



City of Morgan Hill

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Title: HALE LUMBER (17020 DEPOT STREET), DEPOT STREET RE-ALIGNMENT AND COMMUNITY AND CULTURAL CENTER (CCC) PARKING, DISPOSITION AND DEVELOPMENT AGREEMENT - CITY OF MORGAN HILL AND BROOKFIELD BAY AREA HOLDINGS, LLC
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CITY COUNCIL STAFF REPORT MEETING DATE: FEBRUARY 15, 2017

PREPARED BY: Edith Ramirez/Economic Development Director
APPROVED BY: City Manager

HALE LUMBER (17020 DEPOT STREET), DEPOT STREET RE-ALIGNMENT AND COMMUNITY AND CULTURAL CENTER (CCC) PARKING, DISPOSITION AND DEVELOPMENT AGREEMENT - CITY OF MORGAN HILL AND BROOKFIELD BAY AREA HOLDINGS, LLC

RECOMMENDATION(S)

Adopt resolution approving the Disposition and Development Agreement (DDA) between the City of Morgan Hill and Brookfield Bay Area Holdings LLC and delegating authority to the City Manager to execute and administer the Agreement.

COUNCIL PRIORITIES, GOALS & STRATEGIES:

Ongoing Priorities

Maintaining fiscal responsibility
Preserving and cultivating public trust

2016 Focus Areas

Planning Our Community

Developing Our Community

POLICY CONSIDERATIONS:

1. Should the City take this opportunity to realign Depot Street as directed in the City's guiding documents?
2. What are the physical, financial, and programmatic implications associated with the realignment of Depot Street?
3. Should the City invest transportation/capital improvement-related development funds to pay for the realignment of Depot Street?
4. Should the City seek a public/private partnership to help accomplish this realignment?
5. Is the redevelopment of the legal, non-conforming industrial uses in the Downtown a priority?
6. Should the City proceed with a DDA with Brookfield Residential for Depot Street as defined by the proposed Project design concept?
7. Should the City award 65 Downtown Measure A Residential Building Allocations to the project?
8. Should the City consider investing in building a third deck at the proposed parking structure at the CCC?
9. Should the City evaluate the cost and potential savings from a solar system installation?

REPORT NARRATIVE:

Background

The Morgan Hill Downtown Specific Plan (DSP), the Infrastructure Master Plan, and the General Plan guide development in our community. For many years, these documents have envisioned the realignment of Depot Street to connect to Church Avenue, improving transportation circulation and movement in the Downtown area, eliminating the dead end of Church Street into the Community and Cultural Center (CCC), and improving safety, with a four way intersection. Implementing this vision has direct impacts to the Hale Lumber site, located on Depot Street just north of Dunne Avenue and more specifically the CCC as the new street would bifurcate the existing CCC parking lot and permanently or temporarily disrupt the existing parking.

To realize this vision in the absence of the tools of Redevelopment, the Economic Development team has been working with many housing developers to explore opportunities that could lead to redevelopment of the Hale Lumber site as well as the realignment of Depot Street and, most importantly, a project that would be able to replace all of the CCC parking disturbed by roadway realignment. The Hammond family, owners of the Hale Lumber site, entered into contract negotiations with Brookfield Residential (Developer) in the late summer of 2016. Staff has been working with the developer for over six months to explore this redevelopment opportunity.

At the November 16, 2016 meeting, the City Council entered into an Agreement to Negotiate Exclusively (ENA) with Brookfield Residential to prepare a Disposition and Development Agreement (DDA) with respect to the conveyance of the property and development of the project which vacates and relocates Depot Street, replaces the CCC parking in a structure, sells residual land to a housing development site, and supports construction of new residential units. The Negotiation Period set forth in the ENA allowed sixty (60) days to develop a Term Sheet and ninety (90) days to complete a full DDA, to be completed no later than February 28, 2017. The Term Sheet and DDA include the following components:

- 1) The development of housing on the Hale Lumber Property, the portion of the CCC Property to the east of the realigned Depot Street, and the existing Depot Street;
- 2) The realignment of Depot Street to connect with Church Avenue;
- 3) The replacement of the parking spaces for the CCC Property; and
- 4) The private acquisition of the Hale Lumber site provides significant funds for its relocation to a more appropriate industrial business location.

The City team has been working diligently with Brookfield Residential to explore the redevelopment of the Hale Lumber and CCC parking lot area to accomplish the goals stated in the ENA. Brookfield Residential has identified a project that accomplishes the goals stated by the City in a financial and real estate transaction that makes the project feasible for the developer. While the proposed project meets the goals of the ENA, the implementation of the project includes a certain amount of complexity which merits careful consideration. This report provides a review of all of the impacts, including timing, financial, physical, and programmatic issues resulting from the proposed project, which is the subject of the DDA.

