

DATE ISSUED: October 8, 2002

REPORT NO. 241

ATTENTION: Honorable Chair and Members of the Land Use and Housing Committee  
Docket of October 23, 2002

SUBJECT: Morena Vista Transit-Oriented Development Project

SUMMARY:

Issues - Should the Land Use and Housing Committee:

- 1.) Recommend the use of \$2,050,000 of 20A funds, if found eligible, for the undergrounding of power lines at the Morena Vista site; and
- 2.) Recommend the removal of the proposed roundabout at Linda Vista Road and Napa Street from the City's CIP Transnet budget and recommend the release of the remaining \$940,000 from that budget for contribution towards Transnet eligible uses at the Morena Vista transit-oriented development project; and
- 3.) Recommend the amendment of the Cooperation Agreement between the Redevelopment Agency and Metropolitan Transit Development Board (MTDB) to allow for the Agency to contribute \$2,300,000 for necessary soil remediation work at MTDB's Morena Vista site instead of paying for the undergrounding of 69 KV power lines there; and
- 4.) Recommend the amendment of the Cooperation Agreement between the Redevelopment Agency and Metropolitan Transit Development Board (MTDB) to include the use of \$200,000 of project tax increment revenue and \$100,000 of North Bay Project Area tax increment revenue for annual payments of \$300,000 for a Park and Ride lease at Morena Vista?

Manager's Recommendations – That the Land Use and Housing Committee:

- 1). Recommend the use of \$2,050,000 of 20A funds, if found eligible, for the undergrounding of power lines at the Morena Vista site; and
- 2). Recommend the removal of the proposed roundabout at Linda Vista Road and Napa Street from the City's CIP Transnet budget and release the remaining \$940,000 from that budget for contribution towards Transnet eligible uses at the Morena Vista transit-oriented development project; and
- 3). Recommend the amendment of the Cooperation Agreement between the Redevelopment Agency and the Metropolitan Transit Development Board (MTDB) to allow for the Agency to contribute \$2,300,000 for necessary soil remediation work at MTDB's Morena Vista site instead of paying for the undergrounding of 69 KV power lines there; and
- 4). Recommend the amendment of the Cooperation Agreement between the Redevelopment Agency and the Metropolitan Transit Development Board (MTDB) to include the use of \$200,000 of project tax increment revenue and \$100,000 of North Bay Project Area tax increment revenue for annual payments of \$300,000 for a Park and Ride lease at Morena Vista.

Fiscal Impact – The potential financial contribution to this project may be up to \$7.2 million, plus \$300,000 in annual tax increment.

Environmental Impact – This activity is not a “project” and is therefore exempt from CEQA pursuant to the State CEQA Guidelines Section 15060 (c) (3).

#### BACKGROUND:

MTDB owns a 5.3-acre parcel adjacent to its Morena/Linda Vista Trolley Station located at Linda Vista Road and Napa St. MTDB entered into a DDA and lease agreement in April 2000 with CityLink Investment Corporation. Under these agreements, MTDB retains ownership of the parcel and leases it on a long-term ground lease basis to the project developer. The project, Morena Vista Mixed-Use Project was originally proposed to include approximately 24,000 square feet of commercial space, 127 residential units and 396 on-site parking spaces. A Sav-on Drugs Store had also been secured as an anchor tenant at that time. Additionally, 120 off-site parking spaces adjacent to the project along Friars Road were proposed. The Morena Vista site requires soil remediation for liquefaction and the undergrounding of 69 KV and related smaller power lines.

On February 8, 2000 the Redevelopment Agency entered a Cooperation Agreement (RR – 292752/D – 03107/R - 0310) with MTDB, under which the Agency would fund the undergrounding as a public improvement for preparation of MTDB's site. That Agreement stipulated that the Agency would make \$450,000 in up front payments to MTDB, followed by up to \$1,575,000 spread out over 16 years from project-generated tax increment, a total contribution of no more than \$2,025,000. Under the existing Cooperation Agreement, the Agency has already

made payment of \$58,194 to MTDB in order to have SDG&E begin design work for the undergrounding.

In May of 2000 the City of San Diego began analysis to construct a ‘modern roundabout’ at the intersection of Linda Vista Road and Napa Street, which is the prime corner in the Morena Vista Project. Such a proposed traffic improvement would necessarily require the inclusion of land otherwise included in the project design. Thus, the project was put on hold and tentatively re-designed around the proposed new site boundaries for approximately two years until the District 6 Council Office, in consultation with the Linda Vista Community, decided not to go forward with the roundabout in August 2002. In the meantime, the developer lost its anchor tenant and incurred considerable costs for redesigning the project because of the delay.

The current development plan of the Morena Vista Project includes 161 apartment units and 18 lofts. Sixteen, or 10%, of the apartments may be affordable housing units. Retail space would be 18,500 square feet with no anchor tenant. There are 80 Park N Ride spaces on-site and 120 off-site. Total Development Cost is estimated to be \$38 million.

The base ground rent charged by MTDB is \$150,000 per year, reduced from the initially proposed \$340,000 per year. An additional overage rent of one percent has been negotiated on the base of the effective gross income after one year. Also, a rent payment of two percent of the effective gross income above a base of \$2.8 million has been included. The MTDB agreement with the developer contains a non-subordination clause ensuring MTDB first priority over other project financing sources. In 2000 the estimated assessed value of the project upon completion was \$17.8 million.

