The City of San Diego

Staff Report

DATE ISSUED: October 16, 2026

TO: City Council

FROM: Economic Development Department

SUBJECT: Request approval of the Disposition and Development Agreement between the City of San Diego and Midway Rising LLC, a Delaware limited liability company for the City-owned property located at 3500, 3250, 3220, and 3240 Sports Arena Boulevard within the Midway-Pacific Highway Community of San Diego and related actions.

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Council District(s): 2

OVERVIEW:

Request to approve the Disposition and Development Agreement (DDA) between the City of San Diego (City) and Midway Rising LLC, a Delaware limited liability company (Master Developer) for the redevelopment of the under-utilized, 48.5 acre City-owned real property located at 3500, 3250, 3220, and 3240 Sports Arena Boulevard within the Midway-Pacific Highway Community of San Diego (Property) into a mixed-use, affordable housing project (Project) and make related findings regarding the Project's fulfillment of economic opportunity objectives consistent with Government Code section 52201, certify Subsequent Environmental Impact Report (SEIR) No. PRJ-1106734 (SCH No. 2023120451), adopt California Environmental Quality Act (CEQA) Findings of Fact and Statement of Overriding Considerations, and adopt a Mitigation Monitoring and Reporting Program.

PROPOSED ACTIONS:

1. Certify Subsequent Environmental Impact Report (SEIR) No. PRJ-1106734 (SCH No. 2023120451) for the Project is compliant with the California Environmental Quality Act (CEQA)

and adopt the associated Findings of Fact, Statement of Overriding Considerations, and Mitigation Monitoring and Reporting Program.

2. Approve the Disposition and Development Agreement between the City and Master Developer for development of the Project on the Property and authorize the Mayor or his designee to sign the Disposition and Development Agreement.

3. Make findings regarding the Project's fulfillment of economic opportunity objectives and the value of the proposed transaction to the City, consistent with Government Code section 52201.

4. Waive the application of Council Policy 700-10 in reference to the DDA and the associated ground leases to the extent they are inconsistent with Council Policy 700-10 considering the unique nature of this transaction.

5. Authorize the Chief Financial Officer to accept and deposit all payments to the City under the DDA or the associated future ground leases or other agreements into General Fund Number 100000.

DISCUSSION OF ITEM:

Background

In September 2021, the City Council adopted Resolution R-313718 declaring the Property surplus under the State Surplus Land Act (SLA). The Property includes the existing Sports Arena site and five (5) additional City-owned parcels (ATTACHMENT A: Property Location). As part of this action, the City Council authorized the issuance of a Notice of Availability (NOA) seeking proposals from qualified development teams for the redevelopment of the Property.

In October 2021, the NOA (ATTACHMENT B: Notice of Availability) was released to the public, allowing developers to formally express interest in the opportunity to redevelop the Property for affordable housing. The NOA included a condition that future development of the Property includes *"renovation or replacement of the City's existing and operational current sports arena on the Property as a regional entertainment venue and operation of that venue for concerts, sports and other events consistent with similar arenas in large cities in the United States,"* and encouraged maximizing the development of affordable housing on the site. Five (5) responsive proposals were received. There were several months of evaluation and discussions with the proposing development teams, including the proposal submitted by Midway Rising (ATTACHMENT C: Midway Rising NOA Proposal).

In May 2022, City staff presented an evaluation of the responsive NOA submissions to the City Council and recommended three (3) proposals advance for further due diligence and economic analysis. The City Council adopted Resolution R-314119 expressing its preference to proceed with additional evaluation and negotiations only with those three development teams (ATTACHMENT D: R-314119).

In September 2022, the City Council adopted Resolution R-314340 (ATTACHMENT E: R-314340) authorizing the City to negotiate and enter into an Exclusive Negotiation Agreement (ENA) with Midway Rising, as Master Developer (ATTACHMENT F: Exclusive Negotiation Agreement). The ENA provided an initial two (2)-year term with two (2) additional one (1) year options to extend. The ENA was entered into on December 5, 2022, and remains in effect until the earlier of December 4, 2026, or approval of the DDA. All extensions of the ENA were exercised. Additionally, City and an affiliate of Midway Rising entered into an Interim Arena Lease effective August 1, 2024, to ensure current operations of the existing Arena through the same timeframe as the ENA, Council approved the

Second Amendment to the Interim Arena Lease on September 29, 2026, extending the term of the Interim Arena Lease until December 4, 2031, unless it is earlier superseded by a new lease under the DDA (ATTACHMENT G: Interim Arena Lease).

Throughout the term of the ENA, City staff and the Master Developer engaged in extensive, multi-year negotiations regarding the price and payment terms, establishing community benefits and the determination of the structure of the proposed redevelopment lease agreements. During this period, City staff presented nearly a dozen informational quarterly updates to the City Council regarding the status of negotiations and project progress, and six (6) closed session presentations with actions to allow the City Council to provide direction on price and payment terms as negotiations advanced.

In December 2024, City staff and Master Developer administratively exercised the first (1st) of the two (2) extensions to the ENA, allowing for an additional year of good faith negotiations to take place (ATTACHMENT H: First Extension to ENA). In October 2025, City was notified of the appellate court decision invalidating the voter-approved ballot measure that eliminated the building height restriction affecting the Property, which interrupted the process to move the negotiations forward for Council consideration in November 2025 as planned. In light of that appellate court decision, the City and the Master Developer agreed to exercise the second extension option under the ENA in order to maintain project momentum, continue negotiations and maximize options prior to bringing the DDA forward for Council consideration (ATTACHMENT I: Second Extension to ENA).

