

The Economics of Land Use



Executive Summary

Economic and Fiscal Impact Analysis of the Proposed Nishi Gateway Innovation District Project

Prepared for:

City of Davis

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1. EXECUTIVE SUMMARY

The City of Davis (City), Yolo County (County), and the Sacramento Region have the potential to see economic and fiscal benefits as a result of the successful implementation of two proposed Innovation Centers in Davis: the Mace Ranch Innovation Center (MRIC) and the Nishi Gateway Innovation District (Nishi).¹ Each of the proposed projects will be subject to Measure R approval, an ordinance requiring voter approval for any project that requires a change of land use designation from agricultural to urban under the City’s planning process and annexation into the City.

In July 2015, the City retained Economic & Planning Systems, Inc. (EPS) to prepare an initial draft report evaluating key success factors of Innovation Centers, as well as key economic assumptions related to the buildout of proposed Innovation Centers.² Following this initial report, EPS prepared a report in September 2015, which, based on the research conducted for the initial report, detailed the chief economic and fiscal impacts estimated to occur at buildout of the proposed Innovation Centers (Economic & Fiscal Impact Analysis Report).³

The purpose of this Executive Summary is to provide a synopsis of the Innovation Center concept as it relates to both proposed projects and estimated economic and fiscal impacts of one of the proposed projects—Nishi—as a precursor to the aforementioned ballot initiatives that will determine whether this project is approved by voters in November 2016 and annexed into the City.

Nishi: Managing for Fiscal Success

Nishi’s fiscal impact, depending on the scenarios below, could result in a fiscal surplus of up to \$465,000. The Base Development Program for Nishi, consisting of a land use mix defined later in this report, along with several key assumptions described in the full Economic & Fiscal Impact Analysis Report, is estimated to have a negative fiscal impact of \$106,000⁴ as a result of

¹ A third proposed project, the Davis Innovation Center (Davis IC), was placed on hold in May 2015.

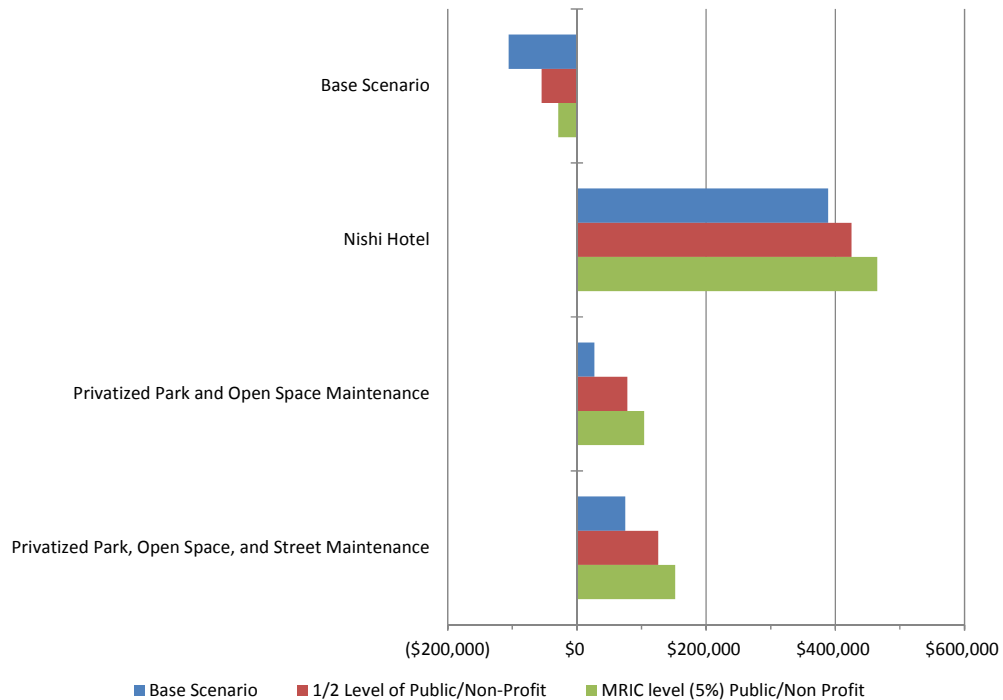
² “Davis Innovation Centers Fiscal and Economic Impact Assumptions,” EPS, July 2015.

³ “Economic and Fiscal Impact Analysis of Proposed Innovation Centers in Davis,” EPS, September 2015.