LOCATION MAP



- Project Site
- Parcels

The Developer

The Economic Development Team has been working with many housing developers to explore their interest on a joint redevelopment project that would provide housing, realignment of Depot Street, and replacement parking for the CCC. While many developers were intrigued by the opportunity, the project seemed too complex and/or financially infeasible. Brookfield Residential entered into contract negotiations with the Hammond family in the late summer of 2016 and has been working with the City team ever since to explore the feasibility of a project that could yield four key elements:

- 1) The development of housing on the Hale Lumber Property, the portion of the CCC Property to the east of the realigned Depot Street, and the existing Depot Street;
- 2) The realignment of Depot Street to connect with Church Avenue;

- 3) The replacement of the parking spaces for the CCC Property; and
- 4) The private acquisition of the Hale Lumber site provides significant funds for its relocation to a more appropriate industrial business location.

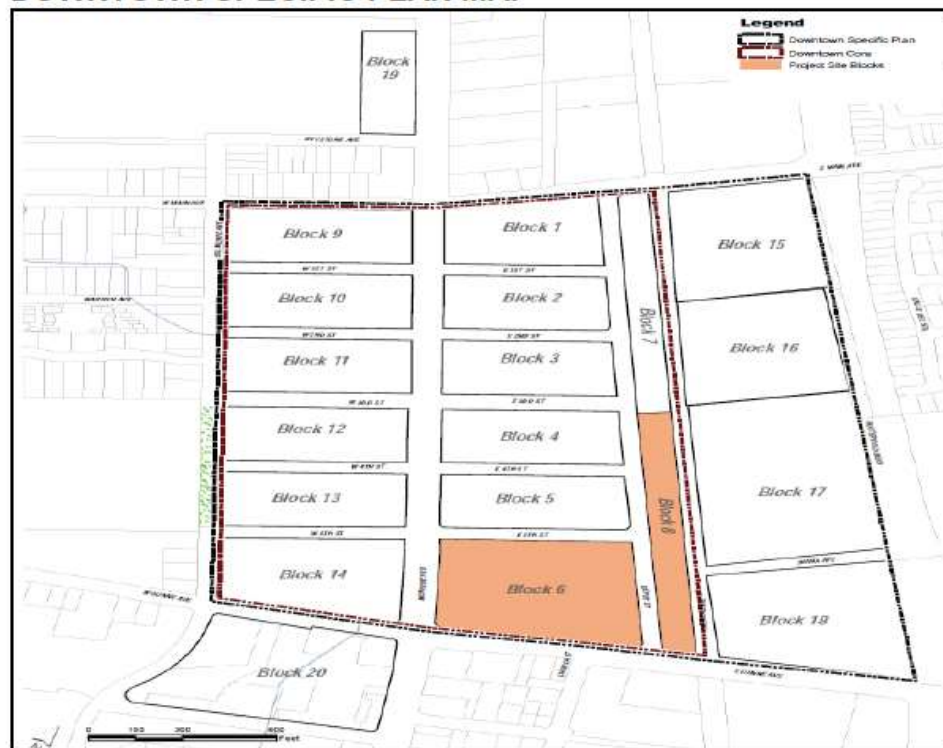
Brookfield Residential Properties Inc. is a leader in land development and homebuilding. The company was formed in 2011 with the merger of Brookfield Homes Corporation and Brookfield Office Properties' residential division (Cama Developers LP), formed in 1956 and 1958, respectively, and has resulted in an entity which is the fifth largest residential development company, by land and housing assets, in North America. This development company's strategic focus is infill development with products ranging from very high end single family homes to transit oriented infill development. They operate with a corporate directive to focus urban transit oriented development in downtowns and near transit stations. The company has received a number of recognitions from the Builder of Excellence Award by J.D. Powers to Canada's Best 50 Small and Medium Employers for 2013.

The Hale Lumber Site

The Hale Lumber site is located on Depot Street directly north of Dunne Avenue, terminating close to 5th Street on the north. The eastern boundary of the project site is adjacent to the Union Pacific Railroad (UPRR) tracks. The UPRR tracks located to the east of the project site are utilized by both UPRR freight trains, CalTrain, and Amtrak with local serving transit for the community at the station located further to the north of this site on Depot Street at Third Street. To the north of the Hale Site is public parking, of which a portion (54 spaces) is slated to become a new public park as part of the Downtown Placemaking Investment Strategy.

The Hale Lumber property is a two-acre, narrow, rectangular shaped parcel housing a legal non-conforming industrial use. The lumber yard is an industrial use that should be located in a heavy industrial zone and not in the Downtown. The site is located on Block 8 of the Downtown Specific Plan (DSP). The Downtown Specific Plan's zoning designation for this parcel is Central Business District (CBD) Mixed Use. CBD zoning allows for a variety and mix of residential, commercial, and public activities in the Downtown core with no minimum or maximum densities. The CBD district requires a minimum of two stories in height, and a maximum of four stories, but no more than 55 feet in height.

