

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date: November 14, 2014

CAO File No. 0150-10295-0000
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: **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). This report proposes the sale of the Property to International Coffee & Tea, LLC, corporate parent of Coffee Bean and Tea Leaf (Coffee Bean) for the fair market value of \$7,150,000, less potential remediation costs, for development of a campus that consolidates the company headquarters and production facilities.

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. Coffee Bean will develop the site into a corporate campus comprised of at least 50,000 square feet of office and light manufacturing space, ensuring at least 200 permanent Living Wage jobs on the site, representing the retention of 150 jobs currently located in the City, and 50 net new jobs to the City (Project). Construction of the \$20+ million Project is also expected to generate approximately 121 construction jobs.

Coffee Bean will purchase the property at a fair market value of \$7,150,000, as indicated in a February 2014 appraisal prepared by General Services Department Real Estate Division. Prior to the close of escrow, the appraisal may be updated to reflect any remediation costs discovered through due diligence. Although the site was remediated of hydrocarbons by the prior owner before the City's acquisition of the property in 1996, it is possible that additional remediation may be required to develop the Project. During the escrow period, the buyer will have the opportunity to test the soil for contamination. If it is determined that remediation is necessary to complete the Project, the City may opt to either perform the required remediation, or discount remediation costs up to \$300,000 from the purchase price, for the buyer to perform remediation and accept all liability. If necessary remediation costs are expected to surpass \$300,000, both parties shall negotiate to identify the additional funding for a period on 60 days. If funds are not identified at that time, either party may terminate the agreement. The terms of the transaction are described in more detail in Attachment A.

Pursuant to LAAC Sections 7.27.2 and 22.1008(c) the Property 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 Property with a covenant agreement requiring the buyer to develop a new office and manufacturing facility to serve as the corporate headquarters for Coffee Bean. In addition to relocating headquarter office functions currently located at 1946 South La Cienega

Boulevard in Los Angeles, the facility will also consolidate Coffee Bean's primary operations including a roasting and distribution facility and a bakery, which are currently located in other cities. The covenant agreement will require construction of a facility of at least 50,000 square feet, and employment at least 200 Living Wage workers on the site for at least 10 years after completion. Coffee Bean has projected and intends to use the site more intensively with a 100,000 square foot facility that will employ approximately 400 Living Wage workers. The covenant will require the development to meet appropriate design and land use standards, such as the Community Plan. The first Phase of the Project must be completed within thirty six (36) months from close of escrow. The City is granted the right to re-purchase the property at Fair Market Value at the end of this period if the Buyer cannot show evidence of substantial progress toward completion of the first Phase. Additionally, the property cannot be sold or otherwise transferred to a third party during the term of the covenant without the City's consent.

The current recommendations will authorize the Economic and Workforce Development Department (EWDD) to enter into a Purchase and Sale Agreement with Coffee Bean, open escrow, and provide Coffee Bean a nine-month due diligence period, with an option to extend for an additional nine months, during which Coffee Bean will investigate the site for environmental contamination, and apply for and receive entitlements for development.

Further Council actions will be necessary to complete the transaction and convey the Property, once the Project has received entitlement and completed an 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. Future Council actions will be necessary, including adoption of an Ordinance to sell the property, and instructions related to the receipt of funds.

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.

RECOMMENDATIONS

That the City Council, subject to the approval of the Mayor:

1. Determine that the sale of the City-owned property at 6000 Jefferson Boulevard to Coffee Bean and Tea Leaf (Coffee Bean) will assist in the economic development of the City and that the public interest is best served by the direct sale of the property;
2. Approve the form and substance of Purchase and Sale Agreement, Grant Deed, and Covenant Agreement, prepared by City Attorney, based on the terms specific in this report for the sale of the property of 6000 Jefferson Boulevard to Coffee Bean for the fair market value \$7,150,000, less a potential credit not to exceed \$300,000 for remediation costs;
3. Request City Attorney to prepare an Ordinance providing for the sale of the property to Coffee Bean as described in this report, without notice of sale or advertisement of bids, as justified by the economic benefits the Project will generate in the public interest;
4. Authorize the General Manager, Economic and Workforce Development Department (EWDD), to execute the Purchase and Sale Agreement and to complete the transaction if all

contingencies are met, subject to completion of CEQA review, and process the necessary documents to execute the sale and deposit the proceeds into the appropriate accounts, as directed by the Los Angeles Administrative Code and as approved to form and substance by the City Attorney;

5. Approve receipt of sales proceeds into the Solid Waste Resources Revenue Fund; and
6. Authorize EWDD to make technical corrections or adjustments that may be required and are consistent with this action, subject to the approval of the City Administrative Officer (CAO).

