

bae urban economics

Fiscal Impact and Employment Opportunities Analysis Report for University Circle
Phase II

Prepared for the City of East Palo Alto
October 25, 2021

bae urban economics

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Dear Ms. Lee:

BAE is pleased to submit this fiscal impact and employment opportunities analysis for the proposed University Circle Phase II office development in East Palo Alto. We hope that this report is helpful in your evaluation of the proposed project.

Sincerely,



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EXECUTIVE SUMMARY

This report presents the findings of a fiscal and employment analysis conducted by BAE Urban Economics (BAE) to estimate the impacts associated with development of University Circle Phase II, a proposed office development at 1900-2000 University Avenue in the City of East Palo Alto. The Project, as proposed, includes a six-story, 180,000-square foot office building and a three-level, 219,935-square-foot parking garage with 513 spaces. The fiscal analysis is focused on impacts to the City of East Palo Alto's General Fund operating budget. The employment opportunities analysis compares the anticipated education and experience requirements for new jobs that the Project would generate to the education and employment backgrounds among existing City residents to provide insight on whether the Project is likely to generate jobs for East Palo Alto residents.

The analyses described in the following report demonstrate two major findings:

- **University Circle Phase II is projected to have a positive net impact on the City of East Palo Alto's General Fund.** The fiscal impact analysis estimates that the project would have a positive net fiscal impact on the City of East Palo Alto General Fund, resulting in an estimated \$649,900 in annual General Fund revenues in excess of the estimated annual General Fund expenditures required for the City to provide services to the Project. Most of the revenues generated by the Project (85 percent) are from property tax and property tax in lieu of vehicle license fees (ILVLF). In total, the Project would require an estimated \$164,400 per year in General Fund expenditures from the City of East Palo Alto to provide municipal services to the Project, and would generate an estimated \$814,300 in annual revenues to the East Palo Alto General Fund. Should the City not accrue the ILVLF revenues generated by the Project due to ongoing challenges with the funding mechanism in San Mateo County, it would still see a net positive fiscal impact of approximately \$442,800 per year from the Project. It should be noted that the project is located in an area that is subject to Redevelopment Dissolution statutes, which will reduce the property tax revenue that the project will generate until obligations of the former Redevelopment Agency are dissolved, currently estimated to occur in October 2032. As a result, the total revenue and net fiscal impact from the project will be somewhat lower than cited above until approximately 2032. However, the net fiscal impact of the project would remain positive during this period, even if the project does not generate ILVLF revenues. The project would also generate approximately \$450,000 per year in revenue for affordable housing programs and programs that facilitate job opportunities for East Palo Alto residents due to a parcel tax approved by East Palo Alto voters in 2018.

- **Future employment opportunities at University Plaza Phase II would generally require work experience and levels of formal education that are inconsistent with the experience and levels of formal education that are most common among the City's residents.** Residents within the larger regional labor pool are comparatively more likely than East Palo Alto residents to have experience working in the industries and occupations that are likely to comprise the majority of employment opportunities at the Project. In addition, employment opportunities in the Project would generally require higher levels of formal education relative to the levels of formal educational attainment among most East Palo Alto residents. While these findings suggest that most employment opportunities offered by the Project would be inaccessible to most East Palo Alto residents, the Project would likely provide some employment opportunities for East Palo Alto residents. A portion of East Palo Alto residents already have the industry, occupation, and education background that jobs in the Project are likely to require, while other residents may pursue higher levels of education and job training and change industries or occupations. If employers that occupy the Project make efforts to hire locally, these efforts could enhance the degree to which the Project provides jobs for East Palo Alto residents. The City of East Palo Alto has a First Source Hire policy that requires projects that receive assistance from the City and businesses that occupy those developments to hire local residents and use local small businesses. The City is currently considering expanding the policy to cover additional developments and businesses.

INTRODUCTION

The City of East Palo Alto (City) retained BAE Urban Economics (BAE) to conduct an analysis of the fiscal impacts of University Circle Phase II, a proposed office development at 1900-2000 University Avenue in the City of East Palo Alto, as well as an analysis of the potential for the Project to generate employment opportunities for East Palo Alto residents. The fiscal impact analysis portion of this report summarizes the annual General Fund revenues and service costs that would be generated by the Project at the future point in time when the Project would be fully built out and operating at full capacity. Consistent with City policy, the fiscal analysis evaluates the extent to which the proposed Project would generate sufficient fiscal revenues to cover the new costs associated with the increased provision of public services. The employment opportunities analysis evaluates the likely educational backgrounds and occupations for workers that would be employed at the Project to assess whether jobs generated by the Project would provide employment opportunities for East Palo Alto residents.

Project Description

The proposed Project consists of an office building with three levels of underground parking on two parcels at 1900-2000 University Avenue East Palo Alto. The Project would join an existing office park complex that includes three office buildings, a hotel, and an above-ground parking structure. The Project site is approximately 2.2 acres in size and is located at the intersection of University Avenue and Woodland Avenue.

Development Program

Table 1 summarizes the anticipated development program for the Project. The proposed Project would include a six-story, 180,000-square foot office building and a three-level, 219,935-square-foot parking garage with 513 spaces. The Project would replace an existing surface parking lot.

Table 1 also includes assumptions about the anticipated employment associated with the Project. Accepted practice in fiscal impact analysis is to define a City's service population as all residents plus one third of the workers who work within the City. Calculating service population in this way reflects the fact that employees, who generally spend less time in the community than residents, tend to generate a smaller share of demand for public services. The Draft Environmental Impact Report (DEIR) for the Project, prepared by David J. Powers and Associates, estimates that 720 workers would be employed at the Project. As reported in Table 1, the new employment generated by the Project would increase the City's service population by 240 people.

Table 1: Development Program at Project Buildout

Project Characteristics	University Circle Phase II
Office Square Footage	180,000
Parking Garage Square Footage	219,835
Parking Spaces	513
Projected Workers Employed at the Project (a)	720
New Service Population from Project (b)	240

Notes:

- (a) This is the employment assumption considered in the forthcoming Draft Environmental Impact Report for the project.
(b) One-third of the employment in the Project is counted toward its service population, reflecting the reduced service demand from non-residents relative to residents.

Sources: Chang Architecture, 2019; City of East Palo Alto, 2020; David J. Powers and Associates, 2021; BAE, 2021.

CITY OF EAST PALO ALTO GENERAL FUND FISCAL IMPACTS

This section of the report presents the projected impacts to the City of East Palo Alto General Fund revenues that would result from the proposed Project. The analysis focuses on the City's General Fund operating budget, as this represents the portion of the City's budget that finances key ongoing public services. To pay for these services, the City's General Fund is dependent on discretionary revenue sources such as property taxes, sales taxes, transient occupancy taxes, and various local taxes.

Fiscal Impact Analysis Methodology

This fiscal impact analysis uses a variety of methods to estimate the projected change in City revenues and service costs that would be associated with the Project. The cost of providing municipal services is often based on the number of persons served, as are some sources of municipal revenues. In general, as the "service population" increases, there is a need to hire additional public safety and other government employees, as well as a need to increase spending on equipment and supply budgets. Some municipal revenues, such as utility user taxes, franchise fees, fines, and forfeitures, also generally increase as the service population increases. The fiscal impact analysis therefore relies in part on an average cost and average revenue approach, based on the City's current costs and revenues per member of the current service population. This approach is based on an assumption that future development would generate costs and revenues at the same average rate as the existing service population.

