



# CITY COUNCIL AGENDA STATEMENT



December 11, 2018

File ID: 18-0517

## TITLE

- A. RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA ACTING IN ITS CAPACITY AS THE LEGISLATIVE BODY OF COMMUNITY FACILITIES DISTRICT NO. 17-I (WESTERN CHULA VISTA DIF FINANCING PROGRAM), CERTIFYING THE RESULTS OF A SPECIAL ELECTION IN THAT TERRITORY DESIGNATED AS COMMUNITY FACILITIES DISTRICT NO. 17-I (WESTERN CHULA VISTA DIF FINANCING PROGRAM), ANNEXATION NO. 2018-01, AND ADDING SUCH TERRITORY TO COMMUNITY FACILITIES DISTRICT NO. 17-I (WESTERN CHULA VISTA DIF FINANCING PROGRAM)
- B. RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA ACTING IN ITS CAPACITY AS THE LEGISLATIVE BODY OF COMMUNITY FACILITIES DISTRICT NO. 17-I (WESTERN CHULA VISTA DIF FINANCING PROGRAM), CERTIFYING THE RESULTS OF A SPECIAL ELECTION IN THAT TERRITORY DESIGNATED AS COMMUNITY FACILITIES DISTRICT NO. 17-I (WESTERN CHULA VISTA DIF FINANCING PROGRAM), ANNEXATION NO. 2018-02, AND ADDING SUCH TERRITORY TO COMMUNITY FACILITIES DISTRICT NO. 17-I (WESTERN CHULA VISTA DIF FINANCING PROGRAM)
- C. RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA ACTING IN ITS CAPACITY AS THE LEGISLATIVE BODY OF COMMUNITY FACILITIES DISTRICT NO. 17-I (WESTERN CHULA VISTA DIF FINANCING PROGRAM), CERTIFYING THE RESULTS OF A SPECIAL ELECTION IN THAT TERRITORY DESIGNATED AS COMMUNITY FACILITIES DISTRICT NO. 17-I (WESTERN CHULA VISTA DIF FINANCING PROGRAM), ANNEXATION NO. 2018-03, AND ADDING SUCH TERRITORY TO COMMUNITY FACILITIES DISTRICT NO. 17-I (WESTERN CHULA VISTA DIF FINANCING PROGRAM)

## RECOMMENDED ACTION

Council adopt the resolutions.

## **SUMMARY**

In March 2016, the City Council formed Community Facilities District 17-I (CFD 17-I), the Western Chula Vista Development Impact Fee (DIF) Financing Program. CFD 17-I was established for the purpose of financing the payment of certain DIF obligations for multi-family, commercial or industrial properties in Western Chula Vista (i.e., the area generally located between Interstate 5 and Interstate 805) and the Chula Vista Auto Park, which is situated to the east of Interstate 805 and to the west of Heritage Road. In March 2016, the City Council also authorized the future annexation of such territory designated within the Future Annexation Areas pursuant to the provisions and authorization of Article 3.5 of the Mello-Roos Community Facilities Act of 1982 (the “Act”). The following three properties are proposing to annex into CFD 17-I:

- Annexation No. 2018-01, located at 260-270 Broadway;
- Annexation No. 2018-02, located at 288 Center Street, 336 Church Avenue, 338 Church Avenue, and 342 Church Avenue; and
- Annexation No. 2018-03, located at 230 Church Avenue.

## **ENVIRONMENTAL REVIEW**

The City’s Development Services Director has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a “Project” as defined under Section 15378 of the State CEQA Guidelines; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines, the activity is not subject to CEQA.

## **BOARD/COMMISSION/COMMITTEE RECOMMENDATION**

Not applicable.

## **DISCUSSION**

Investment in Western Chula Vista presents a financing challenge for potential investors and developers. Financing challenges derive primarily from the lending industry’s increased equity requirements imposed upon infill development projects in Western Chula Vista. To help address the additional equity burden being placed on infill development in this area, the City Council formed CFD 17-I, which allows the deferral of DIFs to incentivize future investment in this area.

The deferral of the DIF payment reduces the additional equity burden by an amount equal to the DIFs. CFD 17-I enables the developer to shift the DIF burden from the construction/development cost side of their ledger to the operating side of the development. CFD 17-I is unique in that it is not used as a mechanism to issue debt, but rather as a way to finance DIFs over time.

