The Economics of Land Use

Fiscal Benefits of Employment Lands Study Final Report Phase I & II: Innovation District Action Plan

Prepared for:

City of Milpitas

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1. EXECUTIVE SUMMARY

This report is organized into five (5) chapters, including this Executive Summary serving as **Chapter 1**. **Chapter 2** provides contextual information for the Innovation District Action Plan. **Chapter 3** provides an overview of current Development Opportunity Site characteristics relevant to development prospects. **Chapter 4** describes four (4) case studies of other Innovation Districts and summarizes the lessons learned. Finally, **Chapter 5** describes the Innovation District Action Plan (recommended City action items).

The City of Milpitas' Office of Economic Development engaged Economic & Planning Systems, Inc. (EPS) to prepare a *Fiscal Benefits of Employment Lands Study (Study)*. The Study's purpose is to guide City policy towards a fiscally resilient future based on protection and preservation of employment lands, the expansion and attraction of innovative and competitive businesses, and the implementation of the City's new Innovation District. The Innovation District, located within the Milpitas Metro Specific Plan (MMSP), provides a vital economic development opportunity to support the City of Milpitas fiscally and economically.

This Report represents *Phase I and II* of the Study. *Phase I* of the *Fiscal Benefits of Employment Lands Study (Phase I Study)*, completed in October 2021 and provided here as **Appendix A**, establishes the potential benefits of the successful implementation of the Innovation District, including the attraction of a large number of well-paying jobs and substantial positive fiscal impacts on the City's General Fund. It also indicates some of the current challenges associated with the economics of development that will need to be overcome in establishing the Innovation District.

Phase II, completed in June 2022, combines contextual and on-the-ground information and data concerning Development Opportunity Sites[1] within and around the Innovation District (**Chapters 2 and 3**), case studies of other Innovation Districts (**Chapter 4**), the *Phase I* Study (**Appendix A**), and the substantial efforts of City staff to assess a broad range of options that might be suitable for the City of Milpitas to develop an Innovation District Action Plan (**Chapter 5**) - an outline of potential City actions to help support the evolution and development of the Innovation District.

[1] Development Opportunity Sites are potential locations for new construction projects found in the programmatic Milpitas Innovation District. These sites were identified by the City of Milpitas Office of Economic Development and were evaluated by City staff. Their land use designations under the MMSP will allow for a range of commercial uses (in some cases in combination with residential uses) and were the parcels evaluated in Phase I of this Study.

Context for Innovation District Action Plan

The City's vision for the Innovation District is as follows:

> *"The Innovation District will be an employment destination with modern office, research and development buildings and flexible space for people to interact through "creative collisions" and an innovative ecosystem. This ecosystem supports a risk-taking environment, facilitates idea generation with experimentation being central to the success of the Innovation District. The City of Milpitas aims to plan for a well-connected Innovation District with proximity to public transit and public infrastructure that supports bike paths, pedestrian scale sidewalks, social gathering places, and high-speed fiber. The growing innovation economy in Milpitas will require local leaders to plan long-term, but with short-term flexibility to shape future growth strategies within the Innovation District. The vision includes shaping our urban development practices to build a culture of creativity, innovation, inclusivity and equity, and agility to help advance opportunities for innovation."*

The Innovation District provides the following benefits:

- Ensures the City's fiscal sustainability with a diverse set of fiscal revenues.
- Preserves and protects employment lands to retain and create higher paying technology jobs.
- Stimulates the creation of an Innovation District that will encourage higher paying employment uses near the Milpitas Transit Center.
- Encourages creative placemaking and strengthens connections to and from the Milpitas Transit Center.
- Leverages the City's existing business ecosystem to attract new anchors to support the creation of the Milpitas Innovation District.

The Innovation District is guided by the following principles:

- Protect and preserve employment lands for greater long-term opportunities.
- Promote densification and intensification.
- Explore mixed-use opportunities with commercial development as primary and residential as secondary.
- Provide incentives to encourage development and creative alternatives to parking challenges.
- Encourage parcel assembly for highest and best use.
- Promote pedestrian-oriented streets and activate public spaces through connecting elements.
- Explore information technology infrastructure such as broadband and utilities.

The Innovation District is intentionally defined as one of five Districts[2] within the larger Milpitas Metro Specific Plan area. Partially contained in and proximate to the Innovation District is the Programmatic Milpitas Innovation District, which represents 74.3 acres of Development Opportunity Sites[3] identified by City staff as part of the *Phase I Study*.

Economic research completed as part of the Milpitas Metro Specific Plan, the *Phase I Study*, and consideration of the current characteristics of Development Opportunity Sites indicate that current economic and real estate market conditions alone are not sufficient to drive the City's vision for the Innovation District. Rather, a concerted effort on the part of the City of Milpitas will be required in the short/medium-term to help the City realize its goals through the recommended Innovation District Action Plan.

The Innovation District Action Plan builds upon the vision and policies in the Milpitas Metro Specific Plan as well as the City's General Plan and Economic Development Strategy.

For example, the City's General Plan includes:

- **Action LU-2c**: Establish and adopt *Innovation District* Overlay standards and guidelines for the Innovation District Overlay identified on the City's Land Use Map.
- **Action ED-3i**: Explore the creation of an *Innovation District* in the Milpitas Metro Specific Plan area to facilitate increases in employment densities while leveraging the area's proximity to mass transit.

And the City's Economic Development Strategy includes:

- **Strategy 24**. Action 24.1: Identify high-potential opportunity areas for converting warehouse and distribution properties to higher value production and tech office/research and development (R&D) uses. Review and adjust zoning for these areas, including within a potential "Innovation District" near the Milpitas Transit Center.
- **Strategy 27**. Action 27.2: Identify potential office and R&D development opportunity sites in and near the current Transit Area Specific Plan (TASP) boundaries (especially around the Milpitas Transit Center). As part of the TASP update, expand the area's boundaries to incorporate potential Innovation District sites. Enact land use policy and zoning that prioritize appropriate sites in the TASP for office and R&D development that have a high potential for these uses, while allowing for continued residential development. Sites could be purchased using a Strategic Property Acquisition Revenue (SPAR) fund.

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[2] The Milpitas Metro Specific Plan is organized into five Districts which have unique characteristics and support different land uses. These districts are reoriented and reorganized from the original Transit Area Specific Plan subdistricts to better define them as cohesive neighborhoods, typically bounded by major streets and centered around a common open space area or business district. The five Districts are: Innovation District, Great Mall District, McCandless District, Tango District, and Piper District.

[3] Ibid., Page 1.

- **Strategy 29**. Action 29.1: Review permitting requirements for 5G facilities installation to identify and remove any obstacles to deployment, especially in under-served areas.

The actions were developed based on considerations of current development economics in the city (see **Appendix A**), current parcel characteristics of the potential innovation parcels identified in Phase I (see **Chapter 3**), case studies of other established or developing Innovation Districts (see **Chapter 4**), and the substantial efforts of City staff to assess a broad range of options that might be suitable for the City of Milpitas.

Summary of Recommended Actions

Table 1 below outlines fourteen (14) recommended action items that are divided into three primary categories: (1) Incentivizing New Development; (2) Funding and Investing; and (3) City Leadership, Outreach, and Partnerships. These action items are described in detail in **Chapter 5**.

Table 1 Summary of Recommended Actions

Theme	No.	Recommended Action
Incentivizing New Development	1	Develop an Internal Working Group to Support the Implementation of the Innovation District Action Plan
	2	Develop Flexible Permitting Processes for Innovation District Developments
	3	Temporarily Reduce or Defer Building Permit, Plan Check, and Other Processing Fees
	4	Temporarily Defer Impact Fees for Innovation District Developments
	5	Removal of Parking Minimums for Innovation District Development
	6	Develop Development Agreement and Community Benefit Agreement Templates for Innovation District Developments
	7	Performing Technical Due Diligence for Innovation District Developments
Funding and Investing	8	Exploration of Financing Tools (i.e., EIFDs and CFDs) for the Innovation District
	9	Funding for a Strategic Property Acquisition Revenue (SPAR) Fund
	10	Pursue Planning Grants and Technical Assistance for Innovation District Evolution
City Leadership, Outreach, and Partnerships	11	Develop a Branding Initiative for the Innovation District
	12	Promotion of Innovation District by City Leadership
	13	Directed Outreach to Businesses, Developers, and Landowners
	14	Cultivation of Partnership with Educational and Other Innovation-oriented Institutions

2. CONTEXT FOR INNOVATION DISTRICT ACTION PLAN

The 2008 Transit Area Specific Plan (TASP) was adopted in 2008 and amended in 2011. It called for the redevelopment of approximately 437 acres of formerly employment generating lands into a new vibrant community featuring up to 7,109 dwelling units, 993,843 square feet of office space, 287,075 square feet of retail space, and a new upscale hotel featuring up to 350 hotel rooms. While most of the planned housing units in the TASP have been entitled or developed over the past 10 years following the Great Recession, very little of the office development and only a portion of the retail uses envisioned by the Specific Plan have been realized. A new 162-room extended-stay hotel was approved at the intersection of McCandless Drive and Great Mall Parkway.

The City Council approved proceeding with the Innovation District within the Milpitas Metro Specific Plan area, through both its Economic Development Strategy and its General Plan. The Innovation District then became an important part of the discussion and development of the Milpitas Metro Specific Plan – the update to the TASP.

Recognizing that the market conditions in the TASP had previously favored residential uses, a new employment district is envisioned that will: (1) preserve and protect employment plans in part of the MMSP; (2) seek to capture the fiscal and economic benefits that the City would garner with new employment and workspace development; and (3) encourage, over time, the transformation of this area into an Innovation District. Importantly, the Innovation District would not stand alone but would be part of the larger mix of uses and improvements envisioned by the Milpitas Metro Specific Plan as a complete neighborhood. The vision for the Innovation District resulted in the annexation of the older industrial area east of Berryessa Creek into the Milpitas Metro Specific Plan, with convenient proximity to the Milpitas Transit Center as well as jobs, services, amenities, and housing.

This Chapter provides some important context for the development of the Innovation District Action Plan, specifically around the key role of the Milpitas Metro Specific Plan, the broader economic and real estate context, and the Innovation District concept.

Milpitas Metro Specific Plan

The Milpitas Metro Specific Plan (MMSP) will guide the next wave of investment, growth, and development in the Metro area through 2040. The MMSP lays out the City's overarching vision for the southern portion of Milpitas and includes a range of policies, objectives, and actions that will be key to achieving a complete Metro district. The MMSP includes a number of policies and goals that are important to the success of the Innovation District. In addition to recognizing the importance of the Innovation District as an opportunity to attract and retain businesses in Milpitas, it recognizes: (1) the Innovation District's importance in allowing the Metro area to become a vibrant mixed-use community, and (2) the importance of investments, incentives, and other actions to help support the establishment and success of the Innovation District.

Of particular importance to the evolution of the new Innovation District are:

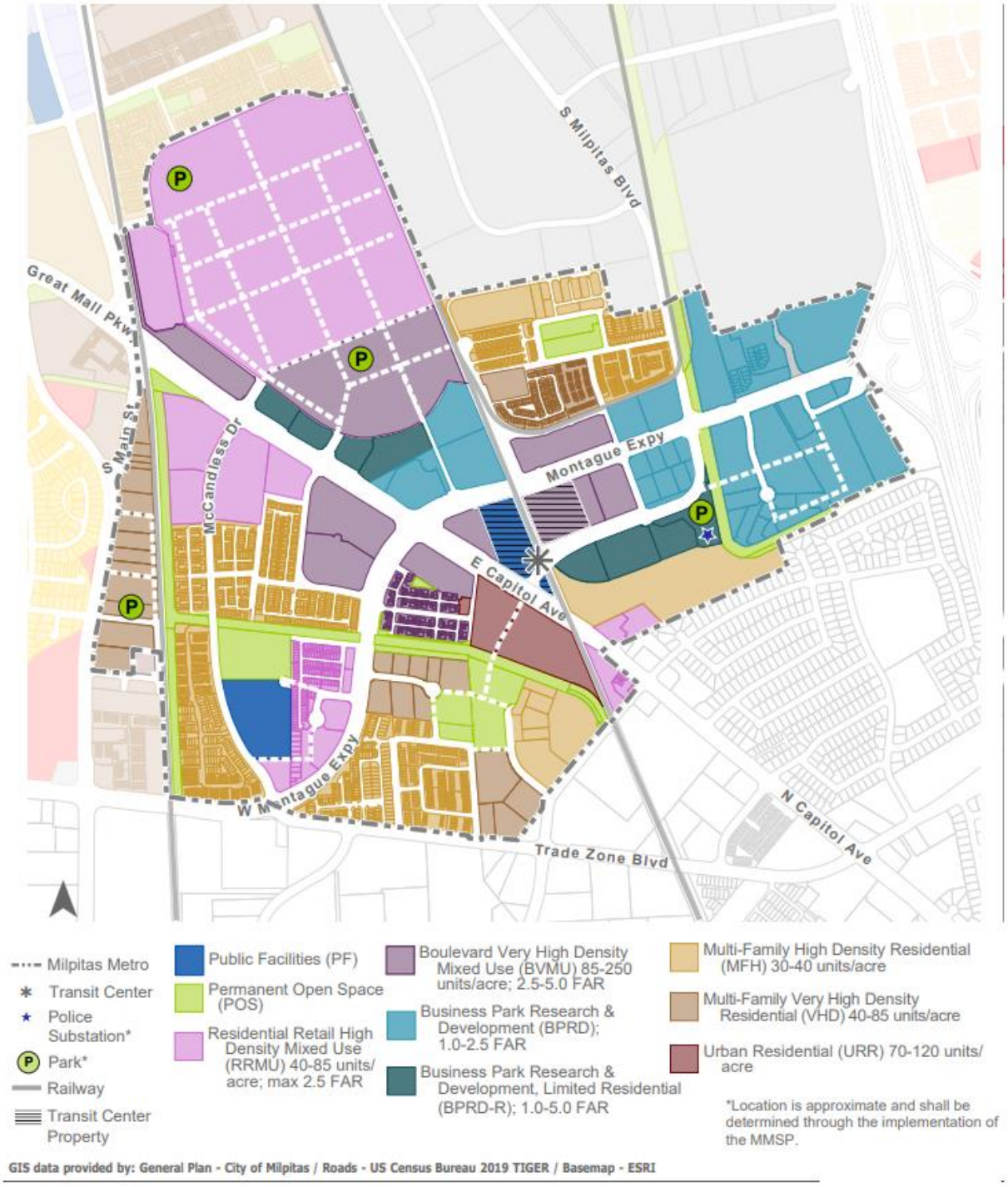
- **Land Use Policies.** The MMSP will establish an updated set of land use policies (see **Figure 1**) to ensure that certain areas of the MMSP are protected and preserved as employment lands. In protecting these lands primarily for employment uses, while providing flexibility over development density, heights, and specific use types, the MMSP increases the likelihood of Innovation District success.
- **Place-Making and Connectivity.** The MMSP also identifies a specific set of improvements, programs, and design guidelines to ensure a high quality of new development in the Metro area. Implementation of the MMSP will result in the creation of attractive streets and outdoor gathering places for placemaking and a high quality of life, and it will also provide greater efficiency and availability in all forms of transportation to improve the mobility for all. These efforts will further improve the appeal of the Metro area and Innovation District to new businesses, employees, residents, and visitors.

Market Context

The City of Milpitas conducted research into regional economic trends and local real estate market conditions as part of the Milpitas Metro Specific Plan effort and the *Phase I Study*. Some key observations from these research efforts important to the Innovation District Action Plan include:

- **Broadening Innovation Geography.** The location of technology, life sciences, and other creative/innovative firms in Silicon Valley has been gradually broadening beyond the cities that first captured the initial wave of Office/R&D space that houses these firms. Some of this expansion is related to the high level of demands for new space, while some has been due to constrained development opportunities in some cities. As a city near the center of Silicon Valley and the larger innovation ecosystem, the city of Milpitas is well-positioned to be part of future waves of expansion. Often these firms prefer geographic clusters and so attracting the first firms and developments of these types to a new area can be an important but challenging initial step. Attracting anchor tenant(s) to the Innovation District help catalyze the success of this new district.
- **Milpitas Transit Center.** The Milpitas Transit Center opened in June 2020 for operations. It provides a rich multi-modal transit center in Milpitas with BART and VTA Light Rail/Bus operations providing critical connections to the greater San Francisco Bay Area. As the economy re-opens after the pandemic, the Transit Center will offer a significant boost in efforts to attract new businesses (as well as residential development) to the Milpitas Metro Specific Plan area by connecting employers to the regional workforce. The availability and promise of transit already drove the development of a substantial amount of new, denser residential development near the Transit Center, and it is hoped that it can also attract new Office/R&D and other workspace development to help create the envisioned mixed-use area.

Figure 1 Milpitas Metro Specific Plan Land Uses



- **Milpitas Economy.** The Milpitas economy experienced a significant increase in unemployment rate during the pandemic. In April 2020, the Milpitas unemployment rate increased to 12.9 percent, which is the highest local unemployment rate in decades. As of May 2022, the Milpitas unemployment rate has been reduced to pre-pandemic levels at 1.8%.[4] With the recent changes by the Santa Clara County Health Department, workers in Milpitas have started to return to the workplace. The City of Milpitas experienced a $30 million reduction in funding during the pandemic, making the Innovation District vital to future economic growth in Milpitas

- **Quality of Place.** Innovation firms require and therefore compete for top talent. As a result, these firms think carefully about locating in places, environments, and buildings that will be attractive to their workforce. This was true before the COVID-19 pandemic and may be even more true as it wanes. The pandemic required work-from-home for many innovation workers. With it has come a greater expectation of flexibility among many workers, increasing the need for attractive, collaborative, and amenity-laden work locations as firms look to shift more towards face-to-face collaboration.

- **Office/R&D Development Post-Pandemic.** There are many questions remaining as to whether the need for and use of Office/R&D space will return to the pre-pandemic "old normal" or become a hybrid of approaches. Major technology companies such as Google, Apple, Meta (Facebook), Amazon, and LinkedIn are starting to require their employees to report to work at least in a hybrid environment. While a number of innovation firms changed and scaled back plans for new development due to the pandemic, the number of developers seeking entitlements for Office, R&D, and Lab Space suggests expectations for substantial demand for these types of spaces.

- **Milpitas Real Estate Market Conditions.** The *Phase I Study* assessed the development feasibility of new Class A Office development given estimates of currently achievable lease rates in Milpitas. Because of the high costs of construction and the modest lease rates, it currently appears unlikely that a speculative office developer would build a new Office/R&D building (or set of buildings) without having commitments from anchor tenants. Sensitivity analysis indicated that the feasibility gap would close as market conditions improve. Overall, the analysis pointed to the need for the City of Milpitas to actively market itself to innovation businesses/institutions and, where possible and prudent, take additional actions to attract a first wave of new workspace development through policy actions described in Chapter 5.

Innovation District Concept

Many important studies have explored the origins of successful and enduring regional innovation economies like Silicon Valley.[5] A different set of studies have focused on smaller geographies or clusters. These clusters were often termed research or science parks with anchor institutions and

[4] Unemployment Data from California Economic Development Department (EDD).

[5] See, for example, AnnaLee Saxenian, "Regional Advantage: Culture and Competition in Silicon Valley and Route 128", Harvard University Press, 1994.

a broad array of other employment uses. They were also sometimes referred to as Innovation Districts, though the term Innovation District now often refers to areas that contain both innovative firms and institutions in an area with a mix of uses with attractive public spaces. The Brookings Institution (Brookings), in particular, has published a number of important studies of Innovation Districts over the last decade. As noted in their 2014 report:[6]

> "A new complementary urban model is now emerging, giving rise to what we and others are calling "innovation districts." These districts, by our definition, are geographic areas where leading-edge anchor institutions and companies cluster and connect with start-ups, business incubators, and accelerators. They are also physically compact, transit-accessible, and technically-wired and offer mixed-use housing, office, and retail."

As further noted in this report:

> " … innovation districts help their city and metropolis move up the value chain of global competitiveness by growing the firms, networks, and traded sectors that drive broad-based prosperity. Instead of building isolated science parks, innovation districts focus extensively on creating a dynamic physical realm that strengthens proximity and knowledge spillovers. Rather than focus on discrete industries, innovation districts represent an intentional effort to create new products, technologies and market solutions through the convergence of disparate sectors and specializations."

The City's concept of an Innovation District is described in the Milpitas Metro Specific Plan, Economic Development Strategy, and City's General Plan and is, in many ways consistent, with the broader vision for Innovation Districts in general.

Finally, it is important that most Innovation Districts have one or more key drivers, as noted by Brookings, typically drawn from the following list:

- Mayors and local governments
- Advanced research institutions and medical campuses
- Major real estate developers and landowners
- Anchor companies
- Incubators, accelerators, and other economic cultivators

Other Factors

There are a broad range of factors that will influence the timing of new commercial development in the Innovation District and the pace at which this area will transform into an Innovation District. The Action Plan, outlined in **Chapter 5**, focuses on areas where City actions can support

[6] Bruce Katz and Julie Wagner, "The Rise of Innovation Districts: A New Geography of Innovation in America", Brookings, May 2014.

and accelerate new commercial development in the Innovation District. For context, it is also helpful to recognize that the pace and timing of new innovation districts throughout the U.S. are also affected by a number of factors that are outside of the host City's control, including:

- **Economic Conditions**. The strength of the global and national economies is affected by a broad range of factors. These factors cause business cycles that have a substantial impact on levels of investment and the pace of development. The unique nature of different economic cycles can have unique effects on different regional economies, depending on their core industries and the nature of the impact of the business cycle on their viability.

- **Federal and State Policies**. Federal and State policies can have significant effects on the severity of business cycles, the pace of new development, as well as the demand for different types of real estate. Federal responses (through monetary and fiscal policy) to economic downturns have substantial impacts on the economy, while decisions concerning interest rates or government spending programs also have direct effects.

- **Real Estate Market Conditions**. A combination of the state of the economy, regional real estate demand for workspace, and the level of competition from other jurisdictions tend to determine the ability of landowners to attract developers/tenants and the level of real estate revenues a developer could expect to receive. Developers will consider the estimated costs of development when considering a new development. Many of these costs – e.g., the cost of building materials and labor – are primarily outside of the City's control.

- **Business Owner and Landowner Decisions.** Business interest in site location in different cities is affected by a broad number of factors, including specific preferences for regions or cities. Similarly, private landowners will make individual decisions concerning the use of their land. To the extent, there are existing uses on parcels that are providing a good return to landowners, their interest in and/or incentives to consider redevelopment opportunities may be limited.

3. CURRENT INNOVATION DISTRICT CHARACTERISTICS

The City of Milpitas provides an attractive location for an Innovation District for numerous reasons. This Chapter highlights some of those broader characteristics. It then takes a more detailed look at the on-the-ground characteristics of a specific set of Development Opportunity Sites. This subarea and parcel-specific information provide important background information on the parcel characteristics that can affect the pace of redevelopment.

Broader Characteristics

The City of Milpitas and the Milpitas Metro Specific Plan have numerous characteristics that will appeal to prospective Innovation District businesses and developers (the City's Economic Development Strategy provides more detail on many of these topics):

- **Skilled Workforce**. With 40,800 jobs and 39,600 employed residents, Milpitas is a jobs rich community.[7] On average, residents of Milpitas have high educational attainment. About 53% of Milpitas residents age 25 years and older possess a bachelor's degree or higher.[7] The largest percentage of the Milpitas workforce, approximately 26%, are employed in professional, scientific, and management, and administrative and waste management; 23% manufacturing; and approximately 16% educational services, and health care and social assistance.[8]

- **Advanced Research and Manufacturing Businesses**. As noted above, Milpitas offers a large base of advanced manufacturing and research businesses that provide a core base to the city's business infrastructure and a strong platform for attracting new businesses as well as for retention and expansion of existing businesses. Major employers in Milpitas include Cisco Systems, KLA, Flex, Headway Technologies, View, Inc., and Corsair Gaming. Several of these top employers have made Milpitas their corporate headquarters location.

- **Central and Accessibility Regional Location**. Milpitas is centrally located within Silicon Valley and is highly accessible by both transit and automobile. The new Transit Center, and its multiple transit connections (BART and VTA Light Rail/Bus operations), along with the highway systems (Highway 237, Highway 680, and Highway 880), and adjacency to other Silicon Valley cities (San Jose and Fremont) is a major asset for the City of Milpitas.

- **Milpitas Metro Specific Plan (MMSP)**. Over the last fourteen years, the City's Transit Area Specific Plan, now MMSP, has been transformed with a new Transit Center, new neighborhoods, new amenities, and substantial new investments in area-serving infrastructure and capital improvements. This emerging transit-oriented district provides an

[7] Data (February 2022) from California Economic Development Department (EDD)

[8] 2020 American Community Survey 5-year Estimates Data Profiles

attractive platform for further private investment and development, including the emergence of a new Innovation District.

- **Modestly Priced Real Estate**. As documented further below, the Innovation District currently includes a broad number of Development Opportunity Sites, many of which are relatively underutilized parcels that offer the prospect of acquisition and redevelopment at relatively low costs. With diminishing areas available for new development in Silicon Valley, these Development Opportunity Sites can offer a new option for innovative businesses and uses.
- **Room for Broader Transformation**. The MMSP offers opportunities for real estate developers to purchase land proximate to a major transit station in Silicon Valley where there is likely to be substantial appreciation in value in the decades ahead. This represents a unique opportunity.
- **Designation as a Priority Area.**[9] Portions of the Innovation District are designated as a Priority Development Area (PDA) and Priority Production Area (PPA). PDAs are places near public transit planned for new homes, jobs, and community amenities; while PPAs leverage existing infrastructure to support the development of industrial and related business clusters.

Innovation District Parcel Characteristics

The pace of development in the City's Innovation District will depend, in part, on the "on-the-ground", current characteristics of the Programmatic Milpitas Innovation District.[10] This section looks at the characteristics of a selected set of Development Opportunity Sites[11] that were identified by City staff as part of the *Phase I Study*. Important characteristics that are discussed in this chapter include: the number, size, and ownership of parcels; existing uses and revenue streams from these uses; and the nature of the existing uses and any potential for use conflict, among other factors. These parcel characteristics should be considered and understood in the context of the broader Innovation District characteristics summarized in the section above.

Key observations from the Development Opportunity Site information provided include:

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[9] The purpose of designating Priority Development Areas (PDAs) and Priority Production Areas (PPAs) is to help guide growth and development while preserving diverse jobs. The designation of PDAs and PPAs are nominated by local governments and adopted by the Association of Bay Area Governments (ABAG).

[10] The Innovation District is intentionally defined as one of five Districts within the larger Milpitas Metro Specific Plan area. Partially contained in and proximate to the Innovation District is the Programmatic Milpitas Innovation District, which represents 74.3 acres of Development Opportunity Sites identified by City staff as part of the Phase I Study.

[11] Ibid., Page 1.

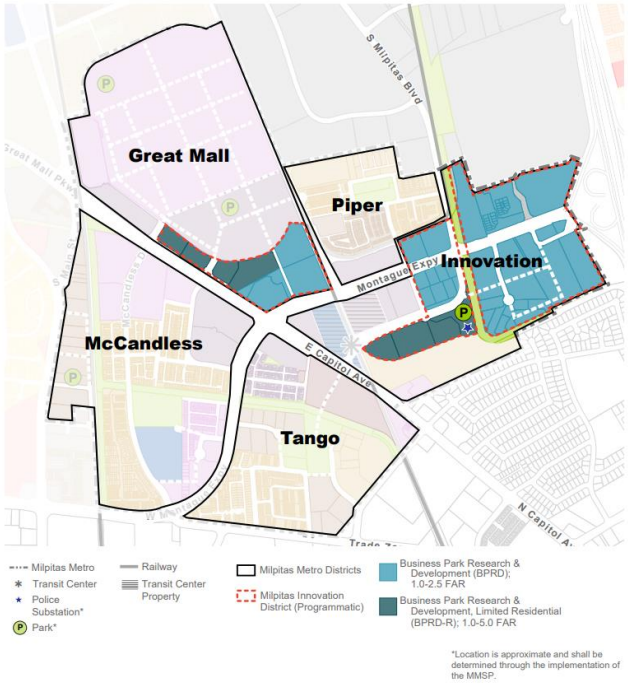
- Many potential Innovation District parcels are currently developed with buildings/uses that generate an income flow to existing landowners.
- Uses on these parcels are quite varied and include office, medical office, light industrial, warehouse, storage facilities, hotel, and flex space.
- For larger new commercial developments, parcel assembly may be required, in some cases, requiring negotiation with multiple landowners.
- There are no City-owned parcels in the Metro area envisioned for commercial development.
- Key areas of the Innovation District include the area to the south of the Great Mall and the areas around Montague Expressway and either side of Berryessa Creek.
- The economics of proposed new commercial developments will need to be sufficiently strong to overcome the challenges of parcel assembly, while also providing greater value to the landowner than the continuation of existing uses.

Collectively, these observations underline the importance of the Innovation District Action Plan and the importance of City action to help catalyze new commercial development in the Innovation District.

Programmatic Milpitas Innovation District Overview

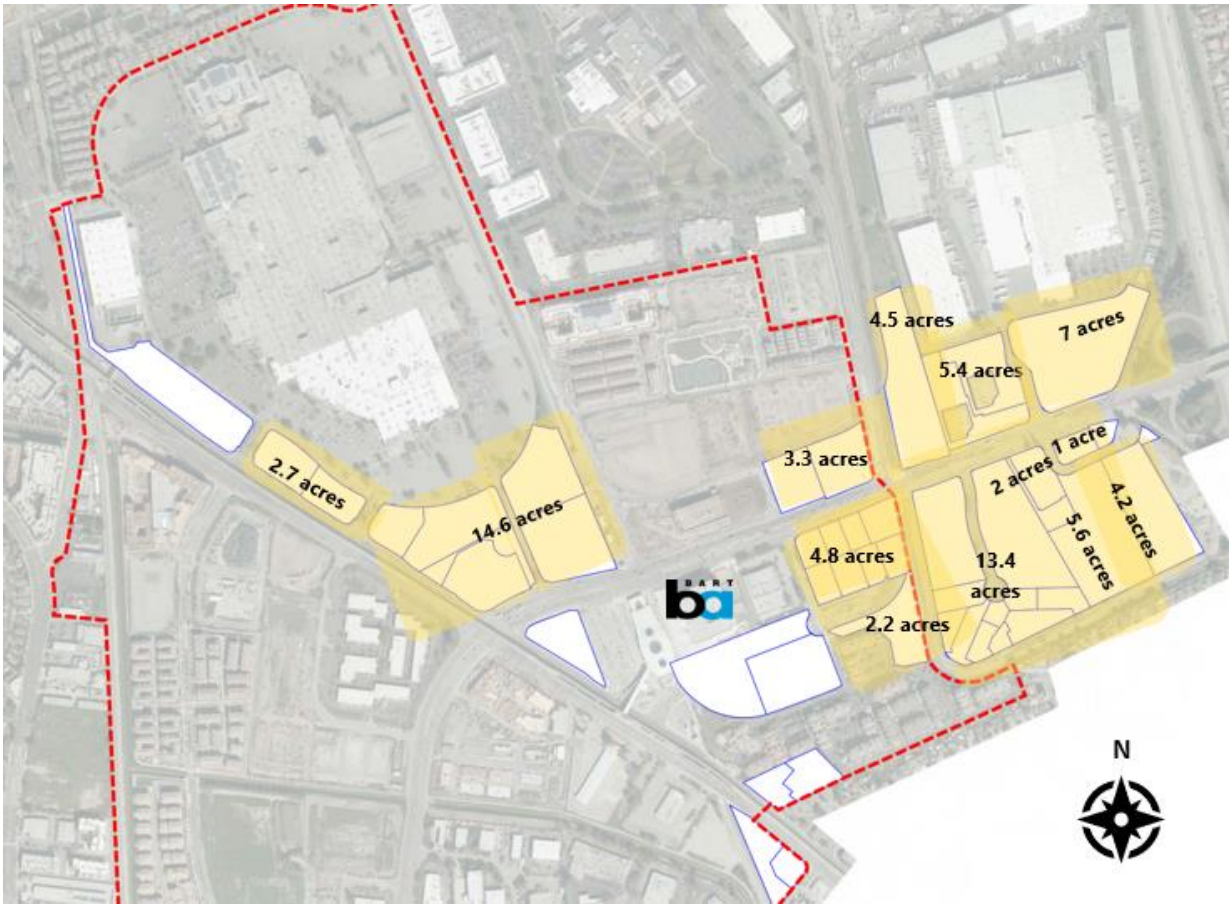
Innovation uses and development may occur throughout the Metro Milpitas Specific Plan (MMSP) area. The Programmatic Milpitas Innovation District, as shown in **Figure 2**, includes a 74.3-acre area that features land adjacent to the Great Mall and select parcels on both sides of Montague Expressway.

Figure 2 Programmatic Milpitas Innovation District Map



For analytical purposes, the City identified approximately 57 acres of land as part of the Innovation District and 17 acres of land as part of the Great Mall District for analysis given their proposed land use designations and potential for innovation uses. This land area (the Development Opportunity Sites) was evaluated in the *Phase I Study*. The 57-acre contiguous area includes about 10 acres on the eastern edge of the current TASP area boundary as well as an additional 47 acres of additional land further to the east on both sides of Montague Expressway, that is being incorporated into the new MMSP area. **Figure 3** shows the parcels and acreages that make up these areas. While this section focusses on the characteristics of these selected Development Opportunity Sites, it is not intended to suggest that substantial opportunities are not available on many of the other parcels within the Innovation District.

Figure 3 Innovation District and Great Mall District Parcel Focus



The Development Opportunity Sites were divided into four subareas for analytical purposes, as shown in **Figure 4**.

Figure 4 Innovation District Subareas

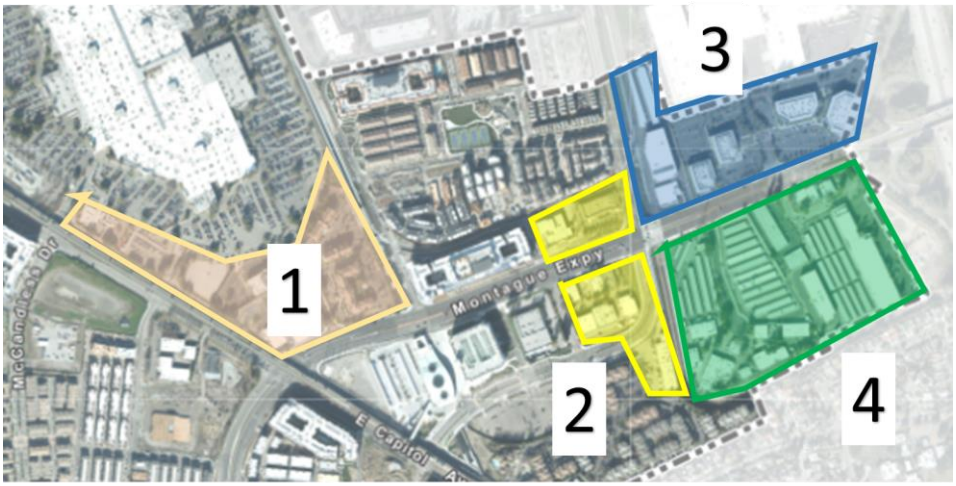


Table 2 shows the distribution of various building types in each subarea.

