

THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

MEMORANDUM

| | |
|--------------------------------|--|
| TO: REDEVELOPMENT AGENCY BOARD | FROM: HARRY S. MAVROGENES EXECUTIVE DIRECTOR |
| SUBJECT: SEE BELOW | DATE: NOVEMBER 7, 2008 |

INFORMATION

SUBJECT: BROCADE COMMUNICATIONS SYSTEMS CORPORATE HEADQUARTERS EXPANSION

In November 2007 Mayor Chuck Reed was informed by the CEO of Brocade Communications Systems (Brocade), that his company was in the process of reviewing a final list of sites in Silicon Valley for their planned corporate headquarters expansion. Brocade had previously explored opportunities for its relocation and was very close to committing to a site outside of San Jose. Agency and City staff engaged in discussions with the Brocade development team immediately and presented several opportunity sites for Brocade's consideration.

A premier, vacant 14-acre site in North San Jose owned by Hunter-Storm Properties attracted the company's interest and Brocade soon entered into negotiations with the developer. The site, formerly owned by Palm Inc. and referred to as the @First site, is located at North First Street and Highway 237. In order to strengthen the retention effort, Agency and City staff proposed a package of incentives that included an expedited permitting process and an offer to provide a reimbursement for capital equipment purchase once the company occupies its new headquarters. Brocade entered into an agreement with Hunter-Storm Properties and purchased 10 acres which would facilitate the company's first phase of development.

Subject to Agency Board approval, staff is proposing a Reimbursement Agreement with Brocade in the amount of \$4 million for the purpose of reimbursing the company for the purchase of specific equipment needed to support their local operations. The first phase of the expansion consists of three buildings totaling 562,000 square feet; a second phase of 320,000 square feet will bring the total build-out to 882,000 square feet. The Reimbursement Agreement will be tied to the completion of two phases of construction: Upon the completion and occupancy of 562,000 square feet of space, the company is eligible for the first reimbursement of \$2.5 million. When the company constructs and occupies the remaining 320,000 square feet facility, it is eligible for an additional \$1.5 million.

Founded in 1995, Brocade had revenues in excess of \$1.3 billion in 2007. The company currently employs approximately 1,200 people in San Jose and 2,300 people worldwide. Brocade's total investment in the first phase of the development is estimated at approximately \$292 million; \$49 million for the purchase of land, \$173 million for building construction and \$70 million in tenant improvements.

To evaluate the Agency's return on investment, consistent with recently adopted Council Policy, Keyser Marston Associates was retained to provide a cost benefit analysis. The attached findings indicate that the net positive fiscal impact of the new project to the General Fund is estimated to be approximately \$191,000 annually and approximately \$1.2 million over the period of Brocade's commitment to the Reimbursement Agreement, plus permit fees paid to the City by Brocade. The tax increment revenue that would be generated to the Agency is estimated at approximately \$1.5 million annually and a net increase of approximately \$8.5 million over the term of the Reimbursement Agreement. Additionally, the positive fiscal impact to the City's General Fund and to the Agency will continue beyond the Reimbursement Agreement term, and for the life of Rincon de Los Esteros Redevelopment Project Area.

Brocade anticipates adding 600 new employees to its workforce in San Jose as part of this expansion for a total of approximately 1,800 employees. This will generate a significant multiplier impact on San Jose's economy, including construction jobs and third-party employment through companies that supply and service Brocade's operations. It is anticipated that Brocade will occupy the first phase in late 2010. Brocade's relocation and expansion is also significant because the @First site is critical to the implementation of the North San Jose Vision 2030 Policy adopted by City Council in June 2005.

The Agency plans to bring this transaction to the Board on December 9, 2008, for its consideration. The Agency Board memorandum will be released two weeks prior to the December 9th Agency Board meeting consistent with the Mayor's Sunshine Reform criteria. A summary of the transaction, and the Estimate of Economic and Fiscal Impacts prepared by Keyser Marston Associates, are attached for reference.


HARRY S. MAVROGENES
Executive Director

Attachments

Communications Systems, Inc. Summary of Facts of the Transaction

About Brocade

- Brocade is a data center and networking solution and services company with worldwide headquarters in North San Jose
- Brocade was founded in 1995 and had revenues in excess of \$1.3 billion in 2007
- Brocade employs approximately 1,200 people at their San Jose site and 2,300 worldwide
- Brocade is located on Technology Drive in North San Jose and presently occupies 404,000 square feet in two buildings
- Brocade was considering moving its facilities out of San Jose

Proposed Relocation Site (@First St.)

