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TOWN OF LOS GATOS
PLANNING DIVISION

MEMORANDUM

To: Don Capobres, Grosvenor Americas
Wendi Baker, Summerhill Homes

From: Teifion Rice-Evans and Michael Nimon

Subject: Fiscal Impact Analysis of Proposed North 40 Project;
EPS #131055

Date: August 27, 2013

The Economics of Land Use



Economic & Planning Systems, Inc. (EPS) conducted a preliminary fiscal impact analysis of the proposed North 40 project, a mixed-use development located on the southeast intersection of Highways 17 and 85 in the Town of Los Gatos. Grosvenor and Summerhill Homes (the Developer) have proposed to redevelop the site with 364 residential units and up to 520,000 square feet of commercial space envisioned in two separate phases. This memorandum summarizes the approach and results of this fiscal impact analysis.

Study Overview

The fiscal impact analysis focuses on the Town's General Fund, but also evaluates the Project's fiscal impact on relevant school districts and the fire district that will be affected by the proposed development. Because of the Project's location and development program as well as local district boundaries, the Project is anticipated to affect the budgets of four school districts: the Los Gatos Union School District, Los Gatos-Saratoga Union High School District, the Campbell Union High School District, and the Cambrian Elementary School District. The analysis also estimates fiscal impacts on the Santa Clara County Fire District, which provides fire service to the Town of Los Gatos through a property tax agreement.

Development Program

The development program was provided by the Developer, including Phases 1 and 2, and the fiscal impact analysis was conducted for each phase and for the whole project at buildout. The Development Program includes:

- **Residential Development.** A total of 364 residential units, including 50 senior affordable units, 292 market-rates units, and 22 inclusionary housing (moderate income) units. All residential development is included in Phase 1 of the development program.

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- **Commercial Development.** A total of 520,000 square feet of commercial development, including 20,000 square feet of office, a 125-room, 125,000 square foot hotel, a 365,000 square feet of retail uses (including retail shops, restaurants, entertainment, personal services, and a grocery store). The large majority of the commercial development is included in Phase 2 of the development program with about 60,000 square feet of retail included in Phase 1.

Information Sources and Analytical Parameters

- **Timing and Uncertainty.** The fiscal impacts are evaluated based on stabilized occupancy at Project buildout. The estimates in this analysis depend on factors such as timing of development, market performance, economic conditions, and budget practices. Changes to such factors would require revisions to the fiscal results. All results are expressed in constant 2013 dollars.
- **Overview of Sources.** The analysis is based on a number of sources including the Town of Los Gatos' 2013-2014 Adopted Operating Budget; 2013-2014 Los Gatos Union School District Budget and the 2013-2014 Los Gatos-Saratoga Joint Union High School District budget; the Santa Clara County Fire District 2012 Annual Report; Federal, County and State data sources; data provided by Grosvenor and Summerhill Homes; and EPS's recent experience in the region and in comparable jurisdictions.
- **Sales and use tax assumptions.** The Project is expected to generate sales and use tax through new retail space and taxable spending by new residents. New retail space will be a primary driver of sales tax. The estimates of new sales tax revenues to the Town's General Fund are based on assumptions concerning expected sales per square foot and the ratio of taxable to non-taxable sales based on previous work in Los Gatos and the broader region. Entertainment and personal services are assumed not to generate taxable sales, while the sales per square foot for other retail uses are assumed to average \$510 per square foot, including about \$455 per square foot in taxable sales. In addition, EPS uses a preliminary assumption that 10 percent of these taxable sales could be captured in the City if the Project were not developed; this assumption will be updated once the City has completed its urban decay analysis.
- **Fiscal impact definition.** This analysis compares the potential additional costs incurred by the Town (or School District or Fire District) from providing public services to the Project with the additional tax and other revenues that it generates and indicates whether a positive or negative overall effect on the Town's General Fund (or School District or Fire District budgets) can be expected at Project buildout. It should be noted that fiscal results (annual surpluses or deficits) are simply indicators of fiscal performance; they do not mean that the Town will automatically have surplus revenues or deficits because the Town must have a balanced budget each year. Persistent shortfalls shown in a fiscal analysis may indicate the need to reduce service levels or obtain additional revenues, while surpluses will provide the Town with resources to reduce liabilities such as deferred maintenance or improve service levels.

Fiscal Results

Preliminary fiscal results - shown for the whole project in **Table 1** and for the individual phases in **Table 2** - are summarized below:

- 1. Taken as a whole, the North 40 Project will generate an annual fiscal surplus over and above the revenues required to cover the costs to the Town of providing public services.** The fiscal impact of the Project on the Town's General Fund will be positive at buildout, with the revenues generated by the Project estimated to be greater than the costs of providing additional public services. At buildout, the Project is expected to generate annual revenues of approximately \$2.7 million, substantially above the \$0.5 million in annual costs. The resulting net impact on the General Fund will be a surplus of approximately \$2.2 million each year. This buildout analysis demonstrates that the Project will cover its service costs and provide surplus revenues that could be used to increase levels of service in other parts of the Town.
- 2. The General Fund impact will be positive in each of the two phases of the Project.** Fiscal surplus is estimated to be higher in Phase 2 where commercial space is likely to create substantial revenues to the Town with cost increases, driven primarily by new employees, expected to be modest. While residential development in Phase 1 will have a higher impact on the Town's service needs and associated costs, Phase 1 is still estimated to result in an annual fiscal surplus to the Town's General Fund of about \$370,000 annually.
- 3. General Fund revenues will come from a number of sources with sales and use taxes and transient occupancy taxes likely to be the largest contributors.** Sales and Use Tax is expected to comprise approximately 48 percent of the Project's revenues to the General Fund at buildout. The majority of the sales tax will be driven by the new commercial space. Transient Occupancy Taxes (TOT) is estimated to be the second largest revenue source and will generate approximately 20 percent of total revenue, driven by the hotel component in the Project. A number of other revenues will also be generated by new development, including property and property tax in-lieu of vehicle license fees (VLF), property transfer tax, franchise fees, licenses and permits, fines and forfeitures, and other revenue. For Phase 1, annual revenues are estimated at about \$695,000 each year, with the largest contributions to the General Fund from property taxes and sales and use taxes.
- 4. Police services and parks & public works will comprise the large majority of the Project's estimated General Fund expenditures.** New Police expenditures are estimated to make up a little over 43 percent of new General Fund costs at approximately \$208,000 each year at Project buildout. Parks & public works expenditures comprise the second highest cost at about \$164,000 each year. Other expenditures will include general government, library services, and community development. General Fund service expenditures are estimated at about \$325,000 with police, parks and public works, and library services representing the largest expenditure items.
- 5. The Project will generate new students to both the Los Gatos Union School District and Los Gatos-Saratoga Union High School District and will result in net fiscal benefits for all three basic aid school districts.** The Project is anticipated to generate 83 new students to the Los Gatos Union School District and 37 new students to Los Gatos-Saratoga Joint Union High School District, both Basic Aid districts and both serving Phase 1 residential development. At Phase 1 buildout, the Los Gatos Union School District will have

a net annual surplus of \$245,000 and the Los Gatos-Saratoga Joint Union High School District will have a net annual of surplus of \$164,000. The Campbell Union High School District and the Cambrian Elementary School District serve the area of Phase 2 development where no new residential development or student generation will occur. As a Basic Aid District, the Campbell Union High School District will receive annual revenues of \$311,000 associated with the increased assessed value from the non-residential development. No new students will be generated in the Cambrian Elementary School District, though, as a Revenue Limit District, the District will also receive no additional operating revenues.

6. The Fire District impact will be positive in each of the two phases of the Project.

The Fire District is projected to incur additional service costs associated with new service population from the Project. However, the property tax revenue generated by the Project will result in a surplus revenue in each phase. The Project is estimated to generate total annual revenues of \$639,000 at buildout and total annual costs of \$293,000, for a net annual fiscal surplus of about \$346,000. Phase 1 will generate an annual fiscal surplus of about \$224,000 and Phase 2 will generate an additional annual fiscal surplus of about \$122,000.

Table 1 Summary of Fiscal Impact Results at Buildout

Item	Total		
	Revenues (1)	Expenditures	Net
Los Gatos General Fund	\$2,668,611	\$482,805	\$2,185,806
Santa Clara County Central Fire Protection District	\$639,237	\$292,867	\$346,370
Schools			
Los Gatos Union Elementary	\$979,905	\$734,949	\$244,956
Los Gatos-Saratoga High	\$609,490	\$445,898	\$163,591
Cambrian Elementary	N/A	N/A	N/A
Campbell Union High	\$311,185	\$0	\$311,185

(1) Revenues of Los Gatos Union School District and Los Gatos-Saratoga Union High School District include local property taxes, parcel taxes, other local funding, and state and federal revenue as applicable. Campbell Union High School District is expected to receive revenue through property taxes, but will not incur any additional expenses as no new students would be added to the district. Cambrian Elementary remains a revenue limit district and therefore would have no change in per student revenue or spending.

Source: Economic & Planning Systems, Inc.

Table 2 Summary of Fiscal Results for Phases 1 and 2

Item	Phase 1		Phase 2			
	Revenues (1)	Expenditures	Net	Revenues (1) Expenditures	Net	
Los Gatos General Fund	\$697,398	\$326,247	\$371,150	\$1,971,213	\$156,558	\$1,814,655
Santa Clara County Central Fire Protection District	\$411,794	\$188,158	\$223,636	\$227,444	\$104,709	\$122,734
Schools						
Los Gatos Union Elementary	\$979,905	\$734,949	\$244,956	\$0	\$0	\$0
Los Gatos-Saratoga High	\$609,490	\$445,898	\$163,591	\$0	\$0	\$0
Cambrian Elementary	N/A	N/A	N/A	N/A	N/A	N/A
Campbell Union High	\$0	\$0	\$0	\$311,185	\$0	\$311,185

(1) Revenues of Los Gatos Union School District and Los Gatos-Saratoga Union High School District include local property taxes, parcel taxes, other local funding, and state and federal revenue as applicable. Campbell Union High School District is expected to receive revenue through property taxes, but will not incur any additional expenses as no new students would be added to the district. Cambrian Elementary remains a revenue limit district and therefore would have no change in per student revenue or spending.

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