



Johnson Drive Economic Development Zone Phasing and Transportation Financing Policy Discussion

September 18, 2017

Purpose

Introduce two policy questions:

1. Timing of future development

- Review required traffic and transportation mitigation improvements

2. Review proposed financing options

Discuss next steps to move forward, if desired

Project Timeline / Key Events

- 2013 – Clorox vacates campus along Johnson Drive
- April 2014 – City initiates Johnson Drive Economic Development Zone
- May 2014 to March 2016 – CEQA and Public Process
 - DSEIR released & public comment period
 - Neighborhood and community workshops
 - City releases FSEIR for public comment
- April 2016 – Joint City Council/Planning Commission Work Session
- July 2016 through November 2016 – Initiative Process
 - City Council directs staff to stop work on the JDEDZ pending results of initiative
 - Initiative defeated by voters
- January 2017 to present 2017
 - City staff re-engages work on JDEDZ project activities
- September through December 2017 – Public Review and Approval





Proposed
Economic
Development
Zone

EDZ Goals and Objectives

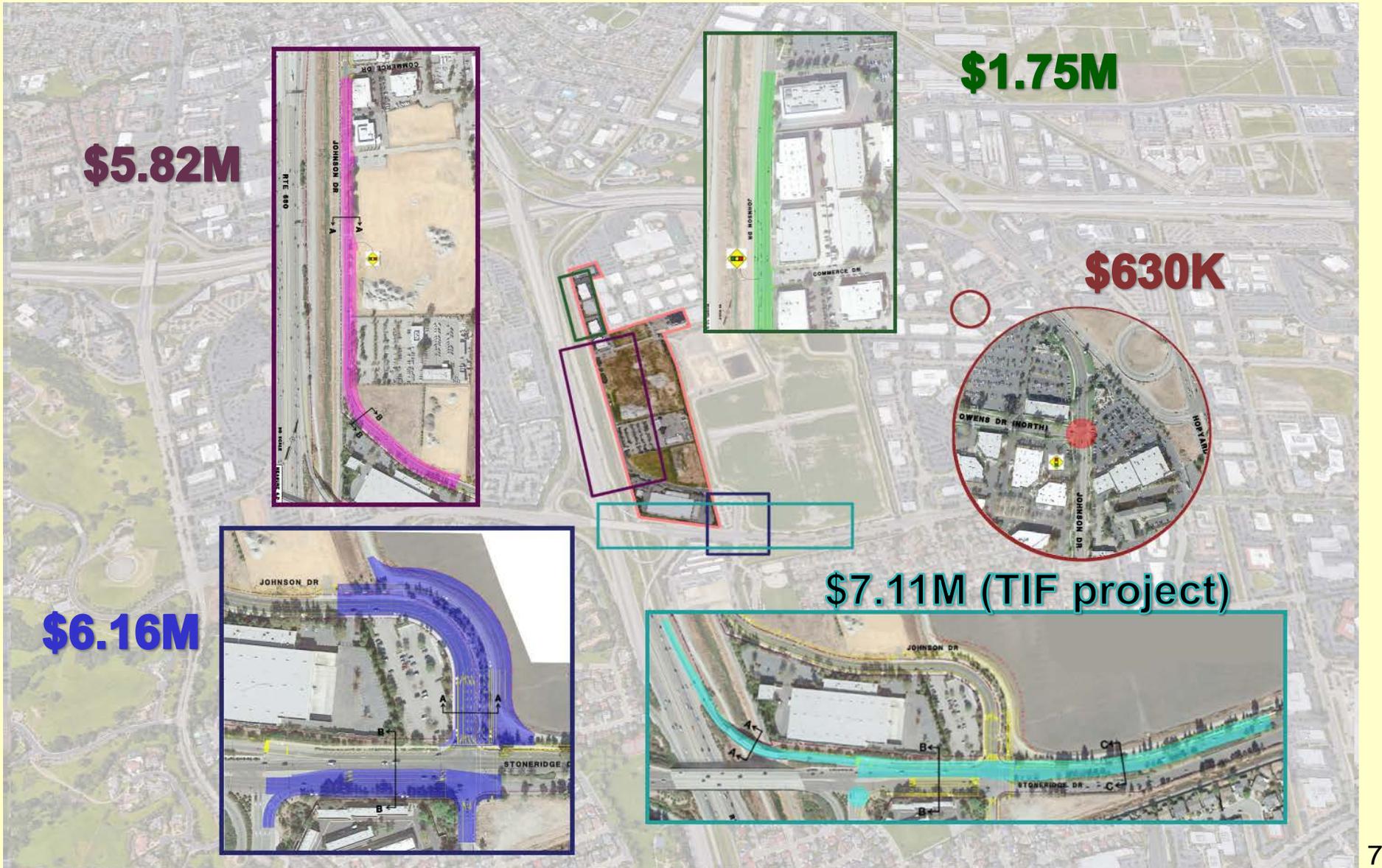
- Economic Vitality
 - Transform the area into a thriving commercial corridor
 - Create opportunities for new land uses and services
 - Streamline the Development Review Process/CEQA Review
- Infrastructure Improvements
 - Enhance the traffic and transportation network
- Financial Stability
 - Generate new tax revenue to support City services and programs

