SANTA BARBARA MTD

BOARD OF DIRECTORS REPORT

MEETING DATE: SEPTEMBER 8, 2026 **AGENDA ITEM #: 6**

TYPE: ACTION ITEM

PREPARED BY: GENERAL MANAGER JERRY ESTRADA

REVIEWED BY: GENERAL MANAGER JERRY ESTRADA

SUBJECT: **Authorize the General Manager to Execute First Amendment to Option Agreement and Lease Agreement Regarding MTD's Calle Real Property**

RECOMMENDATION:

Staff asks that the Board of Directors, per the *ad hoc* committee's recommendation, approve and authorize the General Manager to execute the attached First Amendment to Option Agreement and Lease Agreement ("First Amendment") with CA Calle Real Owner LLC ("ConAm").

DISCUSSION:

Property History

MTD owns approximately 18.93 acres of real property in the unincorporated area of Santa Barbara County ("Property"). MTD purchased the Property in 1985 with the intent to one day develop a bus terminal; however, MTD acquired another site for that purpose and the Property became available for alternative uses. Through a series of planning efforts by the County of Santa Barbara and with the support of MTD, the Property is designated by the County as one of two primary housing opportunity sites in the Eastern Goleta Valley Community Plan and is zoned as follows: 10.2 acres (DR-20), 6.8 acres (DR-0.2) and the approximately 1.93 acre western-most parcel is zoned DR-20.

California Public Utilities Code Section 99420 authorizes MTD to enter into agreements with private developers for the "joint development" of real property. The purpose of the joint development may be for residential use that fosters transit use or the integration of land use and transportation. "Joint development" includes the joint planning of property related to transit facilities operated by MTD. The proposed project contemplated in the First Amendment facilitates the joint planning between MTD And ConAm of a transit-oriented development project adjacent to MTD's Service Line #7. The proposed development would be a transit-oriented, multifamily rental housing project adjacent to MTD's Service Line #7 that provides additional ridership for MTD's existing service lines and allows MTD the opportunity to expand service throughout its service area.

MTD's participation in the joint development would be limited to the joint planning of the project. Through this joint planning effort, which has taken place over the past years, MTD and ConAm have agreed on the type of residential development, the number of units, the required level of affordability, and the required improvements and amenities so the development will integrate MTD's existing Service Line #7, as well as the ability to access other MTD lines. ConAm would be responsible for the entitlement, construction, operation, and maintenance of the project. MTD will not provide financing for the project or participate in the construction, operation, or maintenance of the project.

The Project

Through the joint planning completed by ConAm and MTD, the project will be a transit-oriented development with 360 residential rental units with not less than 15% of the total units affordable to very-low, low-, and moderate-income households. The affordable units would be income-restricted through recorded long-term covenants. The project would include onsite amenities for the residents and an after-school learning center. The project includes two new bus stops along Calle Real to facilitate increased ridership from the project and the surrounding areas. The project is adjacent to MTD's Service Line #7 and the new bus stops and improved access trails will allow easy access for new residents as well as provide the opportunity for MTD to expand its operations throughout its service area.

The project must be reviewed and approved by the County of Santa Barbara and other government agencies with jurisdiction over the property, which may result in minor changes to the overall project.

Option Agreement

An "option to ground lease agreement" is a written agreement between two parties specifying a period in which the "optionee" is provided the exclusive opportunity to enter a long-term ground lease, subject to certain terms and conditions. On September 6, 2022, MTD and ConAm RE Investments LLC entered into an Option Agreement ("Option") for the Property. ConAm RE Investments LLC then assigned its rights in the Option Agreement to ConAm, as permitted under the Option Agreement. The Option Agreement allowed ConAm time to investigate the Property, process the necessary entitlements, and secure the financing to develop the Project. Because the Option allows for the possibility of the parties entering a long-term ground lease ("Ground Lease"), the Option includes as an exhibit the form long-term ground lease that would be entered into if ConAm exercises the Option. If ConAm does not meet the terms and conditions of the Option or elects not to exercise the option, the Option would terminate, and the Ground Lease would not be entered into by the parties. If ConAm does not exercise the Option pursuant to the terms and conditions of the Option, MTD may select another development team to enter negotiations.

