CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Kim Walesh

SUBJECT: SEE BELOW

DATE: November 21, 2018

Approved D. DSyL

Date 11/21/18

COUNCIL DISTRICT: 3 and 6

SUPPLEMENTAL

SUBJECT: ACTIONS RELATED TO THE SALE OF CITY-OWNED PROPERTIES IN THE DIRIDON STATION AREA TO GOOGLE

REASON FOR THE SUPPLEMENTAL

The reason for this Supplemental Memorandum is to provide the "Preliminary Fiscal/Economic Impact Analysis of Development Capacity on Google and City Lands" report prepared by Applied Development Economics, which is referenced in the Memorandum dated November 16, 2018. The above-named report is attached to this Supplemental Memorandum.

ANALYSIS

The purpose of this report is to provide a general preliminary fiscal impact of the development capacity (on the Google and City lands) and is not reflective of a development design or proposal. This illustrative, preliminary analysis would need to be re-done when a specific development project is known.

/s/
KIM WALESH
Deputy City Manager
Director of Economic Development

For questions, please contact Nanci Klein, Assistant Director of Economic Development, at (408) 535-8184.

Attachment

MEMO

TO: Kim Walesh, Deputy City Manager

FROM: Doug Svensson, AICP
Peter Cheng, Senior Associate

DATE: November 21, 2018

SUBJECT: **Preliminary Fiscal/Economic Impact Analysis of Development Capacity on Google and City Lands**

ADE has conducted a preliminary fiscal and economic impact study of the development capacity on Google lands in the Diridon Station Area. The analysis considers two scenarios for a mixed-use development: 1) development under current building height limitations and 2) development if building height standards were increased. The analysis assumes that the development capacities in both scenarios could be fully built out in year 2035. ADE has used the fiscal impact model previously developed for the Envision 2040 General Plan, updated to 2018, to evaluate the fiscal impact of the mixed-use development.

Potential Development Capacity and Mix

The potential development capacity and mix assumptions addressed in this analysis are summarized in Table 1 below. These development capacity assumptions were developed by City and Google staff for the purposes of a general preliminary fiscal impact only; they are not reflective of a development design or proposal. This illustrative, preliminary analysis would need to be re-done when a specific development project is known. Based on the residential and non-residential assumptions, ADE estimated the population and jobs associated with the development capacity. Scenario 1 is a potential base case development under current building height limitations. Scenario 2 could be possible if the current building height standards were raised, allowing more development on the same sites. The parcels included in the analysis are listed in Appendix Table B-1.

Table 1: Potential Development Capacity and Mix

Land Use	Scenario 1		Scenario 2	
	Units	**Population**	**Units**	**Population**
Residential	5,500	8,039	9,350	13,667
Non-Residential	**Sq. Ft.**	**Employment**	**Sq. Ft.**	**Employment**
Retail	254,000	564	342,000	760
Office	6,718,000	19,194	8,543,000	24,409
Hotel	133,000	67	274,000	137
Cultural	133,000	133	133,000	133
Total Non-Residential	7,238,000	19,958	9,292,000	25,439

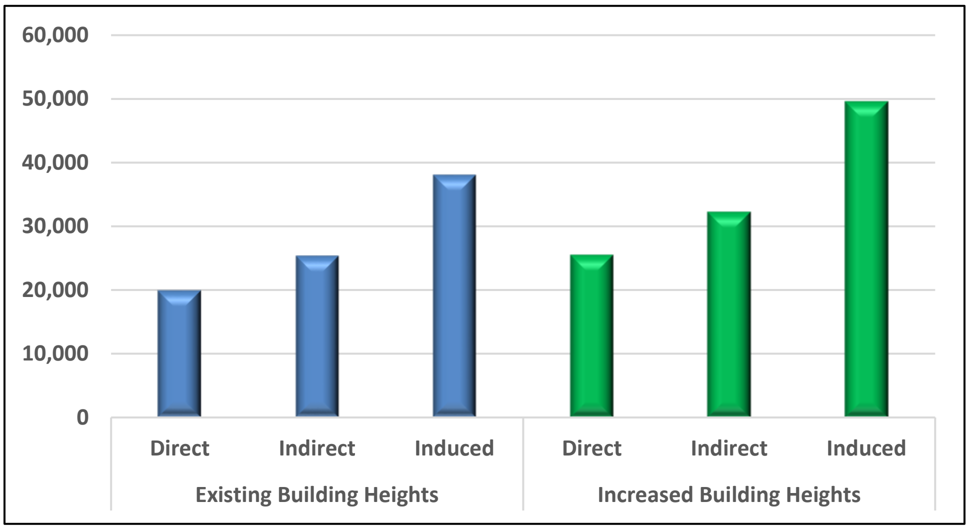
Source: ADE, Inc., based on data provided by City of San Jose and Google.

Summary of Results

Under current building standards, a mixed-use development is estimated to support about 20,000 jobs at full buildout. These jobs and economic activity would stimulate economic multiplier effects throughout San Jose. Indirect (business to business) activity would create another 25,400 jobs in San Jose and induced multipliers (employee and resident spending) would create another 38,100 jobs, mostly in retail and services businesses in San Jose (Figure 1). The total job creation in the greater San Jose area associated with the Scenario 1 mixed-use development would be about 83,500.

If height restrictions were raised, an additional 9.3 million sq. ft. of non-residential space and 9,350 housing units are possible. This scenario would create about 25,400 direct jobs onsite and another 81,800 multiplier jobs elsewhere in San Jose.

Figure 1: Job Creation



The mixed-use development is in a former redevelopment project area of the City of San Jose and is part of the former Agency's Merged Project Area. Property tax generated above the base year valuation is dedicated to a hierarchy of payments made from the Redevelopment Property Tax Trust Fund (RPTTF), which includes all the tax increment generated in the former Agency's Merged Project Area. The largest of these payments is debt service on outstanding bonds. After each semi-annual distribution by the County Auditor-Controller of RPTTF funds applied to required payments, all remaining property tax increment revenue in the RPTTF is distributed to local taxing entities. The Successor Agency reached a sufficiency of funds in FY 2017-18 and began distributing excess RPTTF funds to taxing entities, including the City of San Jose. Other revenues generated by the development, including sales taxes, utility taxes and one-time construction taxes among others, would at least be sufficient to fund required City services during this time, but the net fiscal benefit of the development on the City General Fund would be reduced until the General Fund begins to receive its full share of property taxes from the development. Absent a significant decline in property values in the Merged Project Area, below the current value of $31.8 billion, the expectation is that assessed value growth will generate tax increment revenue sufficient to pay the Successor Agency's obligations and allow for distribution of remaining property tax increment revenue in the RPTTF to local taxing entities annually. By full buildout in 2035, the Scenario 1 development is projected to generate an annual surplus of revenue for the City of $8.5 million. The Scenario 2 development would have a higher net revenue benefit of $12.5 million per year (Figure 2). Over the construction period, the Scenario 1 development is estimated to generate $76.5 million in construction taxes, while the Scenario 2 development would generate $116.2 million.

