

## Memorandum

**To:** Rachel Grossman, City of Menlo Park  
**From:** Ron Golem, BAE  
**Date:** April 13, 2012  
**Re:** Consultant response to comments on the Public Review Draft Facebook Fiscal Impact Analysis (FIA) Study

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This memorandum sets forth 29 questions and comments on the Public Review Draft Facebook Fiscal Impact Analysis (FIA) received from the City of Menlo Park Planning Commissioners, at their meeting of January 9, 2012, accompanied by responses from BAE Urban Economics (BAE), the author of the Public Review Draft FIA Study. All comments and questions are in *italics*, and BAE responses are in standard text. Revisions have been made in the final FIA Study as appropriate to address these comments.

S-80 *The Commissioner notes that the Menlo Park City School District enrollment data used in the FIA is one year out of date, and that enrollment has increased since the enrollment data was collected, and therefore the FIA should be recalculated based on current enrollment. The Commissioner further asks if there is a way that the City's team negotiating the Development Agreement could work with school district leadership to address its concerns. The Commissioner asks if the data can be updated and if the City Development Agreement team can work with the School District to address any concerns.*

Current year data became available after preparation of the public review draft of the FIA. That data shows 29 more students than in the FIA. The effect of this change is to decrease the District's per student cost of instruction, while leaving revenues unchanged, thereby resulting in a slightly lower net fiscal impact to the District than is shown in the FIA (approximately 1.6 percent less). This means that the FIA finding on net fiscal impact is slightly more conservative than actual, however the increase in students is not considered a material difference that changes the FIA findings. A decision on what type of discussion, if any, should occur between the City's Development Agreement team and representatives of the Menlo Park City School District regarding the Project is outside the scope of the FIA.

FIA-1 *The Commissioner asks if the two scenarios presented in the analysis represent high and low estimates or realistic figures.*

The two scenarios represent alternate combinations of assumptions for sales tax and transient occupancy tax revenues, as set forth in the FIA, regarding: (1) how much of Facebook employee and visitor taxable retail sales spending would occur in the City of Menlo Park given the unique onsite offerings of food service and other goods and services provided by Facebook; and (2) how much of the hotel room demand created by Facebook visitors and interviewees would occur in Menlo Park, given the current nature of Menlo Park's limited inventory of business-class hotels. The lower figures should be considered the likeliest case, based on current conditions; while the higher figures represent a best case that assumes an increase in the City's inventory of business class hotels (e.g., with the construction of the Menlo Gateway project with its hotel component).

FIA-2 *The Commissioner comments that the State legislature has been discussing a change to tax law that would result in a sales tax charged on services.*

The FIA was prepared based on the State laws regarding relevant taxes in effect at the time of its preparation. Future changes in State law that increase sales taxes on services, such as for companies similar to Facebook that provide services rather than manufacture and sell taxable goods, could produce additional revenues for the City from Facebook and other businesses, depending upon the particular provisions of those future laws. It is not appropriate to consider speculative future tax law changes in this analysis.

FIA-3 *The Commissioner asks how large is the worker population in Menlo Park.*

As shown on page 3 of the FIA, there were 30,321 workers in Menlo Park according to the Census American Community Survey, 2008 – 2010.

FIA-4 *The Commissioner comments that the estimated recurring expenses are larger for administrative services than for police and library combined.*

The analysis of costs for items within Administrative Services is focused on those items that do experience increased costs as the City gains an increase in service population, and associated revenues and expenses from the project. The calculation is done on an average cost basis as the only practicable method, using the increase in service population. By comparison, with Police and Library services it was possible to apply a marginal cost approach that identifies specific impacts that would be expected from the Project. It is possible that the average cost

approach used for Administrative Services may somewhat overstate those costs.

FIA-5 *The Commissioner states that costs for administrative services, which includes finance and revenue management, are projected to increase by \$1.2 million, and asks if this increase is consistent with the cost of an increase in employment in the City.*

The FIA projects that costs for administrative services will increase by approximately \$245,000 per year, not \$1.2 million. The increase that is projected in the FIA is based on the service population increase, and is expected to be associated with an increase in demand for these services.

FIA-6 *The Commissioner states that costs to administrative services are projected to increase by 20 percent because the City has a new business with additional employees.*

The Commissioner is incorrect. Administrative Services are projected to increase by approximately \$245,000 per year, which represents an approximately six percent increase over the current fiscal year budget of \$4 million.

FIA-7 *The Commissioner asks if the calculation of fiscal impact to the school districts accounts for the State ruling that eliminated redevelopment.*

The FIA was prepared prior to the State Supreme Court ruling that upheld the statute leading to the dissolution of redevelopment. Therefore, the FIA does not account for the additional funds that will accrue to the Ravenswood Elementary and Sequoia Union High School districts that have the Facebook campus within their boundaries. As discussed in the FIA, because Ravenswood is a Revenue Limit district, the additional funds it receives from dissolution of redevelopment will be offset by a reduction in State aid, leading to no net fiscal change for that district. Sequoia Union High School District, as a Basic Aid district, will receive additional funds it can spend, leading to a greater positive fiscal impact (surplus) than what is shown in the FIA report.

FIA-8 *The Commissioner asks if the property tax increase resulting from the project would go to the Ravenswood School District or if it would be distributed countywide, considering that redevelopment has been eliminated.*

Please refer to the prior answer (FIA-7). As discussed in the FIA, because the Ravenswood School District is a basic aid district, any increase it receives in property tax revenues is offset by a reduction in State aid, resulting in no net effect.

San Mateo County and other property-tax receiving agencies would receive additional funds due to the dissolution of redevelopment, in the same proportion as the base one percent property tax revenues are distributed.

FIA-9 *The Commissioner asks for confirmation that any additional property tax revenues going to schools would be allocated to the Ravenswood School District.*

Please refer to the prior two answers (FIA-7 and FIA-8). The Ravenswood School District does not benefit from the receipt of any additional property tax revenues due to offsetting reductions in State aid.

FIA-10 *The Commissioner notes that the housing location preferences expressed by current Facebook employees differ from preferences expressed by employees of other companies and asks if these differences were factored into the calculation of induced housing demand.*

The FIA calculation of the net fiscal impact associated with induced housing demand is based upon the calculation of induced housing demand contained in the Keyser Marston Associates (KMA) Housing Needs Analysis. That report outlines the methodology for how KMA projected what percentage of Facebook employees would seek to live in Menlo Park.

FIA-11 *The Commissioner comments that the fiscal analysis makes an assumption regarding the number of students that would be generated in each school district.*

This is correct. Student generation figures that are used by each school district are applied to the new housing units that would be built in each district to project the number of new students. All high school students would be located in the Sequoia Union High School District, while elementary school students are evenly split between the Ravenswood and Menlo Park City Elementary School Districts, as there is no other basis at this time for assuming where the induced housing demand units would be located.

FIA-12 *The Commissioner states that new students attributable to the Project are not likely to be split equally between the two school districts, and that the impact is likely to be higher for the Menlo Park City School District than for Ravenswood.*

It is not possible at this time to estimate what proportion of new students would be in each district, as that depends upon the percentage of Project employees who decide to live in Menlo Park, how many of these households will have school age children, and where future housing production in Menlo Park will occur at the time

that these households are seeking units. For this reason, a neutral assumption was made that splits the new units between the two districts. However, irrespective of the actual split between the districts, there will always be a relatively greater impact on the Menlo Park City School District since it is a Basic Aid district that: (1) relies upon property tax revenues to fund its operations, but receives no increase in property taxes from the Project as it is outside the District's boundaries; and (2) has much higher per student expenditures. By comparison, the Ravenswood Elementary School District is a Revenue Limit district that receives additional funds from the State as its student population increases, and its per student expenditures are lower and in line with State funding.

FIA-13 *The Commissioner states that some induced housing demand is likely to be met through the sale of existing housing units, some of which are currently assessed at low rates and would be reassessed at a higher rate at sale, and asked if the FIA accounts for property tax increases resulting from the transfer of these properties.*

The FIA assumes that the induced housing demand is met by new construction, and does not consider the extent to which new demand from Facebook employees might be accommodated in the City's existing housing stock. However, to the extent this occurs, it is reasonable to expect an increase in property tax revenues.

FIA-14 *The Commissioner asks for clarification on the source of the increase in property tax revenue to the Menlo Park City School District, and whether this increase results from turnover of existing housing units or construction of new units.*

The identified increase in revenues for the Menlo Park City Elementary School District is based solely on the new construction that is assumed to satisfy the induced housing demand. The District would also benefit from turnover of existing housing units and their subsequent reassessment to current market values. This issue illustrates some of the limitations of looking at just the fiscal impact to the district from induced housing demand from Facebook, as opposed to the full range of factors that would shape its future revenues and expenditures.

