

DATE ISSUED: May 17, 2006

REPORT NO. RA-06-21

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of May 23, 2006

SUBJECT: Second Implementation Agreement to the Disposition and Development
Agreement for the Renaissance at North Park Project

REFERENCE: Disposition and Development Agreement for the Renaissance at North
Park Project

REQUESTED ACTION:

1. Approve the 2nd Implementation Agreement to the Disposition and Development Agreement (DDA) with Carter Reese & Associates for the Renaissance at North Park project.
2. Amend the Fiscal Year 2006 Redevelopment Agency Budget for the North Park Project Area to increase appropriations and authorize expenditures in the amount of \$575,000 from Series 2000 tax exempt housing bond proceeds.

STAFF RECOMMENDATION:

1. Approve the 2nd Implementation Agreement to the Disposition and Development Agreement (DDA) with Carter Reese & Associates for the Renaissance at North Park project.
2. Amend the Fiscal Year 2006 Redevelopment Agency Budget for the North Park Project Area to increase appropriations and authorize expenditures in the amount of \$575,000 from Series 2000 tax exempt housing bond proceeds.

SUMMARY:

On August 5, 2002, the Redevelopment Agency of the City of San Diego approved a Disposition and Development Agreement (DDA) with Carter Reese and Associates to develop the Renaissance at North Park project. The project will include a four-story, mixed-use structure fronting on El Cajon Boulevard and 14 three-story townhomes on Kansas Street (Attachment 1).

The mixed-use component of the project will provide 94 senior citizen apartments affordable to households with incomes up to 50% of Area Median Income (AMI), two caretaker apartments, 6,000 square feet of commercial space and 6,000 square feet of community-use space. As a matter separate from the redevelopment transaction, Carter Reese and Associates are constructing 24 market-rate townhomes immediately north of the project on the west side of 30th Street. The senior apartment with ground-level commercial component of the project is presently 72% complete and scheduled to be ready for occupancy in August of 2006. The townhome component of the project is 10% complete and scheduled to be ready for occupancy in January of 2007.

The original projected cost to construct the 14 town homes was \$5,353,000, of which \$2,517,000 was in the form of a conventional mortgage and \$2,836,000 was provided by the Redevelopment Agency in the form of conditional grant. The developer accepted responsibility for funding costs beyond those included in the project budget. Although routine increases in the cost of materials and services were anticipated in the original project budget, extraordinary inflation in the cost of construction materials have exceeded the budget contingency. Between the time of the adoption of the DDA and signing of a construction contract for the Renaissance Townhomes, increases in the prices of commodities such as fuel, steel, concrete, copper and lumber have increased project costs by \$1,701,000 (32%). An evaluation of the necessity for additional assistance, taking into account projected sales proceeds and current construction costs, prepared for the Agency by Keyser Marston Associates concludes that additional funding of up to \$615,000 is justified, exceeding the negotiated increase in Redevelopment Agency support by \$40,000.

Because the sale price that may be charged for each residential unit to be developed is restricted by the DDA in furtherance of affordable housing objectives, project revenue cannot be increased to cover increases in costs without amendment of the DDA. Further, all available sources of conventional debt financing have been maximized. Therefore, the developer requests additional assistance from the Redevelopment Agency to close the funding gap resulting from increases in material costs. As subterranean site work is complete and the construction contract is executed, there is a low probability that unanticipated costs in excess of the contingencies contained in the current budget will be encountered. Under the 2nd Implementation Agreement, the Agency would have no obligation to provide additional financial assistance should substantial new costs arise.

To minimize the need for additional financial assistance from the Redevelopment Agency, a combination of new funding and a revision in the sale price restrictions applicable to the project is proposed. Specifically, it is proposed that the sale price of nine of the fourteen townhomes be adjusted from 100% of AMI to 110% AMI. The sale price restrictions applicable to the remaining five townhomes would not be adjusted. With this revision and increases in restricted sale prices resulting in increases in AMI published by the U.S. Department of Housing and Urban Development since approval of the DDA, the prospect of increased sales proceeds would permit the construction lender, Bank of America, to increase its loan to the project by \$383,000. As a condition of its increase in the amount of the construction loan, Bank of America will require that the developer provide an additional \$310,000 in equity commitments. Deferral of

costs totaling \$433,000, including the developer fee and general and administrative costs, until completion of the project would result in a remaining funding gap of \$575,000 to be filled by an additional subsidy from the Redevelopment Agency. The additional assistance would be provided in the form of a conditional grant to secure the Agency’s interests prior to completion of the project. Net revenue from the sale of the 14 townhomes at the revised affordability levels is anticipated to total \$3,603,000. This amount will be sufficient to repay the increased conventional construction loan of \$2,900,000 and deferred development costs of \$433,000. The following table indicates bond proceeds available within the North Park Project Area for this action.

