

**IMPERIAL BEACH REDEVELOPMENT AGENCY SUCCESSOR AGENCY  
LONG RANGE PROPERTY MANAGEMENT PLAN  
AS REQUIRED BY HEALTH & SAFETY CODE SECTION 34191.5(b)**

**9<sup>th</sup> and Palm Property**

**741-849 Palm Avenue and 735 Palm Avenue (APN 626-250-03, 04, 05 and 06)**

**Purpose:** To address the disposition and use of real properties of the former redevelopment agency

**Due:** No later than six (6) months following the issuance to the successor agency of the Finding of Completion

**Contents:** The Long Range Property Management Plan shall include an inventory of all properties in the trust. The inventory shall consist of all of the following information:

- 1) The date of the acquisition of the property and the value of the property at that time and an estimate of the current value of the property
- 2) The purpose for which the property was acquired
- 3) Parcel data, including address, lot size, and current zoning in the former agency redevelopment plan or specific, community, or general plan
- 4) An estimate of the current value of the parcel including, if available, any appraisal information
- 5) An estimate of any lease, rental, or any other revenues generated by the property, and a description of the contractual requirements for the disposition of those funds
- 6) The history of environmental contamination, including designation as a brownfield site, any related environmental studies, and history of any remediation efforts
- 7) A description of the property's potential for transit-oriented development and the advancement of the planning objectives of the successor agency
- 8) A brief history of previous development proposals and activity, including the rental or lease of the property

The Long-Range Property Management Plan shall address the use or disposition of all of the properties in the trust. Permissible uses include the retention of the property for governmental use pursuant to subdivision (a) of Section 34181, the retention of the property for future development, the sale of the property, or the use of the property to fulfill an enforceable obligation. The plan shall separately identify and list properties in the trust dedicated to governmental use purposes and properties retained for purposes of fulfilling an enforceable obligation. With respect to the use or disposition of all other properties, all of the following shall apply:

- A. If the plan directs the use or liquidation of the property for a project identified in an approved redevelopment plan, the property shall transfer to the city, county, or city and county

- B. If the plan directs the liquidation of the property or the use of revenues generated from the property, such as lease or parking revenues, for any purpose other than to fulfill an enforceable obligation or other than that specified in subparagraph A (above), the proceeds from the sale shall be distributed as property tax to the taxing entities
  
- C. Property shall not be transferred to a successor agency, city, county, or city and county, unless the long-range property management plan has been approved by the oversight board and the Department of Finance

**Property:** 9<sup>th</sup> & Palm Property

**Dates of Acquisition:** February 11, 2009 (741-849 Palm Avenue)  
February 13, 2009 (735 Palm Avenue)

**Value at Acquisition:** \$9,679,454 (741-849 Palm Avenue)  
\$1,608,827 (735 Palm Avenue)

**Estimate of Current Value:** Nominal Value (see attached appraisal dated July 10, 2012)

**Purpose of Acquisition:** To facilitate/effectuate redevelopment and economic development of the property and surrounding area

**Parcel Data:**

**Property Address:** 735-849 Palm Avenue, Imperial Beach, CA 91932

**Assessor Parcel No.** 626-250-03, 04, 05, 06

**Lot Size:** 207,000 square feet (4.75 acres, inclusive of public rights-of-way)  
170,320 square feet (3.91 acres, exclusive of public rights-of-way)

**Current Zoning:** C-1 General Commercial (C/MU-1 per recent Zoning Amendment) Zone per the City's Zoning Code, General Plan/Local Coastal Program and Sections 210 and 230 of the Redevelopment Plan for the Palm Avenue/Commercial Redevelopment Project.

**Estimate of Current Value:** "Nominal Value" (see attached appraisal)

**Appraisal Date:** July 10, 2012

**Estimated Revenues:** Pursuant to the approved DDA, the Site will be sold to the Developer for the Project, as defined in the DDA. Pursuant to Section 201 of the DDA, the "Purchase Price" (the monetary consideration payable by Developer to the Successor Agency) for the Site includes the following two components: (a) the payment of the sum of \$1.00, in cash, at the Close of Escrow; and (b) payment of the Participation Component in accordance with the Payment Agreement, consisting of 1.5% of the gross sales price from the first arm's-length sale of each portion of the Site by the Developer in any number of transactions over any period of time, if any, excluding the sale of Parcel A and Parcel F upon certain conditions including, without limitation, if the Developer conveys these parcels for development by an end user in accordance with the terms of the DDA. However, except as otherwise exempted from the Participation Component, if the Developer constructs the Vertical Improvements on Parcel F, and subsequently sells Parcel F, the gross sales price from such sale shall be subject to the 1.5 % Participation Component.