FIA-15 *The Commissioner comments that a portion of new Menlo Park residents are likely to move into existing homes and that the increase in administrative services costs was likely overestimated in the FIA, and that as a result the City is not likely to lose money overall due to the Project.*

See the answer to FIA-13. Facebook employees are one of many different components of demand for Menlo Park housing. To the extent that Facebook employees move into an existing Menlo Park housing unit, they create the ability for another household to occupy a unit of new construction, thereby potentially

resulting in the same increase in Administrative Service and other City General Fund expenditures. Please refer to the prior answer (FIA-4). Administrative Services costs could be overstated, but the FIA as written reflects a conservative fiscal scenario.

FIA-16 *The Commissioner states that the City's General Fund is overall not negatively impacted by the Project.*

This is a correct conclusion.

FIA-17 *The Commissioner states that the most important information contained in the fiscal analysis is that while the Project would not be a revenue generator for the City, it would also not create a net fiscal loss.*

The FIA analyzed two scenarios for transient occupancy taxes and sales tax revenue. As noted in the FIA (pg. 38) the two scenarios project that the City would be likely to experience a positive net fiscal impact (surplus) of between \$75,100 to \$168,100 per year at stabilization, in 2011 dollars.

FIA-18 *The Commissioner asks for clarification as to whether the City must include its revenue target for the Project into the development agreement with Facebook, or if there is another mechanism that the City can use to meet its revenue goals.*

Additional revenues beyond those the City would collect pursuant to relevant statutes, as well as development impact fees authorized pursuant to law, would represent discretionary funds whose payment would need to be negotiated as part of a Development Agreement.

FIA-19 *The Commissioner says that the City needs to determine whether the fiscal impacts of the project should be dealt with through a mitigation measure or a different mechanism.*

Fiscal impacts are not physical environmental impacts addressed by mitigation measures. The FIA analysis shows that there would be a slight positive net fiscal impact (surplus) to the City's General Fund. Should the City wish to mitigate the negative net fiscal impacts to other agencies (e.g. Menlo Park City Elementary School District), it would represent a non-CEQA item that would need to be addressed in a Development Agreement.

FIA-20 *The Commissioner notes that, in the process of reviewing the proposed Menlo Gateway project, there was a lot of discussion related to whether the fiscal impact*

*of that project would be negative.*

The FIA for the Menlo Gateway project showed a substantial positive net fiscal impact (surplus) for the City, based on the substantial transient occupancy tax revenues that would be generated by the hotel component of the project. This project is separate and distinct from the Menlo Gateway project.

FIA-21 *The Commissioner suggests that the student generation rates and associated fiscal impacts be calculated and presented as a range, which is developed by altering various assumptions.*

The student generation rates that were used are the ones provided by the school districts, with the exception of the Ravenswood School District. For that district, the student generation rate of the Menlo Park City Elementary district was used. Because the Ravenswood School District is a Revenue Limit district (unlike the Menlo Park City Elementary School District), any positive or negative net fiscal impact would be associated with a corresponding reduction or increase in State aid to the district, to ensure that its revenues on a per student basis remain the same. Therefore, there is no need to alter assumptions and develop a range.

FIA-22 *The Commissioner commented that, apart from Facebook, other projects in the City would also create economic impacts.*

Each new development project in the City will create a positive, neutral, or negative net fiscal impact, depending upon its particular mix of uses and the associated increases in fiscal revenues and expenditures. Each project will also create economic impacts, as measured by both County-wide increases in construction period and permanent regional income and employment. Some of this economic impact will accrue to the City of Menlo Park, and the indirect and induced economic impacts would be expected to lead to some additional new fiscal revenues and expenditures to the City. These indirect and induced economic impacts were not included in the scope of work for the FIA.

FIA-23 *The Commissioner asks how many Facebook employees have children.*

No data on the number of children of Facebook employees was available for the FIA. It should be noted that the FIA analysis includes a 20-year projection of changes in City General Fund fiscal revenues and expenditures associated with the project, and over a 20-year period as Facebook continues to expand and mature as a company, the composition of its employees in the area, and the number and ages of their children, may change. Therefore, no snapshot of the current number of

children was necessary for this analysis.

- FIA-24 *The Commissioner states that if Facebook currently tends to employ younger workers, this trend could continue into the future, which would result in low rates of households with children.*

See the answer to FIA-23. It seems equally reasonable to conclude that as Facebook's long-term employees continue to get older, and form families and have children, and as the company expands and matures, the demographic profile of its employees may become more similar to other long-standing Silicon Valley companies.

- FIA-25 *The Commissioner comments that Facebook employees differ from employees of other Menlo Park companies, at least in terms of housing location preference.*

This topic is relevant to the Housing Needs Analysis, rather than the FIA. As described in that report, it uses a combination of County, State, and national data for firms within the same NAICS (industry) code as Facebook to derive its findings.

- FIA-26 *The Commissioner mentions a previously proposed housing project that was not expected to generate school-aged children, and suggested that the proposed Facebook project might be similar in that respect.*

Development of small condominiums or other types of new housing would not be expected to generate significant numbers of new students (school district student generation rates are lower for multifamily units than they are for single-family units). As noted in the KMA Housing Needs Analysis, Facebook employees are distributed in different income categories, and this affects their housing choices. For the FIA, housing types that would be built to respond to induced housing demand was identified in Table 28 (pg. 54) based on the income category by percent of Area Median Income (AMI) of Facebook employees, with the type of housing unit that would be expected to be produced:

150 percent AMI and above: single-family detached units;

120 percent - 150 percent AMI: multifamily units (condominiums or market rate rental apartments);

80 percent - 120 percent AMI: single-family attached units (townhouses), targeted to households eligible for the City's affordable homeownership program for households at 110 percent of AMI;

50 percent - 80 percent AMI: multifamily units (rental units built using Low Income Housing Tax Credit financing); and

0 percent - 50 percent AMI: multifamily units (rental units built using Low Income Housing Tax Credit financing.)

FIA-27 *The Commissioner expresses the opinion that the estimated student generation for the Menlo Park City School District does not overstate the potential impact to the District, given the estimated increase in Menlo Park workers.*

The FIA uses the student generation rates provided by the Menlo Park City Elementary School District, and assumes that the District has developed rates that provide the most appropriate estimate of the student impact associated with development of new residential units.

FIA-28 *The Commissioner states that the estimate of student generation attributable to the project is conservative, rather than on the high end.*

See the answer to FIA-27.

See attached transcripts

S.79  
Cont.

1 the standard is E. So that's what the actual standard  
2 is. That's not necessarily what it is today.

3 COMMISSIONER FERRICK: Mm-hmm.

4 MR. TAYLOR: And so then you have the  
5 condition of level of service, which is at C.

6 COMMISSIONER FERRICK: Right.

7 MR. TAYLOR: So it doesn't mean that it's at  
8 E and it's going to go back to C. It's just that it's at  
9 C today.

10 COMMISSIONER FERRICK: Right. So it wouldn't  
11 even get to the point where it's below the standard --

12 MR. TAYLOR: It hasn't reached that  
13 threshold. It hasn't gone past that threshold of E.

14 COMMISSIONER FERRICK: All right. Thank you.  
15 That helps me.

S.80

16 \* And then the other concerns that I had --  
17 the -- that I came across in both the EIR and an FIA, one  
18 that stood out for the -- both in the EIR and the FIA,  
19 the school district impact, and it's wonderful to hear  
20 the great work that Facebook has done thus far for  
21 Ravenswood School District and some others.

22 We haven't yet talked about the impact to  
23 Menlo Park City School District, and in it, one thing  
24 that stood out is the enrollment -- the current  
25 enrollment is already a year out of date.

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1 I know that it says the data was collected on  
2 August 31st, 2001, and just for reference for everybody,  
3 I'm looking at the EIR page 3.15-7, and it's also in the  
4 FIA on page 63 and 4, but not the specific data that I'm  
5 talking about.

6 And this should have been brought up during  
7 the FIA discussion.

8 So, for example, Encinal School, it says:  
9 "Total capacity, 744, current enrollment, 746."

10 There's actually 773 students registered there  
11 this year. So things like that, what I'm asking is could  
12 the real current enrollment be recalculated as part of  
13 the FIA so that the City Council and the development  
14 agreement teams can have a better more timely figures?

15 One reason is the school district has been  
16 growing by leaps and bounds, 34 percent in the last five  
17 years, and it's -- it's become a very attractive school  
18 district, and I feel like one -- I know the EIR states  
19 that it doesn't rise to the level of a significant  
20 impact.

21 I -- I disagree with that conclusion and I  
22 think with proper figures, the EIR may come to  
23 different -- a different conclusion, and I'm worried  
24 that -- I just feel like the school district will  
25 have -- will be a big benefit to Facebook's ability to

1 attract and retain great employees because it benefits  
2 Facebook to have several great school districts in its  
3 proximity.

