	\$92,120	\$90,904
<i>Cumulative Revenues*</i>	<i>\$95,000</i>	<i>\$1,030,000</i>	<i>\$1,942,000</i>
<i>Cumulative Revenues in the Base Case (4% inflation)</i>	<i>\$96,000</i>	<i>\$1,012,000</i>	<i>\$1,863,000</i>

a Assumes all taxable retail sales at 1300 El Camino Real are shifted from other locations in Menlo Park. Revenue in this line is from property tax in lieu of sales tax (see description of this source in Appendix A).

b Other revenues are detailed in Appendix A, p. A4.

* Cumulative estimates are rounded to the nearest \$1,000.

Source: Mundie & Associates

Table D16
Proposed Project: Projected Costs (Net Change from Existing Condition)
Inflation =Three Percent
City of Menlo Park
Constant (FY 2010-11) Dollars

Use	FY 2010-11	FY 2020-21	FY 2030-31
<i>Annual Costs:</i>			
Administrative Services	\$0	\$0	\$0
Community Development	0	0	0
Community Services	0	0	0
Library	0	0	0
Public Works ^a	1,115	1,115	1,115
Police ^b	0	0	0
Employee Support ^c	26	26	26
Total	\$1,142	\$1,142	\$1,142
<i>Cumulative Costs*</i>	<i>\$1,000</i>	<i>\$13,000</i>	<i>\$24,000</i>
<i>Cumulative Costs in the Base Case (4% inflation)</i>	<i>\$1,000</i>	<i>\$13,000</i>	<i>\$24,000</i>

a Assumes project responsibility for road maintenance costs on extended Garwood Way apply only to the street segment abutting the project site.

b Assumes no new police position.

c Calculated as a percent of the total budget.

* Cumulative estimates are rounded to the nearest \$1,000.

Source: Mundie & Associates

Table D17
Proposed Project: Projected Net Fiscal Balance
Inflation =Three Percent
City of Menlo Park
Constant (FY 2010-11) Dollars

	FY 2010-11	FY 2020-21	FY 2030-31
Annual Revenues and Costs			
Revenues this year (lower estimate) ^a	\$95,129	\$92,120	\$90,904
Costs this year (higher estimate) ^b	1,142	1,142	1,142
Net Balance	\$93,987	\$90,978	\$89,762
Cumulative Revenues and Costs			
Cumulative Revenues (lower estimate) ^a	\$95,000	\$1,030,000	\$1,942,000
Cumulative Costs (higher estimate) ^b	1,000	13,000	24,000
Cumulative Net Balance	\$94,000	\$1,017,000	\$1,918,000
<i>Cumulative Net Balance with 4% Inflation</i>	\$95,000	\$999,000	\$1,839,000

^a From Table D15. Cumulative estimates are rounded to the nearest \$1,000.

^b From Table D16. Cumulative estimates are rounded to the nearest \$1,000.

Source: Mundie & Associates

Table D18
Proposed Project, Project Variants, and EIR Alternative: Projected Annual Revenues
(Net Change from Existing Condition)
Inflation = Three Percent
City of Menlo Park
Constant (FY 2010-11) Dollars

Projected Annual Revenues in FY 2010-11 (Upon Completion)

Source	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Property Tax	\$44,622	\$44,622	\$44,622	\$44,622	\$52,788
Sales Tax	8,070	8,070	15,670	15,670	31,250
Utility Users Tax	8,013	8,013	8,013	8,013	7,017
Franchise Fees	9,683	9,683	9,683	9,683	8,768
Bus. License Fees	17,838	17,838	17,838	17,838	14,438
Veh. License Fees	0	0	0	0	487
Other Revenues ^a	6,903	6,903	6,903	6,903	9,856
Total	\$95,129	\$95,129	\$102,729	\$102,729	\$124,604

Projected Annual Revenues in FY 2020-21 (10 Years After Completion)