- Formerly owned by Palm Inc., a spin off from 3-Com
- Real Estate Developer Hunter-Storm acquired the property from Palm
- Brocade has acquired the property and plans to construct 562,000 square feet in 3 buildings with an option to build a fourth building with an additional 320,000 square feet
- With Brocade's commitment, Hunter-Storm has begun site preparation for an 80,000 square foot retail complex adjacent to the proposed Brocade's offices

Proposed Deal Terms

- Agency will reimburse Brocade for equipment acquisition valued at \$2.5 million upon occupancy of the fourth buildings
- Agency will reimburse Brocade for equipment acquisition valued at \$1.5 million upon occupancy of the last building
- Brocade will be required to maintain its world headquarters at the proposed site. In the event that Brocade vacates the site or fails to maintain the site as its world headquarters, Brocade will be required to reimburse the Agency for each phase as follows:
 - 80% within one year of occupancy
 - 60% within two years of occupancy
 - 40% within three years of occupancy
 - 20% within four years of occupancy
 - 10% within five years of occupancy
- Agency will have a security interest in the equipment

Cost-Benefit Analysis (Summary only- more detail in report)

- Completed by Keyser-Marston Associates
 - Direct Job Impact: 1,800 jobs
 - Indirect Job Impact: 5,750 jobs
 - Direct Economic Output: \$936 million/year
 - Indirect Economic Output: \$1.532 billion/year
 - Direct Construction Jobs: 1,280
 - Indirect Jobs from Construction: 2,040
 - Net Increase to General Fund: \$1.2 million (over term of agreement)
 - Net Increase to SJRA: \$8.5 million (over term of agreement)
 - City and Agency benefits will continue beyond the term of agreement for as long as Brocade remains in San Jose.



KEYSER MARSTON ASSOCIATES.
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

ADVISORS IN:
REAL ESTATE
REDEVELOPMENT
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

To: San Jose Redevelopment Agency

From: Debbie M. Kern
David Doezema

Date: August 27, 2008

Subject: Estimate of Economic and Fiscal Impacts to be Generated by Brocade Communications Systems, Inc.

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In accordance with your request, Keyser Marston Associates, Inc. (KMA) has estimated the economic and fiscal impacts to be generated by the relocation and expansion of Brocade Communications Systems, Inc. in San Jose. The analysis is designed to meet the City's requirement that a Cost/Benefit Analysis be undertaken for any investment of public funds over \$1 million. It is our understanding that the Redevelopment Agency will be providing Brocade with \$2.5 million in capital equipment acquisition assistance in exchange for Brocade's commitment to expand its operations and continue to operate its corporate headquarters in San Jose. If an optional phase 2 expansion is completed, the Agency will provide an additional \$1.5 million in assistance for a total of \$4 million.

Brocade is a data center networking solutions and services company headquartered in San Jose. Brocade has two facilities in San Jose with a total of 404,000 square feet of building area. Brocade has proposed to relocate and expand its operation into three new buildings totaling 562,000 square feet to be constructed on a vacant parcel. An optional phase two would add a fourth 320,000 square foot building for a total of 882,000 square feet. The analysis assumes both phases will be built. Both the existing and proposed facilities are located within the Rincon de Los Esteros Redevelopment Project Area.

Brocade has agreed to continue its operations in San Jose for a minimum of five (5) years from the time assistance is provided for phase 1, or phase 2 if it is completed. The analysis assumes Brocade will elect to proceed with the optional second phase and that it will be developed by the end of 2012; therefore, the commitment by Brocade to remain in San Jose would extend to the end of 2017. If Brocade elects to proceed with phase 1 only, the commitment to San Jose would extend to 2015 and only the first \$2.5 million in

assistance would be provided. KMA has not analyzed a scenario in which only the first phase proceeds; however, we note that assistance by phase is approximately proportional to building area constructed (63% of assistance and 64% of building area are in phase 1).

Brocade has indicated that the proposed capital equipment acquisition assistance is a critical factor in its decision to expand in San Jose rather than relocate to another jurisdiction. Therefore, the total impacts of Brocade's operation with the completion of the relocation and expansion are relevant and have been included in the analysis. The estimated impacts from existing operations and the net increase with the relocation and expansion are also provided.

The following impacts are addressed in the analysis:

- Economic output¹
- Employment
- Net change in housing stock
- Fiscal Impact to the City's General Fund
- Net Tax Increment to the City's Redevelopment Agency.

The findings of the analysis and major assumptions are described below and summarized on Table 1. Supporting analysis and assumptions are included on Tables 2 through 8.

Summary of Economic Impacts

KMA has analyzed the direct and combined total of direct, indirect, and induced economic impacts from on-going operations of Brocade and construction of the new facilities. Direct impacts include economic output and employment for Brocade itself. Indirect and induced impacts are generated as expenditures on materials, supplies, services, and consumer spending by employees stimulates further economic activity.

