

Agenda Report

DATE: June 13, 2005

TO: CITY COUNCIL / PASADENA COMMUNITY DEVELOPMENT COMMISSION

FROM: CITY MANAGER

SUBJECT: DISPOSITION OF CITY-OWNED LAND AND PURCHASE OF PARKING EASEMENT IN THE MILL CREEK DEVELOPMENT PROJECT

RECOMMENDATION

It is recommended that the City Council of the City of Pasadena ("City Council") take the following actions:

1. Acknowledge the adoption of a Mitigated Negative Declaration adopted for the Mill Creek Project on December 15, 2004 by the Zoning Hearing Officer (Attachment 1);
2. Authorize the sale of the North Site to Pasadena Community Development Commission (PCDC) for \$1;
3. Authorize purchase of Parking Easement via the Acquisition Agreement for \$2,679,750;
4. Authorize transfer of the Laemmle Parking Entitlements from the City-owned Parking Lot at El Molino Avenue and Union Street ("North Site") to the South Site, upon completion of the parking structure; and
5. Authorize the City Manager to execute documents on behalf of City Council

It is further recommended that the City Council acting as the Community Development Commission of the City of Pasadena ("Commission") take the following actions:

1. Acknowledge the adoption of a Mitigated Negative Declaration previously adopted for the Mill Creek Project on December 15, 2004 by the Zoning Hearing Officer;
2. Authorize the purchase of the North Site from the City for \$1;
3. Approve the Deal Points of the Disposition and Development Agreement, which includes authorizing the sale of the North Site to Developer for \$2,679,750; and
4. Authorize the City Manager to execute document on behalf of the Commission.

BACKGROUND

In March 2003, staff entered discussions with Ken McCormick ("Developer") of Mill Creek Properties regarding a Playhouse District Housing/ Parking Proposal. The Developer outlined plans for a development project to provide a parking structure in conjunction with a mixed-use project in partnership with Joel Sheldon, owner of Vroman's Book Store. Through discussions, a plan was developed for two projects; one at the northeast corner ("North Site") and the second at southeast corner ("South Site") of Union Street and El Molino Avenue.

PROJECT DESCRIPTION

The Proposal (Attachment 1) is for two mixed-use development projects, located on the northeast ("North Site") and southeast corner ("South Site") of Union Street and El Molino Avenue. The courtyard-style development project on the South Site will include a total of 64 rental units and approximately 4,100 square feet of commercial space, consistent with the recently adopted Central District Specific Plan. The project on the North Site includes 36 residential condominium units. The height of the buildings will range from three to four stories with an approximately 80-foot tower located at the southeast corner of Union Street and El Molino Avenue. The proposal meets the required Inclusionary Housing Ordinance of 15% low and moderate housing, and exceeds the requirements providing an additional 5% affordability.

Parking for the projects will be provided in subterranean parking structures on the North Site and South Site. Parking for the residential units on both projects is provided at 1.5 spaces per unit while parking for the senior units is proposed at .5 spaces per unit. With exception for the residential parking level at P2 of the South Site, the remaining 192 parking spaces on P1 and P3 will be dedicated to public use.

DEAL POINTS

The following are the Deal Points for the transactions:

1. The Developer will construct a quality, mixed-use project consisting of 4,100 square feet of commercial space and 100 units.
2. The Developer will comply with the City's 15% Inclusionary Housing Ordinance requirements by building on-site affordable units.
3. The Developer will also exceed the City's Inclusionary Housing Ordinance by 5 units, thereby providing 20% affordable units.
4. The project design of the residential component supports the use of public transit. For example, the senior affordable portion of the residential units will provide 0.5 parking spaces per unit. The Project will be responsible for signaling an intersection along Union Street, which will provide a safer means of access to public transportation, particularly the Lake Avenue Gold Line Station.
5. The PCDC will sell parcel 5723-013-906 at the northeast corner of El Molino Avenue and Union Street for a value equal to or greater than the fair market value of the property, preliminarily appraised for \$2,679,750, or \$75.00 per square foot.
6. The Developer will replace the existing 101 public spaces and create 91 net new public parking spaces for a total 192 spaces.
7. The City will purchase a Parking Easement for 192 spaces in the newly constructed parking structure for the value of the property.
8. The 192 spaces are to be dedicated to public use through a Parking Easement and will be managed by Vroman's Real Estate Ventures and Mill Creek Properties.
9. Ongoing operations will be revenue neutral to the City, as the City will have no responsibility or ownership of the parking structure, however, there will be operational standards for the public spaces established through the Parking Easement.
10. The project will meet all of the design and zoning requirements in the newly adopted Central District Specific Plan.
11. The project will comply with the First Source Ordinance.

