



## City Council and Redevelopment Agency Report

### City Council and Redevelopment Agency Meeting: April 14, 2009 Agenda Item: 8-B

To: Mayor and City Council  
Chairperson and Redevelopment Agency

From: Andy Agle, Director of Housing and Economic Development  
Carol Swindell, Director of Finance

Subject: Redevelopment Agency Capital Funding Priorities

#### Recommended Action

Staff recommends that the Redevelopment Agency and City Council approve redevelopment funding priorities for capital improvement programs.

#### Executive Summary

In preparation for the FY 09/10 Budget, as well as the Redevelopment Agency's Five-Year Implementation Plan for 2010 – 2015, staff recommends that the City Council adopt refined funding priorities and preliminary funding commitments to allow key capital projects to continue forward. Approximately \$1.27 billion dollars of projects are potentially eligible for Redevelopment Agency funding. The Agency's total debt capacity through 2014 is estimated to range from \$283 million to \$313 million. This report discusses redevelopment funding considerations and community needs that are potentially eligible for redevelopment funding and makes recommendations regarding long-term capital funding priorities. Staff seeks Council direction on which projects should be included in funding plans for the Redevelopment Agency.

#### Background

Within the Earthquake Recovery Redevelopment Project Area, the Agency's largest project area, tax increment funds can be collected through 2042. While the Agency is able to collect tax increment through 2042, it must issue or commit all debt obligations by July 21, 2014. As a result, the City has been refining capital programs and their associated costs. On [April 8, 2008](#), the Agency confirmed its long-term priorities regarding capital programs to be funded with redevelopment funds, as follows:

- Affordable Housing
- Civic Center Parks and Public Facilities
- Downtown Parking Strategy
- Traffic Signal Master Plan
- Memorial Park Expansion
- Commercial Corridor Improvements
- Infrastructure Improvements

In addition, City Council directed staff to review whether proposed improvements at Santa Monica

High School could be eligible for redevelopment funding. To accelerate the planning and design of the capital programs, the Council approved creating and funding positions in the Community and Cultural Services, Public Works and Planning and Community Development departments. To date, each department has hired supplemental staff and work efforts to expedite the capital programs have commenced. The next step for the programs is project design, cost estimating and implementation. A status update concerning each program is provided in Attachment B.

Given the 2014 deadline for establishing Agency debt, as well as the pending FY 2009/2010 City budget and the need to adopt a Five-Year Agency Implementation Plan by the end of 2009, staff has reviewed all proposed City capital improvements, as well as the joint-use improvements proposed at Santa Monica High School, to assess eligibility for redevelopment funding, consistency with the Redevelopment Plan and consistency with the City Council's funding priorities. Of the \$1.4 billion in City capital needs, as well as the \$235 million in funding formally requested for joint-use improvements at Santa Monica High School, approximately \$1.27 billion in capital projects appear to be eligible for redevelopment funding, provided that certain state-mandated findings can be made and requirements can be satisfied.

In order to frame the Council's consideration of Agency funding priorities, Public Resources Advisory Group (PRAG), the Agency's financial advisor, has prepared an updated estimate of the Earthquake Redevelopment Project Area's debt capacity (including pay as you go projects), excluding housing set-aside funds, over the next five years (see Attachment C). Using various debt structures, PRAG estimates a Project Area debt capacity of \$283 million to \$313 million, depending on assumptions regarding the State's continuing efforts to appropriate local redevelopment funds. The debt capacity estimate is based on relatively conservative projections of growth in assessed valuation to reflect the current state of the real estate economy and the City's past experience with real estate downturns. The \$283 million debt capacity estimate assumes permanency of the State take-away that was implemented during the current fiscal year. Since the Project Area has a limit on tax allocation bonds of \$95 million, the debt would need to be structured in other ways in order to borrow more than that amount. The debt could take the form of lease revenue bonds through the General Fund or other funding mechanisms to leverage the Agency's tax increment. It may not be possible to borrow the full projected capacity without negatively affecting the City's AAA bond rating, and therefore RDA borrowing under a lease revenue structure may need to be balanced against other City borrowing needs. As the long-term priority projects are further defined to the point of becoming project-ready, a recommended debt structure for each project will be prepared. Going forward, the City's and Agency's ability to access debt will be impacted by several factors, including the state of the real estate and credit markets, the City and Agency's assessed valuation of real property, and expected impacts of debt financing on the City's credit rating. Given the 2014 deadline for the Agency to incur debt, the City and the Agency will need to explore various financing mechanisms, including lease revenue bonds, bank financing, cooperation agreements and reimbursement agreements. Some of the financing instruments, such as cooperation agreements, could be structured to provide for greater flexibility in the event that the actual growth in tax increment is higher than debt-financing

