



EXHIBIT 3:
Addendum to Economic and
Fiscal Impact Analysis

MEMORANDUM

To: City of Davis
From: David Zehnder and Amy Lapin
Subject: Addendum to September 8, 2015, Economic and Fiscal Impact Analysis of Proposed Innovation Centers in Davis; EPS #152006
Date: November 12, 2015

Economic & Planning Systems, Inc. (EPS) prepared an Economic and Fiscal Impact Analysis of Proposed Innovation Centers in Davis (Analysis), dated September 8, 2015. Following the release of this document, EPS has made a minor amendment to the fiscal impact analysis. This modification affects estimated annual sales tax revenue generated by the Nishi project only; the modification does not have an impact on the overall conclusions in the Analysis. The purpose of this memorandum is to describe the amendment and revised results.

The Economics of Land Use



Summary of Amendment

Table B-5A in Exhibit 2 of the September 8, 2015, Analysis estimates annual taxable sales generated from new households and new employees in the proposed projects. Retail expenditures from new households in the Nishi project are delineated between owner-occupied and renter-occupied housing units. In the September 8, 2015, Analysis, retail expenditures for owner-occupied units erroneously are multiplied by total renter-occupied units instead of total owner-occupied units. EPS has corrected this error and, as a result, annual sales tax revenue (including annual property tax in lieu of sales tax and Proposition 172 public safety sales tax revenue) generated by the Nishi project is approximately \$28,000 less than originally stated.

Comparison of Original and Amended Analyses

Table 1 provides a summary of the original and amended annual City of Davis (City) General Fund Revenue and Expenditures Summary at Buildout for the Nishi project only under the Base Development Program, as described in the September 8, 2015, Analysis. As shown, the amendment affects annual sales tax, property tax in lieu of sales tax, and Proposition 172 public safety sales tax revenues.

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Table 2 summarizes the impact to each sensitivity scenario, comparing the total annual fiscal impacts as originally stated to the amended total annual fiscal impacts. This table does not provide a comparison to the Base Development Program.

This memorandum also includes a revised set of tables that calculate annual sales tax revenue (**Table B-5**, **Table B-5A**, and **Table B-5A**) for the reader's reference.

Conclusion

As stated, the amendment does not change the overall conclusions stated in the original Analysis. The Nishi project is estimated to produce an annual net General Fund deficit; combined, both projects are estimated to produce an annual net General Fund surplus. Although the Nishi project is estimated to result in an annual net fiscal deficit at buildout, the project is envisioned to contain land uses that contribute to a successful innovation ecosystem. Further, the net fiscal deficit generated by the Nishi project may be lessened by actual conditions that are more favorable than those modeled in the analysis (e.g., those modeled in the Nishi Hotel and Operations and Maintenance Responsibility alternative scenarios).

Table 1
Davis Innovation Centers
Fiscal Impact Analysis

Base Development Program

Estimated Annual General Fund Revenue and Expenditure Summary at Buildout: Amended Nishi Analysis (2015\$)

Item	Nishi Annual Fiscal Impacts at Buildout		Difference
	Original [1]	Amended	
Annual General Fund Revenues			
Property Taxes	\$227,000	\$227,000	\$0
Property Tax In-Lieu of Vehicle License Fees	\$249,000	\$249,000	\$0
Property Transfer Tax	\$22,000	\$22,000	\$0
Sales and Use Taxes	\$185,000	\$165,000	(\$20,000)
Property Tax in-Lieu of Sales Tax	\$62,000	\$55,000	(\$7,000)
Transient Occupancy Tax	\$0	\$0	\$0
Business License Tax	\$50,000	\$50,000	\$0
Municipal Service Tax	\$90,000	\$90,000	\$0
Franchise Fees	\$36,000	\$36,000	\$0
Charges for Services	\$60,000	\$60,000	\$0
Community Services Revenue	\$103,000	\$103,000	\$0
Fines and Forfeitures	\$20,000	\$20,000	\$0
Total General Fund Revenues	\$1,104,000	\$1,077,000	(\$27,000)
Other Annual Non-General Fund Revenues [2]			
Gas Tax Revenues	\$37,000	\$37,000	\$0
Parks Maintenance Tax	\$40,000	\$40,000	\$0
Prop. 172 Public Safety Sales Tax	\$7,000	\$6,000	(\$1,000)
Public Safety Tax	\$85,000	\$85,000	\$0
Total Other Non-General Fund Revenues	\$169,000	\$168,000	(\$1,000)
Total Annual General Fund and Non-General Fund Revenues	\$1,273,000	\$1,245,000	(\$28,000)
Annual General Fund Expenditures			
City Attorney	\$8,000	\$8,000	\$0
City Council	\$4,000	\$4,000	\$0
City Manager's Office	\$57,000	\$57,000	\$0
Administrative Services	\$59,000	\$59,000	\$0
Community Dev. & Sustainability	\$59,000	\$59,000	\$0
Community Services	\$141,000	\$141,000	\$0
Parks & Open Space Management	\$127,000	\$127,000	\$0
Fire	\$312,000	\$312,000	\$0
Police	\$530,000	\$530,000	\$0
Public Works	\$54,000	\$54,000	\$0
Total General Fund Expenditures	\$1,351,000	\$1,351,000	\$0
Annual General Fund Surplus/(Deficit)	(\$78,000)	(\$106,000)	(\$28,000)