The preliminary appraisal that valued the property at \$2,679,750, or \$75.00 per square foot was completed in early June 2005. The final appraisal is expected to be completed by July 2005 to account for the most recent comparable sales.

Parking

The City will purchase a Parking Easement for 192 spaces for \$2,679,750. These spaces will be leveraged with the remaining 136 parking spaces to make 328 spaces available to the public for patronage of the Playhouse District and retail establishments. An analysis of the cost to building the public parking structure spaces is included as Attachment 2, completed by Choate Parking Consultants, Inc (CPC). According to CPC, the cost of construction of structured parking excluding land is expected to exceed \$4,449,000, or \$23,171 per space due to the site's irregularity. In an ideal setting, construction costs for parking spaces is \$20,000 per space. Assuming \$2,679,750 as the cost for the parking easement, the City receives 192 parking spaces at a cost of \$13,975 per space.

The amount of public parking spaces created is consistent with demands per the Playhouse Parking study recently completed to be presented to Council this summer. The study identified a demand for a minimum of 300 public parking spaces in the core of Playhouse District, east of Los Robles Avenue to Lake Avenue, south of Union Street to Green Street.

A consideration of this project was that it be revenue neutral or positive to the City. Attachment 3 provides is a spreadsheet of a 10- year projection of property tax revenues compared to parking operations and income. The projected income from the proposal is \$96,600 in property tax revenue to the City in Year One. This exceeds current parking revenues by \$23,508 in the same year. The developer will own all parcels and pay all property taxes and maintenance through the operating income generated by the parking structure. The rates of the parking structure will be determined using comparable parking rates in the District.

PCDC Agreement

The legal arrangement of the Development project is for the City to sell the North Site to the Commission and the Commission to sell the North Site to the Developer for \$2,679,750 and enter a Disposition and Development Agreement (DDA).

The Developer will build a new parking structure on the South Site, for which the City will purchase a Parking Easement for 192 parking spaces \$2,679,750. No money will change hands.

The sale of North Site will occur simultaneously with purchase of a Parking Easement, which will occur upon completion of Parking Structure on the South Site.

The purpose of utilizing the PCDC to transact the sale is to take advantage of the full intent of the Inclusionary Housing Ordinance. The Inclusionary Housing Ordinance requires that the Affordable Units be dispersed throughout the project. However, due to the fact that the housing will be reserved for seniors, it is important to place the units on the South Site, closer to transit and uses within the District.

Inclusionary Housing Units

The Deal Points require that the Developer meet and exceed the minimum requirements of the Inclusionary Housing Ordinance by 5%, but moreover, that the units be built on-site. This development proposal meets the requirements of the Deal Points as it includes 20 Inclusionary units rather than the minimum required 15 Inclusionary units. The requirement of the Inclusionary Housing Ordinance is that 10% of the units are dedicated for low-income residents and 5% are dedicated for moderate-income residents. The project will deliver 10% low and 10% moderate for a total of 20% affordable units.

Attachment 4 is an analysis by Keyser Marston Associates, Inc that illustrates the financial impacts of the additional units. In summary, the table below quantifies the financial benefits of the extra units to the City.

	<u>Total Benefit</u>	<u>Benefit / Unit</u>
In-Lieu Fee Methodology	\$459,860.00	\$ 92,000.00
Affordability Gap Methodology	\$829,330.00	\$ 165,900.00

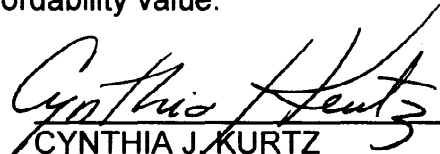
The In-Lieu Fee Methodology is the calculation of the In-Lieu fee for the 5 units, while the Affordability Gap Methodology is the valuation of what is lost to provide the 5 extra units.

