Menlo Gateway (Bohannon Hotel-Office)

General Commission Meeting

Draft Fiscal Impact Analysis (FIA)

August 19, 2009

Purpose of the Fiscal Impact Analysis (FIA)

- Prepared by consultant (BAE) hired by the City to do an independent analysis
- Understand net fiscal impact on all local government budgets for proposed Project + 5 alternatives
  - Project and alternatives as set forth in Draft EIR
- Evaluate other potential indirect impacts
  - New housing demand created by Project / increases in required housing production
  - Increased development demand for adjacent parcels
- Identify potential additional public revenue generation from the Project
- Draft report details methodology, data sources, assumptions, limiting conditions, and findings

Scope of FIA: Jurisdictions Studied

- Estimate all new revenues plus full range of new facilities, equipment, staffing, and other costs
- All potentially impacted jurisdictions studied:
  - City of Menlo Park General Fund
  - Menlo Park Fire District
  - Menlo Park Municipal Water District
  - West Bay Sanitary District
  - Four elementary school districts plus Sequoia Union High School Districts
  - County Office of Education Special District
  - San Mateo County Community College District
  - Midpeninsula Regional Open Space District; and
  - Sequoia Hospital District

Fiscal Cost Methodology

- Budget reviews for all jurisdictions to evaluate existing costs of service delivery
- Interview Department / Agency heads to identify marginal costs of new services for the alternatives
  - Marginal costs are those caused by the alternative
  - All costs: facilities, equipment, labor, overhead, misc.
- Where marginal costs could not be identified, estimates developed based on service population
  - Service population is residents + non-resident workers (worker impacts generally estimated at 50% of residents')
  - Fine-tuned in consultation with departments / agencies

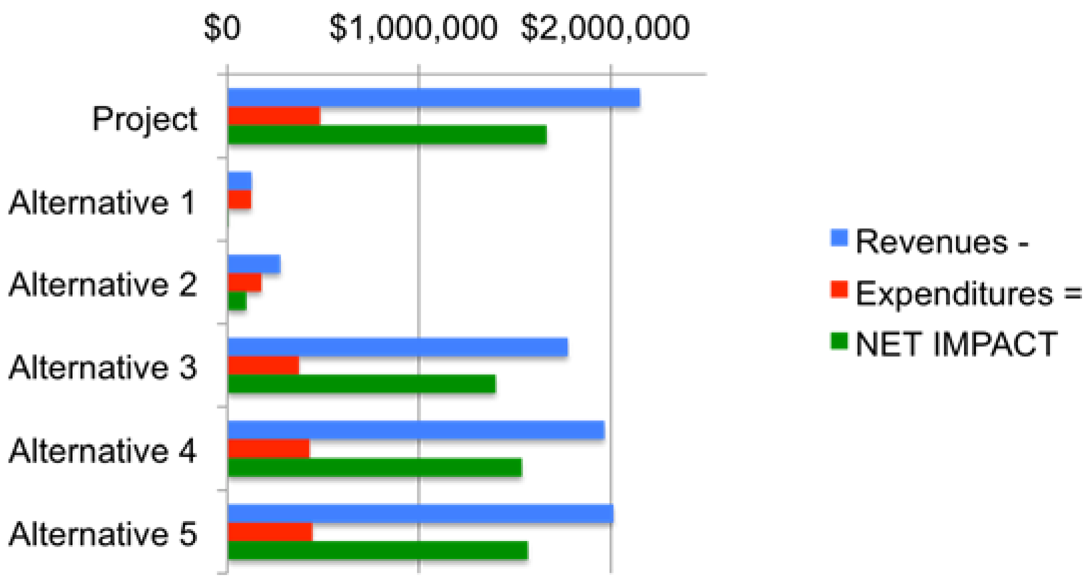
Fiscal Revenue Methodology

- Calculate major revenue sources: new property taxes, sales taxes, transit occupancy (“room”) tax
  - Evaluate factors affecting collections: tenant mix for sales/use tax; hotel demand and occupancy rates
  - Test how changes in these factors affect revenues; estimate potential ranges for revenues
  - Account for effect of economic conditions on revenues
- Calculate other revenue sources: vehicle license, utility user tax, licenses and permits; franchise fees
- Calculate one-time revenue sources: property transfer taxes, impact fees / capital facilities charges

