THE CITY OF SAN DIEGO

DATE ISSUE: May 6, 1998 REPORT NO. RA 98.4

MEETING OF: May 12, 1998

TO: Chair and Members of the Redevelopment Agency and Mayor and Members of the City Council

FROM: City Redevelopment Program

SUBJECT: Proposed Disposition and Development Agreement (DDA) for the "International Gateway of the Americas" project in the San Ysidro Redevelopment Project Area with LandGrant Development Co.

REFERENCE: Report No. RA-97-8

RECOMMENDATION

That the Redevelopment Agency:

1 - Certify that the Mitigated Negative Declaration (MND) and Initial Study have been reviewed and considered with respect to the proposed project.
2 - Authorize the Executive Director to execute the Disposition and Development Agreement for the International Gateways of the Americas project.
3 - Approve the Basic Concept Drawings with respect to the project.

That the City Council :

1 - Certify that the Mitigated Negative Declaration (MND) and Initial Study have been reviewed and considered with respect to the proposed project.
2 - Consent to the Redevelopment Agency entering into the Disposition and Development Agreement.

OTHER RECOMMENDATIONS

The San Ysidro Project Area Committee (PAC) voted in support of the ENA and the concept of the International Gateway of the Americas project last summer. The PAC considered the MND at their April meeting and commented that the trolley extension probably did not meet the community plan and would require a community plan amendment. They are scheduled to hold study sessions on the proposed DDA and will make a recommendation orally at the public hearing.

The San Ysidro Community Planning Committee reviewed the MND and made comment (see attached final MND). The Committee will be reviewing plans as they progress through the system.

The San Ysidro Chamber of Commerce voted in February of 1997 to support LandGrant's efforts to develop a comprehensive plan for the San Ysidro Community, but have not taken a formal position on the project.

The Greater San Diego Chamber of Commerce on January 8, 1998 voted to support the International Gateway of the Americas project.

The San Diego Planning Commission endorsed the project on January 15, 1998.

ENVIRONMENTAL IMPACT

The City Council certified a Master Environmental Impact Report on the entire Redevelopment Plan in 1996 as part of the adoption process. A subsequent draft Mitigated Negative Declaration (MND) and Initial Study have been prepared under CEQA guidelines and circulated for review and comment. Response to the comments have been prepared and are attached to the Final MND (Exhibit 2).

FISCAL IMPACT

The total project value, including public improvements, is $192,044,000. Because San Ysidro is a new project area (adopted spring of 1996) and there are no tax increment revenues to invest, the developer is proposing to advance all the funds needed for the public improvements and to cover the land acquisition and economic gap set at $20,464,500. A series of leases and loan agreements between the City and the Developer, and the Agency and the Developer have been created to repay the developer for those advances. Sources of revenue include a portion of the tax increment and sales tax generated from the project only. Additional revenues generated, but not used to support the project, are from transient occupancy tax (TOT) and a new pedestrian bridge to Tijuana If the developer does not generate all the revenue needed (i.e. property tax and sales tax), the Agency / City are not obligated to make payments on these leases and loans.

The project will generate over $1,581,000 in sales tax in the stabilized year of operation (year 2) to the City of which a fixed payment of $1,308,175, or 83% will be reinvested into the project for 30 years. Growth in sales tax will remain with the City.

The project will generate over $891,752 (after set asides) in tax increment to the Agency of which a fixed payment of $747,965, or 84%, will be reinvested into the project for 30 years. Annual growth in tax increment will remain with the Agency.

The project will generate over $1,012,000 annually in Transient Occupancy Tax (TOT) to the City none of which is proposed to be used for the project.

The project will generate over $1,364,000 annually in Pedestrian Bridge Revenues to the City, none of which are proposed to be used. (See Exhibit 5 for a summary of source and uses of funds.)

A report on the financial impact has been prepared by Keyser Marston Associates pursuant to Section 33433 of the California Redevelopment Law and is attached as Exhibit 3.

A reuse appraisal establishing the value of the sale of property by the Agency to the Developer has been prepared by Keyser Marston Associates and is attached as Exhibit 4.