Direct impacts are estimated based on operational data provided by Brocade and the anticipated cost for construction of the new buildings. Indirect and induced economic impacts (multiplier effects) are estimated using RIMS II multipliers for Santa Clara County developed by the U.S. Bureau of Economic Analysis. Since Brocade is located in the City of San Jose, direct impacts occur within the City of San Jose. Indirect and

¹ Economic output refers to the value of goods and services produced in an economy. It is a measure equivalent to the gross receipts of a company.

induced impacts are based on multipliers applicable to the County and occur throughout Santa Clara County.

A. On-Going Operations

Total economic impacts generated from on-going operations at Brocade are summarized in the table below and presented in Table 1. As shown, Brocade is a relatively large employer; with the expanded facility Brocade will have approximately 1,800 employees. Brocade operations are estimated to support a total of 5,750 jobs throughout the County.

| Economic Impact of Brocade | Direct Economic Impact of Brocade on City of San Jose | Total Direct, Indirect, Induced Economic Impact of Brocade on Santa Clara County |
|-----------------------------------|--|---|
| Employment | | |
| Existing | 1,200 jobs | 3,830 jobs |
| Net Added | 600 jobs | 1,920 jobs |
| Total Employment | 1,800 jobs | 5,750 jobs |
| Economic Output | | |
| Existing | \$624 million | \$1,021 million |
| Net Added | \$312 million | \$511 million |
| Total Economic Output | \$936 Million / Year | \$1,532 Million / Year |

B. Construction / One-Time

The one-time construction period impacts from development of the new Brocade headquarters and industrial facilities are summarized in the table below and presented on Table 1. Brocade estimates construction costs at \$243 million including \$173 million for the building shell and another \$70 million in tenant improvements. These construction expenditures are estimated to translate into the equivalent of 1,280 construction jobs for a one-year period and are estimated to support over 2,000 direct, indirect, and induced jobs throughout the County. Approximately 65% of this construction employment is generated with phase 1 and 35% with phase 2 based on building area. Estimates of the economic impacts from construction are shown on Table 8.

| One-Time Economic Impacts of Construction | Direct Economic Impact of Brocade on City of San Jose | Total Direct, Indirect, Induced Economic Impact of Brocade on Santa Clara County |
|--|--|---|
| Employment | 1,280 jobs | 2,040 jobs |
| Economic Output | \$243 million | \$373 million |

Net Change in Housing Stock

The project will have no net impact on the City's housing stock since no housing units will be demolished or constructed. Although no housing will be constructed as part of the project, the proposed Brocade facilities are located in the area covered by the North San Jose Area Development Policy which provides for up to 32,000 units of housing, of which 20% must be affordable per the City's policy.

Summary of Fiscal Impacts

The net fiscal impact to the City's General Fund is estimated on Tables 4 through 6. Since both the existing and new Brocade facilities are within Redevelopment Areas, property tax revenues accrue to the Redevelopment Agency. Redevelopment Agency tax increment is estimated on Table 3.

A. General Fund Fiscal Impact

General Fund revenues generated by Brocade include property tax in-lieu of vehicle license fees, business license taxes and utility user taxes (Table 4). An additional potential revenue source is sales tax. The actual amount of sales and use tax that is currently generated by Brocade is not known because data on transactions is confidential; however, Brocade representatives have indicated that sales and use tax to the City of San Jose generated by Brocade's existing facilities is relatively minor. The majority of Brocade's sales occur through outside "Original Equipment Manufacturers" (OEMs) and Brocade is not the point of sale for sales tax purposes. In light of these considerations, for purposes of this analysis it has been assumed that the expansion will not generate any new City sales tax revenue.

Annual General Fund revenues are estimated at \$549,000 upon stabilization which is estimated to represent an increase of \$291,000 over revenues generated by Brocade's existing facilities. Approximately 65% of estimated revenues are derived from utility user taxes based on information on utility consumption provided by Brocade.

Brocade has indicated it plans to make approximately \$16 million in equipment purchases related to the expansion. The General Fund receives sales and use tax based on 1% of the value of purchases if purchases are made from suppliers located either in San Jose or outside of the State. If suppliers are located in another jurisdiction in California, San Jose would not receive sales and use tax on these purchases. No sales and use tax revenue from equipment purchases is included in the analysis based

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on the assumption that most equipment purchases will be from suppliers that have points of sale established in other California jurisdictions.

General fund expenses associated with providing municipal services to Brocade are estimated on Table 5. Given the in-fill nature of the project, the analysis assumes Brocade will not generate any incremental public facility requirements such as new roads, parks, or a new fire station. Potential on-going service expenses include Police, Fire, General Government, Capital Maintenance, Finance, Economic Development and Community Services. The expenses provided on Table 5 are based on cost factors developed for the analysis of the proposed soccer stadium and are derived from the City's FY 2007-08 budget. The estimate is designed to incorporate an allowance for potential future increases in demand for City services which may occur due to employment growth at Brocade. Total General Fund service costs are estimated at \$290,000 per year or an increase of \$100,000 over the estimate of current service costs for Brocade's existing facilities. No material additional staff requirements are projected given this relatively minor increase in service costs which would be spread across a number of City departments.

