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**FISCAL IMPACT ANALYSIS
SUN MICROSYSTEMS, INC.
PROPOSED CORPORATE CAMPUS
SANTA CLARA, CALIFORNIA**

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Preface

The following report has been prepared by Law & Associates at the request of Sun Microsystems, Inc. The analytical methods employed and the conclusions derived are solely those of Law & Associates. Sun Microsystems involvement with the preparation of this report has been limited to the release of information regarding facilities plans, operating costs and procedures, employee characteristics and industry data.

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Executive Summary

The Company

- Sun Microsystems, Inc. is a leading supplier of network computing products with over \$7 billion in annual revenue.
- Sun maintains a workforce of 17,400 people worldwide.

The Proposed Corporate Campus

- Sun is considering acquiring a portion of the Agnews West site in Santa Clara, California to satisfy its short term expansion needs in the Silicon Valley and to accommodate future growth.
- At full build-out, the campus will comprise approximately 1,000,000 square feet of research, development and office space to support about 3,650 employees.
- This \$230 million development is planned in phases, the initial phase to comprise 550,000 square feet with the balance to be completed within five years.

The Jurisdictional Benefits

- The City of Santa Clara will collect one-time revenue of \$6.2 million from development fees, construction related taxes (direct use and induced retail sales) and the purchase of FF&E.
- The City, through its share of sales tax collections, will realize an annual increase of almost \$3.2 million from direct Sun purchases and indirectly induced retail sales.
- The City of Santa Clara will increase its annual property tax revenue by \$460,000.
- The City will continue to collect approximately \$500,000 annually in sales tax revenue from the Sun sales office currently located at the Techmart.
- The City will collect an additional \$102,000 in transient occupancy tax annually from the hotel use derived from the operation of Sun's proposed corporate campus.
- The City of Santa Clara will gain an additional large market for its electric utility.
- Santa Clara County's annual tax revenue will increase by \$5.0 million from property taxes and sales tax.
- Santa Clara County will gain one-time revenue of \$1.2 million as a result of construction activity and FF&E investment for the proposed corporate campus.
- At full build-out, the State of California will increase its annual sales tax revenues by \$19.1 million from three sources -- Sun's direct purchase of taxable goods, the consumption patterns of Sun's employees, and the state utility tax.
- The State of California will also realize a significant one-time collection of sales tax of \$7.5 million from direct and induced purchases of construction materials and the purchase of furniture, fixtures and equipment (FF&E) for the proposed campus.

A summary of these jurisdictional revenues follows.

**SUN MICROSYSTEMS
PROPOSED SANTA CLARA CAMPUS**

**SUMMARY TABLE
JURISDICTIONAL REVENUE**

	State of California		City of Santa Clara		County of Santa Clara	
	One-time Collections	Recurring Collections	One-time Collections	Recurring Collections	One-time Collections	Recurring Collections
Development Fees	N/A	N/A	4,547,300	N/A	N/A	N/A
Sales Tax -- Campus Building Materials	5,269,100	N/A	878,200	N/A	658,600	N/A
Sales Tax -- Indirect Campus Construction	552,400	N/A	92,100	N/A	69,000	N/A
Sales Tax -- FF&E	1,645,000	N/A	645,000	N/A	483,750	N/A
Sales Tax -- Annual Purchases (2)	N/A	1,633,200	N/A	297,200	N/A	222,900
Sales Tax -- Employee Consumption	N/A	17,325,400	N/A	2,887,600	N/A	2,165,700
Sales Tax -- Existing Sales Office	N/A	N/A	N/A	500,000	N/A	N/A
Utility Tax	N/A	125,800	N/A	N/A	N/A	N/A
Transient Occupancy Tax	N/A	N/A	N/A	101,900	N/A	N/A
Secured Property Tax	N/A	N/A	N/A	359,600	N/A	2,037,800
Unsecured Property Tax	N/A	N/A	N/A	100,000	N/A	566,800
Total	7,466,500	19,084,400	6,162,600	4,246,300	1,211,350	4,993,200

(1) Includes County Transit District revenue

(2) Includes R&D upgrade equipment

Introduction

Sun Microsystems, Inc. is a leading supplier of network computing products including workstations, servers, software, microprocessors, and a full range of services and support. Sun's products command a significant share of a rapidly growing segment of the computer industry: networked workstations and servers. The Company's products are used for many demanding commercial and technical applications in various industries. Sun has distinguished itself from its competitors by its commitment to the network computing model and the UNIX operating system, its rapid innovation and its open systems architecture.

