

**Preston Property Residential Project
Fiscal Impact Analysis**

Prepared for:

Michael Brandman and Associates

Prepared by:

ALH|ECON

ALH Urban & Regional Economics

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August 8, 2012

Mr. Jason Brandman
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Michael Brandman Associates
Bishop Ranch 3
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Re: Preston Property Residential Project Fiscal Impact Analysis

Dear Mr. Brandman:

ALH Urban & Regional Economics (ALH Economics) is pleased to present this fiscal impact analysis of the proposed Preston Property Residential Project in the City of Milpitas. This analysis was prepared to provide an overview of the project's prospective fiscal impacts on the City of Milpitas' General Fund assuming development of the project, which would involve the conversion of 15.4 acres of industrial zoned land to residential.

This report includes three Appendices. Appendix A includes the exhibits documenting the fiscal impact analysis. Appendix B includes back up documentation in support of the study's main exhibits. Appendix C includes introductory materials for ALH Economics.

It has been a pleasure working with you on this interesting project. Please let me know if there are any questions or comments on the analysis included herein.

Sincerely,



Amy L. Herman, AICP
Principal

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I. INTRODUCTION AND SUMMARY OF FINDINGS

INTRODUCTION

ALH Urban & Regional Economics (“ALH Economics”) prepared a fiscal impact analysis of the planned Preston Property Residential Project in Milpitas, California. The proposed project is located at the site of Preston Pipelines, an underground engineering contractor, on Bothelo Lane between East Calaveras Boulevard and the Union Pacific Milpitas Rail Yard. The residential development is planned to include up to 220 new townhomes and single-family detached homes, developed by KB Home (the “Project”). The Project will be located on six parcels of land totaling 15.4 acres that would be acquired from Preston Pipelines. The purpose of this analysis is to demonstrate the net fiscal impacts of the Project relative to the City of Milpitas General Fund, including in comparison to the existing Preston Pipelines and other uses on the property.

Preston Pipelines, the primary existing use on the Project property, is looking for an alternate location in Milpitas for relocation purposes. The same is true with the other construction-related uses on the property. If this relocation occurs, either for all or some of the existing uses, then Milpitas will continue to provide services to all or some of the businesses and receive General Fund revenues. The balance of General Fund costs and revenues associated with relocated uses could change if the businesses locate elsewhere in Milpitas. However, the cost and revenue profile would likely remain similar or possibly greater, depending upon the value of the underlying property and the associated property tax payments, since property is reassessed and taxed at the prevailing tax rate upon sale. Therefore, if new property sales in Milpitas occur as part of a relocation plan then the net revenues associated with the existing uses could increase over the current estimated amount.

The fiscal impact analysis is based on key information about the Project and Preston Pipelines as well as select assumptions developed by ALH Economics. All relevant information and assumptions are cited in the report or the back up documentation. All dollar figures cited are in 2012 dollars. Due to the nature of the development planning process, assumptions relevant to the fiscal impact analysis may change over time. This dynamic nature suggests that study findings should be considered general rather than detailed indications of the Project’s forecasted performance.

SUMMARY OF FINDINGS

Existing Land Uses

The net fiscal impact of the existing uses on the City of Milpitas General Fund is estimated to range from \$25,147 to \$33,231 annually. This reflects annual revenues estimated at \$42,860 and annual expenditures ranging from \$9,629 to \$17,713. The net fiscal impact range comprises a positive flow of revenues to the City of Milpitas General Fund. This is also the estimated amount of net revenue the City of Milpitas will lose on an annual basis if Preston Pipelines and the other existing uses on the property relocate out of Milpitas to make way for the Project.

Preston Property Residential Project

The net fiscal impact of the Preston Property Residential Project on the City of Milpitas General Fund is estimated to range from (\$93,566) to \$100,053 annually. This is a wide spread, with one end of the range indicating that the Project will comprise a net drag on the City of Milpitas’ General Fund and

the other end of the range indicating a strong net gain to the City's General Fund. These net fiscal impact findings reflect annual estimated revenues of \$307,330 balanced by City service costs ranging from \$207,276 to \$400,895 a year. This expenditures range is due to several alternative approaches to estimating Police and Fire service costs for the Project, with other net fiscal impact findings based on variations of these costs falling within the (\$93,566) to \$100,053 per year range.

The biggest factor accounting for the negative net fiscal impact results is the potential for the Project to require the services of a newly hired Police officer, as suggested by the City's Police Department. Varying assumptions about Fire services can also contribute to the negative net fiscal impact of the Project. In these current times of fiscal austerity, it may be difficult for the City of Milpitas to hire additional Police staff. If this is the case, this would enhance the likelihood that the Project will result in a net positive impact on the City's General Fund. There are also some City service cost permutations that could effectively result in revenue neutrality.

Relocated Existing Uses and Preston Property Residential Project

It is possible that the Project can be developed with the existing uses relocating elsewhere in Milpitas. Assuming the net fiscal impact profile of the relocated existing uses matches the current profile, the results of both these development scenarios indicates a net annual fiscal impact ranging from (\$68,419) to \$133,284. The range in net impact findings is again due to the range of possible Police and Fire services costs, especially for the Project.

Real estate market information suggests that it is unlikely that Preston Pipelines could locate an equivalent-sized, appropriately zoned property in Milpitas. With lesser space requirements, the other existing uses on the property have a greater chance of staying within Milpitas upon relocation from the site. Under this scenario, with Preston Pipelines leaving Milpitas but the other existing uses locating elsewhere within the City, results in a net annual fiscal impact range of (\$83,507) to \$113,345.

Similar to the Project alone, the likelihood that the net fiscal impact will be positive for either of these scenarios will be enhanced if the City of Milpitas does not hire an additional Police officer to serve the Project, which has been suggested as a possible service need.

Limitations of Findings

The foregoing findings are intended to give a general sense of the net fiscal impact of the Preston Property Residential Project compared to the existing uses. The figures are not precise estimates and changes will occur if the revenue and expenditure factors or other assumptions are developed with more precision. Nonetheless, the findings suggest a possibility that the Project, alone or in combination with all or partial relocation of the existing uses, may result in a negative net fiscal impact on the City's General Fund unless fiscal austerity results in no increased City Police staff to serve the Project's estimated Police service needs.

II. METHODOLOGY AND DATA RESOURCES

METHODOLOGY

ALH Economics developed an approach to the Preston Property Residential Project fiscal impact analysis designed to provide an understanding of the Project's net fiscal impact on the City of Milpitas' General Fund using specific Project information as much as possible. This includes estimates of revenues generated by the Project that accrue to the City's General Fund as well as service costs incurred by the City funded through the General Fund. The Project's estimated fiscal impacts were compared to the estimated fiscal impacts of the existing construction-related land uses.

The analysis is grounded in the City's budget and existing revenue bases and performance estimates for the Project and the existing land uses. The analysis is structured to examine the Project's impacts upon full build out and assumed stabilization. To facilitate the analysis and interpretation of the results the findings are presented in 2012 dollars.

The fiscal impact analysis does not include one-time development-related fees that may be assessed by the City of Milpitas. These fees are typically assessed on a cost recovery basis and are thus excluded from the analysis. Other potential fees, such as impact fees, are also excluded as they too are designed to provide a nexus with the services provided.

The City General Fund expenditures analysis was conducted using two approaches – the marginal cost, or case study approach, and the average cost approach. The marginal cost approach involves obtaining detailed estimates from City department representatives based on project specifics, such as number of residential units and household counts, and comparing them when possible to the underlying property's existing uses. This approach is often perceived as the more accurate approach to estimating expenditures because it is based on expectations of actual service requirements and associated City costs. Revenues can also be estimated on a marginal basis, based on revenues tied to specific project performance characteristics, such as property value and business license fees.

For the purpose of this study, queries about marginal costs were directed to City department representatives through the Planning Department and relayed to ALH Economics. The key departments that were queried include the Police and Fire Departments. The alternative approach to expenditures is an average cost approach. This is typically the most expeditious approach for a fiscal impact analysis but is also one that can result in under or over estimation of both project-related costs and revenues. In this approach, costs are derived by determining an average cost to provide existing services on a per capita basis for the relevant population served, which is then applied to the comparable population base for the project or land use under study.

In general, a jurisdiction's "service population" for fiscal impact analysis purposes is equivalent to the resident population plus some factor of the workforce. This is the population base provided services by the jurisdiction under study. Most fiscal impact analysts typically equate 2 to 3 employees with 1 resident, or 0.5 to 0.33 employees per resident, on the theory that people who work in an area place less demands on services than residents. For the purpose of this analysis ALH Economics used the 0.5 employees per resident factor, which is a more conservative choice than the 0.33 factor, especially relative to service cost estimates based on the average cost approach. The average costs in this study are based on the City of Milpitas' annual budget, which for this analysis included the Final Budget for Fiscal Year 2011-2012.

Wherever possible, efforts were made throughout the analysis to develop assumptions or estimates in a conservative manner, in order to not overstate potential net revenues attributable to the existing land uses or the Project. The analysis was conducted in a series of linked excel-based worksheets. Exhibits generated from these worksheets are included in Appendices A and B. These exhibits are briefly introduced and discussed in the following chapters, with more detailed information and explanatory comments provided in the exhibit footnotes.

DATA RESOURCES

The fiscal impact analysis relied upon a number of key resources. These resources are all identified in the sources and notes to the exhibits developed to support the analysis and provide the results. These resources are as follows:

- ***Materials provided by KB Home.*** These materials include the Project's Assessor's Parcel Numbers (APN), the Project description, estimated home pricing, and other development-related parameters.
- ***Materials provided by other relevant parties.*** Through KB Home, Preston Pipelines provided information about the property and the existing operations, including property tax bills, employment counts, utility bills, and business license fee payments. Michael Brandman Associates provided additional Project-related information and assumptions.
- ***City of Milpitas resources.*** These include the City's website, the City of Milpitas 2011-2012 Final Budget, the Planning Department and other departmental representatives, and the City of Milpitas Business License Fee schedule.
- ***Third party resources.*** A number of third party resources were referred to for information important to the analysis. These sources include the Santa Clara County Tax Collector's Office, the County of Santa Clara Controller-Treasurer Department; RealQuest; Californiacityfinance.com; State of California Department of Finance; State of California Employment Development Department; Hanley Wood; International Council of Shopping Centers; California State Board of Equalization; United States Census Bureau; and Claritas, Inc. Local real estate commercial brokers provided information about the industrial real estate market.

All of these resources are identified as warranted in the text and the series of exhibits that document the fiscal impact analysis. The cited exhibits can be found in Appendices A and B.

III. FISCAL ASSUMPTIONS AND REVENUE AND EXPENDITURE ESTIMATES

FISCAL ASSUMPTIONS

The assumptions and building blocks underlying the fiscal impact analysis for the Preston Property Residential Project and the existing uses are presented in Exhibits 1-A, 1-B, and 2, which can be found in Appendix A. A summary of these exhibits and their primary purposes follow.

- **Exhibits 1-A and 1-B, Existing Use Population Characteristics and Proposed Residential Project Description and Population.** These exhibits summarize key characteristics of the existing land uses and the proposed residential use. For the existing use, Exhibit 1-A lists the existing businesses located on the property and the number of jobs at each business. This information was provided by Preston Pipelines. These employment counts provide a basis for estimating the “service population” for the existing uses. This service population estimate, which totals 40, comprises one-half the 80 estimated full-time equivalent employees, on the assumption that employees do not require the same level of service as residents. This is an industry-standard assumption, and is relevant to the calculation of average cost City of Milpitas expenditures.

Exhibit 1-B provides service population estimates for the Project as well as residential unit count and pricing information. The City of Milpitas directed the analysis to include up to 220 homes. KB Home provided unit distribution and pricing information for a slightly lower total unit count of 215 homes. ALH Economics calculated average pricing information for these 215 homes and then applied the average and other relevant home characteristics to the maximum 220 unit count.

The KB Home 215 unit count information included 120 townhomes and 95 single-family detached units. The anticipated unit pricing per KB Home ranges from \$473,000, as the starting townhome price, to \$620,000, as the maximum single-family unit price. These prices were reviewed for reasonableness by ALH Economics pursuant to the unit pricing information in Exhibit B-1. The overall average unit price for the Project is \$539,947. Finally, the 220 homes are anticipated to have an average of 3.5 residents each, resulting in a total population estimate of 770. This is equivalent to a service population of 770, with the number of residents synonymous with the service population count. This is also an industry-standard assumption, and is relevant to the calculation of average cost City of Milpitas expenditures.

