MEMORANDUM

To: Catarina Kidd, City of Cupertino

From: Economic & Planning Systems, Inc.

Subject: Fiscal Analysis of the Westport Cupertino GPA Application, Alternative 1 and Alternative 2; EPS #171072

Date: July 17, 2017

The City of Cupertino retained Economic & Planning Systems, Inc. (EPS) to prepare this fiscal impact analysis of an application for a General Plan Amendment (GPA). The applicant is proposing a mixed-use project to be developed on an 8.1-acre site located at 21267 Stevens Creek Boulevard. The applicant has provided two alternative development options for the City (Alternative 1 and Alternative 2). The proposed Alternative 1 development envisions 42,000 square feet of retail, 605 residential units, including 67 below-market-rate apartments, and a five-screen boutique movie theater. Alternative 2 proposes to develop 280,000 square feet of office space, 42,000 square feet of retail, a 170 room hotel, 270 residential units, including 40 below-market-rate apartments, and a five-screen boutique movie theater.

The EPS analysis assesses the effects of both proposed development alternatives on the City of Cupertino's General Fund. The objective of the analysis is to quantify whether the proposed GPA will generate adequate revenues to cover the costs of providing ongoing services to associated new residents and employees. The analysis does not consider the impact of the proposals on potential capital facilities cost requirements or other one-time costs. The analysis compares the impact of the proposed GPA at buildout to the baseline impact of existing uses in the project area.

This fiscal analysis is intended as a planning-level document to inform land use policy. EPS does not make tenant-specific assumptions as project tenants likely will change over time. The analysis is based on the City's 2016-17 Adopted General Fund budget and presents findings in constant 2017 dollars.

A summary of fiscal impact estimates attributable to the proposed General Plan Amendments is provided below. Actual fiscal impacts will depend on a number of factors that cannot be predicted with certainty, including the market performance of the project, future changes in City or State budgeting practices, and the efficiency of various City

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departments in providing services. Key analytical inputs and assumptions used in this analysis are from the development application, City documents, information from City staff, and EPS industry knowledge.

Summary of Findings

1. ***Alternative 1 will result in an annual net negative fiscal impact to the City of Cupertino's General Fund while Alternative 2 will generate an annual net fiscal benefit.***

   It is estimated that GPA proposal Alternative 1 will result in a negative annual fiscal impact of approximately $146,000 on the City's General Fund, as shown in **Table 1**. Although net revenues are estimated to be $483,000 annually, an increase in General Fund expenditures of about $629,000 results in a negative net fiscal impact. It is estimated that GPA proposal Alternative 2 will result in a positive annual fiscal impact of $1.1 million on the City's General Fund, as shown in **Table 2**. The net increase in General Fund revenue from Alternative 2 is estimated at roughly $1.7 million more annually than existing uses. This compares with a net increase in General Fund expenditures estimated at approximately $535,000 more per year, over the existing uses onsite.

Table 1 Fiscal Impact Summary Alternative 1 (2017$)

Revenue / Expense Category	Alt 1. Fiscal Impact at Project Buildout	Fiscal Impact Baseline	Net Fiscal Impact
General Fund Revenues	$652,000	$169,000	$483,000
General Fund Expenditures	$673,000	$44,000	$629,000
Net Impact on General Fund	**($21,000)**	**$125,000**	**($146,000)**

Table 2 Fiscal Impact Summary Alternative 2 (2017$)

Revenue / Expense Category	Alt 2. Fiscal Impact at Project Buildout	Fiscal Impact Baseline	Net Fiscal Impact
General Fund Revenues	$1,834,000	$169,000	$1,665,000
General Fund Expenditures	$579,000	$44,000	$535,000
Net Impact on General Fund	**$1,254,000**	**$125,000**	**$1,129,000**

2. ***At Alternative 1 project buildout, property tax will account for the largest revenue source to the City from the project, while at Alternative 2 project buildout, transient occupancy tax will account for the largest revenue source to the City.***

   Property tax revenue is based on the estimated assessed value of the proposed project. The proposed development program for Alternative 1 results in an estimated assessed value of approximately $394.3 million dollars. The City levies a one percent property tax rate, with approximately 7.0 percent allocated to the General Fund.[1] The proposed Alternative 1 program is projected to generate $276,000 annually in property tax for the City General Fund.

   The City of Cupertino currently levies a 12 percent transient occupancy tax (TOT) on room revenue generated by hotels in the City. The proposed 170 hotel rooms included Alternative 2 are projected to generate over $8.7 million in annual room revenue, providing the City's General Fund with an estimated $1.0 million in annual TOT revenue. If the average room rate is lower than the anticipated $200 per night, TOT revenue will be lower. For example, an average room rate of $175 per night would generate an estimate $7.6 million in annual room revenue and $912,100 in TOT revenue. Under this scenario, the project's annual impact before consideration of baseline impacts on the General Fund would increase from $1.3 million to $1.1 million, as shown in **Table 3**.

