CITY OF SALINAS

COUNCIL STAFF REPORT

DATE: **AUGUST 13, 2019**

DEPARTMENT: **ADMINISTRATION**

FROM: **ANDREW MYRICK, ECONOMIC DEVELOPMENT MANAGER**

TITLE: **FIRST RESTATED EXCLUSIVE NEGOTIATED RIGHTS AGREEMENT WITH RN BORELLI FOR TWO CITY PROPERTIES**

RECOMMENDED MOTION:

Staff recommends a motion to approve the Resolution and attached First Restated Exclusive Negotiating Rights Agreement.

RECOMMENDATION:

Staff recommends the approval of the Resolution and attached First Restated Exclusive Negotiating Rights Agreement.

EXECUTIVE SUMMARY:

The attached First Restated Exclusive Negotiating Rights Agreement ("First Restated ENRA") represents an expansion of the scope of a previously-adopted Exclusive Negotiating Rights Agreement ("ENRA") to include the possibility of a property exchange and potential construction of a new Public Works Corporation Yard for the City of Salinas.

BACKGROUND:

The Opportunity Zone Program

The Opportunity Zone program was created as a part of the Tax Cuts and Jobs Act of 2017, with the intention of spurring development in economically challenged areas by creating tax incentives for those that do so. The Opportunity Zone program allows for the designation of Opportunity Zones, which are located in selected census tracts meeting certain thresholds of hardship. Opportunity Zone boundaries were designated by the Federal Government in early 2018. Investments of capital gains in projects located in Opportunity Zones could have potentially lucrative tax benefits associated with that investment, provided that the investor holds their investment for a minimum of five years (10 years in order to achieve the maximum benefit).

City Properties

The City of Salinas owns many properties throughout the City. Many of these properties are used to house and support public services; others are leased out to third parties; and others are unused and/or vacant. The Agreement contained herein references two separate properties owned by the City of Salinas, which are referred to as the "Airport Property" and the "Work Street Property" in this Staff Report.

The Airport Property is approximately 13.25 acres located in the area surrounded by Airport Boulevard, Skyway Boulevard, Mortenson Avenue, and Mercer Way. Aside from some unmaintained paved roads and small structures, the site has been vacant for many years, with the last serious development proposal being reviewed by the City in 2008. The City has marketed the site and has entertained some parties with an interest in developing the property for aviation or other purposes; however, there has been no serious interest. A key barrier preventing development at the site is the amount of site work that will be required to render the site "development-ready," particularly regarding the need to relocate existing utility power lines and water system lines under the property.

The Work Street Property is located on the northwest corner of the intersection of Work Street and John Street. It is the current location of the City's Public Works Corporation Yard and has been for many decades. The current facility includes seven structures (mostly metal buildings), which were built between 1940 and 1990, with most structures built between 1940 and 1970. The facility is in better condition than one might otherwise expect, thanks largely to the efforts of staff stationed there, but the buildings are approaching the end of their useful life, and the time to consider a new facility has come. This property is located within the Opportunity Zone.

Borelli Development Company

The proposed Developer is RN Borelli, doing business as Borelli Development Company. Borelli Development Company was founded in 1955. Ralph Borelli has been the CEO of the company since 1977. The company specializes in real estate development and investment, and has historically focused on the Bay Area. Mr. Borelli has developed projects in San Jose, Monterey, and elsewhere, and is currently working on several other projects, the most significant of which is a transit-oriented development in San Jose near the Berryessa BART Station which includes 120 acres to be developed with 3,635 residential units, 200,000 square feet of retail, and 1.5 million square feet of office space. Locally, the company recently developed two projects for "car condos" in Monterey.

Overall Deal Structure

This Agreement represents a restatement of an existing ENRA that was agreed to February 20, 2018 for the potential lease of the Airport Property. The proposed restated deal includes three main components:

1) The Developer would enter into a Long-Term Lease Agreement ("LTL") for the Airport Property. Lease Payments would go to the Airport Enterprise Fund. The Developer would

be responsible for all site work and construction, and would be allowed to sublease the property as deemed appropriate.

2) The City and Developer would enter into an Exchange Agreement to exchange the existing Public Works Yard site for a location to construct a new Public Works Corporation Yard on a portion of the Airport Property.

3) The Developer would provide an option to construct a new Public Works Corporation Yard at the Airport Property on behalf of the City. The price of this new facility would be based on Developer's actual costs plus fixed profit margin. The City would also have the option of utilizing other options for financing the construction of the facility, in the event it decides constructing the facility itself would be preferable. Payment for doing so would be incorporated into the sublease of the site.

