



MEMORANDUM

Date: July 28, 2011; amended August 31, 2011

To: Thomas Rogers, City of Menlo Park
Mark Hoffheimer, Perkins & Will
Prakash Pinto, Perkins & Will

From: Strategic Economics

Project: Menlo Park El Camino Real/Downtown Specific Plan

Subject: Fiscal Impact Analysis (FIA)

This memo assesses the fiscal impacts resulting from the Draft Specific Plan for the El Camino Real/Downtown area of the City of Menlo Park. Perkins + Will has created the “Draft Specific Plan” from an extensive community outreach and engagement process, along with input from Strategic Economics and other members of the consultant team. The purpose of this analysis is to help the City make decisions about the Draft Specific Plan only, and not about other development in the area; therefore, this analysis only evaluates new potential development associated with the Draft Specific Plan, and does not consider other proposed and approved projects in the plan area. The analysis considers the impact associated with the projected development program, which represents one theoretical development concept. This projection was developed by analyzing prototype developments within the Draft Specific Plan standards on a number of potential opportunity sites. It is important to emphasize that actual build-out will likely vary from this projection over 20 to 30 years.

Strategic Economics estimated the annual General Fund expenses and revenues that could be generated by build-out of the plan’s development program over time. The following section describes the plan metrics and results of the analysis. The subsequent section describes the assumptions used, followed by a sensitivity analysis of the impact of hotel and parking garage construction; finally, the Appendix provides detailed tables illustrating background information and the fiscal impact of the Draft Specific Plan to the City’s General Fund revenues and expenses.

This analysis only looks at impacts to the City’s General Fund, and not to other programs that are funded independently of the General Fund. Therefore, the analysis does not consider impacts to the Fire Department or the School Districts, which are funded separately and not operated by the City directly. However, environmental impacts to these two public services are important, and are evaluated through the Environmental Impact Review (EIR) process. The analysis does not include estimates of impact fees (such as the Transportation Impact Fee) as these are typically considered as mitigations for certain effects of projects. Nor does this FIA analyze ministerial fees which are only charged for specific services and which do not contribute to the General Fund. In addition, although the Draft Specific Plan sets up a

framework by which developers may enjoy greater Floor Area Ratios (FAR) and densities with provision of public benefits (some or all of which could be fiscal), this analysis does not attempt to quantify these potential benefits, as it is difficult at this time to estimate the precise number of developers that would opt for this process and what the individually-negotiated benefits would be. This fiscal impact analysis also does not analyze capital expenses (construction of parking structures or other public improvements, e.g.), options for which are discussed in more detail in Chapter 6 (Implementation) of the Draft Specific Plan.

As with all fiscal impact analyses, the assumptions drive the results. Strategic Economics created its assumptions based upon all available data, City input, market analysis (summarized in Section B.5 of the Draft Specific Plan), and appropriate standards, but unforeseeable deviations in actual future conditions can alter the fiscal impact outcomes. As a result, fiscal impact analysis is a tool best used to understand the Draft Specific Plan's major revenue and expense generators, the magnitude of likely net revenues/losses, and to understand how the Draft Specific Plan will alter the City's balance between revenue sources and uses.

The core of this analysis was originally conducted on the "Emerging Plan," in conjunction with preparations for the third Community Workshop in September 2009. Tentative conclusions from this preliminary fiscal analysis were presented for public consideration at this workshop. The analysis has been finalized here to reflect the Draft Specific Plan as released in April 2010, although the description of data in 2009 dollars (as originally presented) is retained for consistency and for comparisons with the earlier tentative analysis. The United States Bureau of Labor Statistics estimates total inflation of five percent has occurred since 2009.

The overall El Camino Real/Downtown planning process has taken place during a severe global economic downturn, which has led to a significant decline in key sources of municipal revenues for communities around the country, including declines in property tax, sales tax, and transient occupancy tax revenues. This analysis assumes the economy will recover over time and performance of revenues and expenses will be generally in keeping with longer-term economic patterns. Again, this FIA is based on one theoretical concept of how development under the Draft Specific Plan could unfold.

FISCAL ANALYSIS RESULTS

Strategic Economics completed a dynamic fiscal impact analysis that considers the annual fiscal impact throughout the period in which new development is expected to occur, with assumed build-out of the Draft Specific Plan occurring by 2030. Dynamic fiscal impact analysis examines change over a period of time, as opposed to a “static” fiscal impact analysis which examines the final fiscal impact after full build-out of development under the plan.

Summary of Major Findings

The Draft Specific Plan generates positive impacts to the General Fund

Upon full build-out, the Draft Specific Plan will result in significantly positive General Fund net revenues. Strategic Economics projects that, upon full build-out, Plan expenses will be less than 45 percent of revenues, resulting in over \$2.1 million of new General Fund net revenue on an annual basis (in 2009 dollars). Strategic Economics also projects that the plan will be fiscally positive during most of the plan life, depending on the timing of hotel and parking garage construction (each a significant revenue or cost driver, respectively).

Draft Specific Plan revenue is heavily dependent upon transient-occupancy tax; the Draft Specific Plan could result in negative impacts to the General Fund without inclusion of a hotel

The Draft Specific Plan allows that two hotels with a total of 380 rooms could be built as part of the overall development program. Strategic Economics’ analysis shows that over 60 percent of plan revenues would be generated by transient-occupancy taxes levied on these hotels. The plan therefore could result in a negative impact to the General Fund without inclusion of approximately 80 hotel rooms (varying based on quality level and nightly rates). Upon build-out, proposed development under the Draft Specific Plan without any hotels could result in General Fund losses of approximately \$250,000 annually (in 2009 dollars).

Menlo Park’s parking operations and maintenance expenses could be significantly increased by the Draft Specific Plan’s proposed parking garages/structures, if parking-related revenues are not increased over current levels

Strategic Economics found that operations and maintenance costs for the proposed parking garages could be double the current costs per space for surface lots. However, Strategic Economics’ fiscal impact analysis does not account for unknowable new revenue sources or financial structures that might be used to cover these increased costs, and the actual costs may vary from those assumed in the analysis given the large number of unknown variables in garage format, hours, staffing, etc.

Summary of Draft Specific Plan Build-Out

Table 1 summarizes the anticipated net gain in housing units, commercial square feet, population, and jobs within the specific plan study area at build-out of the Draft Specific Plan.

Table 1: Net Additional Development Projected in the Draft Specific Plan at Build-Out

<i>Land Uses</i>	<i>Downtown + Station Area</i>	<i>El Camino Real</i>	<i>Specific Plan - Total Program</i>
Residential Units	390	290	680
Net Retail SF	100,000	-8,200	91,800
Net Commercial SF	-26,000	266,820	240,820
Hotel Rooms	80	300	380
<i>Estimated Net New Population</i>			<i>1,537</i>
<i>Estimated Net New Job Growth</i>			<i>1,357</i>

Source: Perkins + Will, 2009; Strategic Economics, 2009

As noted earlier, the projected development program represents one theoretical development concept, and actual build-out will likely vary from this projection over the life of the Specific Plan. The development program shows an overall net gain for the entire project area for all use types, but within limited geographic areas there are some projected square footage decreases. These decreases do not reflect an objective of the plan to reduce the size of certain uses, but rather is reflective of what existing uses are on certain opportunity sites and what could potentially be built on them in the future.

Summary of Net Fiscal Impact to General Fund

Table 2 shows the net fiscal impact to the City General Fund on an annual basis. At build-out, development resulting from the Draft Specific Plan would result in a positive fiscal impact to the City General Fund. Annual City General Fund revenues would be increased by approximately 10 percent over the City's 2009-2010 Budget¹, and annual City General Fund expenditures would be increased by approximately four percent.

