



City of Chula Vista

Staff Report

File#: 17-0446, **Item#:** 8.

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA APPROVING IN CONCEPT AN INCENTIVE PACKAGE TO ENTICE AMAZON TO LOCATE ITS PROPOSED NEW CORPORATE HEADQUARTERS IN CHULA VISTA AND AUTHORIZING AND DIRECTING STAFF TO NEGOTIATE AND BRING BACK FOR COUNCIL ACTION FINAL AGREEMENTS IMPLEMENTING SAME

RECOMMENDED ACTION

Council adopt the resolution.

SUMMARY

On September 2, 2017, Amazon released a Request for Proposal (RFP) seeking responsive bids for a location that could accommodate up to eight (8) million square feet of office for a second headquarters. The first requirement of the RFP requires a site that can deliver 500,000 square feet by 2019. The RFP requests that only one (1) proposal be submitted per metropolitan statistical Area (MSA) which for San Diego includes all of San Diego County. An MSA is a geographical region with a relatively high population density at its core and close economic ties throughout the area. There are 388 MSA's in the United States and each MSA has an opportunity to submit one proposal. However, the RFP indicates that Amazon has a preference for an MSA of at least one (1) million people of which there are approximately 55 MSAs with one (1) million people and the San Diego MSA ranks 17th in the Country with a population of approximately 3.3 million. It is staff's expectation that a large number of MSAs in the U.S. will submit their one (1) proposal to Amazon, possibly with several alternatives for Amazon's consideration. The RFP encourages each MSA to submit their BEST site that meets or exceeds the needs of Amazon. The representative of the MSA was identified as the San Diego Regional Economic Development Corporation (SDREDC). The City of Chula Vista is participating with SDREDC and South County Economic Development Council (SCEDC) on the vetting of proposed locations being submitted throughout the region for the proposal to Amazon.

The Chula Vista proposal will be competitive with other MSA proposals in the nation. However, our state and region do not have many of the financial tools available to other parts of the country to offer incentives to attract employment creating industries. The San Diego MSA will be competing with MSA's throughout the U.S. that have an ability to provide significant financial incentives to Amazon. Chula Vista has a history of creativity when it comes to providing financial incentives and this report will define the tools that are available locally to provide a compelling incentive package. Staff has reviewed the other proposals being submitted to SDREDC and have determined that the Chesnut Millenia Office Park and the City of Chula Vista's Innovation District property represent the BEST site (s) for the San Diego Region MSA. The proposed incentive package will allow the Chula Vista site to be competitive on a national stage.

This report seeks Council's preliminary approval of the conceptual incentive package so that these intentions can be included with the City's submission to Amazon. In order for these incentives to be

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realized, staff would return at a later date with definitive agreements, appropriate studies and findings that are necessary to solidify our commitments.

ENVIRONMENTAL REVIEW

Environmental Notice

The activity is not a "Project" as defined under Section 15378 of the California Environmental Quality Act State Guidelines; therefore, pursuant to State Guidelines Section 15060(c)(3) no environmental review is required. In addition, notwithstanding the foregoing, the "Project" also qualifies for an Exemption pursuant to Section 15061(b)(3) of the California Environmental Quality Act State Guidelines.

Environmental Determination

The Director of Development Services has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a "Project" as defined under Section 15378 of the State CEQA Guidelines because it will not result in a physical change in the environment; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines, the activity is not subject to CEQA. In addition, notwithstanding the foregoing, the Director of Development Services has also determined that the "Project" qualifies for an Exemption pursuant to Section 15061(b)(3) of the California Environmental Quality Act State Guidelines. Thus, no environmental review is required.

BOARD/COMMISSION RECOMMENDATION

Not applicable

DISCUSSION

On September 2, 2017, Amazon released a Request for Proposal (RFP) seeking responsive proposals for a location that could accommodate up to eight (8) million square feet of office for a second headquarters with a requirement that 500,000 square feet be delivered by 2019. Based on Amazon's RFP, their direct economic impact to Seattle was \$3.7 billion in buildings and infrastructure (33 buildings at 8.1 million square feet), \$1.4 billion in operational costs, \$25.7 billion in employee compensation (40,000+ employees) and generated 233,000 hotel nights in 2016. Amazon estimates that their activity has created an indirect economic impact of an additional 53,000 employees, \$38 billion in additional investments, \$17 billion in personal income by non-Amazon employees and increased the number of Fortune 500 companies from 7 in 2010 to 31 in 2017. The RFP requests that only one (1) proposal be submitted per metropolitan statistical Area (MSA) which for San Diego includes all of San Diego County. An MSA is a geographical region with a relatively high population density at its core and close economic ties throughout the area. There are 388 MSA's in the United States and each MSA has an opportunity to submit one proposal. However, the RFP indicates that Amazon has a preference for an MSA of at least one (1) million people of which there are approximately 55 MSA's with one (1) million people and the San Diego MSA ranks 17th in the Country with a population of approximately 3.3 million. It is staff's expectation that every large MSA in the U.S. will submit their one (1) proposal to Amazon, possibly with several alternatives for Amazon's consideration. A second headquarters could mean an additional 100,000 new jobs to the San Diego region and generate billions of dollars for the entire MSA. The RFP encourages each MSA to submit their BEST site or sites that meets or exceed the needs of Amazon.

