

OVERSIGHT BOARD
FOR THE SUCCESSOR AGENCY TO THE
PALM SPRINGS COMMUNITY REDEVELOPMENT AGENCY

BOARD REPORT

MEETING DATE: February 25, 2014

UNFINISHED BUSINESS

TITLE: ADJUSTING THE CARRYING VALUES IN THE LONG-RANGE
PROPERTY MANAGEMENT PLAN

INITIATED: Department of Community & Economic Development

RECOMMENDATION:

1. Adopt Resolution No. 20, "A RESOLUTION OF THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY TO THE PALM SPRINGS COMMUNITY REDEVELOPMENT AGENCY ADJUSTING THE CARRYING VALUES IN THE LONG-RANGE PROPERTY MANAGEMENT PLAN"

BACKGROUND AND ANALYSIS:

The Dissolution Act calls for the Successor Agency, under the direction of the Oversight Board, to dispose of real property it received from the Dissolved RDA either for limited public uses, or for disposition into the private market expeditiously and with a view toward reasonably maximizing value, with the disposition proceeds ultimately made available for distribution to the affected taxing entities.

The Successor Agency holds a total of 12 properties (consisting of 19 parcels in total) from the Dissolved RDA. These include sites assembled for future redevelopment, public parking lots and other real property. Disposition of these properties cannot occur until the Department of Finance ("DOF") issues a finding of completion and approves a long-range property management plan, which includes an inventory of these properties and other pertinent information. On December 16, 2013, the Successor Agency submitted its request for a finding of completion from the DOF and simultaneously submitted its Long Range Property Management Plan ("LRPMP").

The Finding of Completion was received on January 2, 2014. Since the PMP was submitted in December, the DOF began to review the PMP in late January and began to request additional information, documents and clarification.

The LRPMP was prepared in collaboration with a qualified dissolution and real estate consultant and contained detailed information on each property, such as the date and purpose of acquisition, parcel characteristics, estimate of the current value and any lease, rental or other revenues, histories of environmental contamination, a description of each property's potential for transit-oriented development and the advancement of

the City's planning objectives, and previous development proposals. In most cases, estimates of value were derived from recent comparable sales of like properties in the area since appraisals are not required for the LRPMP. Most importantly, the LRPMP addresses the intended disposition of each property. Permissible uses include retention for governmental use, retention for future development, sale of the property, or use of property to fulfill an enforceable obligation. The Dissolved RDA's properties that were retained by the City for government use have been previously transferred to the City with the approval of the DOF, so no such properties are included in the LRPMP.

The Dissolved RDA is one of dozens of former redevelopment agencies that owned public parking lots to fulfill parking needs of commercial districts. While the prevailing view is that such lots are clearly a governmental use, the DOF has been reluctant to approve other LRPMPs with this disposition plan, having only approved one (Santa Barbara) over the past several months. This has led to extensive delays in the processing of the LRPMPs and suspension of any disposition efforts, and is likely a matter that could be litigated on top of the 150+ lawsuits filed on the dissolution proceedings.

Such procedural or litigation delays impair a successor agency from not only receiving approval of their LRPMP, but selling property itself. Consequently, to hasten the approval of the LRPMP, it proposed to sell all of the property in the plan, including the public parking lots (likely to the City itself) rather than argue these are governmental use properties. Though the facts clearly support the latter conclusion, DOF has not consistently nor timely provided favorable determinations and held up transfers of these and other properties in the process.

Thus, the LRPMP outlined that the Successor Agency would sell all 12 properties. DOF's response so far is generally favorable. However, they are struggling with the property values listed for a number of the properties, particularly the downtown parking lots and the Plaza Theatre (together, properties 7 through 12 in the LRPMP). Rosenow Spevacek Group ("RSG"), the Agency's consultant that prepared the PMP, determined that the likely value for each of those six properties was \$0.00 (zero).