## **Environmental Contamination History:**

**Studies Conducted:** October 22, 1991 & March 16, 2009 – Asbestos Surveys (735 Palm Avenue)  
September 10, 2007 – Asbestos and Lead Survey conducted  
April 3, 2009 – Phase I and Phase II Site & Subsurface Site Assessments  
March 10, 2011 – Hazardous Building Materials Survey (741-849 Palm Avenue)

**Remediation:** June 2009 – Asbestos abated prior to demolition (735 Palm Avenue)  
October 21, 2010 – Underground Storage Tank removed  
December 1, 2011 – Asbestos abated prior to demolition (741-849 Palm Avenue)

**Brownfield Status:** N/A

**Transit-Oriented Development Potential:** The project Site is located along a Mixed Use Transit Corridor as designated by the San Diego Regional Association of Governments (SANDAG) in their Smart Growth Concept Map. The Palm Avenue/State Route 75 corridor is the major transit corridor within the City of Imperial Beach providing access to many transit modes including buses, bicycles and automobiles. This corridor has several bus stops along the Palm Avenue/State Route 75 transit corridor including one bus stop within 100 feet and two within 300 feet of the project Site. Although there is no residential component to the proposed development, there is residential directly south of the project Site, making the overall development proposal and its surrounding area transit-oriented development.

**Planning Objectives of the Successor Agency:** The planning objectives for this property are contained in the City's Zoning Code, General Plan/Local Coastal Plan and the Redevelopment Plan for the Palm Avenue/Commercial Redevelopment Project, including Amendment No. 1 to this Redevelopment Plan. The zoning, General Plan and Redevelopment Plan designation for this area is C-1 General Commercial. The General Commercial land use designation provides for land to meet the local demand for commercial goods and services, as opposed to the goods and services required primarily by the tourist population. It is intended that the dominant type of commercial activity in this designation will be community and neighborhood serving retail and office uses such as markets, specialty stores, professional offices, personal services, department stores, restaurants, liquor stores, hardware stores, etc. The proposed use of the Project Site conforms in every respect with this land use designation. The Successor Agency, therefore, is seeking to develop the property in compliance with the planning objectives of these applicable land use plans. Additionally, both the Economic Development Plan and the Five Year Implementation Plan adopted by the former Redevelopment Agency and now administered by the Successor Agency contain specific goals to facilitate redevelopment of the Project Site and to develop such large commercial properties along Palm Avenue to stimulate further improvements and economic development in the area.

## **Development Proposal History:**

- December 2004 - The City Council of the City of Imperial Beach ("City") authorized the Former Redevelopment Agency ("Former Agency") to issue a "Statement of Interest and/or Development Proposals" ("RFP") to property owners, tenants, and businesses located on the south side of Palm Avenue, between 7<sup>th</sup> and 9<sup>th</sup> streets.

- October 2005 – Lennar and D.R. Horton presented development proposals to the Former Agency for consideration. D.R. Horton was selected by the Former Agency as the preferred developer.
- December 2005 – D.R. Horton presented their development proposal to the City, Former Agency, and the community.
- January 12, 2006 – Staff and D.R. Horton presented their development proposal and recommended to the Former Agency that staff be authorized to negotiate an Exclusive Negotiation Agreement (“ENA”) with D.R. Horton. The Former Agency authorized staff to negotiate an ENA with D.R. Horton.
- February 15, 2006 – Staff presented the Draft ENA with D.R. Horton to the Former Agency and provided an update on the community meeting held to discuss the proposed project.
- March 22, 2006 – The Former Agency entered into an ENA with D.R. Horton for a Mixed-Use development consisting of approximately 70,000 square feet of retail and 203 market-rate condominiums on the Property.
- November 16, 2006 – Due to the economic downturn/recession, D.R. Horton withdrew from all new development proposals nation-wide and, therefore, allowed the term of the ENA to expire.
- April 18, 2007 – The Former Agency authorized staff to issue a “Request for Qualifications/Proposals for Real Estate Development in Imperial Beach” for the subject Property.
- July 2007 – The Former Agency received two responses to the Former Agency’s Request for Qualifications/Proposals for Real Estate Development in Imperial Beach. The Imperial Beach Gateway by Sterling Development Corporation and Dan Malcolm of Lee & Associates (“Sterling”) and “The Shops at Palm Avenue” represented by Arnel Hopkins.
- February 2007 – The Former Agency authorized staff to enter into an ENA with Arnel Hopkins.
- March 2008 – Arnel Hopkins withdrew from the project.
- April 2008 – The Former Agency directed staff to negotiate an ENA with the Imperial Beach Gateway team but, after several months of discussions, staff was unable reach an agreement with the developer.
- December 2008 – The Former Agency authorized staff to negotiate Purchase and Sale Agreements for the North Island Credit Union and Miracle Shopping Center properties which comprised most of the project Site.
- January 2009 – A Request for Proposals was issued for Relocation Assistance Services for the 9<sup>th</sup> & Palm Redevelopment Project (the “Project”).
- February 4, 2009 – The Former Agency entered into an agreement with Epic Land Solutions, Inc. for relocation services to relocate existing tenants at the Miracle Shopping Center.

