



SANTA CRUZ
REDEVELOPMENT
AGENCY

ANNUAL REPORT
Redevelopment Agency of the City of Santa Cruz
Fiscal Year 2010

Board of Directors

Mike Rotkin, Chair

Katherine Beiers, Member

Tony Madrigal, Member

Lynn Robinson, Member

Ryan Coonerty, Vice Chair

Don Lane, Member

Cynthia Mathews, Member

Martín Bernal, City Manager

Bonnie Lipscomb, Executive Director

December 2010
Santa Cruz, California

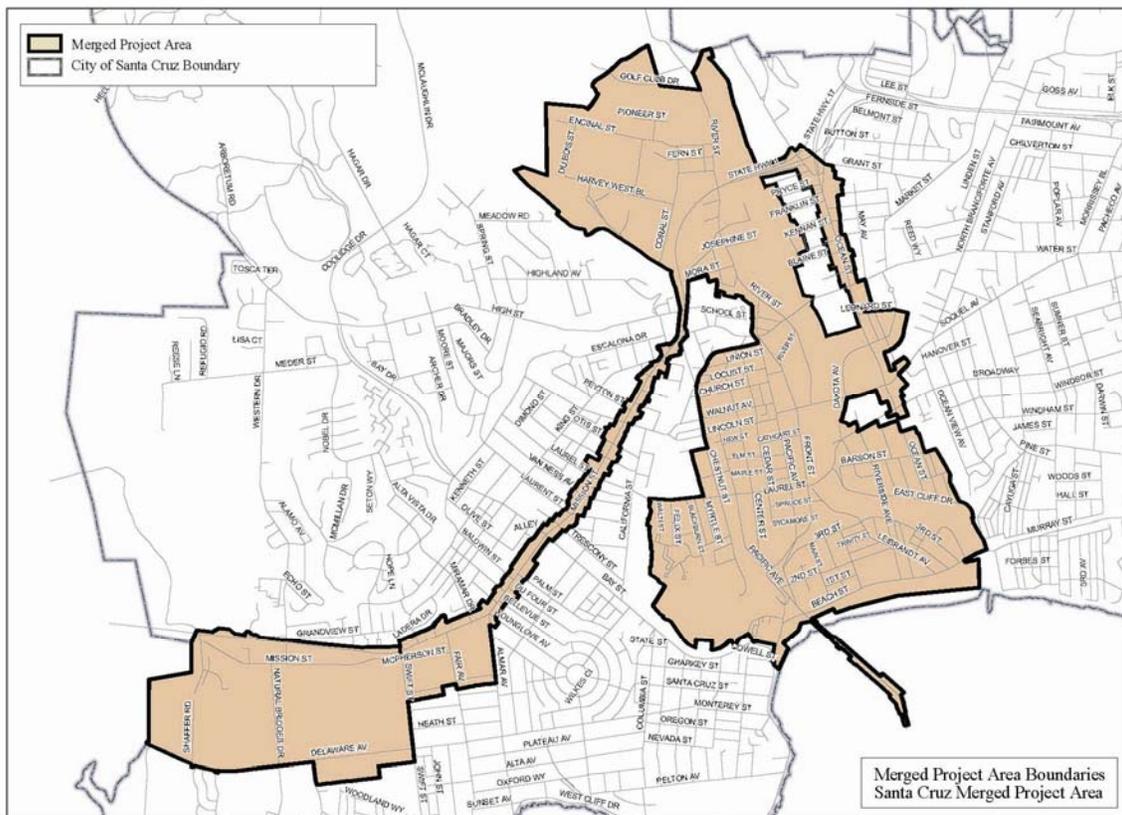
Table of Contents

Overview of the City of Santa Cruz Redevelopment Agency	3
Highlights and Achievements	5
Financial Overview	7
State of California Educational Revenue Augmentation Fund (ERAF).....	7
Santa Ana Unified School District vs. Orange County.....	8
SB 211 Extension of Project Area Time	9
Project Time Limits	10
Property Tax Valuations	10
Loan Report.....	12
Property Report.....	12
Blight Progress Report	13
Redevelopment Agency Projects	13
Redevelopment Agency Programs	19
Economic Development Initiatives.....	24
Housing Activities	28

Overview of the City of Santa Cruz Redevelopment Agency

The Redevelopment Agency is a separate governmental entity created under California Redevelopment Law to promote improvement in designated redevelopment project areas. The City Council serves as the Agency's Board of Directors, while the staffing for the Agency is provided by the City's Economic Development and Redevelopment Department with the Department's Director serving as the Agency's Executive Director.

The Economic Development and Redevelopment Department administers two redevelopment project areas. The first area is the Merged Earthquake Recovery and Reconstruction Project Area (Merged Project Area), which merged two project areas adopted in 1984 and 1986, and further expanded in 1990 following the 1989 Loma Prieta Earthquake. The Merged Project Area was created to facilitate the rebuilding of downtown Santa Cruz and to assist in the improvement of other portions of the project area. The Merged Project Area encompasses the San Lorenzo River area, the downtown, the beach area including the Municipal Wharf, the Harvey West industrial area, the Mission Street commercial corridor and the Westside industrial areas.



Prepared by: Keyser Marston Associates, Inc.
Filename: MergedPA1.15.08; 1/15/08; bm

Area: 1,133 acres; Land Uses: Commercial, Residential, Industrial, Recreation

Highlights and Achievements

The Agency's activities during Fiscal Year 2010 were focused on a number of areas:

- Downtown Projects – Downtown Directory Signage, Façade Improvement Program, Property Waste and Recycling Enclosure, Downtown Marketing and Tenant Recruitment
- Continued design/engineering of Highway 1/9 Intersection Improvements
- Completed construction funding of the pedestrian/bike San Lorenzo River Highway 1 Bridge underpass, connecting the levee pathway to the Tannery Arts Center
- Continued planning for replacement of San Lorenzo River Highway 1 Bridge
- Initiated construction of Phase II of the Tannery Arts Center for the Digital Media Center/working studios project renovating the Tanyard Building and Beam House as well as constructing the north parking lot
- Continued efforts to obtain additional Congressional appropriations to fund the Monterey Bay National Marine Sanctuary Exploration Center (received \$3 million in FY 09), with \$1,660,000 in funds from the National Oceanic and Atmospheric Administration (NOAA) and activities related to preparing building construction and exhibitry construction bids in early FY 2011
- Started the Grow Santa Cruz Loan Program offering small businesses competitive loans to grow their existing business
- Initiated a City Wayfinding Study to make recommendations to improve directional signage that identifies neighborhoods, business districts, key regions, and destinations while also reinforcing the community's commitment to tourism, ecological living, creativity and innovation
- Provided funding and support for the Street Lighting Program along Pacific Avenue and Lower Pacific Avenue Street Lights Project
- Provided funding to extend the time of the Homeless Winter Shelter and to assist the Homeless Service Center in covering prior debts for the Homeless Winter Shelter
- Provided support to utilize a Monterey Bay Unified Air Pollution Control District AB2766 Vehicle Emissions Reduction Grant to provide new electric vehicle charging stations in the downtown parking structures and to provide a pay-for-performance program for increased biodiesel sales through an existing biodiesel supplier in the City
- Provided technical assistance to Zero Motorcycles with grant applications, including an Agency matching grant to fund development of an electric powertrain and manufacturing facility in Santa Cruz. The Agency will finalize the matching grant in FY 2011 through a formal participation agreement, which will be based upon the California Energy Commission's terms and conditions for its original grant award to Zero Motorcycles.