Source	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Property Tax	\$40,475	\$40,475	\$40,475	\$40,475	\$47,881
Sales Tax	7,319	7,319	14,919	14,919	30,363
Utility Users Tax	8,663	8,663	8,663	8,663	7,579
Franchise Fees	10,921	10,921	10,921	10,921	9,838
Bus. License Fees	17,838	17,838	17,838	17,838	14,438
Veh. License Fees	0	0	0	0	487
Other Revenues ^a	6,903	6,903	6,903	6,903	9,856
Total	\$92,120	\$92,120	\$99,720	\$99,720	\$120,442

Projected Annual Revenues in FY 2030-31 (20 Years After Completion)

Source	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Property Tax	\$36,712	\$36,712	\$36,712	\$36,712	\$43,430
Sales Tax	6,639	6,639	14,239	14,239	29,558
Utility Users Tax	9,917	9,917	9,917	9,917	8,663
Franchise Fees	12,893	12,893	12,893	12,893	11,543
Bus. License Fees	17,838	17,838	17,838	17,838	14,438
Veh. License Fees	0	0	0	0	487
Other Revenues ^a	6,903	6,903	6,903	6,903	9,856
Total	\$90,904	\$90,904	\$98,504	\$98,504	\$117,975

^a See footnotes to Table D1.

Source: Mundie & Associates

Table D19
Proposed Project, Project Variants, and EIR Alternative: Projected Annual Costs
(Net Change from Existing Condition)
Inflation =Three Percent
City of Menlo Park
Constant (FY 2010-11) Dollars

FY 2010-11, FY 2020-21, and FY 2030-31^a

Use	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Admin. Services	\$0	\$0	\$0	\$0	\$34,265
Comm'ty Dev't	0	0	0	0	0
Comm'ty Svcs	0	0	0	0	0
Library	0	0	0	0	0
Public Works ^b	1,115	1,115	1,115	1,115	1,115
Police ^b	0	0	0	0	0
Employee Support ^b	26	26	26	26	837
Total	\$1,142	\$1,142	\$1,142	\$1,142	\$36,218

^a Projected costs are the same in all three indicator years (FY 2010-11, FY 2020-21, and FY 2030-31).

^b See footnotes to Table D9.

Source: Mundie & Associates

Table D20
Proposed Project, Project Variants, and EIR Alternative:
Projected Annual Net Fiscal Balance
Inflation =Three Percent
City of Menlo Park
Constant (FY 2010-11) Dollars

Projected Annual Net Balance in FY 2010-11 (Upon Completion)

	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Revenues this year	\$95,129	\$95,129	\$102,729	\$102,729	\$124,604
Costs this year	1,142	1,142	1,142	1,142	36,218
Net Balance	\$93,987	\$93,987	\$101,587	\$101,587	\$88,386

Projected Annual Net Balance in FY 2020-21 (10 Years After Completion)

	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Revenues this year	\$92,120	\$92,120	\$99,720	\$99,720	\$120,442
Costs this year	1,142	1,142	1,142	1,142	36,218
Net Balance	\$90,978	\$90,978	\$98,578	\$98,578	\$84,224

Projected Annual Net Balance in FY 2030-31 (20 Years After Completion)

	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Revenues this year	\$90,904	\$90,904	\$98,504	\$98,504	\$117,975
Costs this year	1,142	1,142	1,142	1,142	36,218
Net Balance	\$89,762	\$89,762	\$97,362	\$97,362	\$81,757

Source: Mundie & Associates

Table D21
Proposed Project, Project Variants, and EIR Alternative:
Projected Cumulative Net Fiscal Balance
Inflation =Three Percent
City of Menlo Park
Constant (FY 2010-11) Dollars

Projected Cumulative Net Balance in FY 2010-11 (Upon Completion)

Source	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Cumulative Revenues	\$95,000	\$95,000	\$103,000	\$103,000	\$125,000
Cumulative Costs	1,000	1,000	1,000	1,000	36,000
Cum. Net Balance	\$94,000	\$94,000	\$102,000	\$102,000	\$89,000
<i>Cum. Net Balance with 4% Inflation</i>	\$95,000	\$95,000	\$103,000	\$103,000	\$89,000