Following extensive negotiations, financial analysis and evaluation of the proposed transaction structure by the City in coordination with Jones Lang LaSalle (JLL), the City's independent third-party consultant, the City and the Master Developer have finalized the framework for the proposed redevelopment of the Property through a Disposition and Development Agreement (DDA) (ATTACHMENT J: Disposition and Development Agreement) and related implementing lease agreements maximizing the production of affordable housing on the Property. The City's Independent Budget Analyst (IBA) was present for the extensive negotiations and conducted its own analysis along with its third-party consultant, Kosmont Companies. The DDA ensures a transformative and catalytic, mixed-use redevelopment that delivers affordable and market-rate housing, a new multi-purpose arena, retail and commercial uses, and abundant public and park spaces. Once constructed all the development features and related amenities will provide extraordinary public benefits, thereby revitalizing the area and enhancing the quality of life not only for the residents immediately around the Property, but the greater San Diego region.

Since submitting its proposal, the Master Developer has conducted extensive community outreach seeking input and feedback throughout the process including:

- 70+ Outreach events and meetings
- 10 Community Workshops, held in every council district
- 29+ Meetings with the Midway-Pacific Highway Community Planning Group
- 11 informational updates at City Council Meetings

Collectively, the City and Master Developer have engaged with numerous stakeholders, government entities to ensure a Project meets the needs of San Diego for generations and catalyzes redevelopment of the Midway area.

Description of Midway Rising Project

The Project aims to transform the Property into a vibrant, mixed-use development featuring new homes offering units for a variety income levels, entertainment district, retail shops, dining, urban parks and open areas, and improvements to public infrastructure. The Project includes the demolition and removal of the existing 1960's era Sports Arena and construction of the following major components:

	Development Plan
Affordable housing	At least 2,000 affordable housing units, including at least 200 permanent supportive housing units.
Market-rate housing	2,254 market rate housing units
Arena	At least 380,000 square feet multi-purpose arena with 16,000 seats; subject to a permitted reduction to no fewer than 15,200 seats and a corresponding increase in per-ticket fees payable to the City.
Retail and commercial	A minimum of 123,500 and a maximum of 130,000 square feet; up to 6,500 additional square feet may be requested, subject to City approval and applicable reviews.
Parks and public space	8.2 acres of parks providing at least 610 recreational value points and 6.42 acres of public space
Parking	A minimum of 6,688 and a maximum of 7,392 passenger vehicle spaces, with specified bicycle, motorcycle, and electric vehicle spaces

The Project will be developed in multiple phases (ATTACHMENT K: Phasing Schedule) over many years and upon completion, is expected to represent the largest affordable housing development in California with 47% of all residential units restricted for affordable housing. The affordable housing program provides a range of affordability levels with an average affordability not exceeding 60% of Area Median Income (AMI), consistent with Master Developer's commitments reviewed and approved by the California Department of Housing and Community Development (HCD) **(**ATTACHMENT L: HCD SLA Technical Assistance Letters, October 2025 2026 and May 2026).

Additionally, the Master Developer is using considerable capital investment to fully improve the Property and surrounding area with significant public and private infrastructure improvements to improve the Property's viability and longevity for many decades into the future. The total estimated construction cost of the Project is approximately $4.2 billion dollars.

Real Estate Agreement Structure

The proposed real estate transaction structure was intentionally designed to address the complexity, scale and long-term phased development of a project of this magnitude while ensuring the delivery of significant and enforceable public benefits to the City of San Diego. Rather than a single agreement governing the entire redevelopment, the City and Master Developer negotiated a comprehensive framework of interconnected transaction documents that establish legal, financial, operational and development requirements necessary to deliver the Project over multiple phases and many years (ATTACHMENT M: Midway Rising DDA Framework). Collectively these agreements provide the City

with long-term oversight, performance protections, phased construction requirements, affordable housing obligations and development milestones intended to ensure meaningful community, economic and public infrastructure benefits over the life of the redevelopment while allowing the Project to advance incrementally as financing, permitting, infrastructure and construction milestones are achieved.

The overall structure of the real estate agreements include:

- **Disposition and Development Agreement (DDA),** will dictate the overall vision and parameters of the Project until full build out.
- **Horizontal Ground Lease** will serve as the lease across the site, including the existing arena and allow for the installation of infrastructure improvements and will be effective until all vertical development across the site is started.
- **Vertical Ground Lease(s)** for each of the pad sites within the development which will serve as the mechanism for construction of the vertical improvements and long-term use and operation of each development parcel within the Property.
- **Master Rent Administration Agreement** will be the legal mechanism for the Master Developer to calculate and administer the aggregated rent across the Market Rate Housing/Retail Ground Leases.

Disposition and Development Agreement

At the center of the transaction is the DDA, which serves as the master-governing agreement for the full redevelopment of the Property. The DDA establishes the overall expectations of the development conditions and lease agreement framework, required public benefits, affordable housing obligations, infrastructure requirements, performance milestones, financing obligations and remedies in the event of default. The DDA articulates the desires of the City as Landlord for redevelopment of city-owned property to the Master Developer. The DDA also includes the framework and forms for the future Horizontal Ground Lease and Vertical Ground Leases that will govern each phase of development as the project progresses over time and continues the desires of the City as Landlord through the DDA into the Leases. Subject to Council approval, the parties will enter into the DDA. Before closing escrow for any lease under the DDA, the Master Developer must complete key pre-development obligations, including due diligence, design, permitting, and securing financing necessary to initiate the applicable phase of the Project. Escrow will not close for the Horizontal Ground Lease (the first lease to occur under the DDA), until the Master Developer satisfies all the negotiated conditions precedent established in the DDA, ensuring that prior to commencement of the term of the Horizontal Ground Lease, Master Developer has its permits and financing in place to start construction of the first of three phases of horizontal improvements. Master Developer will commence construction of the second and third phases of horizontal improvements on a timeline outlined in a development phasing plan and a to-be-negotiated performance schedule that will be part of the Horizontal Ground Lease.

During the term of the Horizontal Ground Lease, City and Master Developer (or its qualified assignee) will enter into a Vertical Ground Lease for each development parcel within the Property in phases once all the negotiated conditions precedent established in the DDA are met for each particular Vertical Ground Lease closing.