Table 2: Net Fiscal Impact to the City General Fund at Build-Out (in 2009 dollars)

	<i>Draft Specific Plan</i>	
<u>Revenues</u>		
Property Tax	\$	741,000
Sales Tax	\$	133,000
Transient Occupancy Tax	\$	2,337,000
Property Transfer Tax	\$	47,000
Vehicle License Fee	\$	151,000
Per Capita Revenue	\$	477,000
Total Revenues	\$	3,886,000
<u>Expenditures</u>		
Per Capita Costs	\$	870,000
Library	\$	103,000
Public Works	\$	760,000
Total Costs	\$	1,733,000
Net Impact on General Fund	\$	2,153,000

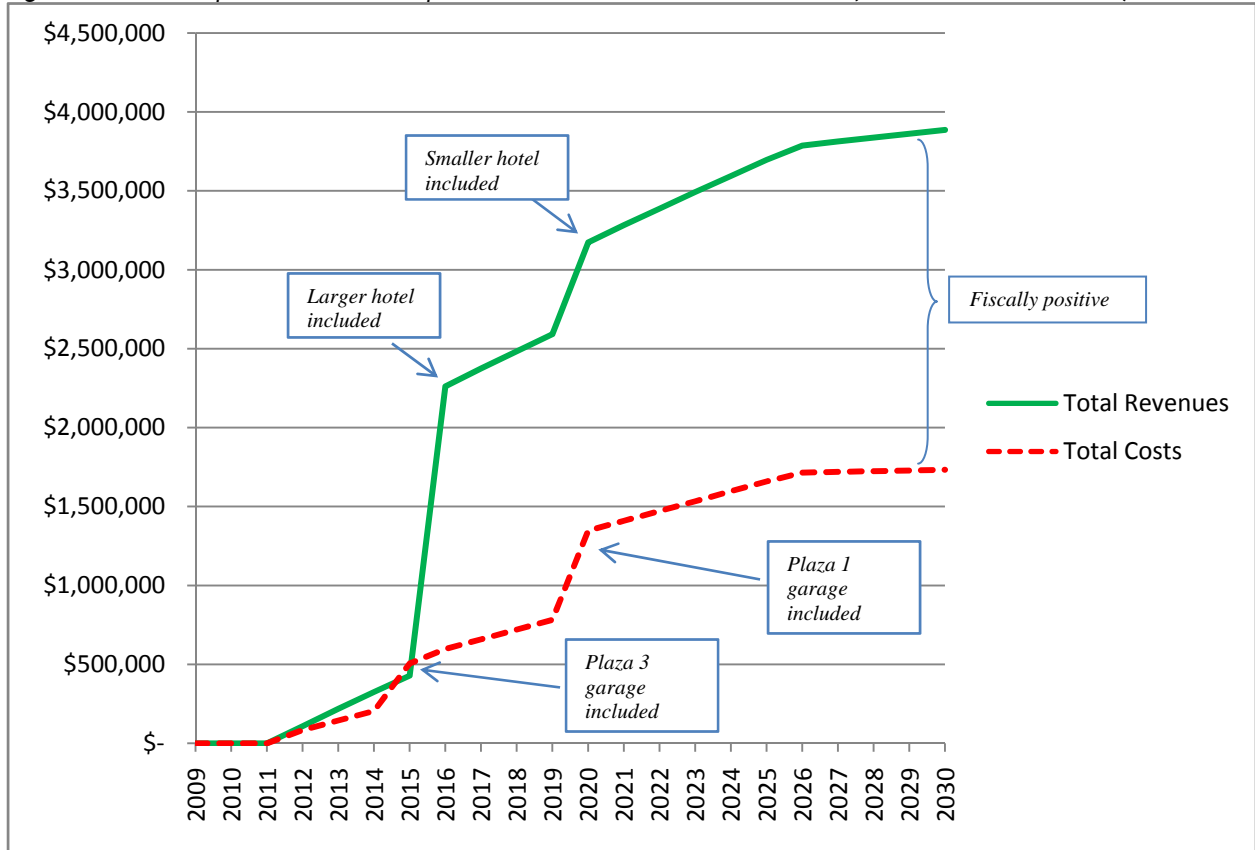
Source: Strategic Economics, 2009. Note: Numbers have been rounded to the nearest thousandth.

¹ The 2009-2010 budget was current as of the analysis; revenue and expenditure increases are compared against the budget to demonstrate the general magnitude of anticipated change relative to the General Fund.

Dynamic Fiscal Model Results

The dynamic model shown in **Figure 1** shows that the fiscal impact analysis indicates surplus revenue to the City General Fund. Fluctuations in revenue are reflective of the years in which Strategic Economics has assumed that hotels are built in the study area. Fluctuations in expenses are reflective of the years in which parking structures are assumed to be built. As development throughout the area nears completion, costs and revenues both level out, but with slightly higher continued growth in revenues. Generally, the net revenue gained from the plan area is significant.

Figure 1: Fiscal Impact of the Draft Specific Plan Alternative, 2009-2030 (2009 Constant Dollars)



Source: Strategic Economics, 2009.

ASSUMPTIONS AND METHODOLOGY

This section describes the assumptions that Strategic Economics applied to the fiscal impact model. Assumptions are divided into four categories:

- Development Program and Base Assumptions
- Change Over Time Assumptions (Phasing/Absorption, Inflation, Appreciation, etc.)
- Revenue Assumptions
- Expenditure Assumptions

Development Program and Base Assumptions

Table 3 summarizes the projected development program for the Draft Specific Plan, net of existing development. This table is a reproduction of Table 1.

Table 3: Net Change in Development within the Specific Plan Area at Build-Out

<i>Land Uses</i>	<i>Downtown + Station Area</i>	<i>El Camino Real</i>	<i>Specific Plan - Total Program</i>
Residential Units	390	290	680
Net Retail SF	100,000	-8,200	91,800
Net Commercial SF	-26,000	266,820	240,820
Hotel Rooms	80	300	380
<i>Estimated Net New Population</i>			<i>1,537</i>
<i>Estimated Net New Job Growth</i>			<i>1,357</i>

Source: Perkins + Will, 2009; Strategic Economics, 2009

Table 4 shows the current service population in Menlo Park, used to establish a base for understanding the per capita costs and revenues shown later in this memo. For analysis purposes, an employee is counted as approximately one-third of a resident for most relevant calculations, as it is assumed that employees spend 8 of every 24 hours in a day within the city limits; impact is not assumed to be different for residents also employed in Menlo Park. Thus, Menlo Park presently has a “service base” of 36,832 residents and employees.

Table 4: Current Service Population

Residents	31,865
Employees	14,900
<i>Total</i>	<i>46,765</i>
<i>Service Base</i>	<i>36,832</i>

Source: California Department of Finance, 2009;
California Employment Development Department, 2009.

Table 5 shows the key land use assumptions, including multipliers for Property Value, Density, Holding Period (sales turnover), Vacancy rates, and Occupancy rates.

Table 5: Key Land Use Assumptions

<i>Land Use Type</i>	<i>Value</i>	<i>Density</i>	<i>Holding Period (years)</i>	<i>Vacancy</i>	<i>Occupancy</i>
<i>Residential (per unit)</i>					
Multi-family	\$ 698,250	2.38	7	5%	95%
<i>Nonresidential (per sq. ft.)</i>					
Retail	\$ 560	400	15	10%	90%
Commercial	650	300	15	10%	90%
Hotel (per room)	163,289	1.25	15	10%	90%

Source: 2000 U.S. Census; Strategic Economics, 2009.
Notes: 2010 U.S. Census results were not available at the time of analysis.

These assumptions were derived as follows:

Property Values

Residential Value Per Unit

The Draft Specific Plan includes multi-family residential units only, so no single-family homes were included in the analysis. The value per unit is based on 680 units and a weighted average of 85 percent market rate units and 15 percent affordable units, as required by the City. It is assumed, based on analysis of comparables and market conditions for the financial feasibility analysis presented as part of Community Workshop #3 (discussion board #4), that market rate units are valued at \$780,000 while the City’s Below Market Rate (BMR) Housing Program guidelines dictate an approximate \$235,000 value for affordable units, which, using a weighted average, equates to the \$698,250 shown above.