When CFD 17-I was formed in March 2016, only one property was included within CFD 17-I. However, the City Council also authorized the annexation of territory designated within the Future Annexation Area to CFD 17-I. The Future Annexation Area includes multi-family, commercial or industrial properties in Western Chula Vista (i.e., the area generally located between Interstate 5 and Interstate 805) and the Chula Vista Auto Park, which is situated to the east of Interstate 805 and to west of Heritage Road. Property owners can voluntarily annex into CFD 17-I through an election process. An owner of a residential, commercial, or industrial property located within the Future Annexation Area may apply to have such

property annexed to CFD 17-I. Such owner may waive the public hearing otherwise required for annexations and may waive the time limit for conducting the election to authorize the levy of special taxes within the property proposed to be annexed into CFD 17-I. Prior to the proposed annexations, one property (i.e., Annexation No. 2017-01, the Urbana Apartments located at 371, 385, and 395 H Street) annexed into CFD 17-I in 2017. The proposed annexations would increase cumulative CFD 17-I annexations from one to four.

The projects seeking annexation into CFD 17-I are as follows:

1. Annexation No. 2018-01

This project is located at 260-270 Broadway and consists of 62 multi-family residences. The project occupies Assessor's Parcel Numbers 567-032-18-00, 567-032-19-00, and 567-032-20-00, which have a combined area of 1.70 acres. The applicant has indicated a tentative construction start date of December 21, 2018 and a 14-month construction schedule. The total estimated project cost is \$17.3 million.

2. Annexation No. 2018-02

This proposed annexation is situated at 288 Center Street, 336 Church Avenue, 338 Church Avenue, and 342 Church Avenue and would include 43 multi-family residences. The project is located on Assessor's Parcel Numbers 568-334-08-00, 568-334-06-00, 568-334-05-00, and 568-334-07-00 which have a combined area of 0.57 acres. Subject to the completion of plan checks, the applicant anticipates breaking ground in February 2019 and estimates construction will take approximately 16 months. The total estimated project cost is \$12.5 million.

3. Annexation No. 2018-03

This annexation is located at 230 Church Avenue, and would include 29 multi-family residences. The project occupies Assessor's Parcel Numbers 568-071-22-00 and 568-071-21-00, which have a total area of 0.26 acres. The applicant indicated that they plan to break ground in December, 2018 and complete construction in April 2020. The total estimated project cost is \$8.7 million.

#### Annexation Process

The owner of each property, as the qualified elector for the election to authorize the levy of the special tax on the property proposed to be annexed into CFD 17-I, has waived the public hearing and the time limit for conducting such an election. Ballot documents were transmitted to the property owners and completed and returned by the property owners to the City Clerk on or before December 4, 2018. The City Clerk canvassed the ballot and has determined that the property owners have cast the ballot in favor of authorizing the levy of the special tax on each of the properties proposed for annexation into CFD 17-I. By adoption of the attached resolutions, the City Council will be determining the results of the election and determining and declaring that such properties are added to and become a part of CFD 17-I.

The CFD 17-I program is available for five years. When CFD 17-I was adopted, the City Council placed a cap of 200 residential units per year. The three annexations include a total of 134 units. No other units are

proposed for annexation in 2018. The City has retained the services of Best Best & Krieger LLP as special counsel to provide assistance during the annexation proceedings, including the review of this report and the associated resolution for Annexation No. 2018-01. City staff prepared the resolutions for Annexation No. 2018-02 and Annexation No. 2018-03 using the Best Best & Krieger LLP resolution as an example.

## **DECISION-MAKER CONFLICT**

### **Annexation No. 2018-01**

Staff has reviewed the property holdings of the City Council members and has found no property holdings within 500 feet of the boundaries of the property which is the subject of this action. Consequently, this item does not present a disqualifying real property-related financial conflict of interest under California Code of Regulations Title 2, section 18702.2(a)(11), for purposes of the Political Reform Act (Cal. Gov't Code §87100, *et seq.*).

Staff is not independently aware, and has not been informed by any City Council member, of any other fact that may constitute a basis for a decision maker conflict of interest in this matter.