⁴ As reported in a November 12, 2015, addendum to the September 2015 report, a minor modification to the estimated annual sales tax revenue for Nishi resulted in a General Fund deficit that was \$28,000 larger than originally reported. This modification was minor enough that it did not change any of the report’s overall conclusions. This addendum is included as **Exhibit 3**.

assumed university and other tax-exempt occupancy that is proposed to be remedied through a number of potential mitigation measures.⁵ **Figure 1** and **Table 1** present a selection of alternative scenarios and their resulting fiscal impacts.

Figure 1 Estimated Annual Fiscal Impacts of Sensitivity Scenarios



As shown above, the addition of a hotel, in combination with a reduction of the public/nonprofit space to match the 5-percent share projected for the MRIC project, would shift the slight fiscal deficit to an annual surplus of almost \$465,000. While the hotel would result in the highest fiscal surplus, it is certainly not necessary to avoid a fiscal deficit. On a smaller scale, even the sole act of privatizing the park and open space maintenance would shift the fiscal deficit to a slight fiscal surplus of \$27,000 per year.

⁵ For informational purposes, complete removal of public/nonprofit uses from the Nishi Base Development Program would result in a negligible General Fund fiscal deficit of \$13,000 annually. As discussed in this summary document, the positive influence of UC or other tax exempt institutions would favor an approach of retaining such uses as part of the Innovation Center concept and collecting offsetting mitigation funding as needed.

Table 1
Economic and Fiscal Impact Analysis of Nishi Gateway Innovation District
Estimated Annual Fiscal Impacts of Sensitivity Scenarios (2015\$)

Fiscal Impact Analysis Scenario	Item	Land Use Adjustment			
		Base Scenario	1/2 Level of Public/Non-Profit	MRIC level (5%) Public/Non Profit	
Base Scenario [1]		(\$106,000)	(\$55,000)	(\$29,000)	
Sensitivity Scenarios					
1	Nishi Hotel <i>Optional addition of 70,000 sq. ft., 125-room hotel in Nishi. Assumes displacement of 70,000 square feet of Office, Flex, Industrial Commercial, and Public/Nonprofit uses.</i>	Total Annual Fiscal Impacts Difference from Base	\$389,000 \$495,000	\$425,000 \$531,000	\$465,000 \$571,000
2	Privatized Park and Open Space Maintenance [2] <i>The Base Development Program assumes ongoing operations and maintenance will either be publicly- or privately-funded.</i>	Total Annual Fiscal Impacts Difference from Base	\$27,000 \$133,000	\$78,000 \$184,000	\$104,000 \$210,000
3	Privatized Park, Open Space, and Street Maintenance [3] <i>The Base Development Program assumes ongoing operations and maintenance will either be publicly- or privately-funded.</i>	Total Annual Fiscal Impacts Difference from Base	\$75,000 \$181,000	\$126,000 \$232,000	\$152,000 \$258,000

exec_scen

Source: City of Davis; EPS.

- [1] Represents the Base Development Program as described in the memorandum and documented in the attached technical appendices. As reported in a November 12th addendum to the September 2015 report, a minor refinement to estimated annual sales tax revenue resulted in a general fund deficit that was \$28,000 larger than originally reported.
- [2] Includes additional changes to budget line items. Refer to the "Ongoing Operations & Maintenance Responsibility: Alt. 1" scenario outlined in the September 2015 report for a listing of these items and the assumed responsibility for the Base and Alternative scenarios.
- [3] Includes additional changes to budget line items. Refer to the "Ongoing Operations & Maintenance Responsibility: Alt. 2" scenario outlined in the September 2015 report for a listing of these items and the assumed responsibility for the Base and Alternative scenarios.

Nishi Project Overview

The 47-acre Nishi site is shown in **Map 1**. **Table 2** provides an overview of land uses proposed for Nishi. The Nishi Gateway project, including West Olive Drive, is envisioned to include approximately 401,000 square feet of commercial and industrial land uses at buildout, including nearly 245,000 square feet of office/flex/research & development (R&D) uses; about 28,000 square feet of industrial manufacturing uses; 48,000 square feet of retail uses; and about 80,000 square feet of public/nonprofit uses. The project proposal also includes 650 housing units on the Nishi site.⁶ This set of land uses, along with several key assumptions described in the full Economic & Fiscal Impact Analysis Report, is defined as the “Base Development Program.”