- Provided a \$150,000 loan to Nickelodeon Theatres, Inc. to upgrade 3-D and digital projection equipment for the Agency's historic Del Mar Theatre
- Collaborated with City Planning Department in the process of designing a new plan for the Ocean Street corridor and the River Front/Lower Pacific corridor
- Funded design of Soquel Avenue Improvements to the Soquel/Hagemann and Parkway/Frederick intersections, and a storm drain on Pine Street between Soquel and Broadway Avenues
- Provided assistance in issuing Recovery Zone Facility tax-exempt revenue bonds not exceeding \$3 million dollars by the California Statewide Communities Development Authority for the Cruzio Building Renovation and Data Center Project
- Furthered development of technology promotion and economic development activities especially in partnership with the University of California, Santa Cruz
- Provided financial assistance to very low income households
- Eastside project area activities and façade improvement program
- Outreach to businesses through the façade improvement program and related business retention and recruitment programs
- Continued financial assistance for the design of the Beach Area Roundabout at the intersection of West Cliff Drive, Pacific Avenue and Beach Street
- Provided a variety of acquisition and advisory services to the Santa Cruz Metropolitan Transit District for the Pacific Station Project
- Provided real estate services for various City projects including the Eastside Soquel Ave/ Park Way intersection improvements

The Agency's role in each of these projects varied from direct financial assistance to providing facilitation to businesses. In all of these activities, Agency staff worked cooperatively with Planning, Parks and Recreation, Police and Public Works staff. Within each of these project areas, Agency staff undertook a wide variety of tasks to ensure completion of planning and building projects. These various activities, as well as other projects undertaken by the Agency, are outlined in further detail in this report.

Financial Overview

During Fiscal Year 2010, the Agency's net assets, representing the difference between total assets and total liabilities, increased by \$800,000. The increase was in unrestricted fund balances.

Of the total \$32.1 million in net assets, \$14.7 million was invested in capital assets, net of related debt. A total of \$12.0 million was restricted; \$1.6 million was for debt service and \$10.4 million for projects to be supported by low/moderate income housing funds. \$5.4 million was reported as unrestricted net assets and may be used to meet the Agency's ongoing obligations that include amounts that are required to be spent on capital projects in compliance with the Redevelopment Plan.

Total revenues from all sources were \$13.1 million and total expenses for Agency programs were \$12 million. Property tax revenue decreased by 3% over the prior year only due to a change in the methodology of revenue recognition related to pass-throughs. Under the old method, tax revenue would actually have been reported as a 3.0% increase. Effective in FY 2010, the Agency no longer records the Proposition 13 automatic assessment increases as revenue and expense, up to 2% per year. A California Attorney General's opinion and consultant guidance have concluded that the 2% payments are not to be considered as tax increment because they are never paid to or received by the Redevelopment Agency; the County Auditor calculates and allocates directly to the taxing entities in the redevelopment project areas.

As of the close of the Fiscal Year 2010, the Agency's funds (all governmental) reported combined ending fund balances of \$21.8 million, which was an increase of \$200,000 in comparison with the prior year amount. The primary reasons for the increase were that budgeted projects had not yet been initiated and that the Agency had reserved funds for a required payment of \$770,661 to the Supplemental Educational Revenue Augmentation Fund (ERAF). Carryover appropriations for re-budgeted projects were approximately \$11.3 million.

The total debt of the Agency decreased by \$500,000 during the year. The decrease resulted from regularly scheduled debt payments. There were no additions to long-term debt during the fiscal year.

State of California Educational Revenue Augmentation Fund (ERAF)

The ERAF Fund was established by the State in 1992 and requires redevelopment agencies throughout the State to return tax increment revenues to a special fund to assist California schools. The Legislature discontinued ERAF after Fiscal Year 2006. As a result, the Agency had additional resources to allocate for fiscal year 2007 and fiscal year 2008. The Agency has been required to pay into this fund an increasing amount of Agency revenues to help offset the State's financial deficit as shown below.

Fiscal Year	ERAF Payment
2002	\$221,100
2003	\$405,000
2004	\$660,700
2005	\$660,700
2006	\$611,700
2010	\$3,746,760
2011	\$770,661

In July 2009, the State of California (State) passed state budget trailer bill ABX4-26 as part of the 2009/2010 state budget package. This bill shifts a total of \$2.05 billion statewide from redevelopment agencies to the Supplemental Educational Revenue Augmentation Fund (ERAF) for schools in fiscal years 2010 and 2011. The bill requires that the Agency make payments of \$3,746,760 in FY 2010 and \$770,661 in FY 2011. The Agency paid the initial FY 2010 payment in May 2010 and has funding budgeted in FY 2011 to make the second payment. Since the bill was passed prior to October 20, 2009, the second ERAF payment is not repealed by the recent passage of Proposition 22 protecting local funds. The ERAF funds diverted to the State are Agency funds that would have otherwise funded local projects and programs in our redevelopment project areas.

Santa Ana Unified School District vs. Orange County

When the City adopted its post-earthquake redevelopment projects in 1990, State law provided for local school districts to adopt a resolution electing to receive their share of the annual Proposition 13 two percent (2%) inflationary increase in assessed valuations.

Since few of the local Santa Cruz School districts passed the necessary resolutions, this increase in assessed valuations was never allocated. Pursuant to the court decision in *Santa Ana Unified School District vs. Orange County Development Agency*, it was determined that a school district could not waive its obligation under State law to receive its share of the annual 2% inflationary increase and therefore could pass the necessary resolution to receive the 2% annual growth after a project area had been adopted. After the Santa Ana decision in 2001, the Agency commenced passing through the proportional share of the 2% annual growth in the Agency’s project areas’ assessed value to the Santa Cruz City Schools, Cabrillo College and the County Office of Education. The 2010 payment and projected payments during the 2011-2015 timeframe are shown in the table below. Estimates for the subsequent years through 2015 are based on no annual Proposition 13 increases in property valuations. If there is no inflationary increase, then the payments will remain level.

