



## Memorandum

**To:** Thomas H. Rogers, City of Menlo Park

**From:** Ron Golem, Steve Murphy, BAE

**Re:** Background memorandum for Independence/Constitution Project fiscal impact analysis

**Date:** June 16, 2008

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### Purpose

This memorandum sets forth BAE's recommended methodology for its fiscal impact analysis of the 100 – 190 Independence Drive / 101 - 155 Constitution Drive Project as proposed by Bohannon Development. The fiscal impact analysis is being undertaken to provide the City of Menlo Park (City) with an independent assessment of new fiscal revenues as well as new service costs that would be created by the Bohannon Project and five alternate land use programs (Project), which are being considered in preparation of the Project Environmental Impact Report (EIR).

This memorandum includes a description of the project; analysis of the potential applicability of the City's previous fiscal impact model prepared in 2002; BAE's recommended methodology; comparison with the methodology used for previous studies; and next steps.

The purpose of providing this memo in advance of conducting the fiscal impact analysis is to identify and address concerns regarding how the analysis will be conducted and how assumptions will be formulated, potential alternative methodologies, and any other matters that should be addressed in upcoming work.

### Project Description

In order to allow a proposed development program for two sites within the City of Menlo Park, the Bohannon Development Company has proposed amendments to the City of Menlo Park General Plan and Zoning Ordinance affecting several parcels totaling 15.9 acres. Currently these parcels house approximately 219,000 square feet of office/R&D space at a floor-to-area ratio (FAR) of 0.31. The proposed project would substantially increase the intensity of development at the sites, resulting in a project that totals approximately 962,000 square feet, built at an FAR of 1.39. A summary of the development program is listed below:

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San Francisco Bay Area

Sacramento

New York

Washington, D.C.

- Three office and R&D buildings (694,726 square feet)
- Hotel (173,682 square feet; 245 rooms)
- Fitness club, serving hotel guests and the public (76,420 square feet)
- Cafe/restaurant (6,947 square feet)
- Neighborhood-serving retail and community facilities (10,420 square feet)
- Three parking structures

A summary of the Project and Alternates is provided in Table 1 below. Note that the land use program for Alternate 5 is still being finalized by the City and EIR consultant. Once finalized, the fiscal impact of Alternate 5 will also be analyzed.

**Table 1. Overview of Proposed Project and Alternate Development Programs, Constitution and Independence Project**

	Project		Alternative 1		Alternative 2		Alternative 3		Alternative 4		Alternative 5	
	SF	FAR	SF	FAR	SF	FAR	SF	FAR	SF	FAR	SF	FAR
<b>Independence Site</b>												
Lot Area	308,815	-	308,815		308,815		308,815		308,815		308,815	
Floor Area												
Office/R&D	200,000	64.8%	85,057	27.5%	138,967	45.0%	138,967	45.0%	220,803	71.5%		
Restaurant	6,947	2.2%	0	0.0%	0	0.0%	6,947	2.2%	6,947	2.2%		
Health Club	76,420	24.7%	0	0.0%	0	0.0%	76,420	24.7%	76,420	24.7%	TBD	
Hotel	173,682	56.2%	0	0.0%	0	0.0%	173,682	56.2%	173,682	56.2%		
Retail/Community	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%		
<b>Total</b>	<b>457,049</b>	<b>148.0%</b>	<b>85,057</b>	<b>27.5%</b>	<b>138,967</b>	<b>45.0%</b>	<b>396,016</b>	<b>128.2%</b>	<b>477,852</b>	<b>154.7%</b>		
<b>Constitution Site</b>												
Lot Area	385,911	-	385,911		385,911		385,911		385,911	385,911		
Floor Area												
Office/R&D	494,726	128.2%	133,694	34.6%	173,660	45.0%	173,660	45.0%	275,926	71.5%		
Restaurant	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%		
Health Club	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	TBD	
Hotel	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%		
Retail/Community	10,421	2.7%	0	0.0%	0	0.0%	10,421	2.7%	10,421	2.7%		
<b>Total</b>	<b>505,147</b>	<b>130.9%</b>	<b>133,694</b>	<b>34.6%</b>	<b>173,660</b>	<b>45.0%</b>	<b>184,081</b>	<b>47.7%</b>	<b>286,347</b>	<b>74.2%</b>		
<b>Total Project</b>												
Lot Area	694,726	-	694,726		694,726		694,726		694,726	694,726		
Floor Area												
Office/R&D	694,726	100.0%	218,751	31.5%	312,627	45.0%	312,627	45.0%	496,729	71.5%		
Restaurant	6,947	1.0%	0	0.0%	0	0.0%	6,947	1.0%	6,947	1.0%		
Health Club	76,420	11.0%	0	0.0%	0	0.0%	76,420	11.0%	76,420	11.0%	TBD	
Hotel	173,682	25.0%	0	0.0%	0	0.0%	173,682	25.0%	173,682	25.0%		
Retail/Community	10,421	1.5%	0	0.0%	0	0.0%	10,421	1.5%	10,421	1.5%		
<b>Total</b>	<b>962,196</b>	<b>138.5%</b>	<b>218,751</b>	<b>31.5%</b>	<b>312,627</b>	<b>45.0%</b>	<b>580,097</b>	<b>83.5%</b>	<b>764,199</b>	<b>110.0%</b>		

