

## Staff Report

**July 13, 2015**

**TO:** Finance & Budget Commission

**FROM:** Mike Webb, Assistant City Manager

**SUBJECT:** Informational Update on Innovation Center Economic/Fiscal Analysis

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### **Staff Recommendation**

This is an informational item. Feedback and questions from the Commission are welcomed.

### **Background**

Staff has appeared before the Commission twice to date since the City received applications for two innovation centers: November 3, 2014 to review the guiding principles and May 11, 2015 to update the Commission on the work being performed by EPS.

On May 12, 2015 the City received a request from the applicant for the Davis Innovation Center (Davis IC) to place the application "on hold". The City has stopped actively processing the application pending further communication from the applicant.

The process of analyzing the remaining Mace Ranch Innovation Center (MRIC) application is well underway. An environmental impact report (EIR) is being prepared and targeted for release in early August for a 45-day public review and comment period. A list of key dates is provided at the end of this report.

As a follow up to the May 11, 2015 presentation to the FBC on the EPS scope of work and progress, the subject item is a presentation on two related reports being released:

### ***ECONOMIC EVALUATION OF INNOVATION CENTER PARK PROPOSALS, BAE***

This report, referred to as the BAE report, was completed for the purposes of providing information necessary for the EIR analysis. The report provided information on the following topics: project absorption, job generation, and employee housing demand. The information in this report was used to undertake the EIR traffic and circulation impact analysis and the EIR urban decay analysis, both of which will be contained in the Draft EIR to be released in early August.

The report includes information on local baseline conditions, potential growth in local demand for business park and tech space, potential employee housing demand by 2035, internal demand for ancillary retail space, internal demand for hotel facilities, and a section on other considerations potentially important to the planning process.

The BAE report was originally structured to evaluate the potential absorption of MRIC alone, or the Davis IC alone, or a cumulative scenario that includes both MRIC and Davis IC,

plus the Nishi Property and Mace Triangle. The portions of the report which contemplate the possibility that MRIC would develop alone still remain valid; however, with the suspension of the Davis IC application processing, the portions of the report that address the possibility that all three of the Innovation Park projects would be developed may no longer represent a reasonably foreseeable cumulative scenario. Instead, based on the current status of the Innovation Park applications, a new cumulative scenario could be considered to include only MRIC and the Nishi and Mace Triangle properties development.

Following are key findings from the BAE report with regard to development of MRIC alone, and with regard to how the findings under the previously defined cumulative development scenario could change with the exclusion of the Davis IC project. Matt Kowta of BAE will present the findings of this report to the Commission.

### **MRIC Alone**

- The absorption of the MRIC alone could range from approximately seven years to approximately 25 years, with a more likely outlook of about 19 years, resulting in up to about 5,900 new employees by buildout.
- By buildout, employee demand and business activity associated with the MRIC's proposed office/R&D/light industrial space would likely generate a net increase in local demand sufficient support the MRIC's proposed retail and lodging component.
- By buildout, total housing demand associated with MRIC's estimated employment would equal about 3,763 housing units. Of this, approximately 45 percent of the demand could be expected to be from households who would prefer to live outside of Davis, for various reasons, such as location of a spouse's job elsewhere.
- Davis' existing supply of land that could be developed for housing is expected to yield about 1,238 new housing units that could accommodate demand from MRIC employees (with the remainder of Davis potential housing supply increase assumed to be absorbed by households not affiliated with the MRIC).
- Based on the above estimates, other communities would need to accommodate demand for about 815 new housing units for MRIC employee households that would otherwise prefer to live in Davis.

### **Cumulative Project Scenario (with/without Davis Innovation Center)**

- The absorption period for the cumulative development scenario, which was originally defined to include MRIC and Davis IC, plus the Nishi Property and the Mace Triangle, could range between about 21 and 51 years, and accommodate approximately 18,390 new workers by buildout. Within the absorption period range, the actual absorption could be expected to be closer to 48 years for the full cumulative scenario.
- If the Davis IC project is removed from the cumulative scenario, the expected absorption period would be reduced significantly, for an absorption period that

would likely be closer to 21 years. The overall employment increase under the modified cumulative scenario would also be reduced significantly, to approximately 7,500 new workers.

