

STAFF REPORT

April 11, 2016

TO: Finance and Budget Commission

FROM: Mike Webb, Assistant City Manager
Heidi Tschudin, Contract Project Manager

SUBJECT: Mace Ranch Innovation Center (MRIC) Project – Annualized Fiscal Impact Analysis and Land Economics Analysis

Staff Recommendation

- 1) Receive two new reports
- 2) Receive staff presentation
- 3) Receive applicant comments
- 4) Consider recommendation(s) to City Council on the project land economics and city fiscal impacts of the project

Background

Since the MRIC application was filed with the City in September of 2013 there has been considerable analysis of various economic and fiscal aspects of the projects:

July 8, 2015	Davis Innovation Centers Fiscal and Economic Impact Assumptions, EPS
July 9, 2015	Economic Evaluation of Innovation Park Proposals, BAE Urban Economics
August 2015	Urban Decay Analysis, Mace Ranch Innovation Center Project Draft EIR, Appendix H, , ALH Urban and Regional Economics
September 8, 2015	Economic and Fiscal Analysis of Proposed Innovation Centers in Davis, EPS
October 15, 2015	Executive Summary, Economic and Fiscal Impact Analysis of the Proposed Mace ranch Innovation Center Project, EPS
December 14, 2015	Staff and consultant responses to October 12, 2015 questions from FBC and October 21, 2015 questions from Commissioners Dan Carson and Ray Salomon
March 14, 2016	Staff and consultant responses to questions from Commissioner Salomon
April 6, 2016	Annualized Fiscal Impact Analysis – Mace Ranch Innovation Center, EPS (Attachment A)
April 6, 2016	Mace Ranch Innovation Center Land Economics Analysis, EPS (Attachment B)

The first analysis was undertaken by BAE for the purposes of providing information necessary for the EIR analysis. The BAE report provided information on the following topics: project

absorption, job generation, employee spending, 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. The report included 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 potential important to the planning process.

Subsequent to the BAE analysis and the release of the Draft EIR, EPS was engaged to perform a more detailed assessment of the project. In their reports issued in July and September of 2015 EPS examined the following:

- Project concept viability to assess development build-out scenarios (absorption) and mix of uses, industry, and job types.
- Community economic impact analysis to evaluate direct economic contributions (multiplier benefits of jobs and other business spending) to the Davis and Yolo County economies.
- Fiscal impact analysis to evaluate project impacts on the City general fund.

In the final phase of their analysis EPS undertook an assessment of project financial feasibility (also referred to as pro-forma analysis or land economics) to understand the financial feasibility of the project from the perspective of the developer, given assumptions regarding the cost of infrastructure, environmental mitigation, and conditions of approval. This information is reflected in the two most recent reports dated April 2016.

Project Summary

The MRIC project can be summarized as follows:

	MRIC (Innovation Center only)	Mace Triangle	Combined Project
Acreage	212 ac	16.6 ac	229
Research/Office/R&D	1,510,000 sf	45,900 sf	1,555,900 sf
Manufacturing/Research	884,000 sf	0	884,000 sf
Commercial/Retail	260,000 sf	25,155 sf	285,155 sf
Total	2,654,000 sf	71,056 sf	2,725,056 sf
Jobs	5,882	158	6,040

Summary of All Economic and Fiscal Findings

CONCEPT VIABILITY

With regard to project concept viability, EPS concluded that the innovation center concept has the potential to generate significant benefits to the City, County, and region related to capitalizing on the presence and strength of UCD, fostering related types of industry clusters, and creating an expanded and competitive innovation ecosystem. The project would leverage local economic

vitality, a technically skilled labor force, proximity to the university, and high quality of life. EPS estimated that absorption is likely to range between 128,000 sf and 175,000 sf annually and would result in flex-Research/Development/Office space that is largely unavailable in the region currently. Project job generation associated that range of absorption would be roughly 285 to 390 jobs annually.

ECONOMIC BENEFIT

With regard to community economic impact, the project is estimated to generate over 4,000 construction jobs in the city and county. These jobs are associated with the construction of backbone infrastructure, project buildings and features, and indirect economic response from suppliers of goods and services. These are one-time economic stimulus that ends with buildout.

The project is also projected to result in 3,600 permanent jobs in the city and another permanent 1,018 jobs in the County over and above the 6,040 expected to be generated by the project. These jobs are associated with the land uses at the project site, and indirect job generation resulting from project employment.

