MEMORANDUM

To: Amy Chen, Community Development Director, City of East Palo Alto
Troy Reinhalter, Raimi + Associates

From: Derek W. Braun, Principal

Date: October 31, 2024

Project: East Palo Alto Ravenswood Business District/4 Corners Specific Plan Update

Subject: Fiscal Impact Analysis Results and Technical Information for Preferred Alternative

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This memorandum describes the results of Strategic Economics' fiscal impact analysis of two development scenarios under the preferred growth alternative for the Ravenswood Business District/4 Corners TOD Specific Plan ("Specific Plan") update. The fiscal impact analysis measured the net impact of projected growth in each draft development scenario of the preferred alternative on the City of East Palo Alto's General Fund, calculating associated increases in revenues and expenditures. The assumptions regarding the amounts and types of new growth were based on preferred alternative development scenarios generated by the consultant team led by Raimi + Associates.

This memo summarizes the fiscal impact analysis results and provides detailed information about the approach, assumptions, and methodology applied in the analysis. The results also discuss known fiscal issues and concerns for the City of East Palo Alto that may impact the fiscal performance of the preferred alternative development scenarios.

The analysis described in this memo is a revision of the fiscal impact analysis completed by Strategic Economics to assess the original three development scenarios prepared by Raimi + Associates for the specific plan update. A memo dated November 2, 2021 described the results of that analysis. The preferred alternative analysis uses the budget for fiscal year 2024/2025 which differs from the prior analysis. Certain assumptions—such as market values for different uses—have also been updated in the preferred alternative analysis.

About Fiscal Impact Analysis

A fiscal impact analysis measures the impact of new development and associated municipal services on a city's budget. New residents and businesses create demand for city services (such as public safety, street maintenance, and parks services), but also provide increased sales tax, property taxes, other local taxes, and other revenues. The net fiscal impact reflects the revenues minus the costs that growth is expected to generate.

This fiscal impact analysis is focused on the ongoing operations and maintenance impacts of new growth in the Specific Plan area on the City's General Fund, which is the primary operating fund for the City of East Palo Alto. As such, the analysis does not include estimates of one-time capital expenses such as infrastructure or facilities that may be required to accommodate new development. The analysis also excludes impacts on special districts, enterprise funds, and other agencies that are funded independently of the General Fund, such as school districts and utility districts.

The analysis presented here is "static," in that it only estimated fiscal impacts for one year upon build-out of the preferred alternative growth program, rather than providing annual estimates of revenues and costs as the Specific Plan area grows over time. All revenue and cost estimates are presented in approximate 2024 dollars; the General Fund revenue and cost inputs came from a City-provided budget for fiscal year 2024/2025, while assumptions and inputs used in the analysis primarily date to 2023 and 2024.

Fiscal impact analysis requires long-range projections of the future and is therefore best used to understand which components of a growth scenario generate revenues and costs, and to understand the relative magnitude of revenues and costs between scenarios. Fiscal impact analysis uses the best available data to generate assumptions for projecting future revenues and expenses. These revenues and costs are derived from existing and historic conditions. However, the build-out of the land use alternatives will occur over the long term, and conditions may change significantly; this memo does discuss known shorter-term issues which may impact the actual fiscal impacts associated with the development scenarios. Finally, this fiscal impact analysis is not based on a measurement of the market feasibility of the growth scenario, but instead relies on a hypothetical development program based on preferred development scenarios.

Development Scenarios under the Preferred Alternative

The fiscal impact analysis assessed three different development scenarios for the Specific Plan update, consisting of a "base" scenario reflecting growth approved as part of the existing Specific Plan approved in 2013, and two preferred alternative scenarios that include greater amounts of growth. The preferred alternative scenarios were developed and provided by Raimi + Associates. Figure 1 summarizes the total anticipated increase in residential and commercial uses at full buildout of the Specific Plan area under the preferred alternative scenarios. The anticipated activities and users by land use are as follows:

- Office: this includes primarily professional and technical services as well as information and technology firms.
- R&D/lab: this includes primarily biotech and life sciences firms.
- Flex/industrial: this includes primarily small-scale manufacturing firms.

- Retail: this includes primarily retail, services, and eating/drinking establishments.
- Residential: this includes a mix of rental and for-sale housing units.
- Civic: this includes uses for community purposes such as a community center, recreation center, and school(s)
- Amenity: this consists of space within future office or R&D/Lab buildings to provide amenities such as dining, fitness, or other worker amenities.

FIGURE 1: NET NEW GROWTH BY BASE SCENARIO AND PREFERRED ALTERNATIVE DEVELOPMENT SCENARIO

		Net New Growth by Scenario		
Land Use	Unit	Base Scenario	Scenario 1	Scenario 2
Commercial				
Office	square feet	1,268,500	1,835,600	2,167,750
R&D/Lab	square feet	175,910	988,400	1,167,250
Flex/Industrial	square feet	175,910	250,000	325,000
Retail	square feet	112,400	112,400	112,400
Residential				
Total Units	dwelling units	835	1,350	1,600
Other				
Civic	square feet	61,000	154,700	154,700
Amenity	square feet	-	43,870	53,500

Source: Raimi + Associates, 2023.