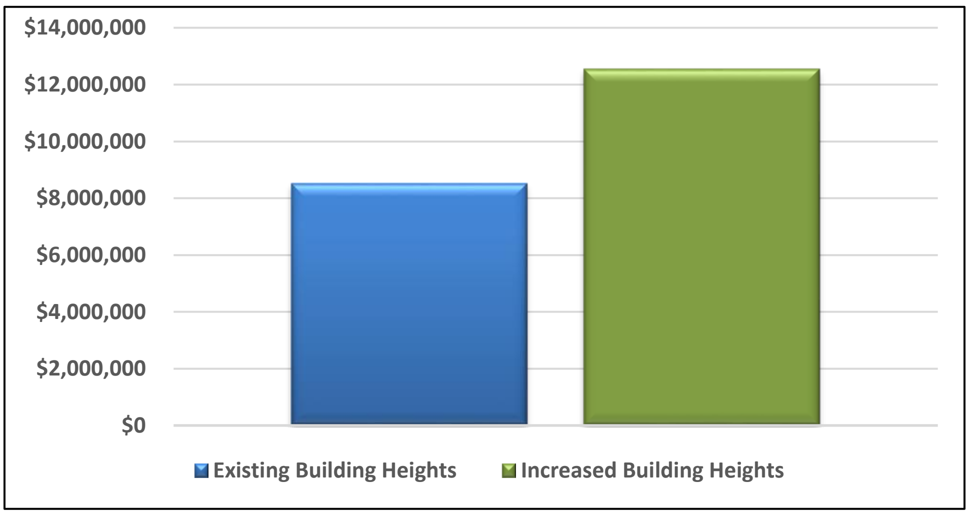
Although the mixed-use development would have a smaller benefit for the City General Fund during the construction period, it could generate $23 to $34 million per year in property taxes for other taxing agencies, including local schools, by 2029. These figures would increase to $45 to $69 million per year by 2035.

Table 2: Summary of Net Fiscal Impact by Major Land Use Category in 2035

Budget Category	Scenario 1			Scenario 2		
	Residential	Commercial	Total	Residential	Commercial	Total
Annual Revenue	$9,029,100	$18,944,100	$27,973,200	$15,425,900	$24,784,700	$40,210,600
Annual Cost	$6,693,800	$12,762,000	$19,455,800	$11,375,000	$16,292,400	$27,667,400
Net Fiscal Impact	$2,335,300	$6,182,100	$8,517,400	$4,050,900	$8,492,300	$12,543,200

Source: ADE, Inc.

Figure 2: Annual Net Revenue to San Jose General Fund



Fiscal Impact Analysis

Development of the office space and the other elements of the mixed-use development would increase assessed values on the development sites and result in increased property tax revenues for the City and other taxing agencies in the area. In addition, the business activity as well as employee and residents' spending from the mixed-use development would increase local sales taxes and other City revenues. On the other side of the budget ledger, the increased jobs and population would increase traffic, police and fire department calls for service and usage of City parks, libraries and other services and facilities. Table 2 summarizes the total annual revenue and cost estimates for each development scenario in 2035 when the development could be fully completed. (Tables B-2 and B-3 in Appendix B provide more detailed revenue and cost estimates). The largest revenue sources generated by the development would be property taxes, followed by sales taxes. The mixed-use development would also generate a substantial amount of City business taxes, as well as one-time construction taxes.

Office space is the dominant land use in the mixed-use development and would generate the most net revenue for the City. Scenario 2 would increase building space and net revenue by 47 percent over Scenario 1.

In addition to the City of San Jose General Fund, there are a number of other taxing agencies with jurisdiction over the development sites, including the County General Fund, local school and college districts, and other service agencies. The property tax increment allocated to these agencies would total $45.2 million per year under Scenario 1 and $68.6 million annually under Scenario 2, at full buildout of the development. The San Jose Unified School District is the largest beneficiary with $28.5 to $43.3 million in property taxes per year. However, the Santa Clara County General Fund would receive an estimated $9.1 million to $ $13.8 million per year (see Table B-4 for estimates of property tax for all taxing agencies). The methodology used to make these estimates is described further below, followed by a discussion of the sales tax projected to be generated by the mixed-use development and its employees and residents.

Property Tax. Google's land, along with the City land in the Diridon Station Area includes about 2 million sq. ft. of land area (47 acres), and the privately owned parcels have a current assessed value of $131.8 million (see Table B-1 in the Appendix). Owners of the sites currently pay approximately $1.3 million in base property taxes, not including special charges for bonds or assessments. As noted above, a number of taxing agencies share in the property tax, including Santa Clara County, the Bay Area Air Quality District and the school districts, among others. Each agency is assigned a tax allocation factor, per AB 8, which was passed subsequent to Proposition 13. The City of San Jose receives approximately 12.6 percent of the base property tax in the tax rate areas covering the development site (see Table B-4).[1] However, because the development site is within a former redevelopment area for the City, property tax increment revenues are first pledged to the payment of a hierarchy of payments as described and as noted above, the Successor Agency reached a sufficiency of funds in FY 2017-18 and began distributing excess RPTTF funds to taxing entities, including the City of San Jose. Absent a significant decline in assessed values in the Merged Project area, the expectation is that assessed value growth will generate tax increment revenue sufficient to pay the Successor Agency's obligations and allow for distribution of remaining property tax increment revenue in the RPTTF to local taxing entities annually, including the City.

ADE has researched non-residential property transactions over the past two years throughout San Jose to determine the likely current market values for commercial and industrial properties. The analysis identified 185 commercial property sales and 130 office building sales, for which sufficient information was available to determine the price per sq. ft. of building space. The average sales prices per sq. ft. of building space averaged $586 for retail and $271 for office properties.

[1] Average of tax allocation factors for TRAs 017-095, 017-193, 017-213, provided by Ming-Hua Cheng, Property Tax Division, Santa Clara County Controller-Treasurer Department. September 14, 2018.

- Retail $586
- Office: $271

However, new Class A office space in the mixed-use development is likely to be built at a higher valuation. For example, Google's development at 1212 Bordeaux in Sunnyvale has been assessed at $400 per sq. ft. It is possible that the property value for the Diridon Station Area mixed-use development would be even higher; however, for purposes of this analysis, ADE has used the $400 figure as an average value for the development. In addition, the retail space is valued at $590 per sq. ft., and based on other research the hotel is valued at $534 per sq. ft. and the cultural space at $300 per sq. ft. With these values, the non-residential portion of the Scenario 1 development would have an assessed value of $2.95 billion and the Scenario 2 development would be $3.8 billion.