As shown in Table 2, the City of East Palo Alto has an estimated population of 30,794 residents and 5,104 workers, resulting in a service population of 32,496 (30,794 residents plus one-third of the 5,104 workers, which is 1,702). The fiscal impact analysis uses this service population figure to derive current City expenditures per member of the service population and some average revenues per member of the service population in subsequent tables.

Table 2: Existing Service Population, East Palo Alto, 2020

<u>City of East Palo Alto</u>	<u>Total</u>	<u>In Service Population</u>
Residents (a)	30,794	30,794
Employment (b) (c)	5,104	1,702
Total Existing Service Population		32,496

Notes:

(a) Estimate from the California Department of Finance, 2020.

(b) Estimate from Esri Business Analyst, 2020.

(c) One-third of the employment in the City is counted toward its service population, reflecting the reduced service demand from non-residents relative to residents.

Sources: State of California Department of Finance, 2020; Esri Business Analyst, 2020; BAE, 2020.

While an average revenue approach is appropriate for some revenue sources, the fiscal analysis bases projected revenues from most major sources on statutory requirements and other factors that apply to each source of revenue. The fiscal analysis projects property taxes, property tax in-lieu of vehicle license fee revenues, and sales taxes based on specific attributes of the Project and factors used to allocate revenues from these sources to the City of East Palo Alto. Additional methodological details and assumptions are provided in the discussions of individual cost and revenue projections below.

This study estimates the impacts to the General Fund operating budget resulting from the proposed Project, and does not evaluate one-time impacts to the City's capital improvement budget or one-time revenues available to support capital improvements. Local governments are often able to recoup a portion of capital costs by assessing impact fees on new development, though these fees may not always cover all capital needs that may arise.

All cost and revenue projections are expressed in constant 2020 dollars, based on the future point in time when the Project would be fully built out.

Projected Annual Revenue Impacts

The Project would have an impact on various City revenues, including sales and property taxes. Like many local governments, the City of East Palo Alto has experienced negative impacts on municipal revenues due to the impact of the COVID-19 pandemic, which affected key sources of city funding including property tax, sales tax, business license fees, and transient occupancy tax. While it is not yet possible to determine the full extent to which funding from these sources will rebound to pre-pandemic levels, this analysis incorporates reasonable assumptions based on past trends to estimate revenue from the project at a future point in time when the project would be complete and fully occupied. The following section details the

methodology for calculating the impacts to these revenues and provides an estimate of the revenue impacts.

Sales and Use Tax

The Project would generate sales tax to the City of East Palo Alto to the extent that new workers employed at the Project make taxable purchases, such as prepared food (e.g., lunches) and other convenience goods retail purchases. In total, taxable transactions in East Palo Alto generate sales tax to the City at a rate of 1.45 percent (0.95 percent Bradley-Burns plus 0.5 percent Measure P). Taxable transactions that occur in the City of East Palo Alto are subject to a 9.25-percent sales tax. This total includes the statutory 1.0 percent Bradley-Burns sales tax, of which 95 percent (i.e., 0.95 percent of the sale price) accrues to the City, while the remaining five percent (i.e., 0.05 percent of the sale price) accrues to San Mateo County. The City's sales tax rate also includes a 0.5-percent district sales tax that East Palo Alto voters approved in November 2016 (Measure P), which accrues to the City's General Fund.¹

This fiscal analysis used data from the International Council of Shopping Centers (ICSC) survey of office worker spending patterns to estimate potential taxable purchases by new employees at the Project. The ICSC survey provides estimates of worker spending near work by store category, including both taxable and non-taxable purchases. The taxable expenditure estimates used in this analysis reflect adjustments to the ICSC survey findings to estimate taxable expenditures in East Palo Alto made by workers employed at the Project. These adjustments include removing a portion of spending at drug and grocery stores, most of which is typically not subject to sales tax under California State law, as well as all non-taxable spending on services and entertainment. In addition, the figures reflect adjustments to account for the available retail offerings around the Project site and in East Palo Alto as a whole, which affect the extent to which establishments in East Palo Alto would capture worker spending in each store category. The Project would be located within a short distance of multiple restaurants and retail outlets, including the adjacent Chevron gas station and convenience store, the Ravenswood Shopping Center within less than one half mile, and various restaurants and retail establishments on University Avenue. The taxable sales estimates provided in this report reflect that the Project's proximity to restaurants and retail could support a higher level of worker spending locally relative to workplace locations elsewhere in East Palo Alto. The ICSC survey was last published in 2012, so this analysis inflates all taxable spending figures derived from the survey to 2020 dollars based on the San Francisco-Oakland-San Jose Consumer Price Index.

After accounting for non-taxable purchases and the specific types of retail available in East Palo Alto, total annual taxable retail sales per employee would equal an estimated \$1,230 per worker per year. This figure (\$1,230) was multiplied by the number of new full-time equivalent

¹ Measure P was a voter-approved measure passed in November 2016 to provide funding for neighborhood safety and general city services in East Palo Alto.

employees to estimate the total taxable sales that would be generated by new employee retail spending. Table 3 shows the projected change in sales tax revenues resulting from this new employee spending. As shown, new taxable retail purchases by employees would generate approximately \$12,900 annually in additional sales tax revenue to the City of East Palo Alto's General Fund.

Table 3: Projected Change in Annual Sales Tax Revenue at Project Buildout

Projecting Sales Tax Revenue	Net Change
Projected Workers Employed at the Project (a)	720
Est. Annual Taxable Retail Sales in East Palo Alto Generated by Workers Employed at the Project	\$886,259
Projected Sales Tax Revenue to the City	\$12,851
Assumptions	
Total Taxable Retail Sales in East Palo Alto per Worker (b)	\$1,231
City Revenue Share of Taxable Retail Sales	1.45%

Notes:

(a) As calculated in Table 1.

(b) Based on data from the International Council of Shopping Centers (ICSC), Office-Worker Retail Spending in a Digital Age, 2012. Spending estimates adjusted to 2020 dollars and adjusted based on the available retail offerings in East Palo Alto. Figures assume that taxable sales comprise 30 percent of purchases at drug and grocery stores.

Sources: ICSC, 2012; BAE, 2021.

Business-to-Business Sales Tax Revenue Potential

In addition to sales tax from worker spending, the Project could potentially generate sales tax revenue through business-to-business and other non-retail transactions for which East Palo Alto is identified as the point of sale. As opposed to retail transactions where the point of sale is at the retail location, for non-retail sales of taxable goods to final users, the State Board of Equalization defines the point of sale as the seller's location where the principal sales negotiations are carried out – typically the company sales office. Silicon Valley companies that sell computers, telecommunications hardware, and other equipment subject to sales tax can generate significant business-to-business sales taxes that accrue to the local jurisdictions where company offices are located. Conversely, many office tenants in Silicon Valley and elsewhere do not generate any business-to-business sales tax.