Table 3 Hotel Sensitivity Analysis for Alternative 2 (2017$)

Revenue / Expense Category	Alt 2. Fiscal Impact ($200/Room Night)	Alt 2. Fiscal Impact ($175/Room Night)
General Fund Revenues	$1,834,000	$1,704,000
General Fund Expenditures	$579,000	$579,000
Net Impact on General Fund	**$1,254,000**	**$1,124,000**

Fiscal Impact on the General Fund

This section describes the methodology and key assumptions used to estimate the fiscal impacts of the proposed GPA. The analysis is based on information from three key sources:

(1) the GPA application material submitted
(2) interviews with City planning and finance staff
(3) existing EPS industry knowledge

EPS has developed a fiscal impact framework based on its in-house methodology and Cupertino-specific factors obtained from the sources above. EPS has not conducted an independent audit of the City's budget, performed in-depth interviews with service-providing City departments, or

[1] Property tax rate anticipated at project delivery; City of Cupertino 2016-17 Adopted Budget, page 80.

conducted detailed market analysis. EPS fiscal estimates differ from those provided by the applicant's consultant due to the differences in methodology and the analytical assumptions used. A notable difference between the studies is that the applicant's projection of revenues and cost includes a number of factors (e.g., revenues from fines and forfeitures and costs associated with the Innovation and Technology Department) which have been excluded from the EPS analysis, based on City guidance that these costs are unlikely to be affected by the project.

Proposed General Plan Amendment

The applicant is proposing a mixed-use project to be developed on the 8.1-acre site located at 21267 Stevens Creek Boulevard. The applicant has submitted two alternative developments for the site (Alternative 1 and Alternative 2). The proposed Alternative 1 development envisions 42,000 square feet of retail, 605 residential units, and a five-screen boutique movie theater. Alternative 2 proposes to develop 280,000 square feet of office space, 42,000 square feet of retail, a 170 room hotel, 270 residential units, and a five-screen boutique movie theater. **Table 4** and **5** presents the proposed GPA programs identified by the applicant. The table also presents EPS assumptions concerning the population and employment that would be supported by the project alternatives at buildout. A variety of revenues and costs included in this fiscal analysis are based on the anticipated "service population" shown in **Table 4** and **5** which weights a local employee's service burden at 50 percent of a resident's burden.

Table 4 Development Program and Service Population for Alternative 1

Item	Development Program		Resident or Worker Density Assumptions (1)		Population	Employment	Service Population (2)
Commercial Uses							
Retail	42,000	SF	400	SF / Employee		105	53
Movie Theater/Community Center	31,500	SF	1,100	SF / Employee		29	14
Subtotal	73,500	SF				134	67
Residential Rentals							
Market-Rate Apartments	538	DU	2.00	Residents / HH	1,076		1,076
Below-Market-Rate (Low-Income)	49	DU	1.50	Residents / HH	74		74
Below-Market-Rate (Very Low-Income)	18	DU	1.50	Residents / HH	27		27
Subtotal	67				1,177		1,177
Total	**605**	**DU**			**1,177**	**134**	**1,243**

(1) Household and employment densities vary based on specific tenant and space sizes. EPS assumptions reflect typical conditions.
(2) Per-person employee burden on City service is weighted at 50 percent of resident burden.

Table 5 Development Program and Service Population for Alternative 2

Item	Development Program		Resident or Worker Density Assumptions (1)		Population	Employment	Service Population (2)
Commercial Uses							
General Office	280,000	SF	250	SF / Employee		1,120	560
Retail	42,000	SF	400	SF / Employee		105	53
Movie Theater/Community Center	31,500	SF	1,100	SF / Employee		29	14
Subtotal	353,500	SF				1,254	627
Hotel	170	Rooms	1.0	Room(s) / Employee		170	85
Residential Rentals							
Market-Rate Apartments	230	DU	2.00	Residents / HH	460		460
Below-Market-Rate (Low-Income)	22	DU	1.50	Residents / HH	33		33
Below-Market-Rate (Very Low-Income)	18	DU	1.50	Residents / HH	27		27
Subtotal	40				520		520
Total	**270**	**DU**			**520**	**1,424**	**1,232**

(1) Household and employment densities vary based on specific tenant and space sizes. EPS assumptions reflect typical conditions.
(2) Per-person employee burden on City service is weighted at 50 percent of resident burden.

General Fund Revenues

New General Fund tax proceeds attributable to the proposed GPA will include sales tax, property tax, property tax in lieu of vehicle license fee (VLF), property transfer tax, TOT, utility user tax, franchise fees, and business licenses. **Table 6** provides a summary of the Cupertino 2016-17 Adopted General Fund revenue budget and a description of the forecasting method relied upon for each relevant revenue source.