BACKGROUND

On April 14, 1993 and July 31, 1996, the Mayors of the Cities of Tijuana and San Diego established the Agreement for Binational Cooperation between the two cities to set objectives on binational planning and other cross-border concerns to physically and economically enhance the region. The Puerta Mexico / San Ysidro Port of Entry was identified as an area which needed to be designed to improve the flow of pedestrian and vehicular transportation, comprehensively plan local land uses, and develop improved infrastructure on both sides of the border. Consistent with the intent of the Agreement for Binational Cooperation, the City of San Diego in 1996 adopted a Redevelopment Plan for the San Ysidro Redevelopment Project Area to address the revitalization of the border area in the U.S.

On July 15, 1997 the Redevelopment Agency entered into an Exclusive Negotiating Agreement with LandGrant Development Company. The ENA was extended on February 3, 1998 and March 3, 1998 to June 1, 1998. Since then the Developer and the staff have been working with the City of Tijuana, federal, state and regional agencies on both sides of the border and the San Ysidro community to further refine the plans, circulate the environmental documents and contact the property owners.

DISCUSSION

Project Description:

LandGrant Development Company, the developer, is proposing to develop approximately 1.4 million square feet of retail, office and hotel uses in San Ysidro on land that they control through a joint venture partnership and additional land that the Agency will assist in acquiring adjacent to the old commercial crossing at Virginia Avenue. The project will be developed in four phases over a number of years. Depending on market conditions multiple phases could be undertaken concurrently. The breakdown of land uses and square footage by parcel is listed below:

Description	Net Sq. Ft.	Net Sq.Ft.
Parcel A - American Retail and Entertainment	243,000	982,163
Parcel B - Factory Outlet Retail	98,000	455,685
Parcel C - Factory Outlet Retail	210,500	746,621
Parcel D - Transit Center (excluding Trolley)	3,000	214,375
Parcel E1- Gateway (Federal facilities)	90,000	230,727
Parcel E2- Office	100,000	58,639
Parcel E3- Hotel	304,600	110,011
Parcel E4- Cultural Center	50,000	77,453
Parcel F - Parking Structure	312,000	-
Parcel G - Pedestrian Bridge	-	-
	1,411,100	**2,875,674**

Summary of Terms and Conditions:

The DDA (Exhibit 1) sets forth the obligations of both the Developer and the Agency and the time frame under which the obligations must be completed. Some of the issues require further public hearings or actions by third parties, in which case the Agency is obligated to use best efforts to assist the developer.

The following are summaries of the major deal points contained within the DDA.

Agency obligations:

The Redevelopment Agency obligations are dependent on the developer meeting certain time frames and submitting evidences of financing.

Land purchase and sale (Purchase Agreement - Attachment 12 and Loan Agreement - Attachment 14) - The Agency is agreeing to purchase (1) portions of land from the Simons family at an agreed purchase price ($6.00 per square foot) and reselling it to the development entity for $100 per parcel and (2) non Simon family owned land and selling it to the development entity. To accomplish this the developer is advancing funds for the acquisition and relocation which are secured by a loan agreement.

Tax increment generated from the project only is used to make the payments under the loan agreement to the developer. The loan agreement is for 30 years. The annual payment from tax increment under the loan agreement is S747,965. The developer is agreeing to not appeal his assessed valuation below the initial amount needed to service the debt plus the 2 % growth per year for the life of the redevelopment plan

GSA / Federal Inspection Agencies (Attachment 10) - The Agency agrees to use its best efforts to secure agreements with the United States General Services Administration (GSA) to allow the developer to construct federal inspection facilities and to reopen a pedestrian crossing at the old Virginia Avenue commercial crossing. If the Agency / City are unable to secure agreements, within the time frames outlined in the Schedule of Performance, then the DDA is terminated. The DDA assumes a fair market transaction with GSA.

Pedestrian Bridge (Attachment 8) - The developer proposes to construct a new Pedestrian Bridge over the Tijuana River. Developing this bridge will require third party agreements, therefore, a term sheet has been prepared outlining the issues which will need to be resolved. It is proposed that the bridge be a toll bridge and funded entirely by the developer. However, the revenues, after operation, maintenance, debt and return on equity, from the bridge would be split between the City of Tijuana (2/3) and the City of San Diego (1/3). A franchise agreement which would allow the developer to build and operate this bridge for 25 years must be negotiated with the appropriate federal and local agencies on both sides of the border. Expenditure of the revenues to the City of San Diego from the bridge will be limited to the environs in and around the San Ysidro Port of Entry.