Summary of Results

All three development scenarios are estimated to result in a positive fiscal impact on the City of East Palo Alto's General Fund. As shown in Figure 2, annual net revenue associated with the scenarios is estimated to be $3.55 million in the Base Scenario, and $6.61 million and $7.71 million in preferred alternative scenarios 1 and 2, respectively, upon full buildout of the Specific Plan area.

Since the *mix* of land uses is similar across preferred alternative development Scenarios 1 and 2, Scenario 2 is estimated to generate higher overall net General Fund revenues since the scenario includes a larger assumed quantity of development. Scenarios 1 and 2 include the same approximate mix of office, R&D/lab, flex/industrial, retail, housing, and amenity land uses. The scenarios instead primarily vary in their overall quantity of growth. As a result, the net General Fund revenue *as a percent of total General Fund revenue* is approximately 46 percent for Scenarios 1 and 2. The differences in net revenue between scenarios (in dollars) is driven by the quantity of growth included in each scenario. The Base Scenario includes a different land use mix with a relatively high share of office space and a lower share of R&D/lab; net General Fund revenue as a percentage of total General Fund revenue is approximately 45 percent in the Base Scenario.

Property taxes constitute the largest source of estimated growth in revenues, while Police Department costs are the largest source of growth in service costs. Property taxes constitute approximately 79 percent of revenue associated with the development scenarios, while Police Department expenses constitute 47 percent of service costs. These are also the largest categories of revenues and expenses, respectively, for East Palo Alto's General Fund overall.

FIGURE 2: ESTIMATED ANNUAL GENERAL FUND IMPACT OF PREFERRED ALTERNATIVE DEVELOPMENT SCENARIOS, 2024 DOLLARS

	Base Scenario	Scenario 1	Scenario 2
Revenues			
Property Tax	$5,961,689	$11,248,511	$13,303,717
Property Transfer Tax	$86,411	$149,653	$126,554
Sales Tax	$595,623	$702,640	$745,874
Business License Fee	$841,544	$1,495,700	$1,759,400
Utility User Tax and Franchise Fees	$370,200	$656,422	$773,565
Subtotal, Revenues	*$7,855,466*	*$14,252,926*	*$16,709,111*
Expenditures			
General Government	$923,813	$1,638,065	$1,930,389
Community and Economic Dev.	$233,224	$413,543	$487,343
Police	$2,033,820	$3,606,282	$4,249,848
Public Works	$708,160	$1,255,679	$1,479,763
Non-Departmental	$409,219	$725,609	$855,099
Subtotal, Expenditures	*$4,308,235*	*$7,639,177*	*$9,002,442*
Net Revenue	**$3,547,231**	**$6,613,749**	**$7,706,669**
Net Revenue as % of Total Revenues	45.2%	46.4%	46.1%

Note: Numbers may not sum due to rounding.
Source: Strategic Economics, 2024.

Additional Considerations

Several known fiscal concerns could potentially impact the General Fund revenue and expenditure estimates—although not significantly enough to affect the development scenarios' positive net fiscal impacts. While the fiscal impact analysis incorporated the best available information about East Palo Alto's financial and service structure, the following issues could have an impact on the revenue and expense estimates. However, these considerations are unlikely to change the overall finding that the development scenarios will generate a positive impact on the General Fund's net revenues.

- **Existing Service Levels:** As is standard practice for fiscal impact analyses, the expenditure estimates were based on current service levels, per capita, and therefore do not account for any existing service deficiencies unrelated to growth in the development scenarios.

- **Uncertainties Regarding Property Tax In-Lieu of Vehicle License Fee (PTILVLF) Revenues:** The Vehicle License Fee (VLF) Swap was a key component of the 2004 State budget compromise (SB 1096). As part of this compromise, the State permanently reduced VLF revenues to cities and counties by 67.5 percent and redirected $1.3 billion in local property taxes to fund the State's school obligations for two fiscal years. These actions required cities and counties to sacrifice substantial revenue to help address the State's budget deficit. In return, the State guaranteed an in-lieu VLF payment to cities and counties, which would be adjusted annually based on property tax growth. The VLF Swap legislation designated two funding sources for this in-lieu VLF payment:

1) Educational Revenue Augmentation Fund (ERAF) distributions to non-basic aid schools
2) Property tax revenues of non-basic aid schools

The State would then backfill these losses to ensure that schools continued to meet their minimum funding requirements. In recent years as more school districts within the county have moved into basic aid status, there has not been funding available to fulfill the State's in-lieu VLF obligation, which has resulted in a shortfall. For 2022-23, the countywide shortfall was approximately $114 million, which resulted in a nearly $2.4 million shortfall for the City of East Palo Alto—which is 43 percent of the City's total PTILVLF revenue. When these shortfalls have occurred in the past, the State has made the County and its cities whole by reimbursing the shortfalls approximately two years after the fiscal year in which the shortfall occurred through special appropriations in the State budget. The procedure to address the PTILVLF shortfall has been for the County to file a claim with the State at the end of the fiscal year of the PTILVLF shortfall, which is taken into consideration by the State for the subsequent year's budget. However, this process is not guaranteed from year to year. Unless there is a legislative action to fix the funding mechanism causing these shortfall, the City's PTILVLF revenue will be at risk in the future years. Due to this uncertainty, this fiscal impact analysis excluded any PTILVLF revenues for purposes of estimating revenues associated with full buildout of the preferred alternative.

