

Staff Report

Item No: 5

Meeting Date: May 11, 2015

May 11, 2015

TO: Finance & Budget Commission

FROM: Mike Webb, Community Development and Sustainability Director

SUBJECT: Informational Update on Innovation Center Economic/Fiscal Analysis

Staff Recommendation

This is an informational item only and there is no recommended action at this time.

Background

In 2014, the City received planning applications for two proposed innovation centers. Planning, technical and public review is underway. The Mace Ranch Innovation Center is proposed on approximately 200 acres east of Mace Boulevard. The Davis Innovation Center is proposed on approximately 200 acres north of Sutter-Davis Hospital. The Draft Environmental Impact Reports are anticipated for public release this Summer.

In January, the City issued a Request for Proposals for economic and fiscal analysis for the two innovation center applications. The RFP identified a series of analyses that would be requested for each project, to inform decision-makers and the public of the fiscal and economic impacts of the proposals. The draft RFP was reviewed by a subcommittee of the Finance and Budget Commission (Dan Carson, Jeff Miller, and Ray Salomon) prior to its release. Similar work is being conducted for the Nishi Gateway effort under contract to A. Plescia & Co. Economic and Planning Systems (EPS) was selected as the consultant for the economic and market analysis. The contract with EPS was approved by the City Council in March. EPS is a highly qualified firm with experience in the types of analysis required for this effort, including for the City of Davis. All costs of the EPS contract will be borne by the Innovation Center applicants.

EPS is providing the following services to assist in review of the two proposals:

- Development build-out scenarios and anticipated mix of uses, industry, and job type, under high and low assumptions.
- 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. Staff anticipates that EPS may also provide on-call advisory services during annexation/tax share discussions with Yolo County.

At the Finance and Budget Commission meeting representatives from EPS will present an overview on their preliminary analysis efforts to date and solicit feedback/questions from the Commission.

Attachments

1. EPS Scope of Work

EXHIBIT A

SCOPE OF SERVICES, PHASES 1 and 2

PHASE 1 Scope of Work

Key Issues and EPS Approach

Initially, EPS will conduct a detailed review of the Bay Area Economics (BAE) study with the understanding that the analysis provides key information to the California Environmental Quality Act (CEQA) process and as such, assumptions are to be taken as "given." EPS's evaluation of the estimated development parameters will therefore focus on how issues of market competition, feasibility, and other development opportunities and constraints affect the phasing, development typology, assessed values, and other attributes of the project. These are key topics to be explored at the outset of the project:

- **Overall volume and timing of development.** Although the combined acreage of both Innovation Center proposals and the Nishi site are substantial, the uses and benefits may be addressed at buildout, whereby the challenge will be to use available evidence to further characterize the functions, intensity, value, and other characteristics of development. However, as presented in the BAE report, while prospects for Davis are very strong, the shift from current levels of net absorption to future levels as identified by BAE are dramatic. Therefore near-term and longer term prospects, tied-in with specific university and industry initiatives, must be approached as a range of potential outcomes. It will be critical to establish defensible logic for the stated figures such that fiscal and economic impacts are predicated on a solid foundation.
- **Ancillary retail scale and phasing.** As an extension of the topic referenced above, the amount and character of proposed retail will need to be evaluated to ensure that estimated expenditures and resulting square footage can be defended. Urban decay will be a concern of citizens, and the topic must be addressed to minimize the likelihood of any such prospects.
- **Role of Innovation Centers.** Numerous recent publications reinforce the notion that these projects work best when they are developed in intense, active urban centers with a variety of cultural, civic, educational, and other supporting uses. While the two proposed Innovation Centers are geared toward providing many of these characteristics, they are largely proposed as greenfield sites that must create the necessary ambiance. To this end, it will be important to distinguish among the various opportunities most likely to arrive in Davis to determine the allocation of space to key locations by type of development. Proper determination of market segments and appropriate locations can bolster annual absorption and provide a defensible determination of how the Downtown, Nishi site, and peripheral Innovation Centers can work together to contribute to a complete economic development ecosystem.
- **Scale of economic impacts.** While regional economic impacts can be identified and likely would be very strong if projected development is achieved, local economic impacts rely on the presence of a buyer/supplier network that is likely to grow over time and may not initially rival examples such as Stanford and Triangle Research Park. EPS will advise as to strategic opportunities to maximize the overall positive impact to the local Davis and Yolo County economies.
- **Strategic implementation actions.** EPS will use a multidisciplinary frame of reference to evaluate and suggest solutions to key issues, including the feasibility of horizontal (infrastructure) and vertical (buildings) development, including use of emerging tools and techniques for underwriting these facilities. Where appropriate, public-private funding concepts will be considered.