Table 2 Summary of Subarea Development

Subarea /Property Type	Rentable Building Area (RBA)	Percentage of RBA	Land Acreage [1]	Estimated FAR	Avg. Lease Rate (Sf/Mo) [2]
Subarea 1					
Hospitality	173,965	12%	-	-	-
Office	53,670	4%	-	-	$2.01
Education	55,430	4%			
Retail	4,372	4%	-	-	$3.08
Subarea Total	287,437	20%	17.3	0.38	
Subarea 2					
Flex	24,656	2%	-	-	-
Industrial	177,149	13%	-	-	$1.13
Subarea Total	201,805	14%	10.3	0.45	
Subarea 3					
Flex	129,136	9%	-	-	$1.12
Self-Storage	171,924	12%	-	-	$1.94
Office	92,792	7%	-	-	$2.28
Subarea Total	393,852	28%	16.9	0.31	
Subarea 4					
Flex	18,180	1%	-	-	$1.34
Industrial	214,465	15%	-	-	$1.20
Self-Storage	299,434	21%	-	-	-
Subarea Total	532,079	38%	29.8	0.41	
ID Total/Average	**1,415,173**	**100%**	**74.3**	**0.39**	**$1.36**

[1] Subdistrict 4 acreage includes vacant parcel located on the edge of the Innovation District boundary.
[2] While some reported data are available, lease rates primarily reflect CoStar estimates.
square foot values of between $200 - $300.

Source: CoStar; Santa Clara County Department of Planning & Development; EPS.

In aggregate, these potential Development Opportunity Sites comprise 74.3 acres. Collectively, there is about 1.41 million square foot of existing development spread amongst the four subareas, indicating an average existing FAR of 0.44 acres. The analysis is based on CoStar data.

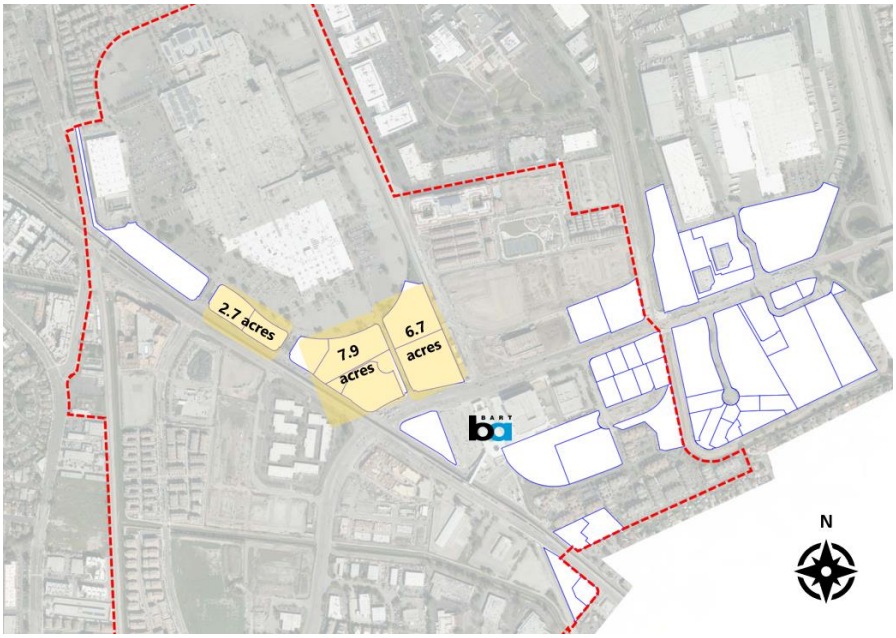
Innovation District Subarea Information

This section summarizes information on the Development Opportunity Sites in each of the four (4) subareas, including parcel sizes, existing structures, use types and tenants, and real estate characteristics (lease rates, vacancy, year built, etc.). It is important to recognize that the dynamic nature of real estate means that data on tenants, lease rates, and other variable will change over time.

Subarea 1

Subarea 1, which sits in the Great Mall District and lies between the Great Mall and the Milpitas Transit Center and BART[12] Station, is about 17.3 acres and includes about 290,000 square feet of existing development. Subarea 1 does not contain any industrial uses and one of its major land uses is hospitality, represented by the Marriott Courtyard hotel. Office uses, education uses (Stratford School), and some retail (McDonald's/Chevron gas station) uses are present. Lease rates range from $18.75 to $40.64 per square foot per year.

Figure 5 Map of Subarea 1



[12] The San Francisco Bay Area Rapid Transit District (BART) is a heavy-rail public transit system that connects the San Francisco Peninsula with communities in the East Bay and South Bay. BART operates in five counties (San Francisco, San Mateo, Alameda, Contra Costa, and Santa Clara) with 131 miles of track and 50 stations, carrying approximately 405,000 trips on an average weekday (prior to the COVID-19 pandemic).

Table 3 Summary of Subarea 1 Development

Parcel	Land Acres	Gross Building Area (sq. ft.)	Uses	Year Built	Lease Rate (per sq. ft. per yr.)	Tenants
1.1	7.9	109,100	• Manufacturing • School	1987-2000	$18.75-30.30	• United Optronics, Inc. • Stratford School
1.2	6.7	173,965	• Hotel	1999	n/a	• Courtyard and Towneplace Suites Marriott
1.3	2.7	4,372	• Gas Station • Retail	1999	$33.25-40.64	• Chevron • McDonald's

Source: CoStar; Economic & Planning Systems

Figure 6 Current Buildings in Subarea 1

Subarea 2

Subarea 2 lies east of the Milpitas Transit Center and BART Station, totaling 10.3 acres. It is bounded by Gladding Ct. and Curran Rd. to the west and S. Milpitas Blvd. to the east and south and includes about 200,000 square feet of rentable building area. The Montague Expressway cuts through the center. Primary uses are flex and industrial uses with lease rates ranging from $7.71 to $18.17 per square foot per year.

Figure 7 Map of Subarea 2

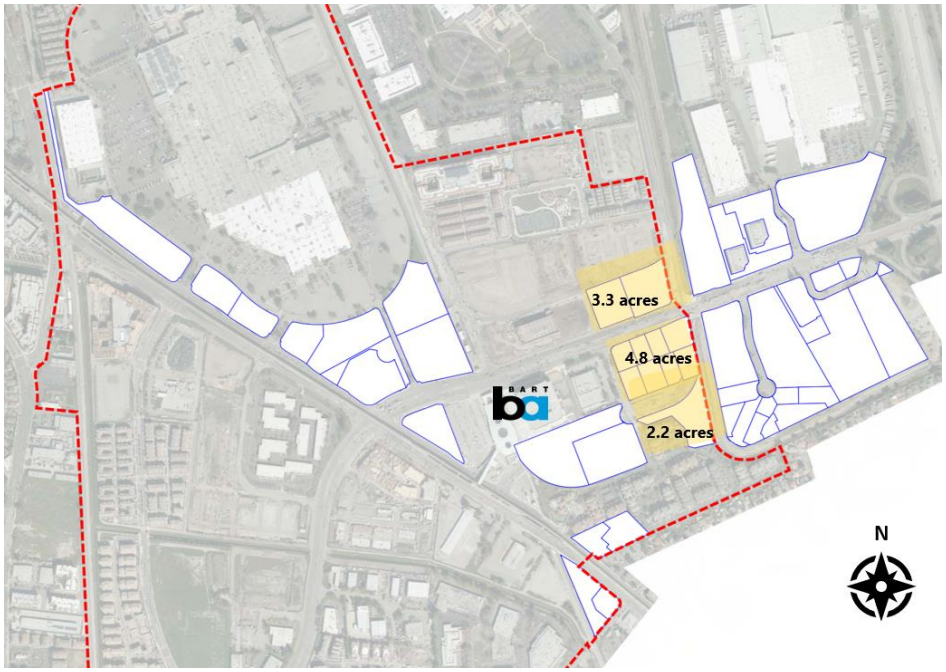


Table 4 Summary of Subarea 2 Development

Parcel	Land Acres	Gross Building Area (sq. ft.)	Uses	Year Built	Lease Rate (per sq. ft. per yr.)	Tenants
2.1	3.3	49,156	• Engineering Services • Manufacturing	1984-1985	$14.44-17.65	• Siemic • Six Sigma
2.2	4.8	87,649	• Commercial • Light Industrial • Retail Showroom • Warehouse	1978-1982	$7.71-18.17	• American Skynet • Bay Area Vinyl Shutters • Builder's Drapes and Blinds • Ceramic Tech • Cooperhaus K-9 • JC Manufacturing • KellyTech • Nano Etch Systems
2.3	2.2	65,000	• Commercial • Warehouse/ Distribution	1973	$11.78-14.40	• Custom Drywall Inc. • Hapa Musubi • Tita's Cantina

Source: CoStar; Economic & Planning Systems

Figure 8 Current Buildings in Subarea 2

Subarea 3

Subarea 3 is located north of the Montague Expressway and east of S. Milpitas Boulevard. It includes a mix of warehouse (self-storage), institutional/places of assembly (New Vision Church), and medical offices. Lease rates range from $12.08 to $30.04 per square foot per year.

Table 5 Summary of Subarea 3 Development

Parcel	Land Acres	Gross Building Area (sq. ft.)	Uses	Year Built	Lease Rate (per sq. ft. per yr.)	Tenants
3.1	4.5	171,924	Self-storage	2019	$20.91-25.56	Bay Rock Storage
3.2	5.4	92,792	Flex	2000	$23.40-30.04	Assorted dental offices
3.3	7	129,136	Flex	2000	$12.08-14.76	New Vision Church

Source: CoStar; Economic & Planning Systems

Figure 9 Map of Subarea 3

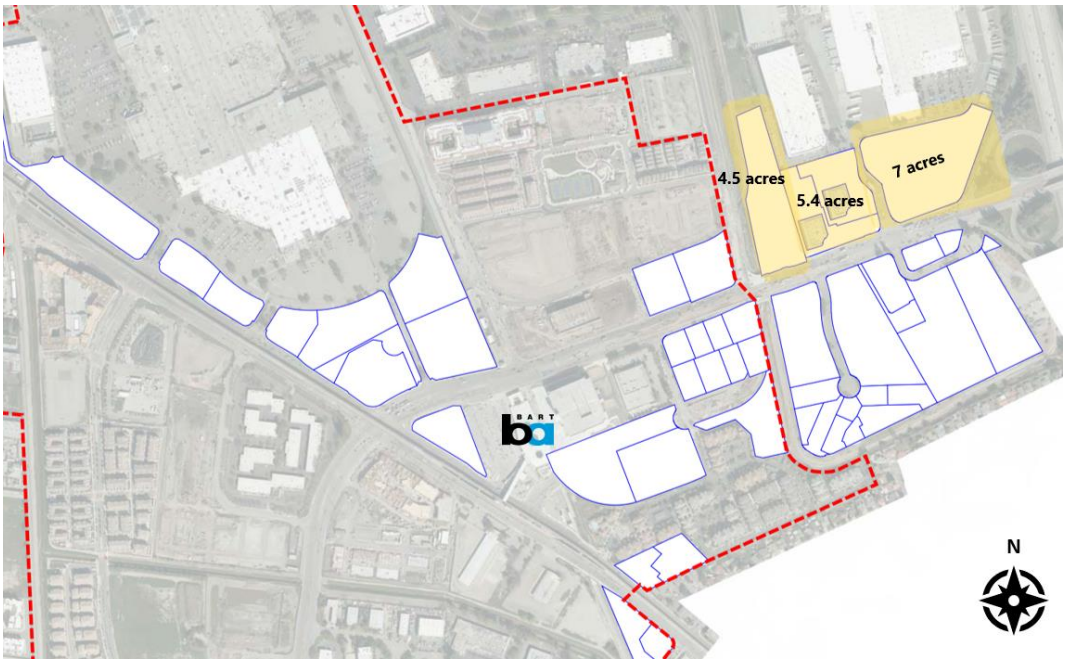


Figure 10 Current Buildings in Subarea 3

Subarea 4

Subarea 4 is bounded by Montague Expressway to the north, Highway 680 to the east, and South Milpitas Boulevard to the west. With 29.3 acres it is the largest subarea and includes over 500,000 square feet of rentable building area. It primarily consists of flex and warehouse uses in single-story facilities, including self-storage, electronic waste recycling, and various hardware manufacturing. Lease rates range from $7.92 to $21.05 per square foot per year.

Figure 11 Map of Subarea 4

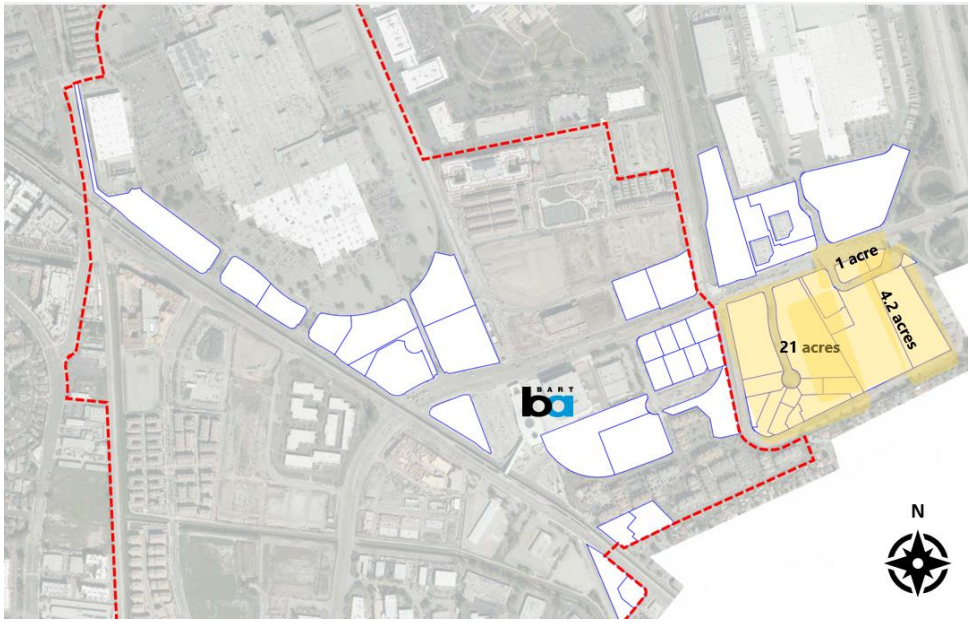


Table 6 Summary of Subarea 4 Development

Parcel	Land Acres	Gross Building Area (sq. ft.)	Uses	Year Built	Lease Rate (per sq. ft. per yr.)	Tenants
4.1	1	18,180	Light Industrial	1974-1981	$13-21.05	• CNC Solutions Inc. • Phamtec • V&T Machining • Yuhas Tooling & Machining
4.2	4.2	95,559	Warehouse/ Distribution	1984	$7.92-9.68	Unknown
4.3	21	418,340	• Flex • Light Manufacturing • Self-storage • Warehouse/ Distribution	1979-1982	$11.91-19.75	• Acrylic Blank • Cardova Printed Circuits • Flex Interconnected Technologies • Green E-waste Recycling • Pacific Medical Center • Public Storage • Redline Enterprises • West Valley Carpet Services

Source: CoStar; Economic & Planning Systems

Figure 12 Current Buildings in Subarea 4

Accessibility/Public Realm

The Highway 680 interchange at Montague Expressway provides relatively immediate access to the Metro area for both commuters and commercial users. At the same time, the proximity to the new Milpitas Transit Center and BART Station provides important transit-access opportunities. That said, the entry points into the Metro area by car and the connectivity between the transit center and the Innovation District areas are imperfect. The Milpitas Metro Specific Plan (MMSP) identifies a new pedestrian and bicycle bridge across Berryessa Creek, park, creek trails, and pedestrian-scale streetscaping whose implementation will be key to overcoming the existing lack of walkability surrounding the Innovation District. The introduction of bike lanes around the Innovation District, as well as forms of street-level activation and the promotion of R&D, advanced manufacturing, and other uses which generate higher employment densities, may further support walkability and spur investment in other amenities such as retail to the area.

Because of the area's history of industrial and warehousing uses, it lacks public realm features that would make this area accessible and walkable. There are also minimal amenities, such as retail, parks, and other community services. The development of these private and public uses,

as envisioned in the MMSP, will be important to the creation of a sense of place and attracting technology and other Office/R&D-based companies to the area.

Adjacent Uses

As parcels redevelop to help form the envisioned Innovation District, it may be necessary to minimize conflicts between older industrial uses and newer workspaces, some new developments' adjacency to the Great Mall to the north, and other new developments adjacency to residential land uses to the south. For example, as shown in **Figure 13**, the Innovation District parcels (yellow) are surrounded by residential neighborhoods that include townhomes (orange) and single-family units (gray). Any potential conflicts will be managed carefully by the City of Milpitas as the MMSP continues to evolve and the Innovation District grows. That said, the proximity of residential uses provides not only housing options for the Innovation District's workforce but also creates demand for amenities like retail and parks. This helps to create a complete neighborhood where people can live, work, and play.

Figure 13 Innovation District Surrounding Land Uses

4. INNOVATION DISTRICT CASE STUDIES

Chapter 4 provides four case studies of other jurisdictions that have or are supporting the development of Innovation Districts. The purpose of these case studies is to identify common themes or specific insights to inform the City of Milpitas as it considers different ways to support development of its Innovation District. These are the four case study jurisdictions:

- Mission Bay, San Francisco
- Seaport District, Boston
- South Fremont, Fremont
- Peery Park, Sunnyvale

A summary of overall conclusions from these case studies is provided at the end of this chapter.

Mission Bay, San Francisco

SOURCE: STEELBLUE AND MANICA ARCHITECTS

Summary

While it was never formally branded as an innovation district, Mission Bay has redeveloped into a "biotech hub" focused on life sciences, health tech, and healthcare and anchored by the University of California, San Francisco (UCSF) within a larger 300-acre mixed-use area. The

opening of UCSF's first campus building in 2003 catalyzed further clustering of bioscience startups and companies, who were drawn to the university's reputation for cutting-edge research. While other innovation districts have required multiple anchors, the size and reputation of UCSF was sufficient to successfully anchor Mission Bay. Keys to this outcome was the public-private-partnership between the City and County of San Francisco, UCSF, and the primary developer, Catellus Development Corporation (and subsequent iterations). The City and County of San Francisco and developer agreed on an infrastructure financing package that included substantial Tax Increment Financing (TIF) and Community Facilities District (CFD) special taxes. As the district continued to gain traction, new tech firms and amenities like retail and green space soon followed, including the Chase Center arena.

History and Land Uses

San Francisco and nearby Silicon Valley are major innovation ecosystems, with large clusters of tech and financial services companies. Previously, Mission Bay was mostly dormant former industrial land, containing railyards once used for shipbuilding and repair. After many years of planning, in 1998, the City adopted the Mission Bay Plan, which detailed a vision to expand multifamily and commercial office space, add public amenities, and build new campus space for UCSF. There was a gradual start to new development until UCSF's first building opened in 2003. In the past two decades since, the presence of UCSF and other biotechnology and healthcare firms has helped Mission Bay carve out a niche in clustering bioscience R&D firms and startups. More recently, drawn by the new activity in the district and centrally located development sites, larger tech firms (Dropbox, Uber) and entertainment venues (Chase Center) have entered, which resulted in economic vitality for the once blighted area.

The main anchor in Mission Bay is UCSF, a large public research university which generates $6.5 billion each year in economic output in San Francisco. A substantial portion of Mission Bay is UCSF-owned or leased; approximately 3 million sq. ft. (~26 percent of total Rentable Building Area). This includes not only classrooms, student housing, and hospital centers, but also research facilities associated with the university. Other early contributors to the area's life sciences/health focus included Rock Health, a digital health ("health tech") accelerator, and Bayer, a multinational biosciences and pharmaceutical company. Over time, the life sciences mix has evolved and changed. Current prominent life sciences entities include Pfizer, the Gladstone Institutes, and the California Institute for Quantitative Biosciences (QB3).

Another significant presence is the Golden State Warriors, which opened the Chase Center arena in 2019. In addition to the arena, the surrounding development includes Thrive City, a public plaza with retail and dining, and office space, of which Uber is a major tenant. Its waterfront location is an additional attraction that draws in visitors and workers alike.

Table 7 shows the core industry sectors associated with the 25 largest companies at Mission Bay including the number of businesses and square footage by sector. More than half of the largest companies are in the biotechnology or healthcare space, although several large tech firms and two major sports teams also contribute to a prominent share of Mission Bay's building footprint.

Table 7 Summary of Largest 25 Companies by Square Footage Leased or Occupied

Sector	Number of Businesses	Combined Square Feet	Example Companies [1]
Biotechnology	9	1,036,245	Bayer, Chan-Zuckerberg Biohub, FibroGen, Gladstone Institutes
Financial Services	1	300,000	Visa
Health Care	4	4,396,091	UCSF, Kaiser Medical Offices, CommonSpirit Health, San Francisco Veteran Affairs
Non-Profit	1	26,726	Kaiser Family Foundations
Public	1	220,000	San Francisco Police Department
Retail	1	307,399	Gap, Inc.
Sports & Entertainment	2	1,122,000	Golden State Warriors, San Francisco Giants
Technology	6	2,329,134	Cisco, Dropbox, Lyft, Uber

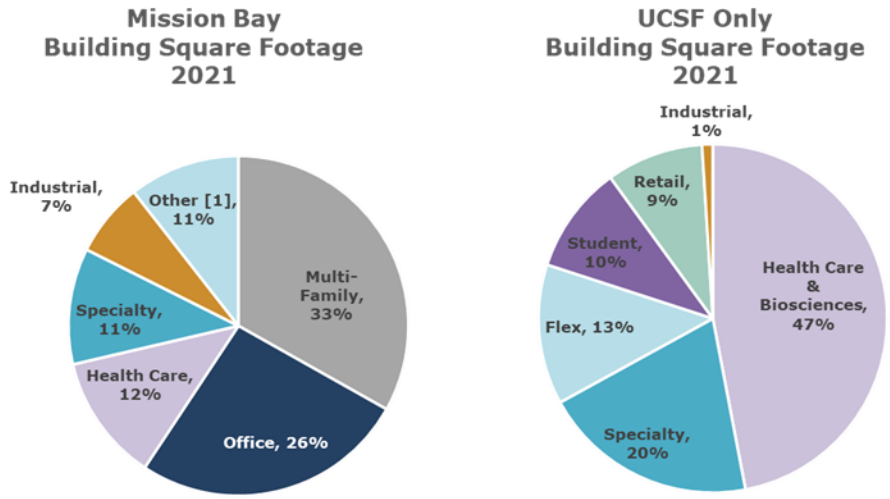
[1] Not a comprehensive list.
Source: San Francisco Business Times, March 2021

Figure 14 shows the general land boundaries and land uses in Mission Bay. Besides UCSF (blue) and the Chase Center, other major land uses in Mission Bay include residential (orange and yellow), commercial and industrial (purple), and open space (green). According to CoStar, and as shown in **Figure 15**, multifamily makes up 33 percent of the area's building square footage, followed by office (26 percent), and healthcare (12 percent). On UCSF-owned/leased properties, the main uses are healthcare and biosciences (47 percent), with student housing (10 percent) and retail (9 percent) also significant.

Figure 14 Land Uses in Mission Bay

SOURCE: CITY AND COUNTY OF SAN FRANCISCO

Figure 15 Mission Bay and UCSF Building Square Footage



[1] Flex (4%); Hospitality (2%); Retail (2%); Student (2%); Sports & Entertainment (0.5%)

SOURCE: COSTAR; ECONOMIC & PLANNING SYSTEMS

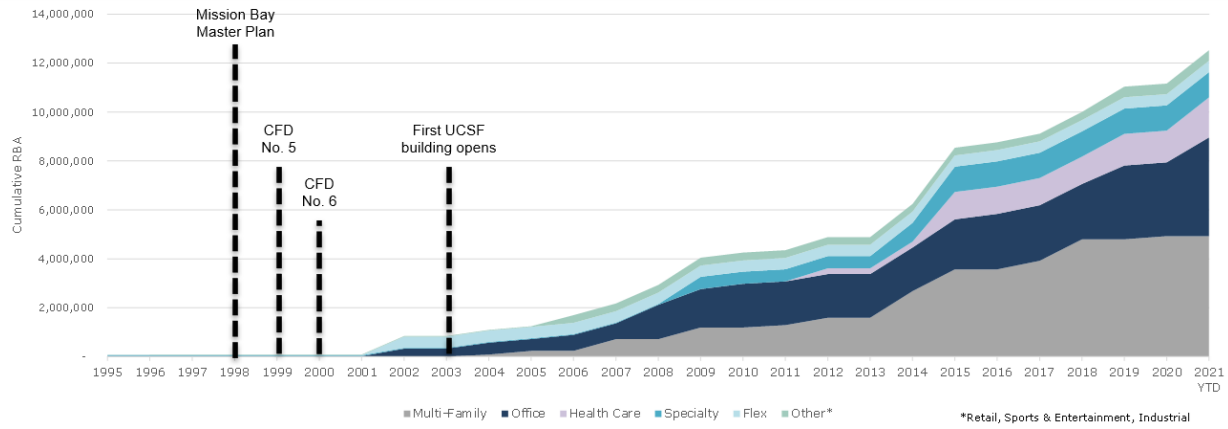
The Mission Bay Master Plan, adopted in 1998, detailed an extensive vision for Mission Bay, including:

- 6,000 housing units (including 30 percent affordable).
- 4.4 million square feet of office space.
- 500,000 square feet of retail.
- 41 acres of open space.
- 500-room hotel.
- Public library.
- Public school.
- Four life science incubators.

As shown in **Figure 16** below, development in Mission Bay was slow until 2003, when the first UCSF Mission Bay campus building opened. From there, the total building space in Mission Bay began to rise, primarily driven by increases in the office and multi-family residential sectors. Since 2013, healthcare uses have also risen significantly.

As of April 2019, 5,789 housing units, including 1,191 affordable units, have been constructed in Mission Bay (out of 6,514 planned). An additional 271 units are under construction, and 19 acres of new parks and open space have also been completed, with another 3 acres under construction. 350,000 sq. ft. of retail have also been added, out of 419,000 planned. In total, Mission Bay has more than 13.3 million square feet of built space, including 5.5 million square feet of office, bioscience, and healthcare space.

Figure 16 Mission Bay Building Square Footage Timeline



SOURCE: COSTAR; ECONOMIC & PLANNING SYSTEMS

Innovation District Outcomes

- **Expanded Economy/Employment.** At full build-out, Mission Bay is expected to create more than 30,000 new permanent jobs, in addition to hundreds of ongoing construction jobs. Across all its San Francisco campuses, UCSF employs 24,100, a significant portion of which is in Mission Bay.

- **Increased Tax Revenue.** UCSF contributes $11.5 million annually to improving the Mission Bay area through CFD fees, in addition to $84 million one-time contributions. Across all San Francisco locations, UCSF generates $6.5 billion annually in economic output. The annual CFD contributions totaled $13.6 million in FY2020-21.

- **Revitalization of Blighted Space.** Mission Bay's development has brought in 11,000 new residents and 20 new acres of parks/open space, transforming what was once an underutilized railyard into a vibrant mixed-use space.

- **Affordable Housing Initiatives.** Nearly 1,500 affordable units have been built to date, accounting for more than 21 percent of total new units.

- **Economic Growth and Development.** The initial investments have spurred additional development plans that were not included in the 1998 master plan to further enhance the livability and attractiveness of the district. Furthermore, the development has recently seen some spillover into adjacent neighborhoods like China Basin and Dogpatch. Mission Rock is a planned 28-acre mixed-use community by Oracle Park, currently in construction with full occupancy expected by 2025. The Chase Center project regularly draws visitors to the neighborhood and includes 11 acres of additional office space, parks, and retail.

- **Growing Innovation Ecosystem.** Like other innovation districts, Mission Bay has focused heavily on growing high-paying jobs in research and technology. Its emphasis on startups and R&D in the life sciences and healthcare sectors distinguishes it from the traditional tech firms that dominate downtown San Francisco and Silicon Valley.

Despite the Mission Bay master plan being adopted in 1998, it was not until the 2003 opening of the UCSF Mission Bay campus that development in Mission Bay started to take off. Infrastructure financing strategies like TIFs and CFDs that were later implemented also helped the district overcome its slow start. The plan originally estimated $200 million in infrastructure costs for Mission Bay; however, the final costs have totaled closer to $700 million, a threefold increase from the original estimate.

Like other innovation districts, several startups that were once key to creating Mission Bay's biotech hub identity have left – the biotech accelerator Rock Health decided to relocate to downtown San Francisco, while Bayer decided to consolidate its Bay Area presence by moving from San Francisco to Berkeley. However, by the time this occurred, Mission Bay was already successful/popular enough to maintain its innovation identity, especially because it is mainly anchored by UCSF. The recent arrival of the Golden State Warriors and large tech firms like Dropbox and Uber have further evolved the range of activities and identity of the district. A recent survey of Mission Bay residents, completed in 2021, found that residents enjoy the master-planned open space and walkability that Mission Bay offers, though residents also observed that the district currently lacks neighborhood-serving institutions or civic/community events.

Enabling Innovation District Growth

Governance

A public-private partnership between the City and County of San Francisco, developers, and UCSF spurred the neighborhood's initial development. The San Francisco Redevelopment Agency[13] and Catellus were successful in getting UCSF to expand its campus to Mission Bay. Several key plans and agreements were developed, including several Redevelopment Plans and Designs for Development; Owner Participation Agreements between the Redevelopment Agency and original master developer, and Interagency Cooperation Agreements, which commit all City and County of San Francisco departments and developers to the Mission Bay Infrastructure Plans. Tax increment financing was also a prominent tool through the Redevelopment Agency. The City and County of San Francisco also ensured that park space and affordable housing were developed.

Financing

Land donated by the City and County of San Francisco and Catellus to UCSF encouraged their arrival. The City and Catellus donated 42 acres of land, valued at $170 million at the time of contribution, creating a valuable incentive. With UCSF as a flagship presence and completed residential developments, Mission Bay was established as an emerging neighborhood for workers and residents alike, prompting new tenants and major office and retail to seek space in Mission Bay. In addition to tax increment financing, Mello-Roos Community Facilities Districts ("CFDs")

[13] The San Francisco Redevelopment Agency was established in 1948 with the legal authority granted by the California Community Redevelopment Act of 1945 to address real and perceived conditions of blight through economic redevelopment, rehabilitation, and reconstruction.

provided a major source of funding for the public infrastructure upgrades needed. Mission Bay has two CFDs, formed in 1999 and 2000, to finance infrastructure like parks, sewer, and roadways. In 2021, the combined tax levy from both CFDs was more than $13.9 million. Privately funded development emerged once Mission Bay had demonstrated solid success; the Chase Center, which opened in 2019, was a privately financed project worth $1.4 billion.

Policy

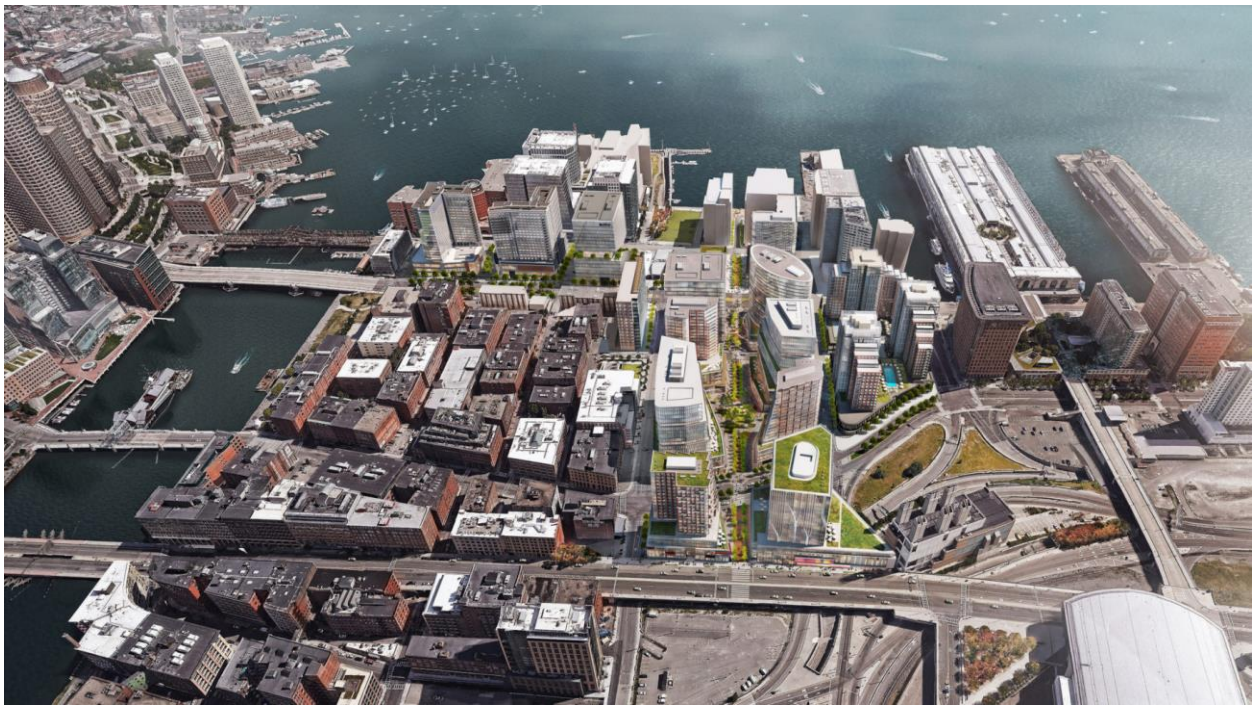
A master plan, affordable housing requirements, and flexible zoning policies shaped public amenities and mixed-use, urban-dense placemaking. The Mission Bay Plan of 1998 was a fundamental catalyst, establishing the City and County of San Francisco and Catellus' commitment towards investing in the redevelopment of Mission Bay. Other policies included broad, flexible zoning for non-residential uses to encourage development beyond traditional office space, especially to support the flexible needs of the biosciences (lab, R&D uses). Because affordability is a major concern in San Francisco, Mission Bay's 30 percent affordable housing goal is substantive, supported by tax increment funding for affordable housing subsidies. To date, UCSF has also developed 160 units of affordable housing.

Key Conclusions

Key elements in the success of Mission Bay Innovation District are as follows:

- **Strong public-private partnership** between City and primary developer was critical in developing overall plans, financing infrastructure, and attracting anchor tenant.
- **Large and reputable innovation anchor** of UCSF, a major scientific and educational institution, was pivotal to subsequent growth.
- **Vibrant mixed-use district**, included residential, office, and laboratory uses, plus public open space and waterfront, makes it an attractive place to live and work.
- **Combination of public financing tools** were critical to supporting infrastructure investments.
- **Central location, developable land and market factors** were generally supportive of new development.

Seaport, Boston



SOURCE: SASAKI

Summary

Beginning in 2010, the Mayor's Office championed a vision for innovation-focused redevelopment in Seaport and brokered several incentives to draw large firms, technology incubators, and startups. Other amenities, including parks, museums, and educational institutions were later added to transform Seaport into a bustling hub of business and recreational activity. The addition of Cambridge's MassChallenge incubator-accelerator and District Hall, an entrepreneurship-focused public event space, anchored the district and helped cultivate a startup-friendly reputation. More recently, the success and expanding interest in the district have introduced new challenges in terms of retaining startups and housing affordability.

History and Land Uses

The Boston region has long had a significant cluster of life sciences and financial services, bolstered by numerous universities and research institutions (MIT, Harvard) that attract educated talent in Science, Technology, Engineering, and Mathematics (STEM) and business. Located in south Boston, Seaport originally included underutilized industrial land on the waterfront peninsula, with empty parking lots, marine industrial terminals, and warehouses. In the post-industrial era, the Fort Point neighborhood of Seaport was known as artists' enclave, with converted artists' lofts and cheap live-work studios. Several large public works projects—including the cleanup of the South Boston Harbor and the extension of the Silver Line bus service into Seaport—prepared local infrastructure for development before the innovation district was conceived.

In 2010, Mayor Thomas Menino formally announced a vision to develop Seaport as an innovation district, complementing similar economic clusters like Cambridge's Kendall Square and Route 128. The district would attract startups and entrepreneurs from local universities, adding tech incubators and co-working spaces. The Mayor's Office envisioned the district as a "24/7 live-work-play" space to appeal to young entrepreneurs in need of frequent inspiration and stimuli.