STATUS OF NORTH PARK BOND PROCEEDS			
	General Uses	Housing Uses	Total
Beginning Balance (inc. interest)	\$14,146,843	\$4,631,714	\$18,778,557
Less Approved Projects:			
North Park Miscellaneous Projects	\$92,298		
North Park Theatre	\$2,398,265		
North Park Public Parking Lot	\$1,840,000		
North Park Parking Structure	\$8,338,000		
Renaissance at North Park		\$3,954,500	
North Park -Main Street	\$250,000		
30th Street Lighting	\$90,000		
Tenant Improvements - Renaissance	\$300,000		
North Park -Main Street	\$180,000		
Renaissance at North Park		\$575,000	
Subtotal Approved Projects	\$13,488,563	\$4,529,500	\$18,018,063
Remaining Balance	\$658,280	\$102,214	\$760,494

ALTERNATIVE:

Do not approve the recommended actions.

FISCAL CONSIDERATIONS:

Since adoption of the DDA for the Renaissance at North Park Project, inflation in materials costs have contributed to an increase in the development budget of the town home component of the project by \$1,701,000. Funds totaling \$575,000 are available from North Park Tax Allocation Bond proceeds. This additional funding will be disbursed in the form of a conditional grant. An increase in conventional construction financing of \$383,000, deferral of developer fees and deferral of other costs payable from sales proceeds will fund the remainder of the financing gap.

PREVIOUS AGENCY and/or COMMITTEE ACTION:

On August 5, 2002, at a joint public hearing, the City Council and Redevelopment Agency approved a Disposition and Development Agreement (DDA) with Carter Reese and Associates to develop the Renaissance at North Park project.

On June 29, 2004, the Redevelopment Agency approved the First Implementation Agreement to the DDA for the Renaissance at North Park project. The First Implementation Agreement committed an additional \$1,200,000 for the senior apartment component of the project to close a funding gap of \$1,665,000 resulting from increases in material costs. The additional assistance was in the form of a residual receipts loan. The remainder of the gap was funded through deferral of developer fees.

A Final Environmental Impact Report analyzing the probable effects of development activity implementing the North Park Redevelopment Project was adopted in January of 1997 (SCH No. 93-121105). Pursuant to the State Guidelines for the Implementation of the California Environmental Quality Act (CEQA) (California Administrative Code, Section 15000 et. seq.) and the San Diego Redevelopment Agency’s amended “Procedures for Implementation of CEQA and the State CEQA Guidelines” (adopted July 17, 1990), an Environmental Secondary Study analyzing the probable environmental effects of the Renaissance at North Park project was approved on August 5, 2002.

COMMUNITY PARTICIPATION and PUBLIC OUTREACH EFFORTS:

The Second Implementation Agreement to the Disposition and Development Agreement for the Renaissance at North Park will be presented to the North Park Project Area Committee (PAC) at the regularly scheduled PAC meeting on May 9, 2006. Staff will present the PAC vote orally at the Redevelopment Agency hearing.

KEY STAKEHOLDERS and PROJECT IMPACTS:

Development Team -

ROLE	FIRM/CONTACT	OWNERSHIP
Developer	CARTER REESE NO. 18, L.P.	Thomas F. Carter, Reese A. Jarrett
Architect	Firm: Martinez + Cutri Corp. Contact: Anthony Cutri	A California Corporation
Landscape Architect	Firm: Schmidt Design Group, Inc. Contact: Jeff Justus	A California Corporation

City Resident and Business Impact – None with this action.

