



CITY OF MORGAN HILL

CITY COUNCIL STAFF REPORT

MEETING DATE: June 3, 2020

PREPARED BY: John Lang, Economic Development Manager
APPROVED BY: City Manager

APPROVE AN IMPACT FEE FREEZE AGREEMENT WITH APPLIED MOTION PRODUCTS, INC. FOR A NEW INDUSTRIAL BUILDING ON 2.43 ACRES LOCATED ON MADRONE PARKWAY AND DIRECT STAFF TO RETURN WITH CHANGES TO THE IMPACT FEE PROGRAM

RECOMMENDATION(S)

1. Direct the City Manager to execute an Impact Fee Freeze Agreement with Applied Motion Products, Inc. for the development of a 21,180 square foot new industrial building located on Madone Parkway;
2. Direct staff to make changes to the Impact Fee Freeze Program to remove assisted living and memory care uses as approved uses under the program; and
3. Direct staff to return with a City Council policy formalizing the Impact Fee Freeze Program on June 17, 2020 as an on-going City program.

COUNCIL PRIORITIES, GOALS & STRATEGIES

Ongoing Priorities

Maintaining Infrastructure

2020-2021 Strategic Priorities

Economic Development

GUIDING DOCUMENTS

Economic Blueprint

REPORT NARRATIVE:

In 2018, the City of Morgan Hill began conversations with Applied Motion Products, Inc. about the possibility of relocating their operations from Watsonville to Morgan Hill for a new production facility. Parent company Moons, Inc. has an existing facility in Morgan Hill, Lin Engineering. After conducting due diligence on the property located in the Madrone Business Park, Applied Motion Products, Inc. purchased the 2.43 acres site from Toeniskoetter Development in May 2019 (Attachment 1).

In June 2019, Applied Motion Products, Inc. filed for a design permit for a 21,180 sq. ft. industrial building. The design certificate 2019-014 was approved in October 2019. Applied Motion Products filed for construction permit review in November 2019.

To create certainty for the operator/developer, staff is recommending the City Council approve a Fee Freeze Agreement (Attachment 2) to lock development impact fees for the construction of a new industrial building for the operations of Applied Motion Products prior to execution of construction permits. Consistent with the program guidelines, the Impact Fee Freeze Agreement will utilize the Fiscal Year (FY) 2016-17 development impact fee schedule through June 30, 2023. The developer will have until

June 30, 2023 to apply for, and receive building permits, to benefit from the impact fee freeze. The estimated development impact fees for the full development of the 2.43 acres, using the FY 2016-17 fee schedule, are \$212,000.

Analysis

Once fully operational, it is estimated that the industrial building will generate approximately \$2,600 annually in direct on-going property tax and sales tax revenue to the City’s General Fund. Additionally, staff estimates the City will receive a one-time construction benefit, in the form of property and sales tax, of \$11,600.

Since the developer has an approved design permit and is prepared to pull a building permit, it is anticipated the developer will commence construction shortly.

Impact Fee Benefit to Developer

Year		2020
Impact Fee Schedule	2016-17	2019-20
Impact Fee Estimate	\$215,000	\$293,000
Potential Savings to Development		(\$78,000)

Impact Fee Freeze Program

A City commissioned study (Attachment 3) prepared by Strategic Economics (2015) compared development impact fees between the cities of San Jose, Morgan Hill and Gilroy using three sample prototype projects. The study analyzed a prototype for a hotel development, new automobile dealership and manufacturing/R&D development project. While impact fees are not directly comparable from city to city because each municipality is solving for different infrastructure needs, the results of the study found the City of Morgan Hill’s development impacts fees were higher for both the advanced manufacturing/R&D development prototype and the automobile dealership project, making the City of Morgan Hill less competitive in two out of the three prototype areas. The City of Morgan Hill’s Auto Dealer Strategy, which provides a mechanism to offset impact fees through a sales tax rebate, does help make Morgan Hill more competitive than Gilroy and San Jose for automobile dealers.

To create consistency in the cost of development and to incentivize new commercial development, the City’s Economic Blueprint adopted in 2017 recommended an Impact Fee Freeze Program to lock in fees to FY 2016-17 for a period of three years for new commercial/industrial development projects.

Staff is recommending the City Council continue to support the Impact Fee Freeze program by locking in development impact fees for both new commercial and industrial projects using the Fiscal year 2016-17 impact fee schedule with one caveat.

Because Assisted Living facilities are zoned as commercial uses when determining impact fees, staff recommends this particular use be excluded from participation in the Fee Freeze program due to the residential nature of the use.

If the Council agrees, staff will return with a draft policy at the June 17th Council meeting.

COMMUNITY ENGAGEMENT: Inform

Approving a Fee Freeze Agreement with Applied Motion Products, Inc. is consistent with the Impact Fee Freeze Program and aligns with the Economic Blueprint Strategy #3 “Attract New Development”, Action #5, “Explore Incentive Programs to Attract Industry Specific Development.”

ALTERNATIVE ACTIONS:

The City of Morgan Hill could choose to not enter into a Fee Freeze Agreement with Applied Motion Products, Inc. to freeze impact fees. This option allows the City to collect \$78,000 more in impact fees should the developer move forward with the development of the industrial building.

In addition, the City Council could choose not to continue the Fee Freeze Program.

PRIOR CITY COUNCIL AND COMMISSION ACTIONS:

On June 21, 2017, City Council approved the Citywide Impact Fee Freeze Program establishing Fiscal Year 2016-17 Development Impact Fees as the basis for the three-year term for any new commercial/industrial development project that enters into a Development Agreement for an Impact Fee Freeze approved by City Council.

On February 21, 2018, City Council made a minor adjustment to the Impact Fee Freeze Program by changing the agreement structure to an Impact Fee Freeze Agreement from a Development Agreement.

FISCAL AND RESOURCE IMPACT:

The City expects to receive one-time impact fees of \$215,000 from this development. The potential loss of impact fee revenue to the City from this agreement is expected to be \$78,000. The City expects to receive one-time construction benefit, in the form of property and sales tax of about \$11,600. Once fully built out and operational, the City will receive an ongoing net benefit of approximately \$2,600 in direct property tax and sales tax to the City’s General Fund as well benefits from local spending from new employees.

CEQA (California Environmental Quality Act):

An Environmental Impact Report (EIR) for the Morgan Hill 2035 Project, which included the General Plan Update, was prepared in accordance with the California Environmental Quality Act (CEQA) and certified by the Morgan Hill City Council on July 27, 2016. Commercial and industrial development as discussed above is consistent with

the general plan policies for which the EIR was certified. There is no substantial evidence that freezing impact fees will have a significant effect on the environment beyond that already analyzed in the certified EIR; therefore, no further environmental analysis is required.

The related Applied Motion development project conducted project specific independent analysis pursuant to the requirements of CEQA.

LINKS/ATTACHMENTS:

1. Map Applied Motion Products
2. Impact Fee Freeze Agreement Applied Motion
3. Comparative Analysis Memo_2015