The total cost of developing the residential component of the mixed-use development is assumed to be $600,000 per unit, including land cost. This is commensurate with other high density residential projects completed in San Jose in recent years. The market value would likely be higher than development cost, but ADE has conservatively used this figure to estimate the assessed value of the residential portion of the development. For Scenario 1, with 5,500 dwelling units, the residential development would have an assessed value of $3.3 billion. Scenario 2 would have 9,350 units, with an estimated assessed value of $5.6 billion.

For new development, the City of San Jose receives about 17.4 percent of the taxes generated by the Proposition 13 base tax rate of one percent of assessed value. This is higher than the 12.6 percent tax allocation on existing development in the development area mainly because of the property tax in lieu of vehicle license fees paid to the City by the State of California. The vehicle license in-lieu was part of the State budget legislation in 2004 and has resulted in a substantial increase in the local share of property tax beyond the base AB 8 allocation. Also, this share of the property tax is allocated citywide and is not subject to diversion to the Successor Agency. Therefore, the first half of the mixed-use development, assumed to be completed in 2035, conservatively could generate nearly $1.5 million for the City General Fund under Scenario 1, in addition to amounts that would go to the Successor Agency. This figure is in addition to the property tax the City currently receives from the properties in the development site. At full buildout, the full Scenario 1 development could generate $10.6 million in annual property taxes (in 2018 dollars) for the City. Scenario 2 could produce $16.2 million per year in 2035 at full buildout (in 2018 dollars).

Sales Tax. The City tracks sales tax payments from all types of business and recognizes that some non-retail businesses also generate a substantial amount of sales tax from transactions directly with consumers or with other businesses. For the General Plan update and subsequent Four-Year Review, this was analyzed in depth and determined that business to business transactions generate nearly a quarter of all sales tax revenues for the City. These revenues are not from expenditures by the employees but rather sales by the businesses themselves. However, other research indicates that office employees spend substantial amounts in the City where they work, estimated at about $23.29

per work day in 2018 dollars.[2] From these sources, ADE estimates that Google and its employees would generate $3.87 to $4.92 million in sales taxes per year between Scenario 1 and Scenario 2.

Residential households generate sales tax for the City through their taxable retail purchases within the City. For this analysis, ADE assumes the average household income in the units would equal the County median income of $120,000 per year. ADE calculated in detail the typical spending pattern for households at these income levels, which are shown in the Appendix (Tables B-5 and B-6). A portion of retail sales are not taxable, such as groceries and pharmaceuticals, as well as the labor component of most services. In addition, San Jose does not capture all its own household spending. Prior studies estimate that the City loses 30 percent as residents shop in surrounding cities. For those sales that are taxable, the City receives about 1.28 percent in sales tax revenue. This includes the state allocated base sales tax, a local sales tax of 0.25 percent approved by local voters for a fifteen-year period and a small amount of state allocated Proposition 172 sales taxes for public safety. ADE estimates that the mixed-use development households would generate $211 per unit annually in local sales tax.[3] Combined, these figures add up to $1.12 to $1.91 million in sales tax annually between Scenario 1 and Scenario 2.

Construction Tax. Both residential and non-residential construction is subject to a one-time excise tax in San Jose. The tax rate ranges from one percent of construction value for industrial uses to about 3.96 percent for residential. As of March 2019, the rate for office space will be two percent, which has been used in this analysis.[4] The building valuations are based mainly on International Building Council standards. Using these factors, ADE estimates that the Scenario 1 development would generate $76.5 million in construction taxes over the full construction period, while the Scenario 2 development would generate $116.2 million. If the construction period extends 16 years, these values would generate approximately $4.8 to $7.3 million per year. Construction tax revenue is primarily allocated to rehabilitate and improve the City's transportation infrastructure (see Appendix Table B-7).

Development Impact Fees. The development would also be subject to any one-time impact fees in place such as for parks and traffic impacts. These fee revenues have not specifically been estimated in this analysis. The fee revenues would be earmarked to mitigate impacts of the development on City facilities and services and in that sense represent a net neutral fiscal benefit to the City.

ECONOMIC IMPACT ANALYSIS

Economic activity, including housing, creates not only direct jobs in businesses on the site, but also supports other jobs and business revenues through buyer/supplier transactions and employee spending in retail and services outlets. These additional business effects are referred to as economic multipliers and can be estimated for the mixed-use development. The analysis addresses two phases of development: construction and operation.

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2 ICSC Research, "Office-Worker Retail spending in the Digital Age." 2012.

3 These estimates are based on US Bureau of Labor Statistics Consumer Expenditure surveys. Please see the Appendix of this report (p. 20) for the detailed calculations.

4 Chris Burton, Deputy Director, Business and Economic Development, personal communication, November 2, 2018.

For this analysis, ADE used the IMPLAN input-output (I-O) model, calibrated for the City of San Jose using zip code level data. The I-O model calculates two levels of multiplier effects based on the ***Direct*** (onsite) jobs and housing that would be located on the site under the two development scenarios. The ***Indirect*** jobs reflect business to business (B2B) transactions from the businesses located onsite with other businesses in San Jose. The ***Induced*** impacts reflect employee spending in local retail and services businesses, both those employed onsite and those employed in the businesses supported through the indirect B2B transactions.

Construction Phase

During construction, construction workers would be employed onsite. In addition, the construction businesses would buy some materials and services from other businesses in San Jose. ADE estimated the construction cost for the development from the market value analysis related to the property tax analysis discussed above. The Direct Output effect shown in Table 3 below is equal to the estimated construction cost for each development scenario. For Scenario 1, the market value of the total development is estimated at $6.25 billion. Subtracting land value, we estimate the hard construction cost for the development would be about $4.56 billion. This would support 24,150 person-years of construction employment onsite and generate $2.1 billion in direct payrolls. If the development took 16 years to construct, then the average employment would be about 1,510 jobs per year. As discussed above, the construction development would also have multiplier effects and would support a total 38,248 jobs throughout San Jose as well as onsite. This would support total labor income of $3 billion and business revenues of $6.8 billion.

For Scenario 2, the total onsite construction employment would by about 36,400, or 2,275 jobs per year. With multiplier effects, the development would support nearly 56,800 jobs over the 16-year construction period, generating payrolls of $4.5 billion in total and business output of $10.2 billion.