Cultural Center - A 50,000 square foot cultural center is proposed to be located within the project. It is NOT included in the financial plan and does not generate much, if any, revenue. The cost to construct the facility is estimated at $5,911,000. The developer is attempting to finance this through a private foundation (a grant application to the Melon Foundation's Project 180 has been made).

Trolley (Section 713 of the DDA) - Currently MTDB has committed approximately $8.3 million to the San Ysidro Intermodel Transit Center (SYITC) to be located at 700 East San Ysidro Boulevard. The financing plan does not include funding any extension to the proposed project. The extension of the trolley and additional station is estimated to cost $24 million. The decision to extend the trolley rests with MTDB and the City. The developer agrees to work with MTDB and the City if so requested.

City Permits (Section 710 of the DDA and Attachment 9) - The Agency agrees to use its best efforts to work with the developer in obtaining City development permits within the time limits established in the Schedule of Performance.

World Trade Center (Section 715 of the DDA) - The Agency agrees to cooperate and assist the developer in seeking to either: (1) acquire the City's and Port Districts interest in the World Trade Center San Diego; or (2) enter into a cooperation agreement with the World Trade Center assuring its short term and long term cooperation and coordination of activities in furtherance of the development of the site.

City obligations:

Under the terms of the DDA the financing plan is dependent on certain agreements with the City. Although not being requested to be approved at this time, the City will be asked, in the future, to enter into the following agreements:

Public Use Lease and Public Works Financing Agreements (Attachment 13 and Attachment 15) - The City will lease portions of the parking lots for public parking / transportation and border crossing, and lease them back to the developer for operation and maintenance. The first tier of lease payments will be at 10% interest for 30 years on parcel A, B and C. The source of lease payment is a portion of the sales tax dollars generated by the project only. The second tier of lease payments is calculated at 6% interested for 30 years and covers the amount of the off site public improvements.

The City agrees to finance the public improvements through facilities financing district (either 1913 Act, 1915 Act or Mello Roos). The developer will construct the improvements ($6,937,500). The City retains the option to elect to construct the improvements using grant or other sources and thereby reduce the amount paid to the developer. However, the time under which the City may do this is specified in the schedule of performance and requires the City to retain the same civil engineer retained by the developer and complete the improvements in timing with the development opening.

Development Agreement (Section 707 of the DDA) - The developer agrees to use diligent and good faith efforts to obtain a Development Agreement from the City. The proposed development could take several years to complete and the developer is concerned that the City not change the zoning during the time of the DDA which would preclude him from completing the project as envisioned.

Timing / Phasing

The DDA sets forth a schedule of performance which identifies the latest dates by which certain events will take place. These events effect both the developer (when certain items must be submitted) and the City / Agency (by when reviews/approvals must be completed). Key events are U.S. and Mexican Federal approval to reopen Virginia Avenue as a pedestrian crossing, and U.S. Federal agencies, through GSA, to agree to lease space.

The projected construction schedule phasing is as follows:

	Start	Completion
Phase 1		
Parcel A, B, C (Retail)	4/99	12/99
Phase 2		
Parcel D, E-1, G (Transit center/ Federal inspection Facilities/ped. bridge)	4/2000	4/2001
Phase 3		
Parcel E-3 or Parcel E-3, E-2, F (Hotel,Office, parking)	2003	2004
Phase 4		
Parcel E-4 (Cultural center)	2004	2005

Owner Participation: On January 6, 1998 the effected property owners were sent letters advising them of the proposed "International Gateway of the Americas" project and asked to respond indicating their interest in participating in the development. None of the property owners responded that they would like to submit a proposal. Baja Mex Insurance property owners have been meeting with Agency staff and attorneys to enter into a lease agreement for some City owned property. Staff and the property owners have reached a proposed agreement for temporary use of the subject property which will be coming before the City Council / Agency in the near future.

ALTERNATIVES

Do not authorize the Executive Director to enter into the DDA with LandGrant Development Company. This alternative would leave the land in its current configuration which is predominantly vacant. The City and Agency would not realize the tax increment, sales tax and transient occupancy dollars.

Penelope Culbreth-Graft

Approved by:
Penelope Culbreth-Graft DPA
Assistant Executive Director

Patricia K. Hightman

Prepared by:
Patricia K. Hightman
Deputy Executive Director

HIGHTMAN

ATTACHMENTS:

1. DDA
2. MND & Initial Study
3. FINANCIAL REPORT (33433)
4. REUSE APPRAISAL
5. Summery of Sources and Uses of Funds (Tax dollars)