This analysis assumes that the Project would not generate any revenue to the City of East Palo Alto in the form of business-to-business sales tax due to a lack of information regarding specific tenants as of the date of the publishing of this report. To the extent that tenants of the Project do generate business-to-business sales tax to the City of East Palo Alto, the revenues from the Project would be higher than estimated in this analysis.

Property Taxes

The property taxes that accrue to a City are a function of the assessed value of real property and the City's share of the property tax collected for each parcel. Property in California is subject to a base 1.0 percent property tax rate, which is shared among local jurisdictions including the County, City, and special districts. The State requires that a portion of property tax revenues also be allocated to countywide Education Revenue Augmentation Funds ("ERAF") to offset state expenditure on local K-14 education. In addition to the base 1.0 percent tax rate, Voter Approved debt rates apply to most properties to pay for school district bonds or other special purposes, which vary by property location, and are restricted for specific uses. The share of property tax that is allocated to each taxing jurisdiction and the Voter Approved debt rates that apply are based on the Tax Rate Area (TRA) where each property is located. This analysis evaluates impacts to the City's General Fund operating budget, which receives a share of the base 1.0 percent property tax but does not receive revenue from any Voter Approved debt rates.

The Project Site consists of two parcels. One parcel is currently utilized as a parking lot and does not feature any structures or other improvements. The second much larger parcel includes additional parking area and the existing office building at 2000 University Avenue, which would not be altered by the Project. The current assessed value of the Project Site totals approximately \$143 million, according to the San Mateo County Treasurer-Tax Collector, as shown in Table 4.

Table 4: Current (2020) Assessed Value of Project Site

Parcel #	Assessed Value			Parcel Notes
	Land	Improvements	Total	
063-680-110	\$4,373,492	\$0	\$4,373,492	Parking lot parcel
063-680-190	\$50,732,574	\$87,469,962	\$138,202,536	Shared with 2000 University office bldg.
Total	\$55,106,066	\$87,469,962	\$142,576,028	

Sources: San Mateo County Treasurer-Tax Collector's Office, 2020; BAE, 2020.

In California, Proposition 13 provides that the assessed value of land and improvements cannot increase by more than two percent per year, except when a property is transferred to a new ownership entity, in which case the County re-assesses the property at the current market value; or for construction of new improvements, in which case the County re-assesses the property by the value of the construction. The County Assessor bases the assessed value of new improvements on: 1) the construction cost of new improvements, 2) the income value of the property and/or 3) the sale price of recently-sold, comparable properties. The Assessor may use one, two, or all three of these methods to assign an assessed improvement value to a project following construction.

This analysis assumes the Project site would not be sold before, during, or immediately after development of the Project, which means the site's land value would not be reassessed as a result of the Project; the assessed land value for the Project site would be equal to the current assessed value plus standard annual escalations. Moreover, the Project is not expected to result in the demolition or alteration of the existing improvements on the site (i.e., the 2000 University Avenue office building), meaning the value of existing improvements would not change beyond the standard annual escalation. Consequently, the change in assessed value from the Project is assumed to be equal to the increase in improvement value from the new improvements.

This analysis uses the estimated construction costs for the Project to estimate the increase in assessed value from the Project at buildout. This approach typically leads to a lower estimate of assessed value than the other two methods, and therefore provides a conservative estimate of the assessed value of the Project at buildout. As shown in Table 5 below, this analysis assumes that construction costs for the Project would total an estimated \$158 million. The cost of site improvements and the office building shell, shown in Table 5, reflect construction cost assumptions provided in a study prepared for the City of East Palo Alto in December 2018 (AECOM, "City of East Palo Alto Development Impact Fee Program Financial Feasibility Technical Memorandum"), with a cost escalation to 2020 dollars based on the construction cost inflation index published by RS Means. The costs for tenant improvements and the underground parking structure, also reported in Table 5, are estimated based on BAE's review of similar projects in the region and are consistent with other published sources.²

With a net assessed value increase of \$158 million, the Project would generate \$1.6 million in base one-percent property tax revenue. The Project site's two parcels are each located in a different TRA with a slightly different distribution of property tax revenues between taxing entities. In one TRA, the City of East Palo Alto receives 29.6 percent of the base one-percent property tax revenue, while in the other it receives 31.5 percent, including the estimated contribution to ERAF after dissolution of the successor agency which is estimated to occur in 2032. During or after the development process, the two parcels may be combined into a single parcel in a single TRA. Alternatively, the Assessor may distribute the added improvement value from the Project between the two parcels. This analysis applies the average distribution to the City from the two parcels—30.5 percent, including the estimated contribution to ERAF after dissolution of the successor agency which is estimated to occur in 2032—which effectively assumes the net new assessed value from the Project is distributed equally between the two parcels and TRAs. This is likely a conservative estimate, as the

² This analysis did not use the tenant improvement costs from the December 2018 "City of East Palo Alto Development Impact Fee Program Financial Feasibility Technical Memorandum" because the figures from the December 2018 memorandum include the landlord allowance only, whereas the assessed value would be based on the total tenant improvement cost (landlord share + tenant share). The memorandum also did not include parking costs for underground construction, which are typically significantly higher than costs for above-ground structured parking.

majority of the Project site is located in the TRA with the larger distribution to the City. Based on this assumption, the Project would generate approximately \$483,200 per year in property tax revenue to the City of East Palo Alto.

However, the proposed project is located in tax rate areas that are subject to Redevelopment Dissolution statutes, which affects the City property tax revenue that the project will generate for the City in the short term in various ways that are not fully captured in Table 5. Under the statutes, statutory pass-throughs and negotiated agreement payments, together with recognized obligations of the former Redevelopment Agency of the City of East Palo Alto, are deducted prior to distribution of the residual property tax to taxing entities. In the area where the project would be located, the required pass throughs result in a 20.47-percent reduction in any incremental increase in the City's share of the base 1.0 property tax. This reduction will continue until the Redevelopment Successor Agency is dissolved, which is projected to occur in 2032. However, the County of San Mateo does not include assessed value growth in Redevelopment project areas in the ERAF calculation, which partially counteracts this reduction in the City's property tax revenue from the project site. The City's pre-ERAF property tax distribution from the project site is equal to approximately 32.7 percent of the base 1.0 percent property tax, rather than the 30.5 post-ERAF percentage shown in Table 5. Therefore, the effective City share of the 1.0 percent property tax revenue prior to dissolution of the Successor agency is 26.04 percent (32.7 percent, less 20.47 percent). Therefore, annual City property tax revenues attributable to the project would total approximately \$412,000 prior to dissolution of the Successor Agency, approximately \$71,300 less than shown in Table 5.

