

DATE ISSUED: April 27, 2005

REPORT NO. RA-05-14
CMR-05-099

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Honorable Mayor and Members of the City Council
Agenda of May 3, 2005

SUBJECT: Grantville Redevelopment Project

SUMMARY:

Issues: Should the Redevelopment Agency/City Council take actions concerning the Grantville Redevelopment Project?

The Redevelopment Agency and City Council will take the following actions:

- 1) Consider and adopt responses to written objections submitted regarding adoption of the Grantville Redevelopment Plan.
- 2) Approve and adopt the Grantville Owner Participation Rules.
- 3) Certify the Final Program Environmental Impact Report for the Grantville Redevelopment Project.
 - a) Adopt the CEQA Findings of Fact and a Statement of Overriding Considerations for the Grantville Redevelopment Project.
 - b) Adopt the Mitigation Monitoring and Reporting Program for the Grantville Redevelopment Project.
- 4) Approve the Grantville Redevelopment Plan.
- 5) Approve the finding that the expenditure of low and moderate income funds outside the Grantville Project Area will benefit the Project Area.

Executive Director/City Manager's Recommendation: Adopt the resolutions and the ordinance.

Planning Commission Recommendation: On April 7, 2005, the Planning Commission adopted a Resolution determining that the draft Grantville Redevelopment Plan and implementation activities described therein are in conformity with the General Plan of the City, pursuant to Government Code Section 65402.

Grantville Project Advisory Committee (GRAC) Recommendation: On March 28, 2005, the GRAC recommended approval of the draft Grantville Redevelopment Plan and implementation activities. A majority of the GRAC (7-6) voted to recommend that a Redevelopment Advisory Committee remain in existence to review and make recommendations to the Agency on issues related to implementing redevelopment activities.

Community Planning Group Recommendations: The Navajo Community Planners Inc. and the Tierrasanta Community Council have reviewed the Draft Redevelopment Plan and the Draft Environmental Impact Report (Attachment 3.).

Environmental Impact: A Program Environmental Impact Report (PEIR) has been prepared in accordance with the California Environmental Quality Act (CEQA), the CEQA Guidelines, and California Community Redevelopment Law guidelines. The Redevelopment Plan for the Grantville Redevelopment Project will be implemented in accordance with the California Community Redevelopment Law (CRL), California Health & Safety Code Section 33000, et. seg. The Grantville Redevelopment Project Area encompasses approximately 970 acres.

The environmental issue areas addressed in the PEIR are: Land Use; Transportation/Circulation; Air Quality; Noise; Cultural Resources; Biological Resources; Geology/Soils; Hazards and Hazardous Materials; Paleontological Resources; Aesthetics; Water Quality/Hydrology; Population and Housing; Public Services and Utilities; and Mineral Resources. A summary of the environmental impacts and mitigation measures is provided in Table ES-1 of the PEIR. Significant project-level impacts have been identified for Air Quality (short-term); Noise; Cultural Resources; Biological Resources; Geology/Soils; Hazards and Hazardous Materials; Paleontological Resources; Aesthetics; Water Quality/Hydrology; and Public Services and Utilities. These significant impacts can be reduced to a level less than significant with the implementation of the identified mitigation measures.

Based on the data and conclusions of the PEIR, the Redevelopment Project will result in significant project-specific and cumulative impacts to Transportation/Circulation and Air Quality (long-term), which cannot be fully mitigated. The City Council and Redevelopment Agency will be asked to adopt a “Statement of Overriding Considerations” pursuant to Sections 15093 and 15126(b) of the CEQA Guidelines in order to approve the Redevelopment Project. The project alternatives are discussed in Section 8.0 of the PEIR.

Fiscal Impact: Approval of these actions will commit property tax increment revenue derived from the Project Area over its thirty (30) year life for the repayment of debt incurred for the public and private improvements within the Grantville Redevelopment Project Area. Tax increment payments are authorized for up to forty-five (45) years for

the repayment of bonded indebtedness. The fiscal impacts of the Plan are discussed in the Report to Council (Attachment 2, Report to Council tab, Section E.).

Code Enforcement: Subsequent to Redevelopment Plan adoption, available funds derived from the Project Area may be applied to enhancing structures by eliminating health and safety code violations, which contribute to blight in the project area.

