

DATE ISSUED: January 8, 2003

REPORT NO. RA-03-02  
CMR-03-01

ATTENTION: Honorable Chair and Members of the Redevelopment Agency  
Honorable Mayor and Members of the City Council  
Docket of January 14, 2003

SUBJECT: Morena Vista Transit-Oriented Development Project

SUMMARY:

Issues - Should the Redevelopment Agency/City Council:

1. Terminate the existing Cooperation Agreement between the Agency and Metropolitan Transit Development Board (MTDB) for undergrounding of power lines at the Morena Vista site, following the expenditure of \$450,000 for up front costs.
2. Amend the FY 2003 Redevelopment Agency budget to authorize the appropriation and expenditure of \$2,800,000 of North Bay Redevelopment Project Tax Allocation Bond Proceeds, Series 2000, or other available funds, for site assistance and lease payments related to the Morena Vista TOD Project.
3. Enter into an Affordable Housing Assistance Agreement with CityLink Investment Corporation to provide Agency 20% housing set-aside funds to support development costs of proposed affordable housing units, and funds to cover soil compaction and predevelopment/entitlement costs (\$2,500,000 up front).
4. Enter into a Public Use Lease with MTDB for Park N Ride spaces on-site at the Morena Vista Project (\$300,000 up front, not to exceed \$3 million in total).

5. Enter into a Public Use Sublease with CityLink Investment Corporation for the construction, maintenance and operation of Park N Ride spaces on-site at the Morena Vista Project (for no consideration).
6. Authorize Agency staff to negotiate a lease with the City of San Diego for Park N Ride spaces adjacent to the Morena Vista Project.
7. Authorize the modification of the Annual Allocation - Undergrounding of Utilities, San Diego Gas & Electric Company Allocation for 2003 Calendar Year by 1) removing the projects known as CCDC Area 1, Phase 2, Job 2 (Transmission Only) located on Union Street between Date to Ash and on Beech Street between State and 4th, estimated at \$1,114,000; 2) removing of the project known as Sorrento Valley Rd between an area south of Carmel Valley Rd and north of Oleandar, estimated at \$741,000; and 3) replacing both of these projects with a project known as Morena Vista Transit-Oriented Redevelopment Project, estimated at \$2,000,000, these actions contingent upon California Public Utility Commission approval of the proposed Underground Surcharge Fund and receipt of funds, and directing staff to continue to refine the plan and to return to Council for approval.
8. Authorize City staff to negotiate a lease with the Redevelopment Agency for Park N Ride spaces adjacent to the Morena Vista Project.

Executive Director/City Manager's Recommendations –

That the Redevelopment Agency:

1. Terminate the existing Cooperation Agreement between the Agency and Metropolitan Transit Development Board (MTDB) for undergrounding of power lines at the Morena Vista site, following the expenditure of \$450,000 for up front costs.
2. Amend the FY 2003 Redevelopment Agency budget to authorize the appropriation and expenditure of \$2,800,000 of North Bay Redevelopment Project Tax Allocation Bond Proceeds, Series 2000, or other available funds, for site assistance and lease payments related to the Morena Vista TOD Project.
3. Enter into an Affordable Housing Assistance Agreement with CityLink Investment Corporation to provide Agency 20% housing set-aside funds to support development costs of proposed affordable housing units, and funds to cover soil compaction and predevelopment/entitlement costs (\$2,500,000 up front).
4. Enter into a Public Use Lease with MTDB for Park N Ride spaces on-site at the Morena

Vista Project (\$300,000 up front, not to exceed \$3 million in total).

5. Enter into a Public Use Sublease with CityLink Investment Corporation for the construction, maintenance and operation of Park N Ride spaces on-site at the Morena Vista Project (for no consideration).
6. Authorize Agency staff to negotiate a lease with the City of San Diego for Park N Ride spaces adjacent to the Morena Vista Project.