Sun operates in a single industry segment and conducts its business through principal operating entities and divisions organized around its principal areas of added value. The individual businesses generally operate independently within their charters, but with the common corporate strategic vision of being a leading force in network computing. This organizational structure allows the Company to focus more efficiently on its customers and the products, channels and markets necessary to serve them.

The Company's network computing model and its hardware and software implementations have attracted a large number of software vendors to port their applications to Sun platforms, including an increasing number of vendors of commercial applications. The availability of such third-party software provides Sun and its customers with competitive advantages and strengthens the Company's presence in network computing.

Sun's research and product development programs sustain and enhance its position by incorporating the latest worldwide advances in hardware, software, graphics, networking and data communications technologies. Sun's product development efforts, conducted within each of its businesses, focus on increasing the price/performance of its systems, improving its system software platforms and developing advanced workstation and server architectures, application-specific integrated circuits and software for networking and distributed computing, including the high-performance implementation of existing standards and the development of new technology standards where none exist.

Founded in 1982, Sun Microsystems has distinguished itself as one of the fastest growing companies in the computer industry. Because of Sun's critical position in the network computing market, this rapid growth is expected to continue. Additionally, the financial markets have demonstrated confidence in Sun's future by making it one of the largest capitalized companies in

high technology. Notably, Sun Microsystems has one of the strongest balance sheets in the industry.

With this outstanding performance and unparalleled outlook, Sun Microsystems is in need of an expansion campus to support its anticipated growth over the next five years. Sun has analyzed several sites for the expansion of its facilities and the Agnews West site appears to satisfy many of the Company's site location criteria. Among Sun's most important parameters for choosing an expansion site are:

- Business friendly community and government
- Proximity to engineering talent
- Reasonable land and building cost
- Full range of housing product
- Proximity to colleges and universities

Sun desires to build in a community that values the tangible economic and community benefits that its presence brings to the city, county and state. Sun's proposed Santa Clara campus would constitute an extensive financial and strategic commitment of corporate resources. Sun has grown successfully by building long-term partnerships with its suppliers, customers and employees. Sun desires to apply this philosophy to the communities it chooses to locate in for its long range plans. Accordingly, an important condition for Sun's selection of Santa Clara for its new corporate campus will be Santa Clara's welcome of Sun's development and its understanding of Sun's need to develop the proposed campus as quickly as possible.

Benefits for California's Economy

Economists emphasize that a region's prosperity will be determined by the ability of local industries to capture global markets. The United States' greatest global competitive advantage is with knowledge-based products and services -- those created by developing technology. The 1989-1991 recession was milder in regions where the local economy was more diversified and resident firms were tied to developing technology. Sun, like other developing technology companies, has produced a flexible organization that readily adapts to the shifting needs of global markets. This flexibility produces a company that is less vulnerable to economic downturn and, consequently, its employees, suppliers, and local communities enjoy increased economic strength.

Fundamental to a vibrant high-tech economy is the presence of cluster industries -- a concentration of complementary high-tech industries that generate wealth for the region through the synergy created by corporate interactions and new opportunities. Silicon Valley's growth strategy is to expand the breadth and depth of cluster industries in the Valley by supporting the larger, older high-tech firms as anchors for developing technology while creating an environment that meets the needs of the newer, faster growing companies -- the "gazelles" of the corporate high-tech world. Sun is considered not only an anchor but also, because of its historical growth, a gazelle. This corporate profile is one that Silicon Valley communities are targeting for retention. Santa Clara has an opportunity to strengthen its economic base with the location of Sun's new corporate campus.