## **Previous Citywide Fiscal Impact Model**

The City requested BAE to address the extent to which a previous Citywide fiscal impact model prepared for the City could be used to analyze the Project. The previous model was prepared in 2002 for the City by a joint venture of Applied Development Economics and Vernazza Wolfe Associates. BAE's review of that model and its documentation identified the following considerations:

- The model's assumptions are based on the City's FY01-02 budget, as well as assumptions on property values, sales tax per square foot, etc. It then calculates average revenue and cost per resident and per worker. While these figures are too low and out of date, some of the information can be updated fairly easily (e.g. budget, sales assumptions), while more work would be required to determine if other assumptions are still valid or need to be revised (e.g. allocation of costs to residents versus workers).
- Because the model is based on average costs, it does not calculate exactly when growth would trigger the need for new facilities or major capital investment for certain services (e.g. fire, libraries, police, wastewater). This is important because in some cases a small increment of growth from a development project can create the need for major up-front investment to serve both the new project and other future development.
- The model does not include assumptions for retail and restaurant-related sales tax from hotel projects – this would still need to be developed.
- The model is limited to the City's General Fund budget, and does not calculate fiscal impact for services provided by special districts (i.e. schools, fire, hospital, open space, etc.)

For these reasons, the existing model will not address the full range of impacts associated with the Project. Combined with the need to update its core assumptions, there would be minimal, if any, savings in time or effort to update and reuse the model, compared to the creation of a fiscal impact model that is Project-specific.

## **Recommended Fiscal Impact Methodology**

This analysis is intended to describe revenue and cost impacts to the City General Fund as well as impacts to affected special districts including the following:

- Menlo Park Fire District;
- Menlo Park Municipal Water District;

- West Bay Sanitary District;
- Elementary & high school districts;
- County Office of Education Special District;
- San Mateo County Community College District;
- Midpeninsula Regional Open Space District; and
- Sequoia Hospital District.

The methodology described provides an initial roadmap for BAE’s work and is subject to further refinement as the analysis progress. The methodology is informed by a review of the following documents and draws on BAE’s prior experience preparing various fiscal impact analyses:

- Fiscal Impact Analysis of Bohannon Properties, Brion & Associates & Associates, October 2005;
- Peer Review, Conley Consulting Group, April 2006;
- Response to Peer Review, Brion & Associates & Associates, January 2007; and
- Fiscal Impact Analysis of Bohannon Mixed Use Project, June 2007.

