

JAN PERRY
GENERAL MANAGER

CITY OF LOS ANGELES
CALIFORNIA



ERIC GARCETTI
MAYOR

ECONOMIC AND WORKFORCE
DEVELOPMENT DEPARTMENT

1200 W. 7TH STREET
LOS ANGELES, CA 90017

May 19, 2015

Council File No.: 11-0054-S2
Council Districts: 8
Contact Persons and Extensions:
Jenny Scanlin, (213) 744-9723

Honorable Eric Garcetti
Mayor, City of Los Angeles
Room 303, City Hall

Attention: Mandy Morales, Legislative Coordinator

COUNCIL TRANSMITTAL: REQUEST AUTHORITY TO TRANSFER CITY-OWNED PROPERTY LOCATED AT 9402-9422 SOUTH BROADWAY FOR REUSE VALUE TO 94TH AND BROADWAY, LLC FOR CONSTRUCTION AND OPERATIONS OF A FULL-SERVICE SUPERMARKET IN SOUTHEAST LOS ANGELES

The General Manager of the Economic and Workforce Development Department (EWDD), respectfully requests that your office review and approve this transmittal and forward to the City Council for further consideration.

RECOMMENDATIONS

The General Manager of the EWDD respectfully requests that the Mayor and City Council:

1. HOLD a public hearing as required by Government Code Section 53083 regarding the proposed below market sale of an approximately 89,824 square foot City-owned property located at 9402-9422 South Broadway ("Site");
2. FIND under the California Public Resources Code, Section 21166 and the California Environmental Quality Act (CEQA), on the basis of substantial evidence contained in the whole record, that since the adoption of the Mitigated Negative Declaration (ENV-2011-1451-MND) by the City Planning Commission on September 22, 2011, for a mixed housing and supermarket project ("Mixed Use Project") which included the Project currently being proposed, there have been no changes to the Project, changes with respect to the circumstances under which the Project is being undertaken, or new information of substantial importance concerning the Project, which cause new significant environmental effects or a substantial increase in the severity of previously identified effects in the MND and

therefore no subsequent negative declaration, addendum or further environmental documentation is necessary;

3. ADOPT the Resolution (Attachment A) authorizing the sale of Site and making certain findings pursuant to Section 7.27.2 of the City Administrative Code that the conveyance of the Site at reuse value: (i) serves a public purpose and is for the economic benefit of the City; and (ii) the consideration to be received by the City is not less than the fair reuse value of the Site with the terms and conditions imposed;
4. ADOPT an Ordinance (Attachment B) providing for the sale of the Site to 94th and Broadway, LLC or an assignee as described herein, without notice of sale or advertisement of bids, as justified by the economic benefits the proposed Project will generate in the public interest;
5. AUTHORIZE the General Manager to negotiate and execute a purchase and sale agreement, grant deed, covenant and related documents with 94th and Broadway, LLC ("Buyer") or an assignee acceptable to EWDD for development and operations of the Site on terms consistent with this transmittal and to take such other actions as may be necessary to carry out the transaction, subject to the approval of City Attorney as to form and legality;
6. AUTHORIZE the General Manager to negotiate, execute and amend documents necessary to address security and intercreditor arrangements between the City and the Buyer's future tax credit investors and lenders that may be required for Buyer to reasonably finance development of the Project and are consistent with these actions subject to the approval of the City Attorney as to form and legality; and
7. AUTHORIZE the General Manager of EWDD to prepare Controller Instructions and any necessary technical adjustments consistent with the Mayor and Council actions, subject to the approval of the City Administrative Officer ("CAO"), and authorize the Controller to implement these instructions.

FISCAL IMPACT STATEMENT

The subject Site is a former asset of the City of Los Angeles' redevelopment agency ("CRALA") and was transferred from that agency's successor organization to the City in 2013 as a "Housing Asset." In accordance with State dissolution regulations, any revenue received from the sale or lease of such assets shall be deposited into the City's Low and Moderate Income Housing Asset Fund to further the City's affordable housing goals.

There is no impact on the City's General Fund as a result of these actions.

SUMMARY

The recommended actions will allow for the execution of a purchase and sale agreement between EWDD and 94th and Broadway, LLC, a California Limited Liability Company (“the Buyer”), for the development and management of a 25,000 square foot full-service supermarket with 108 surface parking spaces on the Site. The Site is currently an 89,824 square foot vacant property located at 9402-9422 South Broadway (See Attachment C). This Project will further the City’s goals of attracting private investment and cultivating goods and services as well as living wage jobs in Southeast Los Angeles. The Buyer will engage in a \$9.5 million new construction project on the Site and anticipates starting operations with at least 70 full-time equivalent living wage positions on site by 2016.

