

# Agenda Report

July 17, 2017

**TO:** Honorable Mayor and City Council

**THROUGH:** Economic Development and Technology Committee (June 20, 2017)

**FROM:** Housing and Career Services Department

**SUBJECT: AUTHORIZATION TO NEGOTIATE THE TERMS OF A MASTER LEASE AGREEMENT AND A PROPERTY MANAGEMENT/OPERATOR AGREEMENT WITH NEIGHBORHOOD HOUSING SERVICES OF LOS ANGELES COUNTY FOR THE OPERATION OF COMMERCIAL PROPERTY LOCATED AT 1015 N. LAKE AVENUE**

## **RECOMMENDATION:**

It is recommended that the City Council take the following actions:

- 1) Find that the recommended action is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines per Section 15061 (b) (3), the General Rule that CEQA only applies to projects that may have an effect on the environment;
- 2) Authorize staff to enter into a Master Lease Agreement and a Property Management/Operator Agreement with Neighborhood Housing Services of Los Angeles County ("NHSLAC") and to enter into said agreements with NHSLAC for the operation of commercial property located at 1015 N. Lake Avenue; and
- 3) Authorize the City Manager to execute, and the City Clerk to attest, the Master Lease Agreement, the Property Management/Operator Agreement, and other related documents.

## **ADVISORY COMMISSION RECOMMENDATIONS**

On June 13, 2017 the Northwest Commission unanimously approved the staff recommendation for City Council authorization to enter into a Master Lease Agreement and a Property Management/Operator Agreement. The Northwest Commission also requested the following items for Northwest Commission review and input: a projected

pro forma budget, a multi-year rehabilitation plan, and development of an alternative plan in the event that the agreements with NHSLAC are terminated.

### **BACKGROUND:**

In 1992, the Los Angeles County Board of Supervisors approved the sale of the commercial property located at 1015 N. Lake Avenue, to the Pasadena Community Development Commission (PCDC) for \$700,000. The purpose of the sale was to enable PCDC to convey the property and assign its obligations connected with the sale to the Pasadena Enterprise Center (PEC) for the operation of the property as a business incubator. Over the years, the combination of losing tenants to the bad economy coupled with increased costs of maintaining the property have resulted in PEC's inability to meet its financial obligations.

The property has a site area of 30,440 sq. ft., and is improved with a two-story commercial structure with a building area of 14,650 sq. ft. The property is encumbered with debt including a loan made by the County of Los Angeles ("County") with an outstanding balance in the amount of approximately \$689,936, a loan made by the County of Los Angeles Community Development Commission ("County CDC") with an outstanding balance of \$108,817, and \$706,807 in deferred CDBG loans through the City.

In an effort to continue providing services to the community, PEC, the County and the City developed a joint proposal whereby: a) the City acquires the property from PEC; b) PEC assigns all of its property-encumbered debt obligations to the City; and the City repays the County CDC loan. On June 3, 2013, City Council authorized City staff to proceed with the acquisition of the PEC building, conduct due diligence on the building, and seek a non-profit organization to manage and rehabilitate the property. On January 27, 2014, City Council approved the appropriation of \$167,000 from the General Fund to cover due diligence costs and repayment of the County CDC loan. Due diligence activities included: a preliminary title report, a phase 1 environmental assessment, an asbestos, lead-based paint & hazardous material survey, general building assessment, a structural seismic evaluation, and a property value appraisal.

On July 28, 2014, City Council was briefed by staff on the results of the due diligence activities and directed staff to continue with negotiations with PEC and the County, and upon approval of terms by the County Board of Supervisors, execute the agreements and other acquisition-related documents and perform related activities to conclude the acquisition.

In September 2015, the Board of Supervisors passed a motion consenting to the property transfer and assignment from PEC to the City. The Board also approved the ability to waive the unpaid loan balance of approximately \$700,000 which included over \$140,000 in past due installment payments and late fees. The City will have to pay off the County CDC loan in the approximate amount of \$100,000. In addition, as part of the

transfer, the County has placed a condition on the grant deed restricting the property for the first ten (10) years of City ownership to only be used for government or non-profit purposes, with the exception of the current tenants.