- **Changes in Share of Property Tax Revenues Over Time:** As a former redevelopment project area, properties in the Specific Plan area are subject to redevelopment agency dissolution statutes. This has multiple impacts on the actual share of property tax revenue received by the City of East Palo Alto, with especially significant changes to occur upon retirement of obligations of the former Redevelopment Agency in October 2032. In the interim years, City share of one percent property tax increment is subject to pass-through payments and SB 2557 fees (excluding negotiated obligations that would not impact the property tax calculation of new development), which result in an approximately 27.65 percent reduction in incremental property tax revenue that would otherwise be received by the City of East Palo Alto. Therefore, the City's total share of property tax revenue will increase upon retirement of redevelopment obligations—which will likely occur prior to the full buildout of the development scenarios assessed in this fiscal impact analysis. This analysis therefore does not incorporate the current 27.65 percent reduction in incremental property tax revenue.

  The City can also anticipate a slight decrease in the City share of one percent property tax due to the ERAF contributions, since property tax increment used to repay redevelopment obligations is not currently subject to this ERAF shift. However, nearly all of what the City contributes to the ERAF is currently coming back as excess ERAF revenues and the trend has been toward a decrease in the ERAF requirement as school districts flip to basic aid from non-basic aid status. Therefore, this fiscal analysis does not incorporate the ERAF shift after the dissolution of successor agency.

- **Additional Measure L Revenues:** Measure L was approved by the residents of East Palo Alto in November of 2022, going into effect January 1, 2023.[1] As approved by voters, all residential rental revenue received each calendar year is subject to a 2.5 percent tax, except for rental housing units that are deed-restricted to serve households at or below 80 percent of Area Median Income. Measure L was an update to Measure O which was approved by voters in 2016 and set the business license tax for all owners renting real property with five or more rental property units at 1.5 percent of their gross rental revenue. Rental property owners with four or fewer units were subject to the standard business license tax table. Under Measure L, the business license tax is 2.5 percent of gross rental revenue for all owners renting residential property, regardless of the number of units rented. As of this memo's publication date, these revenues accrue to the General Fund and are intended for programs to address affordable housing, displacement, and homelessness.[2]

  In order to avoid overstating revenues, the fiscal impact analysis did not incorporate Measure L revenues due to uncertainties about the actual mix of rental and ownership housing that will be built in the Specific Plan area. However, based on the assumptions used for the analysis—including the assumption that 75 percent of housing units would be built as rental units and that 20 percent of those units would be exempt due to affordability deed restrictions—Strategic Economics estimated that Measure L could potentially generate additional annual revenues of approximately $714,600 for the Base Scenario, $886,500 for Scenario 1, and $1,050,600 for Scenario 2.

- **Gann Limit:** The "Gann limit" is a limit on the total allowable appropriation of the proceeds of taxes for California jurisdictions. The limit is the result of voter approval of Proposition 4, the "Gann Initiative," by California voters in 1979. The limit is benchmarked to base year taxes in fiscal year 1978-79, with adjustments each year for changes in population and inflation. Any appropriations that exceed the Gann limit must be returned to taxpayers unless the limit is increased by a popular vote. East Palo Alto is approaching its Gann limit appropriations cap due to rapid growth in assessed value and related property taxes. The three Specific Plan development scenarios would contribute to substantial growth in assessed value and tax revenue and may therefore accelerate the City's need to eventually seek voter approval to raise its appropriations limit.

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[1] City of East Palo Alto. Business License Information. https://www.cityofepa.org/finance/page/business-license. Accessed on 07.11.2024.
[2] A tax measure on the November 2024 ballot would restrict use of Measure L funds for affordable housing purposes only. If passed, Measure L funds would no longer accrue to the General Fund.

APPENDIX: ASSUMPTIONS, DATA SOURCES, AND METHODOLOGY

This technical appendix describes the methodology used to conduct the fiscal impact analysis of the three development scenarios for the Plan Area. The fiscal impact model used for this analysis was "static" and measured fiscal impacts at full buildout, rather than a dynamic model that shows revenues and costs for every year. This analysis only estimated potential impacts to the City's General Fund.

BASE ASSUMPTIONS

BUDGET YEAR AND VERSION

The analysis was based on East Palo Alto's baseline budget for the 2024-2025 fiscal year, shown in Figure 3.