The Option provides ConAm thirty months to exercise its option to enter the Ground Lease. During the first eighteen months of the Option term, ConAm will (i) complete its due diligence of the property; (ii) prepare and submit to the County an application for the project; and (iii) receive an application completeness determination from the County. Before it can exercise the Option, ConAm must obtain all discretionary approvals and provide evidence that it has secured sufficient financial resources to develop the project. ConAm can extend the term of the Option through additional payments.

The Option cannot be exercised unless ConAm receives all discretionary approvals from the applicable government agencies. The Option does not allow or authorize any development of the property but instead provides ConAm a period of time to decide whether it wants to develop the property, and if it does, time to gain all permits and secure the necessary financing. If ConAm is unable to obtain the necessary entitlements or cannot secure the necessary financing, it cannot exercise the option.

Ground Lease

If ConAm exercises its rights under the Option to enter the Ground Lease, it will have the right to develop, operate and maintain the Project. The Ground Lease term is 99-years, which is required for ConAm to obtain the necessary financing to develop the Project. For a discussion of the reasons MTD decided to enter a long-term ground lease rather than selling the Property or entering into a formal partnership with a developer, please refer to the Staff Report dated September 6, 2022.

FIRST AMENDMENT TO OPTION AGREEMENT AND LEASE AGREEMENT

MTD and ConAm agree that the Option Agreement needs to be amended so that ConAm can develop the Project in a financially sustainable manner and within a specific time period. Over the last several months, the parties have negotiated the First Amendment, which reflects the changes to the Option and Ground Lease that are needed to progress the Project through development to operation.

The key amendments to the Option Agreement are as follows:

1. The Project will include 360 rental units, 15% of which will be affordable to very-low, low, and moderate-income households, subject to recorded long-term affordability covenants.
2. The Project will include two new bus stops, one on each side of Calle Real.
3. The Project will include a dedicated location for after school and resident programming to be provided by ConAm or its qualified third-party provider.
4. The Project will include an expanded trail network and improved pedestrian access to MTD transit lines.
5. The Option term will expire on August 28, 2027 (“Initial Term”), which can be extended by two option extensions to December 31, 2029 (“Extension Term”) and December 31, 2030 (“Second Extension Term”).
6. During the Initial Term and Extension Term, ConAm will pay MTD $100,000 per quarter (“Option Payments”).
7. During the Second Extension Term, if exercised by ConAm, ConAm will pay MTD $118,750 per quarter.
8. If ConAm exercises the Option and enters the Ground Lease, it will be credited 50% of the Option Payments towards the Ground Lease rent, prorated over the first 4 years of the Ground Lease.
9. ConAm, at its election, may locate all affordable housing units on one, separate parcel; provided that all amenities within the entire project are available to all residents.
10. If ConAm fails to exercise its option and does not enter into the Ground Lease for any reason other than MTD’s uncured breach, ConAm will deliver to MTD, at no cost, all work product, excluding confidential, privileged and proprietary information, related to the Project. ConAm will also assign all third-party contracts related to the Project to MTD and MTD may, at its sole discretion, accept assignment of any, all or none of the third-party contracts.

The key amendments to the Ground Lease are as follows:

1. First Rent Period: From the effective date of the Ground Lease through the CO Date (as defined in the Ground Lease), the Annual Minimum Rent will be $475,000 per year.
2. Second Rent Period: From the end of the First Rent Period through the date on which 90% of the units are leased, the Annual Minimum Rent will be $712,500 per year.
3. Full Rent Period: From the end of the Second Rent Period the Annual Minimum Rent will be $950,000 per year, which will be adjusted every two years based on a formula provided in the Ground Lease.
4. The Percentage Rent (as defined in the Ground Lease) will be 8.5% of the Effective Gross Income for the current Operating Year.
5. ConAm does not have a right of first offer if MTD elects to sell or transfer the Property during the Lease Term.
6. ConAm will defend, indemnify, protect and save harmless MTD from any claims arising from ConAm's compliance with California Labor Code.

ATTACHMENT:

Option to Ground Lease Amendment 1