### **SELECTION OF MASTER LESSEE AND PROPERT MANAGER/OPERATOR**

On January 4, 2017, City staff issued a Request for Proposals (RFP) to solicit proposals from qualified non-profit organizations with experience in operating commercial rental properties and facilitating non-profit collaboration. The selected non-profit, would serve the roles as the master lessee and property manager/operator, and provide the following:

Day-to-day management and operation of the property;

- Market the property to attract nonprofit tenants;
- Develop a ten-year rehabilitation plan for the property; and
- Develop a plan to foster collaboration among the nonprofit tenants in the property

The City received two (2) proposals through the RFP process. City staff selected Neighborhood Housing Services of Los Angeles County (“NHSLAC”) as the best overall non-profit organization meeting the City’s needs. One other organization, Southern California Black Chamber of Commerce (“SCBCC”), submitted a proposal but it did not meet the RFP threshold requirements and was therefore deemed non-responsive.

Scoring Criteria	NHSLAC
Property Management/Operating Experience	20
Non-Profit Collaboration	19
Organizational Stability	14
Project Approach	16
Small Business	0
Local Business	0
Independent Review Panel (IRP)	8
<b>TOTAL SCORE</b>	<b>77</b>

### **TERMS OF AGREEMENTS TO BE NEGOTIATED**

As proposed, the City will enter into two (2) agreements with NHSLAC, a Master Lease Agreement and a Property Management/Operator Agreement. The business terms of the agreements to be negotiated are summarized in the following tables:

<b>Master Lease Agreement</b>	
Term	Initial term of five (5) years, with City option to renew successive terms of five (5) years each.
Assignment and Subleasing	Subleasing to office tenants will be permitted, but will not allow entire space to a single tenant. Lease will allow for month-to-month subleasing, with veto power by the City of any tenants (before and during the sub-lease term). Any future subtenants will be required to be non-profit organizations.
Rent	NHSLAC as master lessee will pay \$1.00 rent annually. NHSLAC will have no obligation as master lessee to occupy office space as a tenant.
Operating Costs	Operating costs will be paid by the Property Manager/Operator ("PMO") from gross rent operating account including but not limited to: interior and exterior property maintenance and repairs, utilities, janitorial, security, and insurance.

<b>Property Management/ Operator Agreement</b>	
Scope	Services will include the operation, marketing, and rehabilitation of the property. City requires that the property be operated for the benefit of existing tenants and future non-profit organization tenants. A plan to rehabilitate the property and foster collaboration between non-profit organizations will be developed and implemented.
Term	Initial term of five (5) years, with City option to renew for successive terms of five (5) years each.
Fee	The gross management fee to the PMO will be three (3%) percent of gross rents collected; this fee will include all leasing activities, regular and after hours management duties, and all project/construction management supervision.  The PMO will receive as additional compensation fifty (50%) percent of the property's net operating income (NOI).
Operating Account	The PMO will open a trust operating checking account with the City as additional signatory, and with the power to terminate the PMO's access without notice. All rents collected and expenses paid will be through the operating account.
Reporting	Standard financial reports will be provided to the City on a monthly and annual basis.
Non-Cause Termination	Mutual non-cause termination right at the 13 <sup>th</sup> month of the agreement term.

**COUNCIL POLICY CONSIDERATION:**

This proposed action supports the City Council Strategic Planning Three-Year Goals in the areas of promoting the quality of life and the local economy.

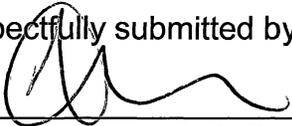
**ENVIRONMENTAL ANALYSIS:**

The action proposed herein is exempt from the California Environmental Quality Act (CEQA), pursuant to State CEQA Guidelines Section 15061 (b)(3), the "General Rule" provision of CEQA which applies to projects which may have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. The approval of the subject recommendation is excluded from the definition of "project" pursuant to State CEQA Guidelines Section 15378(b)(4). Therefore, the action proposed herein will not have a significant effect on the environment and, hence, is not subject to CEQA.

**FISCAL IMPACT:**

Approval of the staff recommendations will have no direct fiscal impact on the City's General Fund

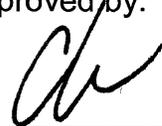
Respectfully submitted by:

  
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 7/6/17  
STEVE MERMELL  
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