



CITY COUNCIL STAFF REPORT



January 17, 2023

ITEM TITLE

Development Agreement: Approve the Second Amendment to the Otay Ranch Eastern Urban Center Development Agreement between the City of Chula Vista and McMillin Otay Ranch, LLC

Report Number: 23-0029

Location: Millenia Lot 1, located directly north of the intersection of Millenia Avenue and Bob Pletcher Way and Millenia Lot 19, located directly south of the intersection of Millenia Avenue and Bob Pletcher Way

Department: Economic Development

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

Recommended Action

Conduct the public hearing and place an ordinance on first reading authorizing the Second Amendment to the Development Agreement by and between the City of Chula Vista and McMillin Otay Ranch, LLC. **(First Reading)**

SUMMARY

The proposed Development Agreement (“DA”) Second Amendment between the City and McMillian Otay Ranch LLC, the Master Developer of Millenia, includes actions on Lots 1 and 19 of the Millenia Master Planned Community. While Lot 7 is not a part of the DA Amendment, the City’s acquisition of Lots 1 and 7 are connected as part of the larger economic development vision and strategy for Millenia Office. An overview of the actions within Millenia are summarized below.

- Lot 1: subdivision of 10.93-acre parcel with hotel development on 2.1 acres and City to receive the remaining 8.83 acres to accommodate up to 1.7 million square feet of higher education, life science or technology uses on the Millenia Office Invent Campus;
- Lot 7: development of 7.06 acres for the City’s 168,000 square foot Cinematic Arts Academic Center & Library and amenity building for tenant attraction in leasable space; and
- Lot 19: development of up to 324 residential units and transfer of 700,000 square feet of office entitlements from Lot 19 onto Lot 1.

Per Government Code Section 65867, this DA Amendment requires Planning Commission recommendation to the City Council. On December 14, 2022, the Planning Commission held a duly noticed public hearing and unanimously voted to approve Resolution 2022-016 recommending the City Council's approval of the Ordinance.

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") SPA Plan and Tentative Map. Therefore, no further CEQA review or documentation is necessary.

BOARD/COMMISSION/COMMITTEE RECOMMENDATION

The item was presented at the December 14, 2022 Planning Commission meeting and the Planning Commission unanimously approved Resolution No. 2022-016 recommending the City Council adopt an ordinance approving the Second Amendment to the Development Agreement.

DISCUSSION

The proposed Second Amendment to the Development Agreement between the City and McMillian Otay Ranch LLC, the Master Developer of Millenia, includes actions on Lots 1 and 19 of the Millenia Master Planned Community. While Lot 7 is not a part of the DA Amendment, the City's acquisition of Lots 1 and 7 are connected as part of the larger economic development vision and strategy for Millenia Office. An overview of the actions within Millenia are summarized below.

- Lot 1: subdivision of 10.93-acre parcel with hotel development on 2.1 acres and City to receive the remaining 8.83 acres to accommodate up to 1.7 million square feet of higher education, life science or technology uses on the Millenia Office Invent Campus;
- Lot 7: development of 7.06 acres for the City's 168,000 square foot Cinematic Arts Academic Center & Library and amenity building for tenant attraction in leasable space; and
- Lot 19: development of up to 324 residential units and transfer of 700,000 square feet of office entitlements from Lot 19 onto Lot 1.

Millenia Lot 1: Economic Development Uses

Lot 1 of Millenia (APN 643-066-09-00) is 10.93 acres and currently owned by the Master Developer of Millenia. As part of the proposed Second Amendment to the Development Agreement, Lot 1— located directly west of Lot 7 and directly south of the Ayres Hotel— would be subdivided with a 2.1-acre portion of the parcel being dedicated for development by a reputable flag hotel on a separate legal lot. Staff has determined that development of the hotel is permissible under the Millenia Eastern Urban Center ("EUC") SPA Plan.

The remaining 8.83 acres of Lot 1 would be acquired by the City at the cost of \$1 for economic development purposes to attract a qualified user. The City has structured the Second Amendment to the Development Agreement such that the owner will hold the property for the City for a period of up to 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.