- **Exhibit 2, City of Milpitas Demographic, Employment, and Tax Characteristics.** This exhibit contains many of the baseline assumptions and information necessary to generate estimates of City of Milpitas revenues and expenses applicable to the existing land uses and the Project. These include population and employment estimates used to generate the size of the City’s existing service population for the purpose of deriving existing average cost expenditures and some per capita revenues. These figures are benchmarked to 2012, which generally corresponds with the FY 2011-2012 City budget information that is a foundation for the analysis. These estimates include a population base of 66,966 and an employment base of 29,200. Under the assumption that the City’s service population is equivalent to residents plus one-half the employment base, the City’s relevant service population is estimated at 81,566.

This exhibit also includes key tax-related information unique to the City of Milpitas, such as property and sales tax rates, vehicle in lieu of property tax revenues, secured and unsecured property assessed valuation, and unsecured property tax revenues, all of which are germane to the fiscal impact analysis as noted in other exhibits. Most relevant is the City's 15.73% share of the basic 1% property tax rate collected by Santa Clara County. In addition, most cities in the State of California receive 1.0% of taxable sales in sales tax revenues. This is the rate applicable to the City of Milpitas. This 1.0% sales tax rate is the effective sales tax rate for Milpitas. This comprises a basic rate of 0.75% with an additional 0.25% generated pursuant to the "triple flip," which includes sales taxes diverted temporarily by the State of California but returned via other fiscal means. This other fiscal means is through property taxes, resulting in an effective 1.0% retail sales tax rate. To simplify the analysis only this 1.0% sales tax rate is reflected in the analysis. Some cities in California have additional retail sales taxes implemented for dedicated purposes, such as public safety, but no such additional retail sales tax is present in Milpitas.

FISCAL REVENUE ESTIMATES

The revenue calculations for the fiscal impact analysis are presented in Exhibits 3 through 6. A summary of these exhibits and their primary purpose follows.

- ***Exhibit 3, Property Valuation, Annual Property Tax Payments, and Transfer Taxes; Existing Land Uses and Preston Property Residential Project, FY 2011-2012 Dollars.*** This exhibit presents the assumptions and conclusions regarding the property valuation of the existing land uses and the Project upon the completion of development, the estimated property tax revenues that currently accrue to the City of Milpitas General Fund, and transfer taxes that will accrue to the City of Milpitas based upon typical turnover of residential homes.

The current property valuation for the Preston Property Residential Project development site totals \$18.4 million. This is the summation of the values for the six parcels comprising the development site. The projected valuation for the Preston Pipeline Residential Project is based on the average home value multiplied by the number of homes. The average home value of \$539,947 was presented in Exhibit 1-B. Based on the 220 unit count, this results in a projected property valuation of \$118.8 million. The increment in value between the existing land uses and the Preston Pipeline Residential Project is \$100.4 million.

The City of Milpitas receives a 15.73% share of the 1.0% basic Santa Clara County property tax rate. Pursuant to this tax rate share the City of Milpitas currently receives an estimated \$28,900 in property tax revenues associated with the existing land uses. Upon completion of the Preston Property Residential Project the City's property tax revenue is projected to increase to \$186,912. This results in a net increment of \$158,013 attributable to development of the Preston Pipeline Residential Project.

The City of Milpitas receives transfer tax payments associated with real property sales. The City's transfer tax rate is \$0.55 per \$1,000 in property sales. In any one year, some residential homes in a community turn over. The typical industry assumption is that the average home turns over once every 7 years, or at a rate of 14% per year. To estimate the annual transfer tax revenue potential from resale of the Project's homes the analysis assumes 14% of the property valuation will turnover annually. This results in annual sales totaling \$17.0 million, which results in \$9,333 in transfer tax revenues to the City of Milpitas annually.

Note that over time the home values will increase, but this analysis is conducted in constant Fiscal Year 2011-2012 dollars.

- **Exhibits 4-A and 4-B, Property Tax in Lieu of VLF Estimates, for Existing Uses and for Preston Property Residential Project, FY 2011-12 Dollars.** This revenue component, Property Tax in Lieu of Vehicle License Fees (VLF), is derived from a property's share of the total property valuation throughout the city in which it is located. For an existing use it would be tied to the property's share of the current valuation. For a planned development project, such as the Project, it would be based upon the project's anticipated contribution to increased property valuation throughout the city. This is the method by which such tax revenues are estimated by the State of California and redistributed to local jurisdictions. This is a State substitute for prior motor vehicle license taxes that were redistributed by the State to municipalities.

The results of these calculations are presented in Exhibit 4-A for the existing uses and Exhibit 4-B for the Project. The Exhibit 4-A finding indicates that the existing land uses are estimated to account for \$7,260 of the City's property tax in lieu of VLF revenues. Because of the greater value imputed to the property due to the Project's residential development, these revenues will increase substantially following completion of the Project. The total property tax in lieu of VLF revenue attributable to the Project is estimated at \$39,678. This is attributable to the Project's estimated 0.87% increase in the City's assessed valuation. This is a nominal, but noticeable increase, and will result in a net revenue increase of \$32,418 to the City of Milpitas.

- **Exhibit 5, Estimated Annual Retail Sales Tax Generation, Existing Uses and Preston Property Residential Project Build Out, FY 2011-12 Dollars.** Neither the existing use nor the Project include retail components. However, the occupants of the property generate retail spending in the City of Milpitas. This includes spending by the estimated 80 employees who currently work on the property or the 220 households that will be living at the Project. Exhibit 5 presents the estimated retail spending for these populations in the City of Milpitas, the share of sales assumed to be taxable, and the associated retail sales tax revenues that will accrue to the City.

For the existing employee retail sales estimate ALH Economics drew upon findings from the International Council of Shopping Centers (ICSC) regarding office worker retail spending during the workday. ICSC conducts this type of survey on a recurring basis, with the most recent survey findings released in early 2012. The employees of the existing uses are not office workers, and typically represent construction trades. Therefore, ALH Economics adjusted the office worker spending estimate on a pro rata basis in accordance with the differential in annual average wages, as cited in Exhibit 5 (see footnote 1). Further adjustments account for the portion of spending estimated to be taxable and thus generate retail sales tax. The resulting estimate is annual worker spending on taxable items in Milpitas totaling \$280,000, which generates an estimated \$2,808 in annual retail sales tax revenues to the City of Milpitas from the employees of the existing uses.

Households make much greater retail expenditures than individual employees. The Project's 220 households are estimated to generate \$30,000 a year in retail spending, 87% of which is estimated to be taxable. These estimates are based on a retail demand estimate prepared by ALH Economics and cited in Exhibit 5. Assuming the City of Milpitas captures 75% of Project residents' taxable retail spending results in a Project-based taxable sales estimate of \$4.3

million. This results in an estimated \$43,065 in annual retail sales tax revenues to the City of Milpitas.

- **Exhibit 6, Assorted City of Milpitas General Fund Revenues, Existing Uses and Preston Property Residential Project, FY 2011-12 Dollars.** There are three revenue sources identified in this exhibit along with the corresponding revenues estimated to be generated by the existing uses and the Project. These revenue sources include fines and forfeits, franchise taxes, and business license fees. There are yet other revenues that are or will be generated by the existing uses and the Project that accrue to the General Fund, but ALH Economics believes the three cited revenues are likely to comprise the most substantial revenue sources, aside from the previously referenced property tax, property tax in lieu of VLF revenues, and retail sales tax.

The fines and forfeits revenues were estimated based on a per service population estimate, then applied to the estimated service populations for the existing uses and the Project. The resulting estimates are \$349 in annual fines and forfeits revenues for the existing uses and \$6,721 in annual revenues for the Project.

The franchise fees were also estimated on a per service population basis, but with different service populations, depending upon the nature of the service provided. These are noted in Exhibit 6, and include apportioning the electric and gas franchise fees across the City's entire service population, apportioning the commercial garbage franchise fee across only the City's employment base, and apportioning the non-commercial garbage franchise fee and the CATV franchise fee across only the City's resident base. The resulting per service population, employee, or resident estimates are presented in Exhibit 6. Based on these estimates, the existing uses are estimated to generate \$3,243 annually in franchise fees to the City of Milpitas and the Project is estimated to generate \$21,620 annually in franchise fees.

Finally, the existing businesses annually pay business license fees to the City of Milpitas. These fees are estimated to total \$300 per year. This total reflects a \$50 per year fee for contractors and a \$25 per year renewal processing fee. All of the property's existing businesses are assumed to meet the City's business definition for contractors.

FISCAL EXPENDITURE ESTIMATES

As discussed in the Methodology section, fiscal impact studies typically engage in two methods to estimate project-based service costs. One is the average cost approach, usually implemented in the absence of detailed service provision and cost information, and one is the marginal, or case study approach, which derives estimated service costs based on expectations of service demands and associated actual service delivery costs.

Exhibit 7 presents the calculations to derive the average costs relevant to the City of Milpitas General Fund. These calculations are based on the departmental expenditures associated with the City's General Fund, spread across the relevant population served. Exhibit 8 reflects marginal cost analysis based on information provided by the City of Milpitas relevant to the two most significant services provided by the City, i.e., Police and Fire services.

- **Exhibit 7, City of Milpitas General Fund Average Cost Expenditures, FY 2011-2012 Adopted Budget, Fiscal Impact Factors City of Milpitas.** In this exhibit the City of Milpitas' General Fund expenditures are expressed as average costs relative to key populations, e.g.,

the City's service population, the City's resident population, or the City's employment base. These costs include the General Fund outlay less adjustments for select revenue offsets, which are delineated in Appendix B.

Exhibit 7 is structured to facilitate analysis of the City's expenditures on a fixed and variable cost basis. Using this approach, some of the City's departmental expenditures are assumed to be fixed regardless of the size of the population served. The balance of the expenditures is then deemed to be variable, i.e., to change with the size of the population served. Typically, departments with greater administrative functions have higher percentages of fixed costs, which in this analysis is assumed to be 75%. In Exhibit 7, representative departments with this assumption include Administration (which includes City Council, City Manager, among others), Information Services, and Finance. In contrast, other departments are assumed to have a high proportion of variable costs, with wider scalability to provide the necessary services. These departments are assumed to have only 10% to 25% of fixed expenditures, and include departments such as Police (10%), Fire (25%), and Engineering (25%). Changes in these assumptions will impact the resulting average cost figures. These percentage fixed assumptions were developed by ALH Economics based on industry experience, and were not validated with City of Milpitas representatives. City representatives were queried about this topic but were unable to provide input regarding fixed expenditures allocations since this topic has not been previously studied.

Of the major City departments funded through the General Fund, ALH Economics assumes that all but one of these departments serves both the City's resident population and the workforce. The one category assumed to serve only the City's resident population is the Parks & Recreation Department.

For the departments assumed to serve the City's workforce, the average cost per resident is \$491.51. Because of the assumed lesser cost to serve workers, the average cost per worker employed in the City is estimated at \$221.41.

- **Exhibit 8, City of Milpitas Select Estimated Marginal Service Costs, FY 2011-2012 Dollars.** Information about the Project was shared with the City of Milpitas Police and Fire Departments for the purpose of estimating the marginal costs to serve the Project. These two departments were queried because of their high proportion of General Fund expenditures, comprising approximately 57% of the total City budget.

Each of these two departments provided information regarding their current service provision and estimated changes necessary following development of the Project. The shared information also provided perspective on the type and amount of services currently being provided to the existing land uses on the Preston Pipelines property.

The Police Department information is fully presented in Exhibit 8. In summary, the Police Department information suggests that given the current number of calls for service, the average cost per call for service is \$254. Pursuant to the number of recent calls for service in the area of the existing Preston Pipelines uses, the marginal cost to provide Police services to the existing uses is \$762 a year. In contrast, the Police Department estimates that a residential community the size of the Project could generate 300 to 350 annual calls for service. Given the average call per service cost this totals an estimated \$82,561 (for an average of 325 calls per year).

