Appendix 3. Detailed Fiscal Impact Analysis

A3-1 Purpose of the Fiscal Impact Analysis

This Chapter addresses the fiscal impacts resulting from approval of the Ballot Measure ("Ballot Measure") and the amendment of language within the ECR/D Specific Plan. The purpose of the analysis is to illustrate possible gains or losses to Menlo Park's General Fund and Special Districts' revenues and expenditures, as a direct result of the proposed Ballot Measure.

As discussed in Chapter 1, the ECR/D Specific Plan project description studied in the EIR was used to create a baseline for this Report's build-out model. The purpose of the build-out model is to illustrate the missed outcomes, positive or negative, should the Ballot Measure pass. See Section 1.3.2 in Chapter 1 for a detailed explanation of the build-out model.

Two different analyses are performed: The first only evaluates net new potential development opportunities lost resulting from passage of the Ballot Measure. The second evaluates new potential development and also considers existing proposed and approved projects in the ECR/D Specific Plan area. Potential impacts are measured through the assessment of the development scenarios. The theoretical scenarios were designed to illustrate:

- The direct fiscal impacts to the General Fund and Special Districts from adoption of the Ballot Measure, and
- The financial opportunity costs of amending (e.g., applying development constraints) the ECR/D Specific Plan.

Viewed in aggregate, the scenarios illustrate a range of impacts through a "sliding scale" approach. The scenarios are intended to illustrate the opportunity cost of the Ballot Measure passing. Or, put differently, the scenarios show what cannot be attained if the Ballot Measure is approved. Please see Chapter 1: Introduction for a description of the different scenarios.

A3-1.1 Scenario Assumptions

The first three scenarios assume: 1) Full residential build out (i.e., 680 units) and 2) Only two of three possible non-residential types are developed at build out: Office, Retail, and/or Hotel. All scenarios assume the full build out of non-residential development up to the 474,000 square foot limit as provided in the ECR/D Specific Plan. By assuming maximum possible build out for each non-residential development type, the introduction of assumptions and/or biases necessary to select other non-residential build out mixes is reduced. In addition, the assumption of maximum build out with limited development types will help to illustrate the total possible impacts from "smallest" to "greatest". There is no assumption made regarding the timing of development. Actual build out will likely vary based on market conditions.

Please see Section A3-4 for a more detailed description of the alternative development scenarios.

A3-2 Fiscal Impact: General Fund Revenue and Expenses

This FIA General Fund analysis follows the methodology and assumptions developed by Strategic Economics for the ECR/D Draft Specific Plan Fiscal Impact Analysis dated August 31, 2011 ("SE FIA 2011"). See Section 1.3.2 in Chapter 1 for a detailed explanation of the build-out model.

A3-2.1 Methodology and Assumptions

The SE FIA 2011 for the Draft ECR/D Specific Plan estimated the annual Menlo Park General Fund expenses and revenues that could be generated by build-out of the plan's selected development program over time ("Baseline Scenario"). The SE FIA 2011 was a dynamic fiscal impact analysis that considered the annual fiscal impact throughout the period in which new development is expected to occur, with assumed build-out of the ECR/D Specific Plan occurring by 2030.

Following the methodology outlined in the SE FIA 2011 report, a fiscal impact model was developed with the intent of first replicating the SE FIA 2011 results, then applying new values corresponding with the Scenarios described in Chapter 1. This FIA model followed the SE FIA 2011 dynamic model were possible and a static model where necessary. Where information was not available, assumptions were applied following standard fiscal impact analytical approaches. Outputs and methodologies inconsistent with the SE FIA 2011 have been noted in Section A3-5.

Note: This assessment is not intended as a peer review of the SE FIA 2011. The intent is to evaluate the impact of the proposed Ballot Measure.

A3-2.3 Fiscal Impacts: Change in Open Space Regulations

The Ballot Measure's Open Space definition would require non-vested development to design projects with greater amounts of open space. The City's General Fund revenues could be reduced if the reallocation of square footage from structure to open space leads to a loss in the value (e.g., reduced sales price), thereby reducing property taxes.

Conclusion: Changes to the definition of Open Space resulting from approval of the Ballot Measure should not have a measurable fiscal impact on the City's General Fund revenues.