Dynamics and Policy Options by Land Use

This section discusses the dynamics at play in the charted scenarios, as well as additional measures that can be implemented to reduce any negative fiscal impacts.

Housing Uses and Policy Options

The Nishi proposal includes 650 units of housing, a driving force of the project as the development group specializes in the provision of live-work space. Housing is a vital element of the Innovation Center concept in providing vitality to the environment, and it also provides significant value in its ability to fund needed infrastructure. Housing is a differentiator of the Nishi project that will not only attract new residents but also will attract innovative companies that highly value mixed-use environments. However, housing can be a somewhat cost-intensive use, and the demand that additional residents place on services often results in housing developments having negative fiscal impacts under industry-standard analysis.

To address this potential impact of housing, there are several available strategies to ensure that housing projects pay for their impact on services and infrastructure. Any of the mechanisms listed below that the City wishes to consider will need to be evaluated collectively as a package.

Community Facilities Districts

One mechanism to consider is the creation of a Community Facilities District (CFD) to fund public infrastructure improvements or services required by new development. The Laguna Ridge Specific Plan in Elk Grove, the Campus Oaks development in Roseville, and the Cannery Project in Davis are viable local examples of CFDs being implemented in areas that contain a mix of residential and nonresidential land uses. The Campus Oaks development, which lies adjacent to

⁶ These land uses, with the exception of public/nonprofit uses, are consistent with the September 2015 Nishi Draft Environmental Impact Report (DEIR) and includes proposed development in Nishi Gateway and the West Olive Drive areas. Public/nonprofit uses were estimated by EPS based on the existing amount of public/nonprofit square footage in existing innovation centers in the City and an assumed attraction of UC Davis-related uses.



Source: MIG 2015

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Table 2
Economic and Fiscal Impact Analysis of Nishi Gateway Innovation District
Project Framework Land Uses

Item	Nishi Base Development Program [1]
Dwelling Units	
Renter Occupied	440
Owner-Occupied	210
Total Dwelling Units	650
Nonresidential Square Feet	
Office	172,387
Flex: R&D/Office	72,162
Manufacturing	28,221
Industrial Commercial	10,000
Ancillary Retail	37,950
Hotel	0
Public/Non-Profit	80,180
Total Square Feet	400,900
Parking Spaces	
Parking Garage	843
Acres	
	47

framework

Source: EPS.

[1] Development numbers include Nishi Gateway and West Olive Drive area. Acreage numbers only include Nishi Gateway.

the Hewlett Packard campus, is particularly relevant in that it contains a mix of housing, office, commercial, and tech/business park uses. Another instructive case study is the City of Turlock, which, rather than using a CFD to pay for specific infrastructure or service needs, currently uses a CFD on new development to mitigate any General Fund revenue shortfalls from recent development. Turlock currently levies a special tax for the CFD of roughly \$400 per single-family dwelling unit per year in a much softer housing market relative to Davis.

A CFD could be used to remedy even the most fiscally negative sensitivity scenario for Nishi, outlined in the September 2015 report, in which the City receives a reduced allocation of property taxes, resulting in a fiscal deficit of \$207,000. This deficit, when allocated among the 650 housing units in Nishi, would result in an annual assessment of roughly \$318 per dwelling unit per year for the project to become fiscally neutral. In the case of the Base Development Program, a CFD would need to collect only \$163 per dwelling unit per year. These figures would be reduced if the CFD were spread across both residential and commercial uses, including space occupied by public and nonprofit entities. This future policy discussion should take into account development feasibility to ensure that more sensitive R&D users would not be substantially affected.

Assessment Districts

The creation of an assessment district would allow for the collection of special assessments from landowners to finance needed improvements. The development group for Nishi has expressed interest in creating a Landscaping and Lighting Assessment District (LLAD) that would levy and collect special assessments to finance the maintenance of improvements such as street lighting, planting materials, irrigation systems, drainage systems, detention basins, open space areas, public pedestrian paths, and entry monuments. This mechanism requires an approval by the majority of landowners. While this is a major hurdle in certain cases, it will not be a barrier in the case of Nishi, where there is only one landowner.

The creation of a LLAD is one example of how Scenarios 3 and 4 effectively could privatize park and open space maintenance, as the MRIC project has proposed.

Negotiated Concessions

In addition to the creation of more structured districts, it also would be possible for the City and the developer to negotiate a concession that would mitigate any negative fiscal impacts. The City of Woodland, for example, has arranged for the owners of the Spring Lake Specific Plan to pay an infrastructure fee that mitigates the fiscal impacts of development in the area.