Total net fiscal impact to the General Fund upon stabilization is estimated at a positive \$259,000 annually. The net General Fund fiscal impact is approximately \$1.2 Million on a net present value basis through the period Brocade will commit to remain in San Jose assuming completion of the second phase.

B. Redevelopment Agency Tax Increment

Brocade's existing facilities and the proposed relocated and expanded facilities are both within the Rincon de Los Esteros Redevelopment Project Area. Total tax increment is estimated at \$2.2 million per year, or an increase of about \$1.5 million over the tax increment generated by the existing facilities. Over the expected term of Brocade's commitment to San Jose it is projected that a total of \$10 million in tax increment (present value) would accrue to the Agency.

The cost to the Redevelopment Agency to provide the \$4 million in equipment acquisition assistance (for both phases) is approximately \$3.4 million on a net present value basis. After deducting the cost of the proposed Agency assistance, the present value of net tax increment revenue to the Agency is estimated at \$6.5 million.

Considering both the City's General Fund and Redevelopment Agency the cumulative present value of fiscal impacts over the commitment period is estimated at \$7.7 million.

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Subject: Economic and Fiscal Impacts – Brocade Communications

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| Present Value of Fiscal Impacts of Brocade Facilities from Operations - Anticipated Term of Commitment | General Fund | Redevelopment Agency | Combined |
|---|---------------------|-----------------------------|-----------------|
| Revenues | | | |
| Existing | \$1.5 million | \$4.1 million | \$5.6 million |
| Net Increase / Relocation & Expansion | \$1.3 million | \$5.9 million | \$7.2 million |
| Total With Relocation & Expansion | \$2.8 million | \$10.0 million | \$12.8 million |
| Expenses | | | |
| Existing | (\$1.2 million) | \$0.0 million | (\$1.2 million) |
| Net Increase / Relocation & Expansion | (\$0.4 million) | (\$3.4 million) | (\$3.8 million) |
| Total With Relocation & Expansion | (\$1.6 million) | (\$3.4 million) | (\$5.0 million) |
| Net Impact | | | |
| Existing | \$0.3 million | \$4.1 million | \$4.4 million |
| Net Increase / Relocation & Expansion | \$0.9 million | \$2.5 million | \$3.3 million |
| Total With Relocation & Expansion | \$1.2 million | \$6.5 million | \$7.7 million |

Totals may not add due to rounding.

Limiting Conditions

1. The analysis contained in this document is based, in part, on data provided by Brocade technologies, and other secondary sources such as state and local governments, planning agencies, and other third parties. The source of each specific piece of data is cited in the attached technical analytical tables. While Keyser Marston Associates, Inc. (KMA) believes that these sources are reliable; we cannot guarantee their accuracy.
2. A projection of economic and fiscal impacts is inherently based on judgment. The projections contained herein are based on the best information available at the time that this document was prepared. However, the actual impacts may vary.
3. The analysis assumes that the economy will continue to grow at a moderate rate.
4. The estimates are based on the best project-specific data available at this time as well as experience with comparable projects. Any changes to costs, development program, or project performance may render the conclusions contained herein invalid.
5. No abstracting, excerpting, or summarization of this report may be made without first obtaining prior written consent from KMA.

Table 1
Summary
Fiscal Impact and Economic Benefit Analysis
Brocade Communications Expansion and Relocation
City of San Jose, CA

