

**Successor Agency to the Redevelopment Agency of the City of Santa Barbara
Long-Range Property Management Plan for the Paseo Nuevo Leased Fee Interest
As Amended**

This Long-Range Property Management Plan (“LRPMP”) is prepared for the former Redevelopment Agency of the City of Santa Barbara’s (“Agency”) leased fee interest in the real property which is currently encumbered by three (3) seventy-five (75) year ground leases, a Construction Operation and Reciprocal Easement Agreement, Paseo Nuevo Parking Agreement and Public Parking Covenants, among others, all of which comprise the Paseo Nuevo Shopping Center (“Paseo Nuevo”). Paseo Nuevo is located within the former Agency’s Central City Redevelopment Project Area (“CCRP”) within the downtown core of the City of Santa Barbara. This LRPMP necessarily includes all of the elements required pursuant to Health and Safety Code § 34191.5(c). Documents referenced in this LRPMP are available for review at www.santabarbaraca.gov/Government/Boards_and_Commissions_N-Z/Oversight_Board/Agendas under the heading “Paseo Nuevo Report”. For ease of reference, the statutory and state Department of Finance (“DOF”) elements for an appropriate LRPMP are listed below in italics and addressed in the order they are listed in the relevant LRPMP statute.

The “Real Property Inventory” (Health and Safety Code § 34191.5(c)(1):

1. **Real Property Description** – The “real property” in question is the former Redevelopment Agency’s reversionary fee interest in the Santa Barbara Paseo Nuevo Shopping Center and Parking Lot 1 Structure which property is encumbered with the following long-term ground leases, related parking agreements, and contractual covenants:

Three (3) separate 75 year ground leases for the Paseo Nuevo Shopping Center where each 75 year lease term began on January 1, 1990 and which will end on December 31, 2065, including: 1. Paseo Nuevo Center Ground Leasehold Interest (“Developer Lease”), 2. Carter Hawley Hale Stores, Inc. Ground Leasehold Interest, and 3. Nordstrom Inc. Ground Leasehold Interest (2 and 3 are collectively hereinafter referred to as, “Majors”).

Lot 1 Parking Structure Tract (separately leased by the Agency to the Developer) and related reciprocal operating agreements and contractual covenants with concurrent 75 year terms that began on January 1, 1990 and will end on December 31, 2065.

The contractual covenants of the Agency (now the Successor Agency), as the Paseo Nuevo ground lessor, under those contractual and leasehold rights and leasehold obligations, reciprocal easements, contractual obligations, and contractual covenants are contained within the following Paseo Nuevo Shopping Center Agreements (among other related Project agreements):

1. A ground lease for each of the three leaseholds referenced above as recorded on February 24, 1989, with related attachments and amendments, among the Developer, the Majors, respectively, and the Agency.

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2. The “Paseo Nuevo Parking Agreement”, as amended, as entered into on February 24, 1989 among the Developer, the Majors, the Agency and the City of Santa Barbara (“City”).
3. The “Paseo Nuevo Lot No. 1 Parking Covenants, Conditions, and Restrictions Agreement” as recorded on February 24, 1989 among the Developer, the Majors and the Agency.
4. The “Paseo Nuevo Lot No. 2 Public Parking Covenants, Conditions, and Restrictions Agreement” as recorded on February 24, 1989 among the Developer, the Majors, the Agency and the City.
5. The “Paseo Nuevo Lot 10 Parking Covenants, Conditions, and Restrictions Agreement” as recorded on February 24, 1989 among the Developer, the Majors, the Agency and the City.
6. The “Nonvacated De La Guerra Plaza Street Easement Agreement” recorded on February 24, 1989 among the Developer, the Majors, the Agency and the City.
7. The “Construction, Operation and Reciprocal Easement Agreement” (the “Paseo Nuevo REA”) recorded on February 24, 1989 among the Developer, the Majors and the Agency.
8. The “Amendment to Parking Covenants and Parking Agreement” recorded on February 24, 1989 among the Developer, the Majors, the Agency and the City.
9. Various recorded “reciprocal easement agreements” with neighboring property owners and related to the Paseo Nuevo Shopping Center, particularly with respect to the storage and disposal of trash and the maintenance of trash enclosures and commercial loading areas.
10. The “Disposition and Development Agreement” (the “DDA”) dated as of 1987 among the Developer, the Majors and the Agency.
11. Downtown Retail Revitalization Project Cooperation Agreement (“Cooperation Agreement”) dated as of 1987 between the Agency and the City.