The Police Department provided additional information that could result in a different marginal cost estimate for the Project. This information suggested that the Project could generate the need for an additional police officer to serve the Project. Based upon departmental staff counts provided by the Police Department, which totals 104 employees, and the \$20.0 million estimated General Fund budget (less revenue offsets, see Exhibit 7), the City's cost per Police Department staff is \$192,708. Thus, this figure also comprises a marginal cost General Fund Police expenditure estimate for the Project.

As noted in Exhibit 8, the Fire Department believes there are adequate existing resources to accommodate the anticipated increase in calls for service attributable to the Project. Accordingly, there are no City-based marginal cost estimates for Fire Department services.

IV. FISCAL IMPACT FINDINGS

The results of the existing uses and Preston Property Residential Project fiscal impact analysis are presented in Exhibits 9 and 10. These findings present the estimated annual revenues and expenditures accruing to the City of Milpitas' General Fund at present for the existing uses and projected to accrue for the Project or a combination of the Project and the existing uses if they relocate elsewhere in the City.

For each scenario there are two net impact estimates presented in Exhibits 9 and 10. One scenario is labeled "Low Net Revenue Impact" and the other is labeled "High Net Revenue Impact." The label "Low" reflects the least amount of net positive impact on the General Fund, which could also include a negative impact, or a loss. This scenario typically reflects the greatest level of expenditures, including either the average or marginal cost approach, depending upon which one results in the greatest set of expenditures. In contrast, the "High" label reflects the greatest amount of net positive impact on the General Fund.

All figures cited in this chapter are referenced in Exhibits 9 (for the individual scenarios) or 10 (for combined scenarios) unless otherwise noted. These figures pertain to the estimated 80 employees of the existing uses and projected 770 residents of the Preston Property Residential Project.

NET FISCAL IMPACT ANALYSIS OF EXISTING USES

Summary of Revenues

The fiscal impact findings indicate that on an annual basis, the existing uses generate an estimated \$42,860 annually to the City of Milpitas General Fund. The largest General Fund revenue component is property taxes, estimated at \$28,900 per year. All other General Fund revenues are much lower, with property tax in lieu of VLF comprising the next largest General Fund revenue source at \$7,260. This in turn is followed by franchise fees at \$3,243 and retail sales taxes generated by worker spending at \$2,808. Modest revenues are anticipated from fines and forfeits at \$349 and business license fees at \$300. There are likely yet additional General Fund revenues generated by the existing uses, but the most substantial revenue sources are reflected in the \$42,860 annual estimate.

Summary of Expenditures

The average cost General Fund expenditures estimated to be attributable to the existing uses totals \$17,713. These are the average costs associated with the estimated 80 employees that currently work at the site. This expenditure figure is inclusive of \$8,846 in Police service costs estimated using the average cost approach documented in Exhibit 7. Substituting the marginal cost estimated Police service costs of \$762 presented in Exhibit 8 for the estimated average Police costs results in a lower annual expenditures estimate of \$9,629.

Net Fiscal Impact Summary

The net result of the fiscal impact of the existing uses is estimated to range from \$25,147 to \$33,231 annually. This is a net positive flow of revenues to the City of Milpitas General Fund. This is the amount of net revenue the City of Milpitas will lose on an annual basis if Preston Pipelines and the other existing uses relocate out of Milpitas to make way for the Project.

NET FISCAL IMPACT ANALYSIS OF PRESTON PROPERTY RESIDENTIAL PROJECT

Summary of Revenues

The fiscal impact findings for the Project indicate that on an annual basis, the Project will generate an estimated \$307,330 to the City of Milpitas General Fund. Similar to the existing uses, the largest General Fund revenue component is property taxes, estimated at \$186,912 per year. This is a much greater volume of property taxes over the existing uses, comprising a six-fold increase. Even without this increment in property tax revenues the Project will generate more General Fund revenues than the existing uses. Other substantially increased annual revenues include retail sales taxes estimated at \$43,065, property tax in lieu of VLF at \$39,678, and franchise fees at \$21,620. All other remaining estimated revenues are also greater than for the existing uses with the exception of business license fees, which do not pertain to the Project's residential uses.

Summary of Expenditures

There is a wide variation in the Project's estimated General Fund expenditures, depending upon the cost estimation basis for Police and Fire expenditures. These costs, presented in Exhibits 8 and 9, are summarized in Table 1, located below, along with all other estimated service costs.

Using the average cost approach to estimating Police services results in an annual Police service cost estimate of \$170,278, i.e., \$221.14 per resident (see Exhibit 7). The marginal cost approach presented in Exhibit 8 resulted in two Police service cost estimates that straddle this average cost estimate. These costs are \$82,561 at the low end, reflecting the service call approach, and \$192,708 at the high end, reflecting the police staffing approach (see Exhibit 8). These two figures included in the net fiscal impact analysis documented in Exhibit 9.

**Table 1. Summary of Preston Property Residential Project
Annual General Fund Expenditures**

Annual Police Expenditures	
<i>Average Cost Basis (per resident)</i>	\$170,278
<i>Marginal Cost Basis (service calls), Low</i>	\$82,561
<i>Marginal Cost Basis (new officer), High</i>	\$192,708
Annual Fire Expenditures	
<i>Average Cost Basis (per resident)</i>	\$88,045
<i>Marginal Cost Basis (equal to existing uses)</i>	\$4,574
All Other Average Cost Expenditures	\$120,142

Source: Exhibits 8 and 9.

For Fire services, the estimated annual expenditures range is from \$4,574, based on the marginal cost approach, to \$88,045, which is based on the average cost approach of \$114.34 per resident (see Exhibit 7). The \$4,574 marginal cost Fire estimate is considered in the analysis because as noted in Exhibit 8, the Fire Department indicated an expectation that there are adequate existing resources to accommodate the anticipated increase in calls for service attributable to the Project. The \$4,574 figure is the estimated marginal cost to serve the existing uses. For purposes of the analysis, ALH Economics therefore considered this the relevant marginal service cost for the Project as well.

All other service costs total \$120,142 per year for the Project. This reflects an estimated \$156.03 average cost per resident, i.e., exclusive of Fire and Police services (see Exhibit 7).

The range of Police and Fire service costs is reflected in Exhibit 9. With these figures included, the estimated annual General Fund expenditures attributable to the Project ranges from \$207,276 as reflected in the “High Net Revenue Impact” scenario to \$400,895 in the “Low Net Revenue Impact” scenario. These figures are boxed for emphasis in Table 2, located below, which shows the full array of annual General Fund expenditures given the possible mixes of average and marginal cost Police and Fire service cost estimates.

**Table 2. Summary Table of Preston Property Residential Project
Total Annual General Fund Expenditures
With a Range of Police and Fire Service Costs**

	Police Service Costs		
	Average Cost	Marginal Cost	
		Low	High
Fire Service Costs			
Average Cost	\$378,465	\$290,748	\$400,895
Marginal Cost	\$294,994	\$207,276	\$317,424

As noted in Table 2, for many of the permutations of Police and Fire service costs, the total annual expenditures are estimated at close to or over \$300,000.

Net Fiscal Impact Summary

The net result of the fiscal impact of the Preston Property Residential Project on the City of Milpitas General Fund is estimated to range from (\$93,566) to \$100,053 annually. This is a wide spread, comprising an approximate \$200,000 range, with one end of the range indicating that the Project will comprise a net drag on the City of Milpitas’ General Fund (“Low Net Revenue Impact”) and the other end of the range indicating a strong net gain to the City’s General Fund (“High Net Revenue Impact”). These net fiscal impact findings are boxed for emphasis in Table 3 on the next page, which shows the net fiscal impact findings based upon the permutation of annual expenditures pursuant to the mixes of average and marginal Police and Fire services costs.

**Table 3. Summary Table of Preston Property Residential Project
Net Annual General Fund Fiscal Impacts
With a Range of Police and Fire Service Costs**

		Police Service Costs		
		Average Cost	Marginal Cost	
			Low	High
Fire Service Costs				
Average Cost		(\$71,135)	\$16,582	(\$93,566)
Marginal Cost		\$12,336	\$100,053	(\$10,095)

As these summary findings indicate, the Preston Property Residential Project will result in a net positive gain to the City of Milpitas General Fund in half of the six Police and Fire service cost permutations. Two of the net positive permutations include the marginal cost of Fire services, i.e., the \$4,574 estimated pursuant to current Dire service costs to the property. If the City of Milpitas finds this to be an unrealistic service cost scenario, then the Project is more likely to result in an annual net drag on the City’s General Fund. However, a different marginal cost estimate could still result in a positive net fiscal impact, depending upon the magnitude of the cost.

These results suggest that the City of Milpitas should carefully evaluate the likely service needs of the Project and determine the most likely Police and Fire services cost profile in assessing the prospective net fiscal impact of the Project. If the cost of Police and Fire services can be kept low, then the Project has a strong likelihood of generating a net positive flow of revenue to the City’s General Fund. However, if a new Police officer is needed and hired, and the marginal cost of this new Police officer is fully attributed to the Project, then the net fiscal impact of the Project on the City’s General Fund will be negative, regardless of the Fire service costs. In these current times of fiscal austerity, it may be difficult for the City of Milpitas to hire additional police staff. If this is the case, this enhances the likelihood that the Project will result in a net positive impact on the City’s General Fund.

NET FISCAL IMPACT ANALYSIS OF RELOCATED EXISTING USES AND PRESTON PROPERTY RESIDENTIAL PROJECT

There is another possible net fiscal impact scenario, which would involve both development of the Preston Property Residential Project and relocation of the existing uses elsewhere in Milpitas. If Preston Pipelines and the other existing uses relocate in Milpitas then the City of Milpitas would incur the net fiscal impact of both scenarios.

ALH Economics contacted several industrial brokers active in Milpitas to inquire about the feasibility of Preston Pipelines and the other existing uses relocating to another Milpitas industrial site. The information generally indicated that it is unlikely that Preston Pipelines could find a suitable site within the Milpitas City boundaries. While Milpitas has industrial properties available, properties the size necessary for Preston Pipelines are not readily available. Smaller sites might be available for the other

existing uses, but limited sites are available at the size required for Preston Pipelines. This is especially the case given the propensity for other like industrial sites in Milpitas to similarly seek conversion in the long-term to residential use.

This market-based information suggests that it is unlikely that Preston Pipelines would successfully relocate in Milpitas. Therefore, the net positive fiscal impact benefits associated with Preston Pipelines are not likely to be retained after development of the Preston Property Residential Project. However, other businesses are also associated with the net positive fiscal impact of the existing uses. Therefore, there is some likelihood that a portion of the net positive fiscal impacts would be retained if these uses remain in Milpitas.

Assuming the net fiscal impact profile of the relocated existing uses matches the current profile, the results of full or partial retention of the existing uses plus development of the Preston Pipeline Residential Property are summarized in Exhibit 10 as well as Tables 4 and 5 on the next page. The partial existing use scenario assumes that 40% of the net fiscal impacts occur, since the existing uses other than Preston Pipelines generate 40% of the existing on-site employment. This analysis uses employment as a proxy for site occupation and revenue and cost generation.

These analyses assume relocation of the existing uses would result in the same balance of General Fund costs and revenues as at the current location. However, this balance could change upon relocation, depending upon the value of the underlying property and if the relocation involves the purchase of property, since property is reassessed and taxed at the prevailing tax rate upon sale. Therefore, if a new property sale in Milpitas occurs as part of a relocation plan then the net revenues associated with the existing uses could increase over the current estimated amount.

For the full retention of Preston Pipelines scenario, the overall range of the net fiscal impact for full retention and Preston Pipeline Residential Property development is (\$68,419) to \$133,284. This reflects the summation of the "Low Net Revenue Impact" and "High Net Revenue Impact" findings for both development options, presented in Exhibit 9.

Similar to the other tabular presentations above, the range of net fiscal impact findings combining these two development options is presented in Table 4, with the low and high values boxed. This summary, however, reflects only the existing use "High Net Revenue Impact" findings in an effort to maintain simplicity. Therefore, only the high value box matches one of the net fiscal impact figures in Exhibit 10.

These findings indicate that given the estimated Police and Fire costs, the combined net fiscal impact will be negative only if the average Police and Fire costs pertain to the Project or if the average Fire costs are applied along with the high marginal Police service cost involving the hiring of a new police office fully attributed to the Project.

As cited above, if it is difficult for the City to hire new police staff due to fiscal austerity, then there is a greater likelihood that the Project and the Milpitas relocation of Preston Pipelines and the other existing uses will result in a net positive impact on the City's General Fund.

