



**STAFF REPORT**

**City Council**

**Meeting Date:** 9/13/2016

**Staff Report Number:** 16-168-CC

**Regular Business:** Consider the Term Sheet for the Station 1300 Project Development Agreement

**Recommendation**

Staff recommends that the City Council approve the proposed Term Sheet for the Station 1300 project Development Agreement (Attachment A).

**Policy Issues**

Review of complex development projects is designated as Item #2 of the Council Work Plan for 2016. The proposed project will require the Planning Commission and City Council to comprehensively consider the requested land use entitlements, such as architectural control, right-of-way actions, and a Below Market Rate (BMR) Housing agreement, along with the public benefits associated with the Development Agreement. The Commission and Council will concurrently consider the project's Final Environmental Impact Report (EIR). At this time, staff is requesting the Council's input and approval of the Term Sheet for the Development Agreement associated with the project.

**Background**

Greenheart Land Company ("Greenheart") is proposing to redevelop a multi-acre site on El Camino Real and Oak Grove Avenue with up to 217,000 square feet of non-residential uses and approximately 183 dwelling units. The project would demolish the existing structures in the southern portion of the site and construct approximately 420,000 square feet of mixed uses. In total, the project would include three mixed-use buildings, an underground parking garage, a surface parking lot, onsite linkages, and landscaping. The uses at the project site would include approximately 188,900 to 199,300 square feet of non-medical office space in two buildings, approximately 202,100 square feet of residential space in one building, and between 18,600 and 29,000 square feet of community-serving space throughout the proposed office and residential buildings. The project would provide approximately 1,000 parking spaces within the underground parking garage and small surface parking lot.

The project is proposing development at the Public Benefit Bonus level, which allows additional development beyond the base intensity and height in exchange for providing additional benefits to the public. The applicant's initial Public Benefit proposal (a cash contribution to the pending El Camino Real/Downtown Specific Plan Public Amenity Fund, in the amount of \$2,100,000) has been reviewed by the Planning Commission and City Council, and on July 19, 2016 the City Council appointed Council Members Carlton and Ohtaki to a Subcommittee to assist staff in negotiating the Public Benefit associated with the project.

## **Analysis**

A Development Agreement is a contract between the City of Menlo Park and a project sponsor that delineates the terms and conditions of a proposed development project. A Development Agreement allows a project sponsor, in this case Greenheart, to secure vested rights, and it allows the City to secure certain benefits that it might not otherwise be entitled to obtain. The City Council is not obligated to approve a Development Agreement, but if the City Council does want to approve a Development Agreement, the terms of the Development Agreement need to be acceptable to both parties; one party cannot impose terms on the other party.

After the July 19 appointment of the Council Subcommittee, City staff, including the City Manager, Assistant City Manager, and Contract City Attorney, met with the Council Subcommittee to determine the key parameters for the negotiation of public benefits as part of the Development Agreement. Subsequently, staff negotiated with Greenheart and consulted with the Council Subcommittee. The attached Term Sheet letter from Greenheart (Attachment A) is the outcome of the public benefit negotiation process.

### ***Development Agreement Term Sheet***

The Term Sheet reflects the mutually agreed upon terms between Greenheart and the City's negotiating team. The term sheet outlines public benefits for the community and is in addition to the required mitigation measures, which were determined by the Draft EIR and which will be included in the mitigation monitoring and reporting program for the development proposal. The Council Subcommittee has reviewed and generally supports the proposed Term Sheet.

#### 1. Cash Contribution

The initial proposal to provide a \$2,100,000 cash contribution to the El Camino Real/Downtown Specific Plan Public Amenity Fund has not changed. These funds would be available to support transportation, public space, or similar improvements in the Specific Plan area.

#### 2. Affordable Units

The project is required by the current BMR requirements to provide 10 BMR units that are affordable to individuals at the low-income level, as designated for San Mateo County. The applicant initially proposed that this requirement be met by a combination of five large one-bedroom units and five two-bedroom units. The proposal has been revised to consist of eight small one-bedroom units, three large one-bedroom units, and three two-bedroom units, which is a total of 14 BMR units, all at the low-income level.

In addition, the applicant is proposing to designate six additional small one-bedroom units as "workforce" housing. These units would be leased at rents affordable for persons at 100 percent of median income, with eligibility to include persons up to moderate (120 percent of median) income. Workforce housing is not a formal designation under the City's current BMR program, but it would represent one way to provide housing that is affordable to community members such as teachers and other public employees.

The revised total number of 20 affordable units would represent over 10 percent of the total residential units proposed as part of the project.

#### 3. Sales Tax

The project would include 18,600 and 29,000 square feet of community-serving uses, which include retail, personal service, and similar active uses. These would be located on the ground floor of both the El Camino Real and Oak Grove Avenue buildings, helping enliven those frontages. In order to ensure that these tenant spaces are occupied by a healthy mix of retail tenants, the applicant is guaranteeing \$83,700 in sales tax per year. This guarantee would commence two years after the final building is occupied, in order to allow for

initial leasing to be completed, and would be adjusted yearly by the area CPI (Consumer Price Index). The \$83,700 guarantee is based on the minimum 18,600 square feet generating an average City sales tax of \$4.50/square foot, which staff believes represents what a typical mix of restaurants, retail, personal services, and similar uses should generate at this location.

4. Marketing to Incubator/Accelerator/Co Working Tenants.

The applicant is proposing to market the office space to incubator/accelerator/co-working entities, which could help the City attract more innovative businesses. This marketing obligation would not apply if the entire office space is rented to a single tenant.

5. Dog Park

The project initially included a bocce court area along the Garwood Way frontage. The applicant is proposing to replace these features with a fenced dog park, which would likely be of greater public use.