Upon the close of escrow for each Vertical Ground Lease, the Master Developer will have its permits and financing in place and will be ready to move forward with breaking ground on the development project to be constructed under the applicable lease.

Key Terms within the DDA:

Lease Structure

- Master Developer to privately finance all initial construction of the Property
- City conveys a leasehold estate in the entire Property via the Horizontal Ground Lease, followed by a leasehold estate in each development parcel via various Vertical Ground Leases for phased development of the Project.
- Phased horizontal improvements precede vertical development.

Housing Requirements

- Minimum 2,000 affordable rental units delivered across five (5) phases, including a minimum of five hundred (500) studio and 1-bedroom units, a minimum of two hundred (200) 2-bedroom units, a minimum of two hundred (200) 3-bedroom units, and average affordability levels across all Affordable Units not exceeding 60% AMI.
- As described in Section 15 of the DDA, Affordable Units will be constructed and ready for occupancy on generally the same timeline as market-rate residential units, subject to exceptions allowing a specified number of market-rate units to precede a corresponding phase of Affordable Units temporarily.
- All Affordable Units will be subject to long-term affordability restrictions in compliance with Surplus Land Act requirements. The following table shows the projected unit counts on the effective date of the DDA.

AMI	**Studio or 1 Bedroom**	**2 Bedroom**	**3 Bedroom**	**Total**
61 to 80% AMI	70	60	50	180
51 to 60% AMI	180	100	100	380
31% to 50% AMI	560	240	170	970
30% AMI or below	240	120	90	450
Manager Units (unrestricted)	-	20	-	20
Total	1,050	540	410	2,000

- At least 200 Affordable Units reserved for permanent supportive housing.
- Market-rate housing: 2,250–2,254 units.

Entertainment Center Arena

- New multipurpose arena, 380,000 sq.ft., and 15,200–16,000 seats.

Retail/Commercial

- Retail: 123,500–130,000 sq.ft. (max 136,500 with City approval).

Parking & Transportation

- 6,688–7,392 passenger vehicle spaces, including 3,031 zero emission spaces (EV-capable, EV-ready, chargers).
- Bike and motorcycle parking, long- and short-term spaces.

Parks & Public Spaces

- The City reviews park plans at incremental design stages to confirm that the constructed parks will provide at least 610 recreational value points.

Park delivery is tied to residential occupancy as follows:

Before Certificate of Occupancy for residential unit	Minimum cumulative recreational value points
1,064th	153
1,702nd	244
2,552nd	366
3,191st	458
4,000th	610

- Parks are to be constructed under the Horizontal Ground Lease and become part of the Entertainment Center Ground Lease upon completion.
- The Entertainment Center Ground Lease tenant will be responsible for management and maintenance of the parks across the Project for the 85-year term of the lease.

Labor & Prevailing Wage

- Prevailing Wage Law applies; and Project Labor Agreements are required.
- Compliance with California Labor Code and City living wage requirements.

Monitoring & Reporting

- The San Diego Housing Commission monitors affordable housing compliance.
- Annual status reports, occupancy summaries, permit tracking, rent/income verification.

Transfers & Assignments

- Transfers to entities not affiliated with Master Developer are generally subject to City review/approval; strict restrictions on prohibited transferees.

Enhanced Infrastructure Financing District (EIFD) The parties anticipate formation of an EIFD with City and County participation. Formation of an EIFD remains subject to future City Council approval. If the EIFD is not formed or its public financing authority has not approved an acquisition agreement with Master Developer to pay for certain improvements to the Property within one year after the DDA effective date, the City must notify Master Developer and Master Developer then has 120 days from receipt of that notice to tell the City whether ~~it~~ Master Developer will terminate the DDA or can obtain alternative financing by the Horizontal Ground Lease closing. Alternative financing requires supporting evidence and City approval; the DDA provides an impasse resolution process if the parties cannot agree on alternative financing and termination rights if the parties still do not agree on alternative financing after going through the impasse resolution process.

Before opening the Horizontal Ground Lease escrow, the City and Master Developer must agree on a horizontal improvements financing plan identifying the infrastructure budget, sources and uses, funding timing, security and lien priorities, and performance schedule for the first phase of the horizontal improvements. This infrastructure financing plan requires City approval in its sole discretion. Closing of the Horizontal Ground Lease and each Vertical Ground Lease will require funding of the sources identified in the applicable financing plan as closing concurrently and satisfaction of various other applicable conditions specified in the DDA. Vertical developments require their own financing review and closing conditions.

Development Costs for Midway Rising Project

Development Type	Development Cost	% of Total Cost
Affordable	$1,588,000,000	37.6%
Market-Rate	$1,541,000,000	36.5%
Entertainment Center	$526,400,000	12.5%
Retail	$111,900,000	2.6%
Parking	$178,100,000	4.2%
Master Developer/ Infrastructure	$277,900,00	6.6%
Total	**$4,223,000,000**	**100.0%**

Key Terms of Horizontal Ground Lease Form

The Horizontal Ground Lease will initially encompass the full approximately 48.5-acre Property and serves as the primary governing document for construction of the site-wide horizontal improvements necessary to support redevelopment of the Project, including major infrastructure, utilities, circulation, grading, and public improvements. As individual development phases are ready to proceed, separate Vertical Ground Leases will be signed for discrete development parcels within portions of the Property corresponding to the various Project components, including affordable housing, market-rate housing, the entertainment center, retail and commercial uses, and public and park spaces. Upon signature of each Vertical Ground Lease, the applicable development parcel will transition from the Horizontal Ground Lease into the corresponding Vertical Ground Lease structure that will govern the long-term development, operation, and maintenance of that phase of the Project. The Horizontal Ground Lease Form is included as Attachment 11 to Attachment J the DDA.

The phased approach to these leases allows the City to maintain long-term oversight and accountability throughout the life of the project while ensuring development obligations remain tied to completion of the performance milestones necessary to deliver the Project.