The following represents the requirements identified in the RFP with a description of how Chula Vista meets those requirements:

- Phase I - 500,000 square feet by 2019
 - ✓ The permitting process is complete and building permits can be issued.
 - ✓ Chula Vista can deliver the initial 500,000 square feet by 2019.
 - ✓ Site is shovel-ready with appropriate infrastructure.
- Need a site(s) that will accommodate 8 million square feet
 - ✓ Chula Vista can accommodate 8 million square feet on two campuses
- Sites in proximity to each other to foster a sense of place and pedestrian friendly.
 - ✓ Chula Vista two sites are located within walking distance of each other in a mixed use suburban/urban environment.
- Commitment to Sustainability
 - ✓ Chula Vista has a proven track record starting in 2000 with the County's first CO2 reduction plan.
 - ✓ All buildings will be LEED Platinum.
 - ✓ All buildings will be WELL Building Certified.
- Have fiber optic connectivity
 - ✓ Chula Vista has fiber connectivity provided by Cox Communication and AT&T.
- Have multiple cellular phone service providers
 - ✓ Chula Vista has multiple cell phone providers.
- Diverse population
 - ✓ Chula Vista has the most ethnically diverse population in the County.
- Provide a high quality of life for Amazon employees
 - ✓ Located immediately adjacent to a new fire station, future public library and new parks and open space.
 - ✓ Located next to outdoor recreational amenities (lakes, rivers, parks, trails, nature preserves).
 - ✓ Brand new housing of all types and scales are being built at the most affordable prices in San Diego County.
 - ✓ Chula Vista has almost 18,000 residential units, yet to built, that could provide housing for all of Amazon's employees.
 - ✓ We have restaurants, entertainment facilities and an Olympic training site that is open to the public.
 - ✓ K-12 schools surrounding the proposed site are all above the 82nd percentile in average API scores and new state of the art schools are still being built to accommodate the growth.
 - ✓ San Diego has world class universities located within 30 minutes of the site.
- Logistics to get to major population centers
 - ✓ The project site is immediately adjacent to state route 125.
 - ✓ The project site is adjacent to the dedicated bus rapid transit system connecting the Otay Mesa border to downtown San Diego and Lindberg Field.
 - ✓ The project site is located within the second largest city in San Diego County.
 - ✓ The project site is located immediately adjacent to the City of San Diego with a population of 1.3 million people.

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- ✓ The project site is opposite traffic for those employees living in central or northern San Diego.
- Access to international Airports with flights to Seattle, New York, Bay Area and Washington D.C.
 - ✓ Lindberg Field International airport provides daily direct flights to the required airports.
 - ✓ In addition, Tijuana Rodriguez International airport provides flights to Mexico, Latin America, China and Japan.
 - ✓ Brown Field provides services for private planes up to the size of a C-130.
- A highly educated work force
 - ✓ Chula Vista and San Diego County have a highly educated and talented workforce.
- A stable and consistent business climate
 - ✓ Chula Vista together with our partners at SCEDC and SDREDC, provide a region that collaborates with business to ensure their success.
 - ✓ Chula Vista has a proven track record of executing public private partnerships:
 - Elite Athletic Training Center (formerly the Olympic Training Center) and Point Loma Trust;
 - Hotel and Convention Center with RIDA development company;
 - Numerous pilot study projects for Smart Cities efforts; and,
 - Access to companies to test smart city technology, aerial drone vehicle testing facility, and the USDOT autonomous vehicle testing grounds.
- A total value of Incentives (\$410 million)
 - ✓ Free innovation District property is estimated today at \$100 million.
 - ✓ Waiver of Transportation Development Impact Fees totaling \$10 million.
 - ✓ An amount equal to the property tax received by the City, per phase, for thirty years is estimated to total \$300 million.
 - ✓ Processing future Design Review applications within 90 days.
 - ✓ Partnering to bring institutions of Higher Education to Amazon (Priceless).

The above represent how the Chula Vista site meets and exceeds all of the requirements of the RFP. The following is a more thorough description of the proposed project for Amazon.

