Proposed Grantville Redevelopment Project Area

Redevelopment Feasibility Study

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Introduction

The City of San Diego Redevelopment Agency ("Agency") is in the process of formulating a plan to facilitate the continued economic viability of the Grantville/Mission Gorge Community. To implement this plan, the Agency is investigating various financing mechanisms, including the creation of a redevelopment project area pursuant to the California Community Redevelopment Law, Health and Safety Code Section 33000 et seq. ("Law"). The Law permits cities to adopt and implement redevelopment plans by providing legal and financial tools to mitigate specific physical and economic blighting conditions.

This redevelopment feasibility study ("Study") assesses the legal and financial implications of formulating a redevelopment project area within the Grantville/Mission Gorge Community, which is in the City's Navajo Community Planning Area. The 1,021-acre redevelopment study area ("Study Area") is comprised of the following three non-contiguous subareas:

Subareas

Subarea A

Primarily comprised of commercial, industrial and retail uses, Subarea A includes parcels north of I-8 on both sides of Fairmount Avenue and Mission Gorge Road. The northern boundary includes parcels on both sides of Friars Road from Fairmount Avenue to the four corners of Zion Avenue and Mission Gorge Road. The eastern boundary includes parcels on both sides of Mission Gorge Road from Zion Avenue in the north to Mission Gorge Place in the south, along with the parcels on both sides of Mission Gorge Place and portions of Adobe Falls Road.

Subarea B

Subarea B contains office, industrial, and mining operations comprised of parcels along Mission Gorge Road between Green Brier Avenue and Margerum Avenue. The southern boundary generally follows the eastside of Mission Gorge Road, except at Old Cliffs Road and Princess View Drive where there are parcels on both sides of the street. The northern boundary follows the San Diego River between Green Brier Avenue to the west and Margerum Avenue to the east.

Subarea C

Subarea C is a shopping center and is generally inclusive of parcels bound to the northwest by the alley between Waring Road and Glenroy Street; by Zion Avenue to the northeast; by Carthage Street to the southeast; and by Orcutt Avenue to the southwest.

Excluded Area

In the southeast portion of Subarea A parcels both sides of Adobe Falls Road were initially identified as part of the Study Area. The eastern portion of Adobe Falls Road (Howard Johnson's Motel) are still included in the Study Area, the six westernmost parcels on the southside of Adobe Falls Road are not. These parcels are primarily composed of multi-family housing units, and therefore, were not consider part of this Study.

A map of the Study Area is included at the end of this Study as Exhibit A.

Purpose of the Study Area

Based on RSG's discussions with Agency staff, a field inspection of the Study Area and review of the economic threats and opportunities, redevelopment is being considered to achieve the following three fundamental goals:

- To ensure the continued viability of the Study Area commercial, industrial and retail districts in the face of growing competition from contemporary, better designed locations in the market area;
- To provide a dedicated source of funds to implement revitalization activities, such as building and façade rehabilitation, industrial pollution mitigation, parking and circulation projects, and streetscape improvements; and
- To address issues such as urban runoff into the San Diego River, incompatible uses, and obsolete buildings in the Study Area neighborhoods.

Study Area Redevelopment Prerequisites

This section presents a summary of the requirements for creation of a redevelopment project area.

Legal Requirements

Redevelopment was initially used to address severe conditions of blight such as that existing in inner city areas like Bunker Hill in Los Angeles and the Embarcadero area of San Francisco. Over the years, as redevelopment became more popular, cities used redevelopment as a funding mechanism in areas that did not meet the traditional views of blight. In the 1970s and 1980s, many cities placed suburban and semi-rural areas into redevelopment by arguing that these areas lacked public infrastructure. A public backlash developed in the early 1990s resulting in legislation that clarified the definition of blight. In 1993, the State Legislature adopted the Community Redevelopment Law Reform Act (AB 1290); this legislation mandated findings of both physical and economic blight.

Prior to AB 1290, a blighted area was characterized by one or more conditions set forth in Health and Safety Code Sections 33031 and 33032, causing a reduction of, or lack of, proper utilization of the area that it constituted a physical, social, or economic burden on the community. The definition of blight was so vague that it allowed project areas to be characterized as blighted without the presence of substantial physical deterioration.

Under AB 1290, the definition of blight was amended for project areas adopted after January 1, 1994. As it exists today, Health and Safety Code 33031 provides that a blighted area must contain <u>both physical and economic</u> blight. Specifically, the conditions set forth in Section 33031 must be so prevalent and substantial to cause a reduction of, or lack of, proper utilization of the area to the extent that it constitutes a serious physical and economic burden on the community. This burden cannot be expected to be reversed or alleviated by private enterprise, governmental action, or both, without redevelopment.

The implications of AB 1290 cannot be overlooked; new project areas must conform to a significantly higher threshold of blight and urbanization than what was previously permitted by Redevelopment Law. Indeed, many project areas created prior to redevelopment reform in 1994 could not meet today's legal requirements. As a result, it is much more difficult to create a redevelopment project area under today's legal requirements.

Urbanization

Section 33320.1 of the Redevelopment Law mandates that not less than 80% of the land in a redevelopment project area is urbanized. Urbanized properties are defined as land that has been or is developed for urban use, parcels of irregular form under mixed ownership, and properties that are an integral part of an urban area (i.e. that are surrounded or substantially surrounded by parcels that have been developed for urban use).

Blighting Conditions

Pursuant to Section 33320.1 of the Redevelopment Law, redevelopment project areas must also be blighted. Indeed, the courts have found that the elimination of blight is the public purpose that justifies the use of redevelopment tools, including the expenditure of public funds, acquiring property, and imposing land use controls. As defined by Section 33031 of the Redevelopment Law (and underscored in recent court cases involving overturned redevelopment plans in the City of Diamond Bar and the Town of Mammoth Lakes), blight encompasses physical and economic conditions that cannot be alleviated by private enterprise, governmental action or both, without redevelopment. Section 33031 also defines these physical and economic conditions as follows:

Physical blight is defined as:

- Buildings in which it is unsafe or unhealthy for persons to occupy, live, or work. These conditions include serious building code violations, numerous structures that are dilapidated or severely deteriorated, numerous structures that exhibit defective design or physical construction, faulty or inadequate utilities, or other similar factors.

- Factors that prevent or substantially hinder the viable use or reuse of buildings or lots. This condition can be caused by substandard building design, inadequate parcel size, nearby insufficient parking, or other similar factors.