- February 11, 2009 – The Former Agency completed the purchase of the Miracle Shopping Center.
- February 13, 2009 – The Former Agency completed the purchase of the North Island Credit Union property.
- February 18, 2009 – The Former Agency authorized the issuance of another Request for Qualifications/Proposals for the Project Site.
- June 17, 2009 – The Former Agency approved relocation plan for the relocation of existing tenants from the Project Site.
- June 2009 – Epic Land Solutions and staff initiated relocation of the existing tenants from the Project Site.
- July 15, 2009 – The Former Agency authorized staff to negotiate an ENA with Sudberry Development Inc. (“Sudberry”) for redevelopment of the Project Site.
- September 2, 2009 – The Former Agency entered into an ENA with Sudberry.
- March 17, 2010 – The ENA with Sudberry was amended by “Letter Agreement” entered into by the Former Agency and Sudberry.
- January 4, 2011 – A First Amendment to the ENA was executed.
- June 1, 2011 – A Second Amendment to the ENA was executed.
- October 2011 – The demolition of the Miracle Shopping Center on the Project Site was initiated.
- December 14, 2011 – The City entered into a Disposition and Development Agreement (the “DDA”) with Sudberry-Palm Avenue LLC (“Developer”) for redevelopment of the Project Site. The City owned the Property at that time of the parties’ execution of the DDA. However, the Property was subsequently transferred to the Successor Agency which is the current owner of the subject Property.
- May 2012 – The Notice of Completion was recorded for the demolition of the Miracle Shopping Center.
- August 15, 2012 – The Imperial Beach Redevelopment Agency Successor Agency (the “Successor Agency”) adopted Resolution No. SA-12-15 approving, among other actions, the terms of the DDA between the City and the Developer and authorized the transfer of real property to the Developer. The City authorized, among other actions, the transfer of any residual proceeds received from the sale of the Property to the Successor Agency.
- September 12, 2012 – the Successor Agency’s Oversight Board (the “Oversight Board”) approved Resolution No. OB-12-10 approving, among other actions, the terms of the DDA between the City and the Developer, authorizing the sale and conveyance of the Property to the Developer pursuant to the terms of the DDA for development of the Project, authorizing the

City's retention and ownership of certain public improvements constructed as part of the Project and approving the City's transfer to the Successor Agency of the residual proceeds received from the sale of the Property to the Developer for the Successor Agency's use and distribution for approved development projects or to otherwise wind down the affairs of the Former Agency pursuant to Health and Safety Code Section 34177(e) of the Dissolution Act.

- September 12, 2012 – the Successor Agency notified the State Department of Finance (the "DOF") of the actions taken by the Oversight Board and forwarded a copy of Resolution No. OB-12-10 approving the terms of the DDA, and other actions, as noted above and pursuant to Health and Safety Code Sections 34177(e), 34177(h), 34181(a) and 34181(e) of the Dissolution Act. Receipt of this notification was electronically verified by the DOF.
- September 20, 2012 – The approvals and actions taken by the Oversight Board set forth in Resolution No. OB-12-10 are deemed effective pursuant to the Dissolution Act. Pursuant to Health and Safety Code Section 34179(h) of the Dissolution Act, the DOF had five (5) business days within which to request review of the actions taken by the Oversight Board. No review was requested by the DOF.
- November 12, 2012 – The approvals and actions taken by the Oversight Board set forth in Resolution No. OB-12-10 are deemed final and conclusive pursuant to the Dissolution Act. Pursuant to Health and Safety Code Section 34181(f), the DOF's review period for actions relating to disposition of assets and properties of the Former Agency may be extended from 40 to 60 days. Further, Section 34181(f) provides that if the DOF does not object to Oversight Board actions, and if no action challenging such actions is commenced, with sixty (60) days of the Oversight Board actions and approval, then the actions and approvals of the Oversight Board are considered final and "can be relied upon as conclusive by any person." The DOF did not request review and no actions challenging the approvals and actions taken by the Oversight Board pursuant to Resolution No. OB-12-10 was commenced within sixty (60) days after September 12, 2012.
- December 5, 2012 – As permitted by Resolution No. OB-12-10, on December 5, 2012, the City took actions approving an extension of various dates and deadlines in the DDA, as determined necessary by the City Manager, and the City and Successor Agency took actions approving the transfer of the subject property from the City to the Successor Agency by Quitclaim Deed and approving execution of an Assignment and Assumption Agreement of the terms of the DDA to the Successor Agency. On January 17, 2013, a Quitclaim Deed was recorded transferring title of the property from the City to the Successor Agency. The DDA constitutes an enforceable obligation of the Successor Agency pursuant to the Dissolution Act.
- January 17, 2013 – Quitclaim Deed recorded transferring title of the Property from the City to the Successor Agency.