Rent – During Horizontal Ground Lease Term

The City will receive consideration for use of the Property in the amount of $100,000 annually for 15 years during the Horizontal Ground Lease term. This is in addition to the rent received by the existing leases on the Property.

Interim Lease – Existing Arena (as approved by Council, September 2026)

The Horizontal Ground Lease contemplates absorbing portions of the Interim Arena Lease into the Horizontal Ground Lease upon escrow closing. Rent details in the Interim Arena Lease are incorporated into the Horizontal Ground Lease to accommodate ongoing activation of the existing Arena while site preparation, infrastructure and the new Entertainment Center site are under construction. The existing Arena is expected to be operated with its current rent structure until the new Entertainment Center opens however it's term will end in 2031.

Existing Arena Revenue

Amendments to the Interim Sports Arena Lease provide a continuation of the existing rent structure for the minimum monthly rent payments, with 3% annual increases through the extended lease term, consistent with existing rent structure. Monthly rent increases annually from $64,653 during the First Lease Year to $79,515.03 during the Eighth Lease Year and is illustrated in the table below:

Year 1	$64,653.00	December 4, 2024 (complete)
Year 2	$66,592.29	December 4, 2025 (complete)
Year 3	$68,590.36	December 4, 2026 (current period)
Year 4	$70,648.07	December 4, 2027
Year 5	$72,767.51	December 4, 2028
Year 6	$74,950.54	December 4, 2029
Year 7	$77,199.05	December 4, 2030
Year 8	$79,515.03	December 4, 2031

The Second Amendment continues the City's participation in revenue generated from qualifying ticketed events at the Sports Arena. The Lessee will continue to pay the current $3.00 per paid ticket sold during through Eighth Lease Years which is recognized in the current rent revenue structure. Lessee team events and events held by the City are excluded from the ticket fee.

Please note the third type of rent collected at the Sports Arena is defined in Section 4.5 of the Interim Sports Arena Lease as Percentage Rent and is not changed by the Second Amendment. Percentage Rent includes a percentage of revenue from activities for the Parking Lot, Telecom, Swap Meet, Naming Rights, etc. As detailed below:

25% Parking lot Usage
30% Parking Lot Rental
25% Swap Meet Usage
60% Naming Rights
55% Telecom Usage

Improvements and Alterations

The Second Amendment updates the process for improvements and alterations to provide the Lessee with reasonable operational flexibility during the extended interim period while preserving City oversight of significant improvements.

Once the conditions precedent, financing and other key performance requirements are met, the City will be able to close on the Horizontal Ground Lease. Master Developer’s construction of the horizontal improvements under the Horizontal Ground Lease will occur in three phases to ensure operations for the existing arena are intact while the new Entertainment Center, housing units, retail space, and parks are prepped for vertical construction. Attachment 10 of the DDA identifies the various horizontal improvements. The Horizontal Ground Lease will ensure infrastructure and site prep work occur within specified timelines and in accordance with City permitting processes.

Key Terms of Vertical Ground Lease Form – Entertainment Center

The term of the Entertainment Center Ground Lease will be for a maximum of 85 years. The Entertainment Center Ground Lease form is included as Attachment 16 to the DDA. Rent will consist of Ticket Charge Payments and Additional Rent, which expressly includes Capital Sales Event Payments. The tenant will be required to pay rent without offset or deduction. The initial Ticket Charge will be $1.50 per admission ticket during the partial lease year in which charges commence and the following full lease year, increasing by 3% annually thereafter. No Ticket Charge will accrue until the 10th anniversary of the final certificate of occupancy for the Entertainment Center, which is defined as the "Ticket Charge Payment Start Date."

Ticket Charge Payment Waterfall and IRR Hurdle Beginning on the Ticket Charge Payment Start Date, the tenant will pay 25% of the Ticket Charge attributable to each lease year. The remaining 75% will accrue and be deferred until the tenant achieves a levered 16.5% internal rate of return (IRR Hurdle) on its capital investment. Once the IRR hurdle is achieved, the tenant will apply 100% of annual net cash flow toward retiring accrued Ticket Charges. After all accrued Ticket Charges have been paid, the tenant will pay the full Ticket Charge to the City annually.

Levered IRR vs. Unlevered IRR:

Levered IRR: measures the return on equity investment using debt

Unlevered IRR: measure the return as if it were an all-cash investment with no debt

According to JLL, a levered IRR is a more representative measure of performance compared to unlevered IRR and given the risk associated with the performance of an entertainment center use, a 16.5% levered IRR is within the typical market range for this type of asset (entertainment center.)

Seat Count Adjustment and Long-Term Market Revaluation To preserve the City's potential Ticket Charge revenue, the per-ticket charge will be adjusted if the permanent seat count is reduced below 16,000 seats, provided that the seat count may not be reduced below 15,200 seats. In addition, Ticket Charges will be revalued on the first day of Lease Year 56 and Lease Year 71, to the greater of the scheduled annual escalator or fair-market charges for comparable arenas in the United States. These revaluations will be subject to caps of no more than a 17% increase for Lease Years 56 through 70 and no more than a 35% increase for Lease Years 71 through 85, in each case compared with the scheduled amount for the applicable year.

City Participation in Capital Sales Events Upon a Capital Sales Event (i.e., the tenant's sale or assignment to a third party), the proceeds will first be used to pay transaction costs, return the tenant to a 19% levered IRR based on the greater of its capital investment or outstanding secured debt, and reimburse qualifying capital improvements. The City will then receive 5% of the remaining proceeds, increasing to 10% if the tenant's total levered IRR equals or exceeds 30%; the balance will be retained by the transferring tenant. The same structure will apply to each subsequent Capital Sales Event. *(Note: The Capital Sales Event Structure is consistent across the Property for all lease types, except Affordable Housing leases which are not subject to the Capital Sales Event participation.)*

Absolute Net Obligations The lease will require the tenant to pay all costs and expenses associated with leasing, developing, and operating the premises. These obligations will include property and possessory interest taxes, utilities, management fees, and other expenses necessary to provide the City with a net return free of premises-related costs. The tenant also will be required to remit 100% of revenue to the City that is generated from any nonpermitted use within 30 days after receipt.