- Adjacent or nearby uses that are incompatible with one another, and prohibit the economic development of adjoining parcels.

- Lots subdivided into irregular shapes, and are inadequately sized for proper usefulness and development. Further, these lots are often under multiple ownership.

Economic blight is defined as:

- Depreciating or stagnant property values or impaired investments. Properties whose value is impacted by hazardous wastes and materials also fall under this category.

- Abnormally high business vacancies, abnormally low lease rates, high turnover rates, abandoned buildings, or excessive vacant lots within an area developed for urban use and served by utilities.

- The lack of commercial facilities that are normally found in neighborhoods, including grocery stores, drug stores, and banks and other lending institutions.

- Residential overcrowding or an excess of bars, liquor stores, or other businesses that cater exclusively to adults and generate public safety and welfare problems.

- A high crime rate that constitutes a serious threat to the public safety and welfare.

In addition to the aforementioned conditions, inadequate public infrastructure is also considered a condition of blight when other physical conditions are present.

While the Redevelopment Law does not quantify the portion of a project area that should be blighted, case law has generally found that blight must predominate and impact the entire redevelopment project area. Further, the redevelopment agency cannot include property solely for the purpose of collecting additional tax increment revenue; properties within a redevelopment project area must be either blighted or necessary for effective redevelopment of the project area.

Preliminary Analysis of Blight

RSG conducted a field survey and walking tour of the Grantville Study Area in May 2003. The purpose of the field survey was to note examples of physical blighting conditions and vacancies. In addition, RSG surveyed real estate professionals active in the Study Area, studied ownership and parcel configurations obtained from the

County Assessor's office, obtained statistics on police calls for service and interviewed Agency staff.

Urbanization Analysis

Based on RSG's review of County assessor data and windshield survey Subareas A and C are currently developed for urban use. Approximately 400 acres in Subarea B have been surfaced mined for sand and gravel production along the San Diego River. Because this land has been developed and is surrounded by land that is developed for urban use, the land comprising the mining operation should meet the urbanization requirements of Redevelopment Law. As an alternative, up to 20% of the land included in the Project Area may be included even if it does not meet urbanization criteria. For a 1,000 acre project area, as much as 200 acres of non-urbanized property could be included.

Blighting Conditions

In aggregate, RSG estimates that a majority of the Grantville Study Area is characterized with one or more blighting conditions. In many cases, further documentation is needed to substantiate how these conditions impact the economic viability of the area. The following conditions of physical and economic blight were noted in the Grantville Study Area:

- Incompatible Uses
- Low Lease Rates
- Poor Site Configuration
- Inadequate Parking and Vehicle Access
- Shifts in Use of Buildings
- Building/Functional Obsolescence
- Poor Roadway Configuration
- Topography, Access, and Circulation Issues
- Environmental Constraints

The conditions found in the Study Area are typical of older commercial and industrial areas that have not experienced significant private reinvestment. Though this has not resulted in the flight of a significant number of commercial and industrial enterprises from the area, if left un-addressed, these conditions could lead to further decline in the area's economic vitality and physical appeal.

Non-Blighted Parcels

The Study Area has some scattered non-blighted parcels. Generally, these parcels are intermixed with blighted parcels, making their exclusion from the proposed project area imprudent. Redevelopment Law allows for non-blighted parcels to be included in a project area for the effective redevelopment of the area. Should the Agency choose to "piece-meal" out non-blighted parcels, the ability to consolidate parcels to accommodate revitalization of the area may be compromised. In addition, since project areas often experience little or no immediate economic growth, it can be several years before an Agency has adequate tax increment to reinvest. During this time many of the non-blighted parcels may themselves become blighted and their exclusion from the project area would make their subsequent redevelopment less likely.

The following specific parcels should be further investigated to determine if they should be excluded:

- Major Kaiser Permanente – (Represents over $100,000,000 in 2002-03 Assessed Valuation) Has three major facilities in the area and may wish to be included in the potential project area to optimize future consolidation options and enhance expansion opportunities.

- New Auto Dealership/Retail -The Savon Drug store, located between the recently rehabilitated San Diego Toyota and Cush Honda dealerships, is closing its facility at the intersection of Mission Gorge and Fairmont Avenue. Although these properties do not appear to be physically blighted, the disposition of the land could be aided by its inclusion in a project area because the high cost to purchase this recently constructed facility for reused may be restrictive, causing the site to remain vacant for an extended period of time. Future development is also restricted due to the irregular shape of all these parcels. The "V" shaped intersection all three parcels share further complicates future circulation improvements. All three of these properties, in addition to portions of Home Depot and the Mobile gas station, may be needed to facilitate traffic improvements at the intersection and Highway 8 interchange.

- Home Depot – This new development was very recently completed and therefore is not physically blighted as a standalone development. Additional right lane queuing area along northbound Fairmont Avenue may be needed to implement circulation improvements that benefit all properties north of Home Depot as well as improved traffic circulation of eastbound traffic from San Diego Mission Road that uses the Home Depot portion of Fairmont Avenue as a short cut through the study area.

- Friars Village Shopping Center (northeast corner of Friars and Riverdale) - This older center while recently remodeled suffers from a lack of sufficient on-site parking, as do most sites in the study area. Therefore its inclusion in a potential project area would enhance the development of shared parking solutions.

Lot Sizes and Configuration

While most prevalent in Subarea A, the Study Area is characterized by inadequate lot sizes based on current market and new development standards. Given the parking, access and landscaping requirements of modern commercial development, a lot size of less than one acre is generally very difficult to redevelop. As shown in Table 1, 69% of the parcels in the Study Area are smaller than one acre (or 43,560 square feet) in size. Approximately 31% of the parcels are greater than one acre in size.

In addition to being too small to accommodate modern market demands, the area also contains parcels that are not configured to meet market demand. For instance parcel depths of 300 to 600 feet are needed for most new development. Lot depths within the Study Area are significantly less than the 300 to 600 feet target size. The irregular shape of some parcels within the Study Area compounds this condition.

Inadequate parcel size also contributes to other physical blighting conditions such as substandard design, lack of parking, as well as poor access and circulation. Consolidating parcels may be the most viable way to revitalize the area. Lot consolidation typically requires site assemblage that can not be accomplished by private enterprise acting alone; the extraordinary tools of redevelopment are usually needed.