FIGURE 3: EAST PALO ALTO GENERAL FUND BUDGET, FY 2024-2025 BASELINE BUDGET

General Fund Revenues	
Property Tax	$17,384,764
Sales Tax	$6,219,000
Transient Occupancy Tax	$2,200,000
Utility Users Taxes	$1,788,874
Business License Tax	$2,310,000
Permit, Fees, & Charges for Services	$1,395,000
Other Revenues and Transfers In	$2,214,170
Total Revenues	$33,511,808

General Fund Expenditures	
General Government	
City Council	$190,693
City Attorney	$1,294,052
City Clerk	$592,026
City Manager	$4,544,891
Finance	$1,489,587
Community and Economic Dev.	$3,293,843
Police	$14,906,446
Public Works	$5,036,564
Non-Departmental	
Insurance and Settlements	$1,052,624
Capital/Technology	$0
Other Non-Departmental	$2,249,406
Overhead Allocation	-$929,182
Total Expenditures	**$33,720,951**

Source: City of East Palo Alto, 2024; Strategic Economics, 2024.

EXISTING SERVICE POPULATION

To calculate certain costs and revenues on a per capita basis, an existing service population—or "daytime population" of residents and workers—was established. The service population refers to an equivalent population, incorporating residents and employees, for which a city provides services. East Palo Alto had an estimated population of 30,630 residents and 5,104 workers according to the

California Department of Finance and Esri Business Analyst data. Each worker was counted as producing one-third of the impacts of a resident for analytical purposes, since workers are assumed to consume fewer services compared to residents (library, parks, recreation, etc.). The current service population assumptions are shown in Figure 4.

FIGURE 4: CURRENT SERVICE POPULATION, EAST PALO ALTO, 2020

Residents	30,630
Employees	5,104
Employee Factor	0.33
Total Service Population	32,314

Source: California Department of Finance, 2021; Esri Business Analyst, 2020; Strategic Economics, 2024.

RESIDENTIAL AND EMPLOYEE DENSITY BY BUILDING TYPE

Figure 5 shows the assumptions for the number of residents per household and gross square feet per employee which were used to calculate the number of new residents and workers associated with growth in the development scenarios. The population assumptions for single and multi-family units and employees per square feet of each land use type were taken from Raimi + Associates' guidance on population assumptions made by their team for traffic analysis modelling.

FIGURE 5: RESIDENTIAL AND EMPLOYEE DENSITY ASSUMPTIONS

Land Use	Value
Residential	
Household Size, Single-Family Homes	3.7
Household Size, Multi-Family Homes	3.5
Commercial	
Office Square Feet per Employee	333
R&D/Lab Square Feet per Employee	365
Flex/Industrial Square Feet per Employee	575
Retail Square Feet per Employee	400
Amenity Square Feet per Employee	1,000

Source: Raimi + Associates, 2023; Strategic Economics, 2024.

NEW SERVICE POPULATION FOR DEVELOPMENT SCENARIOS

Figure 6 shows the projected service populations associated with each land use, derived from the development program shown in Figure 1, the employee factor shown in Figure 4, and the employee/household density assumptions shown in Figure 5.

FIGURE 6: ESTIMATED NET NEW EMPLOYEES, RESIDENTS, AND SERVICE POPULATION FOR PREFERRED ALTERNATIVE DEVELOPMENT SCENARIOS

	Base Scenario	Scenario 1	Scenario 2
Resident Service Population Increase	2,793	4,519	5,350
Employees Increase	4,851	9,915	11,610
Employee Factor	0.33	0.33	0.33
Employee Service Population Increase	1,601	3,272	3,831
Total Service Population Increase	4,394	7,791	9,181

Source: Strategic Economics, 2024.

LAND USE ASSUMPTIONS

PROPERTY OCCUPANCY, TURNOVER, AND ASSESSED VALUE ASSUMPTIONS

Figure 7 shows land use assumptions, including efficiency ratios, value per square foot or housing unit, holding period (sales turnover), vacancy rates, and occupancy rates, each of which is explained below.

Efficiency Ratio: The efficiency ratio was used to convert gross leasable commercial space to net leasable area for purposes of valuing these land uses based on their operating income.

Office, R&D/Lab, Flex/Industrial, and Retail Value (per leasable square foot): Strategic Economics estimated the value of these land uses using the income capitalization approach. In this approach to property valuation, a building's anticipated operating expenses are removed from anticipated operating revenues to derive net operating income; this net operating income is then divided by a "capitalization rate," which is the ratio of net operating income to property sale value expected in the general real estate market. The values of the office, R&D/Lab, industrial/flex and retail space were based on analysis of local market conditions and comparable projects in East Palo Alto and surrounding communities from broker reports and real estate data from the firm CoStar.

Apartment values: The analysis applied an assumption that 75 percent of new housing units would consist of rental apartments. *Market rate apartment* values—80 percent of the new rental apartment units—were developed using a capitalized value approach. Strategic Economics estimated the capitalized value using multifamily apartment rents per square foot based on comparable properties in East Palo Alto according to data from real estate data firm CoStar, resulting in an average monthly rent per unit of $3,648; average unit size assumptions—at 760 net square feet—were based on research of comparable projects and on assumptions previously applied in a financial feasibility analysis as part of an inclusionary housing study completed by David Rosen & Associates for the City of East Palo Alto in 2021. A 4.25 percent capitalization rate was assumed based on prevailing market conditions.