Construction – City	2,362
Construction – Other County	1,712
Total Construction Jobs	4,074
Permanent -- City	9,644 (includes 6,040 from project)
Permanent – Other County	1,018
Total Permanent Jobs	10,662

EPS estimated the project would result in \$10,058,000 in area revenue (jobs and business spending) through buildout of the project assuming buildout over 25 years, and \$3,301,000 in area revenue annually post-buildout. This includes total compensation (earnings and benefits) associated with all jobs created and total market value of goods and services generated.

Construction Revenue – City	\$0.616 billion
Construction Revenue – Other County	\$0.442 billion
Permanent Revenue -- City	\$3.007 billion
Permanent Revenue – Other County	\$0.224 billion
Total Revenue	\$1,058 billion thru buildout \$3.301 billion/year post-buildout

FISCAL IMPACT

With regard to impacts on the City's general fund, the project is estimated to generate a net fiscal surplus for the City annually and at buildout, under every tested scenario. At buildout the project, as proposed, is projected to result in general fund revenue of \$2.5 million annually. Over the 25-year buildout, cumulative general fund surpluses would total \$37.8 million.

Year	Area Developed	Annual Net General Fund Revenue (cumulative)
5	327,193 sf	\$205,000
10	1,148,667 sf	\$1,502,000
15	1,703,575 sf	\$1,871,000
20	2,276,389 sf	\$2,167,000
25	2,725,056 sf	\$2,500,000

FINANCIAL FEASIBILITY

EPS assessed the feasibility of the project from the developer's perspective using several methods:

- **Cost Burden Analysis** – This compares infrastructure costs to overall asset values as an initial and very general indicator of project feasibility. As a percentage of the project's estimated assessed valuation, EPS has estimated that the cost burden for the project will likely be at or in excess of 12 percent of the asset value. The report notes that when overall cost burdens (infrastructure costs, permits, and fee payments) are at those levels a more careful examination of project feasibility is recommended.
- **Residual Land Value** – This approach examines what a rational entity would be willing to pay the master developer for a buildable parcel served by backbone infrastructure, open space amenities, and other developer improvements. It is calculated by deducting on-site costs from asset value and comparing the result with actual land sales. Looking at comparable land sales EPS identified a weighted average of \$11.51/sf. Calculated residual land values are very similar with a weighted average of \$11.61per/sf. EPS concludes that these values may be achievable under favorable market conditions but they are very sensitive to certain variables such as lease rates.
- **Internal Rate of Return** – This approach considers developer cash flow or profit. Based on the size and complexity of the project EPS has identified a rate of return of 12 percent as the minimum likely necessary for project feasibility. The calculated rate of return for the project is about five percent. The report includes a sensitivity analysis that demonstrates alternative rates of return under various policy scenarios.

These results indicate that the financial feasibility of the project is marginal although the applicant may be able to offer a different perspective on these results. EPS has identified several possible opportunities to reduce or redistribute costs including:

- **Use of Enhanced Infrastructure Financing District (EIFD) and Community Facilities District (CFD) for financing of infrastructure** – A CFD is a common tool for infrastructure financing in California. The EIFD is a new tool that is intended to fill the gap left by the loss of redevelopment authority. Similar to redevelopment, an EIFD captures incremental increases in property tax revenue from future development that would otherwise accrue to the City/County and uses that revenue stream to finance public capital facilities.
- **Reimbursement of Impact Fees** – This would redirect a portion (50 percent) of fees paid by later builders to reimburse upfront infrastructure expenses incurred by the master developer.
- **Reduced Infrastructure Costs** – This assumes the use of less expensive infrastructure (10 percent) to help lower overall costs.
- **Lowering Front End Costs** -- An example would be phasing mitigation costs or allowing for certain mitigation (eg loss of agriculture and habitat) to be paid towards the end of the project rather than at the beginning.

Each of these involves significant policy considerations for the City. The suggestions for consideration noted by EPS above have not been vetted by staff. Moreover this result suggests that considerations of additional community enhancements, development agreement negotiations, and future tax sharing discussions will be more challenging than previously thought. The results suggest that discussion between the city and the developer should take place to further explore project economic viability and that it may be necessary for the City and developer to collaborate on ideas going forward to optimize the design of the project as needed to improve feasibility.

Attachments

Attachment A -- Annualized Fiscal Impact Analysis – Mace Ranch Innovation Center, EPS

Attachment B -- Mace Ranch Innovation Center Land Economics Analysis, EPS