Table 6 FY2016 - 17 Revenue Budget Summary and Fiscal Impact Estimating Factors

Item	FY2016-17 Total	Estimating Factors Applied to Estimate Project Revenue	
Sales Tax			
Business to Business Sales Tax (1)	$15,034,800	$0.20	per square foot of office
Other Sales Tax	$7,405,200	1.0%	of estimated taxable sales
Property Tax			
Property Tax in Lieu of VLF (2)	$7,106,000	1.8%	of Citywide Assessed Value
Other Property Tax	$11,635,000	7.0%	of base property tax rate (1%)
Transient Occupancy Tax	$6,708,000	12%	of total TOT revenue
Utility Tax	$3,122,000	2.4%	of utility bills
Franchise Fees	$2,900,000	$38.21	per service population
Other Taxes (3)	$1,600,000		
Construction Tax	$500,000	-	not estimated
Business License	$600,000	$17.67	per employee
Property Transfer Tax	$500,000	$0.55	per $1,000 in value
Licenses & Permits	$2,499,000	-	not estimated
Fines & Forfeitures	$776,980	-	not estimated
Use of Money & Property	$230,500	-	not estimated
Intergovernmental	$19,003,224	-	not estimated
Charges for Services	$600,000	-	not estimated
Miscellaneous	$383,300	-	not estimated
Total Revenues	**$79,004,004**		

(1) FY2016-17 total reflects 67% allocation of the sales tax total. Budget detail provided by the City.
Estimating factor reflects typical business-to-business sales tax generation in Silicon Valley offices.
(2) FY2016-17 total reflects 38% allocation of the property tax total. Budget detail provided by the City.
(3) FY2016-17 total reflects allocation of other taxes based on detail provided by the City.

Retail Sales Tax Revenue

The proposed GPA is expected to generate retail sales tax revenue accruing to the City of Cupertino from three sources. Project residents' household spending on retail in the City, project employee spending on retail in the City, and on-site retail sales will generate revenue for the General Fund.[2]

Household Spending

This fiscal analysis relies on data from the U.S. Bureau of Labor Statistic Consumer Expenditure Survey to establish the retail spending pattern of households. The spending patterns reflect household consumer behavior observed nationally for households with specified levels of annual income. This analysis uses anticipated residential rents to estimate household income. Then, to identify taxable retail expenditures made by project households, the analysis identifies and isolates taxable retail spending from total household spending. The analysis estimates that for market-rate units, households spend approximately 26.5 percent of gross household income on taxable retail purchases. For the below-market-rate senior housing units, this analysis estimates that nearly 32.1 percent of gross household income is spent on taxable retail purchases. The analysis assumes that about 25 percent of this taxable spending of new residents will be captured within the City.[3] Local taxable spending in Cupertino is multiplied by project households to determine average annual taxable sales.

Worker Spending

This analysis estimates worker spending based on spending patterns reported in the *Office-Worker Retail Spending in a Digital Age*, a research publication from the International Council of Shopping Centers (ICSC).[4] Similar to household spending data, these survey data were reviewed to identify taxable spending. The analysis estimates that each worker spends about $6,000 annually on taxable sales in the vicinity of their workplace. Because this spending is known to be near work, this analysis assumes that 50 percent of the taxable spending by project workers occurs within the city boundary. The taxable spending captured in Cupertino is multiplied by the number of workers supported by the proposed project.

On-Site Retail Sales

On-site retail sales are based on a taxable sales factor of $300 per square foot for retail and restaurant space and $50 per square foot for movie theater space. EPS adjusts retail sales to reflect net new sales within the City and to exclude the estimated resident and employee retail spending on-site. On-site retail sales are expected to generate the largest share of retail sales tax revenue attributable to the project. **Table 7 and 8** outlines sales tax revenue projections at buildout for Alternative 1 and Alternative 2, respectively.

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[2] Business-to-business (B2B) sales tax revenue is estimated in **Table 20** and **Table 21.**

[3] Capture rate assumption reflects EPS consultation with City of Cupertino's Economic Development Department concerning retail supply in the City.

[4] Michael P. Niemira and John Connolly, International Council of Shopping Centers. "Office-Worker Retail Spending in a Digital Age," 2012. Accessed online at: https://www.downtowndevelopment.com/pdf/icsc-report_office-worker-spending.pdf

Table 7 Retail Sales Tax Revenue for Alternative 1

Item	Assumptions		Annual Total at Buildout
Project Households Retail Purchases in Cupertino			
Estimated Annual Household Income			
Market Rate	30%	of income is rent	$136,000
Below Market Rate	30%	of income is rent	$56,872
Household Taxable Retail Spending (1)			
Market Rate	26.5%	percent of income	$36,057
Below Market Rate	32.1%	percent of income	$18,256
Weighted Average Household Spending			$34,086
Household Retail Spending in Cupertino (2)	25%	of retail expenditures	$8,521
Project Households			605
Net New Retail Sales Captured in Cupertino			**$5,155,495**
On-Site Sales			
New Retail Space (Sq.Ft.)			42,000
Gross Taxable Retail Sales (3)	$300	per square foot	$12,600,000
New Movie Theater Space (Sq.Ft.)			27,500
Gross Taxable Retail Sales from Movie Theater	$50	per square foot	$1,375,000
Total Gross Taxable Retail Sales			$13,975,000
Sales Net of Redistributed Sales in City (4)	80%	of total taxable sales	$11,180,000
Net New On-Site Taxable Sales (5)	86%	of net taxable sales	**$9,633,351**
Net New Taxable Retail Sales			**$14,788,847**
Total Sales Tax Revenue	1.0%	of taxable sales	**$147,888**

(1) Based on Bureau of Labor Statistics Consumer Expenditure Survey 2015 for respective income groups.

