

SUMMARY AND SUBSIDY REPORT
Pursuant to Government Code Sections 52201 and 53083

For a Disposition and Development Agreement
between
the City of Santa Ana and
Caribou Industries at 201 W 3rd Street

The following Summary Report has been prepared pursuant to California Government Code Sections 52201 and 53083, the City Council of the City of Santa Ana must hold a noticed public hearing and, prior to the public hearing, provide all of the following information in written form and available to the public through the City's website regarding a proposed economic development subsidy provided by the City pursuant to a Development and Disposition Agreement between the City of Santa Ana and Caribou Industries (Agreement). Notice was published on the City's website for a public hearing to be held on October 20, 2020.

The report sets forth certain details of the proposed Disposition and Development Agreement required pursuant to Government Code Sections 52201 and 53083.

BACKGROUND

The following Summary Report is based upon information contained within the Agreement, and is organized into the following five sections.

- I. **Salient Points of the Agreement:** This section includes a description of the project and the major responsibilities imposed on the City and the Development by the Agreement.
- II. **Estimated Value of the Interests to be Conveyed Determined at the Highest and Best Use of the Property:** This section estimates the value of the interests to be conveyed determined at the highest use permitted under the existing zoning.
- III. **Economic Incentive/Development Subsidy Provide, and the Cost of the Agreement:** This section details the economic incentive/development subsidy to be provided by the City and the costs to be incurred by the City associated with implementing the Agreement.
- IV. **Consideration Received and Comparison with the Economic Incentive/Development Subsidy Provided:** This section describes the financial compensation to be received by the City pursuant to the Agreement.
- V. **Creation of Economic Opportunity and Public Purpose:** This section describes how the Agreement will assist in the creation of economic opportunity in the City.

- VI. **Job Creation:** This section describes the number of full-time, part-time, and temporary jobs created by effectuating the Agreement.

This Summary Report and Agreement are to be made available for public inspection prior to the approval of the Agreement.

I. SALIENT POINTS OF THE AGREEMENT

A. Project Description

The proposed project is located at 201 West 3rd Street, at the northeast corner of Broadway and 3rd Street. Caribou Industries, a local developer and property owner in the City, proposes to replace the existing City-owned, 3-level parking garage with a mixed-use development containing 171 housing units (with 19 for low income residents), a 75-room boutique hotel, 13,419 square feet of commercial space (including retail and food/beverage establishments), and rooftop amenities ancillary to residential and hotel uses.

The development would be comprised of two buildings: a 16-story, 194-foot-tall mixed-use (residential and commercial) building and a 10-story, 128-foot-tall hotel building. The buildings would be separated by an extension of Sycamore Street from the north edge of the project site to West 3rd Street. The proposed project would provide 490 total structured parking spaces, including 211 public parking spaces and the hotel will provide 83 parking spaces.

The Agreement is with Caribou Industries, who proposes to redevelop an aging city-owned public parking structure at 210 W. 3rd Street into a residential and hotel project that will benefit from the economic development subsidy:

Caribou Industries
1130 N Broadway St
Santa Ana, CA 92701

B. City Responsibilities

This Agreement requires the City to:

1. Provide the land.
2. Fund the costs for public improvements to ready the site for development. This will include the demolition of the existing parking structure, preparation of the site for development, the construction of Sycamore Street reconnection and construction of 211 public parking spaces to replace the existing parking currently provided at the 3rd and Broadway parking structure. The estimated cost for public improvements is \$7 million for the construction of the 211 public parking spaces and \$6 million for the additional public improvements.

3. Upon the Developer obtaining entitlements, showing evidence of construction and permanent financing, issuance of all necessary building permits, the City would convey the land to Developer for the Mixed Use project. The City will retain ownership of parcel containing the public parking space.

C. Developer Responsibilities

This Agreement requires the Developer to:

1. Fund the design of the project, all costs related to entitlements, and all development costs for the apartments, retail, office and hotel.
2. Fund the entitlement application, including, but not limited to, any and all required General Plan and/or zoning amendments, and all related studies required for CEQA compliance.
3. Provide evidence of financing for construction, permanent loan(s) and equity and issuance of all necessary building permits.
4. Design and build a residential development in the heart of Downtown Santa Ana with 171 apartments and 19 very low income units.
5. Design and build the hotel to standards for typical hotel standards. During the first 5 years of operation, various economic thresholds would be established that would allow the Developer to convert the Hotel to residential as follow:
 - after 2 years if the Rev/Par* falls below \$125
 - after 3 years if the RevPAR falls below \$125
 - after 4 years if the RevPAR falls below \$125
 - after 5 years if the RevPAR falls below \$125
6. Develop a parking structure that will include 211 public parking spaces. These spaces will remain public in perpetuity.
7. Manage the Public Parking. The City would enter into a Parking Operation Agreement with the Developer to manage and operate the Public Parking and obligate the Developer to pay all costs including the debt service on the financing for the Public Improvements. The Developer would set the parking rates and either manage the parking directly or through a 3rd party. The Developer would guarantee no negative costs to the City and would keep any net revenue unless the Hotel is converted to residential per the terms of the DDA.
8. Guarantee the debt service and all operating costs and the City would not be responsible if the revenue is insufficient to service the debt.

