

DATE ISSUED: July 3, 2002

REPORT NO. RA-02-16
CMR 02-150

ATTENTION: Chair and Members of the Redevelopment Agency
Mayor and City Council
Docket of July 9, 2002

SUBJECT: Disposition and Development Agreement and Associated Actions
for the Metro Center Residential and Metro Career Center Project
in the City Heights Redevelopment Project Area

REFERENCE: Executive Director's Report No. RA-01-13,
Manager's Report 01-098

SUMMARY

Issues – Should the City Council and Redevelopment Agency authorize the Executive Director to execute the Disposition and Development Agreement with the City Heights Community Development Corporation, execute the purchase and sale agreement, purchase agreement, and loan agreements with San Diego Revitalization Corporation and approve related actions for development of the Metro Villas housing project and the Metro Career Center project?

Manager/Executive Director's Recommendation –

For the Agency:

- 1) Certify that the Mitigated Negative Declaration and Finding of No Significant Impact (LDR File No. 41-1089) have been completed in compliance with the California Environmental Quality Act (CEQA), State CEQA Guidelines and the National Environmental Policy Act (NEPA) and state for the record that they have been reviewed and considered prior to approving the actions.
- 2) Approve the Basic Concept Drawings.
- 3) Authorize the Executive Director to accept the City conveyance of property located at the northwest corner of University Avenue and 40th Street and

within the vacated right of way of 40th Street between University Avenue and Polk Avenue and to sell the property at the fair market price of \$870,700, plus interest, to San Diego Revitalization Corporation for the Metro Career Center and Metro Villas projects.

- 4) Amend the Redevelopment Agency budget for the City Heights Project Area and authorize the Executive Director or designee to accept and expend funds for the Metro Villas project as follows: \$2,595,495 loan from San Diego Revitalization Corporation and a \$2,000,000 contribution from the Centre City Development Corporation low and moderate income housing setaside fund as Agency residual receipts loan contributions to the project, \$2,460,000 loan from San Diego Revitalization Corporation for Agency acquisition and relocation costs, a \$2,104,505 developer land payment and \$60,000 developer advance payment from City Heights Community Development Corporation.
- 5) Record \$870,700 as Agency debt to the City, which will be paid as soon as is practicable from tax increment or other appropriate and available funds from the City Heights Redevelopment Project.
- 6) Authorize the Executive Director to execute a Disposition and Development Agreement with City Heights Community Development Corporation for the Metro Villas project.
- 7) Authorize the Executive Director to execute the following agreements with San Diego Revitalization Corporation: 1) Purchase Agreement for the Metro Career Center Project, and 2.a) Gap Loan Agreement, 2.b) Acquisition and Relocation Loan Agreement, and 2.c) Purchase and Sale Agreement for the Metro Villas Project.
- 8) Authorize the Executive Director to make contingent offers for acquisition of properties for the Metro Villas Project.

For the Council:

- 1) Certify that the Mitigated Negative Declaration and Finding of No Significant Impact (LDR File No. 41-1089) have been prepared in compliance with CEQA, State CEQA Guidelines and NEPA and state for the record that the MND and FONSI have been reviewed and considered prior to approving any of the actions.
- 2) Authorize the City Manager or designee to convey real property located at the northwest corner of University Avenue and 40th Street and within the vacated right-of-way of 40th Street between University Avenue and Polk Avenue to the Redevelopment Agency for the Metro Career Center and Metro Villas projects.
- 3) Consent to the Redevelopment Agency entering into the Disposition and Development Agreement for the Metro Villas project.