(2) Assumes 25 percent of taxable retail spending by Cupertino residents is captured by the retailers within the City based on discussions with the City's Economic Development Manager.

(3) ICSC Research.

(4) Assumes some sales shift from existing retailers in the city.

(5) Reflects net sales after 30% capture of new resident and office worker sales accounted for above.

Sources: State Board of Equalization, ICSC Research Survey, U.S. Bureau of Labor Statistics

Table 8 Retail Sales Tax Revenue for Alternative 2

Item	Assumptions		Annual Total at Buildout
Project Households Retail Purchases in Cupertino			
Estimated Annual Household Income			
Market Rate	30%	of income is rent	$124,800
Below Market Rate	30%	of income is rent	$52,465
Household Taxable Retail Spending (1)			
Market Rate	26.5%	percent of income	$33,088
Below Market Rate	32.1%	percent of income	$16,842
Weighted Average Household Spending			$30,681
Household Retail Spending in Cupertino (2)	25%	of retail expenditures	$7,670
Project Households			270
Net New Retail Sales Captured in Cupertino			**$2,070,968**
Project Employee Retail Purchases in Cupertino			
Daily Office Worker Taxable Spending (3)	$25.00	per work day	
Annual Office Worker Taxable Spending	240	workdays / year	$6,000
Cupertino Spending Capture	50%		$3,000
Office Workers			1,120
Net New Office Worker Taxable Spending in Cupertino			**$3,360,000**
On-Site Sales			
New Retail Space (Sq.Ft.)			42,000
Gross Taxable Retail Sales (3)	$300	per square foot	$12,600,000
New Movie Theater Space (Sq.Ft.)			27,500
Gross Taxable Retail Sales from Movie Theater	$50	per square foot	$1,375,000
Total Gross Taxable Retail Sales			$13,975,000
Sales Net of Redistributed Sales in City (4)	80%	of total taxable sales	$11,180,000
Net New On-Site Taxable Sales (5)	85%	of net taxable sales	**$9,550,710**
Net New Taxable Retail Sales			**$14,981,677**
Total Sales Tax Revenue	1.0%	of taxable sales	**$149,817**

(1) Based on Bureau of Labor Statistics Consumer Expenditure Survey 2015 for respective income groups.
(2) Assumes 25 percent of taxable retail spending by Cupertino residents is captured by the retailers within the City based on discussions with the City's Economic Development Manager.
(3) ICSC Research.
(4) Assumes some sales shift from existing retailers in the city.
(5) Reflects net sales after 30% capture of new resident and office worker sales accounted for above.

Sources: State Board of Equalization, ICSC Research Survey, U.S. Bureau of Labor Statistics

Property Tax Revenue

Property tax revenue is based on the estimated assessed value of the proposed project. Relying on the applicant's proposed development program, EPS estimates the assessed value of Alternative 1 and Alternative 2 at about $394.3 million and $415.7 million at buildout, respectively, as shown in **Table 9** and **Table 10**. Commercial value assumptions reflect a review of market data. Residential value assumptions are based on capitalized rents, as shown in **Table 11**, **Table 12, Table 13,** and **Table 14**. The City levies a one percent property tax rate, with approximately 7.0 percent allocated to the General Fund.[5]

Table 9 Property Tax Revenue for Alternative 1

Item	Assumption / Factor		Total at Buildout
Property Tax			
Assessed Value Estimate			
Retail	$600	Per Square Foot	$25,200,000
Market-Rate Rental	$635,000	Per Unit	$341,630,000
Below-Market-Rate Rental	$238,861	Per Unit	$11,704,184
Movie Theater/Community Center	$500	Per Square Foot	$15,750,000
Total Assessed Value			$394,284,184
Property Tax	1.0%	Base Property Tax Rate	$3,942,842
Cupertino General Fund Revenue (1)	7.0%	Allocation to Cupertino General Fund	**$275,999**
Property Tax In Lieu of VLF			
Existing Citywide Property Tax in Lieu of VLF			$7,106,000
Citywide Assessed Value (2)			$21,350,000,000
Project Net Assessed Value Increase (3)			1.85%
Property Tax In Lieu of VLF Revenue (4)			**$131,231**

(1) Legislation requires Counties to provide "no/low tax" cities with a Tax Equity Allocation equal to 7 percent of property tax share.
(2) FY2016-2017 value based on the Santa Clara County Assessor Annual Assessor's Report.
(3) Calculated by dividing the new assessed value by citywide assessed value.
(4) Calculated by multiplying existing property tax in lieu of VLF by project net assessed value increase.

[5] Property tax rate anticipated at project delivery; City of Cupertino 2016-17 Adopted Budget, page 80.

