

Staff Report

January 11, 2016

TO: Finance and Budget Commission

FROM: Mike Webb, Assistant City Manager
Katherine Hess, Community Development Administrator
Bob Blyth, Accounting and Fiscal Analyst II

SUBJECT: MRIC and Nishi Gateway Planning Efforts

Recommendation

Staff is requesting comments from the Finance and Budget Commission on the development proposal for the Nishi Gateway and Mace Ranch Innovation Center (MRIC) proposals, to be transmitted to the City Council during its deliberations on the project applications.

Specifically, staff is recommending the Commission make the following determinations:

1. **Nishi Gateway and MRIC:** That the economic and fiscal impact analyses prepared by Economic and Planning Systems and the project economic analysis prepared by Andy Plescia and Goodwin Consulting Group provide the analysis appropriate for informed decision-making at this phase in the project review and recognizes future decisions and analysis that would still be required;
2. **Nishi:** That the proposed project, with the Development Agreement and Baseline Project Feature commitments, appropriately meets the City Guiding Principle for Fiscal Consideration and Net Community Benefit; and
3. **MRIC:** That the Commission intends to continue its discussion of MRIC in February with a recommendation to City Council on consistency with Guiding Principles, including a recommendation on the Mixed Use Alternative.
- 4.

City Council Guiding Principles

The City Council adopted Guiding Principles (Attachment 1) for the two innovation center applications solicited through its *Request for Expressions of Interest* (Mace Ranch Innovation Center and the Davis Innovation Center). The Council subsequently determined that these Guiding Principles should be used to help evaluate the Nishi Gateway proposal, as well. The Finance and Budget Commission reviewed the draft Principles in November 2014, prior to their adoption by the City Council.

Commission Review

Resolution No. 10-053 provides guidance on Commission review of development proposals. It calls for staff to refer development proposals to subject-matter commissions when a proposal is inconsistent with existing policy or has outstanding characteristics in a certain area, before proceeding to the Planning Commission or City Council. Rather than stating a position on a development proposal in its entirety, a commission should provide the pros and/or cons of a project relative to their specific area of expertise.

The Finance and Budget Commission has reviewed analyses of the fiscal and economic impacts of the Nishi Gateway proposal and the Mace Ranch Innovation Center in 2015. An executive summary of this analysis, prepared by Economic and Planning Systems, is included as Attachment 2. The Commission has also received two documents with responses to Commissioner questions on the EPS analysis (Attachment 3).

In December 2015, the Finance and Budget Commission heard a presentation from Andy Plescia and Goodwin Consulting Group on a preliminary analysis of project economics and infrastructure funding alternatives for the Nishi site. This report is being updated to reflect the latest site plan and project description, and will be distributed to the Commission on January 8, 2016. The Commission will also receive staff and consultant responses to the questions asked at the December meeting.

Staff recommends the Commission determine that the economic and fiscal impact analyses prepared by Economic and Planning Systems (both MRIC and Nishi) and the project economic analysis prepared by Andy Plescia and Goodwin Consulting Group (Nishi) provide the analysis appropriate for informed decision-making at this phase in the project review and recognizes future decisions and analysis that would still be required, Staff further recommends that the Commission continue its discussion of MRIC in February with a recommendation to City Council on consistency with Guiding Principles, including a recommendation on the Mixed Use Alternative.

The remainder of this report focuses on the Nishi Gateway proposal, which is scheduled for a City Council workshop on January 12 and City Council public hearing on January 19. This would allow the Council to make a decision to place the General Plan Amendment application on the June 2016 ballot prior to the mid-February deadline for action.

Nishi Gateway Background and Project Description

Over the past few years, the City has been collaborating with UC Davis, Yolo County, and the property owner to explore potential for the Nishi Property as a mixed-use innovation district. This followed the Council's direction on the Business Park Land Strategy to initiate planning of the Nishi property as a mix of university-related research park development complemented by high density urban housing.

The City, with Yolo County as a co-applicant and UC Davis as an active participant, was awarded nearly \$600,000 from the Strategic Growth Council for sustainability and environmental studies for the Nishi Gateway area and adjacent UC Davis property. The City has contracted with Ascent Environmental to prepare both the Sustainability Implementation Plan and the EIR. Ascent's subcontractors include Davis Energy Group (energy), Fehr & Peers (transportation), Cunningham Engineering (water and wastewater) and MIG (land planning). One component of the grant is an open space plan for the area.

The Draft Environmental Impact Report and Sustainability Implementation Plan were released for public review and comment between September 10, 2015 to October 26, 2015. The Planning Commission conducted a public meeting to solicit input and comments on the DEIR on October 14, 2015. The Final EIR was released on December 16, 2015. These documents are at <http://cityofdavis.org/city-hall/community-development-and-sustainability/development-projects/nishi-and-downtown-university-gateway-district>; thumb drives and loaner paper copies of the Draft EIR, Final EIR, and Sustainability Implementation Plan are available at the Department of Community Development and Sustainability.