Other Recommendations – The City Heights Project Area Committee (PAC) voted on February 11, 2002 to recommend approval of the design concepts for both the office and residential components of the project. On June 10, 2002 the PAC voted to recommend approval of the DDA and associated agreements. On

March 4, 2002 the City Heights Area Planning Committee (CHAPC) voted to recommend approval of the design concept for the office building component but voted against approval of the residential project component. On May 6, 2002 the CHAPC voted to recommend approval of the summary deal points of the DDA and associated agreements. At its June 12, 2002 meeting the Centre City Development Corporation Board voted to recommend contributing to the project \$2,000,000 from its Horton Plaza Project housing setaside fund. The Housing Commission recommended a \$1 million loan and \$960,000 loan guarantee contribution to the project at its meeting of June 7, 2002.

Fiscal Impact –

METRO CAREER CENTER:

The Agency will not make a financial contribution to the Metro Career Center office development. This project will be financed entirely by San Diego Revitalization Corporation (SDRC). The Agency is proposing to sell a parcel of land, currently owned by the City, at fair market price to SDRC. Since SDRC is a non-profit corporation and since another non-profit agency, the Workforce Partnership, has agreed to occupy most of the new office building, this development is eligible to receive exemption from property taxes. However, by the proposed agreements, SDRC has agreed to voluntarily pay to the Agency an ongoing annual in-lieu fee. This in-lieu fee will equal the estimate of what tax increment the Agency would receive for the project if it were a for profit operation. The initial combined in-lieu and land payment from SDRC will be \$100,000 and this amount will increase approximately 3% per year. The proposed Purchase Agreement states that a portion of the in-lieu payment would be used to pay for the land. In addition, for the first ten years, \$20,000 of the in-lieu payments will be paid directly to the City to be used specifically for the City's maintenance of public facilities on the bridge decks of University Avenue over the State Route 15 Freeway and in the public right of way of University Avenue in the City Heights Redevelopment Project Area. Remaining in-lieu fees are proposed to be used to support the Agency's contribution to the Metro Villas affordable housing project.

METRO VILLAS PROJECT:

There are two phases of the financing for the Metro Villas project – short term financing, to complete property acquisition and relocation, and long term permanent financing. In the first phase the City Heights CDC will pay the Agency a \$60,000 developer advance for the Agency's administrative costs and SDRC will lend up to \$2,460,000 to the Agency for acquiring land that SDRC has not been able to already acquire and providing relocation assistance for existing residents of the site. The Agency and Housing Commission contributions to the project will not be used in this phase.

When all necessary conditions of the DDA are satisfied – i.e.: the site is acquired, all residents are relocated, all necessary permits are obtained, the City Heights

CDC obtains all needed financing and all other DDA requirements are met – the permanent financing is put in place. All of the remaining project funding, both public and private, would be made available to repay SDRC’s \$2,460,000 loan, acquire parcels owned by SDRC that are needed for the residential project and go forward with construction. If the City Heights CDC is unable to obtain tax credits or is otherwise unable to meet the requirements of the DDA, the permanent financing will not be put in place. Unspent funds will be returned to SDRC and the remainder of their \$2,460,000 loan to the Agency will be forgiven, the land acquired with the loan proceeds will be conveyed to SDRC, the Agency and Housing Commission will keep their funds and the DDA will be terminated.

The permanent financing of the Metro Villas Project is proposed as follows:

Tax Credits	\$15,357,965
Private Lender	3,641,062
AHP	960,000
Housing Commission	1,000,000
Agency City Heights	2,595,495
Agency CCDC	<u>2,000,000</u>
TOTAL	\$25,554,522

CCDC’s contribution is proposed to come from available housing setaside tax increment funds from the Horton Plaza Redevelopment Project. Housing Commission’s contribution is proposed to come from available Federal HOME and/or Housing Trust funds. The Housing Commission is also proposing to provide a loan guarantee for the Federal Home Loan Bank Affordable Housing Program (AHP) \$960,000. The CHCDC will be applying for this funding, but it is not yet known if they will receive it.