Currently, 50% of Sun's revenues are generated from exports. More significantly, a sizable share of these exports are to Pacific Rim nations -- the growth export markets of the 21st century. The visibility Sun maintains with international trading partners influences their trading patterns for other goods and services. Building these relationships as well as influencing a global trading mentality in the local community are critical characteristics for strengthening a regional economy. Sun's proposed campus location at the Agnews West site will assist in maintaining Silicon Valley's dominant position in the important global markets of the 21st century.

Sun brings another very significant advantage to the local corporate community -- an unconventional but highly successful business model. Sun prefers to build business alliances with organizations that specialize in complementary solutions that add value to the Sun platform and enable it to focus on its core technologies, broaden its market penetration and bring technologies and services to market as quickly as possible. Sun's leveraged business model has made it one of the best managed computer companies in the industry and, in turn, has incubated many successful

high-tech start-ups. This incubation process is the vital link for growth in the high-tech arena; it is a nurturing process that produces highly motivated entrepreneurs -- the backbone of a dynamic economy.

Sun Microsystems is committed to excellence not only in its products and services but also in its role as a community leader. Sun's community investment strategy is about giving people hope through empowerment. The Company provides tools in the form of money, equipment and people that enable the recipients to become architects of their own futures. Sun assists local schools with programs that provide access to the Internet and establish wide-area networks within and between school districts. This assistance takes the form of donated hardware, software, training and support to schools and school districts, especially those with large populations of economically or educationally disadvantaged students. Sun also supports the economic development of communities near its campuses. In 1995, Sun invested in a wide range of community-sponsored programs focusing on four key areas: education, job training, leadership development, and business enterprise development.

Sun's interest in improving the community is also reflected in its in-house program to build an ethnically diverse workforce through assertive recruitment practices, comprehensive management training, on-going education, and active employee focus groups. Through its Corporate Diversity Program, Sun awards scholarships to Hispanic and African-American students and provides guidance to the students through a mentor program during their college careers.

Sun is at the forefront of developing new markets for the 21st century. Its dominant industry position creates the economic environment for attracting cluster industry firms, and it is this concentration of high-tech firms that acts as a catalyst for growth in international exports, broadened world trading patterns and international technology exchanges. The Company's commitment to research and development, its innovative approach to business and its tangible support for community improvement projects make Sun Microsystems a vital resource for Santa Clara and the State of California -- a resource to support and encourage. The result will be continued prosperity.

Employment

The potential location of Sun Microsystems in Santa Clara will have a sizable multiplicative effect on the county's employment base. For the purposes of this analysis, an economic input/output model has been employed to estimate the degree to which the addition of approximately 3,650 jobs in Santa Clara will impact the county. The model, IMPLAN (IMPact analysis for PLANning) was developed by the University of Minnesota and is the most comprehensive model in the industry. Using data from over 40 government and private sources, IMPLAN maintains a database of 528 inter-industry sectors and 21 different economic variables for every state and county in the United States. Using IMPLAN's database for Santa Clara County, it is estimated that the effect of Sun's addition of 3,650 jobs will result in a total County job count increase of approximately 13,600 jobs (See Table III).

There will also be further employment gains generated in the short-term by Sun's campus project. Specifically, IMPLAN estimates that the resulting employment from this \$230 million investment translates into 2,300 direct construction-related and indirect service sector jobs in the County (See Table I).

Jurisdictional Revenues

If Sun Microsystems selects the Agnews West site, the local taxing authorities will experience a significant increase in revenue. The sources of revenue are fees, sales and use taxes and property taxes which are detailed below. Law & Associates estimates that the sustainable revenue streams for the applicable jurisdictions are: the State of California will realize an annual increase in revenue of \$19.1 million; the City of Santa Clara will secure revenue collections of \$4.2 million annually; and, the County of Santa Clara will collect \$5 million more in annual revenue. These annual revenue streams are in addition to total one-time collections of \$7.5 million for the State, \$6.2 million for the City and \$1.2 million for the County. The following discussion details the sources of these revenue increases.

