THE CITY OF SAN DIEGO

DATE ISSUED: May 22, 2002 REPORT NO. RA-02-08
CMR-02-110

ATTENTION: Mayor and Members of the City Council
Chair and Members of the Redevelopment Agency
Docket of May 28, 2002

SUBJECT: San Ysidro Library - Fourth Implementation Agreement to the Disposition and Development Agreement for the Las Americas Project, Cooperation Agreement between Agency and City, findings to expend tax increment revenues, Reciprocal Easement Agreement (REA), Two Deeds, Amend Public Use Lease Parcel A (Parking Lease), and direction to proceed with Redevelopment Tax Allocation Bond issue.

REFERENCE: Manager's Reports No.'s RA-01-08 dated June 13, 2001; 01-035, dated February 21, 2001; 00-247, dated November 12, 2000; RA-00-19, dated November 15, 2000; RA-00-03, dated February 16, 2000; RA-98-4, dated May 6, 1998; and RA-97-8, dated July 11, 1997. See also City Manager's' Companion Report on Proposition 14 Bond Application.

SUMMARY

Issue(s) -
For the Council: Should the Council (1) Approve a Reciprocal Easement Agreement (REA) with International Gateway Associates, LLC; (2) Accept two Deeds for construction of a branch library in San Ysidro as a donation from International Gateway Associates, LLC for the Library; (3) Introduce and hold a first reading of an ordinance approving an amendment to the 'Public Use Lease Parcel A' (for parking) phasing the lease payments and adjusting the boundaries; (4) Approve findings for spending redevelopment tax increment funds on the San Ysidro Library; and (5) Approve a Cooperation Agreement with the Redevelopment Agency regarding the Agency's contribution to the City of tax allocation bond funds for the San Ysidro Library?

For the Agency: Should the Agency: (1) Enter into the Fourth Implementation Agreement to the Disposition and Development Agreement (DDA) for the Las Americas (International Gateway of the Americas) Project with International Gateway Associates, LLC; (2) Approve findings for spending redevelopment tax increment funds on the San Ysidro Library; (3) Enter into a Cooperation Agreement with the City regarding the

Redevelopment Agency
600 B Street, Suite 400, MS 904 • San Diego, CA 92101-4506
Tel (619) 533-4233 Fax (619) 533-5250

Community and Economic Development

Agency's contribution of tax allocation bond funds to the City for the San Ysidro Library; and (4) Authorize the Executive Director to proceed with the preparation of all documents necessary to issue a tax allocation bond for the San Ysidro Redevelopment Project Area?

Manager's Recommendation -
For the Council: That the City Council: (1) Approve a Reciprocal Easement Agreement (REA) with International Gateway Associates, LLC; (2) Accept two Deeds for construction of a branch library in San Ysidro as a donation from International Gateway Associates, LLC for the Library; (3) Introduce and hold a first reading of an ordinance approving an amendment to the 'Public Use Lease Parcel A' (for parking) phasing the lease payments and adjusting the boundaries; (4) Approve findings for spending redevelopment tax increment funds on the San Ysidro Library; and (5) Approve a Cooperation Agreement with the Redevelopment Agency regarding the Agency's contribution to the City of tax allocation bond funds for the San Ysidro Library.

For the Agency: That the Agency: (1) Enter into the Fourth Implementation Agreement to the Disposition and Development Agreement (DDA) for the Las Americas (International Gateway of the Americas) Project with International Gateway Associates, LLC; (2) Approve findings for spending redevelopment tax increment funds on the San Ysidro Library; (3) Enter into a Cooperation Agreement with the City regarding the Agency's contribution of tax allocation bond funds to the City for the San Ysidro Library; and (4) Authorize the Executive Director to proceed with the preparation of all documents necessary to issue a tax allocation bond for the San Ysidro Redevelopment Project Area.

Other Recommendations - None.

Fiscal Impact -
For the City: The Amendment to the Public Use Lease Parcel A would phase the lease payment by the City to the Developer, but not change the total amount paid by the City to the Developer. The value of the donation equal $3,195,000 for the library and includes not only the air rights parcel and parking, but the Common Area Maintenance (CAM) charges for the library for the entire time the City uses the building for a public library.

For the Agency: The Cooperation Agreement commits the Agency to expending up to $2,500,000 subject to issuing tax allocation bonds toward a branch library in the San Ysidro Redevelopment Project Area as part of the Las Americas Project. The total library is estimated to cost $14,686,000. The City is applying for a grant from Proposition 14 moneys to provide the remaining costs of the library. The economics of the remainder of the DDA do not change, other than phasing the repayment of the tax increment note to match the phasing of the development on Parcel A.