6. Assurances Regarding New City Fees.

Similar to provisions included in previous development agreements, the City agrees to provide Greenheart assurances as to certain changes in fees and applicable laws, in exchange for the negotiated benefits. The Project will not be subject to any new impact fees, including BMR fees, or any equivalent in-kind obligation, for a three-year period. The applicant can pay a fee to the City to obtain up to two annual extensions. The assurances regarding no imposition of new fees shall not limit the City from imposing increases to existing City and Specific Plan Area impact fees.

7. Building Permits.

The building code provisions that are applicable to the first building permit shall be applicable to the remaining building permits, as long as substantial time hasn't passed between the permits. This would allow the multi-phase construction project to be conducted under a consistent building code review process.

8. Term of the Development Agreement.

The Term shall be 10 years, with the understanding that the BMR units will be subject to a separate agreement with a 55-year term.

**Impact on City Resources**

The project sponsor is required to pay Planning, Building and Public Works permit fees, based on the City's Master Fee Schedule, to fully cover the cost of staff time spent on the review of the project.

**Environmental Review**

A Draft EIR has been prepared for the project. The public comment period on the Draft EIR closed on April 4, 2016, and staff and the City's CEQA consultant have since been working on responses to comments. Once the responses and revisions are complete, the Final EIR will be released, consisting of the Responses to Comments plus the Draft EIR. The Final EIR will be considered by the Planning Commission and City Council concurrent with the final project actions.

**Public Notice**

Public Notification was achieved by posting the agenda, with the agenda items being listed, at least 72 hours prior to the meeting.

**Attachments**

A. Station 1300 – Development Agreement Term Sheet, Greenheart

Report prepared by:

Thomas Rogers, Principal Planner



September 8, 2016

VIA E-MAIL

The Honorable Rich Cline  
Mayor of the City of Menlo Park,  
and City Councilmembers  
701 Laurel Street  
Menlo Park, CA 94025

Re: Station 1300 – Development Agreement Term Sheet

Dear Mayor Cline and Councilmembers:

We are pleased to present you with the proposed Development Agreement Term Sheet identifying the proposed Public Benefits for the Station 1300 Project. The terms set forth below were negotiated and agreed upon with the City's negotiating team over multiple meetings.

The Station 1300 Project includes two office buildings, 183 rental apartments, and community-serving uses located in both office buildings and the residential building. In addition to the benefits described in the Term Sheet below, the Project includes a variety of inherent public benefits including plazas and a park that will be privately maintained and open to the public, provision of on-site BMR units, the extension of Garwood Way, and enhanced environmental sustainability features. In addition to these inherent benefits, the Development Agreement Term Sheet provides for additional public benefits, set forth below:

1. Cash Contribution. Greenheart will make a one-time payment to the City's Downtown Public Amenity Fund in the amount of \$2.1 million.
2. Affordable Units. Greenheart will provide the following mix of BMR units available at the low income level: two bedrooms: 3 units; large one bedroom: 3 units; small one bedroom: 8 units.

In addition, the residential component of the Project will include "workforce" units as follows: small one bedroom: 6 units.

The workforce units to be provided will be leased at rents not to exceed rents affordable for persons at 100% of median income, with eligibility to include persons up to moderate (120% of median) income. Rent shall be calculated as 30% of 100% of median income for households equal to one person per bedroom plus one person.

3. Sales Tax. Beginning two years after occupancy is allowed for the final building, Greenheart will guarantee that the Project will generate a minimum of \$83,700 in sales tax revenue per year, and will reimburse City on an annual basis for any shortfall below this amount. The guarantee amount shall be adjusted annually based on the Consumer Price Index, San Francisco Area, and the guarantee obligation shall continue until the expiration of the Development Agreement Term. For the purposes of calculating whether the Project has met the minimum sales tax guarantee in any given year, any sales tax generated by office space tenants shall be included in the calculation of sales tax revenue per year.

4. Marketing to Incubator/Accelerator/Co-Working Tenants. Prior to the approval of the Development Agreement, Greenheart will develop a plan for marketing office space to incubator/accelerator/co-working entities, and submit such plan to the City, and thereafter shall make a good-faith effort to implement such plan and market the space to such users for at least the Term of the Development Agreement. The sole exception to this marketing obligation shall be in the event the entire office space is leased to a single tenant, in which case there shall be no obligation to market to incubator, accelerator and co-working users.

5. Dog Park. Greenheart will replace the bocce courts with a fenced dog park to be available for public use.

6. Assurances Regarding New City Fees. The Project will not be subject to any new impact fees, including BMR fees, or any equivalent in-kind obligation, provided that a substantially complete permit application for the first building (underground parking garage) is filed with the City within three years, and such permit is issued within no more than six months after the end of the three year period. In the event Greenheart wishes to extend this protection from imposition of new fees, it may pay a fee to the City to obtain up to two annual extensions.

The assurances regarding no imposition of new fees shall not limit the City from imposing increases to existing City and Downtown Specific Plan area impact fees.

7. Building Permits. The building code provisions that are applicable to the first complete building permit filed with the City shall be the code provisions applicable to the remaining permits for the construction of the Project as long as substantial time has not passed between permit filings.

8. Term of the Development Agreement. The Term of the Development Agreement shall be 10 years, with the understanding that the BMR units provided under paragraph 2 shall be subject to a separate agreement with a 55-year term.

Thank you for your consideration, and if you have any questions, please do not hesitate to ask, or we can certainly continue our discussion at the September 13 hearing.

Sincerely,

A handwritten signature in cursive script, appearing to read "Steve Pierce".

Steve Pierce  
Greenheart

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