TABLE 1

Summary of Proposed Project Area Assessed Value and Land Use

Grantville Redevelopment Study Area

Land Use	No. of Parcels	Assessed Value	% of Total AV	Total Acres	% of Total Acres	Square Feet
Commercial Parcels	167	$147,602,265	42.07%	153.25	14.51%	6,677,613
Industrial Parcels	104	$77,864,911	22.19%	316.27	29.95%	13,052,787
Vacant Parcels	31	$11,400,635	3.25%	147.40	13.96%	6,421,570
Rural Parcels	1	$613	0.00%	0.17	0.02%	7,196
Institutional Parcels	4	$103,076,329	29.38%	27.23	2.58%	1,186,139
Recreational Parcels	2	$132,596	0.04%	0.31	0.03%	13,487
Unknown	25	$10,802,390	3.08%	411.23	38.95%	13,950,527
Total w/o Residential	334	$350,879,739	100.00%	1,056	100.00%	41,309,319
		>43560 Sf		<43560 Sf		<5000 Sf
Commercial Parcels		39.00		128.00		33.00
Industrial Parcels		40.00		64.00		6.00
Vacant Parcels		8.00		23.00		6
Rural Parcels		-		1.00		-
Institutional Parcels		4.00		-		-
Recreational Parcels		-		2.00		1.00
Unknown		20.00		5.00		4.00
Total w/o Residential		111.00	33%	223.00	67%	50.00

Source: Metroscan

Incompatible Uses

The most recognized examples of incompatible uses exist where commercial development is adjacent to residential properties without any buffer but in the case of this Study Area, residential uses are not included in the Study.

It is more difficult to quantify incompatible uses that are both commercial properties yet one negatively affects the other. However, examples in the Study Area include:

- Auto repair shop sharing driveways and a parking lot with a fast-food restaurant.
- Auto related uses that spill out onto the street and/or adjacent residential neighborhoods.

Building Age

Conditions in the Study Area are also a result of the aging building stock within the area. As shown in Table 2 below, nearly 73% of the buildings in the Study Area are at least 20 years old and almost 31% are 30 years or older. Development 30-years ago was substantially different than today. Current market trends have increased the size of retail buildings and the amount and location of parking has changed. Most of the Study Area is characterized by: 1) older light industrial uses, 2) small commercial office and retail buildings and 3) early design “L-Shaped” shopping centers. Many of the structures suffer from deferred maintenance.

Table 2
AGE OF CONSTRUCTION
Grantville Redevelopment Study Area

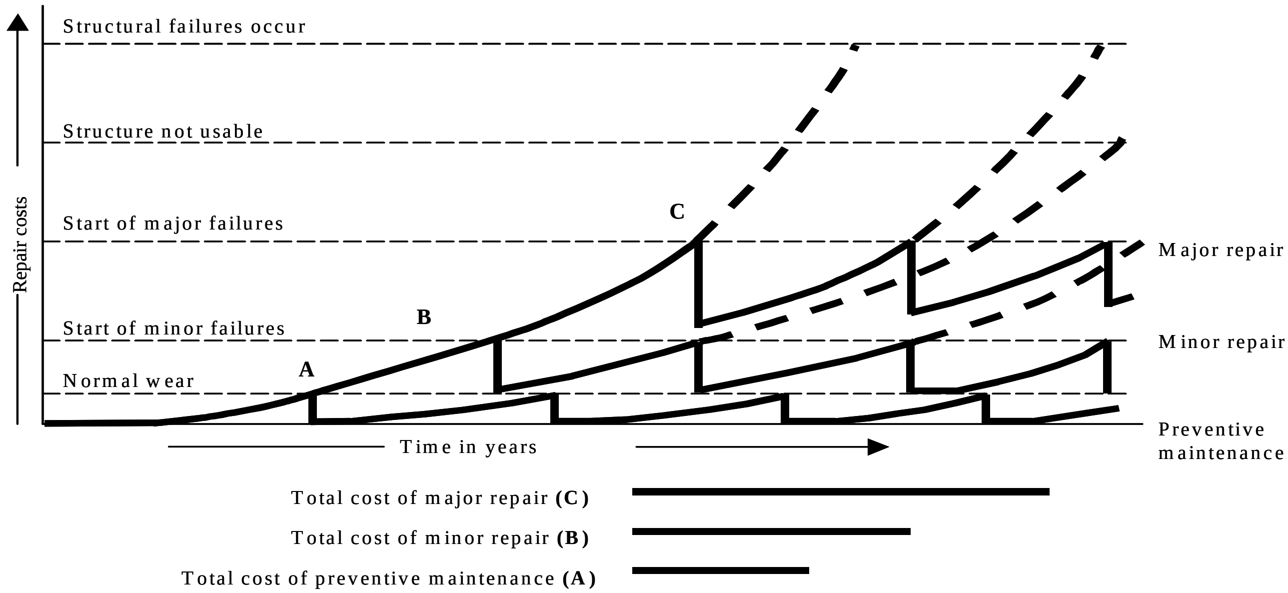
		Parcels		Land Area		Building Area	
Constructed	Age in Years	No.	%	Acres	%	Sq. Ft.	%
1918 - 1933	70+	3	1.73%	13.55	4.54%	4,453	0.18%
1934 - 1953	50 - 69	6	3.47%	10.60	3.55%	9,510	0.39%
1954 - 1973	30 - 49	47	27.17%	37.21	12.46%	475,266	19.30%
1974 - 1983	20 - 29	71	41.04%	50.33	16.85%	934,164	37.94%
Since 1984	20 & newer	30	17.34%	50.74	16.99%	962,276	39.09%
Governmental Use		16	9.25%	136.30	45.63%	76,260	3.10%
		173	100%	298.73	100%	2,461,929	100%
Parcels w/No Date of Construction		161					
Total Parcels		334					

Source: San Diego County Assessors Parcel Data

As stated in the book <u>How Buildings Learn, What Happens After They’re Built</u> (Stewart Brand), a lack of maintenance results in buildings becoming unusable, with a threat of structure failure. Brand states that due “to deterioration and obsolescence, a building’s capital value (and the rent it can charge) about halves by twenty years after construction. Most buildings you can expect to completely refurbish from eleven to twenty-five years after construction. The rule of thumb about abandonment is simple...if repairs will cost half of the value of the building, don’t bother.”