2. The Paseo Nuevo Shopping Center Legal Descriptions: The legal description of the real property is as attached to the long term leases referenced above – (the Paseo Nuevo Shopping Center, Macys, Nordstrom, and the Parking Structure) as follows:

1. The Paseo Nuevo Shopping Center Leasehold: “Parcels 2 and 12 of City of Santa Barbara Parcel Map 20,504 in the City of Santa Barbara as per map recorded in Book 42, Page 86 through Page 98 as recorded in the official records of Santa

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Barbara County on February 24, 1989. (Santa Barbara County APNs 037-400-002, 037-400-004, 037-400-019, 037-400-006)

2. The Macy's (originally the "Broadway") Leasehold: Parcels 3, 9, 10, and 11 of City of Santa Barbara Parcel Map 20,504 in the City of Santa Barbara as per map recorded in Book 42, Page 86 through Page 98 as recorded in the official records of Santa Barbara County on February 24, 1989. (Santa Barbara County APN 037-400-003, APN 037-400-004, 037-400-005)
3. The Nordstrom Leasehold: Parcels 1, 7, and 8 of City of Santa Barbara Parcel Map 20,504 in the City of Santa Barbara as per map recorded in Book 42, Page 86 through Page 98 as recorded in the official records of Santa Barbara County on February 24, 1989. (Santa Barbara County APN 037-400-001, 037-400-004.)
4. The Parking Lot No. 1 Leasehold: Parcels 4, 5, 6, 13, and 14 of City of Santa Barbara Parcel Map 20,504 in the City of Santa Barbara as per map recorded in Book 42, Page 86 through Page 98 as recorded in the official records of Santa Barbara County on February 24, 1989. (Santa Barbara County APN 037-400-004.)

3. The Paseo Nuevo Shopping Center Physical Description: The Center consists of the following buildings/structures/and open retail areas:

1. Paseo Nuevo Center – "Major" Buildings/Structure Floor Area Tabulations:
 - o Macy's Leasehold Building: 135,000 square feet on 3 levels;
 - o Nordstrom Leasehold Building: 189,000 square feet on 3 levels + basement;
 - o Parking Lot No. 1 Parking Structure – 572 On-site parking spaces.
2. Paseo Nuevo Mall Leasehold Building Area Tabulations:
 - o Shopping Center Retail/Office Mall Building Space: 102,000 square feet;
 - o Open Space Retail Area Tabulations: 208,000 square feet.

A. The date of the acquisition of the property and the value of the property at the time of acquisition, and an estimate of the current value of the property.

- **Date of Acquisition:** February 24, 1989.

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- **Acquisition Value:** The land assembled by the Agency and constructed as the Paseo Nuevo Mall had a value (land only) at time of acquisition (February 1989) – approximately \$18 million dollars. The bulk of the land assembled by the Agency and which formed the Shopping Center had formerly been City-owned real property – primarily the City-owned surface parking lot known as City Parking Lot No. 1 in the 800 block of State/Chapala and the former City street known as De La Guerra Street between State and Chapala Streets. The City conveyed its real property to the Agency without compensation to the City prior to the Shopping Center closing in February 1989.
- **Estimate of Current Value:** The Agency’s leased fee interest in the Paseo Nuevo Center is encumbered by the three long-term ground leases, by Parking Lot No. 1 (572 parking spaces) and by public parking covenants and with requirements obligating the Agency to pay fees and provide subsidized public parking for mall customers until the year 2065.