Unlike some of the other mechanisms listed that are structured to provide revenue on an annual basis, negotiated concessions can be structured as upfront contributions or annual payments to offset operating fiscal deficits. While upfront contributions may make it easier to fund the earliest phases of development, annual taxes may allow for better budgeting through a tighter relationship of revenue generation to cost incurrence.

Tax-Exempt Uses and Policy Options

It is likely that some of the space in Nishi will be occupied by tax-exempt entities, which is another significant source of the Base Development Program's fiscal deficit. The presence of some tax-exempt users, particularly UC Davis, will serve as a great selling point to attract other tenants. This could bolster lease rates and have other positive impacts, such as improving the opportunities for university-industry collaboration and tech transfer.

While acknowledging these potential upsides, the City and the developers have considered restricting the space that will be occupied by public/nonprofit users. The alternative scenarios presented above show the fiscal impact of removing half of the public/nonprofit uses from the Base Development Program, as well as reducing their level to only 5 percent of all occupied space, matching the share assumed for the MRIC proposal.⁷

Regardless of whether space for tax-exempt users is limited, to the extent these users still will have a negative fiscal impact on the project, it would be possible for the City to arrange for negotiated concessions. These could take the form of property tax "in-lieu" payments with project developers to mitigate the effects of tax-exempt entities occupying developed space. Presumably, these developers would arrange for potential pass-through payments from university or other public tenants occupying their space.

In addition, there may be the ability to broker an ongoing relationship between the university and the City to ensure that any major long-term tenancies that place service demands on public facilities address any documented service cost issues. There are many precedents for this kind of outcome. For example, as part of the process of its Long Range Development Plan (LRDP), in 2005 UC Berkeley agreed to pay the City of Berkeley \$1.2 million per year to mitigate impacts related to sewer infrastructure, fire services, neighborhood improvements, and joint transportation efforts. Similarly, the University of Santa Barbara, as part of its LRDP, agreed to provide funding to the City of Goleta and Santa Barbara County to mitigate the university's impact on traffic.

Hotel Use and Policy Options

The sensitivity scenario that includes the hotel will create a significant fiscal surplus. A concern was mentioned in the September 2015 report that the reduction of R&D uses necessary to make way for the hotel would "undermine the critical mass of tech-driven development." This was stated merely to reinforce the importance of a balanced land use program for Nishi, including ample R&D/office space in this strategic location adjacent to the university. While there are other hotels already in the area and that may address demand, documentation provided by other consultants (PKF) indicates a healthy hotel market with potential room to expand. Ideally, any additional hotel space would be in a market segment not directly competing with the nearby Hyatt Place and the proposed Embassy Suites.

⁷ For informational purposes, complete removal of public/nonprofit uses from the Nishi Base Development Program would result in a negligible General Fund fiscal deficit of \$13,000 annually. As discussed in this summary document, the positive influence of UC or other tax-exempt institutions would favor an approach of retaining such uses as part of the Innovation Center concept and collecting offsetting mitigation funding as needed.

In addition, a reduction of public/nonprofit uses would make it possible to add the hotel while removing as little as 4,000 square feet of office/R&D space. It even may be possible to retain all or most of the R&D space from the Base Development Program if the project is densified in a vertical mixed-use configuration, though this would depend on the ability of the project to limit additional parking, potentially by having employers stagger their business hours and other transportation management strategies.

Clearly, a variety of measures are available to create a positive fiscal impact of the Nishi project, which can be combined in a multitude of scenarios. There also is potential for a beneficial tax-sharing arrangement between the City and County that would further contribute to a positive fiscal impact. Even more important than the availability of these options, however, is the commitment that both the City and developer have expressed to a policy that ensures the project will fund its service costs in perpetuity.

Innovation Center Concept

Innovation Centers, as defined by the Brookings Institution's district concept, are areas where anchor institutions (often universities) and companies cluster together and connect with start-ups, business incubators, and accelerators. The proposed projects have the potential to create benefits that generate economic value to the City and UC Davis alike. The projects also could support the goal of strengthening academic-industry partnerships in Davis and throughout the region, in support of the Next Economy Capital Region Prosperity Plan (Next Economy).⁸ Both MRIC and Nishi have great potential to move forward simultaneously. If phased and developed in concert with evolving market forces, the market should be able to accommodate both projects. These projects each contribute to the innovation ecosystem in Davis in unique ways, and their overall impact may be greater than the sum of their individual impacts.