BACKGROUND

The Site

The Site, zoned C-2 and RD1.5-1, is approximately 89,824 gross square feet in size and has been vacant since 1993. In 2013, the Site was acquired by the City through its Housing and Community Investment Department as part of a State-sanctioned Housing Asset transfer from the CRALA. The Site, along with adjacent parcels, was home to the Broadway Hospital, serving South Los Angeles residents until the hospital shuttered in 1988. This larger portfolio of properties, consisting of approximately 4.2 acres, was acquired by the CRALA in the early 1990’s with the intent to develop affordable housing. Over the past two decades, approximately two of the original 4.20-acres acquired has been developed with three affordable housing projects, including AMCAL Housing’s recently completed 49-unit Broadway Villas Senior Project, which is currently leasing. In 2010, the remaining Site was re-envisioned to incorporate a full-service grocery store on the commercial corner, creating an active mixed-use concept serving the immediate affordable housing developments and the community at-large. Council approval of the above Recommendations will realize this vision and complete the development of the old Broadway Hospital properties, which has spanned two decades.

Direct Sale of Site

In 2007, the CRALA initiated a public solicitation of proposals for development of remaining vacant property at the Broadway Hospital site and entered into a Disposition and Development Agreement with AMCAL. Various development scenarios were considered as the market changed between 2007 and 2011, significantly modifying AMCAL’s original concept of constructing 50 affordable townhomes on the Site to a final proposal for a mixed-use development with senior housing and a 25,000 square foot neighborhood-serving grocery store (the “Mixed Use Project”). AMCAL received full entitlements for the Mixed Use Project from the Department of City Planning in 2011. On September 13, 2013, the City Council approved the Mixed-Use concept and took actions to issue \$7.5 million in tax-exempt multi-family housing revenue bonds and provide \$4.5 million in HOME funds to AMCAL for the construction of Broadway Villas, the 49-units affordable senior housing development envisioned as a part of the Mixed-Use Project (CF11-0054-S2). At the time these actions were taken, the transaction was

structured to ground lease the remaining vacant property to AMCAL, who would construct and manage the affordable housing project and lease the balance of the property to a commercial developer for construction and operation of the grocery store. However, the financing and development of the commercial component of this Mixed-Use Project has proven more complex and lagged behind the schedule for the affordable housing. Without a firm commitment from a grocery store and full financing available for its development, AMCAL and the City's Housing and Community Investment Department ("HCID") negotiated a limited ground lease only incorporating the housing portion of the property, leaving the subject Site to become a wholly separate transaction.

Buyer Selection

Southeast Los Angeles is an economically disadvantaged community, historically riddled with higher rates of poverty, unemployment, chronic disease and lacking fresh food access. Development of a neighborhood market would bring healthy food and a full-service supermarket in an area defined by the United States Department of Agriculture as a "Food Desert." In one of many efforts to reverse the social and health impacts associated with these Food Deserts, the California Endowment provided a grant to the Los Angeles Economic Development Corporation to work with the City of Los Angeles to identify sites for new markets in South Los Angeles and solicit potential market operators. In 2012, the Site at 9402-9422 S. Broadway was identified as a high priority and a marketing effort was engaged, reaching out through Unified Grocers and directly to over fifteen different grocery operators and parent companies to gauge their interest. All larger brand markets and their affiliates, such as Von's and Kroger, were approached in addition to regionally run markets, ethnic markets and specialty markets. The Site was seriously considered by Smart and Final, Northgate Gonzalez and SK Market, Inc. but was ultimately passed on by all for various reasons.

In June 2014, Numero Uno Markets, through its owner Nogales Investors, issued a Letter of Interest for the Site, and is in the process of securing New Market Tax Credit financing through the California Freshworks Fund to construct the improvements. The size and location of the market are a good fit for Numero Uno Market's portfolio of existing stores and trade area. Numero Uno Markets tailors its merchandise to the community with an emphasis on fresh produce and meats, and a wide variety of packaged products targeted to the demographics of the specific community. Numero Uno Markets emphasizes fresh produce in its store layout with the fruit and vegetable section prominently displayed at the entrance of the store. Each Numero Uno Market offers a full service meat counter, accepts all forms of federal and state assistance including WIC and CalFresh, has banned the sale of cigarettes in its stores and discontinued any public promotion of hard liquor. Additionally, fresh produce accounts for over 25% of their sales and one "junk-food-free" checkout aisle will be located in the store. Numero Uno Market intends to offer a free van service at the Site for customers requiring assistance returning home with their groceries. Additionally, as part of its community investment, Numero Uno Market will host quarterly health fairs in collaboration with health providers at the store, offering free medical services and information.