Environmental - The City Council and Redevelopment Agency certified the Final

Environmental Impact Report (adopted April 2, 1996 by Council Resolution No. R-287149) and a Mitigated Negative Declaration (MND) (adopted on May 12, 1998 by Council Resolution No. R-290105 SCNo. 98031064) for this project with approval of the DDA on May 12, 1998.

BACKGROUND

On May 12, 1998 the Redevelopment Agency and LandGrant Development entered into a Disposition and Development Agreement to develop a 1.4 million square foot mixed use retail, office, hotel, transit center on a 67- acre site in San Ysidro adjacent to the old commercial border crossing at Virginia Avenue. The project has a value of approximately $200 million and would generate an estimated 2,200 permanent and 3,400 construction jobs, $1.6 Million in annual sales tax dollars, $900,000 in annual tax increment dollars, $1.01million in annual transient occupancy tax dollars, and $1.3 million in annual bridge revenue. The project proposed linking San Diego to Tijuana via a new monumental pedestrian bridge that would celebrate our two cities and cultures.

In November 2000, voters in San Diego approved a ballot measure which allowed flexibility of going up to 150 feet in height to accommodate the bridge and hotel within certain parameters (amending Prop. D). The Developer and City staff have been working closely toward obtaining the Presidential Permit necessary to build the bridge. The project is being discussed at the highest levels in both Mexico City and Washington D.C. Staff remains optimistic that approval for the bridge will be forthcoming over the next several months (the next International Bridges & Border Commission meeting will be held in San Diego in September). LandGrant has continued to improve and modify the project to respond to market demands and explore other exciting venues to join the center. In November 2001, LandGrant opened the first phase consisting of 370,000 square feet of retail shops and restaurants (Parcel B/C).

The project has received national and international attention both for its architectural design and the impact on the border area. The project has been featured on the national ABC evening news, KPBS television, the Travel Channel and will be the subject of upcoming articles in the Economist Magazine and Urban Land Institute's monthly magazine.

To facilitate these actions the Agency on June 13, 2001, entered into the Third Implementation Agreement with International Gateway Associates, LLC. The Third Implementation Agreement amended the Schedule of Performance by extending the date the Developer had to receive federal approvals for the River Pedestrian Bridge from June 30, 2001, to June 20, 2002. It also adjusted some dates for submission of plans, etc. to reflect the changes in the anticipated construction schedule. On November 21, 2000, the Redevelopment Agency entered into the Second Implementation Agreement with the Developer. The Second Implementation Agreement provided for the Agency assuming certain offsite improvement costs associated with the project. On February 22, 2000, the Agency entered into the First Implementation Agreement which

provided for the first phase of the project proceeding ahead of the anticipated International Bridges and Border Commission (IBBC) authorization of the River Pedestrian Bridge.

On November 21, 2000, the City Council approved the discretionary permits for the first two phases of the project (Parcels A and B/C). The City Council also approved entering into two Public Use Leases (Parcel A and Parcel B/C) for public parking with International Gateway Associates, LLC on February 21, 2000, to facilitate the project financing.

DISCUSSION

The actions before the Council and Agency will allow the San Ysidro Library to be built within the Las Americas Project (subject to the City obtaining Prop 14 funds from the State); extend the time frame that the developer has to obtain the Presidential Permit; give the developer flexibility in siting the hotel (on Parcel E-3 or Parcel A-3); and directing the Executive Director to begin the process of issuing tax allocation bonds. Specifically, the actions are more fully described as follows:

For the Council:

1. The Reciprocal Easement Agreement (REA) with International Gateway Associates would provide for access (physical and utility) to the library air rights parcel, maintenance of the exterior building and joint use areas, parking easement for 152 spaces for library uses, obligation of each party to rebuild, restrictions on the uses permitted within the building space below the library. The developer will absorb the library's share of the CAM charges for as long as the City operates it as a public library. The CAM charges include all exterior maintenance, security, and building insurance, the City will only be responsible for liability insurance, interior library maintenance and repair, mechanical maintenance of the elevator (the elevator only serves the library) and HVAC, which will be separately metered. The REA also provides for the Developer using a "design/build"process for the construction of the library. The Developers architects are responsible for the exterior design, and the City has hired an architect to work with the library and community to develop the interior space that meets community's needs. The Design/Build Agreement will be executed once grant funding is approved and will have a not to exceed dollar amount.

2. Two Deeds, for air rights parcels, are being donated by International Gateway Associates, LLC, valued at $3,195,000 for the library parcel, to the City for the construction of the San Ysidro Library. The library Deed includes an easement for 152 parking spaces, restrict the property to the uses/limits included in the REA and a reversionary clause if the City fails to obtain financing for the library by September 30, 2003. The library deed is for the actual construction of the library, the second is the air space above the library and gives control of the use(s) to the City. The reason for dividing the air rights into two parcels is to allow the City to develop, should it choose to do so, the air space above the library. There has been some interest expressed regarding developing a museum above the library, for example.

