

DATE ISSUED: August 1, 2003

REPORT NO. 03-171

ATTENTION: Honorable Mayor and City Council
Docket of August 5, 2003

SUBJECT: Fourth Ballpark and Redevelopment Project Implementation Agreement
(Agreement)

Note: Capitalized terms not defined in this Report or the Agreement are defined in the MOU

SUMMARY

Issue: Should the City Council authorize the City Manager to execute the Fourth Ballpark and Redevelopment Project Implementation Agreement to provide for: a) the redesign and reconfiguration of the Outfield Park and the Outfield Park Retail Parcels (commonly, East Village Square) to be reflected in an Amended Parcel Map; b) a reimbursement payment in the total amount of \$4 million (including an interest component of \$500,000) by the Redevelopment Agency to the Padres for that portion of the Outfield Park Retail Parcels to be used for the reconfigured Outfield Park; c) certain development parameters for East Village Square, including the Candy Factory and Schieffer Building, and specification of certain financial considerations and transferee qualifications related to transfers of the Outfield Park Retail Parcels; d) guidelines with respect to the Agency's obligation to capitalize property and possessory interest taxes for the Padres; and, e) resolution of other matters relating to the rights and obligations of the parties to the MOU?

Manager's Recommendation: Approve the transactions referenced above and further described in this Report and authorize the City Manager to execute the Fourth Ballpark and Redevelopment Project Implementation Agreement.

Other Recommendations: The Board of Directors of Centre City Development Corporation (CCDC) has informally approved the transactions set forth in the proposed Agreement.

Fiscal Impact: There is no negative fiscal impact to the City with respect to this action.

BACKGROUND

On November 3, 1998, San Diego voters approved a Memorandum of Understanding (MOU) between the City of San Diego, the San Diego Padres, the Redevelopment Agency, and the Centre City Development Corporation concerning a Ballpark District, Construction of a Baseball Park, and a Redevelopment Project within the East Village area of San Diego. Included in the MOU were provisions for an Outfield Park and Ancillary Development within the Ballpark District including retail development of at least 150,000 gross square feet. At the time of the MOU vote, the Outfield Park was depicted on conceptual drawings and shown surrounded by a mixed use project (East Village Square) of approximately 300,000 square feet including 100,000 of the 150,000 square feet total retail development in the Ballpark District as required by the MOU. In March 1999, the City, the Padres, the Agency, and CCDC entered into an Interim Financing Agreement in which the Padres agreed to advance to the Agency \$8.7 million toward the eventual purchase by the Padres of the Outfield Park Retail Parcels. The Interim Financing Agreement also provided for an additional \$3.5 million advance by the Padres for acreage added to the Outfield Park Retail Parcels, the addition of which had the affect of reducing the size of the Outfield Park. On August 7, 2001, in order to facilitate the sale of the City's bonds for the Ballpark, the City Council approved Parcel Map 18855 which established specific boundaries for the Outfield Park, which rendered the park significantly smaller than had been anticipated by the public, as well as for the Outfield Park Retail Parcels.

Subsequent to approval of Parcel Map 18855 and receipt by the Agency of the funding advances from the Padres, public concerns were raised about the size of the Outfield Park and amount of East Village Square (EVS) development proposed by the Padres. The Outfield Park had decreased in size from the original concept of approximately 2.8 acres to approximately 1.5 acres. The Padres, and its Master Developer, JMI Realty, Inc. (JMI), submitted to the Agency a development proposal for the Outfield Park Retail Parcels that included approximately 900,000 square feet of development comprised of two 240 foot towers (the "left field building" and "right field building", respectively) and an 11 story office building (the "center field building"). CCDC staff proposed approximately 800,000 of development with a 90 foot tall, 6 story office building on the center field parcel. On April 22, 2003, the City Council in closed session voted to reject the Padres/JMI proposal for East Village Square and the plan approved by CCDC's Board of Directors due primarily to the size of the proposed Outfield Park and level of development density. To address these issues, and in an attempt to "unwind" the previous actions, including the approval of Parcel Map 18855, the City Council directed City and Agency staff to negotiate with the Padres and JMI for a development proposal that would more closely resemble the original development concept.

