

Milpitas City Council Special Meeting



Item #2: Innovation District Action Plan

April 19, 2022

City of Milpitas

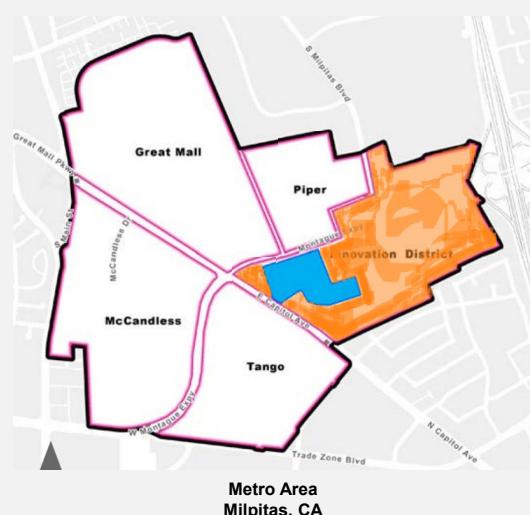
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Presentation Outline



- Background
 - Importance of Study
 - Milpitas Innovation District
 - Recap Phase I Results
- Review Phase II Findings
 - Case Studies
 - Innovation District Action Plan
- Next Step and Recommendation



Fiscal Benefits of Employment Lands Study



➤ Phase I:

- Fiscal Impact Analysis
- Occupation & Wage Analysis
- Innovation District Development Scenarios Analysis
- Residual Land Value Analysis

➤ Phase II:

- Milpitas Innovation District Assessment
- Innovation District Case Studies
- Innovation District Action Plan

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Innovation District Action Plan

Milpitas Innovation District Vision



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Innovation District Action Plan

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Milpitas Innovation District Benefits



- Strengthen City's Long-Term Fiscal Sustainability
- Growing Milpitas Economy
- Business Attraction & Business Retention
- Employment and Upskilling Opportunities for Residents
- A Sense of Place for the District
- Connectivity to the Milpitas Transit Center

Phase I Results: Key Findings



- Employment lands provide substantial net positive revenues to General Fund.
- Development economics do not "pencil out" for new Office and R&D (mid-rise) buildings making it challenging to attract new technology businesses.
- Supportive City policies can help spur Office and R&D development and business attraction within the Innovation District.
- City policy adjustments (i.e., reduce TADIF and ease parking requirements) and improved market conditions make real estate projects more feasible.
- Full buildout of the Innovation District may result in future General Fund revenues in the range of \$6.5M to \$9.9M annually, create approximately 2,000 to 14,000 new high-quality jobs.

Oct 12, 2021 – City Council Study Session



- Protect, preserve employment lands through land use.
- Flexibility in density, height to support development economics.
- Consider reduced parking requirements in Metro Area.
- Consider reduced development impact fees on Office and R&D.
- Expedite entitlement and permit processes
 - Development Agreements
 - Public/Private Partnerships (P3s)
 - Pre-Development Meetings

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Innovation District Case Studies



Mission Bay
San Francisco, CA



Seaport
Boston, MA



Peery Park
Sunnyvale, CA



Warm Springs
Fremont, CA

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Mission Bay (San Francisco)



➤ Key Conclusions

- Strong P3 between government and primary developer.
- Large and reputable anchor of UCSF pivotal to growth (42 Ac).
- Public financing tools critical to investments.
- Central location, developable land and market factors supported new development.



Mission Bay
San Francisco, CA

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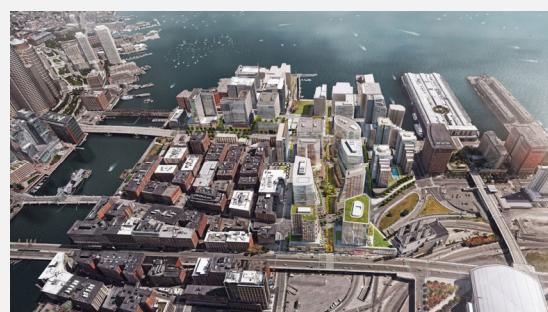
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Seaport District (Boston)



➤ Key Conclusions

- City leadership important in championing district and attracting anchor tenants.
- City and state funding and incentives helped bring anchor tenants and fund infrastructure.
- Incubator-accelerator presence helped Seaport grow its innovation identity.



Seaport District
Boston, MA

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Peery Park (Sunnyvale)



➤ Key Conclusions

- Strong development economics allows developers to integrate community benefits.
- Development impact fee costs don't affect development economics.
- Major Developer, the Irvine Company, pivotal to growth and business attraction.



Peery Park
Sunnyvale, CA

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Warm Springs (Fremont)



➤ Key Conclusions

- Market cycles, opportunities at other locations in Silicon Valley, and decisions by private landowners' effect new development.
- Grant funding is critical for infrastructure investments.
- Existing assets can play a role in defining the first wave of developments.