As demonstrated in Figure 1, if regular maintenance is not done, first minor, and then major failures will result over time. As the cost of renovating the building goes up exponentially over the years, structural failure occurs and the building cannot be recovered. Because property owners may fear that they will not realize a return on an investment in rehabilitation, buildings are often neglected. Poor building conditions indicate limited reinvestment in the building stock through renovation and rehabilitation, and reflect a weak environment for private sector development or redevelopment.

FIGURE 1
TIME/REPAIR COST CORRELATIONS



PREVENTIVE MAINTENANCE (bottom line) not only costs markedly less in aggregate than repairing building failures, it reduces human wear and tear. A building whose systems are always breaking or threatening to break is depressing to the occupants, and that brings on another dimension of expense. This diagram is adapted from *Preventive Maintenance of Buildings* (New York: Van Nostrand Reinhold, 1991), p.3.

Crime Statistics

According to the Law, “a high crime rate that constitutes a serious threat to public safety and welfare” is a condition of economic blight. In order to assess the impact of crime within the Study Area, information regarding the incidence of violent and other serious crime reported by the San Diego Police Department was analyzed (see Table 3).

The Federal Bureau of Investigation (FBI) Crime Index is a nationally standardized system that enables comparison of the number of crimes reported by jurisdictions across the country. The Index includes four violent offenses (willful homicide, forcible rape, robbery, and aggravated assault) and three types of property crimes (burglary, larceny theft, and motor vehicle theft). The offenses included in the FBI Index were selected due to their serious nature and/or volume, as well as the probability that these crimes will be reported to the police.

The regional crime rate based on the FBI Index crimes incorporates both local jurisdictions and unincorporated areas in the County of San Diego. Like most jurisdictions across the nation, crime in the San Diego region has dropped significantly. Over ten years, from 1991 to 2000, crime rates fell by more than half.

TABLE 3
2002 FBI crime index rates per 1,000 persons for federal census tracts which overlay the proposed Grantville Project Area, for the City of San Diego and selected local jurisdictions

Grantville Redevelopment Study Area

Census Tract/City	Murder	Rape	Robbery	Aggravated Assault	Burglary	Larceny/ Theft	Motor Vehicle Theft
2002 Crime Rates							
95.09 (Grantville)	0.00	0.30	1.21	4.55	10.31	44.27	21.22
96.02 (Grantville)	0.00	0.27	0.00	1.62	5.68	12.71	4.87
96.03 (Grantville)	0.00	0.22	0.89	2.01	19.87	48.01	22.55
96.04 (Grantville)	0.00	0.21	2.49	4.04	7.78	27.06	12.13
97.03 (Grantville)	0.00	0.00	1.16	2.03	4.64	11.88	2.61
97.05 (Grantville)	0.00	0.30	0.00	1.21	3.94	16.37	6.37
Total for CT's	**0.00**	**0.22**	**0.96**	**2.58**	**8.70**	**26.72**	**11.63**
2000 Crime Rates							
La Mesa	0.03	0.25	1.64	1.76	6.70	19.27	5.56
Lemon Grove	0.00	0.39	2.16	0.35	7.44	12.80	5.55
San Diego	0.04	0.27	1.39	3.90	5.26	18.02	7.41

Sources: City of San Diego Police Department and Crime in the San Diego Region Annual 2002

Note: Comparison crime rates are for calendar year 2000, which is the latest data available from the FBI.

The information provided by the City of San Diego for the census tracts (CT) that overlay the Study Area is for calendar year 2002. 2002 data is not available from the State of California or FBI at this time. Thus, the Table above uses data from the 2000 calendar year for other jurisdictions. The CT data covers a larger portion of the community than is proposed to be included in the Study Area. The crime rates vary significantly among the different census tracts, with several CT's having greater crime rates than the comparison Cities of La Mesa, Lemon Grove and the entire City of San Diego. The census tract overall totals are lower in every category but burglary, larceny/theft and motor vehicle theft. CT 96.04 has much higher crime rates in all of the Part I crimes than the comparison data. Motor vehicle theft, aggravated assault, larceny/theft and burglary all occur at generally higher rates in the Project Area than in the comparison cities.

Real Estate Sales

Table 4 presents a summary of comparative real estate sales information by land use comparing the Grantville/Mission Gorge area to Kearny Mesa, La Mesa and the Sports Arena. For retail property sales the analysis is skewed because the high price per square foot has more to do with an almost zero vacancy factor and the extraordinary real estate market conditions witnessed across the State. There is relatively no land available for retail development in the Study Area. In addition, there have been few retail land transactions from which to properly evaluate the data in Table 4. With regard to industrial and office sales, the Grantville/Mission Gorge area is below that of Kearny Mesa but above other areas.

TABLE 4
REAL ESTATE SALES ANALYSIS
Grantville Redevelopment Study Area

	INDUSTRIAL per square foot					
Areas	2003	2002	2001	2000	1999	1998
Grantville/Mission Gorge	NA	$97.78	NA	$98.22	$97.05	$44.46
Kearny Mesa	$146.55	$110.05	$90.91	$75.60	$83.65	$77.27
La Mesa	NA	$88.16	$68.67	$88.03	$75.00	$73.33
Sports Arena	$117.98	$102.74	$74.88	$67.71	$96.31	$89.64
	OFFICE per square foot					
	2003	2002	2001	2000	1999	1998
Grantville/Mission Gorge	NA	$108.47	$119.39	NA	$95.51	$49.25
Kearny Mesa	$133.93	$129.11	$119.83	$111.15	$105.85	$95.91
La Mesa	NA	$86.36	$113.61	$132.39	$69.63	NA
Sports Arena	$129.79	$98.75	$89.38	$125.96	$113.40	$82.97
	RETAIL per square foot					
	2003	2002	2001	2000	1999	1998
Grantville/Mission Gorge	NA	$200.82	$130.19	$172.65	$313.95	$85.22
Kearny Mesa	$187.63	$110.09	$146.49	$139.68	$103.01	$65.93
La Mesa	$187.50	$160.00	$100.30	$232.14	$76.53	$137.99
Sports Arena	$99.70	$112.43	$108.40	$79.70	$143.59	$113.10

Source: Costar Real Estate Service.

Lease Rates

Based on RSG's discussion with real estate brokers local to the Study Area, the Study Area mixes industrial, office and retail uses in a very inefficient manner. Several brokers indicated that most industrial sites are too small by current development standards, and therefore, high-end uses such as research and development companies would not consider locating within the Study Area. The absence of high-end users reduces the ability to attract higher lease rates in the Study Area. Similar to other uses in the Study Area, commercial office uses also suffer from lack of adequate parking. Much of the office space is functionally obsolete further reducing lease rates in the area.