Housing Affordability Impact: California Redevelopment Law requires that 20% of the funds derived from redevelopment tax increment be set aside to insure that low and moderate income residents have access to safe, decent, and affordable housing. The 20% set-aside may be used to implement any low and moderate income housing agreements that are approved by the City Council/ Redevelopment Agency.

BACKGROUND:

Activities to explore the feasibility of the proposed Redevelopment Plan for the Grantville Redevelopment Project Area (“Project Area”) began on March 30, 2004 with the adoption of the survey area. On August 5, 2004 the Planning Commission selected the preliminary boundaries for the Project Area and adopted the Preliminary Plan. On August 10, 2004, the City Council selected the preliminary boundaries and adopted the Preliminary Plan. On January 19, 2005, the Redevelopment Agency distributed (transmitted) the Preliminary Report and Redevelopment Plan for the proposed Grantville Redevelopment Project to affected taxing entities. The Draft Grantville Redevelopment Plan provides a general framework for the implementation of redevelopment programs within the 970-acre Project Area, which is divided into three Subareas.

On April 7, 2005, the Planning Commission adopted a Resolution determining that the draft Grantville Redevelopment Plan and implementation activities described therein are in conformity with the General Plan of the City, pursuant to Government Code Section 65402. On March 28, 2005, the GRAC recommended approval of the draft Grantville Redevelopment Plan and implementation activities.

On April 19, 2005, the Redevelopment Agency and City Council held a noticed joint public hearing to take testimony on the proposed adoption of the Grantville Redevelopment Plan. Staff will respond to written objections received from affected property owners and taxing entities on a separate memorandum.

DISCUSSION:

On August 5, 2004, the Planning Commission set the boundaries for the proposed Grantville Redevelopment Project. Several months prior to that action, the Grantville Redevelopment Advisory Committee was formed to provide community and public input into the Grantville Redevelopment Plan and associated documents. Pursuant to the California Community Redevelopment Law (“CRL”) all affected taxing entities have been notified of the Joint Public Hearing and provided with the Preliminary and Final Report to the City Council, Redevelopment Plan, and Final PEIR. The establishment of the Redevelopment Project affords the community

and Redevelopment Agency a tool by which to remove economic and physical blighting conditions in conformance with the adopted community plans.

The two key powers allowed under CRL are the ability to acquire private property with just compensation by eminent domain and the ability to use tax increment financing. The Redevelopment Plan provides a 12-year authority for the Agency to acquire property through the use of eminent domain. The effectiveness of the Plan is 30 years after it is adopted. Tax increment can be collected for a total of 45 years in order to repay bonded indebtedness incurred during the first 20-30 years of the Plan.

The Agency will receive tax increment payments from the San Diego County Auditor and Controller subsequent to Plan adoption in accordance with Sections 33607.5 (a) (1) 4 (b) and 33676 (a), (1) of CRL. Since the Plan will be adopted after January 1, 1994, the Agency shall pay affected taxing entities an amount equal to 25 percent of the tax increment received by the Agency after the amount required to be on deposit in the Low and Moderate Income Housing Fund has been deducted. Statutory payments will start the 1st year (November 2006) the Agency receives tax increment revenue from the Project Area. The Agency's statutory payments to taxing agencies (County, School District, etc.) are estimated to be \$270 million over 45 years or approximately 43 percent of its non-housing revenue which is based on a three tiered payment formula set by the CRL.

Twenty percent of the tax increment revenue generated must be set aside for low and moderate-income housing. Over the 30 years of the Plan and 45 years to collect tax increment, the estimated tax increment projected to the Agency (including 20 percent housing set-aside) is approximately \$785 million. This breaks into the following components: \$157 million for housing and \$628 million to non-housing projects.

The objectives of the Redevelopment Plan (Attachment 2, Redevelopment Plan tab, Section 110.) primarily focus upon the elimination of blight, enhancement of economic growth, improvement of infrastructure, expansion of employment opportunities, expansion of recreational opportunities, and retention and expansion of existing neighborhood supporting businesses within the Grantville and Allied Gardens area.

In addition to utilizing the traditional tools of redevelopment, activities within the Project Area will also be implemented through other economic development tools (i.e., facade improvement programs, home enhancement loan programs, etc.) and resources.