adj_sum

Source: EPS.

Note: All values are rounded to the nearest \$1,000.

[1] Original values from the September 8, 2015 Economic and Fiscal Impact Analysis of Proposed Innovation Centers in Davis.

[2] Reflects additional revenues used to fund General Fund expenditures.

Table 2
Davis Innovation Centers
Fiscal Impact Analysis
Estimated Annual Fiscal Impacts of Sensitivity Scenarios: Amended Nishi Analysis (2015\$)

Fiscal Impact Analysis Scenario	Nishi Annual Fiscal Impacts at Buildout		Difference
	Original [1]	Amended	
Base Development Program	(\$78,000)	(\$106,000)	(\$28,000)
1. MRIC Housing	(\$78,000)	(\$106,000)	(\$28,000)
2. No MRIC Hotel	(\$78,000)	(\$106,000)	(\$28,000)
3. Nishi Hotel	\$416,000	\$389,000	(\$27,000)
4. Property Tax Sharing Allocation: Alt. 1	\$24,000	(\$4,000)	(\$28,000)
5. Property Tax Sharing Allocation: Alt. 2	(\$179,000)	(\$207,000)	(\$28,000)
6. Increased Taxable Sales	(\$17,000)	(\$44,000)	(\$27,000)
7. Sales Tax Capture: Alt. 1	(\$25,000)	(\$65,000)	(\$40,000)
8. Sales Tax Capture: Alt. 2	(\$134,000)	(\$146,000)	(\$12,000)
9. Ongoing Operations & Maintenance Responsibility: Alt. 1	\$55,000	\$27,000	(\$28,000)
10. Ongoing Operations & Maintenance Responsibility: Alt. 2	\$103,000	\$75,000	(\$28,000)

nishi

Source: EPS.

[1] Original values from the September 8, 2015 Economic and Fiscal Impact Analysis of Proposed Innovation Centers in Davis.

Table B-5
Davis Innovation Centers
Fiscal Impact Analysis
Estimated Annual Taxable Sales and Use Tax Revenue (2015\$)

Item	Formula	Source/ Assumptions	Annual Taxable Sales Revenue at Buildout		
			MRIC	Nishi	Total
Estimated Annual Taxable Sales					
Annual Taxable Sales from New HH/Employee Expenditures	<i>a</i>	Table B-5A	\$13,132,596	\$9,200,674	\$22,333,270
Net Annual Taxable Sales from Onsite Nonresidential Uses	<i>b</i>	Table B-5B	\$86,130,798	\$12,827,467	\$98,958,265
Annual Taxable Sales from Total Net New Development	$c = a + b$		\$99,263,394	\$22,028,141	\$121,291,534
Annual Sales Tax Revenue					
Bradley Burns Sales Tax Rate		1.0000%			
Measure O Sales Tax Rate [1]		0.0000%			
Less Property Tax in Lieu of Sales Tax Rate [2]		(0.2500%)			
Total Bradley Burns Sales Tax Revenue	$d = c * 0.75\%$	0.7500%	\$744,475	\$165,211	\$909,687
Annual Property Tax in Lieu of Sales Tax Revenue [2]	$e = b * .25\%$	0.2500%	\$248,158	\$55,070	\$303,229
Gross Proposition 172 Public Safety Sales Tax Revenue [3]	$f = c * 3.56\%$	3.56%	\$26,483	\$5,877	\$32,360

sales_tax

Source: City of Davis; Yolo County; California State Board of Equalization; EPS.