It is proposed that the Inclusionary Units be reserved as senior housing and that the Units for the North Site and the South Site be built on the South Site. While the North Site is proposed as condominiums, because the Developer is building the Inclusionary Units on the South Site, a rental based proposal, they will conform to the rental standards of the Inclusionary Ordinance. The rental standards of the Inclusionary Housing Ordinance require a higher threshold to require Low-income units, whereas the Ordinance only requires moderate-income priced units for condominiums. The dedication of units for seniors is consistent with the Five Year Consolidated Plan, Section IV Strategic Plan, Subsection A(I) Housing Market Analysis / Needs Assessment. Building 100% of the senior units on the South Site locates the units in an area that is more suitable and accessible to the public and privates amenities such as transportation, services and commercial activity.

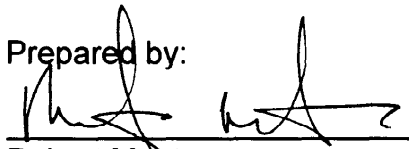
FISCAL IMPACT

Authorization of the DDA and Parking Easement will have a fiscal impact to include the sale of City-owned land and the purchase of a parking easement for public parking for \$2,679,750. Over the long term, fiscal impacts will include new property tax generated from a City-owned, tax-exempt parcel and improvements made on privately owned parcels. Property tax generated is projected to be \$96,600 in year one. Additionally, using the appraised \$75.00 per square foot value of the land, the value of the parking and the extra affordable units results in \$3,139,610 to \$3,509,080 in added value. This value is derived as the sum of the difference between the appraised property value/parking easement and the cost to deliver the parking spaces added to the affordability value.

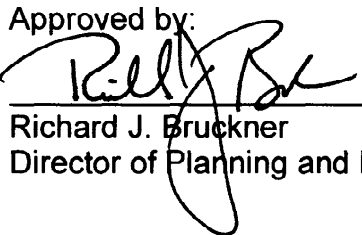
Respectfully submitted,



CYNTHIA J. KURTZ
City Manager

Prepared by:


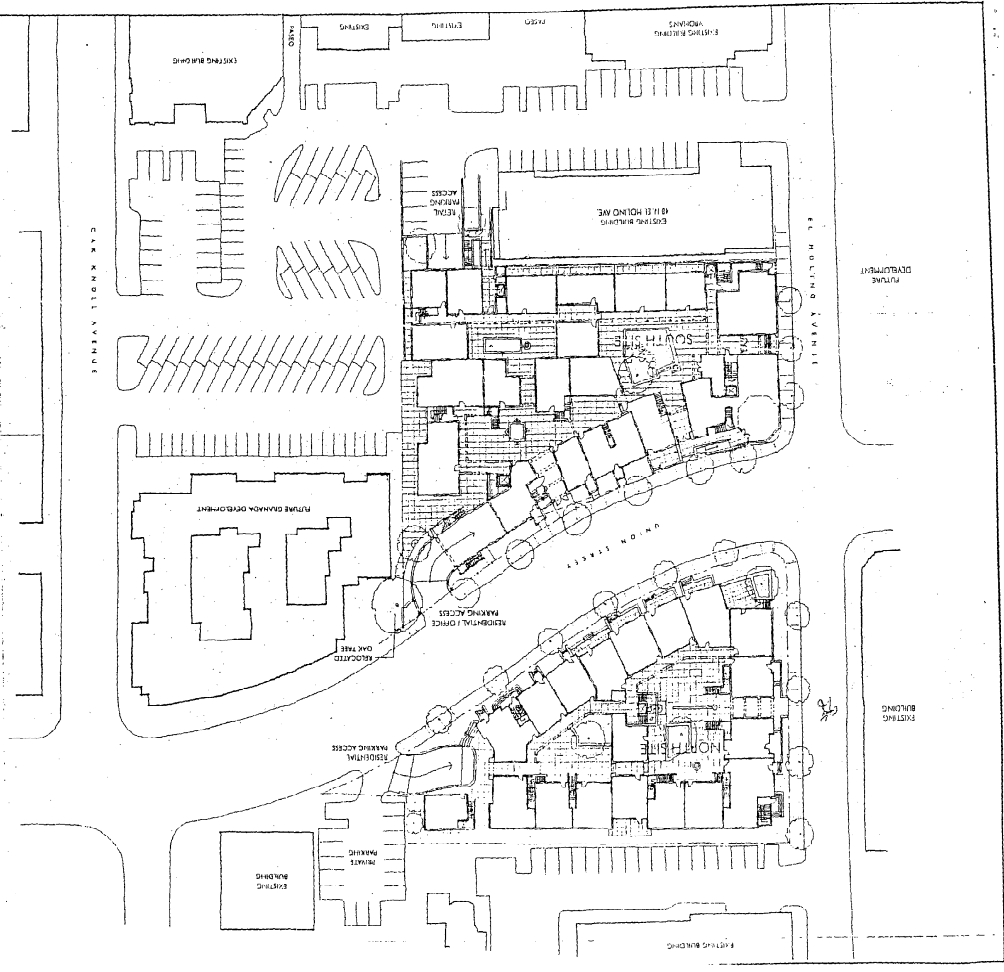
Robert Montano
Business District Coordinator

