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Fiscal Impact Analysis

Westport Cupertino Development

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EXECUTIVE SUMMARY

INTRODUCTION

This fiscal impact analysis (“Analysis”) examines the Project’s estimated fiscal impact on the City’s annual General Fund budget. Specifically, the Analysis estimates whether projected revenues from the Project will adequately cover the costs of delivering citywide services (e.g., police protection and parks and recreation, etc.) to the Project’s residents and employees. The Analysis is based on the assumption that these services will be provided by the City. The results estimate the annual fiscal impact assuming build out of the Project. ADE has prepared this Analysis on behalf of the Property Owner without a dialogue with City staff regarding the City’s budget.

PROJECT DESCRIPTION

The Project is located in the South Bay region of the San Francisco Bay Area. It is located in the northwest area of Santa Clara County, south of the City of Sunnyvale and west of the City of San Jose. The Project site is located south of the existing Interstate 280 near the intersection of I-85 and Stevens Creek Blvd. KT Urban is offering two alternative developments for the site.

ALTERNATIVE 1: MIXED USE RESIDENTIAL

Alternative 1 proposed 605 dwelling units with 42,000 sq. ft. of retail space, a theater and a community events space (Table 1-0). This Alternative would provide 67 Below Market Rate (BMR) Units, of which 47 would be Senior Units. An additional 20 market rate units would also be for seniors. Of the 67 BMR units, 49 would be for Very Low Income households and 18 for Low Income households. The Alternative also proposes approximately 1,470 two-level below grade parking spaces, and 10 surface parking spaces.

ALTERNATIVE 2: MIXED USE GATEWAY

Alternative 2 proposes 270 residential units of high-density/mixed-use multi-family apartment rental product types with ground floor retail of 42,000 SF (Table 2-0). The residential component includes 70 Senior Units, of which 40 would be BMR units. Of the BMR units, 22 would be for Very Low Income households and 18 would be for Low Income households. The Project’s nonresidential development also includes 280,000 SF of office, 116,000 SF of hotel, a 27,500 SF theater and 4,000 SF of community center space. The Alternative also proposes approximately 1,470 two-level below grade parking spaces, and 10 surface parking spaces.

TABLE 1-0		
ALTERNATIVE 1 LAND USE SUMMARY AT BUILDOUT		
Buildout Land Use	Dwelling Units	Building Square Feet
Residential Land Uses	<i>Units</i>	<i>Sq. Ft.</i>
Multifamily		
Market Rate Residential Rental Apartments	538	582,654
Low Income BMR Units	49	53,067
Very Low Income BMR Units	18	19,494
Total Residential Land Uses	605	655,215
Nonresidential Land Uses		
Retail	-	42,000
Theater/Community Center	-	31,500
Total Residential and Nonresidential Uses	605	728,715
Parking		
Below Grade Parking	1,470	
Surface Parking	10	
Total Parking	1,480	732,135
Total Alternative 1 Land Uses	-	1,460,850

Source: KT Urban, May 2017

TABLE 2-0		
ALTERNATIVE 2 LAND USE SUMMARY AT BUILD OUT		
BUILD OUT LAND USE	DWELLING UNITS	BUILDING SQUARE FEET
Multi-Family		
Market Rate Residential Rental Apartments	230	234,830
Low Income BMR Units	22	22,462
Very Low Income BMR Units	18	18,378
Total Residential Land Uses	270	275,670
Nonresidential Land Uses		
Office	-	280,000
Retail (Ground floor)	-	42,000
Hotel		116,850
Theater/Community Center		31,500
Total Nonresidential Land Uses		470,350
Total Residential and Nonresidential Uses	270	560,500
Parking		
Below Grade Parking	1,470	
Surface Parking	10	

Total Parking	1,480	732,135
Total Alternative 2 Land Uses	-	1,474,155

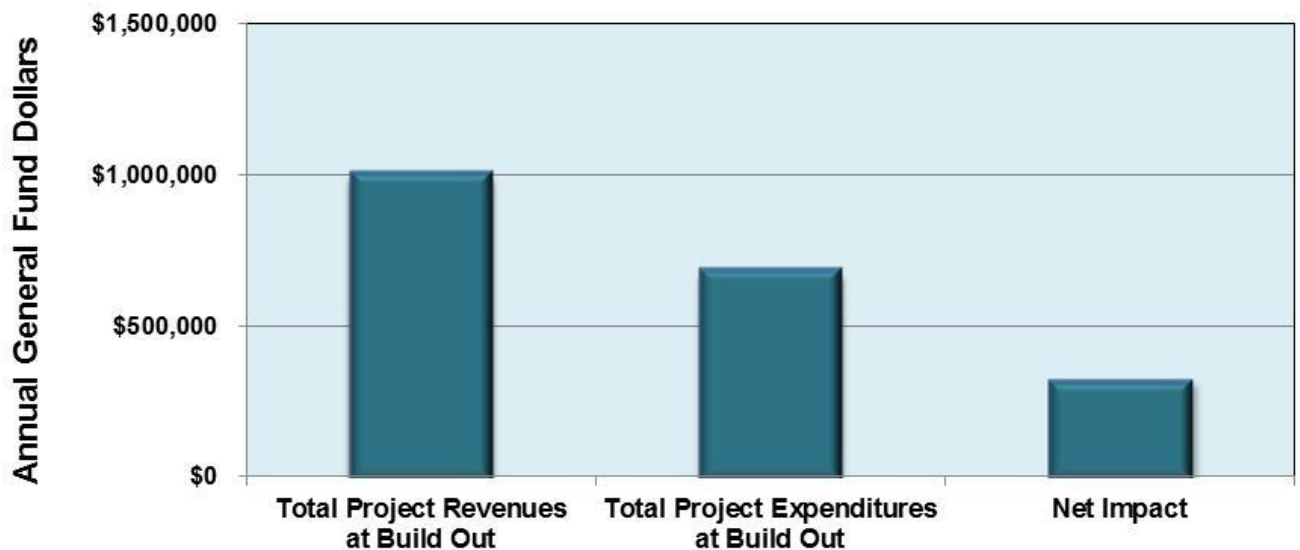
Source: KT Urban, May 2017

OVERVIEW OF RESULTS

ALTERNATIVE 1

- **At build out, annual revenues are estimated to exceed annual expenditures.** The analysis estimates Alternative 1 will result in an annual net fiscal surplus of approximately **\$320,900** for the City’s General Fund at build out (Figure 1).
- In addition to the positive impact to the City of Cupertino, the Westport Cupertino project will also provide significant annual positive net resources to the **Cupertino Union School District (CUSD) and Fremont Union High School District (FUHSD)**, primarily from ad valorem property taxes and parcel taxes.