While the Economic & Fiscal Impact Analysis Report focuses on the impacts of the proposed project if built, it bears mention that the City faces significant opportunity costs if the projects are not built. The City runs the risk of losing more fast-growing companies to other communities because of its limited supply of land and buildings for business activity. It may be more difficult to fund specialized infrastructure, and there will be less overall synergy among users if they are located in a dispersed geographic pattern. Innovative companies will continue to locate in Davis to access the community's significant resources, but in a manner that more closely resembles the concept of a "Spontaneous Research District," where R&D firms self-organize into organically created districts based on their ties to local research universities. Compared to the concept of a focused concentration of innovators strategically organized within an innovation center framework, a piecemeal development pattern is far less likely to meet the City's goals of providing space for innovative companies and strengthening academic-industry partnerships to address the City's fiscal deficit.

⁸ "Capital Region Prosperity Plan," Next Economy, March 2013, <http://valleyvision.org/resources/capital-region-prosperity-plan>.

Successful Implementation of Innovation Centers in Davis

A key challenge confronting public and private decision makers in the next 5 years will be getting viable initial phases off the ground to demonstrate early momentum. Because the projects still are in the early stages, many of the market and project implementation factors are important considerations as the planning process moves forward. These factors directly relate to the type of space that will be integrated, feasibility elements, the tenant mix, available amenities, connectivity, and related policies, most of which are under direct control of the City and the developers. On the other hand, the City and the Innovation Center developers have limited influence on the university-related and regional economy factors and, therefore, must prepare for any opportunities and threats that arise from these dynamics over the development period. Providing a range of spaces that meet the needs of a wide variety of tenants, including flexible building types with specialized and costly features, will be instrumental in terms of financial viability, as well as supporting the diversity that is a key element of the Innovation Center concept. The projects likely will start off as less dense and fill in over time, with higher densities as the market matures. Development agreements between developers and the City should allow flexibility to respond to market conditions, while providing assurances that the proposed projects will adhere to expected uses and design features.

Economic Impact Analysis of Nishi

Overview

The September 2015 Economic & Fiscal Impact Analysis Report includes a detailed economic impact analysis (provided as **Exhibit 1**), which estimates the direct economic contributions of Nishi, as well as the associated multiplier or “ripple” effect (indirect and induced impacts) that could be generated through demand on suppliers of goods and services and employee spending in the economy.

The analysis estimates both one-time construction impacts and ongoing, annual economic impacts associated with the buildout operations of the project, using three economic measures: output (total market value of goods and services generated by affected industries), employment (jobs), and labor income (total compensation associated with employment).⁹ While Nishi likely would generate regional economic impacts, the analysis focuses exclusively on economic impacts to the City and County economies.

The analysis examines the economic impacts of the Nishi Base Development Program, as well as economic impacts associated with a sensitivity scenario that adds a 125-room, 70,000-square-foot hotel, replacing 70,000 square feet of office, flex, industrial commercial, and public/nonprofit uses (Nishi Hotel).

⁹ Labor income is included in estimates of total output.

Economic Impact Analysis Findings

1. The construction activities associated with backbone infrastructure and nonresidential development for Nishi will generate a significant one-time, temporary economic impact.

The construction of almost 401,000 square feet of commercial space on 47 acres of land will directly support a significant amount of construction activity associated with backbone infrastructure, nonresidential, and residential development. This construction activity also will indirectly generate an economic response from suppliers of goods and services. Because these are temporary activities that will end after buildout, the total economic impact represents a one-time stimulus to the local economy. The estimated one-time economic impact resulting from construction activities through buildout of Nishi equates to a cumulative total of more than 1,000 jobs (full- and part-time), \$186 million of output (market value of goods and services), and \$75 million of labor income (earnings and benefits) in the Davis economy, as shown in **Table 2**. Expanding the analysis to the Yolo County economy increases the estimated total economic impact of the construction activities to approximately 1,800 jobs, \$329 million of output, and \$130 million of labor income. The countywide economy is able to support a greater amount of construction and supplier activity leading to a larger economic impact.

2. Establishments operating in the nonresidential space in the proposed Nishi project will generate substantial ongoing economic impacts in the local economy.

