

CITY OF LONG BEACH

DEPARTMENT OF DEVELOPMENT SERVICES

H-2

333 West Ocean Blvd., 3rd Floor Long Beach, CA 90802 (562) 570-5237 Fax: (562) 570-6205

November 20, 2012

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive the supporting documentation into the record, conclude the Public Hearing and adopt a Resolution making certain findings; and

Approve and authorize the City Manager to execute and take all actions reasonably necessary to implement an Amended and Restated Owner Participation Agreement with Shoreline Gateway, LLC, for the development of the Shoreline Gateway Project. (District 2)

DISCUSSION

On November 5, 2007, the former Redevelopment Agency entered into an Owner Participation Agreement (OPA) with Shoreline Gateway, LLC, for the development of the Shoreline Gateway Project on a site located at the northwest corner of Ocean Boulevard and Alamitos Avenue (Exhibit A – Site Map). Due to the prolonged downturn in the real estate market, and the pioneering nature of the project, Shoreline Gateway, LLC, was unable to comply with the Schedule of Performance set forth in the OPA, and development never began. The City of Long Beach now has the opportunity to stimulate the redevelopment of this site in support of the original vision, while enhancing the economic potential for additional property tax revenues.

The Shoreline Gateway Project was approved as a two-phase development. Phase One (East Tower) included 221 market rate, ownership residential units and 12,600 square feet of retail space in a 35-story mixed-use tower. Phase Two (West Tower) included a 21-story mixed-use development. As outlined in the OPA, the development site for Phases One (East Tower) and Two (West Tower) included a total of five parcels. The City of Long Beach, as Successor Agency to the Redevelopment Agency of the City of Long Beach (Successor Agency), owns four parcels, including 777 East Ocean Boulevard (Parcel 1a), 19 Lime Avenue (Parcel 2), 619 East Ocean Boulevard (Parcel 3), and 645 East Ocean Boulevard (Parcel 4). Shoreline Gateway, LLC, owns the parcel at 635 East Ocean Boulevard (Parcel 1) (Exhibit B – Site Map with Existing Phasing).

For development of Phase One (East Tower), Shoreline Gateway, LLC, would have paid \$1,820,000 to acquire Parcel 1a, and \$410,000 to acquire subsurface easements beneath Parcel 2 and Parcel 4. The easements were necessary to construct subterranean parking

for Phase Two (West Tower). The Phase One (East Tower) site also included portions of Lime Street, Alamitos Avenue, Ocean Boulevard, and Medio Street. Vacations of the foregoing rights of way were approved by City Council on February 12, 2008. If necessary, any required environmental mitigation at Parcel 1a would have been the responsibility of the former Redevelopment Agency.

Shoreline Gateway, LLC, in its sole discretion, could choose to acquire and construct Phase Two (West Tower) by exercising a Purchase Option by February 1, 2012. If the Purchase Option was exercised, Parcel 2, Parcel 3, and Parcel 4 would be conveyed for \$5.75 million, less \$410,000 paid for the subterranean easements. These parcels would be combined with Parcel 1 to complete the development site.

It should be noted that a long-term commitment of tax increment generated by the project would have been necessary to achieve the negotiated land sale price.

In addition to outlining terms and conditions of the real estate transaction, the OPA provided a guarantee by the former Redevelopment Agency of a third-party loan secured by real property owned by Shoreline Gateway, LLC. The loan was for an amount up to \$6 million, and was needed to fund predevelopment costs.

First Amendment to the OPA

A First Amendment to the OPA was approved by the former Redevelopment Agency on March 7, 2011. The Amendment included an extension until January 1, 2014 for Shoreline Gateway, LLC, to purchase the Phase One site. Additionally, the Amendment extended the period for Shoreline Gateway, LLC, to exercise the Phase Two Purchase Option to February 1, 2014.