From 2010 to 2014, several major companies moved to Seaport, including Vertex Pharmaceuticals and General Electric, as well as incubators like MassChallenge. All were given financial incentives from the City or State worth millions of dollars to relocate. District Hall, a public innovation center with co-working space and event programming, opened in 2013 as a flagship development. There was $1.8 billion in new construction between 2010 and 2013. More recently, there have also been more traditional business tenants moving into Seaport, many in law and finance coming from downtown Boston, plus newly built hotels, upscale condominiums, and high-end retail.

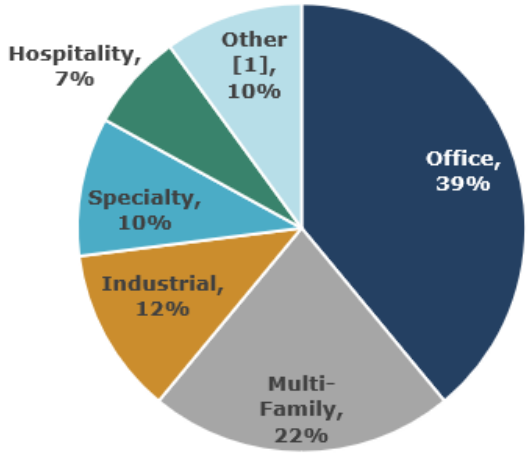
Figure 17 Map of Boston Seaport District

SOURCE: INFOMEN

Today, across its 1,000 acres, Seaport has 1,500 firms and 42,000 employees. Major tenants include incubator MassChallenge, District Hall, Vertex Pharmaceuticals, Amazon, and the Institute of Contemporary Art. In 2011, Babson College was the first higher education presence in Seaport, leasing space for its MBA program.

As shown in **Figure 18**, Office is the predominant building type in Seaport, comprising 39 percent of the total. This is followed by Multifamily (22 percent), Industrial (12 percent), and Specialty (10 percent). **Figure 19** shows that Seaport nearly doubled its built space, from 18.5 million to 30 million square feet, following the announcement of the innovation district. Much of this development was due to the increase in Multifamily, which saw a nearly eight-fold increase in built space from 2010 to 2020.

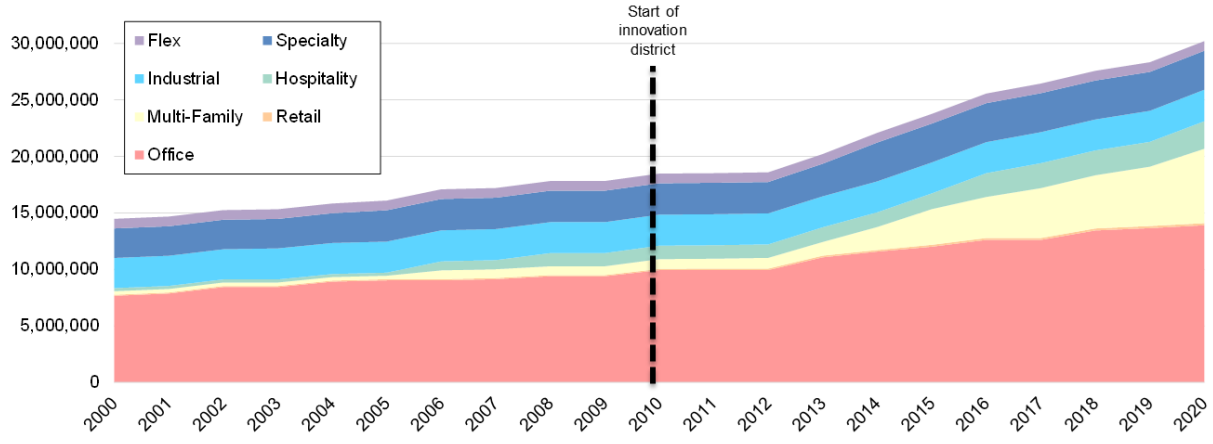
Figure 18 Seaport Boston Building Square Footage



[1] Flex (6%); Retail (2%); Sports & Entertainment (2%)

SOURCE: COSTAR, ECONOMIC & PLANNING SYSTEMS

Figure 19 Seaport Boston Building Square Footage Timeline



SOURCE: COSTAR, ECONOMIC & PLANNING SYSTEMS

Innovation District Outcomes

- **Expanded Economy & Employment.** More than 200 startups entered into Seaport between 2010 and 2015. As of 2019, an estimated 42,000 employees and 1,500 businesses are located in Seaport. Most recently, Seaport has attracted a broad range of Fortune 500 and other larger companies that have pushed up office rents and created challenges for the area in continuing to cultivate and retain smaller innovation startups and established companies.
- **Increased Property Tax Revenue.** Property tax revenue in Seaport was $127 million annually in 2017, up from $30 million in 2008.
- **Model for Waterfront Redevelopment.** Seaport has demonstrated success of how industrial waterfronts may be revived with new office space, cultural attractions, and retail.
- **Economic Growth and Development.** The success of Seaport has inspired the Mayor's Office to create smaller innovation-focused neighborhoods across Boston to capture and cultivate spillover benefits.

Enabling Innovation District Growth

Governance

The Mayor's Office played a large role in accelerating Seaport's growth. The City's branding and marketing of Seaport as an Innovation District drew in tenants and helped establish the district's appeal. On the development side, they prioritized permitting for developers seeking to build in Seaport and hired an Innovation District Director to oversee the growth of the district. Mayor Menino was directly involved in brokering several deals to secure incentives (financial subsidies and office space) for potential tenants.

Financing

Development in Seaport was largely privately funded but combined with tax incentives to attract major tenants, especially to catalyze the innovation district in its first few years. Examples of this include:

- Vertex Pharmaceuticals: received $22 million, from a combined $10 million in state tax credits and $12 million from the creation of a 15-year tax increment financing agreement.
- General Electric: received $145 million to relocate to Seaport, comprised of $120 million in state incentives and $25 million from the City of Boston in property tax relief.
- LogMeIn: received $2.5 million through a 13-year TIF agreement with the City of Boston.
- MassChallenge: Mayor Menino negotiated with developers to offer MassChallenge a one-year rent-free lease in Seaport.
- District Hall: While the building was privately funded and built by Boston Global Investors, it does not pay property taxes as a 501c3 non-profit.

Infrastructure financing partly relied on a state program, I-Cubed, which uses new income and sales tax revenues from increased employment and business activity at a new development to pay debt service on infrastructure investments. In the case of Seaport, $37.8 million was provided for the 15-acre Fan Pier project, which Vertex Pharmaceuticals occupies as the major tenant. Fan Pier is considered one of "Seaport's signature mixed-use development," a destination featuring an art museum, public parks, and waterfront marina.

Policy

While there was no master plan for the entire innovation district, multiple master plans have been created for various portions of Seaport, including:

- Fan Pier Master Plan (2007).
- Seaport Square Master Plan (2010).
- Raymond L. Flynn Marine Park Master Plan Update (2017).

The City of Boston also advanced policies to encourage affordable housing development alongside the innovation district's expansion. This included attempts at innovative and affordable housing design – the 450 sq. ft. "micro-apartment" unit.

Key Conclusions

Key elements in the success of Seaport Innovation District are as follows:

- **City leadership** was important in championing the district and attracting anchor tenants.
- **City and state funding and incentives** helped to bring in several anchor tenants and fund infrastructure.
- **Incubator-accelerator presence** from MassChallenge and District Hall provided important spaces for entrepreneurship and innovation and helped Seaport grow its innovation identity.
- **Multiple innovation anchors** including small entrepreneurial startups and well-known larger firms, instead of a single on-site university or corporate presence.
- **Skilled workforce and strong base of existing industries** were important underlying factors in supporting the successful development of the Innovation District.

South Fremont/Warm Springs, Fremont

SOURCE: CITY OF FREMONT

Summary

The vision for the South Fremont/Warm Springs area is to transform a formerly industrial section of the city and give it new life as a mixed-use Innovation District with advanced manufacturing, Office/R&D buildings, and residential development. The Innovation District area includes the Warm Springs BART Station, which connects the district to the rest of East Bay, San Francisco, and Silicon Valley. A major employment anchor is Tesla, which currently occupies a large industrial facility and employs more than 10,000 workers. The Warm Springs Community Plan, adopted in 2014, guides efforts to build infrastructure that encourages job growth, supports current residents, and maintains quality of life. With the Warm Springs BART Station, the plan anticipates transit-oriented development surrounded by uses like retail, hotel, and entertainment to encourage leisure and livability in addition to work. To date, portions of the district have developed with housing, while other areas have attracted advanced manufacturing uses. Sites have been identified for Office/R&D uses, though no such development has yet occurred. All areas within the broader area must develop master plans to ensure consistency with the Community Plan vision and goals.

History and Land Uses

Fremont lies within Silicon Valley's economic region and had traditionally been viewed as a residential suburb of the East Bay. South Fremont has an extensive history as a manufacturing base; it was the site of the General Motors/Toyota New United Motor Manufacturing, Inc (NUMMI) plant and central to the Bay Area's automotive manufacturing industry. In South Fremont, large vacant parcels are interspersed with well-known advanced manufacturing and R&D firms. However, the closure of the NUMMI plant in 2010 resulted in the loss of a major employer and nearly 5,000 jobs, forcing the City of Fremont to rethink the area's future.

South Fremont planning began in 2010 with the City of Fremont receiving a federal Economic Development Administration (EDA) grant to develop a recovery strategy for the area following closure of the NUMMI plant. The Warm Springs Community Plan was adopted in 2014, creating several subareas, including the Innovation District, as well as identifying advanced manufacturing as Fremont's "innovation driver." The plan identified 10 planning areas that were rezoned to allow more flexible commercial/industrial uses. **Figure 20** shows the boundaries of both the Warm Springs Community Plan area and the large South Fremont Innovation District (left). The Warm Springs Community Plan area is targeted for planning, rezoning, and development, but the entire Fremont Innovation District is considered in the City's place marketing strategy to attract and retain high-tech and advanced manufacturing firms.

The targets in the Warm Springs Community Plan are defined as follows:

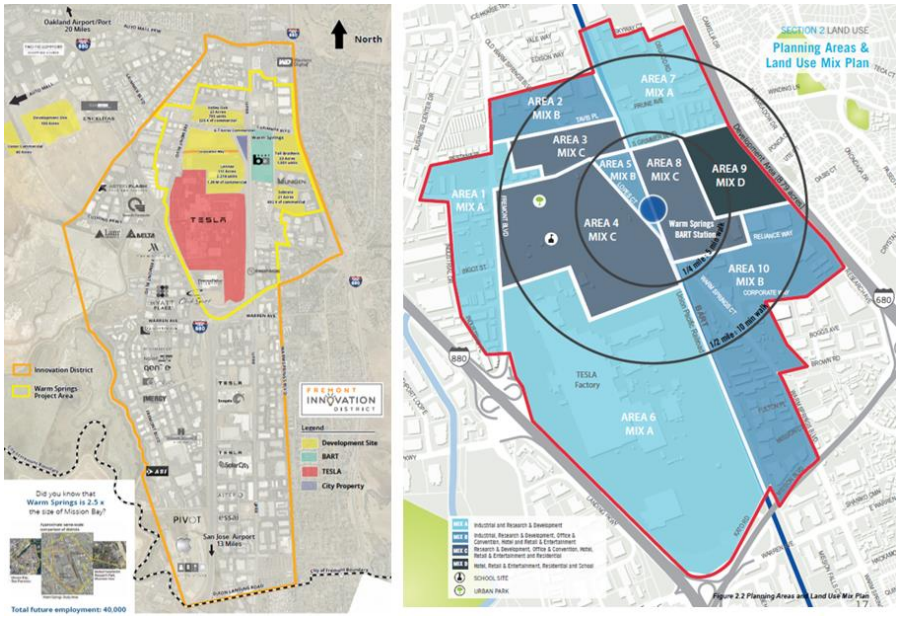
- 4,000 new housing units
- 20,000 jobs
- Elementary school
- 1-2 major hotels
- Retail
- Public open space/urban park

Ten (10) Planning Areas and four (4) land use mixes are defined in the Community Plan and form the basis for the Innovation District's development, as shown on the right in **Figure 20**. Each Planning Area is assigned a land use mix. The four mixes are described below and vary in their development intensities and allowable building types:

- Mix A: Low-intensity job uses, mainly Industrial and R&D building types.
- Mix B: Combined low and high intensity job uses, with Industrial, R&D, Office, Hotel, and Retail & Entertainment.
- Mix C: Combined high-intensity job uses, with community-oriented uses in a mixed-use and transit-oriented setting. Mix C could include R&D, Hotel, Retail & Entertainment, Office, and Residential.
- Mix D: Primarily residential and community-oriented uses, such as Schools, Multi-family Residential. Hotel, Retail, and Entertainment are also permitted.

In line with the plan's transit-oriented development goals, the high-intensity mixes (C and D) are centered in the Innovation District and surround the Warm Springs BART Station, while low intensity uses (A and B) make up the edges of the plan area. The BART Station (blue dot in **Figure 20**) is at the center of the plan area, which is bisected by the Union Pacific Railroad tracks. The West Access Pedestrian Bridge (**Figure 21**) opened in February 2022 to connect the BART Station with the west side of the plan area, crossing over the railroad tracks to give pedestrians safe access.

Figure 20 South Fremont/Warm Springs Innovation District Map



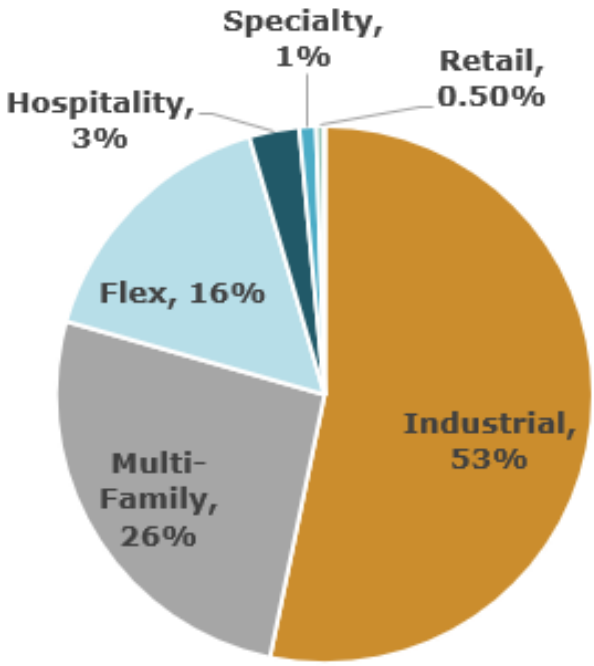
SOURCE: CITY OF FREMONT

Figure 21 Warm Springs BART Station Pedestrian Bridge and Plaza

SOURCE: BAY AREA NEWS GROUP

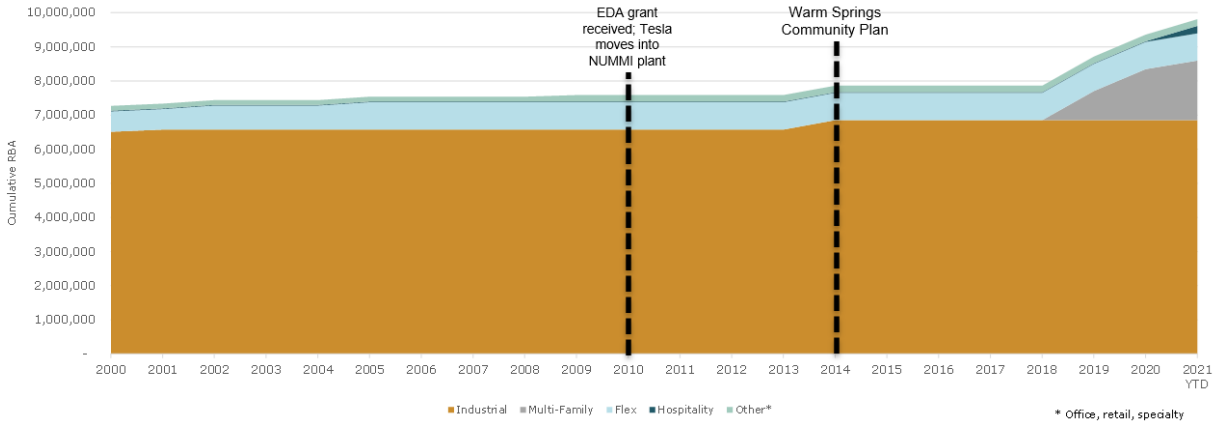
As shown in **Figure 22**, the primary type of land use in Warm Springs is Industrial (53 percent), followed by Multi-family (26 percent) and Flex (16 percent). The timeline in **Figure 23** shows that Multi-family developments were recent additions to the plan area, occurring mainly in the last four years. Beyond that, activity in other building types has been modest.

Figure 22 Warm Springs Development Area Building Square Footage



SOURCE: COSTAR; ECONOMIC & PLANNING SYSTEMS

Figure 23 Warm Springs Development Area Development Timeline



SOURCE: COSTAR; ECONOMIC & PLANNING SYSTEMS

Innovation District Outcomes

- **Expanded Economy/Employment.** The Fremont Innovation District aims to attract 40,000 new jobs at buildout; approximately 20,000 jobs exist to date. The Tesla factory currently employs 10,000.
- **Economic Growth and Development.** There has been substantial commercial pre-leasing activity in Fremont; most of the projects completed since the Great Recession have been on a speculative basis. According to CoStar, vacancy rates in January 2022 were around 2.6 percent.
- **Multimodal Transportation.** The district is accessible via the Warm Springs BART Station, which also has intermodal connections to Santa Clara Valley Transportation Authority[14] (VTA). Parking maximums encourage alternative transportation, supported by Transportation Demand Management (TDM) strategies like subsidized transit passes, carsharing, or shuttle buses. Bike and pedestrian paths are also planned.
- **Urban Public & Placemaking.** The Community Plan emphasizes design elements such as public art, energy-efficient building standards, and density focused near transit and amenities (4-8 story adjacent to Warm Springs BART Station, 3-6 story campus offices moving further away, then low-rise).
- **Innovation Ecosystem.** The city, and South Fremont in particular, have for a while been home to cleantech, life sciences, and advanced manufacturing uses. The Innovation District has yet attracted Office/R&D-based innovation uses, though the Sobrato Organization is searching for developers for a Warm Springs Technology Center, a potential 692,000 sq. ft. Class A Office development which could add new types of innovation businesses to the Innovation District.

While Fremont has been successful so far in establishing residential and advanced manufacturing businesses in the Innovation District area, it is seeing greater challenges in getting Class A Office/R&D tenants. Despite the availability of substantial land areas available for Office/R&D development, landowners have not yet attracted investment from developers.

[14] The Santa Clara Valley Transportation Authority (VTA) employs more than 2,000 people dedicated to providing solutions that move Silicon Valley. Unique among transportation organizations in the San Francisco Bay Area, VTA is Santa Clara County's authority for transit development and operations (light rail and bus), congestion management, transportation-related funding, highway design and construction, real estate and transit-oriented development, and bicycle and pedestrian planning. With partners on the local, state, and federal levels, VTA works to innovate the way Silicon Valley moves and provide mobility solutions for all.

Enabling Innovation District Growth

Governance

To guide new development, the City of Fremont adopted the Warm Springs Community Plan as an extension of its EDA-funded Recovery Strategy.[15] With this plan came the decision to promote South Fremont/Warm Springs as an Innovation District to potential employers, and City leadership began advertising the low industrial rents and streamlined permitting to developers. The City also established a partnership with Sobrato Real Estate to build the Warm Springs Technology Center as an innovation anchor in the district. Projects larger than five acres are required to submit master plans to ensure private development is in line with the community plan's vision and land use target (see Policy section below).

Financing

Private developers in the Innovation District are required to contribute infrastructure/capital improvement needs through development impact fees and direct development of infrastructure. No additional public financing tools have been developed. The City has also pursued grant funding and tapped into County funding sources. For example, a pedestrian bridge connecting the Warm Springs BART Station with a public plaza at the heart of the Innovation District received $30 million from the Alameda County Transportation Commission[16] (Measure BB sales tax), with the City of Fremont providing $11 million. There was also a Development Agreement with the Fremont Unified School District to donate land for a new elementary school and for developers to pay for upgrades at existing nearby schools.

Policy

The Warm Springs Community Plan establishes a vision for development towards a mixed-use urban-dense form. The Warm Springs Innovation District Ordinance formally identified the ten (10) planning areas and four (4) land use typologies within the district, the permitted building types in each, and their targets for development.

Projects larger than five acres are required to submit master plans to ensure private development is in line with the community plan's vision and land use target. Each plan defines the mix of uses and development density. To date, five master plans have been submitted for

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[15] The Warm Springs Community Plan was developed to analyze South Fremont's potential as a Priority Development Area (PDA) and followed the guidelines for PDA community plans. It is different from a Specific Plan.

[16] The Alameda County Transportation Commission (Alameda CTC) serves as the congestion management agency and transportation authority for the County of Alameda and is responsible for the planning, programming and allocation of federal, state, regional and local funding for transportation improvements throughout Alameda County. Its mission is to plan, fund and deliver transportation programs and projects that expand access and improve mobility to foster a vibrant and livable Alameda County.

projects in the South Fremont area covering residential, advanced manufacturing, mixed-use, and Office/R&D development opportunities:

- **Warm Springs Area 4 Master Plan (2015):** This development by Lennar plans for a new elementary school and neighborhood park, urban parks and plazas. Across 111 acres will be 2,214 housing units (286 of which will be affordable) and approximately 1.4 million sq. ft. of commercial and industrial uses.
- **Old Warm Springs Boulevard South Area 3 Master Plan (2016**): The [Valley Oak Partners] Master Plan encompasses approximately 30 acres and proposes 785 residential units and 325,000 sq. ft. of commercial floor area, which includes a hotel with 125 to 150 rooms as well as Office and R&D buildings.
- **Tesla Master Plan (2016)**: The master plan for the Tesla facility and the surrounding Planning Area 6 encompasses more than 250 acres. It primarily sets guidance for the Tesla production plant, but additionally proposes new traffic infrastructure and pedestrian/bike paths.
- **Warm Springs Technology Center Master Plan (2017):** This Master Plan, submitted by the Sobrato Organization, seeks to develop 692,000 sq. ft. of R&D and industrial floor area on a 22-acre project site on the east side of Warm Springs Boulevard, between Reliance Way and Corporate Way, within Planning Area 10 of the Warm Springs/South Fremont Community Plan.
- **Warm Springs TOD Village Master Plan (2015):** The [Toll Brothers] Master Plan encompasses approximately 35 acres and envisions 1,001 housing units, including 132 very affordable units, comprised of apartments, condominiums, and stacked flats. The Master Plan also includes a small retail center, private plazas, and recreation amenities.

Other policy components in the Community Plan include:

- Innovation Way corridor between the Warm Springs BART Station and Innovation District featuring pedestrian bridge and public open space.
- Minimum open space requirements for new developments.
- Parking maximums and TDM strategies.

Staff Input and Economic Context

In some ways, the South Fremont/Warm Springs Innovation District is still in its relative infancy. EPS interviewed City of Fremont staff and reviewed additional materials to develop additional insights on the Innovation District's evolution to date, including:

- **Residential Uses**. Residential developers were immediately attracted to the Innovation District due to the strong interest in Fremont as a residential location, the area's larger sites and opportunities to build a critical mass of housing, along with a location close to the new Warm Springs BART Station and other regional transportation infrastructure.

- **Advanced Manufacturing**. The early decision by Tesla to purchase the closed NUMMI factory provided an important boost to the area, complementing the City's already strong business cluster of advanced manufacturing including many businesses in the emerging life sciences and cleantech industries. The City and the Innovation District have continued to attract and retain advanced manufacturing firms.

- **Office/R&D Uses**. The Innovation District includes some large development sites zoned for Office/R&D uses. The Old Springs Valley Boulevard Master Plan includes opportunities for Office/R&D development as part of a mixed-use development area, while the Warms Springs Technology Center Master Plan provides the opportunity for over half a million square feet of new Office/R&D space. Reflecting the regional competition for such uses and, more recently, the uncertainty caused by the COVID-19 pandemic, these Master Plan areas and larger development sites have not yet attracted Office/R&D developers or major anchors.

Key Conclusions

- **Clear plans and policies** provide clarity for potential developers that allows them to evaluate development opportunities more clearly and with certainty.

- **Outside of established Office/R&D development areas**, the addition of Office/R&D uses into a City's innovation mix can be a gradual process, affected both by market cycles, but also opportunities at other locations in Silicon Valley along with decisions by individual businesses interested in build-to-suit buildings/campuses.

- **Development of advanced manufacturing as well as residential development** in different parts of the Innovation District helped provide investment, new infrastructure, and economic energy to the Innovation District, even while Office/R&D uses are slower to emerge.

- **In the post-redevelopment area** cities will often need to rely on a combination of development impact fees and grants from regional and statewide agencies to fund critical infrastructure.

- **Existing City assets (existing business clusters) and new transit developments** (new Warm Springs BART Station) can both play a role in defining the first wave of developments in an Innovation District.

Peery Park, Sunnyvale

Summary

The 450-acre Peery Park has long been an important business park in Sunnyvale. Prior to its latest evolution, Peery Park consisted of a broad range of older 1 and 2-story industrial buildings with a broad range of research, manufacturing, and other industrial tenants. During the 2010s, the City of Sunnyvale noted increased demand for new, more modern workspaces in Silicon Valley was attracting interest in Sunnyvale and Peery Park. To respond to and prepare for this market interest, including specific interest from developers, the City of Sunnyvale developed and adopted the Peery Park Specific Plan in 2016. This Specific Plan established the vision, development code, design guidelines, and implementation strategy for the area. The City created an incentive zoning program (community benefit program) that offers both defined and flexible benefits and allowances for developers. The strong interest in Peery Park resulted in immediate interest from large developers and companies, including Apple and LinkedIn, in securing the expanded office entitlements under the new Peery Park Specific Plan. Currently, Apple has a 710,000 square foot lease in the large Pathline Park office development with other Office/R&D development under way.

Land Uses and Composition

The City of Sunnyvale is situated in the heart of Silicon Valley, where major tech firms have built large corporate campuses. Adjacent to the railroad, Peery Park was one of Sunnyvale's older industrial neighborhoods. Prior to the new wave of activity, development in Peery Park was characterized as 77 percent industrial. As part of the more recent (last decade) wave of Silicon Valley expansion, companies began taking an interest in Peery Park, which is located near a

Caltrain[17] stop and bounded by several freeways. At the time, companies like LinkedIn and Apple were seeking to expand their office presence in Sunnyvale and leased several offices in the area. The rising demand for office space prompted the City of Sunnyvale to develop a plan to encourage and manage economic growth and sustainable community development.

The Peery Park Specific Plan articulated a vision for an Innovation District centered on mixed commercial zones, walkability, transit-oriented development, and abundant public space. **Figure 24** shows the development concept proposed for Peery Park in the Specific Plan. The Specific Plan envisions a district that creates opportunities for leisure near the workplace and enables people to travel easily throughout the district by minimizing vehicle traffic. *Activity Centers* place restaurants and retail storefronts at highly visible intersections. *Innovation Edges* are intended to bring more Class A Office throughout much of Peery Park. *Mixed Industry Cores* designate space for more flexible uses, particularly for businesses requiring industrial or R&D infrastructure. *Mixed Commercial Edges* are conceived as combining commercial, office, and hotel uses. *Neighborhood Transition Areas* will redevelop underutilized office buildings to add new multi-family housing where the plan boundary abuts existing housing. *Public Facilities* will include a neighborhood park and a fire station. The Specific Plan area was rezoned to a new "Peery Park Specific Plan" designation from its previous and primary "Industrial and Service" zoning.

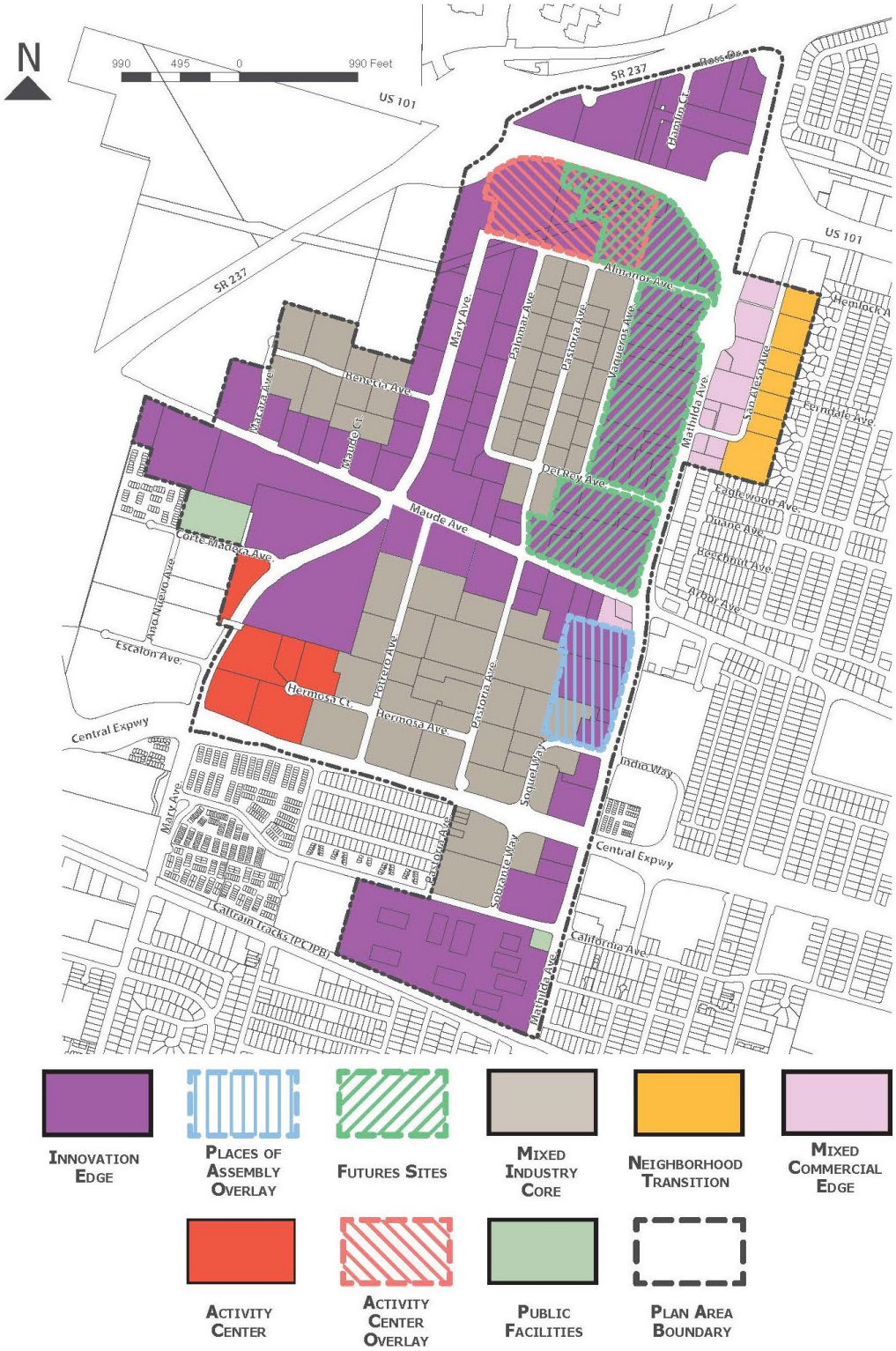
Innovation District Outcomes

Initial expectations were that the planned 2.2 million sq. ft. of new commercial and office space would take 10 to 20 years to entitle, develop, and occupy—instead, all of this new development capacity was entitled and pre-leased in two years. Pathline Park is a new major development created pursuant to the Specific Plan—a 50-acre office complex with amenities like public greenspace, food courts, and a yoga studio. High demand for office space at Peery Park has continued even in the context of the COVID-19 pandemic.

Apple's new office in Pathline Park indicates that it could become a significant anchor for the Innovation District. The tech firm already has its Central and Wolfe campus in Sunnyvale, plus several leases on office space in the Peery Park plan area, which it would consolidate into its Pathline office. The 710,000 square foot lease, signed in May 2021, was at the time, the largest post-COVID lease in Silicon Valley. Other large firms that have signed leases in Peery Park include Synopsys (350,000 sq. ft.), Proofpoint (242,000 sq. ft.), LinkedIn (194,600 sq. ft.), and 23andMe (145,000 sq. ft.).

[17] Owned and operated by the Peninsula Corridor Joint Powers Board, Caltrain provides commuter rail service from San Francisco to San Jose, with commute service to Gilroy.

Figure 24 Peery Park Specific Plan Development Plan



SOURCE: CITY OF SUNNYVALE

Enabling Innovation District Growth

Governance

The City of Sunnyvale developed the Peery Park Specific Plan in response to growing market demand for commercial and office development in the area. Because of the existing high interest in Peery Park, the City does not need to provide public incentives or subsidies to jumpstart development. Rather, they focus on maintaining the momentum of development by simplifying regulations (i.e., rezoning, streamlining entitlement, creating flexible benefits program).

Financing

As described in the Specific Plan, a combination of area specific development impact fees and investments or payments through the Community Benefits Program captured funding for community infrastructure and amenities. The Community Benefits Program allows developers to increase their development capacity or intensity in exchange for providing community benefits or paying fees. The community benefits have both a defined list (e.g., providing a required amount of square footage of ground-floor retail or open space), but also allow for flexibility (e.g., developer defines the streetscape improvements). In this way, the City of Sunnyvale ensures that new development in Peery Park includes infrastructure and community facilities that are beneficial to the public and align with the development guidelines stipulated in the Specific Plan.

Table 8 City of Sunnyvale Community Benefits Program Overview

Goals	
• Innovation Anchor Facilities • Transportation/Streetscape Improvements • TDM Programs or Facilities • Sustainability Project Elements	• Community Facilities or Services • Community Programs • Community Benefits Fund • Other Community Benefits
Defined Benefits	**Flexible Benefits**
• Innovation-friendly Development • Open Space/Landscaping • Publicly Accessible Open Space • Public Access Easement • Retail • Childcare • Publicly Accessible Recreation • Parking • Green Benefits	• Innovation Anchor Facilities • Transportation/Streetscape Improvements • TDM Programs or Facilities • Sustainability Project Elements • Community Facilities or Services • Community Programs • Community Benefits Fund • Other Community Benefits

- **Example Defined Benefit**: Under Retail, up to 10 percent increase in Floor-Area Ratio (FAR) allowable by providing 2,500-5,000 sq. ft. of publicly accessible retail in a Small Activity Cluster configuration.
- **Example Flexible Benefit**: Under Community Facilities or Services, provide community meeting space, district wi-fi, green infrastructure improvements or other community facility/service.

Policy

The Peery Park Specific Plan identifies a vision and objectives for development towards a mixed-use urban village form. The innovation vision and strategy for the district is articulated as follows:

1. Align both public and private interests with workplace and market trends.
2. Make Peery Park a center of knowledge and innovation.
3. Allow innovative businesses and workers to thrive.
4. Foster a dynamic mix of uses.
5. Provide settings that bring people together.
6. Protect adjacent neighborhoods.
7. Enable feasible development and provide clear direction for investors.
8. Contribute to community sustainability.

Some key policies and programs that have emerged include:

- Creation of a privately funded transportation management association to coordinate TDM programs, including a shuttle bus, to reduce traffic and parking. A $1.2 million grant was obtained from the Metropolitan Transportation Commission[18] (MTC) in 2015 to implement "Peery Park Rides." However, plans to begin piloting the shuttle routes were delayed with the pandemic in 2020. Furthermore, each development application must include a TDM plan to reduce trips in alignment with Specific Plan goals.
- Encourage buildings to have a "campus-like feel" by adding public plazas, streetscape improvements, open corridors. Avoid isolated developments by creating "signature streets" and public spaces to connect buildings.
- Clear entitlement process, transparent fees and requirements, and streamlined application review for developers.
- Integrating innovation anchors such as incubator-accelerators, co-working spaces, college or university branches, or business development services.
- Prioritize development at high-visibility Innovation Edges and underutilized spaces.