Findings: Net Fiscal Impact to City

- General Fund "stabilized" revenues, service costs after project built and fully leased, all alternatives:

Net Annual Fiscal Impact to City General Fund, Stabilized Project

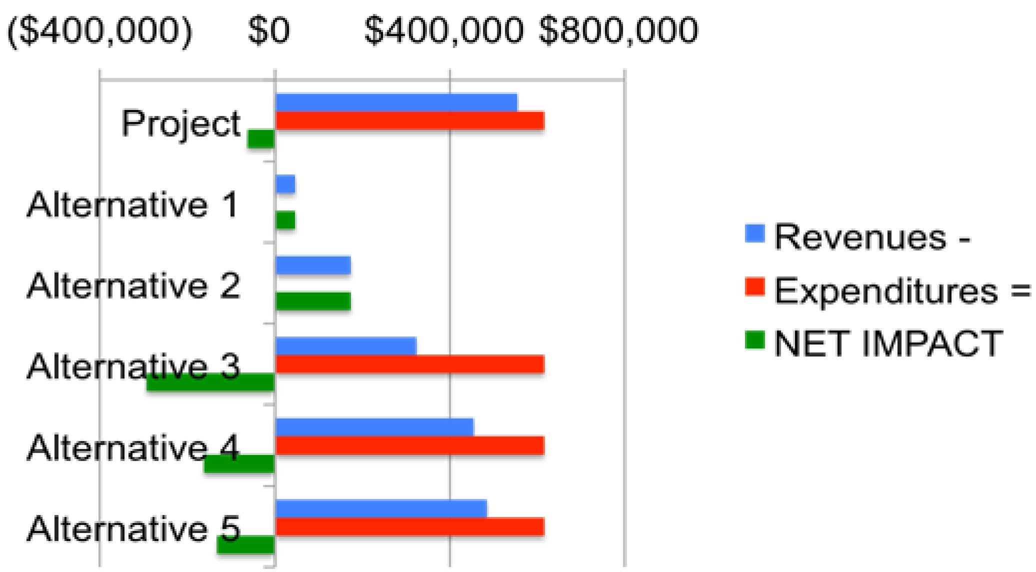


- Report with appendices has detailed tables for all revenues, costs, plus 20-year cash flow model

Findings: Net Fiscal Impact to Fire District

- Fire District “stabilized” revenues, service costs after project built and fully leased, all alternatives:

Net Annual Fiscal Impact to Fire District, Stabilized Project

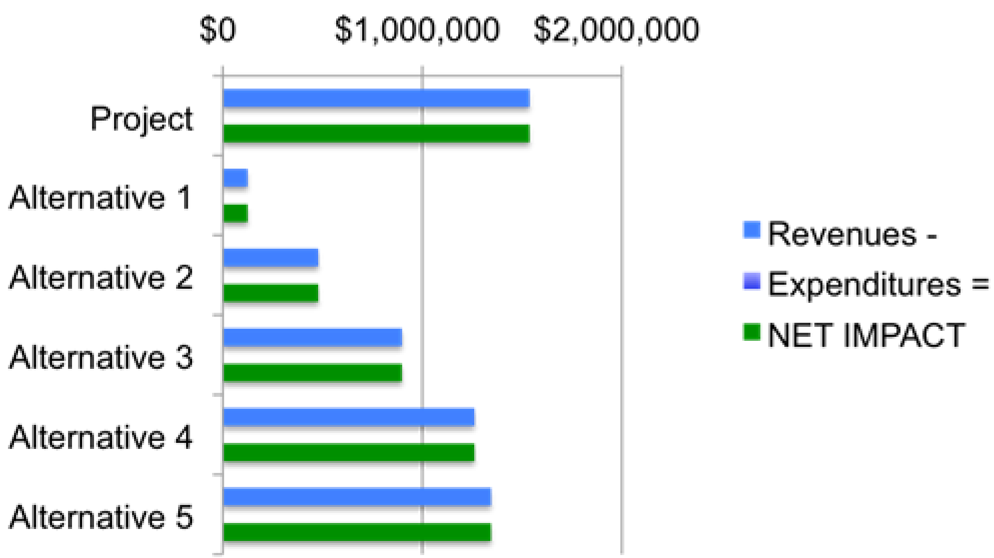


- Need for new ladder truck; additional one-time cost of $1 million+

Findings: Net Fiscal Impact to Schools

- Calculated “stabilized” revenues and service costs after project built and fully leased, all alternatives:

Net Annual Fiscal Impact to School Districts, Stabilized Project

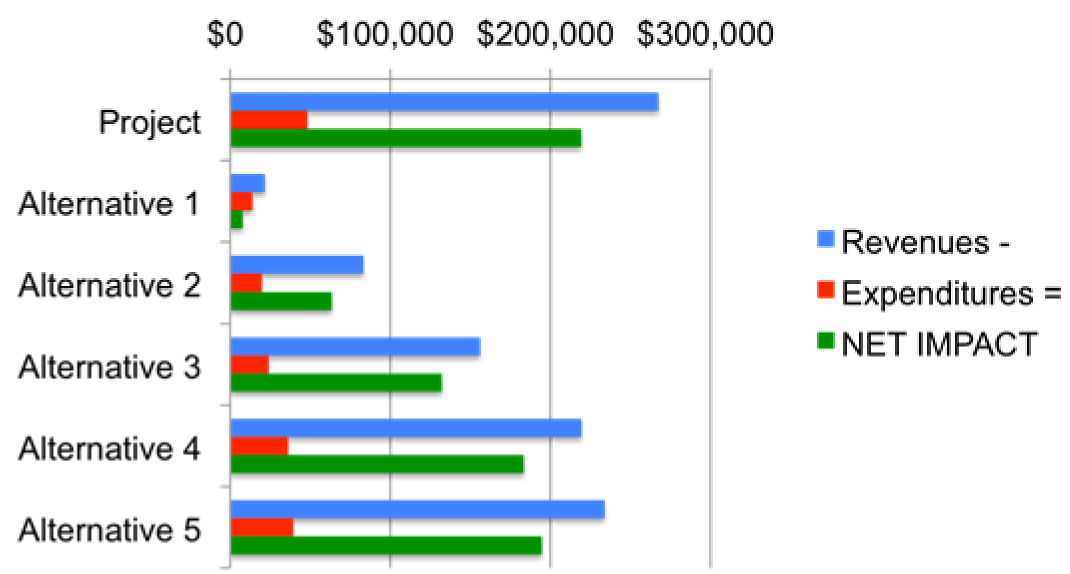


- Project located in Redwood City Elementary District
- No added student population, so no direct costs

Findings: Net Fiscal Impact to All Other Special Districts (Combined)

- Calculated "stabilized" revenues and service costs after project built and fully leased, all alternatives:

Net Annual Fiscal Impact to Other Special Districts, Stabilized Project



- Reflects modest to minimal impacts to Special Districts

Potential Induced Housing Demand

- Potential induced housing demand considers future increases in Regional Housing Needs Allocation (RHNA)
- EIR Housing Needs Analysis identified potential increase in RHNA from Project of up to 76 units
- Same fiscal impact analysis conducted on potential induced housing demand for all alternatives. Findings include:
  - Slight negative fiscal to General Fund for all alternatives
  - Some school districts have negative fiscal impact from Project of up to $45,000/year, but other districts positive
  - Net for all districts negative $13,000/year, but more than offset by Project direct fiscal revenues (previous slide)

Potential Adjacent Land Use Changes

- Area around project is 91 acres, including 15 acres for Project. Mostly office, warehouse, flex space.
  - Zoned M-2, General Industrial, allows office to 35 feet
- Factors affecting potential for redevelopment:
  - Small parcels adjacent to Project (average 1.3 acres), many owners, requires land assembly for development
  - Parcels east of Project include newer larger buildings with likely difficult economics for near-term development
  - A number of owner/users in the area who need facilities for business operations, likely less interest in development
- Redevelopment for office in longer-term likely, subject to land assembly, City willingness to rezone

Additional Fiscal Benefit Opportunities

- Potential opportunities include:
  - Increase development impact fees – needs to be tied to new capital improvement needs
  - In-lieu sales tax generating proceeds to match the increase from rezoning the area for higher sales tax generating uses
- Development Agreement can include negotiated provisions for various benefits, including:
  - One-time and/or recurring payments to offset impacts
  - Require hotel built first or pay in-lieu sales tax / TOT
  - Project property transfer and reassessment after rezoning to increase new property taxes
  - Capture more of construction-related sales taxes
  - Create a Community Benefit Fund