4 And so I just feel like I don't want to --  
5 because that school district is a basic aid district,  
6 there is no additional dollars that go into that school  
7 district when additional students go to that school,  
8 unlike the other school districts that are part of the  
9 FIA and EIR.

10 So I just want to bring that up in terms of  
11 one, updating the figures to recalculate; and then two,  
12 if there is a way that the City Development Agreement  
13 team could work with the school district leadership to  
14 figure out what their concerns are.

15 If I was -- if I were the school district  
16 leadership, I'd be having some anxiety over the  
17 additional students that the project should generate.

18 And then lastly, I just wanted to support the  
19 many, many comments about improved bike and pedestrian  
20 improvements, the continuous bike routes, as the D-11  
21 noted, and I do hope that the -- that the project  
22 ultimately fills in the entire Bay Trail gap as well as  
23 improvements along University Avenue, Willow Road and Bay  
24 Road in East Palo Alto.

25 That's all for now.

1 the baseline data versus the projected project data.

2 COMMISSIONER FERRICK: Thank you.

3 CHAIRPERSON BRESSLER: Okay. Anything else?

4 I think that we can close this item out, then.

5 We're going to move on to regular business  
6 item F. Review and comment on the draft for the Facebook  
7 campus project.

8 Justin or Rachel, we have -- I assume we have  
9 a presentation on this.

10 MS. GROSSMAN: We do have a presentation  
11 here. The City's consultant, BAE Consultant, Ron Golem  
12 will BAE will be presenting an overview of the Fiscal  
13 Impact Analysis prepared for the project.

14 CHAIRPERSON BRESSLER: Okay.

15 MR. GOLEM: Thank you, Rachel.

16 Good evening, Commissioners. In the interest  
17 of time, I'll try to make this as brief as I can.

18 Obviously the fiscal impact analysis is a  
19 fairly complex piece of analysis, and so I hope to do  
20 this this presentation is give you a feel for how we  
21 approached it and in kind of a big picture why it's done  
22 the way it is, and also share with you some of the key  
23 findings to -- to inform your consideration.

24 So to start with, the purpose of the Fiscal  
25 Impact Analysis, there's several things we're trying to

1 do. One is we're trying to understand what is the net  
2 fiscal impact.

3 By "net fiscal impact," I mean the  
4 relationship between new revenues that come in versus new  
5 expenses that occur for all the local government budgets.

6 So we're dealing with the City of Menlo Park's  
7 general fund. We're also deal with special districts.  
8 We're dealing with the school district and so on.

9 And we did that for the project set forth in  
10 the Draft EIR.

11 Now beyond that, we're also trying to address  
12 what some of the indirect impacts are. Specifically,  
13 what is the implication of the potential new housing  
14 demand, looking at that in terms of fiscal impact for the  
15 City as well as some of the special districts.

16 One of the questions that was just asked which  
17 was about the alternative analysis of potential business  
18 and business sales tax, that was another task we were  
19 given.

20 And so finally to note that even though I'm  
21 going to do this in a fairly quick fashion, the Draft  
22 Fiscal Impact analysis does have a complete set of tables  
23 and details of methodology and so on, if you want to get  
24 into the particulars.

25 So in terms of the scope of the fiscal impacts

1 analysis, as I mentioned, we were addressing both the  
2 revenues plus the cost of new services as well as the  
3 potential facilities, equipment and staffing that we  
4 required.

5 I won't list through all the jurisdictions  
6 here, but you will see that it is really the City of  
7 Menlo Park, the then redevelopment project area, fire,  
8 water, sanitary school districts and various county  
9 functions.

10 So let me talk for a minute about how we  
11 approached the fiscal costs, fiscal impacts analysis  
12 study.

13 The beginning point for us is to look at the  
14 actual current year budgets for all of these  
15 jurisdictions so we can help identify where the current  
16 cost of service delivery.

17 We worked through a series of interviews with  
18 various department agency heads to help us identify what  
19 are the marginal costs of these services, and by marginal  
20 costs, what I'm referring to is the actual increment of  
21 costs that will be caused by the project. So that we can  
22 actually make that clear connection.

23 And again, looking at not just personnel, but  
24 the equipment, overhead, all these other factors.

25 Now, some on of these services, it's not

1 practical to do this as a marginal cost, especially, for  
2 example, with sort of general government types of  
3 expenses and so one.

4 Some of those costs we actually do what we  
5 call an a costs methodology, and what that involves is  
6 coming up with a service population for the projects.

7 And so typically the rule of thumb that we use  
8 is that a serious population for a project represents  
9 residents plus non-resident workers at about fifty  
10 percent, and that fifty percent is because workers in the  
11 city aren't here as long throughout the day as residents  
12 are.

13 And so we define what the total current  
14 service population is. You can divide it by the cost to  
15 come up with a curve population figure and then you can  
16 apply it to a population associates with the project.

17 And again, in doing this methodology, we used  
18 these methods, we interview the department heads and then  
19 we reviewed it with them so we could fine-tune this and  
20 come up with figures so that we felt that the departments  
21 and special districts felt were accurate.

22 So in terms of revenue, the sources that we  
23 considered were really the major revenue sources. New  
24 property taxes, new sales taxes, transient occupancy  
25 taxes.

1           And in particular, one of the things that we  
2 did is we looked at what were some of the factors that  
3 might affect these receipts, and particularly how the  
4 nature of this operation might affect the collection of  
5 sales tax as well as the kind of demand that might occur  
6 from hotel rooms and occupancy and so on.

7           And as a result of that, we decided to come up  
8 with two scenarios that really dealt with alternative  
9 assumptions for sales tax and transit occupancy counts.

10           And the reason for that is that when you  
11 consider a sales tax, it really becomes a question of  
12 Facebook does provide a tremendous amount of services on  
13 their campus to their employees.

14           So there's really no convenient rule of thumb  
15 or clear examples you can look at well gee, for sure,  
16 they're going to spend this on campus versus off-campus.

17           And so we thought if it was appropriate in  
18 working through the project is to help with different  
19 sets of assumptions, and this was based on our  
20 discussions with Facebook's representatives as to what  
21 were reasonable assumptions.

22           Similarly, when you talk about hotel rooms,  
23 Facebook will generate a very definite demand for  
24 additional hotel rooms, both they pay for hotel rooms  
25 when they interview people, they have people coming to do

1 business with them and so on.

2 So it becomes a question of when you look at  
3 the existing supply of hotel rooms in Menlo Park, do  
4 those hotels match the type of hotels that their  
5 employees and visitors will want to use and how is that  
6 being captured from the city.

7 Obviously that becomes a function of what is  
8 the supply of hotel rooms in Menlo Park, and of course,  
9 as you know, we have projects that are lined up to  
10 potentially add hotel rooms to Menlo Park in the future.  
11 So it becomes part of the consideration.

12 So for the two scenarios, the first one was an  
13 assumption that of the sales tax increase associated from  
14 the Facebook project, that half that will be captured in  
15 the city, and that of the transient occupancy tax, 25  
16 percent will be captured in the city.

17 For the second scenario, we assume that 75  
18 percent of the potential sales tax will be captured in  
19 the city and 65 percent of the potential transient  
20 occupancy tax will be captured in the city.

21 Now, in addition to those resources, we also  
22 use sources -- these are the full gamut of new revenue  
23 sources, so anything from vehicle license fees, utility  
24 user tax, various license and permits and franchise fees.

25 In addition to those ongoing annual sources,

1 we also calculated the one-time revenue sources. So  
2 those include items such as property transfer tax,  
3 various development impact fees and capital facility  
4 charges and so on.

5 So to get to our first set of findings, with  
6 respect to the general fund, you will see several  
7 different analyses in the report, including one that  
8 looks over a twenty-year period, but the first most  
9 simple way to present this is what we call the net fiscal  
10 impact stabilization, and by stabilization, we mean after  
11 the project's fully built out and after the full  
12 employees are there onsite.

13 And so with respect to the general fund, what  
14 we found for the two scenarios for that net fiscal impact  
15 is that in scenario one, there be a positive fiscal  
16 impact to the City's general fund of \$74,000 per year.

17 In scenario two, that impact would be higher  
18 because of a higher sales tax and TOT, which will be  
19 \$167,000.

20 COMMISSIONER O'MALLEY: Through the chair,  
21 could I ask you a question?

22 CHAIRPERSON BRESSLER: Yes.

23 COMMISSIONER O'MALLEY: Your scenarios one  
24 and scenario two, does scenario one represent a realistic  
25 figure or is that representing a low figure?

FIA-1  
Cont.

1                   And likewise, is scenario two representing a  
2 high figure or somewhat less than that? Where are they  
3 with respect to reality in your judgment?

