

CITY OF BURLINGAME

City Hall – 501 Primrose Road
Burlingame, California 94010-3997



COMMUNITY DEVELOPMENT DEPARTMENT

Economic Development Division

PH: (650) 558-7264
FAX: (650) 696-3790

Economic Development Subcommittee Special Meeting

Wednesday, January 12, 2022, 8:15 a.m.
Zoom Conference Call

On September 16, 2021, Governor Newsom signed into law AB 361, which allows a local agency to meet remotely when:

1. The local agency holds a meeting during a declared state of emergency
2. State or local health officials have imposed or recommended measures to promote social distancing
3. Legislative bodies declare the need to meet remotely due to present imminent risks to the health or safety of attendees

On December 20, 2021, the City Council adopted Resolution Number 153-2021 stating that the City Council and Commissions will continue to meet remotely for at least thirty days for the following reasons:

1. There is still under a local state of emergency
2. County Health Orders require that all individuals in public spaces maintain social distancing and wear masks
3. The City can't maintain social distancing requirements for the public, staff, Councilmembers, and Commissioners in their meeting spaces.

Pursuant to Resolution Number 153-2021, **Conference Room A will not be open to the public for the January 12, 2022 Economic Development Subcommittee Meeting.**

Topic: Economic Development Subcommittee Meeting

Time: Jan 12, 2022 08:15 AM Pacific Time (US and Canada)

Join Zoom Meeting

<https://us02web.zoom.us/j/83531595436?pwd=ZVhhczExUk1qMIBXZzh0eG1MbGR2UT09>

Meeting ID: 835 3159 5436

Passcode: 749738

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Agenda

CALL TO ORDER – 8:15 a.m.

READ AND APPROVE MINUTES FROM NOVEMBER 12, 2021 MEETING

DISCUSSION ITEMS

1. Preliminary Review of Development Impact Fees
2. Discussion of Subcommittee Work Plan for the Year

Public Comments

The next regular meeting of the City Council's Economic Development Subcommittee will be held on February 9, 2022, via Zoom



City Council Economic Development Subcommittee

MINUTES (DRAFT)

Via Zoom

Wednesday, November 10, 2021 – 8:15 a.m.

ATTENDANCE

Members Present: Councilmember Michael Brownrigg, Vice Mayor Ricardo Ortiz

Members Absent: None

Staff Present: City Manager (CM) Lisa Goldman, Community Development Director (CDD) Kevin Gardiner, Parks & Recreation Director (PRD) Margaret Glomstad, Finance Director (FD) Helen Yu-Scott, Economic Development & Housing Specialist (EDS) Joseph Sanfilippo

Members of the Public Present: John Kevranian (President of the Broadway Business Improvement District (BID)), Riyad Salma (Triterra Properties)

READ AND APPROVE MINUTES FROM SEPTEMBER 8 and OCTOBER 13, 2021 MEETINGS

- Approved.

DISCUSSION ITEMS

Continued Discussion of Parklet Rent and Fees

EDS Sanfilippo introduced the topic, followed by CDD Gardiner continuing the presentation started at the September 8 meeting.

At the August 16, 2021 City Council meeting, the City Council approved the continuation of the parklets program through Labor Day (September 5) 2022. There was interest in indemnification language, fees to cover cleaning costs, and a consensus to increase the number of days a parklet must be utilized to four days per week.

CDD Gardiner offered an overview of the Mountain View Sidewalk Café program, which served as the basis for Burlingame's proposed fee and rate framework. Mountain View's program was chosen as it is one of the only long-term pre-pandemic parklet programs from nearby jurisdictions.

Mountain View's program includes the following fee framework:

- New application: \$769
- Annual fee of \$6.00/sf of sidewalk space for cleaning costs, in addition to \$1200 per parking space utilized (as rent).
- Permit renewal is \$205.
- Minimum 5-year license term and indemnity agreement

In potentially adapting this framework for Burlingame, the value (or rent) applicable to the parking space being occupied by the parklet would need to be determined. Presumably this would be a proportion of the market rent for fully-improved retail space. The square footage of a typical parklet space in Mountain View is 300 square feet, so at \$1200 per parklet per year the rent would be $\$1200 / 300 \text{ square feet} = \4.00 per square foot. Research by staff has indicated that the average retail rent in Mountain View is \$42.71 per square foot per year. Therefore, the proportion of the parklet rent to the average retail rent would be $\$4.00 / \$42.71 = 9\%$. In other words, the rent for the parklet space is 9% of the rent of a fully-conditioned and enclosed retail space.

