



CITY COUNCIL STAFF REPORT



December 6, 2022

ITEM TITLE

University-Innovation District: Approve Purchase/Sale and Project Development Agreements and Appropriate Funds for the Cinematic Arts Academic Center & Library Development for San Diego State University's Television, Film and New Media Production Studios

Report Number: 22-0317

Location: Lot 7 of Millenia, 1775 Millenia Avenue

Department: Economic Development

Environmental Notice: The Project was adequately covered in previously certified Final Second Tier Environmental Impact Report (EIR 07-01) – SCH No. 2007041074 for Otay Ranch Eastern Urban Center (EUC) Sectional Planning Area (SPA) Plan and Tentative Map.

Recommended Action

Adopt resolutions: A) Approving a Purchase and Sale Agreement with LMC-Millenia Investment Company, LP to acquire 7.06 acres of undeveloped land on Lot 7 of Millenia located at 1775 Millenia Avenue (APN 643-060-57-00); B) Approving a Project Development Agreement with LMC-Millenia Investment Company, LP to construct a 168,000 square foot Cinematic Arts Academic Center & Library, a 6,100 square foot amenity building, related site work and improvements; and C) Approving amendments to the Capital Improvement Budget, authorizing interfund loans, and appropriating funds for the project. **(4/5 Vote Required)**

SUMMARY

In recent years, City staff began pursuing the opportunity to expand the University-Innovation District into the nearby Millenia Sectional Planning Area (“SPA”) as a creative solution to jumpstart the University with significantly reduced capital outlay. In 2022, a confluence of needs and the legislative appropriation of \$30 million in State funding created a major opportunity to establish the first phase of the University. This provides the City with the opportunity to construct two buildings on the Think Campus, located on Lot 7 in Millenia, that would serve as the City’s first new library since 1995 and meet the minimum 60,000 square foot need for library space; provide 50,000 square feet for an academic partner, San Diego State University, to relocate their Television, Film and New Media Production Studios to Chula Vista; provide 58,000 square feet of Class “A” office space in warm shell condition for an industry user to lease, thereby generating revenue and providing jobs in Eastern Chula Vista; and provide a 6,100 square foot amenity building for tenant

attraction. This action provides a variety of implementing agreements to advance the City's Cinematic Arts Academic Center and Library to make this vision a reality.

ENVIRONMENTAL REVIEW

The Director of Development Services has reviewed the proposed project for compliance with the California Environmental Quality Act (CEQA) and has determined that the Project was adequately covered in previously certified Final Second Tier Environmental Impact Report (EIR 07-01) – SCH No. 2007041074 for Otay Ranch Eastern Urban Center (EUC) Sectional Planning Area (SPA) Plan and Tentative Map. Therefore, no further CEQA review or documentation is necessary.

BOARD/COMMISSION/COMMITTEE RECOMMENDATION

Not applicable.

DISCUSSION

The City of Chula Vista maintains a longstanding vision of establishing a university on 383 acres of City-owned and entitled land in the Otay Ranch. Over the years, the City has taken numerous actions to make this vision a reality. With the land and entitlements both secured, after decades of planning, the City is well-positioned to work toward physical development of the University-Innovation District (“UID”). However, there is still significant work to prepare the site for phased development, including horizontal infrastructure and graded pads by HomeFed, LLC as the proposed Master Developer.

In recent years, staff began pursuing the opportunity to expand the UID into the nearby Millenia SPA as a creative solution to jumpstart the University with significantly reduced capital outlay. In 2022, a confluence of needs created a major opportunity. The alignment of the desire to establish the first phase of the University within the built environment of Millenia to reduce risk and cost per acre combined with two key needs for: 1) a new destination library consistent with the Library Strategic Facilities Plan, and 2) the vertical development of a Millenia Office building to attract qualified tenants for the remaining 1.8 million square feet of Class “A” office space. These needs presented the opportunity to construct one building on the Think Campus, located on Lot 7 in Millenia, that would serve as the City's first new library since 1995 and meet the minimum 60,000 square foot need for library space, provide 50,000 square feet for an academic partner to launch the first phase of the University, provide 58,000 square feet of Class “A” office space in warm shell condition for an industry user to lease, and provide a 6,100 square foot amenity building for tenant attraction.