Establishments using the 401,000 square feet of commercial space to produce goods or provide services will support a considerable amount of economic activity on an ongoing, annual basis. Suppliers of goods and services also will indirectly benefit from this economic activity, and employee spending will induce additional economic effects, both of which are captured in the multiplier or ripple effect. The cumulative ongoing economic impact associated with Nishi is estimated at approximately 1,800 jobs, \$386 million of output, and \$107 million of labor income on an annual basis in the Davis economy. Within the larger Yolo County economy, the total estimated economic impact expands to approximately 1,900 jobs, \$409 million of output, and \$114 million of labor income. The larger countywide impact is a result of additional capture of supplier demand and household spending.

3. The Nishi Hotel sensitivity analysis would generate a lower ongoing economic impact than the Base Development Program.

The one-time construction impact of the Nishi Hotel sensitivity analysis is similar to the one-time construction impact of the Base Development Program because of a reallocation of land uses that support relatively similar construction activities. However, this sensitivity scenario is estimated to generate a smaller economic impact in the City and County economies because the hotel land use generally supports fewer employees and less output compared to the types of industries that would otherwise occupy the office and flex/R&D space in the Base Development Program. Refer to **Table 2** for specific economic impacts associated with the Nishi Hotel sensitivity scenario.

4. Only one of the DEIR alternatives for Nishi could produce increased one-time and ongoing economic impacts compared to the Base Development Program proposal.

As shown in **Table 3**, three project alternatives, all of which are discussed below, are considered in addition to the Base Development Program as part of the Nishi DEIR. Only the Research and Development Only alternative is expected to result in increased one-time and ongoing economic impacts.

The No Project Alternative would result in a decreased one-time economic impact as it would eliminate all construction activities. It also would reduce the ongoing economic impact, as the existing land uses generate fewer employment opportunities.

The Off-Site option (5th Street Corridor) could produce a decreased one-time economic impact, as the major incremental infrastructure investments likely are not needed for the 5th Street Corridor site, resulting in a reduced demand for backbone infrastructure construction. In addition, under this alternative, the rezoning and redesignation of the West Olive Drive area would not occur, leading to a reduction in commercial development and related construction activity. This alternative also does not include the nonresidential space associated with rezoning and redesignation of the West Olive Drive area, resulting in an overall decreased ongoing economic impact. It is important to note that this site option is developed and contains commercial, office, light industrial, and utility facilities that are themselves generating an economic impact in the local economy. Consideration of the net ongoing economic impact could be appropriate in this case.

The Research and Development Only alternative could result in increased one-time economic impacts because the residential uses that would be eliminated tend to support slightly lower construction costs and associated economic activity. This alternative also could produce an increased ongoing economic impact because the residential uses that would be removed generally support less employment through household spending than establishment operations based in the nonresidential uses. The majority of the estimated ongoing impacts are generated by the establishment operations, and further orientation toward these nonresidential uses would incrementally increase these activities.

Table 3
Economic and Fiscal Impact Analysis of Nishi Gateway Innovation District
Total One-Time and Ongoing Annual Economic Impacts

Study Area/Measure	Base Development Program	Sensitivity Analysis: Nishi Hotel [1]
Davis Economy		
One-Time Activities [2]		
Employment	1,011	1,010
Output (2015\$)	\$185,603,212	\$185,416,487
Labor Income (2015\$)	\$74,580,052	\$74,494,568
Ongoing Activities [3]		
Employment	1,770	1,481
Output (2015\$)	\$385,471,073	\$315,480,851
Labor Income (2015\$)	\$107,470,068	\$88,707,557
Yolo County Economy		
One-Time Activities [2]		
Employment	1,805	1,803
Output (2015\$)	\$329,364,257	\$329,042,284
Labor Income (2015\$)	\$130,244,195	\$130,100,096
Ongoing Activities [3]		
Employment	1,913	1,598
Output (2015\$)	\$409,409,025	\$335,043,376
Labor Income (2015\$)	\$114,470,453	\$94,470,079

impact_summary

Source: IMPLAN, 2013 Data and EPS.

[1] Includes a 125-room, 70,000-sq.-ft. hotel, replacing 70,000 sq. ft. of office, flex, industrial commercial, and public/nonprofit uses.

[2] One-time activities include backbone infrastructure, residential, and nonresidential construction.

[3] Ongoing activities include household spending and establishment operations.