Respectfully submitted,

Maureen Ostrye
Deputy Executive Director
Redevelopment Agency

Approved: James T. Waring
Assistant Executive Director
Redevelopment Agency

OSTRYE/TCR

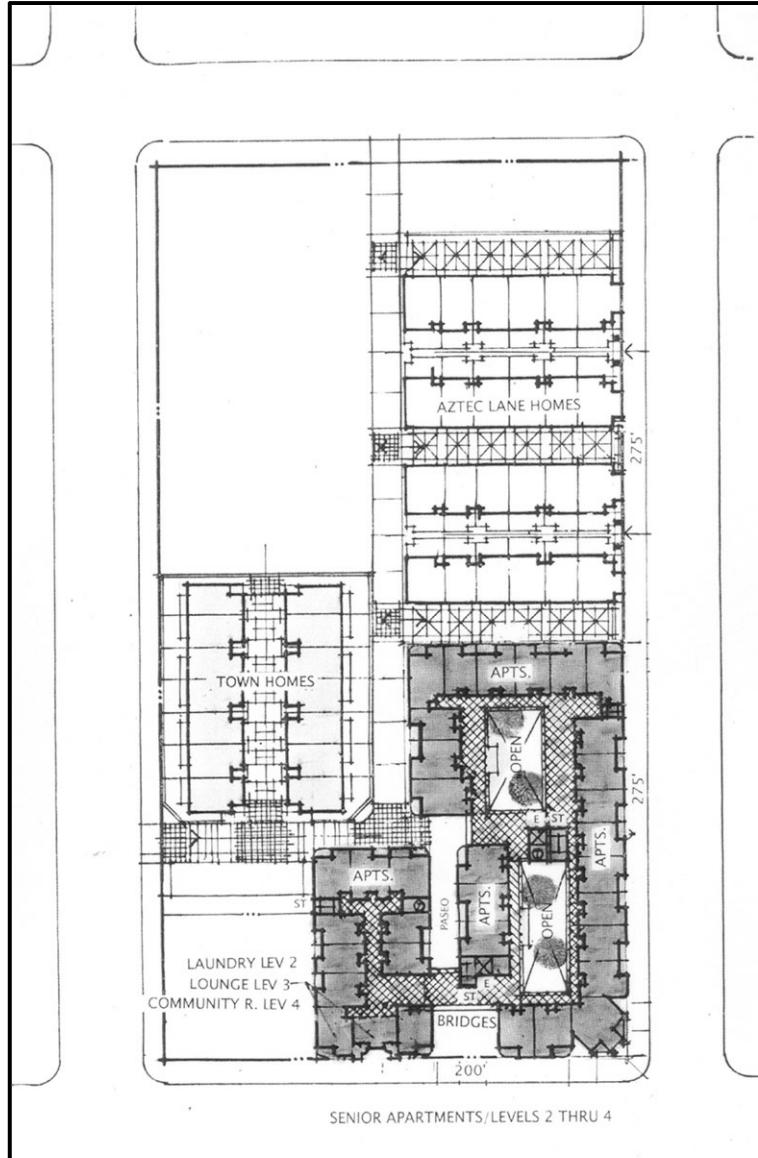
Attachments:

1. Site Map
2. Sources and Uses of Funds Schedule Comparison
3. Second Implementation Agreement with North Park Retail Partners, LLC for the Renaissance at North Park Project *
4. Economic Review Memo (Keyser Marston Associates, Inc.)

* Limited distribution. Copies available for public review at the Office of the City Clerk and Redevelopment Agency.

ATTACHMENT NO. 1

SITE MAP



ATTACHMENT NO. 2

PROPOSED SOURCES AND USES OF FUNDS SCHEDULE

	Original Cost Townhomes May 2004	Current Cost Townhomes Oct 2005	Difference
SOURCES:			
Conventional Mortgage	\$2,517,000	\$2,900,000	\$383,000
Redevelopment Agency (Original Grant)	\$2,836,000	\$2,836,000	\$0
Redevelopment Agency (2 nd Impl. Agr.)	\$0	\$575,000	\$575,000
Deferred Costs	\$0	\$433,000	\$433,000
Developer Equity	\$0	\$310,000	\$310,000
Total Project Sources	\$5,353,000	\$7,054,000	\$1,701,000
USES:			
Land/Acquisition/Relocation	\$1,455,000	\$1,636,000	\$181,000
Direct Construction	\$2,554,000	\$3,223,000	\$669,000
Contractor Fees	\$198,000	\$105,000	-\$93,000
General Conditions	\$0	\$189,000	\$189,000
Contingency (Hard Costs)	\$125,000	\$150,000	\$25,000
Design and Engineering	\$168,000	\$276,000	\$108,000
Permits/Fees	\$140,000	\$260,000	\$120,000
Financing & Other Soft Costs	\$134,000	\$266,000	\$132,000
Developer Fees/G&A/Warranty	\$152,000	\$456,000	\$304,000
Insurance	\$120,000	\$308,000	\$188,000
Marketing/Models/Office	\$28,000	\$28,000	\$0
Miscellaneous	\$28,000	\$117,000	\$89,000
Contingency (Soft Costs)	\$251,000	\$40,000	-\$211,000
Total Project Uses	\$5,353,000	\$7,054,000	\$1,701,000

Source: Carter Reese and Associates, San Diego Interfaith Housing Foundation and Redevelopment Agency

ATTACHMENT NO. 3

SECOND IMPLEMENTATION AGREEMENT
WITH CARTER REESE & ASSOCIATES
FOR THE RENAISSANCE AT NORTH PARK PROJECT

Limited distribution.
Copies available for public review at the
Office of the City Clerk and Redevelopment Agency.