JDEDZ Phasing



- Phase I: Parcels 6, 9, and 10
- Phase I includes approximately 285,000 square feet of new uses
- Phase I includes club retail (Costco), general retail, and hotel
- Phase I triggers need for all transportation improvements

Traffic and Transportation Improvements



Cost of Transportation Improvements

- Total cost of transportation improvements
 - \$21.47 million (Includes design, construction, and right of way acquisition)
- Component costs are similar to other recent CIP Transportation Projects
 - Bernal Interchange (\$5.5 million)
 - Foothill Interchange (\$6.9 million)

Financing Feasibility

City contracted with Century Urban to analyze Costco's ability to fund 100% of the transportation improvement costs. They reviewed:

- Average starting sales per warehouse
- Typical sales growth, adjusted for Bay Area market
- Net income margin
- Projected transfer sales from existing warehouses
- Estimated Costco investment

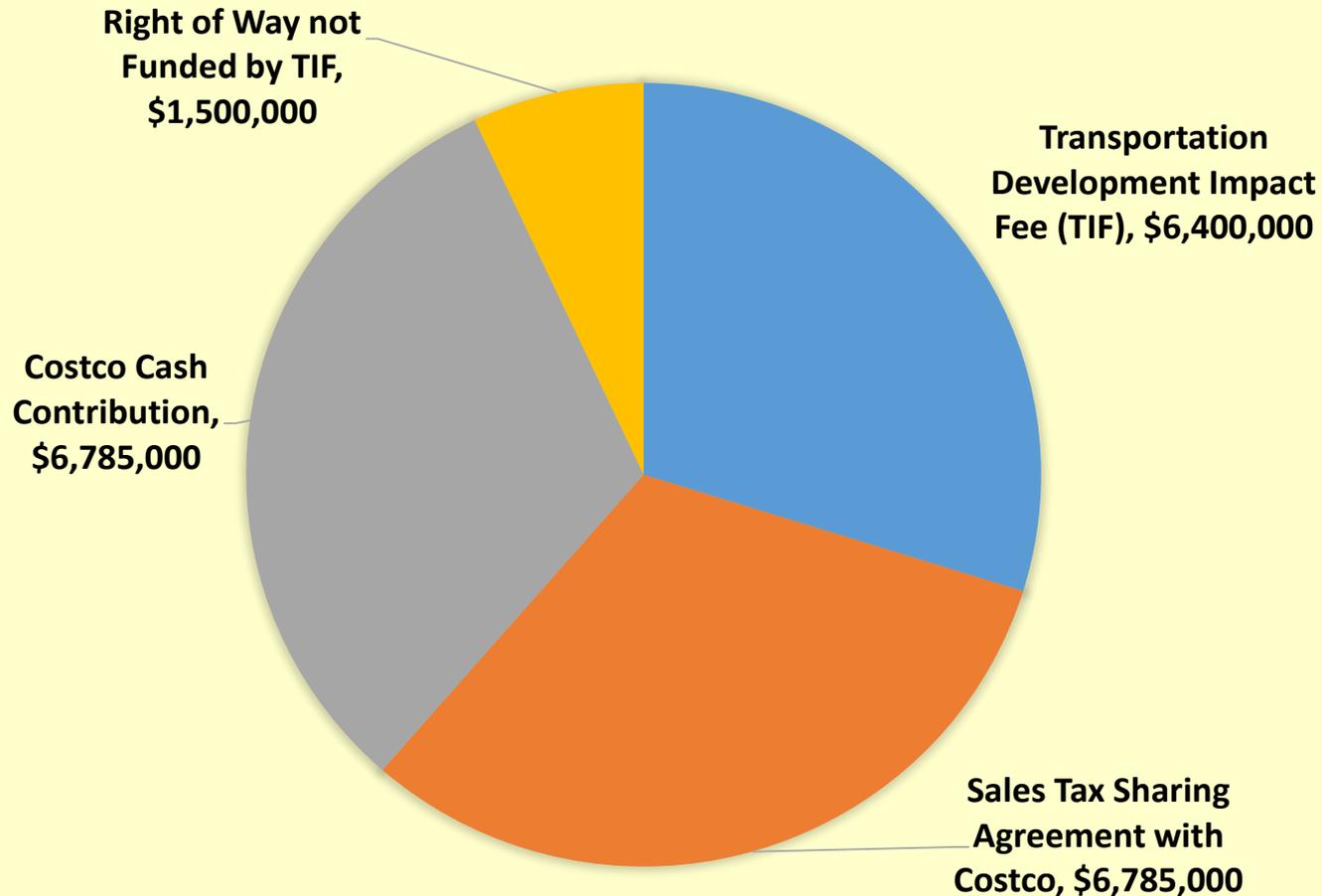
Financing Feasibility

7200-7208 Johnson Drive Analysis	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
(\$ millions)						
Typical Sales Growth		15.0%	10.0%	8.0%	5.0%	4.0%
Average Sales Per Warehouse	\$ 108.0	\$ 124.2	\$ 136.6	\$ 147.5	\$ 154.9	\$ 161.1
Adjustment for Bay Area Market	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Adjusted Average Sales	\$ 135.0	\$ 155.3	\$ 170.8	\$ 184.4	\$ 193.7	\$ 201.4