RSG's rationale on the downtown parking lots was fairly straightforward: each of the parking lots in the downtown (Catholic Church, Blue Coyote, Food Court, Henry Frank Arcade, and Vineyard) is zoned as governmental use, which restricts their ability to be used for anything but parking without a zone change. Additionally, even if the Successor Agency were to sell any of the lots to a third party that desired to develop it, the owner would need to apply to the City - acting in its land use capacity and not as the Successor Agency - for a change of zone. All zoning changes are discretionary actions under state law and the City would never be compelled or obligated to grant it. Further, even if an owner were to buy one of the lots to try to provide paid parking, the economics of owning a small paid parking lot in a downtown otherwise full of free parking would be marginal and it's difficult to project a reliable income stream in order to determine a market value for the site.

In terms of the Plaza Theatre, it was easier for DOF to understand the zero value. The current tenant has received rent concessions over the past several years and yet is still closing after 23 years due to economic factors. Even with relatively strong interest from prospective users in the building, no process has been undertaken to evaluate any of the proposers or negotiate possible rents until a timetable for the renovation and conversion of the building is known. While the City remains hopeful that a new user would have the ability to pay a substantial monthly rent, it is unknown who the tenant would be, what the use would be, or what a feasible rent would be at this time.

Plus, the building is nearly 80 years old. It went through a substantial remodel when the former RDA acquired the property in the 1989-1991 period, but with a single tenant in the building for 23 years it is time to examine the structure and all the major building systems for renovation or replacement. The Agency recently commissioned a physical assessment of the building, and while there are no hard dollar figures in the report, the overall impact of the report is that potentially millions of dollars would be necessary to bring the building into compliance with new building codes as well as remedy some of its mechanical deficiencies. The combination of the potentially weak rental stream and the significant capital needs suggests that even a value of zero for the property is probably generous.

Nevertheless, when DOF read the LRPMP, they balked at the zero values for half the properties. They did not raise any issues on the other six properties. The analyst reviewing the report indicated that DOF has not yet approved a LRPMP that contained "zero" values and would be unlikely to do so.

City staff proposed that DOF approve the LRPMP with the condition that each of the properties with a zero value be appraised prior to any actual sale. What DOF asked for instead was to assign a value to each of the property, with the Successor Agency retaining the option of appraising each of the properties to determine the true market value of the property prior to an individual sale.

The Dissolution Act does not require that properties be appraised at the time of the preparation or adoption of the LRPMP. Any value assigned to the properties would have to have an economic basis (i.e. an appraisal) or, alternatively, be the historic value of each of the properties. Under GASB, all public agencies carry real property on their books at their historic cost basis (the "Carrying Value"). Over time, the carrying values can sometimes get disconnected from market value because they are not escalated with inflation. On the other hand, the carrying value on former RDA properties -- particularly parking lots -- can be significantly higher than market value, even years later, because they often reflect the Agency acquiring a structure, displacing tenants, demolishing the property, and constructing the lot -- which could be far more than the market value of the property as a developable lot.

Staff looked at the Carrying Values of each of the downtown parking lots and they are significantly higher than what the City would want to acquire the property for under the LRPMP. As detailed above, in many cases they reflect the cost of acquiring a structure

and then constructing the lot – a different value calculation than somebody looking to acquire the lot today for parking or even, in some cases, for redevelopment. These are the Carrying Values for the six properties:

#	Site Name	Assessors Parcel Number(s)	Carrying Value
7	Plaza Theater	513-144-010	1,543,483
8	Catholic Church Parking Lot	505-324-002	685,000
9	Blue Coyote Parking Lot and Driveway	513-082-023 and 513-082-040	141,500
10	Food Court Parking Lot	513-082-043	341,826
11	Henry Frank Arcade Parking Lot	513-091-004	266,673
12	Vineyard Parking Lot	513-153-015, 513-153-016, and 513-153-029	482,457

The attached resolution adopts the Carrying Value as the “values” for each of properties 7 through 12 in the PMP. The other properties in the LRPMP remain unchanged. In addition, the resolution allows the Successor Agency to appraise any of these six properties if it seeks to convey or acquire any of these properties for a value other than the Carrying Value. It does not obligate the City or any other buyer to pay these values for the property if a different market value is established by an appraisal.

Upon approval of the attached Resolution by the Oversight Board and DOF, DOF is prepared to issue the letter approving the LRPMP, which would facilitate the transfer of properties to other parties pursuant to state law. Any sales proceeds collected by the Successor Agency (net of transaction costs) would be remitted to the County Auditor-Controller for disbursement to each of the affected taxing agencies of the former redevelopment project area.

