

# Proposed Menlo Gateway Project Development Agreement Term Sheet

## Update !



Presentation to  
City Council –  
May 11, 2010

# Presentation Overview

## Issues Raised at April 6 Council Meeting

### A. Requests for additional information

- 1) More details regarding priority hiring program
- 2) Comparison of Menlo Gateway to other DA's
  - Sun Microsystems
  - University Circle
  - Stanford University Medical Center
- 3) Future planning for Haven Avenue area
- 4) Financial proforma sensitivity analysis
- 5) GHG Emission reductions in term sheet vs. EIR

# **Presentation Overview**

## **Issues Raised at April 6 Council Meeting**

### **B. Potential changes to DA**

- 1) Commit half of public benefit funding to Bayfront Park exclusively**
- 2) Explore collaborative solutions to underground transmission lines on Constitution Site**
- 3) Should some items within City Manager's authority be changed to City Council?**
- 4) Re-evaluate the inflation factor used in the revenue target**

# Presentation Overview

## Issues Raised at April 6 Council Meeting

### B. Potential changes to DA Continued

- 5) Develop a way to re-evaluate the trip limit if the hotel product changes or some offices are not built
- 6) Consider beginning the trip monitoring program with Independence Phase
- 7) Re-evaluate the \$100/day trip penalty
- 8) Consider incentives to have the developer start construction sooner

# **Presentation Overview**

## **Issues Raised at April 6 Council Meeting**

### **B. Potential changes to DA Continued**

- 9) Collaborate further with Fire District without over-burdening the project**
- 10) Evaluate ways to work cooperatively to reorganize school district boundaries**
- 11) Evaluate alternatives to 11% TOT level if TOT is increased by the City**

# Presentation Overview

## Issues Raised at Planning Commission - May 3

### C. Potential changes to DA Continued

- 1) Project should use revised parking structure designs presented by applicant
- 2) Project should use revised hotel architectural designs presented by applicant
- 3) Increase the annual \$100 per average daily trip penalty
- 4) Bring future architectural changes to the building to the PC for input
- 5) Applicant to help identify future housing sites
- 6) Create a sales tax in lieu fee for the office portion of the project

# Informational Update

## A.1 More details regarding priority hiring program



- Requires creation of a priority-hiring program with JobTrain for first source referral of applicants for entry-level job openings in construction, office and hotel jobs
- Required to offer first-priority job postings to Menlo Park residents and graduates of applicable JobTrain training programs
- Applicant and JobTrain to coordinate and provide periodic reports to City on the program's progress

# Informational Update

## A.2 Comparison of Menlo Gateway to other DA's



### Sun Microsystems

#### Entitlements:

1,036,000 sq. ft.

3,700 parking spaces

3,600 employees

FAR 41.5%

Term – 18 years

Development Fee - \$750K upon sale of property

### Menlo Gateway

#### Entitlements:

941,354 sq. ft. (all uses)

2,734 parking spaces

FAR 137.5%

Term – 5 years with extension under certain conditions up to 20 years

Development Fee - \$0

# Informational Update

## A.2 Comparison of Menlo Gateway to other DA's



### Sun Microsystems

#### Revenue Guarantee:

##### Years

1 - 3                    \$0

4 - 6            \$100,000

7 - 12        \$187,000

12 - 18    \$259,000

Total    \$3,050,500

#### Also Limited By Size

0 - 400K sq.ft.        \$100,000

401 - 750K sq.ft.    \$187,000

750 - 1036K sq.ft.   \$259,000

### Menlo Gateway

#### Revenue Guarantee:

- Starts 3 years after hotel opens and runs for 20 years.
- Starts at 1.2 M in base year and escalates 2% /year.
- \$225,000 cap on developer payments per year

*Assuming 2017 start....*

Year 1    \$1,438,039

Year 5    \$1,556,580

Year 10   \$1,718,590

Year 20   \$2,094,952

**Total over  
20 years  
\$34,940,574**

# Informational Update

## A.2 Comparison of Menlo Gateway to other DA's



### University Circle

#### Entitlements:

200 Room Hotel

435,000 sq. ft. office

Term – 10 years

Extended to 75 years for specific items:

- no fee or tax increases
- TOT at or below rates for Menlo Park, Palo Alto and San Jose or 12% which ever is lower

### Menlo Gateway

#### Entitlements:

230 Room Hotel

763,634 sq. ft. office/sports club

Term – 5 years with extension under certain conditions up to 20 years

# Informational Update

## A.2 Comparison of Menlo Gateway to other DA's



### University Circle

#### Revenue Guarantee to Developer:

\$8.4 million grant of TOT from City to developer or first 42 months of TOT after hotel opening

Owner agrees to designate sales taxes from construction to City

### Menlo Gateway

#### Revenue Guarantee to City:

- Starts 3 years after hotel opens and runs for 20 years.
- Starts at 1.2 M in base year and escalates 2% per year.
- \$225,000 cap on developer payments per year

# Informational Update

## A.2 Comparison of Menlo Gateway to other DA's



### Stanford Medical Center

#### Entitlements:

2,525,277 sq. ft. of construction

1,311,518 net new sq. ft.

Term – 30 years

Items for “life of the project” = 51 years

### Menlo Gateway

#### Entitlements:

941,354 sq. ft. of construction

722,170 net new sq. ft. (all uses)

Term – 5 years with extensions under certain conditions up to 20 years

# Informational Update

## A.2 Comparison of Menlo Gateway to other DA's



### Stanford Medical Center

#### Fiscal Impact Analysis:

30-year analysis of tax revenue and City expenses projected:

Revenue	\$23.9 M
Expenses	<u>\$25.0 M</u>
Net Revenue	<\$1.1> M

Source: ADE Consultants, CMR  
196:10 - April 6, 2010

### Menlo Gateway

#### Fiscal Impact Analysis:

20-year analysis of tax revenue and City expenses projected:

Revenue	\$48.5 M
Expenses	<u>\$11.6 M</u>
Net Revenue	\$36.8 M

Source: BAE Consultants, Table 31,  
July 1, 2009

# Informational Update

## A.2 Comparison of Menlo Gateway to other DA's

### Stanford Medical Center

#### Public Benefit

- \$700K for community health programs per year for 10 years
- \$2.25 M for improved bike / ped. connection to downtown

#### BMR Housing Fee

- \$23.1 M at commercial rate

### City of Palo Alto ASK

- Extend community health programs for life of project
- \$30 M for City infrastructure with offsets in reduced TDM program expenditures



### Menlo Gateway

#### Public Benefit

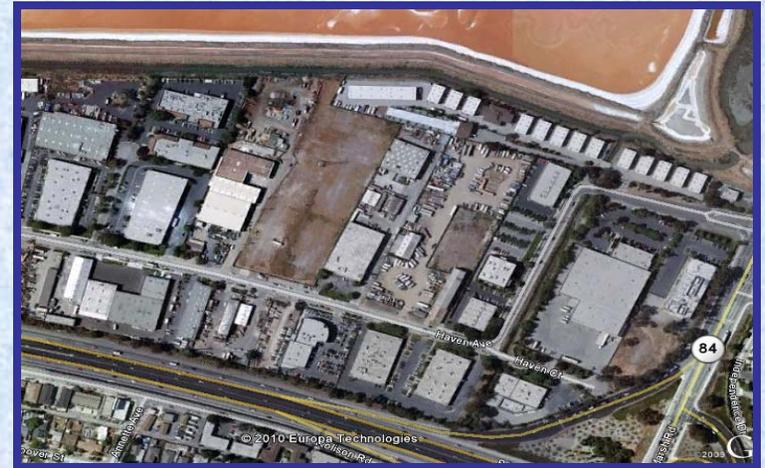
- \$1 M in projects for Belle Haven and Bedwell Bayfront Park or other recreation
- 1% voluntary increase in TOT - estimated value \$151,000/year with stable hotel operations in 2017

#### BMR Housing Fee

**\$8.5 M at 2008 rates**

# Informational Update

## A.3 Future planning for Haven Avenue area



- \$500K included in RDA Implementation Plan for Haven Avenue land use studies
- Staff recommends a two-phase approach to: 1) establish a vision; and 2) create a future land use and infrastructure plan
- Council would need to prioritize this with other M-2 land-use studies including: AMB's Willow Business Park, Menlo Business Park, and the GM Site