[18] The Metropolitan Transportation Commission (MTC) is the regional transportation planning, financing coordinating agency for the nine-county San Francisco Bay Area.

The Peery Park Specific Plan provided the potential for additional new office and other development entitlements to developers in conjunction with different types of community benefits. As noted above and confirmed by discussions with City of Sunnyvale staff, the clarity of City policies and requirements, combined with the strong and engaged interest from developers during the Specific Plan process and after its adoption, led to immediate entitlement activities and development. The strength of interest from developers and the characteristics of Peery Park meant that new public financing mechanisms were not required.

Some of the ways in which the City of Sunnyvale enabled development was streamlining permitting by hiring a contract planner dedicated to large projects, cultivating relationships with large developers, and establishing business visitation programs for potential investors or developers. The City also emphasized the importance of retaining existing firms to both ensure they are not displaced and to cultivate a dynamic mix of businesses in the area.

Key Conclusions

- **Strategic Location and Timing.** Peery Park's location in Sunnyvale and Silicon Valley made it a strong site for attracting employers and workers. Even more interest has focused on opportunities in the City of Sunnyvale as other nearby cities like Palo Alto and Mountain View become limited in office space. The new Specific Plan was also well-timed to benefit from the recent surge in tech sector success, activity, and real estate development.
- **Major Developer.** With strong interest from tech firms, the Irvine Company was able to envision, plan, and develop a major new office development – the Pathline – and become an important new anchor development and contributor to Peery Park.
- **Community Benefits Program** provided flexibility in garnering contributions from developers to support a broad range of planning goals of sustainability and community development. The strong development economics meant developers could feasibly integrate these features/benefits into their development plans.
- **Infrastructure financing** needs were more modest than in some redevelopment areas and the City has been able to finance necessary infrastructure through development impact fees and direct private development. No new financing mechanisms were required or adopted.
- **The Specific Plan and Incentive Zoning/Community Benefit Program** system provided substantial clarity for interested developers who were then able to pursue and obtain office entitlement allocations expeditiously.

Lessons Learned from Case Studies

Innovation Districts throughout the U.S. have become the location of thousands of jobs, a broad array of public, private, and non-profit entities, economic development, fiscal, and other benefits to the host cities and regions. As documented above, the two, mature Innovation Districts from the case studies – Mission Bay in San Francisco and Seaport in Boston – have transformed from former underutilized industrial areas into economic engines that are now home to tens of thousands of jobs along with housing, revenues, retail, and other amenities. The *Phase I Study*

estimated that the Milpitas Innovation District, if developed with a strong concentration of innovation uses, could accommodate about 3.85 million square feet of new development and about 14,000 jobs, and generate millions of dollars in net revenues to the City's General Fund.

The Innovation District case studies considered four (4) different and distinct case studies, each demonstrating different indicators of success. Some, like Mission Bay (San Francisco) or Seaport (Boston), have become fully established neighborhoods among a bustling metropolitan space. Others, like Peery Park (Sunnyvale) and Warm Springs (Fremont), are at different stages in their development. No single case study is a perfect match for the unique and current conditions in Milpitas; each city took a different approach to implement an Innovation District and ensure long-term success based on their particular situation. That said, the case studies did provide some common themes in terms of approaches and issues to be addressed in developing Innovation Districts.

Key topics included:

- City Governance.
- Funding and Incentives Strategies.
- Innovation and Employment Anchors.
- Location and Market Advantages.
- Planning and Design.
- Overcoming Challenges.

Primary lessons of key action types important to Innovation District establishment are listed below with a broader summary provided in the tables further below:

- Zoning for flexible commercial/industrial uses, mixed-use, "innovative" land use mixes.
- Streamlined permitting to accelerate projects.
- Master planning to articulate district vision and objectives.
- Impact fees and incentive zoning to supply public infrastructure.
- Use of tax increment and other funding tools to support area transformation.
- City and regional leadership in promoting Innovation District, raising funds, and investing funds.
- Investments in mobility and place-making to create a great and accessible place.
- Attraction of innovation anchor tenant (e.g., large firm; research institution etc.) and/or innovation cultivators (e.g., incubators/accelerators) to signal transformation to Innovation District and catalyze arrival of other innovation entities.

Table 9 summarizes these key themes, approaches, and lessons for the City of Milpitas. **Table 10** provides a summary of information of all the Innovation District case studies. While each case study has a unique background and components, they also each include some form of public-private partnerships, public investments and incentives, anchor institution(s) acting as catalysts, and redevelopment of underutilized land.

Table 9 Themes from Case Studies

Theme	Conclusions	Lessons Learned for Milpitas
City Governance	• Strong and public leadership by City (all case studies) • Public-private partnerships with major developers or employers (Mission Bay, Seaport, Peery Park) • Innovation district branding and place marketing (Seaport) • Clear plans and policies (Mission Bay, Warm Springs, Peery Park)	City leadership and branding along with formation of strong partnerships will be critical to bringing major investors, businesses, and partners to the Innovation District.
Funding and Incentive Strategies	• Incentives (Mission Bay, Seaport) • Community Benefits Program/Incentive Zoning (Peery Park) • CFDs/Tax increment financing (Mission Bay, Seaport) • Impact fees (Warm Springs, Peery Park) • Regional grant sources (Warm Springs, Peery Park) • Streamlined permitting to accelerate projects (Seaport, Warm Springs, Peery Park)	City should consider raising funds through grants, seek to attract investors, academic institutions, and incubators/accelerators, and establish a fund for property acquisition in the Innovation District. City could also explore EIFD's and CFD's as sources of additional funding as well as Community Benefit programs. Investment of development impact fees will also support Innovation District development.
Innovation & Employment Anchors	• Innovation-focused incubator-accelerator facilities (Mission Bay, Seaport, Warm Springs) • District defined mostly by a single employer or industry (Mission Bay, Warm Springs) • District has multiple anchors or industries (Mission Bay, Seaport, Peery Park) • Local educational institutions supported district growth (Mission Bay, Seaport)	The attraction of anchor(s) for the Innovation District will be a high priority. These anchors help define Innovation Districts and will act as an important signal to other investors, businesses, and partners.
Location & Market Advantages	• Innovation districts occur in both metropolitan cities (Mission Bay, Seaport) or more suburban settings (Peery Park, Warm Springs). • Innovation Districts are located in regions where innovation culture already exists or is nearby, where high educational attainment is accessible (Mission Bay, Seaport, Peery Park, Warm Springs) • Development of Innovation District timed well with demand for office space (Peery Park)	The City of Milpitas will benefit from its location in an innovation region. The Transit Center (BART/VTA Light Rail) that connects Milpitas to the rest of Silicon Valley along with its access to major highways and central location, and more modest land costs should act as important advantages.

Planning & Design	• Creation of a Specific Plan (Peery Park), Master Plan (Mission Bay), or Community Plan (Warm Springs) to articulate district vision and objectives • Mixed-use, transit-oriented, walkable district (Seaport, Mission Bay, Warm Springs) • Zoning for flexible commercial/industrial uses, mixed-use, "innovative" land use mixes (Mission Bay, Peery Park, Warm Springs) • New transit development assisted growth of district (Seaport, Warm Springs)	The City's new MMSP and its focus on creating a walkable, mixed-use environment is consistent with other Innovation Districts that envision mixed-use, urban-dense neighborhoods with "live-work-play" amenities. Access to BART/VTA Light Rail is also an important advantage.
Overcoming Challenges	• Innovation district emerged as response to economic difficulties (Warm Springs) • Slow growth to start, taking several years to overcome (Mission Bay) • Difficulty establishing a new neighborhood identity; balancing community services (libraries, parks, etc.) with amenities like retail or restaurants (Seaport, Mission Bay) • Rising success of Innovation District resulted in higher rents displacing older tenants (Seaport) • Macroeconomic factors affecting the long-term viability of the district (Seaport)	The City should not expect a simple and straight-line path to Innovation District growth. As seen at other Innovation Districts, activity can be slow at the start, will fluctuate with economic cycles, and is often dependent on the decisions and preferences of private landowners. Once established, new challenges can emerge.

Table 10 Case Study Summary Matrix

Innovation District	Typology [1]	Status	Sector Focus & Innovation Anchors	Land Use Shifts	City Leadership & Governance	Financing Mechanisms & Funding Sources	Zoning, Planning, and Policy	Innovation Placemaking	Ingredients for Success	Challenges Faced
Mission Bay San Francisco	Anchor plus	Established	**Biotech & startups**: UCSF, Bayer, Rock Health, Uber	Industrial → Residential, Healthcare, Office	A public-private partnership between the City/County, developers, and anchor institution led development.	Community Facilities Districts and land donated to spur development, with private development entering once Mission Bay had demonstrated success.	A master plan, affordable housing requirements, and flexible zoning shaped public amenities and mixed-use, urban-dense placemaking.	UCSF-affiliated biotech incubators and research centers	Partnership with developer owning significant portion of land and agreement with UCSF as an anchor institution spurred further development.	Faced initial slow start lasting several years, until arrival of UCSF and implementation of infrastructure financing tools.
Seaport Boston	Re-imagined urban areas	Established	**Biotech & startups**: Vertex Pharmaceuticals, MassChallenge	Industrial → Multifamily, Office	Mayor's Office played large role in accelerating Seaport's growth, brokering deals for incentives ($$, office space) for potential tenants	Development was largely privately funded but combined with tax incentives to attract major tenants	Public agencies advanced policies to encourage affordable housing, innovation district expansion	District Hall and MassChallenge	City efforts to attract anchor tenants and cultural institutions transformed the area to a live-work-play destination	Challenges arose closer to full build-out as the City realized a need to balance a variety of business types and sizes as more traditional and established companies arrived.
Peery Park Sunnyvale	Urbanized science park	Emerging/In progress	**Tech**: LinkedIn, Apple	Industrial → Flex, Office, Industrial	City developed a plan to respond to market demand for commercial/office development in Peery Park.	A combination of city funds and fees, supported by a Community Benefits Program to capture private funding for community infrastructure and amenities.	The Peery Park Specific Plan identifies main objectives and vision for development towards a mixed-use village.	Pathline Park	The district benefits from a central location in Silicon Valley; City responded to rising market demand for office space.	Major investments in infrastructure and land needed to attract businesses.
Warm Springs Fremont	Urbanized science park	Emerging/In progress	**Advanced Manufacturing**: Tesla	Industrial → Industrial, Office/Flex, Residential	The City invited advanced manufacturing sector, building upon existing R&D building types.	Private developers to provide projects and contribute to public infrastructure via impact fees. Improvements to urban space taps into regional funding sources.	The Warm Springs Community Plan establishes a vision for development towards a mixed-use urban-dense form.	Warm Springs Innovation Center	Building on existing advanced manufacturing sector and bolstered by new BART station, the City is in a good position to enhance the area with new land uses and dense development	Difficulties attracting office/R&D to complement existing residential and advanced manufacturing uses.

[1] As defined by Brookings Institution. https://www.brookings.edu/essay/rise-of-innovation-districts/

5. *INNOVATION DISTRICT ACTION PLAN*

This Action Plan is intended to guide the City's actions as it works to catalyze its new Innovation District. The Action Plan represents a set of actions the City of Milpitas should take to support the development of an Innovation District within the larger Milpitas Metro Specific Plan area. As also documented in the *Phase I Study*, the economics of commercial development in the Innovation District is challenging, which makes the City's actions to incentivize and support Innovation District development that much more important.

The Innovation District Action Plan builds upon the visioning and policies of the City's General Plan, Economic Development Strategy, and Milpitas Metro Specific Plan and recommends a series of actions the City of Milpitas could take to support the growth of the City's Innovation District. The recommended actions were developed based on consideration of current development economics in Milpitas (see *Phase I Report*/**Chapter 2**), the current "on-the-ground" characteristics of a key set of commercial, industrial, and mixed-use parcels identified by the City (see **Chapter 3**), case studies of other established or developing Innovation Districts (see **Chapter 4**), and the substantial efforts of City staff to assess a broad range of options that might be suitable for the City of Milpitas.

The recommended Action Plan includes fourteen (14) actions that are divided into the following 3 categories, which are designed to help catalyze the Innovation District:[19]

- Incentivizing New Development.
- Funding and Investing.
- City Leadership, Outreach, and Partnerships.

Each action item is described, along with expectation in terms of cost and funding. The projected cost and assumed funding source for each action item is summarized in **Table 11** below. While action adoption by City staff is slated to occur at various times over the next five years, the actual execution of the action items may extend over several years.

[19] Other potential tools were considered but not selected as part of the key fourteen (14) actions. Examples include funding tools, such as Business Improvement Districts (BID's). While this tool could become appropriate for the Innovation District at a later stage of development, it is not considered appropriate at the current time. BID's are more appropriate in established areas with successful and up-and-coming businesses where there is broad interest in a specific set of services/expenditures.

Table 11 Gantt Chart of Action Plan Implementation

Theme	No.	Recommended Action	Cost to Implement	Funding Source
Incentivizing New Development	1	Develop an Internal Working Group to Support the Implementation of the Innovation District Action Plan	None	N/A
	2	Develop and Implement Flexible Permitting Processes for Innovation District Developments	Yes	Other City Revenue Source
	3	Temporarily Reduce or Defer Building Permit, Plan Check, and Other Processing Fees	Yes	Other City Revenue Source
	4	Temporarily Defer Impact Fees for Innovation District Developments	Yes	Other City Revenue Source
	5	Removal of Parking Minimums for Innovation District Development	None	N/A
	6	Develop Development Agreement and Community Benefit Agreement Templates for Innovation District Developments	None	N/A
	7	Performing Technical Due Diligence for Innovation District Developments	Yes	Office of Economic Development
Funding & Investing	8	Exploration of Tax Financing Tools (i.e., EIFDs, CFDs) for the Innovation District	Yes	Other City Revenue Source
	9	Funding for a Strategic Property Acquisition Revenue (SPAR) Fund	Yes	Other City Revenue Source
	10	Pursue Planning Grants for Innovation District Evolution	Yes	Office of Economic Development
City Leadership, Outreach & Partnerships	11	Develop a Branding Initiative for Innovation District	Yes	Office of Economic Development
	12	Promotion of Innovation District by City Leadership	None	N/A
	13	Directed Outreach to Businesses, Developers, and Landowners	None	N/A
	14	Cultivation of Partnership with Educational and Other Innovation-oriented Institutions	None	N/A

SOURCE: ECONOMIC & PLANNING SYSTEMS

Incentivizing New Development

Action #1. Develop an Internal Working Group to Support the Implementation of the Innovation District Action Plan

The City of Milpitas will establish an Internal Working Group that will focus on the implementation of the Action Plan. The Working Group will be comprised of representatives from the following Community Development City Service Areas: City Manager's Office; Economic Development; Planning; Building Safety and Housing; Engineering Land Development; and Fire Prevention. The Working Group will ensure inter-departmental coordination and collaboration as the City looks to catalyze its new Innovation District and assist the development community with consistency and certainty.

Costs to Implement: There is no cost to implement this action as the working group will utilize existing resources and personnel.

Funding Source: N/A.

Action #2. Develop Flexible Permitting Processes for the Innovation District

The City of Milpitas has already taken numerous steps to streamline its permitting processes but may explore more solutions based on the initial proposed development projects. The Office of Economic Development facilitates preliminary plan review meetings with applicants interested in interdepartmental City staff review of preliminary or conceptual designs. These meetings result in identifying project-related concerns immediately, which helps in planning for official application submittal. In addition, the Building Safety and Housing Department currently implements several expedited plan review services for eligible tenant improvements, renovation or rehabilitation, and new construction. Once additional staffing is added to the Building Safety and Housing Department, the City may explore developing a prioritization system for development applications. Furthermore, the Planning Department, through its Zoning Administrator, conducts public hearings on minor land use and development permits as a way of reducing the processing time of minor entitlement applications. The Planning Department is utilizing American Rescue Plan Act (ARPA) funding to partner with Symbium to implement Build Business and Plan Check, a suite of web applications aimed at streamlining commercial development. Build Business will allow businesses and developers to easily identify potential locations based on the City's existing zoning regulations. Symbium Plan Check will allow applicants to submit planning permit applications online and automatically screen applications for compliance with the City's zoning regulations and development standards, which will streamline the planning review process.

Costs to Implement: Implement of this action may require additional staffing and dollars to fund staff overtime to perform expedited services. This may take place if staff can work afterhours, and if paid for by the development community.

Funding Source: Funding from other City revenue sources may be required for additional staffing and/or overtime pay.

Action #3. Temporarily Reduce or Defer Building Permit, Plan Check, and Other Processing Fees

Like other cities, the City of Milpitas charges for building permits, plan check, as well as other processing and cost recovery fees for new developments. The City could, for example, consider temporarily reducing these permit fees by 10 percent or deferring such fees for the first 300,000 square feet of new commercial development to occur in the Innovation District. This will provide an incentive to the early developers, businesses, incubator/accelerator, and/or academic institutions to invest in the Innovation District.

Costs to Implement: The City may not receive typical cost recovery fees from early Innovation District developments participating in the temporary fee reduction/deferral program. As the City operates under a Cost-Recovery system, there would be a potential loss in permit revenues. This may be offset by new revenue sources to the General Fund and job creation for new commercial development occurring in the Innovation District.

Funding Source: Funding from other City revenue sources may be required to "backfill" any loss or delay in fee revenue.

Action #4. Temporarily Defer Impact Fees for Innovation District Developments

The Transit Area Development Impact Fee (TADIF) and the Non-Residential Affordable Housing Fee (Commercial Linkage Fee) are critical sources of revenue for infrastructure investment in the Metro Area, but also add to the cost of new commercial development. An impact fee deferral program could be offered to encourage economic development where the first 300,000 square feet of new commercial development in the Innovation District are allowed to pay in phases, such as, a small portion of the TADIF Fee and Commercial Linkage Fee at the time of building permit issuance and defer paying the remainder of the fees until Certificate of Occupancy. Shifting these fees until later in the permit process may improve developer cashflows and financing. This policy could be enacted in concert with the next update to the TADIF, which is anticipated to commence sometime in late 2022/early 2023.

Costs to Implement: The adoption of this policy may delay fee revenues accrued from new commercial development (first 300,000 square feet) until later in the permit process. This may be partially offset by new revenue sources to the General Fund and job creation for new commercial development occurring in the Innovation District.

Funding Source: Funding from other City revenue sources may be required to "backfill" any delay in fee revenue.

Action #5. Removal of Parking Minimums for Innovation District Developments

The City of Milpitas already provides greater flexibility around parking requirements in the Metro Area due to its transit-oriented nature. The City could go one step further for new commercial developments in the Innovation District and either further reduce parking minimums or remove all minimums in the Innovation District. Developers would then be able to select the amount and type of parking they provide on expected demand from their tenants, thereby reducing parking costs where it makes sense.

Costs to Implement: There is no cost to implement this action as existing resources and personnel will be utilized.

Funding Source: N/A.

Action #6. Develop Development Agreement and Community Benefit Agreement Templates for Innovation District Developments

For larger commercial development opportunities, the City of Milpitas encourages collaborating with the proposing developers through Development Agreements. The Development Agreement would provide the developer with more certainty over its development opportunity and approvals, while allowing the City to ensure the project provides substantial benefits to the City, potentially through a related Community Benefit Agreement. A Development Agreement and Community Benefit Agreement may also grant additional development rights to new commercial developments in the Innovation District, for example, as seen in a Development Opportunity Reserve[20] (D.O.R.) program. Developing template agreements for the development community is critical to the Innovation District as it helps maintain a level of certainty and consistency in the City's development process.

Costs to Implement: There is no cost to implement this action as the City will utilize existing resources and personnel.

Funding Source: N/A.

Action #7. Performing Technical Due Diligence for Innovation District Developments

The City of Milpitas could offer to co-sponsor due diligence technical studies to support developer exploration of development opportunities. In cases where developers are interested in specific development opportunities but wish to study a key issue that could determine whether they move forward or not, the City could consider co-sponsoring and funding the necessary study. The nature of the study will likely vary by opportunity (for example, environmental assessments, transportation analyses, development pro formas, etc.) and the specific City support would be determined on a case-by-case basis.

Costs to Implement: Consulting costs will vary depending on specific services provided.

Funding Source: Funding would likely originate from the Office of Economic Development's Operating Budget.

[20] Development Opportunity Reserve (D.O.R.) is a service provided by Kosmont Companies that allows cities to allocate density to commercial development projects that deliver community benefits and public amenities.

Funding and Investing

Action #8. Exploration of Financing Tools (i.e., EIFDs and CFDs) for the Innovation District

Cities throughout the U.S. have used tax increment financing tools available in their specific State to re-invest new property taxes generated back into their Innovation Districts. In many cases, tax increment funding has provided the primary public tool for investments in the Innovation District after the dissolution of Redevelopment Agencies in California. While less effective than the earlier tax increment funding tools, the Enhanced Infrastructure Financing District (EIFD) has become the primary route through which tax increment can be captured and invested. It is being used along the San Francisco waterfront to help fund infrastructure and support mixed-use developments. Community Facilities Districts (CFD) are also being combined with EIFD and other tax increment tools to enable earlier issuance of bonds to fund infrastructure.

Costs to Implement: EIFD studies typically focus on estimating the level of tax increment revenues that could be generated under different approaches. Consultants would then need to support a process of adoption by City Council. Approximate consulting cost is estimated at $75,000.

Funding Source: The City will need to identify funding for EIFD and CFD evaluation. Funding is likely to come from other City revenue sources.

Action #9. Funding for a Strategic Property Acquisition Reserve (SPAR) Fund

Ownership of land within an Innovation District by a City provides an opportunity to directly shape new development investment. Land ownership may allow the City to offer competitive leases to new partners/developments or site assembly efforts that could help catalyze the Innovation District. It could also allow for joint development opportunities, for example, for a new building that could house an incubator as well as other uses. The SPAR will require significant funding. Due to costs depending on the nature and the size of land acquisitions, it is likely to be in the $3-4M dollar range, and action adoption is anticipated to take place in the short term (Year 2). Potential funding sources could include a temporary redirection of a small percentage of revenues from the City's Transient Occupancy Tax fund or sales taxes from the Great Mall to the SPAR fund as a way of providing seed funding for economic vitality, new General Fund revenues in the future, and job creation.

Costs to Implement: The potential acquisition of land in the Innovation District will require substantial investment. Costs will depend on the nature and the size of land acquisitions though is likely to be in the millions of dollars. Some outside consulting (e.g., appraisers), will also be required to identify, oversee, and negotiate land transactions.

Funding Source: Potential funding sources could include a temporary redirection of a small percentage of revenues from the City's Transient Occupancy Tax fund or sales taxes from the Great Mall to the SPAR fund as a way of providing seed funding for economic vitality, new General Fund revenues in the future, and job creation.

Action #10. Pursue Planning Grants and Technical Assistance for Innovation District Evolution

The City of Milpitas could pursue planning grants to further plan for and implement the Innovation District. Planning grants may include regional (i.e., ABAG, MTC, etc.), state (i.e., GO-Biz, etc.), and federal (i.e., EDA). The City might also engage an Urban Land Institute (ULI) Technical Assistance Panel (TAP) to further explore the strategies to catalyze the Innovation District.

Costs to Implement: There is no cost to pursue planning grants as the City will utilize existing resources and personnel. Approximate cost for ULI TAP is about $30,000.

Funding Source: Funding likely to originate from the Office of Economic Development Operating Budget.

City Leadership, Outreach, and Partnerships

Action #11. Develop a Branding Initiative for the Innovation District

The City of Milpitas could lead the development of a branding initiative for the Innovation District. The strategic place branding will allow the Innovation District to turn from a place into a brand. A consultant will help develop some of the following: Innovation District logo, tagline, and slide decks for City staff to use when pitching to investors/developers/businesses, graphics, and marketing. The branding initiative will envision Smart City design and district-scale infrastructure systems.

Costs to Implement: City staff is budgeting approximately $30,000 for a consultant to assist with a strategic place branding initiative.

Funding Source: Funding likely to come from the Office of Economic Development Operating Budget.

Action #12. Promotion of Innovation District by City Leadership

Strong and effective City leadership has consistently been identified as a critical component of successful Innovation Districts across the U.S. City leaders are in a unique position to promote and highlight the City's Innovation District to marshal internal and external resources towards it, and to help prioritize the economic development efforts. Connections between City leaders and State and federal leadership can also ensure the appropriate focus and receipt of supporting resources.

Costs to Implement: There is no cost to implement this action as the City will utilize existing resources and personnel.

Funding Source: N/A.

Action #13. Directed Outreach to Businesses, Developers, and Landowners

The Office of Economic Development shall proceed with aggressive and targeted outreach to landowners, developers, other potential partners, as well as current Milpitas businesses that might expand into the Innovation District, and businesses outside of Milpitas.

Costs to Implement: City staff will prioritize its time and resources within existing levels to support outreach.

Funding Source: N/A.

Action #14. Cultivation of Partnership with Educational and Other Innovation-oriented Institutions

In addition to developers and businesses, there are a range of additional partnerships with non-profit, public, and private parties that often act as core cultivators of Innovation Districts. If the City can raise funds for strategic land acquisition or infrastructure funding, these funds could be used to support development opportunities with these partners. For example, like other successful Innovation Districts, the City of Milpitas could look to offer lower cost land and/or discounted rents to key Innovation District cultivators such as for an incubator, accelerator and/or an academic institution.

Costs to Implement: City staff will prioritize its time and resources to support outreach to potential partners.

Funding Source: N/A.

APPENDIX A:

Phase 1 Study

TECHNICAL MEMORANDUM

To: Daniel Degu, City of Milpitas

From: Economic & Planning Systems, Inc.

Subject: Fiscal Benefits of Employment Lands Study Phase 1: Narrative Summary of Conclusions

Date: October 25, 2021

The Economics of Land Use

The City of Milpitas (City) engaged Economic & Planning Systems, Inc. (EPS) to prepare a *Fiscal Benefits of Employment Lands Study (Study)*. The Study will guide City policy towards a fiscally resilient future based on protection and preservation of employment lands, the expansion and attraction of innovative and competitive businesses, and the evolution of the City's new Innovation District. The Innovation District, located within the Milpitas Metro Specific Plan (MMSP), provides a vital economic development opportunity to support the City fiscally and economically.

The overall study is divided into two phases, with **Phase 1** including the Fiscal Impact Analysis, the Occupation and Wage Analysis, the Residual Land Value Analysis, and the Innovation District Development Scenarios Analysis. **Phase 2** will include the development of the Innovation District Framework Plan, a set of potential City policies and actions to help support the evolution and development of the Innovation District.

This memorandum provides a narrative summary of conclusions from these analyses with detailed table sets included in the **Appendices**. The **Phase 1** memorandum, that informs the **Phase 2** work, is organized as follows:

Summary of Findings. Summarizes the key findings from the different technical components of the Phase 1 Study.

Fiscal Impact Analysis. Provides a summary of findings concerning the impacts of existing land uses and future development on the City's General Fund.

Employment Density, Occupational, and Wage Analysis. Estimates the expected number of jobs and wages generated associated with the development and occupancy of different nonresidential developments.

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Residual Land Value Analysis. Assesses the development economics/development feasibility of different land uses under current market conditions as well as under a combination of improved market conditions and suggested refined policies.

Innovation District Development Scenarios Analysis. Estimates the different levels of development, jobs, salaries, and net fiscal impacts based on the buildout of different Innovation District land use scenarios.

Summary of Findings

Phase 1 of the ***Fiscal Benefits of Employment Lands Study*** provides broad insights into the role and importance of employment lands in Milpitas as well as the opportunities and challenges associated with the creation of a new Innovation District as part of MMSP.[1]

The overall findings of the **Phase 1** work are as follows:

1. Employment lands play a critical economic and fiscal role in supporting essential and critical City services.
2. Cultivation of an Innovation District as a key component of MMSP and City economic development efforts would provide new, expansive benefits to the City.
3. There are challenges to spurring the development of the Innovation District and the City will need to play a proactive role in generating incentives to catalyze the Innovation District.

A more detailed summary of key findings from **Phase 1** are provided below:

- **The successful development of an Innovation District would bring a broad range of substantial benefits** (see *Innovation District Scenarios Analysis* section). The City's new Innovation District has the potential to accommodate millions of square feet of new Office and Research & Development (R&D) development as well as supportive Hotel and other nonresidential uses. The impacts of the successful development of the Innovation District are estimated in this memorandum and include:
  - Substantial net revenues to the City's General Fund.
  - Accommodation of a range of new professional, scientific, and technology businesses bringing thousands of high-quality jobs.
  - The broader transformation of the Transit Area Specific Plan (TASP)/MMSP area into a vital mixed-use transit-oriented area.
- **The City's current employment lands make substantial and positive net fiscal contributions to the City's budget.** Analysis of the broad set of existing land uses in the

[1] This memorandum refers to a range of different geographic areas, including (1) the Transit Area Specific Plan (TASP) area—the planning area of the 2008 Specific Plan; (2) the Milpitas Metro Specific Plan (MMSP) area—the updated/adjusted Specific Plan area that incorporates additional lands to the east of the TASP that form part of the envisioned Innovation District. The proposed Innovation District also is defined geographically in two ways, including a broader Innovation District area as well as a core set of parcels that form the basis of much of the technical analysis in this memorandum. Maps showing these different areas are included in **Appendix A**.

city shows that hotel, retail, and industrial uses all make positive contributions to the City's General Fund. Collectively existing residential uses, however, are unable to cover their public service cost needs and are cross-subsidized by nonresidential uses (see *Fiscal Impact Analysis* section (existing uses)).

- **Although wages in Milpitas tend not to be as strong as Mountain View, Sunnyvale, and Santa Clara today, full buildout of the Innovation District would accommodate high-quality new jobs and wages for residents in the long term.** The strongest annual wages by land use/development types in Milpitas are associated with Class A Office/R&D and Class A Office uses. The lowest annual wages by land use/development types in Milpitas are associated with Hotel, Retail, and Warehouse/Distribution uses.

- **On average, all types of new development in the City are expected to provide positive fiscal contributions to the City, though to varying degrees.** The higher property values of new development will generally allow them to make fiscally positive contributions to the City. New hotel development will continue to be the fiscally strongest use, though new Class A Office, Class A Office/R&D, and Retail generate significant fiscal positives. New multi-family residential, Class B office, industrial, and warehouse/distribution uses all generate positive but smaller fiscal impacts. New residential development in the TASP also makes additional contributions towards public services through the payment of the Communities Facilities District (CFD) special tax (see *Fiscal Impact Analysis* section (new uses)).

- **The MMSP is intended to support the incremental redevelopment of the identified area into a vital Innovation District.** The Innovation District area currently includes a broad range of uses, ranging from public storage to light industrial to hotel uses. With the recent opening of the multi-modal Milpitas Transit Station Center (VTA/BART) and new policies, investments, and improvements, an incremental evolution of these uses is sought towards a more dense, transit-oriented set of employment and supporting uses located near residential development.

- **There are a broad range of development challenges to achieving the Innovation District vision including the economics of Class A Office/R&D development** (see *Residual Land Value Analysis* section). For jurisdictions throughout the U.S., there are a broad range of development challenges that arise when supporting area transformation. As a result, progress often occurs incrementally and over time. For the Milpitas Innovation District, key challenges include the lack of large and vacant sites, competition for Class A Office/R&D uses among Silicon Valley communities, the high costs of building and parking development associated with Class A Office/R&D uses, high market demand for residential development, the economics of existing uses and competition with other lower-intensity uses (e.g. storage; warehouse/ distribution), and the current lack of connectivity and sense of place/amenities.

- **City actions can help spur the evolution and development of the Innovation District.** It will be important for the City to consider the full range of actions to support the goals of the Innovation District, particularly preserving and protecting its employment lands and incentivizing the development of a premier Innovation District. These include a broad range of policies, investments, funding mechanisms, outreach, and partnership pursuit. This is the

focus of **Phase 2** with an important overlap with the MMSP that will lay out a number of important policies and actions that will guide the Innovation District.

Phase 2 of the Study will take a closer look at the Innovation District, combining existing conditions, case studies, and Phase 1 findings, to develop a set of potential policies and actions to support Innovation District implementation.

Fiscal Impact Analysis

A fiscal impact analysis estimates the impact of different land uses on both the City's General Fund revenues and expenditures. By comparing the revenue and expenditure impacts, it is possible to determine whether particular land uses are expected to have positive or negative impacts on the City's General Fund. This analysis examines the fiscal impacts of both existing land uses and potential future developments. **Appendix B** and **Appendix C** provide the full fiscal impact analysis table set for existing land uses and future land uses, respectively.

Methodology

The City's General Fund is a key City fund where a broad range of revenues are deposited and from which expenditures on key public services are made. A number of taxes and other public revenues accrue to the City's General Fund, including property taxes, sales taxes, and transient occupancy taxes, among others. The General Fund also provides all or a significant proportion of funding for a range of important public services, including police, fire, and public works, among others.

In this analysis, two planning-level fiscal impact analyses are conducted, including (1) estimated fiscal impacts of existing land uses; and (2) estimated fiscal impacts of potential new developments/land uses. The results for existing uses provide insights into the relative fiscal contributions of existing land uses. The results for future uses provide insights into how different land use policies and development types could affect the City's fiscal situation.

Existing Land Uses

The City of Milpitas 2020-2021 Adopted Budget and Financial Plan provides information on the City's General Fund revenues and expenditures by category. A range of information was used to distribute these revenues and expenditures between different land uses. Building inventory by land use was a key piece of information. On the revenue side, additional information sources included existing assessed values by land use that supported the estimates of property taxes by land use and taxable sales information by land use that supported the estimates of sales and use tax by land use.

On the expenditure side, an average per service population approach was used. Under this approach, all General Fund expenditures are distributed between residents and workers. Because they are, on average, present in the City for less time, a single worker is given half the weighting of a single resident.[2] It is then possible to combine the City's budget information on existing

[2] Service population is a measure that combines both residents and workers, reflecting the fact that they both demand/use City services. Workers are given a partial weighting as they are in the city for a smaller proportion of their time. Because different land uses bring different levels of new service population to the city, different land uses have different public service expenditure impacts.

General Fund expenditures by category with the City's existing service population to determine the average General Fund expenditure (in total and by expenditure category) associated with each resident and worker. Using information on the number of residents currently living in different types of residential land uses and the number of workers accommodated in different types of workspaces, it is then possible to allocate General Fund expenditures by category to different land uses.

New Land Uses

The fiscal impacts of new land uses are estimated using a similar approach with some important differences. For new land uses it is helpful to specify the nature of the new land uses assessed; the land uses/development prototypes considered in this analysis are further described below. In addition, new development will typically have substantially higher assessed values based on their new development value. This requires specific assumptions concerning the development value of different land uses. On the expenditure side, the same service population approach is used. In other words, each new resident or worker is assumed to require the same level of General Fund expenditures as existing residents and workers. As a result, based on information on persons per household and workers per square foot, it is possible to derive General Fund expenditures by land use type.

Impacts of Existing Uses

Land Uses and Approach

Milpitas has a broad range of existing land use types located in different employment areas in the city. The analysis provides planning-level land use-specific conclusions on the net General Fund fiscal impact of existing land uses. The existing land uses in the city of Milpitas are categorized as follows:

1. **Single-Family Residential.** Including detached and attached units up to and including triplexes.
2. **Multifamily Residential.** Including apartment houses with 5 or more units, condominiums, and generic multifamily dwellings.
3. **Office.** Including professional buildings and commercial offices.
4. **Industrial:** Broad industrial category including manufacturing, warehousing and distribution, R&D facilities, and similarly intensive uses.
5. **Retail.** Including all shopping establishments and service stations.
6. **Hotel.** Including all hotel uses.
7. **Other Uses.** Including everything not captured in above categories. Exemplary uses include hospitals, vacant land, civic uses, parking lots, and other.