4                   MR. GOLEM: I don't think it's much a  
5 question of reality. I think if I can explain the  
6 concept behind scenario one and scenario two, what I  
7 would say is that scenario one is more conservative with  
8 respect to how much of Facebook's employee spending  
9 occurs within the City of Menlo Park as opposed to other  
10 locations, and most significant on the transient  
11 occupancy tax, it assumes that there probably is not much  
12 of an increase any time soon in hotel rooms in Menlo  
13 Park.

14                   So because of the nature of current hotel room  
15 inventory in the city, most of that hotel room activity  
16 occurs outside the city.

17                   Whereas I would say that scenario two tends to  
18 assume that a little bit higher proportion of sales tax  
19 activity is captured within the city, but more  
20 importantly, that you do have an increase in the hotel  
21 inventory in Menlo Park, such as, for example, the  
22 Gateway project.

23                   So that you have a much higher proportion of  
24 hotel rooms that Facebook is spending money on occurring  
25 in Menlo Park.

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1           So in that sense, those are the two concepts.  
2    I don't think it's a matter of being realistic. It's  
3    just a matter of what circumstances lead to the two  
4    scenarios, but I do think that those two scenarios do  
5    bracket the likely outcomes with respect to --

6           COMMISSIONER O'MALLEY:    That's what I was  
7    trying to get from you.

8           MR. GOLEM:    Okay.

9           COMMISSIONER O'MALLEY:    Okay. So it's  
10   likely -- the likely outcome is bracketed between those  
11   two?

12          MR. GOLEM:    That would be our opinion, yes.

13          COMMISSIONER O'MALLEY:    That's fine.

14          MR. GOLEM:    Now, we also did do an analysis  
15   with respect to the reduced trip generation alternative  
16   to understand what will be the implication of that on  
17   these general fund fiscal impact findings, and as you'll  
18   see, it had a slight impact for the scenario one.

19                 The net positive fiscal impact increased to  
20   62,000 per year, and for scenario two, it decreased to  
21   174,000 per year.

22                 Now in addition to those general fund impacts,  
23   the one-time -- the total amount of various one-time  
24   facility, development impact fees and so on paid to not  
25   just the City, but also special districts ended up being

1 a total of 8.6 million dollars.

2 Now the next slide is actually already a  
3 perspective or a historical look at what might have been,  
4 in the sense as you know, because of the State Supreme  
5 Court's ruling, redevelopment agencies will be dissolved  
6 as of February 1st.

7 So that ruling had not occurred at the time we  
8 did the analysis, and so what we did is we looked at the  
9 Las Pulgas redevelopment project area, and we actually  
10 did a calculation based on the increase in property value  
11 and the tax income that flows from that, we'll do that  
12 amount of money and how that would be distributed to  
13 various agencies.

14 Now, what's going to happen is that these  
15 amounts are basically not going to occur, and what's  
16 going to happen is is rather than having them flow in the  
17 ways that this is laying out in terms of affordable  
18 housing and various kinds of aspects, incremental  
19 projects and so on, all of that money is going to  
20 basically be just ending up distributed as is general  
21 property tax revenue without redevelopment.

22 And so what it means is -- and we have not  
23 done the calculation. So there will not be tax increment  
24 available for redevelopment purposes, but the increase in  
25 property taxes that results from the Facebook project

1 will end up pulling through to not just the city, but the  
2 county, the schools and special districts just as all  
3 other property tax money does.

4           So the end result is that the numbers I just  
5 talked about a minute ago will actually end up being a  
6 little bit higher because of the additional general fund  
7 money that the City will get, but that additional  
8 increment will be nowhere near the amounts of money we're  
9 talking about here, because again, when you look at  
10 overall property tax revenues, the city only gets a small  
11 slice and most of it ends up going to the county and  
12 schools and -- and other agencies.

13           So I realize that's a little bit confusing and  
14 not terribly clear, but that's sort of the situation  
15 we're in right now with respect to redevelopment.

16           Next I'll talk about the impacts on some of  
17 the special districts. We went through a fairly  
18 exhaustive process of trying to understand what is the  
19 net fiscal impact to the fire district, and basically  
20 what we did is we looked at what are the property tax  
21 revenues that would flow to the fire district.

22           Now, again, there will be some additional  
23 money because of how redevelopment is changing, but we  
24 have not analyzed that. So this is a number that is  
25 based on the assumption that redevelopment was still in

1 place.

2 What we saw that the fire district would gain  
3 just over a hundred thousand dollars a year in new  
4 revenues.

5 Now, in addition to that, there are all of the  
6 needs per the Draft EIR that there would be a need for  
7 additional firefighter or fire safety person, and so we  
8 accounted for that cost, as well.

9 When we looked at the carbon tax revenues and  
10 the -- the cost of that, the actual net difference -- I  
11 should have said this more clearly -- is actually the net  
12 positive fiscal impact to the fire district is actually a  
13 hundred thousand dollars per year.

14 Now, that's on the operating basis. That does  
15 not address this other topic of what is the need for fire  
16 equipment and what you heard the chief talk about.

17 As you may know, there's currently a process  
18 going -- and the city is party to this -- where there is  
19 a development impact fee nexus study that is going to be  
20 prepared by the fire district in cooperation with the  
21 city and the other affected parties.

22 And the intent of that is to establish a  
23 development impact fee for fire services that will pay  
24 for the cost of new equipment and station improvements  
25 and so on that are identified to support not just

1 Facebook, but all the other potential development that  
2 will happen in the service area.

3           Since that nexus study has not been done, we  
4 don't know what that amount of money is, and so for our  
5 purposes, we just noted that if that fee is in place by  
6 the time when Facebook would be paying its building  
7 permits, that they would of course pay that particular  
8 fee.

9           Now, what it means is that when you look at  
10 some of costs the fire district identified, specifically  
11 the need for additional ladder truck, additional staffing  
12 and station improvements, we are making assumption that  
13 all those costs get pulled into the nexus study and will  
14 be part of that calculation. But this is a series of  
15 assumptions that we're making at this particular moment.

16           Next I'll talk about school districts. The  
17 Facebook project itself lies within the Ravenswood  
18 Elementary and Sequoia Union High School Districts. It's  
19 an office project, there's no residential, so there's no  
20 direct school impacts which occur.

21           Now, in talking about what this means -- and I  
22 think with the benefit of not everyone's clear on this --  
23 is there's basically two different ways the school  
24 districts are dealt with financially in the state.

25           The largest number, the overwhelming majority

1 of districts in California are what are known as revenue  
2 limit districts. So what that means is the state  
3 guarantees a certain amount of per student funding.

4 And so what ends up happening is is that the  
5 districts with a revenue limit district, it gets more  
6 property tax money.

7 The state funding is offset by a certain  
8 amount, so there's no net benefit for more property tax  
9 revenues to our revenue limit district, and the  
10 Ravenswood Elementary School District is a revenue limit  
11 district.

12 By comparison, the Sequoia Union High School  
13 District is a basic aid district, so that means that they  
14 do not receive that same guaranteed per pupil aid that  
15 the regular limit districts do.

16 Instead, they're relying upon the property tax  
17 money, but what it means is that when there's more  
18 property tax revenue, the basic aid district gets to keep  
19 that.

20 So we looked at what the Facebook project  
21 would generate for the Sequoia Union High School  
22 District, and what it means is they have a net benefit  
23 over \$309,000 per year, and it's such a high number  
24 because there is a lot of value that's created and it  
25 does free a lot of additional prior kept money, and

1 there's no direct cost because there will not be students  
2 in the Facebook project itself.

3 Just -- I'll go through this quickly. We  
4 also looked at a wide range of the other special  
5 districts, the water and sewer districts.

6 Those are self-funding through the various  
7 connection fees and capital facilities charges, and so  
8 Facebook would generate 165,000 in water capital facility  
9 charges, a million dollars in sewer connection fee.

10 For the community college district, they are  
11 not currently accepting any more community college  
12 students, so there's no increase in students, so there's  
13 no increase in costs, but they will receive an additional  
14 137,000 per year.

15 The County Office of Education's a revenue  
16 limit district, so there's impact for them. And then  
17 finally the Mid-Peninsula Open Space District, they do  
18 not expect to see any increase in cost. They would have  
19 a slight increase in property tax revenues of 33,000 per  
20 year.

21 And again, all of these amounts of money will  
22 go up slightly as a result of the redevelopment project  
23 area going away.

24 So now I'll shift and talk about the potential  
25 in reduced housing demand.

1           The housing needs analysis that was done by  
2   Keyser Marston Associates identified a need for a  
3   potential reduced housing demand up to 254 units, and  
4   these 254 units are allocated among households at  
5   different levels of area median income corresponding to  
6   the assessment that Keyser Marston did on what the  
7   salaries of those positions would be.

8           So what we ended up doing was taking those  
9   household income levels and converting them to housing  
10  prices so that we could assign them to different kinds of  
11  housing prices and making assumptions about some of the  
12  houses would be, for example, potentially taxpayer  
13  projects.