**Table 4. Summary Table of Combined Existing Uses and Preston Property Residential Project (1)
Net Annual General Fund Fiscal Impacts
With a Range of Police and Fire Service Costs**

		Police Service Costs		
		Average Cost	Marginal Cost	
			Low	High
Fire Service Costs				
Average Cost		(\$37,904)	\$49,813	(\$60,335)
Marginal Cost		\$45,567	\$133,284	\$23,136

(1) Reflects the "High Net Revenue Impact" for the existing uses in Exhibit 10.

A less favorable combination scenario reflects relocation within Milpitas of the existing uses other than Preston Pipelines and development of the Preston Property Residential Project. The overall range of the net fiscal impact findings for this scenario is (\$83,507) to \$113,345. This reflects the summation of the "Low Net Revenue Impact" and "High Net Revenue Impact" findings for both development options, but including only 40% of the results for the existing uses. The range of findings pursuant to the permutations of Police and Fire costs are presented in Table 5, below. This table demonstrates a similar pattern to the findings combining both development scenarios, but with negative impacts a bit deeper and less favorable positive impacts.

**Table 5. Summary Table of Partial Combined Existing Uses and
Preston Property Residential Project (1)
Net Annual General Fund Fiscal Impacts
With a Range of Police and Fire Service Costs**

		Police Service Costs		
		Average Cost	Marginal Cost	
			Low	High
Fire Service Costs				
Average Cost		(\$57,843)	\$29,874	(\$80,273)
Marginal Cost		\$25,628	\$113,345	\$3,198

(1) Reflects 40% of the "High Net Revenue Impact" for the existing uses in Exhibit 10.

FISCAL IMPACT LIMITATIONS

The foregoing fiscal impact analysis is intended to give a general sense of the net fiscal impact of the Preston Property Residential Project compared to the existing uses. The figures are not precise estimates and changes will occur if the revenue and expenditure factors or other assumptions are developed with more precision. Nonetheless, the findings suggest a possibility that the Project, alone or in combination with relocation of the existing uses, may result in a negative net fiscal impact on the City's General Fund unless fiscal austerity results in no increased City Police staff to serve the Project's estimated Police service needs. However, some limitations to the analysis, listed below, may affect the degree of the estimated net impacts of the Project and the existing uses and change the net fiscal impact balance.

General Limitations

- The analysis is benchmarked to estimated stabilized operations for the Project. The net impacts during the development period will vary from the stabilized operations estimate.
- The analysis may not be inclusive of all revenue and cost estimates. Major categories associated with ongoing revenues and costs are included, but there may be other less significant categories excluded from the analysis.

One-time Revenues and Appropriations

- The fiscal impact analysis does not include development-related one-time fees that may be assessed by the City of Milpitas. These fees are typically assessed on a cost recovery basis and are thus excluded from the analysis. Other potential fees, such as impact fees, are also excluded as they too are designed to provide a nexus with the services provided.
- Depending upon how construction contracts are structured, there may be the potential for the City of Milpitas to benefit from construction-related sales and use taxes associated with the Project's construction effort. These revenues are excluded from the analysis but could comprise a strong source of one-time revenues.
- Another one-time revenue that could benefit the City of Milpitas during the Project's construction period includes retail sales tax revenues resulting from construction worker spending in Milpitas. Another one-time revenue comprises the transfer taxes paid on the sale of the Preston Pipelines property to KB home to support the Preston Property Residential Project.

Ongoing Revenue and Appropriation Factors

- The analysis does not include any increase in valuation, such that would occur with the maximum 2% allowable increase pursuant to Proposition 13 or that would occur based upon increased valuation upon sale.
- The analysis does not take into account long-term service cost inflation, which may or may not be greater than the estimated rate of inflation.

- The Preston Property Residential Project may trigger the need for additional services not accounted for in this analysis. The costs associated with these services could be meaningful, both for amortized capital and operating expenditures, and could reduce estimated net positive annual impacts. The likelihood of such additional costs being high, however, is deemed to be low.

In summary, the existing land uses and Preston Property Residential Project net fiscal impact findings estimated above may change as more information and factors are considered.

ASSUMPTIONS AND GENERAL LIMITING CONDITIONS

ALH Urban & Regional Economics has made extensive efforts to confirm the accuracy and timeliness of the information contained in this study. Such information was compiled from a variety of sources, including interviews with government officials, review of City and County documents, and other third parties deemed to be reliable. Although ALH Urban & Regional Economics believes all information in this study is correct, it does not warrant the accuracy of such information and assumes no responsibility for inaccuracies in the information by third parties. We have no responsibility to update this report for events and circumstances occurring after the date of this report. Further, no guarantee is made as to the possible effect on development of present or future federal, state or local legislation, including any regarding environmental or ecological matters.

The accompanying projections and analyses are based on estimates and assumptions developed in connection with the study. In turn, these assumptions, and their relation to the projections, were developed using currently available economic data and other relevant information. It is the nature of forecasting, however, that some assumptions may not materialize, and unanticipated events and circumstances may occur. Therefore, actual results achieved during the projection period will likely vary from the projections, and some of the variations may be material to the conclusions of the analysis.

Contractual obligations do not include access to or ownership transfer of any electronic data processing files, programs or models completed directly for or as by-products of this research effort, unless explicitly so agreed as part of the contract.

APPENDIX A: EXHIBITS

**Exhibit 1-A
Preston Property Residential Project
Existing Use Population Characteristics**

Land Use	Value	Measurement
On-Site Employment (1)		
Preston Pipelines	48	jobs
Devcon Construction	2	jobs
Duran and Venables Construction	5	jobs
Apto Solutions	<u>25</u>	jobs
	80	jobs
Service Population Employment Equivalent (2)	40	service population

Sources: Preston Pipelines; and ALH Urban & Regional Economics.

Notes:

- (1) On-site employment figures provided by Preston Pipelines Inc. for Preston Pipelines and other property occupants.
- (2) All employees are assumed to be equivalent to one-half a resident for City average service cost purposes. This is a standard fiscal impact analysis assumption.

**Exhibit 1-B
Preston Property Residential Project
Proposed Residential Project Description and Population**

Land Use	Number of Units (1)	Unit Pricing Range	Assumed Average Pricing (2)	Estimated Number of Residents (3)	Service Population (4)
Townhomes	120	\$473,000 - \$538,000	\$506,292	420	420
Plan 1	33	\$473,000 - \$497,000	\$485,000		
Plan 2	37	\$485,000 - \$515,000	\$500,000		
Plan 3	50	\$512,000 - \$538,000	\$525,000		
Single-family Detached	95	\$550,000 - \$620,000	\$582,458	333	333
Plan 1	33	\$550,000 - \$580,000	\$565,000		
Plan 2	31	\$573,000 - \$594,000	\$583,500		
Plan 3	31	\$580,000 - \$620,000	\$600,000		
Sub-total	215	\$473,000 - \$620,000	\$539,947	753	753
	5	NA	NA	18	18
Total (5)	220	\$473,000 - \$620,000	\$539,947	770	770

Sources: KB Home; Michael Brandman Associates; and ALH Urban & Regional Economics.

Notes:

- (1) KB Home provided unit distribution and pricing data for 215 homes. The City of Milpitas has instructed the analysis to be conducted for up to 220 homes. Therefore, an additional 5 units are added to the total count provided by KB Home.
- (2) Assumes the weighted average of the midpoint price for each residential product type plan.
- (3) Based upon an average of 3.5 residents per household. This is consistent with the EIR assumption prepared by Michael Brandman Associates.
- (4) All residents are assumed to be equivalent to one service population for City of Milpitas average service cost purposes. This is a standard fiscal impact analysis assumption.

Exhibit 2
Preston Property Residential Project
City of Milpitas Demographic, Employment, and Tax Characteristics

Data Point	Value	Measurement
Population and Employment Base, 2012 estimates		
City of Milpitas Population (1)	66,966	annual
City of Milpitas Employment Base (1)	29,200	annual
Estimated Service Population (2)	81,566	annual
City of Milpitas Tax Rates and Select Tax Revenues		
General Fund Property Tax Rate (3)	15.73%	of 1.0% of property value
Sales Tax Rate (4)		
Basic Sales Tax Rate, General Fund	1.00%	of taxable sales amount
Vehicle in Lieu of Property Tax Revenues (5)		
FY 2011-2012, Actual	\$4,550,000	annual
Transfer Tax Rate (6)	\$0.55	per \$1,000 property value
Assessed City of Milpitas Valuation, FY 2011/12 (5)		
Secured Property	\$10,108,401,450	annual
Unsecured Property	\$1,407,271,419	annual

Sources: "Table 2: E-5 City/County Population and Housing Estimates, 1/1/2012," State of California Department of Finance; "Monthly Labor Force Data for Cities and Census Designated Places (CDP), Annual Average 2011 - Revised," State of California Employment Development Department, Labor Market Information Division; County of Santa Clara, Finance Agency, Controller-Treasurer Department, FY 2011-2012; City of Milpitas Finance Department; californiacityfinance.com; "County of Santa Clara Tax Rates & Information, Fiscal Year 2011-2012"; and ALH Urban & Regional Economics.

Notes:

- (1) January 2012 population estimate prepared by the State of California Department of Finance. The employment figure comprises the annual average figure for 2011 as estimated by the State of California Employment Development Department. This is the most recent annualized figure available at the time this study was conducted.
- (2) The service population is equivalent to the residential population plus 1/2 the employment base. This is a standard fiscal impact assumption.
- (3) The Preston Pipelines property is located in Tax Rate Area (TRA) 012-056. The Tax allocation factor for the City of Milpitas after ERAF retention for this TRA is 0.1573490906.
- (4) The sales tax rate is inclusive of the triple flip, i.e., sales taxes diverted temporarily by the State of California but returned via other fiscal means.
- (5) From "County of Santa Clara Tax Rates & Information, Fiscal Year 2011-2012," page D-1.

Exhibit 3
Preston Property Residential Project
Property Valuation, Annual Property Tax Payments, and Transfer Taxes
Existing Land Uses and Preston Property Residential Project
City of Milpitas, FY 2011-2012 Dollars

<u>Item</u>	<u>Amount</u>
Property Valuation	
<i>Existing Property Valuation</i>	
Property Value (1)	\$18,366,567
<i>Preston Property Residential Project</i>	
Average Residential Unit Sales Price (2)	\$539,947
Number of Residential Units (2)	220
Total Residential Valuation	<u>\$118,788,233</u>
<i>Incremental Property Valuation</i>	\$100,421,666
Property Tax	
<i>Parameters (3)</i>	
Basic County Tax Rate	1.00%
City of Milpitas Share of Basic Tax Amount	15.73%
<i>Existing Property Tax</i>	
Total	\$183,666
Share Accruing to Milpitas (4)	\$28,900
<i>Preston Property Residential Project</i>	
Total	\$1,187,882
Share Accruing to Milpitas (5)	\$186,912
<i>Incremental Property Tax</i>	
Total	\$1,004,217
Share Accruing to Milpitas (6)	\$158,013
Transfer Taxes	
Total Residential Assessed Valuation	\$118,788,233
Annual property turnover rate (7)	14%
Annual values of sales turnover	\$16,969,748
Annual Average Transfer Taxes	\$9,333

Sources: Santa Clara County Tax Collector's Office, Secured Property Tax Bills for Fiscal Year July 1, 2011 - June 30, 2012; County of Santa Clara, Controller-Treasurer Department, Property Tax Division; Realquest; and ALH Urban & Regional Economics.

Notes:

- (1) Includes the assessed valuation of assessor parcel numbers associated with Preston Pipelines, i.e., APN 028-23-018-00; 086-26-029-00; 086-26-030-00; 086-27-002-00; 086-27-003-00; and 086-27-008-00.
(2) See Exhibit 1B.
(3) See Exhibit 2.
(4) This is the FY 2011-2012 share of the basic 1.0% County tax rate that accrues to the City of Milpitas, after adjusting for ERAF. Provided by the County of Santa Clara Controller-Treasurer Department.
(5) Estimated property tax revenues associated with the Preston Pipeline Residential Project.
(6) Difference between estimated revenues for Preston Pipeline Residential Project and existing land use.
(7) Assumes residential units turnover once every 7 years, which is a standard industry assumption.