The proposed Nishi project includes a mix of housing and office/R&D uses. Components include

- 440 Residential apartments
- 210 Residential condominiums
- 325,000 square feet of office/R&D uses
- 20,000 square feet of ancillary retail (coffee shop, café, etc.)
- A hotel or extended-stay hotel could potentially be built, subject to subsequent Planning Commission approval and market/environmental analysis

The application also includes potential redevelopment of privately-owned properties on West Olive Drive. This redevelopment would occur based upon market decisions by property owners, but impacts are analyzed in the EIR. Redevelopment of West Olive Drive could provide an increase of approximately 55,000 square feet of office and retail uses. The EIR also anticipates road improvements on West Olive Drive to provide access to the Nishi property.

The current Draft Land Plan is illustrated below.



Vehicular access to the site is proposed from West Olive Drive and a new grade-separated crossing of the railroad tracks to Old Davis Road. Bicycle/pedestrian access would also be provided through the Putah Creek Parkway connections to South Davis and the UC Davis Arboretum.

The proposed project requires General Plan Amendment and Rezoning / Preliminary Planned Development approval from the City Council. Because development of the Nishi property entails approval to convert agricultural land to urban uses, voter approval is also required. The *Citizens' Right to Vote on Future Use of Open Space and Agricultural Lands Ordinance* requires such General Plan Amendments, if approved by the City Council, be placed on the ballot for voter consideration. This Ordinance also requires establishment of "Baseline Project Features" such as recreation facilities, significant project design features, sequencing or phasing, or similar features which cannot be eliminated, reduced or significantly modified without subsequent voter approval (Attachment 5).

Proposed Development Agreement and Baseline Project Features for the Nishi property that are applicable to this Finance and Budget Commission discussion include the following:

- ◆ The project description includes the anticipated residential and office/R&D uses. A hotel is conditionally permitted subject to Planning Commission review and environmental/market analysis.
- ◆ Contributions to Olive/Richards intersection and Richards corridor/interchange improvements.
- ◆ Developer pays for Olive Drive-Putah Creek connection, undercrossing to UCD, & mitigation per EIR.
- ◆ Community Facilities District assumed to pay for public infrastructure.
- ◆ City will work with developer and campus on grant opportunities for major infrastructure
- ◆ Net fiscal positive, with or without hotel. Could include make-whole provision for UC leases, Landscape and Lighting Assessment District, Community Facilities District, positive negotiations with Yolo County, or other.
- ◆ Subsequent City review and approval of:
 - Tax-sharing Agreement with Yolo County (City Council)
 - Final Planned Development, Tentative Map, and Design Guidelines (Planning Commission)
 - Details of Sustainability Plan other than above (Planning Commission, per Appendix F)
 - Impact fees and credits recognizing infrastructure costs, smaller unit sizes, and sustainability commitments (City Council)
 - Consideration of Community Facilities District (City Council)

Nishi Proposal Consistency with Guiding Principles

Guiding Principle #7 speaks to fiscal neutrality with regard to city services, substantial surplus annual revenue, and positive economic impacts/multipliers citywide.

Staff has the following comments regarding compliance with this principle:

- ◆ The fiscal considerations of the Nishi property are very different from that of a large-scale innovation center. The fiscal and economic analysis by Economic and Planning Systems (summary, Attachment 2) concluded that the Nishi Gateway development is estimated to produce an annual net General Fund deficit of approximately \$78,000 at buildout, with \$1,273,000 in revenues and \$1,351,000 in service costs. The EPS analysis identifies “Managing for Fiscal Success” measures that could result in a fiscal surplus of up to \$465,000 per year.
- ◆ The estimated annual net fiscal deficit for the Nishi project is attributable to two key factors: 1) the inclusion of residential units; and 2) an assumption of approximately 80,000 square feet of public/nonprofit space (20% of total nonresidential space). For this

project, however, EPS concluded that the presence of housing is a positive attribute that will enhance the mixed-use character valued in innovation centers and will likely improve the internal economics of the project. Similarly, public/nonprofit space is estimated to be a net burden on a city's General Fund because public/nonprofit uses are assumed to be exempt from paying property tax revenue and real property transfer tax revenue, and are not estimated to generate any onsite taxable sales tax revenue). However, this type of space has the potential to attract UC Davis-related users, capitalizing on the university's research strengths and strengthening the local innovation ecosystem and local project economics.