Research by staff has indicated that the average retail rent in Downtown Burlingame is slightly higher than Mountain View, at \$55.00 per square foot per year in Burlingame compared to \$42.71 in Mountain View. If one uses the same 9% ratio of parklet rent to retail rent as used in Mountain View, the annual parklet rent in Burlingame would be 9% of \$55.00, which equals \$4.95 per square foot per year. The parklets in Burlingame, like Mountain View, are 300 square feet typically, so this would suggest an annual parklet rent of $\$4.95 \text{ per square foot} \times 300 \text{ square feet} = \1485 per year.

Using this methodology, CDD Gardiner suggested a sample framework to initiate discussion could be:

- Application fees collected from Encroachment Permits and Building Review
- Cleaning fees: Estimated to be about \$200-300 per parklet per month.
- Annual Rent: 300 square feet multiplied by $\$4.95/\text{sf} = \$1,485$

Councilmember Brownrigg asked how much restaurants were charged for sidewalk encroachments prior to the pandemic. CDD Gardiner clarified that businesses weren't charged beyond the initial encroachment permit fees, as the sidewalks had been designed with the expectation that they would be used for sidewalk dining. CM Goldman emphasized that the permit was an annual renewal with a minimal fee based on staff processing time.

Councilmember Brownrigg supported rolling the fees per square foot to include sidewalk square footage. Vice Mayor Ortiz disagreed, saying that the sidewalk encroachment program was already established, and the new framework should only affect those businesses with parklets.

Mr. Salma questioned if design standards had been considered for the parklets. CM Goldman noted that the current program was only authorized through Labor Day 2022, and Council had only emphasized covering the orange barricades and ensuring life safety and ADA compliance.

Councilmember Brownrigg questioned whether the rent was too low to prevent a "sale" of public land, while Vice Mayor Ortiz stressed the importance of parklets being utilized at least four days per week. CM Goldman noted that both the fees and rent could be revisited. Councilmember Brownrigg advocated for the framework to be piloted as a one-year program throughout calendar year 2022

(extending beyond the previously approved deadline of Labor Day 2022). Given that the potential end of the program would occur during the holidays if the full Council agreed with this extension, Councilmember Brownrigg suggested that businesses be granted 45-60 days to dismantle their parklet after either the cessation of the program or the owner's decision to no longer have a parklet.

Mr. Salma questioned how parklets extending beyond their space would function during tenant turnover. CDD Gardiner mentioned that existing agreements often have a term with a sunset date, and cited one current example where a previous business owner had authorized an extension, but a new business wanted to take the parklet back for its own use. As such, the parklet must be removed (or shared) from the new business's frontage by the date specified in the original agreement between the two businesses. CM Goldman mentioned that there is no perfect solution, and many of the guidelines proposed may need to be revised at a later date.

Shifting the discussion to parklet design, Mr. Salma suggested that parklets maintain visibility of the sidewalk via openness or transparent materials, along with a prohibition against raw wood (must be either painted or stained). The Subcommittee supported this and agreed that parklet branding should not be permitted.

There were differing views on whether height limits should be imposed or if the orange barricades should be entirely covered. As such, Councilmember Brownrigg proposed that staff bring two options to the full City Council when the parklet program fees and/or rents are reviewed.

Mr. Salma noted that reflectors could be used if the orange barricades cannot be covered for liability concerns.

Mr. Kevranian questioned if a parklet user wanted to build a structure how essential access to stormwater or PG&E lines would be maintained. CM Goldman mentioned that PG&E provided language to allow them access, holding harmless both PG&E and the City, should they need to uproot a parklet to maintain access. While it has not happened yet, it is a concern that parklet users should be aware of when making investments. To avoid this issue, CDD Gardiner proposed that designs include removable panels to allow access.

Councilmember Brownrigg asked how long short-term pickup spaces would be supported, noting that the City could free up additional long-term parking spaces by disallowing pickup spaces. CM Goldman requested that EDS Sanfilippo forward the question to Senior Civil Engineer Andy Wong for consideration by the Traffic, Safety and Parking Commission (TSPC).

Mr. Kevranian suggested that parklet permits and permissions from adjacent businesses be non-transferrable, requiring a new application and written permissions from neighbors in the event of turnover.

He also inquired how a parklet user that no longer wants their parklet but cannot afford its removal should proceed. Councilmember Brownrigg suggested an escrow account to fund the removal and repayment. CDD Gardiner will check with the City Attorney's office for that process.