Library Need: Growing Demand

The 2011 Chula Vista Public Library Strategic Facilities Plan concluded that a new destination library should be located convenient to the South Bay Expressway (“SR-125”), preferably to the east, to best serve residents of this underserved area. In addition to sufficient capacity for the library building and parking, characteristics of a successful library site include a high-profile location along a well-traveled route, close to other community amenities, such as shopping or recreation, and accessible by public transit. A requirement was placed on Lot 7 that required to developer to provide a location for a new library. A new library has not been constructed in Chula Vista since 1995 and the demand for library use continues to grow.

The Library Department currently leases 5,000 square feet of space in the Otay Ranch Town Center, approximately half a mile from the Millenia site. Despite this space constraint, the Otay Ranch Branch has the second highest circulation of all library branches and Library staff has worked to provide innovative and interactive services within the confines of their minimal space. With the opening of a new city-owned library in Eastern Chula Vista, the Otay Ranch Branch location will be phased out.

The vision for the new library includes state-of-the-art technology, inclusive spaces such as a Children’s Room, Intergenerational Space, Teen Rooms, and Adult Spaces. Due to the demand for space in Eastern Chula Vista, meeting rooms and coworking spaces are also contemplated along with multipurpose gathering spaces. The new Library will have modern reading and working nooks, shorter shelving, digital circulation options, and modern multipurpose rooms. The Library will be located adjacent to a new park in Millenia so there will be connectivity between the Library and Park site for a seamless connection to nature.

Industry Need: Economic Development Job Creation Opportunity

Since 2016, Chesnut Properties has worked to market the larger opportunity of [Millenia Office](#), a three-property campus on Lots 1,7 and 19 in Millenia. Millenia Office promotes an impressive vision of stunning, world-class buildings to promote the advancement of higher education, life sciences and technology in South County. Despite numerous conversations with prospective tenants and the developer investing millions of dollars in costs to promote the marketability of the sites, including completing entitlements and technical documents, completing 100% construction documents, pulling permits, subterranean site preparation for parking garage(s), several online marketing and branding campaigns, a national proposal for the Amazon HQ2 location, and the establishment of an on-site marketing trailer, a tenant has not been secured. The toll on SR-125 has also been an obstacle for businesses considering locating in Eastern Chula Vista. At present, the City currently has 96.5% leased of 3.3 million square feet of office inventory and has very few Class “A” caliber office buildings within city limits. Since 2012, vacancy rates in the Chula Vista office market have consistently decreased year over year from 16% at their peak in 2012 to 3.5% at present. Further, office vacancy rates remained steady throughout the COVID-19 pandemic, a metric that demonstrates the strength and demand for Chula Vista office space.

Academic Need: Launching Phase 1 of Chula Vista’s University-Innovation District

California’s current system of higher education will not fully meet the educational needs of an increasingly diverse student population or the evolving economic needs of the State of California. The State faces an education deficit of more than one million bachelor’s degree holders by 2030 and a gap of 1.5 million skilled workers by 2025. To address this shortfall, California needs to graduate 2.4 million more bachelor’s degree holders than they are currently on track to produce. Each California State University (“CSU”) campus has more students than their permanent capacity and there are at least 80,000, and growing, students than what the 23 CSU campuses can accommodate. Most of the CSU campuses have attempted to accommodate the increase in demand by adding temporary capacity and imposing campus or program impact criteria. These actions only increase the competitiveness of enrollment and do not address the increasing demand constraints.

Just as there is a growing population of high school graduates throughout California, Chula Vista is faced with an even greater challenge. In San Diego County, public universities are only located in the central and northern parts of the County although more than one third of the County population lives south of San Diego

State University, which perpetuates issues of access and equity. Chula Vista is the only city in California with a population greater than 200,000 residents that does not have a nonprofit or state university within its city limits. In addition, the South Bay region has approximately 500,000 residents and is still without a public or private non-profit university. It is critical to provide viable, equitable and accessible pathways to higher education which requires the elimination of barriers to access of public universities and successful degree completion.

College students in the South Bay are increasingly place-bound, working full-time, and are balancing a number of other responsibilities while taking classes. Their education choices are determined by what is nearby, regardless of how much college knowledge they may have about alternative options. Locally, as the nearest four-year institution, San Diego State University (“SDSU”) has worked within their vision of expanding access to higher education across the region with their Imperial Valley Campus, the Mission Valley West expansion, their partnership with Southwestern College for their Microsite which offers three degree completion programs and now the relocation of their Television, Film and New Media (“TFM”) Program to the City’s University-Innovation District as a step towards realizing their vision of becoming the premier film school in the nation.

