

DATE ISSUED: November 23, 2004

REPORT NO. RA-04- 42
CMR-04-237
(new number issued) CMR-04-262

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

SUBJECT: Chollas Parkway Business Park - Crossroads Redevelopment Project

REFERENCE: Manager's Report No. 00-250, dated November 13, 2000

SUMMARY

Issues – Should the City Council authorize the City Manager or designee to:

- 1) Apply for a HUD Section 108 loan of \$1.35 million to assist with the development of the proposed Chollas Parkway Business Park in Crossroads Redevelopment Project and to set forth the legal authority and certifications necessary for such an application?
- 2) Apply for a HUD Brownfields Economic Development Initiative (BEDI) grant in an amount up to \$225,000 for the annual repayment of the HUD 108 loan and to set forth the legal authority and certifications necessary for such an application?
- 3) Conduct all negotiations and to execute and submit all documents related to the processing of the HUD 108 loan and the BEDI grant, if said loan and grant are approved?
- 4) Accept the grant and transfer the loan proceeds to the Redevelopment Agency to assist with the development of the proposed Chollas Parkway Business Park, if said grant and loan is approved and funded?
- 5) Pledge future District 7 Community Development Block Grant (CDBG) entitlement funds as security should there be insufficient tax increment revenue to make the annual

loan payments?

- 6) Utilize the BEDI grant for interest-only payments on the HUD108 loan for 3 to 5 years, or until expended?
- 7) Amend the Community Development Block Grant 2005 Action Plan to reflect the use of HUD 108 funds for the proposed Chollas Parkway Business Park?
- 8) Encumber the City's College/Rolando Service Center and current College Heights Branch Library, by issuing a deed of trust in HUD's favor?

Issues – Should the Redevelopment Agency authorize the Executive Director or designee to:

- 1) Utilize approximately \$118,500 of tax increment revenues generated by the Crossroads Redevelopment Project for annual, repayment of the HUD 108 loan over remaining term?
- 2) Accept the transfer of up to \$1.35 million in proceeds from the City of San Diego for the proposed development of the Chollas Parkway Business Park, if said loan is approved and funded?

Manager's Recommendations – Authorized the City Manager or designee to:

- 1) Apply for a HUD Section 108 loan of \$1.35 million to assist with the development of the proposed Chollas Parkway Business Park in Crossroads Redevelopment Project and to set forth the legal authority and certifications necessary for such an application.
- 2) Apply for a HUD Brownfields Economic Development Initiative (BEDI) grant in an amount up to \$225,000 for the annual repayment of the HUD 108 loan and to set forth the legal authority and certifications necessary for such an application.
- 3) Conduct all negotiations and to execute and submit all documents related to the processing of the HUD 108 loan and the BEDI grant, if said loan and grant are approved.
- 4) Accept the grant and transfer the loan proceeds to the Redevelopment Agency to assist with the development of the proposed Chollas Parkway Business Park, if said grant and loan is approved and funded.
- 5) Pledge future District 7 CDBG entitlement funds as security should there be insufficient tax increment revenue to make the annual loan payments.
- 6) Utilize the BEDI grant for interest-only payments on the HUD108 loan for 3 to 5 years, or until expended.
- 7) Amend the Community Development Block Grant 2005 Action Plan to reflect the use of HUD 108 funds for the proposed Chollas Parkway Business Park.
- 8) Encumber the City's College/Rolando Service Center and current College Heights

Branch Library, by issuing a deed of trust in HUD's favor.

Executive Director's Recommendations – Authorized the Executive Director to:

- 1) Utilize approximately \$118,500 of tax increment revenues generated by the Crossroads Redevelopment Project for annual, repayment of the HUD 108 loan over remaining term.
- 2) Accept the transfer of up to \$1.35 million in proceeds from the City of San Diego for the proposed development of the Chollas Parkway Business Park, if said loan is approved and funded.

Other Recommendations – The Crossroads Project Area Committee (PAC) voted in favor of applying for the HUD 108 loan and the BEDI grant at their November 11, 2004 meeting.

Environmental Review – This activity is categorically exempt from CEQA pursuant to State CEQA Guidelines Section 15301, and exempt from NEPA pursuant to 24 CFR Part 58, Section 58.34 (b).

Fiscal Impact – A HUD Section 108 loan of \$1.35 million will require an annual repayment, over 20 years, of approximately \$118,500. The acceptance of the HUD loan will require the repayment of approximately \$2.2 million of tax increment revenue generated by the Crossroads Redevelopment Project. District Seven's future CDBG entitlement funds must be pledged as security should the Crossroads Redevelopment Project Area generate insufficient tax increment revenue to make the annual payments on the HUD loan. The \$225,000 BEDI grant from HUD will make the interest-only payments on the HUD loan for 3 to 5 years, or until expended.