estimates allow.

## **Discussion**

With the pending preparation of the FY 2009/2010 City budget and the Five-Year Redevelopment Agency Implementation Plan, staff seeks City Council direction on refined Agency funding priorities and commitments. Staff has prepared funding recommendations for Council consideration. In considering the Agency's funding capabilities, staff recommends that preliminary allocations be considered relative to the \$283 million debt capacity estimate. Although, the Agency's ultimate debt capacity could be greater if the State take-away does not become permanent, or if tax increment grows more quickly than estimated, it is also possible that the debt capacity could be lower if the State take-away is increased or assessed values decline. The \$283 million is the most reasonable estimate at this time for consideration of funding recommendations.

In evaluating the \$1.27 billion in capital projects that are potentially eligible for Redevelopment funding, staff has reviewed proposed projects according to the following criteria (see Attachment A):

- Advances Redevelopment Agency goals and priorities
- Advances City Council-adopted Community Priorities
- Satisfies long-standing, unmet community needs
- Creates facilities that can be maintained and operated in the long-term
- Leverages funding from other sources
- Advances a prior City investment

On that basis, staff recommends that Council approve the following preliminary funding allocations, to be reflected in upcoming budgets and plans (see Attachment D):

### **Ø Affordable Housing**

Funding the production and preservation of affordable housing is required of all redevelopment agencies. Santa Monica has historically funded these activities at a level higher than required by State law in order to support community priorities related to housing accessibility, homelessness and economic diversity, and to achieve compliance with voter-mandated outcomes related to housing diversity. In addition to the \$75 million line of credit that has already been established for affordable housing, an additional \$34 million is expected to be available from the Earthquake Project Area Affordable Housing Set-Aside. Staff recommends that the Council continue to dedicate all net available funds from the Ocean Park and Downtown Redevelopment projects areas to affordable housing, in addition to the required set-aside funds, which is expected to total \$12 million. Staff recommends that an additional amount from the Earthquake Recovery Project Area non-housing funds be allocated to affordable housing. \$ 10 Million

## Ø **Civic Center Parks and Public Facilities**

The City adopted the first incarnation of the Civic Center Specific Plan in 1993, followed by amendments in 2000 and 2005. The anticipated arrival of the Exposition Light Rail, as well as Santa Monica High School Master Plan, creates exciting opportunities to enhance integration among the Civic Center, Downtown and High School. The City Council discussed these opportunities at a study session on [March 24, 2009](#).

Allocations are recommended for specific components of the greater Civic Center area plan:

