

C-9

August 2, 2022

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager, or designee, to enter into a Lease between the City of Long Beach and Long Beach Arts District, LLC, for the property located at 635 East South Street for the operation of a North Long Beach Higher Education Center, on the stated terms and conditions; and,

Increase appropriations in the General Fund Group in the Economic Development Department by \$19,072 for estimated rent and operating expenses, offset by a release of revenues previously designated for this purpose. (District 9)

DISCUSSION

On November 13, 2018, the City Council directed the City Manager to work with Long Beach Community College District (LBCC), Long Beach Department of Economic Development (ED), Pacific Gateway Workforce Investment Network (PGWIN), and North Long Beach higher education experts and advocates to explore the feasibility of establishing a higher education center in North Long Beach (Center). Consistent with the City of Long Beach's (City) Blueprint for Economic Development (Blueprint), the Center seeks to increase the number of City residents who re-engage with the education and training system and provide greater access to economic and workforce training to residents in North Long Beach. City staff from ED and PGWIN, and the leadership of LBCC, collaborated to identify potential locations for the Center, including any location improvements that would be required for operation. After the review of identified properties, the property located at 635 South Street (Subject Property), was found to meet the Center's identified needs with its approximate 3,200 square feet and appurtenant parking. Regarding funding, On September 3, 2019, as part of the Fiscal Year (FY) 20 Adopted Budget, the City Council approved a motion to appropriate the next available \$150,000 of the 75 percent project area share of proceeds from the sale of the former Redevelopment Agency (RDA) properties anywhere in the City to establish a two-year lease at the Subject Property for the Center.

The City engaged the property owner, Long Beach Arts District, LLC (Landlord), to negotiate a short-term two-year lease for the Subject Property; however, discussions ceased with the onset of the COVID-19 pandemic. As COVID-19 restrictions have eased, the City re-engaged with the Landlord, LBCC, and PGWIN to negotiate lease terms and conditions as well as confirm site planning for interior. The Landlord has agreed to complete the improvements, including painting the building exterior, new storefronts, a new roof with rigid insulation to allow exposed

wood ceiling, polished floor, new electrical, trash enclosure, ADA parking space in back lot, exterior lighting, and landscape improvements. These improvements are anticipated to be completed and the subject property has a targeted opening date of January 1, 2023. In exchange for providing a turn-key facility and accelerated construction schedule, the Landlord has requested a longer five-year term Triple-Net Lease (Lease) at a monthly base rental rate of \$2.98 per building square foot, or \$9,536 per month. The base rent would increase annually by three percent. The City will also be responsible for all utilities, maintenance, and operating expenses for the Subject Property. Operating expenses are anticipated to be approximately \$928 per month. Due to the longer-term lease, the \$150,000 designated for this use does not cover all costs associated with the Lease; however, staff has identified funding for the remainder of the lease costs from the Administrative Cost Recovery Fees collected on the sales of former Redevelopment Agency-owned property. At the close of escrow, the City receives 5 percent of the purchase price of the property being sold as reimbursement for the maintenance of former Redevelopment Agency-owned property as well as the administration of the disposition process.

To ensure timely construction and opening of the Center, staff recommends a Lease containing the following major terms and conditions:

- Landlord: Long Beach Arts District, LLC, a California limited liability company.
- Tenant: City of Long Beach, a municipal corporation.
- Premises: 635 East South Street, consisting of a 3,200 square-foot building and appurtenant parking.
- Use: North Long Beach Education Center.
- Term: 60 months commencing August 1, 2022, through July 30, 2027.
- Rental Rate: Triple Net at the following schedule:
 - Months 1-12: \$2.98 per square foot, per month.
 - Months 13-24: \$3.07 per square foot, per month.
 - Months 25-36: \$3.16 per square foot, per month.
 - Months 37-48: \$3.26 per square foot, per month.
 - Months 49-60: \$3.35 per square foot, per month.
- Renewal Options: 60 months, with continued annual rent increases of 3 percent as shown above.
- Rent Commencement: Rent will commence in month four of the lease (November 1, 2022); however the first month's rent will be payable within 30 days of lease execution.

- Security Deposit: Tenant will provide a security deposit in the amount of one month's rent within 30 days of lease execution.
- Right of First Offer: Should the Landlord decide it is interested in selling the Subject Property, Landlord shall notify the Tenant and Tenant shall have the first right to offer to purchase the Subject Property.
- Option to Terminate: The Tenant shall have the option to terminate the Lease after year two. Tenant would be responsible for paying back any unamortized tenant improvements at the date of termination.
- Utilities, Services, and Taxes: Tenant is responsible to pay for all operating costs, including taxes, and insurance, which are estimated to be \$0.29 per square foot per month (\$928). Utilities will be metered separately and paid for directly by Tenant.

Terms and conditions of a partnership agreement with LBCC for programming and identification of a community-based organization for management of the Center are ongoing. A management agreement will be required for the operational organization and both agreements will come back to the City Council for approval in the coming months.

It is important to note that a triple net lease has certain risks where the financial burden of additional expenses rests solely on the City as the Tenant, such as maintenance, operating costs, property taxes, insurance, and management fees. Triple net leases are typical lease structures for this type of building, such as single tenant and stand-alone building and this lease is comparable to other similar triple net leases.

This matter was reviewed by Principal City Attorney Richard F. Anthony on February 28, 2022, and by Budget Operations and Development Officer Rhutu Amin Gharib on July 18, 2022.

TIMING CONSIDERATIONS

City Council action is requested on August 2, 2022, to ensure all activities to facilitate the opening of the Center can proceed expeditiously.

FISCAL IMPACT

Under the proposed Lease agreement, the monthly base rent will be approximately \$9,536. The base rent will increase annually by \$.09-\$.10 per square foot. The City will also pay operating expenses estimated at \$928 per month. As rent does not commence until Month 4 of the Lease, the total cost of the recommended action is estimated to be \$642,287 through FY 27. However, November's rent and the security deposit are required to be paid within the first 30 days of the lease.

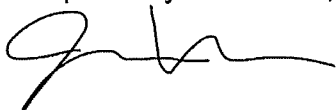
An appropriation increase in the amount of \$19,072 is requested in the General Fund Group in the Economic Development Department for the prepayment of the first month's rent

(November) as well as the security deposit, offset by a release of a portion of the \$150,000 reserved revenue from sales proceeds designated for this purpose previously approved by the City Council in FY 20. The FY 23 rent and operating expenses will also be offset from release of reserved revenue sales, estimated at approximately \$115,676. The Economic Development Department will return to the City Council to authorize an appropriation increase for these costs in FY 23. In FY 24, a portion of expected costs will be paid for by the remainder of the offset. The remainder of future lease costs through the initial term, ending in FY 27, will be paid for by the Administrative Cost Recovery Fee and expected sale proceeds from City-owned properties. Any future years expenses not offset by the Administrative Cost Recovery Fee may need to be covered by the General Fund Group. 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,



JOHNNY M. VALLEJO
ACTING DIRECTOR OF ECONOMIC DEVELOPMENT

APPROVED:



THOMAS B. MODICA
CITY MANAGER