

DATE ISSUED: July 31, 2002

REPORT NO. RA-02-13
CMR-02-165

ATTENTION: Chair and Members of the Redevelopment Agency/
Mayor and Members of the City Council
Docket of August 5, 2002

SUBJECT: Disposition and Development Agreement (DDA) and Associated Actions
for the Renaissance at North Park Project

SUMMARY:

Issue - Should the Redevelopment Agency/City Council Authorize the Executive Director to Execute the Disposition and Development Agreement (DDA) with Carter Reese Associates and Approve Associated Actions for the Proposed Renaissance at North Park Project?

City Manager/Executive Director Recommendations –

For the Agency:

- 1) Certify that the Final Environmental Impact Report has been Reviewed and Considered Prior to the Actions.
- 2) Approve Basic Concept Drawings for the Project.
- 3) Approve the Housing Replacement Plan.
- 4) Authorize the Executive Director to Execute the Disposition and Development Agreement (DDA) for the Renaissance at North Park Project.
- 5) Authorize the Executive Director to Execute an Acquisition and Relocation Loan Agreement with San Diego Interfaith Housing Foundation.
- 6) Amend the Redevelopment Agency Budget for the North Park Project Area and Authorize the Executive Director or Designee to Accept and Expend Funds for the Renaissance at North Park Project as follows: Developer Deposit of \$30,000 from Carter Reese & Associates, Developer Loan of \$675,000 from San Diego Interfaith Housing Foundation; \$1,800,000 from

North Park Tax Allocation Bond Proceeds for the Project.

For the City Council:

- 1) Certify that the Final Environmental Impact Report has been Reviewed and Considered Prior to the Actions.
- 2) Consent to the Redevelopment Agency Entering into the Disposition and Development Agreement (DDA) for the Renaissance at North Park Project.

Other Recommendations - On July 9, 2002, the North Park Project Area Committee (PAC) unanimously adopted a motion recommending approval of the draft Disposition and Development Agreement (DDA). The PAC also adopted a motion recommending approval of the basic design concepts, emphasizing the need to minimize traffic impacts on Kansas Street. On June 24, 2002, the PAC adopted a motion recommending approval of the draft Housing Replacement Plan. On June 18, 2002, the design concept was presented as an informational item before the Greater North Park Community Planning Committee (GNPCPC). The inclusion of space within the development for a community center has been supported by the North Park Recreation Council (August 27, 2001) and by the Greater North Park Planning Committee (October 16, 2001).

Fiscal Impact –Total project costs are estimated to be approximately \$25,120,000. Total Redevelopment Agency financial contributions to the project as defined in the DDA will not exceed \$4,000,000. The main source of funding for the proposed housing project will be \$11,154,000 in federal tax credits administered by the California Tax Credit Allocation Committee (Attachment 4). An application for tax credits is being prepared by San Diego Interfaith Housing Foundation for submission in January/February of 2003. Conventional loans will fund \$6,871,000 of project costs. The Developer will seek federal HOME funds administered by the Housing Commission in the amount of \$1,998,000. The Developer will also seek a loan guarantee from the Federal Home Loan Bank Affordable Housing Program (AHP) in the amount of \$485,000. Proceeds from the sale of townhomes are anticipated to be \$153,000. The Developer will provide financing for construction of the retail component of the project in the amount of \$459,000. 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 Summary (§33433) Report (Attachments 5 & 6).

Funds in the amount of \$1,800,000 are available from the proceeds of the North Park Tax Allocation Bonds, Low- and Moderate-Income Housing Set-Aside funds. A loan to the Agency from San Diego Interfaith Housing Foundation in the amount \$675,000 will be available for the project. Repayment of the loan will be made from the proceeds of the next bond issue for the North Park Redevelopment Project or other funds lawfully available to the Agency for such purpose. The remaining \$1,525,000 of Agency support will be made available from the proceeds of the next tax allocation bond. Qualifying expenses, not exceeding \$1,525,000, incurred by the Developer prior to the availability of

proceeds from the next bond issue will be advanced by the Developer and reimbursed by the Agency when such funds become available.