DISCUSSION

The primary goals of the City and Agency in its negotiations with the Padres were i) to increase the size of the Outfield Park from the footprint depicted on the approved Parcel Map; ii) to eliminate proposed encroachments into the vacated public rights of way within East Village Square and the Outfield Park; iii) to minimize the height of the center field building to preserve downtown views from the Ballpark seating bowl; iv) to reduce the total square footage to be developed in East Village Square; and v) to resolve other issues related to the Master Plan for East Village Square and the Outfield Park.

The negotiations resulted in a proposed agreement, the terms of which are set forth in the Fourth Ballpark and Redevelopment Project Implementation Agreement (Attachment 1), which is recommended for approval.

The proposed agreements relating to the Outfield Park Retail Parcels and the Outfield Park can be categorized as design and development issues (highlighted on Attachment 2) and economic issues (highlighted on Attachment 3), as summarized below.

Design and Development Issues

The Padres have agreed to construct at its expense a redesigned and reconfigured Outfield Park (Ref. Exhibit 3C to the Agreement) which will be approximately 2.7 acres in size and will include a video board (approx. 14.5'x26') on the back of the "batter's eye" facing the Outfield Park. Under the MOU, the Padres have design discretion with respect to the Outfield Park but have agreed to cooperate with the City and Agency on design issues. CCDC will prepare an Amended Parcel Map that will eliminate the previous encroachments on the vacated portions of Eighth and Ninth Avenues between J and K streets (vacated rights-of-way) and conform the amended parcel map to the proposed development. The vacated rights-of-way will be subject to parking easements for the purpose of constructing and maintaining subterranean parking for the proposed development on parcels 2 and 4 (Ref. Exhibit 1 to the Agreement), the left field and right field buildings. There will be no surface encroachments into the vacated rights-of-way. The subterranean parking easements will be constructed to accommodate the planting of trees in the Outfield Park.

Pursuant to a Master Plan, the reconfigured Outfield Park will be developed in two phases. The first phase will include completion of permanent landscape and hardscape except within the vacated rights-of-way, with a substantial completion goal of Opening Day 2004. The second phase will include the permanent hardscape and landscape on Eighth and Ninth Avenues and any additional hardscape/landscape around the Schieffer Building, an existing structure on the center field parcel, which will be rehabilitated pursuant to the Agreement (Ref. Exhibit 4A to the Agreement). Completion of the second phase will be concurrent with the development of the left field parcel, the right field parcel and the Schieffer Building, respectively. As part of the Master Plan, the Padres will develop a plan to provide adequate access to restroom facilities for patrons of all events in the Outfield Park. If the Padres fail to complete all permanent improvements in the Outfield Park by December 31, 2003, the City may elect to complete such improvements at the Padres' expense.

Because of the elimination of the proposed development on the center field parcel, the East Village Square retail development requirement has been reduced from 100,000 gross square feet to 65,000 gross square feet; however the total gross square footage of retail development in the Ballpark District remains at 150,000 square feet in conformance with the MOU's requirements. The density envelope for the total development at East Village Square will not exceed 640,000 square feet in the left and right field buildings; the rehabilitated Schieffer Building will contain an additional 15,000 square feet. The building envelopes proposed for left and right field will contain 285,000 and 325,000 gross square feet, respectively, with maximum tower heights of 240 feet (22 stories). The massing, height, building envelopes and scale of development is set forth in Exhibits 4A, 4B and 4C to the Agreement.

The development of East Village Square and the Outfield Park will be subject to consideration of a Master Plan, which will be publicly processed with a target approval date of November 30, 2003. Additionally, requirements for Disposition and Development Agreements (DDA's) and other discretionary actions must be satisfied by the Padres, and the development is subject to the California Environmental Quality Act (CEQA) and California Redevelopment Law. The target approval date for all other DDA's required for development of the Outfield Park Retail Parcels is April 30, 2004.

Economic Issues

The Redevelopment Agency will repay to the Padres \$4 million; \$3.5 million as reimbursement to the Padres for the advance funded under the 1999 Interim Financing Agreement for the incremental increase in the size of the Outfield Park Retail Parcels, and \$500,000 as an interest component. The parties have agreed that \$1 million will be paid by the Agency on November 1, 2003; the remaining \$3 million will be deferred and paid by the Agency on or before December 31, 2004 together with interest commencing on November 1, 2003 at the rate of 6% per annum. An important economic provision of the Agreement is that the Padres will be responsible for paying all development and construction costs and additional operations and maintenance costs incurred as a result of the reconfigured Outfield Park, the estimated value of which is \$2 million.