That the City Council:

1. Authorize the modification of the Annual Allocation - Undergrounding of Utilities, San Diego Gas & Electric Company Allocation for 2003 Calendar Year by 1) removing the projects known as CCDC Area 1, Phase 2, Job 2 (Transmission Only) located on Union Street between Date to Ash and on Beech Street between State and 4th, estimated at \$1,114,000; 2) removing of the project known as Sorrento Valley Rd between an area south of Carmel Valley Rd and north of Oleandar, estimated at \$741,000; and 3) replacing both of these projects with a project known as Morena Vista Transit-Oriented Redevelopment Project, estimated at \$2,000,000, these actions contingent upon California Public Utility Commission approval of the proposed Underground Surcharge Fund and receipt of funds, and directing staff to continue to refine the plan and to return to Council for approval.
2. Authorize City staff to negotiate a lease with the Redevelopment Agency for Park N Ride spaces adjacent to the Morena Vista Project.

Fiscal Impact – Up front Agency contribution will be \$3,191,806 (sum of \$391,806, \$2,500,000 and \$300,000) with the total Agency exposure to be \$8,250,000.

Environmental Impact – This action is exempt from the California Environmental Quality Act (CEQA) pursuant to the State CEQA Guidelines, Section 15061 (b) (3). This determination is predicated on Section 15004 of the Guidelines, which provides direction to lead agencies on the appropriate timing for environmental review. The use or disposition of this property will require further review under the provisions of CEQA.

#### BACKGROUND:

MTDB owns approximately six acres adjacent to its Morena/Linda Vista Trolley Station located at Linda Vista Road and Napa Street. In 1997, MTDB in cooperation with the City approved an

RFP/RFQ process to encourage transit-oriented development, generate revitalization of the surrounding area, and create an additional revenue stream for public transit. MTDB entered into a DDA and negotiated a 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 ground lease is unsubordinated. The 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.

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 of 69 KV and smaller power lines 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 \$1,575,000 spread over 16 years from project-generated tax increment, a total contribution not to exceed \$2,025,000. Under this 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 addition, there exists a North Bay Redevelopment Project Area Environmental Impact Report (EIR), completed in 1998. MTDB also completed site-specific environmental review on the trolley station in 1991, as part of its Final Mission Valley West Light Rail Transit EIR. The Morena Vista Project implements the goals of the Linda Vista Community Plan and the North Bay Redevelopment area. The Community Plan and zoning provides for the project with a discretionary permit.

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. It became apparent that the proposed roundabout would require the inclusion of land included in the project design. The project was delayed and tentatively re-designed around the proposed new site boundaries while the round-about issue was unsettled for a period of nearly three years.

The current development plan of the Morena Vista Transit-Oriented Development Project includes 161 apartment units and 18 lofts. Sixteen, or 10%, of the apartments would be made available as affordable housing units. There is approximately 18,500 square feet of retail space with no anchor tenant. Eighteen lofts are situated above the retail space. There are 80 Park N Ride spaces on-site and 120 spaces off-site. This parking is required by the developer's agreement with MTDB and to assist in filling area parking needs related to citywide special events. 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 was negotiated on the base of the effective gross income after one year. Also, a rent payment of two point one five (2.15) percent of the effective gross income above a base of \$3.0 million was included. After

lengthy discussions between MTDB and Agency staff, the MTDB agreement with the developer has been adjusted to reflect the change in economic costs of the project. The MTDB modification of the participation formula reflects increased project-generated assessed value and their effort to help fill the project's financial gap. The assessed value of the project upon completion is now estimated to be \$32 million, up considerably from the previous estimate of \$17.8 million. Of this, 1% or \$325,000 will represent current tax increment revenue.

#### DISCUSSION:

The proposed development contains exemplary features that are important as a catalyst to the revitalization of the immediate area. It represents a regionally significant transit-oriented development (TOD) design, which is desired as a "smart growth" concept. Given the project location, the mix of residential and commercial uses as well as parking for the trolley station, the project represents a viable approach to creating a strong development presence to enhance and improve the Napa/Linda Vista community.

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 Land Use and Housing Committee discussed this matter at its October 23, 2002 meeting and, by a vote of 5-0, referred it without recommendation for consideration at a November City Council meeting.