As indicated previously, RSG contacted a number of real estate brokers who serve not only the Study Area, but also real estate markets of neighboring communities. Lease rates for industrial, office and retail uses within the Study Area were compared to the lease rates of similar uses in neighboring communities. As shown in Table 5, industrial lease rates within the Study Area are significantly lower than the lease rates of comparable communities. With the exception of City Heights/University, the lease rates for office space in the Study Area are much less than lease rates within comparable communities.

Retail lease rates proved to be higher than the lease rates of neighboring communities. According to real estate brokers however, the high lease rates in the Study Area are more the product of an almost zero vacancy rate, and not the overall quality of retail offerings in the neighborhood.

TABLE 5
LEASE RATE ANALYSIS
Grantville Redevelopment Study Area

Areas	Industrial	Office	Retail
Grantville/Mission Gorge	$0.63	$1.64	$1.85
Airport/Sports Arena	$0.98		$1.73
Kearny Mesa	$0.88	$1.95	$1.78
Mid City/El Cajon Blvd.	$0.69		$1.75
Central San Diego Suburban Average	$0.84	$2.09	
Mission Valley		$2.31	
Old Town		$1.99	
Rose Canyon/Morena		$1.80	
San Diego County Market Average		$2.32	$1.76

Source: CB Richard Ellis, Voit Commercial Real Estate, Various Broker Interviews.

Code Enforcement

Violations of local or state building codes are a blighting condition identified under CRL Section 33031(a), which characterizes buildings in which it is unsafe or unhealthy for persons to live or work. Buildings and structures that do not meet current uniform building requirements, or other local codes mandated to ensure human health and safety, pose a threat to the workers, patrons, and residents of an area.

A field survey conducted in June of 2003 revealed several code compliance issues affecting the Study Area. These issues include, but are not limited to, shortage of on-site parking, outdoor storage and manufacturing, illegal signage, and urban runoff into the San Diego River as several issues contributing to the area's blighted condition. Complicating code compliance efforts is the mixture of Industrial and Commercial uses adjacent to one another and the high occurrence of legal non-conforming uses in the area that would be considered substandard by current zoning and building codes, in particular off-street parking requirements and the enclosure of manufacturing and auto service facilities.

There are other issues that may not be specific code enforcement issues, but also contribute to the blighted conditions of the Study Area. These include on-street deliveries, outdoor fuel tanks, and a myriad of utility connections along the outside of buildings.

In addition to the field survey, RSG interviewed and obtained code violations data from the City of San Diego's Code Compliance Division. Because of the size of the City, code enforcement efforts are, for the most part, limited to complaint generated enforcement. The majority of complaints come from property owners or tenants who observe potential violations in their neighborhoods. However, since code violations are primarily investigated only if a complaint is filed or observed by City staff, many violations go unnoticed and the true number of building and other code violation is likely to be much greater than those reported.

Table 6, below, depicts only serious code violations in the Study Area from 2002 through the first few months of 2003. Table 6 presents the number of incidents of un-permitted construction, structural deficiencies and occupancy of un-permitted structures. Outdoor storage violations are also documented in the table.

TABLE 6
SERIOUS CODE ENFORCEMENT VIOLATIONS
Grantville Redevelopment Study Area

Type of Violation	2002	2003
Business in a residential zone	6.0	3.0
Urban Runoff Violations	-	3.0
Unpermitted Construction	9.0	-
Occupying unpermitted structure	2.0	5.0
Non-Conforming Use	1.0	1.0
Encroachment Violation	7.0	12.0
Outdoor storage Violation	11.0	13.0
Structural Deficiency	6.0	4.0
Commercial Disable Violation	3.0	1.0
Total	45.0	42.0

Source: City of San Diego

Environmental Constraints

The Study Area includes over 400 acres of Industrial land developed for sand and gravel processing operations. The potential environmental remediation needed to restore these parcels for development could be significant. These environmental constraints may include soil contamination and erosion. In addition, significant amounts of backfill soil maybe needed to restore the correct path of the San Diego River and provide developable parcels.

Financial Feasibility of Redevelopment in the Study Area

This section presents revenue projections including the amount of funds that could be available for housing and non-housing programs.

Economic Feasibility Analysis

Using the recommended Study Area boundaries, RSG prepared the following forecast of potential tax increment revenues.

Tax Increment Projections

Table 6 (page 14) presents tax increment revenue projections for the recommended project area boundaries. Under Redevelopment Law, the Agency may collect tax increment revenue to pay project debts for a 45-year period. These projections incorporate the following assumptions as summarized below:

1) Base Year Value: The base year value is established by the County Auditor-Controller. If the City completes the 12-18 month process to adopt a redevelopment plan by May of 2005, the base year value of the Study Area would be based on the 2004-05 equalized assessment roll. The fiscal year 2002-03 base value was obtained from the County's parcel-level secured values. An unsecured value of 10% of the secured value was assumed and no non-unitary utility value was included in the estimated 2004-05 base year value. Assuming a 4% growth in secured values and a 3% growth in unsecured values resulted in a 2004-05 Study Area base year value of $416,166,807.

2) Assessed Value Growth Rates: RSG applied a 4.0% annual assessed value growth rate to secured values and a 3% growth rate to unsecured values to estimate future assessed values.

3) Property Tax Levy: A 1.0% property tax rate was assumed.

4) Housing Fund and Statutory Pass Through: The projections assume the legally mandated 20% housing set-aside and statutory pass through payments to affected taxing entities.

5) Tax Increment Receipts: Tax increment receipts commencing during fiscal year 2005-06.

Over a 45-year period, the redevelopment project could generate a total of $332.4 million in gross tax increment revenue. Of this amount, 20% or $66.4 million would be allocated to the housing fund for investment in projects and programs that preserve and increase the supply of housing affordable to very low, low, and moderate-income households. These funds may be expended both within the Project Area they are derived from, and throughout the community if the City desires. Because the Project Area will likely not include residential units, these funds would likely be spent elsewhere in the City. Using a 6% discount rate, the present value of the housing fund income stream is $11.4 million. During this 45-year period, an estimated $116.4 million (NPV=$17.9 million) would be allocated to other affected taxing entities leaving $149.5 million (NPV=$27.9 million) for the Agency's non-housing projects.