Projected Cumulative Net Balance in FY 2020-21 (10 Years After Completion)

Source	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Cumulative Revenues	\$1,030,000	\$1,030,000	\$1,113,000	\$1,113,000	\$1,347,000
Cumulative Costs	13,000	13,000	13,000	13,000	398,000
Cum. Net Balance	\$1,017,000	\$1,017,000	\$1,100,000	\$1,100,000	\$949,000
<i>Cum. Net Balance with 4% Inflation</i>	\$999,000	\$999,000	\$1,083,000	\$1,083,000	\$945,000

Projected Cumulative Net Balance in FY 2030-31 (20 Years After Completion)

Source	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Cumulative Revenues	\$1,942,000	\$1,942,000	\$2,102,000	\$2,102,000	\$2,536,000
Cumulative Costs	24,000	24,000	24,000	24,000	761,000
Cum. Net Balance	\$1,918,000	\$1,918,000	\$2,078,000	\$2,078,000	\$1,775,000
<i>Cum. Net Balance with 4% Inflation</i>	\$1,839,000	\$1,839,000	\$1,999,000	\$1,999,000	\$1,668,000

Note: Cumulative estimates are rounded to the nearest \$1,000.

Source: Mundie & Associates

MOST LIKELY CASE, WITH INFLATION = 2 PERCENT

The impacts of an inflation rate of two percent are slightly more favorable than the three percent case: because property taxes increase (and are discounted) at the same rate as all other revenues and costs, they do not lose value in constant dollars over time.

Table D22
Proposed Project: Projected Revenues (Net Change from Existing Condition)
Inflation =Two Percent
City of Menlo Park
Constant (FY 2010-11) Dollars

Source	FY 2010-11	FY 2020-21	FY 2030-31
<i>Annual Revenues</i>			
Property tax	\$44,622	\$44,622	\$44,622
Sales tax ^a	8,070	8,070	8,070
Utility Users Tax	7,858	8,631	10,276
Franchise Fees	9,496	10,923	13,509
Business License Fees	17,494	17,494	17,494
Vehicle License Fees	0	0	0
Other Revenues ^b	6,770	6,770	6,770
Total	\$94,309	\$96,510	\$100,740
<i>Cumulative Revenues*</i>	<i>\$94,000</i>	<i>\$1,049,000</i>	<i>\$2,035,000</i>
<i>Cumulative Revenues in the Base Case (4% inflation)</i>	<i>\$96,000</i>	<i>\$1,012,000</i>	<i>\$1,863,000</i>

a Assumes all taxable retail sales at 1300 El Camino Real are shifted from other locations in Menlo Park. Revenue in this line is from property tax in lieu of sales tax (see description of this source in Appendix A).

b Other revenues are detailed in Appendix A, p. A4.

* Cumulative estimates are rounded to the nearest \$1,000.

Source: Mundie & Associates

Table D23
Proposed Project: Projected Costs (Net Change from Existing Condition)
Inflation =Two Percent
City of Menlo Park
Constant (FY 2010-11) Dollars

Use	FY 2010-11	FY 2020-21	FY 2030-31
<i>Annual Costs:</i>			
Administrative Services	\$0	\$0	\$0
Community Development	0	0	0
Community Services	0	0	0
Library	0	0	0
Public Works ^a	1,094	1,094	1,094
Police ^b	0	0	0
Employee Support ^c	26	26	26
Total	\$1,120	\$1,120	\$1,120
<i>Cumulative Costs*</i>	<i>\$1,000</i>	<i>\$12,000</i>	<i>\$24,000</i>
<i>Cumulative Costs in the Base Case (4% inflation)</i>	<i>\$1,000</i>	<i>\$13,000</i>	<i>\$24,000</i>

- a Assumes project responsibility for road maintenance costs on extended Garwood Way apply only to the street segment abutting the project site.
b Assumes no new police position.
c Calculated as a percent of the total budget.
* Cumulative estimates are rounded to the nearest \$1,000.