Net Income Margin %	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Net Income	\$ 2.7	\$ 3.1	\$ 3.4	\$ 3.7	\$ 3.9	\$ 4.0
Projected Return on Investment (before Deduction for Transfer Sales)	6.8%	7.8%	8.5%	9.2%	9.7%	10.1%
Transfer Sales %	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Deduction for Transfer Sales	\$ (1.35)	\$ (1.55)	\$ (1.71)	\$ (1.84)	\$ (1.94)	\$ (2.01)
Adjusted Net Income	\$ 1.35	\$ 1.55	\$ 1.71	\$ 1.84	\$ 1.94	\$ 2.01
Projected Return on Investment (after Deduction for Transfer Sales)	3.4%	3.9%	4.3%	4.6%	4.8%	5.0%
Costco Warehouse Investment	\$ 40.0					
Costco Return on Invested Capital (Fiscal Year 2014)	12.25%					

Design & Construction vs. Right of Way Costs

Design & Construction Cost (Excluding ROW costs not Required for Stoneridge Drive & I-680 Onramp Project)	\$19,970,000
Right of Way (ROW) Estimate (Includes Costco ROW)	<u>\$1,500,000</u>
Total Project Cost	\$21,470,000

Proposed Cost Sharing – Design and Construction



Transportation Development Impact Fee (TIF) - Stoneridge Drive & I-680 Onramp Project

- Noted in 1996 and 2005 General Plans
- Included in 1998 TIF & Draft 2009 TIF

City collecting money from developers since 1998 to fund this project

\$6.4 Million included in FY 2018/19 CIP

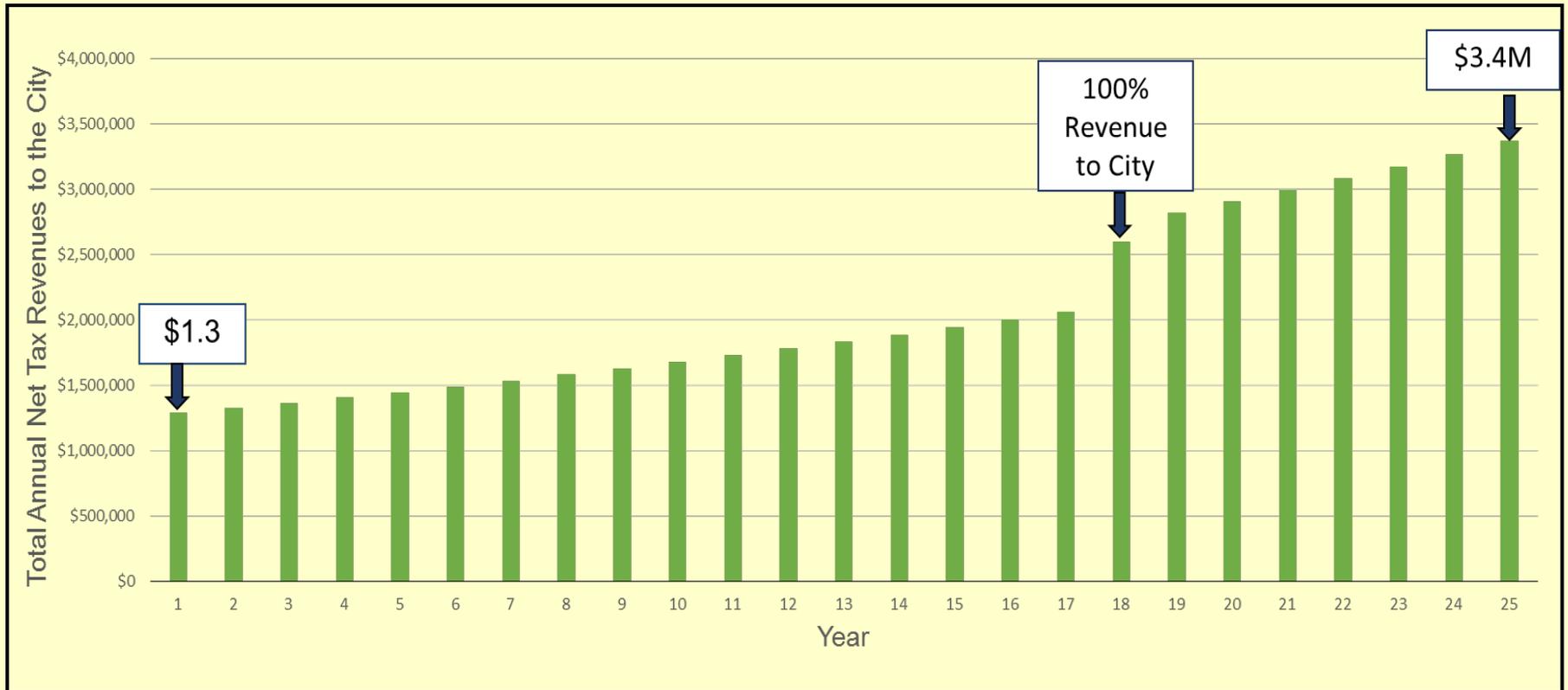
Proposed Sales Tax Sharing Agreement with Costco