Environmental Impact – 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 has been prepared to identify probable environmental effects of the Renaissance at North Park project (Attachment 5). The Renaissance at North Park Environmental Secondary Study identifies no probable activity-specific environmental effects beyond those identified in the Final Environmental Impact Report (EIR) for the North Park Redevelopment Project. Mitigation measures identified in the North Park Redevelopment Project EIR and applicable to the proposed activity are listed in Attachment A of the Secondary Study.

Traffic Impacts

The project is served by El Cajon Boulevard, a six lane major street, 30th Street, a three-lane collector street, Meade Avenue, a three-lane collector street, and Kansas Street, a two-lane local street. It is also located at the intersection of five Metropolitan Transit District public transit (bus) routes providing service to Mission Valley to the north, Encanto and the downtown area to the south, San Diego State University to the east, and Hillcrest to the west. The project is proposed to take its access from two alleys, one on Meade Avenue and one on Kansas Street. The project will replace existing retail shops, a commercial recreation facility and residences. Preliminary review of existing and proposed structures and uses indicates that no increase in vehicle trips generated should be anticipated.

BACKGROUND:

The proposed Renaissance at North Park mixed-use development is located within the North Park Redevelopment Project Area at the northwest corner of El Cajon Boulevard and 30th Street (Attachment 1). Property within the boundaries of the proposed development, approximately 1.68 acres in size, is improved with a mix of both commercial and residential structures. There are ten residential dwelling units within the project boundaries ranging in size from one to three bedrooms. A single vacant retail building occupies nearly half of the project area. The property within the project boundaries is divided by alleys running both north to south, and east to west.

On April 25, 2002, the City’s Historic Resources Board designated a portion of the street-facing facade of the vacant retail building located at 2930 El Cajon Boulevard (a.k.a. “Heilig-Meyers” or “Gustafson” building) to be of historical significance based on its Streamline Moderne architecture. The disposition of the historic facade is, therefore, subject to the Secretary of the Interior's Standards for the Rehabilitation of Historic Buildings and Chapter 14, Article 3, Division 2 (Historical Resources Regulations) of the San Diego Municipal Code. No other structures within the project boundaries have been identified by the City’s Historic Resources

Board as historically significant.

DISCUSSION:

The proposed project will include a four story, mixed-use structure fronting on El Cajon Boulevard and 14 three-story townhomes on Kansas Street (Attachment 2). The mixed-use component of the proposed project will provide 97 senior citizen apartments affordable to households with incomes up to 50% of AMI, 7,000 square feet for a public community center, and 6,000 square feet of commercial space (Attachment 3). A pedestrian plaza accessible to the public will provide a link between El Cajon Boulevard, shops, and parking located to the rear and beneath the development. The three-bedroom townhomes on Kansas Street will be affordable to households with incomes up to 100% of area median income (AMI). A below-grade parking structure for 98 vehicles will accommodate residents of the senior apartments (Attachment 3). Sixty-one surface level spaces will serve the non-residential components of the project. As a matter separate from the redevelopment transaction and proposed DDA, Carter Reese and Associates will construct 24 market-rate townhomes immediately north of the project on the west side of 30th Street. The implementation of both of the proposed projects will add 135 new dwelling units varying in affordability and style, a new community meeting space, and a total investment of approximately \$30 million in a neighborhood burdened by the presence of two large vacant structures. Affordability restrictions applicable to the for-sale townhomes along Kansas Street will be effective for 45 years. Those applicable to the senior apartments will be effective for at least 55 years.

All existing structures onsite will be demolished. In accordance with the direction of the Historic Resources Board, new construction at the location of the historically designated street façade will replicate architectural features of the original structure to the greatest extent feasible and incorporate certain building materials preserved during demolition (Attachment 4). Specific construction drawings will be presented to the Historic Resources Board for their review during the entitlement process.

