STAFF REPORT
CITY OF SOLANA BEACH
AND REDEVELOPMENT AGENCY

TO: Honorable Mayor and City Councilmembers / Honorable Chairperson and Board of Directors
FROM: David Ott, City Manager / Executive Director
MEETING DATE: January 26, 2011
ORIGINATING DEPT: City Manager's Office
SUBJECT: Approval of the First Amended and Restated Exclusive Right to Negotiate Agreement for the Development of an Affordable Housing Project at the 500 block of South Sierra Avenue and the Execution Thereof

BACKGROUND:
The City of Solana Beach (City) and the Solana Beach Redevelopment Agency (Agency) received an unsolicited original proposal from Hitzke Development Corporation (Developer) in March 2009 to develop a mixed-used project, including public parking, neighborhood -serving commercial space, private off-street parking, and affordable housing (the “Project”) at the City-owned parking lot at the 500 block of South Sierra Avenue, Assessor’s Parcel Number 298-211-81 (the “Site”). Subsequent to meetings with City Staff, the developer amended its proposal to include:

- A three floor building with residential units on the second and third floors;
- 10 units of affordable rental housing of varying sizes including:
  - Three one-bedroom flats with a minimum of 510 square feet,
  - Three two-bedroom townhomes with a minimum of 950 square feet,
  - Three three-bedroom flats with a minimum of 1075 square feet, and
  - One four-bedroom flat with a minimum of 1200 square feet
- The affordability range of extremely low, very low and low income units;
- Approximately 1350 square foot ground floor commercial space for an upscale neighborhood market;
- 16 Residential and 7 Commercial parking spaces;
- 31 public parking spaces;
- Eco-friendly development that will receive a minimum certification of LEED gold rating or equivalent.

CITY COUNCIL ACTION:

AGENDA ITEM
C.3.
The development of 10 affordable rental housing units would satisfy the City's obligations under the Perl Settlement and the subsequent amendment executed in 1993 and 1999 respectively.

On July 14, 2010, the City and the Agency approved an Exclusive Negotiation Agreement (ENA) with Hitzke Development Corporation for the development of an affordable housing project at the 500-block of South Sierra Avenue. Significant strides were made between the parties in accomplishing the tasks contemplated in the initial ENA. Additional time, however, is needed to finalize specific details that could culminate in a disposition, development, and loan agreement (DDLAA). As a result, Staff recommends approval of the First Amended and Restated Exclusive Right to Negotiate Agreement (First Amended and Restated ERNA).

**DISCUSSION:**
The purpose of the First Amended and Restated ERNA is to establish procedures and standards for the negotiation by the City, Agency and Hitzke Development Corporation for the development of the Project through a disposition, development, and loan agreement (DDLAA) that will be before the Council and Agency Board for approval at a later date.

The First Amended and Restated ERNA grants Hitzke Development Corporation exclusive negotiation rights for the development of the Site for an extended negotiation period (180 days). As with the initial ENA, the City and Agency shall not negotiate with any other entity regarding the development of the Site, or entertain bids or proposals to do so. The First Amended and Restated ENA still does not obligate any party to acquire or convey any property, does not grant Developer the right to develop the Project, and does not obligate the Developer to any activities or costs to develop the Project, except for the preliminary analysis and negotiations contemplated in the First Amended and Restated ERNA.

To defray some of the estimated $1.1 million in indirect predevelopment costs to be incurred by Hitzke Development Corporation, including but not limited to architectural, planning, and engineering studies and designs; analysis of water, sewer, and other utilities; legal fees; planning application fees; and other environmental studies, it is proposed that the Agency lend Hitzke Development Corporation a predevelopment loan as part of the First Amended and Restated ERNA. The predevelopment loan will be evidenced by a promissory note and subject to a 10% interest rate in the event of a default. The predevelopment loan is secured by certain assignments of agreements, plans, specifications, other documents and approvals assigned to the City by Hitzke Development Corporation. Hitzke Development Corporation is required to first satisfy certain conditions enumerated in the First Amended and Restated ERNA prior to the Agency disbursing any of the predevelopment loan amount.

While this would be the first instance for the Agency to fund a predevelopment loan, predevelopment loans are customary and routine for redevelopment projects. Redevelopment agencies such as Poway, San Marcos, Centre City Development
Corporation, and Lemon Grove to name a few funded predevelopment loans ranging from approximately $350,000 to several millions per project within the last couple of years.

As with the initial ENA, it is proposed that the City Manager/Executive Director of the Agency be the lead negotiator for the City and Agency during the negotiation period.

The Project, as proposed, will assist the City and Agency in the development of affordable housing to satisfy its obligations as mandated by State law.

A copy of the First Amended and Restated Exclusive Negotiation Right Agreement will be distributed as soon as it becomes available.

**CEQA COMPLIANCE STATEMENT:**
Not a project as defined by CEQA.

**FISCAL IMPACT:**
The predevelopment loan will be from the Agency’s Housing set aside fund.

If Council approves the First Amended and Restated ERNA, a promissory note with all required terms and conditions will be executed between the Agency and the Developer.

**WORKPLAN:**
Community Character
A. Land Use & Planning
    7. Affordable Housing Program

**OPTIONS:**
- Approve Staff recommendation.
- Approve Staff recommendation with modifications.
- Provide direction.

**DEPARTMENT RECOMMENDATION:**
Staff recommends that the City Council/Board of Directors:

1. Adopt Resolution 2011-022
   a. Authorizing the City Manager to execute the First Amended and Restated Exclusive Right to Negotiate Agreement between the City of Solana Beach, Solana Beach Redevelopment Agency and Hitzke Development Corporation for the development of an affordable housing project at the 500 block of South Sierra Avenue (APN 298-211-81).
   b. Appointing the City Manager as lead negotiator for the City during the negotiation period.