Additionally, the Agency and the City of Santa Barbara are obligated through the Paseo Nuevo Parking Agreement to provide 1,115 public parking spaces within a two block radius of the Paseo Nuevo Mall until the year 2065. The parking requirement is satisfied through the provision of 1,115 public parking spaces in City Parking Structures Nos. 2 and 10. The obligation to provide these parking spaces on a non-preferential basis and at subsidized parking rates is set forth in the Paseo Nuevo Lot 2 and Lot 10 Public Parking Covenants. These Parking Agreements jointly bind the City of Santa Barbara and the former Agency, now the Successor Agency, to their requirements. The sharing of obligations between the City and Agency is memorialized in the Cooperation Agreement.

Allan D. Kotin, an experienced real estate economist, has prepared an analysis of the value of the Agency’s fee interest in the Paseo Nuevo Center. Mr. Kotin’s analysis dated July 25, 2013 is attached hereto and is available on the Successor Agency’s webpage. According to Mr. Kotin, the value of the Agency’s fee interest in the Paseo Nuevo Center is substantially, if not entirely, diminished by the existing long-term monetary and parking requirements. In large part, this is because the Developer and Majors pre-paid rent to the Agency when the Paseo Nuevo Center was constructed so that the Agency could fund its obligations for land acquisition. On-going rent was also offset by an additional loan made to the Agency.

Furthermore, the Agency (currently the Successor Agency), as owner of the leased fee, is required to pay to the City of Santa Barbara that portion of Paseo Nuevo’s annual Parking and Business Improvement Area fee that exceeds \$100,000. The average amount of the Agency’s obligation is \$77,000 per year. Payment of this amount has, however, been offset by the benefits received by the City in the operation of Parking Structures Nos. 2 and 10. As

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required by the Cooperation Agreement, and as set forth in the Annual Parking Operations Agreement, the City is responsible for the operation, maintenance and replacement of Parking Structures Nos. 2 and 10 and those Structures must, in accordance with the Paseo Nuevo Agreements, be available to provide 1,115 parking spaces for public use at subsidized rates. In return for operation of the two parking structures, the City is entitled to receive revenue generated by parking rates and, it was contemplated, ultimate ownership of the parking structures.

B. The purpose for which the property was acquired:

The property was acquired by the Agency between 1987 and 1989 through transfer from the City of Santa Barbara to the Agency, by negotiation by Agency staff and through the use of condemnation actions filed by the Agency. For the most part, the land was assembled from real properties formerly owned by the City of Santa Barbara (City surface parking Lot No. 1 and the City's De La Guerra Street). The balance of the land was acquired from private property owners of those real properties along the eastside of the 700 and 800 blocks of State Street.

The real property was expressly acquired for the purposes of redevelopment in the form of an urban open-air retail shopping center within the City's central business district – i.e., to develop a 400,000 square foot central business district shopping center with all of the necessary and required public parking as a redevelopment project under the State Redevelopment Act by and between the Agency and a qualified and experienced private shopping center developer and operator, two major department stores and the City.

C. For each property the plan includes the parcel data, including address, lot size, and current zoning in the former agency redevelopment plan or specific, community, or general plan.

- Address: 701 – 817 State Street, Santa Barbara
- Lot Size: Two City blocks
- See Lease Exhibit 1, Field Paoli Site Plan dated January 20, 1990, Site Plan sheets pages 1 – 3. ()
- Current Zoning is C-2 – Mixed Commercial.

D. For each property the plan includes an estimate of the current value of the parcel including, if available, any appraisal information.

- The current assessed value for property tax purposes for the Paseo Nuevo "Center" lessee leasehold improvements are:

\$44,002,902 for property tax year 2102/2013 as provided by the Santa Barbara County Clerk, Recorder and Assessor.

