



DATE ISSUED: December 1, 2004

REPORT NO. CCDC-04-46
CCDC-04-27

ATTENTION: Honorable Mayor and Members of the City Council
Honorable Chair and Members of the Redevelopment Agency
Docket of December 7, 2004

SUBJECT: Centre City Public Facilities Financing Plan Fiscal Year 2005 and
Proposed City/Agency Reimbursement Agreement

REFERENCE: Centre City Public Facilities Financing Plan Fiscal Year 2005
Draft City/Agency Reimbursement Agreement

STAFF CONTACT: Janice Weinrick, Vice President - Real Estate Operations

PUBLIC HEARING

SUMMARY

Issues:

Should the City Council:

1. approve a Centre City Public Facilities Financing Plan for FY2005 ("Centre City PFFP");
2. rescind the existing Centre City Development Impact Fee ("Centre City DIF") schedule;
3. establish a new Centre City DIF schedule, as set forth in the September 2004 PFFP;
4. establish a specific effectiveness date for implementation of collection of Centre City DIF's greater than the 60-day minimum waiting period provided by California Government Code section 66017;
5. establish that the collection of fees will not apply to San Diego Redevelopment Agency development agreements with effective dates on or before January 30, 2005; and
6. approve the proposed Reimbursement Agreement to facilitate the San Diego Redevelopment Agency ("Agency") advance funding of projects and provide that Centre City DIF's collected by the City be transferred to the Centre City Development Corporation ("CCDC") on behalf of the Agency to reimburse Centre City PFFP project and financing expenditures?

And, should the Redevelopment Agency:

1. approve the proposed Reimbursement Agreement to facilitate the Agency advance funding of projects and provide that Centre City DIF's collected by

the City be transferred to CCDC on behalf of the Agency to reimburse Centre City PFFP project and financing expenditures?

CCDC Board Recommendations:

October 20, 2004, the CCDC Board took the following two actions:

Action One:

The Board voted 6 in favor, with Chair Sadler absent, to recommend that the City Council:

- approve the proposed Centre City PFFP;
- rescind the existing DIF schedule;
- establish the new DIF's pursuant to the proposed Centre City PFFP 2005 for properties located within the Centre City Community Plan area;
- establish that the collection of fees will not apply to Agency development agreements with effective dates on or before January 30, 2005; and
- approve the proposed Reimbursement Agreement to facilitate the Agency's advance funding of projects and provide that Centre City DIF payments collected by the City be transferred to CCDC on behalf of the Agency to reimburse Centre City PFFP project and financing expenditures.

And, that the Redevelopment Agency:

- approve the proposed Reimbursement Agreement to facilitate the Agency's advance funding of projects and provide that Centre City DIF payments collected by the City be transferred to CCDC on behalf of the Agency to reimburse Centre City PFFP project and financing expenditures.

Action Two:

The Board voted 4 in favor (McNeely, Rafflesberger, Dillon, Johnson), 1 opposed (LeSar), 1 recusal (Vilaplana) and 1 absent (Sadler) to recommend that the City Council:

- establish July 1, 2005 as the effectiveness date of implementation of the Centre City DIF collection; and
- establish that fees would not be collected from projects having a "Building Permit Application Deemed Complete" on or before July 1, 2005.

Centre City Advisory Committee (“CCAC”) Recommendations

On September 14, 2004, the CCAC voted in favor of supporting the creation of a public facilities financing plan for Centre City with a defensible DIF component. (Vote: CCAC: 22 in favor, 1 abstention; PAC: 19 in favor, 1 abstention)

On October 13, 2004, the CCAC unanimously voted to recommend that DIF payments not be collected from development projects with “Building Permit Applications Deemed Complete” prior to the date of effectiveness for the Centre City PFFP and fee schedule.

(Vote: CCAC: 19-0; PAC: 17-0)

Other Recommendations - This item was not heard by the Council Committee on Land Use and Housing due to a lack of a quorum at their November 10, 2004 meeting. CCDC was instructed by District 2 to bring the item directly to the full City Council for consideration at the November 30, 2004 Council and Agency meeting.