Fiscal Results

Estimated fiscal impacts by land use are shown in **Table 1** and show estimated General Fund revenues, expenditures, and the net fiscal impact associated with each existing land use category.

These results reflect Fiscal Year 2020/21 collective, average impacts of the different existing land use categories.[3] Each actual existing development has a differential impact based on the timing of its development and project specifics. The impacts of new development are discussed in the next section.

Key conclusions from **Table 1** are as follows:

- **Residential.** Existing residential uses, both single-family and multifamily, indicate the largest fiscal deficits with General Fund revenues covering about 50 percent of General Fund expenditures. This is true even with the attribution of sales and use tax revenues from resident spending to residential uses. This is a common finding for existing residential land uses in California cities.
- **Office.** Existing office uses also generate a net fiscal deficit for the City's General Fund. This is primarily a reflection of the age of the office building stock (average age of office buildings in Milpitas is over 30 years) that limits the property tax revenue generation.
- **Industrial.** The city has a large base of industrial development that varies in specific use type. Overall, existing industrial uses generate a net fiscal positive impact for the City's General Fund. An important reason for this outcome is the substantial sales and use tax revenues (business-to-business taxes) generated by many industrial uses.
- **Retail.** As is common under the State of California's tax system, retail uses provide a substantial positive fiscal impact to the City's General Fund. The Great Mall is a key driver of this contribution with additional contributions from retail establishments throughout the city. Dependence on retail uses and their associated sales tax generation is a common theme for many California cities.
- **Hotel.** Similar to retail uses, hotel uses and their associated transient occupancy taxes also bring a substantial positive fiscal impacts to the City. These revenues can fluctuate substantially with economic conditions.[4]

As with most California cities, the pandemic-related recession brought challenges to the City of Milpitas, with the primary generators of fiscal revenues (retail and hotel uses) being especially affected by social-distancing guidelines and stay-at-home orders.

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[3] The analysis distributes the large majority of General Fund revenues and expenditures. Only exceptions are items that are unrelated to land use/development (e.g., transfers in).

[4] More recent information than the City's 2020-2021 Adopted Budget indicates a substantial reduction in Transient Occupancy Tax revenues associated with the pandemic.

Table 1. Annual General Fund Net Fiscal Impacts of Existing Land Uses

Annual General Fund Impacts	Single Family[1]	Multi-Family[1]	Office	Industrial	Retail	Hotel	Other Uses	Total[2]
General Fund Revenues								
Property Tax	$14,774,099	$6,671,212	$544,022	$6,251,994	$1,931,997	$627,253	$941,356	$31,741,933
Property Tax In-Lieu of VLF	$3,696,107	$1,668,969	$136,100	$1,564,091	$483,337	$156,923	$235,503	$7,941,031
Sales Taxes	$3,752,701	$1,076,926	$822,258	$6,950,982	$15,514,270	$34,669	$220,146	$28,371,951
Real Estate Transfer Tax	$370,582	$167,335	$13,646	$156,820	$48,461	$15,734	$23,612	$796,190
Business License Tax	$0	$0	$54,661	$199,016	$32,036	$14,356	$65,582	$365,650
Motor Vehicle In-Lieu	$26,708	$7,665	$0	$0	$0	$0	$647	$35,020
Other Taxes	$397,290	$175,000	$68,307	$355,836	$80,496	$30,089	$89,841	$1,196,860
Franchise Fees	$3,221,727	$924,550	$192,907	$702,353	$113,058	$50,663	$309,528	$5,514,787
Transient Occupancy Tax	$0	$0	$0	$0	$0	$13,452,683	$0	$13,452,683
Licenses, Permits, and Fines	$5,787,719	$1,660,922	$346,551	$1,261,752	$203,105	$91,015	$556,055	$9,907,120
Total Revenues	**$27,933,537**	**$10,508,610**	**$1,974,045**	**$15,522,917**	**$17,842,927**	**$14,286,373**	**$2,116,925**	**$90,185,334**
	31%	*12%*	*2%*	*17%*	*20%*	*16%*	*2%*	*100%*
General Fund Expenditures								
General Government	$2,511,645	$720,775	$150,390	$547,551	$88,140	$39,497	$241,306	$4,299,304
Economic Development	$534,026	$153,251	$31,976	$116,420	$18,740	$8,398	$51,307	$914,118
Building Safety & Housing	$4,032,635	$1,157,260	$241,462	$879,135	$141,515	$63,415	$387,436	$6,902,858
Engineering	$1,367,502	$392,437	$81,882	$298,122	$47,989	$21,505	$131,383	$2,340,819
Finance	$2,545,109	$730,379	$152,393	$554,847	$89,314	$40,023	$244,521	$4,356,586
Fire	$16,252,557	$4,664,053	$973,154	$3,543,140	$570,341	$255,581	$1,561,465	$27,820,292
Human Resources	$1,227,784	$352,341	$73,516	$267,663	$43,086	$19,308	$117,959	$2,101,657
Information Technology	$2,174,120	$623,915	$130,180	$473,969	$76,295	$34,189	$208,879	$3,721,547
Planning	$579,456	$166,289	$34,696	$126,324	$20,334	$9,112	$55,671	$991,883
Police	$21,940,150	$6,296,242	$1,313,710	$4,783,064	$769,932	$345,021	$2,107,901	$37,556,020
Public Works	$5,348,454	$1,534,865	$320,249	$1,165,990	$187,690	$84,107	$513,853	$9,155,209
Recreation & Community Services	$1,905,131	$546,722	$114,074	$415,328	$66,856	$29,959	$183,036	$3,261,106
Total Expenditures	**$60,418,568**	**$17,338,528**	**$3,617,682**	**$13,171,555**	**$2,120,232**	**$950,116**	**$5,804,717**	**$103,421,399**
	58%	*17%*	*3%*	*13%*	*2%*	*1%*	*6%*	*100%*
Annual Net Impact on General Fund	**($32,485,031)**	**($6,829,918)**	**($1,643,637)**	**$2,351,362**	**$15,722,695**	**$13,336,257**	**($3,687,792)**	**($13,236,065)**

[1] Residential developments in the TASP/CFD area pay an additional annual CFD special tax toward the provision of public services throughout the TASP. These revenues do not flow into the City's General Fund and therefore are omitted from this table.
[2] Despite the negative total annual General Fund impact displayed, the City's General Fund does balance as required by State law. The negative value shown is due to the omission of certain budget items not affected by existing land uses as considered in this analysis.

Source: Economic & Planning Systems

Impacts of New Uses

Land Uses and Approach

To estimate the fiscal impacts of potential new developments on the City's General Fund, City staff and EPS considered nine (9) development prototypes across a range of land uses. These prototypes were selected as they represent development types that might be considered for development within the Innovation District and the broader MMPS. The prototypes examined are as follows:

1. **Mid-Rise Multifamily Residential.** Apartment building of 7 stories in height with a density of about 90 Dwelling Units per Acre.
2. **High-Rise Multifamily Residential.** Apartment building of 12 stories in height with a density of about 180 Dwelling Units per Acre.
3. **Class A Office.** A 5- to 8-story office building with high-quality finishes, amenities, and systems.
4. **Class B Office.** A 3-story office building with mid-quality finishes, amenities, and systems.
5. **Class A Office/R&D.** A 4- to 5-story commercial building with more flexible space that can accommodate both office and R&D uses.
6. **Light Industrial.** A 1- to 3-story building intended for production, processing, and assembly activities that do not generate noise, odors, or fumes to the degree a heavy industrial use would.
7. **Warehouse/Distribution.**[5] A 1-story building intended for warehousing and logistic uses.
8. **Retail.** A traditional 1-story commercial building with substantial parking and a low Floor Area Ratio intended for on-site retail sales.
9. **Hotel.** A 210-room hotel with 650 gross square feet (sq. ft.) per room.

Fiscal impacts for the new prototype developments were derived using the same general methodology as for existing uses, with the major difference arising in the assessed value assumptions.[6] For new uses, development values/assessed values are based on recent market

[5] Warehouse and distribution uses include logistics/fulfillment centers.

[6] Assessed value represents the basis on which property owners pay their property taxes. For existing developments, County Assessor records provide information on actual assessed values. For new development, the assessment is set at the sales price or property value of the new development. For for-sale properties, new development will be assessed at its sale price. For new income (rental) properties, the assessed value of the new property will be estimated by the Santa Clara County Assessor's Office on either a capitalized value or total cost basis (see next footnote).

information.[7] The prototype land uses are estimated on lots of varying size, so results are presented on a per-acre basis to facilitate comparison. The estimated net annual fiscal impacts of new and future uses on the City's General Fund are presented in **Table 2**.

Results

As shown in **Table 2**, on a per-acre basis, the new development prototypes all cover their estimated costs and nonresidential uses generally provide greater annual fiscal surpluses to the City's General Fund. Hotel uses provide the greatest fiscal impact at $826,580 per acre, though as experienced during the pandemic, these revenues sources are subject to fluctuation with economic conditions. After Hotels uses, Class A Office ($85,406), Retail ($63,925), and Class A Office/R&D ($51,222) uses provided the next highest fiscal impact per acre. The next set of uses in order of positive fiscal impact per acre include, High-Rise Residential ($28,115), Light Industrial ($22,648), Class B Office ($14,299), Warehouse and Distribution ($13,527), and Mid-Rise Residential ($9,153). The higher development values and associated property tax generation by new development are a key driver of the improved fiscal results. Employment uses often generate higher fiscal surpluses as opposed to residential uses, due to their lower service population generation and subsequently lower impact on General Fund expenditures.

It is important to note that these results represent planning-level averages and individual developments will vary from these results based on project specifics and market timing. Over time, when properties do not turnover (are not sold), property tax revenue generation for all building types often declines gradually due to Proposition 13 limits on assessed value increases through time. The CFD special taxes paid by new residential development in the TASP are not included in this table but are discussed below (these revenues do not flow directly into the City's General Fund but they do support the provision of public services in the TASP).[8]

Key conclusions from **Table 2** are as follows:

- **Residential.** New mid-rise development prototypes—a predominant recent development type in the TASP—are expected to generate sufficient General Fund revenues annually (about $333,000) to cover the new General Fund expenditures (about $315,000) with a positive fiscal surplus of about $18,000 or $9,000 per acre. New high-residential development prototypes (a product type that is yet to be developed in the city high-rise residential) are also expected to generate a positive fiscal surplus of about $56,000 for the prototype, equivalent to $28,000 per acre, with higher General Fund revenue and expenditure impacts than new mid-rise development. The significant property tax revenues generated by new

[7] Development values (and hence assessed values of new development) were estimated using a capitalized value approach driven by market rent/lease rate information and capitalized rates. Rents and associated values were developed using 2019 data to avoid the impact of the pandemic-induced market downturn. Capitalized values were developed as part of the Residual Land Value Analysis section. A glossary of terms is provided in **Appendix D**.

[8] The Transit Area Specific Plan (TASP) is the 2008 document that sets forth the vision, design guidelines, and policies for the City to redevelop the area surrounding the now opened Milpitas BART station. The new Milpitas Metro Specific Plan represents an update to this document.

Table 2. Annual General Fund Net Fiscal Impacts of New Land Uses

Annual General Fund Impacts	Mid-Rise Multifamily[1]	High-Rise Multifamily[1]	Class A Office	Class B Office	Class A Office / R&D	Light Industrial	Warehouse/ Distribution	Retail	Hotel
General Fund Revenues									
Property Tax	$191,702	$397,211	$352,556	$59,768	$199,254	$78,611	$39,374	$68,201	$126,707
Property Tax In-Lieu of VLF	$47,959	$99,372	$88,201	$14,952	$49,848	$19,666	$9,850	$17,062	$31,699
Sales Taxes	$28,005	$57,993	$156,730	$31,010	$91,922	$40,181	$25,964	$254,244	$801
Real Estate Transfer Tax	$5,207	$10,788	$4,788	$812	$2,706	$1,068	$535	$926	$1,721
Business License Tax	$0	$0	$10,032	$2,006	$5,016	$1,505	$463	$1,191	$614
Motor Vehicle In-Lieu	$218	$437	$0	$0	$0	$0	$0	$0	$0
Other Taxes	$5,425	$11,225	$14,820	$2,818	$7,722	$2,572	$998	$2,118	$2,335
Franchise Fees	$21,341	$42,681	$57,382	$11,476	$28,691	$8,607	$2,648	$6,814	$3,513
Transient Occupancy Tax	$0	$0	$0	$0	$0	$0	$0	$0	$1,916,250
Licenses, Permits, and Fines	$38,338	$76,675	$103,086	$20,617	$51,543	$15,463	$4,758	$12,241	$6,311
Total Revenues	**$332,770**	**$685,158**	**$772,774**	**$140,642**	**$428,980**	**$165,101**	**$83,592**	**$360,681**	**$2,087,616**
per Acre	*$166,385*	*$342,579*	*$154,555*	*$28,128*	*$85,796*	*$33,020*	*$16,718*	*$72,136*	*$835,046*
General Fund Expenditures									
General Government	$3,217	$6,433	$3,537	$707	$1,768	$530	$163	$420	$217
Economic Development	$1,368	$2,736	$1,504	$301	$752	$226	$69	$179	$92
Building Safety & Housing	$10,329	$20,658	$11,357	$2,271	$5,678	$1,703	$524	$1,349	$695
Engineering	$3,503	$7,005	$3,851	$770	$1,926	$578	$178	$457	$236
Finance	$3,260	$6,519	$3,584	$717	$1,792	$538	$165	$426	$219
Fire	$104,073	$208,146	$114,425	$22,885	$57,212	$17,164	$5,281	$13,588	$7,005
Human Resources	$1,572	$3,145	$1,729	$346	$864	$259	$80	$205	$106
Information Technology	$2,784	$5,569	$3,061	$612	$1,531	$459	$141	$364	$187
Planning	$1,484	$2,968	$1,632	$326	$816	$245	$75	$194	$100
Police	$140,493	$280,986	$154,468	$30,894	$77,234	$23,170	$7,129	$18,343	$9,456
Public Works	$34,249	$68,497	$37,655	$7,531	$18,828	$5,648	$1,738	$4,472	$2,305
Recreation & Community Services	$8,133	$16,266	$8,942	$1,788	$4,471	$1,341	$413	$1,062	$547
Total Expenditures	**$314,464**	**$628,929**	**$345,743**	**$69,149**	**$172,872**	**$51,861**	**$15,957**	**$41,057**	**$21,166**
per Acre	*$157,232*	*$314,464*	*$69,149*	*$13,830*	*$34,574*	*$10,372*	*$3,191*	*$8,211*	*$8,466*
Annual Net Impact on General Fund	**$18,305**	**$56,229**	**$427,031**	**$71,493**	**$256,109**	**$113,239**	**$67,635**	**$319,624**	**$2,066,450**
per Acre	*$9,153*	*$28,115*	*$85,406*	*$14,299*	*$51,222*	*$22,648*	*$13,527*	*$63,925*	*$826,580*

[1] The current CFD special tax rate is about $650 per unit annually. As a result, mid-rise residential developments (see prototypes above) in the TASP/CFD area generate a significant additional annual $117,000 in tax revenue per acre of development and high-rise developments an additional $234,000 per acre. The City uses these revenue streams to support additional public safety services in the TASP.

Source: Economic & Planning Systems

residential developments' high market values are the primary contributor to their positive net fiscal impacts. These estimates do not include the additional public service special tax payments made by new residential in the TASP that are discussed below.

- **Class A/B Office and Class A Office/R&D.** Class A Office and Office R&D prototype developments are expected to generate strong fiscal impacts to the City. The Class A Office development prototype is expected to generate about $770,000 in new General Fund revenues annually, more than double its expected new General Fund expenditures of $345,000, with an average fiscal surplus per acre of $85,000 per acre. The Class B Office prototype, although fiscally positive, is estimated to generate a significantly lower net fiscal impact than the other two Office uses at about $14,000 per acre. Class A Office/R&D development is expected to generate about $430,000 in new General Fund revenues annually relative to expected new General Fund expenditures of $175,000, with an average fiscal surplus of $50,000 per acre.

- **Light Industrial and Warehouse/Distribution Uses.** Light Industrial uses and Warehouse/Distribution uses are both estimated to generate positive annual net fiscal impacts. Their expected revenue generation is sufficient to cover their relatively modest costs, though the lower density nature of these developments means modest per acre fiscal positives. On a per acre basis, light industrial uses generate a fiscal surplus of $23,000 per acre and warehouse and distribution uses about $14,000 per acre.

- **Hotel and Retail Uses.** As is typical under the State of California's system of public finance, new hotel uses and retail generate strong fiscal surpluses to the City's General Fund. Hotel uses, with their strong transient occupancy taxes (TOT) and more modest public service demands, generate the highest fiscal surplus estimated. For Milpitas and the hotel development prototype evaluated (210 hotel rooms on 2.5 gross acres), the fiscal surplus is estimated at about $825,000 per acre. New retail uses also generate a positive fiscal surplus due to their strong sales and use tax generation. For Milpitas and the relatively low density retail development prototype evaluated (0.3 FAR, one-story development on 5 gross acres), the fiscal surplus of about $320,000 is spread across a broader land area resulting in a fiscal surplus of about $63,000 per acre.[9]

- **CFD/TASP Residential Development.** The above results for existing and new land uses are expressed strictly in terms of the fiscal impacts of the various land uses on the City's General Fund and exclude the role of the TASP's CFD. For existing and any future residential development inside the TASP, developments pay an additional annual payment towards the provision of public services through a CFD special tax.[10] This CFD was formed by the City to support the provision of additional public services for residential uses in the TASP, including police, fire, and storm protection services. The current CFD special tax rate is about $650 per

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[9] Because of e-commerce and other factors, retail uses are generally re-positioning and/or contracting in California cities so substantial new retail developments are expected to be relatively infrequent. Smaller, new retail development are occurring on the ground floor of mixed uses buildings typically with residential and office on the higher floors and with structured parking sharing the ground floor with the retail areas.

[10] Milpitas' Community Facilities District (CFD) 2008-1 was formed in 2008 under the authority of the Mello-Roos Community Facilities Act of 1982.

unit annually. As a result, mid-rise residential developments (see prototypes above) in the TASP/CFD area generate a significant additional annual $117,000 in tax revenue per acre of development and high-rise developments an additional $234,000 per acre. The City uses these revenues streams to support additional public safety services in the TASP.

Employment Density and Occupation/Wage Analysis

Different types of new workforce development accommodate different types of industries and different numbers of jobs/workers with different average wages/salaries. The sections below provide estimates of the expected employment densities and salaries/wages for selected land uses/development types.

Methodology

There are a range of data sources available that provide information or estimates of employment density (number of jobs per 1,000 square feet of a particular building type) as well as on wage levels by occupation. For employment density, information is often reported at a regional or statewide level. EPS reviewed multiple data sources to determine estimates of the average number of workers per building square foot and the average square feet required per worker. For the wage analysis, the first step was to obtain U.S. Census Bureau information on wages by industry sector by city. A connection was then made between the land use/development types being evaluated and the typical industry sectors occupying those building. It was then possible to estimate average wages of jobs in different building types in different cities. Because wage information by city is imperfect and due to the regional nature of employment markets, an average of the four cities evaluated was calculated to provide a planning-level estimate of future wages by building type.

Employment Density

The relationship between new development (building square feet) and the expected number of new workers accommodated is typically expressed as a jobs or employment density on a jobs per 1,000 square feet basis. **Table 3** shows the average expected jobs densities for different types of workplace development. EPS reviewed available data from CoStar in terms of jobs by building square feet for different uses in a range of Silicon Valley cities, reviewed information in different brokerage reports, project-specific information for recent developments where available, and other industry reports.[11] There is not sufficient variation between cities or data available to draw distinctions between the same land uses in different cities in Santa Clara County.

[11] CoStar Group, Inc. provides a web-based tool that collects data and analytics on commercial real estate industry sales and market trends.

Table 3. Employment Density by Land Use/Development Type

Land use	Sq. Ft./ Employee	Workers / 1,000 Sq. Ft.
Light Industrial	500	2.0
Retail	400	2.5
Warehouse and Distribution	1,300	0.8
Class A Office	225	4.4
Class A Office/R&D	300	3.3
Class B Office	300	3.3
Hotel	1,300	0.5

Source: CoStar, Cushman & Wakefield, U.S. Bureau of Labor Statistics, Moody's, EPS prior project work.

As shown in **Table 3**, the average employment density varies by development type. For office/industrial uses, Class A office is expected to have the highest density of workers of 225 square feet per worker (4.4 workers per 1,000 square feet); followed by Class A Office/R&D and Class B Office with 300 square feet per worker (3.3 workers per 1,000 square feet); Light Industrial with 500 square feet per worker (2 workers per 1,000 square feet); and Warehouse and Distribution with 1,300 square feet per worker (0.77 workers per 1,000 square feet).

Retail and Hotel employment densities often vary depending on the type of retail and hotel, though on average employment densities for retail developments are expected to be about 400 square feet per worker (2.5 workers per 1,000 square feet) and for hotel developments about 1,300 square feet per worker (typically about 0.5 workers per hotel room).

Industries and Annual Wages

Different land use/development types typically accommodate businesses from specific sets of industry sectors. U.S. Census Bureau information (American Community Surveys and associated applications) provide average wages by industry sector by city. EPS first linked different land use/development types to different industry sectors based on typically observed tenant profiles. Average wages for each of these industry sectors (or set of industry sectors) were then identified for the city of Milpitas and three other Santa Clara County cities – Sunnyvale, Santa Clara, and Mountain View, shown in **Table 4**.

Table 4. Industries and Annual Wages by Land Use/Development Type

Land Use/Development Type	Milpitas	Santa Clara	Sunnyvale	Mountain View	Primary Industry Sectors
Office/Industrial					
Class A Office	$121,500	$112,400	$120,900	$130,500	Information; Professional; Management
Class A Office/R&D	$122,100	$120,600	$135,700	$145,900	Professional; Scientific; Technical
Class B Office	$78,200	$88,300	$55,300	$80,500	Finance; Insurance; Real Estate
Light Industrial	$89,500	$120,600	$135,600	$120,600	Manufacturing
Warehouse/Distribution [1]	$39,300	$43,600	$75,200	-	Transportation and Warehousing
Retail/Hotel					
Retail	$34,000	$31,300	$41,100	$51,000	Retail Trade
Hotel	$33,900	$21,700	$23,600	$25,800	Accommodation and Food Services

[1] Mountain View has a low number of warehouse/distribution jobs, therefore skewing the salary data. For this reason, an average salary is not used in this category as it does not provide a representative comparison.
Source: 2019 1-Year ACS Estimates, Table S2413; U.S. Census Bureau, OnTheMap Application and LEHD Origin-Destination Employment Statistics.

Where development types typically accommodate multiple industry sectors with different wages, an average wage was calculated based on the cities' current mix of those industry types. Because there is typically a regional market for jobs and because of the potential for outliers/anomalies in individual cites, a four-city average wage was developed by land use/development type.

Table 5 shows the 2019 four-city average wages by land use category. This represents the estimated average wage for each new job accommodated in the specific land use category and is considered to be the best estimate of future wages by development type for the city of Milpitas.

Table 5. Industries and Annual Wages by Land Use/Development Type

Land Use/Development Type	Annual Wages	Primary Industry Sectors
Office/Industrial		
Class A Office	$135,000	Information; Professional; Management
Class A Office/R&D	$132,000	Professional; Scientific; Technical
Class B Office	$77,000	Finance; Insurance; Real Estate
Light Industrial	$118,000	Manufacturing
Warehouse/Distribution [1]	$51,000	Transportation and Warehousing
Retail/Hotel		
Retail	$47,000	Retail Trade
Hotel	$25,000	Accommodation and Food Services

Source: 2019 1-Year ACS Estimates, Table S2413; U.S. Census Bureau, OnTheMap Application and LEHD Origin-Destination Employment Statistics.

As shown in **Table 5**, jobs in Class A Office, Class A Office/R&D, and Light Industrial Uses (especially manufacturing sector) provide the highest average wages. Class B Office jobs accommodate a broader range of industries with, on average, more modest wages. Warehouse/distribution, retail, and hotel jobs provide relatively lower wages.[12]

Residual Land Value Analysis

Residual land value is a method for calculating the value of development land. A Residual Land Value Analysis provides important insights on the feasibility of different land uses/development types under current/recent market conditions and City policies. It also provides a tool to explore the extent to which the prospects for development improve as market conditions improve and/or as City policies are adjusted.

In this analysis, EPS conducted residual land value analysis on a set of potential Innovation District and MMSP area development prototypes in partnership with City staff. An initial residual land value analysis was conducted under recent market conditions and, where development prototypes were infeasible, under a potential, alternative set of conditions where market conditions were improved and/or City policies adjusted. The residual land value analyses provide important insights (as summarized further below) in terms of the level of change that may be required to support certain land uses. **Appendix E** provides the full residual land value table set.

[12] Jobs in Warehouse/Distribution include jobs in e-commerce fulfillment centers, such as Amazon.

Overall, the analysis shows that many of the uses of interest for the Innovation District are not currently feasible with other uses more likely to occur if lands are not protected for innovation uses in the medium/longer term. The analysis also shows that with significant improvements in market conditions and supportive polices, the desired uses for the Innovation District become feasible. As described elsewhere in this memorandum, these Innovation District uses would provide substantial fiscal and economic benefits to the City of Milpitas.

Methodology

A residual land value analysis specifically estimates the amount developers could pay for land and still meet a hurdle/basic level of return on their investment. A negative residual land value indicates the project is infeasible and a zero residual land value indicates the project is only feasible if land is available at no cost. Feasible projects on private land will need to cover all costs/return requirements and provide a sufficient land value payment to the existing landowner for them to agree to sell their land. Landowner threshold requirements for their land will depend on a range of factors, including, but not limited to (1) existing land uses, leases, and associated revenues streams; (2) land price expectations, sometimes informed by other recent land sales; and (3) general interest of landowner in selling land.

For each of the development prototypes (see below), the residual land value analyses compared the estimated development value of the development prototype once completed to the estimated development costs and return requirements (excluding any land acquisition costs). As a formula:

Residual Land Value = Project Development Value minus Development Costs (excluding the cost to purchase land)

The following assumptions underlie the residual land value analysis:

- **Project Development Value.** Project development value is driven by:

  (1) Estimated lease rates, vacancy rates, operating expenses and resulting Net Operating Income; and

  (2) The return on investment a project buyer would be looking for in acquiring the completed project (also known as the capitalization rate).

  Market conditions are generally the key factor to project development value and change through time with business and real estate cycles.

- **Project Development Costs.** Project development costs include a broad range of costs. The direct costs of construction primarily depend on material costs and construction labor costs, which are in turn tied to development type and height (that affect materials required and type of labor required). Parking requirements and the type of parking required are also key drivers to direct construction costs. Indirect costs are also substantial and include architecture and engineering costs, tenant improvements costs, legal, insurance, and inspection costs, financing costs, and permit fees, development impact fees, and other regulatory requirements.

Estimated project development costs are subtracted from project development values to determine the estimated residual land value. For each development prototype, the total residual land value is also converted into a per acre residual land value to allow for comparison of residual land values between different land uses/development prototypes.

Land Uses/Development Prototypes Evaluated

Seven (7) different development prototypes were created to support the feasibility analysis, including 5 different workspace prototypes and 2 residential prototypes. Four of the workspace prototypes represent development types that the City seeks to attract into the Innovation District. These include Class A Office (5 stories), Class A Office (8 stories), Class A Office/R&D (4-5 stories) and Light Industrial (3 stories) development types. In addition, the warehouse and distribution prototype is a workspace category that, with e-commerce growing, is being developed and proposed in the city of Milpitas and elsewhere and is studied as a point of comparison. The mid-rise residential development prototype has been increasingly common in the TASP area and is important as a point of reference as well as in terms of developer-decision making when offered residential and commercial development opportunities. High-rise residential development was also considered as a use of interest to the City in appropriate, transit-proximate locations.

The prototypes examined include:

- **Class A Office (5-story).** A 5-story office building with high-quality finishes, amenities, and systems.
- **Class A Office (8-story).** An 8-story office building with high-quality finishes, amenities, and systems.
- **Class A Office/R&D.** A 4- to 5-story commercial building with more flexible space that can accommodate both Class A Office and R&D uses.
- **Light Industrial.** A 3-story building intended for production, processing, and assembly activities that do not generate noise, odors, or fumes to the degree a heavy industrial use would.
- **Warehouse/Distribution.** A 1-story building intended for logistics, distribution, and warehouse uses.
- **Mid-Rise Multifamily Residential.** Apartment building of 7 stories in height with a density of about 90 Dwelling Units per Acre.
- **High-Rise Multifamily Residential.** Apartment building of 12 stories in height with a density of about 180 Dwelling Units per Acre.

Initial Results Under Current Market Conditions

Table 6 shows results of the residual land value analysis under early 2020 (pre-pandemic) market conditions and policies as described below. It is important to note that individual project residual land values will vary around the estimated planning-level average based on project specifics and costs/revenues at time of development/going to market:

- **Class A Office and Class A Office/R&D Development.** The combination of 2020 market conditions, development costs, and City policies/requirements indicate that new Class A Office development, at both 5 stories and 8 stories, as well as Class A Office/R&D development are not currently feasible. A comparison of estimated development costs to development value indicates a negative residual land value. These results are consistent with the current lack of these types of development in the city of Milpitas.

- **Light Industrial and Warehouse and Distribution Uses.** For light industrial and warehouse and distribution developments the current economic picture is more positive. For the prototypes evaluated, development values cover development costs and generate positive residual land values. Under these assumptions, these developments could pay between $2.2 million and $2.8 million per acre for land and still cover their development costs and meet a hurdle rate of return. This development economics picture is also reflected on the ground in the city of Milpitas with recent developments. Warehouse and distribution uses, in particular, have been driven by increasing demand associated with e-commerce, a trend that has strengthened during the pandemic, and directly results in stronger residual land values.

- **Residential Development.**[13] Mid-rise residential development also shows robust development economics using pre-COVID impact lease rates. Assuming the post-pandemic recovery continues and brings lease rates back to pre-COVID levels, new midrise residential development will continue to be a strong land use, with estimated residual land values of about $4.75 million per acre. Recent increases in construction costs may erode the residual land values, though it is likely that developers will continue to be willing to pay more for land that is suitable for and allows residential uses than for other uses. High-rise residential comes with higher per square foot construction costs and at the current time does not appear feasible in Milpitas.

[13] The baseline/current analyses are based on pre-COVID lease rates/development values. Forecasts indicate that, depending on the land uses, these rates should be achievable by 2023 or sooner. The application of pandemic lease rates would make residual land values lower for most land uses.

Table 6. Baseline Residual Land Value Results by Development Prototype (Current Market Conditions)

Prototype	Gross Acres	FAR/ Density	Building SF/ Units	Costs	Value	Residual Land Value	Per Acre Land Value
Workspace							
1 Class A Office (5-Story)	5	1.00	217,800	$157,400,000	$104,700,000	($52,700,000)	($10,540,000)
2 Class A Office (8-Story)	5	1.50	326,700	$250,000,000	$157,100,000	($92,900,000)	($18,580,000)
3 Class A Office/R&D	5	1.00	217,800	$128,800,000	$96,300,000	($32,500,000)	($6,500,000)
4 Light Industrial	5	0.50	108,900	$34,200,000	$48,500,000	$14,300,000	$2,860,000
5 Warehouse & Distribution	5	0.40	87,120	$13,200,000	$24,300,000	$11,100,000	$2,220,000
Residential							
6 Mid-Rise Residential	2	90	180	$105,300,000	$114,800,000	$9,500,000	$4,750,000
7 High-Rise Residential	2	180	360	$234,700,000	$229,600,000	($5,100,000)	($2,550,000)

* Costs, value, residual land value, and per acre land values are rounded to the nearest hundred thousands

Sensitivity Analyses and Results

Sensitivity analysis is a tool used to determine how outcomes and conclusions change as difficult model assumptions are adjusted. In this section, the analysis considers how improvements in market conditions as well as different policy approaches could change the outcomes of the residual land value analysis.

In general, it is expected that, over time, the combination of the new multi-modal Milpitas Transit Center (VTA/BART), the envisioned improvements and connections under the MMSP, broader awareness of opportunities in Milpitas, and the continued pre-eminence of Silicon Valley as a global innovation ecosystem will all result in improved market performance.

The sensitivity analyses looked at the land uses that currently return negative residual land values and potentially improved market conditions over time as potential City policy decisions. For market conditions, improvements were considered where conditions were similar to those in North San Jose in recent years. North San Jose currently shows substantially stronger conditions for office and office/R&D product types but was chosen due to its proximity to Milpitas and its more recent emergence as a jobs center relative to more established jobs center in Palo Alto and other cities. For policy adjustments, the two key areas of focus were reductions in Transit Area Development Impact Fees (TADIF) on nonresidential development in the Innovation District and the easing of parking requirements in the Innovation District. These policy options were selected as they directly affect the feasibility of these new development types. This analysis is particularly pertinent to the development of the Innovation District Implementation Framework in **Phase 2** as it provides some indication of potential City actions.

The results of the sensitivity analyses are shown in **Table 7** and described below.

Table 7. Baseline vs. Improved Residual Land Value Results by Development Prototype

Prototype	Building SF/ Units	Costs	Value	Residual Land Value	Per Acre Land Value
Class A Office (5-Story)					
Baseline	217,800	$157,400,000	$104,700,000	($52,700,000)	($10,540,000)
Improved	217,800	$138,100,000	$145,100,000	$7,000,000	$1,400,000
Class A Office (8-Story)					
Baseline	326,700	$250,000,000	$157,100,000	($92,900,000)	($18,580,000)
Improved	326,700	$217,200,000	$217,600,000	$400,000	$80,000
Class A Office/R&D					
Baseline	217,800	$128,800,000	$96,300,000	($32,500,000)	($6,500,000)
Improved	217,800	$117,800,000	$123,000,000	$5,200,000	$1,040,000
High-Rise Residential					
Baseline	360	$234,700,000	$229,600,000	($5,100,000)	($2,550,000)
Improved	360	$234,700,000	$237,800,000	$3,100,000	$1,550,000

* Costs, value, residual land value, and per acre land values are rounded to the nearest hundred thousands

Class A Office (5-story)

To test an improved scenario, the analysis: (1) improves development values by about $40 million by increasing the assumed lease rate by about 30 percent to be consistent with top of market rents in North San Jose and by reducing capitalization rates by 50 basis points; (2) decreases development costs by about $19 million through a combination of not charging the TADIF fee (about $8 million) and reducing the parking ratio to 2.4 spaces per 1,000 square feet (about $11 million) as opposed to the current number of spaces required per 1,000 square feet of office of 3.3. The parking cost savings assumes the developer can reduce its parking development without affecting the marketability of the office space.

The 5-story Class A Office development prototype showed a baseline negative residual land value of $52.7 million. The overall effect of these changes results in a residual land value of about $7 million or $1.4 million per acre, a substantial improvement. Some of the potential improvements are policy-driven while others depend on a combination of improvements in the area and evolution of Silicon Valley real estate in a way that supports higher rents in Milpitas. Under these circumstances, Class A Office development might be feasible though may still struggle to compete to purchase land relative to the land values that residential, light industrial, and warehouse and distribution sources can afford to pay.

Class A Office (8-story)

To test an improved Class A Office (8-story) scenario, the analysis makes the same adjustments as for the 5-Story Class A Office building including (1) improved development values through lease rate increase and capitalization rate reduction; and (2) reduced development costs by not charging the TADIF fee and reducing the parking ratio to 2.4.