Table 10 Property Tax Revenue for Alternative 2

Item	Assumption / Factor		Total at Buildout
Property Tax			
Assessed Value Estimate			
Office	$600	Per Square Foot	$168,000,000
Retail	$600	Per Square Foot	$25,200,000
Market-Rate Rental	$582,000	Per Unit	$133,860,000
Below-Market-Rate Rental	$220,353	Per Unit	$4,847,766
Hotel	$400,000	Per Room	$68,000,000
Movie Theater/Community Center	$500	Per Square Foot	$15,750,000
Total Assessed Value			$415,657,766
Property Tax	1.0%	Base Property Tax Rate	$4,156,578
Cupertino General Fund Revenue (1)	7.0%	Allocation to Cupertino General Fund	**$290,960**
Property Tax In Lieu of VLF			
Existing Citywide Property Tax in Lieu of VLF			$7,106,000
Citywide Assessed Value (2)			$21,350,000,000
Project Net Assessed Value Increase (3)			1.95%
Property Tax In Lieu of VLF Revenue (4)			**$138,345**

(1) Legislation requires Counties to provide "no/low tax" cities with a Tax Equity Allocation equal to 7 percent of property tax share.
(2) FY2016-2017 value based on the Santa Clara County Assessor Annual Assessor's Report.
(3) Calculated by dividing the new assessed value by citywide assessed value.
(4) Calculated by multiplying existing property tax in lieu of VLF by project net assessed value increase.

Table 11 Market-Rate Housing Value Estimate for Alternative 1

Average Monthly Rent Per Square Foot (1)	$4.00
Average Unit Size (rounded) (2)	850
Monthly Gross Revenue Per Unit	$3,400
Annual Gross Revenue Per Unit	$40,800
Expense Ratio	30%
Net Operating Income	$28,560
Capitalization Rate	4.5%
Unit Value (rounded)	**$635,000**

(1) Based on review of apartment project rents in Cupertino.
(2) Average unit size provided by project applicant.

Table 12 Market-Rate Housing Value Estimate for Alternative 2

Average Monthly Rent Per Square Foot (1)	$4.00
Average Unit Size (rounded) (2)	780
Monthly Gross Revenue Per Unit	$3,120
Annual Gross Revenue Per Unit	$37,440
Expense Ratio	30%
Net Operating Income	$26,208
Capitalization Rate	4.5%
Unit Value (rounded)	**$582,000**

(1) Based on review of apartment project rents in Cupertino.
(2) Average unit size provided by project applicant.

Table 13 Below Market-Rate Housing Value Estimate for Alternative 1

Unit Distribution	
Very Low Income	27%
Low Income	73%
Average Income (1)	
Very Low Income	$39,100
Low Income	$63,400
Annual Maximum Rent (2)	
Very Low Income	$11,730
Low Income	$19,020
Net Operating Income (net of 30% expense ratio)	
Very Low Income	$8,211
Low Income	$13,314
Weighted Average	$11,943
Capitalized Value of Net Operating Income (5% Capitalization Rate)	**$238,861**

(1) Average annual income is based on State of California Department of Housing and Community Development income limits for Santa Clara County; the project is assumed to consist 50 percent 1-person and 50 percent of 2-person households at both low and very low income levels.
(2) Assumes annual rent maximum at 30% of gross income.

Sources: Department of Housing and Community Development, Countywide income limits for June 6, 2016.

Table 14 Below Market-Rate Housing Value Estimate for Alternative 2

Unit Distribution	
Very Low Income	45%
Low Income	55%
Average Income (1)	
Very Low Income	$39,100
Low Income	$63,400
Annual Maximum Rent (2)	
Very Low Income	$11,730
Low Income	$19,020
Net Operating Income (net of 30% expense ratio)	
Very Low Income	$8,211
Low Income	$13,314
Weighted Average	$11,018
Capitalized Value of Net Operating Income (5% Capitalization Rate)	**$220,353**

(1) Average annual income is based on State of California Department of Housing and Community Development income limits for Santa Clara County; the project is assumed to consist 50 percent 1-person and 50 percent of 2-person households at both low and very low income levels.
(2) Assumes annual rent maximum at 30% of gross income.

Sources: Department of Housing and Community Development, Countywide income limits for June 6, 2016.

Property Tax In Lieu of VLF

In 2004, the State of California adjusted the method for sharing VLF with local jurisdictions. Recent State budget changes replaced the VLF with property tax, which grows proportionately with increases in assessed value of the City. The proposed project will add about 1.9 to 2.0 percent to the current assessed value in Cupertino (assuming no other assessed value growth for simplification purposes) and will generate the same increased percentage in in-lieu VLF revenues (see **Table 9** and **Table 10**).

Property Transfer Tax

The project will generate real estate transfer tax revenue associated with future turnover in ownership. This analysis assumes that ownership of all land use types will turnover every 25 years, an annual turnover rate of 4 percent.[6] The property transfer tax rate accruing to the City General Fund is $0.55 per $1,000 of the property value, as shown in **Table 15** and **Table 16**.

[6] For institutional investors of commercial real estate a typical holding period is five to seven years (Ciochetti and Fisher, 2002). This analysis assumes a significantly longer holding period due to the property tax benefits of long-term ownership in California.