Fiscal Impact - Adoption of this financing plan will continue to provide new development’s share of funding for the required public facilities.

BACKGROUND

In August 1987, the City Council adopted fee structures for the urbanized communities. At the same time, the City Council voted not to collect the fees within redevelopment project areas and certain types of projects within Enterprise Zones. The one exception was with respect to the Southeast San Diego Community Plan area where fees would not be collected on a case-by-case basis through developer agreements with the Agency. In 1987, the redevelopment areas consisted of Horton, Marina, Columbia and Gaslamp Quarter. Fees were collected in the majority of downtown until May 1992 when the Centre City Redevelopment Project area was adopted, thereby expanding the area where fees would not be collected.

It was assumed that public facilities would be financed with tax increment funds within the redevelopment areas. That was certainly the case for Centre City, as the 1987 fee structure of \$400 per single-family or multi-family residential unit and \$66 per square-foot of commercial/industrial space, was limited to specific transportation improvements such as reconfiguring several major streets, street widenings and upgrades, storm drains and new traffic signals. All of the projects from the earlier facilities list have been completed. Approximately \$30,000 remains in the Centre City account. All other public facilities needs have been funded with tax increment resulting from private development.

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In December 1998, the City Council adopted a resolution approving the Linda Vista Public Facilities Financing Plan and further resolved to rescind any then existing policies relating to non-collection of DIF's in the Linda Vista Community Plan area and other redevelopment project areas with the exception of Barrio Logan and Centre City. Fees were reinstated in Barrio Logan approximately two years ago at the prior rate of \$920 per residential unit. In addition, the City reinstated the collection of DIF's within the Enterprise Zones.

On July 13, 2004, the City Council directed CCDC to develop a proposed Centre City PFFP. The CCDC Board, as well as the CCAC have met, discussed the proposed plan and fee methodology at both Committee levels and as full bodies. CCDC has worked diligently to create a fair and defensible program to address Centre City public facilities needs.

DISCUSSION

Proposed Centre City Public Facilities Financing Plan 2005 and Proposed City/Agency Reimbursement Agreement

The proposed Centre City PFFP 2005 describes the public facilities that will be needed for the Centre City community as it develops according to the Centre City Community Plan. Since Centre City is a highly urbanized community and an active redevelopment area, many of the necessary public facilities and infrastructure (especially as they relate to transportation) are already in place or have been installed in conjunction with new development. To date, the development of parks and open space has been facilitated by the Agency and the Port of San Diego. To support the balance of the projected growth, facilities deficits exist in the areas of urban parks and plazas and fire/life safety.

The proposed Centre City PFFP 2005 provides for the acquisition of land and development of seven new urban parks and/or plazas, and two new fire stations including one engine and one truck each. It is proposed that the parks be developed over the next 10 years and that the fire stations be built within the next five years. This accelerated development schedule will require CCDC advancing funds to complete the projects, as the DIF payments are projected to be collected through development over the next 20 years.

The proposed fees reflect the current costs of the facilities and financing costs that will be necessary to "advance fund" the development of the facilities within the proposed time frames. The proposed Reimbursement Agreement between the City and the Redevelopment Agency would facilitate the Agency's advance funding of projects and provide that Centre City DIF payments collected by the City would be transferred to CCDC on behalf of the Agency to reimburse Centre City PFFP project and financing expenditures.

Projected costs for all projects total \$253,000,000 in today's dollars. All project costs have been considered as the basis for the DIF's, which will be collected at the time building permits are issued. Since these costs are for projects which will benefit both the existing community and future development, costs will be shared and new development is only expected to provide their pro-rata share for DIF eligible projects. Those portions of project costs not funded by new development through impact fees will need to be funded through Centre City Tax Increment Funds and/or other funds identified in the future.

The fee structure assumes that each year the Council will consider a Consumer Price Index ("CPI") increase in order to collect adequate funds for building the facilities within the proposed time frame and to keep a fair and equitable fee system in place.