Report to the City Council

When the Agency submits the proposed Redevelopment Plan to the City Council for the joint public hearing required by the CRL, the Agency must also submit a 14-part report on the Redevelopment Plan, entitled the Report to the City Council. The purpose of this Report to City Council is to provide in one document all information, documentation, and evidence regarding the Project Area to assist the City Council in its consideration of the proposed Redevelopment Plan and in making various findings and determinations that are legally required to adopt the Redevelopment Plan. This Report to the City Council has been prepared in accordance with all

requirements of Section 33352 of the CRL and includes: the reasons for selection of the Project Area; a description of proposed projects and programs and how these projects and programs will improve or alleviate blighting conditions identified in the Report; a description of, and a map showing, the physical and economic conditions existing in the Project Area; an implementation plan describing how specific projects and programs will alleviate or improve blighting conditions; the method of financing; the Project's method of relocation; an analysis of the Preliminary Plan for the Project; the report and recommendation of the Planning Commission on the Redevelopment Plan; a record of Redevelopment Advisory Committee process; the EIR; the report of the county fiscal officer; a neighborhood impact report; and an analysis of the county fiscal officer's report and a summary of consultations with affected taxing agencies.

Blight

There are 289 distinguishable properties within the Project Area boundaries. A field study was conducted in October and November of 2004 to insure conformity with the current statutory requirements of blight. The Final Report to the City Council for the Grantville Redevelopment Project discusses the conditions of blight that are prevalent within the Project Area and explains why redevelopment of the Project Area cannot be expected to be accomplished by private enterprise acting alone. The Report to the City Council (along with the Redevelopment Plan) provides the legal basis for adoption of a redevelopment project.

The Project Area exhibits conditions of both physical and economic blight as defined by CRL. These conditions include:

Physical Blight:

Overall, 90% of all parcels in the Project Area suffer from one or more physical blighting conditions.

- Factors that substantially hinder the economically viable use of buildings.
 - *Inadequate Lot Size*: 66% of commercial properties are less than 1 acre, and 72% of industrial properties are less than 2 acres which are smaller than current marketplace requirements.
 - *Inadequate Parking*: 51% of commercial and 50% of industrial properties have inadequate parking and 120 properties have no off street parking.
 - *Inferior Loading*: 14% of commercial properties and 23% of industrial properties have inadequate or no loading area.
 - *Outdoor Storage*: 49% of commercial and 82% of industrial properties utilized outdoor area for storage and/or production. 30% of commercial and 71% of industrial properties suffer from the outdoor placement of trash, debris and/or stagnant water.
- Buildings that are unsafe/unhealthy to live and work in.
 - *Code Enforcement Violations*: 278 serious code violations reported during last three years in an around the Project Area; these include hazardous systems, unpermitted construction and deteriorated properties.
 - *Dilapidation and Deterioration*: 16% of parcels have damaged building materials; 9% of parcels have deteriorated wood; 25% of parcels have exposed wiring; 14% of parcels lack paint.

- *Inadequate Vehicle Access*: 54% of commercial properties and 65% of industrial properties have inferior vehicle access.
- *Substandard Building Materials and Faulty Additions*: 16% of commercial properties and 37% of industrial properties have substandard building materials. 9% of commercial and 24% of industrial properties have faulty additions.
- Parcels of irregular form, shape, inadequate size and multiple ownership are barriers to development without lot consolidation.
 - *Irregular Form*: 20% of parcels are of irregular form (nonrectangular lots of less than 1-acre).
- Forty-five properties within the Project Area exhibit incompatible uses when compared to adjoining land use.

Economic Blight

- Depreciated property values, lower lease rates, and hazardous materials and waste.
 - *Depreciated Property Value*: Over the last two years, property values have only risen 13% in the Project Area compared to 21.4% in the City and 22.2% in the County respectively.
 - *Lower Lease Rates*: Lease rates in the commercial and industrial areas of the Project Area are lower than surrounding markets. The office/retail rates are \$.27 to \$.87 per square foot (16% to 38%) and the industrial rates are \$.10 to \$.25 per square foot (12% to 30%) less than surrounding markets (e.g., Kearny Mesa, Mission Valley).
 - *Hazardous Materials & Waste*: There are 16 properties of environmental concern in the Project Area; in addition, 52% of all properties suffer from excess garbage and/or outdoor storage of combustible material.
- High crime rates constitute a serious threat to public safety.
 - The Project Area generally has 37% higher crime rates per one thousand population than San Diego County.
 - The Project Area generally has 16% higher crime rates per one thousand population than the City of San Diego.
 - There is a significant homeless population in the Project Area. During a four week sweep period in the summer of 2004 one hundred and sixty two people were arrested along the San Diego River.