August 27, 2008

| | Existing (to be vacated) | Net Increase with Relocation / Expansion | Total Relocated / Expanded Facility | | |
|--|-----------------------------|--|---|-----------------------------|----------|
| ECONOMIC BENEFITS | | | | | |
| On-Going Economic Benefits / Operations Table 7 | | | | | |
| Direct Impact - <i>within City of San Jose</i> ¹ | | | | | |
| Economic Output | \$624 | \$312 | \$936 | Million/Yr | |
| Employment | 1,200 | 600 | 1,800 | jobs | |
| Direct, Indirect, Induced Impact - <i>County-wide</i> ¹ | | | | | |
| Economic Output | \$1,021 | \$511 | \$1,532 | Million/Yr | |
| Employment | 3,830 | 1,920 | 5,750 | jobs | |
| Construction Economic Benefits / One-Time Table 8 | | | | | |
| Direct Impact - <i>within City of San Jose</i> | | | | | |
| Economic Output | not applicable | \$243 | \$243 | Million | |
| Employment ² | not applicable | 1,280 | 1,280 | jobs | |
| Direct, Indirect, Induced Impact - <i>County-wide</i> ³ | | | | | |
| Economic Output | not applicable | \$373 | \$373 | Million | |
| Employment ² | not applicable | 2,040 | 2,040 | jobs | |
| FISCAL IMPACT | | | | | |
| Projected General Fund Fiscal Impact | | | | | |
| Annual General Fund Revenue | Table 4 | \$258,000 | \$291,000 | \$549,000 | Annually |
| Annual General Fund Service Cost | Table 5 | (\$190,000) | (\$100,000) | (\$290,000) | Annually |
| Net Annual General Fund Revenue / (Cost) ¹ | | \$68,000 | \$191,000 | \$259,000 | Annually |
| Present Value over Commitment Period ³ | Table 6 | \$325,000 | \$854,000 | \$1,179,000 | NPV |
| Redevelopment Agency Tax Increment Projection | | | | | |
| Annual Housing & Non-Housing TI ¹ | Table 3 | Rincon South \$719,000 | \$1,453,000 | Rincon North \$2,172,000 | Annually |
| Present Value over Commitment Period ⁴ | Table 6 | \$4,093,000 | \$5,867,000 | \$9,960,000 | NPV |
| Present Value of Acquisition Assistance ⁴ | Table 6 | \$0 | (\$3,413,000) | (\$3,413,000) | NPV |
| Net Revenue / (Expense) to RDA (NPV) ⁴ | Table 6 | \$4,093,000 | \$2,454,000 | \$6,547,000 | NPV |
| Total Net Revenue to General Fund & RDA (NPV)⁴ | | \$4,418,000 | \$3,308,000 | \$7,726,000 | NPV |

Notes:

¹ For stabilized year.

² Expressed in terms of person years of employment.

³ Total inclusive of direct impacts identified above.

⁴ In FY 2008-09 based on a 6% discount rate. Assumes seven year commitment period based on proposed terms for Agency assistance.

Table 2
Summary of Existing and Expanded Facilities
Fiscal Impact and Economic Benefit Analysis
Brocade Communications Expansion and Relocation
City of San Jose, CA

August 27, 2008

Building Area

| | | |
|---------------------------------------|------------------------|------------------------------|
| Existing Facilities (to be Relocated) | | |
| own | 202,000 Sq. Ft. | within Rincon de Los Esteros |
| lease | <u>202,000</u> Sq. Ft. | South Redevelopment Area |
| | 404,000 Sq. Ft. | |
| Relocated / Expanded Facilities | | |
| Phase 1 | 562,000 Sq. Ft. | within Rincon de Los Esteros |
| Phase 2 (potential) ¹ | <u>320,000</u> Sq. Ft. | North Redevelopment Area |
| | 882,000 Sq. Ft. | |

Employment in San Jose

| | | |
|--|------------------------|-----------------------------|
| Existing | 1,200 Employees | |
| Added with Relocation & Expansion ² | 600 Employees | assuming both phase 1 and 2 |
| Total | <u>1,800 Employees</u> | |

Notes:

¹ Phase 2 is assumed to proceed in late 2012.

² Estimated by the San Jose Redevelopment Agency

Sources: Brocade Communications Systems, Inc.; San Jose Redevelopment Agency

Table 3
Projection of Annual Redevelopment Agency Revenue
Fiscal Impact and Economic Benefit Analysis
Brocade Communications Expansion and Relocation
City of San Jose, CA

August 27, 2008

| | | <u>Existing</u> <u>(to be vacated)</u> | <u>Net Increase</u> <u>with Relocation</u> <u>/ Expansion</u> | <u>Total Relocated /</u> <u>Expanded</u> <u>Facility</u> |
|---|-----------|---|---|--|
| | | Rincon South Project Area | | Rincon North Project Area |
| RDA Tax Increment Revenue | | | | |
| Assessed Valuation Added | | \$121,500,000 ¹ | | \$267,500,000 |
| Gross Increment | 1% | \$1,215,000 | \$1,460,000 | \$2,675,000 |
| (Less) County Admin Fee | 1% | (\$12,000) | (\$15,000) | (\$27,000) |
| (Less) Tier 1 Pass Throughs ² | | (\$79,000) | \$58,000 | (\$21,000) |
| (Less) Housing Set-Aside | 20% | (\$243,000) | (\$292,000) | (\$535,000) |
| (Less) County Settlement Agreement ³ | 33% / 17% | (\$405,000) | (\$50,000) | (\$455,000) |
| Net Non-Housing Tax Increment | | \$476,000 | \$1,161,000 | \$1,637,000 |
| Net Annual Tax Increment | | | | |
| Non-Housing | | \$476,000 | \$1,161,000 | \$1,637,000 |
| Housing | | \$243,000 | \$292,000 | \$535,000 |
| | | <u>\$719,000</u> | <u>\$1,453,000</u> | <u>\$2,172,000</u> |

Notes:

¹ Estimated based on existing property tax amount provided by Brocade and property tax rate of approximately 1.16% applicable to TRA 17-069.