The Second Amendment to the Development Agreement includes a provision for the City and Master Developer to agree to a final form Purchase and Sale Agreement (the "PSA") by which the Lot 1 Remainder Parcel shall be transferred. Such PSA will be required to include the following terms: (a) a sales price of one dollar (\$1.00); (b) the transfer of Lot 1 in an "as-is" condition; (c) provision for Master Developer's requirement that the Lot 1 Remainder Parcel exclude future residential development; (d) covenants by Developer to improve the Lot 1 Remainder Parcel into an agreed-upon delivery condition, construct any and all required Jogging Trail Improvements, and do any and all work necessary to obtain lot pad certification, all as conditions to close; (e) other terms and conditions for transfer identified in the Second Amendment to the Development Agreement; and (f) such other commercially reasonable terms as are typical for the transfer of land within the San Diego real estate market area as may be agreed upon by City and Master Developer. City and Master Developer intend to finalize the PSA in the coming weeks.

In a July 2022 appraisal, Lot 1 was valued at \$10,000,000 for the 8.83-acre site. However, as mentioned above, the Second Amendment to the Development Agreement will not require the City to pay the appraised value. Considering the City is obtaining the property for \$1, the acquisition of both Lot 1 and Lot 7 totaling 15.89 acres at the price of \$11,000,001 calculates to an average of \$15.89/square foot. This presents an unbeatable, unparalleled opportunity for the City to strategically guide the economic development of eastern Chula Vista.

Millenia Lot 7: Cinematic Arts Academic Center & Library

At the December 6, 2022 City Council meeting, the City Council approved the Purchase and Sale Agreement ("PSA") and Project Development Agreement ("PDA") for the development of Lot 7 in Millenia (APN 643-060-57-00) located at 1775 Millenia Avenue, directly south of Fire Station 10 and directly east of Lot 1, one of the subject sites of this proposed action. The PSA and PDA are the implementing agreements for the development of the Cinematic Arts Academic Center & Library which will launch the first phase of the University-Innovation District and construct the City's first new library since 1995.

After decades of planning, the City is thrilled to be jumpstarting 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.

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:
 - 60,000 square feet planned for the first new library since 1995;
 - 50,000 square feet planned for SDSU’s Television, Film and New Media Production Studios;
 - 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.

As part of constructing the project, the City will be acquiring Lot 7 upon close of escrow once a Notice of Completion has been issued for the project. In July 2022, as part of due diligence, the City solicited competitive bids to have an appraisal performed on the site. The appraised value of Lot 7 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.

Millenia Lot 19: Completion of Entitled Housing Units in Millenia

Also proposed within the DA Amendment, the developer would be able to develop the allowable remaining housing units in the EUC on Lot 19 of Millenia (APN 643-060-69-00) located directly south of the Millenia Avenue and Bob Pletcher Way intersection and east of SR-125. The EUC SPA has entitled 2,983 residential units and 2,659 units have been constructed to-date. Under the proposed Second Amendment to the Development Agreement, the developer would be permitted to build up to the remaining 324 residential units on Lot 19. Lot 19 was previously entitled for up-to 700,000 square feet of office development. Should the Second Amendment to the Development Agreement be approved, the 700,000 square feet of office entitlements will be transferred to Lot 1, a shift permissible under the EUC SPA Plan Density Transfer provisions.

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.).

Staff is not independently aware, and has not been informed by any City Council member, of any other fact that may constitute a basis for a decision-maker conflict of interest in this matter.

CURRENT-YEAR FISCAL IMPACT

The associated fiscal impact resulting in approval of this item is \$1 which will be used for the acquisition of Lot 1.

ONGOING FISCAL IMPACT

There will be no ongoing fiscal impact as a result of adopting the ordinance approving this item.

ATTACHMENTS

1. Locator Exhibit – Lots 1, 7, and 19 in Millenia
2. Second Amendment to the Development Agreement

*Staff Contacts: Miranda Evans, Special Projects Manager, Economic Development
Eric Crockett, Economic Development Director & Deputy City Manager*