Based on the City of East Palo Alto's Inclusionary Housing Ordinance requirements, the analysis assumed that 20 percent of new apartments would consist of *below-market rate housing units*. The capitalized value of below-market rate apartments was derived based on rents that would be affordable to households earning up to a blended weighted average rate of approximately 50 percent of area median income[3] (AMI) (assuming that the mix of below-market rate units includes 25 percent at 35 percent of AMI, 10 percent at 50 percent of AMI, and 25 percent at 60 percent of AMI). The analysis applied an assumed monthly rent per unit of $1,923, based on the average of East Palo Alto monthly rent limits for 1- and 2-bedroom units affordable to households at 50 percent of AMI.

Condominium values: The analysis applied an assumption that 25 percent of new housing units would consist of condominiums or townhomes. The values for *market-rate condos*—80 percent of the new condo units—were derived based on review of sales prices and prices per square foot for comparable properties within East Palo Alto and the surrounding market area. Average unit size assumptions—at 880 net square feet—were based on research of comparable projects and on assumptions previously applied in a financial feasibility analysis as part of an inclusionary housing study completed by David Rosen & Associates for the City of East Palo Alto in 2021. The value of *below-market rate condos*—assumed to constitute 20 percent of new condo units based on the City's Inclusionary Housing Ordinance requirements—was based on calculations of the home price that would be affordable to households earning 110 percent of the Area Median Income (AMI) according to income limits applicable to East Palo Alto. The analysis assumed BMR units are valued at $510,475 based on sales price limits for a 2-bedroom condo.

Holding period: A holding period is the length of time between changes in ownership of property. The holding period is used to calculate property transfer taxes. Strategic Economics assumed a 15-year period for commercial and residential rental properties, and a 7-year period for residential ownership properties.

Vacancy Rate: Occupancy and vacancy rates are used to determine the actual revenues and costs generated by properties, given that buildings are not usually fully occupied. Vacant spaces would not generate retail sales, and also must be accounted for when determining income and property values for rental properties. The analysis applied long-term vacancy rates typically assumed in property development.

[3] Area Median Income is a value representing the midpoint of incomes for all households in each county and is annually determined by the California Department of Housing and Community Development according to federal guidelines.

FIGURE 7: KEY LAND USE ASSUMPTIONS

Land Use	Efficiency Ratio	Estimated Value per Sq. Ft. / Housing Unit	Holding Period (years)	Vacancy Rate
Commercial				
Office	85%	$878	15	5%
R&D/Lab	85%	$1,090	15	5%
Flex/Industrial	90%	$601	15	5%
Retail	90%	$763	15	10%
Amenity	n/a	n/a		
Residential				
Apartment (75% of Housing Units)				
Market-rate Apartments		$669,515	7	5%
BMR Apartments		$352,927	7	5%
Condo/Townhome (25% of Housing Units)				
Market-rate Condos		$866,800	15	5%
BMR Condos		$510,475	15	5%

Source: Strategic Economics, 2024; see text for additional information.

Estimating Revenues

This section summarizes assumptions and methodology for estimating property tax, property transfer tax, business license tax, sales tax, and other recurring revenues.

PROPERTY TAX

Per California's Proposition 13, the base property tax rate in East Palo Alto is one percent of assessed property value. The apportionment of the one percent revenue varies by jurisdiction and by tax rate areas (TRAs) in each jurisdiction; for the purposes of this analysis, Strategic Economics worked with the East Palo Alto Finance Department to estimate an appropriate local share of property tax revenue. East Palo Alto's weighted average share of the one percent property tax revenue was approximately 33.28 percent across TRAs within the Specific Plan area. This share falls to 24.08 percent after accounting for the 27.65 percent of property tax revenue that is shifted to the pass throughs and SB 2557 fees. As discussed earlier, however, this shift will end prior to the full buildout of the development scenarios and, therefore, this analysis applies a 33.28 percent average tax rate area rate in calculation of the City share of one percent incremental property tax revenues.[4] The property tax rate was applied to estimated assessed values of new growth in each of the development scenarios to determine property tax revenue, as shown in Figure 8.

FIGURE 8: PROPERTY TAX REVENUE, 2024 DOLLARS

	Net New Growth by Scenario		
Land Use	Base Scenario	Scenario 1	Scenario 2
Commercial			
Office	$3,148,923	$4,556,691	$5,381,220
R&D/Lab	$542,619	$3,048,856	$3,600,543
Flex/Industrial	$316,547	$449,870	$584,832
Retail	$257,017	$257,017	$257,017
Residential			
Total Units			
Apartment (75% of Housing Units)			
Market-rate Apartments	$1,455,054	$1,804,891	$2,139,130
BMR Apartments	$191,460	$238,444	$281,904
Condo/Townhome (25% of Housing Units)			
Market-rate Condos	$43,273	$778,912	$923,154
BMR Condos	$6,796	$113,829	$135,916
Commercial Subtotal	$4,265,106	$8,312,435	$9,823,612
Residential Subtotal	$1,696,583	$2,936,076	$3,480,105
Total Property Tax Revenues	**$5,961,689**	**$11,248,511**	**$13,303,717**

Source: Strategic Economics, 2024.