The City Heights Redevelopment Project does not currently have adequate available funds to make the up-front contribution to the project. By the proposed Loan Agreement SDRC would lend \$2,595,495 to the Agency for use in the housing project and the Agency would pay off the loan by December 31, 2003 with available funds from the City Heights Redevelopment Project. These funds could include housing setaside funds, in-lieu and land payment funds received from the Metro Career Center project, and discretionary tax increment funds. Tables showing the projected revenue streams of the in-lieu and housing setaside funds and their proposed uses are provided as Attachments 8 and 9.

Currently the City Heights Redevelopment Project Area is receiving discretionary tax increment funds above the amount needed to service existing bond debt obligations. The 1999 City Heights bond financing requires that these excess tax increment funds be held in a reserve fund and not used until September 3, 2003. At that time the reserve fund will be released and made available for other uses. At the end of Fiscal Year 2002 the reserve fund is projected to have approximately \$2,750,000 and this number is projected to grow to more than

\$4,000,000 in Fiscal Year 2003. This bond reserve could be considered a security for the \$2,600,000 SDRC gap loan. However, it is proposed that the Agency seek alternative financing mechanisms to pay off the gap loan without using the bond reserve. Tax increment, housing setaside, in-lieu payments and land sale proceeds are projected to be more than adequate to support a future financing that would pay off the gap loan and provide additional working capital for the City Heights Redevelopment Project.

A further analysis of the project financing and a justification of the Agency's contribution to the project are provided in the Re-Use Appraisal and 33433 Report (Attachments 10 and 11), which were prepared by Keyser Marston Associates.

BACKGROUND

On June 14, 2001 the Agency approved a Memorandum of Understanding with the Workforce Partnership and City Heights Revitalization L.P., the development arm of Price Charities, that has since changed its name to San Diego Revitalization Corporation (SDRC). This MOU committed the Agency to work with the other two parties to prepare a plan and development agreement for a new office building that would house a regional career center to be operated by the Workforce Partnership. The project site is on the north side of University Avenue between 39th and 40th Streets . It was chosen because of the high demand for Workforce Partnership's career training and placement services in the City Heights community, the site's advantages of being adjacent to State Route 15 and multiple public transit routes, and the fact that a portion of the site was owned by the City. See Attachment 1 for the site plan and concept drawings.

On May 22, 2001 the City Council approved a Memorandum of Understanding with Caltrans which committed the City to assume the operation and maintenance responsibilities for State Routes 209 and 274 in return for Caltrans giving the City \$8,156,000 and eight parcels of excess land adjacent to State Route 15 in the City Heights Redevelopment Project Area. One of these parcels, a 27,500 square foot property located at the northwest corner of University Avenue and 40th Street, is proposed to be sold at fair market price to SDRC and used for the Metro Career Center project. In addition, the project also proposes to use the current right of way of 40th Street between Polk Avenue and University Avenue to build a parking structure. The street is proposed to be vacated and the portion of the right of way that does not revert automatically to SDRC will also be sold to them at fair market price.

Since approval of the MOU, the City Heights Community Development Corporation (CHCDC) has proposed an affordable housing project to redevelop the remainder of the block and share the parking structure to be built with the Metro Career Center office building. SDRC and CHCDC have joined forces to prepare a mixed use development plan that has been processed through the City and is being considered by the Council concurrent with these development agreement actions.

DISCUSSION

The proposed project is on a 4.79 acre site and would include a four story 81,500 square foot office building, fronting on University Avenue, which would primarily house the Workforce Partnership's one-stop Metro Career Center. The first floor would also include retail uses, a child care center, and a conference and resource room that would be made available for community use. A 489 space multi-story parking structure would be built behind the office building, along the eastern edge of the project site, adjacent to the freeway. The northwestern portion of the block would be developed in 120 apartment units, 119 of which would be made affordable to very low income households (up to 50% of area median income) and one unit would be for the on site manager. The housing project would include nine separate three and four story apartment buildings, a laundry building and one resident activities building. These buildings would be interspersed with landscaped courtyards, tot lots and walkways.