Warm Springs
Fremont, CA

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Summary of Findings



➤ Four Case Study Jurisdictions:

- Mission Bay, San Francisco; Seaport District, Boston; South Fremont, Fremont; and Peery Park, Sunnyvale.
- City leadership plays multiple roles to influence ID growth (i.e., P3, Negotiator, Promoter, Policymaker).
- Mixture of City policies and financing mechanisms encourage diverse uses and new development (i.e., Zoning, Master Planning, Streamlined Permitting, EIFDs and CFDs).
- Innovation placemaking: physical spaces marketed towards innovation-minded firms (i.e., Innovation Anchor Tenants, Incubator-Accelerators, Public Gathering Spaces)

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Innovation District Action Plan



- 5 Year Roadmap.
- Action adoption to occur at various times over next 5-years.
- Actual execution of actions may extend over several years.
- Adopting the Action Plan does not have a fiscal impact.
- City staff will implement action items w/in existing resources.
- Any additional funding needs will be brought for Council consideration.



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Innovation District Action Plan Timeline



Theme	No.	Recommended Action(s)	Y1	Y2	Y3	Y4	Y5
Incentivizing New Development	1	Develop an Internal Working Group to Support the Implementation of Action Plan					
	2	Develop and Implement 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 Developments					
	6	Develop DA and CBA Templates for Innovation District Developments					
	7	Performing Technical Due Diligence for Innovation District Developments					
Funding and Investing	8	Exploration of Tax Financing Tools (i.e., EIFDs, CFDs) for the Innovation District					
	9	Funding for a Strategic Property Acquisition Revenue (SPAR) Fund					
	10	Pursue Planning Grants for Innovation District Evolution					
City Leadership, Outreach, and Partnerships	11	Develop a Branding Initiative for 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					

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Incentivizing New Development



Theme	No.	Recommended Action(s)	Y1	Y2	Y3	Y4	Y5
Incentivizing New Development	1	Develop an Internal Working Group to Support the Implementation of Action Plan					
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Incentivizing New Development



➤ Summary of Category/Theme:

- Seven (7) recommended action items.
- Action items to take place in Year 1 and Year 3.
- Action items focus on improving development economics so that Office and R&D developments “pencil out” better and get built.

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Incentivizing New Development



➤ Summary of Category/Theme (cont.):

- Action #3 and Action #4 creates a fee reduction/deferral program on permits and impact fees.
- Program only available on a temporary basis and not in perpetuity.
- Incentive targeted for early investors in the Innovation District.

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Funding and Investing



Theme	No.	Recommended Action(s)	Y1	Y2	Y3	Y4	Y5
Incentivizing New Development	1	Develop an Internal Working Group to Support the Implementation of Action Plan					
	2	Develop and Implement 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 Developments					
	6	Develop DA and CBA Templates for Innovation District Developments					
	7	Performing Technical Due Diligence for Innovation District Developments					
Funding and Investing	8	Exploration of Tax Financing Tools (i.e., EIFDs, CFDs) for the Innovation District	■	■	■	■	■
	9	Funding for a Strategic Property Acquisition Revenue (SPAR) Fund		■	■	■	■
	10	Pursue Planning Grants for Innovation District Evolution			■	■	■
City Leadership, Outreach, and Partnerships	11	Develop a Branding Initiative for 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				■	■

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Funding and Investing



➤ Summary of Category/Theme:

- Three (3) recommended action items.
- Action items to take place in Year 1 and Year 2.
- Action items focus on spurring new development via tax increment financing for public infrastructure and land acquisition for site assembly and revenue generation.

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City Leadership, Outreach, and Partnerships



Theme	No.	Recommended Action(s)	Y1	Y2	Y3	Y4	Y5
Incentivizing New Development	1	Develop an Internal Working Group to Support the Implementation of Action Plan					
	2	Develop and Implement Flexible Permitting Processes for Innovation District Developments					
	3	Temporarily Reduce or Defer Building Permit, Plan Check, and Other Processing Fees					
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City Leadership, Outreach, and Partnerships	11	Develop a Branding Initiative for Innovation District					
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	14	Cultivation of Partnership with Educational and Other Innovation-oriented Institutions					

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City Leadership, Outreach, and Partnerships



➤ Summary of Category/Theme:

- Four (4) recommended action items.
- Action items to take place in Year 2 and Year 4.
- Action items focus on creating strong partnerships to bring major investors, businesses and partners to the Innovation District.

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Next Step and Recommendation



➤ Next Step

- Commence implementation of the Innovation District Action Plan.

➤ Recommendation

- Adopt the Innovation District Action Plan.

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Phase I Results: Key Findings



- The City's current employment lands make substantial and positive net fiscal contributions to the City's budget.

