CITY OF SALINAS
COUNCIL STAFF REPORT

DATE:	**MARCH 6, 2018**
DEPARTMENT:	**FINANCE DEPARTMENT**
FROM:	**MATT N. PRESSEY, CPA, FINANCE DIRECTOR**
TITLE:	**PUBLIC HEARING ON ECONOMIC DEVELOPMENT INCENTIVE FOR LOVE'S COUNTRY STORES OF CALIFORNIA**

RECOMMENDED MOTION:

A motion to approve execution of an economic development incentive for Love's Country Stores of California.

RECOMMENDATION:

Staff recommends City Council approve a Resolution approving the execution of an economic development incentive for Love's Country Stores of California.

EXECUTIVE SUMMARY:

Love's Country Stores of California, Inc. (Developer) desires to develop a travel center (Project) located in unincorporated Monterey County south of the City of Salinas. The Development and property owner have indicated their desire that the proposed Project site be annexed into the City as part of the Project entitlement process. The proposed Project contains 20,000 square feet of travel center uses, including 23 fuel stations; a 50,000 square feet, 78-room Comfort Suites hotel; an Arby's restaurant; and a mechanic shop. Without the incentive, the Developer has indicated they would not be able to generate the financial return necessary to justify the investment. The attached economic development incentive agreement was negotiated to keep this development from not occurring in the City of Salinas. The short and long-term benefits to the City are significant.

BACKGROUND:

On July 13, 2010, the City Council approved an Economic Development Incentive Policy Guideline, which included: a) Sharing of sales tax and/or transient occupancy taxes generated and identified specifically to a project; b) Reduction/abatement of the City of Salinas portion of property taxes; c) Reduction of the City of Salinas non-impact fees; and d) Monetary allowance for either jobs retained or created. The City also has a Development Impact Fee Deferral Program

(IFDP). This development is eligible to be considered under the policy guidelines and the proposed incentive complies with the policy guidelines.

The Developer has been working with the City for a few years. After the environmental review process was initiated, the actual amount of the development impact fees associated with the project, as well as the estimated costs for off-site improvements and mitigation, became ascertainable. The Developer recently approached the City requesting assistance because the City's costs were more than expected and the development could not generate the financial return necessary to justify the investment. The City costs include impact fees, offsite improvements and general fees. Off-site improvements exceed $1 million, permit and planning fees are approximately $750,000, and development impact fees are approximately $2 million for a net total of $3.7 million after deducting a fair share contribution.

Staff performed due diligence to determine and validate the developer "need" for the subsidy and reviewed the economics of the development. Staff reviewed and analyzed the Developer's financial proforma and tested assumptions and determined the subsidy needed was real and reasonable. Staff reviewed the required Fiscal Impact Analysis prepared by Economic & Planning Systems, Inc. (EPS). They are the same firm the City hired to perform the fiscal analysis on the North of Boronda Future Growth area. Staff reviewed the study, proposed changes to some of the assumptions, discussed the assumptions with EPS, and the developer agreed to have EPS make the changes in the study report. The final study showed a net fiscal surplus of $898,900 per year to the City. It is important to note that the proposed Development is not yet entitled: the Project site has not been annexed into the City, the required environmental analysis has not been completed, and none of the other related entitlements have been approved. The proposed economic incentive agreement will not take effect unless and until the proposed Project is fully-entitled and business operations have commenced.

Based on the "need", staff negotiated a revenue sharing structure that would only be realized if the revenue was realized by the developer. The City would share 32% of the sale and transactions and use tax revenue, which is estimated at $266,700 per year based on the City's sales tax consultant's estimate. The City would keep 68%, or approximately $566,700 of the sales and transactions and use tax plus approximately $203,600 in property tax, hotel TOT tax and other revenue per year, for a total of $770,300 per year. The proposed agreement would last for the earlier of seven years or a total subsidy limit of $1,650,000. All development impact fees would be paid upfront on the normal dates required. The development would generate approximately 50 full time jobs and 10 part-time jobs. During the 7 year period, the City would retain an estimated $5.4 million.

Staff presented the proposed incentive structure to the Finance Committee on January 8, 2018 and they voted the recommend the proposed agreement be brought forward to the City Council.

<u>CEQA CONSIDERATION</u>:

Not a Project. The City of Salinas has determined that the proposed action is not a project as defined by the California Environmental Quality Act (CEQA) (CEQA Guidelines Section 15378). In addition, CEQA Guidelines Section 15061 includes the general rule that CEQA applies only to activities 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. Because the proposed action and this matter have no potential to cause any effect on the environment, or because it falls within a category of activities excluded as projects pursuant to CEQA Guidelines section 15378, this matter is not a project. Because the matter does not cause a direct or foreseeable indirect physical change on or in the environment, this matter is not a project.

STRATEGIC PLAN INITIATIVE:

The proposed Economic Development Incentive agreement promotes all of the Council Goals directly or indirectly as a result of generating new jobs in the City and new general revenue for the City.

FISCAL AND SUSTAINABILITY IMPACT:

There is no cost to the City to approve this agreement. There is a tremendous opportunity cost that could be lost if the developer did not develop in the City.

ATTACHMENTS:

1. Resolution
2. Economic Development Incentive Agreement