

Staff Report

TO: City Council

FROM: Katherine Hess, Planning and Redevelopment Administrator
Kelly Stachowicz, Assistant to the City Manager

SUBJECT: Pros and Cons of Adding Davis Manor to the Redevelopment Agency

Recommendation

1. Review the pros and cons of adding Davis Manor Shopping Center to the Redevelopment Agency.
2. Do not add Davis Manor Shopping Center to the Redevelopment Agency Project Area.

Executive summary

The City Council and staff have recognized the plight of the continued vacancy in the anchor tenant space at the Davis Manor shopping center, and the unattractive appearance of the structure. This report responds to the Council's request for a pro/con analysis of incorporating the center into the Redevelopment Project Area. In summary, staff believes that placing the center into the project area would be logical only if the city were prepared to exercise eminent domain on the grocery parcels, and possibly the entire center. Otherwise, the costs of the process and the limited benefit do not justify this action.

Fiscal Impact

There is no fiscal impact if Davis Manor is not added to the agency. If Davis Manor is added to the Redevelopment Agency, the cost to complete an EIR, prepare the necessary reports, and conduct public outreach is estimated to be \$200,000 to \$300,000. Funds would come from the Redevelopment Agency. Staff time on this and previous reports has been in the range of 15 hours, at a cost of approximately \$500. These costs have been shared by the City and Agency General Fund programs.

Background and Analysis

As the Council knows, the grocery space at the Davis Manor shopping center has been vacant since Ralphs Market closed in the spring of 2002. The space adjacent to the former Ralphs (a 4,000 square foot retail space) has also been vacant, although the owner has purposely left the space vacant in hopes of providing a use complementary to the anchor space, at such time that it is filled. The rest of the center is fully leased, and the owner of the shops space has completed an extensive building facelift. In August, the City Council reviewed whether to start the process to

add the Davis Manor Shopping Center and surrounding areas to the Redevelopment Area. The Council limited the scope of any further discussion to the four properties that comprise the Davis Manor Shopping Center: the site of George's Auto Shop and the three parcels that make up the shopping center itself. The Council also asked staff to come back with a fleshed out analysis of pros and cons to adding the Center to the Redevelopment Area.

PROS: Adding Davis Manor to the Redevelopment Area

There are three reasons why an argument could be made to add Davis Manor to the Redevelopment Area: to address the ownership, to provide incentives, or to address general public concern.

1. Ownership

The most compelling argument to add Davis Manor Shopping Center to the Redevelopment Area is to clear up the ownership issue. There are currently four separate parcels comprising the Center, each with a different owner. One of the parcels, the one that houses most of the former grocery store site, is owned by a silent investment company and is managed by a Connecticut-based property management company. They, in turn have awarded a long-term lease to Ralphs, the grocery store chain that was formerly located in the building. Petrovich Development Company reports that it is subleasing space from Ralphs. Future plans for the site, and how it is being marketed, are uncertain.

We have no indication from the owners of any of the properties that they have an interest in selling. On the contrary, the property management company for the former grocery site has indicated that they have no incentive to sell the property. They continue to receive income from the property based on the long-term lease agreement with Ralphs. Ralphs has some incentive to fill the space with a paying tenant since they currently pay rent on the space. We presume, however, that the site does not figure highly in their overall corporate strategy. Why would Ralphs want to provide space for another grocery store, for example?

In a typical shopping center arrangement, the anchor tenant(s) (usually the largest tenant) pays less per square foot than do the other tenants. It is assumed that the smaller tenants will benefit from their proximity to the anchor that is expected to generate high traffic. In the case of Davis Manor, the likely anchor tenant, the former grocery space, is separately owned. The owner is unable to have the remaining tenants subsidize the anchor.

One other complicating factor is that there are two separate parcels for the grocery store space. Staff would note that having a property line running through a building is frowned upon in current planning and subdivision law. At this time, both parcels are under the control of the same entity. We hope that this will continue to be the case, but have no guarantees. If the Redevelopment Agency were to acquire the two parcels, it would be able to merge them and eliminate the awkward property line.

One way to address the ownership issue is to bring the entire center under one owner. If this cannot be accomplished through private transactions, the Redevelopment Agency could assume

ownership through eminent domain and resell the affected parcels to new ownership. The Davis Redevelopment Agency has used the threat of eminent domain only sparingly and has not used eminent domain for economic development purposes at all.

2. Incentive Programs

When a property is located within a redevelopment area, it is eligible for certain incentives. In Davis, these incentives include low cost loans for commercial rehabilitation, façade grants, and fee assistance. The funds are usually utilized to help an owner or developer make improvements to the property and to remove blight.