TABLE 7

PROJECTED TAX INCREMENT REVENUES

Grantville Redevelopment Study Area

		Secured Assessed Values 4.00%	Unsecured 3.00%	Total Assessed Value	Incremental Value	Gross Tax Increment 1.00%	Cumulative Tax Increment	Housing Fund 20%	STATUTORY PAYMENTS First Tier Payments 25%	Second Tier Payments 21%	Third Tier Payments 14%	Total Statutory Payments	TI Revenue Net of Housing & Stat P/T
Year	2002-03	350,879,739	35,087,974	385,967,713			0						
	2003-04	364,914,929	35,587,652	400,502,581	0	0	0	-					-
BY	2004-05	379,511,526	36,655,282	416,166,807	0	0	0	-				-	-
1	2005-06	394,691,987	37,754,940	432,446,927	31,944,346	319,443	319,443	63,889	63,889			63,889	191,666
2	2006-07	410,479,666	38,887,588	449,367,254	48,864,674	488,647	808,090	97,729	97,729			97,729	293,188
3	2007-08	426,898,853	40,054,216	466,953,069	66,450,488	664,505	1,472,595	132,901	132,901			132,901	398,703
4	2008-09	443,974,807	41,255,842	485,230,649	84,728,069	847,281	2,319,876	169,456	169,456			169,456	508,368
5	2009-10	461,733,799	42,493,518	504,227,317	103,724,736	1,037,247	3,357,123	207,449	207,449			207,449	622,348
6	2010-11	480,203,151	43,768,323	523,971,474	123,468,894	1,234,689	4,591,812	246,938	246,938			246,938	740,813
7	2011-12	499,411,277	45,081,373	544,492,650	143,990,070	1,439,901	6,031,713	287,980	287,980			287,980	863,940
8	2012-13	519,387,728	46,433,814	565,821,542	165,318,962	1,653,190	7,684,902	330,638	330,638			330,638	991,914
9	2013-14	540,163,237	47,826,828	587,990,066	187,487,485	1,874,875	9,559,777	374,975	374,975			374,975	1,124,925
10	2014-15	561,769,767	49,261,633	611,031,400	210,528,820	2,105,288	11,665,065	421,058	421,058			421,058	1,263,173
11	2015-16	584,240,558	50,739,482	634,980,040	234,477,459	2,344,775	14,009,840	468,955	468,955	40,234		509,189	1,366,631
12	2016-17	607,610,180	52,261,667	659,871,847	259,369,266	2,593,693	16,603,533	518,739	518,739	82,052		600,790	1,474,164
13	2017-18	631,914,587	53,829,517	685,744,104	285,241,523	2,852,415	19,455,948	570,483	570,483	125,517		696,000	1,585,932
14	2018-19	657,191,171	55,444,402	712,635,573	312,132,992	3,121,330	22,577,278	624,266	624,266	170,695		794,961	1,702,103
15	2019-20	683,478,817	57,107,734	740,586,552	340,083,971	3,400,840	25,978,118	680,168	680,168	217,653		897,821	1,822,851
16	2020-21	710,817,970	58,820,966	769,638,937	369,136,356	3,691,364	29,669,481	738,273	738,273	266,461		1,004,733	1,948,357
17	2021-22	739,250,689	60,585,595	799,836,284	399,333,704	3,993,337	33,662,818	798,667	798,667	317,192		1,115,860	2,078,810
18	2022-23	768,820,717	62,403,163	831,223,880	430,721,299	4,307,213	37,970,031	861,443	861,443	369,923		1,231,366	2,214,404
19	2023-24	799,573,545	64,275,258	863,848,803	463,346,223	4,633,462	42,603,493	926,692	926,692	424,733		1,351,426	2,355,344
20	2024-25	831,556,487	66,203,516	897,760,003	497,257,422	4,972,574	47,576,068	994,515	994,515	481,704		1,476,219	2,501,840
21	2025-26	864,818,746	68,189,621	933,008,368	532,505,787	5,325,058	52,901,125	1,065,012	1,065,012	540,921		1,605,933	2,654,113
22	2026-27	899,411,496	70,235,310	969,646,806	569,144,226	5,691,442	58,592,568	1,138,288	1,138,288	602,474		1,740,762	2,812,391
23	2027-28	935,387,956	72,342,369	1,007,730,325	607,227,745	6,072,277	64,664,845	1,214,455	1,214,455	666,454		1,880,910	2,976,912
24	2028-29	972,803,474	74,512,640	1,047,316,115	646,813,534	6,468,135	71,132,981	1,293,627	1,293,627	732,958		2,026,585	3,147,923
25	2029-30	1,011,715,613	76,748,020	1,088,463,633	687,961,052	6,879,611	78,012,591	1,375,922	1,375,922	802,086		2,178,008	3,325,680
26	2030-31	1,052,184,238	79,050,460	1,131,234,698	730,732,118	7,307,321	85,319,912	1,461,464	1,461,464	873,942		2,335,406	3,510,451
27	2031-32	1,094,271,607	81,421,974	1,175,693,581	775,191,001	7,751,910	93,071,822	1,550,382	1,550,382	948,632		2,499,014	3,702,514
28	2032-33	1,138,042,472	83,864,633	1,221,907,105	821,404,524	8,214,045	101,285,867	1,642,809	1,642,809	1,026,271		2,669,080	3,902,156
29	2033-34	1,183,564,171	86,380,572	1,269,944,743	869,442,162	8,694,422	109,980,289	1,738,884	1,738,884	1,106,974		2,845,859	4,109,679
30	2034-35	1,230,906,737	88,971,989	1,319,878,727	919,376,146	9,193,761	119,174,051	1,838,752	1,838,752	1,190,864		3,029,616	4,325,393
31	2035-36	1,280,143,007	91,641,149	1,371,784,156	971,281,575	9,712,816	128,886,866	1,942,563	1,942,563	1,278,065	58,134	3,278,762	4,491,491
32	2036-37	1,331,348,727	94,390,383	1,425,739,111	1,025,236,530	10,252,365	139,139,232	2,050,473	2,050,473	1,368,709	118,564	3,537,746	4,664,147
33	2037-38	1,384,602,676	97,222,095	1,481,824,771	1,081,322,191	10,813,222	149,952,454	2,162,644	2,162,644	1,462,933	181,380	3,806,957	4,843,621
34	2038-39	1,439,986,783	100,138,758	1,540,125,541	1,139,622,961	11,396,230	161,348,683	2,279,246	2,279,246	1,560,878	246,676	4,086,801	5,030,183
35	2039-40	1,497,586,255	103,142,921	1,600,729,175	1,200,226,595	12,002,266	173,350,949	2,400,453	2,400,453	1,662,692	314,553	4,377,698	5,224,115
36	2040-41	1,557,489,705	106,237,208	1,663,726,913	1,263,224,333	12,632,243	185,983,192	2,526,449	2,526,449	1,768,528	385,110	4,680,087	5,425,708
37	2041-42	1,619,789,293	109,424,324	1,729,213,618	1,328,711,037	13,287,110	199,270,303	2,657,422	2,657,422	1,878,546	458,455	4,994,423	5,635,265
38	2042-43	1,684,580,865	112,707,054	1,797,287,919	1,396,785,338	13,967,853	213,238,156	2,793,571	2,793,571	1,992,911	534,698	5,321,180	5,853,103
39	2043-44	1,751,964,099	116,088,266	1,868,052,365	1,467,549,785	14,675,498	227,913,654	2,935,100	2,935,100	2,111,795	613,954	5,660,849	6,079,549
40	2044-45	1,822,042,663	119,570,914	1,941,613,577	1,541,110,997	15,411,110	243,324,764	3,082,222	3,082,222	2,235,378	696,343	6,013,943	6,314,945
41	2045-46	1,894,924,370	123,158,041	2,018,082,411	1,617,579,831	16,175,798	259,500,562	3,235,160	3,235,160	2,363,846	781,988	6,380,993	6,559,645
42	2046-47	1,970,721,345	126,852,782	2,097,574,127	1,697,071,547	16,970,715	276,471,278	3,394,143	3,394,143	2,497,392	871,019	6,762,554	6,814,019
43	2047-48	2,049,550,199	130,658,366	2,180,208,564	1,779,705,984	17,797,060	294,268,338	3,559,412	3,559,412	2,636,218	963,569	7,159,199	7,078,449
44	2048-49	2,131,532,207	134,578,117	2,266,110,323	1,865,607,743	18,656,077	312,924,415	3,731,215	3,731,215	2,780,533	1,059,779	7,571,527	7,353,334
45	2049-50	2,216,793,495	138,615,460	2,355,408,955	1,954,906,375	19,549,064	332,473,479	3,909,813	3,909,813	2,930,554	1,159,794	8,000,161	7,639,090
	Total					$332,473,479		$66,494,696				$116,455,431	$149,523,352
					NPV @6% =	$57,383,344		$11,476,669				$17,929,975	$27,976,700

