

April 20, 2021

R-12

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager, or designee, to execute the First Amendment to Joint Application and Indemnification Agreement No. 35623 with Centro C.H.A., Inc.; and,

Increase appropriations in the General Fund Group in the Economic Development Department by \$292,450, offset by funds available, to facilitate the transfer of ownership of 1850-1862 Atlantic Avenue (Subject Property) from the Refuse and Recycling Fund Group in the Public Works Department to the General Fund Group in the Economic Development Department. (District 6)

DISCUSSION

On June 18, 2019, the City Council authorized the execution of a Letter of Intent (LOI) with Centro C.H.A., Inc. (Centro CHA), in connection with the tenancy and potential option to purchase City-owned property at 1850-1862 Atlantic Avenue (Subject Property). Shortly thereafter, the City and Centro CHA began the process of space planning for the Subject Property, at the completion of which, it was determined that approximately \$3.8 million would be needed to develop the Subject Property to enable Centro CHA to continue its provision of initiatives and programs consistent with its mission, while expanding upon its workforce development efforts.

On January 21, 2020, the City Council authorized Lease and Option to Purchase No. 35521 (Lease), for the tenancy of the Subject Property, for a period of ten years and an option to purchase. Subsequent to executing the Lease, Centro CHA was approved for a loan (Loan) from the Los Angeles County Development Authority (LACDA) for approximately \$1.1 million, which will allow for the purchase of the Subject Property at a purchase price of \$800,000, with the remaining \$300,000 to be used for initial tenant improvements. On April 8, 2020, Centro CHA notified the City of its intent to exercise the Lease purchase option, which is in process. The City anticipates closing escrow with Centro CHA on the Subject Property in the second quarter of the calendar year 2021.

The Subject Property is currently owned by the City's Environmental Services Bureau in the Public Works Department (Refuse Fund). As the Subject Property will no longer be used by the Refuse Fund, the ownership will be transferred to the General Fund to be in compliance with State Proposition 218. The City's General Fund Group (General Fund) is required to compensate the Refuse Fund for the appraised fair market value of the Subject Property. Offsetting the compensation for the property, the General Fund needs to be reimbursed for maintenance and repair costs incurred from October 2010 through May 2020 (Maintenance

Period), the date when Centro CHA assumed control of the Subject Property. During the Maintenance Period, the General Fund incurred \$627,550 in maintenance and repair costs. The Subject Property has an appraised fair market value of \$920,000, given the condition of the interior of the building and deferred capital improvements remaining to be completed. Therefore, to complete the transfer of the Subject Property from the Refuse Fund to the General Fund and allow the sale of the Subject Property to Centro CHA, the General Fund needs to transfer \$292,450 to the Refuse Fund, which is the difference between the fair market value of the Subject Property at \$920,000, less \$627,450 in incurred maintenance and repair costs during the Maintenance Period.

Concurrent with the approval of the transfer and sale of the Subject Property, on August 4, 2020, the City Council also authorized the submittal of a co-application with Centro CHA for the Public Works and Economic Adjustment Assistance grant (Grant) from the U.S. Economic Development Administration (EDA) for federal matching funds of up to \$3,000,000 to facilitate the remainder of the improvements to the Subject Property and allow for the creation of the Centro CHA Workforce Development Center (Project). In addition, City Council also authorized Joint Application and Indemnification Agreement No. 35623 (Agreement) with Centro CHA to memorialize the responsibilities of the City and Centro CHA in connection with the EDA Grant. This City Council action did not obligate the City to contribute any funding in connection with the Grant and Centro CHA is responsible for all costs in connection with the Grant as well as performing all aspects of the administration of the Grant. The City's obligations and risk associated with any non-compliance is repayment of the awarded federal matching funds, up to \$3,000,000. The Grant award is still pending.

As described above, it was originally anticipated that the EDA Grant and LACDA Loan would provide for the capital outlay for the tenant improvements. However, revised estimates have determined that a funding gap for final design and construction exists. Centro CHA has requested the City's help in closing the funding gap. Staff have determined that utilizing \$500,000 from the proceeds of the sale of the Subject Property, which would be a General Fund asset until its sale to Centro CHA, would be the most impactful on helping to narrow the funding gap while minimizing the impact to the General Fund. Staff's recommendation is to contribute \$500,000 in available proceeds from the sale of the Subject Property (Contribution) directly to Centro CHA. Centro CHA can then use the Contribution as matching funds (Matching Funds) for the Grant or use it to improve the Subject Property should the EDA Grant not be awarded. The Contribution will be conditioned upon the Subject Property's successful sale to Centro CHA and will only be used as Matching Funds for the EDA Grant or to improve the Subject Property for the purpose of providing a business and workforce development center in Central Long Beach for a minimum period of 20 years, consistent with economic equity goals and objectives approved by the City Council as part of the Blueprint for Economic Development and the Framework for Racial Equity and Reconciliation. Therefore, to memorialize the Contribution, and outline the conditions thereon, a First Amendment to the Agreement is required.