Scope of Work

This phase of the project will be broken into two segments. It is anticipated that Phase IA will be processed under a separate contract. Phase IB and II will be processed under a combined contract.

Phase IA: Initiate Project

- Review reports and data and consult with the City and project applicants to gain an appropriate understanding and clarification of the key findings and issues.
- Consult with applicants and City representatives regarding specific project leads, initial phasing concepts, and viable approaches to infrastructure and services funding.

Phase IB: Conduct Technical Assessments

Task 1: Initiate Project and Conduct Economic Analysis

Subtask 1.1: Build Assumptions

This initial task will expand on work conducted in Phase IA and consolidate information from BAE and other reports, establish the local context, and build assumptions to create scenarios for the economic and fiscal impact analyses:

- Fiscal inputs: issues and opportunities. EPS will consider the fiscal effects of uses attracted to similarly sized business and innovation parks to help inform project development modeling assumptions.
- Economic impact inputs: issues and opportunities. Gain an understanding of industry sectors or clusters present and the mix of job types prevalent in similar innovation centers. Compare typical or desired sectors and clusters to local and regional economic development strategies (e.g., Next Economy Capital Region Prosperity Plan and Davis Innovation and Economic Vitality Work Program) and UC Davis research strengths (e.g., sustainability, agriculture, and health) to help inform the potential distribution of employment types in the proposed Innovation Centers.
- Confirm study area(s), build the local context, gather qualitative input on potential economic opportunities, and identify local and regional project stakeholders.
- Interview local and regional project stakeholders to gain additional input on potential economic opportunities and specific projects.
- Assess specific areas of City interest and concepts raised in stakeholder interviews using tools such as economic analysis, market demand evaluations, literature reviews and case studies, and professional experience.
- Delineate economic opportunities related to site development and industry cluster growth to begin characterizing the respective role and function of each development area in the City.

Subtask 1.2: Build Development Scenarios

The second subtask under **Task 1** will build three development scenarios, each with high and low buildout estimates:

- Translate information from **Subtask 1.1** to arrive at viable economic assumptions based on identified economic opportunities, established real estate metrics, and an evaluation of competitive projects.
- Establish three overall development scenarios for Mace Ranch Innovation Center, Davis Innovation Center, and both innovation centers plus Nishi/Gateway that are consistent with the Environmental Impact Reports and Bay Area Economics analysis.
- Based on **Subtask 1.1**, populate each scenario with appropriately specific variables reflecting competitive position of each area, with reference to identified economic opportunities, industry type, labor characteristics, real estate prototypes (e.g., R&D/flex, manufacturing, office, etc.), probable capital investment, assessed value considerations (e.g., property and sales tax), and alignment with

Examples of Possible Economic Opportunities:

- Robotics and computer-controlled machinery
- Energy research
- Life sciences (e.g., genomics)
- World Food Center-related research and development
- Strengthened academic-industry partnerships
- New infrastructure/amenities
- Reduced out-commute
- Improved fiscal revenue and public services
- Balance of infill and new development to respond to market needs
- Improved real estate economics facilitating improved absorption

economic development strategies. This will be an iterative task with **Phase II**, as further information regarding probable industry clusters will be developed, which may inform and refine these descriptions.

- Share the working scenarios with the City for review and feedback and adjust as appropriate to finalize for the economic and fiscal impact analyses.
- Discuss qualitative aspects of projects with City staff and set expectations regarding the format and level of detail for the qualitative analysis covered in **Phase II**.

Subtask 1.3: Develop Land Economics Profile

This third element of the initial task establishes the prospective land economics of the two proposed Innovation Centers for purposes of understanding the ability to cover infrastructure costs and other facilities the City may wish to build. EPS will evaluate the following items.

- **Applicant information.** EPS specifically will work with applicants to gain an improved understanding of project revenue and cost attributes, supplemented by in-house and other industry data sources.
- **Cost-burden analysis.** EPS will compare known costs of development with estimated value of development to measure the relative "cost burden" confronting each of the two proposed centers.
- **Pro forma analysis.** As necessary and appropriate, EPS may employ supplemental analysis using a pro forma model to confirm development feasibility, given proposed exactions or other funding expectations. Appropriate sensitivity analysis will be included in the pro-forma work.
- **Produce a technical memorandum** that includes a preliminary development pro forma or residual land value analysis related to the development proposals for the two applications, taking into account necessary project infrastructure, mitigation measures, and phasing necessary for project delivery.

Task 2: Meeting Support

- **EPS will provide meeting support** at up to 2 meetings between the Budget and Finance Commission and the City Council, as well as periodic progress reports and up to 3 informal check-ins

with staff. An allowance has been established for these meetings, which will require additional time and materials if meetings exceed the identified level of effort.

