



CITY OF MORGAN HILL

CITY COUNCIL STAFF REPORT

MEETING DATE: July 19, 2017

PREPARED BY: John Lang, Economic Development Coordinator
APPROVED BY: City Manager

IMPACT FEE FINANCING AGREEMENT-COCHRANE CO-BRANDS, INC.

RECOMMENDATION(S)

Adopt resolution authorizing the City Manager to execute a Sewer and Traffic Impact Fee Financing Agreement, consistent with the Sewer and Traffic Impact Fee Deferral Program, with Cochrane Co-Brands II, Inc. for the development of a 76 Gas Station and Burger King restaurant at Cochrane Commons; and make findings of consistency with Section 53083(a)(6)(b) of the Government Code (AB 562).

COUNCIL PRIORITIES, GOALS & STRATEGIES

Ongoing Priorities

Maintaining Fiscal Responsibility

2017 Strategic Priorities

Infrastructure

POLICY CONSIDERATIONS:

City Council could choose not to approve the Impact Fee Financing agreement and require the developer to pay the remaining balance of impact fees.

REPORT NARRATIVE:

On September 27, 2016, the Planning Commission approved a Conditional Use Permit (CUP) for the construction of a 24-hour fueling station, carwash, convenience market and fast food market located at Cochrane Commons. The project is the first development proposed as part of a planned second phase for Cochrane Commons. Cochrane Co-Brands II plans to construct a 2,066 sq. ft. convenience store and a 2,510 sq. ft. fast food eating establishment at the northeast corner of Cochrane Road and DePaul Drive.

The estimated impact and associated fees for the project have been calculated to be \$671,622 (Exhibit C). City staff informed Cochrane Co-Brands II about the availability of the Sewer and Traffic Impact fee Deferral program. Cochrane Co-Brands II has asked to participate in the program.

Program Guidelines for the Traffic, Sewer and Underground Fee Deferral Program.

Commercial and Industrial development projects are eligible to participate in a fee deferral program for traffic, sewer and undergrounding fees. A minimum 20% down

payment for Traffic, Sewer and undergrounding of fees is required. The remaining 80% balance is payable by monthly installment payments over five years. The Fee deferral Program documents must be approved and down payment received prior to issuance of building permit. The Fee deferral program calculates interest at Local Agency Investment Fund (LAIF) + ½ percent. The City Manager has the authority to impose other conditions consistent with the Program goals and requirements or to reject any deferral Program request if there is inadequate security or to minimize risk to the City.

Cochrane Commons Phase II Project

Conditioned on City Council approval of the attached Impact Fee Financing agreement, Cochrane Co-Brands II has provided the City a check for \$213,759 as a deposit towards the traffic and sewer impact fees as well as the balance of remaining impact and frontage fees.

If Council approves the Sewer and Traffic Impact Fee Financing Agreement, Cochrane Co-Brands II will then be able to finance the balance of sewer and traffic impact fees of \$457,863 over the next five years at a rate of interest at 1.41%.

COMMUNITY ENGAGEMENT: Inform

The table below addresses the requirements set forth in the State of California AB 562 (Government Code 53083) for publication of information related to an economic development subsidy and public hearing.

Name/address of beneficiary of the subsidy:	Cochrane Co-Brands II, Inc. 25 E. Airway Blvd Livermore, CA 94551
Start and end dates, schedule for the subsidy	The Sewer and Traffic Impact Fee Financing Agreement will start August 1, 2017. The financing agreement is for a term of five years for \$457,863. The beneficiary will pay monthly payments of \$7,808 over the course of five years.
Describe the subsidy, estimated total amount of expenditure of public funds or revenue lost	The Sewer and Traffic Impact Fee Financing Agreement allows the beneficiary to make a 20% down payment on the Sewer and Traffic Impact fees and finance the balance over five years. The City charges the beneficiary an interest rate of the Local Agency Investment Fund (LAIF) + ½ percent. If the Sewer and Traffic Impact fees are not paid by the beneficiary the City will collect pledged collateral to cover the balance of the sewer and traffic impact fees. In addition, a certificate of occupancy will not be issued until all impact fees are paid.

Statement of public purpose	Expand and enhance economic opportunities for businesses in the City, continue to expand the City's employment base, and continue to generate hereinafter defined Sales Tax that the City can utilize to fund general governmental services such as police, fire, street maintenance, and parks and recreation programs.
Projected Tax revenue	It is estimated that the investment into the property will increase property tax revenue received by the City by \$5,000 over 5 years. It is also anticipated that over the 5 years of the agreement the City will conservatively receive \$425,000 in sales tax revenue.
Estimated number of jobs created by the subsidy	It is estimated the project will employ approximately 30-40 employees when fully operational. Full time and part time occupations will range from managers, clerks, service technicians, and sales people.

ALTERNATIVE ACTIONS:

The alternative would be to not consider the Financing Agreement which would result in the developer having to pay the remaining balance of \$457,863 in impact fees immediately.

PRIOR CITY COUNCIL AND COMMISSION ACTIONS:

In July of 2007 the Council created the Sewer and Traffic Impact Fee Deferral Program to stimulate commercial development. The existing program was modified in July of 2009 to provide additional enhancements to projects both inside as well as outside the former Redevelopment Project Area. The existing program spurred development by providing fee financing to several commercial developments/businesses including Madrone Village and several of the retail center's commercial tenants, Cochrane Animal Hospital and the Granary.

In October 2015, the City Council expanded the Sewer and Traffic Impact Fee Deferral program to include Micro Residential Rental units.

FISCAL AND RESOURCE IMPACT:

The Sewer and Traffic Impact Fee Deferral program will result in deferral of a portion of impact fees owed to the City for up to five years, partially off-set by the principal and interest payments made during the 5-year repayment term. The value of the deferred fees (sewer and traffic) is amortized over 5 years and repaid through monthly payments.

CEQA (California Environmental Quality Act):

This financing agreement is exempted from environmental review under Section 15061(b)(3) of the State CEQA Guidelines. The incentive agreement is covered by the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. The financing agreement will not result in any direct impact upon the physical environment. Any development that occurs in the future will be subject to development standards of the zone district and will undergo an independent analysis pursuant to the requirements of CEQA.

LINKS/ATTACHMENTS:

1. Exhibit B: Sewer and Traffic Impact Fee Financing Agreement
2. Exhibit C: Morgan Hill-ImpactFeeEstimate
3. Exhibit A: ResolutionImpactFeeFinancingAgreement