² Pass throughs triggered by the Agency's election to eliminate the debt incurrence limit as allowed under SB 211. Reflects payment only to entities eligible to receive a payment based on the Agency's FY 2007-08 pass through calculation summary dated 8/8/08. Pass through applies only to the increase in assessed value over an adjusted base year. It is assumed that the project areas have exceeded the adjusted base value therefore all incremental changes in assessed value are effectively subject to the pass through.

³ Per Agency staff, settlement agreement pass through payment of 33% applies in Rincon South and a pass through of approximately 17% applies in Rincon North.

Sources: Brocade Communications Systems, Inc.; San Jose Redevelopment Agency

Table 4
Projection of Annual City General Fund Revenue
Fiscal Impact and Economic Benefit Analysis
Brocade Communications Expansion and Relocation
City of San Jose, CA

August 27, 2008

| | <u>Existing</u> (to be vacated) | <u>Net Increase</u> <u>with Relocation</u> <u>/ Expansion</u> | <u>Total Relocated /</u> <u>Expanded</u> <u>Facility</u> |
|---|------------------------------------|---|--|
| General Fund Revenue | | | |
| Property Tax In-Lieu of VLF | | | |
| Assessed Value | \$121,500,000 ¹ | \$146,000,000 | \$267,500,000 ¹ |
| VLF in-lieu per \$1,000 in AV Growth ² | \$0.57 | \$0.57 | \$0.57 |
| Total Property Tax In-Lieu of VLF | \$69,000 | \$83,000 | \$152,000 |
| Business License Tax | | | |
| Employees | 1,200 | 600 | 1,800 |
| Total Tax | \$18 /Employee \$22,000 | \$10,000 | \$32,000 |
| Sales Tax | minor | | minor |
| Utility User Tax | | | |
| Annual Utility Expenses | \$3,340,000 ³ | \$3,950,000 | \$7,290,000 ⁴ |
| Utility User Taxes | 5% \$167,000 | \$198,000 | \$365,000 |
| Total Annual Revenue to City General Fund | <u>\$258,000</u> | <u>\$291,000</u> | <u>\$549,000</u> |

Notes:

¹ See Table 3.

² Per SB 1096, growth of property tax in lieu of VLF is proportional to growth in AV since 2004/05. Per the California State Controller's Office, property tax based VLF in 2004-05 was \$52,581,000 and gross AV for the City was \$92,565,000,000. This yields \$0.57 in revenue per \$1,000 in AV growth.

³ Per Brocade Communications, Inc. Adjusted assuming utility expense amount provided by Brocade is inclusive of utility user taxes.

⁴ Estimated based on existing expenses. Assumed to increase proportional to building area.

Source: Brocade Communications, Inc.

Table 5
Projection of Annual City General Fund Service Costs
Fiscal Impact and Economic Benefit Analysis
Brocade Communications Expansion and Relocation
City of San Jose, CA

August 27, 2008

| | | <u>Existing</u> (to be vacated) | <u>Net Increase</u> <u>with Relocation</u> <u>/ Expansion</u> | <u>Total Relocated /</u> <u>Expanded</u> <u>Facility</u> |
|--|--|------------------------------------|---|--|
| Service Population | | | | |
| employees | | 1,200 | 600 | 1,800 |
| daytime service population | weighed at 1 per resident and 1/2 per employee ² | 600 | 300 | 900 |
| General Fund Service Costs | | | | |
| | <u>Service Cost Factors (soccer stadium report)</u> ¹ | | | |
| General Government | \$14 per daytime service population | 8,300 | 4,150 | 12,450 |
| Finance | \$3 per daytime service population | 1,600 | 800 | 2,400 |
| Economic Development | \$1 per daytime service population | 760 | 380 | 1,140 |
| Police | \$155,000 per officer with 1.17 officers per 1,000 | 108,810 | 54,410 | 163,220 |
| Fire | \$148,000 per firefighter with 0.64 firefighters per 1,000 | 56,830 | 28,420 | 85,250 |
| Capital Maintenance | | | | |
| General Service | \$13 per daytime service population | 7,550 | 3,780 | 11,330 |
| Public Works | \$9 per daytime service population | 5,530 | 2,760 | 8,290 |
| Transportation ³ | \$15,000 per road mile | | no additional roads | |
| Community Service | | | | |
| Library | \$10 per resident | 0 | 0 | 0 |
| Park Rec & Neighborhood Service | \$15,000 per acre of park | | no additional parks | |
| Planning, Building, Code Enforce | \$9 per daytime service population | 5,100 | 2,550 | 7,650 |
| Total Annual General Fund Service Cost ⁴ | | \$194,480 | \$97,250 | \$291,730 |
| or say | | \$190,000 | \$100,000 | \$290,000 |

Notes:

¹ All cost factors are based on the adopted report "Fiscal and Economic Impact Analysis of Major League Soccer Stadium Proposal" dated January 2008 prepared by Economic and Planning Systems. General Government, Finance, and Economic Development cost factors adjusted to correct apparent math error.