Figure 1: Alternative 1 Buildout Fiscal Impact Summary



Source: City of Cupertino FY 2017/2018 Proposed Operating Budget; KT Urban, ADE, Inc.

- Overall, Alternative 1 is estimated to generate approximately \$1.7 million in additional property tax revenue to the school districts on an annual net basis. This figure relates to net

new property taxes paid to the CUSD and FUHSD combined, above the current property tax payments of \$113,000 to the two districts.

- Parcel taxes will generate approximately \$210,540 to the school districts annually. While the current tax measure only requires parcel taxes be paid on single ownership parcels regardless of the number of dwelling units on them, the developer has offered to extend this parcel tax to all residential units with the provision of a condominium map.
- Based on data provided by the school district, the residential alternative will generate less property tax and parcel taxes than the cost to educate the students from the project. School officials estimate that their current annual cost per student (or base revenue needed) is approximately \$8,600 per student, and the preferred target revenue per student is \$12,700 for all services. The number of students estimated by the two districts for this site at build out is 365 K-12 students. The residential alternative will generate nearly \$1,900,000 in property and parcel taxes at build out, or \$5,200 per student.

In addition to ongoing fiscal impact, the analysis reviewed the one-time impact of capital infrastructure fees paid by the project in development of all project components. These fees are paid both to the City of Cupertino and the two school districts based on current ordinances and state statutes.

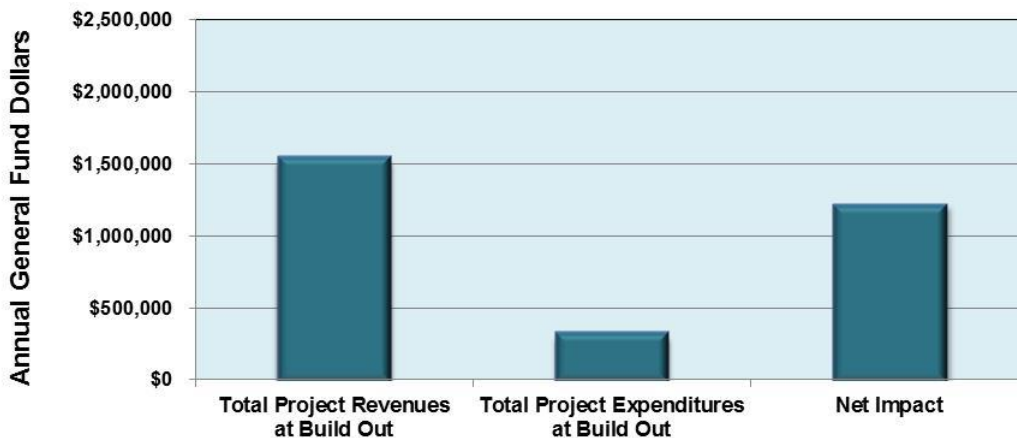
- **For the City of Cupertino, the project will generate approximately \$16.4 million in Park Dedication Fees for the City.** Overall, the project could generate \$18.6 million in park dedication fees. However, given the project's significant Affordable Housing Program commitment to on-site below market rate units and Senior Housing, and the project's adjacency to the large Memorial Park, KT Urban is requesting a waiver of park dedication fees for the below market rate (BMR) and senior residential units. If approved, the net fees paid by the applicant will still result in a significant contribution toward the City's future park land and improvement needs.
- **The nonresidential components of the proposed project will result in \$758,520 in BMR impact fees paid to the City.** This fee payment is for the retail, theater and community space uses in the Alternative.
- **Alternative 1 will pay \$2.32 million in school construction impact fees.** This contribution, required per state formula for each land use type, represents a significant contribution to each school district for school facility needs.

ALTERNATIVE 2

- **At build out, annual revenues are estimated to exceed annual expenditures.** The analysis estimates Alternative 2 will result in an annual net fiscal surplus of approximately **\$1.3 million** for the City's General Fund at build out (Figure 2).

- **Transient Occupancy Taxes comprise the largest General Fund revenue source, followed by Property Tax and Sales Tax.** The Alternative’s transient occupancy taxes, sales tax, and property tax consist of a total of 81% of potential General Fund revenues at project build out.
- **New office development at build out generates \$150,301 of total net fiscal revenue; hotel development would generate a net \$1,024,700.** The office uses account for approximately 11% of total annual fiscal impact at build out, as the second largest revenue source after hotel development, which accounts for the majority of the tax revenue from the new development. Residential uses account for 3.4% of the total Alternative net impact and retail uses account for 7.6%.
- **In its current state, the Oaks retail center generates a net fiscal surplus of \$115,513 for the City’s General Fund.** This amount equates to less than 10% of what Alternative 2 would produce.
- **Employees currently at the Oaks are estimated at 143, whereas the Mixed Use Gateway is estimated to generate approximately 1,247 employees.**

Figure 2: Mixed Use Gateway Alternative Annual Fiscal Impact on City of Cupertino



Source: City of Cupertino FY 2017/2018 Proposed Operating Budget; KT Urban, ADE, Inc.

- Alternative 2 will also provide significant annual positive net resources to the **Cupertino Union School District (CUSD) and Fremont Union High School District (FUHSD). Overall, Alternative 2 is estimated to generate approximately \$1.76 million in additional property tax revenue to the school districts on an annual net basis.** This

figure relates to net new property taxes paid to the CUSD and FUHSD combined, above the current property tax payments of \$113,000 to the two districts.