There is, however, a catch to the beneficiaries of such assistance. Any entity accepting public dollars or having fees waived falls under the prevailing wage law for work done on the property. This can cause the overall cost of a project to increase substantially, sometimes up to a third of the overall project cost. A grant of \$50,000, for example, may increase the costs for the developer by \$80,000, making the “grant” cost \$30,000. In recent redevelopment projects, small to mid-size projects are the ones that are hurt the most by this requirement. Our current redevelopment programs fall into this small to medium-sized category, based on the amount of money we have available to allocate to a project. If we choose to make available larger amounts of money, we will obviously need to limit the number of projects we fund.

3. Attention to Center

Simply going through the process to add Davis Manor Shopping Center to the RDA will bring attention to the Center, both to the general public and to the commercial world. The general public may feel reassured that the City is attempting to do something for the Center. The commercial world may be made aware of the Center and the opportunities within it. While this may be an indirect benefit of adding the center to the redevelopment area, publicity can result in tangible outcomes.

CONS: Adding Davis Manor to the Redevelopment Area

Overall, adding the center would require an extensive up-front commitment of Agency resources. Providing assistance to a project would require additional funds. These are not included in the Agency’s five-year cash flow or the plans made in furtherance of the recent Redevelopment Plan Amendment. Redevelopment activities at the center would be limited by prevailing wage requirements and the Agency’s and the City’s financial circumstances. Given this, benefits of pursuing redevelopment appear limited.

1. Cost

Adding property to the Redevelopment Area is a lengthy and detailed process. We assume that we must complete an Environmental Impact Review and show that the area meets the state’s definition of blight. Public outreach is also required, including notice to all property owners and residents of the existing project area. We estimate that this process will cost \$200,000 to \$300,000 and will take approximately two years. This is a substantial cost for four parcels. The Redevelopment Agency does have the funding available to complete such a task, but it would

mean redirecting funding away from existing/proposed projects, such as the reuse of the Historic City Hall, building a third parking structure downtown, or Fifth Street Corridor Improvements.

2. Redirect from Existing Redevelopment Area

Hand in hand with the cost of the Redevelopment Plan Amendment is the concern that adding a new area will redirect funds, time and energy away from existing redevelopment area projects/proposed projects. The Redevelopment Agency's current proposed five-year implementation plan includes projects such as the reuse of City-owned/leased properties, a third downtown parking structure, corridor plan improvements on Fifth, Third B, and Richards Streets, improved pedestrian railroad crossings and other pedestrian amenities in the existing area. This is a very ambitious list and it will be a challenge to tackle these projects over the next several years, much less add a new area to the mix. Staff believes that the existing projects have community-wide benefit and should not be sidetracked.

3. Uncertainty about Benefits of Inclusion

When considering whether to create a redevelopment area or add to an existing one, we must consider how we think "redevelopment" will help. In this case, it is unclear that redevelopment will help, unless drastic measures are taken. One of the shopping center's biggest challenges is its interior location. It is tucked away within a residential area but is flanked on the north and the south by newer, larger shopping centers on major arterial streets. It may be possible to refocus the center to provide a community-serving use, so that it does not directly compete with the Oak Tree Plaza and Oakshade Town Center. Similarly, it may be possible to completely restructure the center and explore more economically feasible uses such as housing. Staff believes that exploring either of these options would be a neighborhood and community planning effort, rather than a redevelopment effort.

4. Not likely to generate tax increment

The Redevelopment Agency is based on tax-increment financing. The Center is not likely to generate significant tax increment for the foreseeable future. Because this would be new land added to the Project Area, any increase in tax increment would be shared with the other taxing jurisdictions, including Yolo County and the special districts. True benefit to the Redevelopment Agency would likely be minimal.

5. Redirects any tax increment from the General Fund to the redevelopment agency

The flip side of the above issue is that any increase in the tax base would be redirected from the General Fund and sent to the redevelopment agency, if the Center were added. The City's General Fund already suffers from structural deficits; it needs every penny possible in order to provide the services it currently provides, not to mention desired new services in the future. Redirecting revenue, no matter how small the amount, from the General Fund to the Redevelopment Agency, is not recommended.

Conclusion

There are undoubtedly reasons to add the Davis Manor Shopping Center to the Redevelopment Area. Staff is concerned, however, that the costs associated with adding the center will outweigh

any potential benefits for many years to come. Our redevelopment agency has its work cut out for it without taking on new responsibilities. We do acknowledge, however, that the Davis Manor Shopping Center does continue to need special attention from the city. Staff will continue to work with the owners and existing and prospective tenants to return the center to vibrancy, including the consideration of alternative uses for the grocery space, such as other retailers and/or housing.