- [1] Measure O is a 1% general sales and use tax rate authorized through December 31, 2020. As a conservative assumption, this analysis assumes Measure O will not be renewed and because buildout of both projects is anticipated to occur after this date, this additional sales tax rate is excluded from the analysis.
- [2] Based on Senate Bill 1096 as amended by Assembly Bill 2115 which states 1/4 of the 1 percent sales tax revenue (.2500 percent) will be exchanged for an equal dollar amount of property tax revenue.
- [3] Calculated as the ratio of Proposition 172 Public Safety Tax revenue to total sales tax revenue based on the FY 2015-16 Budget. Current total sales tax revenue includes sales tax revenue generated through Measure O. At buildout, the percentage may be higher if Measure O is not renewed. Any variation in the relationship between Proposition 172 Public Safety Tax revenue and total sales tax revenue affecting the estimate of this revenue source is estimated to be nominal.

**Table B-5A
Davis Innovation Centers
Fiscal Impact Analysis
Estimated Annual Taxable Sales from Proposed Development, Hybrid Market Support Method (2015\$)**

Annual Taxable Sales from Market Support	Assumption	Annual Taxable Sales Revenue from Market Support		
		MRIC	Nishi	Total
Annual Taxable Sales from New Households				
Residential Development [1]				
Owner-Occupied Residential		0	210	210
Renter-Occupied Residential		0	440	440
Total Residential Development		0	650	650
Retail Expenditures [2]				
Owner-Occupied Residential	\$25,000	\$0	\$5,250,000	\$5,250,000
Renter-Occupied Residential	\$20,000	\$0	\$8,800,000	\$8,800,000
Total Retail Expenditures		\$0	\$14,050,000	\$14,050,000
Taxable Sales from New Households				
Est. Retail Capture Rate within the City of Davis [3]		50%	50%	50%
Total Taxable Sales from New Households		\$0	\$7,025,000	\$7,025,000
Total Annual Taxable Sales from Market Support Within the City of Davis				
Estimated Total Annual Taxable Sales Onsite (Within the Project)	10%	\$0	\$702,500	\$702,500
Estimated Total Annual Taxable Sales Offsite (Outside the Project)	90%	\$0	\$6,322,500	\$6,322,500
Annual Taxable Sales from New Employees				
Taxable Sales from New Employment				
New Employees [4]		5,472	1,042	6,514
Project Residents Assumed to Work Onsite [5]		0	136	136
Net New Employees (Excluding Project Residents Assumed to Work Onsite)		5,472	907	6,378
Average Daily Taxable Sales per New Employee [6]	\$20.00			
Work Days per Year	240			
Est. Retail Capture Rate within the City of Davis [3]		50%	50%	50%
Total Taxable Sales from Net New Employees		\$13,132,596	\$2,175,674	\$15,308,270
Total Annual Taxable Sales from Market Support Within the City of Davis				
Estimated Total Annual Taxable Sales Onsite (Within the Project)	30%	\$3,939,779	\$652,702	\$4,592,481
Estimated Total Annual Taxable Sales Offsite (Outside the Project)	70%	\$9,192,817	\$1,522,972	\$10,715,789
Total Annual Taxable Sales from Market Support Within the City of Davis				
Estimated Total Annual Taxable Sales Onsite (Within the Project)		\$3,939,779	\$1,355,202	\$5,294,981
Estimated Total Annual Taxable Sales Offsite (Outside the Project)		\$9,192,817	\$7,845,472	\$17,038,289

sales_a

Source: U.S. Department of Labor, Bureau of Labor Statistics; Yolo 101 JV and R&B Delta, LLC; Nishi Gateway LLC; City of Davis; EPS.

Table B-5A
Davis Innovation Centers
Fiscal Impact Analysis
Estimated Annual Taxable Sales from Proposed Development, Hybrid Market Support Method (2015\$)