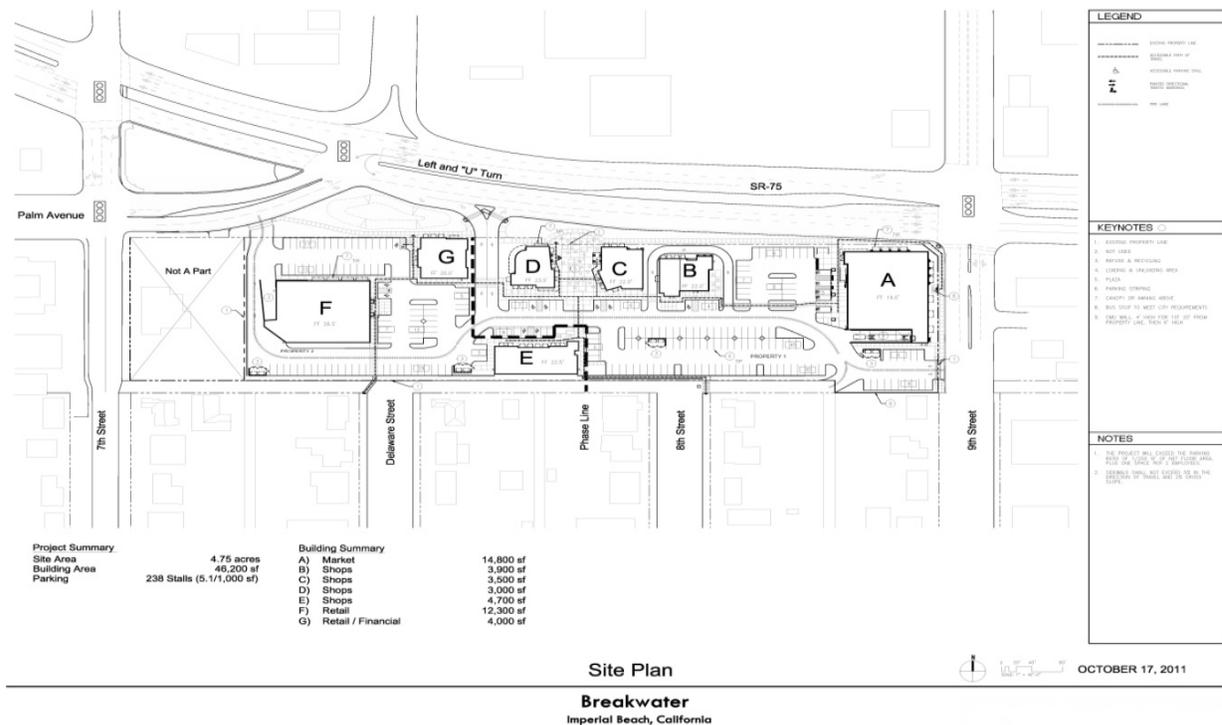
**Use or Disposition of the Property:**

The Property is the subject of the DDA, a third party agreement between the Successor Agency and Sudberry-Palm Avenue LLC. The terms of the DDA have been approved by the Successor Agency and by

the Oversight Board. Pursuant to Health and Safety Code Sections 34179(h) and 34181(f) of the Dissolution Act, such approvals are considered effective, final and conclusive. Therefore, the retention, sale and use of this Property pursuant to the terms of the DDA for future development will fulfill an enforceable obligation.

The Property is located within the geographical area of the Palm Avenue/Commercial Redevelopment Project ("Project Area"). The Project complies with and furthers the goals and objectives of the Redevelopment Plan for the Project Area approved and adopted by the City Council of the City on February 6, 1996 by Ordinance No. 96-901, as subsequently amended ("Redevelopment Plan") and the Project also furthers municipal and other public purposes.

