

## 2. SUMMARY OF ANALYTICAL RESULTS

This fiscal analysis finds that the growth envisioned in all four Comprehensive Plan scenarios likely will generate net revenue for the City of Palo Alto General Fund. The results range from an annual net effect (i.e., additional General Fund revenues minus costs) of roughly \$5.0 million to \$7.4 million by 2030 (in 2015 dollars). These fiscal effects reflect annual per-capita fiscal net benefits of about \$240 to \$310 per net new person (including new residents and workers), with each new resident generating about \$340 to \$360 and each new employee generating about \$190 to \$280.

These findings suggest that the City's General Fund is likely to benefit financially from growth, including both residential and commercial development. That is, each new resident and worker generates more in tax revenue accruing to the City General Fund than his or her cost to the General Fund, on average. Accordingly, this analysis finds that the most significant growth scenario (Scenario 4) will generate the greatest financial gain for the General Fund. **Figure 2** and **Figure 3** present aggregate and per-capita fiscal analysis results, respectively. **Figure 4** presents additional detail concerning per-capita revenues and costs attributable to local residents and workers.

It is important to recognize that despite being positive, the net fiscal impacts calculated by this analysis are quite modest relative to the total City General Fund budget. The greatest net fiscal impact identified, \$7.4 million under Scenario 4, represents about four percent of the Fiscal Year 2015 General Fund expenditure budget.

It also is important to note that there are likely to be a variety of effects from growth that are not reflected in the City fiscal impacts calculated by this analysis. For example, the analysis does not estimate quality of life impacts that result from growth, such as changes in traffic congestion, parking supply, or other positive or negative factors related to increased land use density. The Environmental Impact Report (EIR) concerning the Comprehensive Plan provides a thorough assessment of such impacts. Furthermore, it is important to note that this fiscal analysis provides a view of operational revenues and costs accruing to the General Fund and does not reflect the costs associated with the major infrastructure investments contemplated by the Comprehensive Plan scenarios.



Sunflowers 2003, California Ave.

Source: City of Palo Alto

Figure 2 Estimated Annual Net Fiscal Effect on General Fund in 2030 (2015\$)

Fiscal Effect	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Revenues	\$11,732,000	\$10,109,000	\$12,723,000	\$15,405,000
Costs	<u>\$6,527,000</u>	<u>\$5,071,000</u>	<u>\$6,525,000</u>	<u>\$8,002,000</u>
<b>Total Net Effect</b>	<b>\$5,205,000</b>	<b>\$5,038,000</b>	<b>\$6,198,000</b>	<b>\$7,404,000</b>
<i>Percentage of 2015 General Fund</i>	3.0%	2.9%	3.6%	4.3%
<b><u>Total Net Effect by Use Category</u></b>				
Residential Uses	\$2,238,000	\$2,238,000	\$2,973,000	\$3,722,000
Employment Uses	\$2,967,000	\$2,799,000	\$3,225,000	\$3,681,000

Figure 3 Estimated Per-Capita Net Fiscal Effect on General Fund in 2030 (2015\$)

Fiscal Effect	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Overall Per Capita (Residents and Workers)	\$236	\$306	\$292	\$285
Per Resident	\$339	\$339	\$352	\$356
Per Household	\$823	\$823	\$838	\$843
Per Job	\$192	\$284	\$253	\$238

Figure 4 Estimated Per-Capita Revenue and Cost on General Fund in 2030 (2015\$)

Fiscal Effect	Scenario 1	Scenario 2	Scenario 3	Scenario 4
<b><u>Per Resident</u></b>				
Revenue	\$721	\$721	\$735	\$738
Cost	<u>\$382</u>	<u>\$382</u>	<u>\$382</u>	<u>\$382</u>
Net Effect	\$339	\$339	\$352	\$356
<b><u>Per Job</u></b>				
Revenue	\$450	\$543	\$512	\$497
Cost	<u>\$259</u>	<u>\$259</u>	<u>\$259</u>	<u>\$259</u>
Net Effect	\$192	\$284	\$253	\$238

## Key Findings

- **The net revenue generated for the General Fund under the Comprehensive Plan Update scenarios result from robust revenue generating potential and modest cost implications attributable to growth.** On the revenue side, property tax-related City income is anticipated to be strong, given the high value of real estate in Palo Alto. In addition, this analysis projects significant sales tax revenue will be generated by new residents and workers. On the cost side, the City is well positioned to expand to meet marginal increases in demand for City services without dramatic increases in operational cost.
- **Though the Comprehensive Plan Update scenarios are likely to generate net revenue for the General Fund, it is notable that even the most aggressive growth forecast will have a relatively modest net effect on the General Fund.** Overall, this fiscal analysis finds that growth scenarios might net the City \$5.0 million to \$7.4 million (2015\$) by 2030, or about 2.9 percent to 4.3 percent of the 2015 General Fund expenditure budget. A variety of factors external to this analysis could have more dramatic effects on the General Fund. For example, retail sales and transient occupancy attributable to regional growth (particularly in nearby cities), turnover of local real estate assets with deeply suppressed assessed value and property tax potential, and regional demographic shifts could affect the General Fund over the next 15 years.
- **The expected fiscal benefit of a new resident in Palo Alto is greater than the expected fiscal benefit of a new employee in the City.** This result is attributable to the greater revenue potential of residents. In particular, property tax revenue from residential uses is two to three times that of employment uses on a per-capita basis (reflective of value, space efficiency, and turnover). This residential property-related revenue outweighs the higher per-capita sales tax revenue and transient occupancy tax revenue generated by local employment. However, new residents are expected to generate a higher marginal cost burden for the City General Fund, as compared with local workers. Overall, though, residents' greater revenue potential relative to workers outweighs the cost of services differential between residents and workers, resulting in greater per-capita net benefits attributable to new residents.