2010-2015 Santa Ana Pass-Throughs

Fiscal Year	Merged Project School Payments	Eastside Project School Payments
2010	\$812,200	\$17,874
2011	\$798,555	\$17,556
2012	\$798,555	\$17,556
2013	\$798,555	\$17,556
2014	\$798,555	\$17,556
2015	\$798,555	\$17,556

It should be noted that these funds can only be used for capital expenditures or for payment of bonded indebtedness.

SB 211 Extension of Project Area Time

In the 2001 session of the State Legislature, SB 211 was passed addressing a number of financial issues facing redevelopment agencies having projects adopted during the period from 1980 through the early 1990s. The Merged Redevelopment Project, which was adopted in 1990 after the Loma Prieta Earthquake, established the term of the Plan effectiveness period until 2023, but limited the period for establishing debt to 2010. SB 211 allowed the Agency to adopt an ordinance, which extended the original project debt establishment deadline of 2010 to 2033 to match the project’s ability to repay indebtedness. The advantage of utilizing the provisions of SB 211 is that it allows the Agency to issue debt for a longer period of time and therefore receive lower interest and financing costs. The City Council adopted the necessary implementing ordinance for SB 211 in 2002.

In order to utilize this additional financing period the Agency is required to share additional revenue with the local school districts during the fiscal year. In the case of the Eastside Project Area, this requirement has a minimal effect since there is already a pass-through agreement with Santa Cruz City Schools. The North Mall, the San Lorenzo 1986, and the San Lorenzo 1989 portions of the Merged Project Area have now begun to pass-through a portion of tax increment revenues. The remaining project areas will start sharing 20% of their new additional revenue with the local school districts as shown on the following schedule.

Project Areas	SB 211 Base Year	First Payment Year	Reduction of Growth
San Lorenzo 1990	FY 2011	FY 2012	20% of growth above FY 2011
North Mall 1990	FY 2011	FY 2012	20% of growth above FY 2011
Eastside	FY 2011	FY 2012	20% of growth above FY 2011

While SB 211 ensures that the Agency will receive future income, it does limit the potential for revenue growth. For instance, if a project area's revenue grows 4% after its SB 211 Base Year, the Agency would realize 1.6% of that revenue growth. The existing pass-through of funds to the County and the Santa Ana pass-through to local school districts account for the diminished revenue growth.

Project Time Limits

SB 437 was passed in the 2007 session of the State Legislature and requires Annual Reports to include the Fiscal Years when the Agency's various authorities expire, including the dates the projects close, termination of eminent domain authority and several other expiration dates. The table below satisfies California Health and Safety Code Section 33080.1(g).

Redevelopment Plan Time and Financial Limits – Merged Project	
Time Limit for Effectiveness of Redevelopment Plan	Nov 2023
Time Limit for Receipt of Tax Increment Revenue/Repayment of Debt	Nov 2033
Time Limit for Commencement of Eminent Domain	June 2014
Redevelopment Plan Time and Financial Limits – Eastside Project	
Time Limit for Effectiveness of Redevelopment Plan	Nov 2023
Time Limit for Receipt of Tax Increment Revenue/Repayment of Debt	Nov 2033
Time Limit for Commencement of Eminent Domain	Dec 2013

Property Tax Valuations

The economic recession which developed in the fall of 2008 has had a severe impact on property valuations throughout the United States. In California the impact on property tax valuations is significant, but varies depending on when properties had their valuations established under Proposition 13. Since older assessed properties have much lower property tax valuations the current drop in property values will not affect these low property valuations. However, properties purchased in the last few years have more recent Proposition 13 valuations and are now being reduced by the Santa Cruz County Assessor under Proposition 13 rules. As of 2010, there are more than 18,000 properties in Santa Cruz County that have been reduced in property tax assessed valuation. These reductions are based upon a detailed analysis of thousands of sales from 1999 to the current year. Santa Cruz County has a very complex and varied real estate market. From the mountains to the sea, there are few vast tracts of identical homes. This makes global reductions quite difficult. A review of properties in the Merged Project Area show only a small number of the properties have been affected by these reductions.

Between Fiscal Year 2010 and 2011 the secured property assessed valuation of the Merged Project Area grew by .27% and the Eastside Project Area grew by 5.0%, however the unsecured properties tax roll for the Merged Project Area decreased by 19.9% and the Eastside Project Area grew by 11.6%. Several factors account for these contradictory statistics.

The secured roll reflects property valuations of building and homes which remained relatively flat in the Merged Project Area and properties valuations which grew in the Eastside Project Area due to several property sales and building improvements. Specifically, in the Eastside Project Area the sale of the former Volvo auto dealership to Staff of Life and the rehabilitation of another former supermarket site and its reuse as a Whole Foods accounted for most of the valuation growth.

In the Merged Project Area the unsecured tax roll fell by 19.9% as a result of two factors. The first factor was the closing of a number of businesses due to the economic recession and the loss of their equipment value. The second is specific to the Tannery Artists Lofts affordable housing project. The FY 2010 assessor roll included a \$14 million valuation of this project and the approval of a welfare property tax exemption removed this \$14 million valuation from the FY 2011 tax roll. This single property accounted for fifty percent of the decline in the unsecured property tax roll valuation in the Merged Project Area.

In aggregate, the Merged Project Area experienced a 1.4% percent decline in total assessed valuation and the Eastside Project Area had a 5.8% increase in assessed valuation. The reason the Merged Project Area valuation decrease was not greater is that the unsecured property valuation is a small percentage of the total Merged Project Area valuation.

The specific impact of the lowered property tax valuations and resultant tax increment revenues is becoming more apparent in fiscal year 2011 and is likely to continue for the next few fiscal years. These impacts were mitigated in fiscal year 2010 by property tax valuations from the new Mission Street Safeway and additional retail space, the New Leaf Market, Whole Foods and several other commercial and residential developments which are now being completed.

In past years the Agency has conservatively forecast property tax revenues with zero real growth and with the two percent Proposition 13 inflationary increase. In future years a slight decrease will be used in this estimation to reflect the potential for a deflationary reduction in assessed valuations and minimal, if any, Proposition 13 inflationary adjustments.

Loan Report

This Loan Report is submitted to satisfy the reporting requirements of California Health and Safety Code, Section 33080.1 (e), which states that the annual report must include “a list of, and status report on, all loans made by the redevelopment agency that are fifty thousand dollars (\$50,000) or more, that in the previous fiscal year were in default, or not in compliance with the terms of the loan approved by the redevelopment agency.”

In FY 2010, the Redevelopment Agency of the City of Santa Cruz does not have any loans to other entities valued over \$50,000 that are either in default or non-compliance with the loan conditions set forth.