***Revenues***

The proposed project is expected to generate significant revenue for the City and various special districts from a variety of sources, most notably transient occupancy tax (i.e., lodging tax, also referred to as TOT), property tax, and sales tax as well as business licenses, fines, fees, and charges for services.

Included below in Table 2 is a summary of BAE’s proposed methodology for calculating revenues and a comparison to the methodology used by Brion & Associates in its 2007 fiscal impact analysis for the proposed project.

***Transient Occupancy Tax***

If the proposed development is completed, TOT would likely be the most significant source of new revenue for the City of Menlo Park General Fund.

The TOT rate in Menlo Park is 10 percent applied to room and overnight parking revenues. BAE proposes to estimate TOT revenues by estimating a range of potential total room and parking revenues based on hotel market data for current and prior years. This analysis will involve a review of the project sponsor’s hotel market analysis as well as gathering of data on the performance of comparable hotel properties in the local area to ascertain the low and high range for occupancies and room rates.

Also considered as part of the TOT revenue analysis will be the extent to which the proposed hotel would be expected to bring new hotel spending to the City versus capturing hotel spending currently happening at other properties in the City, particularly the Stanford Park Inn.

### *Property Taxes*

After TOT revenue, the next most important source of revenue from the proposed project would be property taxes from real and personal property<sup>1</sup>. Property tax revenues are shared between various government entities and accrue to the City General Fund and other special funds as well as to the affected special districts. The following multi-step methodology will be used to estimate property taxes.

1. Determine the current assessed value of land and improvements on the Independence and Constitution sites, based on current tax rolls.
2. Estimate the value of new improvements based on a construction budget provided by Bohannon, verified against published construction cost data from other sources, including the *2008 RS Means Square Foot Cost*, a well-regarded cost estimation manual.
3. Estimate the value of land at the Constitution and Independence sites subject to the following assumption: the Constitution site would remain in the same ownership and not be reassessed while the Independence site would be transferred to new ownership and reassessed at a market value.<sup>2</sup> To estimate the value of land, BAE will review recent sales of comparable parcels and recently completed reassessments by the County Tax Assessor.
4. Subtract existing value from new value to estimate the total increase in assessed value.
5. Apply the tax rate distribution to the increase in assessed value to estimate the proportion of property tax revenues that would be received by the City and affected special districts, adjusting for the portion of revenues siphoned off by the state for the Education Revenue Augmentation Fund (ERAF).

### *Sales Taxes*

Sales tax revenues from the Project would be expected to represent an important source of funds to the City, albeit substantially smaller than TOT and property tax revenues. The following

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<sup>1</sup> Per the San Mateo County Assessor: "Business personal property includes all supplies, equipment and any leasehold improvements used in the operation of a business. Any business that owns Personal Property and/or Leasehold Improvements having a total combined cost or current market value of \$100,000 or more is required to file a business property statement." Business personal property is taxed at the 1.0 percent local property tax rate and unlike real property is subject to reassessed each year.

<sup>2</sup> This assumption is explicitly called out in the 2007 Brion & Associates Fiscal Impact Analysis and will be verified with the project sponsor.

methodology will be used to estimate sales taxes from the Project.

*Office Component.* With approximately 700,000 of office space proposed, the office component of the project could potentially generate a significant amount of sales tax revenue through business-to-business and other non-retail transactions for which the project is identified as the point of sale. As opposed to retail transactions where the point of sale is at the retail location, for non-retail sales the State Board of Equalization defines the point of sale for non-retail transactions as the seller's location where the principal sales negotiations are carried out – typically the company sales office.

To estimate non-retail sales taxes, BAE will examine the previous sales tax analysis done by Brion & Associates and prepare its own analysis based on a review of confidential sales tax data for office tenants in the City. BAE anticipates uses a sampling methodology to select existing high quality office buildings in the City and determine the current range of non-retail sales taxes which are generated. Based on this analysis BAE will determine an appropriate range for per square foot sales tax revenues from new office development.