Action Items

- CM Goldman, CDD Gardiner, and EDS Sanfilippo will prepare a staff report to discuss the proposed fee and rate framework with the City Council at the December 6 or January 3 meeting
- CDD Gardiner will check with the City Attorney’s Office to determine if there are liability concerns with covering orange barricades; to discuss indemnification language for parklet permits; and to discuss the viability of an escrow program for parklet removal
- EDS Sanfilippo will forward the short-term parking spaces inquiry to the TSPC

FUTURE AGENDA TOPICS

The Subcommittee will deliberate on Future Agenda Topics via email.

PUBLIC COMMENTS

There were no further public comments.

ADJOURNMENT

Meeting adjourned at 9:15 a.m.

Respectfully submitted,

Joseph Sanfilippo

Economic Development & Housing
Specialist



CITY OF BURLINGAME
Community Development Department
MEMORANDUM

DATE: January 12, 2022

TO: Economic Development Subcommittee

FROM: Kevin Gardiner, Community Development Director
Joe Sanfilippo, Economic Development & Housing Specialist

SUBJECT: **Commercial Linkage Fees Feasibility Study**

In 2019 seven cities in the 21 Elements collaborative, including Burlingame, engaged Century Urban, LLC to review potential Commercial Linkage Fee assessments for affordable housing associated with commercial real estate development. The purpose of the review was to study the feasibility of adjusting existing fees or assessing new fees based on the development environment at the time. As most cities had established commercial linkage fees several years earlier, the intention was to explore the feasibility of adjusting fees based on the robust commercial development activity being experienced at that time. The City of Burlingame adopted its commercial linkage fees in 2017, and there has been increasing interest in commercial development in Burlingame since the fees were adopted.

A draft of the report was completed in June 2020, at the height of the coronavirus pandemic. The draft report concluded that it was not likely to be feasible to increase linkage fees on hotel developments without diminishing return on cost (ROC) below acceptable levels, but it would be feasible to increase linkage fees on office developments. However, the report included a disclaimer that its research was conducted primarily in the fourth quarter of 2019 and first quarter of 2020; economic changes driven by the impact of the pandemic may have affected supply-demand elements that underpin key operating income and construction assumptions. The report was not finalized, given the uncertainty on both the demand and supply side of commercial development in mid-2020.

Considering the strong commercial development environment in 2021, staff suggests having Century Urban update the market research with current data and provide an updated report for review by the Economic Development Subcommittee. A presentation to the full Council would follow. Staff has been consulting with Century Urban to determine the cost of updating the data and report, and will provide that information to the EDS at the meeting.

Attached:

- Commercial Linkage Fee Analysis, Century Urban, June 2020



Century | Urban

Commercial Linkage Fee Analysis

Presented to:

City of Burlingame

June 15, 2020



CENTURY | URBAN

235 Montgomery Street, Suite 1042 | San Francisco, CA 94104 | 415.786.2875 | www.centuryurban.com



COMMERCIAL LINKAGE FEE ANALYSIS

TO: City of Burlingame
FROM: Century Urban, LLC
SUBJECT: Commercial Linkage Fee Analysis
DATE: June 15, 2020

Century Urban, LLC (“Century | Urban”) has been engaged by Baird + Driskell Community Planning on behalf of 21 Elements and seven cities in the County of San Mateo to review potential Commercial Linkage Fee assessments for affordable housing associated with commercial real estate development. The purpose of this review is to study the feasibility of adjusting existing fees or assessing new fees based on the current development environment. The following is a summary of Century | Urban’s review of the Commercial Linkage Fee for the City of Burlingame (the “City”).

Commercial Linkage Fee

The Commercial Linkage Fee is a fee charged by municipalities on new commercial development projects to offset the costs of producing affordable housing to meet the need for affordable housing created by the commercial development. The fee is typically charged on a per square foot basis and paid by the developer in advance of project construction. The fee therefore represents an element of project development costs, which is analyzed as part of the project underwriting to establish the project’s economic feasibility.

Disclaimer

For this project analysis, Century | Urban relied upon data and information provided by the City as well as other reputable sources and market participants. However, while Century | Urban collected the most timely information available, its research was conducted primarily in the fourth quarter of 2019 and first quarter of 2020, and economic changes driven by the impact of coronavirus have affected supply-demand elements that underpin key operating income and construction assumptions. As of this writing, substantial uncertainty remains on both the demand and supply side of commercial development, which policy makers should consider before implementing new policy based on historic data.