At its November 26, 2002 meeting, the City Council approved the removal of the proposed roundabout as a design consideration on Linda Vista Road and Napa Street (CIP 52-430) and conceptually approved a financing plan for the Morena Vista Project, directing staff to return to Council on January 14, 2003 for consideration of the agreement (R-297401 by a vote of 8-0, with Councilmember Frye voting 'nay' on funding to include public Park N Ride, soil compaction, and pre-development/entitlement costs. She also voted 'nay' on entering a Disposition and Development agreement prior to providing an Environmental Impact Report). The Council requested that the design of the undergrounding on the Project be expedited.

Also on November 26, 2002, the Redevelopment Agency authorized Agency staff to work with CityLink Investment Corporation for additional funding and to negotiate an amendment to the existing Cooperation Agreement with MTDB, both in order to provide financing for the undergrounding of power lines and for the public Park N Ride facility at the Morena Vista site, and to negotiate an agreement with CityLink Investment Corporation to provide 20% set-aside and other funds in support of affordable housing, soil compaction and predevelopment/entitlements costs (R-03567 by a vote of 8-0 with Councilmember Frye voting 'nay' on financing for the public Park N Ride facility).

The estimated cost of undergrounding is \$2,025,000 after the estimated equivalent overhead credit of \$315,000. The estimated cost for the soil compaction is \$2,300,000. 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 of \$1,500,000, based on the inclusion of 10% (or 16) of units at 80% of Area Median Income (AMI).

**Proposed Agency Contribution to Morena Vista Transit-Oriented Development**

	Up-Front Payment	Annually	Years of Payment	Total Agency Exposure	Funding Source
1. Undergrounding of Power Lines (Cooperation Agreement with MTDB)	\$391,806	-	-	\$450,000	Existing bond proceeds (80% funds)
2. Park N Ride Project Support (Public Use Lease with MTDB)	\$300,000	\$300,000	9	\$3,000,000	Bond proceeds and/or TI (80% funds)
3. Affordable Housing Assistance Agreement with CityLink					
- Soil Compaction	\$500,000	\$100,000	18	\$2,300,000	Bond proceeds and/or TI (20% funds)
- Pre-Development/Entitlement	\$500,000	\$100,000	5	\$1,000,000	
-Affordable housing subsidy for 16 units	\$1,500,000	-		\$1,500,000	
<b>Total Affordable Housing Funds</b>	<b>\$2,500,000</b>	<b>\$200,000</b>		<b>\$4,800,000</b>	
<b>TOTAL AGENCY FUNDING</b>	<b>\$3,191,806</b>	<b>\$500,000</b>		<b>\$8,250,000</b>	

Under the existing Cooperation Agreement with MTDB, the Agency will fund \$450,000 up front from existing North Bay tax allocation bond proceeds (80% funds) for design work and pre-ordering of essential supplies for the undergrounding at the Morena Vista site before terminating the Agreement. The remainder of the cost for undergrounding is proposed to come from the reallocation of citywide surcharge funds, estimated at \$1,855,000 (instead of coming through the Cooperation Agreement from project tax increment over a period of 15 years). Total public contribution is estimated to be \$2,305,000.

To off-set the cost of including Park N Ride spaces in Morena Vista, the Redevelopment Agency will fund \$300,000 up front and \$300,000 annually out of 80% funds to MTDB, for a total not to exceed \$3 million. The Morena Vista Project is estimated to generate approximately \$325,000 per year in new tax increment revenue to the Agency. In accordance with California Community Redevelopment Law, a Section 33433 Summary Report (attached) has been prepared to

document the value of the proposed Agency Park N Ride lease to CityLink Investment Corporation.

In order to support affordable housing units proposed for the project, the Agency will enter an Affordable Housing Assistance Agreement with CityLink Investment Corporation. To reserve 10% of the residential units for affordable housing, a \$1,500,000 subsidy for bridging the financial gap for those 16 units is proposed. Since site preparation costs relate to soil compaction, rather than remediation, the project is not eligible for Polanco Act funding. Funding for soil compaction, pre-development/entitlements to support the affordable housing development, and the affordable housing subsidy will come out of North Bay 20% set-aside funds, including \$2,500,000 up front out of existing North Bay tax allocation bond proceeds.