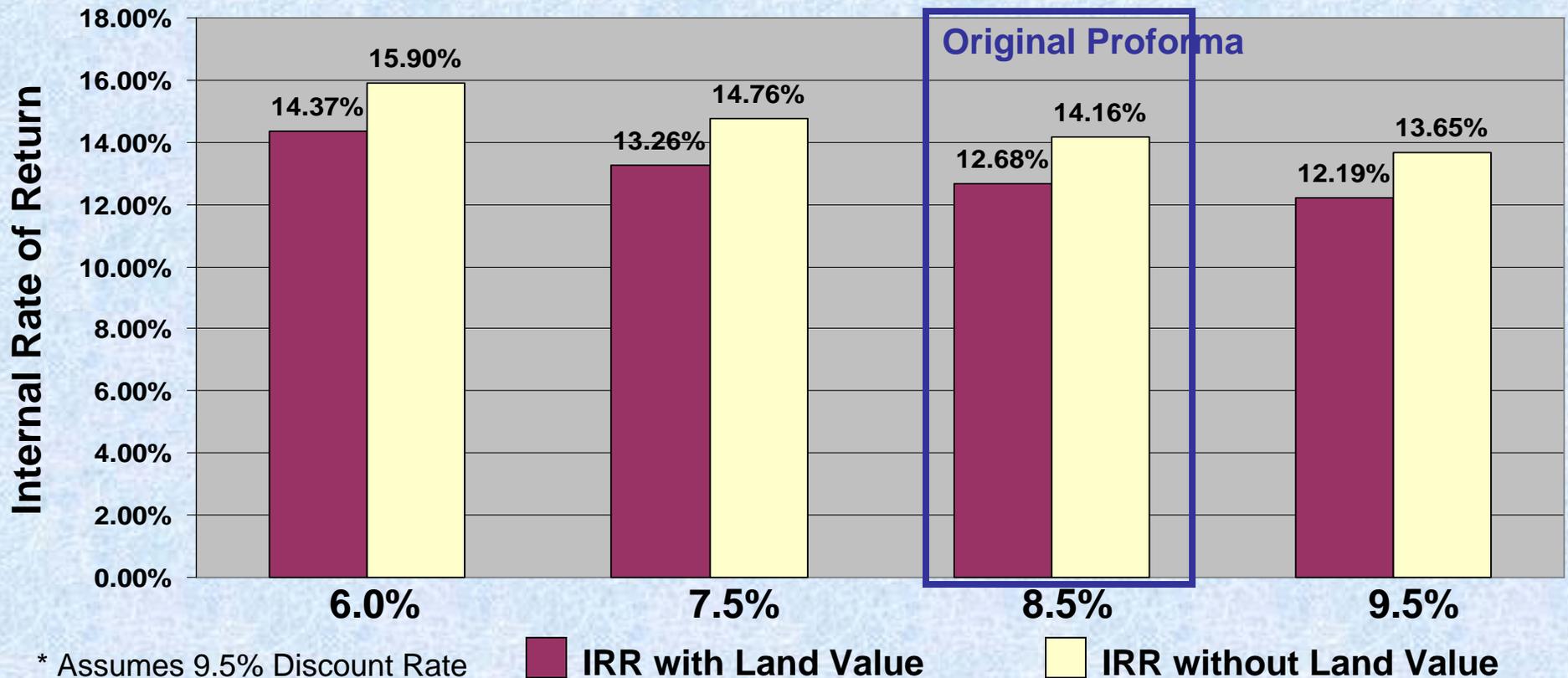
# Informational Update

## A.4 Financial proforma sensitivity analysis



### Internal Rate of Return Analysis

### Comparison of Various “Going-in” Capitalization Rates



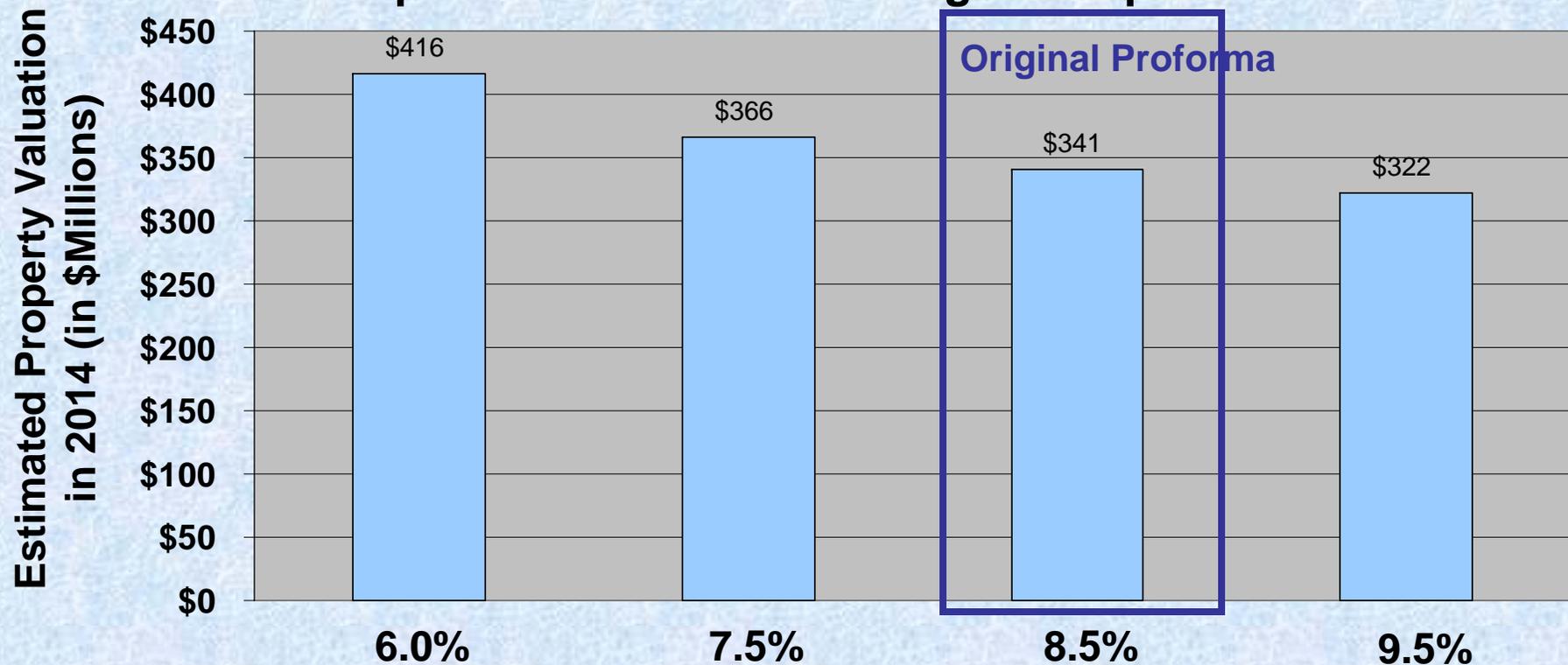
# Informational Update

## A.4 Financial proforma sensitivity analysis



### Discounted Cash Flow Analysis

### Comparison of Various "Going-in" Capitalization Rates



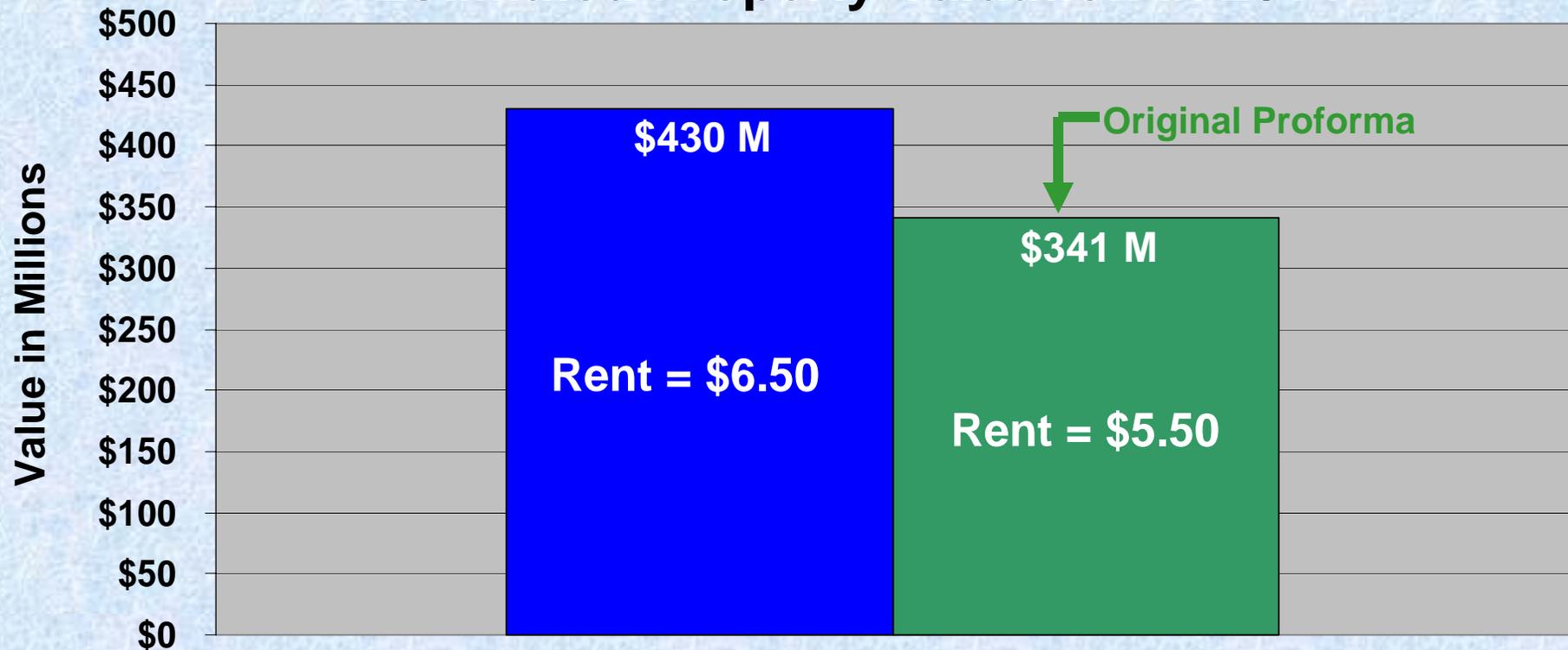
\* Assumes 9.5% Discount Rate

# Informational Update

## A.4 Financial proforma sensitivity analysis



### Estimated Property Valuation in 2014



# Informational Update

## A.5 GHG Emission reductions in term sheet vs. EIR



- DA requires that the owner offset all GHG emissions from the natural gas and electric usage of the buildings through participation in PG&E ClimateSmart for the life of the project