The 8-story Class A Office development prototype showed a baseline negative residual land value of $92.9 million. The overall effect of these changes results in a residual land value of about $460,000 or $92,000 per acre, a substantial improvement. Some of the potential improvements

are policy-driven while others depend on a combination of improvements in the area and evolution of Silicon Valley real estate in a way that supports higher rents in Milpitas. The primary reason the results are worse for the 8-story vs. 5-story Class A Office building is the greater proportion of parking that needs to be structured.

Under these circumstances, higher density Class A Office development can cover its non-land development cost but does not generate sufficient value to cover land costs as well. As a result, there may be a longer wait (for market rents to go even higher) and/or it might require a joint venture with a public agency that is able to provide land at below market rates.

Class A Office/R&D (5-story)

To test an improved Class A Office/R&D (5-story) scenario, the analysis (1) improves development values by about $27 million by increasing the assumed lease rate by about 30 percent; and (2) decreases development costs by about $9 million by not charging the TADIF fee. No change in parking ratio is modelled as the baseline parking ratio is already relatively low at 2.3 space/1,000 square feet.

The Class A Office/R&D development prototype showed a baseline negative residual land value of $32.5 million. The overall effect of these changes results in a positive residual land value of about $5.2 million or about $1 million per acre. Under these circumstances, Class A Office/R&D development might be feasible though may still struggle to compete to purchase land relative to the land values that residential, light industrial, and warehouse and distribution sources can afford to pay.

High-Rise Residential Development

To test an improved high-rise residential scenario, the analysis improves development values by about $8 million by increasing the assumed lease rate by about 4 percent to be consistent with rents near the top end of the San Jose market.

The high-rise residential development prototype showed a baseline negative residual land value of $5.1 million. The improved development values with the increased lease rates turns the residual land value positive to about $1.6 million per acre. While this positive residual land value is not at the same level as the mid-rise residential development or some industrial uses, it does indicate that if residential lease rates increase faster than development costs in the coming years, high-rise residential development would become feasible in Milpitas.

Innovation District Scenarios Analysis

The vision for the Innovation District is described below:

The Innovation District will be an employment destination with modern office, research and development buildings and flexible space for people to interact through "creative collisions" and an innovative ecosystem. This ecosystem supports a risk-taking environment, facilitates idea generation with experimentation being central to the success of the Innovation District. The City of Milpitas aims to plan for a well-connected Innovation District with proximity to public transit and public infrastructure that supports bike paths, pedestrian scale sidewalks, social gathering places, and high-speed fiber. The growing innovation economy in Milpitas will require local leaders to plan long-term, but with short-term flexibility to shape future growth strategies within the Central Manufacturing Area South's Innovation District. The vision includes shaping our

urban development practices to build a culture of creativity, innovation, inclusivity and equity, and agility to help advance opportunities for innovation.

The Innovation District Scenarios Analysis considers the potential benefits/impacts of Innovation District development assuming District buildout under four (4) potential Innovation District scenarios.

Methodology

The Innovation District Development Scenarios Analysis applies the Employment Density, Occupation and Wage Analysis, and Fiscal Impact Analysis to the four potential Innovation District scenarios to determine the different economic and fiscal impact analyses associated with each scenario. The City's Office of Economic Development developed four development scenarios in close collaboration with the Planning Department and the MMSP consultant team. The scenarios incorporate a subset of MMSP parcels that have been identified as part of the Innovation District, and indicates the expected land use of each parcel, as well as the assumed density of development (i.e., Floor-Area-Ratios or residential units/acre).

For each scenario, the potential amount of new development by scenario was estimated. The employment density and wage analysis results were then applied to each development scenario to determine the number of jobs that could be accommodated and the associated estimated wages. In addition, the fiscal impact analysis results were also applied to the development scenarios to estimate the expected net impact on the City's General Fund under each of the scenarios.

Innovation District Scenarios

The City has identified approximately 74 acres of land as part of the Innovation District. This includes roughly 17 acres of land that are located adjacent to the Great Mall and an additional 57 acres of contiguous land. The 57-acre contiguous area includes about 10 acres on the eastern edge of the current TASP area boundary as well as an additional 47 acres of additional land further to the east on both sides of Montague Expressway, that is being incorporated into the new MMSP area.

City staff indicated different potential land uses for each of the parcels within the Innovation District (see **Appendix A** and **Appendix F**). **Table 8** shows a summary of the allocation of acres by land use for each of the scenarios. Land uses are divided into two broader categories and specific land use categories, including:

- **Employment Lands.** Class A Office; Class A Office/R&D, Class B Office, Industrial, Hotel, Warehouse/Distribution, and Commercial/Retail.[14]
- **Non-Employment Lands.** Housing, Open Space, Assembly, and Vacant uses are represented.

[14] Warehouse/Distribution uses are included as employments lands as they will generate some jobs, although they are often not viewed as job creators.

Table 8. Innovation District Scenario Acres by Land Use

Land Use	Scen. 1		Scen. 2		Scen. 3		Scen. 4	
	Acres	%	Acres	%	Acres	%	Acres	%
Employment Lands								
Class A Office	0.0	0%	3.6	5%	17.2	23%	31.2	42%
Class A Office/R&D	0.0	0%	4.3	6%	20.2	27%	33.3	45%
Class B Office	9.7	13%	0.0	0%	0.0	0%	0.0	0%
Industrial	8.9	12%	0.0	0%	23.4	31%	0.0	0%
Warehouse/Distribution	32.1	43%	23.4	31%	0	0%	0.0	0%
Hotel	6.8	9%	4.5	6%	6.8	9%	6.8	9%
Commercial/Retail	1.5	2%	35.5	48%	0.0	0%	0.0	0%
Employment Lands Subtotal	**59.0**	**79%**	**71.3**	**96%**	**67.6**	**91%**	**71.3**	**96%**
Nonemployment Lands								
Housing	0.0	0%	0.0	0%	3.7	5%	0.0	0%
Open Space	0.0	0%	3.1	4%	3.1	4%	3.1	4%
Assembly	10.6	14%	0.0	0%	0	0%	0.0	0%
Vacant	4.8	6%	0.0	0%	0.0	0%	0.0	0%
Nonemployment Lands Subtotal	**15.4**	**21%**	**3.1**	**4%**	**6.8**	**9%**	**3.1**	**4%**
Total	**74.4**	**100%**	**74.4**	**100%**	**74.4**	**100%**	**74.4**	**100%**

The four scenarios are generally intended to reflect the following circumstances:

- **Scenario 1.** Represents the existing environment and current land use designations in the Innovation District (ID). Current parcel uses include Warehouse/Distribution (43 percent of ID acres), Assembly (14 percent), Class B Office (13 percent), and Industrial (12 percent).
- **Scenario 2.** Scenario where Innovation District (ID) parcels are primarily redeveloped as Retail/Commercial (48 percent of ID acres) with a strong ongoing Warehouse/Distribution component (31 percent).
- **Scenario 3.** Represents a potential Innovation District (ID) with a strong presence of new Class A Office and Class A Office/R&D development (50 percent of ID acres), Light Industrial uses (31 percent), continued Hotel uses, and modest amounts of Housing and Open Space.
- **Scenario 4.** Represents a potential Innovation District (ID) with an even stronger presence of new Class A Office and Class A Office/R&D development (87 percent of ID acres) along with continued Hotel uses.

To estimate the potential number of jobs, wages, and housing units associated with each of the scenarios, City staff and EPS developed a set of development prototypes that could be associated with the Innovation District land use designations. **Table 9** provides the assumed details of the different development prototypes, including density, number of stories, gross building area, and building square feet based on typical development characteristics seen in the region. City staff provided the Floor-Area-Ratios based on their preferred development typologies. As shown, the level of new building development on an acre of Innovation District land ranges from

13,000 square feet for Commercial/Retail development to 65,300 square feet for Class A Office development. For Residential land uses, the number of units on each acre varies between 90 units and 180 units depending on whether the development is mid-rise or high-rise.

Table 9. Innovation District Development Prototypes/Intensities

Area	FAR/Density	Stories	Gross Acres	Gross Building Area/# of Units	Building Sq. Ft./ Acre
Employment Lands Prototypes					
Class A Office	1.5	8	5	326,700	65,340
Class A Office/R&D	1.0	5	5	217,800	43,560
Class B Office	0.4	3	5	87,120	17,424
Light Industrial	0.6	3	5	130,680	26,136
Warehouse/Distribution	0.6	1	5	130,680	26,136
Hotel [1]	1.3	6	2.5	136,125	54,450
Commercial/Retail	0.3	1	5	65,340	13,068
Residential Development					
Mid-Rise (5-7 story)	90 units/acre	7	2	180	90 units
High-Rise (8-12 story)	180 units/acre	12	2	360	180 units

[1] 210 hotel rooms at 650 gross square feet per room. Gross square footage for hotel uses include the hotel room and additional eating, cooking, laundry spaces, plus other operational areas.

Applying the development prototype information to the land use scenarios provides the potential development under each of these scenarios as presented in **Table 10**. As shown, the amount of development on employment lands ranges from 790,000 square feet under Scenario 1 up to 3.8 million square feet under Scenario 4. There is no residential development in Scenarios 1, 2, and 4, with a potential 330 units under Scenario 3.

Table 10. Residential Units and Employment Lands Building Sq. Ft. by Scenario

Area	Scen. 1	Scen. 2	Scen. 3	Scen. 4
Employment Lands				
Class A Office	0	235,224	1,125,155	2,039,784
Class A Office/R&D	0	187,308	879,825	1,449,677
Class B Office	168,664	0	0	0
Industrial	232,454	0	611,582	0
Warehouse/Distribution	839,122	611,582	0	0
Hotel	370,260	245,025	370,260	370,260
Commercial/Retail	19,406	463,888	0	0
Total Employment Lands (Building Sq. Ft.)	**1,629,906**	**1,743,027**	**2,986,822**	**3,859,721**
Residential Units	0	0	331	0

Innovation District Jobs and Wages by Scenario

Table 11 through **Table 14** summarize the potential land uses, development levels, jobs and total salaries for each scenario.

Scenario 1 (Table 11). Scenario 1 is expected to accommodate about 1.63 million square feet of employment lands development, including roughly 800,000 square feet of Warehouse and Distribution development. Collectively, a total of about 2,000 jobs providing about $140 million in annual wages could be accommodated (over $70,000 per worker).

Table 11. Scenario 1 Summary: Developed Acres, Building Square Footage, Employees, and Salaries

Land Use	Acres	Units/ Sq. ft.	# of Employees	Employees/ Acre	Salary/ Job	Total Annual Salaries
Employment Lands						
Class A Office	0.0	0	0	0	$135,000	$0
Class A Office/R&D	0.0	0	0	0	$132,000	$0
Class B Office	9.7	168,664	562	58	$77,000	$43,291,000
Industrial	8.9	232,454	465	52	$118,000	$54,859,000
Warehouse/Distribution	32.1	839,122	645	20	$51,000	$32,919,000
Hotel	6.8	370,260	285	42	$25,000	$7,120,000
Commercial/Retail	1.5	19,406	49	33	$47,000	$2,280,000
Total	**59.0**	**1,629,906**	**2,006**	**34**	**$70,000**	**$140,469,000**
Residential	0.0	0	na	na	na	na

* Excludes any open space, assembly uses, and vacant land.

Scenario 2 (Table 12). Scenario 2 is expected to accommodate about 1.74 million square feet of employment lands development, including 600,000 square feet of Warehouse and Distribution development. Collectively, a total of about 3,500 jobs providing about $307 million in annual wages could be accommodated (almost $88,000 per worker).

Table 12. Scenario 2 Summary: Developed Acres, Building Square Footage, Employees, and Salaries

Land Use	Acres	Units/ Sq. ft.	# of Employees	Employees/ Acre	Salary/ Job	Total Annual Salaries
Employment Lands						
Class A Office	3.6	235,224	1,045	290	$135,000	$141,134,000
Class A Office/R&D	4.3	187,308	624	145	$132,000	$82,416,000
Class B Office	0.0	0	0	0	$77,000	$0
Industrial	0.0	0	0	0	$118,000	$0
Warehouse/Distribution	23.4	611,582	470	20	$51,000	$23,993,000
Hotel	4.5	245,025	188	42	$25,000	$4,712,000
Commercial/Retail	35.5	463,888	1,160	33	$47,000	$54,507,000
Total	**71.3**	**1,743,027**	**3,488**	**49**	**$88,000**	**$306,762,000**
Residential	0	0	na	na	na	na

* Excludes any open space, assembly uses, and vacant land.

Scenario 3 (Table 13). Scenario 3 is expected to accommodate about 3.0 million square feet of employment lands development. Collectively, a total of about 9,400 jobs providing about $1.2 billion in annual wages could be accommodated (near $128,500 per worker). This scenario also includes 331 residential units.

Table 13. Scenario 3 Summary: Developed Acres, Building Square Footage, Employees, and Salaries

Land Use	Acres	Units/ Sq. ft.	# of Employees	Employees/ Acre	Salary/ Job	Total Annual Salaries
Employment Lands						
Class A Office	17.2	1,125,155	5,001	290	$135,000	$675,093,000
Class A Office/R&D	20.2	879,825	2,933	145	$132,000	$387,123,000
Class B Office	0.0	0	0	0	$77,000	$0
Industrial	23.4	611,582	1,223	52	$118,000	$144,333,000
Warehouse/Distribution	0.0	0	0	0	0	0
Hotel	6.8	370,260	285	42	$25,000	$7,120,000
Commercial/Retail	0.0	0	0	0	$47,000	$0
Total	**67.6**	**2,986,822**	**9,441**	**140**	**$128,547**	**$1,213,669,000**
Residential	3.7	331	na	na	na	na

* Excludes any open space, assembly uses, and vacant land.

Scenario 4 (Table 14). Scenario 4 is expected to accommodate about 3.86 million square feet of employment lands development, primarily Class A Office and Class A Office/R&D. Collectively, a total of about 14,200 jobs providing almost $2.0 billion in annual wages could be accommodated (around $131,800 per worker).

Table 14. Scenario 4 Summary: Developed Acres, Building Square Footage, Employees, and Salaries

Land Use	Acres	Units/ Sq. ft.	# of Employees	Employees/ Acre	Salary/ Job	Total Annual Salaries
Employment Lands						
Class A Office	31.2	2,039,784	9,066	290	$135,000	$1,223,870,000
Class A Office/R&D	33.3	1,449,677	4,832	145	$132,000	$637,858,000
Class B Office	0.0	0	0	0	$77,000	$0
Industrial	0.0	0	0	0	$118,000	$0
Warehouse/Distribution	0.0	0	0	0	0	0
Hotel	6.8	370,260	285	42	$25,000	$7,120,000
Commercial/Retail	0.0	0	0	0	$47,000	$0
Total	**71.3**	**3,859,721**	**14,183**	**199**	**$131,769**	**$1,868,848,000**
Residential	0.0	0	na	na	na	na

* Excludes any open space, assembly uses, and vacant land.

Innovation District Fiscal Impacts by Scenario

Table 15 estimates the net annual fiscal impacts of each of the Innovation District scenarios on the City's General Fund at District buildout (in 2021 constant dollars). Estimated net fiscal impacts are derived by applying the average Net General Fund Fiscal Impact per Acre estimates derived in the above Fiscal Impact Analysis to each of the four Innovation District land uses scenarios. In summary:

- **Scenario 1.** At scenario buildout, Scenario 1 is estimated to generate about $6.5 million annually to the City's General Fund. Over 85 percent of this net positive fiscal impact (approximately $5.6 million) is driven by the 6.8 acres of Hotel uses and their associated TOT revenues. The additional fiscal surplus of $900,000 annually comes from the combination of other uses.

- **Scenario 2.** At scenario buildout, Scenario 2 results in an estimated $6.8 million annually in positive net fiscal impact to the General Fund. While this scenario includes fewer Hotel acreage compared to Scenario 1, the overall impact is slightly greater due to the substantial acreage devoted to Commercial/Retail uses, which drive about $2.3 million in net annual fiscal impact due primarily to their significant sales and use tax revenues. About $850,000 annually of the fiscal surplus is associated with new uses other than Hotel and Commercial/Retail.

- **Scenario 3.** At scenario buildout, Scenario 3 is expected to generate a net fiscal impact of over $8.6 million annually. This scenario includes the same amount of Hotel acreage as Scenario 1 but is composed of a significant amount of Class A Office and Class A Office/R&D acreage. About $3.0 million of the annual fiscal surplus is estimated to be generated by non-Hotel uses, fully generated by the new Class A Office, Class A Office/R&D, and Light Industrial development.

- **Scenario 4.** At scenario buildout, Scenario 4 generates the strongest net fiscal impact to the City's General Fund at an estimated $9.9 million annually. This result is driven by maintaining the original 6.8 acres for Hotel use but shifting the remaining acreage entirely to Class A Office and Class A Office/R&D, which are strong fiscal contributors, while still preserving 3.1 acres for Open Space. About $4.4 million of the annual fiscal surplus is estimated to be generated by non-Hotel uses, with the new Class A Office and Class A Office/R&D generating all of these additional surplus revenues.

Table 15. Annual Net Fiscal Impacts by Innovation District Scenario

Land Use	Annual Net Fiscal Impact				
	Per Acre	**Scenario 1**	**Scenario 2**	**Scenario 3**	**Scenario 4**
Employment Lands					
Class A Office	*$85,406*	$0	$307,462	$1,470,694	$2,666,210
Class A Office/R&D	*$51,222*	$0	$220,253	$1,034,577	$1,704,659
Class B Office	*$14,299*	$138,414	$0	$0	$0
Industrial	*$22,648*	$201,430	$0	$529,961	$0
Warehouse/Distribution	*$13,527*	$434,295	$316,530	$0	$0
Hotel	*$826,580*	$5,620,744	$3,719,610	$5,620,744	$5,620,744
Commercial/Retail	*$63,925*	$94,929	$2,269,210	$0	$0
Employment Lands Subtotal		$6,489,812	$6,833,065	$8,655,975	$9,991,613
Residential	*$9,153*	$0	$0	$33,682	$0
Scenario Total		**$6,489,812**	**$6,833,065**	**$8,689,657**	**$9,991,613**

Source: Economic & Planning Systems

APPENDICES:

Appendix A: Maps

Appendix B: Fiscal Impact Analysis—Existing Uses

Appendix C: Fiscal Impact Analysis—New Uses

Appendix D: Glossary of Terms

Appendix E: Residual Land Value Analysis

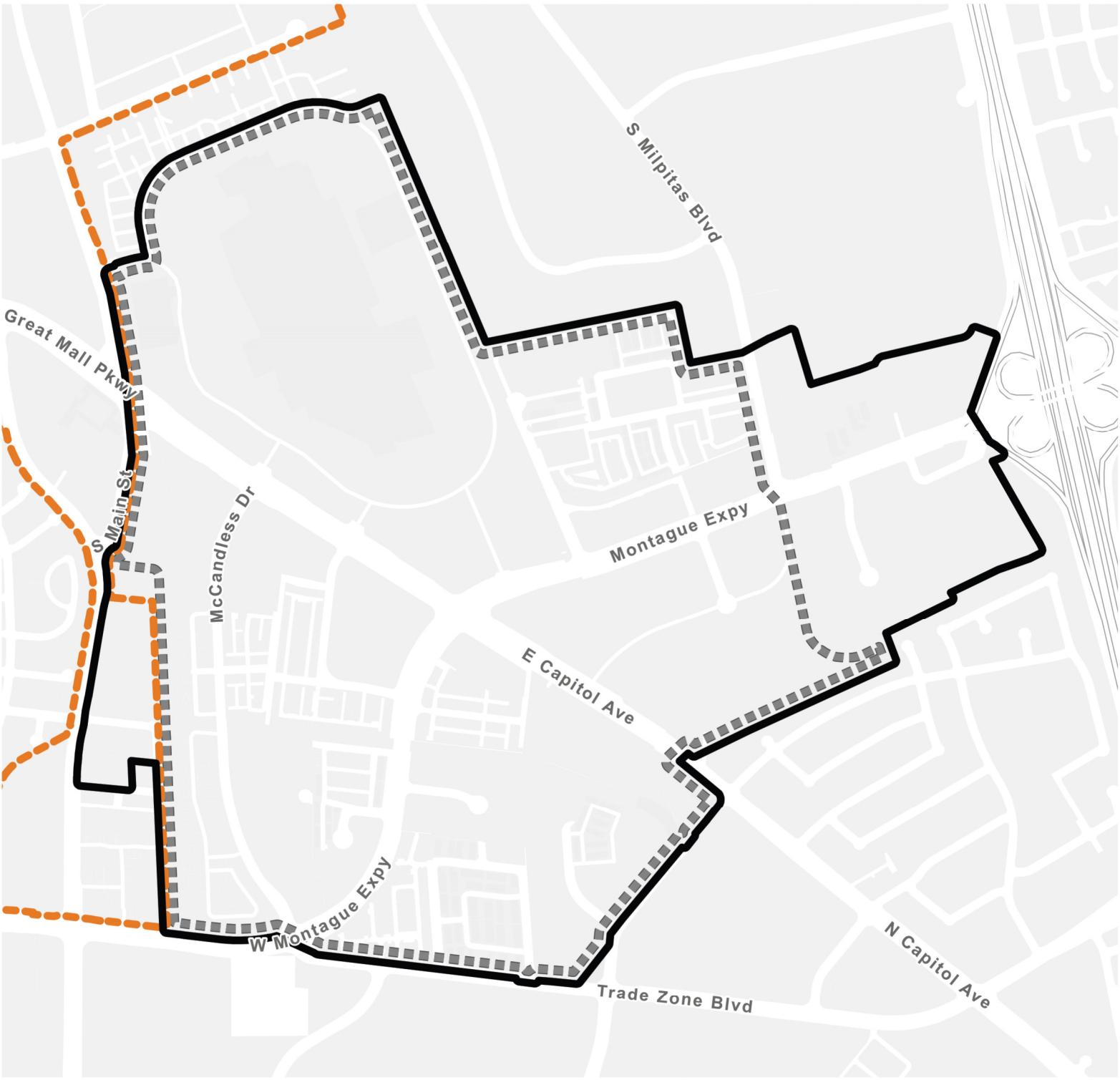
Appendix F: Innovation District Scenarios

APPENDIX A:

Maps

BOUNDARIES

MILPITAS METRO



Milpitas Metro Boundary

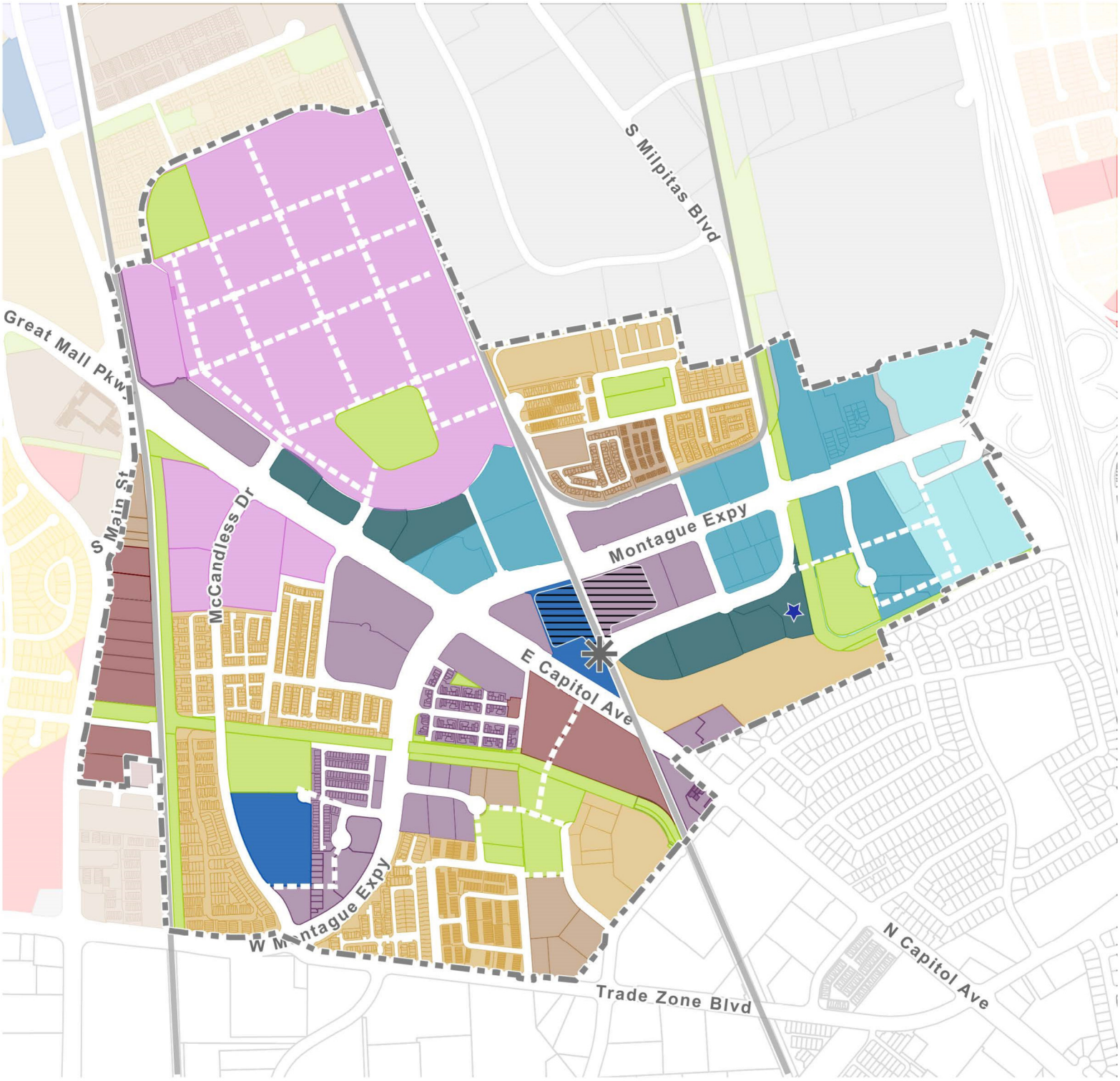
2008 TASP Boundary

Midtown Specific Plan Boundary

GIS data provided by:
- Milpitas Metro Boundary - City of Milpitas / Roads - US Census Bureau 2019 TIGER

0 200 400 600 800 1,000 Feet

Milpitas Metro Specific Plan Land Uses



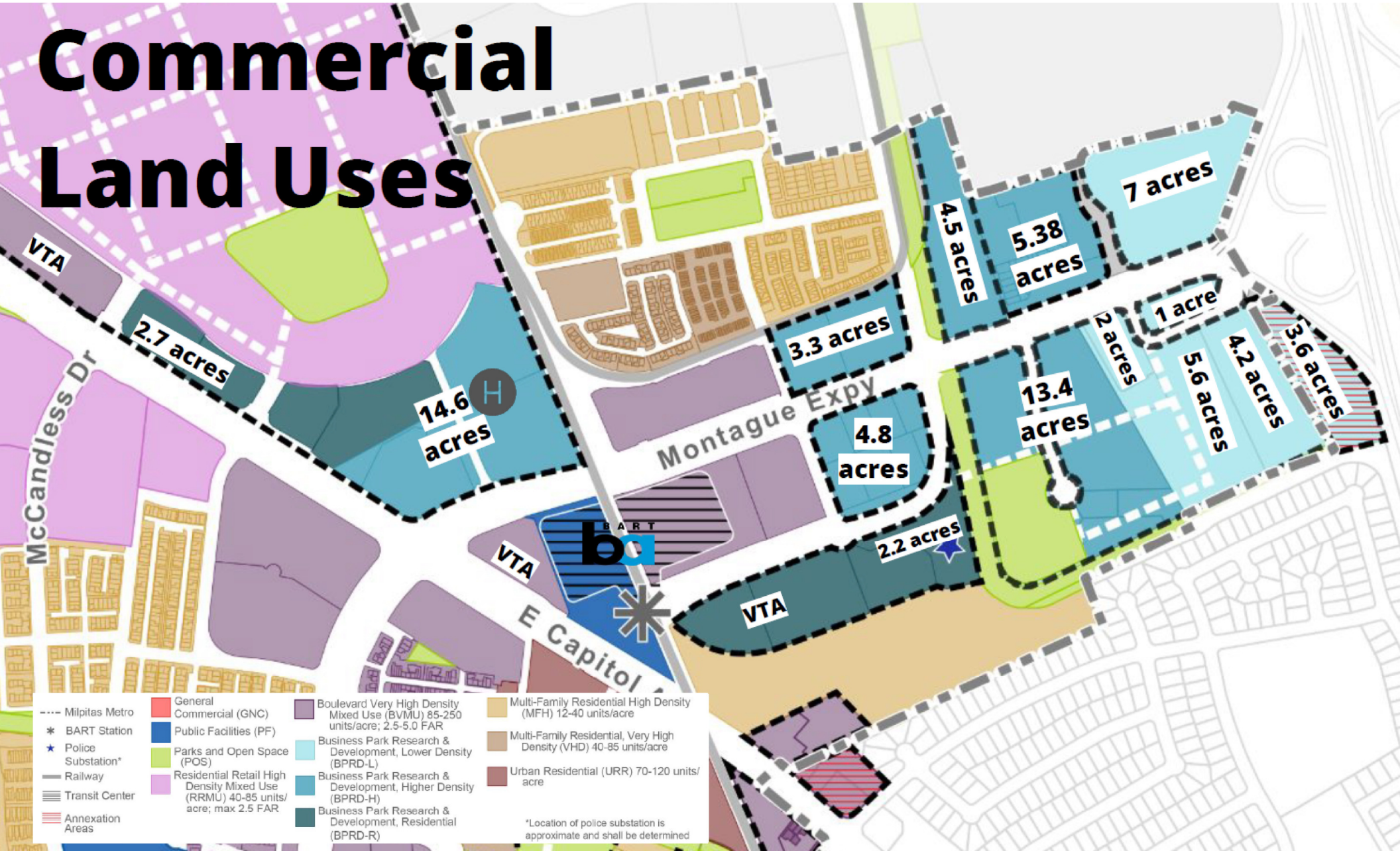
- Milpitas Metro
- ✱ BART Station
- ★ Police Substation*
- Railway
- Transit Center

- Public Facilities (PF)
- Permanent Open Space (POS)
- Residential Retail High Density Mixed Use (RRMU) 40-85 units/acre; max 2.5 FAR
- Boulevard Very High Density Mixed Use (BVMU) 85-250 units/acre; 2.5-5.0 FAR
- Business Park Research & Development, Lower Density (BPRD-L); 1.0-2.5 FAR
- Business Park Research & Development, Higher Density (BPRD-H); 1.0-2.5 FAR
- Business Park Research & Development, Residential (BPRD-R); 1.0-5.0 FAR
- Multi-Family Residential High Density (MFH) 30-40 units/acre
- Multi-Family Residential, Very High Density (VHD) 40-85 units/acre
- Urban Residential (URR) 70-120 units/acre

*Location of police substation is approximate and shall be determined through the implementation of the MMSP.

GIS data provided by: General Plan - City of Milpitas / Roads - US Census Bureau 2019 TIGER / Basemap - ESRI

Innovation District Land Uses



APPENDIX B:

Fiscal Impact Analysis—Existing Uses

Table 1
City of Milpitas Annual Citywide Fiscal Impact of Existing Uses
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Annual General Fund Impacts	Single Family	Multi-Family	Office	Industrial	Retail	Hotel	Other Uses	Total
General Fund Revenues								
Property Tax	$14,774,099	$6,671,212	$544,022	$6,251,994	$1,931,997	$627,253	$941,356	$31,741,933
Property Tax In-Lieu of VLF	$3,696,107	$1,668,969	$136,100	$1,564,091	$483,337	$156,923	$235,503	$7,941,031
Sales Taxes	$3,752,701	$1,076,926	$822,258	$6,950,982	$15,514,270	$34,669	$220,146	$28,371,951
Real Estate Transfer Tax	$370,582	$167,335	$13,646	$156,820	$48,461	$15,734	$23,612	$796,190
Business License Tax	$0	$0	$54,661	$199,016	$32,036	$14,356	$65,582	$365,650
Motor Vehicle In-Lieu	$26,708	$7,665	$0	$0	$0	$0	$647	$35,020
Other Taxes	$397,290	$175,000	$68,307	$355,836	$80,496	$30,089	$89,841	$1,196,860
Franchise Fees	$3,221,727	$924,550	$192,907	$702,353	$113,058	$50,663	$309,528	$5,514,787
Transient Occupancy Tax	$0	$0	$0	$0	$0	$13,452,683	$0	$13,452,683
Licenses, Permits, and Fines	$5,787,719	$1,660,922	$346,551	$1,261,752	$203,105	$91,015	$556,055	$9,907,120
Total Revenues	**$27,933,537**	**$10,508,610**	**$1,974,045**	**$15,522,917**	**$17,842,927**	**$14,286,373**	**$2,116,925**	**$90,185,334**
	31%	12%	2%	17%	20%	16%	2%	100%
General Fund Expenditures								
General Government	$2,511,645	$720,775	$150,390	$547,551	$88,140	$39,497	$241,306	$4,299,304
Economic Development	$534,026	$153,251	$31,976	$116,420	$18,740	$8,398	$51,307	$914,118
Building Safety & Housing	$4,032,635	$1,157,260	$241,462	$879,135	$141,515	$63,415	$387,436	$6,902,858
Engineering	$1,367,502	$392,437	$81,882	$298,122	$47,989	$21,505	$131,383	$2,340,819
Finance	$2,545,109	$730,379	$152,393	$554,847	$89,314	$40,023	$244,521	$4,356,586
Fire	$16,252,557	$4,664,053	$973,154	$3,543,140	$570,341	$255,581	$1,561,465	$27,820,292
Human Resources	$1,227,784	$352,341	$73,516	$267,663	$43,086	$19,308	$117,959	$2,101,657
Information Technology	$2,174,120	$623,915	$130,180	$473,969	$76,295	$34,189	$208,879	$3,721,547
Planning	$579,456	$166,289	$34,696	$126,324	$20,334	$9,112	$55,671	$991,883
Police	$21,940,150	$6,296,242	$1,313,710	$4,783,064	$769,932	$345,021	$2,107,901	$37,556,020
Public Works	$5,348,454	$1,534,865	$320,249	$1,165,990	$187,690	$84,107	$513,853	$9,155,209
Recreation & Community Services	$1,905,131	$546,722	$114,074	$415,328	$66,856	$29,959	$183,036	$3,261,106
Total Expenditures	**$60,418,568**	**$17,338,528**	**$3,617,682**	**$13,171,555**	**$2,120,232**	**$950,116**	**$5,804,717**	**$103,421,399**
	58%	17%	3%	13%	2%	1%	6%	100%
Annual Net Impact on General Fund	**($32,485,031)**	**($6,829,918)**	**($1,643,637)**	**$2,351,362**	**$15,722,695**	**$13,336,257**	**($3,687,792)**	**($13,236,065)**

Source: Economic & Planning Systems

Table 2
Milpitas Population and Employment
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Item	Citywide Total	Source
Housing Units	22,553	Department of Finance 2020
Occupied Households	21,814	Department of Finance 2020
Population	77,961	Department of Finance 2020
Persons/Household Single Family	3.76	ACS 2019 5-Year Est. & DOF 2020
Persons/Household Multifamily	2.70	ACS 2019 5-Year Est. & DOF 2020
Jobs	47,630	LEHD Employment Statistics 2018
Service Population	101,776	Assumes 1 employee is equivalent to 50% of a resident

[1] See **Appendix Table A-3** for calculations.