The City has continued to work diligently towards turning the larger vision for a University-Innovation District on 383 acres of City-owned land into a reality and is working to address and remove impediments to make additional progress. This same evening, staff is proposing an action recommending approval of an Exclusive Negotiating Agreement with HomeFed, LLC to serve as the Master Developer of the UID site. This would develop the 383 acres in compliance with the UID SPA with a phased approach of approximately 50-100 acres at a time, preparing horizontal infrastructure and graded pads for development for university and innovation/industry users. To continue on this track, from the time the proposed MDA is completed and approved by Council, staff estimates it would be at least an additional 4-5 years of work to have graded pads ready for users.

In early 2022, as a creative solution to reduce the cost, time and risk associated with starting the UID, staff proposed creating a Cinematic Arts Academic Center & Library. This building, located just half a mile from the UID, would satisfy the need for a new library in Millenia, expand the footprint of the UID and serve as an incubator for both the University and Millenia Office. The vision won the support of the State and in the May revised State Budget, Senator Atkins secured \$5 million for land acquisition and entitlement costs for this project. In the August revised budget, Assemblymember Alvarez submitted budget trailer bill language to allocate \$25 million in state funding to the City of Chula Vista to construct the Cinematic Arts Academic Center & Library. The \$30 million in total funds are being provided to the City through a California State Library Targeted State Grant Program and applications have been submitted. The State funding agreement will be brought back for City Council approval in 2023. These critical funds were the impetus needed to make this project a reality and staff is tremendously grateful for the support of this project received from the State.

Millenia Lot 7: Cinematic Arts Academic Center & Library

The City has the opportunity to jumpstart the University on Lot 7 of Millenia, a 7.06-acre parcel which would expand the footprint of the 383-acre UID located just a half-mile walking distance to the south. Lot 7 is planned and entitled for four buildings: one 6,100 square foot amenity building, one 150,000 square foot Class “A” building, one 168,000 square foot Class “A” building, and one parking structure. The 168,000 square foot building which fronts Millenia Avenue will be the site of the new Cinematic Arts Academic Center &

Library and the future home of San Diego State University's Television, Film and New Media Production Studios. The building will have 110,000 square feet of cinematic arts library space with 60,000 square feet for the state-of-the-art library and 50,000 square feet for SDSU as an academic user. The remaining 58,000 square feet in the building will be available to be leased to industry partners or a qualified life science, higher education or technology tenant as an economic development attraction effort and as a revenue generating use to help offset the operations and maintenance costs associated with owning, operating and maintaining a Class "A" building of this scale and quality. The four-story building is designed to LEED and WELL standards and boasts ocean views to the west and mountain views to the east, showcasing the very best vistas of Chula Vista. The building will be the crown jewel of Millenia and will anchor the surrounding civic uses of the new Fire Station 10 and several community parks.

In addition to constructing the 168,000 square foot building as the Cinematic Arts Academic Center & Library, staff recommends also constructing the 6,100 square foot amenity building also planned for Lot 7. In consultation with CBRE Group, the shifting office landscape is such that amenity-rich buildings are a necessity to attract qualified tenants to Class "A" office space. The 6,100 square foot building would also be owned and operated by the City. It is contemplated the space could be a fine dining restaurant with outdoor seating and gathering spaces overlooking a beautifully landscaped courtyard. The restaurant could accommodate culinary arts students as an opportunity to gain hands-on experience working for a reputable restaurant. The culinary arts concept would complement the cinematic arts use also on site. The addition of this building contributes to the sense of completeness on the site rather than building a standalone structure for the 168,000 square foot Cinematic Arts Academic Center & Library.

The last remaining entitled building on Lot 7 is the 150,000 square foot building located directly east of the 168,000 square foot building. While staff is not planning to construct it as part of this project, the opportunity exists for a qualified office user or University partner to fund its development and represents a future expansion opportunity for the Think Campus. The building's 40,000 square foot pad is certified and 100% construction drawings are completed.

In summary, the overall immediate vision for Lot 7 is:

- To construct a 168,000 square foot Class "A" office building owned and operated by the City of Chula Vista with:
 - o 60,000 square feet planned for the first new library since 1995;
 - o 50,000 square feet planned for SDSU's Television, Film and New Media Production Studios;
 - o 58,000 square feet planned for talent attraction of a qualified industry user to pay market rate rent;
- To construct a 6,100 square foot amenity building; and
- To construct parking, walkways, supporting sitework and landscaping to connect the site to the adjacent community park.