The Property consists of two separate components, designated in the DDA as "Property 1" (Parcels A, B, C & D) and "Property 2" (Parcels E, F, & G) which are illustrated as follows:



**Terms of the DDA:**

The terms and conditions of the DDA anticipate that the entire Property would be conveyed by the Successor Agency to the Developer at one time. The DDA also expects but does not require that the Property will be developed in two phases, each with separate and distinct conditions precedent to closing and the associated release of certain interests and rights of the Successor Agency. Phase 1 of the Project would include development of Property 1 (Parcels A, B, C and D) and consist of the following (capitalized terms are as defined in the DDA):

- The construction of the Public Improvements (except the Undergrounding Utilities, Alley Improvements and new traffic signal that are deferred until Phase 2);
- The construction of all Horizontal Improvements on Property 1;
- The construction of all Building Pads and related improvements on Property 1; and

- The construction of the Vertical Improvements to be constructed on Property 1, with related on-site utilities, improvements, landscaping, lighting, parking and driveways.

Phase 2 of the Project would include development of Property 2 (Parcels E, F, and G) and would consist of the following:

- The construction of any of the Public Improvements deferred by Developer until Phase 2;
- The construction of any remaining Horizontal Improvements on Property 2; and
- The preparation of Building Pads and related improvements on Parcels E, F and G and the buildings on Parcel E (if the Developer elects to construct the building on Parcel E), Parcel G (if the Developer elects to construct the building on Parcel G) and Parcel F (if the Developer elects to construct the building on Parcel F – it being acknowledged that such building may be constructed either by the Developer or the Approved Parcel F Assignee) and related on-site utilities, improvements, landscaping, lighting, parking and driveways.

It should be noted, however, that the Developer has indicated a desire to proceed with development of the Property in one complete phase and that nothing in the DDA would prohibit this from occurring.

Pursuant to Health and Safety Code Section 33433 of the California Community Redevelopment Law, Keyser Marston and Associates (KMA) prepared a Summary Report dated November 2011 for the conveyance of the Property under the terms of the DDA. The Summary Report determined and the DDA acknowledges that the public funds of the Former Agency expended by the Successor Agency to acquire the Property, relocate its former tenants and demolish the existing structures, exceed the Purchase Price to be paid by the Developer for the Property (note, however, that the current appraisal of the Property estimates a nominal value). The difference between the Purchase Price and funds expended, together with the funds allocated for construction of the Public Improvements associated with the Project, constitutes a “Public Agency Subsidy”. The Public Agency Subsidy is in consideration for the following:

- The construction by the Developer and/or its Assignees of an approximately 46,200-square-foot retail/commercial center on the Property in accordance with the DDA and permits issued by the City;
- The Developer’s satisfactory construction of the Public Improvements as detailed below; and
- The Developer’s and/or Assignee’s maintenance and operation of the Project in accordance with the Grant Deeds for the Property and the Agreements Containing Covenants to be recorded concurrently with the conveyance of the Property to the Developer.

The following are the essential terms of the DDA:

- The Successor Agency will sell the Property to the Developer for \$1.00 and the Developer will construct a 46,200-square-foot, privately-owned retail center containing 7 retail/commercial buildings, and public improvements, including intersection improvements at Delaware, Palm and State Route 75 and other improvements (public improvements to be paid for by the Successor Agency with approximately \$2.2 million of Former Agency tax-exempt bond funds and approved on the Successor Agency’s First ROPS).