- **Parcel taxes will generate approximately \$94,000 to the school districts annually.** While the current tax measure only requires parcel taxes be paid on single ownership parcels regardless of the number of dwelling units on them, the developer has offered to extend this parcel tax to all residential units with the provision of a condominium map.
- **Alternative 2 is estimated to generate approximately \$518,400, on a net fiscal basis, in property taxes and parcel taxes above the base cost estimated to serve these students by the school districts.** School officials estimate that their current annual cost per student (or base revenue needed) is approximately \$8,600 per student, and the preferred target revenue per student is \$12,700 for all services. The number of students estimated by the two districts for this Alternative at build out is 156 K-12 students. This yields a target revenue total of \$1,981,200 (cost of \$1,341,600), whereas the Alternative will generate \$1,860,000 in property and parcel taxes at build out.
- **City/School District Impact Fees.** In addition to ongoing fiscal impact, the analysis reviewed the one-time impact of capital infrastructure fees paid by the project in development of all project components. These fees are paid both to the City of Cupertino and the two school districts based on current ordinances and state statutes.
- **For the City of Cupertino, the project will generate approximately \$6.5 million in Park Dedication Fees for the City.** Overall, the project could generate \$7.7 million in park dedication fees. However, given the project's significant Affordable Housing Program commitment to on-site below market rate units and Senior Housing, and the project's adjacency to the large Memorial Park, KT Urban is requesting a waiver of park dedication fees for the below market rate (BMR) and senior residential units. If approved, the net fees paid by the applicant will still result in a significant contribution toward the City's future park land and improvement needs.
- **The nonresidential components of the proposed project will result in \$7.7 million in BMR impact fees paid to the City.** This fee payment for retail, office and hotel uses is a significant contribution to the affordable housing fund of the City to meet affordable housing needs throughout the community.
- **Alternative 2 will pay \$1.32 million in school construction impact fees.** This contribution, required per state formula for each land use type, represents a significant contribution to each school district for school facility needs.

ORGANIZATION OF THE ANALYSIS

The following chapter discusses the methodology for the analysis, followed by a Chapter with the detailed fiscal tables for each alternative. The Appendix contains the base budgetary and demographic data for the City of Cupertino used in the analysis.

METHODOLOGY AND ASSUMPTIONS

This section details the underlying methodology and assumptions used to estimate the fiscal impact of the Project on the City. It describes assumptions concerning municipal service delivery, land development, and General Fund budgeting. In addition, it details the methodology used to forecast the Project’s General Fund revenues and expenditures at build out.

The Analysis examines the Project’s ability to generate adequate revenues to cover the City’s costs of providing public services to the Project. The services analyzed in this Analysis include General Fund services (e.g., police, recreation and community services, and general government). The Analysis excludes any services that may be funded privately and services funded by user rates or other enterprise funds. In addition, this Analysis also does not include an evaluation of capital facilities, capital improvement costs, or funding of capital facilities needed to serve new development.

GENERAL ASSUMPTIONS

The Analysis is based on the City of Cupertino’s Fiscal Year (FY) 2017-2018 proposed operating budget, tax regulations, statutes, and other supplemental information from the City. Each revenue item is estimated based on current State legislation and current City practices. Future changes by either State legislation or County and City practices can affect the revenues and expenditures estimated in this Analysis. The City’s operating budget cost categories are shown in **Appendix Table A-1**. ADE adjusted the cost categories and allocated the cost by department, based on expenditure stated in each department costs. For the expenditure items, all onetime costs and salaries are adjusted, and all costs and revenues are shown in constant 2017 dollars. General fiscal and demographic assumptions are detailed in **Appendix A-2**.

The Analysis also uses information from the Property Owner, as well as historical data and projected demographic data from the California Department of Finance (DOF), U.S. Census, U.S. Bureau of Labor Statistics, and the City of Cupertino.

This Analysis also uses other critical assumptions that affect the Project’s value at build out including: residential home values, average rent and unit square feet, densities, product types, persons-per-household, and vacancy rates in the City’s current real estate market. The results of this Analysis will vary if the development plans or other assumptions change from those included with this Analysis.

GENERAL FUND REVENUE- AND EXPENDITURE-ESTIMATING ASSUMPTIONS

This Analysis considers only discretionary General Fund revenues that will be generated by the Project. Offsetting revenues, which are General Fund revenues dedicated to offset the costs of specific General Fund department functions, are excluded from this Analysis. Departmental costs that are funded by offsetting revenues that are not affected by development are also excluded from this Analysis. **Appendix Tables A-3 and A-4** show the revenue-estimating factors on a per person served and case study bases and includes the offsetting revenues from the Analysis as shown in **Appendix**

Table A-1. Appendix Table A-4 shows the expenditure-estimating procedures on a per person served basis, and also includes the offsetting revenues.

DEVELOPMENT AND ANALYTICAL ASSUMPTIONS

The results of this Analysis are based on the following assumptions. Below is a brief summary of the land use and other development-related assumptions:

- **Residential Population Estimates** — Population projections are calculated using average persons-per-household factors. The Analysis uses a factor of 2.9 persons-per-household for the high-density multi-family units and 2.0 for the Senior Units.
- **Employee Estimates** — Employee estimates are calculated using average square feet-per-employee and vacancy rates based on existing real estate market data. The Analysis uses 300 SF per employee for General Office, 550 SF per employee for Ground floor Retail and Hotel, and 1,100 SF per employee for the Hotel community space.
- **Residential and Nonresidential Assessed Value** — The estimated assessed valuation per square foot of residential and nonresidential development is based on information provided by the Property Owner and comparable market data. See Westport State Density Bonus Justification document for pro forma analysis deriving the residential unit values.
- **Persons-Served Methodology** — In estimating service demands of the Project and the City, ADE uses a factor of 0.5 resident-equivalents per employee to approximate the service demands of an employee in the Project's nonresidential land uses compared to a Project resident. The total Persons Served is calculated as the sum of the total population plus half of the total employees in the City.
- **Income and Retail Expenditure of Households** — The average household income of each residential land use category in the Project was estimated to forecast household retail expenditures. Estimated household incomes reflect typical income levels that would be expected for households to rent these homes under typical affordability guidelines.

REVENUE-ESTIMATING METHODOLOGY

ADE used either a case-study approach or a per person served approach to estimate property tax, sales tax and transient occupancy revenues. The case-study approach simulates actual revenue generation resulting from new development. The case-study approach for estimating sales and use tax revenues, for instance, forecasts market demand and taxable spending from the Project's new residents, as well as taxable sales generated by the Project's on-site retail. Case studies used in this Analysis are discussed in greater detail later in this section.