Table 5: Projected Change in Annual Property Tax Revenue to the City of East Palo Alto at Project Buildout

	Est. Cost of Construction
Projecting Increase in Assessed Value of Project Site	
Site Improvements	\$3,506,488
Office Shell	\$62,100,000
Tenant Improvements	\$25,200,000
Parking Garage	\$41,040,000
Soft Costs (a)	\$26,369,298
Est. Total Construction Costs	\$158,215,786
Projected Increase in Assessed Value at Project Buildout (b)	\$158,215,786
Projecting Net New Property Tax Revenues to the City	Net Change
Net Increase (Decrease) in Base 1% Property Tax Revenue (c)	\$1,582,158
Approx. City Share of 1% Base Property Tax Revenue (d) (e)	30.5%
Net Change in Property Tax Revenue to the City	\$483,212
Assumptions	
Site Improvements Costs	
Site Square Footage	92,276
Cost per Site Square Foot (f)	\$38
Office Shell Costs	
Project Square Footage	180,000
Cost per Square Building Foot (f)	\$345
Tenant Improvements Costs	
Project Square Footage	180,000
Cost per Building Square Foot (g)	\$140
Parking Garage Costs	
Project # of Spaces	513
Cost per Space (h)	\$80,000

Notes:

Figures in this table show the estimated property tax revenue from the project in 2020 dollars after dissolution of the Redevelopment Successor Agency, which is estimated to occur in 2032.

(a) Soft costs estimated to total 20 percent of the cost of site improvements, the office shell, tenant improvements, and parking garage.

(b) This analysis assumes the assessed land value of the site would not change as a result of the project. Therefore, the change in the site's assessed value would be equal to the change in its improvement value, as determined by the construction cost of new improvements.

(c) The actual property tax rate is slightly higher than 1.0 percent due to supplemental add-on taxes. These supplemental taxes are reserved for specific uses and do not accrue to the City's General Fund, and are therefore excluded from this analysis.

(d) The share of the base one percent property tax revenues is net of the estimated shift of revenues to the Educational Revenue Augmentation Fund (ERAF).

(e) This is a conservative estimate based on averaging two distribution percentages. The project site is located within two Tax Rate Areas (TRAs), each with a slightly different distribution of the base property tax revenue to the City. In TRA 021-040, the parcel that comprises most of the project site, 31.5 percent of base property tax revenue, after adjusting for ERAF, goes to the City. In TRA 021-039, a smaller parcel, 30.0 percent of post-ERAF base revenues is distributed to the City. Averaging these two figures produces a smaller, and therefore more conservative, revenue estimate than if the figure for the larger parcel were applied on its own. This property tax distribution reflects the estimated distribution after the dissolution of the Redevelopment Successor Agency, as discussed in the body of this report.

(f) Cost estimates are sourced from a December 2018 study prepared for the City of East Palo Alto by AECOM. BAE adjusted the 2018 estimates to 2020 dollar equivalent by applying a regionally-specific construction cost inflator from RS Means.

(g) Tenant improvement costs are based on cost estimates provided for the University Plaza Phase II project in East Palo Alto, adjusted to 2020 estimates by applying a regionally-specific construction cost inflator from RS Means. These costs include the landlord and tenant share of tenant improvement costs and are consistent with tenant improvement cost estimates provided in the JLL US and Canada Fit Out Guide.

(h) Cost per underground parking space based on BAE experience with recent projects in San Mateo County.

Sources: AECOM, "City of East Palo Alto Development Impact Fee Program Financial Feasibility Technical Memorandum," December 2018; JLL, 2019; San Mateo County Controller's Office, 2020; BAE, 2020.

In addition to the property tax revenue shown in Table 5, the project would generate approximately \$450,000 per year in revenue from a parcel tax assessed on office properties in East Palo Alto. In November 2018, East Palo Alto voters approved a ballot measure to assess a parcel tax on all office buildings in the City at a rate of \$2.50 per office square foot. Revenue from the parcel tax would accrue to a special fund and be used to create and maintain affordable housing programs and programs that facilitate job opportunities for East Palo Alto residents, with an emphasis on jobs in the science, technology, engineering, and mathematics sectors and building trades. Because this revenue is reserved for special purposes and the City would not be able to use revenue from the parcel tax to directly offset the cost of providing services to the service population associated with the Project, this analysis does not include this source of revenue in the calculations of the net fiscal impact.

Property Tax In-Lieu of Vehicle License Fee Revenues

Beginning in FY 2005-2006, the State ceased to provide “backfill” funds to counties and cities in the form of Motor Vehicle In-Lieu Fees (VLF) as it had through FY 2004-2005. As a result of financial restructuring enacted as part of the State’s budget balancing process, counties and cities now receive revenues from the State in the form of what is known as property tax in-lieu of vehicle license fees, or ILVLF. This State-funded revenue source is tied to a city’s total assessed valuation. In FY 2005-2006, former VLF revenues were swapped for ILVLF revenues, which set the local jurisdiction’s ILVLF “base.” The base increases each year thereafter in proportion to the increase in total assessed valuation within the jurisdiction. For example, if total assessed valuation increases by five percent from one year to the next, the ILVLF base and resulting revenues would increase by five percent.

City staff have warned that the City is not necessarily guaranteed to receive the ILVLF funds to which it is entitled in future years. The complicated process through which the State indirectly funds the ILVLF payments has not been functioning as intended in San Mateo County in recent years.³ As a result, the County has had to request special appropriations from the State

³ The State directs counties to issue ILVLF payments using funds in the county’s Educational Revenue Augmentation Fund (ERAF) account. ERAF monies are local property tax revenues that are diverted from localities and allocated to school districts that require State aid to meet mandated funding targets (i.e., “non-basic aid” districts), thereby reducing the State’s funding obligations to such districts in the school funding formula. This arrangement acts as an indirect transfer of funds from localities to the State. To meet its ILVLF obligations to localities, the State uses the same infrastructure of indirect transfers through ERAF, only in reverse. By directing ERAF funds to ILVLF payments rather than to non-basic aid districts, the State increases its funding obligations to those districts. If there are insufficient funds in a County’s ERAF account to fund the ILVLF payments, the State directs County controllers to draw upon non-basic aid school districts’ local property tax revenues; the State will reimburse the districts for their lost revenues in the school funding formula. Put simply, the State funds its ILVLF obligations by directing funds away from non-basic aid school districts and then backfilling those funds through the school funding formula. However, this process has broken down in San Mateo County in recent years. Strong assessed value growth in the County has increased ILVLF obligations to localities. Coupled with declining school enrollment, assessed value growth has also resulted in several previously non-basic aid districts in the County to convert to basic aid status, thereby reducing the revenue base from which the County can draw to fund ILVLF

Legislature to issue ILVLF payments to cities. Such appropriations are not guaranteed year to year, and the State has not yet taken permanent action to address the ILVLF funding issues experienced by San Mateo County.

As shown in Table 6, the City of East Palo Alto’s estimated ILVLF allocation was equal to \$4.9 million per in FY 2020-2021. This amounts to roughly \$1.31 per \$1,000 in assessed value citywide. Since the Project is anticipated to increase the City’s total assessed value by approximately \$158 million, it would increase the City’s annual ILVLF revenues by an estimated \$207,100.

Table 6: Projected Change in Annual Property Tax In Lieu of Vehicle License Fee Revenue at Project Buildout

Projecting Property Tax ILVLF Net Revenue	Net Change
Total Assessed Value in East Palo Alto, FY 2020-21	\$3,711,878,607
Estimated ILVLF Payment to the City, FY 2020-21	\$4,859,865
ILVLF per \$1,000 in Assessed Value	\$1.31
Net Increase (Decrease) in Assessed Value at Project Buildout (a)	\$158,215,786
Net Change in Property Tax ILVLF Revenues to the City	\$207,148

Note:

(a) As calculated in Table 5.