### **Annexation No. 2018-02**

Staff has reviewed the property holdings of the City Council members and has found no property holdings within 500 feet of the boundaries of the property which is the subject of this action. Consequently, this item does not present a disqualifying real property-related financial conflict of interest under California Code of Regulations Title 2, section 18702.2(a)(11), for purposes of the Political Reform Act (Cal. Gov't Code §87100, *et seq.*).

Staff is not independently aware, and has not been informed by any City Council member, of any other fact that may constitute a basis for a decision maker conflict of interest in this matter.

### **Annexation No. 2018-03**

Staff has reviewed the property holdings of the City Council and has found that Mayor Mary Casillas Salas has real property holdings within 500 feet of the boundaries of the property which is the subject of this action. Consequently, pursuant to California Code of Regulations Title 2, sections 18700 and 18702.2(a)(11), this item presents a disqualifying real property-related financial conflict of interest under the Political Reform Act (Cal. Gov't Code § 87100, *et seq.*) for the above-identified member.

Staff is not independently aware, and has not been informed by any City Council member, of any other fact that may constitute a basis for a decision maker conflict of interest in this matter.

## **LINK TO STRATEGIC GOALS**

The City's Strategic Plan has five major goals: Operational Excellence, Economic Vitality, Healthy Community, Strong and Secure Neighborhoods and a Connected Community. The deferral of DIFs furthers the Economic Vitality initiative 2.1.2 to "foster opportunities for investment in Western Chula Vista" by

removing impediments for development projects in the subject area, accelerating the completion of planned and future developments.

#### **CURRENT-YEAR FISCAL IMPACT**

Many DIFs are paid by the applicant at Certificate of Occupancy stage of development. For these three annexations, Certificate of Occupancy would occur following construction. Based on applicant estimates, this would be between 14 and 18 months from December 2018. Additionally, the developer is required to advance funds to the City to cover the costs incurred by the City in undertaking the annexation proceedings. Therefore, there is no Current Year Fiscal Impact as a result of this action.

#### **ONGOING FISCAL IMPACT**

The Western Chula Vista Financing Program will defer payment of the following three DIFs: the Public Facilities Development Impact Fee (PFDIF), the Parkland Acquisition and Development Fee (PAD) and the portion of the Western Transportation Development Impact Fee (WTDIF) that is not allocated to the San Diego Association of Governments (SANDAG) pursuant to the Regional Transportation Congestion Improvement Program, as required by SANDAG's TransNet Extension Ordinance. This deferral would be for a period of 30 years incurring 2 percent interest, per annum, upon receipt of occupancy. There would be no obligation to make a payment on the deferment in years 1 through 10. However, the deferred fees are required to be repaid in years 11 through 30. If a property is sold or subdivided, the obligation to repay the fees runs with the land. The non-payment period aligns with standard commercial lending practices. It is anticipated that some projects will repay the deferred fees in year ten when the project is refinanced.

New developments are assessed development DIFs for the incremental impacts resulting from said development. DIFs do not pay for or resolve the deficiencies of facilities that may exist today. As stated above, all new development will continue to mitigate for on-site impacts resulting from each respective project.

Should the CFD 17-I program be successful, it is anticipated to generate new development which, would translate into an increase in assessed valuation and have a positive impact on the neighboring property values while also providing new residents and employees to help support the surrounding businesses located along the retail corridors.

DIFs to be deferred for each of the proposed annexations are as follows:

<b>Annexation</b>	<b>WTDIF Deferral</b>	<b>PFDIF Deferral</b>	<b>PAD Deferral</b>	<b>Total Deferral</b>
<b>2018-01</b>	\$30,318.85	\$583,554.70	\$593,092.00	\$1,206,965.55
<b>2018-02</b>	\$48,715.20	\$444,491.00	\$411,338.00	\$904,544.20
<b>2018-03</b>	\$32,854.44	\$299,773.00	\$277,414.00	\$610,041.44

The combined construction cost for the three projects represents a \$38.5 million investment in Western Chula Vista.

## ATTACHMENTS

1. Annexation No. 2018-01 Attachment 1 RMA
2. Annexation No. 2018-01 Exhibit B Boundary Map
3. Annexation No. 2018-02 Attachment 1 RMA
4. Annexation No. 2018-02 Exhibit B Boundary Map
5. Annexation No. 2018-03 Attachment 1 RMA
6. Annexation No. 2018-03 Exhibit B Boundary Map

*Staff Contact: Scott Barker, Transportation Engineer*