SUMMARY REPORT PURSUANT TO SECTIONS 52200 – 52201 OF THE CALIFORNIA GOVERNMENT CODE ON THE AMENDED AND RESTATED DISPOSITION AND DEVELOPMENT AGREEMENT BY AND BETWEEN THE CITY OF ANAHEIM AND 39 COMMONS PARTNERS, LLC

The following Summary Report has been prepared pursuant to Sections 52200 – 52201 of the California Government Code. The report sets forth certain details of the proposed Amended and Restated Disposition and Development Agreement (Agreement) between the City of Anaheim (City) and 39 Commons Partners, LLC (Developer). Developer is comprised of Zelman Anaheim LLC (Retail Developer) and Greenlaw Ventures (Residential Developer). The site is approximately 30 acres located -on the northeast corner of Beach Boulevard and Lincoln Avenue (Site). The Site is comprised of two parts, the Loan Pham parcel and the City Parcel. The City parcel is 29.743 acres and the Loan Pham parcel is 0.624 acres. The total Site area is 30.367 acres.

The Site was previously used for construction debris and refuse disposal. The disposal areas were known as the Anderson Pit and the Sparks-Rains Landfill. After closure of the disposal sites in 1960, a mobile home park was developed on a portion of the Site. Due to settlement problems and other soil issues, the mobile home park was closed in 1967. The development of the proposed Project is intended to solve the settlement issues and soil problems, as well as, provide a commercial center and new for-sale townhomes for this area of the City.

BACKGROUND STATEMENT

The following Summary Report is based upon information contained within the Agreement, and is organized into the following seven sections:

I. **Salient Points of the Agreement**: This section includes a description of the project; and the major responsibilities imposed on the City and the Developer by the Agreement.

II. **Cost of the Agreement to the City:** This section details the total cost to the City associated with implementing the Agreement.

III. **Estimated Value of the Interests to be Conveyed Determined at the Highest Use Permitted Under the Redevelopment Plan:** This section estimates the value of the interests to be conveyed determined at the highest use permitted under the existing zoning and the requirements imposed by the Redevelopment Plan.

IV. **Estimated Reuse Value of the Interests to be Conveyed:** This section summarizes the valuation estimate for the Site based on the required use, and with the conditions and covenants required by the Agreement.

V. **Consideration Received and Comparison with the Established Value of the Site:** This section describes the compensation to be received by the City, and explains any difference between the compensation to be received and the established value of the Site.

VI. **Creation of Economic Opportunity:** This section describes the how the Project will assist in the creation of economic opportunity.

This Summary Report and the Agreement are to be made available for public inspection prior to the approval of the Agreement.

I. SALIENT POINTS OF THE AGREEMENT

A. Project Description

The Site is located in the West Anaheim Commercial Corridors Redevelopment Project Area (Project Area) and entails the acquisition of land and development, and operation of a commercial retail shopping center (Retail Component), a for-sale residential project (Residential Component), a Grocery Store Component and a Mixed-Use Commercial Component. The Retail Component is projected to have 35,087 square feet of leasable area. The Residential Component is planned to be up to 65 for-sale high quality townhome units, consistent with the design standards set forth in the Beach Boulevard Specific Plan. The Grocery Store Component must have a grocery store acceptable to the City and must have leasable area at a minimum of 15,000 square feet. The Mixed Use Commercial Component will consist of various commercial uses.

The Retail Component is 4.855 acres. The Residential Component is approximately 3.152 acres. The Grocery Store Component and the Mixed-Use Commercial Component cover approximately 22.36 acres. This area includes the Loan Pham parcel.

The retail and residential uses are to be integrated to encourage mixed uses, outdoor dining and community spaces and outdoor plazas. The retail uses shall be oriented in such a way as to create a pedestrian oriented environment with restaurants/eateries, walkways, shared outdoor dining/seating, decorative lighting, plazas, parking and community gathering spaces.

Development of the Site is constrained by a Remedial Action Plan (RAP) that was conditionally approved in 2007. The RAP identifies a number of actions that must be taken before the Site can be utilized for commercial use, including:

- Pile Support System – to avoid settlement of the commercial buildings, the foundations must be built on piles that are driven to bedrock, approximately 70 to 75 feet below the surface.

- Monitoring Wells – wells to monitor the quantity (if any) of landfill gas and water quality in the Site must be installed and approved by the Regional Water Quality Control Board (RWQCB). The old wells on the Site must be decommissioned and new wells installed.

- Gas Control and Monitoring – all buildings must be fitted with special equipment to monitor and collect any methane that is released from the landfills.

- Cover Material – the Site must be covered with an evapotranspirative (ET) final cap to prevent any additional surface water to penetrate into the landfills. The cover material also takes into account the materials necessary to seal the utility trenches.

In 2003, the City received a $10,000,000 Section 108 loan and a $650,000 Brownfields Economic Development Initiative grant from the United States Department of Housing and Urban Development (HUD) to undertake certain remediation activities at the Site. One of the requirements of both the loan and the grant is that at least 51% of the jobs created by the operation of the Project be held by, or be made available to, persons of low or moderate income. The Site is also subject to the Operations, Maintenance and Monitoring Plan (OM&M Plan) which was approved on June 12, 2009.