Costco advances \$6,785,000 to project

Repayment:

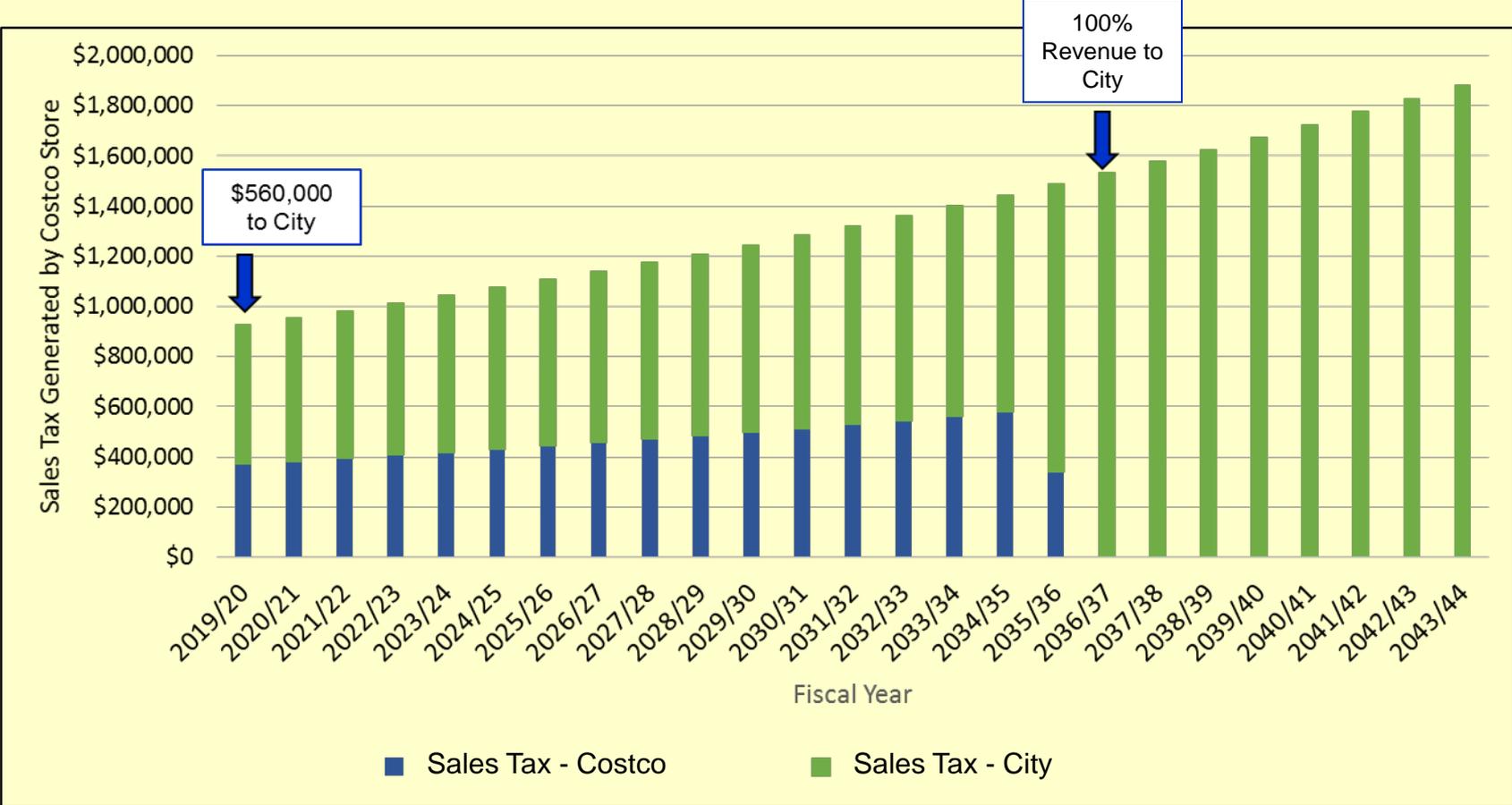
- 40% of sales tax generated by Costco
- Not to exceed 25 years
- 1.5% interest