*Hotel Component.* In addition to room revenues, hotels generate a certain amount of taxable sales through the sale of food, beverages, and merchandise. BAE will obtain data from other area hotels to determine an average amount of taxable sales on a per room basis. This data will be compared against information provided by Marriott and reported by Brion & Associates.

*Fitness Center.* In addition to revenues from membership fees, fitness centers generate a certain amount of taxable sales through food and beverage concession and sales of clothing and other miscellaneous items. BAE will review Bohannon's fitness center market study and its assumptions regarding taxable sales at the fitness center and conduct independent research as needed to estimate a per square foot estimate of taxable sales for the fitness center. Retail sales tax revenues from the fitness center are expected to be a modest revenue source.

*Restaurant/Retail/Community Component.* Consistent with the Brion & Associates' analysis, BAE will assume the community space component will not generate retail sales tax revenue. This assumption will understate revenues of the space is in fact occupied by a user who generates retail sales tax. For the non-hotel café/restaurant use, BAE will estimate taxable sales on a per square foot basis based on published data and other research.

*Off-Site Spending by Employees.* In addition to taxable sales occurring on-site, BAE will estimate the off-site spending that would be generated by employees working at the proposed development. This type of spending largely consists of off-site food purchases (e.g., lunch) and other small miscellaneous retail purchases. A detailed survey of office worker spending patterns by the International Council of Shopping Centers provides a useful reference. Using this survey and

making adjustments for locational factors and to account for on-site purchases made at the hotel/fitness center, BAE will estimate off-site employee taxable spending on a per employee basis.

### *Other Revenues*

In addition to TOT, property, and sales taxes, there are a handful of smaller revenue sources which would be impacted by the Project. These include franchise fees, business license fees, and fines. BAE will estimate these revenues on a per employee basis by identifying the portion of current City collections that are attributable to employment uses and dividing by the number of employees in the City. For other small, miscellaneous revenue sources (e.g., revenue from the use of City money and property), the analysis will not model any impact as the affect of the Project on these sources would be minimal.

*Property Transfer Tax.* The City receives a property transfer tax of \$0.55 per \$1,000 of assessed value when properties are sold or transferred. The Bohannon organization intends to keep the Constitution site in the same ownership, while the Independence site would be transferred to a new ownership prior to development of the new project. This action would trigger a need to pay property transfer taxes. The analysis will estimate revenue from this source, based on the market value of land and improvements at the Independence site at the time of transfer. Compared to revenues described above, this is not an annually recurring revenue source.

*Impact Fees.* In addition to ongoing revenue streams, BAE will estimate one-time revenues including impact fees and property transfer taxes. Impact fees include water capital facilities charges, fire capital facilities charges, sewer fees, traffic impact fees, below-market rate housing in-lieu fees, and school impact fees. These fees will be calculated consistent with published fee schedules from the affected departments/districts.