The redevelopment of the Hale Lumber site to a more appropriate use is highly desirable, but rather challenging due to its shape and proximity to the UPRR tracks, which requires additional setbacks to mitigate for potential noise and vibration impacts to future residents. After preliminary work, it has been determined that set back restrictions applicable to UPRR and the City's set back standards for noise mitigation, which combined are 50 feet, would make the lumber yard parcel infeasible for redevelopment by itself as currently configured. This means that 1) the site is unlikely to redevelop and the use is unlikely to change without a joint redevelopment opportunity or 2) the redevelopment of this site may be best suited for parking facilities or parkland. However, this option may be financially infeasible for the City as it would have to purchase the land, pay for parking or park construction plus pay solely for the public improvements related to the Depot Street realignment and parking replacement.

DOWNTOWN SPECIFIC PLAN MAP**The CCC Site**

The CCC is located on the northeast corner of Dunne Avenue and Monterey Road, and is bounded by Fifth Street on the North and Depot Street on the east. The CCC is a 50,000 SF community City-owned and managed multi-use facility. It consists of two large banquet rooms, four meeting rooms, a dance room, and the Children's Pavilion with an outdoor play area and the Downtown Amphitheatre that is heavily used during the summer months for outdoor music events. The facility includes a preschool and hosts many private and community events. In addition, the property also includes the Community Play House and the Gavilan College Morgan Hill Campus. There are 240 parking spaces dedicated to the CCC in a parking lot that is located on the east side of the CCC, bounded and accessed by Depot Street, 5th Street, and Dunne Avenue. The General Plan Land Use designation for the portion of Block 6 that includes the CCC is Public Facilities; the parcel is zoned Public Facilities. Uses adjacent to the CCC include single family homes along Fifth Street to the north and the Hale Lumber Yard to the east.

Transportation and Circulation Benefits

The City's General Plan suggests that in order to provide a continuous north-south travel route to, from, and within Downtown, Depot Street should re-route through the existing CCC parking lot to connect to Church Street at the signalized intersection.

Currently, vehicles traveling south on Depot Street must turn right onto 5th street and then make a left turn on Monterey Road at an un-signalized intersection to connect with Dunne Avenue to continue to travel east. The alternative is to cut through the CCC parking lot to access the signal at Church and Dunne Avenue, or to exit west out of Depot Street onto Dunne Avenue, and perform a u-

turn at the Church/Dunne signal. To facilitate direct and complete access to Dunne Avenue and to enhance the Downtown's circulation pattern, the DSP, the General Plan, and the Infrastructure Master Plan suggest altering Depot Street to connect directly with Church Street at the Dunne/Church intersection.

According to the consulting firm performing the Safety Improvement and "Quiet Zone" study, the proposed realignment moves the intersection of the roadway away from the tracks which is very beneficial from a safety standpoint as it allows better control of access through signaling.

Implementation Impacts to CCC

While the realignment of Depot Street is a stated goal contained in the General Plan, the DSP, and the Infrastructure Master Plan, and it would meet many development related goals for the City, the implementation of such project as proposed, will require new temporary and long term operational changes at the CCC. The CCC relies on the parking supply to support special and private event rentals, recreation programs, playhouse performances, and student parking for Gavilan College.

The proposed project would replace public parking on a one to one basis; 1:1. The project would accomplish this by building 134 spaces in a structure on a portion of the existing parking lot, 47 spaces of surface parking, 42 spaces of on-street parking, and provide 33 spaces on a new parking lot on Depot Street.



Additionally, the residential development adjacent to the CCC could result in a greater number of residents and their guests using the on-street parking and potentially the CCC parking. These factors could stress the parking supply at the CCC and the surrounding streets, which in turn may impact the ability to host multiple large events at the same time and may discourage users from renting the facility for events. There is a good chance that these changes could negatively impact CCC operations through loss of event revenue and increased costs for maintaining a parking structure. Loss of the Community Center's open parking lot will also impact some of the City's major special events that would be unable to utilize the new parking structure. Specifically, the Mushroom Mardi Gras will need to relocate (likely onto Monterey Road) and parade organizers are concerned about the loss of staging area at the CCC.

In addition to the long term challenges created by the new parking lay-out, should Depot Street be realigned, the implementation of the project would create temporary disruption during construction. Constructing the Depot Street realignment is estimated to cost approximately \$2 million. The construction of replacement parking could range in cost from \$3.5 million to \$4+ million. Without a public-private partnership, these are costs associated with public improvements that the City would have to finance on its own. In addition to the financial costs, and the programmatic issues with the CCC, the project also offers some other design challenges which are detailed later in this report.

Analysis:

With the City's guiding documents in mind, the project contemplates realignment of Depot Street, creating a superior circulation environment for drivers currently accessing the signal at Church and Depot through the CCC parking lot, as well as a pathway for bikes and formal pedestrian connection which includes sidewalks, at this gateway location. The public improvement project offers an opportunity to partner with the adjacent property owner to create a more viable development parcel. This would allow the lumber yard to move to a more appropriate location and for Downtown to attract more housing. Timing this project now, at the height of the housing market, has created an opportunity for the City to attract a developer willing to invest in this complex project and build on behalf of the City, improvements valued at \$6.2 million (based on construction estimates provided by the Developer). The City would be obligated to contribute \$2.0 million in cash to the project and land valued at \$3.0 million (including a portion of vacated Depot Street), of which property valued at \$0.5 million would be dedicated back to the City. The net public benefit to the City of the value of the improvements would be \$1.7 million (discussed in detail later in the report).

