



CITY COUNCIL AGENDA REPORT
MEETING DATE: 9/17/2024
DEPARTMENT: City Manager

SUBJECT:

ANNUAL REVIEW OF DEVELOPMENT AGREEMENTS

RECOMMENDED ACTION(S):

1. Conduct the annual review of Development Agreements between the City and the following parties:
 - a. USA Portola Properties, LLC (“Baldwin”);
 - b. Lennar Homes (“Lennar”);
 - c. Shea Homes (“Shea”);
 - d. Toll Brothers West, Inc. (“Toll Brothers”)

 2. Find that Baldwin, Lennar, Shea, and Toll Brothers are each in good faith compliance with its respective Development Agreements.
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EXECUTIVE SUMMARY:

State law and the terms of the City’s Development Agreements (“DAs”) require the City to conduct an annual review of active DAs for compliance with respective terms and conditions. “Good faith compliance” is established if the owner complies with every term and condition of its DA. In conjunction with the City Attorney’s Office, staff reviewed each of the DAs relative to the activity that occurred during the previous fiscal year to assess compliance. This report also provides a summary of the development activities associated with each property owner through Fiscal Year (“FY”) 2023-24. After conducting a review of each DA, staff recommends the City Council find each property owner to be in good faith compliance with the terms of their respective agreement.

The DAs enable the City to collectively seek reimbursement from the landowners for all costs associated with the annual review. Each year, the City escalates development fees as authorized in the Lake Forest Municipal Code and DAs. For example, the DA between Baldwin and the City specifies the annual adjustment is based on the Engineering News-Record (“ENR”) Building Cost Index for the Los Angeles Area. The annual adjustment, beginning July 1, 2023, is 2.7 percent. The DA between Toll Brothers and the City specifies the annual adjustment is based upon the change in the Consumer Price All Urban Index. The change beginning July 1, 2023, is 3.0 percent for Toll Brothers. The amount

due to the City is divided proportionately among the developers. Staff will provide each of the developers with a letter indicating the individual pro-rata share.

BACKGROUND:

Under Government Code Section 65865.1, the City must conduct an annual review of its DAs. During the review period, a property owner is required to establish good faith compliance with the terms and conditions of their DA. If the City Council finds and determines that an owner is not in good faith compliance, the City may terminate or modify the DA.

The City Council approved DAs with property owners in the Opportunities Studies Area dating back to 2008. Since 2009, the City Council has conducted annual reviews of active DAs. During each of these reviews, the City Council found that each firm has been in good faith compliance with its respective DA requirements and obligations. Table 1 outlines completed developments and corresponding final DA reviews. Those listed below are no longer subject to the Annual DA Review.

Table 1: Completed Developments

Developer	Final Development Agreement Review
KB Homes (Whisler Trust DA)	2013
Brookfield	2016
Trumark	2018
Shea/Baker Ranch Associates	2019
Toll Brothers (Parkside)	2019
Meritage Homes	2019
KB Homes (Portola Center Project)	2022
Landsea	2023

DISCUSSION:

This report includes the annual review of DAs active during FY 2023-24. The DAs require that the City notify the respective owners in writing at least 60 days prior to the date scheduled for annual review. Staff provided written notice of annual review to property owners on March 6, 2024. This DA review includes the following developers and related development projects:

- Portola Center* – Baldwin
- Serrano Summit* – Lennar

Teresina – Shea
 The Meadows – Toll Brothers

Current development is in various stages and the requirements of each DA vary based on site-specific conditions or other timing factors associated with each development project. The attached matrix summarizes each development project for FY 2023-24 (Attachment). The following narrative outlines each development project and the total number of units and permits issued through FY 2023-24.

A. Portola Center

Staff found the developers of Portola Center in compliance with the DA. Portola Center totals nearly 196 acres, bifurcated by Glenn Ranch Road east to west and Saddleback Ranch Road north/Portola Oaks Drive south. The City Council previously approved the development of single-family and multi-family homes, a mixed-use building with senior affordable apartments and commercial retail space, public and private neighborhood parks, and public trails at Portola Center. All single-family homes in Portola Center South have been constructed and sold. All but one lot of single-family homes in Portola Center Northwest have been constructed and sold.

