

MAY 18 2022

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City of South Gate
**SUCCESSOR AGENCY TO THE
COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF SOUTH GATE**

AGENDA BILL

For the Regular Meeting of: **May 24, 2022**

Originating Department: **Community Development**

Department Director:

Meredith T. Elguira

Interim City Manager:

Chris Jeffers

SUBJECT: RESOLUTION APPROVING THE PURCHASE AND SALE AGREEMENT FOR 7916 LONG BEACH BOULEVARD (APN'S 6202-010-900 AND 6202-010-901) BETWEEN THE SUCCESSOR AGENCY AND AZURE COMMUNITY DEVELOPMENT AUTHORIZING TRANSMITTAL OF THE PURCHASE AND SALE AGREEMENT TO THE FIRST DISTRICT OVERSIGHT BOARD UNDER THE DISSOLUTION LAW

PURPOSE: To consider the adoption of a Resolution that approves a Purchase and Sale Agreement ("PSA") between the Successor Agency to the Community Development Commission of the City of South Gate ("Successor Agency"), as seller, and Azure Community Development, an IRC 501(c)(3) tax-exempt nonprofit public benefit corporation ("Purchaser"), as buyer, for disposition of 7916 Long Beach Boulevard ("Property"), Property No. 13 of the Successor Agency's Amended Long Range Property Management Plan ("Amended LRPMP"), and authorizes transmittal of the PSA for consideration and approval by the County of Los Angeles, First District Oversight Board ("Oversight Board").

RECOMMENDED ACTION: The Successor Agency to the Community Development will consider adopting a Resolution approving the Purchase and Sale Agreement ("PSA") between the Successor Agency and Purchaser for disposition of 7916 Long Beach Boulevard (APNs 6202-010-900 and 6202-010-901) and authorizing the transmittal of the PSA to the Oversight Board.

FISCAL IMPACT: A tenant (GDS Institute) has been leasing and operating a trade school on the Property since 2002 and is currently on a month-to-month lease. After the sale of the Property, the tenant will vacate the Property and prior lease revenue will end.

The proposed redevelopment of the Property involves the construction of an affordable housing project which requires gap financing in the form of land and other cash assistance. In this case, the Purchaser is requesting a land donation from the Successor Agency plus assistance from the City and other sources to finance the costs for redevelopment of the Property resulting in the construction of 11 for sale townhomes that would be affordable to low-income households (those who earn 80 percent or less of the Los Angeles County area median income, adjusted for household

size). Under the terms of the PSA, the Purchaser will acquire the Property from the Successor Agency for the fair market value of \$1 in its AS-IS condition, with consideration for the existing physical and environmental conditions and future use restricted as development for affordable housing. The Successor Agency commissioned an appraisal of the subject Property which was completed by Nagasaki and Associates on October 22, 2021. The appraisal concluded that the value of the Property was \$1,000,000. Therefore, the Successor Agency sale, with County Oversight Board approval, would effectively provide a discount in the project costs of effectively \$1,000,000 in order to develop the project. Each affected taxing agency shares in the fiscal impact of this discount; since the City's share of the property tax is approximately 5.5 percent, this would amount to approximately \$55,000 not received by the City General Fund if the property were otherwise sold for other purposes by the Successor Agency.

The Successor Agency would realize modest ongoing savings in future years as a result of the sale of the Property. As documented in the Amended LRPMP, the Property was the former location of a leaking underground storage tank ("LUST") and is subject to an open site assessment case pending with the Los Angeles Regional Water Quality Control Board ("LARWQCB"). The owner of the Property is required to reimburse the LARWQCB for all regulatory oversight work on the subject Property. Since dissolution, the Successor Agency has been responsible for these costs on its Recognized Obligations Payment Schedule ("ROPS"), which are specifically identified on Line 27 of the annual ROPS and average approximately \$2,000 each year funded from Redevelopment Property Tax Trust Funds (not the City General Fund). After the Property is sold under the PSA, the Purchaser, as the new owner (and not the Successor Agency), will be responsible for these payments to the LARWQCB.