Estimated Total Net Annual Tax Revenues from Phase 1

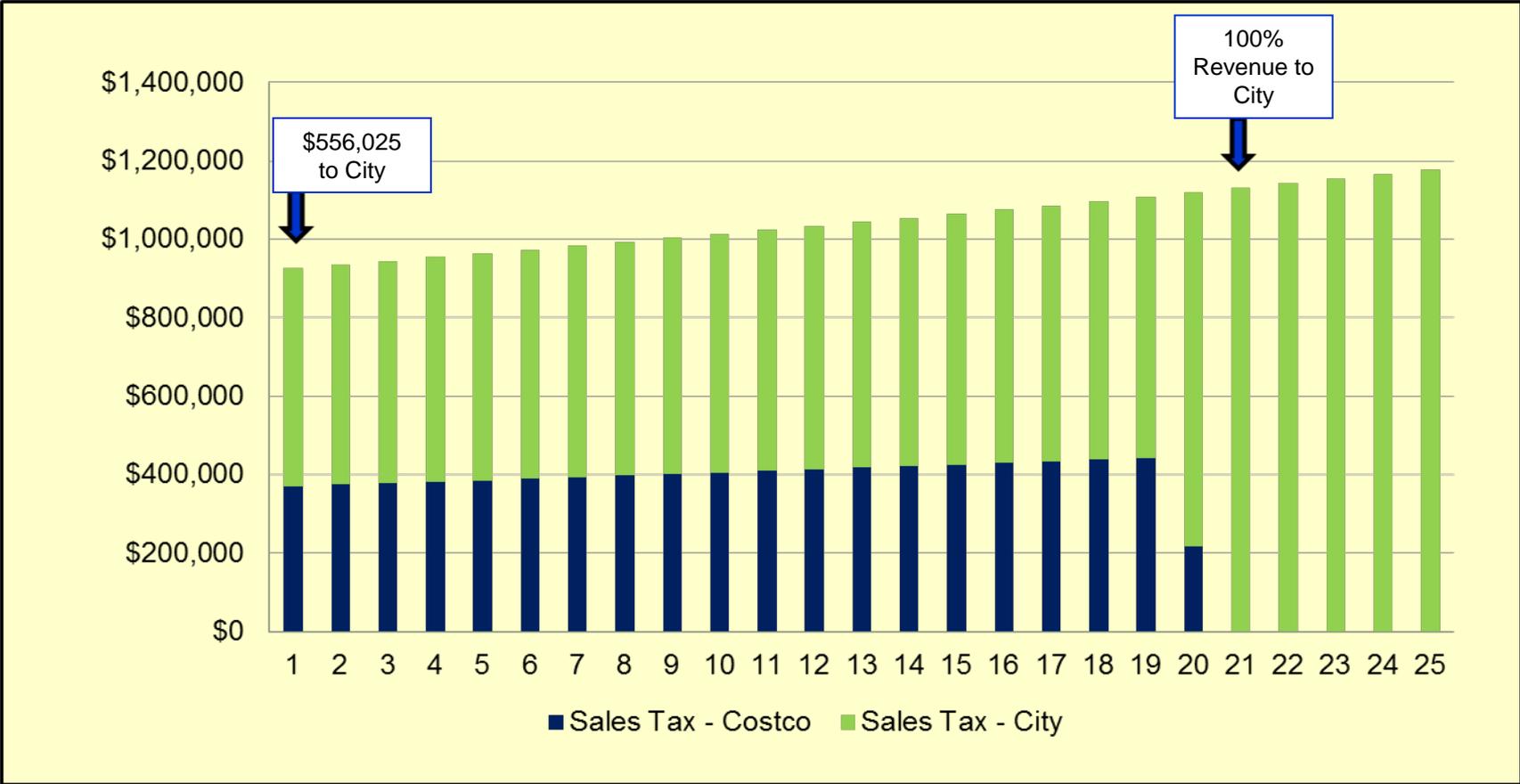


Includes Sales Tax, Property Tax, Hotel Tax & Vehicle In-Lieu Taxes

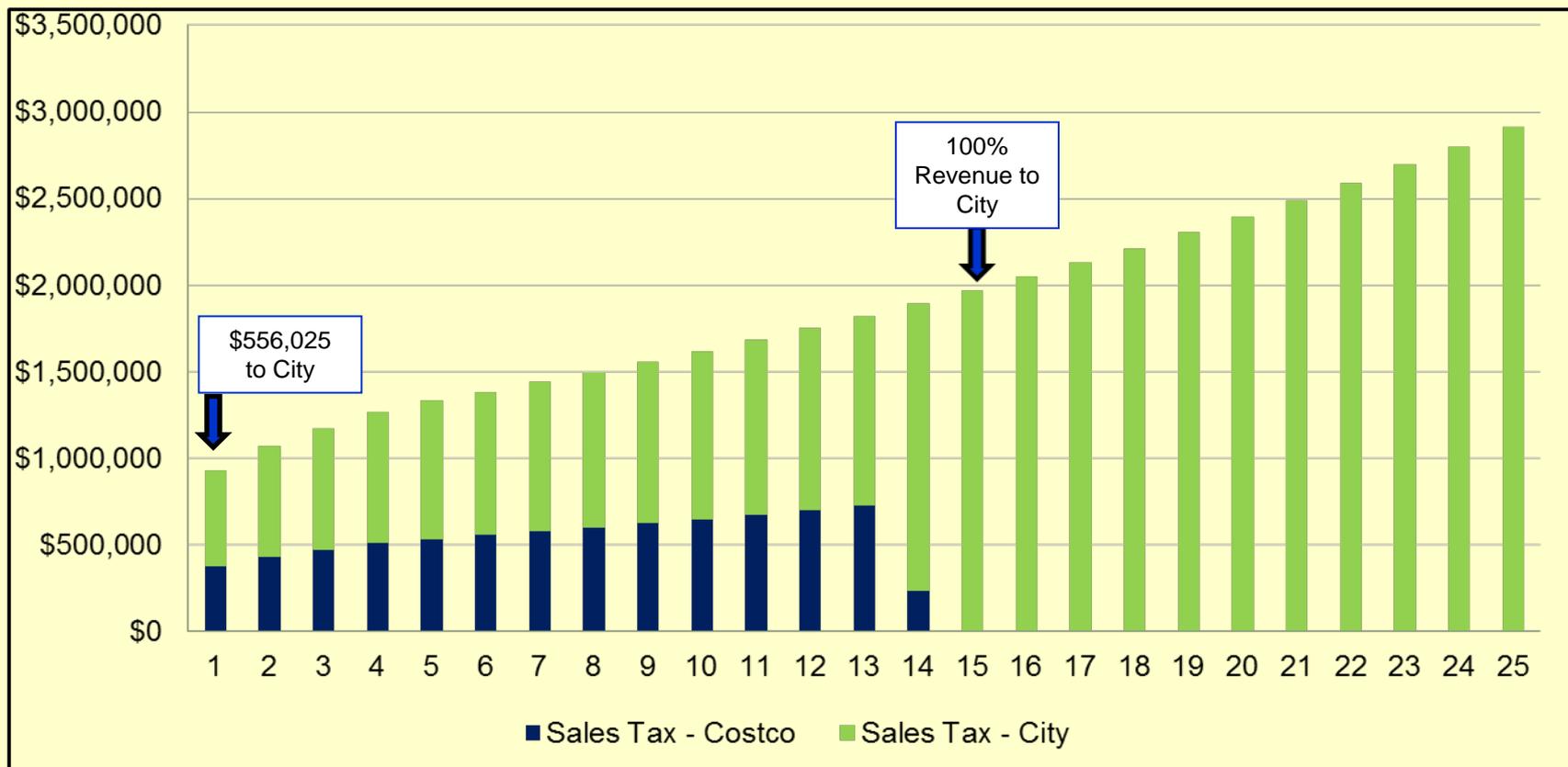
Proposed Sales Tax Sharing – Assuming 3% Annual Growth



Proposed Sales Tax Sharing – Assuming 1% Annual Growth



Proposed Sales Tax Sharing – Assuming 15%, 10%, 8%, 5%, and 4% Annual Growth Thereafter



Costco Cash Contribution

\$3,085,000  Costco Cash

\$3,700,000  Costco TIF Contribution
Invested in JDEDZ

\$6,785,000  Total Costco Contribution

Right of Way (ROW) Acquisition Funding

- Costco dedicates ROW that it owns
- City will seek ROW dedications from other properties subject to development
- Remaining ROW acquisitions shared equally between the City and Costco
- Costco's portion of ROW covered through increasing amount of sales tax share

JDEDZ Transportation Costs by Land Uses

Total Project Cost - Including ROW	\$21,470,000		
Total Project Cost Excluding Stoneridge Drive & I-680 Onramp Project (TIF Funded)	\$15,070,000		
JDEDZ Land Uses	Percent of Total Trips at Build-out	Allocation of Project Costs Including ROW	Allocation of Project Costs Excluding ROW
Costco	44%	\$6,630,800	\$5,970,800
Hotels	12%	\$1,808,400	\$1,628,400
Remaining Retail Land Uses	44%	\$6,630,800	\$5,970,800
Total	100%	\$15,070,000	\$13,570,000
Non-Costco Portion to Recover in Future JDEDZ Transportation Fee		\$8,439,200	\$7,599,200

JDEDZ Transportation Fee

Goals:

- Recover some of the City's JDEDZ investment
- Reduce amount owed Costco from sales tax sharing
- Don't discourage future development

Next Steps:

- Analyze developments' capacity for a new fee

What Do Other Cities Do To Encourage Economic Development?

- Special Districts (Mello Roos)
- Tax Increment Financing Districts (Similar to Redevelopment Areas)
- Special Improvement Districts (Assessment Districts)
- Lease Revenue Bonds or Certificates of Participation
- Tax-sharing Programs:
 - Most common: sharing sales tax growth
 - Projects that expect substantial generation of sales tax -- auto dealerships & big-box retail
 - Examples of sales tax sharing programs -- Manteca, Elk Grove, Mountain View, Dublin, Livermore, Ukiah & Pittsburg

How Have We Done This Before?

