



THE CITY OF SAN DIEGO

Redevelopment Agency's Report

DATE ISSUED: April 9, 2008 REPORT NO. RA-08-09

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of April 15, 2008

SUBJECT: Proposed Second Implementation Agreement to the Disposition and
Development Agreement (DDA) with CentrePoint LLC for the CentrePoint
Project

REFERENCE: Executive Director Report No. RA-07-19, RA-06-08, RA-05-33, and RA-
05-23.

REQUESTED ACTION:

Should the Redevelopment Agency authorize the Executive Director or designee, to execute a Second Implementation Agreement to the Disposition and Development Agreement ("DDA") between the Redevelopment Agency of the City of San Diego (the "Agency") and CentrePoint, LLC ("Developer") for the CentrePoint Project?

STAFF RECOMMENDATION:

Authorize the Executive Director or designee, to execute the Second Implementation Agreement to the DDA between the Agency and Developer for the CentrePoint Project.

SUMMARY:

On April 4, 2006 the Redevelopment Agency approved a Disposition and Development Agreement with CentrePoint LLC for the development of a mixed-use development project within the Crossroads Redevelopment Project Area.

The approved project (Attachment 1) is a pedestrian-oriented mixed-use project that incorporates 312 for-sale residential dwelling units consisting of 97 townhouses, 204 residential wrap units (47 affordable) and 11 live/work units, and approximately 4,000 square feet of retail space. The CentrePoint project will occupy an 8.93-acre site bounded by El Cajon Boulevard (6300 block) to the north, Art Street to the east, Seminole Drive and Stanley Avenue to the south, and 63rd Street to the west. Approximately 131,000 square feet of commercial space, a nine unit apartment building and a stand alone restaurant have been demolished, and a vacant two story, 10,000 square feet office building remains on site.

On June 12, 2007, the Redevelopment Agency authorized the Executive Director or designee to execute a First Implementation Agreement (Attachment 2, see Exhibit "C") with CentrePoint LLC. The First Implementation Agreement revised several deadlines set forth in the Schedule of Performance (Attachment 2, Exhibit "A"). This Agreement extended the contingency end date, extended the submission for 50% complete construction drawings and final construction drawings, reduced the time for commencing demolition, amended the commencement for construction of the residential wrap units, extended the completion time for the residential wrap units, and reduced the time for submission of the affordable housing marketing plan. The Agreement also broadened the authority of the Agency's Executive Director or designee to grant eligible extensions of deadlines.

On January 14, 2008, the Developer requested that the Agency modify the DDA's Schedule of Performance ("SOP") to extend several submittal provisions. The Developer has requested to extend all existing deadlines in the current SOP 12-months. The Developer has requested the 12-month extension in order to allow them additional time to secure financing and navigate through changing market conditions. The extension of time the Developer has requested must be approved by the Agency Board per a Second Implementation Agreement.

Staff recommends extending the deadline for completing demolition to 9-months rather than the requested 12-months and the inclusion of additional language regarding conditions and operations of the site due to the extended demolition and site preparation period in the revised SOP and Second Implementation Agreement. The proposal adds language in the revised SOP and Second Implementation Agreement regarding the demolition in response to concerns about the condition and operation of the site because of the delay in completing building demolition (office), commencing site preparation (grading) and commencement of construction.

The Developer has requested to amend several deadlines within the SOP which are included in the executed DDA and First Implementation Agreement. The following is a brief list of the items and revisions:

- Extends the submission of 50% complete construction drawings and specifications from 20 months after the execution the Agreement to 30 months.
- Extends the submission of final construction drawings and specifications from 23 months after the execution of the Agreement to 34 months.
- Extends the completion of demolition and site preparation from 9 months after commencement of demolition to 18 months, a net increase of 9 months.
- Extends the contingency end date from 24 months after the execution of the Agreement to 36 months.
- Commence construction of the residential wrap units 2 months after the Contingency End Date rather than 3 months.

Under the proposed Second Implementation Agreement and SOP, the completion date for residential wrap units, (in which the affordable residential units are to be located) will be extended from July 2010 to June 2011 and the completion date for the townhomes will be extended from February 2011 to February 2012. In light of the proposed extension to the SOP and in order to implement the approved Replacement Housing Plan to replace two of the

affordable residential units on-site, (within four years of their demolition) an irrevocable Letter of Credit shall be delivered by the Developer to the Agency to cover the costs of the two replacement units. The irrevocable Letter of Credit, in the amount of \$260,000, is to be issued no later than April 2009, or upon the sale, transfer, conveyance or assignment of the Site (or a portion thereof) and/or assignment of the DDA. If the Developer fails to commence construction of the residential wrap units by June 2009, the Agency shall be authorized to use the proceeds from the Letter of Credit.

