

CALENDAR ITEM

C79

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R. Boggiano

CONSIDER AUTHORIZATION OF THE PROPOSED EXPENDITURE OF TIDELANDS FUNDS, IN AN AMOUNT NOT TO EXCEED \$92,000 ANNUALLY AND NOT TO EXCEED 13 YEARS, BY THE CITY OF REDONDO BEACH FOR A LEASE ACQUISITION LOCATED WITHIN LEGISLATIVELY-GRANTED SOVEREIGN LAND IN THE CITY OF REDONDO BEACH, LOS ANGELES COUNTY

APPLICANT:

City of Redondo Beach
415 Diamond Street
Redondo Beach, CA 90277

The City of Redondo Beach (City) is trustee of sovereign tide and submerged lands granted by the Legislature pursuant to Chapter 57, Statutes of 1915 and as amended by Chapter 1555, Statutes of 1971.

BACKGROUND:

Pursuant to section 11 of Chapter 57, Statutes of 1915, as amended by Chapter 1555, Statutes of 1971 (Chapter 57), the City has submitted a detailed description for a proposed expenditure of tideland funds in the amount of approximately \$92,000 annually for review by the California State Lands Commission (Commission).

The proposed expenditure of tideland revenue of approximately \$92,000 annually for a maximum of 13 years will be used to acquire an underperforming leasehold property, known as the Redondo Beach Marina leasehold, to facilitate the highest and best use of the City's waterfront. The leasehold includes eleven acres of upland property and two acres of granted tidelands, as shown on Exhibit A. The purchase of the leasehold will give the City back control over the 13 waterfront acres.

With control of the site, the City plans to obtain private sector investment to facilitate the highest and best use of the City's waterfront, improving the economic return on state assets and significantly enhancing public access to the water. The leasehold acquisition is part of a waterfront redevelopment plan that the City has had under development for many years. The City approved an Asset Management Plan for the waterfront on December 18, 2007, and the Harbor Enterprise Business Plan on August 24, 2010. These documents serve as a blueprint for the City's waterfront revitalization efforts. One

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of the central strategies in the Asset Management Plan is the acquisition of underperforming leasehold properties in the pier and harbor area to facilitate the highest and best use of the City's waterfront. Facilitating the highest and best use includes upgrading public infrastructure and enhancing connectivity and public access to coastal resources.

Consistent with the City's 2007 Asset Management Plan, the City identified three leaseholds in 2011 as targets for acquisition and upgrade: the Pier Plaza, International Boardwalk, and Redondo Beach Marina leaseholds. In 2012, the City purchased the International Boardwalk and Pier Plaza leaseholds, which are both entirely located on City-owned upland property. In 2012, the City negotiated an Option Agreement providing for the future purchase of the Redondo Beach Marina leasehold from leaseholder Decron Properties. Similar to the other two leaseholds, this property has not had meaningful reinvestment in a generation. The site holds significant potential for revitalization and reconnection to the waterfront, as well as for other off-site infrastructure work that will be necessary in the coming years to improve the City's waterfront. The Option Agreement expires on May 15, 2014.

The Redondo Beach Marina leasehold is located in a pivotal geographic location as it connects the pier and harbor areas. The property has many opportunities for public enjoyment of the waterfront including a 58-slip marina, long stretches of shoreline, a sport fishing pier, and access to the main waterfront arterial, Harbor Drive. In its current configuration, the leasehold does not make highest and best use of these resources. For example, several waterfront walkways and coastal access paths are blocked by storage and back of house operations supporting the commercial slip tenants. The facilities have not been upgraded, the pathways from the south and north provide poor access to the Pier, and the property does not currently offer a convenient reception to regional boaters. Through ownership of the leasehold, the City has the ability to facilitate investment, promote the long-term highest and best use of the property, and make improvements that will enhance environmental sustainability.

