

DATE ISSUED: March 24, 2004 REPORT NO. RA-04-09
CMR-04-050

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Honorable Mayor and Members of the City Council
Docket of March 30, 2004

SUBJECT: Disposition and Development Agreement (DDA) and Associated Actions
with Western Pacific Housing for the North Park Condos Project

SUMMARY:

Issue(s) –

- 1) Should the Redevelopment Agency Authorize the Executive Director to Execute the Disposition and Development Agreement (DDA) with Western Pacific Housing and Approve Associated Actions for the Proposed North Park Condos Project?
- 2) Should the City Council Consent to the Redevelopment Agency Entering into the Disposition and Development Agreement (DDA) with Western Pacific Housing and Approve Associated Actions for the Proposed North Park Condos Project?

Executive Director/City Manager Recommendations –

For the Agency:

- 1) CERTIFY the Mitigated Negative Declaration Project Number 5787, dated December 3, 2003, and ADOPT Mitigation, Monitoring and Reporting Program covering this activity.
- 2) Approve the Basic Design Concept for the Project.

- 3) Authorize the Executive Director to Execute the Disposition and Development Agreement (DDA) for the Project.
- 4) Amend the North Park Project Area Budget for Fiscal Year 2004 to Accept a Good Faith Deposit of \$40,000 from Western Pacific Housing and Authorize the Appropriation and Expenditure of Said Funds for the Project.
- 5) Amend the North Park Project Area Budget for Fiscal Year 2004 to Accept, Appropriate and Expend an Initial Developer Advance for the Agency's Acquisition and Relocation Costs in an Amount of \$100,000 and Authorize the Executive Director to Make a Contingent Offer and Return to the Agency, as appropriate.
- 6) Authorize Contingent Offers and Acquisition of Subject Leasehold Interests.

For the City Council:

- 1) To CERTIFY the Mitigated Negative Declaration Project Number 5787, dated December 3, 2003, and ADOPT Mitigation, Monitoring and Reporting Program covering this activity.
- 2) Consent to the Redevelopment Agency Entering into the Disposition and Development Agreement (DDA) for the Project.

Other Recommendations – WPH has submitted their development plans for final review to the Development Services Department. On December 18, 2003 WPH received approval from the Planning Commission on a Process Five action. Specifically, the Planning Commission approved a motion (6-0, with Commissioner Garcia absent) to recommend: 1) that the City Council CERTIFY Mitigated Negative Declaration No. 5787 and ADOPT the Mitigation, Monitoring and Reporting Program; and 2) that the City Council APPROVE the Tentative Map No. 10175; and 3) that the City Council APPROVE the Site Development Permit No. 10176; and 4) that the City Council APPROVE Encroachment Maintenance and Removal Agreement No. 10178. A separate City Council meeting to consider these issues is scheduled for April 2004.

Fiscal Impact – The total project cost is approximately \$62.0 million and the project is projected to generate approximately \$600,000 in new gross tax increment per year. Total Redevelopment Agency financial contributions to the project, as defined in the DDA will not exceed \$3,000,000. Of the total amount, a maximum of \$2,100,000 will be applied from the Agency's Low and Moderate Income Housing Fund to subsidize 20% of the total 224 units or 45 units. The remaining \$900,000 will be used to reimburse Western Pacific Housing (WPH) for construction of certain public improvements. The

Redevelopment Agency will make payments over time to WPH to reimburse them for the affordability subsidy and the cost of public improvements, based upon the property tax increment allocated and received by the Agency from the Site. Simple interest on the outstanding balance of the total Agency obligation will accrue to WPH at a rate of 5% per year. The Agency has the option to make additional payments or repay the outstanding balance in full without prepayment penalty. Also, if financially the project performs better than projected, the Agency will receive credits against its \$2,100,000 subsidy. WPH will pay for all land acquisition and potential relocation costs. WPH will finance the project through its parent company D.R. Horton Inc. (as stated in a December 16, 2003 letter to Agency staff) and will not enter into a separate financing arrangement with an outside lender, aside from the participation on the part of the Agency.