- Assessment Districts Formed in Pleasanton
 - 1978 through 1992
 - Stoneridge Shopping Center
 - Hacienda Business Park
 - Valley Business Park
 - Koll Center (now Bernal Corporate Park)
 - North Pleasanton

Funding Options

Option	Pros	Cons
1. Sales Tax Sharing	<ul style="list-style-type: none">• No General Fund exposure/little risk to City	<ul style="list-style-type: none">• Typically, all sales tax revenue accrues to City
2. City Inter-Fund Loan	<ul style="list-style-type: none">• No City financial obligation to Costco	<ul style="list-style-type: none">• Reduces availability of funds to City
3. Issue Bonds/Secure Bank Loan	<ul style="list-style-type: none">• No City financial obligation to Costco	<ul style="list-style-type: none">• Increased interest rate and General Fund exposure
4. Do Nothing	<ul style="list-style-type: none">• No repayment financial obligation	<ul style="list-style-type: none">• No significantly increased tax revenues

Responses to Comments and Questions from August 29, 2017 City Council Workshop

Costco's Sales Growth Assumptions

Comment from the Public:

“Costco sales have been flat in recent years so a 3% growth rate assumption is unrealistic.”

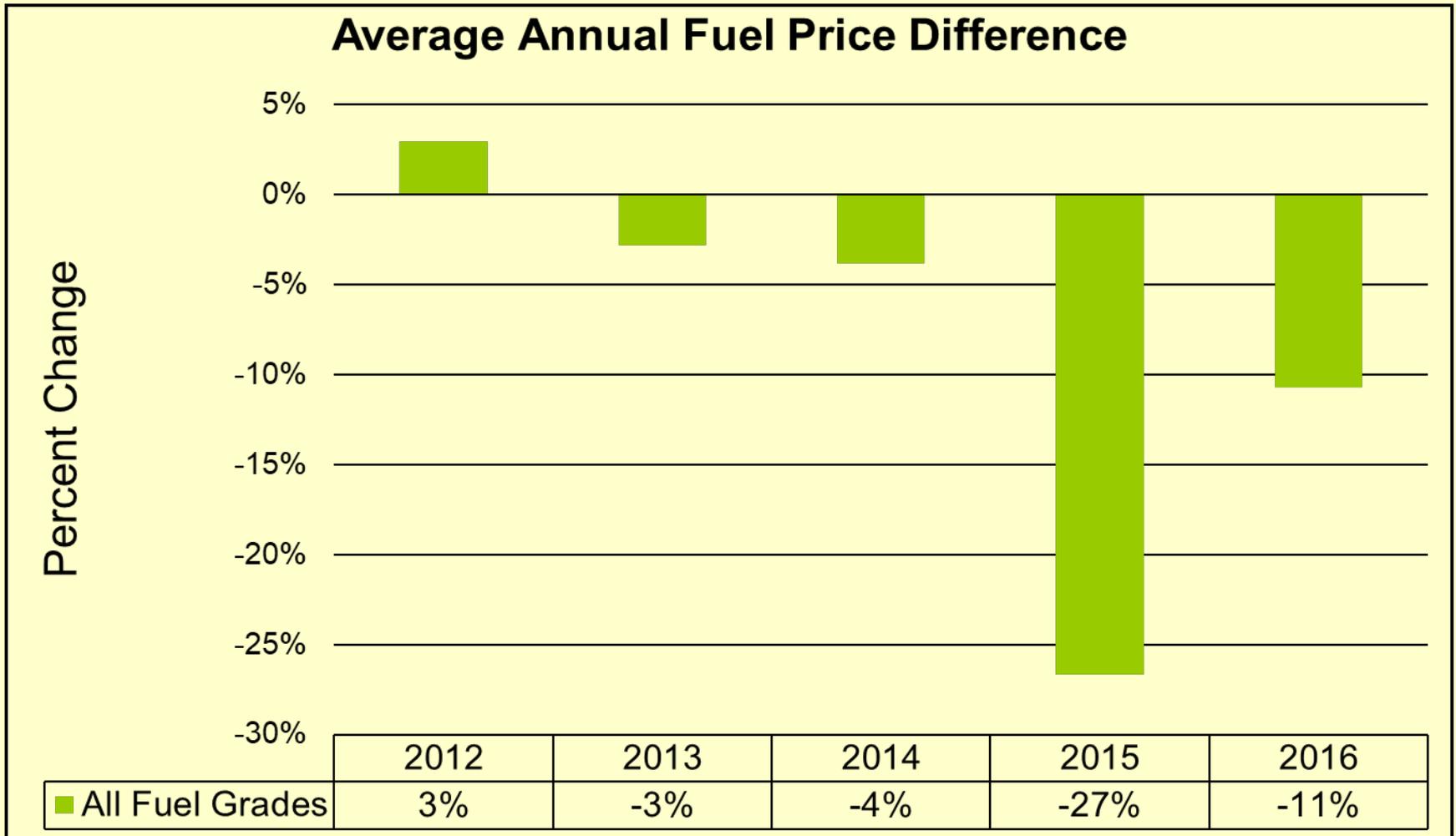
Response:

From Costco's 2016 audited financial report:

Costco Five-year Operating and Financial Highlights

	2016	2015	2014	2013	2012
Increases in Total Company Comparable Sales - excluding impact in foreign currency and gasoline prices	4%	7%	6%	6%	6%

Costco's Sales Growth Assumptions



How other Cities have Provided Assistance to Costco

Question from the City Council:

“How have other cities provided assistance to Costco?”