Retail and Commercial Value per Square Foot

Strategic Economics assumed a value of \$560 per square foot for retail space, and \$650 per square foot for office space. The value of commercial space was estimated using the income capitalization approach. In this approach to property valuation, a building’s anticipated operating expenses are removed from anticipated operating revenues to derive net operating income; this net operating income is then divided by a “capitalization rate,” which is the ratio of net operating income to property sale value expected in the general real estate market. Strategic Economics estimated these values through the financial feasibility

Fiscal Impact Analysis

pro forma analysis also conducted during the development of the Draft Specific Plan. Sources for base inputs included Strategic Economics' previous market analysis, interviews with local developers and brokers, and the published resource RS Means.

Hotel Value per Room

The Draft Specific Plan projects that 380 hotel rooms could be developed, potentially with 300 in one hotel and 80 in a smaller hotel. **Tables 6 and 7** describe a generic hotel of each type, calculating an approximate structure size based on typical room size, number of rooms, and circulation or shared space outside the rooms (corridors, lobby, etc.). Building size, comparable room rates, number of rooms, and projected value per square foot are then used to derive the total hotel property value and value per room. Sources include original research into nearby comparable hotels, and interviews with hotel operators and developers conducted by Strategic Economics in previous projects.

Table 6: Smaller Hotel Description

Number of Rooms	80
Room Size (SF)	475
Dwelling/Building Size (SF)	38,000
Room Rate	\$255
Total Project Valuation	\$13,300,000
Value per SF	\$350
Value per Room	\$ 166,250.00
Boutique Hotel	
Restaurant and Meeting Rooms	
Wood or Light-Gauge Steel Framed	
Comps: Rosewood Sand Hill, Cardinal Hotel	

Source: Strategic Economics, 2009

Table 7: Larger Hotel Description

Number of Rooms	300
Room Size (SF)	475
Dwelling/Building Size (SF)	162,500
Room Rate	\$200
Total Project Valuation	\$48,750,000
Value per SF	\$300
Value per room	\$ 162,500.00
Full Service Hotel	
Light Steel In-Fill / Concrete Structure	
Surface Parking	
Comps: Stanford Park Hotel, Sheraton Hotel Palo Alto, Westin Palo Alto	

Source: Strategic Economics, 2009

Job and Population Estimates

Many of the costs and revenues in the fiscal analysis were calculated based on the net increase in population and jobs resulting from the Draft Specific Plan. Therefore Strategic Economics applied the following assumptions to derive population and job estimates from the housing unit and square footage estimates of the projected development program.

Residential Household Size

Strategic Economics derived a household size of 2.38 persons per household based on the average of the owner and renter average household sizes in Menlo Park as of the 2005-2007 US Census American Community Survey 3-Year Estimates (2.75 and 2.01 persons per household respectively). Renters are generally a good proxy for average household size in multi-family units, but Strategic Economics determined that Menlo Park's average renter household size of 2.01 persons per household was too low given market analysis results suggesting that some families are also interested in recently built condominiums in the City. Further, given the relatively high price point for new, market-rate housing in Menlo Park and nearby areas – compared with older multi-family units appearing in the Census – one can assume that households will generally be older and/or wealthier than current renters if they are capable of affording these high costs.

Non-Residential Density

Multipliers are used to estimate the number of employees in commercial spaces using typical density and service ratios. Based on past experience and use of sources such as Building Owners and Managers Association International, Strategic Economics has assumed one employee per 400 square feet of retail space, one employee per 300 square feet of “commercial” (office) space, and 1.25 employees per hotel room.

Other Land Use Assumptions

Holding Period

A holding period is the length of time between changes in ownership of property. The holding period is used to calculate property transfer taxes (i.e. property sales) and boosts in property values when Proposition 13-limited values increase upon property sale. Actual holding periods were not available from the City; therefore Strategic Economics has assumed a seven year holding period for residential units, and a 15 year period for commercial properties, respectively. Strategic Economics has reviewed data for holding periods for multi-family units in several San Francisco bay area neighborhoods and found that they are generally shorter than those for single family homes. Seven years is a conservative estimate of holding periods for multi-family units based on industry standards and the data reviewed. To ensure a smooth adjustment throughout the fiscal model, Strategic Economics has assumed that 1/7 of the residential units and 1/15 of the commercial units proposed in the Draft Specific Plan turn over annually.

Vacancy/Occupancy

Occupancy and vacancy rates are used to determine the actual revenue and costs generated by properties, assuming that buildings are not usually fully occupied. Unoccupied spaces would not generate workers or residents, nor, on the revenue side, retail sales or transient occupancy tax (as applicable). The analysis applies conservative long-term vacancy rates typically assumed by developers when performing pro forma analysis to determine feasibility of their projects. A 5 percent vacancy rate is applied to multi-family residential properties, and a 10 percent vacancy rate is applied to commercial properties. Market analysis of Menlo Park in 2008 found apartment vacancy rates of 5 percent, office vacancy rates of 8.2 percent, and retail vacancy rates of 7 percent in Downtown Menlo Park. Notably, actual hotel occupancy rates of 65 percent are more likely, as described later in the transient occupancy tax receipts calculation, but the 90 percent in Table 5 was used to adjust hotel employment while maintaining an industry standard service level for the number of rooms.

Change Over Time Assumptions

Absorption and Phasing

The fiscal impact model assumes that development would be phased in over time, in order to create a dynamic, year-by-year picture of the net fiscal impact on the City’s General Fund. Given the current weak state of the economy, high cost of capital, difficulty of producing infill development, and the Specific Plan’s anticipated adoption in 2011, it is assumed that no development will occur under the Draft Specific Plan until 2012 at the earliest, with the majority of development coming later.

Strategic Economics has assumed that residential development would commence within a year of the adoption of the Specific Plan. Unit absorption would occur at an annual growth rate which is in line with past population and housing growth in San Mateo County over the last 20 years. Per the California Department of Finance, this annual average rate was 0.35 percent; the model applies this rate to the current number of units in Menlo Park. The model shows delivery of 45 units in 2012, rising to a peak of 47 units between 2024 and 2025, and achieving full build-out of 680 units in 2026. As noted earlier, the

projected development program represents one theoretical development concept, and actual build-out and phasing will likely vary from this projection.

Retail and office space absorption is evenly distributed over the period between 2012 and 2030, resulting in 4,832 square feet of net new retail and 12,675 square feet of net new office space annually. Realistically this space will be delivered in larger increments as buildings are brought online, but Strategic Economics assumed a smoother pace of development, to avoid major inaccurate fluctuations in the fiscal model.

Based on market analysis, Strategic Economics assumed that a 300 room hotel and conference center would open in 2016. The fiscal impact model assumes that the second, 80 room smaller hotel would open in 2020.

See **Table A1** in the Appendix for a year-by-year breakdown of absorption assumptions.

Inflation, Appreciation, and Cost of Living Increases

Table 8 shows the inflation and appreciation assumptions provided by the City of Menlo Park Finance Department.

Table 8: Inflation, Appreciation, Etc. Assumptions

Inflation Rate	3.0%
Property Appreciation Rate (current)	4.0%
Constant Dollar Value	(2009 constant dollars)

Source: Strategic Economics, 2009.

The property appreciation rate was applied to property values in the year of sale or resale, while appreciation for non-sold property was assumed to be two percent, according to Proposition 13 restrictions.

All projected costs and revenues were adjusted to 2009 constant dollars – current at the time of analysis – using a discount rate of three percent to be consistent with the long-term rate of inflation.

Revenue Assumptions

This section summarizes assumptions for Property Tax, Property Transfer Tax, Sales Tax, Transient Occupancy Tax, Vehicle License Fees, and Other Taxes and Fees.

Property Tax

As previously shown in Table 5 and described in the previous section, new residential units were valued at a weighted average of \$698,250 each, new retail space at \$560 per square foot, commercial/office space at \$650 per square foot, and hotels at \$163,289 per room. These values were multiplied by the annual absorption of new units / square feet / rooms described in the Change Over Time Assumptions section, plus a four percent annual appreciation rate. The value of existing Draft Specific Plan developments was increased at two percent annually, per Proposition 13 guidelines, with 1/7 of the residential units and 1/15 of the non-residential properties assumed to be sold annually and therefore re-assessed at the new sales price, assuming a four percent appreciation rate. Total taxable assessed value was determined by adding the value of new sales to the assessed value of the existing base of properties previously constructed during the life of the Draft Specific Plan.