Source: Mundie & Associates

Table D24
Proposed Project: Projected Net Fiscal Balance
Inflation =Two Percent
City of Menlo Park
Constant (FY 2010-11) Dollars

	FY 2010-11	FY 2020-21	FY 2030-31
Annual Revenues and Costs			
Revenues this year (lower estimate) ^a	\$94,309	\$96,510	\$100,740
Costs this year (higher estimate) ^b	1,120	1,120	1,120
Net Balance	\$93,189	\$95,390	\$99,620
Cumulative Revenues and Costs			
Cumulative Revenues (lower estimate) ^a	\$94,000	\$1,049,000	\$2,035,000
Cumulative Costs (higher estimate) ^b	1,000	12,000	24,000
Cumulative Net Balance	\$93,000	\$1,037,000	\$2,011,000
<i>Cumulative Net Balance with 4% Inflation</i>	<i>\$95,000</i>	<i>\$999,000</i>	<i>\$1,839,000</i>

- a From Table D15. Cumulative estimates are rounded to the nearest \$1,000.
b From Table D16. Cumulative estimates are rounded to the nearest \$1,000.

Source: Mundie & Associates

Table D25
Proposed Project, Project Variants, and EIR Alternative: Projected Annual Revenues
(Net Change from Existing Condition)
Inflation =Two Percent
City of Menlo Park
Constant (FY 2010-11) Dollars

Projected Annual Revenues in FY 2010-11 (Upon Completion)

Source	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Property Tax	\$44,622	\$44,622	\$44,622	\$44,622	\$52,788
Sales Tax	8,070	8,070	15,670	15,670	30,831
Utility Users Tax	7,858	7,858	7,858	7,858	6,882
Franchise Fees	9,496	9,496	9,496	9,496	8,598
Bus. License Fees	17,494	17,494	17,494	17,494	14,159
Veh. License Fees	0	0	0	0	477
Other Revenues ^a	6,770	6,770	6,770	6,770	9,666
Total	\$94,309	\$94,309	\$101,909	\$101,909	\$123,401

Projected Annual Revenues in FY 2020-21 (10 Years After Completion)

Source	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Property Tax	\$44,622	\$44,622	\$44,622	\$44,622	\$52,788
Sales Tax	8,070	8,070	15,670	15,670	30,831
Utility Users Tax	8,631	8,631	8,631	8,631	7,550
Franchise Fees	10,923	10,923	10,923	10,923	9,832
Bus. License Fees	17,494	17,494	17,494	17,494	14,159
Veh. License Fees	0	0	0	0	477
Other Revenues ^a	6,770	6,770	6,770	6,770	9,666
Total	\$96,510	\$96,510	\$104,110	\$104,110	\$125,303

Projected Annual Revenues in FY 2030-31 (20 Years After Completion)

Source	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Property Tax	\$44,622	\$44,622	\$44,622	\$44,622	\$52,788
Sales Tax	8,070	8,070	15,670	15,670	30,831
Utility Users Tax	10,276	10,276	10,276	10,276	8,971
Franchise Fees	13,509	13,509	13,509	13,509	12,067
Bus. License Fees	17,494	17,494	17,494	17,494	14,159
Veh. License Fees	0	0	0	0	477
Other Revenues ^a	6,770	6,770	6,770	6,770	9,666
Total	\$100,740	\$100,740	\$108,340	\$108,340	\$128,958

^a See footnotes to Table D1.