Separate from the Successor Agency, the Purchaser is seeking additional assistance from the City to subsidize the cost of pre-development of the affordable housing. As of the Purchaser's budget reviewed by the City's consultant RSG in September 2021, the preliminary project budget is \$6.6 million for acquisition, predevelopment, construction, and sales cost. This works out to approximately \$600,000 per unit. At this budget, the Purchaser and the City's consultant RSG have concluded that additional subsidies are necessary to complete the project. Specifically, the Purchaser is requesting the City contribute approximately \$700,000 in HOME funds for pre-development costs, plus be a co-applicant on requesting from the California Department of Housing and Community Development ("HCD") a CalHOME grant in the amount of \$1.1 million. The City's sources of funds would consist of \$55,000 for its share of the Successor Agency land donation plus HOME funds of \$700,000 for a total of \$755,000, or approximately \$66,000 per unit.

Finally, since last fall, construction costs nationwide have seen significant increases due to supply chain and labor shortages. According to the March 2022 Producer Price Index published by the US Bureau of Labor Statistics and the St. Louis Federal Reserve, construction materials costs have increased by over 34.3 percent since January 2021. See Figure 1 for the reported change in construction materials costs¹.

¹ U.S. Bureau of Labor Statistics. Producer Price Index by Commodity: Special Indexes: Construction Materials. FRED, Federal Reserve Bank of St. Louis; FRED, Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org/series/WPUSI012011>

Figure 1: Producer Price Index for Construction Costs as of March 2022



Economists have widely speculated that additional increases may lie ahead as both interest rates and inflation affect the construction industry. This is a reality that any developer faces today, but for affordable housing developers this often means increased construction costs pose the very real risk of needing more gap financing for a project to be completed because low-income buyers cannot be asked to pay more than what is allowed by law. For example, a low-income buyer in Los Angeles County would have a mortgage in the area of \$325,000 based on current State income limits, meaning that gap financing would need to cover the remaining \$275,000 of costs per unit to build the project successfully.

As such, the City may be asked to evaluate the project budget in the future should additional costs be realized at the time when the project goes out to bid. The City should not rule out the possibility that the Purchaser may need additional assistance, provided a rigorous review of construction budgets as the project progresses towards the construction phase based on the material and labor market at that time. Should that be necessary, the City Council may be asked to consider such a request and be provided any substantiation at that time.

In summary, the current project budget entails the following components and subsidies:

Table 1: Development Sources as of October 2021 (subject to change)

Sources	Amount	Source
Land Donation	\$1,000,000	Successor Agency/Oversight Board Write-Down
City HOME Forgivable Loan	\$700,000	City HOME Funds
CalHOME Grant	\$1,100,000	Department of Housing and Comm Dev

Subtotal	\$2,800,000	
Homebuyer Financing	\$3,800,000	Down Payment and Mortgages
Total	\$6,600,000	

ANALYSIS: As a result of the dissolution of the Redevelopment Agency, the Successor Agency was created to administer enforceable obligations and wind down the affairs of the former Community Development Commission of the City of South Gate ("Former Agency"). As part of that process, the Successor Agency must dispose of all non-housing properties of the Former Agency in an expeditious manner aimed at maximizing value, all pursuant to the requirements of the Dissolution Law and, in particular, in compliance with the Amended LRPMP as approved by the State of California, Department of Finance ("DOF") on December 22, 2015.

The Successor Agency is performing its functions under the Dissolution Law to administer the enforceable obligations and otherwise unwind the former Redevelopment Agency's affairs. Under the Dissolution Law, a successor agency's actions are subject to review by a county oversight board. For this Successor Agency, its Oversight Board is referred to as the First District Oversight Board, consisting of seven members representing various interests in the Los Angeles County First Supervisorial District, which will review and take action on Successor Agency action items under the Dissolution Law, including the approval of this PSA.

South Gate is considered a built-out community and has an urgent need for affordable housing. The South Gate median household income is approximately \$55,000, which is considered Very Low Income for a family of four in Los Angeles County under federal and state standards. Further, the California Department of Housing and Community Development (HCD) recently completed the Regional Housing Needs Assessment ("RHNA") for the 8-year period beginning in October 2021, which determines the City's next ("6th Round") fair share allocation of housing production. In March 2021, HCD approved the 6th Round Final RHNA Allocation Plan allocating 8,282 housing units to South Gate, of which 994 would need to be affordable to low-income households (earning less than 80 percent of the County median income). Therefore, redevelopment of the Property with affordable housing would provide maximum benefit to the community.

The Purchaser proposes to demolish the existing building and construct eleven (11) three-story townhomes, including 10 three-bedroom units and 1 four-bedroom unit. Each unit would have a private garage, and access to shared amenities including ~~ana~~ a small outdoor space and shared grills. A copy of the Purchaser's conceptual site plan accompanies this Agenda Bill.