Table 15 Property Transfer Tax Revenue for Alternative 1

Item	Assumption / Factor		Annual Total at Buildout
Property Value			
Retail	$600	Per Square Foot	$25,200,000
Market-Rate Rental	$635,000	Per Unit	$341,630,000
Below Market Rate Rental	$238,861	Per Unit	$16,003,680
Movie Theater/Community Center	$500	Per Square Foot	$15,750,000
Total			$398,583,680
Average Annual Turnover			
Retail	4.0%		$1,008,000
Market-Rate Rental	4.0%		$13,665,200
Below-Market-Rate Rental	4.0%		$640,147
Movie Theater/Community Center	4.0%		$630,000
Total			$15,943,347
Property Transfer Tax Revenue	$0.55	per $1,000 in value	**$8,769**

Table 16 Property Transfer Tax Revenue for Alternative 2

Item	Assumption / Factor		Annual Total at Buildout
Property Value			
Retail	$600	Per Square Foot	$25,200,000
Market-Rate Rental	$582,000	Per Unit	$133,860,000
Below Market Rate Rental	$220,353	Per Unit	$8,814,120
Movie Theater/Community Center	$500	Per Square Foot	$15,750,000
Total			$419,624,120
Average Annual Turnover			
Retail	4.0%		$1,008,000
Market-Rate Rental	4.0%		$5,354,400
Below-Market-Rate Rental	4.0%		$352,565
Movie Theater/Community Center	4.0%		$630,000
Total			$16,784,965
Property Transfer Tax Revenue	$0.55	per $1,000 in value	**$9,232**

Transient Occupancy Tax

The hotel component of the Alternative 2 project is expected to help satisfy strong lodging demand in the local market. Consistent with the GPA application, this analysis assumes the 170 hotel rooms planned for the project achieve an average daily room rate of $200 and that the hotel stabilizes at 70 percent occupancy. The estimate of TOT is calculated by applying the current rate of 12 percent to the total room revenue generated by new hotel, as shown in **Table 17**.

Table 17 Transient Occupancy Tax Revenue for Alternative 2

Item	Assumptions	Annual Total at Buildout
Hotel Rooms		170
Average Daily Room Charge	$200	
Average Occupancy	70%	
Average Annual Revenue		$8,687,000
Total TOT Revenue	12.0%	**$1,042,440**
% of Total Citywide FY2016-17 TOT Revenue (illustrative)		*15.5%*

Utility Tax

The City of Cupertino collects tax revenue on utility charges for services provided in the City. New residents and employees will expand the use of utilities in the City. This analysis estimates an average monthly utility expense of $95 per resident and $150 per employee. The City of Cupertino collects 2.4 percent of utility charges. **Table 18** and **Table 19** presents utility user tax revenue attributable to Alternative 1 and Alternative 2 at buildout.

Table 18 Utility User Tax Revenue for Alternative 1

	Assumption		Annual Total at Buildout
Residential			
Total Residential Population	1,177	Residents	
Monthly Utility Cost	$95	per resident per month	
Annual Total			$1,341,210
Commercial			
Total Employees	134	employees	
Monthly Utility Cost	$150	per employee per month	
Annual Total			$240,545
Total Annual Utility Expenses			$1,581,755
Utility User Tax Revenue	2.4%	of utility bill	**$37,962**

Table 19 Utility User Tax Revenue for Alternative 2

	Assumption		Annual Total at Buildout
Residential			
Total Residential Population	520	Residents	
Monthly Utility Cost	$95	per resident per month	
Annual Total			$592,800
Commercial			
Total Employees	1,424	employees	
Monthly Utility Cost	$150	per employee per month	
Annual Total			$2,562,545
Total Annual Utility Expenses			$3,155,345
Utility User Tax Revenue	2.4%	of utility bill	**$75,728**

Revenues from Other Taxes and Fees

In addition to the key revenues described above, other taxes and fees are estimated to be generated by the project. Specifically, EPS forecasts additional business-to-business sales for office uses, new franchise fees, and new business license revenues generated by commercial activity associated with the project. This analysis assumes that office uses generate an average of roughly $20 per square foot in business-to-business sales, which translates to $0.20 per square foot in sales tax revenue.[7] This assumption is reflective of a typical office tenant in the Silicon Valley. Franchise fee revenue and business license revenue reflect averages derived from City budget documents (see **Table 6**). **Table 20** and **Table 21** presents forecasting assumptions and revenue estimates.

Table 20 Revenue from Other Taxes and Fees for Alternative 1

Item	Allocation Factor		Project Characteristic		Annual Total at Buildout
Franchise Fees (1)	$38.21	per service population	1,243	service pop.	$47,510
Business License (1)	$17.67	per employee	134	employees	$2,362
Subtotal					**$49,872**

(1) Franchise Fee and Business License allocation factors are both based on existing general fund revenue per capita.

Table 21 Revenue from Other Taxes and Fees for Alternative 2

Item	Allocation Factor		Project Characteristic		Annual Total at Buildout
Business-to-Business Sales Tax	$0.20	per square foot of office	280,000	square feet	$56,000
Franchise Fees (1)	$38.21	per service population	1,232	service pop.	$47,071
Business License (1)	$17.67	per employee	1,424	employees	$25,161
Subtotal					**$72,232**

(1) Franchise Fee and Business License allocation factors are both based on existing general fund revenue per capita.