14           You know, for households that earn sixty  
15  percent of the area median or less, they would  
16  potentially be living in new housing that we funded  
17  through low income housing tax credit projects, which are  
18  tax exempt -- typically tax exempt rental projects.

19           Other projects would be rental projects. Some  
20  units would be actually for-sale projects. So we sort of  
21  split those all out.

22           We went ahead and did the same type of fiscal  
23  impact analysis based on how we had assigned those  
24  different households to different types of housing units,  
25  and from that analysis, we found that the reduced housing

1 demand would actually have a net fiscal cost to the City  
2 of \$20,000 per year.

3 So that is a negative amount, but it is still  
4 considerably less than the net positive fiscal impact  
5 from the project overall.

6 Now one thing to note is that this kind of  
7 analysis is based on averages. So that's not to say that  
8 each project has the same sort of impact.

9 The actual impact from any particular project  
10 makes a difference. So for example, if you're building a  
11 project in one particular location and it so happens that  
12 the police department has capacity as B structure, the  
13 fire appears to have capacity, from may be very minimal  
14 sorts of impact for that particular project even though  
15 the analysis that we did as an average cost basis assumes  
16 that each unit has a very proportional impact across the  
17 board.

18 So the next topic was to look at the reduced  
19 housing and what that fiscal impact would be for the  
20 school district.

21 Now the challenge is is that again we at this  
22 point don't have a way of saying where will these new  
23 housing units be built necessarily, and so we ended up  
24 making an assumption that first of all for the high  
25 school, all students be would be going to the Sequoia

1 Union High School District, but with respect to the  
2 elementary/middle school, we assumed that fifty percent  
3 of the new housing will be the Ravenswood district and  
4 fifty percent would be within Menlo Park City Elementary,  
5 and again, that's not a forecast, that's not an  
6 expectation. That's really an analytical device to say  
7 if we have a mix of that two, how might that work?

8           Because it wasn't plausible to say they'll all  
9 be in Ravenswood, and we didn't think it was plausible to  
10 say that they would be in the Menlo Park city district,  
11 either.

12           So what that means is -- it creates an  
13 interesting dynamic, because as you heard me about, the  
14 project is giving property tax revenue to Ravenswood,  
15 even though they don't benefit from it, as well as to the  
16 Sequoia Union High School District.

17           For the Menlo Park City Elementary School  
18 District, which was part of the housing institute, does  
19 not get any new property tax revenues from the project.

20           So to jump to the bottom line, what we did is  
21 we looked at the net fiscal impact based on for each  
22 district, its consideration, considering both the amount  
23 of students that would come from the various housing  
24 units as well as the property tax rates received.

25           Because Ravenswood's revenue limit, there is

1 no net fiscal impact program with respect to the housing  
2 units in the district.

3 With respect to Sequoia, because they are  
4 basic aid, they would still have a positive fiscal impact  
5 of \$120,000 a year even after having to deal with the  
6 education of the students for the reduced housing demand.

7 However, for the Menlo Park City District,  
8 which is basic aid district, there is a negative fiscal  
9 impact of \$270,000 per year.

10 Now that's a pretty substantial number, and I  
11 think what I would suggest is that this needs to be taken  
12 in context a little bit and it needs to be understood as  
13 the way that this exercise was set up, because it's  
14 looking at just this project, and because the Facebook  
15 project property tax revenues do not go to Menlo Park  
16 city, you have a situation where you have no revenues and  
17 all costs.

18 So that will lead to a very large negative  
19 number, and when we looked at that, we started thinking  
20 about what does that mean or what's the way of thinking  
21 about that.

22 This is just one point of comparison, but, for  
23 example, because we recently worked on the El Camino Real  
24 Downtown Specific Plan, what we observed there, when we  
25 were looking at a much broader range of projects that

1 involve both revenue and expenses for the Menlo Park City  
2 Elementary School District, that specific plan fiscal  
3 impact analysis actually showed a fairly substantial  
4 positive fiscal impact for the school district -- for  
5 Menlo Park City District of 275,000 per year.

6 So what I'm suggesting here is that this is an  
7 analysis, but you also have to understand that in a way,  
8 we're bumping up against some of the limits of how you do  
9 this kind of analysis.

10 The final topic is the topic of the business  
11 to business sales tax revenues. This is something we  
12 looked at because it's been mentioned before.

13 When Sun campus was at the East Campus, they  
14 were very substantial generator of sales tax revenue for  
15 the city.

16 The question came up, because although Sun  
17 generates those kinds of sales tax revenues, the nature  
18 of Facebook's business is that does not generate those  
19 revenues.

20 So we ended up coming up with two methods to  
21 estimate what might be the potential sales tax generation  
22 from an alternative tenant and of mix of tenant at both  
23 the East and West Campus than, for example, Facebook.

24 In the two methods we used, the first one was  
25 to actually work with the city and look at the

1 confidential sales tax data from class A office buildings  
2 in Menlo Park.

3           So we profiled basically class A office  
4 buildings in Menlo Park and their current tenant mix and  
5 looked at what is the type of sales tax generation that  
6 comes from those tenants with the idea that that is a  
7 good proxy for what might happen if the -- the East and  
8 West campus were opened up to similar types of office  
9 tenants.

10           The other method that we did -- and I think  
11 this has not been done before, as far as I know -- is we  
12 broadened our look because we wanted to look at Silicon  
13 Valley overall.

14           By Silicon Valley, I mean San Mateo and Santa  
15 Clara Counties, and what we did is we actually went to  
16 the state and did a custom data run from the State Board  
17 of Equalization where we looked at all of the different  
18 categories that represent high-tech companies in Silicon  
19 Valley.

20           We were able to use their data and to find out  
21 and calculate what is the average per employee taxable  
22 sales generated by high-tech companies in Silicon Valley,  
23 and once we had derived that per employee number, then we  
24 could apply it to the potential employment count that  
25 would occur at the East and West Campus.

1           So using those two methods, again, that  
2 defined a range in terms of what we could feel was the  
3 potential business to business to business sales tax  
4 revenues that could come from an alternative mix of  
5 tenants at the site, and we felt that that range would be  
6 between 431,000 to 827,000 per year.

7           Now it's important to understand that what I  
8 just described is a way of calculating an average. And  
9 so that's not to say that any particular tenant would  
10 necessarily fall from that range.

11           For example, you could have another single  
12 tenant come in that was not Facebook that did not  
13 generate any sales tax, so you'd be at zero.

14           Alternatively, you could have somebody have  
15 more, but again, this is just a way of trying to get at  
16 an answer to what is that potential range you might have  
17 if you had a different use on that campus.

18           I realize that was a lot of material in a  
19 short amount of time, and I look forward is to answering  
20 your questions.

21           CHAIRPERSON BRESSLER: I have a question  
22 about the revenue generation. I've read recently that  
23 there's consideration in Sacramento of revising the --  
24 the revenue models so that revenue -- actually, sales  
25 tax-like revenue would be generated from companies like

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Cont.

1 Facebook.

2 Are you familiar with this?

3 MR. GOLEM: You know, there is discussion --  
4 I think, you know, given the budget consideration and the  
5 governor's proposal, there is a lot of discussion about  
6 alternative mechanisms, including, as you're mentioning,  
7 the idea that sales tax would charge in services.

8 I have not read any specific legislative  
9 proposals, so I'm not clear as to what extent the  
10 services that they're talking about would be personal  
11 services like going to a dry cleaner, professional  
12 services such as attorneys or what we do, or the kinds of  
13 services that Facebook would do.

14 But certainly, you know, it's very plausible  
15 that it would be part of the discussion. But at this  
16 point, we're just relying on what's in the law, so we're  
17 not really --

18 CHAIRPERSON BRESSLER: Right.

19 MR. GOLEM: -- doing anything that's trying  
20 to forecast or speculate.

21 CHAIRPERSON BRESSLER: All right. Henry.

22 COMMISSIONER RIGGS: Maybe four questions,  
23 and I'm going to start with a background one. Right now,  
24 what is our worker population in Menlo Park? I think  
25 I've read 15,000, and I think I also read a higher number

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Cont.

1 at one point.

2 MR. GOLEM: I don't have that offhand, but  
3 I'll look that up for you as you're going to your next  
4 question.

5 MR. MURPHY: I'm not sure we have that exact  
6 number tonight, but sometimes 15,000 may be private  
7 companies. I've also seen 30,000 that have business  
8 licenses with the city.

9 I think 30,000 is what includes the Federal  
10 Government, local government, things like that. So those  
11 are the two different reported numbers.

12 MR. GOLEM: Actually, I just looked it up.  
13 This is the number we use from the US census from the  
14 American Community Survey. I'm rounding, but 30,300  
15 employees in Menlo Park.