- If the Davis IC is removed from the cumulative scenario, it is still likely that by buildout net new citywide demand for retail and lodging facilities would be sufficient to support the new retail and lodging associated with MRIC, Mace Triangle, and the Nishi Property.
- Removal of the Davis IC project from the cumulative scenario would reduce projected worker housing demand by a large amount. Instead of 11,764 units of new housing demand, employment increases under the modified cumulative scenario would generate overall demand for about 4,829 new housing units. Of this, approximately 45 percent of the demand could be expected to be from households who would prefer to live outside of Davis.
- As under the MRIC alone scenario, Davis' existing supply of land that could be developed for housing is expected to yield about 1,238 new housing units that could accommodate demand from new workers from MRIC, Mace Triangle, or Nishi. The Nishi property itself could contribute an additional 650 housing units to the potential housing supply.
- Based on the above estimates, this would require that other communities accommodate demand for about 1,984 new housing units for MRIC, Mace Triangle, or Nishi worker households that would otherwise prefer to live in Davis.

#### ***DAVIS ECONOMIC CENTERS FISCAL AND ECONOMIC IMPACT ASSUMPTIONS, EPS***

As reported to the FBC at the May 11, 2015 meeting EPS is under contract to perform a two-part analysis examining the following:

##### Part 1:

- Development build-out scenarios and anticipated mix of uses, industry, and job type, under high and low assumptions.

##### Part 2:

- Evaluation of land economic profile for each proposal, for purpose of understanding the project's ability to cover infrastructure costs and other contributions desired by the City; and to assist with the Yolo County tax share agreement.
- Community economic impact analysis, to evaluate the benefit of the jobs and other business spending to the Davis economy. The evaluation will also be conducted at the Countywide level.
- Fiscal analysis, to evaluate project impacts on the City's General Fund.

Meetings and advisory services, including check-ins with the City Council and Finance and Budget Commission are included throughout. Staff anticipates that EPS may also provide on-call advisory services during annexation/tax share discussions with Yolo County.

The first report, referred to as the EPS Phase One Report, was just completed. While this report picks up on many of the issues BAE was asked to explore for the EIR, the EPS work was scoped to be more comprehensive, and is being undertaken to provide a general economic and fiscal impact analysis separate from the EIR and its state-mandated contents.

The report includes information on key focus areas for economic and fiscal impact analysis, key elements of the innovation center concept, innovation center clusters and company types, regional market indicators and trends, and an outlook for the innovation center proposals.

Key findings of the first report are presented below. David Zehnder of EPS will present the findings of this report to the Commission. Phase Two of the EPS report is expected to be completed in early September.

1. The Proposed Innovation Centers have the potential to generate benefits to the City of Davis, Yolo County, and the region.
2. The intersection of UC Davis research strengths and the regional innovation economy point to clusters and related types of industries and companies that are potential candidates for space in the proposed Innovation Centers.
3. The inventory of office, flex, and industrial space in Davis accounts for less than one percent of space in the entire region and the proposed Innovation Centers have the potential to add more than twice the amount of existing space while fostering a stronger and more competitive innovation ecosystem.
4. There are four primary development prototypes that support the types of targeted clusters and companies for the Innovation Centers and are present in the 2nd Street Corridor and Interland University Research Park areas.
5. It is possible that the Innovation Centers could develop at a rate that differs from the conclusions of the initial analysis.
6. Numerous factors may affect the industry specializations and resulting mix of development in the Innovation Centers.
7. Key variables for the specific mix of development in each center will affect overall economic and fiscal impacts to the City and regional economy.
8. There are several university-related, regional economy, and project implementation factors that could impact how successful the Innovation Centers will ultimately be in developing and generating fiscal and economic impacts.

**Project Schedule:**

Key dates in the project schedule are provided below:

Early August 2015	Release of MRIC DEIR
Early September	Final EPS Report
Late September	Close of MRIC DEIR review period
Mid November	Release of MRIC Final EIR
Early December	Planning Commission hearings on MRIC
January 2016	City Council hearings on MRIC
June 2016	Possible Measure R ballot on MRIC

### **July 13<sup>th</sup> Commission Meeting**

At the Commission meeting on July 13<sup>th</sup> BAE and EPS will provide an overview of their reports and respond to questions from the Commission. EPS will also provide an introduction to the next stages of their analysis (fiscal and economics). It is important to note that the BAE analysis was prepared to provide inputs to the EIR process. The BAE and EPS reports must be considered as single components of multiple studies and areas of analysis for the Innovation Centers, including those that will be covered in the Draft EIR. All of the studies must be considered collectively to inform staff, commissions, the community, and City Council deliberations on the proposals.

### **Attachments**

1. Economic Evaluation of Innovation Center Park Proposals, BAE.
2. Davis Economic Centers Fiscal and Economic Impact Assumptions, EPS.