The average-revenue approach uses the City's FY 2017-2018 budgeted revenue amounts on a citywide per capita or per persons served basis to forecast revenues derived from estimated residents of the Project.

PROPERTY TAX

Estimated annual property tax revenue resulting from development in the Project is based on residential assessed values calculated from pro forma analysis of the anticipated rental rates and development costs as provided by the Property Owner. The non-residential assessed value are based on current market levels. To be consistent with the City's budget data, the estimated assessed values for Project land use are presented in constant 2017-dollar values—real growth in assessed value is not estimated.

The Project site is located in the following Tax Rate Areas (TRAs):

- APN 326-27-041 (TRA 001-178) – Assessed Value \$3,088,471
- APN 326-27-040 (TRA 001-178) – Assessed Value \$3,636,656
- APN 326-27-039 (TRA 001-178) – Assessed Value \$17,459,21

The share of property taxes available for the City General Fund from the County is approximately 5.8 percent of the 1 percent Property Tax allocation, while the County receives 34.5 percent and 8.6 percent that is allocated to the Educational Revenue Augmentation Fund (ERAF). In addition, the City receives Property Tax In Lieu of Vehicle License Fee (PTIL VLF), which are calculated from the increase in assessed value for the project. The analysis also calculates the property tax that goes to the Cupertino Unfired School District and the Fremont Unified High School District, which receive 24.8 and 16.7 percent of the base property tax, respectively.

SALES TAX

Sales tax revenues are based on taxable sales generated within the City, of which the City receives one percent. The Analysis uses two methodologies to estimate taxable sales generated by the Project:

Retail Sales based on Project Households' Retail Expenditures

The Analysis estimates retail expenditures of future residents in the Project by type of retail category and the portion of expenditures that would be captured in the City (e.g., generate sales in the City's retail establishments). The amounts and types of expenditures made by residents generally depend on their household income. Data for this Analysis is based on estimated Project resident incomes, household spending patterns, and retail demand and supply market conditions in the City.

Specifically, the Analysis evaluates retail expenditures of future residents by the following:

- Estimating the total income of new households based on the projected rent levels provided by the Property Owner, assuming 30 percent of income goes to housing costs. Evaluating Consumer Expenditure Survey (CES) data from the Bureau of Labor Statistics, which reports the proportion of income spent on various household goods and services by income group.
- Translating BLS data on household expenditures into retail stores.

According to the Property Owner, all of the residential units will be rental apartments at Project build out. The Analysis estimates the impact for the apartment rental scenario, and assumes the City's estimated average asking rent for residential rental apartments is \$4.15 per SF for Alternative 1 and \$4.25 per SF for Alternative 2. The average unit size would be 850 SF for Alternative 1 and 780 SF for Alternative 2. Based on the average annual rental price, ADE estimated that future household incomes would average \$141,000 for high density multi-family apartment units in Alternative 1 and \$133,000 in Alternative 2. Incomes for the BMR units are set by City policy at \$67,800 for Low Income units and \$47,800 for Very Low Income units, under both Alternatives. This Analysis assumes that the City would capture 65 percent of the Project's retail demand.

Retail Sales Based on Project Employees' Retail Expenditures

Research indicates that spending by workers in the vicinity of their place of work is significant. Given the amount of Project employment expected at build out from office and hotel development, this Analysis estimated the additional demand for retail that would be created by Project employees. First, the analysis estimates the proportions of workers expected to be the Project's residents versus non-residents. Spending attributable to employees who are Project residents is discounted. ADE assumes that such workers would still make a significant amount of their household spending in the Project regardless of their place of work. Spending by workers from the City who do not reside in the Project is also estimated, since such spending is assumed to occur in the City as a direct result of the workers' employment at the Project. The Analysis conservatively assumes an average daily expenditure of \$10 per workday per worker for 240 workdays annually, and that 50 percent of these sales occur in Cupertino.

Retail Space Direct Sales

In addition to retail sales in the City that will be generated by expenditures of Project households and employees, the Project proposes 42,000 SF of ground floor retail which will directly generate additional retail sales in the City. Retail stores typically generate \$350 in taxable sales per sq. ft. In order to avoid double counting, the analysis nets out sales tax generated by the residential households and onsite employees from the onsite retail space.

TRANSIENT OCCUPANCY TAX

This Analysis uses a case-study methodology to estimate transient-occupancy tax (TOT) revenue generated by the Project. TOT revenue is estimated based on the number of hotel rooms, at an annual occupancy rate of 65 percent, an average daily room rate of \$200, and the City's TOT rate of 12 percent.

OTHER REVENUES AND COSTS

The Analysis uses a per person served methodology to estimate other revenue as well as costs generated by the Project. The service population is estimated based on the number of residents, in addition to half of the employee population in the proposed project development. ADE estimated the per capita weighted average of 74.7 percent is generated in the residential uses, and the remaining in non-residential uses. Per capita revenue factors are shown in **Appendix Tables A-3 and A-4.**

Expenditure estimates are based on the adjusted City's FY 2017–18 proposed operating budget and supplemental information from the City's public available information. All City General Fund expenditure items and expenditure-estimating procedures are listed in **Appendix Table A-5**. ADE followed the methodology outlined by Economic and Planning Systems for adjusting fixed City costs out of the per capita estimating factors.¹

ADE uses a percentage factor of total net General Fund costs to calculate the percentage cost allocation for each land use. **Appendix Table A-5** shows General Government cost is 2.88 percent of total General Fund Expenditure. The general fund expenditure allocation for each residential and nonresidential development uses this percentage to determine the total project build out revenue.

¹ EPS, The Oaks Economic and Fiscal Review, January 21, 2016.

FISCAL IMPACT RESULTS

The detailed fiscal calculations for each Alternative are provided in this chapter. Both Alternatives generate a positive fiscal impact for Cupertino. Alternative 2 creates a higher net surplus revenue due mainly to the hotel development.

ALTERNATIVE 1: RESIDENTIAL MIXED USE

Alternative 1 generates annual City revenues of about \$1 million and annual costs of about \$691,500, creating an annual net revenue surplus of \$320,900, as shown in Table 1-1.