Project Implementation

Carter Reese & Associates (CRA), an experienced developer of infill residential and mixed-use projects, will function as Master Developer. Carter Reese & Associates focuses on providing home-ownership opportunities in developments designed to compliment their urban settings. San Diego Interfaith Housing Foundation will partner with Carter Reese and Associates as the developer of the 97 senior apartments. San Diego Interfaith Housing Foundation is a successful developer of affordable housing opportunities, responsible for providing 700 new affordable housing units over the past ten years. San Diego Interfaith Housing has 1,000 affordable housing units currently under management.

An analysis of the proposed project's estimated costs and revenues has been prepared by Economics Research Associates (ERA) (Attachments 8 & 9). In accordance with California Redevelopment Law (Section 33433), ERA has also prepared an appraisal of the "re-use value" of property to be sold by the Agency. The "re-use value" is the value achievable considering the objectives, covenants and conditions applicable to development of the property defined by the

DDA (Attachment 7).

It is ERA's finding that the conditions and covenants of the DDA reduce the revenue generating potential of the property substantially and that a public subsidy is justified in order to achieve the goals of the Redevelopment Plan. Specifically, ERA finds that a total subsidy of \$17.7 million is justified and necessary to the implementation of the project. The Developer will obtain conventional private financing of approximately \$6.87 million and will apply for approximately \$11.1 million in low income housing tax credits administered by the California Tax Credit Allocation Committee (Attachment 10). The Developer will also apply for approximately \$485,000 in Affordable Housing Program funds. Local public support, consisting of Housing Authority and Redevelopment Agency loans and grants, will total \$6.0 million. It is recommended that the Agency contribute \$4.0 million of this total to be used for land acquisition, tenant relocation, subsidy of affordable housing construction and public improvements. An application for Housing Authority assistance in the amount of \$2 million will be submitted by September 2002, with a decision anticipated within 100 days. The DDA provides that a second application for housing tax credits may be submitted during calendar year 2003 if the initial application is unsuccessful.

The Developer and Agency will combine resources to complete the acquisition of property within the project boundaries, as neither party working alone possesses the financial resources to acquire the entire development site. The Developers have acquired or placed under contract a portion of the land needed for proposed project. The DDA will authorize the Agency to contribute \$1,800,000 in currently available proceeds of the North Park Tax Allocation Bond of 2000 toward the purchase of property within the project boundaries. An additional \$675,000, loaned to the Agency by San Diego Interfaith Housing Foundation, will be allocated to property acquisition and relocation. The developer will negotiate for the purchase of property within the project boundaries using funds granted by the Agency to leverage approximately \$2,100,000 in conventional financing for property acquisition.. The contribution of Agency funds will be secured by a second priority deed of trust on all of the parcels purchased by the Developer, junior and subordinate to the lien of the deed of trust securing the Developer's property loan. The loan will be forgiven upon the closing. This provision will allow the Agency to assume the Developer's interest in the property in the event of Developer default. The Agency will purchase at fair market value land within the project's boundaries, which the Developer has been unable to acquire privately. The Agency will subsequently convey acquired properties to the Developer for the price of one dollar per acquired parcel. As specified in the Schedule of Performance, construction of the townhomes along Kansas Street will be completed within 31 months following execution of the agreement. Construction of the senior apartments and retail/community space will be completed within 39 months following execution of the agreement.

The leveraging of Agency funds is a key characteristic of the proposed transaction. Since immediately available funding is inadequate to complete property acquisition, it is necessary to secure private financing. Notwithstanding the benefits to the project of leveraging available funds, it should be acknowledged that in the unlikely event that the project is abandoned prior to conveyance of property to the Developer, the Agency would assume the responsibility of

servicing the mortgage until it can be sold to a new developer or third party. Agency funds used by the Developer to purchase property will be disbursed on a parcel-by-parcel basis with developer loan documents first approved in writing by the Agency's Executive Director. Agency funds shall not be used to fund more than fifty percent of the purchase price of any parcel to be acquired by the Developer. In the event that actual acquisition and relocation costs exceed budgeted amounts, the Developer and Agency will meet and confer regarding additional expenditures.