- The EIR refers to “direct” and “indirect” emissions.
  - Direct emissions are those produced on-site from natural gas
  - Indirect emissions are produced elsewhere - electric
- Conditional development permit requires the buildings to be at or below gas and electric usage estimates in the Final EIR

# Potential Changes to DA

**B.1 Commit half of public benefit funding to Bedwell Bayfront Park exclusively**



**Current Term Sheet: DA requires a \$1 million of public benefit projects to be completed by the Applicant with approximately 50% going to projects in Belle Haven and 50% to projects in Bedwell Bayfront Park or other trails or recreation uses as determined by the City Council**

## **Potential Change:**

- **Applicant is willing to make the change.**
- **Projects must be completed prior to occupancy of the first Constitution office building which could be more than 15 years from now.**
- **Could restrict the use of funding to preclude active recreation uses (golf or sports fields)**

# Potential Changes to DA

## B.2 Explore collaborative solutions to underground transmission lines on Constitution Site



Current Term Sheet: Includes no terms related to utility undergrounding

### Potential Change:

- A new term recognizes future planning efforts for the Haven Ave. area
- It requires cooperation in the undergrounding process including the evaluation of new site layouts provided there are no delays or reduced square footage
- The new term does not obligate either the City or Applicant to fund future undergrounding efforts