Sources: San Mateo County Office of the Assessor-County Clerk-Recorder, 2020; City of East Palo Alto, 2021; BAE, 2021.

Utility User Tax

The City receives revenue from a five-percent Utility User Tax (UUT) on electric, gas, water, telephone, and cable-television services. According to City staff, the City is anticipating receipt of approximately \$1.5 million in UUT revenue in 2020-2021, averaging \$46.16 per service population unit. Once complete and fully occupied, the Project would generate an increase in the City’s service population based on the calculations shown in Table 1. Assuming a commensurate increase in the amount of UUT revenue collected each year, the Project would generate UUT revenues of approximately \$11,100 annually, as shown in Table 7.

payments. As a result, the County has not had sufficient funds to issue ILVLF payments. The County has had to request direct appropriation from the State to obtain the funds necessary to issue ILVLF payments.

Table 7: Projected Change in Annual Utility User Tax Revenue at Project Buildout

<u>Projecting Utility User Tax Net Revenue</u>	<u>Net Change</u>
Utility User Tax Revenues per Service Population Unit	\$46.16
New Service Population (a)	240
Net Change in Utility User Tax Revenue to the City	\$11,078
Assumptions	
FY 2020-21 Est. Utility User Tax Revenue (b)	\$1,500,000
Citywide Existing Service Population (c)	32,496

Note:

(a) As calculated in Table 1.

(b) Figure sourced from the City of East Palo Alto's Fiscal Year 2020-2021 Proposed Budget.

(c) As calculated in Table 2.

Sources: City of East Palo Alto, 2021; BAE, 2021.

Business License Fee Revenues

The City of East Palo Alto assesses business license fees on businesses that operate within City limits. The City's annual business license fee rate for most businesses is based on annual gross receipts, with higher business license fees for businesses with higher gross receipts. This analysis uses an estimate of \$0.50 in annual business license fee revenue per square foot of office space, which is based on an analysis by City staff of the business license fee revenue from existing office buildings in the City. Based on this assumption, the Project would generate \$90,000 per year in business license fee revenue to the City of East Palo Alto.

Table 8: Projected Change in Annual Business License Fee Revenues at Project Buildout

<u>Projecting Business License Fee Net Revenue</u>	<u>Net Change</u>
Est. Business License Fee per Square Foot of Office Space (a)	\$0.50
Office Square Footage in Project (b)	180,000
Net Change in Business License Fee Revenue to the City	\$90,000

Notes:

(a) Estimate based on City analysis of business license fee revenue from existing office properties in East Palo Alto.

(b) As reported in Table 1.

Sources: City of East Palo Alto, 2021; BAE, 2021.

Franchise Fees, Fines, and Forfeitures

Franchise fees are paid by water, gas, electricity, cable television, and solid waste collection utilities in exchange for the right to provide services within East Palo Alto. Franchise fees are generally set as a percentage of gross receipts and increase as expenditures on utilities increase. Fine revenues are primarily collected for parking and traffic citations, and would be expected to increase as the employment base of the City grows. According to the FY 2020-2021 Proposed Budget, the City receives approximately \$41.85 per member of the service population in franchise fees, fines, and forfeitures revenue. At this rate, the additional service

population from the Project would generate approximately \$10,000 annually in franchise fees, fines, and forfeitures revenue.

Table 9: Projected Change in Other Annual Revenues at Project Buildout

Projecting Other Revenues (a)	Net Change
New Service Population (b)	240
"Other Revenues" per Service Population Unit	\$41.85
Net Change in Other Revenues to City	\$10,044
Assumptions	
FY 2020-21 Est. Franchise Fees Revenue (c)	\$965,000
FY 2020-21 Est. Fines and Forfeitures Revenue (c)	\$395,000
Total FY 2020-21 Other Revenues	\$1,360,000
Citywide Existing Service Population (d)	32,496

Notes:

- (a) "Other Revenues" are defined here as Franchise Fees, Fines, and Forfeitures.
- (b) As reported in Table 1.
- (c) Figures sourced from the City of East Palo Alto's Fiscal Year 2020-2021 Proposed Budget.
- (d) As calculated in Table 2.

Sources: City of East Palo Alto, 2020; BAE, 2020.

Summary of Annually Recurring General Fund Revenues

As shown in Table 10, the Project would result in a net increase of approximately \$814,300 in annual General Fund revenues to the City of East Palo Alto at full buildout. Approximately 59 percent of these revenues would be from property tax, while approximately 25 percent would be from ILVLF. Business license fees would contribute approximately 11 percent of revenues. New revenues from sales tax, UUT, and other sources of General Fund revenue from the Project would have an additional small positive impact on annual General Fund revenues to the City.

Table 10: Summary of Net Change in Annually Recurring Revenues to the City of East Palo Alto General Fund at Project Buildout

Source of Revenue	General Fund Revenues Generated by the Project	
	Total	% of Total
Sales Tax	\$12,851	1.6%
Property Tax	\$483,212	59.3%
Property Tax ILVLF	\$207,148	25.4%
Utility User Tax	\$11,078	1.4%
Business License Fee	\$90,000	11.1%
Other Revenues	\$10,044	1.2%
Total Net Change in Revenue	\$814,333	100.0%

Note:

Only revenues that accrue to the General Fund are calculated.

Source: BAE, 2020.

Projected Annual Service Cost Impacts

In order to maintain current service levels, the City's General Fund expenditures would generally increase as the service population increases, with some exceptions for General Fund expenditures that tend to be relatively fixed and do not change based on changes in the service population. For this fiscal impact analysis, the City's Director of Finance assisted with identifying annual expenditures for each City department that the City would likely not need to increase to maintain service levels as the service population increases (fixed costs), and those that would typically need to increase to provide the City's current level of service to a larger service population (variable costs). For the purposes of this analysis, fixed costs include all City Council costs, salaries for department heads and the chief of police, and City tree maintenance, among other costs. The Director of Finance also provided estimates of the charges for service and other department revenues that offset variable costs in each department. Table 11 shows the resulting estimated variable costs, net of offsetting revenues, along with the current net variable cost per member of the service population.

As shown, the City's net variable costs currently total an estimated \$685 annually per member of the service population. This means that the City would need to add \$685 to its annual budget for each new member of the service population (\$685 per resident and \$228 per worker) to maintain current levels of service, including costs associated with the addition of staff, equipment, and/or supplies needed to provide services to new development. It should be noted that these estimated service costs do not account for any existing service deficiencies unrelated to growth or the proposed project, and therefore may underestimate the full cost to provide municipal services in a scenario in which the City was able to fully fund all services.