PROPERTY TRANSFER TAX

The City of East Palo Alto receives 55 cents of each $1,000 value of properties sold. The annual property transfer tax revenues by prototype were calculated by multiplying the assessed value of each

[4] These rates will change over time because the Specific Plan area is a former redevelopment project area; please see detailed notes about these changes in the "Additional Considerations" section of this memo beginning on page 4.

prototype by the real estate transfer tax rate and the turnover rate for each type of property from Figure 7. Revenue from Property Transfer Tax is shown in Figure 9.

FIGURE 9: PROPERTY TRANSFER TAX REVENUES, 2024 DOLLARS

	Net New Growth by Scenario		
Land Use	Base Scenario	Scenario 1	Scenario 2
Commercial			
Office	$34,692	$50,201	$59,285
R&D/Lab	$5,978	$33,589	$39,667
Flex/Industrial	$3,487	$4,956	$6,443
Retail	$2,832	$2,832	$2,832
Residential			
Total Units			
Apartment (75% of Housing Units)			
Market-rate Apartments	$34,351	$42,610	$4
BMR Apartments	$4,520	$5,629	$6,655
Condo/Townhome (25% of Housing Units)			
Market-rate Condos	$477	$8,581	$10,170
BMR Condos	$75	$1,254	$1,497
Commercial Subtotal	$46,989	$91,579	$108,227
Residential Subtotal	$39,423	$58,074	$18,327
Total Property Tax Revenues	**$86,411**	**$149,653**	**$126,554**

Source: Strategic Economics, 2024.

SALES TAX

Anticipated sales tax revenues reflect the revenues generated by taxable purchases that new residents and workers will make at stores in East Palo Alto, as well as new spending captured at new retail space in the Specific Plan area. Estimates for total purchases by future residents were calculated by first determining the likely average household incomes of new residents in market-rate and below-market rate housing units, based on the income required to afford rents and sales prices of these homes. These household incomes were then used to collect typical consumer spending information within the applicable household income ranges within retail categories tracked by the Bureau of Labor Statistics Consumer Expenditure Survey for the Western Region as of 2019, with adjustments to account for the mix of expenditures subject to sales tax. These annual expenditures were then multiplied by the numbers of new market rate and below-market rate households in the Plan Area to determine total taxable spending. These amounts were subsequently multiplied by 50 percent to account for taxable spending by residents that will occur outside East Palo Alto.

Per capita taxable sales were also calculated for new employees. These estimates were developed using inflation-adjusted data from the International Council of Shopping Centers for office worker expenditures on a weekly basis. This weekly value was multiplied by 49 weeks (to account for worker holidays and vacations), adjusted to account for the share of spending that would be taxable versus untaxable, and multiplied by a factor of 40 percent to account for worker purchases likely to occur outside of East Palo Alto. The taxable sales values for new employees were then multiplied by anticipated growth in employees, shown in Figure 11.

Finally, the analysis calculated sales tax revenues attributable to the new retail space included in the development scenarios. The analysis assumed that each occupied square foot of retail space would be associated with $350 in annual average taxable sales, based on typical ranges of sales at businesses located in retail spaces (although actual sales will vary depending on the final tenant mix in the Specific Plan area). Since a portion of the spending by the Specific Plan area's residents and workers will occur in this new retail space, taxable sales in the new retail space were reduced by 25 percent of the resident and worker spending estimated to occur within East Palo Alto.

FIGURE 10: TAXABLE SALES ASSUMPTIONS

Annual Taxable Sales Per Household	
Apartment	
Market-Rate	$21,504
BMR	$14,878
Condo/Townhouse	
Market-Rate	$23,316
BMR	$23,150
Annual Taxable Sales per New Employee	$2,191
Annual Taxable Sales per Sq. Ft. of Retail Space	$350
Local Sales Capture from New Households	50%
Local Sales Capture from New Employees	40%
Onsite Retail Adjustment to Account for Overlap with Spending from New Households and Employees	50%
Sales Tax Rate (Percent of Taxable Sales)	1.45%
Bradley-Burns	0.95%
Measure P	0.50%

Sources: ICSC "Office Worker Retail Spending in a Digital Age," 2012; U.S. BLS Consumer Expenditure Survey for the Western Region, 2019; Strategic Economics, 2024.

The estimated taxable sales from these sources were summed and multiplied by 1.45 percent; this rate includes East Palo Alto's 95 percent share of the one percent statutory "Bradley-Burns" sales tax rate, and an additional half-percent local sales tax approved by East Palo Alto voters in November 2016 under "Measure P." The estimated annual sales tax revenue that the General Fund will receive is shown in Figure 13.