PHASE 2 Scope of Work

Key Issues and EPS Approach

As part of **Phase I**, EPS will conduct a detailed review of the Bay Area Economics (BAE) study with the understanding that the analysis provides key information to the California Environmental Quality Act (CEQA) process and as such, assumptions are to be taken as "given." EPS's evaluation of the estimated development parameters will therefore focus on how issues of market competition, feasibility, and other development opportunities and constraints affect the phasing, development typology, assessed values, and other attributes of the project. Key topics to be explored include overall volume and timing of development, ancillary retail scale and phasing, role of Innovation Centers, scale of economic impacts, and strategic implementation actions.

This phase (Phase II) will build on the **Phase I** analysis and provide the City with an understanding of the economic and fiscal impacts for each of the development scenarios identified in **Phase I**.

Scope of Work

Task 1: Conduct Community Economic Impact Analysis

This task will characterize the types of economic activities that could be housed in the Innovation Centers, describe the benefits of these activities, and estimate the associated economic impacts resulting from various innovation park scenarios:

- Refine the **Phase I** analysis by conducting case studies of up to three innovation centers/districts to further develop prospects for specific industry sectors and clusters present and the related mix of job types. Develop analysis of case-study sectors and cluster characteristics in relation to local and

regional economic development strategies and UC Davis research strengths to build on preliminary work and define the potential distribution of employment types in the proposed Innovation Centers. Allocate the employment in the two buildout assumptions for each of the three scenarios to reflect the defined mix of employment types with appropriate variation for the combination of uses in the scenarios.

- Establish a “business as usual” forecast for the Davis community and Yolo County overall, primarily based on the Sacramento Area Council of Governments (SACOG)’s latest Metropolitan Transportation Plan forecasts and informed by the General Plan. Calculate the net new employment (above the “business as usual” baseline) resulting from the two buildout assumptions for each of the three scenarios—this economic activity will act as the direct industry impacts.
- Use the IMPLAN I/O model, with data calibrated for the Davis community and Yolo County, to estimate the indirect (demand on suppliers of goods and services) and induced (employee spending activity) industry impacts generated from the ongoing, long-term, direct industry impacts and mix of employment types associated with the two buildout assumptions for the three scenarios. Present the total industry economic impacts (accounting for direct, indirect, and induced activities) in terms of employment, employee compensation, output, and model-derived State and local tax generation. The tax generation estimates will be informed by the fiscal analysis and adjusted as necessary to inform consistency.
- Build an analysis using the Davis community and Yolo County IMPLAN models to define the multiplier effect and total employment, employee compensation, output, and model-derived State and local tax impact for a standard number of jobs (e.g., the impact associated with every 10 jobs) in each of the clusters and employment types defined above.
- Use the “business as usual” forecast to define the expected level of development in the forecast period and estimate the net new development above this baseline level associated with the two buildout assumptions for each of the three scenarios. Use information from the applicants and industry-standard values to estimate and define the total construction costs related to the two buildout assumptions for each of the three scenarios—these estimated costs will act as the direct construction impacts.
- Employ the IMPAN modeling framework for the Davis community and Yolo County to calculate the indirect and induced construction impacts that result from the direct construction costs associated with the two buildout assumptions for the three scenarios. Summarize the total construction economic impacts (including direct, indirect, and induced activities) in terms of employment, employee compensation, output, and model-derived State and local tax generation (adjusted for consistency with the fiscal analysis).
- Conduct a literature review to update and expand on the Analysis of the Value of Economic Development and Potential Employment Growth in the City report and summarize the value of innovation economy growth and development (e.g., diversification, quality of life, tax revenue, and competitiveness). Discuss potential synergies resulting from increased investment and opportunities focused on the innovation economy, creation of innovation centers or districts, leveraging university research, improving technology transfer, and growing industry sectors. Discuss qualitative regional benefits of the proposed Innovation Centers.
- Provide a qualitative analysis of economic impacts of the Environmental Impact Report (EIR) alternatives, predicated on results of initial discussions with the City, as discussed in the **Phase 1** Scope of Work.
- Produce a technical memorandum with an executive summary of the findings, descriptions of the quantitative analysis and results, thorough explanations of the assumptions for each scenario, explanation of the economic impact concept, a discussion of the value of innovation economy growth and development, and a qualitative analysis of the EIR alternatives.