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. Upon occupancy, the Project is projected to generate ongoing annual Property and Utility Users tax revenues estimated at \$68,000, in addition to Business Tax revenues not yet estimated. 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 waste shed. 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 a dilapidated industrial district into a job-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 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.

In addition to retail venues, Coffee Bean operates out of a headquarters office on La Cienega Boulevard in Los Angeles, as well as a roasting and distribution center in Camarillo, and a bakery in Santa Monica. Coffee Bean's operations have far outgrown their existing facilities and for many years the company has been looking for a site to consolidate operations into a single campus. In its search,

Coffee Bean has considered relocation out of the City of Los Angeles to take advantage of cheaper land costs and a wide array of incentives offered by other municipalities to attract such an established business. Potential locations explored by Coffee Bean have included Santa Fe Springs, Camarillo, Oxnard, Burbank, and El Segundo. The company's preference is to stay headquartered in Los Angeles, both to ensure continuity in the workforce, but also to be able to continue to claim that their products are "born and brewed in Los Angeles."

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; at least 25,000 square feet will be constructed within the first 3 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 <i>(19% Received by City of Los Angeles: \$51,585)</i>	\$271,500
Estimated NPV of Gross Property Tax: 30 years <i>(19% Received by City of Los Angeles: \$699,345)</i>	\$3,680,765
Estimated Utility User Tax: Year 1 <i>(Revenue to the City of Los Angeles)</i>	\$16,236
Estimated NPV of Utility User Tax: 30 years <i>(Revenue to the City of Los Angeles)</i>	\$259,000
Business Tax Revenue: not estimated at this time	

*The figures provided in the table about 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.

Direct Sale

A prior Council motion (C.F. 12-0709-S1) directed the CAO's Office to prepare a Request for Proposals to explore potential development projects on the Property. Subsequent to the release of the Request for Proposals, the City received the proposal from Coffee Bean to purchase the property for the purposes described here. The proposed transaction requires no public subsidy to accomplish significant public benefit. Given the proposed economic benefits of the Project, and the value of retaining and facilitating the growth of a Los Angeles company that otherwise has strong motivations to relocate, CAO and EWDD present for consideration that a determination of public interest can be made and the direct sale of the property be approved to achieve valuable public purposes, including:

- Returning the property to the tax rolls as a site of economic activity
- Retaining and facilitating the expansion of an established Los Angeles company with compelling reasons for relocation, representing the retention or creation of 200 Living Wage jobs, at a

minimum

- Generating one-time funds to repay monies invested from the Solid Waste Resources Revenue Fund.
- Eliminating costs and liability associated with unnecessary real property ownership by the City

The sale is in conformance with the City Attorney's guidance and the following Administrative Code Provisions governing the direct conveyance of real property, including:

LAAC 7.27 Private Sale

The Council may determine that the public interest or necessity require the sale, conveyance or exchange of real property owned by the City or any City department...of any interest in real property without notice of sale or advertisement of bids. In the event of such determination the Council may, by ordinance adopted by the vote of at least two-thirds of all its members authorize the execution of such deed... or other instrument as may be necessary to effect such sale..."

LAAC 7.27.2 Private Sale Procedures for Economic Development Purposes

Notwithstanding any other provision of this Code, the Economic and Workforce Development Department is authorized to convey any interest owned or controlled by the City in any real property below its fair market value, subject to the Council making a finding that the conveyance at the price with the terms and conditions imposed thereon serves a public purpose.

LAAC 22.1008(c) Conveyance of City Interests in Real Property

(EWDD) is authorized to convey any interest owned or controlled by the City in real property at its fair re-use value to carry out the public purposes and objectives of this Chapter in accordance with the procedures set forth in Section 7.27.2 of this Code. Any such conveyance shall be made pursuant to one or more agreements requiring the development, use and maintenance of such real property for economic development, and such agreement(s) shall additionally require as a condition precedent to the conveyance that one or more deed restrictions be recorded against the conveyed interest restricting the development and use and require the maintenance of such real property so as to insure that the economic development purpose for which the conveyance was made is fulfilled for such period of time as is determined to be appropriate. The conveyance of any such interest under the terms and conditions stated herein shall not render the real property as "surplus property" within the meaning of Chapter 1, of Article 4 of the LAAC (commencing with Section 7.21), nor shall it render the real property as "surplus land" within the meaning of Section 54221 of the California Government Code.

Attachment A: Deal Points

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ATTACHMENT A: Deal Points for 6000 Jefferson Boulevard

- Property: 6000 Jefferson Blvd., Los Angeles, CA 90016
- Buyer: A single-asset, special-purpose Delaware limited liability company; whose manager and members to be among the select shareholders of The Coffee Bean & Tea Leaf
- 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.
- c) 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 thirty six (36) 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 thirty six (36) 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 property cannot be sold or otherwise transferred to a third party during the term of the covenant without the City's consent.

Indemnification: 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.