Chula Vista's Project Proposal Description

Chesnut properties Millenia Office Park, combined with the City of Chula Vista's Innovation District located on the University Campus, offers the best site for the San Diego Region MSA. The Chula Vista site can accommodate the size requirements of the RFP on two campuses located within walking distance of each other. The Chula Vista site in Millenia is shovel-ready and can pull building permits at any time for the initial 500,000 square feet. Amazon indicates that they will, "prioritize certified or shovel-ready Greenfield sites and infill opportunities with appropriate infrastructure and ability to meet their timeline and development demands." One of the criteria for Greenfield sites is that they are, "pad ready with utility infrastructure and in close proximity to each other to foster a sense of place and be pedestrian friendly." In addition Amazon also wants a municipality that is stable and business friendly, has an ability to attract talent, is a leader in sustainability, energy efficiency, has fiber connectivity, has multiple cell phone providers, has partnerships with Universities, public transportation, parks and trails, a diversity of housing and recreational options and is located near an

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international airport. The Chula Vista proposal is located between two (2) international airports (Tijuana International Airport and San Diego International Airport) and one (1) private airport (Brown Field Municipal and Freight Airport) which is a unique attribute not found in other parts of the country.

The City of Chula Vista in partnership with Chesnut Properties proposes to deliver a state of the art facility that is LEED Platinum and WELL Building certified. The Chestnut/Chula Vista facility values sustainability, energy efficiency and a connection with the open environment. Together with Chesnut properties, the City of Chula Vista is offering eight (8) million square feet for the second Amazon Headquarters. The development will be located on two connected campuses. The first campus for Phases I, II and a portion of III will be located on four contiguous sites that can deliver up to four (4) million square feet within the Millenia Office campus. Millenia Office is strategically located within the Millenia Master Plan in Eastern Chula Vista and will be a vibrant walkable community anchored by food, retail, public parks, hospitality, business, and housing. The remaining portion of Phases III and the Phase IV facility will be located on an additional eight five (85) acres with a development capacity of approximately four (4) million square feet. The city property is the innovation district property located on the University site.

The following is the proposed phasing of the campus and proposed development features.

Phase 1 - Think Campus

3 buildings: 550,000 square feet

Fully delivered by **Q3 2019**

Phase 2 - Invent Campus

1 building: 1.2 million square feet

Can be delivered as early as 2020

Phase 3 - Discover and Transform Campuses

2 buildings: 2.5 million square feet

Can be delivered as early as 2021

Phase 3 and 4 - City of Chula Vista Owned Land

85 Acres representing 4 million square feet

Can be delivered as early as 2022

Each phase of the Project will contain the following features:

Millenia Office is designed as a true campus style opportunity, where themes of collaboration and connectivity are infused throughout the architecture and design of the project. Highly efficient large floor plates increase opportunities for chance encounters that spur on innovation and discovery. We have taken the theme of connectivity to the next level, by joining buildings together through a series of outdoor bridges and connectors to allow people to travel horizontally through some of the largest floor plates currently available in San Diego County.

“Invisible Cars” - Cars will be “hidden” inside subterranean parking structures that are inspired by naturally occurring geologic formations inside which humans have found protection, wonder and

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resource. Abundant natural light and cool breezes, slots and openings to the sky, intriguing passageways, with the utmost safety and security are key elements to our design.

Sustainability: LEED V.4 - Target Platinum

The vision for Millenia Office is to create an ecosystem where the workplace and the environment are mutually celebrated. The first campus, the Think campus, is slated to achieve a LEED Platinum rating and will become a model for how large-scale facilities can be delivered in a way that seeks to improve the natural environment and not take away from it.

Wellness: WELL Building Standard - Gold Target

Launched in October 2014 after six years of research and development, the WELL Building Standard is the premier standard for buildings, interior spaces and communities seeking to implement, validate and measure features that support and advance human health and wellness. At Millenia Office, we are targeting a WELL Building certification on all buildings with the goal of cultivating an environment that encourages creativity, boosts productivity, and ultimately will help you be a healthier person.

Affordability:

Millenia Office is canbe delivered to tenants at below market rates for high performance space. In addition to affordable space in the campus, there are numerous new housing projects currently being built and selling at Millenia in the low \$400,000s. At that price, employees could own affordable homes and walk to work.

Proposed Amazon Incentives:

Staff has identified five (5) project related incentives for City Council consideration. The proposed incentives represent a total package of over \$400 million.

Transportation Development Impact Fee Credit (\$10 Million)

The Transportation Development Impact Fee (TDIF) Program was established on January 12, 1988 by Ordinance 2251. Since its inception, the program has been updated several times to reflect new land use approvals, changes to the Circulation Element of the General Plan, and updated project cost estimates. The TDIF update in 2002 added a provision to the Municipal Code to permit the City, in its sole discretion, to provide an Economic Incentive Credit (incentive) to developments that provide the City with long-term economic benefits. The incentive may be used to offset TDIF obligations for development projects that the City Council deems beneficial to the City.