Source: Mundie & Associates

Table D26
Proposed Project, Project Variants, and EIR Alternative: Projected Annual Costs
(Net Change from Existing Condition)
Inflation =Two Percent
City of Menlo Park
Constant (FY 2010-11) Dollars

FY 2010-11, FY 2020-21, and FY 2030-31^a

Use	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Admin. Services	\$0	\$0	\$0	\$0	\$33,277
Comm'ty Dev't	0	0	0	0	0
Comm'ty Svcs	0	0	0	0	0
Library	0	0	0	0	0
Public Works ^b	1,094	1,094	1,094	1,094	1,094
Police ^b	0	0	0	0	0
Employee Support ^b	26	26	26	26	813
Total	\$1,120	\$1,120	\$1,120	\$1,120	\$35,184

^a Projected costs are the same in all three indicator years (FY 2010-11, FY 2020-21, and FY 2030-31).

^b See footnotes to Table 10.

Source: Mundie & Associates

Table D27
Proposed Project, Project Variants, and EIR Alternative:
Projected Annual Net Fiscal Balance
Inflation =Two Percent
City of Menlo Park
Constant (FY 2010-11) Dollars

Projected Annual Net Balance in FY 2010-11 (Upon Completion)

	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Revenues this year	\$94,309	\$94,309	\$101,909	\$101,909	\$123,401
Costs this year	1,120	1,120	1,120	1,120	35,184
Net Balance	\$93,189	\$93,189	\$100,789	\$100,789	\$88,217

Projected Annual Net Balance in FY 2020-21 (10 Years After Completion)

	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Revenues this year	\$96,510	\$96,510	\$104,110	\$104,110	\$125,303
Costs this year	1,120	1,120	1,120	1,120	35,184
Net Balance	\$95,390	\$95,390	\$102,990	\$102,990	\$90,119

Projected Annual Revenues in FY 2030-31 (20 Years After Completion)

	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Revenues this year	\$100,740	\$100,740	\$108,340	\$108,340	\$128,958
Costs this year	1,120	1,120	1,120	1,120	35,184
Net Balance	\$99,620	\$99,620	\$107,220	\$107,220	\$93,775

Source: Mundie & Associates

Table D28
Proposed Project, Project Variants, and EIR Alternative:
Projected Cumulative Net Fiscal Balance
Inflation =Two Percent
City of Menlo Park
Constant (FY 2010-11) Dollars

Projected Cumulative Net Balance in FY 2010-11 (Upon Completion)

	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Cumulative Revenues	\$94,000	\$94,000	\$102,000	\$102,000	\$123,000
Cumulative Costs	1,000	1,000	1,000	1,000	35,000
Cum. Net Balance	\$93,000	\$93,000	\$101,000	\$101,000	\$88,000
<i>Cum. Net Balance with 4% Inflation</i>	\$95,000	\$95,000	\$103,000	\$103,000	\$89,000

Projected Cumulative Net Balance in FY 2020-21 (10 Years After Completion)

	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Cumulative Revenues	\$1,049,000	\$1,049,000	\$1,133,000	\$1,133,000	\$1,368,000
Cumulative Costs	12,000	12,000	12,000	12,000	387,000
Cum. Net Balance	\$1,037,000	\$1,037,000	\$1,121,000	\$1,121,000	\$981,000
<i>Cum. Net Balance with 4% Inflation</i>	\$999,000	\$999,000	\$1,083,000	\$1,083,000	\$945,000

Projected Cumulative Net Balance in FY 2030-31 (20 Years After Completion)

	Proposed Project		Variant 1	Variant 2	EIR Alternative
	With Groceries	With Retail			
Cumulative Revenues	\$2,035,000	\$2,035,000	\$2,195,000	\$2,195,000	\$2,639,000
Cumulative Costs	24,000	24,000	24,000	24,000	739,000
Cum. Net Balance	\$2,011,000	\$2,011,000	\$2,171,000	\$2,171,000	\$1,900,000
<i>Cum. Net Balance with 4% Inflation</i>	\$1,839,000	\$1,839,000	\$1,999,000	\$1,999,000	\$1,668,000

Note: Cumulative estimates are rounded to the nearest \$1,000.