FIGURE 11: ANNUAL TAXABLE SALES FROM NEW HOUSEHOLDS AND WORKERS, 2024 DOLLARS

	Base Scenario	Scenario 1	Scenario 2
Estimated Capture from New Households			
Annual Taxable Sales from New Households	$16,063,912	$26,870,372	$31,851,024
Adjusted City Taxable Sales from New Households (a)	$8,031,956	$13,435,186	$15,925,512
Estimated Capture from New Employees			
Annual Taxable Sales from New Employees	$10,626,904	$21,720,420	$25,433,593
Adjusted City Taxable Sales from New Employees (b)	$4,250,762	$8,688,168	$10,173,437
Total Annual City Taxable Sales from Households & Employees	**$12,282,718**	**$22,123,354**	**$26,098,949**

(a) Assumes 50% of taxable sales from new households would be spent in East Palo Alto.
(b) Assumes 40% of taxable sales from new employees would be spent in East Palo Alto based on category-level adjustments to account for East Palo Alto's existing retail mix.
Source: Strategic Economics, 2024.

FIGURE 12: ANNUAL TAXABLE SALES FROM NEW RETAIL SPACE, 2024 DOLLARS

	Base Scenario	Scenario 1	Scenario 2
Occupied Retail Sq. Ft.	91,044	91,044	91,044
Taxable Sales per Sq. Ft.	$350	$350	$350
Taxable Sales	$31,865,400	$31,865,400	$31,865,400
Less: 25% of Spending Captured from Plan Area Residents and Workers (a)	-$3,070,679	-$5,530,838	-$6,524,737
Adjusted Annual Taxable Sales from Plan Area Retail Space	**$28,794,721**	**$26,334,562**	**$25,340,663**

(a) This adjustment avoids double counting sales from Specific Plan area residents and workers by assuming that 25% of their taxable spending occurs within the Plan Area itself.
Source: Strategic Economics, 2024.

FIGURE 13: ANNUAL SALES TAX REVENUE FROM NEW HOUSEHOLDS AND WORKERS, 2024 DOLLARS

	Base Scenario	Scenario 1	Scenario 2
Total Annual City Taxable Sales from Households & Employees	$12,282,718	$22,123,354	$26,098,949
Adjusted Annual Taxable Sales from Plan Area Retail Space	$28,794,721	$26,334,562	$25,340,663
Total Annual Taxable Sales Captured in East Palo Alto	$41,077,438	$48,457,915	$51,439,612
1.45% Annual Sales Tax Revenue	**$595,623**	**$702,640**	**$745,874**

Source: Strategic Economics, 2024.

BUSINESS LICENSE FEE

The City of East Palo Alto assesses a business license fee on establishments in the city. The fee is calculated based on gross receipts for most categories of businesses except for Administrative Offices/Warehouses (for which the fee is calculated based on gross payroll) and other specific categories of businesses. The analysis applied a rate of $.45 per gross square foot of space for office, R&D/lab, and flex/industrial uses. This rate was based on calculations recently completed by the City of East Palo Alto to determine business license fee revenues associated with existing office properties in the city. The analysis also applied a custom rate for retail, as described in the notes in Figure 14, below.

FIGURE 14: BUSINESS LICENSE FEE ASSUMPTIONS

Land Use	Calculation Basis (per year)	
Office (a)	$0.45	per gross square foot of office space
R&D/Lab (b)	$0.45	per gross square foot of R&D/lab space
Flex/Industrial (c)	$0.45	per gross square foot of flex/industrial space
Retail (d)	$1.00	per thousand dollars of sales
Amenity (e)	n/a	

(a) Based on existing City analysis of business license fee revenue associated with existing office properties in East Palo Alto.
(b) Applies the same rate as used for office space.
(c) Applies the same rate as used for office space; flex/industrial space is assumed to consist primarily of manufacturing and related office support, rather than administrative use and wholesale trade.
(d) Applies the rate applicable to businesses with sales between $500,001 and $10,000,000. This rate is applied to sales associated with growth in retail space within the Plan Area; see sales calculations in the Sales Tax revenue section of this memo.
(e) On-site amenity space is not included in these estimates because any sales or payroll associated with this space are uncertain.
Source: Strategic Economics, 2024.

FIGURE 15: ANNUAL BUSINESS LICENSE FEE REVENUES, 2024 DOLLARS

Land Use	Base Scenario	Scenario 1	Scenario 2
Office	$570,825	$826,020	$975,488
R&D/Lab	$79,160	$444,780	$525,263
Flex/Industrial	$79,160	$112,500	$146,250
Retail	$112,400	$112,400	$112,400
Total General Fund Revenues	**$841,544**	**$1,495,700**	**$1,759,400**

Source: Strategic Economics, 2024.

OTHER RECURRING REVENUES

Calculating other revenue per capita: Strategic Economics estimated Utility User Tax and Franchise Fees based on current costs per capita applied to service population growth, as shown in Figure 17. The “percent variable” values reflect the degree to which revenues are anticipated to vary in relationship to the new residents and employees added to the Specific Plan area.