<b>Planning and Design:</b>	\$2.5 Million
<b>Palisades Garden Walk:</b> The Civic Center Specific Plan envisions the creation of a six-acre park and its surrounding streetscape across from City Hall and The Village, which would result in a net new addition of park space to the City's open space system and provide critical pedestrian links. The proposed allocation potentially could be leveraged with outside grant funds.	\$25 Million
<b>Civic Auditorium Adaptive Reuse and Renovation:</b> The Civic Center Specific Plan and <i>Cultural Capital</i> envision the Auditorium as a rehabilitated cultural gem with additional cultural amenities. Pursuant to recent Council direction, staff is pursuing potential public-private partnership opportunities. Under any scenario, a capital contribution toward the Auditorium's rehabilitation is anticipated.	\$25 Million
<b>Civic Auditorium District Projects:</b> The Civic Center Specific Plan envisions a 5.6-acre park, a new cultural facility as envisioned in <i>Creative Capital</i> and the more recent joint use study of the Samohi and Civic Auditorium campuses, surrounding streetscapes and pedestrian linkages that complement the Civic Auditorium's programs.	\$21 Million
<b>Early Childhood Education Center:</b> The Civic Center Specific Plan envisions a center serving infants, toddlers and pre-school age children that complements the form and activities of the Civic Auditorium District. The proposed allocation would support necessary utility and site work to facilitate development of the center by Santa Monica College with approved Bond funds.	\$3.4 Million
<b>Freeway Capping:</b> The Downtown/Civic Center strategy, as well as the LUCE, Open Space Element and Civic Center Specific Plan, envision decking the I-10 freeway. The proposed allocation could be used to address the connection between Palisades Garden Walk and Downtown, or could serve as a local match for outside grants to pursue broader capping opportunities.	\$2 Million
<b>Expo Green Streets and Pathways:</b> The tremendous increase in pedestrian volumes generated by the Expo terminus station creates the need for new circulation improvements, including widening Colorado Avenue sidewalks and creating alternatives to relieve pressure from Fourth Street and Colorado Avenue. The proposed allocation could facilitate the minimum necessary circulation	\$20.9 Million

improvements and/or could be used to leverage other funding.

**Santa Monica High School Joint Use Project:** While not a part of the adopted Civic Center Specific Plan, the Santa Monica-Malibu Unified School District (SMMUSD) has developed a broad plan to overhaul Santa Monica High School. The plan includes the Michigan Avenue pedestrian concourse to facilitate public access through the campus and new or redeveloped recreational and cultural facilities that the broader community could access when not needed by the high school. The proposed allocation could be leveraged with other funding sources. A primary concern with the creation of new joint-use facilities is the City's long-term ability to provide the necessary operating funds for staffing and maintenance to support the community's use during non-school hours. \$46 Million

**Shared Parking:** Several of the cost estimates for projects in the Civic Center, including the Santa Monica High School Joint Use Project, assume that underground parking will be incorporated into the projects. Pursuant to Council direction, staff is currently completing a shared-use parking analysis in order to ensure that parking is strategically placed to be shared among the various destinations, instead of being overbuilt in separate locations. Rather than funding individual parking for each project, staff recommends an allocation for shared parking among the projects. \$25 Million

Ø **Downtown Parking Strategic Plan**

The City Council formally adopted the Downtown Parking Strategic Plan in 2005, following several years of consideration by a Council-appointed task force. Implementation of the plan supports the Community Objective related to infrastructure and addresses parking needs, one of the top issues consistently identified in the biannual resident survey.

**Parking Design and Construction:** The plan anticipates that the City will make a contribution of \$18 million toward parking structure design and construction that is equivalent to what the Agency would otherwise have spent on seismic retrofitting of three parking structures; \$17 million of Parking Authority funds are estimated to be available based on PRAG's debt capacity analysis for the Parking Authority and the Agency is recommended to contribute the balance. \$1 Million

**Property Acquisition:** An allocation for property acquisition purposes is recommended to ensure that the City is able to implement the parking program. If properties purchased are not needed for the parking program, they could be used for other community purposes such as affordable housing or open space. \$27 Million

Ø **Commercial Corridor Improvements**

The LUCE planning process has identified the need for improvements to key commercial corridors in Santa Monica. Enhancements to the corridors could include streetscape improvements, shared parking strategies, façade improvements, etc. Two of the highest priorities identified through the LUCE process are Lincoln and Pico Boulevards.

**Lincoln Boulevard Enhancements:** As a key gateway to Santa Monica and the Earthquake Recovery Redevelopment Area, Lincoln Boulevard and the surrounding neighborhoods would benefit from a comprehensive strategy to enhance the boulevard. The recommended allocation could be used to leverage public and private funds. \$9 Million

**Pico Boulevard Enhancements:** While streetscape improvements were completed along Pico Boulevard in the last decade, Pico Boulevard and the surrounding neighborhoods would benefit from additional strategies to enhance the boulevard. The recommended allocation could be used to leverage public and private funds for these improvements. \$9 Million

Ø **Traffic Signal Master Plan**

Addressing traffic congestion is consistently rated as one of the highest priorities in the biannual resident survey, and the Community Priorities also address the need to upgrade aging Infrastructure. City, Agency and regional transportation funds have financed Phases I – III of the Traffic Signal Master Plan. An allocation to complete the final Phases is recommended.