Property taxes were applied to this assessed value. Per data provided by the San Mateo County Controller's Office for Tax Rate Area 08-001, Menlo Park was assumed to receive 9.9 percent of the 1 percent annual property tax. This rate is net of the Educational Revenue Augmentation Fund shift, in which additional local property tax revenues are diverted to local K-12 education systems to cover reductions in state funding.

Property Transfer Tax

Menlo Park receives 0.055 percent of the sales price for properties that sell within the City. Based on the turnover rates described in Table 5 and above, this transfer tax was calculated for only the residential and commercial development that changes ownership in any given year.

Sales Tax

Taxable retail sales per square foot were assumed to be \$300 annually based on a typical range found in the publication Dollars and Cents of Shopping Centers. Total sales were generated in each year by multiplying this rate by the total developed square feet of retail space, net of vacancy. Strategic Economics then applied a one percent sales tax allocation rate to derive the sales tax estimate for the City General Fund.

Transient Occupancy Tax

As shown in **Table 9**, Menlo Park currently levies a 10 percent transient occupancy tax per room night on lodging in the City. A hotel market generally approaches a shortfall of supply when overall occupancy rates reach 65 to 70 percent, so a healthy 65 percent average occupancy rate is assumed for future stable operating conditions. Note that the previously-described occupancy rate of 90 percent was applied for the purposes of estimating hotel employment since it more accurately reflects the fixed staffing needs of a hotel based on number of rooms.

Table 9: Transient Occupancy Tax Assumptions

	Number of Rooms	Average Rate per Room	Average Occupancy Rate	TOT Rate	Daily Availability
Smaller Hotel	80	\$255	65%	10.0%	365
Larger Hotel	300	\$200	65%	10.0%	365
Weighted Average		\$212	65%	10.0%	365

Sources: City of Menlo Park; Strategic Economics, 2009

Vehicle License Fee

Menlo Park receives Vehicle License Fee (VLF) funds via two streams of revenue:

1. *City wide per capita revenue* based on a State derived, population-based allocation formula.
2. *Property tax in lieu of VLF.* In 2004 the State of California reduced VLF from two percent to 0.65 percent; the State offset the potential loss of city revenue by providing additional property tax revenue. Since the 2005-2006 fiscal year, this revenue stream has grown proportionally with the city's assessed value.

Table 10 shows the VLF assumptions, including calculation of the citywide VLF revenue per capita and percent of property tax represented by the property tax in lieu of VLF. The model applies the former rate to projected population growth, and the latter share to projected property tax growth.

Table 10: Vehicle License Fee Assumptions

<i>Property Tax In-Lieu</i>	
Total Citywide Property Tax Revenue (FY 2009-10)	\$ 12,116,000
Citywide VLF Property Tax In-lieu Revenue (FY 2009-10)	\$ 2,424,600
VLF in-lieu relative to city property tax revenue	20%
<i>Per Capita</i>	
Citywide VLF Revenue (FY 2009-10)	\$ 111,000
Population (2009)	31,865
Per Capita VLF	\$ 3.48

Sources: California State Controller's Office, 2009; City of Menlo Park, 2009; California Department of Finance, 2009; Strategic Economics, 2009

Other Taxes and Fees

Other General Fund revenues would experience a per capita increase as new residents and employees are added to the study area. Accordingly, Strategic Economics applied a service population factor to each revenue category, representing the relative proportion of revenues attributable to new residents, employees, or both. These revenue categories include utility user taxes, franchise fees, licenses and permits, fines and forfeitures, interest and rent income, intergovernmental revenue, and charges for services. **Table A-2** in the Appendix shows the per capita revenue generated by residents and employees.

Expenditure Assumptions

Strategic Economics worked with staff in the Police, Library, and Public Works departments to estimate the annual service impact of new development in the Draft Specific Plan. “Case Study” analysis of the Police, Public Works, and Library Departments was required since these departments are typically directly affected by population growth (or in the case of Public Works, provision of additional public infrastructure).

Other departments may be somewhat affected, but do not experience the same significant impact as a result of new development and growth. Therefore for these departments, Strategic Economics estimated the annual impact using a per capita methodology. The “per capita” method determines the cost per additional resident or employee by dividing relevant total costs by the previously-described service population, resulting in a cost per capita for each cost item. These costs per capita are then multiplied by the number of new residents and employees to determine the total new costs incurred by the growing service population.

Police Department

According to the Menlo Park Police Department, existing staffing levels are capable of servicing development under the Draft Specific Plan. No additional police expenses were assumed to be incurred.

Public Works

The Department of Public Works provided typical cost estimates for public space infrastructure/improvements. These cost estimates are shown in **Table 11** on the following page. The cost estimates were applied to the conceptual plans for public space improvements (plazas/paseos parks, and new trees). Since the plan allows for replacing two public surface parking lots with parking structures, the surface parking lot maintenance costs were removed upon replacement with the structures, net of surface spaces that remain on-site; additional detail is provided in the sensitivity analysis section of this memorandum.

Table 11: Department of Public Works Expense Inputs (2009 Constant Dollars)

Parks and Grounds Cost Assumptions		
Parks or City Grounds	\$15,700	per acre per year
Landscaped Medians	\$8,300	per acre per year
Downtown Trees	\$135	per tree per year
Current Surface Parking Costs		
Routine Lot Maintenance	\$4,500	per acre per year
Major Lot Rehab	\$18.60	per sq. ft. every 20 years
Minor Lot Rehab	\$4.30	per sq. ft. every 10 years
Current Surface Parking Revenue		
Permits for sale	685	total
Permits sold	600	total
Permit fee in 2010	\$ 569	per permit per year

Source: City of Menlo Park, 2009; Strategic Economics, 2009

Library

Strategic Economics worked with the Library Department to gauge the potential impact on services as a result of the Draft Specific Plan. Library staff reported that the greatest impact on their services comes from children, and that the impact of adults is somewhat marginal. Given the multifamily nature of the development allowed in the Draft Specific Plan, it is less likely that a significant number of families with school-aged children will locate in new housing units. However, recent developer interviews suggest that families with children who are seeking to locate in the Menlo Park School District may be interested in suitable new condominium units. Therefore, based on the recommendation of a library representative during an interview, Strategic Economics has assumed that library costs would increase on a per capita basis. Using the Library's full, 2009-2010 Fiscal Year Adjusted Budget, this cost would amount to \$66.91 per new resident.

Administrative Services, Community Services, Community Development

Strategic Economics used a per capita model to estimate other departmental costs for a new resident or employee. This method was applied to the Administrative Services, Community Services, and Community Development departments based on their shares of funding from the General Fund. The per capita method was also applied to the Menlo Park Library department based on the recommendation of a library representative during an interview. The expenses incurred by each department were multiplied by a service factor representing the share of expense generated by a resident versus an employee. **Table 12** shows the results. These per capita cost factors were then applied to the projected growth of employees, residents, or both, as appropriate.

