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

BOARD REPORT

MEETING DATE: September 23, 2014 **NEW BUSINESS**

TITLE: APPROVING THE SALE OF THE PLAZA THEATRE TO THE CITY OF PALM SPRINGS

INITIATED: Department of Community & Economic Development

RECOMMENDATION:

1. Adopt Resolution No. ______, "A RESOLUTION OF THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY TO THE PALM SPRINGS COMMUNITY REDEVELOPMENT AGENCY APPROVING THE SALE OF THE PLAZA THEATRE TO THE CITY OF PALM SPRINGS UNDER THE PROVISIONS OF 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, including the Plaza Theatre.

These include sites assembled for future redevelopment, public parking lots and other real property. Disposition of these properties could not occur until the Department of Finance ("DOF") issued a finding of completion and approved a long-range property management plan, which includes an inventory of these properties and other pertinent information. The Successor Agency received its finding of completion from DOF on January 2, 2014 and submitted its Long Range Property Management Plan ("LRPMP") simultaneously. 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

ITEM NO. 3C

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.

Thus, the LRPMP outlined that the Successor Agency would sell all 12 properties. DOF, however, struggled with understanding 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 LRPMP, determined that the likely value for each of those six properties was $0.00 (zero).

RSG's rationale on the downtown parking lots was based on land use and parking economics. In terms of the Plaza Theatre, it was somewhat easier for DOF to understand the zero value. The then-current tenant has received rent concessions over the past several years and yet still closed after 23 years due to economic factors. Even with relatively strong interest from prospective users in the building, the process to select a new user for the building depends on the timetable for the renovation and conversion of the building. 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 1989, but with a single tenant in the building for 23 years it was time to examine the structure and all the major building systems for renovation or replacement. In 2013, the Agency commissioned a physical assessment of the building by Interactive Design Corporation of Palm Springs, and while there are no hard dollar figures in the report, the overall impact of the report is that 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 reviewed the LRPMP, they balked at the zero values for half the properties. They did not raise any issues on the other six properties. DOF has not yet approved a LRPMP that contained "zero" values and indicated they would be unlikely to do so.

The City 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 required 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 certain former RDA properties can be significantly *higher* than market value, even years later, because they often reflect the Agency acquiring and renovating a structure for public benefit rather than economic return.

The Carrying Value of the Plaza Theatre is significantly higher than what the City would want to acquire the property for under the LRPMP:

#	Site Name	Assessors Parcel Number(s)	Carrying Value
7	Plaza Theater	513-144-010	1,543,483

The Oversight Board approved a resolution adopting the Carrying Value as the "values" for each of properties 7 through 12 in the LRPMP on February 25, 2014. The other properties in the LRPMP remain unchanged. In addition, the resolution allowed the Successor Agency to appraise any of the 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.

In June, 2014, the City hired Capital Realty Analysts of La Quinta, California to undertake an appraisal of the property. Because of the historic nature of the property, the appraiser was asked to assume some continued operation of the theater and not a true "highest and best use" that would include demolishing the property for a new retail/commercial use. Such an assumption on an economically obsolete building creates an appraisal problem:

Appraisal Problem

> "The subject property includes a 0.24-acre land parcel, improved with a vacant, historic theatre building. In light of the fact that the improvements were constructed new in the 1930's, and are functionally and economically obsolete, the primary appraisal problem for this analysis involves the determination of the highest and best use of the property: and estimating the costs that a buyer may incur in order to place the property back in service with the limitations imposed by current code standards and the Class 1 historic designation. As a

historic, special use property, I also encountered challenges in acquiring and analyzing comparable sales.... The sales comparison based value estimate provides support for the cost-based value estimate, which is the main technique typically applied to special purpose properties such as the subject. Additional information in this regard is included in the Market Analysis section and within the approaches to value."

The appraiser further found:

"For at least the last 4 years of The Follies run, the Lessee was unable to pay rent. After the show closed, the Lessee held a sale to dispose of the personal property contained within the Theatre. This includes all lighting, sound and stage equipment, etc. Seating remained in place, although it appeared to be at the end of its economic life. In these regards, the subject property presents a challenging marketing prospect, since significant sums will be required to bring the property back to an acceptable operating condition or alternative use."

Conclusion

"...The Client indicated that their consultants estimate this cost at $3MM - $4MM. It is virtually certain that a market buyer would not expend these kind of funds, as even The Follies, which by all accounts was a well-managed and produced show, failed to generate sufficient net income to remain viable in this location. Consequently, in addition to the functionally obsolete nature of the building, the specialty use is now economically obsolete.

"Historic Theatres of this type, much like parks, churches, museums and the like, rarely generate sufficient net income to be viable real estate investments....

"However, the very significant capital required to return this venue to operational status is far beyond the value of the property at completion. To demonstrate, assuming a best-case cost of $3MM, the property investment would be $201.30 PSF, assuming the purchase price was $0. As described in the sales table [included in the appraisal], only 2 sales exceeded $200 PSF, and both of these venues were operational and not economically obsolete. Furthermore, neither required material capital improvements. If the subject were not historic and could be demolished, the market value of the property would likely be equal to the current land value, less the cost to remove the improvements."

The value of the property, as determined by the appraiser, is $1.00. The City proposes to pay the $1.00 to the Successor Agency and then bear the financial responsibility of the renovations, as well as undertake the process of securing a new operator.

RESOLUTION NO. ______

"A RESOLUTION OF THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY TO THE PALM SPRINGS COMMUNITY REDEVELOPMENT AGENCY APPROVING THE SALE OF THE PLAZA THEATRE TO THE CITY OF PALM SPRINGS UNDER THE PROVISIONS OF 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) to Division 24 of the California Health and Safety Code which dissolves the Redevelopment Agency ("Dissolution Act"); and

WHEREAS, under the Dissolution Act, the term "successor agency" was defined to refer to the dissolved redevelopment agency's sponsoring community (the city, county or city and county that formed the Dissolved RDA), unless the sponsoring community adopted a resolution electing not to serve in that capacity; 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, staff and consultants to the Successor Agency of the Palm Springs Community Redevelopment Agency prepared a Long Range Property Management Plan, 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 Successor Agency received its finding of completion from DOF on January 2, 2014; and

WHEREAS, pursuant to Health & Safety Code Section 34191.5(b), the Long-Range Property Management Plan was submitted for review and approval to the Oversight Board and Department of Finance on December 16, 2013; and

WHEREAS, in its review of the LRPMP, the DOF required the Successor Agency to assign a the Carrying value to each of the property, but did not object to the Successor Agency retaining the option of appraising each property to determine the true market value of the property prior to an individual sale; and

WHEREAS, in June, 2014, the City hired Capital Realty Analysts of La Quinta, California to undertake an appraisal of the property, and the appraiser concluded that based on a number of unique market and site conditions, the Plaza Theatre's value is $1.00.

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 sale of Property No. 7 in the Long-Range Property Management Plan, the Plaza Theatre, to the City of Palm Springs for the appraised value of $1.00.

Section 3. At such time as the Successor Agency receives proceeds from the sale of the property, the Successor Agency shall comply with applicable statutes regarding the distribution of these proceeds to the County Auditor Controller for dissemination to the affected taxing agencies.

Section 4. This Resolution shall take effect three days of its adoption.

OVERSIGHT BOARD CHAIR