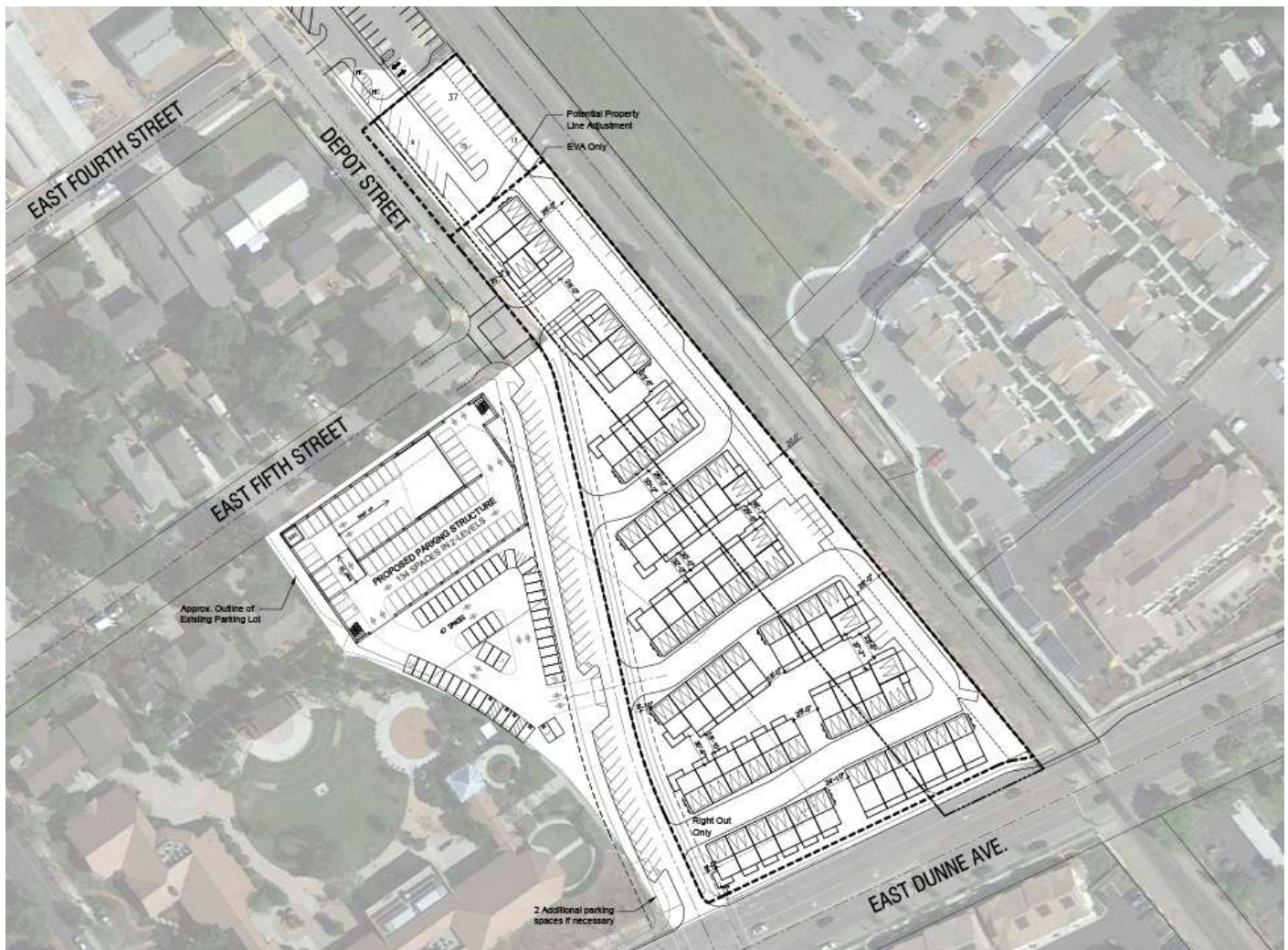
Project Description

There are three key components to the project. First, at the heart of the project is the realignment of Depot Street to Church Street. This realignment requires moving the existing Depot Street to the center of the CCC parking lot to connect to the Church Street intersection. The street realignment creates two city parcels, one on the west side of the new street, immediately adjacent to the CCC and second parcel of 1.6 acres on the east side of Depot Street.

The second component is the replacement of 240 CCC parking spaces and 16 on street parking spaces. The project would accomplish this by building a parking deck on the remaining CCC parking lot. The parking deck would provide 134 spaces. The rest of the CCC parking lot property would be redesigned to accommodate 47 additional spaces of surface parking. Depot Street would be designed with angled parking on the west side of the street to accommodate 42 spaces of on-street parking, and the City's existing parking lot on Depot Street at Fourth Street would be expanded by 0.3 acres from the previous Hale Lumber site to provide an additional 33 spaces.

