



# **Independence/Constitution Project Fiscal Impact Methodology**

Public Workshop Presentation

July 30, 2008

## Purpose of Tonight's Meeting

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- **Review approach to fiscal impact analysis for proposed Independence / Constitution project**
- **Discuss questions, your suggestions**
- **Introduce BAE Team doing the analysis**
  - Real estate and urban economists
  - Experienced in performing fiscal impact evaluations for cities, preparing fiscal impact models
  - Cupertino, San Mateo, Burlingame, Brisbane, Pleasanton, Livermore, and others
  - Project staff: Ron Golem, Principal; Steve Murphy, Senior Associate; Tessa Munikeyo, Associate

## What Do We Mean by Fiscal Impact?

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- **Detailed estimation of new taxes, fees, other revenues received from proposed project**
  - Look at City of Menlo Park, Special Districts (e.g. Fire Department, Schools, etc.)
- **Estimate costs of new services required to be provided by City, Districts**
  - Include capital facilities (e.g. new fire station)
- **Address induced impacts from proposed project, e.g. additional housing demand**
- **If negative impact, revenues < costs, analysis can inform changes to improve balance**

## The Proposed Project

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- **Redevelopment of two parcels covering 15.9 acres at Independence, Constitution Drives**
  - Existing: 219,000 sf office/R&D
  - Net out fiscal impacts of existing development
- **Proposed project:**
  - 3 office/R&D buildings, approx. 695,000 sf
  - Hotel with fitness club, approx. 230 rooms
  - Retail, restaurant, community facilities, approx. 15,000 sf
  - 3 parking structures to meet parking requirements

## The 2002 Fiscal Impact Model

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- Existing fiscal impact model prepared in 2002
- Based on outdated budget, assumptions
- Does not address Special District services (schools, fire, open space, etc.)
- Calculates average costs -- would not show need for new capital improvement, equipment
- Effort to update model -- which would still have limits -- comparable to project-specific analysis
- Recommend creating a project-specific model

## Fiscal Revenues

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- **Key revenue sources:**
  - Transit occupancy (“room”) tax (TOT) for lodging
  - Property taxes - real and personal
  - Sales taxes - retail and business-to-business
  - Utility taxes
- **Estimation varies by source - examples:**
  - TOT - apply City’s 10% rate to market-based evaluation of comparable hotels
  - Property taxes - look at comparable construction costs, land sales, tax rate allocation to City & districts
  - Sales taxes - look at business-to-business taxable sales in comparable office buildings
- **Look at effect of changes in assumptions - “sensitivity analysis”**

## Fiscal Costs

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- **Methodology varies by type of service**
- **Community Services, Library, Community Development, Administration, etc:**
  - Allocate costs to employees versus residents. Calculate per-employee cost, apply to project
- **Police, Fire, Public Works, etc:**
  - Additional step to identify need for new facilities, equipment, staffing, etc.
- **Schools - no residential in project. Work with schools on impacts from induced demand**
- **Smaller districts - Air Quality, Mosquito Abatement, etc. - minimal impact, not evaluated**

## Preparing a Long-Term Analysis

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- **Look at year-by-year and cumulative basis over next 20 years**
  - Identify annual surpluses/deficits beginning with construction, through lease-up and operation
- **Includes inflation assumption – average 4% per year except where other factors apply**
  - Example: Prop. 13 limits property taxes to 2% year
- **Calculate total impact (positive or negative) in “current” i.e. 2008 dollars**
  - Allows direct comparison with current budget, provides basis for off-setting any negative impacts

## Other Elements of the Impacts Analysis

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- **Evaluate induced housing demand, fiscal impact associated with it**
  - Based on analysis of future demand for housing
- **Project's potential to induce redevelopment of other parcels in the area**
  - Look at local market conditions, property factors
- **Evaluate economic impact**
  - Increases in employment, income, and spending, portions of which go to Menlo Park firms, residents
  - Uses econometric model at County level
  - Calculates direct, indirect, and induced demand
- **Identify and evaluate alternate mechanisms to generate revenue for City from the project**

## Next Steps for Fiscal Impact Analysis

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- **Interviews with departments, special districts staff to evaluate impacts in more detail**
- **Incorporate input from tonight's meeting**
- **Further research on market conditions, cost factors, other items to refine assumptions**
- **Prepare custom fiscal impact for model that allows testing of alternative assumptions**
- **Prepare draft report, with complete tables, for review by City**
  - Public distribution, review at second workshop