# Potential Changes to DA

**B.3 Should some items within City Manager's authority be changed to City Council?**



**Current Term Sheet: DA terms allow discretion for the City Manager to:**

- 1) approve changes in the hotel product within pre-established criteria**
- 2) approve transfers in ownership of the project within pre-established criteria**
- 3) approve changes to the project that are “substantially consistent with approved plans and Project Approvals”**
- 4) approve time extensions up to 180 days**

**Potential Change: Changes not accepted by applicant because of increased uncertainty**

# Potential Changes to DA

## B.4 Re-evaluate the inflation factor used in the revenue target



Current Term Sheet: Revenue target increases 2% per year from 2008 base year amount of \$1.2 million, begins 3 years after hotel opening, and continues for 20 years

Potential Change: Changes to the revenue guarantee not accepted by the applicant

# Potential Changes to DA

**B.5 Develop a way to re-evaluate the trip limit if the hotel product changes or some offices are not built**



Current Term Sheet: Trip limitation clause currently does not address potential changes in project size

## Potential Change:

- New term requires adjustment in the trip limitation if the hotel product is changed or office buildings are reduced
- The new limit is determined by the City based on published trip generation standards

# Potential Changes to DA

**B.6 Consider beginning the trip monitoring program with Independence Phase**



Current Term Sheet: Requires trip monitoring to begin with occupancy of the 1<sup>st</sup> office building on Constitution

Potential Change: Applicant agrees to start trip monitoring upon completion of the hotel

# Potential Changes to DA

## B.7 Re-evaluate the \$100/ trip penalty



Current Term Sheet: Requires annual traffic counts by the City and the payment of an annual fee of \$100/average daily trip (indexed to inflation) if limits identified in the EIR are exceeded

Potential Change: Increase penalty to \$150 if the trip limitation is exceeded by more than 500 trips, and to \$200 if the trip limitation is exceeded by 1,500 trips or more

# Potential Changes to DA

**B.8 Consider incentives to have the developer start construction sooner**

**Stimulating the  
Local Economy**



Current Term Sheet: Encourages construction start by requiring complete hotel plans within 5 years to avoid a \$300K extension fee

Potential Change: None – starting construction is driven by economic conditions

# Potential Changes to DA

**B.9 Collaborate further with Fire District without overburdening the project**



Current Term Sheet: Includes no terms related to new fire equipment

Potential Change: New term requires developer to provide up to \$100,000 for traffic signal priority systems on Middlefield and Marsh Roads (in addition to any other fire code compliance requirements)

New term requires applicant to agree that the project would be subject to a future city-wide fire facilities fee if adopted by the City based on an AB1600 study completed by the District

# Potential Changes to DA

**B.10 Evaluate ways to work cooperatively to reorganize school district boundaries**

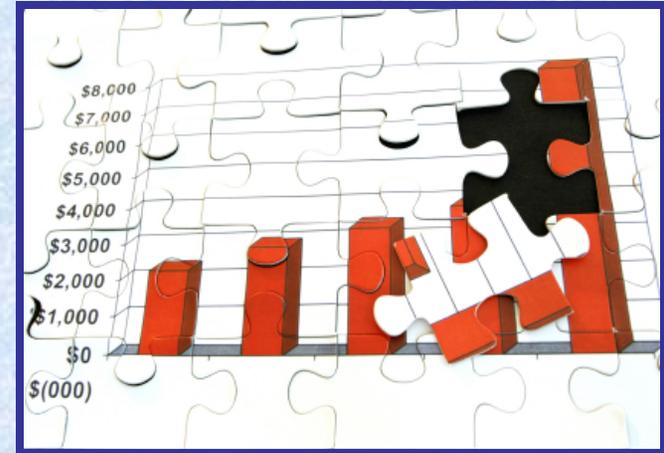


Current Term Sheet: Includes no terms related to school district boundaries

Potential Change: Applicant agrees to cooperate with efforts to reorganize school district boundaries so the project site is within the Ravenswood School District if the effort is initiated by the City or others