The third component of the project is housing. The project envisions a 61-unit three-story attached townhome style residential project on the Hale Lumber site and the City's 1.6 remnant parcel created by the Depot Street realignment. The residential project would offer units that range in size between 1,441 square feet (SF) to 2,112 SF. The project proposed offers 122 parking spaces for the residential units and 17 spaces for guest parking, for a total of 139 spaces or a parking ratio of 2.3 spaces per unit. The project exceeds the parking regulations in the DSP by providing 17 spaces of visitor parking. The project is seeking no variances to the DSP regulations in terms of height or parking. The project will be fully vetted through the entitlement and site review process at a later

stage.



The project design is the result of the Developer and the City working collaboratively to accomplish the primary goal of creating as many parking spaces and placing them in closest proximity to the CCC facility. Many designs/lay outs were developed and reviewed by the team. In order to accomplish the most optimum parking lay out, the design of the new Depot Street travel lanes would be approximately 10 feet each, with diagonal parking on the west side of the street and no parking on the east side. This design would create traffic calming, which is beneficial for this location. Financial feasibility for the Developer is also requisite to leverage all of the public improvements. Ultimately, the housing project must yield enough to support the additional public costs. The project at this time provides some design challenges in terms of the orientation of the units and the access points. Should the project be approved, Planning teammates will work with the Developer through the entitlement stage to address design issues.

Planning Commission Review

The Planning Commission (PC) had an opportunity to review this project in a workshop setting on November 22, 2016 and also in a public hearing on January 24, 2017 while reviewing project conformance with the goals and objectives of the General Plan. The Planning Commission was supportive of the project, as it implements the Downtown Specific Plan and the General Plan 2035. The Commission did provide the following comments regarding the project:

11/22/16 PC Workshop

1. Look at the interface of the units with Dunne Avenue
2. If Church Street is the main entrance into the CCC, then the access to the parking garage should be more direct
3. Look at the 5th Street interface to minimize impacts to residents
4. Concern expressed about future ability of Depot Street to be closed for cultural and/or multi-day events
5. Public parking provided by the project on Depot Street (portion of Hale Avenue) is good and within walking distance
6. Pay tribute to site's industrial heritage with architecture design
7. Consider pushing units to the street

1/24/17 PC Hearing

8. Adjust units awarded to "up to 65 units" to provide flexibility for design
9. Make the parking structure as big as possible and plan for the future
10. Ensure property owners and residents along 5th street get notified of future potential development
11. Provide high quality design for the parking structure
12. Work on residential site plan layout to avoid seeing garages and alleys from the public right of way, including outward facing units along Depot Street
13. Explore need for a 3-way stop at Depot and 5th
14. Evaluate entrance onto Depot Street from Dunne to ensure safety with a sharp right turn from Dunne Avenue
15. May need to explore Residential Permit Parking on selected streets
16. Design project to ensure residents do not park in CCC parking lot or public parking spaces
17. Design project to address noise mitigation from train tracks

The PC discussed the need to replace each and every single existing parking space and encouraged the City to consider investing in more parking at the CCC by building a third deck on the proposed garage. It was pointed out that the City has one opportunity to get this development right and the City should plan ahead by considering the future parking needs for this area. The cost of building a third deck is estimated to be \$2.5 million.

The PC also debated issues associated with the need for open space within housing projects when located in a Downtown environment that already provides park/open space. There was also some debate about the angled on-street parking along Depot Street and the idea of commercial space being added to the project. The Commissioners provided support for the project and adopted a Resolution determining Project conformance with the goals and objectives of the General Plan.

Residential Allocations

In May of 2009, the voters of Morgan Hill enacted Ordinance No. 1944, exempting 500 residential

allotments in the 20 block Downtown Specific Plan area from the City's Residential Development Control System (RDCS) through fiscal year 2019/2020 to better accommodate Downtown development. This was in response to several property owners and business owners that expressed concern that the RDCS system favored development outside of Downtown and that the system is an obstacle for mixed use and attached housing projects which require multi parcel assembly, and land costs of developed property. Downtown development encourages walking, transit use, utilizes previously developed land and supports local businesses. Currently, there are a total of 157 (net of the recently approved project) Downtown Measure A Residential Building Allotments available. It is important to note that in addition to Measure A Allotments, Downtown also has 100 units available through Measure F Allotments. These allotments were specifically for small Downtown projects and never used.

On March 1, 2017, Measure S will go into effect, replacing Measure A and F. At that time, Measure A and F allotments will no longer be available. While Measure A allotments do not count against the maximum 215 units provided by Measure S, these allotments will count against the total population cap which was re-established through Measure S to be 58,200.

This project is complex and teeters upon financial feasibility based upon the public improvement burden. This DDA provides the certainty to the developer required to move forward with design development, construction drawings, and the protracted development schedule required of the unusual public improvement sequencing.