Table 12: Expenditure Assumptions for Administrative Services, Library, Community Services, and Community Development

	Total Costs (FY2009-10 Adjusted Budget)	Expenditures Per Capita	
		Resident	Employee
Administrative Services	\$7,381,314	\$202.32	\$62.72
Library	\$2,132,120	\$66.91	\$0.00
Community Services	\$6,664,411	\$207.04	\$4.51
Community Development	\$2,791,550	\$76.51	\$23.72
Total Expenditures	\$18,969,395	\$552.78	\$90.95

Sources: City of Menlo Park Department of Finance, 2009; Strategic Economics, 2009

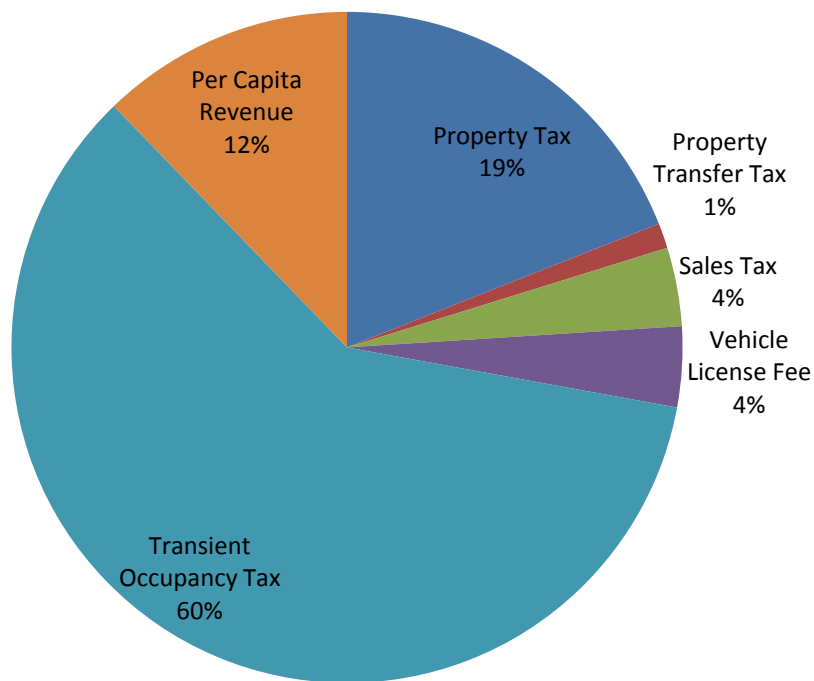
Sensitivity Analyses

Sensitivity analysis was used to test several “what-if” scenarios to determine how changes in the timing or inclusion of potential elements of the Draft Specific Plan will impact the City’s General Fund costs and revenues.

Sensitivity Analysis I: Transient Occupancy Tax Revenue

City property tax revenues are constrained by California Proposition 13 limits and state Educational Revenue Augmentation Fund shifts. As a result, it is typical for California cities to heavily depend on sales tax, transient occupancy tax, and other sources. **Figure 2** shows that transient occupancy tax (TOT) revenue would comprise 60 percent of total net revenue at Plan build-out, with 380 total hotel rooms assumed in the Plan. Given the overwhelming importance of TOT revenue in the Draft Specific Plan, Strategic Economics gauged the sensitivity of the Draft Specific Plan’s fiscal impact to adjustments to the construction timing and inclusion/exclusion of hotels in the Draft Specific Plan build-out. This section describes the proposed hotels, relevant assumptions and background, and the outcomes of the sensitivity analysis.

Figure 2: Distribution of Additional Revenues, Draft Specific Plan at Build-Out (2030)



Source: Strategic Economics, 2009.

Strategic Economics based the hotel assumptions on the market analysis for the Draft Specific Plan area, conducted earlier and integrated into the Community Workshop process. The market analysis found likely demand for an additional hotel and approximately 10,000 square feet of conference space by the year 2015. The analysis therefore assumed that opening of the larger 300 room conference hotel will

Fiscal Impact Analysis

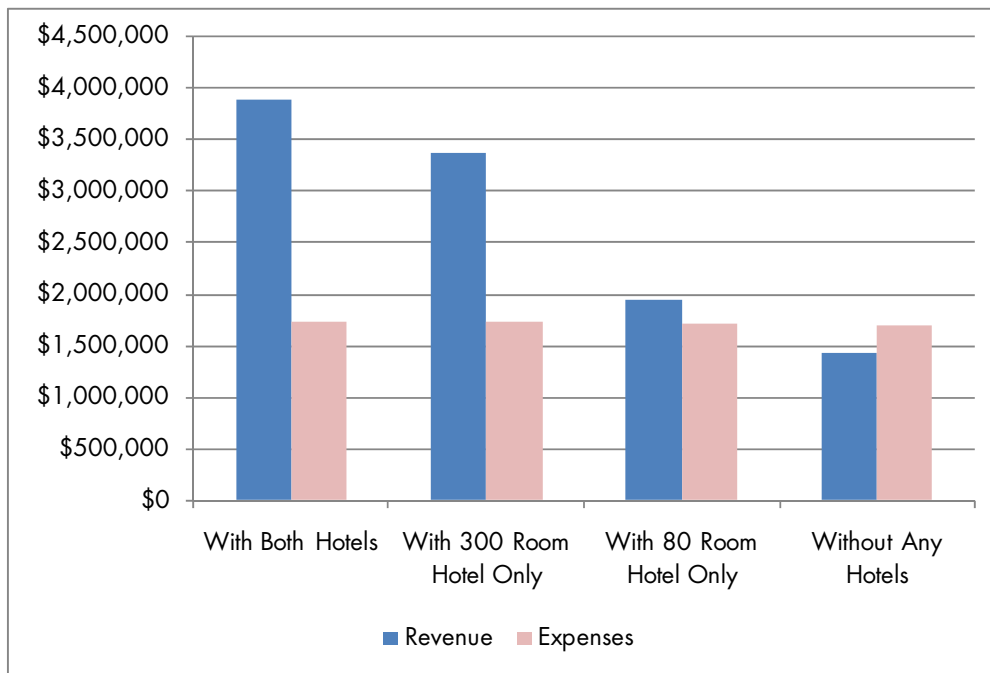
occur in approximately 2016. The market analysis conducted as part of the Specific Plan process projected that the smaller 80 room hotel would be more difficult to develop; therefore this hotel is not assumed to open until approximately 2020, when additional market demand may exist, although development may require as long as 20 to 30 years. This fiscal impact analysis assumes that the 80 room hotel is a smaller “boutique” hotel with higher room rates than the larger hotel with conference facilities. See Tables 6 and 7 for a complete description of the hotel assumptions.

Menlo Park levies a 10 percent tax rate on hotel stays, which is typical of surrounding cities and well within the standard eight to fourteen percent found in cities throughout California.

Strategic Economics’ analysis showed that the Plan is only fiscally positive if a hotel or hotels are included. The 300 room hotel analyzed here generates 49 percent of all Plan revenue upon build-out, while the 80 room hotel generates 13 percent of Plan revenue at build-out. Inclusion of either hotel results in a positive fiscal impact upon build-out. Fiscal outcome is also influenced by the timing of hotel openings. Without a hotel, the plan becomes fiscally negative upon completion of both possible parking garages.

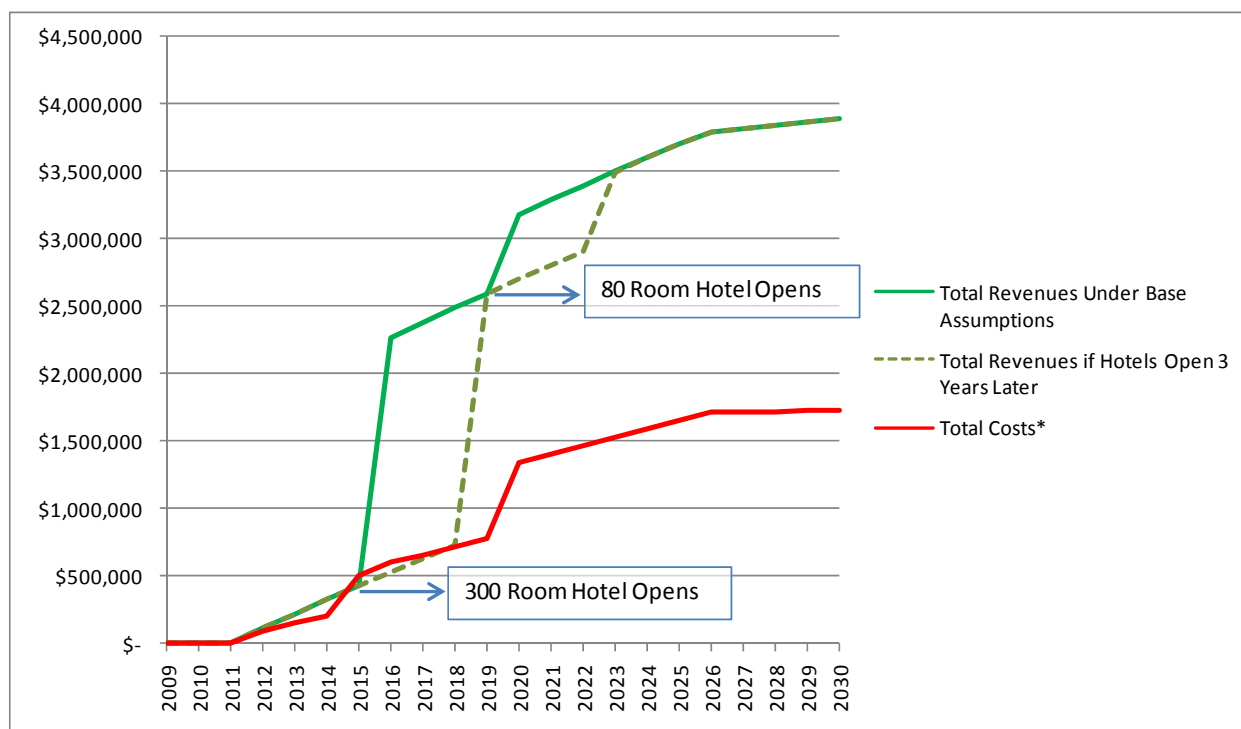
Figures 3 and 4 show the relationship between revenues and expenses under different scenarios including or excluding the hotels.