Methodology



To prepare the Commercial Linkage Fee analysis, based on feedback from the City, prototype projects for each type of development that the City wished to evaluate were defined. Century | Urban then researched pro-forma underwriting assumptions for each prototype including income and expense assumptions, typical land costs, “hard” construction costs, City fees, “soft” costs including architectural and engineering costs, and metrics required to establish project feasibility. Not surprisingly, the research revealed a range of rents, expenses, and feasibility metrics, even within a small geographic area and among similar projects. This range is due in part to the general sentiment about the comparable risk associated with development in different submarkets. Given these ranges, Century | Urban selected data that appeared most generally relevant to new commercial development. The results presented are based on project costs that do not reflect prevailing wage (project costs can be adjusted to reflect prevailing wage upon request). Generally, project costs based on prevailing wage would be expected to be greater, reducing the likelihood of project feasibility under a given set of income assumptions. Finally, while the generic parameters established for each project prototype are intended to be generally representative of commercial development projects in the City’s pipeline, any policy changes proposed by the City may need to be adjusted based on the parameters of actual City pipeline projects.

To review the feasibility of prototype projects with respect to the Commercial Linkage Fee, Century | Urban modeled the project’s stabilized return on cost (“ROC”) based on a range for the assumed linkage fee assessment amount by estimating the project’s annual pro-forma net operating income and dividing it by the estimated total project development cost. The ROC is a metric commonly used to evaluate project feasibility. The appropriate target ROC is established based on the project’s perceived risks, which include the uncertainty of ultimate project costs, rents and economic conditions upon completion, and project development/construction duration. Typically, if a project’s projected ROC does not fall within the market threshold range required for the project’s risks, the project is considered infeasible and not pursued. While this decision is made primarily by a project developer, the project’s investors and lenders, often banks, typically also provide input to the developer with regard to feasibility and project status.

With market research establishing target ROC metrics, Century | Urban compared the projected ROC for project prototypes with the target range. An ROC lower than the target range would suggest an infeasible project, while an ROC above the target range would suggest a feasible project, as well as the potential to adjust the Commercial Linkage Fee without affecting project feasibility. In principle, the Commercial Linkage Fee could be increased until the prototype’s projected ROC falls within the target range. These results are used to evaluate how a potential adjustment in the Commercial Linkage Fee would affect project feasibility.

Prototype Results



Exhibit A: Prototype Results shows the linkage fee analysis for each of the City’s chosen project prototypes. Each prototype exhibit lists the size and type of the prototype, the estimated total development costs, the estimated net operating income, and the resulting projected returns based on a range of potential linkage fee assessment amounts.

The City’s current linkage fee assessment is \$25 per square foot for office projects similar to the prototype and \$12 per square foot for hotel projects similar to the prototype.

For the office prototype studied, the analysis indicates that the projected ROC of new projects with Commercial Linkage Fee assessment amounts ranging from \$15 to \$40 per square foot falls above the target ROC range.

Fee Scenarios		
Product Type:	Office	
Size Category, SF:	150,000	
Construction Type:	Type III	
Target Return on Cost	6.25% to 6.75%	
<u>Fee Per Square Foot</u>	<u>Return on Cost</u>	<u>Feasibility</u>
\$15 PSF Linkage Fee	7.24%	Above Target Range
\$20 PSF Linkage Fee	7.18%	Above Target Range
\$25 PSF Linkage Fee	7.12%	Above Target Range
\$30 PSF Linkage Fee	7.06%	Above Target Range
\$35 PSF Linkage Fee	7.01%	Above Target Range
\$40 PSF Linkage Fee	6.95%	Above Target Range

For the hotel prototype studied, the analysis indicates that the projected ROC of new projects with Commercial Linkage Fee assessment amounts ranging from \$5 to \$30 per square foot falls below the target ROC range.

Fee Scenarios		
Product Type:	Hotel	
Prototype:	175 Room Select Service Hotel	
Construction Type:	Type III	
Target Return on Cost	7.75% to 8.25%	
<u>Fee Per Square Foot</u>	<u>Return on Cost</u>	<u>Feasibility</u>
\$5 PSF	5.60%	Below Target Range
\$10 PSF	5.56%	Below Target Range
\$15 PSF	5.53%	Below Target Range
\$20 PSF	5.50%	Below Target Range
\$25 PSF	5.47%	Below Target Range
\$30 PSF	5.43%	Below Target Range

For the prototype underwriting, neither prototype project includes City costs for the Water Main and Sewer Main modification bonds, which are assumed to be refundable.

Summary



On behalf of the City, Century | Urban reviewed development project prototypes to estimate the degree to which potential adjustments in Commercial Linkage Fee assessment amounts may affect project feasibility.