On February 1, 2017, the Council awarded 83 Measure A allotments to Republic Housing for the Sunsweet project, bringing the total number of available Downtown Measure A Residential Building allotments to 157. The project as envisioned today requires 61 allotments, however, at the January 25, 2017 Planning Commission meeting, the Commission recommended increasing the total number of allocations to 65 to provide the project more flexibility. With the award of 65 Measure A allotments, there would be 92 Measure A residential allotments remaining, however, these allotments expire, and will be replaced with Measure S allotments on March 1, 2017.

Real Estate and Financial Considerations

The estimated cost of realigning Depot Street is approximately \$1.9 million (plus contingencies). The cost to replace the parking at the CCC is approximately \$4.1 million. The cost to provide interim parking is estimated at \$220,000. The total costs of the public improvements are valued at \$6.2 million.

The realignment of Depot Street would create a remnant parcel of 1.6 acres that the City would convey to the Developer at fair market value for use with the housing project (\$3.0 million). This valuation has been established using the comparable real estate valuation from the recent sale of the nearby Depot Center to City Ventures. The land was sold for \$43.5 per square feet (PSF). The City did obtain a formal appraisal for the 1.2 acre parcel City parcel, but the appraisal estimate came in substantially lower at \$25 PSF. City and Developer agree that the parcel is worth more than was shown in the City's appraisal and have agreed to use the comparable nearby Downtown sale which is the \$43.5 PSF valuation.

The DDA includes the City sale of the 1.6 acre parcel to the developer valued at \$3.0 million (less land dedicated back to City valued at \$0.5 million) plus a City contribution of \$2 million (\$1.9 plus contingencies) for the realignment of Depot Street for a total City financial cash and land contribution

valued at \$4.5 million.

In addition to the construction of the public improvements, the developer also agrees to sell to the City a portion of the Hale Lumber site of 0.3 acres and to improve it for parking. The value of the land, using the same valuation for the City parcel is \$568,458. The total financial contribution from the Developer to the project is estimated at \$6,739,355 (including land cost of public improvements). The net benefit to the City in this transaction is \$1,707,579.

Public Improvements by Developer	Hard costs	Soft costs	Total
Depot Street Realignment	\$1,706,166	\$170,617	\$1,876,783
Depot Street Parking Expansion	\$214,236	\$21,424	\$235,660
Parking Garage (134 stalls)	\$2,958,966	\$414,255	\$3,373,221
CCC Surface Parking and improvements	\$422,940	\$42,294	\$465,234
Interim Parking	\$200,000	\$20,000	\$220,000
Total Value of Brookfield contribution			\$6,170,897

Land values and City funds	Acres	Value
City land transferred to Brookfield	1.6	\$3,031,776
Private land dedicated to City	0.3	\$568,458
Net land value to Brookfield		\$2,463,318
City Contribution to public Improvements		\$2,000,000
Total value of City Contribution		\$4,463,318

Net Benefit to City : **\$1,707,579**
\$6,170,897 - \$4,463,318 =

In addition, the proposed redevelopment would bring an estimated \$40,000 in one-time property taxes from the sale of property and a net annual increase of approximately \$33,000.

Developer and City Obligations

The DDA establishes a framework for a transaction between the City and a private party which conveys land which is part of the vacated Depot Street right-of-way and the bisected CCC parking lot, to be combined with the Hale Lumber site to provide additional development land area for a residential development project. Below is a summary of the key terms:

1. Developer will acquire the Hale Lumber property for the purposes of developing a project that:
 - a. Realigns Depot Street to connect to Church Street;
 - b. Provides 1:1 replacement parking resulting in 256 parking spaces (no more than 33 parking spaces will be replaced off-site on a portion of the existing Hale Lumber

property); and,

- c. Provides for a housing development project on the Hale Lumber property, including the portion of the CCC Property to the east of the realigned, newly constructed Depot Street, and the vacated existing Depot Street for up to 65 residential dwellings.
2. Replacement parking will be in the form of a parking deck at the CCC property, a surface parking lot at the CCC property, on-street parking along newly constructed Depot Street and a surface parking lot on a portion of the Hale Lumber property which will be dedicated to the City in fee.
3. Developer will provide a minimum of 200 temporary parking spaces during construction of the project.
4. City will sell to developer 1.6 acres of a portion of vacated existing Depot Street and a portion of the CCC parking lot at market rate.
5. City will reserve 65 Downtown residential allotments in accordance with Measure A prior to March 1, 2017.
6. City will contribute a maximum of \$2 million toward the cost of the construction of public improvements.
7. The term of the DDA is five years. Two, one-year extensions can be obtained with completion of public facilities and payments of \$100,000 for each year requested.

The Term Sheet is attached and provides additional specifics. The Developer is also required to comply with a Schedule of Performance that has the following key milestones:

A. Developer will submit for project entitlements including zoning, subdivision map, general plan designation modifications, and site review immediately following approval of the DDA and not later than August 15, 2017.