- As a component of the Purchase Price for the Property, the Successor Agency will receive 1.5% of the gross sales price from the first arm's-length sale of each portion of the Property by the Developer (defined in the DDA as the Participation Component), in any number of transactions over any period of time, if any, excluding the sale of Parcel A and Parcel F upon certain conditions including, without limitation, if the Developer conveys these parcels for development by an end user in accordance with the terms of the DDA. However, except as otherwise exempted from the Participation Component, if the Developer constructs the Vertical Improvements on Parcel F, and subsequently sells Parcel F, the gross sales price from such sale shall be subject to the 1.5 % Participation Component.
- The Developer has 28 months from execution of the DDA to satisfy the Phase 1 conditions, the Close of Escrow and start of construction. The Developer has 33 months from the conveyance date to complete the construction of Phase 1. The Successor Agency's "right of reverter" in connection with the Property is exercisable as to any uncompleted Parcels if the Successor Agency terminates DDA for uncured default after Close of Escrow but before completion of construction.
- The Developer will assign its rights under the DDA for Parcel A to an end user who will be required to construct and open an approximately 14,800-square-foot grocery or supermarket, in accordance with all DDA requirements.
- The Successor Agency will have an option to re-purchase Parcels E, F and G for \$1.00 if the Phase 2 Closing does not occur within 51 months of the Effective Date of the DDA. The Successor Agency will remove the Option Agreement secured by Parcels E, F and G when the Developer meets all conditions precedent to the start of Phase 2. Specifically, prior to the Phase 2 Closing, the Developer will submit to the Successor Agency evidence of binding commitments from the Parcel F Assignee for the construction and operation of a 5,000- to 15,000-SF retail store, if applicable, and commitments from tenants to lease space in Parcels E and G, if any.
- Subject to the conditions precedent set forth in Section 219.e. of the DDA, the Successor Agency agreed to pay to or for the benefit of, or reimburse, the Developer for the cost of designing, permitting, constructing and installing certain Public Improvements described in Section 219.c. of the DDA (and summarized below), not to exceed the amount of \$2.2 million. Please note that the funds used to pay for the Public Improvements are 2010 Former Agency tax-exempt bond proceeds and that the expenditure of these proceeds toward the Project were included for this purpose in the First Recognized Obligation Payment Schedule (ROPS) for the period of January 1, 2012 to June 30, 2012 which was approved by the Successor Agency and the Oversight Board and not disputed by the Department of Finance. Additionally, the Official Statement and the Certificate Regarding Use of Proceeds in connection with the bond issuance specifically identify "Palm Avenue Corridor Improvements" as one of the projects to be carried out with the bond proceeds. Therefore, use of the bond proceeds for the purposes of constructing the Public Improvements is consistent with the bond issuance documents including, without limitation, furthering the bond covenants and also preserves the tax-exempt status of the bonds.

#### Public Improvements to be Constructed Pursuant to the DDA

The Public Improvements associated with the Project consist of the design, permitting, construction and installation of the work reflected on the construction drawings for the Public Improvements, including without limitation, the following:

- (a) The intersection improvements at Delaware, Palm Avenue/State Route 75 (defined in the DDA as the “Highway 75 Access Improvements”) including, without limitation, the following:
- Removal of existing median and pavement between Palm Avenue/State Route 75 and the Property entrance;
  - Removal of existing curb/gutter, median and pavement along the southern side of Palm Avenue/State Route 75, between 7<sup>th</sup> Street and State Route 75;
  - Construction of new curb/gutter, pavement and median on Palm Avenue/State Route 75 between 7<sup>th</sup> Street and State Route 75;
  - Installation of landscaping and irrigation and storm water treatment “garden”;
  - Installation of new street lights; and
  - Any other Cal-Trans requirements relating to the foregoing public improvements.
- (b) Moving of traffic signals and interconnection of traffic signals and construction of curbs, gutters, sidewalks and landscaping on Palm Avenue and 9<sup>th</sup> Street;
- (c) All existing and proposed utilities within the boundary of the Property, or within any public right-of-way abutting the boundary shall be placed underground (conversion) to the reasonable satisfaction of the City Engineer. The Developer is responsible for complying with the requirements of and making such arrangements with each serving and impacted utility company for the conversion or additional installation of such facilities (defined in the DDA as the “Underground Utilities”);
- (d) Removal and replacement of the concrete alley at the south end of the Property to the reasonable satisfaction of the City Engineer, including the adjustment to grade and/or replacement of all utility covers in such alley. The concrete section shall be designed to support the imposed load of fire apparatus to withstand a minimum 95,000 pound vehicle load (defined in the DDA as the “Alley Improvements”); and
- (e) The existing traffic signal pole signaling left turns from Westbound Silver Strand Boulevard to Palm Avenue shall be removed and replaced to the reasonable satisfaction of the City Engineer (defined in the DDA as the “New Traffic Signal”).

The Public Improvements funded pursuant to the DDA and constructed as part of the Project will be publicly-owned by the City when completed. Because of the nature of these Public Improvements, the City is the most appropriate public jurisdiction to own these Public Improvements. The Public Improvements, once completed, will benefit the Project Area by helping to eliminate blight and by serving as a catalyst by providing an incentive for future private development and investment, thereby contributing to the removal of economic blight. Further, the Public Improvements, once completed, will enhance the public right-of-way and replace public improvements that are currently inadequate or non-existent, and will provide improved pedestrian access to public and private properties.