Table 11: City of East Palo Alto Annual General Fund Operating Expenditures, FY 2020-2021

Department	FY 2020-21 General Fund Expenditures	Plus: Transfers and Reserves (a)	Less: Expenditures Not Affected by Growth (b)	Less: Charges for Services and Other Offsetting Revenues (c)	Net Variable General Fund Expenditures	
					Total	Per Svc. Pop. Unit
General Government						
City Council	\$182,265	\$0	(\$120,415)	\$0	\$61,850	\$1.90
City Attorney	\$782,515	\$88,795	(\$311,045)	\$0	\$560,265	\$17.24
City Clerk	\$274,005	\$57,100	(\$201,580)	\$0	\$129,525	\$3.99
City Manager	\$1,534,575	\$82,990	(\$734,480)	\$0	\$883,085	\$27.18
Admin. Services	\$1,151,605	\$780,125	(\$558,475)	(\$24,500)	\$1,348,755	\$41.51
Finance	\$1,252,355	\$196,285	(\$398,994)	\$0	\$1,049,646	\$32.30
Comm. & Econ. Dev.	\$3,044,105	\$2,213,210	(\$458,510)	(\$3,044,500)	\$1,754,305	\$53.99
Police	\$12,271,005	\$718,070	(\$326,450)	(\$405,500)	\$12,257,125	\$377.19
Public Works	\$3,764,955	\$1,094,470	(\$554,925)	(\$380,000)	\$3,924,500	\$120.77
Non-Departmental (d)	\$589,200	\$0	(\$297,000)	\$0	\$292,200	\$8.99
Total Expenditures	\$24,846,585	\$5,231,045	(\$3,961,874)	(\$3,854,500)	\$22,261,256	\$685.05

Assumptions

Citywide Existing Service Population (e) 32,496

Notes:

Budgeted expenditures are sourced from the City of East Palo Alto's Fiscal Year 2020-2021 Baseline Budget Ledger. Adjustments were provided by City staff in consultation with BAE.

(a) Includes reserve fund costs directly or indirectly attributable to division operations.

(b) Represents fixed expenditures that would not be impacted as a result of the project, such as executive compensation.

(c) Includes revenues that accrue to the General Fund only. These include, but are not limited to, charges for service, development service fees, building fees, engineering fees, and police service fees.

(d) Non-departmental expenses do not include capital and technology or overhead allocation due to City assessment that these expenses are not impacted by growth.

(e) As calculated in Table 2.

Sources: City of East Palo Alto, 2020-2021; BAE, 2021.

Table 12 applies the current net variable costs per member of the service population from Table 11 to the service population associated with the Project to estimate the General Fund expenditure impacts associated with the Project. The projected expenditures account for increases in ongoing operating costs (e.g., salaries), but do not account for any one-time capital improvements that would be necessary to serve the Project. As shown, the Project would increase the City's total annual General Fund expenditures by approximately \$164,400, or 0.7 percent of the total General Fund expenditures shown in Table 11. The majority of this increase (55 percent) would be due to increases in Police Department expenses, while an additional 18 percent would be from Public Works expenses. As noted above, these cost estimates may understate total service costs because the expenditure estimates do not account for any existing service deficiencies.

Table 12: City of East Palo Alto General Fund Expenditure Impacts from the Project

Department	General Fund Expenditures per Service Pop. Unit (a)	General Fund Expenditures Generated by the Project	
		Total (b)	% of Total
General Government			
City Council	\$1.90	\$457	0.3%
City Attorney	\$17.24	\$4,138	2.5%
City Clerk	\$3.99	\$957	0.6%
City Manager	\$27.18	\$6,522	4.0%
Administrative Services	\$41.51	\$9,961	6.1%
Finance	\$32.30	\$7,752	4.7%
Community & Economic Dev.	\$53.99	\$12,956	7.9%
Police	\$377.19	\$90,525	55.1%
Public Works	\$120.77	\$28,984	17.6%
Non-Departmental	\$8.99	\$2,158	1.3%
Total Expenditures	\$685.05	\$164,411	100.0%

Assumptions

New Service Population (c)	240
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Notes:

(a) As calculated in Table 11.

(b) Equal to the net variable General Fund operating expenditures per service population unit multiplied by the new service population associated with the proposed project.

(c) As reported in Table 1.

Sources: City of East Palo Alto, 2020; BAE, 2021.

Summary of Net Fiscal Impact to the City of East Palo Alto General Fund

Table 13 summarizes the annual recurring net General Fund fiscal impact of the Project at full buildout and occupancy in constant 2020 dollars. The Project would increase the City's annual General Fund revenues by approximately \$814,300 and increase the City's annual General Fund expenditures by approximately \$164,400, resulting in a net positive fiscal impact of approximately \$649,900 per year once the Project is complete. This is equivalent to approximately 2.6 percent of the City's 2020-2021 General Fund Baseline Budget expenditures, as reported in Table 11. Even if the City did not accrue any of the net new property tax ILVLF revenues from the Project due to continued insufficient funds issues in San Mateo County, the Project would still be expected to record a net positive fiscal impact of \$442,800, or 1.8 percent of the City's 2020-2021 General Fund Baseline Budget expenditures.

Table 13: Annual Net Fiscal Impact to the City of East Palo Alto General Fund

University Circle Phase II	Net Change
Total Net Change in Revenue	\$805,333
Sales Tax	\$12,851
Property Tax	\$483,212
Property Tax ILVLF	\$207,148
Utility User Tax	\$11,078
Business License Fee	\$81,000
Other Revenues	\$10,044
Total Net Change in Expenditures	\$164,411
General Government	\$29,787
Community & Economic Dev.	\$12,956
Police	\$90,525
Public Works	\$28,984
Non-Departmental	\$2,158
Net Fiscal Impact	\$640,922

Note:
Figures are presented in constant 2020 dollars.

Source: BAE, 2021.

EMPLOYMENT OPPORTUNITIES ANALYSIS

The extent to which the Project would provide jobs that are accessible to East Palo Alto residents will depend in part on whether the jobs that the Project generates will align with East Palo Alto residents' educational backgrounds and work experience. This section of the report compares characteristics of the jobs that the Project would generate to characteristics of the City's labor force to assess the extent to which the Project would provide jobs that correspond to the occupational skills and backgrounds that are common among members of the East Palo Alto labor force.

Workforce Education and Employment Characteristics

This section provides data on levels of educational attainment and employment characteristics among residents in East Palo Alto and residents in San Mateo and Santa Clara Counties overall, as well as estimates of the likely characteristics for jobs that would be located in the project. These data provide insight on the extent to which the jobs located in the Project are likely to find employees within the East Palo Alto labor pool.

Industries of Employment

A significant portion of East Palo Alto residents work in industries that are not typically office-based, and therefore are unlikely to correspond to the types of jobs that would be located in the Project. As shown in Table 14, a significant share of East Palo Alto residents are employed in the health care and social assistance; administrative, support, waste management, and remediation; retail trade; accommodation and food services; and construction industries. More than half of all employed East Palo Alto residents work in one of these five industries.

Among office-based industries, jobs in San Mateo and Santa Clara Counties tend to be concentrated in the professional, scientific, and technical services; information; and finance and insurance industries, which collectively employ only 12 percent of employed East Palo Alto residents. Workers that live in East Palo Alto are underrepresented in these industries within the regional labor pool; while 26 percent of employed residents in San Mateo and Santa Clara County work in these industries, only 12 percent of employed East Palo Alto residents work in these industries.