For all the revenue sources that vary on a per capita basis, Strategic Economics applied a service population factor of either 1.00 or .33 to reflect the respective service demand for new residents and employees. The value of the variable revenues was multiplied by the respective service population factor, and then divided by the current total current service population in order to generate an estimate of the current total revenues per capita for each service population type by revenue category. Finally, these per capita factors were multiplied by the respective new service populations in each of the alternatives to arrive at additional revenues associated with resident and worker growth. The results of these estimates are shown in Figure 18.

FIGURE 16: OTHER RECURRING REVENUE PER CAPITA ASSUMPTIONS, 2024 DOLLARS

				Service Pop. Factors		Revenue Per Capita	
	Revenue (FY 2024/25)	% Variable	Variable Revenues	Resident	Employee	Resident	Employee
Utility Users Taxes	$1,788,874	100%	$1,788,874	1.00	0.33	$55.36	$18.27
Franchise Fees	$1,245,000	75%	$933,750	1.00	0.33	$28.90	$9.54
Total Per Capita Revenues						**$84.25**	**$27.80**

Source: City of East Palo Alto Baseline Budget, 2024-25; Strategic Economics, 2024.

FIGURE 17: OTHER RECURRING REVENUE, 2024 DOLLARS

	Base Scenario	Scenario 1	Scenario 2
Increase in Service Population			
New Residents	2,793	4,519	5,350
New Employees	4,851	9,915	11,610
Increase to General Fund Revenues			
New Residents	$235,323	$380,746	$450,761
New Employees	$134,877	$275,676	$322,804
Total	$370,200	$656,422	$773,565

Source: Strategic Economics, 2024.

Expenditure Estimates

Based on guidance and data provided by the City of East Palo Alto Finance Department, Strategic Economics used a per capita model to estimate departmental General Fund expenditures, as shown in Figure 18. The total expenditures by category originate from the City's baseline budget for fiscal year 2024-25. The "Variable" costs by category represent the portion of expenditures that are likely to increase with growth in service population; these variable cost adjustments account for expenses not affected by growth, as well as transfers, reserves, and offsetting revenues.

As with the per capita revenues, Strategic Economics applied a service population factor to each expense category, representing the relative proportion of expenses attributable to new residents (1.0) and employees (0.33). The value of the variable costs was multiplied by the respective service population factor, and then divided by the current total current service population to generate an estimate of the current total costs per capita for each service population type by expense category. Finally, these per capita factors were multiplied by the respective new service population in the development scenarios to arrive at additional costs associated with residential and worker growth, as shown in Figure 19.

FIGURE 18: CALCULATION OF ANNUAL VARIABLE SERVICE COSTS PER RESIDENT AND EMPLOYEE, 2024 DOLLARS

	Expenditures (FY 2024-25 Baseline Budget) (a)	Variation in Costs as Percentage	Variable Costs Impacted by Growth (b)	Service Pop. Factors		Expenditures Per Capita	
				Resident	Employee	Resident	Employee
General Government							
City Council	190,693	25%	$47,829	1.00	0.33	$1.48	$0.49
City Attorney	1,294,052	60%	$774,786	1.00	0.33	$23.98	$7.91
City Clerk	592,026	49%	$290,334	1.00	0.33	$8.98	$2.96
City Manager	4,544,891	80%	$3,643,561	1.00	0.33	$112.75	$37.21
Finance	1,489,587	137%	$2,037,648	1.00	0.33	$63.06	$20.81
Community and Economic Dev.	3,293,843	52%	$1,715,241	1.00	0.33	$53.08	$17.52
Police	14,906,446	100%	$14,957,681	1.00	0.33	$462.88	$152.75
Public Works	5,036,564	103%	$5,208,145	1.00	0.33	$161.17	$53.19
Non-Departmental							
Capital/Technology	-	100%	$0	1.00	0.33	$0.00	$0.00
Insurance and Settlements	1,052,624	100%	$1,052,624	1.00	0.33	$32.57	$10.75
Other Non-Departmental	2,249,406	87%	$1,956,966	1.00	0.33	$60.56	$19.98
Overhead Allocation	(929,182)	0%	$0	1.00	0.33	$0.00	$0.00
Total Variable Expenditures Per Capita	**$33,720,951**		**$31,684,815**			**$980.52**	**$323.57**

Notes:
(a) Based on the baseline budget for FY 2024-25 provided by the City of East Palo Alto, 2024.
(b) Variable costs net of expenses and salaries not affected by growth, transfers, reserves, and offsetting revenues, based on calculations by the City of East Palo Alto, 2021.
Sources: City of East Palo Alto, 2024; Strategic Economics, 2024.

FIGURE 19: ANNUAL EXPENDITURES TOTALS, 2024 DOLLARS

	Base Scenario	Scenario 1	Scenario 2
General Government	$923,813	$1,638,065	$1,930,389
Community and Economic Dev.	$233,224	$413,543	$487,343
Police	$2,033,820	$3,606,282	$4,249,848
Public Works	$708,160	$1,255,679	$1,479,763
Non-Departmental	$409,219	$725,609	$855,099
Total	$4,308,235	$7,639,177	$9,002,442

Source: Strategic Economics, 2024.