The terms of purchase for the Redondo Beach Marina leasehold were negotiated with the leaseholder, Decron Properties, and approved by the City in 2012 as part of the Option Agreement. The terms of the agreement include a purchase price of \$12 million with approximately \$500,000 in additional costs associated with purchase due diligence, bank fees associated with the transaction, and extensions to the agreement granted by the seller over the last year. The purchase would be 100% financed through BBVA Compass Bank, the same lender used for the financing of the two previous leasehold acquisitions. The financing would be structured as a lease and include a 13-year term, with an interest rate at 2.25% above LIBOR, and include an option to cap the interest

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rate, origination costs, and other conditions. The City has initiated the transaction by signing the Purchase and Sale Agreement and final financing and closing documents are being drafted with a targeted closing of April 30, 2014.

The ground rent payment to the tidelands trust has averaged \$92,000 over the past five years. The leasehold acquisition would terminate the ground lease but the subleases would remain in effect. Based on a pro forma cash flow using the last five years of operating history, the net operating income from the leaseholds (rents collected from the sub-letting restaurants and slip tenants less property operating expenses) covers the debt service required for the transaction. Therefore, the expenditure of the net operating income from the subleases located on the tidelands, approximately \$92,000 annually, is estimated to cover the debt service required for the transaction.

STAFF ANALYSIS:

Section 9 of Chapter 57 authorizes the expenditure of tideland revenues on public trust lands within the City for certain purposes set forth in Chapter 57 provided that such uses comply with the terms of the public trust and are matters of statewide interest. Section 9(j) of Chapter 57 permits the use of tidelands revenue for the acquisition of property and the rendition of services reasonably necessary to carry out the permitted uses, including the amortization or debt service of any capital improvement funding program. Section 9(h) and (i) allow for the promotion of maximum public use of the granted lands or to encourage private investment in development of such granted lands for the highest and best use in the public interest, and any other uses or purposes of statewide, as distinguished from purely local or private interest and benefit, which are in fulfillment of permitted trust uses and purposes.

The City has requested authorization to use tidelands revenue for the lease acquisition including debt service, in order to gain control of the site to facilitate its highest and best use, improve the economic return on state assets, and significantly enhance public access to the coast. Based on the information provided by the City, the proposed capital improvement project does not appear to be inconsistent with Chapter 57.

OTHER PERTINENT INFORMATION:

1. Pursuant to Chapter 57, the Commission has 90 days to notify the City if the expenditure is not authorized by the applicable subdivisions of Chapter 57. Commission staff received notice from the City of the proposed expenditure for the capital improvement project on March 31, 2014.

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2. The staff recommends that the Commission find that the subject consistency determination of proposed expenditures of tideland funds does not have a potential for resulting in either a direct or a reasonably foreseeable indirect physical change in the environment, and is, therefore, not a project in accordance with the California Environmental Quality Act (CEQA).

Authority: Public Resources Code section 21065 and California Code of Regulations, Title 14, sections 15060, subdivision (c)(3), and 15378.

EXHIBIT:

- A. Location and Site Map

RECOMMENDED ACTION:

It is recommended that the Commission:

CEQA FINDING:

Find that consideration of the consistency of a proposed expenditure of tideland funds with section 11 of Chapter 57, Statutes of 1915, as amended by Chapter 1555, Statutes of 1971, is not subject to the requirements of CEQA pursuant to California Code of Regulations, Title 14, section 15060, subdivision (c)(3), because the subject activity is not a project as defined by Public Resources Code section 21065 and California Code of Regulations, Title 14, section 15378.

SIGNIFICANT LANDS FINDING:

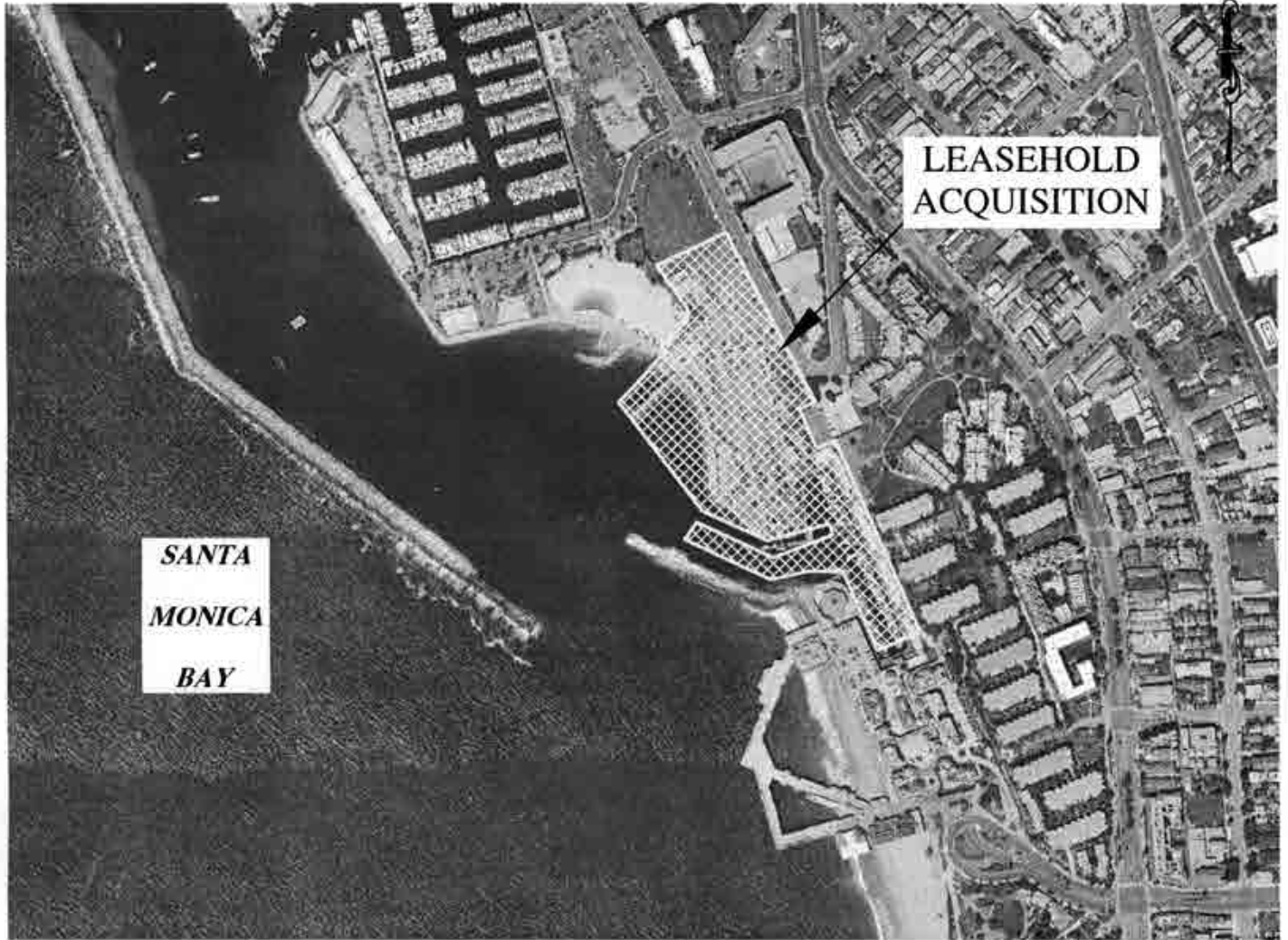
Find that this activity is statutorily exempt from Public Resources Code section 6370 et seq., pursuant to Public Resources Code section 6377.

AUTHORIZATION:

Find that the proposed expenditure of tideland funds in and amount of approximately \$92,000 annually for a maximum of 13 years for a leasehold acquisition within the City of Redondo Beach is not inconsistent with Chapter 57, Statutes of 1915, as amended by Chapter 1555, Statutes of 1971.

NO SCALE

SITE



REDONDO BEACH MARINA

NO SCALE

LOCATION



MAP SOURCE: USGS QUAD

Exhibit A
 REDONDO BEACH
 G 05-07
 EXPENDITURE OF
 TRUST REVENUE
 LOS ANGELES COUNTY



This Exhibit is solely for purposes of generally defining the lease premises, is based on unverified information provided by the Lessee or other parties and is not intended to be, nor shall it be construed as, a waiver or limitation of any State interest in the subject or any other property.