Property Report

This Property Report is submitted to satisfy the reporting requirements of California Health and Safety Code, Section 33080.1 (f), which requires that redevelopment agency annual reports include “a description of the total number and nature of the properties that the agency owns and those properties the agency has acquired in the previous fiscal year.” The properties currently owned by the Agency are listed below, and no new properties were purchased in the reporting year.

Property Address	Assessor Parcel Number	Property Use	Property Size (square feet)	Project Area
211 Gault Street	011-012-37	Gault Senior Housing Project (ground lease)	23,130 sq. ft.	Eastside
1111 Soquel Avenue	010-042-19	Eastside Parking Lot	23,958 sq. ft.	Eastside
124 Leibrandt Avenue	005-931-01	Nueva Vista Apartments (ground lease)	64,730 sq. ft.	Merged
1124 Pacific Avenue	005-153-10	Del Mar Theater	21,300 sq. ft.	Merged
1124 Pacific Avenue	005-153-02	Del Mar Theater	1,001 sq. ft.	Merged
Birch Lane	005-144-14	Parking Lot	3,049 sq. ft.	Merged
1040 River Street	008-661-01	Affordable Housing and Arts Center (ground lease)	8.3 acres	Merged
San Juan Avenue (Marnell Alley)	009-363-23	Facilitating future development	7,884 sq. ft.	Eastside

Blight Progress Report

The following sections have been prepared to provide information required by California Health and Safety Code, Section 33080.1(d). The review of Agency projects and programs along with the “Summary of Agency Programs Aiding in the Elimination of Blighting Conditions” Table meet the blight report requirement by providing a description of the Agency’s progress through specific actions and expenditures to alleviate blighting conditions in its project areas.

Redevelopment Agency Projects

Tannery Arts Center

The Tannery Arts Center project involves the conversion of the former Salz Tannery property to low and very low income rental live/work housing for artists, affordable studio space for a wide range of art from digital media to printmaking, performance space and retail/commercial space.



The Salz Tannery site is located on an 8.3 acre site next to the San Lorenzo River and adjacent to the intersection of State Highways 1 and 9. The site and its history make this a special location to create a unique cultural/arts center for the Monterey Bay area.

The initial step in developing a reuse strategy for the closed Tannery site took place in February 2002 when the Agency engaged Artspace Projects, Inc., a national non-profit arts developer and leader in the creative conversion of older industrial sites to artists’ live/work space and studio space, to undertake a feasibility analysis for the Salz Tannery property.

The initial findings from the Artspace study and an accompanying cultural and arts organizations focus group indicated a serious interest in proceeding with additional steps to further develop the concept of an arts center on the Salz Tannery site. During FY 2003, the Agency approved proceeding with the next steps of determining what components of the cultural and arts community could be accommodated, both physically and economically, at the proposed Tannery Arts Center. A primary objective of the project was to help stem the loss of local artists leaving the community because of the



Historic Tannery Building during Phase Two Renovation

cost of housing and the lack of studio space.

This center will contain class room space as well as performance, retail and gallery spaces. Another component, now in the planning stages, is the conversion of five of the historic structures for studio space along with the construction of a creative learning center to house administrative office space.

With construction completed on the Artists Lofts apartments in FY 2009, the Tannery Arts Center moved into the second phase of construction in FY 2010, which is split further into two separate phases. The construction of the required parking lot at the north end of the Tannery property, referred to as Phase One, began in March 2010 and was completed August 23, 2010 in FY 2011. The renovation of the Tanyard Building and the Beam House, referred to as Phase Two, began on June 22, 2010 with completion expected in FY 2011.

- In FY 2010, the Agency was awarded a \$4,766,250 grant from the U.S. Department of Commerce, Economic Development Administration to fund the renovation the historic Salz Tannery's Tanyard Building and Beam House and their reuse as a Digital Media Center. A California Cultural and Historical Endowment (CCHE) grant of \$1,935,000 is also funding this project.
- The Agency submitted an application to the California Cultural and Historical Endowment (CCHE) for \$500,000 in supplemental funding for the Tannery Project. In April 2010, the CCHE Board voted to award the Tannery project a reservation of \$300,000, dependent upon the return of funds to CCHE from projects that were not implemented.

Monterey Bay National Marine Sanctuary Exploration Center

The National Marine Sanctuary Program (NMSP), an agency of the National Oceanic and Atmospheric Administration (NOAA), and the City are partnering to design and construct the Monterey Bay National Marine Sanctuary Exploration Center. The Agency has been designated as the City's project manager acting in cooperation with NOAA.



Design Concept for Exploration Center

The Exploration Center will function as the Monterey Bay Sanctuary's premier Exploration Center. The site was chosen in 2003 after the NMSP studied 23 locations

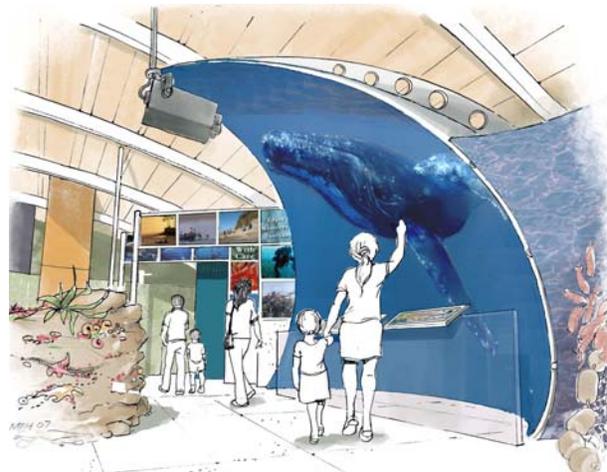
along California's Central Coast, settling on the City's ¾-acre "Fun Spot" property in the Santa Cruz Beach Area, visited by an estimated 3 million people per year. Located just steps from the Pacific Ocean in Santa Cruz's historic Beach and Boardwalk area, the Exploration Center will:

- Provide the Marine Sanctuary Program and the State of California with high-profile marine education facility just steps from the Pacific Ocean.
- Provide 250,000 people per year with a unique hands-on introduction to the diverse ecosystems of California's Central Coast.
- Provide greatly needed educational facilities for Sanctuary users, visitors, educators, and minority and low income populations.
- Further the mission of the Marine Sanctuary Program by encouraging stewardship of the sea and shoreline.

In FY 2010, Agency and the City of Santa Cruz secured an additional \$7.6 million in federal grants for the Exploration Center project. In early FY 2011, the project went out to bid on September 15, 2010 to pre-qualified bidders. The Interpretative Exhibits went out to bid on October 6, 2010.

