FORM GEN. 160

CITY OF LOS ANGELES

INTER-DEPARTMENTAL CORRESPONDENCE

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Council File No. 12-0709
Council District: 10

To: The Council

From: Miguel A. Santana
City Administrative Officer

Jan Perry
General Manager, Economic and Workforce Development Department

Subject: **REVISED TERMS FOR DIRECT SALE OF PROPERTY LOCATED AT 6000 JEFFERSON BOULEVARD TO COFFEE BEAN AND TEA LEAF FOR DEVELOPMENT**

SUMMARY

On October 23, 2012, Council determined that the City had no further municipal use for a vacant 3.6-acre property located at 6000 Jefferson Boulevard (Property) (C.F. 12-0709). On December 12, 2014, Council approved direct sale of the Property to a limited liability corporation controlled by Sunny Sassoon, Executive Chairman of the Board for International Coffee and Tea, LLC (Buyer) for the fair market value of $7,150,000 less a potential credit not to exceed $300,000 for remediation costs. The Council determination found that the sale and its associated terms were of economic benefit and best served the public interest. The Council's actions directed the City Attorney, in collaboration with the Economic and Workforce Development Department, to draft and execute documents necessary to transact the sale.

This report proposes to modify and finalize the terms of sale of the Property to the Buyer serving the same economic development purpose and for the same development proposal anchored by a campus that consolidates Coffee Bean and Tea Leaf's (Coffee Bean) headquarters and production facilities at the Property.

The terms of the transaction adopted by Council for direct sale of this Property were described in detail in a November 14, 2014 joint report from the Office of the City Administrative Officer and the Economic and Workforce Development Department. The terms originally proposed remain the same, with a few revisions to address issues related to financing the development that were not incorporated into the original deal terms, and to provide the City additional security related to the economic development benefits. Revisions to the deal points are summarized here, and further described in Attachment A:

- The Buyer has agreed to an expedited construction schedule, reducing the term for completion of the first phase of development from thirty-six (36) months to twenty-four (24) months. This revision reflects the City's desire to realize the economic benefits of the development in the most expeditious timeframe possible and reduces the term of risk related to the City's repurchase option and any associated development opportunity loss.

- The Buyer has also agreed to extend the City's right to repurchase the Property through the second phase of development, granting the City a vested right in the Property for a total of five (5) years.

- In order for the Buyer to obtain conventional lending for construction of improvements, the City must provide for terms of subordination or enter into an intercreditor arrangement. The revised terms proposed here retain the City's right to record a covenant in first position on the Property providing the strongest protection of the City's public benefit requirements and economic interests. An intercreditor agreement will be executed between the City and any construction or permanent lender providing that in an event of uncured default and foreclosure, the City agrees to terminate its covenant for payment of $1 million as fulfillment of the Buyer's obligations contained in the covenant.

- The original transfer provisions did not contemplate an allowable transfer of the property by the Buyer without the City's consent during the term of the 10-year covenant, and did not provide further recourse for the City after the termination of its right to repurchase at the end of year 5. These new proposed terms incorporate a provision for the Buyer to sell or transfer the Property with clear title in the event the Buyer is compelled to sell as the result of bankruptcy or a corporate merger/acquisition that impacts Coffee Bean's lease of the Property, leading to the Buyer's inability to meet the City's covenant requirements. As consideration for the release of the City's covenant triggered by these potential events, the City would receive a 50% share of all profit on sale up to $1 million. These provisions would remain in place until the covenant is naturally extinguished when the Buyer fulfills all the public benefit provisions and the City issues a Final Certificate of Completion.

The current recommendation will authorize the Economic and Workforce Development Department (EWDD) to enter into a Purchase and Sale Agreement with the Buyer and all associated documents including intercreditor agreements, open escrow, and provide the Buyer a nine-month due diligence period, with an option to extend for an additional nine months, during which the Buyer will investigate the Property for environmental contamination, and apply for and receive entitlements for development.

These recommendations are consistent with the guidance and advice of the City Attorney regarding the sale of City-owned property to serve the public interest or necessity. Administrative Code Section 7.27 provides that the City may determine that the public interest is best served by the direct sale of property without notice of sale or advertisement for bids. The Project will serve the public interest through providing economic development benefits to the City including the retention of existing jobs, the addition of net new jobs to the City, facilitating the expansion of an established company in the City, and moving a public property onto the tax rolls and into productive use.

Further Council actions will be necessary to complete the transaction and convey the Property, once the Project has received entitlement and completed environmental review pursuant to the California Environmental Quality Act (CEQA). The current actions to enter into the Purchase and Sale Agreement are accordingly subject to completion of the CEQA review.

RECOMMENDATIONS

That the City Council, subject to the approval of the Mayor, approve the revised terms of sale for the City-owned property at 6000 Jefferson Boulevard to a limited liability corporation controlled by Sunny Sassoon, Executive Chairman of the Board for International Coffee and Tea, LLC, and authorize EWDD and the City Attorney to finalize and execute the necessary documents to memorialize these terms, including but not limited to the Purchase and Sale Agreement, Covenant, and future intercreditor agreements.