DISCUSSION:

With the proposed roundabout concept no longer viable, MTDB and the developer have approached the Agency requesting additional financial assistance in order to close the project’s funding gap.

The estimated cost of undergrounding has risen to \$2,300,000 and the liquefaction remediation comes to \$2,460,000. In addition, in order to accommodate recent City Council priorities for increasing the amount of available affordable housing units, the project will require a housing subsidy, based on the inclusion of 10% (or 16) of units at 80% of Area Median Income (AMI).

CityLink has requested that the Redevelopment Agency assist the Morena Vista Project as follows in order to close the project funding gap:

	<u>Up Front</u>	<u>Annually</u>
Undergrounding of power lines (Coop. Agreement) \$	2,050,000	
Site remediation (Coop. Agreement) \$	2,300,000	
Park N Ride Payment \$	300,000	
(Morena Vista project tax increment)		\$200,000
(North Bay project area tax increment)		\$100,000

		<u>Up Front</u>	<u>Annually</u>
Pre-Development/Entitlement Costs	\$	1,000,000	
<b>Total before affordable housing</b>	<b>\$</b>	<b>5,650,000</b>	<b>\$300,000</b>
Affordable housing agreement for 16 units	\$	1,500,000	
<b>Total including affordable housing</b>	<b>\$</b>	<b>7,150,000</b>	<b>\$300,000</b>

CityLink’s proposed Agency contribution still includes the \$2.05 million for the undergrounding of power lines originally agreed upon in the Cooperation Agreement between the Agency and MTDB. However, this amount could potentially be reduced or eliminated if 20A monies are deemed eligible by City staff. Staff would also have to assess the potential impact of any 20A fund reallocation on current or anticipated projects that are already designated to receive funding and subsequently report back at a later date.

In addition, the \$940,000 of Transnet funds currently in the CIP budget for the proposed roundabout and that could potentially be applied to the Morena Vista Project would need to be used only for Transnet-eligible activities related to the right-of-way, such as Park N Ride or street improvements.

Most recent estimates for site remediation to take care of liquefaction and ground water problems at the Morena Vista site reach \$2.3 million. CityLink has suggested that this cost could be covered by an amendment to the Redevelopment Agency’s Cooperation Agreement with MTDB. Such funding could come out of North Bay bond proceeds, keeping in mind, however, that much of the bond proceeds (both 20% set-aside and the remaining 80% funds) have already been identified for other projects in North Bay – diverting additional money to Morena Vista would necessitate reducing other Project Area priorities.

In order to off-set the cost of including Park N Ride spaces in Morena Vista (estimated at \$1.5 million), CityLink has asked for \$300,000 up front and \$300,000 annually to be paid by the Agency to MTDB. The Morena Vista Project is estimated to generate approximately \$200,000 per year in new tax increment revenue to the Agency by year 7 of the project. Such revenue would be used to make the Park N Ride payments with the remaining approximately \$100,000 per year to be paid out of Project Area tax increment. It should be noted that a commitment to draw such funds from the larger Project Area over a number of years would reduce the amount of new proceeds that could be raised by North Bay in the future.

CityLink is requesting approximately \$5.6 million up front plus an annual tax increment payment of \$300,000. CityLink has suggested capping the \$100,000 annual payment from the larger Project Area TI at ten years (totaling \$1 million) with the remaining \$200,000 annual payment from project TI to continue. If 10% of the residential units were set aside for affordable housing, \$1.5 million of 20% set aside money is requested to fill the gap to finance those 16 units, bringing the total up front amount to approximately \$7.2 million.

CityLink has incurred extra ordinary pre-development and entitlement costs associated with the delay of this project due to the inclusion and then the removal of the roundabout from the intersection at Linda Vista Road and Napa Street. These costs, estimated at \$1.0 million, contribute to the current financial gap in CityLink's project.

The North Bay Project Area Committee (PAC) will have an opportunity at the upcoming PAC meeting on November 6, 2002 to voice its recommendation on the revised financial participation of the Redevelopment Agency. They will also see the latest revisions to the Morena Vista Project design when the designs are ready for presentation. In January 2000, the PAC voted to recommend entering the existing Cooperation Agreement between the Agency and MTDB for the undergrounding of power lines (10-yes, 3-no, 1-abstention).

A total of \$13.0 million in North Bay Redevelopment Tax Allocation Bonds, Series 2000, were issued in October 2000 for project area improvements. Currently, approximately \$3.0 million in unused funds from this issuance remain, with an additional \$2.3 million in 20% low/mod set aside funds. These are tax exempt bond proceeds with certain associated use restrictions. Findings have already been made for the undergrounding of the 69KV power lines but would still need to be approved for Agency to pay for the proposed soil remediation work.

CONCLUSION:

After reviewing the financial options given above that could enable CityLink to move forward with the Morena Vista Transit-Oriented Development Project, the Land Use and Housing Committee may choose to endorse the contribution of 20A, remaining CIP Transnet funds, and North Bay Project Area funds (bonds and TI) through the Cooperation Agreement with MTDB, or any desirable combination of these.

Respectfully submitted,

\_\_\_\_\_  
Hank Cunningham  
Director  
Community and Economic Development Department

\_\_\_\_\_  
Bruce Herring  
Deputy City Manager

JRD/CJM

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

- Attachments: 1. Morena Vista Rendering  
2. Morena Vista Site Plan