Any future designated Park areas will be added to the Vertical Entertainment Center Ground Lease as part of the leased premises upon completion of construction of each park.

Key Terms of Vertical Ground Lease Form – Market Rate Housing/Retail

The term of each Market-Rate Housing/Retail Ground Lease will be for a maximum of 85 years and will apply separately to each pad site. Rent will be structured to provide both a guaranteed minimum payment and a performance-based payment tied to the revenue generated by the leased premises. Rent will consist of Minimum Rent, Percentage Rent, and Additional Rent, which expressly includes Capital Sales Event Payments. The Market Rate Housing/Retail Ground Lease form is included as Attachment 15 to the DDA.

Market Rate Housing/Retail Leases Minimum Annual Rent Minimum Annual Rent under the Market Rate Housing/Retail Leases will be determined annually in accordance with the Master Rent Administration Agreement or the applicable Market Rate Housing/Retail Lease. Minimum Annual Rent will begin at $500,000 when the aggregate annual Percentage Rent from all Market Rate Housing/Retail Leases reaches that amount and will increase at increments of $500,000 and never decline, once it hits each dollar threshold shown below, that becomes the new Minimum Annual Rent.

Minimum Annual Rent thresholds are: $500,000
$1,000,000
$1,500,000
$2,000,000

Beginning after Minimum Annual Rent reaches $2 million, the amount will be recalculated every tenth lease year. At each recalculation, Minimum Annual Rent will be set at the greater of the then-current amount or 75% of aggregate Percentage Rent.

Percentage Rent Percentage Percentage Rent will be calculated as a specified percentage of Modified Gross Revenue, defined as Gross Revenue less applicable adjustments. The Percentage Rent rate will be 0.5% for Lease Years 0 through 55 and 2.5% beginning in Lease Year 56 through year 85.

The Modified Gross Revenue percentage will be subject to review and potential adjustment on the first day of Lease Year 56 and Lease Year 71 up to a maximum rate of 2.93% for Lease Years 56 through 70 and 3.38% for Lease Years 71 through 85.

This rent structure balances guaranteed minimum payments with revenue-based participation. It also provides for periodic review and adjustment of Percentage Rent and establishes procedures for distributing proceeds from Capital Sales Events, thereby protecting the City's long-term revenue interests while providing the tenant with a defined economic framework for operating and financing the development.

Master Rent Administration Agreement (MRAA) The purposes of the MRAA are to establish procedures for the Master Developer to calculate Minimum Annual Rent for the Market Rate Housing and Retail Leases for each Lease Year, per tenant. The Master Developer will allocate each Market Rate Housing/Retail Lease's share of Minimum Annual Rent in accordance with the formula that governs how much each tenant should pay toward the Minimum Annual Rent based on the number of Market Rate Housing/Retail Leases that are currently active across the development phases, and, under certain circumstances, assume responsibility for any underpayment or overpayment of aggregate Minimum Annual Rent or the share allocated to an individual Market Rate Housing/Retail Lease. The MRAA also establishes the Master Developer's responsibility for any failure by one or more

Market Rate Housing/Retail Lease tenants to pay their share of Minimum Annual Rent allocated to their respective Market Rate Housing/Retail Lease. The MRAA is included as Attachment 21 to the DDA

Total Projected Rents to the City:

Ground Rent Over Lease Term	Horizontal	Entertainment Center	Market-Rate Housing	Retail	Combined Total
Nominal	$1.5M	$114.5M	$731.9M	$48.4M	**$896.3M**
Net Present Value (Today's Dollars)	$764k**	$3.0M**	$19.0M*	$401k**	$23.2M

* Market-Rate Housing discount rate 5.0%
**Horizontal, Entertainment Center and Retail discount rate 7.5%

Key Terms of Vertical Ground Lease Form – Affordable Housing

The term of each Affordable Housing Lease will be 85 years and will apply separately to each pad site. Master Developer (or its assignee) is not expected to pay rent to the City under any Affordable Housing Lease. The City and Master Developer have not concluded their negotiation of the Affordable Housing Lease form. The DDA recites the key terms that will be included in the Affordable Housing Lease form and states that the parties will conclude their negotiation of that lease form within 180 days after they enter into the DDA. The completed lease form is anticipated to be presented for the City Council's consideration at a future date in 2027.

Regional and Local Economic Benefits:

An Economic Impact Report was procured by the City of San Diego with shared cost by the County of San Diego and conducted by Century Urban, LLC. (ATTACHMENT N: Century Urban Economic Impact Report). This report determined that the Project will have significant impact throughout the City of San Diego as well as the region. An excerpt from the Report are provided below.

The analysis is based on in-depth research and interviews with key City departments, County Staff and the County Assessor's Office to directly assess the potential impact of the Project on departmental budgets.

Summary of Findings: The analysis estimates net fiscal impacts of:

- $8.6 million to the City and $2.9 million to the County within the first 5 years.
- $24.9 million to the City and $18.0 million to the County within the first 10 years.
- $36.1 million to the City and $44.6 million to the County within the first 15 years.

A net fiscal benefit of $2.6 million to the City after 30 years, as City expenditures are projected to outpace revenues, primarily due to the effects of Proposition 13, and fiscal revenue of $235.9 million to the County. While the analysis results in a declining net fiscal benefit to the City over time, significant

increases in market values and/or sales tax revenues could result in a neutral or positive long-term fiscal impact beyond the 30-year period.

In addition to the estimated fiscal impacts, the Project is expected to deliver substantial economic benefits to the City and County:

- 23,610 total construction jobs in the region, including 19,320 within the City.
- $4.5 billion in direct construction activity, generating an additional $2.6 billion in induced and indirect economic output, of which a total of $5.8 billion is estimated to occur within the City.
- 1,200 net new permanent full-time equivalent jobs created over the 30-year operating period, including 980 within the City, through direct, indirect, and induced employment.
- A total long-term economic impact of $18.4 billion regionally, with $14.7 billion generated within the City.