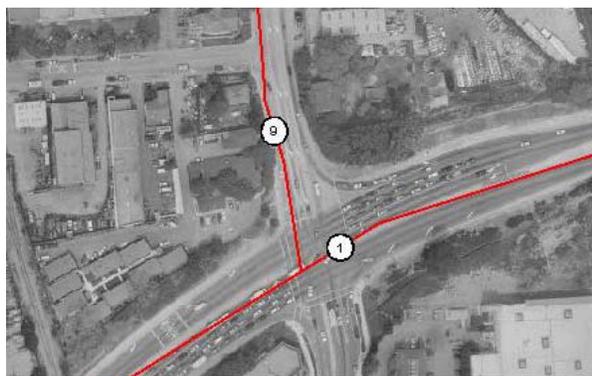
The Exploration Center design now includes the following components:

- An architecturally distinct building overlooking the Monterey Bay National Marine Sanctuary (MBNMS) and the Santa Cruz Municipal Wharf.
- Dynamic interactive exhibitry highlighting the Monterey Bay Sanctuary's natural resources and stressing ocean stewardship and conservation.
- Multimedia displays including real-time video of the deepwater ocean environments.
- A potential rail stop, bicycle facilities and pedestrian connections to the City's Depot Park.
- Educational classroom and lab facilities.
- Administrative offices.



Creating an innovative partnership between Federal agencies and local government, the project provides the City and MBNMS with an exciting opportunity to complement existing regional cultural and educational facilities, enhance the visitor experience to California's Central Coast, and educate the public about the importance of the Marine Sanctuary and its influence on the surrounding areas. Information on the Monterey Bay National Marine Sanctuary is available at: <http://montereybay.noaa.gov/>.

Highway 1/9 Intersection Project



The Agency continued funding and facilitating the design and engineering of traffic improvements to the intersection of Highway 1/9. The Highway 1/9 Intersection was the subject of a Project Study Report (PSR) prepared by Caltrans in 1999. The PSR proposed constructing an additional left turn lane on southbound Highway 1 and an additional northbound lane on Highway 9 between Highway 1 and Encinal Street.

Improvements at this intersection are regularly identified by Caltrans Interagency Planning staff in traffic analyses in connection with developments proposed in this part of the City.

During FY 2010, initial engineering design progressed. The City previously requested consideration for the inclusion of a third southbound left turn lane on River Street as traffic exits the Harvey West area to Highway One. This request required a number of design exceptions from Caltrans standards and due to this, Caltrans required an update of the project's environmental documents. This process is expected to take between 9-12 months, due to Caltrans' review of these updated documents. Engineering calculations have indicated that additional improvement would substantially improve traffic flow in the River Street southbound direction.

San Lorenzo River Highway 1 Bridge Project

As part of its work on the Highway 1/9 Intersection improvements the Agency also



Highway One Bridge Project

identified the San Lorenzo River Highway 1 Bridge as needing improvement. The four-lane Highway 1 Bridge over the San Lorenzo River is now a bottleneck for westbound traffic entering and eastbound traffic leaving the Highway 1/9 Intersection. Agency staff prepared a draft Preliminary Survey Report (PSR) for a seven lane replacement bridge. The PSR has been reviewed by Caltrans and is undergoing further revisions. When accepted by Caltrans, the PSR will allow for the future programming for a new bridge. A draft PSR was submitted to Caltrans for review and revisions to this draft are now being prepared, based on Caltrans comments.

Highway 1 Bike/Pedestrian Underpass Project

In FY 2010, the Agency completed funding for the Highway 1 Bike/Pedestrian Underpass Project, providing \$373,000 to the City's project account. The pathway safely links the Tannery Arts Center to the San Lorenzo River Levee path.

Pacific Station

During FY 2009 additional Federal and State funding was obtained by the Santa Cruz METRO Transit District (METRO) for purchase of the Greyhound property adjacent to the existing downtown Metro Center. This property is necessary for future reconstruction of the existing Metro Center, now known as Pacific Station.

In FY 2010, the Agency facilitated the approval of a Remedial Action Plan and property acquisition by METRO to assist with the redevelopment of the downtown Metro Center through an Memorandum of Understanding.

San Lorenzo River Project

Agency staff has been extensively involved in the San Lorenzo River levee project activities and funding for over 25 years. The activities involving the project which have occurred during the past several years are discussed below. Agency staff has had project management responsibility for the Army Corps of Engineers ("Corps") Project and, in past years, the Agency funded a number of the feasibility studies as well as bridge design work. In FY 2010, the Corps proposed new Vegetation Standards, which do not recognize projects designed to incorporate vegetation such as the San Lorenzo River Flood Control Project. In cooperation with the Corps' Sacramento District, the City prepared a variance request from the Corps to maintain the existing vegetation along the levee system. Construction on the project began in 1999.

- **Completed 2000 - Contract 1** of the San Lorenzo River Flood Control and Environmental Improvement Project involved the raising and environmental restoration of the river levees between Highway 1 to Water Street Bridges and Laurel Street to Riverside Avenue Bridges. Work on Contract 1 began in 1999.
- **Completed 2001 – Contract 2** involved the raising and environmental restoration of the river levees between the Water Street and Soquel Avenue bridges and the Riverside Avenue and the Union Pacific Railroad bridges.



Contract 3 – Laurel Street Extension

- **Completed 2004 - Contract 3** involved the stabilization of the riverbank adjacent to Laurel Street Extension and Third Streets which are highly eroded and threatened the continued use of these streets.
- **Completed 2005 - Contract 4** involved the construction of new flood gates and the below-ground entrances to the County Courthouse and Administration building.

The final phase of the project is still under discussion between the City and the Corps of Engineers. This phase of the project has become more complex due to the change by the Corps of Engineers in their method of developing the hydraulic projections for the 100-year flood which is the basis for designing flood protection. This change has affected flood control projects throughout the United States including the San Lorenzo River flood control improvements. Until the Corps completes a new series of projections the design requirements for the final phase of the project will not be known.

Additional Federal funding for the phase was included in the proposed Federal Fiscal Year 2009 budget. To date, the combined Federal and local cost of the new bridges, levees, riverbank stabilization and environmental restoration has been \$62 million.

Funding of this improvement has been a major effort of Santa Cruz and one of the major sources of assistance was achieved in 2000 with the State Legislature's approval of AB 1147 which authorized the City to participate in the State Flood Control Subventions Program. This program reimburses the City for 70% of the local share of the San Lorenzo River Flood Control and Environmental Improvement Project. Since authorization to participate in the program, the City has submitted 22 claims to the State Flood Control Subventions Program and has received reimbursements totaling \$5.4 million.



As a result of the completion of Contracts 1 and 2, the Federal Emergency Management Agency (FEMA) issued a Letter Map Revision for the Downtown and Beach areas of the City redesignating these areas from its A-11 to an A-99 flood zone classification in the summer of 2002. This change has had a very significant benefit for these areas.