FISCAL IMPACT STATEMENT

The proposed sale is for City-owned property located at 6000 Jefferson Boulevard in Council District 10 to Coffee Bean for the fair market value of approximately $7,150,000. The property is no longer needed for municipal purposes, pursuant to Council determination (C. F. 12-0709). Sale proceeds will be deposited into the Solid Waste Resources Revenue Fund. The proposed transaction is in accordance with Charter Section 385 (Sale of Property), and Los Angeles Administrative Code Sections 7.27 and 7.27.2.

BACKGROUND

The Property: 6000 Jefferson Boulevard

The Bureau of Sanitation acquired a 5.1-acre property at 6000 Jefferson Boulevard from Chevron in 1996 for the purpose of constructing a solid resources management facility for the West Los Angeles wasteshed. However, the property was never developed for that purpose. In 2010, a 1.5-acre portion of the parcel was developed as an air treatment facility. The remaining Property, measuring approximately 156,816 square feet (3.6 acres), is partially paved with asphalt but is otherwise unimproved, and is currently used by Bureau of Sanitation for storage of empty containers and vehicles. The Property has been formally subdivided, and has been determined by Council to have no further use for municipal activity (C. F. 12-0709).

The Property is zoned M1-1VL for Limited Industrial use, and is located within .5 miles of the La Cienega/Jefferson station of the Metro Expo Line light rail, providing mass transit options for workers and visitors. The Property is also located adjacent to the Hayden Tract, an industrial tract in Culver City that has seen significant private-sector investment in the past two decades as it has transitioned from an underutilized industrial district into a jobs-rich mix of uses including office, creative office, light manufacturing, advertising and technology. Coffee Bean's campus, with a mix of office and light manufacturing, may serve to jump-start an expansion of similar private-sector investment in Los Angeles' nearby industrial properties.

The Buyer

International Coffee & Tea LLC (Coffee Bean) is a privately-held company established in 1963 and based in Los Angeles. Coffee Bean will enter into a long-term lease for the property and is one of the world's largest specialty coffee and tea retailers, with nearly 1,000 stores operating worldwide employing over 5,100 workers. One hundred and sixty-eight of these stores are in Southern California, where the company employs over 2,000 workers.

A limited liability corporation controlled by Sunny Sassoon, Executive Chairman of the Board for Coffee Bean, will acquire the property for lease to Coffee Bean for development and operation.

The Project and Economic Benefits

The Project's minimum scope will include development of a 50,000 square foot facility housing office and light manufacturing space. Construction may be phased over a 5-year period with at least 25,000 square feet to be constructed within the first two years. The following table describes the economic impacts estimated to be created by development of the minimum Project.

Summary: Estimated Economic Impacts*	
Estimated Construction Jobs Created:	**121**
Total Permanent Jobs Created:	**200**
Estimated Gross Property Tax: Year 1 *(19% Received by City of Los Angeles: $51,585)*	**$271,500**
Estimated NPV of Gross Property Tax: 30 years *(19% Received by City of Los Angeles: $699,345)*	**$3,680,765**
Estimated Utility User Tax: Year 1 *(Revenue to the City of Los Angeles)*	**$16,236**
Estimated NPV of Utility User Tax: 30 years *(Revenue to the City of Los Angeles)*	**$259,000**
Business Tax Revenue: not estimated at this time	

*The figures provided in the table above are for estimation purposes only; actual fiscal impact or job creation may be higher or lower than these estimates. Standardized formulas were used to generate these figures and are based on accepted econometric practices and basic tax calculations taken from research performed by a variety of sources, including the Los Angeles Economic Roundtable, California Redevelopment Association, International Council of Shopping Centers, US Department of Housing and Urban Development, CRA/LA, and the City and County of Los Angeles.

Coffee Bean intends to develop additional facilities on the Property as it consolidates operations on the campus over a 5-year period, for a total of approximately 100,000 square feet of office and light manufacturing space for 400 permanent employees. The job and revenue impacts of this larger project would be significantly higher than the estimated figures provided in the table above. The sale will contribute to the economic development of the City by moving a public property onto the tax rolls as a site for employment and economic activity, and by providing a location for the consolidation and expansion of a Los Angeles-based company that has a critical need to relocate to larger facilities.

Attachment A: Revised Deal Points

MAS:JP/JR:JS
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ATTACHMENT A

Final Deal Terms for 6000 Jefferson Boulevard

Property: 6000 Jefferson Blvd., Los Angeles, CA 90016

Buyer: A single-asset, special-purpose Delaware limited liability company; whose manager will be Sunny Sassoon and members to be among select shareholders of International Coffee & Tea LLC (Coffee Bean)

Seller: City of Los Angeles (City)

Lessor: The Buyer

Lessee: The Coffee Bean & Tea Leaf (CBTL)

Purchase Price: Appraised Fair Market Value (FMV). February 2014 appraisal indicates a fee simple value of $7,150,000. Appraisal may be updated prior to close of escrow, which may result in a revised FMV reflecting site conditions discovered through due diligence.