Response:

26 Costco openings Texas to California since 2012:

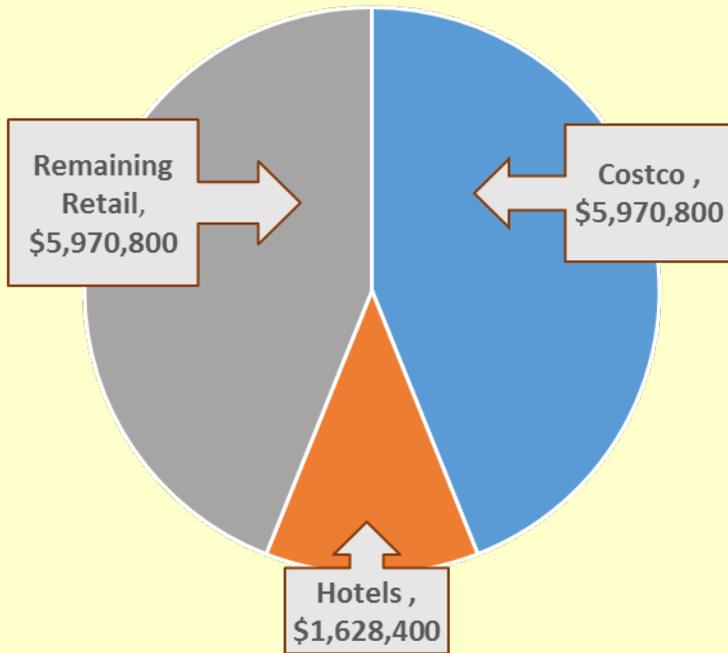
- 17 received assistance
- \$750,000 to \$12 million
 - Sales Tax Sharing – MOST
 - City issued bonds to fund off-site improvements
 - City staff performed off-site work at City expense
 - City secured iBank loan from state

Term Sheet Changes

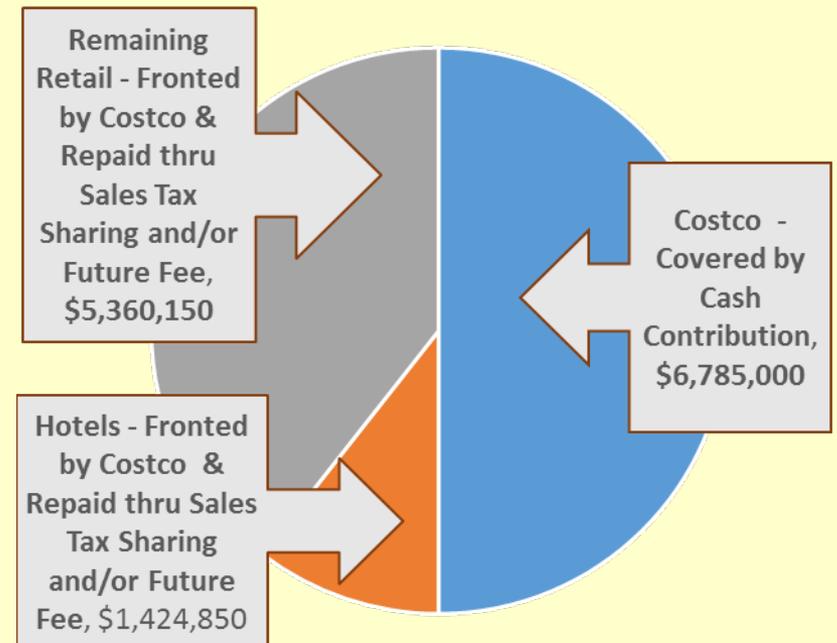
- Sales Tax Sharing Agreement
 - Sales tax sharing shall not exceed 25 years regardless of any outstanding monetary obligations owed to Costco by City
 - City no liable to pay outstanding monetary obligations to Costco if operations cease within the City
- Cost Overruns
 - Stoneridge Drive/I-680 on-ramp project funded by City's TIF
 - Remaining projects funded equally by City and Costco

JDEDZ Transportation Improvements: Should be and Proposed to be Funded (excludes TIF ad ROW)

How the Transportation Costs should be Funded Based on Trips Generated



How Staff Proposes to Fund Transportation Improvements Based on Development Timing



Summary

- Overview of Necessary Transportation Improvements
- Improvement Costs
- Financial Feasibility
- Funding Options
- Recommendation – Sales Tax Sharing

Next Steps

Anticipated Process

- **September/October 2017** – Economic Vitality Committee and Planning Commission
- **October/November/December 2017** – City Council

POLICY QUESTION #1:

Could the City allow hotel(s) to operate within the JDEDZ prior to the construction of all transportation network improvements?

OR

Should ALL new uses within the JDEDZ wait until completion of all transportation network improvements?

POLICY QUESTION #2:

What is Council's preferred financing option at this time for the cost of the necessary transportation improvements?

1. Sales Tax Sharing
2. City Inter-Fund Loan
3. Issue Bonds/Secure Bank Loan
4. Do Nothing

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END