Development Operations

The mixed-use development could employ an estimated 20,000 to 25,400 workers onsite. As noted under the sales tax discussion above, business activities are anticipated to generate substantial business to business sales activity in San Jose. Employee and onsite resident household expenditures will have benefits for retail and services business in the City. These effects are summarized for Scenario 1 in the upper part of Table 4, totaling 83,383 jobs. For Scenario 2, in the lower part of the table, the figures total 107,285 jobs. About 2,700 to 4,600 of the induced jobs would be generated by households living in the residential component of the mixed-use development. These represent annual figures within the City of San Jose. Additional multiplier effects would occur elsewhere in the region, based on buyer-supplier transactions and employee expenditures outside the City of San Jose.

Table 3: Construction Phase Impacts (Total – Not Person-Years)

Construction	Direct Effect	Indirect Effect	Induced Effect	Total Effect
Scenario 1				
Non-residential				
Employment	14,150.2	1,198.1	4,834.4	20,182.7
Labor Income	$1,173,297,772	$123,300,068	$335,338,376	$1,631,936,216
Output	$2,358,385,600	$280,892,444	$798,268,247	$3,437,546,273
Residential				
Employment	10,666.0	3,179.4	4,219.8	18,065.1
Labor Income	$906,980,429	$216,159,535	$293,168,694	$1,416,308,658
Output	$2,200,000,000	$475,263,638	$695,761,217	$3,371,024,787
Total				
Employment	24,816.2	4,377.5	9,054.1	38,247.8
Labor Income	$2,080,278,201	$339,459,603	$628,507,070	$3,048,244,874
Output	$4,558,385,600	$756,156,083	$1,494,029,465	$6,808,571,060
Scenario 2				
Non-Residential				
Employment	18,273.3	1,547.2	6,243.0	26,063.5
Labor Income	$1,515,173,625	$159,227,293	$433,049,335	$2,107,450,253
Output	$3,045,572,800	$362,739,000	$1,030,867,781	$4,439,179,692
Residential				
Employment	18,132.2	5,405.0	7,173.6	30,710.7
Labor Income	$1,541,866,657	$367,471,212	$498,386,776	$2,407,724,645
Output	$3,740,000,000	$807,948,193	$1,182,794,041	$5,730,742,144
Total				
Employment	36,405.5	6,952.1	13,416.6	56,774.2
Labor Income	$3,057,040,281	$526,698,505	$931,436,111	$4,515,174,898
Output	$6,785,572,800	$1,170,687,194	$2,213,661,822	$10,169,921,836

Source: ADE, Inc.

Table 4: Job Creation from Development Operations

Development Component	Direct Effect	Indirect Effect	Induced Effect	Total Effect
Scenario 1				
Office	19,194	25,264	35,163	79,621
Retail	564	42	129	735
Hotel	67	11	19	97
Cultural	133	46	20	199
Residential	0	0	2,731	2,731
Total	19,958	25,363	38,062	83,383
Scenario 2				
Office Uses	24,409	32,128	44,717	101,254
Retail Uses	760	57	174	990
Hotel Uses	137	23	39	198
Cultural Uses	133	46	20	199
Residential	0	0	4,642	4,642
Total	25,439	32,253	49,592	107,285

Source: ADE, Inc. Totals may not add due to rounding.

APPENDIX A: FISCAL ANALYSIS METHODOLOGY

Fiscal Setting

Land use development in San Jose affects the City's tax base and also the demand for municipal services, which increases costs for City government. The balance between revenues and costs is an important consideration in City planning. This issue was studied in detail for the Envision 2040 General Plan update in 2010 and again in 2015 for the General Plan Four-Year review.[5,6] ADE has used the same fiscal impact model, updated to 2018, to evaluate the fiscal impact of the mixed-use development.

This analysis focuses on General Fund operations costs and revenues. The General Fund funds most basic City services and is largely reliant on general tax revenues such as property tax and sales tax. The tax rates for these revenue sources are mainly set by state law and the City has relatively little discretion to increase revenues through tax increases. Therefore, it is important that the tax base generated by the land use mix in the City be adequate to fund necessary City services for the City population and business sector. The City also has enterprise funds for utility services such as wastewater and solid waste disposal, but these services are funded by customer charges, over which the City has greater control than general tax revenues.

The proposed 2018-2019 General Fund budget is shown in Table A-1. This budget information provides the initial basis for the analysis of fiscal impacts of the initiative. Overall, the General Fund begins FY 2018-2019 with an existing fund balance of $150.1 million. The expenditure budget is balanced with revenues and includes $120.7 million in reserves remaining at the end of the fiscal year.

The fiscal model analyzes the projected impact to annual operating costs and revenues and excludes certain items that either reflect one-time revenues and costs or are not related to land use development. These revenues and costs, which are adjusted out of the City budget prior to calculating the fiscal impact of the development, are shown in Table A-2.

For certain revenues such as property taxes and sales taxes, the tax rates are set by law and are based on specific characteristics of the development, such as the property values, household income, and spending patterns. The calculations for these revenues are discussed in more detail below. Other revenues and City costs are calculated on a general average basis, using the City budget figures above. These average per capita revenues and service costs are shown in Table A-3. A key assumption in this analysis is the relative service demand between residential and non-residential land uses. In general, the analysis assumes that the service demand impact of employment-generating uses, as represented by the number of jobs supported by the activity, is 50 percent of the impact of residential uses, represented by the population. This is a standard service population assumption for fiscal impact studies.[7] It corresponds to the general premise that employed people working at jobs in San José occupy eight-hour shifts, mostly during the regular work day, while the resident population,

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[5] Applied Development Economics, Inc. *Envision San Jose 2040 General Plan Update: Analysis of San Jose's Fiscal Conditions and Projections of Future Scenarios.* February 12, 2010.
[6] Doug Svensson. Memo to John Lang, Chief Economist, City of San Jose, Re: Fiscal Analysis. November 24, 2015.
[7] See for example: Strategic Economics. *South Fremont/Warm Springs Area Impact Analysis*. June 2012; and Economic and Planning Systems. *Fiscal and Economic Impact Analysis of the Tarob Court Master Plan*. June 2017.

when they are not working, represent a service demand during the 16 hours of non-working time during a 24-hour day. Thus, an eight-hour period is 50 percent of a 16-hour period. (In Table A-3, however, this is expressed in terms of a 24-hour day, so the 16 hours is 67 percent of a full day while the eight hours is a 33 percent share). Of course, there are many individual exceptions to this but as a general rule it reflects the overall relative service demands of residential and non-residential land uses for a number of City services.