Table 4
Economic and Fiscal Impact Analysis of Nishi Gateway Innovation District
DEIR Alternatives Potential Effect on Economic Impact Analysis

Alternative [1]	Nonresidential Square Feet	Gross Acres	One-Time Construction Impact	Ongoing Annual Impact
Proposed Nishi Project	400,900	47	-	-
No Project	0	0	Decrease	Decrease
R&D Only	1,275,000	47	Increase	Increase
Offsite Option (5th Street)	345,000	47	Decrease	Decrease

impact_DEIR

Source: Raney Planning and Management; Ascent; EPS.

[1] Because it was treated as a quantitative sensitivity analysis, the Alternative Land Use Mix is not included in the table. The Recreation-Only and Reduced Intensity alternatives area also not in the table because they were dismissed in the DEIR.

5. The ripple effect generated by the ongoing economic activities associated with the Nishi project will generate new off-site market demand for nonresidential real estate.

At buildout, the proposed Nishi project could directly support about 1,000 jobs on an ongoing basis. As a result of the multiplier effect, which accounts for estimated economic activity resulting from demand on suppliers and household spending, Nishi could generate an additional 700 jobs in the local economy. These additional jobs will create incremental off-site demand for commercial real estate, which could translate to roughly 210,000 square feet.¹⁰ The supply of existing vacant space may accommodate a significant share of this incremental market demand. To avoid a shift of the ongoing economic impact to surrounding communities over the absorption period, the supply of commercial space may need to expand through densification of existing development areas and new development on vacant land zoned for nonresidential uses. The effectiveness of the latter option to address incremental market demand could be impacted to the extent that off-site DEIR alternatives are explored, which remove vacant land from the supply and maintain the existing agricultural land uses on the proposed, undeveloped Nishi site.

6. Nishi can benefit substantially from the economic impacts of a specific group of targeted clusters if the appropriate conditions are created.

The six main clusters and company type opportunities represent strong drivers of local economic impacts. Assuming that appropriate supporting conditions are in place to allow for these clusters to thrive, every 100 jobs in these clusters are estimated to support roughly from 170 to 210 jobs, from \$27 million to \$69 million of output, and from \$10 million to \$15 million of labor income in the Davis economy. The variation between the high and low ends of the ranges is determined by the scale of interindustry relationships in the City economy, as well as the category and value of the economic activities.

¹⁰ Based on an estimated average of 300 square feet per employee.

Fiscal Impact Analysis of Nishi

Overview

The September 2015 report includes a detailed fiscal impact analysis (provided as **Exhibit 2**), which estimates the overall fiscal impacts to the City's General Fund based on development of the proposed Nishi project at buildout. The objective of the analysis is to determine whether Nishi will generate adequate revenues at buildout to meet the costs of providing new development with City services (e.g., police protection, fire protection). The fiscal impact analysis is based on the assumption that Nishi will be annexed into the City and municipal services will be provided by the City, with the exception of the Olive Drive area, as it is already a part of the City.

The analysis examines the fiscal impacts of Nishi under the Base Development Program. In addition, the analysis evaluates 10 sensitivity scenarios that recognize that key modifications to the Base Development Program could have notable impacts on the net fiscal impacts of Nishi. These sensitivity scenarios, their annual fiscal impacts at project buildout, and the total change in net fiscal impacts relative to the impacts of the Base Development Program are described in further detail in the findings below. Finally, the fiscal impact analysis provides a qualitative assessment of DEIR project alternatives for Nishi.

Fiscal Impact Analysis Findings

- 1. The fiscal impact analysis includes a base scenario and 10 sensitivity scenarios that recognize that key modifications could have notable impacts on the net fiscal impacts of the Nishi Project.***

While the Base Development Program for Nishi is estimated to generate an annual net fiscal deficit of about \$106,000 for the City's General Fund, the fiscal impact analysis also evaluated modifications to key land uses and assumptions used in the base analysis. Three sensitivity scenarios will have large enough positive impacts on the annual net fiscal impacts to the City's General Fund to result in a net surplus from the Nishi project (i.e., net fiscal revenues will increase relative to the Base Development Program). These include the inclusion of a hotel in the Nishi project area, as well as two scenarios reflecting privatized operations and maintenance of on-site infrastructure facilities. Three additional sensitivity scenarios have a positive impact on the annual net fiscal impacts, but are not large enough to offset the deficit from the base development scenario. These scenarios include an increased City share of the applicable property tax rate (75 percent), an increase in taxable sales per square foot, and a higher capture of taxable sales generated from the Innovation Centers' residents and employees. Increased annual revenues at project buildout from these six scenarios ranged from \$41,000 (higher capture of taxable sales) to \$495,000 (Nishi Hotel). **Table 5** provides an overview of each sensitivity scenario, summarizes the annual fiscal impacts at buildout for each scenario, and provides a comparison of the annual net fiscal impact relative to the Base Development Program. Any of the sensitivity scenarios discussed in the September 2015 report can be combined with a reduction of the public/nonprofit space to improve the overall fiscal impact of the Nishi project.