Source: Economic & Planning Systems

Table 3
Land Use Assumptions
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Land Use Category	Citywide Inventory		Total Residents	Total Employees	Total Service Population[1]
	Dwelling Units	Square Feet			
Residential					
Single Family	15,817 DUs	-	59,457	-	59,457
Multi-Family	6,308 DUs	-	17,063	-	17,063
Non-Residential[2]					
Office	-	1,780,063 SF	-	7,120	3,560
Industrial	-	20,865,527 SF	-	25,924	12,962
Retail	-	5,020,977 SF	-	4,173	2,087
Hotel	2,667 Rooms	-	-	1,870	935
Other Uses[3]	428 DUs	- SF	1,441	8,543	5,712
Citywide Total	22,553 DUs	27,666,567 SF	77,961	47,630	101,776

[1] Applies a factor of 100% to residents and 50% to employees.

[2] Per CoStar Group.

[3] Other residential uses include mobile homes, other non-residential uses included within this category are listed in **Table 12**.

Source: CoStar Group; Economic & Planning Systems

Table 4
Assessed Values by Land Use
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Land Use Category	Citywide Inventory	Milpitas 2021 Assessed Value[1]
Residential		
Single Family	15,817 DUs	$9,119,814,483
Multi-Family	6,308 DUs	$4,118,031,901
Non-Residential		
Office	1,780,063 SF	$335,815,823
Industrial	20,865,527 SF	$3,859,255,762
Retail	5,020,977 SF	$1,192,590,968
Hotel	2,667 Rooms	$387,193,287
	Other Residential Uses[2]	$740,252
	Other Non-Residential Uses[3]	$580,343,445
Citywide Residential Total	**22,553 DUs**	
Citywide Non-Residential Total	**27,666,567 SF**	
	Citywide Total	**$19,593,785,921**

[1] Per data acquired via Parcel Atlas and Santa Clara County Assessor's Office.

[2] Includes Mobile Homes.

[3] Land Uses included in this category are displayed in **Table 12**.

Source: Parcel Atlas; Economic & Planning Systems

Table 5
General Fund Revenue Summary
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Item	FY 2020/21 General Fund Revenues*	Impact Estimating Factors
Property Tax	36,872,241	16.20% of 1% of base assessed value
Property Tax In-Lieu of VLF[1]	$7,941,031	Case Study Approach
Sales Taxes	$28,371,951	1.25% of estimated taxable sales
Real Estate Transfer Tax	$796,190	attributed by assessed value
Business License Tax	$365,650	per employee
Motor Vehicle In-Lieu	$35,020	per resident
Other Taxes	$1,196,860	
Franchise Fees	$5,514,787	per service population
Transient Occupancy Tax	$13,452,683	fully attributed to Hotel use
Licenses, Permits, and Fines	$9,907,120	per service population
Use of Money and Property	$1,364,000	- not impacted
Intergovernmental	$708,597	- not impacted
General Government Service Charges	$640,000	Cost Recovery[2]
Engineering Service Charges	$1,814,000	Cost Recovery[2]
Fire Service Charges	$460,000	Cost Recovery[2]
Police Service Charges	$730,000	Cost Recovery[2]
Recreation Service Charges	$3,043,000	Cost Recovery[2]
Building Service Charges	$46,000	Cost Recovery[2]
Planning Service Charges	$939,500	Cost Recovery[2]
Charges for Current Services	$7,672,500	Cost Recovery[2]
Other Revenue	$68,000	- not impacted
Operating Transfers In	$7,013,990	- not impacted
Total Revenues	**$112,142,729**	

*2020-21 Adopted General Fund Budget values per City of Milpitas 2020-2021 Adopted Budget & Financial Plan

[1] Subset of total property tax.

[2] These revenues are considered as cost recovery revenues and are taken out of these departments' expenditures as shown in **Table 6**.

Source: City of Milpitas 2020-2021 Adopted Budget & Financial Plan; Economic & Planning Systems

Table 6
General Fund Expenditure Budget Summary and Fiscal Estimating Factors
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Item	FY 2020/21 Adopted GF Expenditures			Estimating Factors	Per Service Pop. GF Expense[2]
	Total	Offsetting[1]	Net		
General Government[3]	$4,939,304	$640,000	$4,299,304	101,776 Service Pop.	$42.24
Economic Development	$914,118	-	$914,118	101,776 Service Pop.	$8.98
Building Safety & Housing	$6,948,858	$46,000	$6,902,858	101,776 Service Pop.	$67.82
Engineering	$4,154,819	$1,814,000	$2,340,819	101,776 Service Pop.	$23.00
Finance	$4,356,586	-	$4,356,586	101,776 Service Pop.	$42.81
Fire	$28,280,292	$460,000	$27,820,292	101,776 Service Pop.	$273.35
Human Resources	$2,101,657	-	$2,101,657	101,776 Service Pop.	$20.65
Information Technology	$3,721,547	-	$3,721,547	101,776 Service Pop.	$36.57
Planning	$1,931,383	$939,500	$991,883	101,776 Service Pop.	$9.75
Police	$38,286,020	$730,000	$37,556,020	101,776 Service Pop.	$369.01
Public Works	$9,155,209	-	$9,155,209	101,776 Service Pop.	$89.95
Recreation & Community Services	$6,304,106	$3,043,000	$3,261,106	101,776 Service Pop.	$32.04
Other[4]	$5,623,983	-	$5,623,983	not impacted	$0.00
Total General Fund Expenditures	**$116,717,882**		**$109,045,382**		**$1,016**

[1] Represents departmental service charges shown in **Table 5**.
[2] Divides net expenditure item by Service Population.
[3] General Government category consists of the City Council, City Manager, City Clerk, and City Attorney Departmental expenditures.
[4] Other category consists of Equipment to be Depreciated, Non-Departmental expenditures, and Transfers Out.

Source: Economic & Planning Systems

Table 7
Property Tax Revenue by Land Use Estimate
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Property Tax and Estimating Factors	Assumption / Est. Factor	*Formula*	Residential		Non-Residential				
			Single Family	Multifamily	Office	Industrial	Retail	Hotel	Other
Property Tax									
Total Assessed Value by Land Use[1]	see **Table 4**.	*a*	$9,119,814,483	$4,118,031,901	$335,815,823	$3,859,255,762	$1,192,590,968	$387,193,287	$581,083,697
Property Tax	1.0% Base Property Tax Rate	*b = a * 1.0%*	$91,198,145	$41,180,319	$3,358,158	$38,592,558	$11,925,910	$3,871,933	$5,810,837
General Fund Property Tax Revenue[2]	16.20% Allocation to General Fund	*c = b * 16.20%*	$14,774,099	$6,671,212	$544,022	$6,251,994	$1,931,997	$627,253	$941,356
Property Tax In-Lieu of VLF									
Existing Citywide Property Tax In-Lieu of VLF[3]	$7,941,031	*d = $7,941,031*							
Citywide Taxable Assessed Value[1]	$19,593,785,921	*e = $19,593,785,921*							
Percentage of Citywide Assessed Value		*f = a / e*	46.5%	21.0%	1.7%	19.7%	6.1%	2.0%	3.0%
New General Fund Property Tax In-Lieu of VLF		*e = d * f*	$3,696,107	$1,668,969	$136,100	$1,564,091	$483,337	$156,923	$235,503

[1] Per **Table 4**.
[2] Per Page 29 of Milpitas 2020-2021 Adopted Budget & Financial Plan.
[3] Per **Table 5**.

Source: Economic & Planning Systems

Table 8
Milpitas General Fund Annual Sales Tax Revenue Estimate from Residential Development
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Item	Assumptions / Estimating Factors	Residential	
		Single Family	Multi-family
Residential Spending			
Estimated Annual Household Income	Based on Per Capita Income[1]	$210,896	$151,755
Household Taxable Retail Spending as a Percent of Income	Bureau of Labor Statistics[2]	18%	18%
Taxable Retail Spending per Household		$37,961	$27,316
Citywide Household Counts		15,817	6,308
Total Citywide Retail Spending from Households		$600,432,222	$172,308,140
Taxable Retail Sales Captured in Milpitas	50% of Retail Expenditures	$300,216,111	$86,154,070
Total Retail Sales Tax Revenue from Household Spending	**1.25% of Taxable Sales[3]**	**$3,752,701**	**$1,076,926**

[1] Existing residential income estimates reflect ACS 2019 1-Year Estimates Per Capita Income for Milpitas' total population of $56,103, multiplied by the average household sizes of 3.76 for single family homes and 2.71 for multi-family homes.
[2] Based on the Bureau of Labor Statistics 2018 Consumer Expenditure Survey, value shown is average between percentage for households with incomes above $200,000 and households with incomes between $150,000 and $199,999.
[3] Includes the City's standard 1% share and the 0.25% additional share via Measure F, passed in 2020.

Source: Economic & Planning Systems

Table 9
Milpitas General Fund Annual Sales Tax Revenue Estimate from Commercial Development
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Sales Tax Sources and Estimating Factors	Assumptions / Estimating Factors	*Formula*	Non-Residential				
			Office	Industrial	Retail	Hotel	Other
Worker-Generated Retail Sales							
Citywide Employees	per **Table 3**.	*a*	7,120	25,924	4,173	1,870	8,543
Weekly Taxable Retail Spending per Worker[1]		*b*	$97.32	$77.73	$31.09	$36.35	$50.53
Annual Citywide Taxable Retail Spending	48 working weeks per year	*c = a * b * 48*	$33,260,328	$96,721,740	$6,227,316	$3,262,940	$20,719,583
Milpitas Spending Capture[2]	85% of retail expenditures	*d = c * 85%*	$28,271,279	$82,213,479	$5,293,219	$2,773,499	$17,611,646
Annual General Fund Worker-Generated Retail Sales Tax Revenue	1.25% of taxable sales	*e = d * 1.25%*	$353,391	$1,027,668	$66,165	$34,669	$220,146
Non-Retail Establishment Sales							
Business-to-Business Annual Retail Sales Tax Revenue	per Avenue Insights & Analytics Data		$468,867	$5,923,313	-	-	-
On-Site Retail Sales							
Annual General Fund On-Site Retail Sales Tax Revenue	Citywide Sales Tax Revenue less Other Sources		-	-	$15,448,105	-	-
Total Annual General Fund Sales Tax Revenue			**$822,258**	**$6,950,982**	**$15,514,270**	**$34,669**	**$220,146**

[1] Per ICSC data adjusted to 2021$ using BLS CPI Index.
[2] EPS assumption.

Source: Economic & Planning Systems

Table 10
Other General Fund Revenues
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Revenue Source	Assumption / Estimating Factor[1]	Residential		Non-Residential				Other
		Single Family	Multifamily	Office	Industrial	Retail	Hotel	
Real Estate Transfer Tax	attributed by assessed value	$370,582	$167,335	$13,646	$156,820	$48,461	$15,734	$23,612
Business License Tax	$7.68 per employee	$0	$0	$54,661	$199,016	$32,036	$14,356	$65,582
Motor Vehicle In-Lieu	$0.45 per resident	$26,708	$7,665	$0	$0	$0	$0	$647
Franchise Fees	$54.19 per service pop.	$3,221,727	$924,550	$192,907	$702,353	$113,058	$50,663	$309,528
Licenses, Permits, and Fines	$97.34 per service pop.	$5,787,719	$1,660,922	$346,551	$1,261,752	$203,105	$91,015	$556,055
Total Annual Other Revenues	**$160** per service pop.	**$9,406,737**	**$2,760,472**	**$607,766**	**$2,319,941**	**$396,659**	**$171,768**	**$955,424**

[1] See **Table 6** for cost estimates and **Table 3** for total service population by land use.

Source: Economic & Planning Systems

Table 11
General Fund Expenditure Calculations
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Expenditure Source	Factors Applied to Estimate Prototype Expenditures[1]	Residential		Non-Residential				Other
		Single Family	Multifamily	Office	Industrial	Retail	Hotel	
General Government	$42.24 per service pop.	$2,511,645	$720,775	$150,390	$547,551	$88,140	$39,497	$241,306
Economic Development	$8.98 per service pop.	$534,026	$153,251	$31,976	$116,420	$18,740	$8,398	$51,307
Building Safety & Housing	$67.82 per service pop.	$4,032,635	$1,157,260	$241,462	$879,135	$141,515	$63,415	$387,436
Engineering	$23.00 per service pop.	$1,367,502	$392,437	$81,882	$298,122	$47,989	$21,505	$131,383
Finance	$42.81 per service pop.	$2,545,109	$730,379	$152,393	$554,847	$89,314	$40,023	$244,521
Fire	$273.35 per service pop.	$16,252,557	$4,664,053	$973,154	$3,543,140	$570,341	$255,581	$1,561,465
Human Resources	$20.65 per service pop.	$1,227,784	$352,341	$73,516	$267,663	$43,086	$19,308	$117,959
Information Technology	$36.57 per service pop.	$2,174,120	$623,915	$130,180	$473,969	$76,295	$34,189	$208,879
Planning	$9.75 per service pop.	$579,456	$166,289	$34,696	$126,324	$20,334	$9,112	$55,671
Police	$369.01 per service pop.	$21,940,150	$6,296,242	$1,313,710	$4,783,064	$769,932	$345,021	$2,107,901
Public Works	$89.95 per service pop.	$5,348,454	$1,534,865	$320,249	$1,165,990	$187,690	$84,107	$513,853
Recreation & Community Services	$32.04 per service pop.	$1,905,131	$546,722	$114,074	$415,328	$66,856	$29,959	$183,036
Total Annual Expenditures	**$1,016** per service pop.	**$60,418,568**	**$17,338,528**	**$3,617,682**	**$13,171,555**	**$2,120,232**	**$950,116**	**$5,804,717**

[1] See **Table 6** for cost estimates and **Table 3** for total service population by land use.

Source: Economic & Planning Systems

Table 12
Milpitas Primary Use Code Categorization Index and Assessed Value Summary
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Primary Use Code[1]	Classification[2]
Single Family	
Duplex (2 units, any combination)	Single Family
Residential (General) (Single)	Single Family
Single Family Residential	Single Family
Townhouse (Residential)	Single Family
Triplex (3 units, any combination)	Single Family
Multifamily	
Apartment house (5+ units)	Multifamily
Condominium (Residential)	Multifamily
Multi-Family Dwellings (Generic, any combination 2+)	Multifamily
Office	
Professional Bldg (legal; insurance; real estate; business)	Office
Skyscraper/Highrise (Commercial Offices)	Office
Hotel	
Hotel	Hotel
Industrial	
Chemical	Industrial
Condominiums (Industrial)	Industrial
Foundry, Industrial Plant (metal; rubber; plastic)	Industrial
Horticulture, Growing Houses, Ornamental (Agricultural)	Industrial
Industrial (General)	Industrial
Light Industrial (10% improved office space; Machine Shop)	Industrial
Lumberyard, Building Materials	Industrial
Manufacturing (light)	Industrial
Mill (feed; grain; paper; lumber; textile; pulp)	Industrial
Mining (oil; gas; mineral, precious metals)	Industrial
Mixed Use (Commercial/Industrial)	Industrial
Processing Plant (minerals; cement; rock; gravel; glass; clay)	Industrial
Public Utility (Electric; Water; Gas; etc.)	Industrial
R&D Facility, Laboratory, Research Facility, Cosmetics, Pharmaceuti	Industrial
Storage yard, Open Storage (light equipment, material)	Industrial
Transportation & Communications (General)	Industrial
Warehouse (Industrial)	Industrial

Primary Use Code[1]	Classification[2]
Retail	
Community: Shopping Plaza, Shopping Center, Mini-Mall	Retail
Neighborhood: Shopping Center, Strip Center, Enterprise Zone	Retail
Recreational/Entertainment (General)	Retail
Regional: Shopping Center, Mall (w/Anchor)	Retail
Retail Stores (Personal Services, Photography, Travel)	Retail
Service station (full service)	Retail
Wholesale Outlet, Discount Store (Franchise)	Retail
Other Uses	
Charitable organization, Fraternal	Not Included
City, Municipal, Town, Village Owned (Exempt)	Not Included
Community Center (Exempt)	Not Included
Day care, Pre-school (Commercial)	Not Included
Homes (retired; handicap, rest; convalescent; nursing)	Not Included
Hospital-PUBLIC	Not Included
Industrial-Vacant Land	Not Included
Irrigation, Flood Control	Not Included
Orchard (fruit; nut)	Not Included
Park, Playground, Picnic Area	Not Included
Parking Lot	Not Included
Pasture, Meadow	Not Included
Public School (administration; campus; dorms; instruction)	Not Included
Public Swimming Pool	Not Included
Railroad & related	Not Included
Recreation Center	Not Included
Religious, Church, Worship (Synagogue, Temple, Parsonage)	Not Included
Residential-Vacant Land	Not Included
Roads, Streets, Bridges	Not Included
Timberland, Forest, Trees (Agricultural)	Not Included
Vacant Land (General)	Not Included
Waste Land, Marsh, Swamp, Submerged-Vacant Land	Not Included
Winery	Not Included
Mobile home	Not Included

[1] Primary Use Codes per Santa Clara County Assessor Tax Roll data. Assesssed Values were summed by Primary Use Codes, which required classification into the land uses relevant for this effort to derive total Assessed Values by land use.
[2] Demonstrates how Primary Use Codes were grouped to arrive at total assessed value by land use type.

Source: Santa Clara County Assessor; Economic & Planning Systems

APPENDIX C:

Fiscal Impact Analysis—New Uses

Table 1
City of Milpitas Annual General Fund Fiscal Impacts per Acre
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Annual General Fund Impacts	Mid-Rise Multifamily	High-Rise Multifamily	Class A Office	Office / R & D	Light Industrial	Warehouse/ Distribution	Hotel
General Fund Revenues							
Property Tax	$191,702	$397,211	$352,556	$199,254	$78,611	$39,374	$126,707
Property Tax In-Lieu of VLF	$47,959	$99,372	$88,201	$49,848	$19,666	$9,850	$31,699
Sales Taxes	$28,005	$57,993	$156,730	$91,922	$40,181	$25,964	$801
Real Estate Transfer Tax	$5,207	$10,788	$4,788	$2,706	$1,068	$535	$1,721
Business License Tax	$0	$0	$10,032	$5,016	$1,505	$463	$614
Motor Vehicle In-Lieu	$218	$437	$0	$0	$0	$0	$0
Other Taxes	$5,425	$11,225	$14,820	$7,722	$2,572	$998	$2,335
Franchise Fees	$21,341	$42,681	$57,382	$28,691	$8,607	$2,648	$3,513
Transient Occupancy Tax	$0	$0	$0	$0	$0	$0	$1,916,250
Licenses, Permits, and Fines	$38,338	$76,675	$103,086	$51,543	$15,463	$4,758	$6,311
Total Revenues	$332,770	$685,158	$772,774	$428,980	$165,101	$83,592	$2,087,616
per Acre	*$166,385*	*$342,579*	*$154,555*	*$85,796*	*$33,020*	*$16,718*	*$835,046*
General Fund Expenditures							
General Government	$3,217	$6,433	$3,537	$1,768	$530	$163	$217
Economic Development	$1,368	$2,736	$1,504	$752	$226	$69	$92
Building Safety & Housing	$10,329	$20,658	$11,357	$5,678	$1,703	$524	$695
Engineering	$3,503	$7,005	$3,851	$1,926	$578	$178	$236
Finance	$3,260	$6,519	$3,584	$1,792	$538	$165	$219
Fire	$104,073	$208,146	$114,425	$57,212	$17,164	$5,281	$7,005
Human Resources	$1,572	$3,145	$1,729	$864	$259	$80	$106
Information Technology	$2,784	$5,569	$3,061	$1,531	$459	$141	$187
Planning	$1,484	$2,968	$1,632	$816	$245	$75	$100
Police	$140,493	$280,986	$154,468	$77,234	$23,170	$7,129	$9,456
Public Works	$34,249	$68,497	$37,655	$18,828	$5,648	$1,738	$2,305
Recreation & Community Services	$8,133	$16,266	$8,942	$4,471	$1,341	$413	$547
Total Expenditures	$314,464	$628,929	$345,743	$172,872	$51,861	$15,957	$21,166
per Acre	*$157,232*	*$314,464*	*$69,149*	*$34,574*	*$10,372*	*$3,191*	*$8,466*
Annual Net Impact on General Fund	**$18,305**	**$56,229**	**$427,031**	**$256,109**	**$113,239**	**$67,635**	**$2,066,450**
per Acre	*$9,153*	*$28,115*	*$85,406*	*$51,222*	*$22,648*	*$13,527*	*$826,580*

Source: Economic & Planning Systems

Table 2
Milpitas Population and Employment
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Item	Citywide Total	Source
Housing Units	22,553	Department of Finance 2020
Occupied Households	21,814	Department of Finance 2020
Population	77,961	Department of Finance 2020
Persons/Household Multifamily	2.70	ACS 2019 5-Year Est. & DOF 2020
Jobs	47,630	LEHD Employment Statistics 2018
Service Population	97,437	See **Table 3**

Source: Economic & Planning Systems

Table 3
Service Population Factors based on Resident to Employee Equivalencies
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Item		Existing #	Existing %	Weight[2]	Weighted Average
Employment Status of Milpitas Residents[1]	*Formula:*	*a = b * 77,961*	*b [1]*	*c*	*= b * c*
Not in Labor Force		41,429	53.1%	100%	53.1%
Employed in the City[3]		3,808	4.9%	50%	2.4%
Employed Outside of the City		32,724	42.0%	67%	28.2%
Total Residents		**77,961**	100.0%		83.8%
Residence Status of Milpitas Employees[1]	*Formula:*	*a = b * 47,630*	*b [1]*	*c*	*= b * c*
Live in the City[3]		3,808	8.0%	50%	4.0%
Live Outside the City		43,825	92.0%	33%	30.3%
Total Jobs		**47,630**	100.0%		34.2%
Employee to Resident Equivalency Factor[4]				**(34.2% / 83.8%) =**	**40.9%**
Service Population Calculation					
Amount Attributable to Residents (@ 100%)		77,961	80.0%		
Amount Attributable to Employees (@ 40.9%)		19,476	20.0%		
Total Service Population		**97,437**	100.0%		

[1] Distribution and total jobs based on data from U.S. Census (OnTheMap 2018). Total residents based on 2020 estimates provided by DOF in Table E-5.

[2] Represents EPS estimate of how various types of residents and employees relate to each other in terms of demand for City Services.

[3] The number of residents who are employed in the City and the number of employees in the City who are residents are the same, representing the same group of unique individuals. This group is reflected both in the Total Residents and the Total Jobs to demonstrate the composition of the totals, with their weighting split evenly between the resident and employee groups.

[4] Equals weighted average of residents divided by weighted average of employees.

Sources: LEHD OnTheMap 2018, Department of Finance, and Economic & Planning Systems, Inc.

Table 4
Prototype Developments by Land Use Type
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Item	Residential		Non-Residential				
	Mid-Rise Multifamily	High-Rise Multifamily	Class A Office	Office / R & D	Light Industrial	Warehouse / Distribution	Hotel
Gross Land Area (AC)	2.0	2.0	5.0	5.0	5.0	5.0	2.5
FAR	-	-	1.5	1.0	0.5	0.4	-
Gross Building Area	216,000	432,000	326,700	217,800	108,900	87,120	130,000
Net Leasable Area	172,800	345,600	294,030	196,020	98,010	78,408	104,000
Units / Rooms per AC	90	180	-	-	-	-	80
Dwelling Units / Rooms	180	360	-	-	-	-	200
Market Rate DU	*153*	*306*	-	-	-	-	
Market Rate Monthly Rent PSF	*$3.75*	*$3.90*	-	-	-	-	
Below Market Rate DU	*27*	*54*	-	-	-	-	-
BMR Monthly Rent PSF	*$2.76*	*$2.76*	-	-	-	-	-
Capitalized Value	**$118,334,782**	**$245,192,059**	**$217,626,944**	**$122,996,424**	**$48,525,159**	**$24,304,775**	**$78,214,286**
per GBA	*$547.85*	*$567.57*	*$666.14*	*$564.72*	*$445.59*	*$278.98*	*$601.65*
per DU / Room	*$657,415*	*$681,089*	-	-	-	-	*$391,071*
Persons Per Household	2.70	2.70	-	-	-	-	-
Total Residents	486	972	-	-	-	-	-
Square Feet per Employee	-	-	225	300	500	1,300	1,300
Total Employees	-	-	1,307	653	196	60	80
Total Service Population[1]	486	972	534	267	80	25	33
Average HH Income	$138,298	$143,194	-	-	-	-	-
Average Salary	-	-	$135,000	$132,000	$118,000	$51,000	$25,000

[1] Applies a factor of 0.41 to employees and 1.0 to residents as derived in **Table 3**.

Source: Economic & Planning Systems

Table 5
General Fund Revenue Summary
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Item	FY 2020/21 General Fund Revenues*	Impact Estimating Factors	Table Reference
Property Tax	36,872,241	16.20% of 1% of base assessed value	**Table 7**
Property Tax In-Lieu of VLF[1]	$7,941,031	Case Study Approach	**Table 7**
Sales Taxes	$28,371,951	1.25% of taxable sales[2]	**Tables 8 & 9**
Real Estate Transfer Tax	$796,190	$0.55 per $1,000 in assessed value	**Table 10**
Business License Tax	$365,650	$7.68 per Employee[3]	**Table 12**
Motor Vehicle In-Lieu	$35,020	$0.45 per Resident[3]	**Table 12**
Other Taxes	$1,196,860		
Franchise Fees	$5,514,787	$43.91 per Employee / Resident[4]	**Table 12**
Transient Occupancy Tax	$13,452,683	14% of hotel revenues	**Table 11**
Licenses, Permits, and Fines	$9,907,120	$78.88 per Employee / Resident[4]	**Table 12**
Use of Money and Property	$1,364,000	- not impacted	
Intergovernmental	$708,597	- not impacted	
General Government Service Charges	$640,000	Cost Recovery[5]	**Table 6**
Operating Transfers In	$7,013,990	- not impacted	
Total Revenues	**$112,142,729**		

*2020-21 Adopted General Fund Budget values per City of Milpitas 2020-2021 Adopted Budget & Financial Plan

[1] Subset of total property tax.

[2] Includes the City's standard 1% share and the 0.25% additional share via Measure F, passed in 2020.

[3] Divides line item by the employee / resident totals from **Table 2**.

[4] Divides line item by the total number of employees and residents citywide without applying a service population factor.

[5] These revenues are considered as cost recovery revenues and are taken out of these departments' expenditures as shown in **Table 6**.

Source: City of Milpitas 2020-2021 Adopted Budget & Financial Plan; Economic & Planning Systems

Table 6
General Fund Expenditure Budget Summary and Fiscal Estimating Factors
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Item	FY 2020/21 Adopted GF Expenditures			Percent Variable[2]	Annual Variable Expense	Estimating Factors	Per Service Pop. GF Expense
	Total	Offsetting[1]	Net				
General Government[3]	$4,939,304	$640,000	$4,299,304	15%	$644,896	97,437 Service Pop.	$6.62
Economic Development	$914,118	-	$914,118	30%	$274,235	97,437 Service Pop.	$2.81
Building Safety & Housing	$6,948,858	$46,000	$6,902,858	30%	$2,070,857	97,437 Service Pop.	$21.25
Engineering	$4,154,819	$1,814,000	$2,340,819	30%	$702,246	97,437 Service Pop.	$7.21
Finance	$4,356,586	-	$4,356,586	15%	$653,488	97,437 Service Pop.	$6.71
Fire	$28,280,292	$460,000	$27,820,292	75%	$20,865,219	97,437 Service Pop.	$214.14
Human Resources	$2,101,657	-	$2,101,657	15%	$315,249	97,437 Service Pop.	$3.24
Information Technology	$3,721,547	-	$3,721,547	15%	$558,232	97,437 Service Pop.	$5.73
Planning	$1,931,383	$939,500	$991,883	30%	$297,565	97,437 Service Pop.	$3.05
Police	$38,286,020	$730,000	$37,556,020	75%	$28,167,015	97,437 Service Pop.	$289.08
Public Works	$9,155,209	-	$9,155,209	75%	$6,866,407	97,437 Service Pop.	$70.47
Recreation & Community Services	$6,304,106	$3,043,000	$3,261,106	50%	$1,630,553	97,437 Service Pop.	$16.73
Other[4]	$5,623,983	-	$5,623,983	-	$0	not impacted	$0.00
Total General Fund Expenditures	**$116,717,882**		**$109,045,382**		**$63,045,961**		**$647.05**

[1] Represents departmental service charges shown in **Table 5**.
[2] EPS assumption.
[3] General Government category consists of the City Council, City Manager, City Clerk, and City Attorney Departmental expenditures.
[4] Other category consists of Equipment to be Depreciated, Non-Departmental expenditures, and Transfers Out.

Source: Economic & Planning Systems

Table 7
Property Tax Revenue by Land Use Estimate
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Property Tax and Estimating Factors	Assumption / Est. Factor	*Formula*	Mid-Rise Multifamily	High-Rise Multifamily	Class A Office	Office / R & D	Light Industrial	Warehouse / Distribution	Hotel
Property Tax									
Total Assessed Value[1]	see **Table 4**.	*a*	$118,334,782	$245,192,059	$217,626,944	$122,996,424	$48,525,159	$24,304,775	$78,214,286
Property Tax	1.0% Base Property Tax Rate	*b = a * 1.0%*	$1,183,348	$2,451,921	$2,176,269	$1,229,964	$485,252	$243,048	$782,143
General Fund Property Tax Revenue[2]	16.20% Allocation to General Fund	*c = b * 16.20%*	$191,702	$397,211	$352,556	$199,254	$78,611	$39,374	$126,707
Property Tax In-Lieu of VLF									
Existing Citywide Property Tax In-Lieu of VLF[3]	$7,941,031	*d = $7,941,031*							
Citywide Taxable Assessed Value[4]	$19,593,785,921	*e = $19,593,785,921*							
Percentage of Citywide Assessed Value		*f = a / e*	0.6%	1.3%	1.1%	0.6%	0.2%	0.1%	0.4%
New General Fund Property Tax In-Lieu of VLF		*e = d * f*	$47,959	$99,372	$88,201	$49,848	$19,666	$9,850	$31,699

[1] Per **Table 4**.
[2] Per Page 29 of Milpitas 2020-2021 Adopted Budget & Financial Plan.
[3] Per **Table 5**.
[4] Per Santa Clara County Assessor.

Source: Economic & Planning Systems

Table 8
Residential Sales Tax Revenue Estimates
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Item	Assumption	Mid-Rise Multifamily	High-Rise Multifamily
Households	per **Table 4**	180	360
Estimated Annual Household Income[1]	Rent is 30% of Income	$138,298	$143,194
Taxable Retail Spending per Household[2]	18% of Household Income	$24,894	$25,775
Taxable Retail Spending by Prototype		$4,480,842	$9,278,945
Taxable Retail Sales Captured in Milpitas	50% Capture Rate	$2,240,421	$4,639,473
Annual General Fund Sales Tax Revenue	1.25% of Taxable Sales	**$28,005**	**$57,993**

[1] Annual rent estimated based on a 960 net square foot (NSF) apartment renting at $3.75 per NSF for both development types.
[2] Based on the Bureau of Labor Statistics 2018 Consumer Expenditure Survey.

Source: Economic & Planning Systems

Table 9
Non-Residential Sales Tax Revenue Estimates
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Description	Assumption	Class A Office	Office / R & D	Light Industrial	Warehouse / Distribution	Hotel
Worker-Generated Retail Sales						
Total Workers	see **Table 4**	1,307	653	196	60	80
Weekly Taxable Retail Spending per Worker[1]		$106	$104	$93	$40	$20
Annual Taxable Retail Spending per Worker	48 weeks per year	$5,090	$4,977	$4,449	$1,923	$943
Total Annual Taxable Retail Spending		$6,651,995	$3,252,087	$872,151	$115,984	$75,412
Milpitas Spending Capture	85% of retail expenditures	$5,654,196	$2,764,274	$741,328	$98,586	$64,100
Annual General Fund Retail Sales Tax Revenue from Workers	1.25% of taxable sales	$70,677	$34,553	$9,267	$1,232	$801
Non-Retail Establishment Sales						
Business-to-Business Annual Retail Sales Tax Revenue	per Avenue Insights & Analytics Data	$86,052	$57,368	$30,915	$24,732	$0
Total Annual General Fund Sales Tax Revenue		**$156,730**	**$91,922**	**$40,181**	**$25,964**	**$801**

Source: Economic & Planning Systems

Table 10
Property Transfer Tax Estimates
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Item	*Formula*	Mid-Rise Multifamily	High-Rise Multifamily	Class A Office	Office / R & D	Light Industrial	Warehouse / Distribution	Hotel
Market Value Assumption[1]	*a*	$118,334,782	$245,192,059	$217,626,944	$122,996,424	$48,525,159	$24,304,775	$78,214,286
Annual Turnover Rate[2]	*b*	8%	8%	4%	4%	4%	4%	4%
Annual Assessed Value Turnover	*c = a * b*	$9,466,783	$19,615,365	$8,705,078	$4,919,857	$1,941,006	$972,191	$3,128,571
Documentary Transfer to the City[3]	*d = c / 1,000 * $0.55*	**$5,207**	**$10,788**	**$4,788**	**$2,706**	**$1,068**	**$535**	**$1,721**

[1] Per **Table 4**.
[2] Assumes multifamily rental property resold every 15 years, commercial property resold every 30 years.
[3] Per IX-10-2.01 of the Milpitas Code of Ordinances.

Source: Economic & Planning Systems

Table 11
Transient Occupancy Tax
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Item	Assumption	Value
Total Hotel Rooms	see **Table 4**	200
Average Daily Rate (ADR)[1]		$250
Occupancy Rate[1]		75%
Annual Hotel Room Revenues		$13,687,500
General Fund TOT Revenue	14% of revenue	$1,916,250

[1] per CoStar Group data.

Source: CoStar Group; Economic & Planning Systems

Table 12
Other General Fund Revenue Item Estimates
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Revenue Source	Factors Applied to Estimate Prototype Revenues[1]		Mid-Rise Multifamily	High-Rise Multifamily	Class A Office	Office / R & D	Light Industrial	Warehouse / Distribution	Hotel
Business License Tax	$7.68	per Employee	$0	$0	$10,032	$5,016	$1,505	$463	$614
Motor Vehicle In-Lieu	$0.45	per Resident	$218	$437	$0	$0	$0	$0	$0
Franchise Fees	$43.91	per Employee / Resident	$21,341	$42,681	$57,382	$28,691	$8,607	$2,648	$3,513
Licenses, Permits, and Fines	$78.88	per Employee / Resident	$38,338	$76,675	$103,086	$51,543	$15,463	$4,758	$6,311
Total Annual Other Revenues	**$131**	per Employee / Resident	**$59,897**	**$119,793**	**$170,500**	**$85,250**	**$25,575**	**$7,869**	**$10,438**

[1] See **Table 5** for revenue factors and **Table 4** for total service population by land use.

Source: Economic & Planning Systems

Table 13
General Fund Expenditure Estimates
City of Milpitas Fiscal Benefits of Employment Lands Study; EPS #211034

Expenditure Source	Factors Applied to Estimate Prototype Expenditures[1]	Mid-Rise Multifamily	High-Rise Multifamily	Class A Office	Office / R & D	Light Industrial	Warehouse / Distribution	Hotel
General Government	$6.62 per Service Pop.	$3,217	$6,433	$3,537	$1,768	$530	$163	$217
Economic Development	$2.81 per Service Pop.	$1,368	$2,736	$1,504	$752	$226	$69	$92
Building Safety & Housing	$21.25 per Service Pop.	$10,329	$20,658	$11,357	$5,678	$1,703	$524	$695
Engineering	$7.21 per Service Pop.	$3,503	$7,005	$3,851	$1,926	$578	$178	$236
Finance	$6.71 per Service Pop.	$3,260	$6,519	$3,584	$1,792	$538	$165	$219
Fire	$214.14 per Service Pop.	$104,073	$208,146	$114,425	$57,212	$17,164	$5,281	$7,005
Human Resources	$3.24 per Service Pop.	$1,572	$3,145	$1,729	$864	$259	$80	$106
Information Technology	$5.73 per Service Pop.	$2,784	$5,569	$3,061	$1,531	$459	$141	$187
Planning	$3.05 per Service Pop.	$1,484	$2,968	$1,632	$816	$245	$75	$100
Police	$289.08 per Service Pop.	$140,493	$280,986	$154,468	$77,234	$23,170	$7,129	$9,456
Public Works	$70.47 per Service Pop.	$34,249	$68,497	$37,655	$18,828	$5,648	$1,738	$2,305
Recreation & Community Services	$16.73 per Service Pop.	$8,133	$16,266	$8,942	$4,471	$1,341	$413	$547
Total Annual Expenditures	**$647** per Service Pop.	**$314,464**	**$628,929**	**$345,743**	**$172,872**	**$51,861**	**$15,957**	**$21,166**

[1] See **Table 6** for cost estimates and **Table 4** for total service population by land use.