Construction Fees and Taxes

The development fees and taxes that will be collected for all phases of the proposed Sun campus at the Agnews West site represent a very significant one-time inflow to the City of Santa Clara. While such revenues are not completely identifiable until engineering and design specifications are completed, they can be estimated. According to the Santa Clara Building Department, it is estimated that development fees will be approximately \$4.5 million. The purchase of construction materials will generate an additional \$6.8 million in use taxes: \$878,200 for the City of Santa Clara, \$658,600 for Santa Clara County, and \$5.3 million for the State of California (See Table I).

Sales and Use Taxes

Sales Tax Collections -- One-time Occurrence

The new Sun campus will require approximately \$20 million in office furnishings and fixtures, \$21 million in computer equipment, \$17.5 million in telephone equipment and \$6 million in R&D equipment (in the aggregate \$64.5 million in FF&E). Investment in FF&E, all of which are subject to state and local use tax at the time of acquisition, is likely to be made within three months of the completion of each phase of construction and, as such, represents sizable one-time inflows for all jurisdictions -- State, County and City. At current use tax rates, the above items will generate substantial tax revenue of nearly \$2.8 million. Of the total, the State of California will collect \$1.6 million (after the sales and use tax exemption for qualifying equipment), Santa Clara County will realize \$484,000 and the City of Santa Clara will collect \$645,000 (See Table II).

Sales Tax Collections -- Recurring Revenue

Following the completion of Sun's campus, the jurisdictions will receive sales tax revenues from Sun's purchase of company supplies. These supplies averages \$6,000 per employee per year resulting in the annual collection of \$1.6 million in sales tax for the State of California, the City of Santa Clara will gain \$267,000 annually and Santa Clara County will realize approximately \$200,000 more each year (See Table II).

Additional annual use tax revenue will be generated by Sun's rapid turnover of R&D equipment approximately every two years. For purposes of analysis, annual purchases are estimated at one-half of the original investment of \$10,000 per engineer. The resulting use tax totals approximately \$82,500. This is distributed as follows: the City of Santa Clara and the State of California each collect \$30,000 annually and Santa Clara County realizes \$22,500. The State figure assumes the present sales and use tax exemption for qualifying equipment continues (See Table II).

Using the IMPLAN model, Sun's impact on local taxable sales is far greater when considering the consumption patterns of its employees -- a relatively young, highly paid and hard-driving workforce. This demographic group is characterized by their high consumption of taxable goods, i.e., restaurant food and beverage, recreation goods and entertainment services. Santa Clara County will realize \$289 million in additional area taxable purchases that, in turn, will produce annual sales tax revenue of \$22.4 million: \$17.3 million to California, \$2.2 for Santa Clara County, and \$2.9 for the City of Santa Clara (See Table III).

Sales Office Tax Collections -- Recurring Revenue

Sun Microsystems operates a sales office at the Techmart. In 1995, approximately \$500,000 in sales tax revenue was generated from this office to the City of Santa Clara. If Sun's new campus is developed in Santa Clara, this office will remain at the Techmart or relocate to the new campus and continue to generate these sales tax revenues for the City.

Utility Tax -- Recurring Revenue

Another recurring revenue for the State of California is the Public Utility Commission tax applied to utility charges. The campus will generate annual revenues to the State of California of approximately \$125,800 (See Table IV).

Electricity Usage Charge

Sun will provide a large steady market for Santa Clara's electric utility. Although the electric industry will become more competitive through deregulation, Sun welcomes the opportunity to negotiate a contract with Santa Clara that will be favorable to both Sun and the City.

Transient Occupancy Tax- - Recurring Revenue

The City of Santa Clara taxes hotel room revenue -- the transient occupancy tax -- at the rate of 9.5%. The Sun campus, at full build-out, will generate demand for approximately 14,000 annual room nights, 65% of which are likely to be within the city limits of Santa Clara. The local transient occupancy tax will generate for the City's General Fund an increase of nearly \$102,000 annually (See Table V).