16 COMMISSIONER RIGGS: All right. That is the  
17 other number that I thought I heard. Okay.

18 And therefore, it would be logical to look at  
19 them in terms of user services.

20 MR. GOLEM: Right. So our formula is that  
21 30,300, we took half of them, so approximately 15,000  
22 some, and the idea being that workers are typically here  
23 eight hours plus or minus, as opposed to residents. You  
24 know, if they don't work in the city, are maybe here  
25 sixteen hours a day, if they work and live here, they're

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1 24 hours a day.

2 And so there's a lower level of service for  
3 workers who do not live in the city, and that's why we  
4 make that adjustment.

5 COMMISSIONER RIGGS: Understood. So if over  
6 the course of the next few years, we recover what had  
7 been on the Sun campus and then add to the West --  
8 proposed West Campus, that 30,000 would move to 39,000,  
9 roughly.

10 MR. GOLEM: In terms of gross numbers, but  
11 again, when we do our calculations. We take the increase  
12 in employment above --

13 COMMISSIONER RIGGS: Right. I'm not looking  
14 at impacts right now. I'm just looking at proportion.  
15 It looks like Facebook will be 25 percent of our employee  
16 base in Menlo Park. Just an interesting observation.

17 I mean, assuming that their predicted growth  
18 actually occurs.

19 Under annual recurring expenses, and -- I  
20 think I'm looking at page 13 -- I'm sorry. Page 28.  
21 Administrative services is right about fifty percent,  
22 although these are net numbers, I believe, coming up with  
23 \$245,000 net cost.

24 But when I look at the breakdown and  
25 proportionately, administrative services is notably

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Cont.

1 greater than the police department effect and the library  
2 combined, but the administrative services includes 1.2  
3 million per category bulk asset preservation.

4 Are you familiar with what that category is?

5 MR. GOLEM: I would have to defer to the  
6 finance director to give you a detailed explanation of  
7 what that category is, but basically what that category  
8 represents is a lot of the staffing activities around the  
9 finance department and the functions that are done that  
10 involve kind of overall general management functions.

11 COMMISSIONER RIGGS: Well, I cheated. I  
12 asked, and it's all the finance, which includes budget,  
13 treasury. I didn't actually know we had a treasury  
14 department in Menlo Park, and we can get to how to solve  
15 budget problems later.

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16 Revenue management, which includes account  
17 receivable, business licenses, taxes, water and garbage  
18 revenue management, accounting and reporting, accounts  
19 payable, purchasing, risk management and payroll.

20 So the costs for those departments are  
21 projected to rise by 1.2 million.

22 Is this something that you find is consistent  
23 with the costs of increasing employment in the city?

24 MR. GOLEM: Well, actually, what we found is  
25 that it would increase by just under 245,000 per year,

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1 would be for the total of that entire function that  
2 includes both asset preservation and the other items That  
3 are listed under administrative expenses.

4 So if the question you're asking is do these  
5 expenses necessarily increase in a very linear way on a  
6 permanent employee basis, it's a fair question.

7 This is one of these items where we are using  
8 the average cost methodology, and I think that may be  
9 something that could potentially be somewhat debatable.

10 From our perspective, we were trying to be a  
11 little bit conservative with respect to the potential  
12 costs to the city.

13 And so we are making the argument that when we  
14 look at these costs, that, you know, there is some  
15 incremental amount of additional services that the city  
16 provides based on the increasing population and that  
17 therefore it's appropriate to calculate it as we have.

18 COMMISSIONER RIGGS: So it would be a twenty  
19 percent increase because we have a new business, an  
20 additional business with more employees.

21 MR. GOLEM: I think the more appropriate way  
22 to look at it is that for administrative services, the  
23 current budget is just over four million dollars a year,  
24 and so what we're saying is that if \$245,000 increase  
25 against four million, not doing math in my head right

1 now, but it's probably around a six or seven percent  
2 increase.

3 COMMISSIONER RIGGS: Okay. Okay. And then  
4 you spoke earlier about redevelopment funds, which is  
5 something that I did want to ask about.

6 You indicated that -- perhaps I should say  
7 confirmed that the redevelopment funds end up assuming  
8 taxes continue to be collected, since they're no longer a  
9 target of redevelopment so they go into the pool, for  
10 which perhaps one of the -- perhaps the largest recipient  
11 is the school system.

12 MR. GOLEM: Mm-hmm.

13 COMMISSIONER RIGGS: Right. So when you  
14 looked at the net loss, what was it? 270 something  
15 thousand for the Menlo Park School District as opposed to  
16 the Sequoia High School District, that was prior to  
17 figuring in --

18 MR. GOLEM: All -- all the figures I shared  
19 was prior to when the State Supreme Court made its  
20 ruling.

21 And so we would need to go back and revise  
22 that based on what's happened.

23 COMMISSIONER RIGGS: Okay. But unlike the  
24 tax base, which is in the Ravenswood District, this  
25 property tax increase, would this also go to Ravenswood

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Cont.

1 or go countywide?

2 MR. GOLEM: It would be distributed -- we're  
3 talking about the property taxes that come from where the  
4 units are located as well as the Facebook project.

5 So you still have the same relationship where  
6 the Facebook project does not result in any increased  
7 property tax revenues for the Menlo Park City School  
8 district.

9 So when we're talking about redevelopment, all  
10 of that money as being distributed would not result in  
11 any more money for the Menlo Park City School District  
12 because they're not within that particular boundary.

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13 COMMISSIONER RIGGS: All right. So if it's  
14 cooks in another one percent or something, that also goes  
15 to Ravenswood?

16 MR. GOLEM: Right. So they'd see no net  
17 impact because their amount is going to be offset.  
18 Sequoia would receive additional funding, though, because  
19 they are a basic aid district.

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20 COMMISSIONER RIGGS: Right. And then  
21 finally, on the housing impacts, you used -- actually,  
22 you have -- you have a chart there. You looked at some  
23 assumptions on where the housing would be located, but  
24 did you use or refer to the current preferences for  
25 Facebook employees which as I recall differ markedly from

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Cont.

1 the average Menlo Park employee, preferences for housing  
2 location?

3 For example, the preference for San Francisco,  
4 whereas the average Menlo Park employee prefers -- or the  
5 lead city preference is Redwood City.

6 MR. GOLEM: The Keyser Marston housing needs  
7 analysis went through an exercise where it calculated  
8 what percentage of Menlo Park -- I'm sorry.

9 What percentage of Facebook residents would be  
10 interested in living in Menlo Park, and I can't quote  
11 chapter and verse on that particular methodology, but I  
12 know that in a round way, I believe it was about 7.8  
13 percent of Facebook employees they felt would be  
14 interested in living and would demand housing units in  
15 Menlo Park.

16 COMMISSIONER RIGGS: All right. And when you  
17 looked specifically at the East Palo Alto impacts --

18 MR. GOLEM: Our scope did not involve looking  
19 at East Palo Alto impacts.

20 COMMISSIONER RIGGS: All right. I apologize.  
21 No more questions.

22 CHAIRPERSON BRESSLER: Katie.

23 COMMISSIONER FERRICK: Just follow on to what  
24 Henry was saying. Good evening. On page 54, there was a  
25 housing demand table that's broken out by income.

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Cont.

1 MR. GOLEM: Mm-hmm.

2 COMMISSIONER FERRICK: And I'm wondering if  
3 that is incorporated with the -- I guess you were  
4 explaining earlier why you kind of have to make an  
5 estimate on which school district those housing units  
6 might end up producing students from within either  
7 Ravenswood or Menlo Park City --

8 MR. GOLEM: I think there's two separate  
9 things going on. There's a question about where the  
10 units are located.

11 And again, we did a fifty percent to  
12 Ravenswood and fifty percent to Menlo Park City School  
13 District, and of course a hundred percent to Sequoia.  
14 That was how the allocation went.

15 The other part of the calculation is how the  
16 tax revenues are generated, which is a function of what  
17 is the value of the housing unit, which in turn is the  
18 function of what type of housing unit is and what the  
19 household can afford.

20 For example, just to briefly walk you through  
21 this, starting at the bottom of the table, when you see  
22 the units that we identify as being for very low income  
23 and low income units, we're assuming that those are  
24 associated with tax credit affordable housing type  
25 project, and most commonly those are projects that

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1 generate zero property tax revenues because they're tax  
2 exempt.

3 As you go up the scale, for moderate income,  
4 we assume that those are for sale units, because of the  
5 City's 110% AMI affordable housing program.

6 When you go up to the next one, for above  
7 moderate income, we assume those are rental units based  
8 upon what those household and other income levels can  
9 afford relative to current market rates for both rental  
10 and for sale housing in Menlo Park.

11 And then finally for the highest category of  
12 upper income units, we assume that those were all new for  
13 sale market rate housing in the city.

14 COMMISSIONER FERRICK: Okay. I guess I'm --  
15 that's helpful to figure out for the income categories.  
16 Definitely good clarification, but I guess what I'm  
17 wondering is why -- I guess it's just not part of your  
18 methodology, but the -- it seems like it would make sense  
19 to look at the housing stock within the city and make an  
20 assessment based on the school district lines and how  
21 much might fall into which category.