3. The 'Public Use Lease for Parcel A' (for parking) amendment provides for an adjustment to the lease payment schedule to reflect the phasing of construction on Parcel A and minor adjustments to the physical location of the parking spaces. The original lease was approved by the Council on March 20, 2001, by Ordinance OO-18932.

4. The Four Findings that the Council needs to make declare that (1) there is a benefit to the San Ysidro Redevelopment Project Area from this project, (2) there are no other reasonable means of financing the San Ysidro Library, (3) the Library will contribute to the elimination of blight, and (4) the project is consistent with the Implementation Plan. The attached resolution states the reasons staff believes the San Ysidro Library will contribute to the completion of the Redevelopment Plan for San Ysidro and meet the above findings.

5. Cooperation Agreement with the Agency is subject to the Agency issuing a tax allocation bond to contribute toward the Agency's share of completing the San Ysidro Library. The Agency is planning on issuing the bonds this summer (2002) of which up to $2,500,000 will go toward the San Ysidro Library.

As part of the docket the Council will be acknowledging the administrative approval of the Final Subdivision Map for development of Parcel A (the Tentative Map was approved by the Council on November 21, 2000.) Along with the Final Map, the City will administratively process a Subdivision Improvement Agreement covering all the off site improvements that were conditioned as part of the Tentative Map process.

For the Agency:

The Fourth Implementation Agreement will authorize several actions to include the San Ysidro Library in the Las Americas Project, allow the Developer to continue to pursue obtaining the Presidential Permit, and allow the Developer some flexibility in siting a hotel within the project. More specifically, the actions are as follows:

1. The Fourth Implementation Agreement would authorize the following:

   a) Adjust the boundaries of certain Parcel (A Parcel) into 3 parcels.

   b) Revise the Schedule of Performance, Attachment 3 to the DDA, to extend the Developer's ability to pursue the Presidential Permit for the River Pedestrian Bridge from June 30, 2002, until September 30, 2003; to reflect the adjustment in the construction phasing for Parcel A; and, to reflect the impact the extension to the federal approvals for the River Pedestrian Bridge has on the development on the E Parcels.

   c) Revise the Scope of Development, Attachment 4 to the DDA, to reflect changes to the Improvements to be developed on specific Parcels to facilitate the San Ysidro Library.

d) Provide for the conveyance and development of Parcel A in three (3) phases as follows:

BUILDING PHASING (A-1 WITH BLDG X)				A-1 WITHOUT BLDG X	
PARCEL/PHASE	BUILDINGS	SQ.FT.	% OF TOTAL	SQ.FT.	% OF TOTAL
A-1 (1B1)	A,B,D,V,X(opt),E,U	213,095	78.92%	189,115	70.04%
A-2 (1B2)	Z	28,155	10.43%	28,155	10.43%
A-3 (1B3)	Y,T,X(opt)	28,750	10.65%	52,730	19.53%
TOTAL		270,000	100.00%	270,000	100.00%

Each phase would be independent, but the first phase would be required to provide all the parking, utilities and access necessary to that phase. In addition, all the off site improvements previously required by the Development Permit would have to be built with the first phase.

Revise Section 718 of the DDA, allowing for a phased payment schedule (sales tax) under the 'Public Use Lease Parcel A' (for public parking) to match the construction schedule.

LEASE PAYMENT SCHEDULE			
BASE RENT A	PARCEL/PHASE	% OF PHASING	PAYMENT
$6,306,000	A-1 (1B1)	70.04%	$4,416,886
Old Lease	A-2 (1B2)	29.96% (remainder)	$1,889,114
Payment			
TOTAL		100.00%	$6,306,000
LEASE PAYMENT SCHEDULE			
FTBR A	PARCEL/PHASE	% OF PHASING	PAYMENT
$1,145,000	A-1 (1B1)	70.04%	$801,988
Old Lease	A-2 (1B2)	29.96% (remainder)	$343,012
Payment			
TOTAL		100.00%	$1,145,000
LEASE PAYMENT SCHEDULE			
STBR A	PARCEL/PHASE	% OF PHASING	PAYMENT
$5,161,000	A-1 (1B1)	70.04%	$3,614,898
Old Lease	A-2 (1B2)	29.96% (remainder)	$1,546,102
Payment			
TOTAL		100.00%	$5,161,000

Revise the Method of Financing, Attachment 2 to the DDA, dividing the tax increment notes for Parcel A into three notes to reflect the phasing of construction as noted above. The Agency approved one note in the amount of $1,780,000 to be repaid over 30 years from tax increment revenues. The Developer is required by the DDA to pay a minimum amount of property tax. The note was to be triggered by a certain amount of square footage being developed. As the project is being phased in, the note needs to be adjusted to reflect the amount of development completed per phase.