- Flood insurance premiums for the A-99 flood zone are significantly lower than the previous A-11 flood zone. Depending on the property and amount of required flood insurance, the new rates are approximately 40% lower than those previously paid.
- The FEMA Community Rating System awarded the City a class seven rating, which further reduces the NFIP A-99 flood insurance rates.
- New buildings and improvements are no longer mandated to meet FEMA flood construction requirements but may continue to do so depending on the wishes of the property owner.

Redevelopment Agency Programs

Downtown Support Activities

Agency staff continues to provide assistance to members of the community and the various City Departments (e.g. Parks and Recreation, Public Works and Police) to help improve the economic and social conditions in downtown Santa Cruz. The following table provides a short summary of these continued efforts.

<i>Programs</i>	<i>Activities</i>
<ul style="list-style-type: none"> • Downtown Directory Sign Program 	<ul style="list-style-type: none"> • Design, fabricate and update directory signs
<ul style="list-style-type: none"> • Graffiti Abatement, with concentration on the Downtown 	<ul style="list-style-type: none"> • Removing and preventing physical blight
<ul style="list-style-type: none"> • Façade Improvement Program 	<ul style="list-style-type: none"> • Removing and preventing physical blight, encouraging economic activity
<ul style="list-style-type: none"> • Publication of Space Available Listings 	<ul style="list-style-type: none"> • Linking brokers, tenants, and property owners • Generating market and demographic information
<ul style="list-style-type: none"> • Mural Matching Grant Program 	<ul style="list-style-type: none"> • Removing and preventing physical blight
<ul style="list-style-type: none"> • Construction of Waste/Recycling Enclosures • Alley Improvements 	<ul style="list-style-type: none"> • Identifying potential projects where Agency assistance will contribute to the elimination of blight
<ul style="list-style-type: none"> • Social/Mental Health Outreach Worker 	<ul style="list-style-type: none"> • Assisting persons needing treatment or other support
<ul style="list-style-type: none"> • Hope Services Job Training for persons with Developmental Disabilities 	<ul style="list-style-type: none"> • Removing and preventing physical blight

The Agency has worked diligently to maintain Downtown Santa Cruz as the primary regional destination for specialty retail, restaurant, entertainment and cultural activities while facilitating the development of new housing capacity. Downtown is now an 18-hour entertainment/housing/commercial center. The management of downtown's public area requires constant attention to ensure a pleasant environment for shoppers, visitors and residents.

Graffiti Abatement Program

The Agency also continues to manage the graffiti abatement program. The Agency maintains a hotline for reporting graffiti as well as the development of neighborhood teams to fight graffiti through the CityServe volunteer program. This program has led to a marked decrease in long-term, visible graffiti tags in the City's commercial areas. During FY 2010, 1,449 tags were removed, which is a slight increase from the previous year. However, this increase is due to strengthened reporting and corresponding graffiti removal service. The public outreach component of this program has expanded significantly over the last few years and there are now 110 volunteers participating in Graffiti Free Santa Cruz. Each volunteer is provided a graffiti removal kit, which is available at the Redevelopment Agency's office. Another important improvement was the improved reporting and coordination with the Santa Cruz Police and the Sheriff's Department of Santa Cruz County, whose recent successful prosecution of prominent vandals has deterred graffiti and resulted in a lower amount of overall graffiti activity in the area. Thanks to the efforts of the Agency, Graffiti Free volunteers, and law enforcement agencies, Santa Cruz has a growing reputation as a community which is protecting itself from this form of physical blight.



Façade Improvement Grant Program

One of the Agency's unique programs with the greatest impact has been the Façade Improvement Program. Through this program's combination of grants and matching grants 117 businesses in the Downtown, River Street, Mission Street, Ocean/Barson, Seabright/Murray and Coral Street businesses areas have been assisted. The following table quantifies the number of business assisted in the fourteen-year-old program.

Program Areas	Businesses Assisted
Merged Project Area	157
Eastside Business Improvement Area	85
Total	242



City Arts Program

City Arts is a program of the Economic Development and Redevelopment Department and is guided by the Arts Commission, which serves the City Council as policy advisors and proponents for a vibrant cultural environment in Santa Cruz. City Arts implements the City Public Art Program pursuant to Chapter 12.80 of the City's Municipal Code, the Public Art Program, the Redevelopment Agency's Matching Grant Mural Program and cultural policy projects and initiatives that help the City achieve its cultural goals as outlined in the General Plan and City Arts Master Plan.



Public Art Program



"The Boys of Summer"
by Michael McLaughlin

The Public Art Program has provided a number of innovative art projects and creations that compliment the City's downtown and other areas of the community. The Public Art Program is administrated through the Redevelopment Agency, with oversight from the Arts Commission. The Agency's role in this program is to provide funding for staffing and coordination of the program. Funding for art installations comes from private donations and a 2% for the arts set-aside on eligible City-funded capital improvements projects. Specific projects have included design of art features for the proposed Beach Area Roundabouts and the downtown SculpTour exhibit. More detailed information about the Public Art Program is available in the City Arts Annual Report.

Mural Matching Grant Program

Initiated in July of 1994, the Mural Matching Grant Program enhances the streetscape and incorporates our community's culture and history into the built environment. The Redevelopment Agency has successfully sponsored more than 15 mural projects through matching grant incentives with business and property owners as well as community partners. The Agency maintains a mural artist registry which includes more than 30 local artists.

In FY 2010, artist Marvin Plummer completed a large mural depicting the world-famous Steamer's Lane surfing break on the 820 Swift



"Steamers Lane" by Marvin Plummer at 820 Swift Street

Street industrial building, which lies along the railroad right-of-way. With the permanent closure of the Davenport Cemex plant, physical blight increased since trains no longer

used the tracks. The matching grant was a collaboration between the Swift Street Neighborhood Group and the Agency. Westside residents and businesses not only advocated for the project and raised funds for the matching grant but also volunteered to clean-up the railroad tracks when the mural was unveiled on September 27, 2009. The mural is now an icon on the burgeoning Swift Street commercial and industrial area.



The ABC Mural on the Eastside parking lot.

The Agency also completed a mural project in the Eastside parking lot. Santa Cruz artist and 2009 California Art Teacher of the Year Kathleen Crocetti was selected to facilitate a community mosaic mural project. About 3,000 students from eleven schools citywide designed and created individual tiles in their classrooms throughout the 2009-2010 school year. The completed mural features a dynamic geometric design articulated by the tile grout. Up close, the viewer can see 3,224 unique tiles that together make up the mural.

Wayfinding Study

Tourism is a major economic engine in Santa Cruz. Transient Occupancy Tax collections in fiscal year 2008-09 in the City of Santa Cruz were estimated at \$2.9 million. For these tourists and guests, being able to easily navigate is critical to their positive visitor experience. In FY 2010, the Agency launched Phase One of a 'Citywide Wayfinding' effort to evaluate and improve upon the experience of navigating around Santa Cruz.