**Table 2. Comparison of Revenue Estimation Methodologies**

Revenue Sources	Proposed BAE Methodology	Brion Methodology, 2007 FIA
<b>Property Tax Revenue</b>		
Determine Assessed Value of Existing Dev.	Utilize 2008 tax rolls.	Utilized 2007 tax rolls.
<b>Estimate Assessed Value of New Development (Real and Personal Property)</b>		
Determine New Improvement Value	Use construction budget from Bohannon. Verify data against secondary source, e.g., R.S. Means.	Used construction costs data from Bohannon.
Determine New Land Value	-Assume Constitution site transfers to new ownership entity triggering reassessment of land to market value. -Assume Independence site will not transfer to new ownership entity; hence no reassessment of land. -Determine market value of land based on comparable land transactions and recent reassessments by County Assessor.	-Assumed Constitution site transfer to new ownership entity triggering reassessment of land to market value. -Assumed Independence site will not transfer to new ownership entity; hence no reassessment of land. -Determined market value of land based on comparable land transactions and recent reassessments by County Assessor.
Apply Property Tax Distribution Rate to Estimate Revenues for City and Special Districts	-Utilize tax distribution information from County Controller. Determine impact of ERAF shift whereby State government takes a portion of the base 1% assessment. -Calculate non-General Fund revenues generated from supplemental parcel taxes for parks and rec.	-Utilized information from County Controller and did not account for ERAF shift. -Accounts for non-General Fund revenues generated from supplemental parcel taxes for parks and rec.
<b>Sales Tax Revenue</b>		
Determine Taxable Sales for Existing Development	Utilize confidential sales tax data provided by City to determine tax revenues from existing tenants.	Utilized confidential sales tax data provided by City to determine tax revenues from existing tenants.
Estimate Non-Retail Taxable Sales for New Development	Evaluate the Brion analysis as well as confidential sales tax data and M2 land use data to determine a low, medium, and high range for non-retail taxable sales.	Based on avg. per SF taxable sales for Bohannon tenants = \$5.48 per SF for office tenants.
<b>Estimate Retail Taxable Sales for New Dev.</b>		
Hotel Taxable Sales	Evaluate data provided by Marriott compared against data BAE will obtain for other local hotels.	Utilized data supplied by Marriott.
Fitness Club Taxable Sales	BAE will review Bohannon Market Study and revenue assumptions and conduct independent research as needed to confirm assumptions.	Based on primary market research and data supplied by Marriott.
Café/Restaurant Taxable Sales	BAE will estimate typical retail sales per square foot for a café/restaurant based on published sources and other research.	This use was not part of the development program evaluated by Brion.
Employee Spending	Utilize published data regarding office worker spending patterns, adjusted for locational factors. (Source: <i>Office Worker Retail Spending Patterns</i> , ICSC.). Net out expenditures expected to occur on-site.	Utilized published data regarding office worker spending patterns, adjusted for locational factors. (Source: <i>Office Worker Retail Spending Patterns</i> , ICSC.) Netted out expenditures expected to occur on-site.
Apply Property Local Property Tax Rate	Assume 0.95% per SBOE Local Sales and Use Tax Rates (Table 23A).	Assumed 1.00%.
<b>Transit Occupancy Tax Revenue</b>		
<b>Estimate Hotel Revenues</b>		
Room Rate & Occupancy	Review the Bohannon Market Study and Marriott data and examine performance of other local area hotels to determine a low, medium, and high range for room rates/occupancy levels.	Based on primary market research and data supplied by Marriott.
Impact on TOT Revenues from Other Hotels in Menlo Park	BAE will review the Bohannon Market Study and Marriott data and examine performance of other local area hotels to estimate the extent to which the new hotel will cannibalize the City's existing TOT revenues.	Assumed no impact on other hotel properties in City.
Apply TOT Rate	Use 10% per City of Menlo Park ordinance.	Use 10% per City of Menlo Park ordinance.