The First Amendment to the Agreement will contain the following amended provisions:

- Co-Applicant: Centro CHA, Inc., a 501(c)3 corporation.
- Co-Applicant: City of Long Beach, a municipal corporation.

- City Contribution: Provided the transfer and sale of the Subject Property to Centro CHA is completed, the City will contribute \$500,000 in available proceeds from the sale to assist Centro CHA address the funding gap. The Contribution can be used by Centro CHA as matching funds in connection with the applied for EDA Grant or can be used to directly improve the Subject Property for the purposes of proving a business and workforce development center to the surrounding community for a minimum period of 20 years. If the Subject Property's purchase by Centro CHA is not completed, then the City will not be obligated to provide any funds to Centro CHA and Centro CHA will continue as lessee of the Subject Property.

As a Co-Applicant, the Agreement approved by the City Council makes the City potentially liable to repay the EDA Grant should Centro CHA be non-compliant with grant requirements. While the City is not requiring a bond or insurance or providing oversight on the potential grant, the Agreement does require Centro CHA to indemnify the City. The maximum exposure to the City may be up to \$3,000,000, which is the amount currently being considered through the EDA Grant. Given the longstanding pattern of successfully delivering grant-funded workforce development programs in partnership with the City, non-compliance by Centro CHA is considered to be unlikely by the Economic Development Department.

EQUITY LENS

The proposed recommendation to invest in the development of a business and workforce development center in Central Long Beach helps to advance Goal 4 of the Racial Equity and Reconciliation Initiative report adopted by the City Council on August 11, 2020. More specifically, Goal 4 seeks to implement strategies focused on "Improving health and wellness in the City by eliminating social and economic disparities in the communities most impacted by racism."

The recommended proposal develops a business and workforce center in Central Long Beach—an area of the City with a higher concentration of poverty, unemployment, and people of color—through a thoughtful, deliberate, and long-term community-based partnership with Centro CHA. Specifically, this recommendation relates to the following objectives highlighted in the report:

- Increase access to good paying jobs, education resources, training, and career advancement services for Black people and people of color through the establishment of inclusive business centers in partnership with existing community-based organizations. (Long-Term);
- Partner with local organizations to facilitate business navigation services through inclusive, neighborhood-based business centers. (Medium- to Long-Term);
- Connect teen centers with workforce development services to enhance early exposure to job training and life skills. (Medium-Term).

Finally, and as much as possible, this proposal to the City Council has included specific activities and components that advance equity, inclusion, language access, and community-based partnerships to reach the most vulnerable business owners, workers, and residents.

This matter was reviewed by Principal Deputy City Attorney Gary J. Anderson on April 1, 2021 and by Budget Management Officer Rhutu Amin Gharib on April 6, 2021.

TIMING CONSIDERATIONS

City Council action is requested on April 20, 2021, to allow the City to be in a position to make the Contribution upon the successful sale of the Subject Property.

FISCAL IMPACT

The recommended action is requesting an appropriation increase of \$292,450 in the General Fund Group in the Economic Development Department to complete the transfer from the Refuse and Recycling Fund Group in the Public Works Department, offset by funds available. If the sale of the Subject Property is complete, revenue proceeds of \$800,000 will accrue to the General Fund Group in the Economic Development Department. Once the Subject Property sale is completed, the recommended action will result in an expense of \$500,000 in the General Fund Group in the Economic Development Department as a City Contribution to Centro CHA to close the funding gap for capital outlays at the Subject Property. At that time, staff will return to the City Council for approval of the needed appropriations to make the transfer. The net impact, should all contemplated transactions occur, including the one-time transfer to the Refuse and Recycling Fund Group, is an increase of \$7,550 in additional revenue to the General Fund Group.

If the Subject Property's sale is not completed, then escrow in connection to the sale will be canceled, and the City will not be obligated to make the Contribution. The City will still continue to collect monthly rent from Centro CHA, if the sale is not completed. The Agreement currently exposes the City to a maximum liability for non-performance under the EDA Grant by Centro CHA in the amount of \$3,000,000. Non-performance is considered unlikely by the Economic Development Department due to the longstanding relationship between the City and Centro CHA, and the demonstrated success in delivering grant-funded programs for workforce development in Central Long Beach. This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. There is no local job impact associated with this recommendation.

SUGGESTED ACTION:

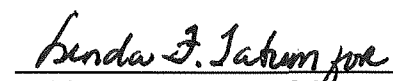
Approve recommendation.

Respectfully submitted,



JOHN KEISLER
DIRECTOR OF ECONOMIC DEVELOPMENT

APPROVED:


THOMAS B. MODICA
CITY MANAGER