22 Because just looking at this, it -- it seems  
23 like it's not a 50/50 split of just the existing housing  
24 stock for a 50/50 split on where the students will end up  
25 that are generated from these households, which is what

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Cont.

1 the school district estimates were.

2 Like I guess I'm saying is that I feel like it  
3 will be a higher school impact to Menlo Park City School  
4 District than Ravenswood.

5 MR. GOLEM: Right. You're -- because you're  
6 assuming that there would be more interest in housing  
7 being built in Menlo Park City School District and  
8 therefore that's where the units will be.

9 COMMISSIONER FERRICK: I mean, right here, it  
10 says: Projected housing units. 104 of them are upper  
11 income units, and there's just simply -- the reality is  
12 there's more stock of units, but that that income  
13 category would probably buy -- things could change.

14 MR. GOLEM: Right.

15 COMMISSIONER FERRICK: Who knows?

16 MR. GOLEM: Yeah. The challenge in doing  
17 this is that when you're dealing with a small number of  
18 units, in some ways you can start making assumptions.

19 When we're dealing with this number of units,  
20 it's a function of both where sites are available and  
21 when they're available and when the market demand occurs,  
22 and there's a lot of interaction back and forth.

23 So I think that to be quite honest with you,  
24 it's a very interesting thing to say for sure well, here  
25 is some sort of refined estimate that is going to be x

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1 percentage in one district versus in another one.

2 There's a lot of different scenarios you can  
3 lay out and I'm not sure that I have a good enough  
4 knowledge in presenting which one of those scenarios  
5 would be any more likely an another one.

6 COMMISSIONER FERRICK: Right. Thank you.

7 CHAIRPERSON BRESSLER: I just want to quickly  
8 follow up on that.

9 So to the extent that Facebook employees drive  
10 demand, let's say, for houses in Menlo Park that aren't  
11 new, but have been assessed at very low tax rate because  
12 somebody's lived this for a long time.

13 Now this demand's coming in, people are buying  
14 these houses, these houses obviously are being reassessed  
15 so that their property taxes go up a lot.

16 We're not -- we're not covering that scenario  
17 here, really; are we?

18 MR. GOLEM: That amount is not included in  
19 here. Part of the challenge is is that we are focusing  
20 on incrementally what is the additional new housing  
21 demand.

22 When you look at what's happening to the city  
23 in general, you know, lots of people who are homeowners  
24 in Menlo Park are some houses really away from being able  
25 to buy some housing units.

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1           So what I would say is that, you know, if you  
2 look at the overall housing market in Silicon Valley,  
3 that the effect that you're describing does occur and is  
4 driven by both the economy here and when Facebook does  
5 come in, to the extent they buy an existing housing  
6 units, they're contributing to that dynamic that as  
7 housing is turned over, it gets reappraised, but the  
8 property revenue stays up quite a bit.

9           But trying to calculate that amount on a  
10 citywide basis and trying to figure out how much of that  
11 will be broken out to Facebook employees was not  
12 something that we tried to do.

13           COMMISSIONER FERRICK: Through the chair,  
14 though, I thought -- and maybe I need a clarification  
15 from -- from you.

16           On the table on page 64, I thought the 94,000  
17 additional projected annual revenues for Menlo Park City  
18 School District was that incremental increase in property  
19 tax revenue based on the -- and that the offset --

20           MR. GOLEM: What that 94,000 is, it's for the  
21 new housing units that will be built in that district.

22           COMMISSIONER FERRICK: Oh. It's not for  
23 turnover. Okay.

24           MR. GOLEM: It's not existing housing.

25           But if you have fifty percent of units in that

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1 district, those new housings do generate property taxes.

2 COMMISSIONER FERRICK: Okay. Thanks.

3 CHAIRPERSON BRESSLER: I mean, my basic  
4 contention is that it's probably not as bad as what your  
5 report says --

6 MR. GOLEM: Right.

7 CHAIRPERSON BRESSLER: -- based on the dynamic  
8 I'm talking about there.

9 MR. GOLEM: Right. I mean, the only point I  
10 would make is that, you know, if we step back and we  
11 looked at the City's overall financial picture and looked  
12 at all the sources of revenue of how they're changing,  
13 that would be a different study than the one we did.

14 CHAIRPERSON BRESSLER: Okay.

15 COMMISSIONER EIREF: Two short -- just to  
16 follow that up, this is kind of a conservation of math  
17 situation. In Menlo Park, there's not a hundred empty  
18 lots waiting to be built out.

19 So there's gonna be a dynamic where if people  
20 are going to move in, it's most likely they're going  
21 already buying other properties in Menlo Park that's  
22 already there or something.

23 I, I guess, kind of went through all this and  
24 it seemed like -- I picked up on the same thing. The  
25 administrative services number seemed, I guess to your

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Cont.

1 point, very conservative because I'm not sure how many  
2 financial controllers and various other things we need to  
3 support one more business kind of thing.

4 So I kind of netted it all out with the bottom  
5 line. I said, worst case scenario, there's not a lot of  
6 additional net revenue to the city, but it doesn't look  
7 like it's being negative, which is a good thing.

8 There's no scenario here that says that we end  
9 up losing money overall in the city.

10 MR. GOLEM: So, for example, the feeling is  
11 that we were overly conservative in overestimating the  
12 administrative services cost. Those costs should be  
13 lower, then that means our findings would actually be  
14 more favorable for the city than what I laid out.

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15 COMMISSIONER EIREF: Correct. I mean, it  
16 doesn't seem like there's a scenario here that you laid  
17 out where we end up impacting the general fund negatively  
18 overall.

19 That's what -- that's kind of the way that I  
20 read this whole report at the end of the day.

21 MR. GOLEM: Right. Based on the assumptions  
22 in terms of the value of the project and the sales tax  
23 generation, the transit occupancy tax generation and so  
24 on, that is correct.

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25 COMMISSIONER EIREF: It's not a big boon to

FIA-17  
Cont.

1 us, but on the other hand, it doesn't look like we're  
2 going to end up losing, and to me, that was almost the  
3 most important aspect of this is that we -- we  
4 acknowledge that we're not -- it's not another computer  
5 company that's going to come in and build tons of  
6 infrastructure and sell it to other businesses, but on  
7 the other hand, we're not going to end up losing out at  
8 the same time, which would have been a difficult  
9 situation.

10 MR. GOLEM: In terms of the baseline.  
11 Of course, the other part of this discussion is there  
12 will be a development renegotiation.

13 So the final picture for the city will be a  
14 function of the outcome of those Development Agreement  
15 negotiations.

16 CHAIRPERSON BRESSLER: We're running up to  
17 almost 11:30, and I realize at this point that I have not  
18 opened this item up for public comment which I'm required  
19 to do, so that's what I'm going to do right now.

20 Would anyone like to make a public comment on  
21 this item?

22 Okay. No one's coming forward. I'm going to  
23 close the public comment.

24 John.

25 COMMISSIONER KADVANY: I think I know the

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Cont.

1 answer to this question, but just to -- to clarify it.  
2 Suppose after all is said and done, we sort of look and  
3 say just for purposes of -- of thinking or argument we  
4 have the city, as a policy judgment has a general fund  
5 target that they'd like to associates with the project.

6 It sounds like we -- we can't -- if we want to  
7 go, for example, you provide us with this good  
8 information -- for example, the business to business  
9 taxes, that we can't use that. We can't just make up our  
10 own.

11 We can't go this kind of -- if we have a  
12 target like that, we have to put it into the Development  
13 Agreement just specifically as a number, goal, but we  
14 don't -- we shouldn't waste -- is it true we shouldn't  
15 waste time looking for some kind of instrument or  
16 mechanism?

17 Are those only for illustrative calculating  
18 value to say look at the number of workers, look at the  
19 square footage and so one. Just think about that.

20 MR. GOLEM: What the Fiscal Impact Analysis  
21 does is that on the revenue side, there is formulas that  
22 are set in long-term how the city obtains property taxes,  
23 revenues since housing is built, sales tax revenue,  
24 transit occupancy tax revenues and so on. So that's what  
25 we were calculating.

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1           On the service positive side, we're trying to  
2 think what we think is an estimate of what that's going  
3 to cost and what's the relationship. That's kind of one  
4 way of answering the question.

5           I think the other part that you're asking  
6 about, this part I would defer to Bill, but basically  
7 that there's other goals that the city has, revenues or  
8 otherwise, is that becomes part of the agreement and  
9 that's not a function of what's this relationship of the  
10 formulas for revenues or costs for providing services,  
11 but it's a matter of what the parties agree to.