The 11 townhomes will be sold to eligible Low-Income households earning no more than 80% of Los Angeles County area median income ("AMI") at an affordable housing cost as defined in Section 50052.5 of the Health and Safety Code, with a covenant requiring their affordability for not less than 55 years. As a condition to closing escrow, the Purchaser must enter into an Affordable Housing Loan Agreement with the City that restricts the sale of the townhomes to eligible low-income households at an affordable housing cost, imposes restrictions on the Purchaser's ability to transfer the Property, requires all purchasers of the affordable units to enter into agreements with City ensuring subsequent transfer of units to low income households, and establishes townhome occupancy and maintenance requirements.

Under the terms of the proposed PSA, the Successor Agency will sell, and the Purchaser will buy, the Property at its fair market value of \$1 in an AS-IS condition, with consideration for the existing physical and environmental conditions and future use restricted as development for affordable housing. The PSA stipulates that Purchaser may conduct tests and physical inspections of the Property during a 180-day contingency period.

Should the Successor Agency approve the attached Resolution, the accompanying PSA would be submitted to the Oversight Board for their review and approval as early as their next scheduled meeting of June 13, 2022, provided the Successor Agency approves the PSA tonight. Under the Dissolution Law Section 34191.5(f), actions to implement the disposition of property pursuant to an approved long-range property management plan shall not require review by the DOF, so if the Oversight Board approves the PSA, the Successor Agency may proceed with implementation of the sale under the PSA.

BACKGROUND: The Former Agency acquired the Property in 1979 from Lindt-Wilson Motors Inc. and held ownership until it was transferred by operation of law to the Successor Agency pursuant to the redevelopment dissolution in 2012. The Amended LRPMP calls for the sale of the subject Property (Property 13), and two other properties along with the transfer of ten properties to the City for governmental use.

The subject Property is approximately 17,896 square feet in total area and includes 5,850 square feet of one-and two-story structures. According to public records, the structures were originally constructed in 1950. The Property is zoned as "Urban Neighborhood." A tenant (GDS Institute) has been leasing and operating a trade school on the Property since 2002 and is currently on a month-to-month lease.

Based on City records and a case summary published by GeoTracker, the data management system for the California State Water Resources Control Board, the Property is a former auto body shop (formerly operated as Freedom Ford) and is known to have had an onsite LUST. In 1998, a 7,500-gallon gasoline underground storage tank ("UST") and a 550-gallon waste oil UST were removed from the Property. In 1997, seven (7) hydraulic lifts, one (1) clarifier, and 83 tons of petroleum-impacted soils were removed. However, potential contaminants such as benzene, tetrachloroethylene (PCE), toluene, and trichloroethylene (TCE) remain in the soil.

In April 2021, the Successor Agency declared the property as "surplus" and provided a notice of availability to approximately 336 nonprofit housing providers and other required entities who registered with HCD to receive such notifications. During the ensuing 60-day notice period, the Purchaser was the only party that responded to the notice of availability with a Letter of Interest ("LOI"). Immediately thereafter, the Successor Agency and RSG staff, in consultation with the City Attorney, entered into detailed negotiations regarding the terms of sale of the Property including the development concept, project budget, and requested subsidies. After negotiations, the parties reached consensus on a PSA to be presented to the Successor Agency for consideration of approval.

The Purchaser originally approached the Successor Agency with a proposal to build approximately 22 small rental units on the site, which given the configuration of the property and other standards would be difficult to achieve from a feasibility standpoint. The Successor Agency Board directed

that staff negotiate a project that provided affordable home ownership opportunity within the community. The Purchaser modified their proposal to a lower-density, townhome project based on a similar concept they are pursuing in the Huntington Park. This general area of South Gate has some of the residents most impacted by housing costs and unable to purchase market rate housing, so more affordable ownership housing has been a goal of the City for some time.

As described in the Fiscal Impact section of this Agenda Bill, the transaction involves the sale and redevelopment of the Property to construct 11 for-sale townhome units affordable to ~~low income~~low-income buyers and a total project budget (as of October 2021) of \$6.6 million. Buyer down payment and mortgages total approximately \$3.8 million based on applicable income limits for the low-income households. In order to complete the affordable housing project, the Successor Agency is being asked to write down the sale of the property by approximately \$1,000,000, and the City would be separately approving a \$700,000 forgivable loan from HOME funds. In addition, the City and Purchaser will apply for \$1.1 million of CalHOME grant funds from HCD, bringing the total gap financing to \$2.8 million.