Chesnut Properties: Uniquely Qualified

Chesnut Properties is the current owner of Lot 7 and the passionate visionary of the Millenia Office vision for the Think, Invent and Discover Campuses. Mr. Lee Chesnut, Principal and Owner of Chesnut Properties, has successfully acquired, repositioned and built numerous properties totaling over 1,250,000 square feet representing complex high-performance life-science buildings, large-scale corporate buildings, landmark

above Class “A” buildings and industry leading sustainable projects. Today, Chesnut Properties is strategically positioned to bring to Chula Vista its passionate approach to delivering complex and impactful real estate projects, with projects under way in several communities that represent over 60 acres of land and entitlements totaling over 3,000,000 square feet. The company utilizes multiple relationship and financial structures in order to execute this scale of development including private pursuits, long-term ground leases, customized structured debt strategies, and public-private-partnerships.

As outlined in the attached Statement of Qualifications, Chesnut Properties has demonstrated they are uniquely qualified to perform a developer-performed public work per Chula Vista Municipal Code (“CVMC”) Section 2.56.160 (H)(5).

Purchase and Sale Agreement

To plan for the critically needed library space in Millenia, a library obligation for Lot 7 was included in the Millenia Development Agreement between McMillian Otay Ranch LLC and the City, entered into on October 27, 2009 (Document 2009-0595116). On February 22, 2011 (Document 2011-0098720), McMillin assigned its rights and transferred its obligations to SLF IV/McMillin Millenia JV, LLC, otherwise known as the seller. This assignment imposed the obligation on the principal master developer to provide a library in the Eastern Urban Center (“EUC”), now known as Millenia. The library obligation allowed the City to consider both ownership and leasehold interests for the library. Per the options outlined within the Millenia Development Agreement, staff recommends it is the most prudent option for the City to buy the land and building rather than to lease a portion of it and be limited in the utilization as strictly for library use. This enables the City to bring in SDSU to launch phase 1 of the University and lease 58,000 gross square feet to a revenue-generating industry user(s) while maintaining ultimate control of the building’s use and programming and offsetting the City’s operations and maintenance costs with lease revenue. Within the Purchase and Sale Agreement (“PSA”) as Exhibit 7, the City accepts and assumes the duties of the principal master developer with regard to meeting the library obligation on Lot 7.

Staff recommends entering into the attached PSA with LMC-Millenia Investment Company, L.P. As outlined within the agreement, the City is purchasing the 7.06-acre parcel and all plans and improvement drawings. Chesnut Properties, the owner and developer, will complete all improvements to the City’s specifications and provide a turnkey building to the City upon close of escrow, which will follow construction completion. The City will take possession of its first Class “A” office building and new library once construction is completed, the Notice of Completion is issued and escrow has closed.

In July 2022, as part of due diligence, the City solicited competitive bids to have an appraisal performed on the site. The appraised value was determined to be \$11,000,000 for the 7.06-acre site which calculates to \$35.77/square foot. The independent appraiser found the property to be within their determined reasonable range of \$34 to \$36/square foot.

The purchase price of the land, entitlements, construction documents, site work, parking and construction of the 168,000 square foot building for the Cinematic Arts Academic Center & Library and the supporting 6,100 square foot amenity building total \$96.4 million. This includes reimbursement to the developer of accrued soft costs and payment to the developer of a negotiated 4% Developer Fee and a 3.5% Construction Supervision Fee as outlined within the attached PSA. The project cost break down is outlined within the below table.

Cinematic Arts Library and Site Work		
Land		\$11,000,000
Soft Costs		
<i>(Sum of predevelopment and soft costs for Building 2 and Amenity Building)</i>		<u>\$3,145,203</u>
	Subtotal	\$14,145,203
Warm Shell		\$38,000,000
Site Work*		\$3,878,547
Tenant Improvements	<i>(110,000 square feet)</i>	\$13,750,000
Parking Structure	<i>(651 space 3-level structure)</i>	<u>\$14,000,000</u>
	Subtotal	\$69,628,547
<u>Development & Management Fee** (7.5% of improvement costs)</u>		<u>\$5,222,141</u>
		\$88,995,891

Amenity Building and Site Work		
Amenity Building Warm Shell		\$6,000,000
TIs and Site Work*	<i>(6,100 square feet and surrounding improvements)</i>	\$900,000
	Subtotal	\$6,900,000
Development & Management Fee ** (7.5% of improvement costs)		<u>\$517,500</u>
	Subtotal	\$7,417,500
Total Budget***		\$96,413,391

*Site work costs are defined as the improvements to be constructed on the land outside of the buildings, including parking areas, driveways, sidewalks and landscaping. The final parking layout of either surface parking and/or a parking garage will be decided following the receipt of qualified bids to ensure the City stays within budget.