While hotel prototype analyses reflect that, based on the range of potential Commercial Linkage Fee assessment amounts, the projected ROC of the prototype falls below the target ROC range, the office prototype ROC falls above the target range, suggesting that the Commercial Linkage Fees modeled do not substantially affect project feasibility.

The results of this analysis should be considered within the economic context of the City's overall development goals, and the degree to which continually changing conditions are impacting local costs, rents, and business activity.

DRAFT



Exhibit A: Prototype Results

Page 7: Office Prototype

Page 8: Hotel Prototype

DRAFT



San Mateo County Cities Project - 21 Elements

City: Burlingame
 Product Type: Office
 Construction Type: Type III
 Current Commercial Linkage Fee: \$25.00

Item	Amount
Building Gross SF	150,000
Building Net Rentable SF	135,000
Building Efficiency	90%

Construction Costs

Hard Costs

Building Hard Costs PSF	\$	315
TIs/Contingency/Other PSF	\$	106
Total Hard Costs Per GSF	\$	421

Soft Costs

Total City Fees PSF	\$	38
Other Soft Costs PSF	\$	76
Financing Costs PSF	\$	20
Leasing Commissions PSF	\$	9
Soft Cost Contingency PSF	\$	7
Total Soft Costs Per GSF	\$	151
<i>Soft Costs as % of Hard Costs</i>		36%

Land Cost

Land Cost Per GSF/Building	\$	100
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Total Development Cost PSF

<i>Total Development Cost</i>	\$	672
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	\$	100,780,009
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Net Operating Income

Revenue

Office Annual Rent per NRSF	\$	57.00
Office Rent Type For Underwriting		NNN
Reimbursements	\$	18.00
Parking Revenue Per NRSF	\$	-
Vacancy Rate		5%
Total Annual Rental Revenue	\$	9,618,750

Operating Expenses

Average Operating Expense PSF	\$	18.00
Capital Expense PSF	\$	0.10
Total Annual Operating Expenses	\$	2,443,500

TOTAL NET OPERATING INCOME

	\$	7,175,250
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Linkage Fee Analysis

Target Return on Cost Range 6.25% to 6.75%

Underwritten Return on Cost

\$15 PSF Linkage Fee	7.24%
\$20 PSF Linkage Fee	7.18%
\$25 PSF Linkage Fee	7.12%
\$30 PSF Linkage Fee	7.06%
\$35 PSF Linkage Fee	7.01%
\$40 PSF Linkage Fee	6.95%



San Mateo County Cities Project - 21 Elements

City:	Burlingame
Product Type:	Hotel
Prototype:	175 Room Select Service Hotel
Construction Type:	Type III
Current Commercial Linkage Fee:	\$12.00

Item		Amount
Building Gross SF	\$	87,500
Rooms		175
Avg GSF Per Room		500
Construction Costs		
<i>Hard Costs</i>		
Building Hard Costs PSF	\$	465
FF&E/Contingency/Other PSF	\$	97
Total Hard Costs Per GSF	\$	562
<i>Soft Costs</i>		
Total City Fees PSF	\$	20
Other Soft Costs PSF	\$	101
Financing Costs PSF	\$	27
Soft Cost Contingency PSF	\$	7
Total Soft Costs Per GSF	\$	155
<i>Land Cost</i>		
Land Cost Per GSF/Building	\$	180
Total Development Cost PSF	\$	897
Total Project Cost	\$	78,169,159
Total Project Cost per Room	\$	446,681

Pro-Forma - Daily Revenue Assumptions

<i>Revenue</i>		
Average Daily Rate Per Room	\$	200
Average Occupancy		83%
Total Other Revenue (F&B, other)	\$	39
Total Revenue, incl F&B and Other	\$	204
Annual Total Gross Revenue	\$	13,016,128
<i>Operating Expenses</i>		
Property Taxes (% of value)		1.13%
Total Operating Expenses	\$	136
Total Annual Operating Expenses	\$	8,656,382
<i>Operating Margin</i>		33%
Daily Net Operating Income Per Room	\$	68
Annual Net Operating Income Per Room	\$	24,796
Total Net Operating Income	\$	4,339,346

Linkage Fee Analysis

Target Return on Cost Range	7.75% to 8.25%
\$5 PSF Linkage Fee	5.60%
\$10 PSF Linkage Fee	5.56%
\$15 PSF Linkage Fee	5.53%
\$20 PSF Linkage Fee	5.50%
\$25 PSF Linkage Fee	5.47%
\$30 PSF Linkage Fee	5.43%