Proposed Development Impact Fee Schedule

<u>Residential Units</u>	
Park and Recreation	\$3,470 (per unit)
Fire	<u>500</u> (per unit)
Total Residential Fee	\$3,970 (per unit)
<u>Non-Residential</u>	
Parks	\$1,700 (per 1,000 square feet)
Fire	<u>320</u> (per 1,000 square feet)
Total Non-Residential Fee	\$2,020 (per 1,000 square feet)

A major point of discussion by the CCDC Board, throughout all of the public meetings, has been developing an alternative methodology for calculating fees for residential development on a per square-foot basis. The CCDC Board directed CCDC staff and consultants to move the plan forward utilizing the per residential unit methodology, but to continue to study an alternative per square-foot methodology for their consideration and potential recommendation to the City Council at a later date.

Treatment of Existing Redevelopment Agency Development Agreements

There are existing Agency Disposition and Development Agreements ("DDA's") and Owner Participation Agreements ("OPA's") that may not have obtained building permits before the proposed fees take effect. These Agency agreements require different levels of Agency participation, assistance, or stipulate purchase prices derived from formulas that did not include the payment of DIF's. The added burden of these fees increases the risk of these

projects, or could require that CCDC process amendments to the Agency agreements re-evaluating the financial analysis, and processing potential increases in the level of Agency participation. Reopening these types of negotiation would also open the door for other project costs to be revisited.

The Board discussed this topic and recommended that the Council resolution stipulate that the collection of fees not apply to Agency development agreements with effective dates on or before the Centre City PFFP date of effectiveness.

The following table provides a summary of these “at risk” Agency agreements.

<i>Project Name</i> Mix of Uses	Potential DIF	Potential for Building Permit Issuance before 01/01/05
<i>Smart Corner (DDA)</i> Market-Rate Hsg & Office	\$1,425,000	Partial
<i>9th & Broadway (OPA)</i> Affordable and Market-Rate Hsg	\$1,568,000	Maybe
<i>East Village Square (DDA)</i> Market-Rate Residential & Retail	\$ 789,000	No
<i>Island Market Centre (DDA)</i> Affordable & Market-Rate Hsg	\$ 854,000	No
<i>KUSI Mixed - Use (OPA)</i> Hotel and Residential	\$ 340,000	No
<i>Marriott Renaissance Hotel (DDA)</i> Hotel & Retail	\$ 480,000	No
<i>East Village Square (DDA)</i> Office	\$ 657,000	No

Effective Date for Collection of Centre City DIF's

The effective date of the collection of fees has been a major topic of discussion and public comment at all meetings. The cumulative impact of new and increasing City fees, and the rising costs of construction materials, are of great concern to the developers and future buyers and tenants of residential and non-residential product. Developers currently processing development plans through the City's Development Services Department have expressed grave concern about their experience and the uncertainty of getting building

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permits issued in a timely fashion. This concern is heightened as the holiday season approaches, which creates additional concern about even slower processing times.

Some developers with partial permits issued such as grading, shoring and foundation permits, have their financing in place which does not include funds for payment of these fees.

The CCDC Board discussed "milestones" in the development review process that could be considered as demarcations for collection of fees and the financial impact of each, as well as setting a specific effectiveness date. CCDC Board deliberations included consideration of both the financial needs for development of the proposed public facilities and need to continue a positive development atmosphere to facilitate private development which creates the tax increment utilized to provide funding for downtown public programs and activities.

The CCDC Board voted (4 in favor: Johnson, Dillon, Rafflesberger, McNeely; 1 opposed: LeSar; and 1 recusal: Vilaplana) to recommend that July 1, 2005 be established as the effectiveness date for implementation of Centre City DIF collection and utilize projects with "Building Permit Applications Deemed Complete" after July 1, 2005 as the milestone for determining applicability of collection of the DIF.

SUMMARY/CONCLUSION

The new fees will ensure that new development continues to contribute its fair share for facilities identified in the Community Plan. In the absence of these fees, alternative funding sources would have to be identified to fund new development's share of the identified facilities.

Respectfully submitted,

Concurred by:

Janice Weinrick
Vice President - Real Estate Operations

Peter J. Hall, President

Attachment: Centre City Public Facilities Financing Plan Fiscal Year 2005
Proposed City/Agency Reimbursement Agreement