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- The current assessed value for property tax purposes for the Macy's lessee leasehold improvements are:

\$9,522,888.00 for property tax year 2102/2013 as provided by the Santa Barbara County Clerk, Recorder and Assessor.
- The current assessed value for property tax purposes for the Nordstrom lessee leasehold improvements are:

\$14,500,000.00 for property tax year 2102/2013 as provided by the Santa Barbara County Clerk, Recorder and Assessor.
- The current assessed value is for the Parking Lot No. 1's leasehold improvements are:

[No Assessed Value.]
- The current estimated value of the Agency's encumbered leased fee real property interest is provided in the attached memorandum prepared by Allan D. Kotin dated July 25, 2013.

E. For each property the plan includes an estimate of any lease, rental, or any other revenues generated by the property, and a description of the contractual requirements for the disposition of those funds.

- Original Paseo Nuevo Center Ground Lease rent amount was \$7,780,000; this amount was pre-paid in full at closing (February 1989) with additional \$2,000,000 loan made to the Agency which loan was secured and repaid using only an offset against any "Annual Participation Rent" due and payable to the Agency.
- Annual Participation Rent: - As Required by Section 3.2 of Paseo Nuevo Ground Lease. [Note: No "Participation Rent" has ever been paid to the Agency to date – 1989 – 2013 nor is it anticipated during the term of the leases.]
- Original "Majors" Lease Base Rent - \$1.5 million in "base rent" each for the Nordstrom and Macy's Ground Lease was due at closing; both lease "base rent" amounts were prepaid to Agency at closing in February 1989 and no "base rent" is or will be payable to the City or the Agency under the Major leases for the remaining term of those lease.
- Parking Lot No. 1 Parking Lease: Base rent of one dollar due at February 1989 closing – no rent due thereafter.

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F. For each property the plan includes the history of environmental contamination, including designation as a Brownfield site, any related environmental studies, and history of any remediation efforts.

Paseo Nuevo Property had contaminated soil and ground water which was fully remediated as part of the construction of the Paseo Nuevo Shopping Center between February 1989 and November 1990. The Redevelopment Agency was a defendant in a class-action lawsuit filed and preliminarily resolved years ago by the U.S. Environmental Protection Agency regarding the now-closed Casmalia Landfill site where some contaminated soil removed from Paseo Nuevo site was disposed of. The Agency and the Successor Agency (as the current fee owner) remain subject to contingent future liability for disposal of contaminated Paseo Nuevo soil by virtue of the lawsuits entitled U.S. Environmental Protection Agency (EPA) (Casmalia Landfill) v. Seinsom Hydrocarbons, Inc., et. al.

G. For each property the plan includes a description of the property's potential for transit-oriented development and the advancement of the planning objectives of the successor agency.

As a leased fee interest in the three separate ground leaseholds and parking requirements - which leaseholds will not terminate until December 31, 2065, this property has no potential for “transit-oriented development”.

H. For each property the plan includes a brief history of previous development proposals and activity, including the rental or lease of property.

The Paseo Nuevo Shopping Center property formerly consisted of small retail buildings with common or “shared” walls constructed along State Street in the 1930s, 1940s and 1950s on somewhat fragmented and small land parcels adjacent to a City surface parking lot which began operations in the 1960s. Since February 1989, upon its acquisition by the Redevelopment Agency through negotiation and the use of eminent domain, and with its redevelopment as a shopping center, the real property now consists of a central business district type open air shopping center “mall” with two major department store buildings as part of the center – the “majors” (Nordstrom and Macys) occupy buildings totaling approximately 300,000 square feet of 3 level space) along with approximately 100,000 square feet of Center mall “shops” and 9,000 square feet of second floor office space which is also managed and leased by the Center owner. Parking for the Mall is provided through 572 on-site parking spaces in Parking Lot No. 1 and through a combined total of 1,115 spaces in Parking Structures Nos. 2 and 10.

I. For each property the plan identifies the use or disposition of the property, which could include 1) the retention of the property for governmental use, 2) the retention of the property for future development, 3) the sale of the property, or 4) the use of the property to fulfill an enforceable obligation.