Amended and Restated OPA

Since the OPA was originally approved in 2007, the recession eliminated sources of financing for condominium development, the effects of which are still being felt today. The dissolution of the Redevelopment Agency also eliminated the possibility for additional financial assistance necessary for a project of this caliber to proceed. As a result, Shoreline Gateway, LLC, wishes to modify the existing OPA to facilitate the development and to acknowledge the elimination of additional future financial assistance (tax increment) to complete this transaction. Since the dissolution of the Redevelopment Agency, Shoreline Gateway, LLC has addressed the lack of additional financial assistance by aggressively revamping the transaction and partnering with credit worthy financial partners. An Amended and Restated Owner Participation Agreement has been negotiated which would allow this significant project to proceed and which addresses the following key terms. Exhibit C summarizes the original transaction compared to the proposed transaction as follows:

- Switching Phase One and Phase Two: In response to changes in the multi-family residential financing markets, Shoreline Gateway, LLC, seeks to build Phase Two (West Tower) first. As proposed, the new Phase One (West Tower) will be an 18-story mixed-use tower comprised of 221 rental units and approximately 9,500 square feet of leaseable retail space (Exhibit D – Shoreline Gateway Phase One [West Tower]).

- Phase One Conveyance: Parcel 2, Parcel 3, and Parcel 4 (owned by the Successor Agency) would be conveyed to the Participant for \$100. This amount is being considered to allow the Shoreline Gateway Project to move forward without additional financial assistance from the Successor Agency (which was previously determined as necessary by the former Redevelopment Agency), and in recognition of the \$7.46 million in public revenue that will be generated as described in the Public Benefit section below.
- Phase One Development: As outlined in the Schedule of Performance, Shoreline Gateway, LLC, shall commence construction of Phase One (West Tower) not later than two years from the effective date of the Amended and Restated OPA. The Director of Development Services may approve a one-year extension. Shoreline Gateway, LLC, will partner with Ledcor Properties Corporation and PNC Realty Investors for development of Phase One (West Tower). Ledcor, who constructed the towers at 400 West Ocean Boulevard, will serve as the general contractor. PNC Realty Investors will provide construction and permanent project financing.
- Phase Two Option: Shoreline Gateway, LLC, shall have one year from the issuance of a Certificate of Occupancy or a Temporary Certificate of Occupancy for Phase One (West Tower), whichever occurs first, to exercise an Option to develop the new Phase Two (East Tower). An additional year may be purchased at two percent of the purchase price (\$36,400), with one percent allocated toward the land price, and one percent as a non-refundable Option fee.
- Phase Two Conveyance: Parcel 1a (now owned by the Successor Agency) shall be conveyed for \$1,820,000. The conveyance will include those portions of Ocean Boulevard, Alamitos Avenue, and Medio Street previously vacated. This amount is consistent with the agreed upon terms of the original OPA and represents fair market value in accordance with a recent appraisal.
- Phase Two Environmental: Environmental remediation, if required, will be the obligation of Shoreline Gateway, LLC. The Successor Agency will reimburse Shoreline Gateway, LLC, up to \$1,820,000 for remediation costs. Reimbursement would be paid from the Redevelopment Property Tax Trust Fund, subject to approval of the Oversight Board and the State Department of Finance.
- Percent for Public Art: The Percent for Public Art Program of the former Redevelopment Agency remains a Phase 2 requirement under the Amended and Restated OPA.
- Loan Guarantee: The former Redevelopment Agency was required to fulfill its obligation per the terms of the \$6 million loan guarantee because the timing of the Agency's dissolution prohibited additional amendments to the OPA. Had the former Redevelopment Agency and Shoreline Gateway, LLC, been able to amend the OPA, this could have prevented a triggering event. The Amended and Restated OPA proposes to incorporate repayment of the loan into the project through a promissory note, payable by Shoreline Gateway, LLC, to the Successor Agency. The note will convert to equity at the completion of Phase II (East Tower).