Source: Mundie & Associates

APPENDIX E BUSINESS LICENSE TAXES

**Table E1
Potential Revenue per Acre from Different Land Uses (General Estimates)**

	Revenue per Acre			
	Sales Tax	Property Tax	Hotel Tax	Total
Auto Dealers	\$222,348	\$1,672		\$224,020
Big Box Retail	61,538	1,196		62,735
Conventional Retail (higher)	34,304	2,223		36,527
Conventional Retail (lower)	24,503	2,223		26,726
Supermarket	15,295	2,223		17,518
Office (higher)	10,345	4,446		14,791
Office (lower)		4,446		4,446
Hotel/Motel		3,911	\$114,630	118,541
Condos/Townhomes @ 35 units/acre		23,220		23,220
Townhomes @ 20 units/acre		13,269		13,269
Single family homes @ 15 units/acre		9,952		9,952

Notes:

The figures shown in this table are not specific to Menlo Park.

Property tax: Estimates for auto dealers and hotel/motel are based on actual properties outside the city.

These properties may not have been sold/resold recently. Estimate for big box retail is based on an actual project (construction value) outside the city. Estimates for office and retail space are hypothetical and assume assessed values of \$200 per square foot. Estimates for housing of all types are based on assumed sales prices of \$650,000 per unit. Property tax revenues shown are approximately 10 percent of the basic one percent levy (the same as the share collected from development at the 1300 El Camino Real site).

Big box retail requires large sites. This example is a 13.6-acre site.

Sales tax: Higher estimate for conventional retail assumes taxable sales of \$350 per sq. ft. per year (typical for a shopping center). Lower estimate for conventional retail assumes taxable sales of \$250 per sq. ft. per year (general estimate for older Main Street format retail stores). Supermarket estimate assumes 10,000 square feet of building space per acre and total sales of \$460 per square foot (estimate used in the fiscal analysis), with 35 percent of sales subject to sales tax. Higher estimate for office assumes 21,780 square feet of building space per acre (floor area ratio of 0.5) and taxable sales of \$50 per sq. ft. per year (high end of the estimate used in the fiscal analysis). Lower estimate assumes no taxable sales.

Hotel tax estimate assumes average room rate of \$115 per night, occupancy rate of 65 percent, and hotel tax rate of 10 percent.

**Table E2
Business License Taxes for Firms with Specified Gross Receipts**

	Gross Receipts				
	\$250,000	\$500,000	\$1,000,000	\$2,000,000	\$5,000,000
Stockton	\$500	\$1,000	\$2,000	\$4,000	\$8,000
San Rafael	450	900	1,800	3,600	9,000
Sacramento	325	650	1,300	2,600	6,500
Oakland: Professional/semi-professional	300	600	1,200	2,400	6,000
Oakland: Media Firms	270	428	690	1,100	2,599
Oakland: Business/personal services	250	500	1,000	2,000	5,000
Newark: Professions	200	275	460	750	1,250
Mountain View	130	230	430	830	2,030
Menlo Park	200	275	460	750	1,500
Lodi	100	100	100	100	100
East Palo Alto	74	124	224	424	1,024
Burlingame	30	30	30	30	30

Source: Mundie & Associates

**Table E3
Business License Taxes for Firms with Specified Numbers of Employees**

	Number of Employees				
	10	50	100	250	500
South San Francisco: Professional/semi-professional	\$1,275	\$6,275	\$12,525	\$31,275	\$62,525
East Palo Alto: Administrative Offices	500	1,000	1,500	2,000	2,000
Redwood City	277	1,237	2,437	3,030	3,030
South San Francisco: Business/personal services	210	810	1,560	3,810	7,560
Menlo Park	200	500	800	1,250	1,250
San Jose	186	906	1,806	4,506	9,006
Sunnyvale	100	500	1,000	2,500	5,000
Santa Clara: Professional	90	380	500	500	500
Milpitas	85	124	174	324	574
Campbell	85	102	102	102	102