The goals of the Phase One study are to:

- Increase the functionality of wayfinding in, around and through Santa Cruz;
- Develop wayfinding solutions that assist in identifying neighborhoods, business districts, key regions, and destinations; and
- Create a wayfinding schema that reinforces the community's commitment to tourism, ecological living, creativity and innovation.

The selected consultant team includes wayfinding firm MERJE, award-winning designer Lance Wyman, California-based Rick Engineering and industrial designer Timerie Gordon. Stakeholders from downtown, UCSC, Ecology Action, hotels, museums and the Santa Cruz Beach Boardwalk have all been integral to the study. An inventory of current directional signage has been completed as part of Phase One, with a goal of eliminating clutter whenever possible and creating a functional tool for maintenance and management of signage systems moving forward. A report with recommendations is expected to be brought to City Council for approval in FY 2011.

Eastside Business Improvement Project

The Agency continued in its implementation efforts for the Eastside Business Improvement Project with the following programs as set forth in the Five-Year Implementation Plan.

These included:

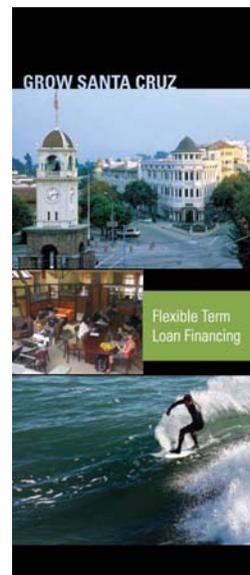
- Continuation of the Eastside Storefront Improvement Program, focusing on improving storefronts along Soquel Avenue and Water Street. During the fifteen years of the storefront program, 85 Eastside businesses have been assisted with one business currently in the design phase. All these businesses are small, locally-owned enterprises.
- Funds were budgeted for design of improvements to the Soquel/Hagemann, Parkway and Frederick intersections and a storm drain on Pine Street between Soquel and Broadway Avenues. Work on these projects is now in the planning stages.
- Agency funds have been budgeted to fund a portion of the land acquisition costs associated with the Soquel Avenue Bike Lane Project, construction of improvements at the Soquel/Water/Morrissey Intersection, and design of improvements to the Soquel/Hagemann and Parkway intersections and a storm drain on Soquel Avenue, between Benito Avenue and Branciforte Avenue, and on Pine Street between Soquel and Broadway Avenues. To date, the construction of improvements at the Soquel/Water/Morrissey Intersection is complete and the remainder of the improvements is in the design and right of way acquisition phases.
- Agency staff initiated the exploration of streetscape improvements along Soquel Avenue. The Eastside Street Tree Program was developed in FY 2010 and initiated in FY 2011.



Economic Development Initiatives

Grow Santa Cruz Loan Program

The Agency began a partnership in early 2010 with the National Development Council to administer and underwrite a small business loan program and to provide technical assistance related to financing and economic development. More than 80 inquiries have been received. Seventeen companies have been interviewed resulting in two funded loans and one referral to a local lending institution. In FY 2011, one more business is guaranteed to close on a loan through this innovative program.



Central Coast Broadband Consortium

The Central Coast broadband Consortium's mission is to connect the region's disparate telecommunications networks and fill critical gaps in the infrastructure, offering high speed network transport services. This mission ensures equity, access and digital literacy for all residents, businesses, governments, educational organizations and other important civic and social services agencies and institutions in the region. This project will build out broadband infrastructure at a number of anchor sites that include schools, county offices and other industrial areas in the region where available broadband on a large scale could attract high paying jobs to the region. A \$45 million ARRA application was submitted during FY 2010.



Zero Motorcycles Matching Grant

Zero Motorcycles was recently awarded more than \$1.8 million in grants, fueling local economic development and green jobs. Zero leads the electric motorcycle powersports industry by producing incredibly fast and efficient performance motorcycles with near silent engines and near zero emissions. By combining a \$900,000 California Energy Commission (CEC) grant with matching grant funds from the Agency, Zero Motorcycles will develop and produce its next generation powertrain engine and create between 15-20 local engineering positions and up to six dealership sales positions in the City of Santa Cruz. With the point-of-sale dealership located in the City of Santa Cruz, all sales tax is collected at this location with 1% of revenue going to the City. The sales tax projection for FY 2011 is \$29,500 and for FY 2012 is \$61,000. The Agency will finalize the matching grant in FY 2011 through a formal participation agreement, which will be based upon the CEC's terms and conditions for its original grant award to Zero Motorcycles.

The Project for Innovation and Entrepreneurship (PIE)

The Project for Innovation and Entrepreneurship was created in FY 2009 with the University of California, Santa Cruz (UCSC). Accomplishments in FY 2010 include the development of successful Internship/Membership Program, which included a weekly lecture series, and the development and implementation of a successful business plan competition. Thirty-six internships occurred in FY 2010 out of 136 applicants. More than 100 students have been served in the last two years by this project and several business start-ups in Santa Cruz have been created. This program has also laid the foundation for future economic development collaboration with UCSC including the Center for Entrepreneurship.



**PROJECT FOR INNOVATION
& ENTREPRENEURSHIP**

UCSC Business Plan Competition

Student-initiated and student-focused, this business plan competition is built on connections between different academic areas and professional schools on the University of California, Santa Cruz campus and the City of Santa Cruz. The competition was designed to raise awareness of student talent and creativity, form mentorships and foster collaboration between campus and town. In FY 2010, A Capella Records won the business plan competition out of 27 applications.

Center for Entrepreneurship (C4E)



In June 2010, Economic Development and UCSC completed an application for the Economic Development Administration's i6 challenge. The application sought funding for the establishment of UCSC's new Center for Entrepreneurship, also known as the C4E, an academic program and business incubator run by an independent 501(c)(3) that will have a physical presence in the City of Santa Cruz and will work with the Agency to codify these programs into a more holistic approach to technology and talent transfer. The C4E "teaching-incubator" represents a first-of-its-kind fusion of an academic curriculum with that of a commercial incubator. Its purpose is to create new local startup companies that license intellectual property directly from UCSC in a self-sustaining manner, avoiding the reliance on continued federal funding while stimulating the local economy.

Recovery Zone Facilities Bond

Agency staff assisted Cruzio in a submission for ARRA Recovery Zone Bonds to fund the development of their new facility at 877 Cedar, providing new fiber optic infrastructure and a data center.

What's Next Lecture Series

The What's Next Lecture Series is a five-part Innovation program in collaboration amongst UCSC, NextSpace Coworking + Innovation, and the City of Santa Cruz. Topics covered in FY 2010 included Sustainability and Social Innovation, Innovations in Energy, and The Revolution of Work. In FY 2011, Reed Hastings, CEO and founder of the Fortune 500 company Netflix, discussed Research and Development at the Del Mar Theatre, an Agency owned property.