- Option to Purchase: In the event Shoreline Gateway, LLC, fails to close escrow for Phase I (West Tower), the Amended and Restated OPA provides the Successor Agency a no-cost Purchase Option to acquire Parcel 1. Upon close of escrow, the Purchase Option shall convert to a subordinated deed of trust, encumbering the Phase I (West Tower) properties.
- California Environmental Quality Act (CEQA): On September 18, 2006, the former Agency certified an Environmental Impact Report (EIR) for the project. Following certification, the project was revised to address design concerns and reduce impacts on the surrounding neighborhood. In accordance with CEQA, the revisions triggered a Supplemental Environmental Impact Report (SEIR) to assess the impacts of the changes and identify mitigation measures. The SEIR was certified on November 5, 2007.

Furthermore, the Shoreline Gateway Project is located in the Downtown Community Plan Area, and was also evaluated by the Downtown Plan Program EIR, which was certified on January 10, 2012. Since Phases One and Two were analyzed in the EIR, the Supplemental EIR, and the Downtown Plan Program EIR, no further action is required to comply with CEQA.

Public Benefit

Once complete, the Shoreline Gateway Project will be a landmark in Downtown Long Beach. It will further revitalize Downtown through the redevelopment of underutilized property and will provide additional market rate residential units in Downtown. Furthermore, it will result in added public revenue through generation of new property tax and higher land assessed values. To confirm this, the Successor Agency commissioned Keyser Marston Associates (KMA) to complete an analysis of the property tax that would be generated by Phase One (West Tower). Over a 15-year period, the net present value of tax revenue of Phase One (West Tower) calculated at \$7.46 million. This was compared against an alternative scenario where the former Redevelopment Agency properties are sold on the open market. Based on current market and financial conditions, this scenario is expected to yield a five-story project with residential and commercial elements, generating a net present value of tax revenue of \$2.27 million. When compared to this alternative, and accounting for a \$3 million land payment, Phase One (West Tower), as proposed, is anticipated to provide \$2.14 million in additional property tax revenue over a 15-year period. This will not only benefit the City of Long Beach, but all other governmental jurisdictions receiving property taxes.

The City of Long Beach as Successor Agency to the Redevelopment Agency of the City of Long Beach was asked to take action related to this transaction at its November 20, 2012 meeting.

A Summary Report has been prepared pursuant to Section 33433 of the California Health and Safety Code, and made available for public inspection. Public hearing notification was conducted in accordance with Section 6066 of the State of California Government Code.

This matter was reviewed by Deputy City Attorney Richard Anthony on October 10, 2012 and by Budget Management Officer Victoria Bell on November 5, 2012.

TIMING CONSIDERATIONS

City Council action is requested on November 20, 2012, in order to execute the Owner Participation Agreement and allow the development of the project to move forward at the earliest possible time following Oversight Board approval. Execution of the agreement is subject to the review and approval of the State Department of Finance under AB 1484.

FISCAL IMPACT

Tax revenue generated by the Shoreline Gateway Project would benefit the General Fund (GP). Pending approval of the Successor Agency Property Management Plan, proceeds from the disposition of the Phase One (West Tower) and Phase Two (East Tower) properties could also be available to support future Successor Agency activities in the SA Fund (SA 270) in the Department of Development Services. Under the terms of AB 1484, these funds may only be used to meet existing obligations of the Successor Agency.

Finally, construction of Phase One (West Tower) and Phase Two (East Tower) is expected to create a significant number of local construction jobs, though the exact number is not known at this time.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



AMY J. BODEK, AICP
DIRECTOR OF DEVELOPMENT SERVICES

PHW:AJB:RMZ:TJK

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Attachments: Exhibit A – Site Map
Exhibit B – Site Map with Existing Phasing
Exhibit C – Shoreline Gateway OPA Comparison
Exhibit D – Shoreline Gateway Phase One (West Tower)

APPROVED:


PATRICK H. WEST
CITY MANAGER

Exhibit A - Site Map

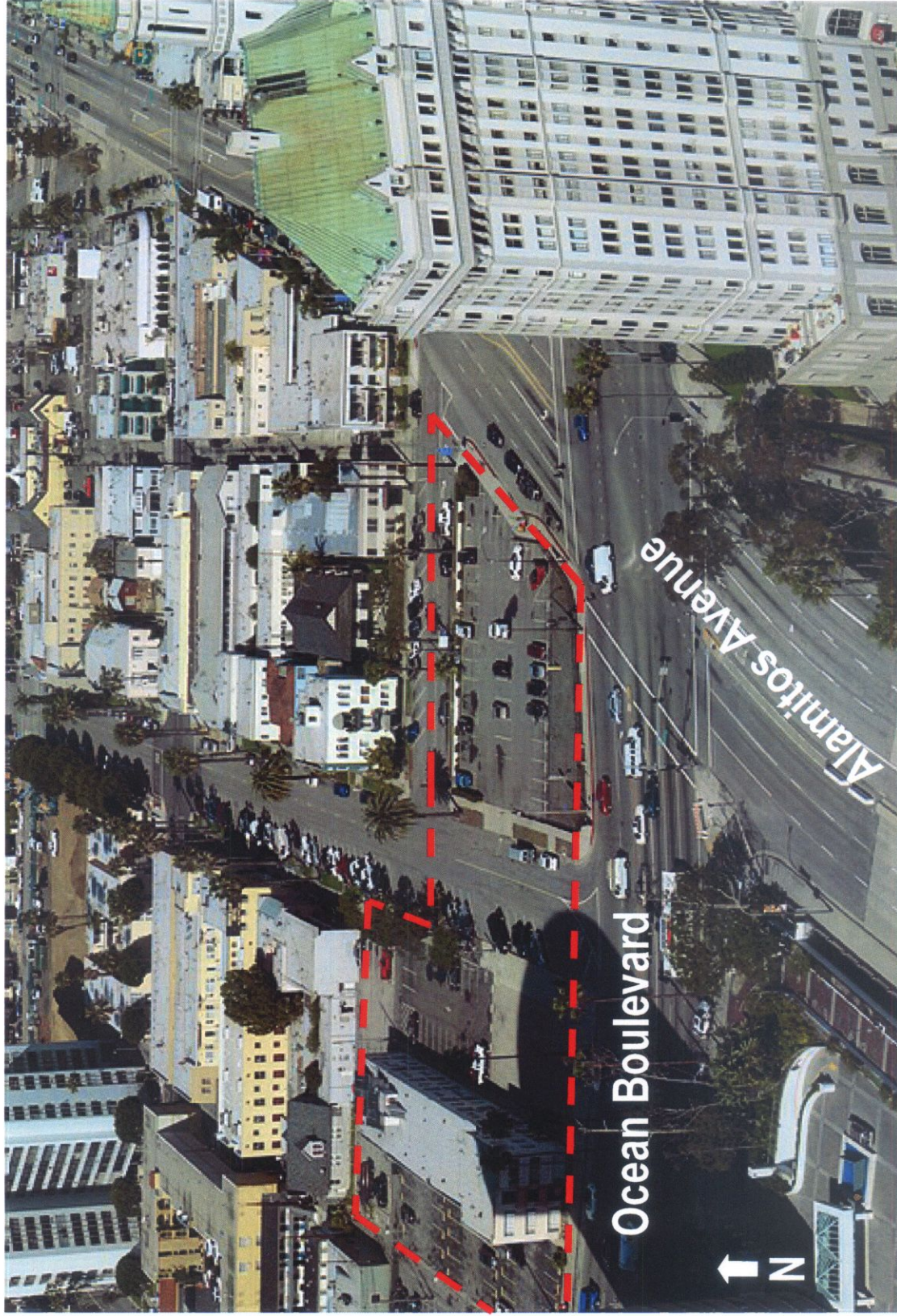


Exhibit B - Site Map with Existing Phasing



Parcel	Address	Owner	Phase
1a	777 E. Ocean Blvd	Long Beach SA	2
1	635 E. Ocean Blvd	Shoreline Gateway, LLC	1
2	19 Lime Ave	Long Beach SA	1
3	619 E. Ocean Blvd	Long Beach SA	1
4	645 E. Ocean Blvd	Long Beach SA	1