Source: Mundie & Associates

**Table E4
Comparison of Gross Receipts Tax Rates**

City	Lowest Bracket	Rate per \$1,000 at Midpoint of Bracket	Highest Bracket	Rate per \$1,000 over Low End of Bracket
East Palo Alto	\$0-1,000	\$100.00 ^a	\$10 million+	\$0.50
Sacramento	\$0-\$10,000	\$6.00 ^b	\$10,000+	\$0.40
Menlo Park	\$0-25,000	\$4.00 ^a	\$2 million-30 million	\$0.25
Oakland: Professional/semi-professional services	n.a.	\$3.60	n.a.	\$3.60
San Rafael	\$0-50,000	\$3.20 ^c	\$2 million+	\$0.30
Oakland: Business/personal services	n.a.	\$1.80	n.a.	\$1.80
Lodi	\$0-75,000	\$1.33 ^a	\$5 million+	\$0.60
Newark	n.a.	\$1.30	n.a.	\$1.30
Oakland: Media firms	n.a.	\$1.20	n.a.	\$1.20
Stockton	n.a.	\$0.20	n.a.	\$0.20

n.a. Not applicable: same rate applies to all businesses.

a Tax for this bracket is \$50.

b Tax for this bracket is \$30.

c Tax for this bracket is \$80.

Source: Mundie & Associates

**Table E5
San Francisco Business Registration Tax**

Payroll	Business Registration Tax
Less than \$ 66.67	\$25.00
\$66.67 - \$666,666.66	\$150.00
\$666,666.67 - \$3,333,333.33	\$250.00

Table E6
San Rafael Business License Tax Schedule for Administrative Offices

Cost of Business Operations in San Rafael	Business Registration Tax
\$0 -25,000	\$40
\$25,001 -50,000	\$60
\$50,001 -100,000	\$80
\$100,001 -200,000	\$80.00 plus \$.70 per \$1,000 over \$100,000
\$200,001 -300,000	\$150.00 plus \$.60 per \$1,000 over \$200,000
\$300,001 -500,000	\$210.00 plus \$.50 per \$1,000 over \$300,000
\$500,001 -1,000,000	\$310.00 plus \$.40 per \$1,000 over \$500,000
\$1,000,001 -2,000,000	\$510.00 plus \$.30 per \$1,000 over \$1,000,000
\$2,000,001 -or more	\$810.00 plus \$.20 per \$1,000 over \$2,000,000

Source: City of San Rafael, on the internet at www.cityofsanrafael.org

Table E7
San Rafael: Comparison of Business License Tax Rates Based on Gross Receipts vs. Cost of Doing Business

Professional and Semi-Professional Services		Administrative Offices	
Gross Receipts	Tax	Cost	Tax
\$0 -50,000	\$80	\$0 -25,000	\$40
		\$25,001 -50,000	\$60
\$50,001 -100,000	\$120	\$50,001 -100,000	\$80
\$100,001 -200,000	\$180	\$100,001 -200,000	\$80 + \$0.70 per \$1,000 over \$100,000
\$200,001 -300,000	\$270	\$200,001 -300,000	\$150 + \$0.60 per \$1,000 over \$200,000
\$300,001 -400,000	\$352	\$300,001 -500,000	\$210 + \$0.50 per \$1,000 over \$300,000
\$400,001 -500,000	\$428		
\$500,001 -750,000	\$540	\$500,001 -1,000,000	\$310 + \$0.40 per \$1,000 over \$500,000
\$750,001 -1,000,000	\$690		
\$1,000,001 -1,250,000	\$780	\$1,000,001 -2,000,000	\$510 + \$0.30 per \$1,000 over \$1,000,000
\$1,250,001 -1,500,000	\$880		
\$1,500,001 -1,750,000	\$990		
\$1,750,001 -2,000,000	\$1,100		
\$2,000,001 or more	\$1,100 plus \$0.30 per \$1,000 over \$2,000,000	\$2,000,001 or more	\$810 + \$0.20 per \$1,000 over \$2,000,000

Source: City of San Rafael, on the internet at www.cityofsanrafael.org

APPENDIX F

THE 2002 FISCAL IMPACT MODEL

In 2002, the City of Menlo Park commissioned the preparation of a fiscal impact model to test the effects of new development on revenues and costs. Why wasn't that model used for this study?