Property Taxes*Secured Property Tax- - Recurring Revenue*

Sun Microsystems estimated investment of \$230 million in the acquisition and development of the Agnews West site will produce significant annual property tax revenues for both the County of Santa Clara and the City because the land is currently untaxed as a State of California holding. Of the \$2.4 million dollars generated annually in property taxes from the proposed Sun campus, it is estimated that \$2 million will be paid to the County; the remainder, \$360,000, will be collected by the City of Santa Clara (See Table VI).

Unsecured Property Tax -- Recurring Revenue

Sun Microsystems total investment of \$64.5 million in unsecured property at this proposed campus will produce annual city and county tax revenues of approximately \$667,000 once installed. The City of Santa Clara will collect more than \$100,000 annually in estimated unsecured property taxes and Santa Clara County's yearly share will be \$567,000 (See Table VI).

Conclusion

Sun Microsystems' proposed development of a portion of the Agnews West site for a corporate expansion campus will have a dramatic positive impact both in terms of the cash flows to the local jurisdictions as well as the catalytic effect Sun Microsystems will have on the continued growth and expansion of the computer/communications industry in California and Santa Clara, in particular. The State, City and County would realize significant increases in annual revenues in addition to sizable one-time receipts as a result of the development of the proposed corporate campus. In recurring revenues, the State of California will gain \$19.1 million, Santa Clara County will realize about \$5 million and the City of Santa Clara will collect approximately \$4.2 million annually.

Sun believes that California and Santa Clara will benefit greatly from Sun's proposed development at the Agnews West site. Sun looks forward to discussing the availability of any government incentives that would help mitigate the sizable investment Sun Microsystems anticipates making.

**SUN MICROSYSTEMS
PROPOSED SANTA CLARA CLARA CAMPUS**

**TABLE I
CAMPUS CONSTRUCTION ANALYSIS**

	Development Fees	Construction Materials	Output Multiplier
Total Campus Construction Output (\$1996)		159,671,000	159,671,000
Development Fees			
Building Department	1,062,000		
Other Fees (Water, Sewer, etc.)	3,485,300		
Total Development Fees	4,547,300		
Output Multiplier		N/A	1.6473
Additional Area Sales Output		N/A	263,026,000
Local Taxable Sales Output Factor (1)		N/A	0.0350
Total Annual County Taxable Sales			9,206,000
Use Tax			
Estimated Construction Materials Purchased (2)		87,819,000	
State Portion (6.00%)		5,269,100	552,400
County Portion (.25%)		219,500	23,000
City Portion (1.00%)		878,200	92,100
Transit District Portion (.50%)		439,100	46,000
Total Use Tax Payable (7.75%)		6,806,000	713,500
Employment Multiplier			
Total Construction Output (3)		N/A	146,306,000
Employment Multiplier (4)		N/A	15.5769
Estimated Increase in County Employment		N/A	2,300

(1) Model estimates 3.5% of total output multiplier is locally taxable
(2) Estimated at 55% of construction contract costs
(3) Multiplier analysis is based on 1993 dollars; construction value is expressed in \$1993
(4) Number of jobs per million dollars of output

**SUN MICROSYSTEMS
PROPOSED SANTA CLARA CAMPUS**

**TABLE II
SALES TAX ANALYSIS**

	Taxable Amount	State Portion: 1.00% - 6.00%	County Portion 0.25%	City Portion 1.00%	Transit Dis Portion 0.50%	Total 2.75% - 7.75%
Initial Asset Purchases (1)						
Furnishings and Fixtures	20,000,000	1,200,000	50,000	200,000	100,000	1,550,000
Computer Equipment	21,000,000	210,000	52,500	210,000	105,000	577,500
Telecommunications Equipment	17,500,000	175,000	43,750	175,000	87,500	481,250
R&D Equipment	6,000,000	60,000	15,000	60,000	30,000	165,000
Total	64,500,000					
Initial Asset Sales Tax Collected		1,645,000	161,250	645,000	322,500	2,773,750
Annual Local Purchases Subject to Sales Tax						
Annual Supply Purchases (2)	26,720,000					
Sales Tax Collected		1,603,200	66,800	267,200	133,600	2,070,800
Annual Asset Purchases						
R&D Upgrade Equipment	3,000,000					
Sales Tax Collected		30,000	7,500	30,000	15,000	82,500
Total Annual Sales Tax Collected		1,633,200	74,300	297,200	148,600	2,153,300