Approved by:


Richard J. Bruckner
Director of Planning and Development

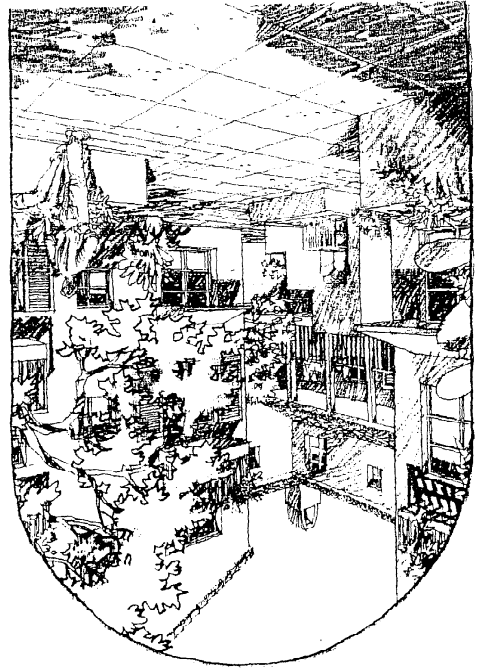
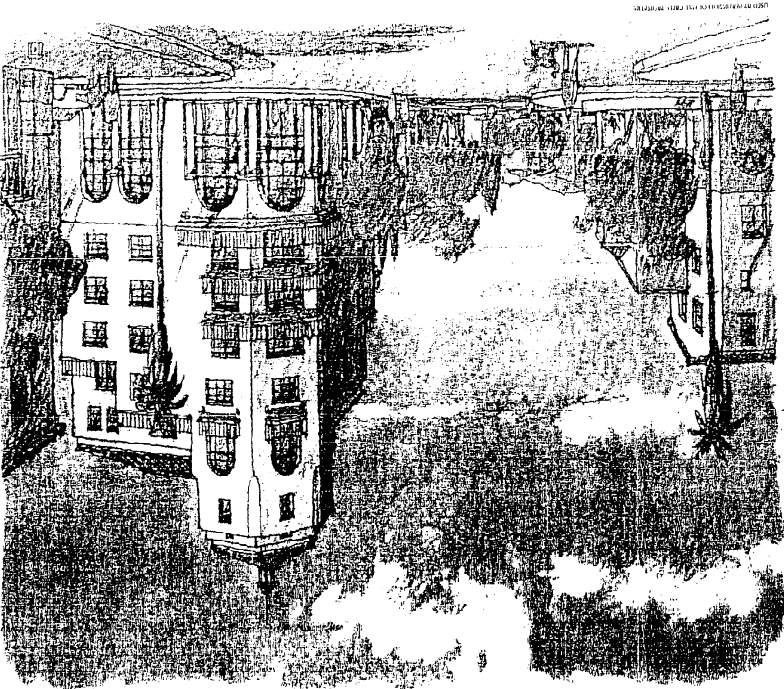
Attachment 1
Development Proposal