**Table 2. Comparison of Revenue Estimation Methodologies -- Continued**

Revenue Sources	Proposed BAE Methodology	Brion Methodology, 2007 FIA
<b>Utility Users Tax Revenue</b>		
Estimate Utility Usage		
Electric, Natural Gas, & Water	Estimate expenditures using typical building energy consumption data from secondary sources, e.g., EPA, Building Owners Management Association, Smith Travel, etc.	NA
Telephone/Cell Phone	Estimate telephone/cell phone expenditures on a per employee basis based on current City collections from business users.	NA
Apply Local UUT Rate	Use 1% of total utility expenditures, Note an annual cap of \$12,000 applies for the UUT by service address and entity paying the utility bills and tax. For most businesses this cap is not reached and does not apply.	The UUT was not passed until Nov. 2006 and is not addressed in the Brion Analysis.
<b>Business License Fees</b>		
Estimate Business License Tax Revenues	Estimate on per employee basis based on data provided by City.	Estimated on per employee basis based on data provided by City.
<b>Other Revenues</b>		
Franchise Fees & Fines	Estimate on per employee basis based on data provided by City.	Estimated on per employee basis based on data provided by City.
Other Permits, Licenses, & Charges for Services	Assume cost offset	Assumed cost offset
Interest Income, Transfers, Intergov Revenues	Assume no change	Assumed no change
<b>Districts</b>		
Menlo Park Fire	Estimate property tax revenue as described above.	Not Analyzed.
Redwood City Elementary	Estimate property tax revenue as described above.	Not Analyzed.
Sequoia High	Estimate property tax revenue as described above.	Not Analyzed.
County Office of Education	Estimate property tax revenue as described above.	Not Analyzed.
San Mateo Community College	Estimate property tax revenue as described above.	Not Analyzed.
Midpeninsula Regional Open Space	Estimate property tax revenue as described above.	Not Analyzed.
Sequoia Hospital	Estimate property tax revenue as described above.	Not Analyzed.
West Bay Sanitary District	Estimate user and impact fee revenues.	Not Analyzed.
Menlo Park Municipal Water District	Estimate user and impact fee revenues.	Not Analyzed.
Bay Area Air Quality Mgmt	Not Analyzed.	Not Analyzed.
County Harbor District	Not Analyzed.	Not Analyzed.
Mosquito Abatement	Not Analyzed.	Not Analyzed.

## **Costs**

While the proposed project is expected to generate significant revenue for the City and various special districts, it will also generate significant costs for the provision of various government services and facilities, including general government services, public safety services, library, parks and recreation services, and public works services, in addition to the services provided by the various special districts including the fire district and hospital.

Included below in Table 3 is a summary of BAE's proposed methodology for calculating costs and a comparison to the methodology used by Brion & Associates & Associates in its 2007 fiscal impact analysis for the proposed project.

For services provided by the Administrative Services, Community Development, Community Services, and Library departments, the analysis to estimate costs according to the following methodology:

1. Estimate the amount of departmental costs attributable to employment versus residential uses in the City. An assumption that employees generate 50 percent of the demand of residents will be used, unless other data from individual departments/districts is available that suggests a different ratio is appropriate. For the community services and library departments, BAE expects that more detailed data may be available regarding the relative demand for services generated by employment versus residential uses.
2. Calculate costs on a per employee basis by dividing departmental costs attributable to employment uses by the number of jobs in Menlo Park.
3. Estimate costs from the proposed project by multiplying projected employment by the per employee cost factor.

For services provided by the Police and Public Works Departments and the Fire District, the analysis will estimate costs according to the following methodology:

1. Interview key department/district personnel to determine any unique infrastructure or equipment demands that may be generated by the project. For example, would the project generate a need for any new types of equipment or facility? The cost of any such items will be identified and partially or entirely to the project in consultation with department/district personnel.
2. Interview key department/district personnel to determine increase in staffing required to serve the proposed project. If no unique staffing needs are identified, additional staffing will be estimated according to the current ratios of personnel to the service population.

3. Analyze departmental/district budgets to determine the current cost of service provision per departmental/district employee.
4. Calculate costs related to new staffing/overhead costs and add any unique infrastructure or equipment costs.

For the elementary, high school, and county office of education, BAE anticipates no additional costs directly related to the Project. The proposed project does not include any residential uses and will not directly add to the service population for these districts. Nonetheless, as an additional analysis, separate from the fiscal impact analysis, BAE will address induced housing demand and associated impacts, including potential impacts to school districts from increased enrollment.

For the hospital, junior college, and open space district, BAE will evaluate budgets to determine appropriate cost drivers and estimate costs using an average cost methodology. Impacts to these districts are anticipated to be quite small based on the relatively small percentage increase to their total service population that would be generated by the proposed project.

For the Bay Area Air Quality Management District, County Harbor District, and Mosquito Abatement District, impacts from the Project are expected to be minimal and will not be evaluated. These districts' service areas are quite large, Countywide or regional, such that a development on the scale of the Project would result in only a very small impact to district revenues and costs.