² Weighting for purposes of computing daytime service population based on soccer stadium report.

³ Roads are in place in respect to existing facilities and it is assumed that no additional roads are required for the relocation and expansion.

⁴ No material additional staff requirements are projected given this relatively minor increase in service costs which would be spread across a number of City departments.

Source: Brocade Communications Systems, Inc. Economic and Planning Systems 2008.

Table 6

Cash Flow Projection - Fiscal Impacts ^{3,4}

Fiscal Impact and Economic Benefit Analysis

Brocade Communications Expansion and Relocation

City of San Jose, CA

August 27, 2008

| | Growth Rate | NPV @6% in 2008-09 | 2nd Half of 2010-11 ² | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 1st half of ⁴ 2017-18 | Nominal Total |
|---|----------------|-----------------------|-------------------------------------|-------------------------------------|--------------------------------|--------------------------------------|----------------|----------------|----------------|-------------------------------------|------------------|
| GENERAL FUND | | | | | | | | | | | |
| Existing | | | | | | | | | | | |
| Revenue | | | | | | | | | | | |
| Property tax in-lieu of VLF | 2% | 392,000 | 35,894 | 73,223 | 74,688 | 76,182 | 77,705 | 79,259 | 80,844 | 41,231 | 539,000 |
| Business License | 3% | 132,000 | 11,670 | 24,040 | 24,761 | 25,504 | 26,269 | 27,057 | 27,869 | 14,353 | 182,000 |
| Utility User Tax | 3% | <u>1,000,000</u> | <u>88,585</u> | <u>182,485</u> | <u>187,960</u> | <u>193,599</u> | <u>199,407</u> | <u>205,389</u> | <u>211,551</u> | <u>108,949</u> | <u>1,378,000</u> |
| | | 1,524,000 | 136,149 | 279,749 | 287,409 | 295,284 | 303,381 | 311,705 | 320,264 | 164,532 | 2,098,000 |
| Expense | | | | | | | | | | | |
| Net Annual GF Revenue / (Expense) | 4% | <u>1,199,000</u> | <u>102,752</u> | <u>213,724</u> | <u>222,273</u> | <u>231,164</u> | <u>240,411</u> | <u>250,027</u> | <u>260,028</u> | <u>135,215</u> | <u>1,656,000</u> |
| | | 325,000 | 33,397 | 66,025 | 65,136 | 64,120 | 62,970 | 61,678 | 60,236 | 29,317 | 443,000 |
| Total With Relocation & Expansion | | | | | | | | | | | |
| Revenue | | | | | | | | | | | |
| | | | <u>Phase I</u> | | <u>Phase II</u> | | | | | | |
| Property tax in-lieu of VLF ¹ | 2% | 697,000 | 0 | 102,781 | 104,836 | 167,820 | 171,177 | 174,600 | 178,092 | 90,827 | 990,000 |
| Business License | 3% | 170,000 | 10,816 | 22,281 | 29,483 | 37,097 | 38,210 | 39,356 | 40,537 | 20,876 | 239,000 |
| Utility User Tax | 3% | <u>1,943,000</u> | <u>123,369</u> | <u>254,140</u> | <u>336,287</u> | <u>423,135</u> | <u>435,829</u> | <u>448,904</u> | <u>462,371</u> | <u>238,121</u> | <u>2,722,000</u> |
| | | 2,810,000 | 134,185 | 379,201 | 470,606 | 628,052 | 645,215 | 662,860 | 681,000 | 349,825 | 3,951,000 |
| Expense | | | | | | | | | | | |
| Net Annual GF Revenue / (Expense) | 4% | <u>1,631,000</u> | <u>99,932</u> | <u>207,858</u> | <u>277,715</u> | <u>352,829</u> | <u>366,943</u> | <u>381,620</u> | <u>396,885</u> | <u>206,380</u> | <u>2,290,000</u> |
| | | 1,179,000 | 34,253 | 171,344 | 192,891 | 275,223 | 278,273 | 281,240 | 284,115 | 143,444 | 1,661,000 |
| REDEVELOPMENT AGENCY | | | | | | | | | | | |
| Existing TI (Hsg & Non-Hsg) ¹ | | | | | | | | | | | |
| | 2% | 4,093,000 | 381,504 | 763,009 | 778,269 | 793,834 | 809,711 | 825,905 | 842,423 | 429,636 | 5,624,000 |
| Total TI with Relocation / Renovation (Hsg & Non-Hsg) ¹ | | | | | | | | | | | |
| | 2% | 9,960,000 | 0 | <u>Phase I on roll</u> 1,468,683 | 1,498,057 | <u>Phase II on roll</u> 2,398,064 | 2,446,025 | 2,494,945 | 2,544,844 | 1,297,871 | 14,148,000 |
| (less) Equipment Acquisition Assistance | | (3,413,000) | <u>Phase I</u> (2,500,000) | 0 | <u>Phase II</u> (1,500,000) | 0 | 0 | 0 | 0 | 0 | (4,000,000) |
| Net To Redevelopment Agency | | 6,547,000 | (2,500,000) | 1,468,683 | (1,943) | 2,398,064 | 2,446,025 | 2,494,945 | 2,544,844 | 1,297,871 | 10,148,000 |

