



City of Morgan Hill

Legislation Text

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CITY COUNCIL STAFF REPORT **MEETING DATE: SEPTEMBER 2, 2015**

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APPROVED BY: City Manager

DISPOSITION AND DEVELOPMENT AGREEMENT WITH MONTEREY & THIRD STREET ASSOCIATES, LLC

RECOMMENDATION(S)

Adopt resolution approving the Disposition and Development Agreement between the City of Morgan Hill and Monterey & Third Street Associates, LLC. and delegating authority to the City Manager to execute and administer the Agreement.

COUNCIL PRIORITIES, GOALS & STRATEGIES:

Ongoing Priorities

Enhancing public safety
Maintaining fiscal responsibility
Preserving and cultivating public trust

2015 Focus Areas

Stimulate Economic Development
Advance Downtown Revitalization

REPORT NARRATIVE:

Request for Qualifications/Proposals Process

In August of 2014, the Successor Agency began the process of disposing of former Redevelopment assets in a manner consistent with the Long Range Property Management Plan (LRPMP) by broadcasting a Request for Qualifications/Proposals (RFQ/P) for four Downtown sites.

To assist with the RFQ/P selection process, a community-based group comprised of the Morgan Hill Economic Development Corporation, as well as two representatives each from the Morgan Hill Downtown Association and the Morgan Hill Chamber of Commerce (Review Committee), was formed to help assist with the management of this process, and to make recommendations to the City Council and Successor Agency regarding the development proposals received. Staff has worked closely with the Review Committee to develop recommendations for selection of all of the development sites.

Following the Qualification phase, where seven development firms were pre-qualified, the City issued

a Request for Proposals (RFP) asking for site-specific development proposals, price, terms, and timeline. The City received responses from only two developers including a single proposal for Sites 1, 2 and 4, and two proposals for Site 3 - the Depot Center Purchase Option.

The decision for Site 4 ultimately resulted in the City Council (on February 18, 2015) and the Successor Agency (on February 25, 2015) approving the recommendation that the City purchase Site 4 for \$525,000 and pursue immediate development of Site 4 via a Public/Private Partnership with developers previously qualified by the RFQ/P process. Subsequently, the City purchased the site on June 5, 2015.

In response to a Site 4-specific RFP issued on February 27, 2015, the Council, at the June 17, 2015 meeting, selected the proposal from Kenneth Rodrigues and Partners, Inc. & Imwalle Properties, Inc. dba Monterey and Third Associates, LLC, that proposed the construction of a one-story statement restaurant building (with a two story height) totaling approximately 5,200 square feet for Phase I and a larger retail building for Phase II. The design would be consistent with the Downtown Specific Plan and provide for a grand plaza that announces the importance of the Monterey and Third Street intersection. In addition, the project will provide public access through the site to connect with reciprocal public access to and from the Downtown parking garage and Monterey Road.

On May 20, 2015 the City Council entered into an Agreement to Negotiate Exclusively with Kenneth Rodriguez and Don Imwalle to prepare a Disposition and Development Agreement (DDA) with respect to the conveyance of the property and development of the project. The Negotiation Period set forth in the ENA expires on September 30, 2015. The Developer subsequently created a new entity, specifically to facilitate the development of this site; Third and Monterey Associates, LLC. The Developer submitted a \$50,000 Good Faith Deposit, which will be applied to the purchase price.

Staff recommends the approval of the proposed Disposition and Development Agreement (DDA) which contains the following terms and conditions:

- City and Developer agree that the Property will be developed as a high-quality restaurant/retail project development concept in two phases (or at Developer's election in a single phase).
- Purchase price is \$525,000 to be pro-rated, by square foot, between each phase.
- Phase I will consist of a single-story 5,200 SF building with a two-story height and a large plaza and funded solely without financing contingencies.
- Developer shall have submitted complete applications for demolition and grading permit and construction permits necessary for each Phase prior to the Close of Escrow for each Phase.
- Developer shall secure necessary development approvals for Phase I before March 1, 2016.
- Phase II will consist of a minimum of a one-story building (with two-story height) totaling approximately 6,200 SF with retail/mixed use or mixed use consistent with the Downtown Specific Plan (DSP) to be completed no later than 12 months after close of escrow of Phase I.
- Developer shall commence construction within 30 days following closing of each Phase.
- Developer shall and will make best efforts to encourage its tenants to participate in local PBID, MHDA and related district marketing and promotions efforts.
- Developer will grant reciprocal public access from the Downtown parking garage across its property to Monterey Road.
- Via separate agreement, developer has pre-funded the expansion of joint trash facility in the Downtown garage at their sole cost (approximately \$31,000), to accommodate all trash for the

garage tenants, Huntington Station/residential unit and Third and Monterey development in one, jointly managed location.

- Developer has agreed to grant by separate instrument, an approximate 10 foot PSE along the eastern boundary of the project to facilitate the undergrounding of utilities on adjacent parcels if needed.

In addition, it is important to note that following the DDA consideration, staff will bring forward a Master Lease Agreement with Rodriguez/Imwalle to manage the leasing and maintenance of the Parking Garage retail space, plaza area and joint trash room.

COMMUNITY ENGAGEMENT: Collaborate

Community engagement began in 2012 with the preparation of the Long Range Property Management Plan (LRPMP) required by the State to implement the disposal of all former Redevelopment Agency assets. The Morgan Hill Economic Development Corporation (EDC) was expanded to include representatives of the Morgan Hill Downtown Association and the Chamber of Commerce (Review Committee). These business owners and residents of Morgan Hill spent numerous hours helping prepare and review the LRPMP, which is the City's guidance for disposition of certain publically-owned Downtown properties. The Plan was discussed at public meetings and ultimately approved by the City, the Oversight Board and State Department of Finance. The Review Committee assisted with the review of the RFQ/P used to seek developers/buyers for the sites, a public meeting was held to interview developers, and the Committee was actively engaged in making all recommendations to the Successor Agency, City Council and Oversight Board when applicable. The RFP/Q opportunities were widely advertised in the SV Business Journal, the Mercury News and on various email and social media sites. The City website contains all the documents related to these efforts.

ALTERNATIVE ACTIONS:

Alternatives to this development agreement include continuing to hold the property as temporary parking, or remarket it for sale. Neither of these options achieves the goals of attracting and creating the immediate development of the site.

PRIOR CITY COUNCIL AND COMMISSION ACTIONS:

On January 4, 2015 City Staff received proposals for all four downtown development sites. On February 8, 2015 the City Council approved the purchase of Site 4 to pursue immediate development. On March 20, 2015 two proposals were received for Site 4. On May 20, 2015, the City Council approved an Agreement to Negotiate Exclusively with Kenneth Rodrigues and Partners, Inc. /Imwalle Properties, Inc.

FISCAL AND RESOURCE IMPACT:

Through the proposed DDA, the City's Housing Fund will recover its \$525,000 acquisition loan and the City will collect future property and sales taxes from the development. The City has engaged Keyser Marston Associates to provide real estate assistance and financial advice for the preparation of the DDA. Additionally, the City Council previously approved in February, 2015, and the City Attorney's Office authorized, a \$60,000 contract for engagement of outside counsel, Burke Williams and Sorenson, to prepare all transactional documents required for this proposed site development. The total costs expended to date have been \$21,085; paid from former RDA Bonds-Investment with

Private Development ROPS Line 99. In addition, Developer has agreed to advance from their negotiation deposit \$31,000 by September 4, for the construction change order to expand the Downtown parking garage.

CEQA (California Environmental Quality Act):

Project, Description of CEQA requirements

All activities discussed in this staff report were contemplated in the Master Environmental Impact Report for the Downtown Morgan Hill Specific Plan (2009). In addition on March 10, 2015, the Planning commission adopted General Plan consistency findings for the sale of this Site 4, as well as and Downtown Opportunity Sties 1, 1a, 2, and 3.

LINKS/ATTACHMENTS:

Resolution

DDA

Preliminary Site Plan