As discussed earlier, construction costs across the country are affecting all real estate development, but for affordable housing projects this often means the need for additional gap financing because buyers ability to pay is based on their incomes not construction costs. Future increases in construction material or labor costs may require additional gap financing in order to complete the project and will be subject to future review and consideration by the City should that become necessary.

In March 2018, Successor Agency staff, with the assistance of the City's consultant RSG, listed the Property for sale on the open market. After engaging in negotiations for several months, the Successor Agency and GDS Institute entered into a purchase and sale agreement in April 2019, which was approved by the Oversight Board as required by law. However, in March 2021, the Successor Agency and GDS Institute cancelled escrow due to the failure of the buyer to close the purchase of the Property in accordance with that purchase and sale agreement.

As of January 1, 2020, Assembly Bill ("AB") 1486, more commonly referred to as the Surplus Land Act ("SLA"), requires that successor agencies follow surplus land disposition procedures for LRPMP properties that were not under an existing contract. Such procedures include declaring the LRPMP property as "surplus" property and providing a notice of availability to nonprofit housing providers and certain other entities. The surplus property disposition process also requires a 60-day offer solicitation period and 90-day good faith negotiation period.

ATTACHMENTS: A. Proposed Resolution
B. Preliminary Conceptual Site Plan for 11-Unit Townhome Project

SUCCESSOR AGENCY RESOLUTION NO. ____

**RESOLUTION OF THE SUCCESSOR AGENCY TO THE
COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF
SOUTH GATE APPROVING A PURCHASE AND SALE
AGREEMENT BY WHICH THE SUCCESSOR AGENCY WILL SELL
CERTAIN PROPERTY LOCATED AT 7916 LONG BEACH
BOULEVARD, SOUTH GATE, CALIFORNIA TO AZURE
COMMUNITY DEVELOPMENT, AN IRC 501(C)(3) TAX EXEMPT
NONPROFIT PUBLIC BENEFIT CORPORATION IN ACCORDANCE
WITH THE DOF-APPROVED LONG RANGE PROPERTY
MANAGEMENT PLAN AND THE DISSOLUTION LAW**

WHEREAS, the Community Development Commission of the City of South Gate ("former Agency") was a public body, corporate and politic, formed, organized, existing and exercising its powers pursuant to Section 34100, *et seq.* of the California Health and Safety Code, and exercised the powers, authority, functions, jurisdiction of a community redevelopment agency formed, organized, existing and exercising its powers pursuant to the California Community Redevelopment Law, Health and Safety Code, Section 33000, *et seq.*, and specifically formed by the City Council ("City Council") of the City of South Gate ("City"); and

WHEREAS, Assembly Bill x1 26 added Parts 1.8 and 1.85 to Division 24 of the California Health and Safety Code, which caused the dissolution of all redevelopment agencies and wind down of the affairs of former agencies, including as such laws were amended by Assembly Bill 1484 and by other subsequent legislation (together, as amended, the "Dissolution Law"); and

WHEREAS, as of February 1, 2012, the former Agency was dissolved under the Dissolution Law, and as a separate public entity, corporate and politic, the Successor Agency to the Community Development Commission of the City of South Gate ("Successor Agency") administers the enforceable obligations of the former Agency and otherwise unwinds the former Agency's affairs, all subject to the review and approval by a seven-member oversight board; and

WHEREAS, Section 34179 provides that the oversight board has fiduciary responsibilities to holders of enforceable obligations and the taxing entities that benefit from distributions of property tax and other revenues pursuant to Section 34188 of Part 1.85 of the Dissolution Law; and

WHEREAS, all statutory references in this Resolution are to the California Health and Safety Code unless otherwise stated; and

WHEREAS, Section 34191.5(b) requires the Successor Agency to prepare a "long-range property management plan" (also referred to herein as the "LRPMP") addressing the future disposition and use of all real properties of the Former Agency no later than six months following the DOF's issuance to the Successor Agency of a finding of completion under Section 34179.7; and

WHEREAS, the Successor Agency received a Finding of Completion, and thereafter timely prepared its LRPMP, which LRPMP was approved by the local oversight board and then by the DOF in a decision letter issued and dated as of December 22, 2015; and