SITE PLAN
PROPOSED CONDITIONS

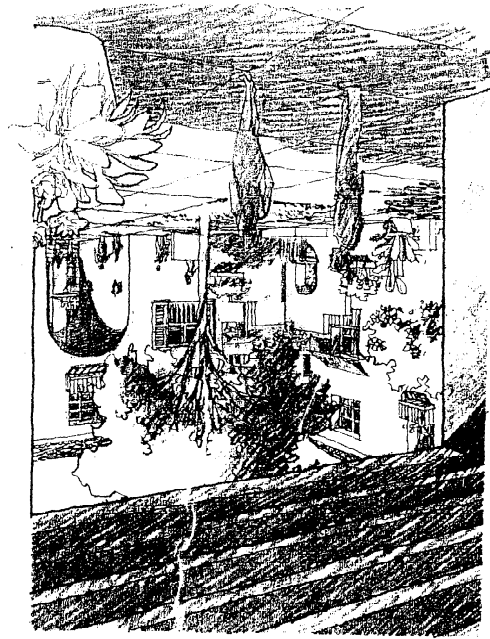
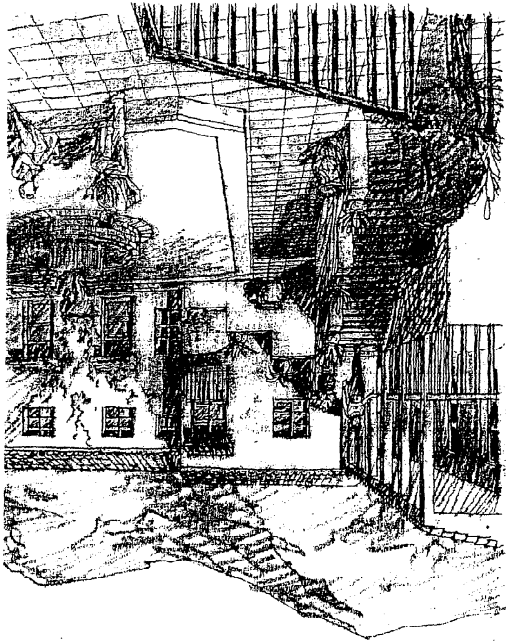


PROPOSED CONDITIONS

PROJECT CHARACTER



PROJECT CHARACTER



Attachment 2
Parking Analysis

May 31, 2005



**Choate Parking
Consultants, Inc.**
16969 Von Karman Suite
240
Irvine, CA 92606-
4944

Mr. Robert Montano
Planning & Development Department
City of Pasadena
P.O. Box 7115
Pasadena, CA 91109

RE: 192 Space Parking Facility – Replacement Parking for Pasadena Mill Creek

Dear Mr. Montano:

We have reviewed the parking considerations for the Mill Creek Development Project. We understand there is a need to have 192 spaces of replacement parking in the underground application delineated in the P3 and P1 levels of the south site.

Based on parking construction cost for underground parking, an appropriate budget number would be \$55/sf of construction. The current configuration is yielding 192 spaces in about 72,000 sf on two levels. This represents an efficiency of about 375 sf/space. The construction cost then would factor out to be \$3,960,000 for the two levels, without the cost for a podium level that supports the housing. One additional factor is the cost of the design, testing and permitting that should be budgeted at 13 to 15% of the construction cost. This would bring the project cost, excluding the land or cost of money to about \$4,449,000.

We hope this information is helpful and remain available if you need to discuss any of the assumptions.

Sincerely,
Choate Parking Consultants, Inc.

A handwritten signature in black ink that reads "J. Richard Choate". The signature is written in a cursive, flowing style.