*Figure 3: Total Revenue Compared to Total Expenses Under Hotel Scenarios, at Build-Out (2030)
(2009 Constant Dollars)*



Source: Strategic Economics, 2009.

Figure 4: Impact of Hotel Timing Over Plan Life (2009 Constant Dollars)



*Only one cost line is shown, as the hotels generate minimal municipal expenses

Source: Strategic Economics, 2009.

Sensitivity Analysis II: Parking Garages

The Draft Specific Plan allows for the construction of two parking structures on existing surface lots in the Downtown area, as shown in **Table 13**. The Public Works Department noted that the City does not currently maintain any parking structures (only parking lots), and parking structures may incur higher per-space costs for operations and maintenance. Strategic Economics therefore researched operations and maintenance costs for parking structures in neighboring cities and based on national averages. This research found that a structure is typically more expensive to operate and maintain than a surface lot – however, revenues from the structures can cover all or part of this cost. This section briefly examines the differences in cost drivers between surface lots and structures, and discusses the impact of parking structure costs on the General Fund.

Table 13 describes the number of public spaces that could be provided in the two new garages. The plan envisions the garage on Parking Plaza 1 as a standalone garage structure, which also retains 45 surface parking spaces, while the garage on Parking Plaza 3 is envisioned to either be a standalone garage structure, or a mixed-use structure that includes residences and associated private parking above a smaller number of public garage spaces. The latter is analyzed in this FIA. The spaces dedicated to residences are not included in the public parking total for the mixed-use garage on Parking Plaza 3 since it is assumed the residences would shoulder the expenses for maintenance of these spaces. Table 13 also shows the amount of surface parking displaced by garage construction; note that the structures are anticipated to include 604 more public parking spaces than those removed.

Table 13: Characteristics of Proposed Parking Garages

	Parking Spaces
Parking Plaza 1 Parking Garage	650
Public Spaces	650
(Surface Parking Lost)	-204
Net New Public Spaces	446
Parking Plaza 3 Parking Garage	370, +private spaces
Public Spaces	370
(Surface Parking Lost)	-212
Net New Public Spaces	158

Source: Perkins + Will, 2009; Strategic Economics 2009.

Data provided by the Public Works Department shows that surface lot maintenance costs are approximately \$36 per parking space annually. In addition, the department performs minor rehabilitation every ten years and major rehabilitation every 20 years, which, divided across 20 years, respectively averages \$75 and \$325 per space per year.² Thus, surface lots cost the city approximately \$440 per space per year for operations and maintenance. Currently a significant share of maintenance and capital improvement costs are funded via parking permit fee sales; however, given the unknown finance structure for the potential parking garages and the goal of demonstrating total potential cost impacts of parking structures, the analysis nets out all current costs associated with parking plazas to demonstrate new costs that could potentially impact the General Fund.

Strategic Economics researched garage parking costs and cost structures via interviews with representatives of Redwood City and Pasadena, California, discussion with the transportation firm Fehr and Peers, direct examination and calculation of costs for Redwood City and Pasadena, and review of publicly-available documents produced by industry organizations and other expert consultants. This research found that parking garages pose a different cost structure compared to surface lots. Parking garages incur a large up-front cost for construction, but then have a useful life of 20 to 40 years. In contrast, Menlo Park's surface lots require consistent minor rehabilitation every other decade, and complete rehabilitation each alternate decade, nearly all of which is paid for via the General Fund.

Parking structures incur significant operations and maintenance expenses, and are therefore likely to exceed the City's current combined expenses for maintenance and rehabilitation of surface lots. Strategic Economics found that structure operations and maintenance costs can vary widely. At a minimum, even an unstaffed, un-gated garage requires cleaning, repainting, reasonable security measures, and other basic maintenance. Such a garage may operate as low as \$300 a space annually. Staffed garages with restricted access and long hours are most expensive, with operations and maintenance costs as high as \$1,200 per space annually. See **Table 14** for a range of cost estimates.

² In 2009 constant dollars, not accounting for amortization costs.

Table 14: Sample of Annual Parking Structure Operations and Maintenance Cost Estimates

	Source Type	Cost per Space
Pasadena, CA	Derived Actual	~\$1,100
Redwood City, CA	Derived Actual	~\$1,000
Walker Parking Consultants (1999)	Survey	\$564.00
Fehr & Peers	Expert Knowledge	\$200 to \$500
International Parking Institute	Expert Knowledge	\$650
Walker Parking Consultants (1998)	Expert Knowledge	\$200 to \$700
Victoria Transportation Institute	Expert Knowledge	\$200 to \$800

Source: See Above; Strategic Economics, 2009.

Given that the Menlo Park garages are purely conceptual, Strategic Economics assumed a cost per space of \$900 per year for operations and maintenance. This number approaches the high end of most estimates, but this seems appropriate considering the high annual costs of maintaining structures in case studies of Pasadena and Redwood City. However, it is also possible that costs could be significantly lower if the garage were unstaffed, un-gated, and/or designed for the least expensive operation possible.

Strategic Economics assumed a “worst-case scenario” for revenues, assuming no changes to garage permit rates/sales, fee/meter rates (currently, two-hour parking is completely free), and fine amounts. Cities often seek to pay for garage operations and maintenance costs via modified permit and fee rates, but it is not possible to predict how successfully new/increased permits and fees would cover expenses. As a result, the analysis applies the Department of Public Works’ 2010 surface lot permit sales estimate of 600 permits at \$569 each. However, the City should consider additional fees to help fund operations and maintenance of a garage.

Table 15 compares costs for the garage on Parking Plaza 1 and the existing surface lot. The operations and maintenance costs of a garage are assumed to be \$900 per space annually, compared to \$36 per space annually for a surface lot space. Inclusion of surface lot rehabilitation costs, in 2009 dollars and without amortization, increases this amount to \$437 per space annually, though much of this amount is paid via parking fees. Therefore, a garage incurs approximately twice the General Fund expenses of a surface lot under the assumptions of this analysis. For comparison, if costs per space were \$300 annually in a highly-efficient garage, then the annual operations and maintenance cost would fall to \$195,000; these operations and maintenance costs do not include separate capital costs for the garage, however.