**Improvement costs are defined as the collective building costs, the tenant improvement costs and the site work costs.

***Total budget is an approximation and subject to change based upon project variables.

The following due diligence documents, as outlined in Exhibit 2 of the PSA, have been received and reviewed by the City and an outside consultant.

- 100% construction documents
- Architectural drawings
- Civil drawings
- Electrical plans
- Landscape plans
- Mechanical plans
- Pad certifications
- Plumbing plans
- Structural plans
- Title report(s)

Flow of Funds Within PSA

Following approval of the PSA, \$0.5 million of project funds will be deposited into escrow, and later released to the Developer after review of title and execution of the agreements, which will be applied towards the \$11 million land purchase price. On February 1, 2023, \$5.5 million will be deposited into escrow to be applied

towards land acquisition costs and these funds will be released by March 1, 2023 following the completion of the due diligence period. On or before October 31, 2023, \$3.1 million in soft costs will be released to the Developer following City’s approval of the GMP contract. The remaining \$5.5 million in land acquisition costs will be delivered at close of escrow on or before July 1, 2025. Close of escrow will not occur until all conditions of the PSA are met, construction is completed with a Notice of Completion recorded and City acceptance of the building and all site work.

Project Development Agreement

The Project Development Agreement (“PDA”), Schedule 12 within the PSA Exhibits, is the execution and implementation document for the PSA and resulting development of the building. The PDA includes the terms for which the contractor will construct the improvements under a GMP contract.

The Developer will solicit bids to select a qualified contractor following the release of contingencies. A contract will be awarded to the best qualified subcontractor through a subcontract award from the pre-qualified list of the following highly experienced prime contractors. The Developer will solicit competitive bids for the prime contract for the development and construction of the project improvements from the following qualified prime contractors:

- C2 Building Group
- Clark Construction Group
- DPR Construction
- McCarthy

Executive team qualifications and biographies are included as attachments for each firm. The City will enter into an Improvements Contract which will include the City’s approval of the prime contractor, the Guaranteed Maximum Price (“GMP”) for the building’s cost and site work costs and the construction schedule. There will be a competitive bidding process to select the qualified contractor for this developer-performed public works project per CVMC Section 2.56.160 (H)(5) and all subcontracts for project improvements will be competitively bid as well per CVMC 2.56.160(H)(2)(c). The PDA also outlines the project schedule. Vertical development is anticipated to begin no later than November 1, 2023 with construction completed by July 1, 2025.

On December 2, 2022, the City received updated cost estimates from the developer provided by a reputable general contracting firm and that cost estimate serves as the City’s estimate for line item costs. The City will provide monthly reimbursement payments to the developer with a ten percent retention of each invoice. The ten percent retention will be released upon close of escrow.

Flow of Funds Within PDA

To vest the building permits for the 168,000 square foot building, the amenity building and the parking structure prior to their expiration on February 28, 2023, wet and/or dry utilities must be installed and inspected prior to that date. The City will fund up to \$500,000 to complete this early work which will be reimbursed based on contract and construction costs. Construction costs will begin being incurred on or before November 1, 2023 and will be reimbursed with a ten percent retention.

San Diego State University’s Expansion to Chula Vista

Over the last decade and beyond, staff has met with numerous universities to discuss the opportunities Chula Vista has to offer within the UID. Conversations with SDSU began in fall 2019 surrounding how could the City

best meet their needs for a strategic program relocation or expansion. At the end of 2019, City staff pitched the relocation of SDSU's TFM program to SDSU and received favorable interest and support from university staff.