B. Developer must apply for Final Map by January 15, 2018.

C. Developer must begin construction of public facilities in 2018.

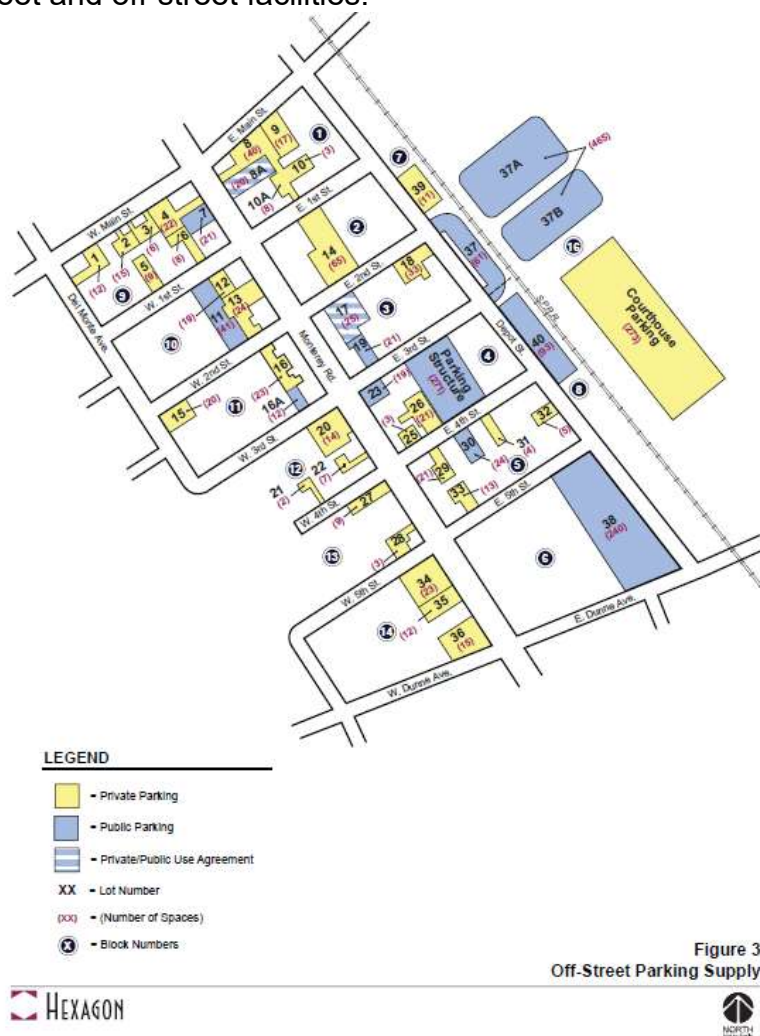
D. Developer should complete entire project within five years. Developer may request up to two, one-year extensions based on completion of public facilities and payments of \$100,000 for each year requested.

The Schedule of Performance is attached as Exhibit C of the DDA.

The DDA terms accomplish all of the goals stated in the ENA including realignment of Depot Street, replacement parking, and construction of a housing project on the Hale Lumber site. The joint redevelopment opportunity offers \$6.7 million of public improvements (including dedicated lan) in exchange for \$2 million and a 1.6 acre parcel of land, netting the City \$1.7 million in public benefit. In addition, the conversion and redevelopment of Hale Lumber to housing will increase the City's property tax revenue each year. The new housing residents will also support Downtown businesses by shopping, dining, and entertaining in Downtown. With the addition of new Downtown residents,

The DDA provides for the flexibility to include solar panels on the parking deck at the City's request and expense. The purpose of the solar panels would be to offset power use at the CCC. If requested by Council, Community Services teammates can comeback with an evaluation of the cost and potential savings from a solar system installation.

As Downtown evolves, parking concerns continue to rise. The most recent 2016 Parking Study by Hexagon Transportation Consultants showed that the Downtown parking supply is very healthy with a surplus of 238 parking spaces and found that parking occupancy was less than capacity for both on-street and off-street facilities.



The Study did recommend a number of parking management and utilization strategies to make better use of the supply. Additionally, at the February 1, 2017 City Council meeting, during the review of the Sunsweet housing project, the Council requested an update on Downtown Parking. In a separate report for the February 15, 2017, Council meeting, staff proposes this discussion occur on March 15, 2017.

One of the key recommendations of the Parking Study is to develop and enforce an overnight parking permit to keep public lots available for short term parking needs. Essentially, the report suggests that the current 24-hour availability of public parking spaces on street and in lots, allows for private parking resources to be underutilized. Residents and others may choose to use street and public lot resources rather than private supply. This is something the City may want to consider, especially to protect the CCC parking spaces for their intended use. Another strategy worth noting is designating parking for employees to free-up centrally located parking supply for customers and downtown visitors, and enforcing parking time limits on some streets. More strategies will be recommended for consideration to the City Council on March 15th.