II. ESTIMATED VALUE OF THE INTERESTS TO BE CONVEYED DETERMINED AT THE HIGHEST AND BEST USE OF THE PROPERTY:

The property is presently improved with a three-story automobile parking structure of concrete construction. The building contains 144,699 square feet, and was originally constructed in 1983. A 2016 appraisal of the property with a hypothetical condition that the site is vacant and readily available for development appraised the property at \$3.0 million. This assumes that the site is cleared and ready for development which for the City to demo and clear the site, prep it for development, the City's cost would exceed the value of the land. In addition, due to the aging parking structure's current condition, it was estimated that it would cost \$8-10 million to bring the building up to current building and seismic codes, thus giving it a negative value.

III. ECONOMIC INCENTIVE/DEVELOPMENT SUBSIDY PROVIDED, AND THE COST OF THE AGREEMENT

The City is providing the following economic development subsidies to facilitate the development of this residential/hotel project:

- A. Fund the costs of the following improvements at the start of construction with a cap of no more than \$13 million.
- Demolition of the existing parking structure
 - Site preparation for construction prepared to a rough grade condition
 - Construction of 211 public parking spaces
 - Construction of private street: Sycamore reconnection

It is important to note that the Developer will pay the City's debt service thru an Operating Agreement whereby the Developer will operate the Public Parking and pay all costs with no financial risk to the City

- B. Provide the Land for the development.

IV. CONSIDERATION RECEIVED AND COMPARISON WITH THE ECONOMIC INCENTIVE/DEVELOPMENT SUBSIDY PROVIDED:

The City expects to generate new sources of income from the development of this project (see Table below on Estimated General Fund Revenue). Currently, the parking structure's operating expenses are higher than the revenues received. Due to the current pandemic, the gap between expenses and revenue has increased significantly which has put a major strain on the City's current General Fund budget. With the new development project and new sources of income, the City is anticipating adding over \$600,000 yearly to the City's General Fund budget.

V. CREATION OF ECONOMIC OPPORTUNITY AND PUBLIC PURPOSE

Implementation of this agreement effectuates a new residential and hotel development in place of an aging parking structure that will cost the City between \$8-10 million to bring it up to current building and seismic codes. The goals and objectives that are satisfied by this project are:

1. Additional revenue sources for the City to fund the services the community expects (Table below)
2. Increased employment through additional jobs created as a result of private sector investment and new hotel and commercial development.
3. Reconnection of Sycamore Street that allows improved access in the heart of Downtown Santa Ana.
4. New residential opportunities for mixed income individuals
5. New residential opportunities for very low income individuals
6. New residents in the downtown that will help downtown businesses grow and prosper.

This project also satisfies three of the Economic Opportunity Statutes per Government Code 52200 et. seq:

1. This project will result in an increase from \$0 to \$340,000 annually (satisfying the requirement of being a greater than 15% increase).
2. This project will create affordable housing as 19 very low income units will be constructed;
3. This project is considered a transit priority project per Public Resources Code Section 21155(b) that states the project shall contain: 1) at least 50 percent residential use based on total building square footage (*Proposed project = 63%*) and, if the project contains between 26 percent and 50 percent nonresidential uses, a floor area ratio of not less than 0.75 (*Proposed project = 4.2 FAR*); 2) provide a minimum density of at least 20 dwelling units per acre (*Proposed project = 121 du/acre*); and be within one-half mile of a major transit stop or high-quality transit corridor included in a regional transportation plan. The proposed Project is also within a transit priority area as defined by Public Resources Code (PRC) Section 21099(a)(7).

Estimated General Fund Revenue from Proposed Project

Summary of Annual Estimated Revenue from Project	
	Total
Property Tax (Secured & Unsecured)	\$210,000
Property Tax In-Lieu of VLF	\$130,000
Sales & Use Tax (On-Site/Direct)	\$57,000
Sales & Use Tax (Off-Site/Indirect)	\$25,000
Transient Occupancy Tax (\$90 RevPar)	\$270,000
Utility User Tax	\$45,000
Annual General Fund Revenues (ROUNDED):	\$620,000

Source: Kosmont Companies, 2020

VI. JOB CREATION

Economic Benefits of Construction for 3rd and Broadway

	Employment	Labor Income
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Direct (On-Site)	475	\$49,000,000
Indirect	180	\$14,000,000
Induced	200	\$13,000,000
Total Countywide	855	\$76,000,000
Estimated City Capture	510	\$53,000,000

Source: Kosmont Companies, 2020