



# Council Agenda Report

To: Mayor Mullen and the Honorable Members of the City Council

Prepared by: Reva Feldman, City Manager   
Christi Hogin, City Attorney

Date prepared: April 11, 2018 Meeting date: April 23, 2018

Subject: Purchase of 9.65 acres located at 23575 Civic Center Way (APN 4458-022-011) (commonly known as Sycamore Village or loki); purchase of 1.11 acres located at Civic Center Way and Webb Way (APN 4458-020-015) (commonly known as Island Parcel); and purchase of 18.48 acres located at Pacific Coast Highway and Heathercliff Road (APN 4466-021-028)

---

**RECOMMENDED ACTION:** 1) Identify the source of funds and approve funding plan to purchase three properties (loki/Sycamore Village, Island Parcel, and Heathercliff/PCH parcel); and 2) Direct the City Attorney to negotiate a purchase and sales agreement to effect the purchase of the three parcels for \$42.5 million for consideration by City Council at future meeting.

**SUBJECT PROPERTIES:** The following properties are being considered for acquisition:

- 1) APN 4458-0220-011 23575 Civic Center Way: This property is commonly known as Sycamore Village or the loki parcel and consists of 9.65 acres located on the northeast corner of Civic Center Way and Stuart Ranch Road. The property is vacant and currently zoned Community Commercial.
- 2) APN 4458-020-015 Civic Center Way and Webb Way: This property is commonly known as the Island parcel and consists of 1.11 acre located on the southwest corner of Civic Center Way and Webb Way. The property is vacant and currently zoned Commercial General.
- 3) APN 4458-021-028 Pacific Coast Highway and Heathercliff Road: This property is commonly known as the Christmas Tree lot and consists of 18.48 acres located on the south side of Pacific Coast Highway just east of Heathercliff Road. The property is vacant and currently zoned Commercial Neighborhood.

DISCUSSION: The Malibu Bay Company (MBC) listed for sale eight parcels of vacant land in Malibu owned by MBC, the late Jerry Perenchio's company. MBC was seeking a single buyer that could purchase all of its vacant residential parcels and vacant commercial parcels as one package. At the City's request, however, MBC agreed to negotiate with the City on just the commercial properties. These negotiations have produced agreement on a purchase price for three of the four commercial properties and MBC has agreed to sell the City those three parcels at the agreed price.

The item before the Council is to determine the source of funds for the purchase of three commercial properties currently for sale by MBC, consider a funding plan for the purchase, and determine whether to direct the City Attorney to negotiate a purchase and sales agreement to complete the transaction.

The total purchase price was negotiated following the property owner's indication that it was a willing seller of multiple properties. Valuation of vacant property in Malibu is challenging because there are few comparable properties. The City engaged a professional appraiser and negotiated with the seller to determine the purchase price based on fair market value. MBC also engaged an appraiser who conducted a market analysis.

The trustees of the Perenchio estate were bound by a fiduciary obligation to garner the best price for the property as part of the liquidation of the assets of MBC. The government cannot compel the sale of property to the City for less than fair market value. Consequently, considerable effort was devoted to identifying the constraints of the subject properties as well as their potential in order to develop valuations that are supported by facts. Here is a summary of those efforts:

- APN 4458-0220-011 23575 Civic Center Way (Sycamore Village): The valuation of this parcel was based on the following assumptions: (1) the property is 9.65 acres; (2) the property has no development entitlements though considerable work has been done toward the entitlement process; (3) it is zoned Community Commercial; (4) the property is a flat parcel located in the Civic Center area of Malibu and has the potential to be developed commercially; and (5) the parcel was included in the Civic Center Wastewater Assessment District. On these assumptions, the appraiser concluded the fair market value of the Sycamore Village property is \$21,100,000.
- APN 4458-020-015 Civic Center Way and Webb Way: The valuation of this parcel was based on the following assumptions: (1) the property is 1.11 acres; (2) the property has no development entitlements; (3) it is zoned Commercial General; (4) the property is located in the Civic Center area of Malibu and has the potential to be developed commercially; and (5) the parcel was included in the Civic Center Wastewater Assessment District. Based on these

assumptions, the appraiser concluded the fair market value of this property is \$3,200,000.

- APN 4458-021-028 Pacific Coast Highway and Heathercliff Road: (1) the property is 18.48 acres; (2) the property has no development entitlements; (3) it is zoned Commercial Neighborhood; and (4) the property is located in the west end of Malibu and has the potential to be developed into a retail, restaurant, or office development. Based on these assumptions, the appraiser concluded the fair market value of the PCH/Heathercliff property is \$18,200,000.