In September 2014, EWDD was brought in to assist HCID with structuring the disposition of the Site to Nogales Investors for economic development purposes and began the process of evaluating the deal and underwriting the value of the land.

Buyer and Operator Entity

Nogales Investors, the owner of Numero Uno Markets, has created a single-purpose entity, 94th and Broadway, LLC, a California limited liability company, to acquire the Site, construct the improvements, and operate the grocery store. The managing member of 94th and Broadway, LLC will be Numero Uno Acquisitions, LLC. Numero Uno Acquisitions, LLC is owned 100% by El Marchante Holdings, a Delaware Limited Liability Company. El Marchante Holdings is owned 54% by Nogales Investors, Fund II and 46% by El Mercado. Nogales Investors Fund II is the controlling member in interest and rights of operations. Nogales Investors Fund II is comprised 99% of institutional investors, such as LACERS and CalSTRS, and 1% General Partners. El Mercado is owned in equal parts by Breco Holdings and BEKS. Breco Holdings is 100% owned by Alfredo Brener, former owner and operator of Boys Markets in Los Angeles and Fiesta Markets in Texas. BEKS is owned 100% by Bernardo Garza, a high net worth investor.

Nogales Investors is a Los Angeles-based investment firm. Nogales Investors acquired the Numero Uno Markets brand and its eight existing stores in 2009 as part of its investment portfolio of middle market businesses. Since 2013, Numero Uno Markets has added two stores and has seen strong sales growth with their individual stores averaging annual sales over \$15 million.

The Project anticipates receiving New Market Tax Credits (NMTC) as well as a Community Development Block Grant (CDBG) loan from the City of Los Angeles. A separate entity, 94th and Broadway, Incorporated is being formed to receive and contribute funds to the Project in order to limit any tax liability that may occur. The NMTC tax credit equity provider has not yet been identified.

Deal Terms

Pursuant to Los Angeles Administrative Code Sections 7.27.2 and 22.1008(c), the Site will be sold for the public purpose of providing ongoing economic development benefits to the City, rather than as a surplus asset. Prior to conveyance, the City will encumber the Site with a covenant requiring Buyer to develop a new full-service grocery store and landscaped surface parking. The covenant will require construction of a store of at least 25,000 square feet, and employment at least 70 living wage workers on the Site for at least five years after completion. The covenant will also require the Project meet appropriate design and land use standards. Construction of the grocery store must begin within six months of the close of escrow and be substantially completed within thirty-six (36) months from close of escrow. Start of construction will be defined by activities including but not limited to remediation work, grading or foundation work. The City will retain a right to repurchase the Site at the end of said thirty-six months if Buyer cannot show substantial progress toward Project completion. The repurchase price for the Site will be equivalent to the aggregate City-approved debt on the Site and all liens must be cleared at the time of repurchase. The City of Los Angeles will have reasonable approval rights associated with any investor or lender debt associated with construction

of the improvements on Site. The Site will be encumbered with a restrictive covenant requiring the Site to be used only as a grocery or specialty food store for a period of ten years after a Certificate of Occupancy is issued. The Site will continue to be encumbered with a covenant until twenty-five years after a Certificate of Occupancy is issued prohibiting certain uses on Site, including but not limited to liquor stores, gas stations, massage parlors, and other "sin businesses." Additionally, the Site cannot be sold or otherwise transferred to a third party during the first ten years after a Certificate of Occupancy is issued unless such transfer is directly related to an approved lender or investor interest in the real property and/or an assignee acceptable to EWDD.

The current Recommendations seek Mayor and Council authorization for EWDD to enter into a Purchase and Sale Agreement with 94th and Broadway, LLC, open escrow within sixty days of Council approval, and provide a forty-five day due diligence period with an allowance for a sixty day extension by mutual agreement if additional due diligence is warranted. During the due diligence period, the Buyer will be allowed to investigate the Site for environmental contamination and geological issues and to clear title. If no extensions are granted, escrow shall close within 60 days of opening. The deal terms for this sale are further described in Attachment D.