**Phase IV:** Portions of 11<sup>th</sup>, 14<sup>th</sup>, 17<sup>th</sup>, 20<sup>th</sup>, 30<sup>th</sup> Streets, Broadway Ave., Cloverfield Blvd., Colorado Ave., Michigan Ave., Ocean Park Blvd., Olympic Blvd. \$2.4 Million

**Phase V:** Portions of 7<sup>th</sup> Street, 30<sup>th</sup> Street, Montana Ave., and Ocean Ave. \$3 Million

Ø **Memorial Park Expansion**

In 2004, the City invested \$18.5 million to purchase the 2.9 acre Fisher Lumber site, at 1601 14<sup>th</sup> Street which is adjacent to Memorial Park, with the intention that the additional property could enhance recreational opportunities and potential water infrastructure needs, supporting Community Priorities related to Youth, Sustainability, Infrastructure and Recreation and Active Living. Park expansion is also supported by the goals of the City’s Open Space Element and Parks and Recreation Master Plan. In addition to park development costs, project implementation considerations include the need to relocate the City’s Community Maintenance Yard from the potential park expansion site (former Fisher Lumber site) and the need to provide for ongoing maintenance of an enlarged park. \$15 Million

Ø **Infrastructure Improvements**

Other infrastructure improvement projects that are being recommended are as follows:

**Pier Infrastructure Improvements:** Investing in the core infrastructure of the Pier supports the continued operation and safety of the landmark attraction for residents and visitors. \$11 Million

**Pico Neighborhood Library:** Creation of a neighborhood library in the Pico neighborhood has gained strong community backing. A new branch library would support Community Priorities related to Youth, Education and Infrastructure. A primary challenge in considering a new library is the on-going costs to operate and maintain the facility. \$12.8 Million

**Beach Path Widening:** Staff is pursuing grant funding to allow for separate bike and pedestrian paths north of the Santa Monica Pier. The recommended allocation would allow for a local match as well as an opportunity to address the significant bicycle and pedestrian path conflicts that occur on the existing path north of the Pier to the northern boundary of Santa Monica State Beach immediately adjacent to the Pier. \$1 Million

**Citywide Tree Planting:** The recommended allocation would support street tree planting within the Redevelopment Area. \$.3 Million

**Bike Transit Center:** The recommended allocation would leverage other grant funds that have been allocated to the project. \$.2 Million

**Exposition Light Rail Station Enhancements:** Creating high-quality station areas will be critical to the success of light rail transit in Santa Monica. The recommended allocation could leverage other public and private funds in the creation of world-class station areas. \$10 Million

**Streetlight Retrofit:** The recommended allocation would address the safety and reliability of a core infrastructure that serves the project area. \$.3 Million

In addition to the allocation of funding relative to the Agency's currently estimated debt capacity, the Council may wish to identify additional projects that could be considered if the State take-away is not permanent or if assessed valuation within the Project Area grows more quickly than expected.

#### Next Steps

The City Council and Agency-funding priorities will be reflected in the City's Capital Improvement Program for FY 2009-10 through 2013-14, the City's FY 2009-10 budget, and the Agency's Implementation Plan to be considered later this year. Staff will continue to explore debt instruments to maximize funding. If the Council approves funding for Santa Monica High School joint-use improvements, staff will work with School District representatives on requirements and agreements related to such funding.

#### **Financial Impacts & Budget Actions**

All budget actions resulting from these funding commitments will be included in the FY 2009-2010 Proposed Budget and any approved funding commitments beyond this fiscal year will be appropriated each fiscal year thereafter.



**Prepared by:**

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**Approved:**

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**Forwarded to Council:**

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Attachments:

- Attachment A: [Redevelopment Eligible Projects](#)
- Attachment B: [Status Update on Redevelopment Priority Programs](#)
- Attachment C: [Summary of Debt Capacity Estimates](#)
- Attachment D: [Summary of Recommended Funding Allocations](#)