Single-family units in Portola Center Northeast continue to be constructed. The mixed-use project consisting of senior affordable apartments and retail commercial space in Portola South completed construction last year.

Portola Center is generally separated into the three planning areas illustrated in Table 2 below.

Table 2: Portola Center Planning Areas

Planning Area	Developer	Number/Type of Units	Status
Portola Center Northwest	Baldwin	81 single-family units	81 permits issued to date
Portola Center Northeast	Baldwin	223 single-family units	102 permits issued to date
Portola Center South			
Areas R-3, R-5, R-6, and R-7	Landsea	230 single-family units and 251 multi-family condominiums (total of 481 units)	Construction complete, project closed out

Planning Area	Developer	Number/Type of Units	Status
Area 4	KB Homes	83 single-family units	Construction complete, project closed out
Senior Affordable Apartments/Retail	Baldwin (Community Housing Works)	Mixed-use development comprised of 57 affordable one-bedroom apartments for senior citizens, one apartment for an on-site manager, and 10,000 square feet of commercial retail space.	Construction complete

Permit Status FY 2022-23:

Baldwin

Of the 362 total units approved for development by Baldwin, 231 units have either been built or are under construction, as follows:

- Portola Center Northwest (The Oaks): Baldwin has been issued 81 of its 81 single-family permits.
- Portola Center Northeast (The Oaks): Baldwin has been issued 102 of the 223 total single-family units approved.
- Portola Center South (senior affordable apartments/retail): Baldwin worked with affordable housing developer, Community Housing Works, to construct the senior affordable apartments and retail space. Construction of the 57 affordable senior apartments and one-market-rate unit, along with 10,000 square-feet of retail commercial on the first floor, is complete.

B. Serrano Summit – Lennar

Lennar has completed construction of all 537 units. Once the acceptance of streets is satisfied, the project will be considered complete and no further review would be required in future years. Staff found Lennar in compliance with its DA.

C. Teresina – Shea Homes

Shea Homes completed constructing homes during FY 2021-22. The City Council accepted the last tract of streets during FY 2023-24; the project is considered complete and no further review is required in future years. Staff found Shea in compliance with its DA.

D. The Meadows – Toll Brothers

The Meadows is a 122-acre master planned development located at the southeast corner of Rancho and Bake Parkways. The development was approved by the City Council in 2020, allowing up to 776 units, a school site, parks, and open space. However, in March 2023, Saddleback Valley Unified School District (“SVUSD”) declined the school site. In the event the site was declined, the Development Agreement with Toll Brothers allows for up to 70 single-family residential units to be built on the site. In December of 2023, a Tentative Tract Map and Site Development Permit were approved by the City Council, enabling Toll Brothers to construct 57 single family units, referred to as *The Sequoias*.

At this time, 603 units are under construction or complete and occupied. The senior affordable units are currently under construction and are anticipated to be complete later this year. Staff found Toll Brothers in compliance with its DA.

Escalation of City Fees and Credits

Under the DAs, the City is required to apply a fee escalator to the costs of specified City fees and credits on July 1 of each year. The DA between Baldwin and the City specifies the annual adjustment is based on the ENR Building Cost Index for the Los Angeles Area. The annual adjustment, beginning July 1, 2023, is 2.7 percent. The DA between Toll Brothers and the City specifies the annual adjustment is based upon the change in the Consumer Price All Urban Index. The change beginning July 1, 2023, is 3.0 percent for Toll Brothers.

Subject to the City Council's final determination that the developers are in compliance with their respective DAs, staff would provide each landowner with a letter confirming the City's completion of the annual review process. In addition, the DAs require developers to share in the cost of conducting the annual review. For this review period, the cost of the DA review totaled approximately \$1,034. Staff will calculate each developer's pro-rated share based upon the total number of units approved within each DA and bill this amount to the developers.

FISCAL IMPACT:

There is no fiscal impact to the City associated with the review of the DAs. As specified in the DAs, the landowners will reimburse the City for costs associated with the preparation of the DA review. The reimbursement would be divided proportionately among the current developers.

ATTACHMENTS:

Development Agreement Matrix

Initiated By: Adrian Grijalva, Economic Development/Housing Manager
Submitted By: Keith Neves, Assistant City Manager
Approved By: Debra Rose, City Manager