**Exhibit 4-A
Preston Property Residential Project
Property Tax in Lieu of VLF Estimates for Existing Uses
City of Milpitas, FY 2011-12 Dollars**

<u>Category</u>	<u>Value</u>
Assessed Value	
City of Milpitas Secured Property Assessed Valuation (1)	\$10,108,401,450
City of Milpitas Unsecured Property Assessed Valuation (1)	\$1,407,271,419
Total	\$11,515,672,869
Property Valuation Attributable to Preston Pipelines Existing Uses (2)	\$18,366,567
Percent Share of Property Valuation Attributable to Preston Pipelines Existing Uses	0.16%
VLF in Lieu Revenue	
FY 2011-2012 adopted (1)	\$4,550,000
Share of VLF Attributable to Preston Pipelines Existing Uses	
Percent Assessed Value	0.16%
VLF In Lieu Revenue Attributable to Existing Preston Pipelines Uses	\$7,260

Source: ALH Urban & Regional Economics.

Notes:

(1) See Exhibit 2.

(2) See Exhibit 3.

Exhibit 4-B
Preston Property Residential Project
Property Tax in Lieu of VLF Estimates for Preston Property Residential Project
Project Stabilization
City of Milpitas, FY 2011-12 Dollars

Category	Value
Assessed Value Change	
City of Milpitas Secured Property Assessed Valuation (1)	\$10,108,401,450
City of Milpitas Unsecured Property Assessed Valuation (1)	\$1,407,271,419
Total	\$11,515,672,869
Property Valuation Increment Attributable Preston Property Residential Project (2)	\$100,421,666
Total Projected Property Valuation (Inclusive of Preston Property Residential Project)	\$11,616,094,535
Percent Increase in Property Valuation Attributable to Preston Property Residential Project	0.87%
VLF in Lieu Revenue	
FY 2010-2011 actual (1)	\$4,550,000
City Increase (Annual)	
Percent Assessed Value	0.87%
VLF In Lieu Revenue Attributable to Preston Property Residential Project	\$39,678
Net increase in VLF compared to Existing Use (3)	\$32,418

Source: ALH Urban & Regional Economics.

Notes:

- (1) See Exhibit 2.
- (2) See Exhibit 3.
- (3) See Exhibit 4-A for value associated with the existing use.

**Exhibit 5
Preston Property Residential Project
Estimated Annual Retail Sales Tax Generation
Existing Uses and Preston Property Residential Project Build Out
City of Milpitas, FY 2011-12 Dollars**

Project Component	Figure	Measure
Existing Preston Pipelines Industrial Land Use		
<u>Industrial Worker Retail Sales</u>		
Number of on-site Employees	80	jobs
Workday Retail Spending (1)	\$5,200	annual worker spending
Milpitas Capture Rate (2)	75%	
Total Industrial Worker Spending	\$312,000	
<u>Taxable Retail Sales</u>		
Taxable Retail Sales (3)	90%	percent taxable
Total Taxable Spending	\$280,800	annual
<u>Sales Tax</u>		
City of Milpitas Basic Sales Tax Rate, General Fund Generated Sales Tax	1.00% \$2,808	of taxable sales amount annual retail sales tax
Residential Land Use Alternative		
<u>Household Retail Sales</u>		
Number of Households (4)	220	households
Retail Spending (5)	\$30,000	average annual per household
Total Household Retail Spending	\$6,600,000	
<u>Taxable Retail Sales</u>		
Taxable Retail Sales (6)	87%	percent taxable
Total Taxable Spending	\$5,742,000	
Percent Captured in Milpitas (7)	75%	
Milpitas Taxable Sales, annual	\$4,306,500	
<u>Sales Tax</u>		
City of Milpitas Basic Sales Tax Rate, General Fund Generated Sales Tax	1.00% \$43,065	of taxable sales amount annual retail sales tax

Source: International Council of Shopping Centers, "Office-Worker Retail Spending in a Digital Age," 2012; and ALH Urban & Regional Economics.

Notes:

- (1) See Exhibit B-1. Based on office worker spending patterns in ample urban areas pursuant to the International Council of Shopping Centers 2012 study "Office-Worker Retail Spending in a Digital Age." For this analysis construction workers are assumed to spend 60% as much on retail during the workday as office workers. This assumption is based on analysis of average industry wages in office-based sectors compared to the construction sector in Santa Clara County, pursuant to 2010 County Business Patterns data. The figure is rounded to the nearest 100.
- (2) ALH Economics assumption, reflecting a portion of workday spending outside Milpitas on the way to or from work.
- (3) Based on the findings from the "Office-Worker Retail Spending in a Digital Age" study regarding the distribution of worker spending on groceries versus other retail goods, presented in Exhibit B-1, and the typical share of grocery sales that are taxable, assumed to be 30%, 90% of worker spending is assumed to be spent on taxable items.
- (4) See Exhibit 1-B.
- (5) See Exhibit B-3. ALH Urban & Regional Economics conducted a Retail Demand, Sales Attraction, and Spending Analysis for the City of Milpitas based upon 2010 demographic data and retail expenditure patterns pursuant to the United States Consumer Expenditures Survey. The result indicated estimated average household spending on retail totaling approximately \$28,200 in 2010 dollars for the highest income range analyzed by the Consumer Expenditures Survey. For analytic purposes this figure was inflated to \$30,000 to reflect an estimated 2012 average household spending figure for Preston Property Residential Project households.
- (6) Based on the analysis from Milpitas' retail sales base in Exhibit B-2, showing adjustments for taxable to total retail sales.
- (7) This analysis assumes that Milpitas retailers will capture 75% of the KB Home resident retail spending. The Retail Demand, Sales Attraction, and Spending Analysis in Exhibit B-3 indicates that Milpitas is a net attraction city in all major retail categories, meaning that the City attracts more sales than expected from resident spending. The 75% assumption allows for 25% of all resident spending to occur outside Milpitas, facilitating comparison shopping, travel-related spending, and other expenditures beyond the city's ample retail base.

**Exhibit 6
Preston Property Residential Project
Assorted City of Milpitas General Fund Revenues
Existing Uses and Preston Property Residential Project
City of Milpitas, FY 2011-12 Dollars**

Fines and Forfeits - Existing Uses and Proposed Residential

<u>Fines and Forfeits Revenues and Population Basis Data</u>	<u>Parameters and Annual Revenue</u>
City of Milpitas FY 2011/12 Fines and Forfeits (1)	\$712,000
City Service Population (2)	81,566
Fines and Forfeits Revenues Per Service Population (3)	\$8.73
Existing Industrial Uses	
Service Population (4)	40
Existing Fines and Forfeits Tax Revenues (5)	\$349
Preston Property Residential Project	
Service Population (6)	770
Project Fines and Forfeits Tax Revenues (5)	\$6,721

Franchise Fees - Existing Uses and Proposed Residential

<u>Franchise Fee Revenues and Population Basis Data</u>	<u>Parameters and Annual Revenue</u>
Franchise Fees Applicable to all Service Population	
City of Milpitas FY 2011/12, Electric Franchise (1)	\$1,108,000
City of Milpitas FY 2011/12, Gas Franchise (1)	\$198,000
City Service Population (2)	81,566
Electric & Gas Franchise Fee Per Service Population (3)	\$16.01
Franchise Fees Applicable to all Employees	
City of Milpitas FY 2011/12, Garbage Franchise - Commercial (1)	\$950,000
City Employment Base (2)	29,200
Commercial Garbage Franchise Fee Per Employee (3)	\$32.53
Franchise Fees Applicable to all Residents	
City of Milpitas FY 2011/12, Garbage Franchise - Non-Commercial (1)	\$434,000
City of Milpitas Resident Base (2)	66,966
Non-Commercial Garbage Franchise Fee Per Resident (3)	\$6.48
City of Milpitas FY 2011/12, CATV Franchise (1)	\$374,000
City of Milpitas Resident Base (2)	66,966
CATV Franchise Fee Resident (3)	\$5.58

Estimated Franchise Fee Revenues

Existing Industrial Uses	
Service Population (4)	40
Employees (4)	80
Electric & Gas Franchise Fee (7)	\$640
Commercial Garbage Franchise Fee (7)	\$2,603
Sub-total	<u>\$3,243</u>
Preston Property Residential Project	
Service Population (6)	770
Electric & Gas Franchise Fee (7)	\$12,329
Non-Commercial Garbage Franchise Fee (7)	\$4,990
CATV Franchise Fee (7)	\$4,300
Sub-total	<u>\$21,620</u>

Continued on next page

Exhibit 6
Preston Property Residential Project
Assorted City of Milpitas General Fund Revenues
Existing Uses and Preston Property Residential Project
City of Milpitas, FY 2011-12 Dollars

Estimated Business License Fee Revenues

<u>Business License Fee</u>	<u>Parameters and Annual Revenue</u>
Business License Fees for Existing Businesses	
Preston Pipelines (8)	\$75.00
Devcon Construction (9)	\$75.00
Duran and Venables Construction (9)	\$75.00
Apto Solutions (9)	\$75.00
Total	\$300.00

Sources: "2011-2012 Budget & Financial Plan, Final Budget, City of Milpitas," page 69; Preston Pipelines; City of Milpitas Business License Fee Schedule; and ALH Urban & Regional Economics.

Notes:

- (1) All revenue figures are from the City of Milpitas 2011-2012 Budget & Financial Plan, Final Budget.
- (2) See Exhibit 2.
- (3) Calculated on a per population basis for the population cited, i.e., city service population, city employment base, or city residential base, as noted.
- (4) See Exhibit 1-A.
- (5) Calculated by multiplying the per population, employee, or resident figure by the existing uses or Preston Property Residential Project service population estimates.
- (6) See Exhibit 1-B.
- (7) Calculated by multiplying the per population, employee, or resident fee by the associated estimates for the existing uses or the Preston Property Residential Project.
- (8) Provided by Preston Pipelines. This is the amount paid for Preston Pipelines Inc. Business License issued July 11, 2011.
- (9) Estimate generated by ALH Urban & Regional Economics. Each business is assumed to pay an annual fee comparable to the Preston Pipelines fee, which is equivalent to the City of Milpitas business license fee for contractors located inside the City of Milpitas plus a \$25 renewal processing fee.

**Exhibit 7
Preston Property Residential Project
City of Milpitas General Fund Average Cost Expenditures
FY 2011-2012 Adopted Budget
Fiscal Impact Factors City of Milpitas**

City Services (1)	FY Budget (2)	Revenue Offsets (3)	Adjusted General Fund Expenditures (4)	Percent Fixed (5)	Allocable Variable Expenditures (6)	Population Factor (7)	Expenditure per Service Population (8)	Expenditure per Resident (9)	Expenditure per Employee (10)
Administration (11)	\$3,092,272	(\$746,656)	\$2,345,616	75%	\$586,404	Service Population	\$7.19	\$7.19	\$3.59
Building (12)	\$2,178,195	(\$2,873,204)	\$0	NA	NA	NA	\$0.00	\$0.00	\$0.00
Information Services	\$2,691,105	(\$186,809)	\$2,504,296	75%	\$626,074	Service Population	\$7.68	\$7.68	\$3.84
Finance	\$2,407,918	(\$167,151)	\$2,240,767	75%	\$560,192	Service Population	\$6.87	\$6.87	\$3.43
Public Works	\$5,235,009	(\$942,399)	\$4,292,610	25%	\$3,219,458	Service Population	\$39.47	\$39.47	\$19.74
Engineering	\$862,417	(\$59,866)	\$862,417	25%	\$646,813	Service Population	\$7.93	\$7.93	\$3.96
Planning & Neighborhood	\$1,310,977	(\$266,004)	\$1,044,973	25%	\$783,730	Service Population	\$9.61	\$9.61	\$4.80
Parks & Recreation (13)	\$5,594,422	(\$1,971,301)	\$3,623,121	10%	\$3,260,809	Resident Population	\$48.69	\$48.69	\$0.00
Police	\$22,776,776	(\$2,735,096)	\$20,041,680	10%	\$18,037,512	Service Population	\$221.14	\$221.14	\$110.57
Fire	\$14,595,639	(\$2,160,186)	\$12,435,453	25%	\$9,326,590	Service Population	\$114.34	\$114.34	\$57.17
Non-Departmental	\$5,012,368	(\$347,944)	\$4,664,424	50%	\$2,332,212	Service Population	\$28.59	\$28.59	\$14.30
Total	\$65,757,098	(\$12,456,616)	\$53,300,482	NA	\$39,379,792		\$476.65	\$491.51	\$221.41

Sources: "2011-2012 Budget & Financial Plan, Final Budget, City of Milpitas," pages 98 & 99; and ALH Urban & Regional Economics.