**FUNDING RECOMMENDATION:** Because some of the property can be used to provide public parking to alleviate the current parking deficit in the Civic Center, the purchase can be made with a combination of Undesignated General Fund Reserves, Designated General Fund Reserves, Los Angeles County Measure R and M funding and through the issuance of Certificates of Participation (COPs).

The breakdown of funding would be as follows:

General Fund Undesignated Reserves:	\$12,000,000
General Fund Designated Reserve:	1,000,000
Measure R/M Funds:	7,355,225
COPs:	<u>22,143,775</u>
	\$ 42,500,000

As of July 1, 2017, the audited Undesignated General Fund Reserve is \$29,443,250. The Undesignated General Fund Reserve as of June 30, 2018 is projected to be \$31,361,608 (unaudited). City Council Policy #3 established a goal of maintaining a minimum of 50% of the operating budget in reserves.

The City's operating budget for Fiscal Year 2017-2018 is \$29,092,212. Pursuant to the City's Investment Policy approved by Resolution No. 14-17, the City's objective is to maintain at least 50% of the General Fund operating budget in short-term securities, which means that the City must maintain a balance of \$14,546,106. Additionally, the City's credit rating is based on the amount of reserves that the City maintains. The City's General Fund currently has a AA+ rating from Standard and Poor's (S&P), which implies that the City's issuer credit rating would be AAA, which is the highest rating possible. In order to maintain the City's credit rating, it is recommended that the City maintain a 65% General Fund Undesignated Reserve. Using \$12,000,000 of General Fund Undesignated Reserves will leave the City with \$19,361,608 thereby meeting the goal of City Council Policy #3, upholding the objective of the City's Investment Policy and helping maintain the City's credit rating.

In addition to the General Fund Undesignated Reserve, the City maintains Designated General Fund Reserves, which are approved by the Council for a specific use and then reported and tracked as part of the City's annual audit. The City established a

Designated Reserve of \$1,000,000 for Bluffs Park. Staff recommends using the \$1,000,000 in the Designated Reserve for Bluffs Park toward the acquisition of the three properties.

Los Angeles County Measure R was approved by voters in 2008 and Los Angeles County Measure M was approved by voters in 2016. These funds may be used for transportation related purposes, including parking. Currently, the City has \$4.3 million available from Measure R. Los Angeles County Supervisor Sheila Kuehl has agreed to provide the City with an additional \$3.1 million from Supervisorial District Three Measure R funds. The total \$7,356,225 can be used toward the acquisition of the three properties to the extent that the properties will be used for transportation/parking purposes. All three properties are located along an established Metro bus route. There is no impact to the General Fund associated with the expenditure of Los Angeles County Measure R or Measure M funding.

The City Manager recommends issuing COPs for the remaining amount needed for the purchase price. In order to generate \$22,143,775 of proceeds, the City would need to issue approximately \$25,000,000 of COPs. If this financing proposal is approved by the Council, the City would repay the COPs over a period of 30 years. It is anticipated that the annual debt service for the COPs will be approximately \$1.3 million a year for the first 20 years, at which time the debt service will be increase to approximately \$2.5 million a year for the final 10 years. Currently, the City is paying \$3.2 million in total debt service for the acquisition of Legacy Park, the acquisition of Trancas Field and the acquisition and improvements of City Hall. The majority of the City's debt service for Legacy Park is anticipated to be paid off by 2036, and the majority of the City's debt service for Trancas Field and the acquisition and improvements of City Hall is anticipated to be paid in full by 2039. The timing of these payoffs coincides with the increase in debt service of the new proposed debt service. An item with more specific financing information will be presented to Council prior to the issuance of the COPs if the proposed funding plan is approved.

The City continues to experience strong revenues and fiscal stability. The City's major General Fund revenue sources are Property Tax, Utility User's Tax, Sales Tax, and Transient Occupancy Tax from hotels, motels and private rentals. Revenue from all taxes makes up 75% of the City's total General Fund budget. The City's major tax revenue sources have consistently experienced growth. In the past 10 years, Property Tax has increased 50%, Sales Tax has increased 45%, and Transient Occupancy Tax from Hotels and Motels has increased 60%. Transient Occupancy Tax from private rentals (short -term rentals) has increased from \$314,000 in Fiscal Year 2013-2014 to a projected \$1,800,000 in Fiscal Year 2017-2018, representing a 600% increase. In order to have sufficient funds available to meet the proposed additional debt service of \$1.3 million, the City's General Fund revenues will need to remain steady or continue to grow. Based on the revenue growth that the City has experienced in the past 10 years, staff feels that the City will be able to manage the additional debt. The

Proposed Budget for Fiscal Year 2018-2019 reflects a surplus of approximately \$800,000, which indicates that the City is able to take on the additional debt service associated with the land acquisition. The proposed budget is a conservative reflection of the City's revenue and expenses, and the City has historically ended each Fiscal Year in a better financial position than what is reflected in the proposed budget. The Proposed Budget for Fiscal Year 2018-2019 will be presented to the Council on April 25, 2018.

