

March 10, 2005

Honorable Mayor and Members of  
the Hermosa Beach City Council

Regular Meeting of  
March 22, 2005

**PURCHASE OF REAL PROPERTY AT 552 11<sup>TH</sup> PLACE  
(STORAGE BUILDING DIRECTLY SOUTH OF CIVIC CENTER COMPLEX)**

**Recommendation:**

1. That the City Council authorize the following fund transfers, internal loans and reappropriations to purchase the property.
  - a. Use proceeds from the sale of the parking lot on 14<sup>th</sup> Street to reduce the amount financed.
  - b. Use proceeds from the current building tenant to help cover the debt service.
  - c. Use DEC Funds from CIP 140, 11<sup>th</sup> Street Improvements, \$442,000 and \$11,000 from the fund balance to fund the purchase.
  - d. Fund the balance of the purchase with an internal loan of \$1,000,000 from the Insurance Fund, \$1,000,000 from the Equipment Replacement Fund and \$747,000 from the Contingency Fund, with amounts to be adjusted as necessary based on the proceeds of the 14<sup>th</sup> Street property sale.
  - e. Phase I report at a cost up to \$5,000 to be completed by close of escrow. Cost borne by buyer.
  - f. City Council finds that the purchase is consistent with Hermosa Beach General Plan.

**Background:**

The City Council, at its meeting of February 22, 2005, directed staff to proceed with negotiation to purchase the property directly South of the Civic Center located at 552 11<sup>th</sup> Place. The purchase price is \$4,200,000. The cost of the property will be internally financed from funds that the City holds as set forth above in the recommendation.

**Internal Loan**

This approach would be to internally finance the purchase by using a combination of loans from funds that the City holds. This would include using a portion of the fund balances from the Contingency Fund, Insurance Fund and the Equipment Replacement Fund. These funds would be paid back by the tenant income that the property would

receive initially and the DEC or parking funds in the future. See the attached spreadsheets outlining the internal loan option.

### **Summary**

Based on the internal financing set forth above, the purchase of the property will not have any General Fund impact. 61% of the amount to be financed will be covered by income the City will receive from the tenant. When the lease ceases, the remaining amount can be covered by the DEC. As you recall, we will be making the last payment to the County of \$55,000 in 2005-06 under our agreement in connection with the parking structure. These funds would be available to cover part of the debt service. As revenue increases or costs decrease in the DEC, additional funds could also be applied to the debt repayment. We will be reviewing DEC operations to ensure that net income is maximized.

The internal loan approach will provide flexibility and save the costs of issuing COP's as well as approximately \$2.5 million in interest for the purchase of the property. Flexibility would be achieved in that we would be able to issue debt to cover the cost of the buildings, parking, etc. when we are ready to actually build something on the property without undoing or refinancing the first debt issue. It is also possible that we could participate in the California Infrastructure and Economic Development Bank loan program at a very favorable interest rate. They will fund loans for public safety facilities, including land, but not purchases of land alone. If we have existing rated debt, we would only be able to borrow \$2 million through their program. If we have no existing rated debt, we would be eligible for up to \$10 million.

The most important aspect of the proposed purchase is the long-term flexibility that would be provided by this acquisition. This will allow for reasonable, thoughtful planning of the Civic Center, including reconstruction of Police and Fire Stations and the provision of additional parking that can be used for upper Pier Avenue businesses, Community Center and Clark Field. The process of developing a Master Plan and all of the aspects associated with it will take some time, but this would allow us to get started and work toward a goal of saving the funds to build the improvements and additional parking that is needed.

In the long run, this purchase could be viewed as just as important as the purchase and development of the parking lots downtown in the 1950s and 1960's. In addition, the financing programs detailed above will allow the purchase without affecting other services or activities.

Respectfully submitted,

Stephen R. Burrell  
City Manager

**Purchase of Storage Property  
552 11th Place  
Internal Loan Option**

Purchase Price	4,200,000		
Less Proceeds from 14th Street Property Sale	(1,000,000)		
DEC Fund (CIP 140, 11th Street and Fund Balance)	(453,000)		
Balance Paid with Internal Loan	2,747,000	Funded by loan from:	
		Contingency Fund	747,000
		Insurance Fund	1,000,000
		ERF	1,000,000
Tenant Proceeds 2005-2009 (see attached detail sheet)	(677,711)	Total	2,747,000
Tenant Proceeds 2009-2013 (see attached detail sheet)	(1,010,649)		
Balance to be paid by DEC Fund	1,058,640		

**Estimated  
Tenant Income  
Storage Property**

<b>Period</b>	<b>Amount/Mo.</b>	<b>Months</b>	<b>Total</b>
5/1/05-12/31/05	14,319.15	8	114,553.20
2006	14,748.72	12	176,984.64
2007	15,191.18	12	182,294.16
2008	15,646.92	12	187,763.04
2009 Expires 1/31/09	16,116.33	1	16,116.33
<b>5-Year Total</b>			<b>677,711.37</b>
<b>Extension of Agreement</b>			
2/1/09-12/31/09	16,116.33	11	177,279.63
2010	16,599.82	12	199,197.84
2011	17,097.81	12	205,173.72
2012	17,610.74	12	211,328.88
2013	18,139.06	12	217,668.72
<b>5-Year Total</b>			<b>1,010,648.79</b>
<b>10-Year Total</b>			<b>1,688,360.16</b>