Table A-1: 2018-2019 Proposed General Fund Budget City of San José

Budget Category	**2018-2019 Proposed Budget**
REVENUES	
Fund Balance	$150,074,908
Property Taxes	$317,600,000
Sales Tax	$233,500,000
Transient Occupancy Tax	$19,700,000
Franchise Fees	$50,474,798
Utility Tax	$102,400,000
Telephone Line Tax	$20,000,000
Business Taxes	$68,500,000
Licenses & Permits	$60,916,631
Fines & Forfeitures	$14,983,000
Revenue from Money and Property	$6,832,000
Revenue from Local Agencies	$11,420,000
Revenue from State Government	$11,709,379
Revenue from Federal Government	$424,940
Departmental Charges	$52,615,920
Other revenue	$10,867,471
Transfers in, Reimbursements	$95,924,193
TOTAL REVENUES	**$1,227,943,240**
EXPENDITURES	
General Government	$131,010,111
Economic Development	$16,044,999
Environmental Services	$4,000,328
Police	$417,037,967
Fire	$232,105,151
Planning/Bldg./ Code Enf.	$53,835,722
Housing	$2,094,466
Public Works	$53,940,569
Recreation, Neigh. Svcs.	$39,418,277
Parks Maintenance	$44,768,165
Library	$34,501,571
Transportation	$38,784,812
Transfers	$38,136,064
Reserves/Citywide*	$122,265,038
TOTAL EXPENDITURES	**$1,227,943,240**

Source: ADE, Inc., based on San José Adopted Operating Budget 2017-2018
*Note: Some of the Citywide expenditures shown on p. III-4 of the budget are integrated into the departmental budgets above.

Table A-2: Fiscal Model Budget Adjustments

Revenues		**Budget Category**
Building Permits	$32,500,000	Licenses and Permits
Fire Permits	$13,270,000	Licenses and Permits
Central Fire District	$7,300,000	Revenue From Local Agencies
2017-18 Grants	$1,568,000	Revenue From Local Agencies
Public Works Service Charges	$14,297,158	Departmental Charges
Planning/Building Service Charges	$8,960,000	Departmental Charges
Dept. of Trans. Service Charges	$1,712,002	Departmental Charges
Carryover from 2016-17	$2,600,000	Transfers/Reimbursements
Total	$82,207,160	
Expenditures		**Department**
Revenue From Local Agencies	$970,000	Police
Fire Permits	$13,270,000	Fire/EMS
Central Fire District	$7,300,000	Fire/EMS
Building Permits	$32,500,000	Planning/Bldg./ Code Enf.
Planning/Building Service Charges	$8,960,000	Planning/Bldg./ Code Enf.
Public Works Service Charges	$14,297,158	Public Works
Revenue From Local Agencies	$598,000	Parks, Recreation, Neigh. Svcs.
Dept. of Trans. Service Charges	$1,712,002	Transportation
Carryover from 2016-17	$2,600,000	Reserves
Total	$82,207,160	

Source: ADE, Inc.

As indicated in Table A-3, a few of the revenues and services require different assumptions. The revenue from Money and Property represents both interest, or investment income, on City funds, as well as rental fees and other income associated with City-owned properties. This revenue represents about 0.6 percent of the total and is calculated here as a similar percent of the revenues generated by each individual land use.

The State and Federal government revenues may include one-time grants used for capital projects but mostly are subventions that are allocated on the basis of population in the City and are therefore allocated to the residential land uses.

In terms of cost allocations, a number of the services are based on the two-thirds residential/one-third non-residential split discussed above; however, other cost categories have a different basis. The General Government category is treated as an "overhead" charge on the cost of direct services to residents and business in San José. This category includes the following City departments:

- Mayor/City Council
- City Manager
- City Clerk
- City Attorney
- City Auditor

- Human Resources
- Finance
- Information Technology

Table A-3: Factors Used to Estimate Selected Revenues and Costs

BUDGET CATEGORY	RESIDENTIAL		BUSINESS		NOTES
REVENUES	SERVICE PROPORTION	PER CAPITA	SERVICE PROPORTION	PER CAPITA	
Franchise Fees	67%	$32.17	33%	$39.64	
Utility Tax	67%	$65.26	33%	$80.41	
Telephone Line Tax	67%	$12.75	33%	$15.70	
Business Taxes	5%	$3.26	95%	$154.85	
Licenses & Permits	67%	$9.65	33%	$11.89	
Fines & Forfeitures	67%	$9.55	33%	$11.77	
Revenue from Money and Property	NA	0.8%	NA	0.8%	Percent of Other Revenues
Revenue from Local Agencies	67%	$1.63	33%	$2.00	
Revenue from State Government	100%	$11.14	0%	$0.00	
Revenue from Federal Government	100%	$0.40	0%	$0.00	
Departmental Charges	67%	$17.62	33%	$21.71	
Other revenue	67%	$6.93	33%	$8.53	
Expenditures					
General Government	NA	12.9%	NA	12.9%	Percent of Other Costs
Economic Development	10%	$1.53	90%	$34.36	
Environmental Services	67%	$2.55	33%	$3.14	
Police	67%	$265.78	33%	$327.48	
Fire*	67%	$121.33	33%	$149.50	90% per capita; 10% based on Assessed Value
Planning/Bldg./ Code Enf.	67%	$7.89	33%	$9.72	Based on Assessed Value
Housing	67%	$1.33	33%	$1.64	
Public Works	67%	$24.65	33%	$30.37	
Recreation, Neigh. Svcs.	90%	$33.23	10%	$9.24	
Park Maintenance**	NA	$17,000.00	10%	$10.65	*
Library	75%	$24.61	15%	$12.31	10% to CSU San José
Transportation	67%	$2,210.86	33%	$2,210.86	Per acre ROW
Transfers	67%	$24.30	33%	$29.95	

*Source: ADE, Inc. *Parks maintenance cost is per acre for residential and per employee for non-residential*

The General Fund expenses for these Departments are about 12.9 percent of the total General Fund budget and this factor is used in the fiscal model to project these costs by land use.

The Economic Development function also includes the Cultural Affairs Office of the City and is estimated to be devoted about 90 percent to non-residential land uses and 10 percent to residential uses in the City.

For the Police Department, the Commercial Land Use Category is assigned a higher cost per capita than other non-residential land uses, to reflect the higher incidence of calls for service for shoplifting, burglary and vandalism experiences at many commercial shopping centers.

For the Fire Department, the majority of its calls-for-service are for emergency medical services (EMS) response, rather than fire suppression. Ninety percent of its expenditures are allocated on a per capita basis to reflect this priority for the department. The remaining ten percent of the Fire Department budget, which represents responses to fire incidents, is allocated on the basis of assessed value for each land use. Buildings with greater assessed value are generally larger and require greater Fire Department response when fires occur.