**Table 3. Comparison of Cost Estimation Methodologies**

Departments	Proposed BAE Methodology	Brion Methodology, 2007 FIA
<b>City Departments</b>		
Administrative Services	-Estimate costs on per employee basis. -Use assumption that an employee generate 50% of the service demand of a resident. Make adjustments as needed based on information from Dept.	-Estimated costs on per employee basis. -Assumed 25% of departmental cost attributable to employment uses.
Community Development	-Estimate costs on per employee basis. -Use assumption that an employee generate 50% of the service demand of a resident. Make adjustments as needed based on information from Dept.	-Estimated costs on per employee basis. -Assumed 25% of departmental cost attributable to employment uses.
Community Services	-Estimate costs on per employee basis. -Determine amount of costs attributable to employment uses in consultation with Dept.	-Estimated costs on per employee basis. -Assumed 25% of departmental cost attributable to employment uses.
Library	-Estimate costs on per employee basis. -Determine amount of costs attributable to employment uses in consultation with Dept.	-Estimated costs on per employee basis. -Assumed 10% of departmental cost attributable to employment uses.
Police	<i>Preferred Method:</i> -Interview Police Chief or designee regarding anticipated need for additional sworn personnel and equipment and estimate new costs based on need for additional staffing, equipment, and other overhead costs.  <i>Alternate Method</i> <i>(to be used depending on ability of police to estimate staffing needs):</i> -Estimate costs on per employee basis. -Use standard fiscal impact assumption that an employee generate 50% of the service demand of a resident. Make adjustments as needed based on information from Dept.	-Estimated costs on per employee basis. -Assumed 25% of departmental cost attributable to employment uses.
Public Works	-If necessary identify any unique infrastructure or other unique cost requirements associated with the proposed project and estimate these impacts in consultation with the director of public works. -Otherwise, estimate costs on per employee basis. -Use assumption that an employee generate 50% of the service demand of a resident. Make adjustments as needed based on information from Dept.	-Estimated costs on per employee basis. -Assumed 25% of departmental cost attributable to employment uses.

**Table 3. Comparison of Cost Estimation Methodologies -- Continued**

Districts	Proposed BAE Methodology	Brion Methodology, 2007 FIA
Menlo Park Fire	<p>Preferred Method: -Interview Fire Chief or designee regarding anticipated need for additional sworn personnel and equipment and estimate new costs based on need for additional staffing, equipment, and other overhead costs.</p> <p>Alternate Method (to be used depending on ability of police to estimate staffing needs): -Estimate costs on per employee basis. -Use assumption that an employee generate 50% of the service demand of a resident. Make adjustments as needed based on information from District.</p>	Not Analyzed.
Redwood City Elementary	No direct cost impacts anticipated.	Not Analyzed.
Sequoia High	No direct cost impacts anticipated.	Not Analyzed.
County Office of Education	No direct cost impacts anticipated.	Not Analyzed.
San Mateo Community College	Evaluate District budget to determine cost drivers and estimate cost impacts accordingly.	Not Analyzed.
Midpeninsula Regional Open Space	Evaluate District budget to determine cost drivers and estimate cost impacts accordingly.	Not Analyzed.
Sequoia Hospital	Evaluate District budget to determine cost drivers and estimate cost impacts accordingly.	Not Analyzed.
West Bay Sanitary District	Interview District staff to determine whether any cost impacts are expected which would not be covered by user fees and capital facilities impact fees.	Not Analyzed.
Menlo Park Municipal Water District	Interview District staff to determine whether any cost impacts are expected which would not be covered by user fees and capital facilities impact fees.	Not Analyzed.
Bay Area Air Quality Mgmt	Not Analyzed.	Not Analyzed.
County Harbor District	Not Analyzed.	Not Analyzed.
Mosquito Abatement	Not Analyzed.	Not Analyzed.