Notes:

- (1) All City General Fund expenditures are captured in these service areas, which include aggregated expenditure items.
- (2) See Exhibit B-5 for the line item detail reflected in each departmental aggregation.
- (3) See Exhibit B-8.
- (4) General Fund expenditures less Charges for Current Services.
- (5) Fiscal impact studies that examine municipal expenditures on an average cost basis, such as this analysis, often assume a portion of City expenditures are fixed and will not vary with a change in the population served. The resulting variable expenditures are then allocated across the relevant population served, which could include just residents, just employees, or the service population, which includes both residents and an allocation for employees. For the purpose of this analysis, all of the City service categories that are primarily administrative are assumed to have the majority of their expenditures fixed at 75%, thus with 25% that varies with the size of the population served. This applies to approximately one-half the major City services, with expenditures in the other half ranging from 10% to 50% fixed, reflecting that only some portion of the costs in these departments will not vary with changes in the City's service population.
- (6) Comprises the share of the General Fund expenditures assumed to be allocable to the population served, i.e., total expenditures less fixed expenditures.
- (7) The analysis assumes all expenditures except Parks & Recreation are spread across the resident and employment base, i.e., the service population. The Parks & Recreation costs are assumed to only apply to residents.
- (8) Equal to allocable expenditures divided by the service population with the exception of Parks & Recreation, which are assumed to only be allocable to residents.
- (9) The expenditure per resident is equal to the expenditure per service population.
- (10) The expenditure per employee is equal to one half the expenditure per service population.
- (11) Includes City Council, City Manager, City Clerk, Human Resources, and City Attorney.
- (12) The analytical revenue offsets indicate the expenditures for this City department are sufficiently offset by service and other charges. Thus, no General Fund expenditures for this City department are included in the analysis.
- (13) These services are assumed to apply only to the City's resident population.

Exhibit 8
Preston Property Residential Project
City of Milpitas Select Estimated Marginal Service Costs (1)
City of Milpitas, FY 2011-2012 Dollars

City Department	Estimated Annual Marginal Cost			Explanatory Comments
	Existing Use	KB Home Project		
		Low	High	
Police	\$762	\$82,561	\$192,708	<p>The Police Department indicates that there were 78,894 calls for service in 2011. The approved Fiscal Year 2011-2012 Police Department budget allocated by the General Fund, less revenue offsets, totals \$20,041,680 (see Exhibit 7). This results in a \$254 per call cost of service.</p> <p>The Police Department indicated that the existing Preston Pipeline area had 3 reports taken during 2011. At the \$254 per call cost this equates to a marginal service cost estimate of \$762 per year.</p> <p>The Police Department estimates that a residential development the size of the Preston Property Residential Project could generate in the area of 300 to 350 calls for service on an annual basis, or more given the Project's high density nature. Using the average of this figure, or 325, results in a marginal service cost estimate of \$82,561 per year given the \$254 average per call cost.</p> <p>The Police Department indicated the Department is staffed by 104 employees, of which 83 positions are sworn law enforcement officers and 21 are non-sworn civilians. Given the approved fiscal year 2011-2012 Police Department General Fund budget allocation of \$2,041,680 this results in a per employee cost of \$192,708 (see Exhibit 7).</p> <p>The Police Department estimates that given the prospective population count of the Preston Property Residential Project, there could be the need for one additional office to serve the Project. As noted above, the estimated cost per Police Department employee regardless of position is \$192,708.</p>
Fire	NA	\$0	\$0	<p>The Fire Department indicates that there are adequate existing resources to accommodate the anticipated increase in calls for service attributable to the Preston Property Residential Project.</p>

Sources: City of Milpitas, Departmental estimates conveyed by Sheldon Ah Sing, Senior Planner; and ALH Urban & Regional Economics.

Notes:

(1) These costs are estimated on a marginal cost, or case study basis. This means cost estimates were prepared based upon the level of service anticipated to be provided to the Project and the corresponding cost by Department as estimated by Department representatives.

Exhibit 9
Preston Property Residential Project
Annual Net Fiscal Impact Analysis, Existing Uses and Preston Property Residential Development (1)
City of Milpitas General Fund
FY 2011-12 Dollars

General Fund Revenues and Expenditures Categories	Existing Preston Pipelines Uses		Preston Property Residential Development	
	Low Net Revenue Impact	High Net Revenue Impact	Low Net Revenue Impact	High Net Revenue Impact
Revenues (2)				
Property Taxes (3)	\$28,900	\$28,900	\$186,912	\$186,912
Transfer Taxes (3)	\$0	\$0	\$9,333	\$9,333
Property Tax in Lieu of VLF (4)	\$7,260	\$7,260	\$39,678	\$39,678
Business License Fees (5)	\$300	\$300	\$0	\$0
Retail Sales Taxes (6)	\$2,808	\$2,808	\$43,065	\$43,065
Franchise Fees (5)(7)	\$3,243	\$3,243	\$21,620	\$21,620
Fines & Forfeits (5)	\$349	\$349	\$6,721	\$6,721
Sub-total	\$42,860	\$42,860	\$307,330	\$307,330
Expenditures (8)				
Administration	\$288	\$288	\$5,536	\$5,536
Building	\$0	\$0	\$0	\$0
Information Services	\$307	\$307	\$5,910	\$5,910
Finance	\$275	\$275	\$5,288	\$5,288
Public Works	\$1,579	\$1,579	\$30,392	\$30,392
Engineering	\$317	\$317	\$6,106	\$6,106
Planning & Neighborhood	\$384	\$384	\$7,399	\$7,399
Parks & Recreation	\$0	\$0	\$37,494	\$37,494
Police	\$8,846	\$762 (9)	\$192,708 (10)	\$82,561
Fire	\$4,574	\$4,574 (11)	\$88,045	\$4,574 (11)
Non-Departmental	\$1,144	\$1,144	\$22,017	\$22,017
Sub-total	\$17,713	\$9,629	\$400,895	\$207,276
Net Impact (12)	\$25,147	\$33,231	(\$93,566)	\$100,053

Source: ALH Urban & Regional Economics.

See notes on the following page

Exhibit 9
Preston Property Residential Project
Annual Net Fiscal Impact Analysis, Existing Uses and Preston Property Residential Development (1)
City of Milpitas General Fund
FY 2011-12 Dollars

Notes:

- (1) Reflects estimated revenues less estimated expenditures, resulting in a net fiscal impact on an annual basis on the City of Milpitas General Fund. The "Low Net Revenue Impact" column reflects a low, to negative net benefit to the City's General Fund while the "High Net Revenue Impact" column reflects a relatively higher net benefit to the City's General Fund.
- (2) Includes the most substantial revenues anticipated to accrue to the City of Milpitas General Fund resulting from the Project's stabilized operations. However, there may be yet additional revenues flowing to the General Fund pursuant to the Project's operations.
- (3) See Exhibit 3.
- (4) See Exhibit 4-A for the existing use and Exhibit 4-B for the Preston Property Residential Project.
- (5) See Exhibit 6.
- (6) See Exhibit 5.
- (7) Franchise fees for the existing Preston Pipelines uses may be higher depending upon actual utility costs.
- (8) Unless otherwise noted, figures comprise the per employee, per service population, or per resident counts in Exhibits 1-A or 1-B multiplied by the General Fund expenditures costs derived in Exhibit 7.
- (9) See Exhibit 8.
- (10) This figure corresponds to the marginal cost of adding one police office (see Exhibit 8). This cost is generally similar to the estimated cost using the average cost approach of \$192,708, which results from multiplying the Preston Property Residential Project resident count of 770 by the per resident Police cost of \$221.14 derived in Exhibit 7).
- (11) Per the information conveyed in Exhibit 8, the Fire Department does not estimate the need for any incremental, or marginal costs associated with serving the Preston Property Residential Project. Accordingly, ALH Urban & Regional Economics assumes the average cost estimated for the existing use will equally apply as the marginal cost for the existing use and the marginal cost for the Preston Property Residential Project. Thus, the figure of \$4,574 is input as the Fire Department cost for the "high net impact" scenario for the Existing Preston Pipeline Use and the Preston Property Residential Project.
- (12) Comprises revenues less expenditures.

Exhibit 10
Preston Property Residential Project
Annual Net Fiscal Impact Analysis, Combined Existing Uses and Preston Property Residential Development (1)
City of Milpitas General Fund
FY 2011-12 Dollars

General Fund Revenues and Expenditures Categories	Relocated Existing Uses and New Residential Development (2)		Partial Relocated Existing Uses and New Residential Development (3)	
	Low Net Revenue Impact	High Net Revenue Impact	Low Net Revenue Impact	High Net Revenue Impact
Revenues				
Property Taxes	\$215,812	\$215,812	\$198,472	\$198,472
Transfer Taxes	\$9,333	\$9,333	\$9,333	\$9,333
Property Tax in Lieu of VLF	\$46,938	\$46,938	\$42,582	\$42,582
Business License Fees	\$300	\$300	\$120	\$120
Retail Sales Taxes	\$45,873	\$45,873	\$44,188	\$44,188
Franchise Fees	\$24,863	\$24,863	\$22,917	\$22,917
Fines & Forfeits	\$7,071	\$7,071	\$6,861	\$6,861
Sub-total	\$350,190	\$350,190	\$324,474	\$324,474
Expenditures				
Administration	\$5,823	\$5,823	\$5,651	\$5,651
Building	\$0	\$0	\$0	\$0
Information Services	\$6,217	\$6,217	\$6,033	\$6,033
Finance	\$5,563	\$5,563	\$5,398	\$5,398
Public Works	\$31,971	\$31,971	\$31,024	\$31,024
Engineering	\$6,423	\$6,423	\$6,233	\$6,233
Planning & Neighborhood	\$7,783	\$7,783	\$7,552	\$7,552
Parks & Recreation	\$37,494	\$37,494	\$37,494	\$37,494
Police	\$201,554	\$83,323	\$196,247	\$82,866
Fire	\$92,619	\$9,148	\$89,874	\$6,403
Non-Departmental	\$23,160	\$23,160	\$22,474	\$22,474
Sub-total	\$418,608	\$216,906	\$407,980	\$211,128
Net Impact (4)	(\$68,419)	\$133,284	(\$83,507)	\$113,345

Source: ALH Urban & Regional Economics.

Notes:

- (1) This exhibit presents the net fiscal impact if the existing uses remained in Milpitas, in all or part, and if the Preston Property Residential Development is built.
- (2) Adds together the findings for the existing uses and the Preston Property Residential Development, presented in Exhibit 9.
- (3) This scenario includes the findings for the Preston Property Residential Development and 40% of the existing uses. The purpose is to model the net fiscal impact scenario if Preston Pipelines relocates out of Milpitas but the other existing uses relocated within Milpitas. The 40% factor reflects the share of the existing site employment associated with these uses other than Preston Pipelines. This is a proxy for the existing division of impacts between Preston Pipelines and all other existing site users.
- (4) Comprises revenues less expenditures.