A3-2.4 Fiscal Impacts: Cap on Ballot Measure-defined Office Space Development

The following sections describe the results of the analysis for the three illustrative scenarios in contrast to the Baseline Scenario. As previously stated, the three scenarios were developed following the methodology and assumptions provided within the SE FIA 2011. Please see the SE FIA 2011 for a detailed description of model constraints and assumptions.

Table 1 summarizes the net fiscal impact to the City General Fund on an annual basis for the Baseline Scenario (ECR/D Specific Plan) and the three illustrative scenarios. As shown below, the primary revenue generators for the City's General Fund come from property tax (9.9 % of the one percent property tax for residential and non-residential properties), Sales Tax (one percent from retail sales), Transient-occupancy tax (10 percent of visitor spending revenue), and per capita fees paid by residents and businesses (utility use, franchise fees, etc.) This analysis did not incorporate revenues generated by Development Impact Fees (e.g., Menlo Park's Transportation Impact Fee) as they were not specifically assessed in the SE FIA 2011 document. The primary General Fund expenditures relate to per capita costs (municipal administrative costs, library operations, general community services, and community development personnel) and public works (public parking structures and parks). The three largest revenue generators for the General Fund are property tax, transient-occupancy tax, and per capita revenue.

Table A3-1 Fiscal Impacts of Scenarios on General Fund Revenues and Expenditures

	Baseline (Derived from the EIR)	Scenario #1 (High Bookend for Infrastructure)	Scenario #2 (High Bookend for Fiscal)	Scenario #3 (Low Bookend)
Property Tax (b)	$741,000	$754,000	$696,000	$775,000
Sales Tax (c)	$133,000	$332,000	$-	$-
Transient Occupancy Tax (d)	$2,337,000	$-	$2,721,000	$-
Property Transfer Tax	$47,000	$47,000	$42,000	$47,000
Vehicle License Fee (e)	$151,000	$156,000	$145,000	$160,000
Per Capita Revenue	$477,000	$456,000	$453,000	$475,000
Total Revenues	$3,886,000	$1,746,000	$4,057,000	$1,458,000
Per Capita Operating Expenditures	$(973,000)	$(963,00)	$(961,000)	$(979,00)
Public Works Operating Expenditures (f)	$(760,000)	$(760,000)	$(760,000)	$(760,000)
Total Expenditures	$(1,733,000)	$(1,723,00)	$(1,721,000)	$(1,739,000)
Net Impact on General Fund	$2,153,000	$23,000	$2,337,000	$(282,000)

Source: SE FIA 2011; LWC 2014

(a) Totals may not equal due to rounding.

(b) Property Tax Revenues for all Scenarios assume full build-out of the 680 residential units.

(c) Consistent with the SE FIA 2011, this analysis assumes a one percent sales tax. According to the State Board of Equalization (“SBOE”), the City receives sales tax revenues equal to 0.95 percent of local taxable expenditures that occur within the City limits.

(d) Vehicle License Fees calculations are highly dependent on property values. Please see Section A3-5 for issues regarding property tax calculations.

(e) Public Works expenditures were assumed to remain constant regardless of scenario. Please see SE FIA 2011 for further detail.

Scenario #1: Exceed Ballot Measure’s Maximum Office Build Out/ Remaining Non-Residential Square Footage is Retail Only

Passage of the Ballot Measure would limit Office Space development to 240,820 square feet. Scenario #1 assumes build out of Office Space up to one square foot beyond the Ballot Measure cap with all remaining available non-residential allocated for Retail development. The intent of Scenario #1 is to illustrate the fiscal impact to the City of increased revenues from sales tax (Retail uses), without any transient occupancy tax revenue (Hotel uses). It should be noted that Scenario #1 is a possible development under the current ECR/D Specific Plan, but not under the Ballot Measure.

Theoretical development of Scenario #1 would result in a positive fiscal impact to the City's General Fund. Annual City General Fund revenues would be increased by $1,746,000, approximately 4.7 percent over the City's 2009-2010 Budget. Annual City General Fund expenditures would be increased by $1,723,00 approximately 4.7 percent over the City's 2009-2010 Budget.

Under Scenario #1, revenues would be more than 18 percent greater than expenses, resulting in an increase of $23,000 of new General Fund net revenue on an annual basis.