In January 2020, the City hosted SDSU on a bus tour from SDSU to Chula Vista through Millenia, the University Property and Elite Athlete Training Center to demonstrate the many shovel-ready opportunities and the City's willingness to be a supportive partner in establishing an SDSU presence in Chula Vista. In March 2020, the COVID-19 pandemic hit and caused staff to pause efforts out of respect for impacted institutions and to focus on business assistance and recovery efforts. In September 2021, the City and SDSU reconvened to discuss moving forward on the relocation of school of TFM to Chula Vista and consensus amongst the parties was for negotiations to resume over the course of established weekly meetings. In September 2022, \$30M in State funding was secured which solidified the path to be able to move forward with SDSU so that the City could provide a turnkey facility for the TFM program. The City is working through the grant application and approval process to secure these funds via grant agreements with the State Library and applications have been submitted. Execution of the grant agreements is a pre-closing condition within the PSA, required to be completed on or before March 1, 2023.

On September 2, 2022, the City and The Board of Trustees of the California State University ("CSU"), acting on behalf of SDSU, executed a Memorandum of Understanding ("MOU"). The MOU established the basic terms and a framework for discussions between SDSU and the City for the development and operation of the SDSU TFM Studios as part of the City's larger Cinematic Arts Academic Center and Library. The parties are actively working towards a lease agreement, which is a condition within the PSA required to be completed on or before October 31, 2023 following the execution of the GMP Prime Contract. However, the City retains the right to waive this condition should a lease agreement with SDSU not be executed.

The TFM Program is proposed to include a robust offering of media arts programs that could include but not be limited to animation, independent film making, writing for screen and television, movie and television production, lighting and set design, sound production, virtual reality, video game design, photography, videography, entertainment media and business management including finance and marketing. Within these approximately 15 upper-division and graduate courses, there will be approximately 14 instructional faculty and approximately 300 students utilizing the Cinematic Arts Academic Center and Library each semester.

With the implementation of this project, for the first time in the City's history, a Chula Vista student can attend kindergarten through 12th grade and graduate from a university, if enrolled in SDSU's Television, Film and New Media Program, without having to leave city limits. As the parties embark on this partnership, it is the City's hope and intent to foster conversations with SDSU to consider establishing additional programs in the future within Chula Vista, whether that be in Millenia or on the 383-acre UID site, to meet the demand of South Bay students and provide equitable access to higher education.

Millenia Lot 1: Economic Development Uses

Along with the acquisition of Lot 7, staff has an agreement to acquire 8.83 acres on Lot 1 of Millenia (APN 643-066-09-00) located directly west of Lot 7 and directly south of the Ayres Hotel. The Master Developer of Millenia, S L F IV-MILLENIA LLC, currently owns the site. This is an attractive and advantageous opportunity for the City to acquire Lot 1 for \$1 for economic development purposes to attract a qualified user. The City has structured the draft Development Agreement ("DA") Amendment such that the owner will

hold the property for the City for a period of 60 months and at the direction of the City, transfer it directly to the City or a user of the City's choice. As the City continues to work with SANDAG and State legislators to pay down the debt on the SR-125, removal of the toll will make this an even more attractive opportunity for a future user. The site is entitled for up to 1.7 million square feet of Class "A" office space and its highest and best use would be as a site for a higher education, life sciences or a technology user.

In a July 2022 appraisal, Lot 1 was valued at \$10,000,000 for the 8.83-acre site. However, as mentioned above, the Development Agreement Amendment will not require the City to pay the appraised value. Considering the City is obtaining the property for \$1, the acquisition of the two properties totaling 15.89 acres at the price of \$11,000,001 calculates to an average of \$15.89/square foot which presents an unbeatable, unparalleled opportunity for the City to strategically guide the economic development of Eastern Chula Vista.

An amendment to the DA will be presented at the December 14, 2022 Planning Commission meeting per Government Code Sections 65867, 65867.5 and 65868 with their recommendation later presented to the City Council for final action. Unfortunately, the timing did not align to bring forward this action for consideration with the Lot 7 agreements, but staff does consider it an important part of this overall transaction. It is anticipated that this action will be presented to the City Council no later than the end of January 2023.

DECISION-MAKER CONFLICT

Staff has reviewed the property holdings of the City Council members and has found no property holdings within 1,000 feet of the boundaries of the property which is the subject of this action. Consequently, this item does not present a disqualifying real property-related financial conflict of interest under California Code of Regulations Title 2, section 18702.2(a)(7) or (8), for purposes of the Political Reform Act (Cal. Gov't Code §87100, et seq.).