2. Adopt Resolution RDA-044
a. Authorizing the Executive Director to execute the First Amended and Restated Exclusive Right to Negotiate Agreement between the City of Solana Beach, Solana Beach Redevelopment Agency and Hitzke Development Corporation for the development of an affordable housing project at the 500 block of South Sierra Avenue (APN 298-211-81).

b. Appointing the Executive Director as lead negotiator for the Agency during the negotiation period.

CITY MANAGER'S / EXECUTIVE DIRECTOR'S RECOMMENDATION:

Approve Department Recommendation

David Ott, City Manager / Executive Director

Attachments:
1. Resolution 2011-22
2. Resolution RDA-044
RESOLUTION 2011-022

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SOLANA BEACH, CALIFORNIA, APPROVING AND AUTHORIZING THE CITY MANAGER TO EXECUTE THE FIRST AMENDED AND RESTATED EXCLUSIVE RIGHT TO NEGOTIATE AGREEMENT BETWEEN THE CITY OF SOLANA BEACH, SOLANA BEACH REDEVELOPMENT AGENCY AND HITZKE DEVELOPMENT CORPORATION FOR THE DEVELOPMENT OF AN AFFORDABLE HOUSING PROJECT AT THE 500 BLOCK OF SOUTH SIERRA AVENUE

WHEREAS, the City owns a site of approximately 18,260 sq. ft. located in the 500 block of South Sierra Avenue (APN 298-211-81-00) (Site), which the City seeks to develop as a mixed use project, including public parking, neighborhood-serving commercial space, private off-street parking, and affordable housing (Project); and

WHEREAS, the City is mandated by State law to provide affordable housing; and

WHEREAS, the City desires to cause development of ten (10) affordable units at the site to assist in meeting its affordable housing obligations; and

WHEREAS, the City, Solana Beach Redevelopment Agency, and Hitzke Development Corporation desire to enter into exclusive negotiations for the redevelopment of the Site and construction of the Project.

NOW, THEREFORE, the City Council of the City of Solana Beach, California, does resolve as follows:

1. That the above recitations are true and correct.
2. That the City Council approves and authorizes the City Manager to execute the First Amended and Restated Exclusive Right to Negotiate Agreement between the City of Solana Beach, Solana Beach Redevelopment Agency and Hitzke Development Corporation for the development of an affordable housing project at the 500 block of South Sierra Avenue.

3. That the City Council appoints the City Manager as lead negotiator for the City.

PASSED AND ADOPTED this 26th day of January, 2011, at a regularly scheduled meeting of the City Council of the City of Solana Beach, California by the following vote:

AYES: Councilmembers –
NOES: Councilmembers –
ABSTAIN: Councilmembers –
ABSENT: Councilmembers –

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LESA HEEBNER, Mayor

APPROVED AS TO FORM: ATTEST:

JOHANNA N. CANLAS, City Attorney ANGELA IVEY, City Clerk
RESOLUTION RDA-044

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE SOLANA BEACH REDEVELOPMENT AGENCY APPROVING AND AUTHORIZING THE EXECUTIVE DIRECTOR TO EXECUTE THE FIRST AMENDED AND RESTATED EXCLUSIVE RIGHT TO NEGOTIATE AGREEMENT BETWEEN THE CITY OF SOLANA BEACH, SOLANA BEACH REDEVELOPMENT AGENCY AND HITZKE DEVELOPMENT CORPORATION FOR THE DEVELOPMENT OF AN AFFORDABLE HOUSING PROJECT AT THE 500 BLOCK OF SOUTH SIERRA AVENUE

WHEREAS, the City owns a site of approximately 18,260 sq. ft. located in the 500 block of South Sierra Avenue (APN 298-211-81-00) (Site), which the City seeks to develop as a mixed use project, including public parking, neighborhood-serving commercial space, private off-street parking, and affordable housing (Project); and

WHEREAS, the Solana Beach Redevelopment Agency Project Plan Area was adopted in July 13, 2004 which includes provisions for the development of affordable housing to meet the Agency's affordable housing obligations under Health & Safety Code Section 33413; and

WHEREAS, the Agency desires to cause development of ten (10) affordable units at the site to assist in meeting its affordable housing obligations; and

WHEREAS, the City, Solana Beach Redevelopment Agency, and Hitzke Development Corporation desire to enter into exclusive negotiations for the redevelopment of the Site and construction of the Project.

NOW, THEREFORE, the Board of Directors of the Solana Beach Redevelopment Agency does resolve as follows:

1. That the above recitations are true and correct.
2. That the Board of Directors approves and authorizes the Executive Director to execute the First Amended and Restated Exclusive Right to Negotiate Agreement between the City of Solana Beach, Solana Beach Redevelopment Agency and Hitzke Development Corporation for the development of an affordable housing project at the 500 block of South Sierra Avenue.

3. That the Board of Directors appoints the Executive Director as lead negotiator for the Agency.

PASSED AND ADOPTED this 26th day of January, 2011, at a regularly scheduled meeting of the Board of Directors of the Solana Beach Redevelopment Agency by the following vote:

AYES: Boardmembers –
NOES: Boardmembers –
ABSTAIN: Boardmembers –
ABSENT: Boardmembers –

LESA HEEBNER, Chairperson

APPROVED AS TO FORM: ATTEST:

JOHANNA N. CANLAS, Agency Counsel ANGELA IVEY, Secretary