Economic Opportunity (*excerpt from draft 52201 Report)

Keyser Marston Associates (KMA) prepared a summary report (Economic Opportunity Report) describing the "economic opportunity" that will be created by the Project consistent with California Government Code section 52200.2. ATTACHMENT O. In reliance on the Economic Opportunity Report, the Council will be required to make certain statutory findings specified in the proposed Council resolution. As described in the Economic Opportunity Report, the Property, is underutilized in its current condition, and redevelopment of the Property will provide significant and measurable public benefits to the City, as follows:

Employment Generation: The Project will generate direct employment during the construction process and create permanent third-party services, vendor, and operations employment upon completion. In total, this development is projected to create 19,320 construction jobs and 980 new permanent jobs in the City.

- **Tax Revenues:** Employment spending during the Project's construction period will generate temporary sales tax revenue to the City. The City will also benefit from long-term sales tax revenues generated by the entertainment center, commercial component, and residential household spending. Additional revenues will come from incremental property taxes that will be generated within the Midway–Pacific Highway Community planning area, excluding the proposed EIFD area.
- **Affordable Housing:** The Project will deliver affordable family housing for households ranging from Extremely Low to Low-income levels.
- **Entertainment Center:** The Project will deliver a 16,000-seat venue attracting events for San Diegans and visitors from outside the City.
- **Parks and Public Space:** The Project will deliver parks and open space on a site that currently lacks this amenity.
- **Mobility:** The Project will deliver on-site street improvements, linear parks, bus rapid transit (BRT) facilities, and an event/employee shuttle service. It will also deliver off-site infrastructure improvements, including street, roundabout, intersection, traffic signal, and bridge improvements.

The Economic Development Opportunity Report will be included for City Council's public hearing as ATTACHMENT O to this report.

Economic Development Subsidy

Consistent with California Government Code section 53083, KMA also prepared a report summarizing the proposed Eeconomic development subsidies toward the Project, intended to facilitate redevelopment of the Property, encourage private investment, create jobs, and generate additional tax revenue for the City (Economic Subsidy Report). ATTACHMENT P. As described in the Economic Subsidy Report, the anticipated public benefits and projected economic impacts include:

- **EIFD:** EIFD Funding Sources will fund qualified EIFD improvements. This revenue, generated from each agency's share of property tax increment, is estimated at approximately $1.16 billion on a future value basis, or $147.6 million in present value terms, and will flow into the EIFD to support payments to the Master Developer. Under (a future) acquisition agreement, the EIFD funding sources will be used to pay the purchase price for qualified EIFD improvements, which consists of reimbursement of the actual costs of constructing the improvements (currently estimated at $462 million in 2026 dollars), plus a Master Developer Cost of Capital accruing at not more than 3% compounded annually, not to exceed the total EIFD funding sources available.

- **End date of the Subsidy:** The currently anticipated end date of the EIFD will be the earlier of: (a) 45 years from the date of the first EIFD bond issuance or, if no bonds are issued, 45 years from the date the City or County approves a loan to the EIFD; (b) the date on which the EIFD has fully paid the purchase price to the Master Developer under the acquisition agreement; or (c) such earlier date as may be established under the terms of the Acquisition Agreement. All information about the proposed EIFD is speculative as of the date of this report because none of this information will be known until the statutory EIFD formation process is completed and the public financing authority for the EIFD takes certain actions.

- **Tax Revenues City:** Over a 30-year operating period, total recurring tax revenues to the City, after diversion of property tax to the EIFD and Redevelopment Property Tax Trust Fund (RPTTF) obligations, are estimated at $151.6 million.

- **Tax Revenues County:** Over a 30-year operating period, total recurring tax revenues to the County, after diversion of property tax to the EIFD and RPTTF obligations, are estimated at $121.1 million.

- **Job Creation (Construction):** Development of the Project is expected to generate 23,610 total construction jobs Countywide, including 19,320 within the City.

- **Job Creation (Permanent)**: At buildout, an estimated 1,200 net new permanent full-time equivalent jobs are projected to be created Countywide, including 980 within the City.

The Economic Development Subsidy Report will be included for City Council's public hearing as ATTACHMENT P to this report.

Staff Recommendation

To maximize public benefit and consistent with Council Policy 700-10, which prioritizes long-term leasing over disposition of surplus City-owned property, the City engaged in extensive negotiations to secure terms that preserve City ownership, reduce operational impacts, and advance public-serving goals. As a result, the City pursued a standard development structure: a Disposition and Development Agreement paired with a long-term Ground Lease. This structure ensures that, at the end of the lease term, the City will receive the overall benefit of 2,000 affordable housing rental units, over 14 acres of

parks and public spaces, retain the fully improved arena, mixed-use market rate residential and retail buildings, and recapture value through residual receipts, to benefit from the broader economic and community impacts of the redevelopment.

The DDA, including the associated ground leases, memorializes a unique, heavily negotiated real property transaction for the multi-phased, complex redevelopment of a large City-owned site. Accordingly, the DDA and the associated approval process depart from the City's normal real property disposition procedures in Council Policy 700-10. City staff recommends that the Council expressly waive the application of Council Policy 700-10 in reference to the DDA and the associated ground leases to the extent they are inconsistent with Council Policy 700-10 considering the unique nature of this transaction.

Therefore, staff recommends that the City Council approve the proposed actions.

CITY OF SAN DIEGO STRATEGIC PLAN:

This action relates to the Strategic Plan's Priority Area: *Create Homes for All of Us* by converting underutilized City assets into a mixed-use development that delivers 2,000 affordable and 2,250 market rate housing units.