J. Richard Choate, R.A.
Principal

Attachment 3

Parking and Property Tax Revenue Projection

**Mill Creek Development Project
Property Tax and Parking Revenue Analysis (i)**

Mill Creek Property Tax & City Income (ii)											
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
SITE	\$ 45,200.00	\$ 47,124.00	\$ 48,056.48	\$ 48,027.81	\$ 50,008.37	\$ 51,008.53	\$ 52,028.70	\$ 53,069.28	\$ 54,130.66	\$ 55,213.28	\$ 505,877.11
1 st SITE	\$ 22,000.00	\$ 24,633.00	\$ 25,125.66	\$ 25,528.17	\$ 26,140.74	\$ 26,663.55	\$ 27,196.82	\$ 27,740.76	\$ 28,295.57	\$ 28,861.49	\$ 264,435.76
S. SITE	\$ 11,500.00	\$ 12,500.00	\$ 13,500.00	\$ 14,500.00	\$ 15,500.00	\$ 16,500.00	\$ 17,500.00	\$ 18,500.00	\$ 19,500.00	\$ 20,500.00	\$ 178,000.00
GARAGE	\$ 26,250.00	\$ 26,775.00	\$ 27,310.50	\$ 27,856.71	\$ 28,413.84	\$ 28,982.12	\$ 29,551.76	\$ 30,133.00	\$ 30,726.06	\$ 31,331.18	\$ 287,430.18
TOTAL	\$ 96,600.00	\$ 98,532.00	\$ 98,532.00	\$ 100,502.64	\$ 102,512.69	\$ 104,562.95	\$ 106,654.21	\$ 108,787.29	\$ 110,963.04	\$ 113,182.30	\$ 115,445.94

Parking (iii)											
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
Income (iv)	\$ 156,000.00	\$ 159,120.00	\$ 162,302.40	\$ 165,548.45	\$ 168,859.42	\$ 172,236.61	\$ 175,681.34	\$ 179,194.96	\$ 182,778.86	\$ 186,434.44	\$ 1,708,156.48
Identify Permits	\$ 65,000.00	\$ 67,320.00	\$ 68,666.40	\$ 70,039.73	\$ 71,440.52	\$ 72,869.33	\$ 74,326.72	\$ 75,813.25	\$ 77,329.52	\$ 78,876.11	\$ 722,681.59
Transient Income	\$ 90,000.00	\$ 91,800.00	\$ 93,636.00	\$ 95,508.72	\$ 97,418.89	\$ 99,367.27	\$ 101,354.62	\$ 103,381.71	\$ 105,449.34	\$ 107,558.33	\$ 985,474.89
Expense (v)	\$ 82,908.00	\$ 84,565.16	\$ 86,257.48	\$ 87,982.63	\$ 89,742.29	\$ 91,537.13	\$ 93,357.87	\$ 95,205.23	\$ 97,079.94	\$ 99,082.73	\$ 907,819.47
NOI	\$ 73,092.00	\$ 74,553.84	\$ 76,044.92	\$ 77,565.82	\$ 79,117.13	\$ 80,699.47	\$ 82,313.46	\$ 83,959.73	\$ 85,638.93	\$ 87,351.71	\$ 800,337.01

Property Tax / Parking Revenue Comparisons Analysis											
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
Mill Creek P. Tax	\$ 96,600.00	\$ 98,532.00	\$ 98,532.00	\$ 100,502.64	\$ 102,512.69	\$ 104,562.95	\$ 106,654.21	\$ 108,787.29	\$ 110,963.04	\$ 113,182.30	\$ 1,040,825.11
Parking NOI	\$ 73,092.00	\$ 74,553.84	\$ 76,044.92	\$ 77,565.82	\$ 79,117.13	\$ 80,699.47	\$ 82,313.46	\$ 83,959.73	\$ 85,638.93	\$ 87,351.71	\$ 800,337.01
Mill Creek P. Tax Benefit	\$ 23,508.00	\$ 23,978.16	\$ 22,487.08	\$ 22,936.82	\$ 23,395.56	\$ 23,863.47	\$ 24,340.74	\$ 24,827.56	\$ 25,324.11	\$ 25,830.59	\$ 240,492.10