Infrastructure Deficiencies

California Redevelopment Law states that a blighted area may be one that is characterized by one or more conditions of both physical and economic blight, and, in addition, characterized by the existence of inadequate public improvements or utilities.

- Existence of inadequate public improvements and utilities.
 - *Traffic*: The main commercial corridors are all affected by heavy traffic.
 - *Flood Control*: The Project Area suffers from flooding due not only to its location near Alvarado Creek and the San Diego River, but also a lack of proper storm drain infrastructure.

Draft Redevelopment Plan

The Redevelopment Plan is essentially a legal document (rather than a “plan”) that sets forth the Agency's goals, powers, duties, and obligations to implement the redevelopment program within the Project Area. This is underscored by the language in Section 100.4 of the Plan which describes the Redevelopment Plan as presenting a process and framework within which specific redevelopment activities will be presented and priorities for specific projects will be established.

Generally, the Redevelopment Plan provides a framework which allows the Agency to: 1) fund property rehabilitation programs; 2) provide for affordable housing opportunities in conjunction with the City’s Housing Element; 3) construct public facility and infrastructure improvements (attached as Exhibit 3 to the Redevelopment Plan); 4) acquire property for sale or lease within the Project Area; 5) collect tax increment revenue to fund rehabilitation programs, public improvements, and other Agency activities; and 6) sell bonds to fund, in whole or in part, rehabilitation programs, public improvements, and other Agency activities.

The Draft Redevelopment Plan was submitted to the Planning Commission on March 10, 2005. Certain changes were made to the original draft to address issues raised by the Grantville Redevelopment Advisory Committee. A section has been included in the Draft Redevelopment Plan to describe community participation.

The Draft Redevelopment Plan presents a set of tools that will be available to address blighting conditions that exist and to assist with implementation of the Community Plans that cover the area. The projects and programs envisioned for the area currently include economic development programs and infrastructure improvements. Concurrent with adoption of the Redevelopment Plan, the Agency will adopt the first five-year implementation plan for the area. Implementation activities will be determined on an annual basis through the Agency’s annual budget and work programs, as required by law. Activities will largely depend on the level of available funding, market conditions, and property owner, business and developer interest in participation in rehabilitation and new development.

Eminent Domain

The Redevelopment Plan provides a 12-year authority for the Agency to acquire property through the use of eminent domain. Eminent domain is a tool of last resort that can only be exercised after required legal notices and procedures have been followed. To use this tool, the Agency must first offer to purchase the property based on an appraisal of the property at its highest and best use. The inclusion of eminent domain authority in the Plan was discussed in great detail by the GRAC. The GRAC approved the eminent domain provisions that are included in the draft Plan. Specific use of this tool is not currently contemplated, however, failure to include this authorization could negatively curtail the Agency’s ability to assist projects in the future. Occupants of any property acquired by the Agency must be paid relocation payments as required by State law.

Owner Participation Rules

The CRL requires that property owners must be extended a reasonable opportunity to participate

in the redevelopment of project area properties, and persons engaged in business in the area within the Project Area must be extended reasonable preferences to reenter in business within the Project Area if they meet the requirements prescribed by the Redevelopment Plan. Although not required by the CRL, it is reasonable to include the business preferences rules in the same set of rules addressing owner participation. "Persons engaged in business" refers to operators of businesses or business tenants.

The Owner Participation Rules ("OP Rules") provide the guidelines for property owners, operators of businesses and business tenants to take part in proposed development in the Project Area. In the event the Agency wishes to rehabilitate, redevelop, or develop a property in the Project Area, or a property owner, business operator or business tenant wishes to participate in the redevelopment process, the OP Rules outline the procedures to be followed to ensure that the rights of the participant in the redevelopment process are preserved, and the goals stated in the Redevelopment Plan are achieved.

The OP Rules were discussed in great detail by the GRAC and a subcommittee was formed to work on provisions specific to the proposed Project Area. At their meeting on February 28, 2005, the GRAC approved the Grantville OP Rules.

CONCLUSION:

The second reading of the ordinance, which completes the adoption process, will follow on May 17, 2005.

ALTERNATIVES:

1. Do not adopt the proposed Redevelopment Plan, Five-Year Implementation Plan, Owner Participation Rules and other documents.
2. Recommend changes to the proposed Redevelopment Plan, Five-Year Implementation Plan, and Owner Participation Rules.

Respectfully Submitted,

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Approved: Patricia T. Frazier
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