Economic Incentive Credits are generated when the City secures and applies alternative funding to a capital improvement project that would otherwise have been funded via TDIF revenues (e.g. grant funds, discretionary revenues). Subsequent to the most recent TDIF program update (2014), the City of Chula Vista secured \$20 million from the Federal Government for bridge projects that are funded by the TDIF program. By securing these grant funds, the City now has a unique opportunity to offer an Economic Incentive Credit to the Chesnut office park development. Staff proposes that the City Council agree to apply Economic Incentive Credits in-lieu of collecting TDIF fees for the Chesnut office park project up to a maximum amount of \$10 million, which is equal to approximately 3 million square feet of new office development. The application of Economic Incentive Credits in-lieu of collecting fees will function like a fee waiver to Chesnut, while ensuring the integrity and legality of

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the TDIF program. Chesnut has agreed to apply this fee “waiver” to Amazon either as a direct cash subsidy or rent credit. The overall TDIF program will not be affected by the change.

Innovation District (\$100 Million)

The University and Innovation District occupies approximately 375 acres of land and is estimated to be fully entitled by the first quarter of 2018. Part of the University site contains 4 million square feet, or 85 acres, for innovative companies to occupy. Staff recommends providing the Innovation District property for Amazon Headquarters Phase III and IV at no cost.

University (Priceless)

The attraction of a multi-institutional binational campus is a unique vision and opportunity for Chula Vista and Amazon. Staff proposes to offer Amazon the opportunity to partner with the City on our marketing efforts and in selecting institutions of Higher Education. This partnership would ensure a pedagogy that trains Amazon’s current and future workforce needs as well as benefit other companies within the CaliBaja region.

Prime Service

City staff will guarantee processing any discretionary design review for any additional phases (II, III, IV) of development within 90 days of receipt of a complete application.

Property Tax (\$300 Million)

The development of new office space will generate new property tax revenue to the City. The City receives approximately 13 cents of every property tax dollar paid. The property tax assessed on the property is equal to one percent of the overall assessed valuation. The first phase of development is estimated to have an assessed valuation of \$300 million dollars, or \$600 per foot. The City’s share of the property tax for the first year would equal approximately \$432,000 dollars. This amount would increase, per Proposition 13, by up to two percent annually. Based on this assessed valuation and an anticipated two percent annual increase the property tax received for this phase over thirty years would be approximately \$16 million. Staff recommends providing a financial incentive to Amazon equal to the property tax revenue received by the City for every square foot that is either owned or occupied by Amazon for a period of time equal to 30 years per phase of development. Assuming Amazon builds 8 million square feet and the assessed valuation is equal to that stated above, Amazon could expect to receive approximately \$300 million dollars in incentives.

The incentives identified above are derived from the direct economic investment made by Amazon. These incentives are only provided commensurate with development of square footage to be owned or occupied by Amazon. This staff reports seeks Council’s preliminary approval of the concepts provided so that these intentions can be included with the City’s submission to Amazon. In order for these incentives to be realized, staff would return at a later date with definitive agreements and the appropriate studies and findings.

The resolution presented tonight would direct and authorize City staff to negotiate with Amazon, consistent with the conceptual proposal. Prior to committing to a formal incentive proposal, or entering into final agreements with Amazon, the City will conduct further legal analysis to ensure compliance with all applicable federal, state, and local laws, including confirming availability of the proposed incentives and any necessary terms and conditions, identifying any findings necessary to

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support the public assistance offered, and conducting the necessary CEQA analysis.

DECISION-MAKER CONFLICT

Staff has reviewed the property holdings of the City Council members and has found no property holdings within 500 feet of the boundaries of the property which is the subject of this action. Consequently, this item does not present a disqualifying real property-related financial conflict of interest under California Code of Regulations Title 2, section 18702.2(a)(11), for purposes of the Political Reform Act (Cal. Gov't Code §87100, et seq.).

Staff is not independently aware, and has not been informed by any Council member, of any other fact that may constitute a basis for a decision maker conflict of interest in this matter.

LINK TO STRATEGIC GOALS

The City's Strategic Plan has five major goals: Operational Excellence, Economic Vitality, Healthy Community, Strong and Secure Neighborhoods and a Connected Community. The ability to obtain Amazon headquarters supports the Economic Vitality goal.

CURRENT YEAR FISCAL IMPACT

There is no current year fiscal impact by approving the resolution.

ONGOING FISCAL IMPACT

There is no on-going fiscal impact by approving the resolution.

ATTACHMENTS

1. Amazon RFP
2. City proposal
3. Chesnut proposal

Staff Contact: Eric Crockett, Economic Development Director