Two of the three parcels that the City is seeking to purchase are in the Civic Center Wastewater Treatment Facility (CCWTF) Phase One Assessment District. The City will be responsible for the annual assessment associated with the CCWTF for the Sycamore Village and the Island parcel in the amount of \$275,000. This amount is expected to decrease once the project is complete and the total cost of the project is finalized. The City anticipates that all assessments in the Phase One district will decrease due to savings realized during construction and a lower than anticipated funding package that included a \$9 million grant that was awarded to the City for the project.

If the proposed funding plan is approved by the Council, an item will be brought forward in May 2018 with more specific information and actions that will finalize the source of funding.

FISCAL IMPACT: The total purchase price for the three properties is \$42,500,000.

Use of General Fund Undesignated Reserves: As of July 1, 2017, the audited Undesignated General Fund Reserve is \$29,443,250. The Undesignated General Fund Reserve as of June 30, 2018 is projected to be \$31,361,608 (unaudited). If the Council approves the use of \$12,000,000 of General Fund Undesignated Reserves, the projected General Fund Undesignated Reserves as of June 30, 2018 will be \$19,361,608, providing for a 66% Reserve consistent with City Council Policy #3, upholding the objective of the City's Investment Policy and helping maintain the City's credit rating.

Use of General Fund Designated Reserves: The use of the \$1,000,000 General Fund Designated Reserve for Bluffs Park will not have an impact on the General Fund Undesignated Reserve.

Debt Service: It is recommended that the City issue COPs to be used toward the acquisition cost. In order to generate the necessary \$22,143,775 of proceeds, the City will need to issue approximately \$25,000,000 of COPs, which will be paid back over 30 years. It is anticipated that the annual debt service for the COPs will be approximately \$1.3 million a year for the first 20 years, at which time the debt service will be increase to approximately \$2.5 million a year for the final 10 years.

Currently, the City is paying \$3.2 million in total debt service for the acquisition of Legacy Park, the acquisition of Trancas Field and the acquisition and improvements of City Hall. This total debt service is paid through a combination of General Funds and Legacy Park Funds. As of July 1, 2017, the audited the Legacy Park Fund balance is \$857,000. The projected Legacy Park Fund balance as of June 30, 2018 is \$815,000 (unaudited). There is no requirement to maintain a balance in the Legacy Park Fund and funds can be transferred as needed to the General Fund. The City uses the annual proceeds of approximately \$1,800,000 from rent collected from the Lumber Yard, the Animal Hospital, Supercare and Malibu Medical for debt service, clean water programs and maintenance of Legacy Park. Proceeds from rental income increase each year based on rent structures in each lease agreement as well as the ground lease for the Lumber Yard, which includes a participation rent amount.

The majority of the City's debt service for Legacy Park is anticipated to be paid off by 2036, and the majority of the City's debt service for Trancas Field and the acquisition and improvements of City Hall is anticipated to be paid in full by 2039. The timing of these payoffs coincides with the increase in debt service of the new proposed debt service. The City has consistently had a growth of General Fund Revenues and financial projections reflect that this growth will be maintained in future years. The first debt service payment for the new COPs in the amount of \$379,000 will be due in November 2018 and the second payment of \$1.1 million will be due in November 2019.

Wastewater Assessment: APN 4458-0220-011 23575 (Sycamore Village or loki) and APN 4458-020-015 (Island Parcel) are included in Assessment District No. 2015-1 (Civic Center Wastewater Treatment Facility Phase One).

The annual assessment for Sycamore Village/loki is approximately \$250,000 a year and the annual assessment for the Island Parcel is approximately \$22,000 a year. The first assessment will be due in December 2018. It is anticipated that these amounts will decrease after the construction is completed and the final project costs are known. At that time, the City anticipates doing an updated assessment spread for all of the parcels in Assessment District 2015-1, which will result in lower assessments for all properties, including the Sycamore Village/loki and Island Parcels.

The Proposed Budget for Fiscal Year 2018-2019, which will be presented to Council on April 25, 2018 reflects a surplus of approximately \$800,000 which indicates that the City is able to take on the costs associated with the land acquisition. If necessary, the City can also use Legacy Park funds for debt service and the wastewater assessments.

ATTACHMENTS: None.