The Planning and Building Department costs are also allocated on the basis of assessed value rather than population or employment. This is similar to the fee calculation for building permits and reflects the fact that larger projects typically require greater effort to process.

For parks and libraries, alternate assumptions have been used about the demand for services from residential and non-residential land uses. For Parks and Recreation, it is assumed that most of the service demand comes from the resident population, but it is also likely that a number of people who work but do not live in San José participate in recreation leagues for various sports and may use park facilities as well. For this department, a 90 percent/10 percent split is used between residential and non-residential. The City spends an estimated $13,000 per acre on maintaining existing parks separate from other program operations and administrative costs. However, new parks require a higher level of maintenance in the early years, estimated at $17,000 per acre per year.

The Library Department maintains some information about the residence location of library patrons. This information shows that 75 percent are San José residents and another 10 percent are San José State University students. The remaining 15 percent are non-City residents. For the fiscal model, this percentage has been assigned to non-residential land uses. While there is not a direct indication that these are business patrons, this percentage corresponds well to data from other communities where business usage of the libraries has been tracked and represents a reasonable assumption about the level of business inquiries for reference information and use of library materials.[8]

Transportation maintenance expenditures are related to the extent of road facilities and related infrastructure that must be maintained. The City's Planning Division has made estimates of right-of-way acreages for each land use and that has been used in the fiscal model as a proxy for road maintenance costs, rather than population or employment. It should be noted, however, that the size of roadways and intersections are also a function of the volume of traffic generated by each type of land use.

[8] See for example, Applied Development Economics and Vernazza Wolfe Associates. *City of Menlo Park Fiscal Impact Model Documentation Report*. February 2002.

APPENDIX B: Data Tables

Table B-1: Parcels Included in the Mixed-Use Development (Google Lands and City Lands in the Diridon Station Area)

Property	APN	Land SF	Assessed Value *as of 1/1/2018*
75 S. Autumn	259-38-015	3,981	$678,300
52 S. Autumn	259-38-119	13,368	$2,713,200
35 S. Autumn	259-38-009	5,650	$1,224,000
450 W. Santa Clara	259-38-132	25,632	$11,220,000
24-34 S. Autumn	259-38-122	6,395	$1,071,000
	259-38-123	6,496	$1,071,000
	259-38-124	6,016	$1,045,500
74 S. Autumn	259-38-113	5,692	$1,020,000
587 Cinnabar	259-26-017	299,724	$52,530,000
559-573 W. Julian	259-27-009	23,992	$2,754,000
	259-27-010	8,488	$943,500
20 S. Autumn	259-38-121	13,654	$2,805,000
655 W. San Carlos	261-37-016	6,074	$1,050,600
	261-37-029	19,626	$3,641,400
140 S. Montgomery	259-48-052	26,643	$5,610,000
92 S. Montgomery	259-38-019	6,846	$1,136,000
59 S. Autumn	259-38-141	14,349	$3,185,000
695 W. San Carlos	261-37-023	6,534	$1,225,000
691 W. San Carlos	261-37-020	7,496	$1,460,000
	261-37-021	7,054	$1,365,000
551 W. Julian	259-27-008	5,474	$650,000
195 N. Autumn	259-29-025	5,468	$93,364
501 Cinnabar	259-27-017	116,892	$14,192,147
720 W. San Carlos	264-15-015	4,956	$210,154
	264-15-016	4,956	$210,154
	264-15-017	5,570	$236,422
	264-15-018	5,554	$236,422
	264-15-019	5,540	$236,422
	264-15-063	3,420	$174,532
	264-15-064	184,775	$15,332,891
	264-15-065	35,757	$1,516,719
240 N. Montgomery	259-29-103	15,140	$558,070
345-347 N. Montgomery	259-27-011	42,201	$102,671
	259-27-014	19,572	$165,563
	259-27-015	27,205	$131,714
160 N. Montgomery	259-29-004	5,941	$30,710
145 S. Montgomery	261-35-027	175,895	$0

525 W. Santa Clara St.	259-28-031, 259-28-041, 259-28-043, 259-28-044	415,000	NA
255 S. Montgomery St.	261-037-025	164,413	NA
697 W. San Carlos St.	261-37-030, 26-137-028	8,891	NA
8 S. Montgomery St.	259-38-130	70,451	NA
102 S. Montgomery St.	259-48-012	6,321	NA
510 W. San Fernando St.	259-48-011, 259-48-013	50,221	NA
150 S. Montgomery St.	259-48-053	42,171	NA
105 S. Montgomery St.	261-35-003, 261-35-006, 261-35-010	43,803	NA
645 Park Ave.	261-35-014	76,862	NA
Total		**2,056,159**	**$131,826,455**

Table B-2: Scenario 1 General Fund Fiscal Impact in 2035

Budget Category	Total	Land Use Residential	Retail	Office	Hotel	Cultural
REVENUES						
Property Taxes	$10,658,800	$5,629,600	$255,700	$4,584,200	$121,200	$68,100
Sales Tax	$5,704,400	$1,121,800	$700,600	$3,870,900	$8,800	$2,300
Transient Occupancy Tax	$510,954	$0	$0	$0	$510,954	$0
Franchise Fees	$1,049,700	$258,600	$22,400	$760,800	$2,600	$5,300
Utility Tax	$2,129,400	$524,600	$45,400	$1,543,400	$5,300	$10,700
Telephone Line Tax	$415,900	$102,500	$8,900	$301,400	$1,000	$2,100
Business Taxes	$3,116,700	$26,200	$87,400	$2,972,200	$10,300	$20,600
Licenses & Permits	$315,000	$77,600	$6,700	$228,300	$800	$1,600
Fines & Forfeitures	$311,600	$76,800	$6,600	$225,800	$800	$1,600
Revenue from Money and Property	$192,000	$62,000	$8,800	$115,200	$5,100	$900
Revenue from Local Agencies	$53,100	$13,100	$1,100	$38,500	$100	$300
Revenue from State Government	$89,500	$89,500	$0	$0	$0	$0
Revenue from Federal Government	$3,200	$3,200	$0	$0	$0	$0
Departmental Charges	$574,900	$141,600	$12,300	$416,700	$1,400	$2,900
Other revenue	$226,000	$55,700	$4,800	$163,800	$600	$1,100
Transfers/Reimb.	$2,622,000	$846,300	$120,000	$1,574,300	$69,200	$12,200
Total Revenues	**$27,973,200**	**$9,029,100**	**$1,280,700**	**$16,795,500**	**$738,154**	**$129,700**
EXPENDITURES						
General Government	$2,224,700	$765,400	$66,800	$1,374,200	$6,400	$11,900
Economic Development	$698,100	$12,300	$19,400	$659,500	$2,300	$4,600
Environmental Services	$83,200	$20,500	$1,800	$60,300	$200	$400
Police	$6,115,800	$2,136,600	$277,300	$3,645,700	$12,600	$43,600
Fire/EMS	$4,950,100	$1,631,500	$101,400	$3,174,800	$18,000	$24,400
Planning/Bldg./ Code Enf.	$420,100	$224,100	$10,000	$178,600	$4,700	$2,700
Housing	$43,500	$10,700	$900	$31,600	$100	$200
Public Works	$804,100	$198,100	$17,100	$582,900	$2,000	$4,000
Recreation, Neigh. Svcs.	$451,500	$267,200	$5,200	$177,300	$600	$1,200
Park Maintenance	$621,200	$410,000	$6,000	$204,500	$700	
Library	$443,700	$197,900	$7,000	$236,400	$800	$1,600
Transportation	$11,000	$4,900	$200	$5,700	$100	$100
Transfers	$789,100	$195,400	$16,900	$574,800	$2,000	
Reserves	$1,799,700	$619,200	$54,000	$1,111,700	$5,100	$9,700
Total Expenditures	**$19,455,800**	**$6,693,800**	**$584,000**	**$12,018,000**	**$55,600**	**$104,400**
NET (COST)/REVENUE	**$8,517,400**	**$2,335,300**	**$696,700**	**$4,777,500**	**$682,554**	**$25,300**