2. Two sensitivity scenarios examined in the fiscal impact analysis are estimated to increase annual net fiscal deficit for Nishi.

Two sensitivity scenarios will have negative impacts on the annual net fiscal impacts to the City's General Fund (i.e., net fiscal revenues will decrease relative to the Base Development Program) resulting from the Nishi project. These scenarios include a decreased City share of the applicable property tax rate (25 percent), and a lower capture of taxable sales generated from the Innovation Centers' residents and employees. Decreased annual revenues at project buildout from these scenarios ranged from \$40,000 (low taxable sales capture rate) to \$101,000 (decreased share of property tax). Refer to **Table 5** for more details.

3. The Nishi DEIR project alternatives are estimated to result in reduced net fiscal deficit of the proposed project relative to the impacts of the Base Development Program.

Unsurprisingly, the No Project Alternative would eliminate Nishi's annual net fiscal deficit for the City's General Fund. The R&D Only Alternative includes nearly 875,000 additional square feet of R&D space and no residential units, which substantially would increase estimated General Fund revenues and result in an annual net fiscal surplus to the City's General Fund. The Off-Site Option Alternative has the potential to eliminate the estimated annual net fiscal deficit of the proposed project (and possibly result in an annual net fiscal surplus), given its location in the City and higher City General Fund property tax share allocation. However, a combination of reduced nonresidential space and the proposed residential units in this DEIR alternative may counter any reductions in the estimated annual net fiscal deficit to the City's General Fund. It is likely that the Off-Site Option Alternative would have a fiscally neutral impact on the City's General Fund. Refer to **Table 6** for a summary of the impacts of the DEIR alternatives to Nishi.

Table 6
Economic and Fiscal Impact Analysis of Nishi Gateway Innovation District
DEIR Alternatives Potential Effect on Fiscal Impact Analysis

Project/Alternative	Nonresidential Square Feet	Dwelling Units	Gross Acres	Potential Effect Relative to Buildout of Project [1]
Proposed Nishi Project	400,900	650	47	NA
1. No Project	0	-	-	Elim. Net Fiscal Deficit
2. R&D Only	1,275,000	-	47	Net Fiscal Surplus
3. Alternative Land Use (Hotel) [2]	400,900	650	47	Net Fiscal Surplus
4. Offsite Option (5th Street)	345,000	650	47	Reduced Net Fiscal Deficit/ Potential Net Fiscal Surplus

fiscal_DEIR

Source: Raney Planning and Management; Ascent; EPS.

[1] Reflects buildout of the Project under the Base Development Program land uses and assumptions.

[2] Evaluated as sensitivity scenario 3.

4. A variety of fiscal mitigation strategies and policies can be implemented to mitigate any negative fiscal impacts of Nishi.

In addition to the sensitivity scenarios presented in the September 2015 report, many other policy options and strategies are available to ensure a fiscally positive impact for Nishi.

The costs associated with Nishi's housing units can be addressed through strategies such as CFDs, assessment districts, or concessions negotiated between the City and the developer.

The reduction of tax revenues from public/nonprofit users will be counteracted to some degree by the ability of these users, particularly UC Davis, to attract other tenants, bolster lease rates, and support tech transfer. The City can request property tax "in-lieu" payments from the developers that can be passed through to the public/nonprofit tenants to mitigate their impacts.

The Nishi Hotel scenario, as envisioned in the September 2015 report, would generate a significant fiscal surplus, though at the expense of some reduction of R&D space. Through reduction of public/nonprofit uses or densifying the project in a vertical mixed-use configuration, however, creative design solutions potentially make it possible to add the hotel while retaining all or most of the R&D space from the Base Development Program.

The City and the project developers both have expressed their commitment to ensuring the Nishi project will pay for its services. The identified range of land use scenarios and fiscal mitigation tools indicate great potential to fulfill that commitment.