ANALYSIS:

The establishment of the Opportunity Zone has created the impetus for this proposal. Under the Opportunity Zone program, one of the three main benefits expires on December 31, 2019. In order to take advantage of this benefit, transfer of the Work Street Property would need to occur by December 31, 2019. The City and Developer have been working on performing due diligence and negotiating the terms of the deal since March 2019. Subject to certain findings (see Potential Risks, below), both sides believe the proposed deal would be mutually beneficial.

The First Restated ENRA essentially indicates that the City and Developer will negotiate exclusively with one another.

Potential Risks

The proposed deal is complex and involves a number of items that are dependent on other activities taking place. Environmental and other impact studies are currently being conducted, including traffic studies, survey work, hazardous materials surveys, appraisals, and other work necessary for the completion of required environmental documents and due diligence. Further, uses at the Airport property will require the approval of the Federal Aviation Administration (FAA). The results of all of these are expected to be complete by September. In the event that there is an issue with proceeding with the Work Street Property, the Airport Property portion of the deal could proceed. However, if challenges arise from the Airport Property, the Work Street Property could not be considered alone within the parameters of this deal, as there would be no viable location to relocate the Public Works Corporate Yard.

This First Restated ENRA does not, in itself, represent a commitment on behalf of the City. However, if the First Restated ENRA is approved, Council could be asked to make decisions regarding the lease of the Airport Property and the Exchange of the Work Street Property/ construction of the new Public Works Corporate Yard as early as October.

Potential Benefits

Despite this uncertainty, there are many positive benefits that would accrue to the City if this project is successful:

1) Development of the Airport Property would provide revenue to the Salinas Airport in excess of $200,000 per year. Further, the private development of the site would result in the collection of possessory interest tax, a portion of which would accrue to the City General Fund unless directed elsewhere by the City.
2) The Airport Property is currently vacant; development of the site will establish a more attractive entry to the Salinas Airport.
3) A barrier to development at the Airport site is the fact that it would require an estimated $2-3 million of site work (ie grading, utility relocation, curb/gutter, drainage, etc.) to make it "development ready." These are expenditures that would normally be borne by the landlord; however, the Airport does not have the financial resources to complete this work on its own. The Developer would provide the up-front resources to perform this work, thus removing this impediment to site development.
4) The City Public Works Corporation Yard is approaching the end of its useful life. City operations are limited by the capacity of the current facility. Construction of a new facility would enable to City to design a facility that is tailored to current needs and provide updated facilities and equipment. The City would have two years to construct the new facility, during which time it could continue to use the Work Street Property.
5) By selling the Work Street Property, the City will have the ability to offset the cost of construction of the new Public Works Corporation Yard through the proceeds of the sale. This will reduce the ongoing annual expenses (including lease payments and/or debt/bond financing) that would result if the City rebuilt on the existing site or purchased property elsewhere.
6) The Work Street Property is located within the Alisal Marketplace and is in proximity to the area covered by the Alisal Vibrancy Plan. Beginning private development within this area could help spur additional investment elsewhere.
7) The Work Street Property is one of the first sites visible to motorists when entering the City from US 101 John Street off-ramp. Redevelopment of the site would create a much more attractive entry point to the City and would complement the recently-constructed Hampton Inn.
8) By placing the Work Street Property into private development, the City would begin receiving property tax revenue from the site.

<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. Any subsequent discretionary projects resulting from this action will be assessed for CEQA applicability.

STRATEGIC PLAN INITIATIVE:

If fully realized, the ENRA would support the Council goals of Economic Diversity and Prosperity (through the development of needed commercial/industrial space) and Effective, Sustainable Government (by assisting with the provision of a new Public Works Corporate Yard as well as additional revenue to support operations at the airport).

DEPARTMENTAL COORDINATION:

Staff from the Community Development and Public Works Departments have been deeply involved in the development of this document and performing work related to the site.

FISCAL AND SUSTAINABILITY IMPACT:

In the event that all three components of this deal are realized, the City would be responsible for ongoing annual payments related to the construction of the new Public Works Corporation Yard. It is likely these costs would ultimately be borne by the City's General Fund. Although these costs would be somewhat offset by additional tax revenues associated with the private development, and the payment amounts could be further reduced by applying revenue from the sale of the Public Works Property, it would still require an ongoing expenditure. However, while significant, these expenditures would be less than would be reasonably expected if the City pursued other avenues for constructing a new Public Works Corporation Yard.

If only the Airport Property portion proceeds, the City General Fund would likely experience a positive impact from its share of the possessory interest tax revenues. Development of the Airport Property (either alone or in conjunction with the other project components) would provide significant positive revenues to the Airport Enterprise Fund of over $200,000 per year.

ATTACHMENTS:

Proposed RESOLUTION, including the following Exhibit:

Exhibit A – First Restated and Amended Exclusive Negotiating Rights Agreement