Environmental Impact – The City of San Diego, as Lead Agency under the California Environmental Quality Act (CEQA) has prepared and completed a Mitigated Negative Declaration Project Number 5787, dated December 3, 2003, and Mitigation, Monitoring and Reporting Program covering this activity.

BACKGROUND:

Western Pacific Housing (WPH) is a member of the D.R. Horton family of companies, one of the nation's largest homebuilding companies. WPH is currently developing an urban infill housing project (Union Square) in the East Village area of Downtown San Diego. WPH is proposing to develop a similar mixed-use project in the North Park Redevelopment Project Area (see Attachment 1). On September 30, 2003, the Redevelopment Agency approved entering into an Exclusive Negotiating Agreement (ENA) with WPH as the first step towards potentially entering into a Disposition and Development Agreement (DDA) with the Redevelopment Agency. A draft DDA has been prepared and is submitted for Redevelopment Agency/City Council consideration.

DISCUSSION:

WPH is proposing to develop a mixed-use project in the North Park Redevelopment Project Area on a 2.06 acre site bounded by 30th Street to the west, Lincoln Avenue to the north and Ohio Street to the east (see Attachment 2). The site is currently occupied by Rite-Aid and Weber's Bakery. WPH is proposing to demolish the existing buildings and develop a mixed-use project with 224 for-sale condominium homes, some suited to live-work use, approximately 15,800 square feet of ground level commercial space (reduced from 18,500 square feet), and a minimum of 371 parking stalls (338 for residential uses and 33 for commercial uses) (see Attachments 3 and 4). Open space and recreational facilities will be provided on-site for resident owners. The project is being designed with 7 different floor plans ranging in size from 900 to 1,100 square feet. The estimated total project value is approximately \$62 million.

The approval and development of this major mixed-use project will be another key accomplishment in the implementation of the recently approved North Park Pilot Village. Two other important projects currently underway include the revitalization of the historic North Park

Theatre and the recently approved North Park Parking Structure. All three of these projects are located near University Avenue and 30th Street. These projects will serve as catalyst projects in attracting additional public and private investment and will form a critical mass of development activity. This development hub is located along a major public transportation corridor, and provides market rate and affordable residential development, commercial and entertainment uses.

A Mitigated Negative Declaration and Mitigation, Monitoring and Reporting Program have been prepared for the proposed project and are presented in Attachment 5.

The financial and legal terms of the project between the Redevelopment Agency and WPH are presented in the draft DDA (see Attachment 6). WPH will finance the project through its parent company D.R. Horton Inc. and will not enter into a separate financing arrangement with an outside lender. WPH has requested Agency involvement to assist with possible site acquisition, gap financing for a portion of the units to be affordable and public improvements.

In terms of site acquisition, WPH currently has the site under contract for purchase. The existing tenants on the site include Rite-Aid and its subtenant Bimbo Bakery outlet. WPH has been negotiating with the current tenants but has not yet reached final agreement. In the event WPH is unsuccessful in reaching mutually acceptable terms for the purchase of the leasehold interests in the property, the Agency may employ its reasonable efforts, but is not obligated, to the purchase the leasehold interests. WPH will advance the funds to the Agency in the amount of the Agency's Acquisition and Relocation Costs as defined in the DDA. The Developer's obligation to advance such funds to the Agency will include additional funds to fully offset any additional costs incurred by the Agency in the course of any potential acquisition and relocation activities. The Agency will not use any of its funds for Acquisition and Relocation Costs.

Twenty percent (20%) of the 224 units, or 45 units, will be affordable units. Specifically, 10% of the units, or 23 units, will be sold at an affordable housing cost to median income households (those earning no more than 100% of AMI, adjusted for household size appropriate for the unit). An additional 10% of the units, or 22 units, will be sold at an affordable housing cost to median income households (those earning no more than 120% of AMI, adjusted for household size appropriate for the unit). These units will be price-restricted for a minimum of 45 years. The 20% percent affordability level exceeds the City's minimum inclusionary housing requirement of 10% and the Redevelopment Agency's project area-wide production requirement of 15%. Also, the project's 20% affordability level meets the City's Pilot Village Program policy of 20% affordable units.