TABLE 1-1 ALTERNATIVE 1 FISCAL IMPACT SUMMARY AT BUILD OUT (2017\$)	
Total Project Revenues at Build Out	\$1,012,358
Total Project Expenditures at Build Out	\$691,499
Net Impact	\$320,859

*Source: City of Cupertino FY 2017/2018 Proposed Operating Budget;
KT Urban, ADE, Inc.*

Table 1-2 shows the detailed estimates of revenues and costs associated with the project and each individual land use. As noted in the methodology chapter, sales tax generated onsite in the retail space has been reduced by the amount of retail spending from residential uses and employees to avoid any possible double counting.

The remaining tables detail the population and employment for the Alternative, the assessed value and property tax calculations and sales tax calculations.

**TABLE 1-2
ALTERNATIVE 1 DETAILED FISCAL IMPACT AT BUILD OUT (2017\$)**

GENERAL FUND BUDGET CATEGORY	% OF TOTAL	ANNUAL FISCAL IMPACT AT BUILD OUT	MULTI-FAMILY RESIDENTIAL	RETAIL	THEATER
Annual Revenue					
Sales Tax	14.61%	\$147,916	\$139,760	\$7,856	\$300
Property Tax	38.79%	\$392,742	\$364,494	\$23,436	\$4,813
Transient Occupancy	0.00%	\$0	\$0	\$0	\$0
Utility Tax	6.36%	\$64,347	\$63,319	\$775	\$254
Franchise Fees	6.04%	\$61,130	\$60,153	\$736	\$241
Other Taxes	5.66%	\$57,309	\$56,393	\$690	\$226
Licenses & Permits	4.26%	\$43,133	\$42,444	\$519	\$170
Use of Money and Property	3.27%	\$33,135	\$32,605	\$399	\$131
Intergovernmental	0.96%	\$9,733	\$9,577	\$117	\$38
Charges for Services	14.01%	\$141,863	\$139,596	\$1,708	\$559
Fines & Forfeitures	1.19%	\$12,065	\$11,872	\$145	\$48
Miscellaneous	0.87%	\$8,767	\$8,626	\$106	\$35
Transfer-In	3.97%	\$40,217	\$39,574	\$484	\$159
Total General Fund Revenue	100.00 %	\$1,012,358	\$968,414	\$36,972	\$6,972
Annual Expenditure	-				
General Government	2.80%	\$19,387	\$19,320	\$51	\$17
Police	25.93%	\$179,273	\$178,370	\$680	\$223
Public Affairs	0.00%	\$0	\$0	\$0	\$0
Recreation and Community Services	30.02%	\$207,580	\$207,580	\$0	\$0
Planning and Community Development	11.24%	\$77,753	\$77,362	\$295	\$97
Public Works	30.01%	\$207,506	\$206,461	\$787	\$258
Non-Departmental and Transfers	0.00%	\$0	\$0	\$0	\$0
Total General Fund Expenditure	100.00 %	\$691,499	\$689,093	\$1,813	\$593
ANNUAL GF SURPLUS/(DEFICIT)		\$320,859	\$279,322	\$35,159	\$6,378

Source: ADE, Inc.

TABLE 1-3 ALTERNATIVE 1 RESIDENTIAL AND EMPLOYEE POPULATION AT BUILD OUT				
LAND USE	PER UNIT/SQ. FT.	BUILD OUT		
		RESIDENTS	EMPLOYEES	PERSONS SERVED
Residential Population				-
Market Rate	2.9	1,560	-	1,560
Low Income BMR	2	98		98
Very Low Income BMR	2.0	36		36
Total Residential Population		1,694		1,694
Employee Population	<i>Sq. Ft./Employee</i>			-
Retail	500	-	76	38
Theater	27,500	-	25	23
Total Employee Population			101	51
Total Residential and Employee Population		1,694	101	1,745
Total Persons Served				1,745

Source: KT Urban, C2K Architecture, Inc., ADE, Inc., May 2017.

TABLE 1-4 ALTERNATIVE 1 ESTIMATED ANNUAL PROPERTY TAX REVENUES (2017\$)		
ITEM	ASSUMPTION	ANNUAL FISCAL IMPACT AT BUILD OUT
Property Tax (1% of Assessed Value)		
Residential Build Out Assessed Value (2015\$)	Table 1-5	\$391,928,334
Non-Residential Buildout Assessed Value (2017\$)	Table 1-5	\$38,950,000
Total Assessed Value		\$430,878,334
Property Tax Revenue (1% of Assessed Value)	1.00%	\$4,308,783
Property Tax in Lieu of VLF (.00035% of AV)	0.00035%	\$150,508
Estimated Property Tax Allocation		
City of Cupertino (Post-ERAF)	5.80%	\$249,909
Cupertino Unified School District	24.80%	\$1,068,578
Fremont Unified High School District	16.70%	\$719,567

Source: ADE, Inc.

**TABLE 1-5
ALTERNATIVE 1 ASSESSED VALUE ESTIMATES (2017\$)**

LAND USE	ESTIMATED ASSESSED VALUE PER SF [1]	ESTIMATED ASSESSED VALUE PER UNIT	LAND USE	ESTIMATED TOTAL ASSESSED VALUE [1]
ALTERNATIVE 2	PER SQ. FT.	PER DWELLING UNIT		TOTAL AV
Residential			TOTAL UNITS	
Market Rate Residential Rental Apartments (HDR)	\$821	\$698,259	538	\$375,663,342
Low Income BMR Units	\$300	\$255,558	49	\$12,522,342
Very Low Income BMR Units	\$244	\$207,925	18	\$3,742,650
Total			270	\$391,928,334
NONRESIDENTIAL	PER SQ. FT.		BLDG. SQ. FT.	TOTAL AV
Retail	\$600		42,000	\$25,200,000
Theater	\$500		27,500	\$13,750,000
Total			466,350	\$38,950,000

Source: KT Urban, C2K Architecture, Inc., ADE.

**TABLE 1-6
ALTERNATIVE 1 AVERAGE INCOME AND ANNUAL TAXABLE RETAIL EXPENDITURES FOR RESIDENTIAL UNITS (2017\$)**

Item	Household Income and Retail Expenditures			Average Retail Expenditure Per Household
	Annual Rent Payments	Estimated Household Income	Taxable Expenditure as % of Income	
Residential For-Rent Scenario				
Unit Type	Per Unit	Per Unit	Per Unit	Per Unit
Market Rate Residential Rental Apartments (HDR)	\$42,330	\$141,000	26.3%	\$37,100
Low Income BMR Units	\$15,516	\$67,800	36.9%	\$25,000
Very Low Income BMR Units	\$12,624	\$47,800	36.9%	\$17,600
Tax Calculation				
Estimated Annual Residential Retail Expenditure				\$21,501,600
Estimated Retail Capture within the City				65.0%
Total Annual Residential Retail Expenditure				\$13,976,040
Sales Tax			1.0%	\$139,760

Source: ADE, Inc.