- [1] Refer to Table A-2.
- [2] Refer to Table D-3 for assumptions related to average household retail expenditures by residential unit.
- [3] Estimated retail capture rate within the City of Davis is based on EPS's qualitative appraisal of retail establishments within and outside of the City of Davis.
- [4] Refer to Table A-4 for employee estimates.
- [5] Project residents assumed to work onsite is derived from the project DEIRs. The MRIC DEIR assumes, under the MRIC Housing alternative (Scenario 1) that all residents are assumed to work onsite; the Base Development Program does not contain any residential units. The Nishi DEIR assumes that about 48 households (136 residents or about 8% of total project residents) will work onsite. For MRIC, under the MRIC Housing alternative, a lower percentage of project residents working onsite (less than 100 percent) would generate a greater amount of sales tax revenue and thus, increase the annual net fiscal revenues estimated for the City's General Fund. For Nishi, a lower percentage of project residents working onsite (less than 8 percent) would also generate a nominally greater amount of sales tax revenue and nominally decrease the estimated annual net fiscal deficit to the City's General Fund; a higher percentage of Nishi project residents working onsite (greater than 8 percent) would increase the estimated annual net fiscal deficit to the City's General Fund.
- [6] Based on the International Council of Shopping Centers' 2012 study "Office Worker Retail Spending in the Digital Age" for suburban areas with retail opportunities and adjusted to reflect Davis' retail mix. The data in this resource was escalated to reflect 2015 dollars using the Bureau of Labor Statistics Consumer Price Index, West Region. In addition, data was adjusted to reflect spending on taxable goods and services only.

Table B-5B
Davis Innovation Centers
Fiscal Impact Analysis
Estimated Annual Taxable Sales from Nonresidential Development (2015\$)

Item	Annual Taxable Sales per Sq. Ft. [1]	Annual Taxable Sales Revenue from Nonresidential Development					
		MRIC		Nishi		Total	
		Occupied Bldg. Sq. Ft. [2]	Total Annual Taxable Sales	Occupied Bldg. Sq. Ft. [2]	Total Annual Taxable Sales	Occupied Bldg. Sq. Ft. [2]	Total Annual Taxable Sales
Annual Taxable Sales from Onsite Nonresidential Development							
Office/Flex/R&D							
Office	\$20	777,058	\$15,541,152	158,251	\$3,165,025	935,309	\$18,706,178
Flex: R&D/Office	\$20	461,710	\$9,234,198	64,946	\$1,298,916	526,656	\$10,533,114
Total Office/Flex/R&D		1,238,768	\$24,775,350	223,197	\$4,463,941	1,461,965	\$29,239,292
Manufacturing	\$50	865,522	\$43,276,081	25,653	\$1,282,644	891,175	\$44,558,726
Retail							
Industrial Commercial	\$185	59,511	\$11,009,572	9,510	\$1,759,350	69,021	\$12,768,922
Ancillary Retail	\$185	59,511	\$11,009,572	36,090	\$6,676,733	95,602	\$17,686,306
Total Retail		119,022	\$22,019,145	45,600	\$8,436,083	164,623	\$30,455,228
Hotel/Conference	\$0	160,000	\$0	0	\$0	160,000	\$0
Public/Nonprofit	\$0	128,253	\$0	80,180	\$0	208,433	\$0
Total Annual Taxable Sales from Onsite Nonresidential Development		2,511,565	\$90,070,576	374,630	\$14,182,669	2,886,195	\$104,253,245
Less Total Annual Taxable Sales from Market Support (within the Project) [3]			\$3,939,779		\$1,355,202		\$5,294,981
Annual Taxable Sales less Market Support			\$86,130,798		\$12,827,467		\$98,958,265
Less Shift of Sales from Existing Regional and Community Retail to the Project [4]		<i>Shift from Existing Retail</i> 0%	\$0		\$0		\$0
Subtotal Nonresidential Taxable Sales			\$86,130,798		\$12,827,467		\$98,958,265

Source: City of Davis; California Board of Equalization (BOE); CoStar; March 2015 Mace Ranch Innovation Center Urban Decay Analysis, ALH Urban & Regional Economics; EPS.

[1] Annual taxable sales per sq. ft. based on taxable sales data collected from existing development in the 2nd Street Corridor and Interland University Research Park. Data is based on annual retail and nonretail business-to-business taxable sales by land use category over the last 5 years (2010-2014), as provided by the City of Davis. In addition, EPS consulted published taxable sales data from CA BOE (calendar year 2013), estimated occupied nonretail building square footage from CoStar, and published reports citing taxable sales per square foot for nonretail uses.

[2] For vacancy rate assumptions, refer to Table A-3.

[3] Estimated in Table B-5A.

[4] Reflects a 0% shift predicated on March 2015 Urban Decay Analysis completed by ALH Economics which concluded that development of the project's retail component is not likely to result in long-term retail sales diversions relevant to the existing retail base.