APPENDIX B: SUPPORT EXHIBITS

Exhibit B-1
Preston Property Residential Project
Currently Selling Condominium and Townhouse Developments
Milpitas, San Jose, and Fremont
March 2012

City and Project	Developer	Size Range (Sq. Ft.)	Price Range	Price Range per Sq. Ft.	Date Closed Out (1)
<u>Milpitas</u>					
The Paragon	DR Horton Inc.	1,171 - 1,691	\$374,990 - \$479,990	\$283.85 - \$320.23	N/A
Luna at Terra Serena	KB Home	905 - 1,853	\$307,250 - \$520,801	\$281.06 - \$339.50	7/31/2010
	Average	1,038 - 1,772	\$341,120 - \$500,396	\$282.45 - \$329.87	
<u>San Jose</u>					
The 88	Wilson Meany Sullivan	992 - 2,319	\$395,000 - \$1,500,000	\$398.19 - \$646.83	N/A
Axis	Almaden Tower Venture, LLC	800 - 1,800	\$295,000 - \$1,360,000	\$368.75 - \$755.56	N/A
City Heights	Barry Swenson Builder	600 - 1,325	\$290,000 - \$269,000	\$203.02 - \$483.33	N/A
Messina Gardens	Pinn Brothers Fine Homes	1,316 - 1,809	\$399,900 - \$475,000	\$262.58 - \$303.88	1/31/2012
Villas at Lundy	Toll Brothers	1,283 - 1,548	\$459,995 - \$564,995	\$358.53 - \$364.98	N/A
The Works	Barry Swenson Builder	700 - 1,440	\$465,000	\$322.92 - \$664.29	N/A
Cachet	DR Horton, Inc.	1,405 - 1,927	\$349,990 - \$423,990	\$220.03 - \$249.10	N/A
Celadon	Warmington Homes California	1,316 - 1,809	\$538,800	\$297.84 - \$409.42	N/A
Grandview Terrace	Pinn Brothers Fine Homes	1,316 - 1,809	\$418,000 - \$534,000	\$295.19 - \$317.63	1/31/2012
Hampton Park	Taylor Morrison	1,213 - 1,573	\$499,990 - \$599,990	\$381.43 - \$412.19	12/31/2011
Modern Ice Homes	Taylor Morrison	1,288 - 1,660	\$399,583 - \$444,990	\$268.07 - \$310.24	N/A
Pepper Lane	Pulte Homes	1,129 - 2,006	\$429,990 - \$589,990	\$294.11 - \$380.86	N/A
Savona	Lennar Homes	1,347 - 2,031	\$384,000 - \$507,795	\$250.02 - \$285.08	N/A
Willow Village Square	Radio Homes	1,746 - 1,913	\$539,950 - \$620,000	\$309.25 - \$324.10	N/A
	Average	1,175 - 1,784	\$418,943 - \$657,479	\$302.14 - \$421.96	
<u>Fremont</u>					
Gramercy at Park Lane West	Regis Homes	1,210 - 1,671	\$329,900 - \$459,900	\$272.64 - \$275.22	N/A
Mission Ridge	KB Home	1,431 - 1,842	\$585,560 - \$713,106	\$387.14 - \$409.20	N/A
Central Park Terraces	Pulte Homes	1,644 - 2,094	\$575,990 - \$635,990	\$303.72 - \$350.36	N/A
Villa D'Este Towns	Pulte Homes	1,263 - 1,582	\$419,990 - \$499,990	\$316.05 - \$332.53	N/A
Westerly at Park Lane West	Regis Homes	1,428 - 1,758	\$615,900	\$350.34 - \$431.30	N/A
	Average	1,395 - 1,789	\$505,468 - \$577,247	\$325.98 - \$359.72	
	Total Average	1,214 - 1,784	\$432,132 - \$622,196	\$305.94 - \$398.37	

Sources: Hanley Wood; and ALH Urban & Regional Economics.

Notes:

(1) N/A denotes that the project has not closed out.

Exhibit B-2
Preston Property Residential Project
Office Worker Weekly Retail Spending Patterns (1)
in 2011 Dollars

<u>Category of Spending (4)</u>	<u>Spending Patterns (1)</u>					
	<u>Suburban (2)</u>			<u>Suburban - Ample Adjustment (3)</u>		
	<u>Weekly</u>	<u>Annualized</u>	<u>Percent</u>	<u>Weekly</u>	<u>Annualized</u>	<u>Percent</u>
Full-Service Restaurants and Fast Food	\$26.29	\$1,367.08	22.7%	\$37.57	\$1,953.64	22.7%
Goods and Services						
Groceries	\$15.98	\$830.96	13.8%	\$22.84	\$1,187.68	13.8%
All Other	\$73.33	\$3,813.16	63.4%	\$104.80	\$5,449.60	63.4%
Total	\$115.60	\$6,011.20	100.0%	\$165.21	\$8,590.92	100.0%

Sources: "Office-Worker Retail Spending in a Digital Age," Michael P. Niemira and John Connolly, ICSC Research Department, 2012; and ALH Urban & Regional Economics.

Notes:

(1) Excludes spending on transportation and online purchases.

(2) The ICSC study findings are presented for urban/central city, suburban, and rural/small town geographies. The main distinction is defining an urban area to include a core area with a large population nucleus, together with adjacent communities that have a high degree of economics and social integration with the core. Given the nature of the project and the surrounding area, the Preston Pipelines development site was deemed more characteristic of an urban work location than a suburban work location.

(3) The ICSC survey findings indicate that office workers in urban areas with an ample supply of retail shopping opportunities spend approximately 43% more on an average weekly basis than workers in locations not considered characterized by ample retail opportunities. ALH Economics distributed the total spending based on the percentage sales distribution figure for the basic urban office worker.

(4) A range of categories are included in the "All Other" category, including drug stores, clothing stores, shoe stores, and department stores. ALH Urban & Regional Economics collapsed these categories into one comprehensive category for analytical purposes.

**Exhibit B-3
Preston Property Residential Project
City of Milpitas Taxable Retail Sales
Adjusted to Total Retail Sales
in Current Dollars
Fourth Quarter 2009 and First - Third Quarters of 2010**

Type of Retailer	Taxable Retail Sales				Total Taxable Sales in the City of Milpitas [E = A + B + C + D]	Retail Sales in the City of Milpitas Adjusted for Total Sales (1) [F]
	Q4 2009 [A]	Q1 2010 [B]	Q2 2010 [C]	Q3 2010 [D]		
Motor Vehicle and Parts Dealers	\$33,690,905 (3)	\$26,757,000	\$30,680,000	\$34,984,000	\$126,111,905	\$126,111,905
Home Furnishings and Appliances	\$28,436,000	\$23,146,000	\$26,386,000	\$26,196,000	\$104,164,000	\$104,164,000
Building Materials and Garden Equip.	\$10,421,000	\$10,973,000	\$12,284,000	\$11,713,000	\$45,391,000	\$45,391,000
Food and Beverage Stores	\$9,648,000	\$8,169,000	\$9,054,000	\$9,816,000	\$36,687,000	\$122,290,000 (2)
Gasoline Stations	\$19,935,000	\$19,044,000	\$20,311,000	\$22,376,000	\$81,666,000	\$81,666,000
Clothing and Clothing Accessories	\$67,431,000	\$49,767,000	\$58,831,000	\$59,076,000	\$235,105,000	\$235,105,000
General Merchandise Stores	\$30,854,000	\$22,140,000	\$24,391,000	\$24,171,000	\$104,392,905	\$130,491,131 (4)
Food Services and Drinking Places	\$44,928,000	\$44,808,000	\$47,031,000	\$46,963,000	\$183,730,000	\$183,730,000
Other Retail Group	\$19,585,095 (5)	\$17,885,000	\$19,183,000	\$18,730,000	\$75,383,095	\$111,279,229 (6)
Total	\$264,929,000	\$222,689,000	\$248,151,000	\$254,025,000	\$989,794,000	\$1,140,228,264 (7)

Sources: California State Board of Equalization, "Taxable Sales in California" reports, for Fourth Quarter 2009, First Quarter 2010, Second Quarter 2010, and Third Quarter 2010; and ALH Urban & Regional Economics.

Notes:

(1) See footnotes 2, 4, and 6 regarding taxable sales adjustments.

(2) Sales for Food and Beverage stores have been adjusted to account for non-taxable sales; only 30% of all Food store sales are estimated to be taxable.

(3) The BOE omitted the figure for the Motor Vehicles and Parts category as it would result in the disclosure of confidential information. The BOE bundles this figure into the Other Retail group. The BOE does provide General Merchandise figures for the first three quarters of 2010. ALH Urban & Regional Economics estimated the figure for Motor Vehicles and Parts by calculating the average of the given Motor Vehicles and Parts sales for the three quarters in 2010 and applied that to the total taxable sales for the fourth quarter of 2009 to get the taxable amount of Motor Vehicles and Parts sales for the study period. This figure was also subtracted from the Other Retail group.

(4) Sales for General Merchandise stores have been adjusted to account for non-taxable food sales, since some General Merchandise store sales include non-taxable food items. ALH Urban & Regional Economics estimates that at least 20% of General Merchandise sales are for grocery items that are also non-taxable. This estimate is based on the analyses of the 2007 U.S. Economic Census, which attributes 21% of General Merchandise stores sales to food.

(5) See adjustment referenced in footnote 3.

(6) Sales for the Other Retail group have been adjusted to account for non-taxable drug store sales, since drug store sales are included in the Other Retail group category. ALH Urban & Regional Economics estimates that 33% of drug store sales are taxable, based on discussions with the California BOE and examination of U.S. Census data. In Santa Clara County, drug store sales in Q4 2009, Q1 2010, Q2 2010, and Q3 2010 represented approximately 23.5% of all Other Retail group sales. ALH Urban & Regional Economics applied that percentage and then adjusted upward for non-taxable sales.

(7) In aggregate, the taxable retail sales are estimated to comprise 87% of total retail sales.

Exhibit B-4
Preston Property Residential Project
Retail Demand, Sales Attraction, and Spending Analysis (1)
City of Milpitas
2010
(in \$000s)

Type of Retailer	Per Household (2) (3)		Market Area Household Spending (4)	City of Milpitas Sales (5)	Retail Sales Attraction/(Leakage)	
	Spending	Sales			Amount	Percent
Motor Vehicles and Parts Dealers	\$4,566	\$6,574	\$87,594	\$126,112	\$38,518	30.5%
Home Furnishings and Appliance Stores	\$802	\$5,430	\$15,380	\$104,164	\$88,784	85.2%
Building Materials and Garden Equip (6)	\$2,296	\$2,366	\$44,053	\$45,391	\$1,338	2.9%
Food and Beverage Stores (7)	\$4,663	\$6,375	\$89,451	\$122,290	\$32,839	26.9%
Gasoline Stations	\$3,070	\$4,257	\$58,888	\$81,666	\$22,778	27.9%
Clothing and Clothing Accessories Stores	\$1,378	\$12,255	\$26,442	\$235,105	\$208,663	88.8%
General Merchandise Stores (8)	\$4,020	\$6,802	\$77,113	\$130,491	\$53,378	40.9%
Food Services and Drinking Places	\$3,664	\$9,577	\$70,286	\$183,730	\$113,444	61.7%
Other Retail Group (9)	\$3,706	\$5,801	\$71,101	\$111,279	\$40,178	36.1%
Total	\$28,165	\$59,436	\$540,309	\$1,140,228	\$599,919	52.6%

Sources: 2010 U.S. Census; Claritas Inc.; and ALH Urban & Regional Economics.

Notes:

(1) All figures are expressed in constant 2010 dollars.

(2) The household spending estimates were generated by ALH Urban & Regional Economics Retail Demand, Sales Attraction, and Spending Leakage Analysis.

(3) The household count is estimated at 19,814 per the 2010 U.S. Census. The analysis assumes an average household income in 2010 of \$92,318 as estimated by the 2010 U.S. Census. This income corresponds with the highest income range included in the U.S. Consumer Expenditures Survey, upon which this analysis is predicated.

(4) Represents per household spending multiplied by the market area household count.

(5) See Exhibit B-3.

(6) Building Materials and Garden Equipment includes hardware stores, plumbing and electrical supplies, paint and wallpaper products, glass stores, lawn and garden equipment, and lumber.

(7) Sales for Food and Beverage stores have been adjusted to account for non-taxable sales; only 30 percent of all food store sales are estimated to be taxable.

(8) Sales for General Merchandise stores have been adjusted to account for non-taxable sales.

(9) Other Retail Group includes drugs stores, health and personal care, gifts, art goods and novelties, sporting goods, florists, photographic equipment and supplies, musical instruments, stationary and books, office and school supplies, second-hand merchandise, and miscellaneous other retail stores.