TABLE 1-7
ALTERNATIVE 1 NON-RESIDENTIAL ANNUAL SALES TAX (2017\$)

Item	Bldg. Sq. Ft. and Employees	Assumption	Annual Revenue at Buildout
Annual Taxable Sales per Square Foot [1]			
Retail/Commercial	42,000	\$350	\$14,700,000
Sales Tax		1.0%	\$147,000
Annual Taxable Sales from New Employees			
New Employees			
Non Residential Development (Employee)			
Retail	76		\$91,636
Theater	25		\$30,000
Total Employees	101		
Average Daily Taxable Sales per New Employee		\$10	
Work Days per Year		240	
Taxable Sales from New Employees		100.0%	
Estimated Retail Capture Rate within City of Cupertino		50.0%	
Total Taxable Sales from New Employees			\$121,636
Sales Tax		1.0%	\$9,366

Source: U.S. Census Bureau, ULI; Loopnet; KT Urban, C2K Architecture, Inc., ADE.

ALTERNATIVE 2: GATEWAY MIXED USE

Alternative 1 generates annual City revenues of about \$1.6 million and annual costs of about \$333,400, creating an annual net revenue surplus of \$1,320,400, as shown in Table 2-1.

TABLE 2-1 ALTERNATIVE 2 FISCAL IMPACT SUMMARY AT BUILD OUT (2017\$)	
Total Project Revenues at Build Out	\$1,653,904
Total Project Expenditures at Build Out	\$333,438
Net Impact	\$1,320,466

*Source: City of Cupertino FY 2017/2018 Proposed Operating Budget;
KT Urban, ADE, Inc.*

Table 2-2 shows the detailed estimates of revenues and costs associated with the project and each individual land use. As noted in the methodology chapter, sales tax generated onsite in the retail space has been reduced by the amount of retail spending from residential uses and employees to avoid any possible double counting.

Most of the net revenue for this Alternative is generated by the Hotel.

The remaining tables detail the population and employment for the Alternative, the assessed value and property tax calculations, sales tax calculations and transient occupancy tax from the hotel.

**TABLE 2-2
ALTERNATIVE 2 ESTIMATED SUMMARY FISCAL IMPACT AT BUILD OUT (2017\$)**

ITEM	% OF TOTAL	ANNUAL FISCAL IMPACT AT BUILD OUT	MULTI-FAMILY RESIDENTIAL	OFFICE	RETAIL	HOSPITALITY
Annual Revenue						
Sales Tax	8.94%	\$147,916	\$57,959	\$5,600	\$81,208	\$2,849
Property Tax	14.92%	\$246,818	\$92,900	\$97,440	\$14,616	\$41,862
Transient Occupancy	58.53%	\$967,980	\$0	\$0	\$0	\$967,980
Utility Tax	2.40%	\$39,723	\$27,069	\$9,470	\$775	\$2,409
Franchise Fees	2.28%	\$37,737	\$25,716	\$8,996	\$736	\$2,289
Other Taxes	2.14%	\$35,378	\$24,109	\$8,434	\$690	\$2,146
Licenses & Permits	1.61%	\$26,627	\$18,145	\$6,348	\$519	\$1,615
Use of Money and Property	1.24%	\$20,455	\$13,939	\$4,876	\$399	\$1,241
Intergovernmental	0.36%	\$6,008	\$4,094	\$1,432	\$117	\$364
Charges for Services	5.30%	\$87,575	\$59,679	\$20,877	\$1,708	\$5,311
Fines & Forfeitures	0.45%	\$7,448	\$5,076	\$1,776	\$145	\$452
Miscellaneous	0.33%	\$5,412	\$3,688	\$1,290	\$106	\$328
Transfer-In	1.50%	\$24,827	\$16,918	\$5,918	\$484	\$1,506
Total General Fund Revenue	100.00 %	\$1,653,904	\$349,292	\$172,457	\$101,803	\$1,030,352
Annual Expenditure	-					
General Government	2.80%	\$9,349	\$8,518	\$621	\$51	\$158
Police	26.92%	\$89,751	\$78,646	\$8,311	\$680	\$2,114
Public Affairs	0.00%	\$0	\$0	\$0	\$0	\$0
Recreation and Community Services	27.45%	\$91,525	\$91,525	\$0	\$0	\$0
Planning and Community Development	11.67%	\$38,926	\$34,110	\$3,605	\$295	\$917
Public Works	31.16%	\$103,886	\$91,032	\$9,620	\$787	\$2,447
Non-Departmental and Transfers	0.00%	\$0	\$0	\$0	\$0	\$0
Total General Fund Expenditure	100.00 %	\$333,438	\$303,832	\$22,156	\$1,813	\$5,637
ANNUAL GF SURPLUS/(DEFICIT)		\$1,320,466	\$45,460	\$150,301	\$99,990	\$1,024,715

Source: City of Cupertino FY 2017/2018 Proposed Operating Budget; KT Urban; ADE, Inc.

TABLE 2-3 ALTERNATIVE 2 RESIDENTIAL AND EMPLOYEE POPULATION AT BUILD OUT				
LAND USE	PER UNIT/SQ. FT.	BUILD OUT		
		RESIDENTS	EMPLOYEES	PERSONS SERVED
Residential Population				-
Market Rate	2.9	667	-	667
Low Income BMR	2	44		44
Very Low Income BMR	2.0	36		36
Total Residential Population		747		747
Employee Population	<i>Sq. Ft./Employee</i>			-
Office	300	-	933	467
Retail (Ground floor)	500	-	76	38
Hotel	500	-	212	106
Theater [4]	27,500	-	25	23
Total Employee Population			1,247	624
Total Residential and Employee Population		747	1,247	1,371
Total Persons Served				1,371

Source: KT Urban, C2K Architecture, Inc., ADE, Inc., May 2017.