Table 15: Surface Lot versus Structure Costs in Existing Surface Lot versus Hypothetical Structure for Parking Plaza 1 (2009 Constant Dollars)

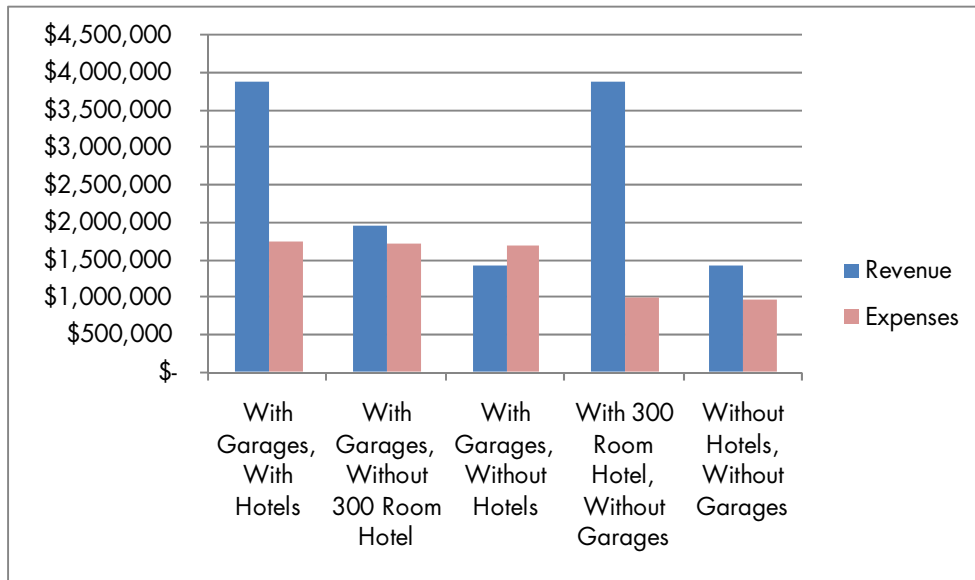
Surface Lot (249 spaces)		
Annual Operations and Maintenance	\$8,964	per year
10-Year Minor Rehabilitation	\$374,745	every 20 years
20-Year Major Rehabilitation	\$1,620,990	every 20 years
Parking Structure (650 spaces in structure)		
Annual Operations and Maintenance	\$585,000	per year

Source: Strategic Economics, 2009.

Sensitivity Analysis III: Combined Fiscal Impact Considerations of Parking Garage Expenses and Hotel Tax Revenues

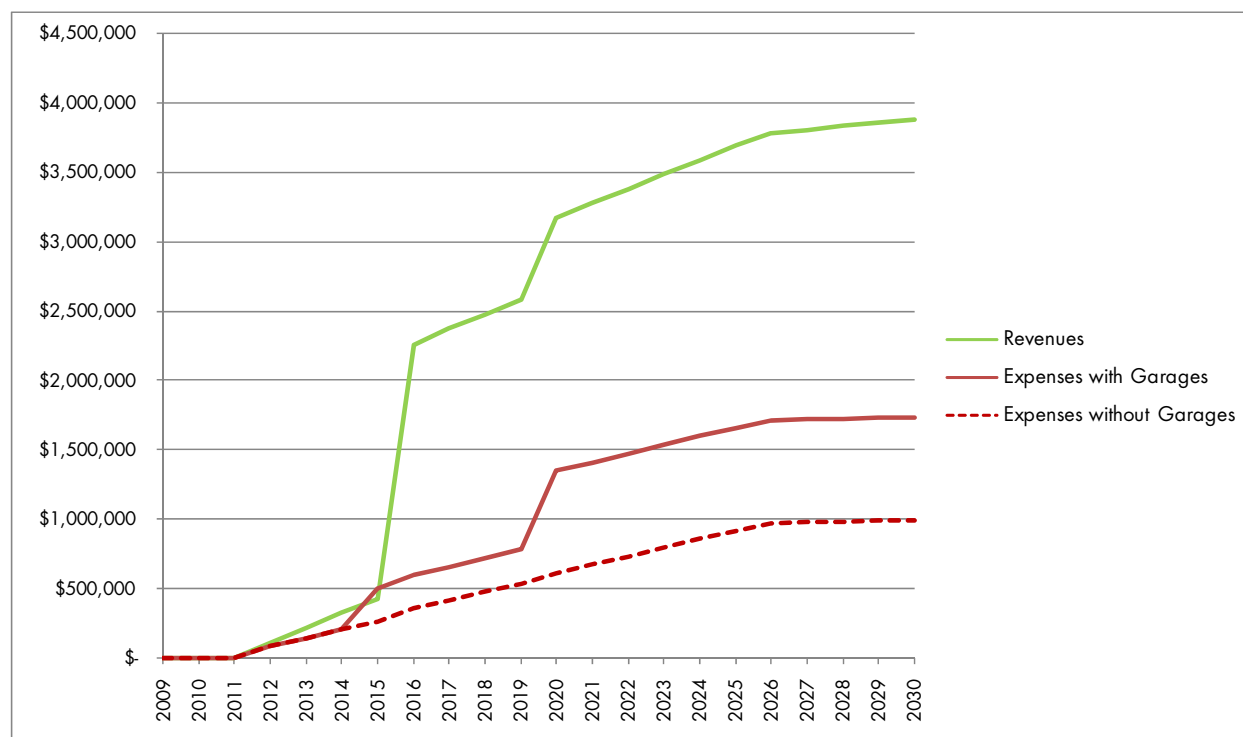
Public parking structures are the most significant sources of new costs to the General Fund as a result of the Draft Specific Plan, assuming that parking structure operations and maintenance costs are paid via the General Fund. The plan remains fiscally positive even with the additional costs for a parking structure, but only if at least one of the hotels is constructed and assumed levels of TOT revenue are collected. **Figure 5** compares the 2030 costs and revenues under varying scenarios of hotel and garage construction. **Figure 6** shows the impact of garage construction on total General Fund expenses during the plan build-out.

Figure 5: Total Revenue Compared to Total Expenses Under Hotel and Garage Scenarios, at Build-Out (2009 Constant Dollars)



Source: Strategic Economics, 2009.

Figure 6: Comparison of Total Expenses With and Without Parking Garages (2009 Constant Dollars)



Source: Strategic Economics, 2009.

Note on Assumptions

Strategic Economics only roughly estimated operations and maintenance costs for new parking garages in Menlo Park. The actual costs may deviate widely from those used in the analysis depending on the final form of the parking garages, their hours of operations, staffing levels, maintenance requirements, etc. Revenues may vary widely too, as it is likely the City would enact new assessments, user fees, public-private agreements, etc. to help cover operations and maintenance costs. This analysis is intended to serve as a starting point for understanding the unique cost and revenue issues raised by structured parking, and as one example of how the proposed garages might affect the City’s General Fund. A full feasibility analysis would be required to better understand the impacts of parking garages in Menlo Park. Such an analysis typically occurs during a plan’s implementation phase as the City considers constructing the garages.

Note on Construction and Capital Costs

For purposes of this analysis, Strategic Economics assumed that the initial construction cost of a garage would be covered by financing arrangements separate from the General Fund, such as parking bonds repaid via an assessment district and/or new parking fees. The fiscal impact analysis therefore does not include this capital construction cost in its expenses. However, this section briefly discusses these costs for several reasons: they would be a new type of expense in Menlo Park, and a revenue shortfall could require General Fund contributions to cover bond obligations.

Approximate construction costs for above-ground structures are typically \$30,000 per space, with below-ground construction at approximately \$45,000 per space. These numbers can vary widely depending on local conditions. Given these ranges, the garage on Parking Plaza 1 may cost approximately \$21.1 to \$24.4 million for construction costs. The mixed-use garage/residential structure on Parking Plaza 3 (one

Fiscal Impact Analysis

option for this site along with an all-parking structure) is envisioned as potentially being realized as a public-private joint venture in which a private developer would be given development rights for housing over a structured parking garage built over one of the existing parking plazas.

APPENDIX: DETAILED TABLES

This Appendix provides tables and charts illustrating more detailed assumptions, and providing more details about the dynamic fiscal impact results.