RESOLUTION NO. 20

A RESOLUTION OF THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY TO THE PALM SPRINGS COMMUNITY REDEVELOPMENT AGENCY ADJUSTING THE CARRYING VALUES IN THE LONG RANGE PROPERTY MANAGEMENT PLAN.

WHEREAS, the Community Redevelopment Agency of the City of Palm Springs ("Redevelopment Agency") was a redevelopment agency in the City of Palm Springs ("City"), duly created pursuant to the California Community Redevelopment Law (Part 1 (commencing with Section 33000) of Division 24 of the California Health and Safety Code) ("Redevelopment Law"); and

WHEREAS, AB X1 26 and AB X1 27 were signed by the Governor of California on June 28, 2011, making certain changes to the Redevelopment Law, including adding Part 1.8 (commencing with Section 34161) and Part 1.85 (commencing with Section 34170) ("Part 1.85") to Division 24 of the California Health and Safety Code which effectively dissolves the Redevelopment Agency ("Dissolution Act"); and

WHEREAS, pursuant to Health & Safety Code Section 34191.5(b), successor agencies are required to send long-range property management plans to the oversight board and State Department of Finance no later than six months following the issuance of the finding of completion; and

WHEREAS, the Successor Agency received its finding of completion from the State Department of Finance on January 2, 2014; and

WHEREAS, the Successor Agency submitted a Long Range Property Management Plan to the State on December 16, 2013, in accordance with the provisions of Section 34191.3 of the Dissolution Act, indicating the intended disposition and use of the real property assets of the former Redevelopment Agency; and

WHEREAS, the Long-Range Property Management Plan is being reviewed by the State Department of Finance, which has requested that the Successor Agency adjust, by resolution, the values on properties 7 through 12 listed in the Plan to reflect the Carrying Value rather than the estimated market value.

NOW, THEREFORE, BE IT RESOLVED BY THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY OF THE COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF PALM SPRINGS AS FOLLOWS:

SECTION 1. The Oversight Board hereby finds and determines that the foregoing recitals are true and correct, and incorporates them herein by reference.

SECTION 2. The Oversight Board approves the following values for properties 7 through 12 listed in the Long Range Property Management Plan (as shown in a table submitted hereto as Attachment 1) to reflect the Carrying Values of the properties rather than the estimated market value.

SECTION 3. Upon a decision to convey any of the properties in the Long Range Property Management Plan to another party or to the City, the Successor Agency retains its right to appraise the property to determine the market value of the property at the time of the transaction, and convey at the fair market value rather than the Carrying Value.

SECTION 4. All other sections of the Long Range Property Management Plan remain unchanged.

SECTION 5. This Resolution shall take effect five days of its adoption.

THOMAS FLAVIN, CHAIRMAN

CERTIFICATION

STATE OF CALIFORNIA)
COUNTY OF RIVERSIDE) ss.
CITY OF PALM SPRINGS)

I, James Thompson, Secretary of the Oversight Board of the Successor Agency of the Palm Springs Community Redevelopment Agency hereby certify that Resolution No. 20 was adopted by the Oversight Board at a Special Meeting held on the 25th day of February, 2014, and that the same was adopted by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

JAMES THOMPSON, CLERK/SECRETARY

ATTACHMENT 1

LONG RANGE PROPERTY MANAGEMENT PLAN
ADJUSTMENTS TO CARRYING VALUE

#	Site Name	Assessors Parcel Number(s)	Original Value in the LRPMP	Carrying Value
7	Plaza Theater	513-144-010	\$0	\$1,543,483
8	Catholic Church Parking Lot	505-324-002	\$0	\$685,000
9	Blue Coyote Parking Lot and Driveway	513-082-023 and 513-082-040	\$0	\$141,500
10	Food Court Parking Lot	513-082-043	\$0	\$341,826
11	Henry Frank Arcade Parking Lot	513-091-004	\$0	\$266,673
12	Vineyard Parking Lot	513-153-015, 513-153-016, and 513-153-029	\$0	\$482,457