**Exhibit B-5
Preston Property Residential Project
City of Milpitas General Fund Expenditures
FY 2011-2012 Adopted Budget**

Fund/Function	Total (1)	Fund/Function	Total (1)
City Council	\$333,860	Planning	\$775,829
City Manager	\$439,059	Neighborhood Services	\$535,148
City Clerk	\$752,722	Sub-total Planning & Neighborhood	\$1,310,977
Human Resources	\$922,145	Park Maintenance	\$1,821,662
City Attorney	\$644,486	Recreation Administration	\$1,105,824
Sub-total Administration	\$3,092,272	Senior citizen Services	\$631,434
Building Inspection Services	\$906,395	Youth Programs	\$380,721
Plan Checking	\$453,103	Teens	\$170,342
Building Administration	\$225,078	Special Events	\$95,825
Permit Center	\$500,906	Cultural Arts	\$19,805
Public Works Inspection Services	\$92,713	Rainbow theatre	\$142,433
Sub-total Building	\$2,178,195	General Classes	\$359,617
Information Services	\$2,691,105	Aquatics	\$361,644
Finance Administration	\$645,200	Sports & Fitness Classes	\$419,094
Accounting Services	\$1,096,463	Adult Sports	\$49,669
Receivables	\$214,365	Volunteer Services	\$36,352
Purchasing	\$451,890	Sub-total Parks & Recreation	\$5,594,422
Sub-total Finance	\$2,407,918	Police Administration	\$673,293
Public Works Administration	\$155,586	Records	\$1,258,376
Street Maintenance	\$1,624,536	Personnel & Training	\$323,100
Trees & Landscape Maintenance	\$1,310,099	Communications	\$2,582,824
Facilities Maintenance	\$2,144,788	Patrol Services	\$11,852,045
Sub-total Public Works	\$5,235,009	Traffic	\$2,703,606
Engineering Administration	\$141,528	Crossing Guards	\$289,490
Design & Construction	\$213,619	Community Relations	\$849,918
Land Development	\$347,416	Investigations	\$2,244,124
Traffic Engineering	\$36,354	Sub-total Police	\$22,776,776
Utility Engineering	\$123,500	Fire Administration	\$506,916
Sub-total Engineering	\$862,417	A/B/C Battalions Operations	\$12,808,257
		Disaster Preparation & Public Education	\$216,679
		Prevention Div Admin	\$363,513
		Fire Inspection, Plan Check & Invstg	\$700,274
		Sub-total Fire	\$14,595,639
		Non-Departmental	\$5,012,368
		Grand Total	\$65,757,098

Sources: "2011-2012 Budget & Financial Plan, Final Budget, City of Milpitas," pages 98 & 99; and ALH Urban & Regional Economics.

Notes:

(1) Totals include Personnel Services and Supplies & Contractual Services.

Exhibit B-6
Preston Property Residential Project
City of Milpitas General Fund Charges for Current Services
FY 2011-2012 Adopted Budget

	<u>Description</u>	<u>Approved</u>	<u>Assigned Department (1)</u>
3601	General Government Service Charges	\$111,000	Administration
3602	Sales of Maps and Documents - Gen Govt	\$0	Administration
3603	Rents, Leases and Concessions - Gen Govt	\$253,000	Administration
3604	BL Processing Fee	\$145,000	Administration
3608	PJ Legal Overhead Charge	\$16,000	Administration
3609	PJ Legal Reimbursement	\$7,000	Administration
3611	PF Overhead Charges - PW/E	\$370,000	PW and Eng.
3612	PJ Labor Reimbursement - PW/E	\$160,000	PW and Eng.
3613	PJ Vendor Reimbursement - PSW/E	\$2,000	PW and Eng.
3616	Engineering Plan Check Fee	\$10,000	PW and Eng.
3617	Planning Fees	\$1,000	PW and Eng.
3618	Sales of Maps and Doc - PW/Engr	\$1,000	PW and Eng.
3619	Rent, Lease & Concess - PW/Engr	\$25,000	PW and Eng.
3631	Paramedic Service	\$2,000	Fire
3632	Firewatch Services	\$1,000	Fire
3633	Fire Cost Recovery	\$0	Fire
3634	Unwanted Alarms - Fire	\$13,000	Fire
3637	Fire Service Charges	\$200,000	Fire
3638	Sale of Maps & Documents - Fire	\$0	Fire
3639	Fire Electronic Archive Charge	\$8,000	Fire
3641	Police Service Charges	\$430,000	Police
3643	Fingerprints	\$2,000	Police
3644	Sales of Maps & Documents - Police	\$12,000	Police
3645	Police Cost Recovery	\$2,000	Police
3646	Rents, Leases & Concessions - Police	\$4,000	Police
3647	DUI - Police Cost Recovery	\$6,000	Police
3651	Rents, Leases & Concessions - Recreation	\$135,000	Parks & Rec.
3652	Recreation Fees	\$1,425,953	Parks & Rec.
3653	Senior Nutrition Fees	\$20,000	Parks & Rec.
3655	Sales of Merchandise Recreation	\$2,000	Parks & Rec.
3661	Sales of Maps & Documents - Building	\$0	Building
3662	Records Retention Fee	\$30,000	Building
3663	Building Service Charges	\$1,000	Building
3665	PJ Overhead Charges - Building	\$103,000	Building
3666	PJ Labor Reimbursement - Building	\$47,000	Building
3667	Building State Mandated Standard Fee	\$4,000	Building
3672	Public Works Cost Recovery	\$10,000	PW and Eng.
3681	PJ Overhead Charge - Planning	\$90,000	Planning
3682	P Labor Reimbursement - Planning	\$40,000	Planning
3683	PJ Vendor Reimbursement - Planning	\$13,000	Planning
3685	Housing & Neighborhood Services	\$18,000	Planning
3691	Fire GIS Mapping	\$0	Fire
3692	Fire Automation Fee	\$17,000	Fire
		<u>\$3,736,953</u>	

Sources: "2011-2012 Budget & Financial Plan, Final Budget, City of Milpitas," pages 70 & 71; and ALH Urban & Regional Economics.

Notes:

(1) Allocated to General Fund departments by ALH Urban & Regional Economics. These charges are assumed to reduce the General Fund expenditures and are hence a deduct against the General Fund expenditures in Exhibit B-5.

Exhibit B-7
Preston Property Residential Project
City of Milpitas Revenues to Offset General Fund Expenditures
FY 2011-2012 Adopted Budget

<u>Description</u>		<u>Approved</u>	<u>Assigned Department (1)</u>
Licenses and Permits			
3210	Building Permits	\$2,537,000	Building
3220	Fire Permits	\$620,000	Fire
3240	Life Safety Annual Permits	\$240,000	Fire
3250	Fire Inspections	\$46,000	Fire
	Sub-total	<u>\$3,443,000</u>	
Fines and Forfeits			
3301	Vehicle Code Fines	\$308,000	Police
3302	Other Court Fines	\$262,000	Police
3305	Booking Fees	\$5,000	Police
3306	NBO Violation Fees	\$4,000	Planning
3307	Impound Fees	\$84,000	Police
3308	Animal Violations	\$10,000	Planning
3309	False Alarm Fee	\$39,000	Police
	Sub-total	<u>\$712,000</u>	
Operating Transfers In			
3806	Op Trfs in from Solid Waste Service	\$127,512	Allocated
3807	Op Trfs in from Solid Waste Reduction	\$112,535	Proportionally to
3808	Op Trfs in from Housing Reserves	\$1,032,754	all City
3810	Op Trfs in from Park Impr	\$0	departments
3811	Op Trfs in from RDA	\$8,148,195	based upon the
3812	Op Trfs in from Water M&O	\$1,703,840	distribution of the
3814	Op Trfs in from Recycled	\$151,102	City's General
3815	Op Trfs in from Sewer M&O	\$1,434,209	Fund
3817	Op Trfs in from Equipment Replacement	\$0	expenditures
3819	Op Trfs in from Other	\$2,711	pursuant to
3822	Op Trfs in from General Gov't Fund	\$0	Exhibit 8.
3823	Op Trfs in Storm Drain Fund	\$0	
3841	Appn Transfers in from Redevel	\$0	
3849	Other Appn Transfers In	\$0	
3899	Op Trfs in from Subsidiary CIP Fund	\$0	
	Sub-total	<u>\$12,712,858</u>	
	Sub-total not including RDA Transfers (1)	\$4,564,663	

Sources: "2011-2012 Budget & Financial Plan, Final Budget, City of Milpitas," pages 69 & 71; and ALH Urban & Regional Economics.

Notes:

(1) Conservatively analyzed excluding Redevelopment Agency transfers due to the early 2012 demise of Redevelopment in the State of California.

Exhibit B-8
Preston Property Residential Project
City of Milpitas General Fund Expenditures Adjustments (1)
FY 2011-2012 Adopted Budget

<u>City Services</u>	<u>General Fund Expenditures</u>		<u>General Fund Adjustments for Select Revenue Offsets</u>				<u>Total</u>
	<u>Amount (2)</u>	<u>Percent Distribution</u>	<u>Charges for Current Services (3)</u>	<u>Licenses and Permits (4)</u>	<u>Fines and Forfeits (4)</u>	<u>Operating Transfers In (4)(5)</u>	
Administration	\$3,092,272	4.7%	(\$532,000)	\$0	\$0	(\$214,656)	(\$746,656)
Building	\$2,178,195	3.3%	(\$185,000)	(\$2,537,000)	\$0	(\$151,204)	(\$2,873,204)
Information Services	\$2,691,105	4.1%	\$0	\$0	\$0	(\$186,809)	(\$186,809)
Finance	\$2,407,918	3.7%	\$0	\$0	\$0	(\$167,151)	(\$167,151)
Public Works	\$5,235,009	8.0%	(\$579,000)	\$0	\$0	(\$363,399)	(\$942,399)
Engineering	\$862,417	1.3%	(inc. above)	\$0	\$0	(\$59,866)	(\$59,866)
Planning & Neighborhood	\$1,310,977	2.0%	(\$161,000)	\$0	(\$14,000)	(\$91,004)	(\$266,004)
Parks & Recreation	\$5,594,422	8.5%	(\$1,582,953)	\$0	\$0	(\$388,348)	(\$1,971,301)
Police	\$22,776,776	34.6%	(\$456,000)	\$0	(\$698,000)	(\$1,581,096)	(\$2,735,096)
Fire	\$14,595,639	22.2%	(\$241,000)	(\$906,000)	\$0	(\$1,013,186)	(\$2,160,186)
Non-Departmental	\$5,012,368	7.6%	\$0	\$0	\$0	(\$347,944)	(\$347,944)
Total	\$65,757,098	100.0%	(\$3,736,953)	(\$3,443,000)	(\$712,000)	(\$4,564,663)	(\$12,456,616)

Sources: ALH Urban & Regional Economics.

Notes:

- (1) Comprises General Fund expenditures less revenue offsets, such as charges for services and transfers from other City departments.
- (2) See Exhibit 8.
- (3) See Exhibit B-6.
- (4) See Exhibit B-7
- (5) See Exhibit B-7. Reflects the operating transfers excluding RDA transfers in. This is an analytically conservative option given the recent demise of Redevelopment in the State of California.

APPENDIX C: FIRM INTRODUCTION

FIRM INTRODUCTION

ALH Urban & Regional Economics (ALH Economics) is a recently formed sole proprietorship devoted to providing urban and regional economic consulting services to clients throughout California. Until early summer 2011, Amy L. Herman, Principal of ALH Economics, was a Senior Managing Director with CBRE Consulting in San Francisco, a division of the real estate services firm CB Richard Ellis. CBRE Consulting was the successor name of Sedway Group, a well established urban economic and real estate consulting firm acquired by CB Richard Ellis in the late 1990s. Ms. Herman's tenure with Sedway Group and then CBRE Consulting's land use and economics practice totaled more than 20 years. During that time Ms. Herman established a strong professional network and client base providing a range of services such as economic development and redevelopment, market feasibility analysis, fiscal and economic impact analysis, location analysis, strategic planning, and policy analysis. Ms. Herman's client base includes governmental clients, transportation agencies, corporations, environmental consultants, educational and health institutions, non-profits, and developers.

During spring 2011, CBRE chose to restructure the land use and economics practice area within CBRE Consulting. Ms. Herman took this opportunity to establish her own firm, through which she can continue to serve her existing client base and expand her practice in areas that suit her professional and personal interests. Examples of clients that have already retained the services of ALH Economics include the following: University of California at Berkeley; LSA Associates; Jack Faucett Associates; Hanna Novato, LLC; Terry Margerum & Associates; Raney Planning and Management, Inc.; Sedway Consulting; University of California at Riverside; During Associates; Lamphier-Gregory; Gresham Savage Nolan & Tilden, PC; California Gold Development Corporation; Environmental Science Associates (ESA); Arcadia Development Co.; PCR Services Corporation; Catellus Development Corporation; Sedgwick LLP; Michael Brandman Associates; the City of Concord; and the Hospital Council of Northern and Central California.