Impacts	Single Family	Multi-Family	Office	Industrial	Retail	Hotel ^[1]	Other Uses ^[2]	Total
Total General Fund Revenues	\$27,900,000	\$10,500,000	\$2,000,000	\$15,500,000	\$17,800,000	\$14,300,000	\$2,100,000	\$90,200,00
Total General Fund Expenditures	\$60,400,000	\$17,300,000	\$3,600,000	\$13,200,000	\$2,100,000	\$950,000	\$5,800,000	\$103,400,000
Annual Net Impact on General Fund	(\$32,400,000)	(\$6,800,000)	(\$1,600,000)	\$2,200,000	\$15,700,000	\$13,300,000	(\$3,700,000)	(\$13,200,000)

[1] More recent information on the City's transient occupancy tax revenues show a significant decline relative to the 2020/2021 budget.
[2] Other uses include hospitals, civic uses, parking lots, and vacant land.

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

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Phase I Results: Key Findings



- On average, all types of new development in the City are expected to provide positive fiscal contributions to the City, though to varying degrees.

Impacts	Mid-Rise Multifamily	High-Rise Multifamily	Class A Office	Class B Office	Office/ R&D	Light Industrial	Warehouse/ Distribution	Retail	Hotel
Total General Fund Revenues	\$333,000	\$685,000	\$773,000	\$141,000	\$429,000	\$165,000	\$84,000	\$361,000	\$2,088,000
Total General Fund Expenditures	\$314,000	\$629,000	\$346,000	\$69,000	\$173,000	\$52,000	\$16,000	\$41,000	\$21,000
Annual Net Impact on General Fund	\$18,000	\$56,000	\$427,000	\$71,000	\$256,000	\$113,000	\$68,000	\$320,000	\$2,066,000

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

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Phase I Results: Key Findings



- Full build-out of the Innovation District may result in tremendous economic achievement to the Milpitas community.

Scenario	Total Employment Lands Building Square Footage	Class A Office and R&D as % of Total Employment Lands	Employees	Total Annual Salaries (1)	Annual Net Fiscal Impact
Scenario 1 Current Uses	1,630,000	0%	2,006	\$140,500,000	\$6,500,000
Scenario 2 Retail and Warehouse	1,743,000	24.5%	3,488	\$306,800,000	\$6,800,000
Scenario 3 Office/R&D/Industrial Blend	2,987,000	67.1%	9,441	\$1,213,700,000	\$8,700,000
Scenario 4 Class A Office/R&D	3,860,000	90.4%	14,183	\$1,868,800,000	\$10,000,000

(1) Total annual salaries represents estimated total salaries associated with the New Employees in the Innovation District

Source: Economic & Planning Systems; U.S. Census Bureau

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Phase I Results: Key Findings



- Development economics do not “pencil out” for new Office and R&D (mid-rise) buildings making it challenging to attract new technology businesses.
- Supportive City policies can help spur Office and R&D development and business attraction within the Innovation District.



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Source: Economic & Planning Systems

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Phase I Results: Key Findings



- City policy adjustments (i.e., reduce TADIF and ease parking requirements) and improved market conditions make real estate projects more feasible.

Prototype	Building SF / Units	Costs	Value	Residual Land Value
Class A Office/ 5-story				
Baseline	217,800	\$157,400,000	\$104,700,000	(\$52,700,000)
Improved	217,800	\$138,100,000	\$145,100,000	\$7,000,000
Class A Office/ 8-story				
Baseline	326,700	\$250,000,000	\$157,100,000	(\$92,900,000)
Improved	326,700	\$217,200,000	\$217,600,000	\$400,000
Class A Office/ R&D				
Baseline	217,800	\$128,800,000	\$96,300,000	(\$32,500,000)
Improved	217,800	\$117,800,000	\$123,000,000	\$5,200,000
High-Rise Residential				
Baseline	360	\$234,700,000	\$229,600,000	(\$5,100,000)
Improved	360	\$234,700,000	\$237,800,000	\$3,100,000

Source: Economic & Planning Systems

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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		546
Surface Parking	25% of parking spaces		182
Total Parking Spaces			728
REVENUE ASSUMPTIONS			
Gross Revenue (FSQ) (1)	\$51.00 /net sq. ft./yr.	\$45.90	\$9,997,020
(less) Operating Expenses	25.0%	(\$11.48)	(\$2,499,255)
(less) Commission	2.5%	(\$1.15)	(\$249,926)
(less) Vacancy Rate	5.0%	(\$2.30)	(\$529,911)
Subtotal, Annual Net Operating Income		\$30.98	\$6,747,989
Capitalized Value (2)	6.25% cap rate	\$480.85	\$104,728,782
DEVELOPMENT COSTS			
<i>Direct Costs</i>			
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
<i>Indirect Costs</i>			
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)



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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		(\$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	\$145,084,829
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	\$7,840,000
Legal, Insurance & Inspections	3.0% of direct costs	\$12.00	\$2,13,880
Architecture & Engineering	7.0% of direct costs	\$28.00	\$8,059,013
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			
Per Acre		\$31.90	\$6,948,000
			\$1,389,600

Milpitas Innovation District Principles



- Protect and preserve employment lands.
- Promote densification and intensification.
- Explore mixed-use opportunities with commercial development primary.
- Provide incentives to improve development economics for Office and R&D.
- Encourage parcel assembly for highest and best use.
- Promote pedestrian-oriented streets and activate public spaces.
- Explore information technology infrastructure.