This action also related to the Strategic Plan's Priority Area: *Protect & Enrich Every Neighborhood*. Through the requirement within the NOA to either renovate or construct a new multi-purpose venue, the history of the Midway District as a destination for large-scale events is being protected while the area immediately around the new entertainment venue is being enriched with housing, retail, and public spaces that will have a ripple effect for businesses throughout the District.

This action also related to the Strategic Plan's Priority Area: *Advance Mobility & Infrastructure*. This Project will provide needed improvements and enhancements to surrounding streets and facilities.

This action also related to the Strategic Plan's Priority Area: Champion Sustainability. The Master Developer is committed to compliance with all requirements of the Zero Emissions Municipal Buildings and Operation Policy as outlined in Council Policy 900-03, which establishes zero-emissions targets for municipal facilities and operations by 2035.

This action also related to the Strategic Plan's Priority Area: Foster Regional Prosperity by converting underutilized City assets into a mixed-use development that delivers a 16,000 square foot entertainment venue, 130,000 square feet of retail space and 14.5 acres of public spaces. This Project will not only have an economic impact of $21.6 billion but is also expected to create 25,870 total jobs for the region, including 1,310 net new permanent fulltime equivalent jobs.

FISCAL CONSIDERATIONS:

The structure of the negotiation and drafted agreements is based on a participation structure that allows for a privately financed redevelopment of the Property by Midway Rising and existing rents from Leases on the Property continue to flow to the General Fund until the first Vertical Lease is executed. This is currently estimated at $1,800,000 annually, rents are already deposited into General Fund.

Within the DDA, Master Developer, Contractor and subcontractors will Participate in the City's Business Cooperation Program through the construction of the Project and dedicate all eligible Use Tax to the City as allowed by CDTFA.

Within the DDA, Master Developer will pay for a designated City management-level employee (program coordinator or above) as the primary contact person between Master Developer or any Vertical Developer, and City for processing Approvals. In City's sole discretion, City may hire a Third Person consultant to be the City Project Coordinator on either a short-term or long-term basis. The cost of the City Project Coordinator position will be completely paid for by Master Developer during the period beginning on the Effective Date and continuing through the June 30 for 20 years and the Master Developer will make annual advance payments to City of the total cost of the Project Coordinator position for each applicable City fiscal year. The total amount estimated to be received for the Project Coordinator position is estimated to be $5,000,000. The funds will need to be deposited into 1613 for use by the Economic Development Department.

Upon future execution of the Horizonal Ground Lease, the City will receive a flat, base rent amount totaling $100,000 annually for 15 years. The total amount estimated to be collected on the Horizontal Ground Lease nominal amount is estimated to be $1,500,000.

Upon future execution of various Vertical Ground Leases, the City will receive rent associated with the structure of the lease based on the use. There will be no rent collected on Affordable Housing Leases. The total amount estimated to be collected on the Entertainment Center Lease nominal amount is estimated to be $114,500,000. The Market Rate Housing Ground Lease is subject to the Participation Rent structure with Minimum Rent thresholds and after $2,000,000 annually becomes a portion of the modified gross revenue at 0.5% for the first 55 years and 2.5% years 56-85. The total amount estimated to be collected on the Market Rate Housing Ground Lease(s) is $731,900,000. The Retail Ground Lease(s) are also subject to the Participation Rent structure with Minimum Rent thresholds and after $2,000,000 annually becomes a portion of the modified gross revenue at 0.5% for the first 55 years and 2.5% years 56-85 which is the same structure as the Market Rate Housing Ground Lease(s) and. The total amount estimated to be collected on the Retail Ground Lease(s) is $48,400,000.

The combined estimated total of all Ground Lease rent structures is $896,300,000. When the existing leases and the Project Coordinator costs are added to the total estimated consideration to the City, the amount exceeds $900 million.

Note: EIFD considerations are not part of fiscal considerations as this item is related to but not approving a future EIFD.

CHARTER SECTION 225 DISCLOSURE OF BUSINESS INTERESTS:

Midway Rising, LLC, a Delaware limited liability company, is wholly owned by Midway Rising Partners, LLC., a Delaware limited liability company. Midway Rising Partners, LLC is 90 percent owned by ESK Midway Rising Investor, LLC, a Missouri limited liability company, which is 100 percent owned by E. Stanley Kroenke, who therefore holds a 90 percent indirect ownership interest in Midway Rising, LLC.

The remaining 10 percent of Midway Rising Partners, LLC, is owned by Midway Rising GP, LLC , a Delaware limited liability company. Midway Rising GP, LLC, is 50 percent owned by Zephyr Midway Rising, LLC, a Delaware limited liability company, and 50 percent owned by Legends Venue Management, LLC, a Delaware limited liability company. As a result, all other partners in the transaction indirectly own less than 10% of Midway Rising, LLC. The organizational chart for Midway Rising, LLC, is Attachment Q: Master Developer Organization Chart.

ENVIRONMENTAL IMPACT:

On September 28, 2018, the City, as Lead Agency, certified the Revised Final Program EIR No. 561546/ SCH No. 2015111013 for the Midway-Pacific Highway Community Plan Update (Midway-Pacific Highway CPU PEIR). Additionally, the City adopted Findings, a Statement of Overriding Considerations, and a Mitigation Monitoring and Reporting Program. The Midway-Pacific Highway CPU PEIR analyzed environmental impacts associated with the proposed community plan update. The Midway-Pacific Highway CPU PEIR analyzed the redevelopment of the Project site with commercial retail, office, and residential uses, with and without the Sports Arena.

The City prepared a tiered SEIR as it was determined to be within the context of the Midway-Pacific Highway CPU Revised PEIR, taking into consideration changes and revisions to the proposed project that could trigger new significant or more severe effects than those identified in the Midway-Pacific Highway Revised PEIR. The SEIR was prepared in compliance with CEQA (California Public Resources Code Section 21000 et seq.) and the CEQA Guidelines (California Code of Regulations, Title 14, Section 15000 et seq.) Based on the analysis conducted, the SEIR concluded that the Project would result in significant but mitigated environmental impacts in the following areas: Transportation and Circulation, Noise, Health and Safety, and Air Quality. The SEIR further concluded the Project would result in significant and unavoidable impacts on the following: Land Use, Transportation and Circulation, Historical and Tribal Cultural Resources, and Noise. All remaining issue areas analyzed in the SEIR were determined to have no impact.