Table 14: Employed Residents by Industry, City of East Palo Alto, 2020

Industry	City of East Palo Alto		Santa Clara & San Mateo Counties		East Palo Alto Share of Regional Total
	Number	Percent	Number	Percent	
Agriculture, Forestry, Fishing and Hunting	182	1.4%	6,918	0.5%	2.63%
Mining	0	0.0%	433	0.0%	0.00%
Utilities	0	0.0%	5,565	0.4%	0.00%
Construction	1,260	9.4%	78,119	6.0%	1.61%
Manufacturing	1,024	7.6%	185,161	14.2%	0.55%
Wholesale Trade	128	1.0%	27,378	2.1%	0.47%
Retail Trade	1,407	10.5%	100,498	7.7%	1.40%
Transportation and Warehousing	569	4.2%	45,852	3.5%	1.24%
Information	407	3.0%	57,025	4.4%	0.71%
Finance and Insurance	252	1.9%	45,358	3.5%	0.56%
Real Estate Rental and Leasing	220	1.6%	30,516	2.3%	0.72%
Professional, Scientific, and Technical Services	958	7.1%	234,558	17.9%	0.41%
Management of Companies and Enterprises	9	0.1%	2,500	0.2%	0.36%
Administrative, Support, Waste Mgmt & Remediation	1,436	10.7%	51,268	3.9%	2.80%
Educational Services	1,115	8.3%	106,929	8.2%	1.04%
Health Care and Social Assistance	1,800	13.4%	161,072	12.3%	1.12%
Arts, Entertainment, and Recreation	91	0.7%	17,484	1.3%	0.52%
Accommodation and Food Services	1,395	10.4%	63,044	4.8%	2.21%
Other Services (except Public Administration)	1,066	7.9%	51,857	4.0%	2.06%
Public Administration	122	0.9%	37,009	2.8%	0.33%
Total (a)	13,441	100%	1,308,544	100%	1.03%
Total Population in Labor Force	16,162		1,515,414		
Total Unemployed Residents	2,721		206,870		
Unemployment Rate	16.8%		13.7%		

Sources: Esri Business Analyst, 2020; BAE Urban Economics, 2020.

Occupational Mix

Table 15 below shows the occupations held by East Palo Alto residents as well as the estimated occupational mix for jobs that would be located in the Project. Because the Project applicant has not announced any specific tenants for the Project, BAE used the total employment count provided by the Project DEIR (720 workers) and then generated assumptions about the industry sector of workers that would be employed at the Project based on a selection of industry sectors likely to be office users. BAE then queried the U.S. Census Public Use Microdata Sample, or PUMS, data to identify the occupations held by residents of San Mateo and Santa Clara Counties that work in the assumed industries and applied the distribution from the PUMS dataset to the workers that would be employed at the Project.

As shown, jobs located in the Project are likely to consist of primarily computer/mathematical, management, and business/financial occupations, which comprise a comparatively small share of the jobs held by East Palo Alto residents. Approximately 10 percent of employed East Palo Alto residents work in occupations that fall into these three categories. Among employed residents in San Mateo and Santa Clara Counties overall, 30 percent work in occupations that fall into these three industries, making residents in the wider two-County labor pool approximately three times more likely than East Palo Alto residents to have experience working

in these occupations. Overall, an estimated 94 percent of jobs in the Project would consist of occupations that account for approximately 35 percent of the occupations held by East Palo Alto residents.

Table 15: Employed East Palo Residents by Occupation and Estimated Occupational Mix Among Workers in the Project

Occupation	Project Employment (a)		Employed Residents, City of East Palo Alto		Employed Residents, 2-County Region (b)	
	Number	Percent	Number	Percent	Number	Percent
Computer/Mathematical	170	23.6%	330	2.5%	128,292	9.8%
Management	132	18.4%	739	5.5%	181,703	13.9%
Business/Financial	123	17.1%	291	2.2%	85,604	6.5%
Office/Administrative Support	71	9.8%	1,802	13.4%	134,616	10.3%
Architecture/Engineering	45	6.3%	189	1.4%	69,744	5.3%
Life/Physical/Social Science	43	5.9%	79	0.6%	23,263	1.8%
Sales and Sales Related	41	5.8%	1,044	7.8%	113,624	8.7%
Arts/Design/Entertainment/Sports/Media	36	5.0%	238	1.8%	29,695	2.3%
Legal	19	2.6%	19	0.1%	18,993	1.5%
All Other Occupations	40	5.6%	8,710	64.8%	523,010	40.0%
Total (a)	720	100%	13,441	100%	1,308,544	100%

Notes:

Total may not match other tables due to independent rounding.

(a) Estimate is based on the workers from a matrix of assumed industry sectors by occupation for the proposed project, using the U.S. Census Public Use Microdata Sample (PUMS) for Santa Clara and San Mateo Counties, 2014-2018 Five-Year Data.

(b) The two-county region consists of San Mateo and Santa Clara Counties.

Sources: Esri Business Analyst, 2020; U.S. Census PUMS; IMPLAN, 2018; BAE, 2021.

Educational Attainment

Table 16 below provides information on the levels of formal educational attainment among East Palo Alto residents and the likely levels of educational attainment among workers employed at the Project. As shown, approximately two thirds of East Palo Alto residents aged 25 years or older are high school graduates, while 20 percent have a bachelor's degree or higher. Approximately 48 percent of residents age 25 and older have a high school diploma but no bachelor's degree, a small portion of which have an associate degree. These data indicate that jobs that do not require a college degree are more likely to provide employment opportunities for East Palo Alto residents than jobs that do require a college degree.

Data on the levels of educational attainment for workers in the industries that are likely to occupy the Project indicate that the Project would primarily employ workers with bachelor's degrees and more advanced degrees. As shown in Table 16, more than 80 percent of the workers employed in industries that are likely to occupy the project have a bachelor's degree or higher. Approximately one percent of these workers do not have a high school diploma, while 18 percent have a high school diploma and no bachelor's degree. These percentages indicate that an estimated 289 workers employed at the Project would have a graduate or professional degree, 292 would have a bachelor's degree but no higher degree, 130 would

have a high school diploma and no bachelor's degree, and less than 10 would not have a high school diploma.

Table 16: Educational Attainment Among East Palo Alto Residents Age 25+ and Estimated Educational Distribution of Workers in Project

	Project Employment (a)		City of East Palo Alto Population 25+		2-County Region Population 25+ (b)	
	Number	Percent	Number	Percent	Number	Percent
Less than 9th Grade	3	0.4%	3,743	22.2%	109,863	6.0%
9th to 12th Grade, No Diploma	6	0.8%	1,679	10.0%	83,214	4.5%
High School Graduate Incl. Equivalency	32	4.5%	4,163	24.7%	264,836	14.4%
Some College, No Degree	68	9.5%	3,177	18.9%	276,987	15.1%
Associate Degree	30	4.2%	703	4.2%	129,164	7.0%
Bachelor's Degree	292	40.5%	2,086	12.4%	522,617	28.5%
Graduate/Professional Degree	289	40.1%	1,279	7.6%	448,191	24.4%
Total	720	100.0%	16,830	100.0%	1,834,872	100.0%
No High School Diploma	9	1.3%	5,422	32.2%	193,077	10.5%
High School Diploma or Higher	711	98.7%	11,408	67.8%	1,641,795	89.5%
Bachelor's Degree or Higher	580	80.6%	3,365	20.0%	970,808	52.9%

Note:

(a) Estimate is based on the educational attainment for workers from a matrix of assumed industry sectors for the proposed project, using the U.S. Census Public Use Microdata Sample (PUMS) for Santa Clara and San Mateo Counties, 2014-2018 Five-Year Data.

