

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: August 07, 2014

CAO File No. 0150-10143-0000
Council File No. 13-0476
Council District: 5

To: The Council
The Mayor

From: Miguel A. Santana, Chair, Municipal Facilities Committee



Reference: Council Motion (C.F. 13-0476) for a Non-Profit Lease Agreement with the Armenian Cultural Foundation

Subject: **REQUEST FOR AUTHORIZATION TO NEGOTIATE AND EXECUTE A NEW NON-PROFIT LEASE AGREEMENT WITH THE ARMENIAN CULTURAL FOUNDATION FOR OLD FIRE STATION NO. 83 AT 5001 N. BALBOA BLVD., ENCINO IN CD 5**

SUMMARY

At its regular meeting of June 26, 2014, the Municipal Facilities Committee (MFC) approved a report from my Office's Asset Management Strategic Planning unit recommending approval of a new non-profit lease agreement with the Armenian Cultural Foundation (ACF) for the Old Fire Station No. 83, located at 5001 N. Balboa Blvd., Encino, in CD5. After providing an opportunity for public comment from CD5, the MFC voted to amend the report from a "20-year lease term with two five (5) year options to extend" to a "30-year lease term." The MFC also instructed CD5 and City Attorney staff to discuss options related to a CD5 request for the ACF to be granted an option to purchase the property at the conclusion of the lease. Any resulting options would be presented to the Council by CD5 separate from this report. This action is now transmitted for Mayor and Council consideration.

On May 7, 2013, the Council adopted a Koretz – Garcetti – Krekorian motion which directed the General Services Department (GSD), in consultation with the City Administrative Officer (CAO) and the City Attorney, to negotiate and present a long term lease agreement with ACF for use of the City-owned surplus property, Fire Station No. 83, located at 5001 N. Balboa Blvd in Encino (C.F. 13-0476). Old Fire Station 83 has remained vacant and unused since completion of the replacement facility in 2006. CAO staff worked directly with CD 5, the ACF, City Attorney and GSD to gather information necessary to prepare a community benefit and financial analysis consistent with Council directions and the City's Proposed Non-Profit Leasing Policy. Based on the information considered, this Office has determined that there is sufficient community benefit which exceeds the rental value of the property, and that approval of the 30-year lease agreement with the ACF is consistent with the City's non-profit leasing policy practice.

CITY ADMINISTRATIVE OFFICE
ENCINO, CA

Background

The ACF is a 501(c)(3) non-profit organization which was established in December 1976 to promote youth development, as well as preserve Armenian heritage and raise awareness among Armenian American communities. The ACF establishes and operates cultural and educational centers as a means of providing charitable services to the community. There are more than 15 local chapters located throughout the Western United States, including the Encino Chapter of the ACF which serves more than 5,000 youth annually in Encino and the surrounding communities.

The Encino Chapter of the ACF works closely with local organizations and schools such as the Armenian American Council on Aging, Encino Armenian Youth Federation, Armenian Relief Society, Hamazkayin Armenian Education and Cultural Society, Armenian General Athletic Union and Scouts. However, most of the services are provided through events and the ACF would like to establish a permanent location by renovating the old building. Through the new Encino Youth and Community Center, the ACF will operate a facility that houses organizations who share a common goal of enhancing the quality of life for youth and their families through education, cultural activities, social services, and physical activities.

The proposed location for the lease is the Old Fire Station No. 83 located at 5001 North Balboa Blvd., in Encino. The site has been vacant for some time and as a result, it has experienced copper wire theft, vagrancy, graffiti, and illegal dumping.

Community Benefit and Budget

The ACF Encino Youth and Community Center has an operating budget of approximately \$562,000 for 2014. This includes administrative expenses, fundraising expenses, building maintenance, utilities, and program services for the various services provided by the groups mentioned above. For the proposed 30 year term of the lease, the amount projected to be spent on services total approximately \$16.9 million, not including escalations. Currently, the Encino Youth and Community Center operates solely through in-kind services. However, with the expansion of the program and the operation of the new facility, it is projected that there will be three full-time employees whose combined annual salary is estimated to be \$165,000 plus payroll taxes of \$15,000.