Both the Revised PEIR and the SEIR can be found on the City's CEQA webpage via the following link: https://www.sandiego.gov/ceqa/final?search=Midway&dept=All.

CLIMATE ACTION PLAN IMPLEMENTATION:

The Project supports Strategy 3 Mobility and Land Use. Located within a Transit Priority Area, the Property is served by public transit and provides opportunities for convenient access to alternative transportation options, nearby retail and amenities, and contributes to a reduction in vehicle miles traveled and reduced greenhouse gas emissions.

EQUAL OPPORTUNITY CONTRACTING INFORMATION:

The DDA and related ground leases will comply with applicable Equal Opportunity Contracting requirements. The Master Developer and its future subtenants and licensees and their respective contractors and subcontractors will be required to submit all applicable disclosures and adhere to prevailing wage and project labor agreement terms.

PREVIOUS COUNCIL AND/OR COMMITTEE ACTIONS:

On September 23, 2021, the City Council adopted a superseding resolution that again declared the 48.5-acre Sports Arena site as surplus land under the Surplus Land Act, replacing the August 9, 2021 resolution, R-313689, in its entirety and continuing the related waiver of Council Policy 700-10.

On May 31, 2022, the City Council expressed its preference that the City conduct detailed due diligence and economic analysis solely on the proposals submitted by Hometown SD, Midway Rising, and Midway Village+ in response to the City's Midway Notice of Availability process under the Surplus Land Act.

On June 22, 2022, the City Council approved a consulting agreement with Jones Lang LaSalle Americas, Inc. for a term of up to five years and up to $250,000 annually to assist the City in conducting due diligence and economic analysis of the redevelopment proposals received through the Midway Notice of Availability process.

On September 21, 2022, the City Council first determined that negotiating and entering into an Exclusive Negotiation Agreement (ENA) with Midway Rising for the potential leasing and redevelopment of the Sports Arena site was exempt from the California Environmental Quality Act (CEQA) under Section 15061(b)(3) of the CEQA Guidelines. On the same date, the Council also authorized the Mayor or designee to negotiate and enter into the ENA with Midway Rising for the potential future redevelopment of the site.

On March 19, 2024, the City Council adopted a resolution supporting the exploration of an Enhanced Infrastructure Financing District (EIFD), or similar alternative funding mechanism, to help facilitate redevelopment of the 48.5-acre City-owned Sports Arena site within the Midway District.

September 25, 2025 the Planning Commission recommended approval of Project to the City Council.

Most recently, on September 29, 2026 the City Council adopted a resolution approving the Second Amendment of the Percentage Lease to continue operations for the existing arena for an additional five years beyond the current term, expiring in 2031.

KEY STAKEHOLDERS AND COMMUNITY OUTREACH EFFORTS:

Beginning in fall 2022, the Midway Rising development team embarked on a comprehensive, multi-year outreach campaign to share general project information, provide progress updates, address concerns and answer questions from elected officials and City staff, Midway-Pacific Highway Community Planning Group members, Midway property owners, businesses and residents, third-party business advocacy, civic and nonprofit organizations, and the general public. There have been 65+ Outreach events and meetings; 10 Community Workshops, held in every council district
25+ Meetings with the Midway-Pacific Highway Community Planning Group; and 11 informational updates at City Council. Below is a list of the Informational community workshops held in each council district.

Midway Rising Informational Workshops

- Wednesday, Feb. 8, 2023 – EF International Language Campus, District 2
- Thursday, May 18, 2023 – San Diego Central Library, District 3
- Tuesday, Sep. 12, 2023 – Hilton Garden Inn Mission Valley, District 7
- Wednesday, Nov. 29, 2023 – *HYBRID ZOOM WEBINAR FORMAT* / Jacobs Center, District 4
- Tuesday, May 7, 2024 – Mission Bay High School, District 1
- Wednesday, Aug. 7, 2024 – The Heights Country Club, District 5
- Tuesday, Oct. 22, 2024 – Encore Event Center, District 6
- Tuesday, Dec. 10, 2024 – Pacific Highlands Ranch Library, District 1
- Monday, Mar. 24, 2025 – Otay Mesa Nestor Library, District 8
- Monday, Jun. 30, 2025 – City Heights/Weingart Library, District 9
- August 9, 2026 - Midway Rising Community Conversation - Senator Akilah Weber Pierson

Christina Bibler

Casey Smith

Director, Economic Development Department

Chief Housing and Community Development Officer

Attachments:

ATTACHMENT A: Property Location

ATTACHMENT B: Notice of Availability (NOA)

ATTACHMENT C: Midway Rising NOA Proposal

ATTACHMENT D: R-314119 (Shortlist)

ATTACHMENT E: R-314340 (Final Selection)

ATTACHMENT F: Exclusive Negotiation Agreement (ENA)

ATTACHMENT G: Interim Arena Lease & Amendments

ATTACHMENT H: First Extension to ENA

ATTACHMENT I: Second Extension to ENA

ATTACHMENT J: Disposition and Development Agreement

ATTACHMENT K: Phasing Schedule

ATTACHMENT L: HCD SLA Technical Assistance, October 2025 and May 2026

ATTACHMENT M: Midway Rising DDA Framework

ATTACHMENT N: Century Urban Economic Impact Report

ATTACHMENT O: Economic Opportunity Report under Government Code section 52201*

ATTACHMENT P: Economic Development Subsidy Report under Government Code section 53083*

ATTACHMENT Q: Master Developer Organizational Chart

ATTACHMENT R: Appraisal

*Attachment O and P are currently in draft form and will be available for City Council public hearing.