Compared to the ECR/D Specific Plan, the Scenario #1 revenues gained are sales tax ($332,000) and property tax ($13,000). The Scenario #1 reductions in revenue are from transient occupancy tax (-$2,337,000) and per capita revenue (-$21,000). Total revenue lost compared to possible development under the ECR/D Specific Plan is estimated at $2,130,000.

The ECR/D Specific Plan General Fund revenue is heavily dependent upon transient-occupancy tax (TOT). Scenario #1, even lacking TOT revenue could result in small positive impacts to the General Fund.

Scenario #2: Exceed Ballot Measure's Maximum Office Build Out/ Remaining Non-Residential Square Footage is Hotel Only

Passage of the Ballot Measure would limit Office Space development to 240,820 square feet. Scenario #2 assumes build out of Office Space up to one square foot beyond the Ballot Measure cap with all remaining available non-residential allocated for Hotel development. The intent of Scenario #2 is to illustrate the fiscal impact to the City of gains in only transient occupancy tax (Hotel uses), without the inclusion of sales tax (Retail). It should be noted that Scenario #2 is a possible development under the current ECR/D Specific Plan.

Theoretical development of Scenario #2 would result in a positive fiscal impact to the City's General Fund. Annual City General Fund revenues would be increased by $4,057,000, approximately 11 percent over the City's 2009-2010 Budget. Annual City General Fund expenditures would be increased by $1,721,000, approximately 4.7 percent over the City's 2009-2010 Budget.

Under Scenario #1, expenses would be approximately 43 percent of revenues, resulting in an increase of $2,337,000 of new General Fund net revenue on an annual basis.

Compared to the ECR/D Specific Plan, the Scenario #2 revenues increases occur from the larger impact of transient occupancy tax ($384,000). Scenario #1 loses revenues from sales tax (-$133,000), property tax (-$45,000), per capita revenue (-$24,000), vehicle license fee (-$6,000) and property transfer tax (-$5,000). Total revenues gained compared to the ECR/D Specific Plan is estimated at $184,000.

The ECR/D Specific Plan revenue is heavily dependent upon transient-occupancy tax ("TOT"). Scenario #2, relying heavily on TOT revenue could lead to large positive fiscal impacts to the General Fund.

Scenario #3: ECR/D Specific Plan Maximum Allowable Office Build Out

Passage of the Ballot Measure would limit Office Space development to 240,820 square feet. Scenario #3 assumes full build out of Office Space up to the non-residential cap (474,000 square feet) as illustrated in the ECR/D Specific Plan. The intent of Scenario #3 is to illustrate the fiscal impact to the City of allowing full Office Space development, up to the 474,000 square foot cap. It should be noted that Scenario #3 is a possible development under the current ECR/D Specific Plan.

Theoretical development of Scenario #3 would result in a negative fiscal impact to the City's General Fund. Annual City General Fund revenues would be increased by $1,458,000, approximately 3.9 percent over the City's 2009-2010 Budget. Annual City General Fund expenditures would be increased by $1,739,000, approximately 4.7 percent over the City's 2009-2010 Budget.

Under Scenario #3, revenues would be 84 percent of expenses, resulting in the addition of $282,000 net new General Fund expenses on an annual basis. The model projects that the ECR/D Specific Plan will be fiscally negative starting in 2015 and continuing to build out.

Compared to the ECR/D Specific Plan, the Scenario #3 reductions in revenues occur from transient occupancy tax (-$2,337,000) and sales tax (-$133,000). Scenario #3 would lose revenue in property tax (-$34,000) and vehicle license fee (-$9,000). Total revenues lost compared to the ECR/D Specific Plan is estimated at $2,435,000.

The ECR/D Specific Plan revenue is heavily dependent upon transient-occupancy tax ("TOT"). Scenario #3, lacking TOT revenue and sales tax revenue (from retail) would result in negative fiscal impacts to the General Fund.