## **20-Year Cash Flow Analysis**

This fiscal impact model will address projections of revenue and cost inflation to describe net impacts on a year-by-year and cumulative basis over a 20-year period, beginning with the anticipated start of construction for the Project. As a baseline assumption, BAE will utilize an inflation rate of 3.0 percent for revenue and cost inflation, except where a particular factor indicates that a different inflation factor should be used.<sup>3</sup> For instance, in the case of property tax revenue inflation, BAE will use a rate of 2.0 percent, consistent with the limit on annual increases in assessed value imposed by Proposition 13.

It should be noted that slight differences in revenue and cost inflation factors can create over a 20 year period a significant gap between future revenues and costs, a gap that potentially could be more about the assumption (or overall long-term City budget considerations driving those assumptions), rather than the particular impact of the Project over time on City revenues or costs.

## **Comparison with Project Sponsor Fiscal Impact Analysis Methodology**

Table 2 and Table 3 provide a side-by-side comparison of BAE's proposed methodologies and those used by Brion & Associates for the 2007 fiscal impact analysis. While there are number similarities, several important differences exist, including that there was no previous analysis of impacts to affected special districts.

On the revenue side, key difference between BAE's proposed methodology and Brion & Associates' methodology are the following:

- BAE will account for the shift of a portion of the base 1.0 percent property tax to ERAF. ERAF transfers reduce Menlo Park's property tax revenues by approximately 16.7 percent, compared to what is described in the Brion & Associates report.
- BAE will conduct an independent assessment of expected hotel revenues based on the last several years of performance for hotels in the market area. This analysis will result in a range of potential revenues from TOT, which is expected to be the largest revenue source from the proposed project. Brion & Associates' analysis uses data provided by Marriott and does not provide a range of possible revenues.
- BAE will estimate revenues from the Utility Users' Tax. This tax was passed by voters in November 2006 and was not considered in the Brion & Associates analysis.

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<sup>3</sup> A 3.0 percent inflation rate is consistent with average annual growth in the consumer price index for the Bay Area over the past 20 years.

- In order to estimate sales tax revenues from the office component of the project, Brion & Associates' utilized data for properties owned by Bohannon. BAE will include a wider sampling of buildings to determine the expected range of potential revenues.
- BAE will analyze expected taxable sales from office users, including a sampling of confidential sales tax data for comparable office buildings to determine the expected range of revenues. Brion & Associates' analysis, which utilized data for properties owned by the Bohannon and analyzed taxable sales within the M-2 District.

On the service cost side, key difference between BAE's proposed methodology and Brion & Associates' methodology are the following:

- For the Police and Public Works Departments and for the Fire District, BAE will attempt to identify any costs that would not be captured in an average cost analysis, to estimate the marginal cost of providing additional service for the Project.
- Brion & Associates estimates that employees generate 25 percent of the demand for most government services, consistent with the Applied Development Economics and Vernazza Wolfe Associates Fiscal Impact Model. BAE proposes to estimate employee impacts at 33 percent of the demand for most government services, consistent with our typical practice and the practice of various other analysts. Where available data suggest the ratio should be different, BAE will make adjustments.

## **Next Steps**

Following review by City staff and revision, this memorandum will be available for public review, and its content will be reviewed at a public meeting. The topics identified in that public meeting will be incorporated into the fiscal impact analysis that is the next step in our work.

The fiscal impact analysis work will include interviews with City department heads and special districts based on detailed analysis of the City and special district budgets for the new fiscal year. This work will develop updated assumptions for per unit revenues and service costs applicable to the Project, potential need for new capital facilities and equipment and cost, and evaluate the appropriate proration of new revenues and costs between the City's resident and worker populations. The analysis will be done for both the proposed project and alternatives formulated for the environmental review process. Additional analysis will look at off-site impacts (including induced redevelopment of nearby sites and induced housing impacts), as well as alternative mechanisms to enhance generation of new fiscal revenues from a final approved Project.