Source: Economic & Planning Systems

APPENDIX D:

Glossary of Terms

Glossary of Terms

- **Gross Land Area**. This is the total land area associated with a development measured in acres. It includes not only the building itself, but also parking and landscaping areas, as well as roads and other supporting areas.
- **Gross Area**. This is the total square footage of any buildings for lease. It includes both the occupied areas – such as apartment square footage/ office suite square footage – as well as common areas, such as elevators and corridors, as well as mechanical and storage areas.
- **Efficiency Ratio**. The efficiency ratio represents the ratio, often presented as a percentage, between the Net Area (defined below) and the Gross Leasable Area.
- **Net Area**. The net area represents the leased area that is specifically for the tenant, such as apartment size or office suite etc. The net area is equal to the gross area multiplied by the efficiency ratio.
- **Parking Spaces**. This represents the number of parking spaces associated with a building. The number of spaces is often defined by the required parking ratio that provides the number of parking spaces that must be provided for every 1,000 gross square feet of space.
- **Gross Revenue**. Gross revenues, sometimes referred to as full service gross (FSG), represents the gross revenues expected to be paid by the tenant. This can be expressed as an annual lease payment per net square foot per year as well as a total annual gross revenue for the full net area leased.
- **Operating Expenses**. The building owner/ landlord receives the gross revenues but also must directly pay a broad range of building operating expenses, including janitorial, building maintenance, insurance, property taxes, and utilities. These are estimated as a percentage of gross revenues.
- **Commissions**. Leasing commissions represent the percentage of rent that is passed on to real estate agents in connection with the building lease.
- **Vacancy Rate**. The vacancy rate represents the average percentage of the net leasable area that is vacant at any point in time.
- **Capitalized Value**. The capitalized value represents the estimated value/ sales price of a building/ development. It is typically calculated based on: (1) annual net operating income (annual revenues minus annual operating expenditures); and, (2) the capitalization (cap) rate which represents the observed ratio between building sales prices and net operating incomes in different market areas.
- **Building Construction Cost**. Building construction represents the direct cost of constructing the building often expressed on a cost per gross area basis.
- **Parking Cost/Site Work**. Parking costs represent the direct cost of constructing parking spaces (whether surface or structured), while site work consists of preparing the site for construction (e.g. grading).

- **Tenant Improvements**. Beyond the costs of constructing the building, tenants will often require additional improvements inside their office suite for example. This can include costs of carpeting, interior configurations, kitchens, and other unique features. Landlords typically contribute to these costs.
- **Commercial Housing Linkage Fee**. A fee paid by commercial development to help fund affordable housing.
- **TADIF Fee**. This is the Transit Area Development Impact Fee, an impact fee established under the Mitigation Fee Act that portions a proportionate share of transit area public improvement costs (e.g. sewer, water, transportation, and parks) to new development.
- **Other Permits & Fees**. In addition to the TADIF, the City and other agencies charge other fees and permit charges.
- **General & Administrative**. General and Administrative costs are the general day-to-day/ overhead operations costs to the developer.
- **Financing Costs**. These represents the construction financing costs associated with the use of construction loans while developing buildings.
- **Contingency**. A contingency is included in development pro formas to account for cost overruns/ unforeseen cost items.
- **Profit Margin**. The profit margin represents the level of profit a developer will require in order to consider taking the risks associated with the development.

APPENDIX E:

Residual Land Value Analysis

Table 1a - Baseline Scenario
Class A Office Pro Forma (Midrise, 1.0 FAR)
Milpitas Employment Lands, EPS #211034

Item		Assumption	Per Bldg. Sq.Ft.	Total
DEVELOPMENT PROGRAM				
Gross Land Area (acres)				5.0
Gross Leasable Area	1.00	F.A.R.		217,800
Elevation	5	stories		
Efficiency Ratio	90%			
Net Area				196,020
Parking Spaces	3.3	parking space per 1,000 sq.ft.		
Structured/Podium Parking	75%	of parking spaces		545
Surface Parking	25%	of parking spaces		182
Total Parking Spaces				726
REVENUE ASSUMPTIONS				
Gross Revenue (FSG) (1)	$51.00	/net sq. ft./yr.	$45.90	$9,997,020
(less) Operating Expenses	25.0%		($11.48)	($2,499,255)
(less) Commissions	2.5%		($1.15)	($249,926)
(less) Vacancy Rate	5.0%		($2.30)	($499,851)
Subtotal, Annual Net Operating Income			$30.98	$6,747,989
Capitalized Value (2)	6.25%	cap rate	**$480.85**	**$104,728,782**
DEVELOPMENT COSTS				
Direct Costs				
Building Construction Cost	$325.00	/GLA sq. ft.	$325.00	$70,785,000
Parking Cost/Site Work	$40,000	/structured space	$100.00	$21,780,000
Parking Cost/Site Work	$5,000	/surface space	$4.17	$907,500
Total Direct Costs			$429.17	$93,472,500
Indirect Costs				
Tenant Improvements	$40.00	/net sq. ft.	$36.00	$7,840,800
Legal, Insurance & Inspections	3.0%	of direct costs	$12.88	$2,804,175
Architecture & Engineering	7.0%	of direct costs	$30.04	$6,543,075
Commercial Housing Linkage Fee (3)	$8.00	/net sq. ft.	$7.20	$1,568,160
TADIF Fee	$42.52	/net sq. ft.	$38.27	$8,334,770
Other Permits & Fees (4)	3.0%	of direct costs	$12.88	$2,804,175
General & Administrative	2.5%	of direct costs	$10.73	$2,336,813
Financing Costs	5.0%	of direct costs	$21.46	$4,673,625
Total Indirect Costs	39.5%	of direct costs	$169.45	$36,905,593
Subtotal, Direct and Indirect Costs			**$598.61**	**$130,378,093**
Contingency (% of direct and indirect costs)	5.0%	of direct and indirect costs	$29.93	$6,518,905
Profit Margin (% of direct and indirect costs) (5)	15.0%	of all costs	$94.28	$20,534,550
Total Costs			**$723**	**$157,431,547**
RESIDUAL LAND VALUE			**($241.98)**	**($52,703,000)**
Per Acre				**($10,540,600)**

Table 1b - Improved Scenario
Class A Office Pro Forma (Midrise, 1.0 FAR)
Milpitas Employment Lands, EPS #211034

Item	Assumption		Per Bldg. Sq.Ft.	Total
DEVELOPMENT PROGRAM				
Gross Land Area (acres)				5.0
Gross Leasable Area	1.00	F.A.R.		217,800
Elevation	5	stories		
Efficiency Ratio	90%			
Net Area				196,020
Parking Spaces	2.4	parking space per 1,000 sq.ft.		
Structured/Podium Parking	75%	of parking spaces		392
Surface Parking	25%	of parking spaces		131
Total Parking Spaces				523
REVENUE ASSUMPTIONS				
Gross Revenue (FSG) (1)	$65.00	/net sq. ft./yr.	$58.50	$12,741,300
(less) Operating Expenses	25.0%		($14.63)	($3,185,325)
(less) Commissions	2.5%		($1.46)	($318,533)
(less) Vacancy Rate	5.0%		($2.93)	($637,065)
Subtotal, Annual Net Operating Income			$39.49	$8,600,378
Capitalized Value (2)	5.75%	cap rate	**$666.14**	**$145,084,629**
DEVELOPMENT COSTS				
Direct Costs				
Building Construction Cost	$325.00	/GLA sq. ft.	$325.00	$70,785,000
Parking Cost/Site Work	$40,000	/structured space	$72.04	$15,690,000
Parking Cost/Site Work	$5,000	/surface space	$3.00	$653,750
Total Direct Costs			$400.04	$87,128,750
Indirect Costs				
Tenant Improvements	$40.00	/net sq. ft.	$36.00	$7,840,800
Legal, Insurance & Inspections	3.0%	of direct costs	$12.00	$2,613,863
Architecture & Engineering	7.0%	of direct costs	$28.00	$6,099,013
Commercial Housing Linkage Fee (3)	$8.00	/net sq. ft.	$7.20	$1,568,160
TADIF Fee	$0.00	/net sq. ft.	$0.00	$0
Other Permits & Fees (4)	3.0%	of direct costs	$12.00	$2,613,863
General & Administrative	2.5%	of direct costs	$10.00	$2,178,219
Financing Costs	5.0%	of direct costs	$20.00	$4,356,438
Total Indirect Costs	31.3%	of direct costs	$125.21	$27,270,354
Subtotal, Direct and Indirect Costs			**$525.25**	**$114,399,104**
Contingency (% of direct and indirect costs)	5.0%	of direct and indirect costs	$26.26	$5,719,955
Profit Margin (% of direct and indirect costs) (5)	15.0%	of all costs	$82.73	$18,017,859
Total Costs			**$634**	**$138,136,918**
RESIDUAL LAND VALUE			**$31.90**	**$6,948,000**
Per Acre				**$1,389,600**

Table 2a - Baseline Scenario
Class A Office Pro Forma (Midrise, 1.5 FAR)
Milpitas Employment Lands, EPS #211034

Item		Assumption	Per Bldg. Sq.Ft.	Total
DEVELOPMENT PROGRAM				
Gross Land Area (acres)				5.0
Gross Leasable Area	1.50	F.A.R.		326,700
Elevation	8	stories		
Efficiency Ratio	90%			
Net Area				294,030
Parking Spaces	3.3	parking space per 1,000 sq.ft.		
Structured/Podium Parking	100%	of parking spaces		1,089
Surface Parking	0%	of parking spaces		0
Total Parking Spaces				1,089
REVENUE ASSUMPTIONS				
Gross Revenue (FSG) (1)	$51.00	/net sq. ft./yr.	$45.90	$14,995,530
(less) Operating Expenses	25.0%		($11.48)	($3,748,883)
(less) Commissions	2.5%		($1.15)	($374,888)
(less) Vacancy Rate	5.0%		($2.30)	($749,777)
Subtotal, Annual Net Operating Income			$30.98	$10,121,983
Capitalized Value (2)	6.25%	cap rate	**$480.85**	**$157,093,172**
DEVELOPMENT COSTS				
Direct Costs				
Building Construction Cost	$325.00	/GLA sq. ft.	$325.00	$106,177,500
Parking Cost/Site Work	$40,000	/structured space	$133.33	$43,560,000
Parking Cost/Site Work	$5,000	/surface space	$0.00	$0
Total Direct Costs			$458.33	$149,737,500
Indirect Costs				
Tenant Improvements	$40.00	/net sq. ft.	$36.00	$11,761,200
Legal, Insurance & Inspections	3.0%	of direct costs	$13.75	$4,492,125
Architecture & Engineering	7.0%	of direct costs	$32.08	$10,481,625
Commercial Housing Linkage Fee (3)	$8.00	/net sq. ft.	$7.20	$2,352,240
TADIF Fee	$42.52	/net sq. ft.	$38.27	$12,502,156
Other Permits & Fees (4)	3.0%	of direct costs	$13.75	$4,492,125
General & Administrative	2.5%	of direct costs	$11.46	$3,743,438
Financing Costs	5.0%	of direct costs	$22.92	$7,486,875
Total Indirect Costs	38.3%	of direct costs	$175.43	$57,311,783
Subtotal, Direct and Indirect Costs			**$633.76**	**$207,049,283**
Contingency (% of direct and indirect costs)	5.0%	of direct and indirect costs	$31.69	$10,352,464
Profit Margin (% of direct and indirect costs) (5)	15.0%	of all costs	$99.82	$32,610,262
Total Costs			**$765**	**$250,012,009**
RESIDUAL LAND VALUE			**($284.42)**	**($92,919,000)**
Per Acre				**($18,583,800)**

Table 2b - Improved Scenario
Class A Office Pro Forma (Midrise, 1.5 FAR)
Milpitas Employment Lands, EPS #211034

Item	Assumption		Per Bldg. Sq.Ft.	Total
DEVELOPMENT PROGRAM				
Gross Land Area (acres)				5.0
Gross Leasable Area	1.50	F.A.R.		326,700
Elevation	8	stories		
Efficiency Ratio	90%			
Net Area				294,030
Parking Spaces	2.4	parking space per 1,000 sq.ft.		
Structured/Podium Parking	100%	of parking spaces		784
Surface Parking	0%	of parking spaces		0
Total Parking Spaces				784
REVENUE ASSUMPTIONS				
Gross Revenue (FSG) (1)	$65.00	/net sq. ft./yr.	$58.50	$19,111,950
(less) Operating Expenses	25.0%		($14.63)	($4,777,988)
(less) Commissions	2.5%		($1.46)	($477,799)
(less) Vacancy Rate	5.0%		($2.93)	($955,598)
Subtotal, Annual Net Operating Income			$39.49	$12,900,566
Capitalized Value (2)	5.75%	cap rate	**$666.14**	**$217,626,944**
DEVELOPMENT COSTS				
Direct Costs				
Building Construction Cost	$325.00	/GLA sq. ft.	$325.00	$106,177,500
Parking Cost/Site Work	$40,000	/structured space	$95.99	$31,360,000
Parking Cost/Site Work	$5,000	/surface space	$0.00	$0
Total Direct Costs			$420.99	$137,537,500
Indirect Costs				
Tenant Improvements	$40.00	/net sq. ft.	$36.00	$11,761,200
Legal, Insurance & Inspections	3.0%	of direct costs	$12.63	$4,126,125
Architecture & Engineering	7.0%	of direct costs	$29.47	$9,627,625
Commercial Housing Linkage Fee (3)	$8.00	/net sq. ft.	$7.20	$2,352,240
TADIF Fee	$0.00	/net sq. ft.	$0.00	$0
Other Permits & Fees (4)	3.0%	of direct costs	$12.63	$4,126,125
General & Administrative	2.5%	of direct costs	$10.52	$3,438,438
Financing Costs	5.0%	of direct costs	$21.05	$6,876,875
Total Indirect Costs	30.8%	of direct costs	$129.50	$42,308,628
Subtotal, Direct and Indirect Costs			**$550.49**	**$179,846,128**
Contingency (% of direct and indirect costs)	5.0%	of direct and indirect costs	$27.52	$8,992,306
Profit Margin (% of direct and indirect costs) (5)	15.0%	of all costs	$86.70	$28,325,765
Total Costs			**$665**	**$217,164,199**
RESIDUAL LAND VALUE			**$1.42**	**$463,000**
Per Acre				**$92,600**

Table 3a - Baseline Scenario
Class A Office/R&D Pro Forma
Milpitas Employment Lands, EPS #211034

Item	Assumption		Per Bldg. Sq.Ft.	Total
DEVELOPMENT PROGRAM				
Gross Land Area (acres)				5.0
Gross Leasable Area	1.00	F.A.R.		217,800
Efficiency Ratio	90%			
Elevation	5	stories		
Net Area				196,020
Parking Spaces	2.3	parking space per 1,000 sq.ft.		
Structured/Podium Parking	50%	of parking spaces		249
Surface Parking	50%	of parking spaces		249
Total Parking Spaces				498
REVENUE ASSUMPTIONS				
Gross Revenue (FSG) (1)	$45.00	/net sq. ft./yr.	$40.50	$8,820,900
(less) Operating Expenses	25.0%		($10.13)	($2,205,225)
(less) Commissions	2.5%		($1.01)	($220,523)
(less) Vacancy Rate	5.0%		($2.03)	($441,045)
Subtotal, Annual Net Operating Income			$27.34	$5,954,108
Capitalized Value (2)	6.00%	cap rate	**$441.96**	**$96,258,071**
DEVELOPMENT COSTS				
Direct Costs				
Building Construction Cost	$295.00	/GLA sq. ft.	$295.00	$64,251,000
Parking Cost/Site Work	$40,000	/structured space	$45.73	$9,960,000
Parking Cost/Site Work	$5,000	/surface space	$5.72	$1,245,000
Total Direct Costs			$346.45	$75,456,000
Indirect Costs				
Tenant Improvements	$30.00	/net sq. ft.	$27.00	$5,880,600
Legal, Insurance & Inspections	3.0%	of direct costs	$10.39	$2,263,680
Architecture & Engineering	7.0%	of direct costs	$24.25	$5,281,920
Commercial Housing Linkage Fee (3)	$8.00	/net sq. ft.	$7.20	$1,568,160
TADIF Fee	$42.52	/net sq. ft.	$38.27	$8,334,770
Other Permits & Fees (4)	3.0%	of direct costs	$10.39	$2,263,680
General & Administrative	2.5%	of direct costs	$8.66	$1,886,400
Financing Costs	5.0%	of direct costs	$17.32	$3,772,800
Total Indirect Costs	41.4%	of direct costs	$143.49	$31,252,010
Subtotal, Direct and Indirect Costs			**$489.94**	**$106,708,010**
Contingency (% of direct and indirect costs)	5.0%	of direct and indirect costs	$24.50	$5,335,401
Profit Margin (% of direct and indirect costs) (5)	15.0%	of all costs	$77.16	$16,806,512
Total Costs			**$592**	**$128,849,923**
RESIDUAL LAND VALUE			**($149.64)**	**($32,592,000)**
Per Acre				**($6,518,400)**

Table 3b - Improved Scenario
Class A Office/R&D Pro Forma
Milpitas Employment Lands, EPS #211034

Item	Assumption		Per Bldg. Sq.Ft.	Total
DEVELOPMENT PROGRAM				
Gross Land Area (acres)				5.0
Gross Leasable Area	1.00	F.A.R.		217,800
Efficiency Ratio	90%			
Elevation	5	stories		
Net Area				196,020
Parking Spaces	2.3	parking space per 1,000 sq.ft.		
Structured/Podium Parking	50%	of parking spaces		249
Surface Parking	50%	of parking spaces		249
Total Parking Spaces				498
REVENUE ASSUMPTIONS				
Gross Revenue (FSG) (1)	$57.50	/net sq. ft./yr.	$51.75	$11,271,150
(less) Operating Expenses	25.0%		($12.94)	($2,817,788)
(less) Commissions	2.5%		($1.29)	($281,779)
(less) Vacancy Rate	5.0%		($2.59)	($563,558)
Subtotal, Annual Net Operating Income			$34.93	$7,608,026
Capitalized Value (2)	6.00%	cap rate	**$564.72**	**$122,996,424**
DEVELOPMENT COSTS				
Direct Costs				
Building Construction Cost	$295.00	/GLA sq. ft.	$295.00	$64,251,000
Parking Cost/Site Work	$40,000	/structured space	$45.73	$9,960,000
Parking Cost/Site Work	$5,000	/surface space	$5.72	$1,245,000
Total Direct Costs			$346.45	$75,456,000
Indirect Costs				
Tenant Improvements	$30.00	/net sq. ft.	$27.00	$5,880,600
Legal, Insurance & Inspections	3.0%	of direct costs	$10.39	$2,263,680
Architecture & Engineering	7.0%	of direct costs	$24.25	$5,281,920
Commercial Housing Linkage Fee (3)	$4.00	/net sq. ft.	$3.60	$784,080
TADIF Fee	$0.00	/net sq. ft.	$0.00	$0
Other Permits & Fees (4)	3.0%	of direct costs	$10.39	$2,263,680
General & Administrative	2.5%	of direct costs	$8.66	$1,886,400
Financing Costs	5.0%	of direct costs	$17.32	$3,772,800
Total Indirect Costs	29.3%	of direct costs	$101.62	$22,133,160
Subtotal, Direct and Indirect Costs			**$448.07**	**$97,589,160**
Contingency (% of direct and indirect costs)	5.0%	of direct and indirect costs	$22.40	$4,879,458
Profit Margin (% of direct and indirect costs) (5)	15.0%	of all costs	$70.57	$15,370,293
Total Costs			**$541**	**$117,838,911**
RESIDUAL LAND VALUE			**$23.68**	**$5,158,000**
Per Acre				**$1,031,600**

Table 4 - Baseline Scenario
Light Industrial Pro Forma
Milpitas Employment Lands, EPS #211034

Item	Assumption		Per Bldg. Sq.Ft.	Total
DEVELOPMENT PROGRAM				
Gross Land Area (acres)				5.0
Gross Leasable Area	0.50	F.A.R.		108,900
Efficiency Ratio	90%			
Elevation	3	stories		
Net Area				98,010
Parking Spaces	0.5	parking space per 1,000 sq.ft.		
Structured/Podium Parking	0%	of parking spaces		0
Surface Parking	100%	of parking spaces		58
Total Parking Spaces				58
REVENUE ASSUMPTIONS				
Gross Revenue (NNN) (1)	$35.00	/net sq. ft./yr.	$31.50	$3,430,350
(less) Operating Expenses	5.0%		($1.58)	($171,518)
(less) Commissions	2.5%		($0.79)	($85,759)
(less) Vacancy Rate	5.0%		($1.58)	($171,518)
Subtotal, Annual Net Operating Income			$27.56	$3,001,556
Capitalized Value (2)	6.00%	cap rate	**$445.59**	**$48,525,159**
DEVELOPMENT COSTS				
Direct Costs				
Building Construction Cost	$195.00	/GLA sq. ft.	$195.00	$21,235,500
Parking Cost/Site Work	$40,000	/structured space	$0.00	$0
Parking Cost/Site Work	$5,000	/surface space	$2.66	$290,000
Total Direct Costs			$197.66	$21,525,500
Indirect Costs				
Tenant Improvements	$20.00	/net sq. ft.	$18.00	$1,960,200
Legal, Insurance & Inspections	3.0%	of direct costs	$5.93	$645,765
Architecture & Engineering	7.0%	of direct costs	$13.84	$1,506,785
Commercial Housing Linkage Fee (3)	$4.00	/net sq. ft.	$3.60	$392,040
TADIF Fee	$0.00	/net sq. ft.	$0.00	$0
Other Permits & Fees (4)	3.0%	of direct costs	$5.93	$645,765
General & Administrative	2.5%	of direct costs	$4.94	$538,138
Financing Costs	5.0%	of direct costs	$9.88	$1,076,275
Total Indirect Costs	31.4%	of direct costs	$62.12	$6,764,968
Subtotal, Direct and Indirect Costs			**$259.78**	**$28,290,468**
Contingency (% of direct and indirect costs)	5.0%	of direct and indirect costs	$12.99	$1,414,523
Profit Margin (% of direct and indirect costs) (5)	15.0%	of all costs	$40.92	$4,455,749
Total Costs			**$314**	**$34,160,740**
RESIDUAL LAND VALUE			**$131.90**	**$14,364,000**
Per Acre				**$2,872,800**

Table 5 - Baseline Scenario
Warehouse/ Distribution Pro Forma
Milpitas Employment Lands, EPS #211034

Item		Assumption	Per Bldg. Sq.Ft.	Total
DEVELOPMENT PROGRAM				
Gross Land Area (acres)				5.0
Gross Leasable Area	0.40	F.A.R.		87,120
Efficiency Ratio	90%			
Elevation	1	story		
Net Area				78,408
Parking Spaces	0.5	parking space per 1,000 sq.ft.		
Structured/Podium Parking	0%	of parking spaces		0
Surface Parking	100%	of parking spaces		46
Total Parking Spaces				46
REVENUE ASSUMPTIONS				
Gross Revenue (NNN) (1)	$21.00	/net sq. ft./yr.	$18.90	$1,646,568
(less) Operating Expenses	5.0%		($0.95)	($82,328)
(less) Commissions	2.5%		($0.47)	($41,164)
(less) Vacancy Rate	5.0%		($0.95)	($82,328)
Subtotal, Annual Net Operating Income			$16.54	$1,440,747
Capitalized Value (2)	5.75%	cap rate	**$278.98**	**$24,304,775**
DEVELOPMENT COSTS				
Direct Costs				
Building Construction Cost	$85.00	/GLA sq. ft.	$85.00	$7,405,200
Parking Cost/Site Work	$40,000	/structured space	$0.00	$0
Parking Cost/Site Work	$5,000	/surface space	$2.64	$230,000
Total Direct Costs			$87.64	$7,635,200
Indirect Costs				
Tenant Improvements	$20.00	/net sq. ft.	$18.00	$1,568,160
Legal, Insurance & Inspections	3.0%	of direct costs	$2.63	$229,056
Architecture & Engineering	7.0%	of direct costs	$6.13	$534,464
Commercial Housing Linkage Fee (3)	$4.00	/net sq. ft.	$3.60	$313,632
TADIF Fee	$0.00	/net sq. ft.	$0.00	$0
Other Permits & Fees (4)	2.5%	of direct costs	$2.19	$190,880
General & Administrative	2.5%	of direct costs	$2.19	$190,880
Financing Costs	3.0%	of direct costs	$2.63	$229,056
Total Indirect Costs	42.6%	of direct costs	$37.38	$3,256,128
Subtotal, Direct and Indirect Costs			**$125.02**	**$10,891,328**
Contingency (% of direct and indirect costs)	5.0%	of direct and indirect costs	$6.25	$544,566
Profit Margin (% of direct and indirect costs) (5)	15.0%	of all costs	$19.69	$1,715,384
Total Costs			**$151**	**$13,151,279**
RESIDUAL LAND VALUE			**$128.02**	**$11,153,000**
Per Acre				**$2,230,600**

Table 6
Residential Rental (Midrise) - Baseline Scenario
Milpitas Employment Lands, EPS #211034

Item	Assumption		Total
DEVELOPMENT PROGRAM			
Land Area	2	acres	87,120
Total Units	180	units	
Elevation	7	stories	
Total Building Area	1,200	per unit	216,000
Percent On-Site BMR	15%		
Net Residential Unit Area	80%		172,800
Podium Parking Spaces	1.20	parking space per unit	216
REVENUE ASSUMPTIONS			
Gross Rental Revenue			
Market Rate (1)	$3.75	/nsf per month	$6,609,600
Affordable (80% of AMI)	$2.76	/nsf per month	$858,470
(less) Vacancy	5.0%		-$373,404
(less) Operating Expenses (Residential) (2)	26.5%		-$1,979,039
(less) Capital Reserves	$0.50	/nsf	-$86,400
Residential NOI			$5,029,228
Effective Capitalized Value (3)	4.25%	cap rate	$118,334,782
(less Cost of Sale)	3.0%	of capitalized value	-$3,550,043
Net Value			$114,784,738
DEVELOPMENT COSTS			
Direct Costs			
Building Construction Cost	$260	/gsf	$56,160,000
Site Work	$10	/land sq.ft.	$871,200
Total Direct Costs			$57,031,200
Parking Construction Cost	$40,000	per space	$8,640,000
Direct Cost (including Parking)			**$65,671,200**
Indirect Costs			
Soft Costs (4)	15.0%	of DPC	$9,850,680
TADIF Fee	$40,487	per unit	$7,287,660
Other Development Fees (5)	2.5%	of DPC	$1,641,780
Carrying and Financing Cost	5.0%	of DPC	$3,283,560
Total Indirect Costs	33.6%	of DPC	$22,063,680
Total Direct and Indirect Costs			**$87,734,880**
Contingency (% of direct and indirect costs)	5.0%	of direct and indirect costs	$4,386,744
Profit Margin (% of direct and indirect costs) (6)	15.0%	of direct and indirect costs	$13,160,232
Total Costs			**$105,281,856**
RESIDUAL LAND VALUE			**$9,503,000**
Per Acre			**$4,752,000**

Table 7a - Baseline Scenario
Residential Rental (Highrise)
Milpitas Employment Lands, EPS #211034

Item	Assumption		Total
DEVELOPMENT PROGRAM			
Land Area	2	acres	87,120
Total Units	360	units	
Elevation	12	stories	
Total Building Area	1,200	per unit	432,000
Percent On-Site BMR	15%		
Net Residential Unit Area	80%		345,600
Podium Parking Spaces	1.20	parking space per unit	432
REVENUE ASSUMPTIONS			
Gross Rental Revenue			
Market Rate (1)	$3.75	/nsf per month	$13,219,200
Affordable (80% of AMI)	$2.76	/nsf per month	$1,716,941
(less) Vacancy	5.0%		-$746,807
(less) Operating Expenses (Residential)	26.5%		-$3,958,077
(less) Capital Reserves	$0.50	/nsf	-$172,800
Residential NOI			$10,058,456
Effective Capitalized Value (2)	4.25%	cap rate	$236,669,563
(less Cost of Sale)	3.0%	of capitalized value	-$7,100,087
Net Value			$229,569,477
DEVELOPMENT COSTS			
Direct Costs			
Building Construction Cost	$300	/gsf	$129,600,000
Site Work	$10	/land sq.ft.	$871,200
Total Direct Costs			$130,471,200
Parking Construction Cost	$40,000	per space	$17,280,000
Direct Cost (including Parking)			**$147,751,200**
Indirect Costs			
Soft Costs (3)	15.0%	of DPC	$22,162,680
TADIF Fee	$40,487	per unit	$14,575,320
Other Development Fees (4)	2.5%	of DPC	$3,693,780
Carrying and Financing Cost	5.0%	of DPC	$7,387,560
Total Indirect Costs	32.4%	of DPC	$47,819,340
Total Direct and Indirect Costs			**$195,570,540**
Contingency (% of direct and indirect costs)	5.0%	of direct and indirect costs	$9,778,527
Profit Margin (% of direct and indirect costs) (5)	15.0%	of direct and indirect costs	$29,335,581
Total Costs			**$234,684,648**
RESIDUAL LAND VALUE			**($5,115,000)**
Per Acre			**($2,558,000)**

Table 7b - Improved Scenario
Residential Rental (Highrise)
Milpitas Employment Lands, EPS #211034

Item	Assumption		Total
DEVELOPMENT PROGRAM			
Land Area	2	acres	87,120
Total Units	360	units	
Elevation	12	stories	
Total Building Area	1,200	per unit	432,000
Percent On-Site BMR	15%		
Net Residential Unit Area	80%		345,600
Podium Parking Spaces	1.20	parking space per unit	432
REVENUE ASSUMPTIONS			
Gross Rental Revenue			
Market Rate (1)	$3.90	/nsf per month	$13,747,968
Affordable (80% of AMI)	$2.76	/nsf per month	$1,716,941
(less) Vacancy	5.0%		-$773,245
(less) Operating Expenses (Residential)	26.5%		-$4,098,201
(less) Capital Reserves	$0.50	/nsf	-$172,800
Residential NOI			$10,420,663
Effective Capitalized Value (2)	4.25%	cap rate	$245,192,059
(less Cost of Sale)	3.0%	of capitalized value	-$7,355,762
Net Value			$237,836,298
DEVELOPMENT COSTS			
Direct Costs			
Building Construction Cost	$300	/gsf	$129,600,000
Site Work	$10	/land sq.ft.	$871,200
Total Direct Costs			$130,471,200
Parking Construction Cost	$40,000	per space	$17,280,000
Direct Cost (including Parking)			**$147,751,200**
Indirect Costs			
Soft Costs (3)	15.0%	of DPC	$22,162,680
TADIF Fee	$40,487	per unit	$14,575,320
Other Development Fees (4)	2.5%	of DPC	$3,693,780
Carrying and Financing Cost	5.0%	of DPC	$7,387,560
Total Indirect Costs	32.4%	of DPC	$47,819,340
Total Direct and Indirect Costs			**$195,570,540**
Contingency (% of direct and indirect costs)	5.0%	of direct and indirect costs	$9,778,527
Profit Margin (% of direct and indirect costs) (5)	15.0%	of direct and indirect costs	$29,335,581
Total Costs			**$234,684,648**
RESIDUAL LAND VALUE			**$3,152,000**
Per Acre			**$1,576,000**

APPENDIX F:

Innovation District Scenarios

Table F-1. Innovation District Scenarios: Land Use by Parcel

Area	Acres	BPRD[1]	Current Allowed Uses	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Existing TASP Area							
Great Mall Adjacent							
Area A	2.7	BPRD-R	Non-Resi.	Commercial/Retail (55%) + Vacant (45%)	Commercial/Retail	Class A Office (60%) + Housing (40%)	Class A Office
Area B	14.7		Non-Resi.				
Area B1 (Stratford)	3.6	BPRD-H	Non-Resi.	Assembly - School	Commercial/Retail	Class A Office	Class A Office
Area B2 (Lightwave)	4.3	BPRD-R	Non-Resi.	Class B Office	Class A Office/R&D	Class A Office (60%) + Housing (40%)	Class A Office
Area B3 (Marriott Hotel)	3.2	BPRD-H	Non-Resi.	Hotel	Commercial/Retail	Hotel	Hotel
Area B4 (Marriott Hotel)	3.6	BPRD-H	Non-Resi.	Hotel	Class A Office	Hotel	Hotel
Subtotal	17.4						
East TASP							
Area C	3.3	BPRD-H	Resi + Non-Resi.	Industrial (46%) + Warehouse/Distribution (54%)	Commercial/Retail	Class A Office	Class A Office
Area D	4.8	BPRD-H	Resi	Industrial (77%) + Warehouse/Distribution (23%)	Commercial/Retail	Class A Office	Class A Office
Area E	2.2	BPRD-R	Resi	Warehouse/Distribution	Commercial/Retail	Class A Office (60%) + Housing (40%)	Class A Office
Subtotal	10.3						
Total Existing TASP Area	**27.7**						
Additional Metro SP Employment Area							
North of Montague Expressway							
Area F	4.5	BPRD-H	Non-Resi.	Warehouse/Distribution	Hotel	Class A Office/R&D	Class A Office/R&D
Area G	5.4	BPRD-H	Non-Resi.	Class B Office	Commercial/Retail	Class A Office/R&D	Class A Office/R&D
Area H	7.0	BPRD-L	Non-Resi.	Assembly - Church	Warehouse	Industrial	Class A Office/R&D
Subtotal	16.9						
South of Montague Expressway							
Area I	13.4	BPRD-H	Non-Resi.	Industrial (20%) + Warehouse/Distribution (80%)	Commercial/Retail (77%) + Open Space (23%)	Class A Office/R&D (77%) + Open Space (23%)	Class A Office (77%) + Open Space (23%)
Area J	2.0	BPRD-L	Non-Resi.	Warehouse/Distribution	Warehouse	Industrial	Class A Office/R&D
Area K	5.6	BPRD-L	Non-Resi.	Warehouse/Distribution	Warehouse	Industrial	Class A Office/R&D
Area L	1.0	BPRD-L	Non-Resi.	Industrial	Warehouse	Industrial	Class A Office/R&D
Area M	4.2	BPRD-L	Non-Resi.	Warehouse/Distribution	Warehouse	Industrial	Class A Office/R&D
Area N	3.6	BPRD-L	Non-Resi.	Vacant	Warehouse	Industrial	Class A Office/R&D
	29.8						
Total Add'l Empl. Lands	**46.68**						
TOTAL INNOVATION DISTRICT	**74.38**						

(1) BPRD-L: 1.0-2.5 FAR. Allows for lower density office, R&D, warehouses, hotels, and industrial. Office-supportive commercial retail uses are conditionally permitted.
BPRD-H: 1.0-2.5 FAR. Allows for higher density office, R&D, commercial/retail, and hotels.
BPRD-R: 1.0-5.0 FAR. Minimum of 1.0 FAR of office and R&D. Additional residential is allowed up to 5.0 FAR total. Allows office, R&D, commercial/retail, hotels, and residential.