The Agency’s fee interest in the Paseo Nuevo property is encumbered with obligations that continue until the year 2065. Because of the dissolution of the Agency, and the inability of the Successor Agency to, over the long term, fulfill the existing monetary and non-monetary

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enforceable obligations applicable to the Paseo Nuevo Center and the underlying property, the property should be transferred to the City of Santa Barbara to ensure the continued functioning of the Center in accordance with the Paseo Nuevo Agreements. The operation of the Center is inseparably tied to the provision of 1,115 public parking spaces at subsidized rates and without preference to any particular retail customers. The City, a party to the Paseo Nuevo Parking Agreements, is the only entity that has the legal authority and practical ability to provide the required public parking in accordance with the Paseo Nuevo Agreements. Further, in 2065 when the existing agreements expire, the property will obviously need redevelopment and renewal and only the City of Santa Barbara will have the police and regulatory power to effect the redevelopment that will be necessary in 52 year's time.

J. The plan separately identifies and list properties dedicated to governmental use purposes and properties retained for purposes of fulfilling an enforceable obligation.

The leased fee interest in the Paseo Nuevo Center property owned by the former Redevelopment Agency should be transferred to the City of Santa Barbara for the purpose of fulfilling the enforceable obligations contained in the leases and other related agreements such as the obligation to pay PBIA fees and to provide subsidized public parking until the year 2065 when the ground leases and other agreements will terminate.

During the term of the 75-year leases, the Parking Lot No. 1 Parking Agreement requires that 572 on-site public parking spaces be provided on a non-preferential basis; in other words, no parking preference or discount is provided to Paseo Nuevo Shopping Center customers and, as a result, any member of the public may use the Parking Lot No. 1 parking structure to park a vehicle. The Parking Lot No. 1 Parking Agreement also mandates that the Shopping Center operate the Parking No. 1 Structure with a period of free parking equivalent to that period of free parking offered by the City at the majority of the City's Central Business District (CBD) parking lots and structures (currently 75 minutes free) and that the hourly parking rates in the Lot No. 1 Structure (i.e., those rates charged after the period of free parking) must be equivalent to the parking rates charged by the City at its CBD parking lots and parking structures. Further, the 75-year lease agreements, along with the Parking Agreement and the Parking Covenants, require that the Agency and/or the City provide 1,115 parking spaces within a two block radius of the Paseo Nuevo Center which are available to the public on the same non-preferential basis and with the same period of free parking and at the same hourly rates charged by the City at its CBD lots for the term of the leases which extends to the year 2065.

Use and Disposition (Health and Safety Code § 34191.5(c)(2):

Address the use or disposition of all of the properties in the trust. Permissible uses include 1) the retention of the property for governmental use pursuant to subdivision (a) of Section 34181, 2) the retention of the property for future development, 3) the sale of the property, or 4) the use of the property to fulfill an enforceable obligation. The plan shall separately identify and list properties in the trust dedicated to governmental use purposes and properties retained for purposes of fulfilling an enforceable obligation.

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Use and Disposition of Property (Health & Safety Code § 34191.5(c)(2))

By way of submitting this Long-Range Property Management Plan, the Successor Agency to the Redevelopment Agency of City of Santa Barbara determines that the properties should be transferred to the City of Santa Barbara to fulfill the enforceable obligations contained in the existing long-term Paseo Nuevo ground leases and the other public parking covenants and requirements contained in the related Paseo Nuevo easement and other agreements. In accord with the recommendation of the Oversight Board, transfer of the Agency's fee interest in Paseo Nuevo to the City of Santa Barbara is expressly conditioned upon the City's assumption of all Agency obligations, both monetary and non-monetary, created under the Paseo Nuevo Agreements. At the termination of the 75-year Leases, on December 31, 2065, the City of Santa Barbara, as property owner, will evaluate the needs of the property and assess its condition as a South Coast retail shopping center. If, at any time, the City of Santa Barbara decides to dispose of its ownership interest in the property, the City will enter into a compensation agreement with the appropriate taxing entities pursuant to California Health and Safety Code Section 34180(f)(1).

Attachment: Kotin Memorandum dated July 25, 2013