Business Development

Agency staff continued to work with local business owners on an individual basis, often aiding in researching funding opportunities, addressing development impact fees, along with other general inquiries, further attracting to and keeping businesses within the City of Santa Cruz. Staff frequently assisted as an intermediary between the business and different City Departments. In addition, Agency staff served on the Chamber of Commerce's Economic Development Council, the County of Santa Cruz's Comprehensive Economic Development Strategy Board, the Workforce Investment Board, and other non-profit cultural and business organizations.

Summary of Agency Programs Aiding in the Elimination of Blighting Conditions

Types of Conditions Addressed By Program	PROJECT PROGRAMS						
	Economic Development	Merged Project	Eastside	Industrial Development	Infrastructure	Beach Area	Affordable Housing
Structural Blight							
Deterioration and Dilapidation Age and/or Obsolescence			X	X		X	X
Mixed Character	X						X
Defective Design Character of Physical Condition			X				X
Shifting Uses and Vacancies	X	X	X			X	X
Non-Structural Blight							
<i>Inadequate Public Improvements, Facilities and Utilities</i>							
Traffic Circulation Deficiency		X	X			X	
Parking Deficiencies		X	X			X	
Deficient Curbs, Gutters and Sidewalks		X					
Bridges					X		
Drainage and Flood Control System Deficiencies					X		
Lots of Irregular Form, Size, and/or Shape		X				X	
<i>Socio Economic Conditions</i>							
Social Maladjustment (Crime, Poverty, Unemployment)	X	X		X		X	X
Depreciated Values/Impaired Investments	X	X	X	X		X	X
Economic Maladjustment (Vacancies, Undeveloped Properties)	X	X	X	X		X	X

Housing Activities

Affordable housing continues to be an Agency priority in accordance with the Agency's Affordable Housing Production Plan (AB 315 Plan). For both the Merged Project and the Eastside Business Improvement Redevelopment Project Areas, the Agency has exceeded the fifteen percent affordable housing production (inclusionary) requirements for the historical period from the inception of both Project Areas through FY 2010.

Over the terms of the two Redevelopment Project Areas, the Agency has assisted in the development and preservation of 463 low- and very low-income rental units (without emergency units), 63 median- and moderate-income rental units; 27 emergency housing units; 47 replacement affordable rental units and 347 market rate rental and owner units. As of June 2010 the Agency has assisted in the construction and preservation of 947 housing units, most of which are for low- and very low-income households. This represents new housing opportunities for over approximately 3,000 Santa Cruz residents in the Merged Earthquake and Eastside Project Areas.

The Agency continues to identify residentially zoned land in the Project Areas that can support higher densities and mixed-use developments in the downtown and at node locations within both Project Areas. Furthermore, the Agency continues assistance to the Mission Gardens Project while evaluating potential affordable housing project opportunities such as Park Pacific, Pacific Station, and Senior Housing at 170 High Street.

Mission Gardens

The Agency assisted in the acquisition of Mission Gardens Apartments, a 50-unit Section 8 Preservation Project located at 90 Grandview Street. The development, which was constructed in 1980-81, consists of 26 one-bedroom units, 16 two-bedroom units and 8 three-bedroom units. The original twenty year Section 8 agreement with HUD has been extended in five-year increments since its initial expiration in 2001. In 2009 the Project was purchased by Mission Gardens AGP, LP and Las Palmas Housing and Development Corporation, a California nonprofit corporation, with the latter acting as the managing general partner. Preservation of the affordability of at-risk projects is identified as a priority in the City's General Plan. The rehabilitation phase was completed in FY 2010. The Project is not located within a Redevelopment Project Area.

Park Pacific

1547-1549 Pacific Avenue and 1110 Cedar Street comprises the last major downtown parcel that has not been redeveloped since the destruction of the downtown by the 1989 Loma Prieta Earthquake. Plans have been approved for fifty-eight new market rate ownership housing units over ground floor commercial space. However, due to the economic slowdown, this project has been delayed but remains a housing development opportunity for potential Agency involvement. In FY 2010, the Agency executed an Owner Participation Agreement with Park Pacific, LLC which included a loan of

\$220,000 to fund predevelopment costs associated with the redesign of the mixed-use project. The Agency loan enables the developer to move forward on architectural and engineering plans, engage a qualified Housing and Urban Development lender to secure project financing and ensure that the project contains 12 units of low-income affordable housing. The developer is currently contemplating an alternative development scope for the project that may come before the City Council and Agency Board for consideration in FY 2011.

Pacific Station

The Agency is working with the Santa Cruz Metropolitan Transit District (METRO) to redevelop and expand the existing METRO Center site on Pacific Avenue. The current conceptual plan is for a five-story, mixed-use, transit-oriented development with the expanded METRO center on the ground floor, along with limited commercial uses; parking on the second floor; and affordable housing with limited office space on the remaining three floors. Agency staff is assisting METRO with the acquisition of the adjacent Greyound property, which would complete the development site. In FY 2010, the Agency facilitated the approval of a Remedial Action Plan and property acquisition by METRO to assist with the redevelopment of the downtown Metro Center through an Memorandum of Understanding.

Senior Housing at 170 High Street

Mercy Housing California is working with the Diocese of Monterey to explore reuse of an historic school building located adjacent to the Holy Cross Church on High Street to create forty – fifty units of senior housing. The Agency is communicating with the developer as the potential site continues to be evaluated as an affordable housing opportunity.

Agency Housing Assistance Programs



Over 2,776 persons have benefited from the two housing assistance programs the Agency funds and which are available to City residents.

The Agency continues to provide funding to the Santa Cruz County Community Action Board for the Emergency Rental/Mortgage Assistance Program. This Program works to prevent eviction from rental units or mortgage foreclosures of low- and moderate-income persons or families. In FY 2010, the program provided rental assistance to 46 households, assisting 152 persons including 72 children, 1 senior between the age of 60 and 69, and 18 disabled persons. Mortgage assistance has been provided once to date, although it is anticipated that may change over the next fiscal year. Approximately 60 households are expected to be provided assistance during FY 2011. Over the last five years, 329 households with 842 persons have been assisted.



Funding for the Tenant-Based Assistance/Security Deposit Program was also continued by the Agency in FY 2010. The Housing Authority of Santa Cruz County administers the program, which provides funds to households that do not have sufficient funds to pay the initial security deposit for a housing unit. In FY 2010, the program has provided assistance to 51 families, including 6 homeless individuals living in the City of Santa Cruz. Over the last five years this program has assisted 284 persons including 76 formerly homeless.