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City-subsidized building in Chula Vista faces foreclosure

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CHULA VISTA — Because the city-subsidized Gateway 2 building on H Street is facing foreclosure, Chula Vista could lose hundreds of thousands of dollars in property tax revenue collected annually from the building.

According to documents at the County Recorder's office, the owner of Gateway 2 is behind on his mortgage payments. The building is located in one of Chula Vista's five redevelopment corridors.

Gateway's potential foreclosure is backdropped by an escalating state-level brawl over the effectiveness of redevelopment agencies.

During the past decade, Chula Vista has drastically scaled back city services. Meanwhile, it has paid developer Jim Pieri some \$2.2 million in redevelopment funds for the mid-rise, upscale office building near Third Avenue and H Street, and a total of \$5 million for the entire Gateway development. The city hoped to recoup those subsidies by capturing an incremental increase in property tax revenue at the site.

Instead, Pieri has defaulted on the loan, according to an April 29 San Diego County Recorder document. Typically, property owners have 90 days from the date of default before a property goes back to the bank.

Pieri did not return numerous calls for comment.

As of the last filing, the amount due in unpaid mortgage payments was \$2.2 million — coincidentally the same amount the city paid to subsidize the building.

Councilman Steve Castaneda said the situation is "very concerning."

"Obviously, the foreclosure is an unfortunate byproduct of the economic downturn, but it is devastating to the city because the building will be devalued and our tax receipts and projections we made for retrieving those subsidies are no longer valid," Castanada said.

Last January, Gov. Jerry Brown sparked an extensive debate about city funding by proposing to eliminate California's 400 redevelopment agencies. The state Legislature approved changes last week that would effectively end redevelopment. But in a dramatic twist, the governor vetoed the state budget and reversed those actions, leaving cities and school districts across the county in budget-limbo.



A sign congratulating Mayor Cheryl Cox on her election victory hangs on the front of a Gateway building.

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Supporters say redevelopment is a tool city leaders can use to transform blighted neighborhoods. It works by subsidizing construction projects and then capturing revenue from any subsequent swell to property values rather than allowing that tax money to flow to the county and state. There's a catch though – the money isn't supposed to be used for city operating costs, but it does free up funds the municipality would typically spend on economic development.

Critics say it only lines the pockets of developers and feeds pet projects of politicians.

Eric Crockett, Chula Vista's redevelopment director, said the foreclosure or possible refinancing of the \$33 million office building won't greatly impact city funds.

"It shouldn't affect the taxpayers," he said. "If the owner defaults on paying his mortgage, the worst case scenario is a reduction in the assessed value of the site."

But, the amount the city gets to keep in property tax revenue is dependent on the assessed value. How much could be lost remains unclear.

Currently, the redevelopment agency receives about \$210,000 annually in gross tax increment revenue from the construction of that building, Crockett said. The figure, collected from property taxes paid by the owner, could plummet along with the assessed value if and when the foreclosure process is complete.

Tenants of Gateway 2 include the San Diego County District Attorney's South Bay office, and Mountain West Real Estate, Inc., the real estate firm owned by Pieri. Those entities pay rent to the owner. The DA's office pays nearly \$80,000 a month for its office space, and Pieri pays the property taxes — any increases over time to those property taxes would theoretically be kept by the redevelopment agency after state-mandated funds are set-aside for schools and affordable housing.

City officials knew trouble was brewing, but did not alert the city council.

In April, Mayor Cheryl Cox signed an amendment to the development agreement that changed limited liability ownership of the property.

Councilman Rudy Ramirez and Councilwoman Patricia Aguilar both said they had no idea Cox had signed the document or that the owner was facing problems with the financing until this week.

"I think this information vindicates the concerns that have been expressed throughout the history of this project and with the city's involvement in it," Ramirez said. "If it is in foreclosure, then it is going to have negative financial repercussions to the city. It vindicates some of the people who have called for more caution in the way we do redevelopment."

A mayoral spokesperson said he is researching the issue, but has not yet provided a comment.

In 2000, the city approved \$7.1 million in redevelopment funding for the entire Gateway project, which includes three office buildings and a parking structure in downtown near H Street and Third Avenue. So far, the city has paid around \$5 million of that. Amid concerns, the development agreement was modified in 2009 to remove \$2 million in financial incentives for the third phase of the Gateway project — a structure slated to begin construction in 2012.

"He (Pieri) isn't entitled to another dollar of redevelopment money or agency money or city money," Crockett said. "We do anticipate he will come back to us and ask for city participation though."

Gateway, the cornerstone of redevelopment in downtown Chula Vista, is currently the only major city-subsidized development project facing foreclosure, Crockett said. It is ranked third in assessed value for the amount of tax revenue it brings into the city behind Rohr Inc. on the bayfront and the Chula Vista Center downtown.

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The advertisement features a blue diamond-shaped logo on the left with the word "BEST" in large white letters, "SAN DIEGO'S" at the top, and "2010" at the bottom. To the right of the logo, the text reads "Vote for us again!" in a bold, italicized font, followed by "Best Furniture Store" and "Best Mattress Store" in a similar font. In the center, there is a photograph of a bed with a white headboard and a light-colored bedspread. To the right of the bed, the word "bedrooms" is written in a blue, lowercase font. On the far right, the "Mor" logo is displayed in a large, bold, black font, with the tagline "furniture for less" in a smaller, lowercase font below it.