The draft DDA states that the Agency will subsidize the affordable units in the maximum aggregate amount of \$2,100,000. This subsidy amount is based upon an independent third party analysis (prepared by the Agency's economic consultant, CSG Advisors, Inc.) of WPH's financial pro forma. The per unit subsidy for the 23 units at 100% AMI is approximately \$62,000 and the per unit subsidy for the 22 units at 120% AMI is approximately \$30,000. These amounts are considered reasonable given land and construction costs, and compared with other affordable for-sale housing projects.

The Agency will reimburse WPH \$900,000 for costs incurred by WPH in the construction of certain public improvements (curb, gutter, sidewalk, street furniture, landscaping etc.) that will be made to all frontages of the block on which the project is located. These improvements will upgrade the physical condition of this portion of the North Park Redevelopment Project.

The Agency will make payments to WPH to reimburse them for the cost of the public improvements through the total ad valorem property tax increment funds received by the Agency from the Site. Also, the Agency will make payments to WPH in connection with the affordability subsidy from the Agency's Low and Moderate Income Housing Fund, in amounts equal to the total annual available ad valorem property tax revenue allocated to and received by the Agency from the Site. Simple interest on the outstanding balance of the total Agency obligation to WPH will accrue at a rate of 5% per year. The Agency will satisfy its repayment obligation to WPH for the costs of the public improvements first, and after repayment of the obligation thereunder, will commence repayment of the affordability subsidy. The project is estimated to generate approximately \$600,000 in new gross tax increment per year.

The Agency's obligation to reimburse WPH for public improvements and the affordability subsidy from tax increment generated by the project is and will be subordinate to any existing or future Agency bond payment obligations. The Agency will have the option to make additional payments or repay the outstanding balance in full without prepayment penalty. The Agency will also use reasonable efforts to issue and sell bonds for the North Park Redevelopment Project to repay this obligation, as set forth in the DDA.

Also, if financially the project performs better than projected, the Agency will receive credits against its subsidy. Specifically, the Agency will receive a credit in the amount of excess revenue received by WPH from the sale of the restricted units and will receive a percentage share of the excess revenue received by WPH from the lease or sale of the non-restricted units and the commercial space.

In accordance with California Community Redevelopment Law, (Section 33433), CSG Advisors Inc. has prepared a Summary Report Pertaining to the Sale of Real Property (see Attachment 7). The report outlines the proposed transaction and states that leasehold interest in the property that may be purchased by the Agency and conveyed to WPH will be at a price equal to the cost acquired by the Agency, less the Agency contribution of \$3,000,000.

Through business development incentives under Council Policy 900-12, (for adopted

redevelopment projects and affordable housing projects), the project is eligible and will apply for a reduction in the water/sewer capacity charges. Based on a potential savings of \$2,000 per unit, the savings to WPH is \$448,000.

WPH has done extensive outreach with the community on the development and design of the proposed mixed-use project. Recently, on March 9, 2004 the North Park Project Area Committee (PAC) reviewed the terms of the draft DDA and voted 11-0-0 to recommend that the Redevelopment Agency enter into the DDA with WPH.

An owner participation letter was sent to the affected property owner on August 27, 2003, informing them of the proposed project. The questionnaire solicited input from the current owner such as their interest in selling the property to the Redevelopment Agency or interest in submitting a competing proposal. No response to the questionnaire was received by Agency staff.

Construction is anticipated to begin in mid 2004 with completion in late 2005 or early 2006.

ALTERNATIVE:

Do not approve the DDA and related actions.

Respectfully submitted,

Todd Hooks
Deputy Executive Director/
Deputy Director
Redevelopment Agency

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

Approved: Bruce Herring
Deputy City Manager

HOOKS / JRD

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

Attachments:

1. Redevelopment Project Area Map
2. Vicinity Map
3. Site Plan
4. Basic Concept Elevations
5. Mitigated Negative Declaration and Mitigation, Monitoring and Reporting Program
6. Disposition and Development Agreement (DDA) between the Redevelopment Agency of the City of San Diego and Western Pacific Housing
7. Summary (33433) Report Pertaining to the Proposed Sale of Leasehold Interest in Real Property