Task 2: Prepare Fiscal Analysis

Task 2 involves preparing a fiscal impact analysis, with its primary purpose being an evaluation of how the project can generate a sustainable revenue flow to the City. The analysis includes identifying existing

and potential new sources of revenue that may be necessary to mitigate service cost impacts generated by the project:

- EPS will build on preliminary work in Phase 1 to further evaluate impacts of similarly sized business and innovation parks on selected cities' operational budgets to supplement EPS's own extensive fiscal impact analysis expertise. This research task will focus on identifying any assumptions (e.g., service levels, business-to-business taxable sales) that may require adjustment to better reflect potential net fiscal impacts to the City's operating budget at buildout of the proposed innovation center projects.
- EPS will prepare a fiscal model for the City that reflects identified modifications and current Fiscal Year (FY) 2014--15 General Fund revenues and expenditures. EPS will ensure the model reflects the land uses associated with each of the three development scenarios, current values and other analysis inputs, and buildout assumptions consistent with the EIRs and BAE analysis.
- EPS will summarize, in a concise fiscal impact analysis memorandum with supporting appendices, the research, analysis, and conclusions of the net fiscal impacts of the three development scenarios under EIR and BAE buildout assumptions. If any development scenario is estimated to produce a net fiscal deficit, EPS will include suggested modifications to the project assumptions or potential fiscal mitigation measures (e.g., assessment district, community facilities district for services). The memorandum will include a qualitative discussion of model components that have the ability to significantly affect net fiscal impacts. EPS will issue a Draft Fiscal Impact Analysis memorandum for City review. After receiving all comments, EPS will prepare a Final Fiscal Impact Analysis memorandum.

Task 3: Provide Meeting Support

- EPS will provide meeting support at up to 3 meetings between the Budget and Finance Commission and the City Council, as well as periodic progress reports and up to 4 check-ins with staff. An allowance has been established for these meetings, which will require additional time and materials if meetings exceed the identified level of effort.

Task 3b is based on assumed attendance at 3 Planning Commission/City Council sessions and 4 informal check-in meetings with City staff. Additional meetings, if requested, will be billed on a time and-materials basis.

EXHIBIT B

FACILITIES, EQUIPMENT, AND OTHER MATERIALS PROVIDED BY CITY

NOT APPLICABLE

EXHIBIT C

SCHEDULE OF SERVICES

Phase 1 Schedule and Budget

Above-referenced work will be complete by May 31, 2015. An initial administrative draft will be prepared by May 1, 2015.

The estimated budget by task is shown below:

Phase IA (under separate contract) \$10,000

Phase IB

Task 1: Initiate Project and Conduct Economic Analysis \$35,000

Task 2: Provide Meeting Support \$4,950

Total Budget \$49,950

Phase 2 Schedule and Budget

Schedule and Budget

Work would begin on June 1, 2015 or completion of **Phase I**. Initial administrative drafts will be prepared for Tasks 1 and 2 within **10 weeks** of commencing work. Revised reports will be produced within 2 weeks of receipt of comments and feedback on the administrative drafts.

The estimated budget by task is shown below:

Task 1: Conduct Community Economic Impact Analysis \$58,000

Task 2: Prepare Fiscal Analysis \$40,050

Task 3: Provide Meeting Support \$12,000

Total Budget \$110,050

EXHIBIT D

PAYMENT

Phase 1 Schedule and Budget

Above-referenced work will be complete by May 31, 2015. An initial administrative draft will be prepared by May 1, 2015.

The estimated budget by task is shown below:

Phase IA (under separate contract) \$10,000

Phase IB

Task 1: Initiate Project and Conduct Economic Analysis \$35,000

Task 2: Provide Meeting Support \$4,950

Total Budget \$49,950

Phase 2 Schedule and Budget

Schedule and Budget

Work would begin on June 1, 2015 or completion of **Phase I**. Initial administrative drafts will be prepared for Tasks 1 and 2 within **10 weeks** of commencing work. Revised reports will be produced within 2 weeks of receipt of comments and feedback on the administrative drafts.

The estimated budget by task is shown below:

Task 1: Conduct Community Economic Impact Analysis \$58,000

Task 2: Prepare Fiscal Analysis \$40,050

Task 3: Provide Meeting Support \$12,000

Total Budget \$110,050

Extra Work

If additional work or meetings beyond the scope included in this proposal are requested, EPS will obtain authorization for any additional budget with the understanding that terms will be negotiated in good faith. EPS will charge for its services on a direct-cost (hourly billing rates plus direct expenses), not-to-exceed basis; therefore, the City will be billed only for the work completed up to the authorized budget amount. Travel, data, or reproduction expenses will be billed at cost, and invoices are submitted monthly and are payable on receipt.

2015 Hourly Billing Rates*

California Offices

Managing Principal	\$250-\$300
Senior Principal	\$300
Principal	\$225-\$260
Executive/Senior Vice President	\$215-\$220
Vice President	\$195-\$200
Senior Technical Associate	\$180-\$200
Senior Associate	\$165-\$185
Associate	\$145
Research Analyst II	\$100-\$120
Research Analyst I	\$80-\$85
Production and Administrative Staff	\$80-\$85

*Billing rates updated annually.