TABLE 2-4 ALTERNATIVE 2 ESTIMATED ANNUAL PROPERTY TAX REVENUES (2017\$)		
ITEM	ASSUMPTION	ANNUAL FISCAL IMPACT AT BUILD OUT
Property Tax (1% of Assessed Value)		
Residential Build Out Assessed Value (2015\$)	Table 2-5	\$160,172,476
Non-Residential Buildout Assessed Value (2017\$)	Table 2-5	\$265,375,000
Total Assessed Value		\$425,547,476
Property Tax Revenue (1% of Assessed Value)	1.00%	\$4,255,475
Property Tax in Lieu of VLF (.00035% of AV)	0.00035%	\$144,130
Estimated Property Tax Allocation [2]		
City of Cupertino (Post-ERAF) [3]	5.80%	\$246,818
Cupertino Unified School District	24.80%	\$1,055,358
Fremont Unified High School District	16.70%	\$710,664

Source: ADE, Inc.

**TABLE 2-5
ALTERNATIVE 2 ASSESSED VALUE ESTIMATES (2017\$)**

LAND USE	ESTIMATED ASSESSED VALUE PER SF [1]	ESTIMATED ASSESSED VALUE PER UNIT	LAND USE	ESTIMATED TOTAL ASSESSED VALUE [1]
ALTERNATIVE 2	PER SQ. FT.	PER DWELLING UNIT		TOTAL AV
Residential			TOTAL UNITS	
Market Rate Residential Rental Apartments (HDR)	\$771	\$655,685	230	\$150,807,550
Low Income BMR Units	\$327	\$255,558	22	\$5,622,276
Very Low Income BMR Units	\$266	\$207,925	18	\$3,742,650
Total			270	\$160,172,476
NONRESIDENTIAL	PER SQ. FT.		BLDG. SQ. FT.	TOTAL AV
Office	\$600		280,000	\$168,000,000
Retail	\$600		42,000	\$25,200,000
Hotel	\$500		116,850	\$58,425,000
Community/Conference Center	\$500		27,500	\$13,750,000
Total			466,350	\$265,375,000

Source: KT Urban, C2K Architecture, Inc., ADE.

TABLE 2-6 AVERAGE INCOME AND ANNUAL TAXABLE RETAIL EXPENDITURES FOR RESIDENTIAL UNITS (2017\$)				
Item	Household Income and Retail Expenditures			Average Retail Expenditure Per Household
	Annual Rent Payments [2]	Estimated Household Income [3]	Taxable Expenditure as % of Income [4]	
Residential For-Rent Scenario				
Unit Type	Per Unit	Per Unit	Per Unit	Per Unit
Market Rate Residential Rental Apartments (HDR)	\$39,809	\$133,000	26.3%	\$35,000
Low Income BMR Units	\$15,516	\$67,800	36.9%	\$25,000
Very Low Income BMR Units	\$12,624	\$47,800	36.9%	\$17,600
Average Residential Retail Expenditure	-	-	-	
Estimated Annual Residential Retail Expenditure				\$8,916,800
Estimated Retail Capture within the City [5]				65.0%
Total Annual Residential Retail Expenditure				\$5,795,920
Sales Tax			1.0%	\$57,959

Source: ADE, Inc.

TABLE 2-7

NON-RESIDENTIAL ANNUAL SALES TAX (2017\$)			
Item	Bldg. Sq. Ft. and Employees	Assumption	Annual Revenue at Buildout
Annual Taxable Sales per Square Foot [1]			
Retail/Commercial	42,000	\$350	\$14,700,000
Sales Tax		1.0%	\$147,000
Annual Taxable Sales from New Employees			
New Employees			
Non Residential Development (Employee)			
Office	467		\$560,000
Retail	76		\$91,636
Hotel	212		\$254,945
Theater	25		\$30,000
Total Employees	780		
Average Daily Taxable Sales per New Employee		\$10	
Work Days per Year		240	
Taxable Sales from New Employees		100.0%	
Estimated Retail Capture Rate within City of Cupertino		50.0%	
Total Taxable Sales from New Employees			\$936,582
Sales Tax		1.00%	\$9,366

Source: U.S. Census Bureau, ULI; Loopnet; KT Urban, C2K Architecture, Inc., ADE.

TABLE 2-8 ESTIMATED ANNUAL TRANSIENT OCCUPANCY TAX REVENUES (2017\$)	
ITEM	ANNUAL FISCAL IMPACT
Hotel Rooms [1]	170
Annual Rooms Available	62,050
Occupancy Rate [2]	40,333
Average Daily Room Rate [3]	\$200
Estimated Annual Hotel Revenues	\$8,066,500
Annual Transient Occupancy Tax (TOT) [4]	\$967,980

Source: KT Urban, ADE, Inc.

[1] Hotel room numbers provided by KT Urban.

[2] Assumptions based on recent hotel trends at 65%; ADE.

[3] Average daily room rate provided by ADE, assume \$200.

[4] Annual TOT rate at 12% provided by City of Cupertino.