Purpose: Buyer will develop the Property as corporate headquarters of CBTL, consolidating other primary operations of CBTL on the Property (Project).

Escrow Period: Commencing on full execution of a Purchase and Sale Agreement drafted by the City, escrow period should be for nine (9) months, to be extended upon Buyer's request for up to nine (9) additional months, during which time Buyer will secure entitlements for development, at Buyer's sole cost. Escrow can close following City's approval of entitlements and CEQA review.

Escrow Deposit: Deposit sum of $100,000 - $90,000 of which is refundable - to be applied towards Purchase Price, subject to the following:

a) Buyer's discretionary approval of customary due diligence of the Property, including its satisfaction with (i) City's approval of all entitlements for development of the Project, (ii) Phase I, and if necessary Phase II, Environmental Assessment Report(s), (iii) Geology Report regarding condition of the soils;

b) Terms of a satisfactory Purchase & Sale Agreement between the City and Buyer; and

c) Terms of a satisfactory Covenant Agreement between the City and Buyer, for CBTL to construct the Project and to house 200 living wage jobs in the Project, for a duration of not less than ten (10) years. The Covenant Agreement will require self-reporting from CBTL on an annual basis regarding employment numbers.

Due Diligence: During the escrow period, Seller will provide Buyer all available site documentation and right of entry to perform site testing, at Buyer's cost. If it is determined that environmental remediation is necessary to complete the Project, the City, at its sole discretion, can either:

a) Perform the required remediation before conveyance of the property to the Buyer, or

b) Discount remediation costs from the Purchase Price, up to a maximum level of $300,000, for Buyer to perform remediation, accept all liability, and indemnify the City against future claims related to environmental issues.

If necessary remediation costs are expected to surpass $300,000, City and Buyer shall negotiate in good faith, for a period not to exceed 60 days, to identify funds to pay for the estimated costs of remediation. If funds are not identified within this period, either party may terminate the Purchase and Sale Agreement.

Development: The phased Project will include between 50,000 and 100,000 square feet of office and industrial space.

Development of at least one Phase of the Project including 25,000 to 50,000 square feet shall be completed, as evidenced by the City's issuance of a Preliminary Certificate of Occupancy (COO), within twenty four (24) months from close of escrow. Development of additional Phases, including an additional 25,000 to 50,000 square feet will be completed, as evidenced by the City's issuance of a Preliminary COO, within sixty (60) months from close of escrow, subject to reasonable extension of Project completion period by the City.

Within twenty-four (24) months from close of escrow, if Buyer cannot show evidence of substantial progress (such as issuance of construction permits and start of construction) toward completion of the first Phase, the City shall have the right to re-purchase the property from the Buyer at the Fair Market Value.

The City's right to repurchase the property from the Buyer at Fair Market Value shall continue an additional thirty-six (36) months through the second Phase of development. The City may act on its right to repurchase only if the Buyer has not shown substantial progress towards development of an additional 25,000 square feet in this second Phase of development. The City's right to repurchase the Property will terminate at the earlier of: 1) evidence of 50,000 square feet of office and industrial space being available for occupancy, or 2) sixty (60) months after close of escrow. The FMV shall be based on Property having marketable title.

Transfer Provisions: Except for Permitted Transfers, the property cannot be sold or otherwise transferred to a third party during the term of the covenant without the City's consent. If the Buyer is compelled to sell the Property as the result of bankruptcy or corporate merger/acquisition impacting the CBTL lease on the Property after the Right to Repurchase period has expired but prior to fulfilling all requirements of the covenant, the City will agree to a Transfer of the Property and a removal of the City covenant provided that the City receives a 50% share of all profit on sale up to $1 million. Profit shall be determined based on value above the original Purchase Price plus reasonable and customary construction costs, certified by the City of Los Angeles at the City's cost in consultation with the Buyer.

Buyer Cooperation:	Buyer agrees to cooperate fully and reasonably with the City and City Attorney's Office in order to keep the City harmless from third-party legal actions related to the approval of the transaction, including environmental review, the terms of the agreement and development and use of the Development.
Intercreditor Agreement:	The City covenant will be recorded in first position at the close of escrow. The City agrees to enter into an intercreditor agreement with the construction lender containing reasonable notice and cure provisions and agreement that in an event of default and foreclosure the City will terminate its covenant for payment of $1 million as fulfillment of Buyer's obligations contained in the covenant. These provisions are extinguished along with the covenant once a Final Certificate of Completion is issued by the City to the Buyer noticing the Buyer's natural fulfillment of all public benefit obligations.