12           COMMISSIONER KADVANY:    Okay. I think I  
13 understand. I just wanted to confirm that, make sure.

14           MR. GOLEM:    All right.

15           COMMISSIONER KADVANY:    It's kind of the same  
16 issue we were dealing with earlier with where is it -- is  
17 it a mitigation or is it some other entity.

18           MR. McCLURE:    Exactly. His sales tax  
19 analysis, that bracketed sales tax analysis was done  
20 simply to try to see if there were some metrics out there  
21 to look at.

22           If Facebook wasn't there and this was some  
23 other time of user, what would be the potential sales tax  
24 revenue that we're giving up by Facebook being there and  
25 to provide information.

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1                   COMMISSIONER KADVANY:    Yeah.  Understand, and  
2   it is very useful information, too, and I'm glad it's  
3   there.

4                   Thanks.

5                   COMMISSIONER EIREF:    So through the chair, so  
6   there was some discussion somewhere in the appropriation  
7   journals about there being -- the City Council is going  
8   to be developing a concept for public benefit, and this  
9   was actually ideas through this -- this medium.

10                  Is that -- is that where this concept would --  
11   would need to be addressed?

12                  MR. McCLURE:    Yes.

13                  COMMISSIONER EIREF:    Public benefit?

14                  MR. McCLURE:    Well, public benefit is revenue  
15   generation.  There are a lot of different ways of looking  
16   at public benefit, one of which is ongoing revenue.

17                  COMMISSIONER EIREF:    Creating an endowment  
18   for computer education in Menlo Park or something as a  
19   result of this project.

20                  That would be a project benefit or how would  
21   that be --

22                  MR. McCLURE:    It could be annual revenue  
23   payable to the city.  We've done that in the development  
24   agreements in the past, guaranteed revenue streams.

25                  I mean, there are a number of different

1 things, or it could be paying for the Bay Trail --

2 MR. McCLURE: Right. Completion of the Bay  
3 Trail. I mean, it could be a lot of different things.

4 COMMISSIONER EIREF: In the Gateway  
5 project -- you know, I wasn't on the Commission at that  
6 point in time -- there was a lot of discussion about  
7 making sure the city didn't end up getting the short end  
8 of the stick or there were other expectations, right?

9 MR. McCLURE: Yes.

10 COMMISSIONER EIREF: That's another big  
11 project that was very recent and fresh in everyone's  
12 mind.

13 So that would be done through the public  
14 benefit.

15 MR. McCLURE: That's correct, and that is  
16 essentially part of what you will be doing on Thursday  
17 evening is having some discussion around those topics.

18 CHAIRPERSON BRESSLER: All right. Peipei.

19 COMMISSIONER YU: I was kind of agreeing with  
20 Greg how I think the outlook for Menlo Park city schools  
21 will be weaker than is in the report.

22 So I wonder if there's, you know, a way to --  
23 much as you've bracketed the impact, you know, on other  
24 sites as it pertains to schools.

25 You know, because I'm looking at page 54 in

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Cont.

1 the chart, if I assume that households with over a  
2 hundred thousand dollars in income would prefer to go to  
3 Menlo Park schools versus Ravenswood, we're looking at 72  
4 percent going to Menlo Park versus twenty percent to  
5 Ravenswood.

6 That's much different than fifty percent do  
7 tonight, you know.

8 So I know that there's no great way to project  
9 these things, but I think that you've bracketed other  
10 things because you don't -- you can't get a precise  
11 number.

12 I think it would make sense if schools were  
13 bracketed, as well. Maybe it could mean, you know,  
14 income level or something like that.

15 MR. GOLEM: You know, We can run as many  
16 scenarios as the city directs us to do. I think the  
17 point I was trying to make before is that if you want to  
18 understand the context of the Menlo Park City School  
19 District, obviously, you know, depending on what scenario  
20 you use, this is one impact, but you might want to  
21 consider the citywide impact, because, as is the case,  
22 there are some projects that generate revenues and some  
23 projects that generate cost.

24 And so it's really -- if you look at their  
25 overview future, it's going to be all the projects and

1 how the pluses and minuses balance each other out.

2 This project by itself is going to have this  
3 amount of impact where other projects would probably have  
4 a plus amount, as well.

5 COMMISSIONER YU: I think for the other --  
6 for the other items we were looking at, we were looking  
7 at as though we didn't have Facebook.

8 So I think -- you know, I understand that  
9 you're saying there's going to be other impacts for  
10 downtown plan and all that, but if we're looking at just  
11 Facebook, but the other items may appear, too.

12 CHAIRPERSON BRESSLER: Henry.

13 COMMISSIONER RIGGS: Short question. Has  
14 anyone asked the Facebook population, worker population  
15 how many have children.

16 MR. GOLEM: Our calculation was based on the  
17 average number of children per household. We did not  
18 survey the Facebook worker population as it exists today.

19 The other point to make is that the  
20 population's going to change as both the work force  
21 increases in size and also the work force potentially  
22 ages.

23 So we felt the current average population per  
24 house in Menlo Park was the right place to start.

25 COMMISSIONER RIGGS: Okay. I guess I would

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Cont.

1 suggest that maybe if you look at otherwise, because if  
2 the character of Facebook as a company tends to be  
3 younger, then even across maybe the next five or ten  
4 years, there would potentially be a cycle of employees  
5 that will keep it younger.

6 MR. GOLEM: Right.

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7 COMMISSIONER RIGGS: And it does appear, at  
8 least from the data we have on preferred housing  
9 locations, that Facebook employees are not a mirror of  
10 the average Menlo Park employee.

11 MR. GOLEM: Right. So, for example, if we  
12 obtain that information, and as you're suggesting, it  
13 might be fewer people per household in Menlo Park, that  
14 would reduce the costs that we identified.

15 And so some of the impacts that we're seeing  
16 to, for example, Menlo Park City School District would  
17 decline.

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18 COMMISSIONER RIGGS: Just for example, when  
19 we had a housing project before us where the developer  
20 indicated that his likely market -- and theoretically he  
21 knew his market because he was putting a lot of money  
22 into it -- would not have school-aged children.

23 We then had a district superintendent review  
24 the project and said I'm not even going to pay attention  
25 to this. They won't have any children.

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Cont.

1           We have our doubts because it's our job to be  
2 concerned, but anecdotal review proved that to be true.  
3 So this might be an example where we are making  
4 assumptions that -- that are not appropriate.

5           CHAIRPERSON BRESSLER:    Okay.  Katie.

6           COMMISSIONER FERRICK:    Well, I mean,  
7 obviously there are assumptions to be made, but contrary  
8 to what Henry just said, I feel like the assumptions are  
9 incredibly conservative.

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10           If you have 9,000 employees and you think that  
11 there's going to be a total of thirty students to the  
12 Menlo Park City School District generated from that,  
13 that's pretty conservative.

14           So I don't think we're, you know, overstating  
15 the potential school impact here.

16           COMMISSIONER RIGGS:    No, but first you have  
17 to live in Menlo Park and then --

18           COMMISSIONER FERRICK:    Right.

19           COMMISSIONER RIGGS:    -- you have to have  
20 children.

FIA-28

21           COMMISSIONER FERRICK:    I'm not saying there's  
22 going to be 5,000 more children in Menlo Park City School  
23 district as a result of this project, but I just -- I  
24 understand we have to make assumptions, but I definitely  
25 don't think that these were on the side of a high

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Cont.

1 assumption. I think they're incredibly conservative  
2 assumptions.

3 CHAIRPERSON BRESSLER: Anybody else?

4 Okay. I think that's -- that's going to do it  
5 for that item, and we're going to do the Development  
6 Agreement discussion -- I forget what it's called.

7 Are we going to do the next item?

8 MR. McCLURE: Study session on the project.

9 CHAIRPERSON BRESSLER: On Thursday, 7:00 PM.  
10 Be here. With that, I'm going to adjourn the meeting.

11 (The meeting concluded at 11:39 PM).

12 ---o0o---

13

14 \* Per correspondence from Mrs. Ferrick dated January 10,  
15 2012: "When I brought up my concern about the financial  
16 impact to the Menlo Park City School District and the  
17 concern that some figures used in the the calculation by  
18 BAE having been out of date -- specifically the  
19 enrollment number -- I brought this up initially during  
20 the EIR discussion. I want to clarify that it should  
21 have been brought up as part of the FIA discussion"

22

23

24

25

1 STATE OF CALIFORNIA )

2 COUNTY OF SAN FRANCISCO )

3

I, the undersigned, hereby certify that the discussion in the foregoing meeting was taken at the time and place therein stated; that the foregoing is a full, true and complete record of said matter.

7

I further certify that I am not of counsel or attorney for either or any of the parties in the foregoing meeting nd caption named, or in any way interested in the outcome of the cause named in said action.

12

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14

IN WITNESS WHEREOF, I have hereunto set my hand this \_\_\_\_\_day of \_\_\_\_\_, 2012.

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\_\_\_\_\_  
MARK I. BRICKMAN CSR 5527

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