[7] Business-to-business sales and tax revenue estimates reflect the findings of prior EPS analyses conducted in Menlo Park and Palo Alto.

General Fund Expenditures

This fiscal analysis estimates the costs attributable to population and employment growth by characterizing how expenses will change for each City department. For some departments, population and employment growth in the City will not dramatically alter operations. For example, administrative functions in the City are not likely to scale up significantly to accommodate new projects. Alternatively, departments that provide services directly to residents and businesses likely will increase their operations and costs to accommodate new population.

It is important to note that a range of external factors may influence responses to growth and cost effects in the future. Examples of factors that are beyond the control of the City and its departments that may act to magnify or reduce department costs over time include the following:

- regional growth
- technology
- state and federal policies
- environmental factors

This study does not speculate regarding the potential effects of such exogenous influences on the general fund expense budget. It focuses only on those factors attributable directly to the population growth, employment growth, and land use changes generated by the proposed GPA.

The fiscal analysis model relies on categorization of the likely budgetary response to population and employment growth for each department. The anticipated response to growth is expressed for fiscal modeling purposes in terms of "fixed expenses" and "variable expenses" within the department budget.

The fixed expenses are the portion of a City department's budget which is not affected by population and employment growth. Even a department which is anticipated to grow largely in step with the City's service population likely would have some fixed cost. For example, in most cases each department has only one director position, which is a fixed expense for the department. While the department may increase staffing to accommodate growth, the department will not add another director.

The variable expenses of a department are those that do increase with growth. As the City grows, increased demand for services requires some departments to scale up operations to meet new demand. The portion of a department's budget that scales up is identified as the variable share of the budget.

EPS uses a per-capita average cost approach to estimate department costs attributable to new residents and workers. The variable portion of each department budget is used to determine the per-capita cost, as shown in **Table 22** and **Table 23**. Then, to determine the new General Fund expenditures generated by the proposed project, the per-capita factors are multiplied by the projected increase in service population or population, as appropriate. Innovation and Technology and Non-Departmental expenditures are not estimated because the project is not expected to generate new ongoing costs to these service providers.

Table 22 FY2016-17 Expenditure Budget Summary and Fiscal Impact Estimating Factors for Alternative 1

Item	City General Fund Expenses (FY2016-17)	Percent Variable (1)	Annual Variable Expenses	Estimating Factors		Per Capita General Fund Expense	Project Population/ Service Population	Annual Total at Buildout
General Government (2)	$11,341,627	10%	$1,134,163	75,892	Service Pop.	$14.94	1,243	$18,581
Police (3)	$11,884,384	90%	$10,695,946	75,892	Service Pop.	$140.94	1,243	$175,230
Innovation and Technology (4)	$924,006	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Recreation & Community Services	$10,484,573	75%	$7,863,430	58,917	Population	$133.47	1,177	$157,023
Planning & Community Development	$10,273,323	50%	$5,136,661.50	75,892	Service Pop.	$67.68	1,243	$84,153
Public Works (5)	$19,343,167	75%	$14,507,375	75,892	Service Pop.	$191.16	1,243	$237,672
Non-Departmental	$12,971,373	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Expenditures	**$77,222,453**							**$672,659**

(1) Percentage of costs that are population-dependent, as opposed to fixed costs or costs recovered through fees or charges.
(2) Includes Administration, Administrative Services, and Council and Commissions.
(3) Reflects the contract portion of the police department's budget. To the extent the cumulative effect of new growth triggers the contract terms exceeding the cap agreed upon in 2014, the cost impact may be above that estimated based on the average cost approach.
(4) Formerly known as Public Affairs and includes services such as videography, applications, IT and GIS.
(5) Includes administration, environmental programs, development services,service center, grounds, streets, trees and right of way, facilities and fleet, transportation, and other programs.

Sources: City of Cupertino FY 2016/17 Adopted Budget

Table 23 FY2016-17 Expenditure Budget Summary and Fiscal Impact Estimating Factors for Alternative 2

Item	City General Fund Expenses (FY2016-17)	Percent Variable (1)	Annual Variable Expenses	Estimating Factors		Per Capita General Fund Expense	Project Population/ Service Population	Annual Total at Buildout
General Government (2)	$11,341,627	10%	$1,134,163	75,892	Service Pop.	$14.94	1,232	$18,409
Police (3)	$11,884,384	90%	$10,695,946	75,892	Service Pop.	$140.94	1,232	$173,609
Innovation and Technology (4)	$924,006	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Recreation & Community Services	$10,484,573	75%	$7,863,430	58,917	Population	$133.47	520	$69,402
Planning & Community Development	$10,273,323	50%	$5,136,661.50	75,892	Service Pop.	$67.68	1,232	$83,375
Public Works (5)	$19,343,167	75%	$14,507,375	75,892	Service Pop.	$191.16	1,232	$235,474
Non-Departmental	$12,971,373	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Expenditures	**$77,222,453**							**$580,269**

(1) Percentage of costs that are population-dependent, as opposed to fixed costs or costs recovered through fees or charges.
(2) Includes Administration, Administrative Services, and Council and Commissions.
(3) Reflects the contract portion of the police department's budget. To the extent the cumulative effect of new growth triggers the contract terms exceeding the cap agreed upon in 2014, the cost impact may be above that estimated based on the average cost approach.
(4) Formerly known as Public Affairs and includes services such as videography, applications, IT and GIS.
(5) Includes administration, environmental programs, development services,service center, grounds, streets, trees and right of way, facilities and fleet, transportation, and other programs.