B. City Responsibilities

The Agreement requires the City to accept the following responsibilities:

1. The City must (1) sell the Retail Component Property and the Residential Component Property to the Developer for $5,697,237, which includes $597,237 that represents Developer's share of the cost of the Low Permeability AC Cap and (2) lease the Mixed-Use Commercial Component Property to the Developer at an initial rate of $80,000 per year. Together the sale and lease of the property is at the fair market price for the Site, as discussed below in Sections III and IV.

2. The City will install the Low Permeability AC Cap, of which a portion of the cost will be paid for by the Developer, as noted above.

3. The City will assign rights in the Loan Pham Lease to the Developer.

4. The City shall approve, which approval shall not be unreasonably withheld:

    a. Project Plan
    b. Basic Concept Plan, Drawings and Design Development Drawings

c. Preliminary Evidence of Financing for the Project
d. Construction Financing for the Retail Component and the Residential Component

5. The City shall implement, at its sole cost and expense, the OM&M Plan

C. Developer Responsibilities

The Agreement imposes the following responsibilities on the Developer:

1. The Developer must accept conveyance of the City Parcel and the Loan Pham parcel from the City under the terms of the Agreement, including:

    a. Paying $5,100,000 for the Retail Component Property and the Residential Component Property plus accepting the Ground Lease for the Mixed-Use Commercial Component paying rent at an initial construction and development period rate of $80,000 per year. (First Closing)
    b. Conveying and incorporating the Grocery Store Component Property into the Ground Lease. (Second Closing)
    c. Beginning in the sixth year, the ground lease rent payment shall be $160,000 per year and shall increase every five years by 12.5%.
    d. In addition to the base rent, Developer shall pay percentage rent equal to 5.0% times the effective gross income.

2. Developer will pay the City $597,237 at First Closing for a portion of the cost of installing the Low Permeability AC Cap.

3. The First Closing must occur on or before December 31, 2020 and the Second Closing must occur on or before December 31, 2022.

4. At the First Closing Developer shall deposit $1,300,000 as the Good Faith Deposit that Developer is able to attract a Grocery Store. If Developer is unable to secure a Grocery Store, there will be no Second Closing and the City shall retain the $1,300,000 as liquidated damages.

5. The conveyance of the portion of the Site included in the First Closing is contingent on the Developer performing the following activities:

    a. The Developer shall have provided the City with Evidence of Construction Financing and commercial general liability insurance.
    b. The Developer shall have received approval from the Regional Water Quality Control Board, the County of Orange, and the City for the site work for the Residential Component.

6. Developer shall complete the Developer Remediation Component which includes extraordinary site development costs including pile-supported foundations system for the retail space and installing vapor barriers under all buildings.

7. The Developer must prepare the Construction Drawings for the Project that are consistent with the Basic Concept Plan, and submit such plans to the City for review.

8. The Developer shall develop the Retail Component of approximately 35,087 square feet. This component is anticipated to include nationally and regionally recognized retail tenants, restaurants, eateries and other retail shops.

9. The Developer shall develop the Residential Component with up to 65 for-sale high quality townhome units.

10. In the event the Developer sells the Grocery Store Component and/or the Mixed Use Commercial Component, the Developer shall pay the City 5.0% of net sale proceeds.

11. The Developer shall deposit into escrow the sum of $786,226 to reimburse Brookfield Beach Boulevard LLC for the Site's share of the hard and soft costs of installing the Eastern Beach Boulevard Street Improvements, and the incremental costs of installing the Median Modifications attributable to the Project.

12. The Developer shall accept the Construction Covenant, which requires Developer to complete the Project by the dates set forth in the Schedule of Performance.

13. The Developer shall accept the Use Covenant, which requires Developer to ensure that the uses within the Project conform to the applicable provisions of the Anaheim Municipal Code.

14. The Developer shall accept the Operating Covenant, which requires the operation of the Project for a period of 30 years from the opening of the Project.

15. The Developer shall accept the Maintenance Covenants, which requires Developer to maintain the Project for 30 years in full compliance with the terms of all applicable provisions of the Anaheim Municipal Code, and in compliance with industry standards for a first class retail shopping center.

16. Developer acknowledges that 51% of the permanent jobs at the Site must be held by or be offered to persons of low and moderate income, as required by the HUD 108 Loan.

II. COST OF THE AGREEMENT TO THE CITY

The Redevelopment Agency of the City of Anaheim incurred significant costs to acquire and prepare the Site for development, in excess of $25 million in costs. The costs incurred were itemized and discussed previously in Summary Reports issued in October 2010 and September 2016 for an earlier version of a proposed development at this Site. The Successor Agency/City is required to undertake the OM&M Plan at an annual cost of approximately $286,000. The annual cost is estimated to increase to approximately $400,000 if the entire Project is developed. This cost is expected to be reimbursed from ongoing tax increment revenues, so there is no net cost to the Successor Agency/City.

