



Legislation Text

File #: 20-003SA, **Version:** 1

Recommendation to authorize City Manager, on behalf of the Successor Agency to the Redevelopment Agency of the City of Long Beach, to execute a second amendment to the Ground Lease with American Stores Properties, Inc., for the property commonly known as Wrigley Marketplace, originally executed by the Redevelopment Agency of the City of Long Beach. (District 6)

At its meeting on September 10, 2019, the City Council, as Successor Agency to the Redevelopment Agency of the City of Long Beach (Successor Agency), approved the second amendment to the Ground Lease between the former Redevelopment Agency of the City of Long Beach and American Stores Properties, Inc. On September 17, 2019, staff requested that the Fourth District Consolidated Oversight Board (Oversight Board) adopt a Resolution authorizing the amendment. Following the Oversight Board's action, Oversight Board Resolution No. OB-03-2019, approving the second amendment, was submitted to the Department of Finance (DOF) for review. On November 4, 2019, the DOF notified City of Long Beach (City) staff that the DOF did not approve OB Resolution No. OB-03-2019 because it did not include a finding that the amendment was in the best interest of the affected taxing agencies. Staff is asking for approval of the amendment again to resubmit the request and a Resolution to the Oversight Board with the finding required by the DOF.

The Successor Agency owns certain real property at 101 to 281 East Willow Street, and commonly known as the Wrigley Marketplace (Property). The Property is categorized as "for sale" in the Long Range Property Management Plan approved by the DOF on March 10, 2015, and amended on June 24, 2015 (Revised Plan). The Revised Plan identified 57 for sale properties, comprising of 27 sites. The Wrigley Marketplace is one of two sites that have not yet been sold or entered escrow.

The Property is encumbered by a Ground Lease dated January 26, 1998 (Ground Lease), executed by and between the former Redevelopment Agency of the City of Long Beach (Agency), as landlord, and American Stores Properties, Inc. (Tenant), as tenant. The Ground Lease was amended on April 21, 1999. The Successor Agency was succeeded to the interest of the Agency as landlord under the Ground Lease. The initial lease term began on February 1, 2008 and will expire on February 1, 2043. The Tenant has ten five-year options that may be used to extend the Lease.

The Ground Lease grants the Tenant a right of first refusal in connection with any proposed sale of the Property by the Agency (or its successors) to a third-party (the Right of First Refusal). The Successor Agency must provide notice of any proposed sale terms to the Tenant. The Tenant thereafter has six months to accept or reject such proposed terms. If the

Tenant rejects the terms, then the Successor Agency may sell the Property to a third-party, provided that (1) escrow for such sale must be opened within six months after the rejection by the Tenant of its right of first refusal, and (2) escrow for such sale must close within one year of such rejection. In the event that either of the above conditions is not met, then Tenant's right of first refusal is reinstated.

The Property was assembled and developed in accordance with a Joint Development Agreement dated as of September 9, 1996 (JDA) by and between the Agency and the Los Angeles County Metropolitan Transportation Authority (MTA). The JDA, and the grant deeds recorded in connection therewith, provide that upon expiration or termination of the Ground Lease, the Property will be divided and will revert separately to the Successor Agency and the MTA. This reversion would bisect the Property and require demolition of any structures that straddle the line dividing the two parcels. Currently, one structure is bisected by the line dividing the reversion parcels.

Pursuant to a Ground Sublease dated September 24, 1998 (Ground Sublease), Tenant subleased a portion of the Ground Lease premises to CTA/Wrigley, LLC, whose original interest as sublessee of the Ground Sublease is currently held by Polos Wrigley, LLC (Subtenant).

Section 34181(a) of the Health and Safety Code requires that successor agency properties be disposed of expeditiously and in a manner aimed at maximizing value. The facts that any sale of the Property is subject to the right of first refusal, and the future termination of the Ground Lease will result in the reversion of a large portion of the Property to MTA, create a unique situation in which it is impossible to sell the Property for what would normally be considered "fair market value."

The Subtenant has approached the Successor Agency regarding the potential purchase and redevelopment of the Property. The Successor Agency has been working with MTA to determine the value of the MTA reversion so that MTA may be fairly compensated in connection with the potential release by MTA of its reversion. Such a release would make the Property significantly more valuable and marketable, resulting in an increase in total sale proceeds available to the taxing entities, which are entitled thereto, and greatly increasing the assessed property tax value on a go-forward basis. However, the proposed release by the MTA, will take considerable time to negotiate and receive approval by the MTA Board. It is very likely that the time necessary to receive MTA Board approval will exceed the six-month and one-year deadlines for escrow opening and closing, respectively, required by the Ground Lease.

To feasibly consider any third-party purchase offers, the Ground Lease needs to be amended to (1) reduce the time during which the Tenant may accept or reject its right of first refusal, (2) extend the deadline by which the sale escrow must be opened, and (3) extend the deadline by which the sale escrow must be closed.

The Successor Agency and the Tenant have agreed to the following major revisions to the Ground Lease:

- Reduce the time during which the Tenant may accept or reject its right of first refusal to 60 days.
- Extend the deadline by which the sale escrow must be opened to one year.
- Extend the deadline by which the sale escrow must be closed to two years.

The Ground Lease constitutes an existing enforceable obligation under the Dissolution Law. Execution of the proposed amendment to the Ground Lease does not create a new enforceable obligation, which would be prohibited pursuant to Health and Safety Code Section 34177.3(a), but rather amends an existing obligation to expeditiously wind down the affairs of the Agency in accordance with the Revised Plan and in accordance with the requirements of Sections 34177(h) and 34181(a) of the Health & Safety Code.

This Amended Ground Lease also requires approval by the Fourth District Consolidated Oversight Board of the City of Long Beach, as the Successor Agency to the Redevelopment Agency of the City of Long Beach, and it is scheduled for review on January 28, 2020.

This matter was reviewed by Deputy City Attorney Richard F. Anthony on November 25, 2019 and by Grants and Projects Officer Arlen Crabtree on November 26, 2019.

Successor Agency action is requested on January 7, 2020, to facilitate the continued wind down of the Successor Agency's activities.

This action does not have any immediate fiscal impact to the City. However, an amended agreement could increase the sale price of the property and, therefore, increase the City's share of the land sale proceeds. This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. Approval of this recommendation will provide continued support to the local economy.

Approve recommendation.

LINDA F. TATUM, FAICP
DIRECTOR OF DEVELOPMENT SERVICES

APPROVED:

THOMAS B. MODIC
ACTING CITY MANAGER