As consideration for the lease, ACF will provide community services to the public. In order to ensure the services are provided, the lease terms will include performance metrics that are specific to the services provided by the ACF. The ACF brings a unique opportunity to provide education and awareness, as well as create a rich cultural institution for the Armenian American community in the San Fernando Valley.

The ACF is also making a significant investment in tenant improvement work at the Old Fire Station No. 83 in order for the Youth and Community Center to enhance its program delivery at the facility. The tenant improvement work is estimated to cost between \$1.2 million and \$1.5 million, and will consist of upgrades to the facility, while preserving the façade. The scope of work will include the construction of a large event hall that can hold up to 100-150 people, as well as four new meeting rooms for teaching sessions, and other types of services. The facility will be ADA compliant, and will include possible roof replacement, new HVAC, new plumbing, new

lighting, and fire sprinkler systems.

The lease terms will include performance milestones that must be met by the ACF with regards to construction, such as anticipated dates for design, permits, construction and certificate of occupancy. In addition, the lease will require that ACF or their contractor obtain performance or construction bonds so that the City may complete construction if the ACF does not. In addition to the services being provided and the upgrades being performed by ACF, their occupancy will secure the property and help alleviate public safety concerns that have resulted from the extended vacancy.

The ACF has also been willing to partner with its neighbor, Encino Elementary School. CD5, ACF, and LAUSD have developed a separate reciprocal parking agreement to provide six to nine parking spaces to each other during certain hours of the day.

Rental Value for Twenty-Year Term

Based on information provided by GSD Real Estate Services, the market rate rent for the property in the Encino area is between \$2.80 and \$3.50 per square foot. Considering that information, the value of the rent for the space proposed for the ACF would be \$14,591 to \$18,239 each month, or \$175,090 to \$218,862 annually. The total rental value over the 20 year period would be from \$5,252,700 to \$6,565,860, which is addressed by economic community benefits of \$16.9 million in direct expenses over the same time period. These figures do not take into consideration the \$1.2 million to \$1.5 million that ACF will invest in tenant improvement work at the facility. Additionally, the ACF will be financially responsible for all maintenance, repairs, utilities, janitorial, and security costs associated with the property. It should be noted that the proposed lease is consistent with the City's Non-Profit Leasing policy in that the rental value of the office space is exceeded by the annual contribution in services from the non-profit.

RECOMMENDATION

That the Council, subject to approval by the Mayor, authorize the Department of General Services to negotiate and execute a new 30-year non-profit lease agreement with the Armenian Cultural Foundation (ACF) for the Old Fire Station No. 83 located at 5001 N. Balboa Blvd, Encino in CD 5 for \$1 a year, and as detailed in the attached term sheet, subject to review and approval by the City Attorney's Office as to form.

FISCAL IMPACT

Approval of the lease would not have an impact on the General Fund. The subject property has a rental value opportunity of between \$5.3 million to \$6.6 million over the 30-year term. However, the economic community benefits provided by the ACF total \$16.9 million in direct expenses over the same time period. These figures do not take into consideration the \$1.2 million to \$1.5 million that ACF will invest in tenant improvement work at the facility. Additionally, the ACF will be financially responsible for all maintenance, repairs, utilities, janitorial, and security costs associated with the property.

TERM SHEET
Armenian Cultural Foundation
5001 N. Balboa Blvd., Encino, CA

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|--------------------------------|---|
| <u>Use:</u> | Youth and community activity center |
| <u>Improvements size:</u> | 5,211 square feet |
| <u>Duration:</u> | 20 years plus two five (5) year extension options |
| <u>Rent:</u> | \$1.00 per year |
| <u>City Obligations:</u> | None |
| <u>Lessee Obligations:</u> | <ul style="list-style-type: none">- Provide all maintenance- Make all repairs- Pay for all utilities and custodial services- Provide any necessary security- Provide proof of insurance and construction bonds. |
| <u>Performance Milestones:</u> | If within six (6) months after the Execution Date of this lease, the design and plan check for construction have not been completed, or if such approvals are completed, actual construction has not commenced within nine (9) months after the Execution Date of this Lease, or if construction is on-going, actual operation of the program has not commenced within twenty four (24) months after the Execution Date of this lease, City may terminate this lease. |
| <u>Additional Terms:</u> | Lessee shall make available six to nine parking spaces to the LAUSD – Encino Elementary School for parking |