CURRENT-YEAR FISCAL IMPACT

The total project cost for the Cinematic Arts Academic Center & Library, including the amenity building and all site work, is approximately \$96 million. The City is funding \$66 million in project costs and is awaiting \$30 million in funding from the California State Library Targeted State Grant Program. While the City has submitted both grant applications and is continuing to work through the process with the State on the grant agreements, letters of intent to award the funds for the \$25 million grant and \$5 million grant awards are attached. The grant agreement and an action to accept the funds will be brought back to the City Council in 2023 once staff has the agreements.

The project's estimated \$96 million cost has been allocated to various funding sources based on the physical programming of the facilities, as shown in the table below. These allocations are preliminary and subject to change as final lease terms are negotiated and the facility is constructed. Should final allocations vary from those presented below, fund contributions, including interfund loan repayments will be adjusted accordingly.

	Cinematic Arts Library and Site Work	Amenity Building and Site Work	Total
Public Facilities Development Impact Fee (PFDIF) – <i>Library Component</i>	\$ 31,780,433	\$ 0	\$ 31,780,433
Developer Contributions	27,215,458	7,417,500	34,632,958
State Library Grant Funds	30,000,000	0	30,000,000
Total	\$ 88,995,891	\$ 7,417,500	\$ 96,413,391

Of the \$31.8 million to be contributed by the PFDIF, \$22.9 million will be appropriated from the available balance of the PFDIF Fund (Fund 560). The remaining \$8.9 million will require an interfund loan from the Trunk Sewer Capital Reserve (Fund 413). Of the Developer Contributions totaling \$34.6 million, \$3.0 million will be appropriated from the Developer Contributions – Economic Development Fund (Fund 263) and \$1.5 million will be appropriated from the Developer Contributions – Public Benefit Fund (Fund 264). The remaining \$30.1 million will require an interfund loan from the Trunk Sewer Capital Reserve (Fund 413). Fund appropriations by fund are summarized in the table below.

Fund	Fund Balance	Loan	Total
PFDIF - Library	\$ 22,900,000	\$ 8,880,433	\$ 31,780,433
Developer Contribution - Economic Development	3,000,000	8,000,000	11,000,000
Developer Contribution - Public Benefit	1,500,000	22,132,958	23,632,958
Trunk Sewer Capital Reserve Fund - Interfund Loan	39,013,391	(39,013,391)	0
State Grants Fund	30,000,000	0	30,000,000
Total	\$ 96,413,391	0	\$ 96,413,391

The PFDIF Fund, Developer Contributions – Economic Development Fund, and Developer Contributions – Public Benefit Fund are all projected to have sufficient funds on hand within 10 years to repay the proposed interfund loans from the Trunk Sewer Capital Reserve Fund. Should funds become available sooner, the interfund loan would be retired earlier. Interfund loan monies will be advanced on a quarterly basis from the Trunk Sewer Capital Reserve in order to minimize borrowing costs. Staff has analyzed the Trunk Sewer Capital Reserve Fund’s assets and planned expenditures and determined that authorizing the proposed interfund loans totaling approximately \$39.1 million will not impact service delivery or planned capital projects. The Trunk Sewer Capital Reserve Fund will earn interest on monies loaned based on the City’s pooled interest rate, ensuring no City fund is penalized or profits from participating in an interfund loan.

ONGOING FISCAL IMPACT

Annual operations and maintenance costs of the 168,000 square foot building are estimated to be \$2 million. Staff anticipates that the revenue generated from the successful leasing of the available 58,000 square foot space at \$3.20/foot NNN will eventually be able to offset the operation and maintenance costs for the building.

As the opening of the Cinematic Arts Academic Center & Library in Q3 2025 nears, staff will propose any additional FTEs needed in either Library or Information Technology Services staffing as part of the FY25 budget process.

ATTACHMENTS

- 1) Purchase and Sale Agreement By and Between LMC-Millenia Investment Company, L.P. and City of Chula Vista
- 2) Project Development Agreement By and Between LMC-Millenia Investment Company, L.P. and City of Chula Vista
- 3) California State Library – Letter of Intent to Award \$25M in State Funding
- 4) California State Library – Letter of Intent to Award \$5M in State Funding
- 5) Chesnut Properties Executive Leadership Team Qualifications
- 6) C2 Building Group Qualifications
- 7) Clark Construction Group Qualifications
- 8) DPR Construction Qualifications
- 9) McCarthy Qualifications

Staff Contacts: Miranda Evans, Special Projects Manager

Eric Crockett, Deputy City Manager