## **FISCAL IMPACTS/ECONOMIC BENEFITS:**

### Financial/Re-Use Analysis and Purchase Price

Acquisition of the Property was completed in February 2009 and was purchased with a combination of Former Agency and City funds. At the time of approval of the DDA, the City Council of the City was required to make the finding, pursuant to the California Community Redevelopment Law, that the price to be paid for the Property by the Developer would not be less than either of the following:

- (1) the fair market value at highest and best use under the Redevelopment Plan, or
- (2) the fair re-use value, taking into account the uses, covenants, conditions, and development costs required by the DDA.

The Summary Report prepared by KMA, determined that finding (2) could be made. Specifically, the estimated compensation of \$1 for the sale of the Property and the fair re-use value of the Property was determined to be *negative* \$50,000. The Summary Report provided further justification for the Former Agency's financial participation in the Project. The compensation to the Successor Agency is lower than the fair market value at its highest and best use for the following reasons:

- The DDA imposes a covenant on the use of the Property so that it can only be used for the development and operation of a retail center, generally consistent with the information submitted as part of the Developer's proposal to the Former Agency and the City.
- The DDA imposes a covenant on the use of Parcel A for the construction and operation of a neighborhood market, and requires that it must be opened and operated for at least one day.
- The DDA imposes the obligation on the Developer and its contractors to comply with applicable governmental requirements, including (to the extent applicable) the payment of State prevailing wages during construction.
- The Developer is required by the DDA to develop a first class, signature commercial/retail development that incorporates high quality features. Moreover, the Developer is required by the DDA to adhere to the Schedule of Performance, notwithstanding current market and financing conditions for new commercial/retail development.
- The DDA includes an Option Agreement that enables the Successor Agency the right to take back Parcels E, F and G if the Developer fails to meet the conditions precedent to start Phase 2 of the Project. As a result, the Developer will be unable to obtain financing secured by Property 2 until these conditions have been met.
- The DDA imposes, as part of the Purchase Price, the obligation on the Developer to pay to the Successor Agency 1.5% of the gross sales price from the first arm's length sale of each portion of the Property by the Developer, excluding the sale of Parcel A and Parcel F upon certain conditions including, without limitation, if the Developer assigns these parcels to another entity pursuant to the terms of the DDA.

Recently, an appraisal of the Property was conducted on behalf of the Successor Agency. The results of the appraisal, dated July 10, 2012, took into consideration the approved entitlements for the Property, the physical constraints of the Property and the conditions upon which the City or Successor Agency would approve any future development of the Property. Given this information, the Property was

determined to have “nominal value”. That is, due to the significant required on- and off- Site improvement costs necessary to prepare the Property for development, together with the costs necessary to provide adequate access to the Property, the costs would exceed the Property’s potential value. A copy of the appraisal dated July 10, 2012 is attached to this Plan. As such, development of the Property pursuant to the terms of the DDA would benefit not only the Successor Agency and the City, but also the State and other affected taxing entities as further detailed below, and is the best viable option for long-term economic benefit to all taxing entities.

Further, as indicated in the appraisal, San Diego County’s retail market is still experiencing the impact of the market recession although a few projects are moving forward, and retail and office rents remain soft. Additionally, as indicated in the appraisal, experts have agreed that San Diego County’s office market will likely continue at a slow pace over the next few years as recovery from the recession occurs. Therefore, it is a tremendous benefit to the State and other affected taxing entities, including the City, to have available for immediate development the currently vacant Property into the economically productive Project as described in the DDA.

In order to assess the economic benefit of the Project as described in the DDA that the State and other affected taxing entities, including the City, would derive from the development of the Project on the Property in accordance with terms of the DDA, KMA carried out a detailed analysis of the Project. The analysis resulted in the following tax projections:

**The Developer Proceeds with Approved Development Under DDA**

	<b>State of California</b>	<b>County of San Diego</b>	<b>City of Imperial Beach</b>	<b>TransNet</b>	<b>K-14 School Districts</b>	<b>Total</b>
<b>Annual Sales Tax</b>	\$700,000	-	\$112,000	\$56,000	-	\$868,000
<b>Annual Property Tax</b>	-	\$32,000	\$26,000	-	\$63,000	\$121,000
<b>Total Annual Sales &amp; Property Tax</b>	<b>\$700,000</b>	<b>\$32,000</b>	<b>\$138,000</b>	<b>\$56,000</b>	<b>\$63,000</b>	<b>\$989,000</b>

It should be noted that the above table includes only the largest affected taxing entities and does not include those receiving less than 0.50% of the 1.0% property tax. According to the KMA analysis, if the Project is developed on the Property by the Developer under the terms of the DDA, the Project would have an overall assessed value of approximately \$12,290,000 and would generate estimated annual taxable sales of approximately \$11,196,000. This, in turn, would generate annual property tax of approximately \$121,000, with more than 50% (\$63,000) going to the South Bay Union, Sweetwater Union and Southwestern Community College districts and would generate approximately \$868,000 of annual sales tax, with over 80% (\$700,000) going to the State of California.