Like most computer-assisted models, the 2002 model uses a standard set of assumptions for the estimation of revenues and costs. These assumptions are generally sound, but they miss the nuances required for the Proposed Project at 1300 El Camino Real. Specifically:

- **Sales Tax Revenues**

The 2002 model provides space for only one assumption about taxable sales per square foot of retail space.

The project at 1300 El Camino Real requires a more nuanced approach to estimating taxable sales. In the Proposed Project, the retail space would have lower-than-typical taxable sales, because only a portion of total sales (estimated at 35 percent) would be taxable. This modification is relatively easy to incorporate, simply by substituting the lower estimate of taxable sales. In Variant 1, however, the retail space would be divided between supermarket/grocery store, with lower taxable sales per square foot, and other retail space, with higher taxable sales per square foot.

The 2002 model also does not allow for adjustment of the sales tax revenue estimate to account for possible shifts in spending from existing Menlo Park locations to the Proposed Project. This adjustment could be achieved by performing multiple model runs in which the sales tax estimate is set at different levels, but the complication introduced by different types of retail space in Variant 1 would remain.

- **Utility User Tax Revenues**

Menlo Park did not levy a utility user tax in 2002, when the fiscal model was prepared. The model would have to be modified to include this source of revenue.

- **Property Tax Revenues**

The 2002 model assumes that property tax revenues increase at a rate of two percent per year, the maximum allowed by California law unless the property is sold or substantially modified.

This assumption is reasonable and is used for most of the analysis presented here. For the mixed-use alternative, however, it is possible that the residential units would be sold as condominiums. In that case – depending on economic and housing market conditions – it is likely that the increase in property taxes would reflect the general inflation rate (in this analysis, four percent). The 2002 model does not allow for a project in which some of the property (i.e., the residential units) could be sold while the remainder (the retail and office space) remains in the same ownership throughout the study period.

- **Business License Tax Revenues**

The 2002 model uses a detailed table of business types to estimate gross receipts, and then synthesizes the information to derive estimates of gross receipts per employee. The source for this information is the 1997 Economic Census, reports for San Mateo and Santa Clara Counties. More recent information is available from the 2002 Economic Census; the geographic areas covered would be slightly different (data availability differs by industry).

To use the model for this project would have required updating the information.

- **Assignment of Costs**

The 2002 model assumes that costs will be incurred by new development regardless of the size or location of the Proposed Project. The model uses an “average cost” approach, in which a proportion of total costs (by function) are assigned to residential vs. nonresidential uses, and then the residential portion is divided by population and the nonresidential portion by employment. With this approach, the 2002 model provides a conservative projection of cost increases that would be generated by the Proposed Project.

The projections of changes in costs presented in this report are based on interviews with City staff. This approach takes closer account of the specific characteristics of a Proposed Project. For example, the 1300 El Camino Real project would require extension of a street (Garwood Way), which would not be reflected in the 2002 model. With this “case study” approach, the specific (expected) impacts of a project may be more closely estimated; at the same time, it is possible that cumulative impacts of many projects – of which the Proposed Project comprises only a small part – will not be reflected.

- **Impacts on Other Agencies**

The 2002 model projects changes in revenues and costs only for the City of Menlo Park. The analysis for 1300 El Camino Real covers not only the City, but also the Fire District, two school districts, and the water and sanitary districts. Additional analysis would have been required even if the 2002 model had been used for the city portion of the analysis.

Based on this review, it was concluded that adjustment and augmentation of the 2002 model would have been as costly as the construction of a new fiscal analysis tailored to the Proposed Project at 1300 El Camino Real, and that some of the factors that would affect the Proposed Project could not be well represented in the 2002 model.

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