BACKGROUND

The concept of developing the Chollas Parkway Business Park was the product of a 1997 economic development study known as the College Eastern Area Planning Economic Review (CEAPER), see Attachment 1 (vicinity map). Due to a lack of developable vacant land in this and other areas of District 7, alternatives were explored to identify potential sites for development of possible employment centers. The bulk of this proposed site is currently dedicated street right-of-way known as Chollas Parkway. The City of San Diego acquired the property as part of the first phase of a mid-city cross-town parkway that was to connect University Avenue via Wabash Canyon (I-15), to the Harbor and the Martin Luther King Jr. Freeway to downtown.

With the exception of this completed segment (Chollas Parkway), the remainder of the acquired parkway land has since been converted into a linear open space system. The existing roadway is considerably under utilized, having been designed for the much greater traffic volume that was projected for the completed cross-town parkway. Current traffic could easily be rerouted adjacent to the project site by connecting Lea Street to University Avenue, thus freeing up significant land for economic development. The proposed economic development concept consists of approximately 12 acres of City-owned right of way. An adjacent 1 acre parcel could be included in the concept/project. The City-owned right of way is currently zoned IS-1-1, and the Mid-City

Communities community plan (Eastern Area) designates the City owned property for light industrial land uses.

A Request for Proposals (RFP) was issued on July 31, 2000 soliciting proposals for the ground lease or sale and subsequent development of the City property. Staff has been in preliminary discussions with developers regarding this economic development concept. The community plan contemplated the demolition of the existing street improvements on the project site and the possibility of connecting Lea Street from 54th Street to University Avenue.

The concept would provide a new southwest access by connecting Lea Street to University Avenue including the installation of a traffic signal, creek restoration and improvements to the Oak Park tributary of Chollas Creek. The southernmost portion of the site could be parkland or open space, see Attachment 2 (Concept Site Plan). As currently contemplated, the City would vacate the street and right-of-way for the development of approximately 80,000 square feet within 8 buildings. The buildings would be designed to serve light industrial and small enterprise uses and will include some office improvements, work areas with 16 to 18-foot clear heights, roll-up grade-level truck doors, tinted windows in the office areas and skylights for the work areas. Each building would be located on a separate parcel and for sale to individual business owners. Parking, landscaping and private driveways are envisioned to be owned in common and maintained by a property owners' association. If the grant and loan are awarded, staff will return to the Council/Agency with the appropriate actions regarding this concept.

DISCUSSION

Authorization is requested to submit an application to the Federal Department of Housing and Urban Development for a Section 108 Loan ("HUD loan") in the amount of \$1.35 million. Authorization is also requested to apply to HUD for a Brownfields Economic Development Initiative grant ("BEDI") in an amount up to \$225,000. The purpose of the HUD loan is to assist the selected developer with public improvements (street extension, signalized intersection, and creek restoration/improvements) and other costs related to the business park concept.

The BEDI grant will be used to make interest-only payments on the HUD loan for three to five years, or until the grant is expended. The HUD loan will be repaid from tax increment revenue generated by the Crossroads Project Area. Annual principal and interest payments are estimated to be approximately \$118,500 to be paid over the remaining term years of the loan, see Attachment 3 (Loan Repayment Schedule). The concept calls for the buildings to be sold by the selected developer to end users. Qualified end users (purchasers) may also be eligible for loans supported by second trust deeds or other assets through the City's Community and Economic Development Department, San Diego Regional Revolving Loan Fund.

HUD requires a pledge of collateral that is equal to at least 125% of the loan amount. On January 14, 2003, City Council approved guidelines regarding collateral which allow assets within the same Council District as the project to be used as collateral for Section 108 Loans. Staff recommends that the College/Rolando Service Center (4704 College Avenue) and the current College Heights Library (4710 College Avenue) be pledged as collateral since these properties are within the same Council District (7) and the same Redevelopment Project Area (Crossroads). In addition, HUD requires that future CDBG entitlement funds also to be pledged as security in the event there is insufficient Project Area tax increment revenue to make the annual payments. There is sufficient CDBG in Council District Seven's future to repay the loan in the event there is not

sufficient tax increment revenue. Recently, HUD has begun requiring an additional pledge of future CDBG funds which would allow them, in the event of a default by the City and the proposed elimination of the CDBG program by Congress, to use CDBG funds to remedy the default in a number of ways, including defeasance or repayment of the balance of the loan. HUD now requires this "hard pledge" of future CDBG funds in addition to other collateral such as real estate.

ALTERNATIVE

1. Do authorize the submission of the application for a HUD Section 108 loan or BEDI grant

Respectfully submitted,

Debra Fischle-Faulk
Deputy Executive Director
Redevelopment Agency/Community
& Economic Development Assistant Director

Hank Cunningham
Assistant Executive Director
Redevelopment Agency/Community
& Economic Development Director

Approved: Bruce Herring
Deputy City Manager

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Note: Attachments are available in the Office of the City Clerk.

- Attachments:
1. Vicinity Map
 2. Concept Site Plan
 3. Loan Repayment Schedule