Exhibit C – Shoreline Gateway OPA Comparison

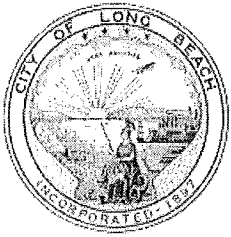
	Existing OPA	Proposed Amended and Restated OPA
Executed	January 11, 2008	November 2012, depending on DOF approval.
Phasing	Phase I: East tower Phase II: West tower	Phase I: West tower Phase II: East tower
Phase I (West Tower) Conveyance Price	\$5.34 Million*	\$100**
Phase I (West Tower) Easement Price	\$410,000	Easement no longer required, so no purchase necessary.
Phase I (West Tower) Scope of Development	Mixed-use tower (Size undetermined)	18 Stories 221 Rental Units (market rate) 9,500 sq. ft. of retail
Phase I (West Tower) Development Schedule	Not specified. West Tower was Phase II under existing OPA.	Construction to commence not later than two years after execution of Agreement.
Phase II (East Tower) Purchase Option	No cost Option to acquire Phase II (West Tower) site by Feb 1, 2012. (3/7/11 Amendment extended to Feb 1, 2014)	2 year Option from the date a COO or TCO (whichever is earlier) is issued for Phase I (West Tower). First year at no cost. Second year fee is 2% of purchase price (\$36,400). Half may be applied to purchase price. The other half is a non-refundable fee. Shoreline Gateway, LLC must file complete Phase II Planning entitlement application to exercise the second year of the Option.
Phase II (East Tower) Conveyance Price	\$1.82 Million, less remediation costs (if applicable)	\$1.82 Million. No deduction for remediation.
Phase II (East Tower) Scope of Development	35 Stories 221 For Sale Units 12,600 sq. ft. of retail	35 Stories 221 For Sale Units 12,600 sq. ft. of retail
Phase II (East Tower) Site Remediation	Long Beach RDA responsibility.	Shoreline Gateway, LLC responsibility. Agency will reimburse Participant up to \$1.82 million via RPTTF, subject to DOF approval.
Assignment	Permitted with restrictions.	Permitted with restrictions.
Loan Guarantee	\$6 million. If RDA required to perform, remedy limited to foreclosure of participant real property (635 E. Ocean).	\$6 million potentially recoverable by a subordinated note / equity position.
% for Public Art	Included. 1% of total development costs.	Included. 1% of total development costs, payable at issuance of Phase II building permits or termination of the Option.
CEQA	EIR (September 18, 2006); SEIR (November 5, 2007). Completed.	Covered by OPA EIR and SEIR. Also covered via DT Plan Program EIR (January 10, 2012). Completed.
Plan Check / Impact Fees	Pay fees in effect at time of issuance.	Pay fees in effect at time of issuance.

*Prior to elimination of RDA, an amendment to the existing OPA was under negotiation. The amendment contemplated a rebate of tax increment generated from Project to Participant.

**Due to RDA elimination, no tax increment rebate from Project to Participant is included.

Exhibit D – Shoreline Gateway Phase One (West Tower)





November 20, 2012

Resolution for

Recommendation to receive supporting documentation into the record, conclude the hearing and adopt resolution making certain findings; and approve and authorize City Manager to execute and take all actions reasonably necessary to implement an Amended and Restated Owner Participation Agreement with Shoreline Gateway, LLC, for the development of Shoreline Gateway. (District 2)

**ITEM WILL BE
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AVAILABLE**

and

**A SCANNED IMAGE OF THIS PORTION
OF THIS AGENDA ITEM WILL BE FORTHCOMING**

OR

PLEASE CONTACT

THE LONG BEACH CITY CLERK DEPARTMENT AT

**(562) 570-6101
(562) 570-6789 (FAX)
cityclerk@longbeach.gov**