Table B-3: Scenario 2 General Fund Fiscal Impact in 2035

Budget Category	Total	Land Use				
		Residential	Retail	Office	Hotel	Cultural
REVENUES						
Property Taxes	$16,177,200	$9,639,100	$346,700	$5,871,400	$251,400	$68,600
Sales Tax	$7,793,300	$1,907,100	$943,300	$4,922,400	$18,200	$2,300
Transient Occupancy Tax	$1,052,643	$0	$0	$0	$1,052,643	$0
Franchise Fees	$1,447,800	$439,600	$30,100	$967,400	$5,400	$5,300
Utility Tax	$2,937,400	$891,900	$61,100	$1,962,700	$11,000	$10,700
Telephone Line Tax	$573,700	$174,200	$11,900	$383,300	$2,200	$2,100
Business Taxes	$3,983,600	$44,500	$117,700	$3,779,600	$21,200	$20,600
Licenses & Permits	$434,400	$131,900	$9,000	$290,300	$1,600	$1,600
Fines & Forfeitures	$429,800	$130,500	$8,900	$287,200	$1,600	$1,600
Revenue from Money and Property	$275,900	$105,800	$11,800	$146,900	$10,500	$900
Revenue from Local Agencies	$73,200	$22,200	$1,500	$48,900	$300	$300
Revenue from State Government	$152,200	$152,200	$0	$0	$0	$0
Revenue from Federal Government	$5,500	$5,500	$0	$0	$0	$0
Departmental Charges	$793,100	$240,800	$16,500	$529,900	$3,000	$2,900
Other revenue	$311,800	$94,700	$6,500	$208,300	$1,200	$1,100
Transfers/Reimb.	$3,769,100	$1,445,900	$161,900	$2,006,300	$142,800	$12,200
Total Revenues	**$40,210,600**	**$15,425,900**	**$1,726,900**	**$21,404,600**	**$1,523,043**	**$130,200**
EXPENDITURES						
General Government	$3,163,600	$1,300,700	$89,900	$1,747,900	$13,100	$12,000
Economic Development	$895,000	$20,900	$26,100	$838,700	$4,700	$4,600
Environmental Services	$114,700	$34,800	$2,400	$76,700	$400	$400
Police	$8,711,300	$3,632,300	$373,300	$4,636,100	$26,000	$43,600
Fire/EMS	$7,012,000	$2,773,500	$136,700	$4,040,100	$37,200	$24,500
Planning/Bldg./ Code Enf.	$635,700	$380,900	$13,500	$228,800	$9,800	$2,700
Housing	$59,900	$18,200	$1,200	$40,100	$200	$200
Public Works	$1,109,300	$336,800	$23,100	$741,200	$4,200	$4,000
Recreation, Neigh. Svcs.	$689,200	$454,200	$7,000	$225,500	$1,300	$1,200
Park Maintenance	$966,600	$697,000	$8,100	$260,000	$1,500	
Library	$649,700	$336,400	$9,400	$300,600	$1,700	$1,600
Transportation	$11,100	$4,900	$200	$5,800	$100	$100
Transfers	$1,090,000	$332,200	$22,800	$730,900	$4,100	
Reserves	$2,559,300	$1,052,200	$72,800	$1,414,000	$10,600	$9,700
Total Expenditures	**$27,667,400**	**$11,375,000**	**$786,500**	**$15,286,400**	**$114,900**	**$104,600**
NET (COST)/REVENUE	**$12,543,200**	**$4,050,900**	**$940,400**	**$6,118,200**	**$1,408,143**	**$25,600**

Table B-4: Annual Property Taxes from the Development for All Taxing Agencies

Agency	Share of Property Tax Post ERAF	Scenario 1	Scenario 2
Santa Clara County	14.89%	$9,110,680	$13,827,714
General Fund (2035)	12.62%	$7,719,264	$11,715,895
San Jose Unified	46.60%	$28,509,501	$43,270,231
San Jose-Evergreen Community College	6.90%	$4,218,777	$6,403,039
County School Service	3.30%	$2,016,567	$3,060,640
Santa Clara Valley Water District Central Zone	1.17%	$714,584	$1,084,559
Santa Clara Valley Water District	0.17%	$106,086	$161,012
Bay Area Air Quality Management District	0.20%	$119,566	$181,471
Santa Clara County Importation Water-Misc District	0.52%	$316,027	$479,649
Santa Clara Valley Water District West Zone 4	0.13%	$81,456	$123,630
Total		$52,912,508	$80,307,840

Source: ADE, Inc., based on tax allocation factors provided by the Santa Clara County Tax Auditor's Office. Figures net out existing assessed value of the development site.