- NOTES:
- (i) All assume a 2% annual increase
 - (ii) Using project valuation - value represents City share of 21% of County 1% of valuation of Property Tax
 - (iii) Data provided by Transportation Department
 - (iv) Average monthly income Dec 02 - Mar 05
 - (v) FY 05 Budgeted Expenses

Attachment 4

Inclusionary Unit Analysis

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LOS ANGELES, CALIFORNIA 90071
PHONE: 213/622-8095
FAX : 213/622-5204
WWW.KEYSERMARSTON.COM

ADVISORS IN:

REAL ESTATE
REDEVELOPMENT
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

MEMORANDUM

To: Robert Montano, Business District Coordinator
City of Pasadena

From: Kathleen Head

Date: May 31, 2005

Subject: Mill Creek Development: Inclusionary Housing
Production Plan

LOS ANGELES
Calvin E. Hollis, II
Kathleen H. Head
James A. Rabe
Paul C. Anderson
Gregory D. Soo-Hoo

SAN DIEGO
Gerald M. Trimble
Paul C. Marra

SAN FRANCISCO
A. Jerry Keyser
Timothy C. Kelly
Kate Earle Funk
Debbie M. Kern
Robert J. Wetmore

At your request, Keyser Marston Associates, Inc. (KMA) reviewed the inclusionary housing proposal submitted by Mill Creek Development (Developer). As currently proposed, the Developer will construct 100 residential units on two sites (Mill Creek Project). The purpose of the KMA review is described as follows:

1. To quantify how many income restricted units must be provided to fulfill the requirements imposed by the City of Pasadena (City) Inclusionary Housing Ordinance (Ordinance);
2. To identify the number of income restricted units that are proposed to be provided in excess of the Ordinance requirements; and
3. To estimate the implicit financial benefit that will be received by the City from these excess units.

BACKGROUND STATEMENT

The Ordinance requires 15% of the units in a residential project to be subject to income and affordability restrictions. For apartment projects, at least 10% of the units must be rented to low income households and the remaining affordable units must be rented to moderate income households. The Ordinance allows developers to fulfill the inclusionary housing obligation in any of the following ways:

1. The units can be constructed on site within the market rate project;

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Subject: Mill Creek Development: Inclusionary Housing Production Plan

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2. The units can be constructed in an off-site location anywhere within Pasadena except Subarea B; or
3. The developer can pay an in-lieu fee based on a Fee Schedule included in the Inclusionary Housing Regulations.

The Developer is proposing to fulfill the Mill Creek Project's inclusionary housing obligations associated on site. To that end, the inclusionary units will be distributed on a pro rata basis across the proposed unit mix. It should be noted that the Mill Creek Project is being developed on two parcels known as the "North and South Sites", and that the Project's inclusionary housing obligations are proposed to be met on the South Site. This arrangement complies with the Ordinance requirements.

INCLUSIONARY HOUSING REQUIREMENTS ANALYSIS

The Mill Creek Project is subject to a 15 unit inclusionary housing obligation. Of this total, at least 10 units must be reserved for low income households, and the balance of the inclusionary units must be rented to moderate income households. The Developer is proposing to provide the following inclusionary housing units:

Total Units	100		
	Low Income	Moderate Income	Total
Obligation	10	5	15
Production	<u>10</u>	<u>10</u>	<u>20</u>
Excess/(Shortfall)	--0--	5	5

The results of the inclusionary housing analysis are summarized as follows:

1. The Developer is proposing to provide a sufficient number of low income units to meet the basic requirements imposed by the Ordinance.
2. The currently proposed Mill Creek Project exceeds the total moderate income requirement by five units.

It is KMA's understanding that the Mill Creek Project includes 50 one-bedroom units and 50 two-bedroom units. To fulfill the unit distribution requirements imposed by the Ordinance, the required inclusionary units must be evenly distributed between one- and two-bedroom units. However, the Developer can distribute the five excess moderate income units to any mix of one- and/or two-bedroom units.