Beyond the direct economic benefits of the Project, KMA also analyzed the potential impacts to employment if the Project is constructed on the Property under the terms of the DDA. Based upon this analysis, it is estimated that the development of the Project on the Property would create both short-term construction and long-term permanent employment opportunities as follows:

	The Developer Proceeds with New Development	
	Direct Impacts of Construction	Total Impact of Construction Including Direct, Indirect and Induced Impacts
<b>Economic Impacts of Construction:</b>		
Economic Output	\$12.5 million	\$17.0 million
Payroll	\$3.9 million	\$5.3 million
Employment (during one year construction period)	68 workers	98 workers
<b>Permanent Employment:</b>		
Project Description	46,200 square feet of development	
Employment @	3.00 jobs/1,000 square feet	
Total Permanent Jobs (FTEs)	139 jobs	

A more detailed description and analysis of these employment impacts are attached. Generally speaking, the analysis provided by KMA determined that, assuming a one-year construction period, the development of the Project on the Property under the terms of the DDA would generate approximately 68 construction jobs with another 30 construction-related positions for a total of 98 short-term jobs during construction. The analysis further determined that development of the Project on the Property under the terms of the DDA, consisting of 46,200 square feet of commercial/retail development, would yield approximately 139 full-time jobs. It is also important to note that these employment impacts would create additional economic benefits to both the State and Federal governments in the form of income and other taxes. Additional analysis by KMA estimates the resulting State Income Tax generation during construction of the Project as follows:

**Estimate of State Income Tax From Construction Employment**

	Direct Construction	Indirect Construction	Total
Average Annual Construction Employment (person years)	56	12	68
Average Pay	\$52,000	\$83,000	
Total Income Tax Rate	\$2,910,000	\$968,000	\$3,878,000
California Income Tax Rate	9.3%	9.3%	9.3%
Number of Years to Construct	1.0 Year	1.0 Year	1.0 Year
<b>Total State Income Tax During Construction Period</b>	<b>\$271,000</b>	<b>\$90,000</b>	<b>\$361,000</b>

Additionally, beyond these economic benefits, at today’s rates, the Project would also generate school fees in the amount of \$22,236 to the Sweetwater Union High School District and \$6,930 to the South Bay Union School District.

Based upon this analysis, the State would receive the greatest benefit both during construction (\$361,000 in State Income Tax) and during operation of the Project (\$700,000 in annual retail sales tax). The State would also benefit from State Income Tax generated from the estimated 139 full-time workers employed at the new shopping center. These figures, however, have not been calculated.

**SUMMARY:**

Development of the Project on the Property in accordance with the terms of the DDA will generate substantial short-term and long-term economic benefits not only to the Successor Agency and the City, but also to the State and all other affected taxing entities. The Project is not only projected to generate an annual and on-going flow of sales tax to both the State and the City, but it will also generate annual and on-going property tax to all affected taxing entities. Development of the Project on the Property in accordance with the DDA will also provide significant State and Federal economic benefits from income taxes generated through construction-related and full-time jobs both during construction and from the long-term operation of the Project. An appraisal dated July 10, 2012, determined that, given the significant physical and other constraints necessary to prepare the Property for development, the Property has “nominal value”. Given this nominal value, the economic benefits derived from development of the Project on the Property by the Developer in accordance with the terms of the DDA would far surpass what might be obtained by sale of the Property in its current condition. In fact, given the afore-mentioned physical constraints of the Property, together with the lengthy and expensive entitlement process any future owner of the Property would have to pursue, it is likely that the Property would not be developed for another several years at least, resulting in no short-term economic benefits and little to no long-term economic benefits. Finally, what should not be overlooked is the potential catalytic benefit this type of development will have throughout the City. Projects of this size and quality typically result in improvements to adjacent and nearby properties. To that end, speculation and interest in nearby properties has already been noted as have inquiries by other existing and potential

property owners eager to see this Property developed and the Project constructed as contemplated by the DDA.

Attachments:

1. Disposition and Development Agreement (DDA)
2. DDA Letter Amendments
3. Appraisal – July 10, 2012
4. Keyser Marston Associates Fiscal Impact Analysis
5. Oversight Board Agenda Item – September 12, 2012
6. Oversight Board Resolution No. OB-12-10 – September 12, 2012
7. Plans & Entitlements