Table B-5: Taxable Household Spending, Scenario 1

5,500 Households with Average Income of $120,000 — Store Category	Total Household Spending	Taxable Sales	Taxable Percent	Total Sales as Percent of Income	Taxable Sales as Percent of Income
RETAIL					
Apparel Store Group	$7,350,014	$7,350,014	100.0%	1.1%	1.1%
General Merchandise Group	$26,023,491	$17,265,710	66.3%	3.9%	2.6%
Department Stores/Other General Merch.	$5,630,062	$5,103,651	90.7%	0.9%	0.8%
Other General Merchandise	$16,279,215	$10,516,373	64.6%	2.5%	1.6%
Drug & Proprietary Stores	$4,114,215	$1,645,686	40.0%	0.6%	0.2%
Specialty Retail Group	$7,429,218	$7,429,218	100.0%	1.1%	1.1%
Food, Eating and Drinking Group	$51,567,761	$34,215,420	66.4%	7.8%	5.2%
Grocery Stores	$22,342,291	$5,585,573	25.0%	3.4%	0.8%
Specialty Food Stores	$729,886	$182,472	25.0%	0.1%	0.0%
Liquor Stores	$1,147,803	$1,099,596	95.8%	0.2%	0.2%
Eating Places	$27,347,781	$27,347,781	100.0%	4.1%	4.1%
Building Materials And	$0	$0	0.0%	0.0%	0.0%
Homefurnishings Group	$10,208,112	$10,208,112	100.0%	1.5%	1.5%
Automotive Group	$50,464,580	$49,081,180	93.3%	7.6%	7.4%
Sub-Total Retail	$153,043,177	$125,549,654	82.0%	23.2%	19.0%
SERVICES					
Rental Services	$1,213,181	$0	0.0%	0.2%	0.0%
Professional Services	$408,086	$0	0.0%	0.1%	0.0%
Medical Services					
Eyecare	$3,784,597	$1,892,298	50.0%	0.6%	0.3%
Other Medical	$11,284,357	$0	0.0%	1.7%	0.0%
Repair Services					
Auto Repair	$2,771,893	$1,108,757	40.0%	0.4%	0.2%
Other Repair	$1,311,787	$0	0.0%	0.2%	0.0%
Personal Services					
Personal Care Services	$2,616,721	$261,672	10.0%	0.4%	0.0%
Other Personal	$1,653,959	$0	0.0%	0.3%	0.0%
Entertainment/Recreation					
Movie, Theater, Opera, Ballet	$2,532,773	$253,277	10.0%	0.4%	0.0%
Sporting Events	$775,203	$77,520	10.0%	0.1%	0.0%
Other Entertainment	$5,374,770	$0	0.0%	0.8%	0.0%
Sub-Total Services	$33,727,325	$3,593,525	10.7%	5.1%	0.5%
GRAND TOTAL	$186,770,502	$129,143,180	69.1%	28.3%	19.6%

Source: ADE, Inc.; retail demand model derived from U.S. Economic Census, Bureau of Labor Statistics Consumer Expenditure Survey and PUMS database.

Table B-6: Taxable Household Spending, Scenario 2

9,350 Households with Average Income of $120,000 Store Category	Total Household Spending	Taxable Sales	Taxable Percent	Total Sales as Percent of Income	Taxable Sales as Percent of Income
RETAIL					
Apparel Store Group	$12,495,023	$12,495,023	100.0%	1.1%	1.1%
General Merchandise Group	$44,239,936	$29,351,706	66.3%	3.9%	2.6%
Department Stores/Other General Merch.	$9,571,105	$8,676,206	90.7%	0.9%	0.8%
Other General Merchandise	$27,674,665	$17,877,834	64.6%	2.5%	1.6%
Drug & Proprietary Stores	$6,994,166	$2,797,666	40.0%	0.6%	0.2%
Specialty Retail Group	$12,629,671	$12,629,671	100.0%	1.1%	1.1%
Food, Eating and Drinking Group	$87,665,193	$58,166,215	66.4%	7.8%	5.2%
Grocery Stores	$37,981,894	$9,495,474	25.0%	3.4%	0.8%
Specialty Food Stores	$1,240,806	$310,202	25.0%	0.1%	0.0%
Liquor Stores	$1,951,266	$1,869,312	95.8%	0.2%	0.2%
Eating Places	$46,491,227	$46,491,227	100.0%	4.1%	4.1%
Building Materials And	$0	$0	0.0%	0.0%	0.0%
Homefurnishings Group	$17,353,790	$17,353,790	100.0%	1.5%	1.5%
Automotive Group	$85,789,787	$83,438,007	93.3%	7.6%	7.4%
Sub-Total Retail	$260,173,400	$213,434,412	82.0%	23.2%	19.0%
SERVICES					
Rental Services	$2,062,408	$0	0.0%	0.2%	0.0%
Professional Services	$693,746	$0	0.0%	0.1%	0.0%
Medical Services					
Eyecare	$6,433,815	$3,216,907	50.0%	0.6%	0.3%
Other Medical	$19,183,407	$0	0.0%	1.7%	0.0%
Repair Services					
Auto Repair	$4,712,217	$1,884,887	40.0%	0.4%	0.2%
Other Repair	$2,230,038	$0	0.0%	0.2%	0.0%
Personal Services					
Personal Care Services	$4,448,426	$444,843	10.0%	0.4%	0.0%
Other Personal	$2,811,730	$0	0.0%	0.3%	0.0%
Entertainment/Recreation					
Movie, Theater, Opera, Ballet	$4,305,713	$430,571	10.0%	0.4%	0.0%
Sporting Events	$1,317,845	$131,785	10.0%	0.1%	0.0%
Other Entertainment	$9,137,109	$0	0.0%	0.8%	0.0%
Sub-Total Services	$57,336,453	$6,108,993	10.7%	5.1%	0.5%
GRAND TOTAL	$317,509,853	$219,543,405	69.1%	28.3%	19.6%

Source: ADE, Inc.; retail demand model derived from U.S. Economic Census, Bureau of Labor Statistics Consumer Expenditure Survey and PUMS database.

Table B-7: Estimated Construction Tax

Land Use	Sq. Ft.	Valuation/ Sq. Ft.	Tax Rate	Total Tax	Annual over 16 years
Existing Height Limit					
Residential	5,500,000	$198	3.96%	$43,137,468	$2,696,092
Retail	254,000	$170	2.00%	$862,828	$53,927
Office	6,718,000	$235	2.00%	$31,582,124	$1,973,883
Hotel	133,000	$236	2.00%	$628,218	$39,264
Cultural	133,000	$227	1.00%	$301,277	$18,830
Total	12,738,000			$76,511,914	$4,781,995
Amended Height Limit					
Residential	9,350,000	$198	3.96%	$73,333,696	$4,583,356
Retail	342,000	$170	2.00%	$1,161,760	$72,610
Office	8,543,000	$235	2.00%	$40,161,668	$2,510,104
Hotel	274,000	$236	2.00%	$1,294,223	$80,889
Cultural	133,000	$227	1.00%	$301,277	$18,830
Total	18,642,000			$116,252,624	$7,265,789

Source: ADE, Inc. Building valuation factors estimated at 20 percent above International Building Council factors for Type IA construction, published August 2018.