# Potential Changes to DA

**B.11 Evaluate alternatives to 11% TOT level if TOT is increased by the City**



Current Term Sheet: Requires voluntary increase in TOT from 10% to 11% for the life of the hotel – increase ends if City increases TOT to 11% or higher

Potential Change: Applicant agrees to participate in the existing State program to book sales taxes from construction in Menlo Park

Sales tax provision applies whether or not TOT is increased

# Potential Changes to DA

(from Planning Commission)

**C.1 Project should use revised parking structure designs presented by applicant**



Current Term Sheet: Changes to parking structures are covered in the Conditional Development Permit

Potential Change: Conditions will be updated to require the applicant to use parking structure designs recommended by the Planning Commission

# Potential Changes to DA (from Planning Commission)

**C.2 Project should use revised hotel architectural designs presented by applicant**



Current Term Sheet: Architectural control approval by the Planning Commission is based on the latest design

Potential Change: Changes to the DA not required

# Potential Changes to DA

(from Planning Commission)

**C.3 Re-evaluate the  
\$100/ trip penalty**



Current Term Sheet: See Item B.7

Potential Change: See Item B.7

# Potential Changes to DA

(from Planning Commission)

**C.4 Bring future architectural changes to the building to the PC for input**



Current Term Sheet: Allows City Manager to approve changes to the project that are “substantially consistent with approved plans and Project Approvals”

Potential Change: The DA would be updated to require final architecture to be reviewed by the Planning Commission prior to consideration by the City Manager

# Potential Changes to DA

(from Planning Commission)

**C.5 Applicant to help identify future housing sites**



Current Term Sheet: Does not include provisions to identify housing sites

Potential Change: Applicant agrees to actively participate in a citizen advisory committee to assist the City in identifying future housing sites when it updates the housing element of the General Plan

# Potential Changes to DA

(from Planning Commission)

**C.6 Create a sales tax in lieu fee for the office portion of the project**



Current Term Sheet: Include provisions to encourage sales tax producing tenants by crediting actual sales taxes generated to count towards the revenue guarantee

Sales tax revenues of \$150,504 per year are included in the revenue guarantee and escalate at 2% per year

Potential Change: Changes not accepted by applicant

# Next Steps.....



## City Council Review of Menlo Gateway Project

**May 25 – Public Hearing**

**June 15 – Possible 1st Reading of Ordinances – Action  
on Project**

**June 22 - 2nd Reading of Ordinances if applicable**

# Follow up on Information Requests

## Requests for additional Information

A.1) Priority hiring program

A.2) Comparison to other Development Agreements

A.3) Planning for Haven Avenue

A.4) Financial sensitivity analysis

A.5) GHG Emissions

# Items Requiring Council Direction

## Potential Changes to DA

<u>Item</u>	<u>Developer Agreement</u>	<u>Staff Rec.</u>
B.1.a Bayfront Park exclusive funding	✓	✗
B.1.b Restrict Bayfront Park funding	✓	✓
B.2 Underground transmission lines	✓	✓
B.3 City Manager's authority	✗	
B.4 Revenue guarantee inflation factor	✗	
B.5 Re-evaluate trip limit for project changes	✓	✓
B.6 Begin trip monitoring sooner	✓	✓
B.7 Re-evaluate \$100/ trip penalty	✓	✓

# Items Requiring Council Direction

## Potential Changes to DA

<u>Item</u>	<u>Developer Agreement</u>	<u>Staff Rec.</u>
B.8 Incentives to start construction sooner	?	
B.9 Collaborate with Fire District	✓	✓
B.10 Reorganize school district boundaries	✓	✓
B.11 Alternatives to 11% TOT	✓	✓

# Items Requiring Council Direction

## (Planning Commission Recommendations)

### Potential Changes to DA

<u>Item</u>	<u>Developer Agreement</u>	<u>Staff Rec.</u>
C.1 Parking structure design	✓	✓
C.2 Updated hotel architecture	✓	✓
C.3 Re-evaluate \$100/day trip penalty	✓	✓
C.4 PC review of final architecture	✓	✓
C.5 Help identify land for housing	✓	✓
C.6 Sales tax in lieu fee	✗	

- **Comments from applicant**
- **Public comment**
- **Questions and discussion by Council**
- **Possible Direction**