(1) Furnishings and fixtures - 6%; for qualifying equipment (computer, telecommunications and R&D) the effective state tax rate is 1%
(2) Based on company average for local taxable purchases of \$6,000 per employee and adjusted for inflation

Sources: State Board of Equalization, San Jose District Office and Sun Microsystems

**SUN MICROSYSTEMS
PROPOSED SANTA CLARA CAMPUS**

**TABLE III
ECONOMIC MULTIPLIER ANALYSIS**

<i>Employee Consumption Impact</i>	
Annual Payroll - Proposed Campus	395,295,000
Estimated Non-Consumptive Expenditures (1)	118,588,500
Estimated Consumption Expenditures	276,706,500
Annual Taxable Consumption Expenditures	288,756,667
Total Estimated Sales Tax Payable	
State Portion (6.00%)	17,325,400
County Portion (.25%)	721,900
City Portion (1.00%)	2,887,600
Transit District Portion (.50%)	1,443,800
Total Sales Tax (7.75%)	22,378,700
Employment Multiplier	
Annual Output of Campus (2)	481,502,000
Employment Multiplier (3)	28.2629
Estimated Increase in County Employment	13,600

(1) Income taxes and savings
 (2) Multiplier analysis is based on 1993 dollars. For purposes of this analysis, the campus output is expressed in \$1993
 (3) Number of jobs per million dollars of output expressed in 1993 dollars

**SUN MICROSYSTEMS
PROPOSED SANTA CLARA CAMPUS**

**TABLE IV
UTILITY TAX ANALYSIS**

Type of Utility	Unit	Annual Usage	Unit Rate	Annual Charges	1.50% PUC Tax (3)
Electric (1)	KWH	62,700,000	0.075000	4,702,500	70,500
Gas (2)	THERM	104,500	0.310000	32,400	500
Telephone	N/A	N/A	N/A	3,650,000	54,800
Total				8,384,900	125,800

(1) PG&E E-20 primary service rate

(2) PG&E non-core gas rate G-FTS and G-CSP

(3) There is no city utility tax in Santa Clara

Source: Sun Microsystems, Pacific Gas & Electric

**SUN MICROSYSTEMS
PROPOSED SANTA CLARA CAMPUS**

**TABLE V
TRANSIENT OCCUPANCY TAX**

	# of Emp Generating Room Nights	Room Nights per Emp (1)	Total Room Nights	Santa Clara		Avg Room Rate (3)	Total Rooms Revenue	9.5% City Tax
				Share of Room Nights (2)	Room Revenue			
Full Build-out	3,650	4	14,600	9,490	113	1,072,370	101,900	

- (1) Includes direct and induced demand
- (2) Estimated at 65% because of proximity to other jurisdictions
- (3) Equivalent rate in current dollars would be \$95

**SUN MICROSYSTEMS
PROPOSED SANTA CLARA CLARA CAMPUS**

**TABLE VI
PROPERTY TAX ANALYSIS**

<i>Projected Property Taxes</i>	Land	Building	Secured Property	Unsecured Property
Tax Rate Per \$100 Value				
Primary Rate	1.033800	1.033800	1.033800	1.033800
Water District Bonds	0.009800	0.009800	0.009800	
Total	1.043600	1.043600	1.043600	1.033800
Assessed Value	50,000,000	179,727,000	229,727,000	64,500,000
Projected Tax Bill				
Primary Rate			2,374,900	666,800
Water District Bonds			22,500	N/A
Total			2,397,400	666,800
Current Tax Bill			0	0
Net Increase in Taxes			2,397,400	666,800
<i>Jurisdictional Sharing of Property Tax</i>				
City Share of Tax Revenue @ 15% of Total			359,600	100,000
County Share of Tax Revenue @ 85% of Total			2,037,800	566,800

Source: Santa Clara County Tax Assessor's Office