According to the structure of the Affordable Housing Assistance Agreement, the lump sum up front payment and subsequent annual payments will be made after certain conditions are met by CityLink Investment Corporation. These include that CityLink 1) must have negotiated an amended Disposition and Development Agreement with MTDB, the landowner, to incorporate and enable the proposed development and financing changes, 2) must show evidence of other necessary financing, and 3) must have submitted development plans to the City for review. Based on the needs of the project and at the discretion of the Agency Executive Director, the payment schedule may be accelerated.

Much of the bond proceeds (both 20% set-aside and the remaining 80% funds) have already been identified for other projects in North Bay (see Attachment 9). While few of these projects have actually been implemented, diverting additional money to Morena Vista might necessitate reducing other Project Area priorities. Further, it is projected that a new bond could generate additional net proceeds (80% funds) of \$6 million. Annual payments under these proposed agreements would be subordinate to existing and future bond payments.

Off-site Park N Ride spaces along Friars Road adjacent to the Project are an integral part of the site development and will be addressed in upcoming lease negotiations between the Agency and the City of San Diego, in consultation with MTDB and CityLink.

On October 28, 2002 the Linda Vista Community Planning Committee reviewed the most recent plans for the Morena Vista Project without the roundabout as presented by CityLink. The Committee voted 12-0-1 to reaffirm their support for the project without comment on funding sources, except to note during discussion that any money left in the CIP budget for the Napa Street and Linda Vista Road intersection be retained for traffic remediation and not be contributed to the Morena Vista Project. The Committee also supported moving 40 additional Park N Ride spaces off site.

The North Bay Project Area Committee (PAC) had an opportunity at a special PAC meeting on November 1, 2002 to voice its recommendation on a 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. After lengthy discussion, the PAC voted 6-yes, 1-no, 6 abstentions on a motion not to recommend the contribution of any additional North

Bay Redevelopment funding to this project, but recognized the existing \$2,025,000 obligation already committed through the Cooperation Agreement with MTDB for the undergrounding of 69 KV power lines. In January 2000, the PAC had 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). The Linda Vista Civic Association on November 5, 2002 voted unanimously to support the project in its current form.

A total of \$13.0 million in North Bay Redevelopment Tax Allocation Bonds, Series 2000, were issued in October 2000 for project area improvements and need to be expended by October 2003. Currently, approximately \$3.2 million in unused 80% funds from this issuance remain, with an additional \$2.3 million in 20% low/mod set aside funds. Including approximately \$1,500,000 in interest accumulated since the bonds were issued, approximately \$7,000,000 in unexpended bond proceeds (80% and 20 % funds) remain from the October 2000 issuance. Based on North Bay Project Area acreage, approximately 21% is within Council District 6, and 79% in District 2. Bond proceeds are allocated on a pro rata share basis according to that formula. Morena Vista is located within Council District 6. These are tax-exempt bond proceeds with certain associated use restrictions related to public benefit. Findings have already been made for the undergrounding of the 69KV power lines.

#### CONCLUSION:

After reviewing the financial options given above that would assist MTDB and CityLink in moving forward with the Morena Vista Transit-Oriented Development Project, the Redevelopment Agency/City Council may choose to enter any or all of the attached agreements for the contribution of legally available North Bay Project Area and other funds. Please note that the proposed development at Morena Vista will be subject to standard Development Services Department review of precise construction plans.



Respectfully submitted,

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Todd G. Hooks  
Deputy Executive Director, Redevelopment Agency/  
Deputy Director Redevelopment

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Hank Cunningham  
Assistant Executive Director,  
Redevelopment Agency/Director,  
Community and Economic  
Development

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Approved: Bruce Herring  
Deputy City Manager

CM/cm

Note: Only Attachments 9 and 10 are available in electronic format. Attachments 1 – 8 are available for review in the Office of the City Clerk.

Attachments:

1. Morena Vista Rendering
2. Morena Vista Site Plan
3. Termination of Cooperation Agreement with MTDB
4. Affordable Housing Assistance Agreement
5. Agreement Affecting Real Property
6. Public Use Lease
7. Public Use Sublease with CityLink
8. Re-Use Report and Section 33433 Summary Report
- [9. North Bay Bond Project List](#)
- [10. North Bay Redevelopment Project Area Cash Flows](#)