Notes:

¹ Reflects lag time for added assessed value to be placed on the secured property tax roll. Conservatively excludes supplemental property taxes.

² Assumes occupancy for half of FY 2010-11 based on projected completion by the end of 2010. Phase II assumed for half of 2012-13 based on projected completion by the end of 2012.

³ Figures do not match estimates for the stabilized year provided on Table 1 due to inflation to initial year of operation and lag time for assessed value to be reflected on the rolls.

⁴ Projection period based on Brocade commitment to remain in San Jose for five years after last equipment acquisition assistance payment. Assumes Phase II payment in Dec. 2012.

Table 7
Projection of Economic Benefits from On-Going Operations
Fiscal Impact and Economic Benefit Analysis
Brocade Communications Expansion and Relocation
City of San Jose, CA

August 27, 2008

| | | Annual Direct Impact City of San Jose | Santa Clara County Multiplier¹ | County-wide Indirect & Induced Impact | Total County- wide Annual Impact |
|--|---------------------|--|--|--|---|
| On-Going Economic Impacts | | | | | |
| Employment | | | | | |
| Existing Facility | | 1,200 | 3.196 | 2,630 | 3,830 |
| Net Increase with Relocation / Expansion | | <u>600</u> | 3.196 | <u>1,320</u> | <u>1,920</u> |
| Total Relocated / Expanded Facility | | 1,800 | 3.196 | 3,950 | 5,750 |
| Economic Output / Gross Sales | | | | | |
| Existing Facility | \$520,000 /employee | \$624,000,000 ² | 1.637 | \$397,000,000 | \$1,021,000,000 |
| Net Increase Relocation / Expansion | \$520,000 /employee | <u>\$312,000,000</u> ² | 1.637 | <u>\$199,000,000</u> | <u>\$511,000,000</u> |
| Total Relocated / Expanded Facility | \$520,000 /employee | \$936,000,000 | 1.637 | \$596,000,000 | \$1,532,000,000 |

Notes:

¹ Bureau of Economic Analysis RIMS II multipliers for Santa Clara County applicable to the computer device storage manufacturing industry (NAICS 334112)

² Estimated based on Brocade's total economic output company-wide and the 2,368 Brocade employees globally per Brocade's December 21, 2007 Form "10-K" filing with the United States Securities and Exchange Commission .

Sources: Bureau of Economic Analysis, Brocade.

Table 8
Projection of Economic Benefits from Construction
Fiscal Impact and Economic Benefit Analysis
Brocade Communications Expansion and Relocation
City of San Jose, CA

August 27, 2008

| | | <u>Annual Direct Impact City of San Jose</u> | <u>Santa Clara County Multiplier²</u> | <u>County-wide Indirect & Induced Impact</u> | <u>Total County-wide Impact</u> |
|---|-------------------------------|--|--|--|-------------------------------------|
| Construction Period Economic Impacts (from construction of building and tenant improvements) | | | | | |
| Economic Output | | \$243,000,000 ¹ | 1.533 | \$130,000,000 | \$373,000,000 |
| Construction Payroll | 30% of cost ³ | \$73,000,000 | 1.482 | \$35,000,000 | \$108,000,000 |
| Construction Employment | \$57,000 avg pay ⁴ | 1,280 person years ⁵ | 1.590 | 760 person years ⁵ | 2,040 person years ⁵ |

Notes:

¹ Based on construction cost of building and tenant improvements. 100% of direct economic output is shown as occurring in San Jose because construction activity will occur in San Jose; however, contractors may be based elsewhere.

² Bureau of Economic Analysis RIMS II multipliers for Santa Clara County applicable to the construction industry.

³ Based on the 2002 Economic Census. Ratio of net value of construction work to gross payroll for commercial building construction contractors.

⁴ Per California Employment Development Department data on average pay for construction workers in Santa Clara County in 2007 inflated by 3% to 2008.

⁵ A person year of employment is equivalent to full time employment of one person for one year.

Sources: Bureau of Economic Analysis, Brocade.

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