Other Issues

PAC/Advisory Committee

As proposed, there are no residential units within the boundaries of the Study Area, and therefore, the project would not include residents who will be displaced by redevelopment. To this end, the formation of a Project Area Committee ("PAC") is not required. The Agency may however, 1) choose to form a PAC anyway, or 2) form an alternative advisory group of property owners, tenants, and community organizations.

Mission Statement

There is general consensus that the Community Plan covering the proposed Project Area is out-of-date and inadequate. Prior to commencing the formation of a Redevelopment Project Area, it is suggested that a set of goals or mission statement for the area be developed. The goal would be to create a set of guidelines that present to the community the reason for formation of the Project Area. It is important that project advocates be able to answer this question: *What would redevelopment help to accomplish?* Without such a Mission Statement the affected community could assume a worst-case alternative and challenge the Project Area formation.

Environmental Impact Report Parameters

The project Environmental Impact Report (the "EIR"), describes the existing environmental conditions in the proposed Project Area, assesses the environmental impacts of the proposed redevelopment plan and recommended mitigation measures. The EIR is an important factual document in the project justification.

The California Environmental Quality Act (CEQA) guidelines contain an important provision that all public and private activities or undertakings pursuant to or in furtherance of a redevelopment plan constitute a single project, which is deemed approved at the time of adoption of the redevelopment plan. While the project EIR need only be as specific as the Redevelopment Plan, the adequacy of the coverage of the EIR as to future public and private development activities, as well as future project changes, may require further environmental assessment by means of an initial study, negative declaration or supplemental EIR.

Preparation of the EIR for the proposed Redevelopment Plan will be complicated by the fact that the existing (Navajo) Community Plan is out-of-date. Consideration could be given to documenting land alterations for the Project Area that could be analyzed as Project Alternatives in the EIR and may provide a basis for future updating of the Community Plan.

Plan Adoption Process

If the City elects to pursue a redevelopment project, the next step would be to establish a redevelopment survey area and initiate the redevelopment project formation process. The process of forming a new redevelopment project area (or adding territory to an existing project area) involves the following:

<u>TASK 1 Adopt the Survey Area</u>: The plan adoption process begins with the adoption of the survey area from which the boundaries of the new Project Area are derived. Many cities choose to put their entire city boundary in the survey area, and then select a specific area in the next task.

<u>TASK 2 Prepare Preliminary Plan</u>: Next a preliminary plan must be prepared that generally describes the need for, and benefits of, a project area. Once adopted by the Planning Board and the Agency, the preliminary plan is transmitted to all taxing agencies that receive property tax revenue from the Project Area. This process also requires preparation of a metes and bounds legal description and maps that meet State Board of Equalization guidelines.

<u>TASK 3 Preparation of Environmental Documentation</u>: Redevelopment Project Area formation is a project under the California Environmental Quality Act, and therefore, the process typically requires preparation of an Environmental Impact Report.

<u>TASK 4 Field Reconnaissance/Blight Study</u>: A detailed land use survey of the parcels comprising the Project Area must be done to document and substantiate that substantial and significant blight exists in the proposed project area. Photo surveys documenting physical conditions of blight (or lack thereof) seem to have made the greatest impact on recent appellate court decisions and should be used extensively, but carefully.

<u>TASK 5 Prepare the Redevelopment Plan</u>: A Redevelopment Plan must be prepared and made available for public review and comment during the adoption process.

<u>TASK 6 The Project Area Committee or Other Project Advisory Group Process</u>: If the Project Area does not include residential units, then it will not be necessary to form a Project Area Committee pursuant to Redevelopment Law. However, consideration should be given to forming an alternative public advisory group to participate in the plan adoption process.

<u>TASK 7 Financial Analysis/Cash Flow Analysis</u>: Detailed financial analysis including revenue projections and cost estimates must be completed to document the financial viability of the project and to set legally-required financial limits.