WHEREAS, the Successor Agency has negotiated the terms of a Purchase and Sale Agreement ("Agreement") with Azure Community Development, an IRC 501(c)(3) tax-exempt nonprofit public benefit corporation ("Purchaser") related to the disposition of certain real property with approximately 5,850 square feet of building improvements on 17,896 square feet of land with a common address of 7916 Long Beach Boulevard, South Gate, California, and identified as APNs 6202-010-900 and 6202-010-901 as listed on the LRPMP as Property No. 13 ("Property"); and

WHEREAS, the Agreement calls for the Successor Agency to sell the Property to the Purchaser in its "AS IS" condition, which City records and a case summary published by GeoTracker (the data management system for the California State Water Resources Control Board) indicates the Property is a former auto body shop and is known to have had an onsite leaking underground storage tank with potential contaminants such as benzene, tetrachloroethylene (PCE), toluene, and trichloroethylene (TCE) remaining in the soil, for the fair market value of the Property, with the proceeds of sale to be distributed to the taxing entities under Section 34191.5(c)(2)(B); and

WHEREAS, the Agreement further provides that, as a condition to closing escrow for the purchase of the Property, the Purchaser enter into an Affordable Housing Loan Agreement with the City that restricts the sale of the townhomes to eligible low-income households at an affordable housing cost for not less than 55 years, imposes restrictions on the Purchaser's ability to transfer the Property, and requires all purchasers of the affordable units to enter into agreements with City ensuring subsequent transfer of units to low income households; and

WHEREAS, the purchase price for the Property under the Agreement is \$1 with consideration for the existing physical and environmental conditions and future use restricted as development for affordable housing, which is not less than the fair market value of the Property; and

WHEREAS, the Successor Agency considered and by this Resolution desires to approve the Agreement and direct staff that the Agreement be submitted to the County of Los Angeles, First District Oversight Board ("Oversight Board") for its review, consideration and approval; and

WHEREAS, the sale of the Property to the Purchaser under the Agreement complies with Dissolution Law and is in the best interests of the taxing entities.

NOW, THEREFORE, BE IT RESOLVED BY THE SUCCESSOR AGENCY TO THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF SOUTH GATE:

Section 1. The foregoing recitals are true and correct and constitute a substantive part of this Resolution.

Section 2. The Successor Agency hereby approves the sale of the Property and approves the Agreement in substantially the form attached hereto as Attachment No. 1, which is fully incorporated by this reference. The Successor Agency Executive Director and Recording Secretary (who are also the City Manager and City Clerk, respectively) are authorized to execute and attest the Agreement with such revisions as the Executive Director and Successor Agency legal counsel deem appropriate. The Executive Director and their authorized designees are authorized to take such actions as may be necessary or appropriate to implement the Agreement, including executing further instruments and agreements, issuing warrants, and taking other appropriate actions to perform the obligations and exercise the rights of the Successor Agency under the Agreement. A copy of the Agreement when fully executed and approved by the Oversight Board shall be placed on file in the office of the Successor Agency Recording Secretary.

Section 3. The Chair of the Successor Agency shall sign the passage and adoption of this Resolution and thereupon the same shall take effect and be in force.

Section 4. The Successor Agency Executive Director is hereby directed to transmit this Resolution and the Agreement to the Oversight Board under the Dissolution Law.

Section 5. The Secretary shall certify to the adoption of this resolution.

APPROVED AND ADOPTED this 24th day of May 2022.

**SUCCESSOR AGENCY TO THE COMMUNITY
DEVELOPMENT COMMISSION OF THE CITY
OF SOUTH GATE**

By: _____
Al Rios, Chair

ATTEST:

By: _____
_____, Recording Secretary

(SEAL)

APPROVED AS TO FORM:

By: Raul Salinas 

Raul F. Salinas, General Counsel
Successor Agency to the Community Development
Commission of the City of South Gate

STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES) ss.
CITY OF SOUTH GATE)

I, _____, Recording Secretary of the Successor Agency to the Community Development Commission of the City of South Gate, hereby certify that the foregoing resolution was duly adopted by the Successor Agency, at its regular meeting held on the 22nd day of March 2022, and that it was so adopted by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

_____, Recording Secretary

(SEAL)

ATTACHMENT 1
PURCHASE AND SALE AGREEMENT
[to be attached]