Table A-1: Cumulative Absorption

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Multi-Family Residential	-	-	-	45	89	134	179	225	270	316	361
Retail (square feet)	-	-	-	4,832	9,663	14,495	19,326	24,158	28,989	33,821	38,653
Commercial (square feet)	-	-	-	12,675	25,349	38,024	50,699	63,374	76,048	88,723	101,398
Hotel rooms	-	-	-	-	-	-	-	300	300	300	300

Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Multi-Family Residential	407	453	499	546	592	639	680	680	680	680	680
Retail (square feet)	43,484	48,316	53,147	57,979	62,811	67,642	72,474	77,305	82,137	86,968	91,800
Commercial (square feet)	114,073	126,747	139,422	152,097	164,772	177,446	190,121	202,796	215,471	228,145	240,820
Hotel rooms	380	380	380	380	380	380	380	380	380	380	380

Source: California Department of Finance, Perkins + Will, Strategic Economics, 2009

Table A-2: Service Population Recurring Revenue Per Capita

	FY 2009-2010 G.F. Estimated Revenues	Revenue Per Capita	
		Resident	Employee
Utility User Taxes	1,232,000	\$ 33.77	\$ 10.47
Franchise Fees	\$ 1,568,800	\$ 29.46	\$ 42.29
Licenses & Permits	\$ 2,991,988	\$ 39.69	\$ 115.93
Fines & Forfeitures	\$ 1,348,442	\$ 36.96	\$ 11.46
Fines & Forfeitures	\$ 1,087,823	\$ 31.20	\$ 6.29
Intergovernmental Revenue	\$ 1,782,509	\$ 55.94	\$ -
Charges for Services	\$ 4,938,220	\$ 148.40	\$ 14.06
Other Sources of Revenue	\$ 711,074	\$ 19.49	\$ 6.04
Total Revenues	\$ 15,660,856	\$ 394.90	\$ 206.54

Sources: City of Menlo Park Department of Finance, 2009

Table A-3: Service Population Recurring Expenditure Per Capita

	Total Costs (FY2009-10 Adjusted Budget)	Expenditures Per Capita	
		Resident	Employee
<i>Administrative Services</i>			
Services	\$722,350	\$19.80	\$6.14
Personnel	\$3,361,701	\$92.14	\$28.56
Operating	\$3,297,263	\$90.38	\$28.02
<i>Administrative Services</i>	\$7,381,314	\$202.32	\$62.72
<i>Library</i>			
Personnel	\$1,661,890	\$52.15	\$0.00
Operating	\$470,230	\$14.76	\$0.00
<i>Library</i>	\$2,132,120	\$66.91	\$0.00
<i>Community Services</i>			
Services	\$530,716	\$14.55	\$4.51
Personnel	\$5,083,364	\$159.53	\$0.00
Operating	\$1,050,331	\$32.96	\$0.00
<i>Community Services</i>	\$6,664,411	\$207.04	\$4.51
<i>Community Development</i>			
Services	\$642,000	\$17.60	\$5.45
Personnel	\$2,017,162	\$55.29	\$17.14
Operating	\$132,388	\$3.63	\$1.12
<i>Community Development</i>	\$2,791,550	\$76.51	\$23.72
<i>Total Expenditures</i>	\$18,969,395	\$552.78	\$90.95

Sources: City of Menlo Park Department of Finance, 2009; Strategic Economics, 2009

Table A-4: Net Fiscal Impact Summary (2009 Constant Dollars)

FY Ending	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues											
Property Tax	\$ -	\$ -	\$ -	\$ 43,012	\$ 86,183	\$ 129,391	\$ 172,522	\$ 268,320	\$ 311,817	\$ 354,851	\$ 398,834
Property Transfer Tax	-	-	-	-	2,665	6,038	9,212	12,196	16,578	19,927	23,067
Sales Tax	-	-	-	11,897	23,101	33,642	43,549	52,851	61,574	69,744	77,386
Vehicle License Fee	-	-	-	8,236	17,770	26,741	35,174	55,290	63,942	72,810	81,850
Transient Occupancy Tax	-	-	-	-	-	-	-	1,611,547	1,626,972	1,642,431	1,658,585
Per Capita Revenue Items	-	-	-	45,757	88,849	129,391	168,334	261,002	293,660	323,428	351,956
Subtotal	\$ -	\$ -	\$ -	\$ 108,902	\$ 218,568	\$ 325,204	\$ 428,792	\$ 2,261,207	\$ 2,374,543	\$ 2,483,190	\$ 2,591,679
Costs											
Per Capita Cost Items	\$ -	\$ -	\$ -	\$ 60,399	\$ 120,834	\$ 181,148	\$ 242,033	\$ 333,368	\$ 394,705	\$ 456,784	\$ 517,889
Public Works	\$ -	\$ -	\$ -	\$ 23,794	\$ 23,989	\$ 23,290	\$ 263,808	\$ 264,255	\$ 263,663	\$ 263,647	\$ 264,153
Police Cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subtotal	\$ -	\$ -	\$ -	\$ 84,193	\$ 144,823	\$ 204,438	\$ 505,840	\$ 597,622	\$ 658,367	\$ 720,432	\$ 782,043
Net Revenue	\$ -	\$ -	\$ -	\$ 24,709	\$ 73,744	\$ 120,765	\$ (77,049)	\$ 1,663,585	\$ 1,716,176	\$ 1,762,758	\$ 1,809,636
Net Revenue as % of Total Revenue	0%	0%	0%	23%	34%	37%	-18%	74%	72%	71%	70%

Source: Strategic Economics, 2009

Table A-4: Net Fiscal Impact Summary (2009 Constant Dollars) (Continued)

FY Ending	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenue											
Property Tax	\$ 456,570	\$ 500,084	\$ 544,080	\$ 588,395	\$ 632,234	\$ 676,759	\$ 716,339	\$ 722,495	\$ 728,255	\$ 734,728	\$ 740,743
Property Transfer Tax	26,007	29,458	32,686	35,700	38,512	41,752	44,771	47,579	47,334	47,616	47,304
Sales Tax	84,523	91,179	97,376	103,795	109,117	114,040	118,583	122,765	126,603	130,114	133,312
Vehicle License Fee	93,192	103,103	111,676	120,323	129,656	138,343	146,414	147,436	148,845	149,492	151,051
Transient Occupancy Tax	2,121,029	2,142,014	2,162,701	2,183,672	2,204,796	2,226,575	2,248,241	2,269,693	2,291,980	2,314,365	2,336,727
Per Capita Revenue Items	<u>392,275</u>	<u>416,620</u>	<u>439,214</u>	<u>460,799</u>	<u>480,113</u>	<u>498,534</u>	<u>512,449</u>	<u>503,397</u>	<u>494,438</u>	<u>485,574</u>	<u>476,806</u>
Total Revenues	\$ 3,173,597	\$ 3,282,458	\$ 3,387,733	\$ 3,492,685	\$ 3,594,427	\$ 3,696,003	\$ 3,786,798	\$ 3,813,366	\$ 3,837,455	\$ 3,861,888	\$ 3,885,944
Costs											
Per Capita Cost Items	\$ 588,051	\$ 650,179	\$ 711,594	\$ 774,169	\$ 836,988	\$ 899,853	\$ 955,321	\$ 959,803	\$ 964,354	\$ 968,379	\$ 972,964
Public Works	\$ 759,987	\$ 759,594	\$ 759,942	\$ 759,624	\$ 759,965	\$ 759,640	\$ 759,901	\$ 760,089	\$ 759,621	\$ 759,643	\$ 760,095
Police Cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenditures	\$ 1,348,038	\$ 1,409,774	\$ 1,471,536	\$ 1,533,793	\$ 1,596,953	\$ 1,659,494	\$ 1,715,222	\$ 1,719,891	\$ 1,723,975	\$ 1,728,022	\$ 1,733,059
Net Revenue	\$ 1,825,559	\$ 1,872,684	\$ 1,916,197	\$ 1,958,892	\$ 1,997,474	\$ 2,036,510	\$ 2,071,576	\$ 2,093,474	\$ 2,113,480	\$ 2,133,866	\$ 2,152,885
Net Revenue as % of Total Revenue	58%	57%	57%	56%	56%	55%	55%	55%	55%	55%	55%

Source: Strategic Economics, 2009