Several other economic provisions are addressed by the Agreement. In accordance with the MOU, the Padres must acquire EVS from the Redevelopment Agency consistent with the process required under the California Redevelopment Law. That process includes a determination under California Health and Safety Code §33433 of the price to be paid by the Padres for the property acquisition. The MOU requires that the Padres receive a credit against the purchase price for the Outfield Park Retail Parcels in the amount of the total Land Acquisition Costs (\$28.5 million est.) paid by the Padres for the Ballpark Project; however the Padres have agreed to cap the credit at \$22.75 million and have waived their MOU rights with respect to Excess Land Costs. Accordingly, the Padres have the right to retain only up to \$22.75 million from the sale of these parcels to third party developers as permitted by the MOU and explained by the Agreement, and any land sale proceeds received by the Padres in excess of \$22.75 million will be retained by the Redevelopment Agency for its discretionary use.

The Agreement also addresses the DDA requirements for the Schieffer Building and the Candy Factory which will both remain within East Village Square (Ref. Exhibit 1 to the Agreement). It is anticipated that the “reuse value” for each of these buildings will be nominal because of the cost of relocation, retrofit and rehabilitation. As a result, these two buildings likely will be sold to the Padres for a nominal amount. The Padres are obligated to rehabilitate the Candy Factory under the SOHO Settlement Agreement; however, if the reuse value of the Schieffer Building exceeds \$1.00 the Padres may elect not to purchase it. Additionally, the Padres will lose their acquisition right if they fail to commence renovation of the Schieffer Building within two years after approval of the Master Plan. The Agency has agreed to consider nominal encroachments into the Outfield Park in connection with the development of the Schieffer Building.

Under the MOU and subsequent implementation agreements, the Padres committed that certain of the Ancillary Development projects would be completed by Opening Day 2004. The City and Redevelopment Agency acknowledge that because of the Ballpark litigation, the force majeure provision in the MOU applies to the EVS component of the Ancillary Development obligations of the Padres. As a result, the Padres will be allowed an additional 24 months solely to develop EVS, thus completing development projects with an Assessed Valuation of \$311 million.

Other Issues

- 1) The Agreement addresses the issue of property and possessory interest tax financing for the Padres. Per Section XVIII of the MOU, the City is obligated to cause the capitalization of property and possessory interest taxes paid with respect to the Ballpark and other Padres property provided the financing meets the conditions specified in the MOU. Under the Agreement, the Redevelopment Agency commits to using reasonable and good faith efforts to accelerate its obligation to capitalize property and/or possessory interest taxes to be paid by the Padres through the sale of tax allocation bonds, consistent with other Agency bond issues, prior to the actual payment of the taxes. In consideration of the sale of the bonds (target date January 2004) prior to completion of development the Padres agree to waive their MOU rights to request any subsequent bond financing or refinancing.
- 2) The Agreement requires the City to lease Tailgate Park to the Padres in the event the Unified Port District acquisition/lease transaction does not occur prior to Opening Date. The lease would be consistent with the lease terms agreed to by the Port District.
- 3) The Agreement contemplates completion of land assembly and approval and recordation of a parcel map covering Parcels B and C in the Ballpark District by November 1, 2003.

No provision of the Agreement impacts or modifies the \$225 million cap on the City’s investment in the Project as specified in the MOU; increases the obligations or decreases the rights of the City, or decreases revenue to the City.

Conclusion

The issues raised by the City and Redevelopment Agency in regard to the size and design of the Outfield Park and East Village Square have been successfully addressed by the negotiations and the results reflected in the proposed Agreement. Therefore, it is recommended that the Fourth Ballpark and Redevelopment Project Implementation Agreement be approved to provide for the

redesign and reconfiguration of the Outfield Park, including the establishment of development parameters for East Village Square, and the payment of \$4.0 million to the Padres by the Redevelopment Agency, and to clarify and implement other matters related to the development of East Village Square and the Outfield Park and the parties respective obligations under the MOU.

Respectfully submitted,

Bruce A. Herring
Deputy City Manager

Peter Hall
President and CEO
Centre City Development Corporation

BH/LKC

Attachments:

1. [Fourth Ballpark and Redevelopment Project Implementation Agreement](#)
2. [Design and Development Issues](#)
3. [Economic Issues](#)