Another key characteristic of the transaction reflects the fact that new applications for affordable housing tax credits will not be considered until February or March of 2003. While it is common to withhold disbursement of Agency funds until all funding sources including tax credits and Housing Commission contributions have been secured, it is necessary to the implementation of the project that the Agency's funding for property acquisition, totaling \$2,475,000, be released prior to receipt of all necessary project funds. This amount represents the sum of the Agency's available \$1,800,000 in low- and moderate-income housing set-aside funds and the loan of \$675,000 from San Diego Interfaith Housing Foundation. Receipt of the loan proceeds will precede release of low- and moderate-income housing funds.

Additional Redevelopment Agency contributions to the project, the total of all contributions not exceeding \$4.0 million would be made available through future tax increment or bond debt obligations for the North Park Redevelopment Project. Of this amount, approximately \$1.0 million of the Agency contribution will be used for construction and public improvements.

A Housing Replacement Plan (Attachment 6) has been prepared in accordance with California Health and Safety Code Section 33413.5 describing the location and schedule for replacement of dwelling units removed in implementation of the Renaissance at North Park project. A total of ten residential units will be removed through the redevelopment of the site. These units will be replaced in like size and affordability level at Agency expense. Three one-bedroom units will be placed on-site and seven units will be replaced at the Metro Villas project to be developed in the City Heights redevelopment area. In accordance with the provisions of Article 9 of California's Community Redevelopment Law, displaced residential and commercial tenants will be provided with relocation assistance.

Current property owners within the project boundaries were advised of their opportunity to participate in the redevelopment project in August of 2001. A Statement of Interest form was delivered by certified mail to each owner of record asking respondents to indicate whether they had interest in participating in the proposed development, selling their property, or submitting a competing development proposal. Of the seven owners contacted, five responses were received within the 30-day response period. Two respondents stated no preference but request further information. Two respondents indicated a preference for selling their property to the Agency. One indicated a willingness to sell the property, sell and participate in a future redevelopment project, and/or receiving preference in renting/purchasing one of the proposed commercial units.

In June 2002, the effected property owners were notified that the proposed Disposition and Development Agreement would be considered by the Project Area Committee on June 24 and

July 9. Property owners have also been notified of the joint Redevelopment Agency/City Council hearing of August 5, 2002.

The proposed development has been the subject of a Preliminary Review by the Development Services Department. Based on this review, applications will be submitted for street vacation, tentative map, site development permit, and conditional use permit. In accordance with State CEQA guidelines, more detailed environmental analysis will also be conducted during review of discretionary permit applications.

ALTERNATIVE:

Do not approve the DDA and related actions.

Respectfully submitted,

Todd G. Hooks
Deputy Executive Director/
Redevelopment Deputy Director

Approved: Hank Cunningham
Assistant Executive Director/
Community and Economic
Development Director

Approved: Bruce Herring
Deputy City Manager

HOOKS / TCR

Attachments:

1. Redevelopment Project Area Map
2. Vicinity Map
3. Site Plan
4. Basic Concept Drawings
5. Environmental Secondary Study for the Proposed Renaissance at North Park Project *
6. Housing Replacement Plan
7. Disposition and Development Agreement between the Redevelopment Agency of the City of San Diego and Carter Reese & Associates *
8. Estimate of Re-Use Value *
9. Summary (§ 33433) Report Pertaining to the Sale of Real Property *
10. Sources and Uses of Funds
11. Acquisition and Relocation Loan Agreement with San Diego Interfaith Housing Foundation *

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