The project is immediately adjacent to the University Avenue bridge transit plazas and the recently dedicated Teralta Park, which is built on a four acre deck covering the State Route 15 freeway. In addition the project is one block away from Central Elementary School, two blocks away from Wilson Middle School and approximately one and one-half block away from the site of the new elementary school that is scheduled to be built within three years at Wightman Street and 39th Street.

Traffic Impacts

A traffic study for the proposed project was prepared by Linscott, Law & Greenspan Engineers and is provided as Attachment 12. The project is served by the major collector University Avenue and is immediately adjacent to the State Route 15 freeway. It is also conveniently served by multiple public transit lines, with a major bus service transfer area located on the immediately adjacent University Avenue bridge over SR-15. The project is proposed to take its access from two driveways, one on 39th Street and the other at the intersection of 40th Street/Polk Avenue. The project is estimated to result in a net increase of 2,160 average daily trips (ADT's). Without mitigation measures the project would result in immediate significant traffic impacts to the intersection of 39th Street/University Avenue and on Polk Avenue as well as long term significant impact to the intersection of 39th Street/Orange Avenue. The developer has agreed to finance and implement mitigation measures to: install a traffic signal at 39th/University, contribute 25% of the cost for the eventual installation of a traffic signal at 39th/Orange and widen Polk Avenue and convert it from one-way eastbound to two-way in the block between 39th and 40th Streets. The Traffic Study and MND/FONSI conclude that implementation of these measures will reduce impacts to below a level of significance.

Project Implementation

SDRC has acquired all of the privately owned land needed for the office building and parking structure. They have also acquired several of the parcels needed for the housing project. However, they have not been able to acquire all needed parcels. The DDA would authorize the Agency to acquire these parcels for the project. All current property

owners on the project site have been notified of the proposed Disposition and Development Agreement in accordance with Agency Owner Participation Rules.

The main source of funding for the proposed housing project would be Federal tax credits administered by the California Tax Credit Allocation Committee. An application for tax credits is being prepared by the City Heights CDC for submission by the mid-July deadline. In order for the application to be considered, the project must have all discretionary permits and either ownership of the site or an approved Disposition and Development Agreement. The DDA allows for the CHCDC to retain its rights and attempt a second round of tax credits in March, 2003, if they are unsuccessful in the July, 2002 round of allocations.

If the City Heights CDC is unsuccessful in two rounds of tax credit applications, the DDA would be terminated, the Agency would return to SDRC any remaining funds from its \$2,460,000 loan, the rest of the loan to the Agency would be forgiven, and the land acquired by the Agency using the SDRC loan funds would be conveyed to SDRC. With that scenario, it is anticipated that the Agency would negotiate with SDRC for an agreement to carry out an alternative project on the housing project site.

ALTERNATIVE

Do not approve the DDA, purchase agreement, purchase and sale agreement, loan agreements and related actions. This alternative would not allow the Metro Career Center or the affordable housing project to proceed.

Respectfully submitted,

Todd G. Hooks
Deputy Executive Director

Approved: Hank Cunningham
Assistant Executive Director

Approved: Bruce Herring
Deputy City Manager

CUNNINGHAM/JJL

Note: The attachments are not available in electronic format. A copy is available for review in the Office of the City Clerk.

- Attachments:
1. Site Plan and Concept Plan
 2. Mitigated Negative Declaration/FONSI
 3. Disposition and Development Agreement
 4. Metro Career Center Purchase Agreement
 5. Metro Villas Purchase and Sale Agreement

6. Metro Villas Gap Loan Agreement
7. Metro Villas Acquisition Loan Agreement
8. Metro Center In-Lieu and Land Sale Proceeds Table
9. City Heights Housing Setaside Revenues and Uses Table
10. Agency 33433 Report prepared by Keyser Marston Associates
11. Re-Use Appraisal Report prepared by Keyser Marston Associates
12. Traffic Study