PARCEL A LOAN REPAYMENT SCHEDULE (A-1 WITH BLDG X)				A-1 WITHOUT BLDG X	
LOAN AMOUNT	PARCEL/PHASE	% OF PHASING	PAYMENT	% OF PHASING	PAYMENT
$1,780,000	A-1 (1B1)	78.92%	$1,404,849	70.04%	$1,246,758
Old Loan	A-2 (1B2)	10.43%	$185,614	10.43%	$185,615
Amount	A-3 (1B3)	10.65%	$189,537	19.53%	$347,627
TOTAL		100.00%	$1,780,000	100.00%	$1,780,000

e) Provide for including the San Ysidro Branch Library in the Las Americas Project by removing the condition to provide 50,000 square feet of cultural space within Parcel E-4 and replacing it with 25,000 square feet of library space on Parcel A. The City would have until September 30, 2003, to proceed with building the library. If the City chooses not to build the library, the Developer would be conditioned to provide 25,000 square feet of cultural space on Parcel E-4 rather than the 50,000 square feet originally included in the DDA.

f) Revise the DDA to allow the Developer flexibility in siting the hotel on either Parcel A or Parcel E-3, subject to the Agency Executive Director and City approving the site plan, development permits, coastal permit etc. The Developer has received interest in locating a hotel within the Las Americas Project, but most of that interest has been on a site located away from where the River Pedestrian Bridge would be located. The Agency approved a hotel as part of the original DDA on Parcel E-3, but the City has not yet issued development permits for the E Parcels. This action would allow the Developer to continue discussions with interested hotel operators, but still require him to obtain City approval for permits. The Developer would have until the start of construction of the final phase on Parcel A to make the election to move the hotel.

g) Revise the DDA to clarify that the Agency right to capture a portion of increase values as a result of the sale of the property terminates after the commencement of construction of Phase 1B1 of the A Parcel, except for Phase 1B2 (the library parcel) and amend Section 510 (h) that financing is at the sole discretion of the developer.

2. The Four Findings that the Agency needs to make declare that (1) there is a benefit to the San Ysidro Redevelopment Project Area from the library project, (2) there are no other reasonable means of financing the San Ysidro Library, (3) the library will contribute to the elimination of blight, and (4) the project is consistent with the Implementation Plan. The attached resolution states the reasons staff believes the San Ysidro Library will contribute to the completion of the Redevelopment Plan for San Ysidro and meet the above findings.

3. The Cooperation Agreement with the City is subject to the Agency using proceeds from a tax allocation bond to contribute the Agency's share toward completing the San Ysidro Library. The Agency is planning on issuing bonds this summer (2002) of which up to $2,500,000 will go toward the San Ysidro Library. The Agency is scheduled to approve the budget for Fiscal Year 2003 on May 21, 2002, which includes the proposed bond issue and funds for the library.

4. Authorize the Executive Director to proceed with the preparation of documents necessary to issue tax allocation bonds for the San Ysidro Project Area.

ALTERNATIVE

Alternative 1. Do not approve the actions necessary to facilitate the library, but approve the extension to the Developers ability to pursue the Presidential Permit and flexibility to move the hotel from Parcel E-3 to Parcel A. This would delay for an undetermined amount of time construction of a library in San Ysidro. (The City is seeking grant funding for the library and if unsuccessful the library cannot proceed.)

Alternative 2. Do not approve any of the actions, this would delay the library for an undetermined amount of time; effectively stop the developer and City from pursuing the Presidential Permit for the River Pedestrian Bridge; eliminate the potential of attracting a hotel to the Las Americas Project; and potentially stop the development of the remainder of the project.

Respectfully submitted,

Todd Hooks Deputy Executive Director of Redevelopment Agency/ Deputy Director Redevelopment	Approved: Hank Cunningham Assistant Executive Director of Redevelopment Agency/Director Community & Economic Development	Approved: Bruce Herring Deputy City Manager

CUNNINGHAM/PKH

ATTACHMENT(S):
1. Reciprocal Easement Agreement (REA)
2. Deeds (two)
3. Amendment to Public Use Lease A (parking lease)
4. Findings of Benefit for San Ysidro Library (City)
5. Cooperation Agreement between City and Agency
6. Fourth Implementation Agreement Las Americas Project
7. Findings of Benefit San Ysidro Library (Agency)

file:SY_IGA_4thImplementationStaffReport