A3-2.5 Voter Controls

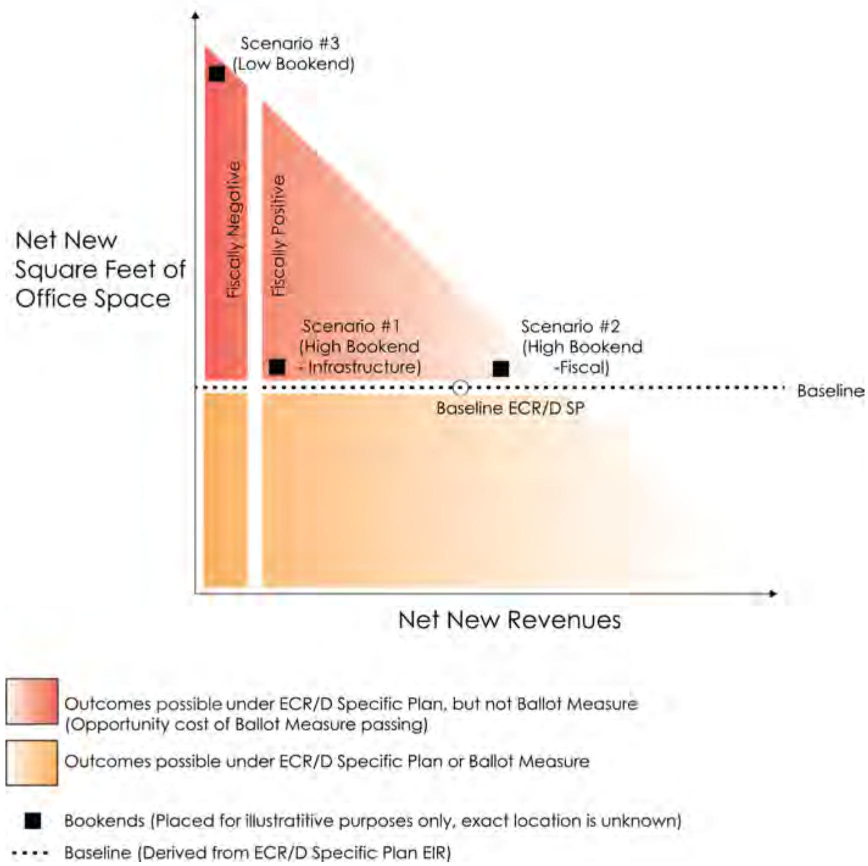
As discussed previously in Chapter 4, ballot box planning can add levels of uncertainty in the development process that can discourage investment, increase development costs, and create perceptions that Menlo Park is unfriendly to business. If there is an increased demand for Office Space beyond the Ballot Measures' proposed square foot threshold (i.e., 240,820) instead of other non-residential development types, then any amount of the remaining non-residential square footage available for development under the cap (i.e., 233,180 square feet) could go undeveloped. Under this scenario, implementation of voter controls could cause the City to lose out on potential revenues associated with gains in property tax and vehicle license fees.

A3-2.6 Fiscal Impacts: General Fund Summary

Of the three scenarios presented in Table 5-1 in Chapter 5 (excluding the EIR Baseline), two may have potential for positive fiscal impacts to the City's General Fund: Scenario #1, the Office/Retail development mix and Scenario #2, the Office/Hotel Mix. One scenario has potential for negative fiscal impacts to the City's General Fund: Scenario #3, the all Office development.

As shown in Figure A3-1, because office uses produce lower revenue generation rates to the City than other uses (i.e., hotel or retail), as office space increases, the revenue generation potential decreases—compared to all other development use combinations. At a certain point, a developed build out scenario that includes large amounts of office could have a negative fiscal impact on the General Fund. As illustrated in Figure A3-1, the fiscal impacts are closely tied to the inclusion of TOT and Sales Tax revenue.

Figure A3-1 Net New Office Space Impacts on Revenue



Conclusion: This analysis confirms the original SE FIA 2011 findings: The ECR/D Specific Plan is heavily dependent upon transient-occupancy tax; and to a lesser degree, retail sales tax. As a result, the ECR/D Specific Plan could result in a negative impact to the General Fund without the inclusion of a hotel and/or a large amount of retail development. The Ballot Measure's constraint on Office Space development could hedge the possibility of negative fiscal impacts to the General Fund by limiting the Office Development. Therefore, passage of the Ballot Measure should not lead to a negative fiscal impact on the ECR/D Specific Plan as long as there is market demand for a non-residential development mix that generates positive revenue.

A3-3 Fiscal Impact: Special Districts

The Special Districts fiscal impact analysis follows the methodology and assumptions developed by BAE Urban Economics for the ECR/D Specific Plan Special Districts Fiscal Impact Analysis dated August 16, 2011 ("BAE FIA 2011"). This section evaluates the