- ◆ The addition of a potential hotel project onsite may result in an annual net fiscal surplus for the City's General Fund. However, EPS noted that the replacement of some R&D uses with a hotel in Nishi would need to be evaluated in light of the need to maintain a critical mass of Office/R&D space in the innovation center, which may be possible with an additional hotel, depending on specific project features. The recommended baseline project features allow a hotel, either as a replacement for other uses, or as additional development on the site subject to environmental and market analyses.
- ◆ Through the Development Agreement and Baseline Project Features (see previous page), the property owner has committed to a mechanism for offsetting any foregone property tax revenue to the City as a result of purchase or lease of the non-residential properties by the University of California. The City will also be reimbursed for City pre-development costs under the cost-sharing agreement.
- ◆ The City has requested Andy Plescia and Goodwin Consulting to update the preliminary analysis of project economics and infrastructure funding alternatives (delivered at the December FBC meeting) to reflect the current land plan and infrastructure obligations. This analysis is scheduled to be delivered to the Commission on January 8, 2016, for presentation and discussion at this meeting.
- ◆ Commissioner Carson has prepared an analysis of the Nishi Gateway fiscal analysis, with some revised assumptions, for consideration by the Commission at this meeting (Attachment 5). Staff requested Economic and Planning Systems review that analysis, to identify any fatal flaws. EPS noted that the changes recommended by Commissioner Carson were considered in the EPS analysis, but not included to keep the conclusions conservative.

In conclusion, given the commitments proposed for the Development Agreement, staff finds that the proposal appropriately meets the expectations of this Guiding Principle.

Staff notes that the process for review of the Nishi Gateway proposal, and the expectation for subsequent review and implementation actions, is different from a more typical review process

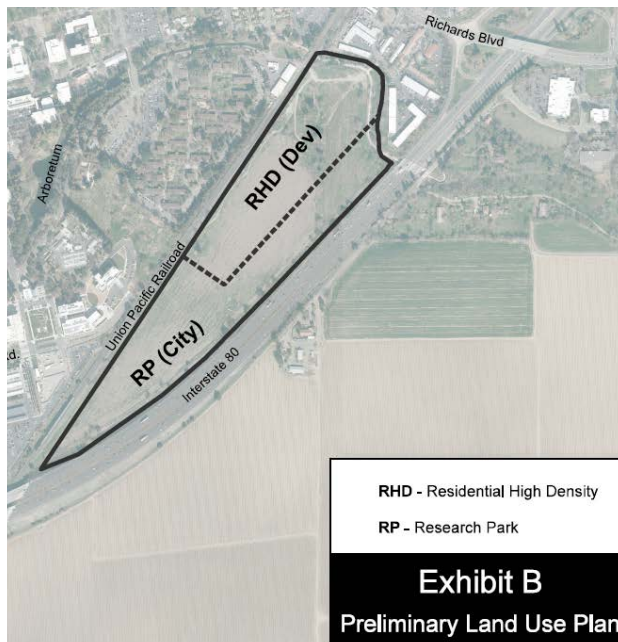
such as the one for Cannery. The Nishi Gateway review process has been influenced by both the collaborative nature of the planning effort (including the expectation for UC Regents approval of the necessary roadway connection) and the Measure R requirement for voter approval. The goal of this phase of the analysis is to provide sufficient information for the City Council to make a decision on whether to place the application on the ballot, along with mechanisms for future reviews and actions to ensure compliance with the Development Agreement and Baseline Project Features. The City Council will have additional opportunities to take action on implementing mechanisms such as the tax-sharing agreement; impact fees, fair-share contributions, and credits for infrastructure; and Community Facilities District financing structure.

Staff recommends that the Commission determine that the proposed Nishi Gateway project, with the Development Agreement and Baseline Project Feature commitments, appropriately meets the City Guiding Principle for Fiscal Consideration and Net Community Benefit.

Predevelopment Agreement

The predevelopment agreement with the property owner created a cost-sharing structure for the planning, sustainability, environmental, and public reviews of the project proposal. The predevelopment agreement provided for the property owner to repay of City costs upon passage of a Measure R vote. City and property owner contributions were subsequently supplemented by the Strategic Growth Council grant and a contribution from UC Davis to the initial site planning effort.

The preliminary land plan at the time identified 22 gross acres for the Research Park uses (pictured). This has been refined through the public and technical review process, to



approximately 5.0 net acres plus a portion of the surface parking land. The staff report noted a possible Development Agreement deal point of the City assuming ownership of the business park component of the property. This concept was included in the recitals to the predevelopment agreement. As part of the package, the City would assume the obligation for half the costs of the infrastructure and the agricultural mitigation. The Commission is welcome to make a recommendation to the Council on whether this concept should be pursued, given current in project description (additional park acreage, parking structure serving residential and R&D uses, increased infrastructure obligations), economic analysis, and City priorities.

Attachments

- a) City Council Guiding Principles for Davis Innovation Center(s)
- b) Executive Summary – Economic and Fiscal Analysis of the Proposed Nishi Gateway Innovation District Project (Economic & Planning Systems)
- c) Responses to Commissioner Questions on Economic and Fiscal Analyses (Nishi Gateway and MRIC)
- d) Updated Analysis of Project Economics and Infrastructure Financing Alternatives
- e) Analysis from FBC Commissioner Dan Carson
- f) Baseline Project Features presented to Planning Commission January 6, 2016