(b) The two-county region consists of San Mateo and Santa Clara Counties.

Sources: U.S. Census PUMS; BAE, 2021.

Findings

Overall, the jobs that would be located in the Project are likely to be skewed toward jobs that require educational and occupational backgrounds that are underrepresented within the East Palo Alto labor pool relative to the larger regional labor pool. The data presented in this section demonstrate that employment opportunities in the Project are likely to consist primarily of jobs in industries and occupations that differ from the types of employment experience that are most common among East Palo Alto residents. Residents within the larger regional labor pool are comparatively more likely than East Palo Alto residents to have experience working in these industries and occupations. The data presented in this section also indicate that employment opportunities in the Project would generally require higher levels of formal education relative to the levels of formal educational attainment among most East Palo Alto residents. Taken together, these findings suggest that the bulk of the employment opportunities offered by the Project may be somewhat inaccessible to most East Palo Alto residents.

Despite these findings, it is likely that the Project would provide some employment opportunities for East Palo Alto residents. In part, this is because the tables presented above demonstrate that a portion of the East Palo Alto labor pool has the industry, occupation, and education background that the majority of jobs in the Project are likely to require, albeit in

lower proportions than the regional labor pool. Other residents have the industry, occupation, and education background necessary for jobs that would comprise a smaller share of jobs in the Project, but which would nonetheless constitute a portion of the jobs that the Project would generate. In addition, East Palo Alto residents may be overrepresented in the applicant pool for employment opportunities in the Project as residents seek out jobs near their homes. This overrepresentation in the applicant pool could make East Palo Alto residents more likely to hold jobs located in the Project than other potential applicants with similar skills and experience. If any employers that occupy the Project emphasize local hiring preferences, the Project could offer more significant employment opportunities for local residents. Furthermore, individuals' educational and occupational backgrounds shift over time, and some East Palo Alto residents may pursue higher levels of formal education, change occupations or industries, or both. To the extent that residents' training and education shift over time to align more closely with the employment opportunities that the Project would offer, a larger proportion of job opportunities provided by the Project may be accessible to East Palo Alto residents. Taken together, these factors suggest that the Project may provide more jobs for East Palo Alto residents than the data suggest.

SUMMARY OF FINDINGS

The fiscal impact and educational requirements analyses described in this report demonstrate the following major findings:

- **University Circle Phase II is projected to have a positive net impact on the City of East Palo Alto's General Fund.** The fiscal impact analysis estimates that the project would have a positive net fiscal impact on the City of East Palo Alto General Fund, resulting in an estimated \$649,900 in annual General Fund revenues in excess of the estimated annual General Fund expenditures required for the City to provide services to the Project. Most of the revenues generated by the Project (85 percent) are from property tax and property tax in lieu of vehicle license fees (ILVLF). In total, the Project would require an estimated \$164,400 per year in General Fund expenditures from the City of East Palo Alto to provide municipal services to the Project, and would generate an estimated \$814,300 in annual revenues to the East Palo Alto General Fund. Should the City not accrue the ILVLF revenues generated by the Project due to ongoing challenges with the funding mechanism in San Mateo County, it would still see a net positive fiscal impact of approximately \$442,800 per year from the Project. It should be noted that the project is located in an area that is subject to Redevelopment Dissolution statutes, which will reduce the property tax revenue that the project will generate until obligations of the former Redevelopment Agency are dissolved, currently estimated to occur in October 2032. As a result, the total revenue and net fiscal impact from the project will be somewhat lower than cited above until approximately 2032. However, the net fiscal impact of the project would remain positive during this period, even if the project does not generate ILVLF revenues. The project would also generate approximately \$450,000 per year in revenue for affordable housing programs and programs that facilitate job opportunities for East Palo Alto residents due to a parcel tax approved by East Palo Alto voters in 2018.
- **Future employment opportunities at University Plaza Phase II would generally require work experience and levels of formal education that are inconsistent with the experience and levels of formal education that are most common among the City's residents.** Residents within the larger regional labor pool are comparatively more likely than East Palo Alto residents to have experience working in the industries and occupations that are likely to comprise the majority of employment opportunities at the Project. In addition, employment opportunities in the Project would generally require higher levels of formal education relative to the levels of formal educational attainment among most East Palo Alto residents. While these findings suggest that most employment opportunities offered by the Project would be inaccessible to most East Palo Alto residents, the Project would likely provide some employment opportunities for East Palo Alto residents. A portion of East Palo Alto residents already have the

industry, occupation, and education background that jobs in the Project are likely to require, while other residents may pursue higher levels of education and job training and change industries or occupations. If employers that occupy the Project make efforts to hire locally, these efforts could enhance the degree to which the Project provides jobs for East Palo Alto residents. The City of East Palo Alto has a First Source Hire policy that requires projects that receive assistance from the City and businesses that occupy those developments to hire local residents and use local small businesses. The City is currently considering expanding the policy to cover additional developments and businesses.

APPENDIX A: PROPERTY TAX REVENUE TO OTHER TAXING ENTITIES

Table A-1 presents the estimated property tax revenue from the Project to the various taxing entities that would service the Project. The estimates are based on the projected net increase in base one-percent property tax revenue from the Project, presented in Table 5 of the Fiscal Impact Analysis. Property tax revenue distribution factors for the Project’s tax rate areas were provided by the San Mateo County Controller’s Office. It is important to note that these figures represent only a single source of revenue from the Project and do not account for any costs to these agencies that the Project may generate. It should also be noted that the Ravenswood City Elementary School District is a non-Basic Aid district, and therefore any net increases in property tax revenue to the District are offset by reductions in State funding to maintain State-mandated overall per-student funding levels. Therefore, these figures do not represent the net fiscal impact that the project would have on these agencies.

Table A-1: Estimated University Circle Phase II Property Tax Revenue to Taxing Entities

Taxing Entity	Percent of Base 1% Property Tax Revenue (a)	Property Tax Revenue
City of East Palo Alto	30.5%	\$483,212
Ravenswood City Elementary School District	25.3%	\$400,215
Sequoia Union High School District	10.2%	\$160,704
Menlo Park Fire Protection District	9.1%	\$144,352
San Mateo County Community College District	4.4%	\$69,786
East Palo Alto Sanitary District	2.9%	\$46,535
San Mateo County	2.6%	\$41,219
County Office of Education	2.3%	\$36,317
All Other Taxing Entities	5.3%	\$84,447
Shifted to Educational Revenue Augmentation Fund (b)	7.3%	\$115,370
Assumption		
Net Increase (Decrease) in Base 1% Property Tax Revenue (c)		\$1,582,158

Notes:

(a) The project site is located within two Tax Rate Areas (TRAs), each with a slightly different distribution of the base property tax revenue to taxing entities. These percentages are the average of the distributions across the two TRAs. Figures reflect the effective percentage of revenues received by the taxing entity after the shift to the Educational Revenue Augmentation Fund (ERAF).

(b) The estimated share of revenues shifted from other taxing entities to ERAF based on data from the San Mateo County Controller’s Office.

(c) As calculated in Table 5.

Sources: San Mateo County Controller's Office, 2020; BAE, 2020.