APPENDIX: CITY BUDGET AND PER CAPITA COST/REVENUE FACTORS

APPENDIX A-1				
CITY OF CUPERTINO PROPOSED BUDGET FY 2017-18				
REVENUE AND EXPENDITURE ITEMS	CITY OF CUPERTINO	ADJUSTMENT [2]	ADJUSTED BUDGET	% OF TOTAL ADJUSTED BUDGET
	ADOPTED BUDGET FY 2014/15	LESS OFFSETTING ONE-TIME CIP AND STAFF SALARY EXPENSES	NET ANNUAL GENERAL FUND REVENUE AND EXPENSES	
GENERAL FUND BY DEPARTMENT				
Annual Revenue By Department				
Sales Tax	\$22,790,000	\$0	\$22,790,000	30.9%
Property Tax in-Lieu	\$7,472,520	\$0	\$7,472,520	10.1%
Other Property Tax	\$13,284,480	\$0	\$13,284,480	18.0%
Transient Occupancy	\$6,708,000	\$0	\$6,708,000	9.1%
Utility Tax	\$3,200,000	\$0	\$3,200,000	4.3%
Franchise Fees	\$3,040,000	\$0	\$3,040,000	4.1%
Other Taxes	\$2,850,000	\$0	\$2,850,000	3.9%
Licenses & Permits	\$2,145,000	\$0	\$2,145,000	2.9%
Use of Money and Property	\$1,647,790	\$0	\$1,647,790	2.2%
Intergovernmental	\$484,000	\$0	\$484,000	0.7%
Charges for Services	\$13,337,897	\$6,283,029	\$7,054,868	9.6%
Fines & Forfeitures	\$600,000	\$0	\$600,000	0.8%
Miscellaneous	\$435,960	\$0	\$435,960	0.6%
Transfer-In	\$2,000,000	\$0	\$2,000,000	2.7%
Total General Fund Revenue	\$79,995,647	\$6,283,029	\$73,712,618	100.0%
Annual Expenditure By Depart. [1]				
General Government	\$10,386,318	\$9,347,686	\$1,038,632	2.8%
Police	\$12,344,307	\$1,234,431	\$11,109,876	30.0%
Public Affairs	\$72,435	\$72,435	\$0	0.0%
Recreation and Community Services	\$9,624,971	\$2,406,243	\$7,218,728	19.5%
Planning and Community Develop.	\$9,637,008	\$4,818,504	\$4,818,504	13.0%
Public Works	\$17,146,060	\$4,286,515	\$12,859,545	34.7%
Non-Departmental and Transfers	\$15,767,734	\$15,767,734	\$0	0.0%
Total Annual General Fund Expenditures	\$74,978,833	\$37,933,548	\$37,045,285	100.0%

Source: City of Cupertino FY 2017/2018 Proposed Operating Budget; ADE, Inc.

[1] Adjustments to operating expenditures reflect estimates of fixed vs. variable costs per EPS, The Oaks Economic and Fiscal Review, January 21, 2016.

APPENDIX A-2 TOTAL RESIDENTIAL AND EMPLOYEE POPULATION	
ITEM	ASSUMPTION
General Assumptions	
Base Fiscal Year [1]	FY 2017-2018
General Demographic Characteristics	
City of Cupertino	
Population [2]	58,917
Employees (2014) [3]	39,864
City of Cupertino Persons Served [4]	78,849
City of Cupertino Visitors	-
Percent per Capita Weight for Residential	74.72%
Inflationary/Appreciation Factors	
Property Tax	2.0%
Other Revenue	3.0%
Costs	3.0%
Estimated Citywide Assessed Value [5]	\$21,350,000,000

Source: California Department of Finance; California Employment Development Department; ADE, Inc.

[1] Reflects the City of Cupertino Fiscal Year 2017-2018 proposed budget. Revenues and expenditures are in 2017 dollars. This analysis does not reflect changes in values resulting from inflation or appreciation.

[2] Based on population estimates from the California Department of Finance (DOF) data for January 1, 2017.

[3] Based on 2014 US Census obtained from Onthemap.ces.census.gov and adjusted by additional 10% to account for self-employed workers.

[4] Defined as total population plus half of total employees.

[5] Total citywide FY2016-2017 assessed value based on Financial Report from County of Santa Clara.

APPENDIX A-3			
RESIDENTIAL UNIT REVENUE ASSUMPTIONS (2017\$)			
REVENUE ITEMS	ADJUSTMENT FACTORS [5]	PER PERSONS SERVED UNIT MULTIPLIER	ESTIMATING PROCEDURE/ DESCRIPTION
Utility Tax	74.72%	\$40.58	Per Persons Served
Franchise Fees	74.72%	\$38.55	Per Persons Served
Other Taxes	74.72%	\$36.15	Per Persons Served
Licenses & Permits	74.72%	\$27.20	Per Persons Served
Use of Money and Property	74.72%	\$20.90	Per Persons Served
Intergovernmental	74.72%	\$6.14	Per Persons Served
Charges for Services	74.72%	\$89.47	Per Persons Served
Fines & Forfeitures	74.72%	\$7.61	Per Persons Served
Miscellaneous	74.72%	\$5.53	Per Persons Served
Transfer-In	74.72%	\$25.36	Per Persons Served

Source: ADE based on data in Tables A-1 and A-2.

APPENDIX A-4			
NON-RESIDENTIAL UNIT REVENUE ASSUMPTIONS (2015\$)			
REVENUE ITEMS	ADJUSTMENT FACTORS [5]	PER EMPLOYEE UNIT/CASE STUDY MULTIPLIER	ESTIMATING PROCEDURE/ DESCRIPTION
Utility Tax	25.28%	\$20.29	Per Person Served
Franchise Fees	25.28%	\$19.28	Per Person Served
Other Taxes	25.28%	\$18.07	Per Person Served
Licenses & Permits	25.28%	\$13.60	Per Person Served
Use of Money and Property	25.28%	\$10.45	Per Person Served
Intergovernmental	25.28%	\$3.07	Per Person Served
Charges for Services	25.28%	\$44.74	Per Person Served
Fines & Forfeitures	25.28%	\$3.80	Per Person Served
Miscellaneous	25.28%	\$2.76	Per Person Served
Transfer-In	25.28%	\$12.68	Per Person Served

Source: ADE based on data in Tables A-1 and A-2.

APPENDIX A-5					
ANNUAL RESIDENTIAL AND NON-RESIDENTIAL UNIT EXPENDITURE ASSUMPTIONS					
EXPENDITURE ITEMS	RESIDENTIAL		NON-RESIDENTIAL		ESTIMATING PROCEDURE/DESCRIPTION
	ADJUSTMENT FACTORS	PER CAPITA UNIT MULTIPLIER	ADJUSTMENT FACTORS	PER CAPITA UNIT MULTIPLIER	
General Government	2.88%	n/a	2.88%	n/a	Case Study
Police	74.72%	\$140.90	25.28%	\$70.45	Per Person Served
Public Affairs	74.72%	\$0.00	25.28%	\$0.00	Per Person Served
Recreation and Community Services	100.00%	\$122.52	0.00%	\$0.00	Per Person Served
Planning and Community Development	74.72%	\$61.11	25.28%	\$30.56	Per Person Served
Public Works	74.72%	\$163.09	25.28%	\$81.55	Per Person Served
Non-Departmental and Transfers	74.72%	\$0.00	25.28%	\$0.00	Per Person Served

Source: ADE based on data in Tables A-1 and A-2.