Reuse Value and Financial Analysis

The economics of the Project are analyzed in the Government Code Section 53083 Summary Report (Attachment E) and include: a reduced sale price from the recent fair market value appraisal; a remediation risk cost given the underground storage tank recently found on adjacent property; extensive on-site and off-site improvement requirements as mitigation due to the land sitting vacant for decades; and a Return on Cost threshold based on 5.5% which is lower than the typical rate for a commercial/retail project. The Fair Reuse Value of the Project is negative \$129,000, which equates to a purchase price of \$-0-, and is based on the difference between the Project's estimated development costs of approximately \$9.5 million (including an appropriate profit recognizing the risks anticipated for the Project) and its anticipated revenue, with net operating income estimated at \$474,000. In addition to the fact that the required investment necessary to make the Site leasable is much higher than the potential improved value of the Project once fully rehabilitated, the Purchase and Sale Agreement imposes extraordinary public benefit obligations on the Project. Specifically, the Buyer must pay prevailing wage to all contractors and subcontractors employed to rehabilitate and construct the Project, hold the Site for a minimum of ten years, use restrict the Site to grocery or specialty market use for a period of ten years, require the grocery store to pay living wages for their employees in accordance with the City's Living Wage Ordinance, utilize a hiring practice that includes a method for ensuring local hire for permanent jobs, and provide for repurchase of the Site by the City at nominal value if Buyer fails to develop the Project in 36 months. The extraordinary public benefit provisions reduce the value of the Site from \$3,540,000 at the highest use allowed by the Site's zoning to the Fair Reuse Value of negative \$129,000.

Therefore it is concluded that the Project will not qualify for enough traditional commercial investment from the private market and the contribution of \$750,000 in

CDBG assistance as well as reducing the value of the land to \$0 is necessary for the economic feasibility of the Project.

ECONOMIC IMPACT

The following table describes the economic impacts estimated to be created by Numero Uno Market.

Estimated Economic Impacts Created by this Project*	
Estimated Construction Jobs Created	5
Estimated Permanent Jobs Created	70
Estimated Gross Property Tax Increment (TI) Revenue (over a 25 year period)	666,000
Estimated Value of Regional Food System Purchasing Annually (Approximately 25% of Numero Uno's purchases are from regional food providers)	\$2,000,000
Estimated NPV of Utility User Tax Revenue (Revenue to City of Los Angeles)	427,000
Estimated NPV of Sales Tax Revenue (1% portion of taxable sales to City of Los Angeles)	774,000
Estimated NPV of Gross Receipts Tax Revenue (Revenue to City of Los Angeles)	284,000

*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, US Department of Housing and Urban Development, and the City and County of Los Angeles.

In addition to the living wage jobs provided on-site, 94th and Broadway, LLC is subject to all other applicable HUD and City-adopted policies and regulations and will be monitored by EWDD on an annual basis for compliance. Per State imposed requirements the economic impact and project analysis have been incorporated into the Section 53083 Summary Report (Attachment E) and the report was posted on EWDD's website as of May 20, 2015.

ENVIRONMENTAL REVIEW

The City of Los Angeles is the lead agency for the Proposed Project for purposes of the California Environmental Quality Act (CEQA). The City, acting through its Planning Department, approved a Mixed-Use Project contemplated on the Site and adjacent property (49-unit affordable senior housing with associated 49 parking spaces, approximate 25,000 square foot grocery store with 108 parking spaces), and its associated Mitigated Negative Declaration (MND) and required findings on September 22, 2011 (ENV-2011-1451-MND). The proposed Project is consistent with the commercial development in the entitlements application (CPC-2011-1450-DB) and in the approved MND. Additionally, the Project will be subject to the described various mitigation measures contained in the Mixed-Use Project's conditions of approval, including Mitigation Monitoring.

Based on the Project record, no further environmental review is required for the recommended actions for the subject Project. There has been no change to the proposed Project or substantial changes in circumstances or new information that would warrant subsequent environmental analysis in accordance with CEQA, including but not limited to Public Resources Code Section 21166 and State CEQA Guidelines Sections 15162, 15163 and 15164. Based on this, the City will file a Notice of Determination after the City Council has acted on this item. The mitigation measures and related conditions of approval applicable to the Proposed Project have been reviewed and will be monitored for compliance.

AUTHORITY GRANTED TO GENERAL MANAGER

If the transfer for fair reuse value is approved and appropriate findings are made, the EWDD General Manager would be authorized to take such actions as may be necessary to carry out the sale, including, but not limited to negotiating, executing, and approving certain non-material revisions to the terms of all associated documents and escrow instructions and executing any ancillary documents reasonably necessary to lease and develop the Site.



JAN PERRY
General Manager

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- Attachment A. Resolution Authorizing Sale and Findings
- Attachment B. Ordinance Authorizing Sale
- Attachment C. Site Map – 94th and Broadway Property
- Attachment D. Deal Terms
- Attachment E. Section 53083 Summary Report