FINANCIAL BENEFIT ANALYSIS

The Developer is proposing to provide five units in excess of the Ordinance requirements. The following sections of this analysis estimate the implicit financial benefit that will be received by the City from these units. KMA calculated the value under the following two methodologies:

In-Lieu Fee Methodology

Developers have the opportunity to pay an in-lieu fee rather than constructing inclusionary housing units within market rate residential projects. The in-lieu fee amount is established for sub-areas located throughout the City, and the fee is equal to the estimated affordability gap associated with constructing inclusionary housing units rather than market rate units. As such, the in-lieu fee amount provides an excellent basis for calculating the public benefit created by the provision of more affordable housing units than are required by the Ordinance.

The Project is located in Sub-Area D, and the in-lieu fee amount for a development with more than 50 units is currently set at \$17 per square foot of the project's total gross building area (GBA). To quantify the in-lieu fee value attributable to the five excess inclusionary units, it is necessary to calculate the effective fee per affordable unit. This is done by dividing the in-lieu fee amount by the 15% inclusionary unit requirement. The effective fee calculation is presented below:

Fee Per Square Foot of Total GBA	\$17
Calculation	$\$17 \div 15\%$
Effective Fee Per Square Foot of Affordable Units	\$113

It is the KMA assumption that the extra affordable housing units will be comprised of three 1-bedroom units and two 2-bedroom units. The resulting effective fee calculations are as follows:

	# of Units	Unit Size (Sf)	Fee	Total City Benefit
One-Bedroom Units	3	750	\$113	\$254,200
Two-Bedroom Units	2	910	\$113	\$205,660
Total	5			\$459,860

Affordability Gap Methodology

The affordability gap methodology is based on the value lost by the Developer as a result of substituting income restricted units for market rate units. The lost value calculations are based on the following assumptions and methodology:

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Subject: Mill Creek Development: Inclusionary Housing Production Plan

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1. The difference between the achievable market rent and the maximum allowable income restricted rent is calculated.
 - a. The market rate rents are based on the Developer's current projections.
 - b. The moderate income rents are based on the standards currently applied by the Ordinance Regulations.
2. The present value of the income lost annually must be determined. In this case, the present value has been projected by capitalizing the annual lost income at a 6% rate.¹

The KMA affordability gap analysis is summarized in the following table:

	# of Units	Monthly Rent/Unit	Annual Rent
<u>One-Bedroom Units</u>			
Market Rate	3	\$2,060 ²	\$74,160
Moderate Income	3	\$1,255	\$45,180
Total One-Bedroom Affordability Gap			\$28,980
<u>Two-Bedroom Units</u>			
Market Rate	2	\$2,275 ³	\$54,600
Moderate Income	2	\$1,409	\$33,820
Total Two-Bedroom Affordability Gap			\$20,780
Total Annual Lost Revenue	5		\$49,760
Capitalization Rate			6%
Present Value Lost Revenue			\$829,330

¹ The capitalization factor used to estimate the present value of a perpetuity is equal to the Developer's anticipated return on total investment minus the assumed annual inflation rate.

² Based on \$2.75 per square foot of GBA.

³ Based on \$2.50 per square foot of GBA.

Summary – Financial Benefits Analysis

The results of the financial benefits analysis is summarized as follows:

	Total Benefit	Benefit/Excess Unit
In-Lieu Fee Methodology	\$459,860	\$92,000
Affordability Gap Methodology	\$829,330	\$165,900

FINDINGS

The results of the preceding KMA analyses are summarized as follows:

1. The Developer is proposing to provide 20 income restricted units, which will be distributed as follows:
 - a. Ten (10) low income units will be provided. To meet the Ordinance requirements, five of these units must be one-bedroom units and five units must be two-bedroom units.
 - b. Ten (10) moderate income units will be provided:
 - i. This allocation exceeds the Ordinance requirements by five units.
 - ii. The five required inclusionary units must be evenly distributed between one- and two-bedroom units. KMA has assumed that two of these units will be one-bedroom units and three of these units will be two-bedroom units.
 - iii. KMA distributed three of the excess affordable units to one-bedroom units and two of the excess units to two-bedroom units.
2. The Developer's proposal to include five additional affordable units in the Mill Creek Project has an implicit financial benefit to the City. This benefit is estimated to fall within the range of \$459,860 and \$829,330.