Conclusion

The proposed project negotiation daylights the numerous complexities of realigning Depot Street and the development opportunities and constraints of the Hale Lumber site. This unique partnership presents an opportunity to continue to expand the Downtown Core, build housing that would support existing and new businesses, and complete the transportation/circulation plans for Downtown in the absence of a Redevelopment Agency.

The project will achieve the City's goal of relocating an industrial use currently in the Downtown Specific Plan area to an appropriate industrial zone outside of Downtown, re-routing Depot Street to achieve an alternate north-south route through Downtown, and improving circulation within and through the Downtown. As summarized, the terms of the DDA are consistent with the General Plan, Zoning Ordinance, and Downtown Specific Plan. The City will receive a benefit of approximately \$1.7 Million in public improvements from this joint redevelopment project plus an increase in property taxes. Therefore, staff recommends the approval of the proposed Disposition and Development Agreement (DDA) with Brookfield Residential. The Council will also have additional opportunities to engage with the project when the Developer submits for the zoning and site design entitlements.

COMMUNITY ENGAGEMENT: Consult

The project was publicly noticed (mailing to property owners within 300 feet of the project and newspaper legal noticing) for the minimum 10-day period for the Planning Commission hearing on January 24, 2016 and the Council meeting on February 15, 2017. The project proposal was also shared for feedback with the Downtown Association, the Chamber of Commerce, and Downtown event organizers. Additionally, the project was highlighted in an email blast and notices were hand-delivered to residents along Fifth Street.

ALTERNATIVE ACTIONS:

Alternatives to this DDA Include:

1. City Council may choose to deny the proposed DDA;
2. City Council may choose to modify terms in the DDA;
3. City Council may choose to explore building a third deck to create more parking at the CCC; and
4. City Council may provide direction on parking enforcement.

PRIOR CITY COUNCIL AND COMMISSION ACTIONS:

On November 16, 2016 the City Council approved an ENA with Brookfield Residential and directed staff to come back with a DDA no later than February 28, 2017. On November 22, 2016, the Planning Commission reviewed the project in a workshop setting. On January 24, 2017, the Planning

Commission reviewed the project and approved a resolution stating that the project is in conformance with the general goals and objectives of the General Plan. The Planning Commission also provided support for the project, gave feedback on project/design specific issues, and recommended the approval of 65 Measure A Downtown Residential Building Allocations.

FISCAL AND RESOURCE IMPACT:

The fiscal impact anticipated by this joint development would include the City's cash contribution of \$2 million and a contribution of 1.6 acres of property valued at approximately \$3 million, of which property valued at \$0.5 million would be dedicated back to the City.

The City would pay for 10% of the \$2 million contribution, or \$200,000, from Fund 346, Public Facilities (non-impact development fund). The primary revenue for this fund is from Residential Development Control System (RDCS) pledges. As this fund does not currently have an adequate fund balance for this project, to meet the City's remaining obligation, an interfund loan would be established between Fund 303, Drainage Impact Fund, and Fund 346. The loan would be for \$1.8 million with a ten year repayment schedule at a variable rate of interest equal to the City's investment portfolio return, currently at 1.0%. This would allow the project to move forward and not negatively impact the timing of projects in other funds. The Drainage Impact Fund is projected to have a fund balance of \$8.7 million as of June 30, 2017. Its primary purpose is to address local drainage. Key upcoming projects are for local connections to the regional flood control project with the Santa Clara Valley Water District.

The Developer would contribute land and public improvements valued at \$6.2 million, providing a net gain to the City of \$1.7 million in public improvements.

In addition, the proposed redevelopment would bring an estimated \$40,000 in one-time property taxes from the sale of property and a net annual increase of approximately \$33,000 in property taxes.

CEQA (California Environmental Quality Act):

Project, Description of CEQA requirements

In October 2009, the Morgan Hill City Council adopted a resolution certifying the Master Final Environmental Impact Report (FEIR) for the Downtown Specific Plan. The Downtown Specific Plan FEIR previously evaluated the project sites on either side of Depot Street as potential locations for residential development and a parking structure, respectively. The proposed Depot Street realignment was disclosed as an alternative roadway improvement to allow for the implementation of the planned Dunne Avenue grade separation at the UPRR crossing in the Downtown Specific Plan FEIR and the Morgan Hill Circulation Element EIR. Therefore, the proposed project is consistent with the development assumptions disclosed in the 2009 Morgan Hill Downtown Specific Plan and Downtown Specific Plan FEIR.

In accordance with Section 15164 of the State Guidelines for Implementation of the California Environmental Quality Act (CEQA), the City of Morgan Hill prepared an addendum to the Master FEIR, which concluded that the project would not result in any new environmental impacts that were not previously disclosed in the Master FEIR, nor would it result in a substantial increase in the magnitude of any significant environmental impacts previously identified.

LINKS/ATTACHMENTS:

1. Resolution
2. Exhibit A to Resolution - DDA
3. Term Sheet
4. Conceptual Site Plan
5. Planning Commission Resolution
6. Downtown Specific Plan Master FEIR Addendum