<u>TASK 8 Prepare the Preliminary Report</u>: A Preliminary Report must be prepared for the Plan. This document outlines the reasons for the Project Area, describes the physical and economic conditions in the Project Area, assesses the feasibility of financing the Project, and summarizes why the plan is needed and how it will alleviate the blighting conditions. The Preliminary Report must be transmitted to the affected taxing agencies and will serve as the basis for potential taxing agency discussions.

TASK 9 Taxing Agency/Public Notices: Taxing agency and public notices must be prepared, and transmitted in the time frames required by Redevelopment Law.

TASK 10 Prepare Report to Council: This Report must include the following:

1) the reasons and the need for the project area;
2) proposed projects and why private enterprise acting alone cannot accomplish;
3) the reasonableness of the redevelopment project programs;
4) the blighting characteristics of the project area (both physical and economic);
5) five-year implementation plan;
6) the methodology of financing the redevelopment project;
7) the relocation assistance plan and neighborhood impact analysis;
8) evidence of consultation with affected citizens, property owners, and taxing agencies;
9) compliance with CEQA; and
10) preparation of a neighborhood impact report that evaluates the potential redevelopment project impacts on surrounding neighborhoods.

This Report forms the basis for a defense against legal challenges, if any, to the Project Area. The Report also allows the Agency to evaluate the financial feasibility and desirability of the proposed redevelopment implementation projects and programs.

TASK 11 Joint Public Hearing: A joint public hearing of the Agency and City Council must be held to take testimony for and against the Plan.

TASK 12 Adoption Follow-up: The Project Area must be adopted by ordinance and following the adoption, the ordinance must be published, and documents must be recorded and mailed to the State, County and affected taxing agencies.

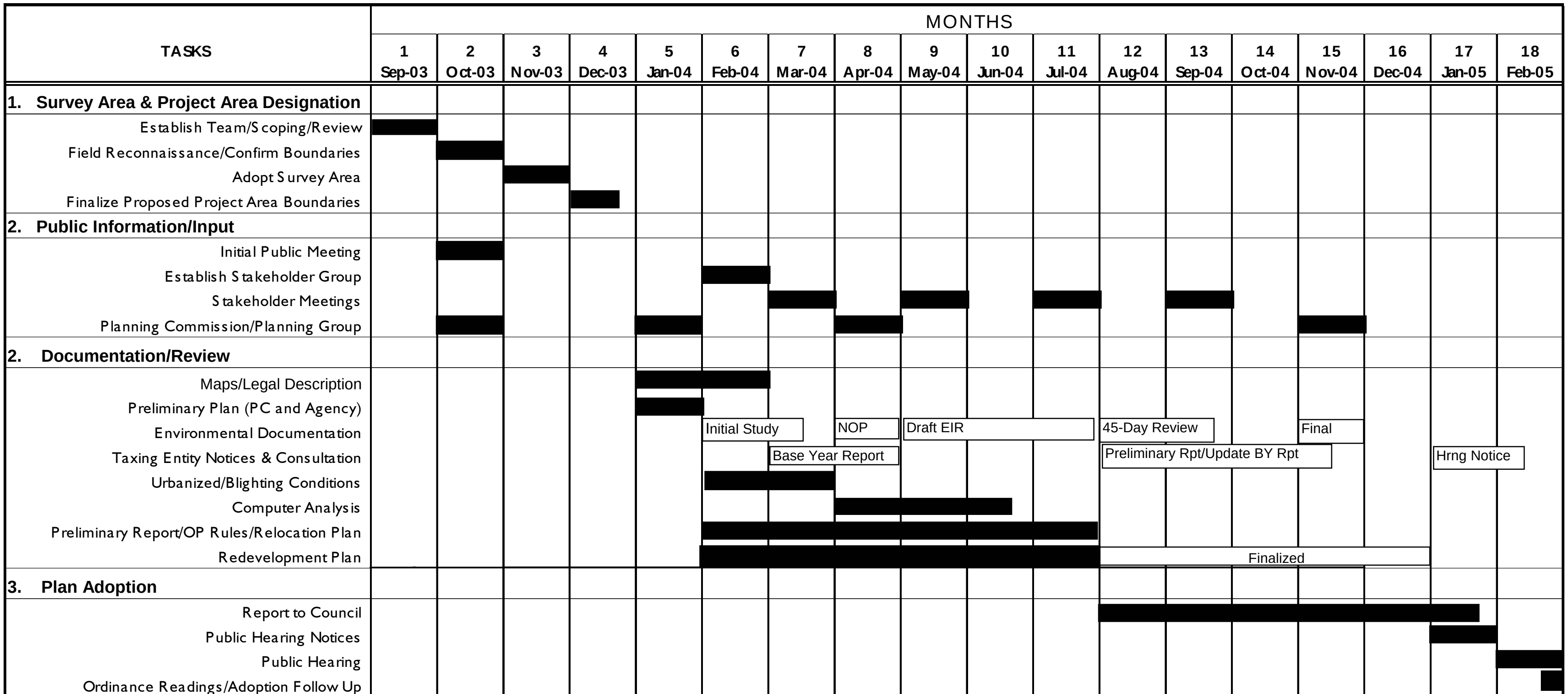
Schedule/Budget for Plan Adoption

Exhibit B presents a preliminary schedule for the adoption of a redevelopment plan and formation of a redevelopment project area. The endeavor typically takes over 18 months to complete. Participants include legal counsel to insure the Law's procedures are followed and required findings are made, an environmental consultant to prepare the required program environmental impact report, and engineering services to prepare the legal metes and bounds description and annotated boundary maps, and public facility and infrastructure improvement cost estimates. Other costs include mailings and State and County filing fees. Many agencies also employ the services of a redevelopment consultant to prepare the reports that document blight, prepare financial projections, and provide insight and perspective on redevelopment program options. The price range for redevelopment consultant services could be $175,000 - $200,000, depending on the level of public participation, meetings, and consultation with other taxing entities. The environmental consultant, engineering, and legal fees could add an additional $200,000 to the project cost. Additionally, in-house staff time would need to be budgeted.

Exhibit A – Map of Study Area

Exhibit B – Flow Chart – Steps in Forming a Redevelopment Project

CITY OF SAN DIEGO REDEVELOPMENT AGENCY
PROPOSED GRANTVILLE REDEVELOPMENT PROJECT AREA
PROJECT ADOPTION SCHEDULE



Note: Ordinance is effective 90-days after second reading