Sources: City of Cupertino FY 2016/17 Adopted Budget

Fiscal Impact of Proposed Project

Table 24 and **Table 25** summarizes the fiscal impact of The Westport proposal for Alternative 1 and Alternative 2, respectively, on the City of Cupertino's General Fund, with forecasted revenues and expenditure estimates based on the methodology described above. The annual fiscal impact of the proposed Alternative 1 GPA is estimated at a deficit of about $21,000. The annual fiscal impact of the proposed Alternative 2 GPA is estimated at a surplus of $1.3 million.

Table 24 Summary of Fiscal Impact Analysis –Westport Cupertino, Alternative 1, at Buildout (2017$)

Item	Annual Fiscal Impact
General Fund Revenues	
Sales Tax (excl. business-to-business sales)	$148,000
Property Tax	$276,000
Property Tax in Lieu of VLF	$131,000
Property Transfer Tax	$9,000
Utility Tax	$38,000
Franchise Fees	$48,000
Business Licenses	$2,000
Total Revenues	**$652,000**
General Fund Expenditures	
General Government	$19,000
Police	$175,000
Recreation & Community Services	$157,000
Planning & Community Development	$84,000
Public Works	$238,000
Total Expenditures	**$673,000**
Net Impact on General Fund	**-$21,000**

Table 25 Summary of Fiscal Impact Analysis –Westport Cupertino, Alternative 2, at Buildout (2017$)

Item	Annual Fiscal Impact
General Fund Revenues	
Sales Tax (excl. business-to-business sales)	$150,000
Business to Business Sales	$56,000
Property Tax	$291,000
Property Tax in Lieu of VLF	$138,000
Property Transfer Tax	$9,000
Transient Occupancy Tax	$1,042,000
Utility Tax	$76,000
Franchise Fees	$47,000
Business Licenses	$25,000
Total Revenues	**$1,834,000**
General Fund Expenditures	
General Government	$18,000
Police	$174,000
Recreation & Community Services	$69,000
Planning & Community Development	$83,000
Public Works	$235,000
Total Expenditures	**$579,000**
Net Impact on General Fund	**$1,254,000**

Fiscal Impact of Existing Uses

In order to quantify the fiscal impact of the existing shopping center located at 21267 Stevens Creek Boulevard, the same fiscal methodology is applied to existing land use program as the proposed GPA. The site currently is occupied by commercial uses, including roughly 50,200 square feet of retail and 21,500 square feet of office. The existing shopping center provides a positive fiscal impact to the City's General Fund of about $125,000 a year, as shown in **Table 26**.

Table 26 Summary of Fiscal Impact Analysis – Westport Cupertino Existing Uses (2017$)

Item	Annual Fiscal Impact
General Fund Revenues	
Sales Tax (excl. business-to-business sales)	$122,000
Property Tax	$17,000
Property Tax in Lieu of VLF	$8,000
Utility Tax	$9,000
Total Revenues	**$169,000**
General Fund Expenditures	
Police	$15,000
Planning & Community Development	$7,000
Public Works	$20,000
Total Expenditures	**$44,000**
Net Impact on General Fund	**$125,000**

Net Fiscal Impact

Alternative 1 in the GPA proposal reflects a negative annual fiscal impact of approximately $146,000 on the City's General Fund as shown in **Table 27**. Although net revenues are estimated to be $483,000 annually, an increase in General Fund expenditures of about $629,000 result in a negative net fiscal impact. The GPA proposal's Alternative 2 reflects a positive annual fiscal impact on the City's General Fund as shown in **Table 28**. The net increase in General Fund revenues from the project specified in Alternative 2 at buildout is estimated at roughly $1.7 million more annually than existing uses. The net increase in General Fund expenditures associated with the Alternative 2 project is estimated at approximately $535,000 more per year than existing uses. Net fiscal impacts for Alternative 2 are estimated to be $1.1 million annually.

Table 27 Net Fiscal Impact Summary (2017$) of Alternative 1

Revenue / Expense Category	Alt 1. Fiscal Impact at Project Buildout	Fiscal Impact Baseline	Net Fiscal Impact
General Fund Revenues	$652,000	$169,000	$483,000
General Fund Expenditures	$673,000	$44,000	$629,000
Net Impact on General Fund	**($21,000)**	**$125,000**	**($146,000)**

Table 28 Net Fiscal Impact Summary (2017$) of Alternative 2

Revenue / Expense Category	Alt 2. Fiscal Impact at Project Buildout	Fiscal Impact Baseline	Net Fiscal Impact
General Fund Revenues	$1,834,000	$169,000	$1,665,000
General Fund Expenditures	$579,000	$44,000	$535,000
Net Impact on General Fund	**$1,254,000**	**$125,000**	**$1,129,000**