Since the date on which the Agency executed the DDA for this Project, certain applicable sections of the California Community Redevelopment Law have been amended by the state legislature. Specifically, Section 33334.3 of the California Health and Safety Code was amended to obligate the Agency to record a "Notice of Affordability Restrictions on Transfer of Property" (Attachment 2, Exhibit "B") against properties to be developed with new or substantially rehabilitated units that are assisted with the Agency's Low and Moderate Income Housing Funds. In addition, Sections 33435 and 33436 of the California Health and Safety Code were amended to redefine the specific language of nondiscrimination and non-segregation clauses imposed by the Agency with regard to the development of land in a redevelopment project. In light of these statutory amendments, the Second Implementation Agreement will amend the DDA and its Attachments accordingly.

If the Developer intends to sell the Site to a new developer and seeks to assign or transfer the DDA to a new developer, the DDA requires that the Agency Board approve any sale, assignment or transfer prior to the sale, assignment or transfer. The Developer is not requesting or seeking that action from the Agency Board at this time. If a new developer proposes to develop a project on the Site that is not consistent with the project contemplated by the DDA, the DDA may not be applicable to the new project and a new developer would be required to negotiate a separate agreement with the Agency, if they desire Agency participation.

FISCAL CONSIDERATIONS:

The total project cost is approximately \$110 million, and the project is projected to generate approximately \$900,000 in new gross tax increment per year, after the completion of the project in 2010. Total Redevelopment Agency financial contribution to the project will not exceed \$5,245,000, plus interest for the 47 affordable residential units. The Developer has provided the Agency with a Good Faith deposit of \$100,000 as a security for the performance of their obligations under the DDA.

The Agency's contribution of \$5,245,000 will be in the form of a Developer advance/loan which will be repaid from the Crossroads Redevelopment Project Area's Low and Moderate Income Housing Fund to subsidize 47 affordable residential units. This requirement will be subordinate to any future Agency bond payment obligation.

Simple interest on the outstanding balance of the total Agency obligation will accrue at a rate of 7% per year. Interest on the loan will begin at the issuance of the certificate of occupancy for all the affordable residential units, expected to occur in June 2011. Since interest on the loan does not begin to accrue until the affordable residential units are completed, extending the proposed SOP does not increase the Agency's interest expense.

PREVIOUS AGENCY, and/or COMMITTEE ACTION:

- On June 12, 2007, the Redevelopment Agency authorized the Executive Director or designee to execute a First Implementation Agreement with CentrePoint LLC.
- On April 4, 2006 the Redevelopment Agency authorized the Executive Director or designee to execute the Disposition and Development Agreement with CentrePoint LLC.
- On January 26, 2006 the Planning Commission approved the entitlements for the project on consent 4-1.

COMMUNITY PARTICIPATION and PUBLIC OUTREACH EFFORTS:

- On February 28, 2008, the Crossroads Project Area Committee (“PAC”) discussed the Second Implementation Agreement and voted 10-0-1 to recommend that the Agency enter into the Second Implementation Agreement.
- On April 26, 2007, the Crossroads PAC discussed the First Implementation Agreement and voted 8-0-1 to recommend that the Agency enter into the First Implementation Agreement.
- On September 13, 2005 the Eastern Area Planning Committee voted 11-0 to recommend approval of the project’s entitlements and related actions.
- On December 8, 2005, the Crossroads PAC reviewed the terms of the proposed DDA and voted 10-0-1 to recommend that the Agency enter into a DDA.

KEYSTAKEHOLDERS and PROJECTED IMPACTS:

The City of San Diego, as Lead Agency, has prepared Mitigated Negative Declaration (MND) No. 42-2126 in compliance with the California Environmental Quality Act (CEQA) and State CEQA Guidelines for the proposed project.

Respectfully submitted,

William Anderson
Assistant Executive Director
Redevelopment Agency

ANDERSON/JD/TWR

- Attachments: 1. Site Plan for the CentrePoint project.
2. Second Implementation Agreement.
PLEASE NOTE: Due to the size of this document it is being distributed on a limited basis, but is available upon request and available at the City Clerk’s Office.