III. ESTIMATED VALUE OF THE INTERESTS TO BE CONVEYED DETERMINED AT THE HIGHEST USE PERMITTED UNDER THE REDEVELOPMENT PLAN

Section 52201 of the California Government Code requires the City to identify the value of the interests being conveyed at the highest use allowed by the Site's zoning and the requirements imposed by the Redevelopment Plan and the General Plan. The valuation must be based on the assumption that near-term development is required.

The Site, however, requires substantial extraordinary costs to allow for the development of the proposed Project or any project. The extraordinary costs include the ongoing operation and maintenance of landfill gas and groundwater monitoring systems, piles to support the foundations of the two major tenant buildings, methane barrier and passive gas control under all buildings, and permits and fees for these extraordinary items. The City retained Mr. Steven G. White, MAI, to estimate the fair market value of the Site taking into account the extraordinary Site improvement and development costs associated with development at this location. Mr. White, in an appraisal dated March 28, 2019, taking into account the extraordinary development costs, concluded the Site has a fair market value of between $7,300,000 and $11,450,000.

For the appraisal, Mr. White separately valued the residential parcel and the commercial parcel. Mr. White estimated the fair market value of the 3.152-acre residential parcel to range between $4,100,000 and $4,750,000. Mr. White estimated the fair market value of the entire commercial site to be between $3,200,000 and $6,700,000. The parcels to be sold in the First Closing are the Residential Component Property and the Retail Component Property. The Retail Component Property is 4.855 acres or 17.8% of the total commercial parcel. Allocating the value between the Retail Component Property and the later developed Grocery Store Component Property and the Mixed-Use Commercial Property, the Retail Component Property has a fair market value of between $570,900 and $1,207,000 and the remaining two parcels have a value of between $2,655,000 and $5,558,900. The combined fair market value of the

Retail Component Property and the Residential Component Property is between $4,670,900 and $5,957,000.[1]

The Grocery Store Component Property and the Mixed-Use Commercial Property are expected to be ground leased under the Agreement. Mr. White determined that the annual fair market lease rate for the combined Grocery Store Component Property and the Mixed Use Commercial Component Property is between $105,000 and $265,000 per year. Mr. White also determined that a discount of up to 50% of the fair market lease rate during the initial years of the lease to cover the entitlement, construction and lease up periods was reasonable.

IV. ESTIMATED REUSE VALUE OF THE INTERESTS TO BE CONVEYED

As discussed above, the City is conveying the Retail Component Property and the Residential Component Property to the Developer for $5,100,000 at the First Closing, plus an additional $597,237 for the cost of the Developer's share of the Low Permeability AC Cap. Also, at the First Closing the Developer will lease the Mixed-Use Commercial Property at an initial rate of $80,000 per year to cover the entitlement, construction and lease up period. Beginning in Year 6 the lease rate would increase to $160,000 per year. Thereafter, the rent is increased by 12.5% every five years. In addition to the base rent, Developer will pay 5.0% of effective gross income as a rent payment.

Assuming that the Developer is able to secure an acceptable Grocery Store, then the Grocery Store Component Property will be incorporated into the Ground Lease.

It should be noted that the ground rent being paid on the Mixed-Use Commercial Property falls with the reasonable range for the entire 22.36-acre parcel that is being ground leased. The price and projected lease payments that the City is receiving, including reimbursement for offsite improvements falls within the fair market value range. Therefore, it is concluded that the fair reuse value is equal to or greater than the fair market value.

V. CONSIDERATION RECEIVED AND COMPARISON WITH THE ESTABLISHED VALUE OF THE SITE

Under the Agreement, the City is conveying the Retail Component Property and the Residential Component Property to the Developer for $5,100,000, leasing the Mixed-Use Commercial Component Parcel Property at an initial rate of $80,000 per year for the first five years and $160,000 per year thereafter. All fall within the fair market value range of the Site. It is concluded that the City is receiving the fair market value of the Site through this transaction.

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[1] Commercial parcel land allocations have changed since Mr. White prepared the appraisal. Value ranges have been adjusted to be consistent with the appraisal.

In addition to the Purchase Price, the City will receive its share of property tax revenues and sales tax revenues generated by the Project. The Site currently has a zero assessed value and generates no property tax revenues nor does it generate any sales tax revenues. The initial completed Project is projected to be valued at more than $60.4 million. The Retail Component is estimated to be valued at $20.4 million and the Residential Component at approximately $40 million. No valuation is assumed for the Mixed-Use Commercial Component nor the Grocery Store Component as the type and quality of development is not known at this time. When these components are developed the public revenues will increase further.

At completion of the Retail Component and the Residential Component, the City's share of property tax revenues is approximately 10.8% which provides $66,000 annually, as shown in Table 1. Over a 25-year period, the City's share of property tax revenues is projected to be nearly $2.0 million, which has a net present value of approximately $955,000, discounted at 6.0%.

The Project will also generate substantial sales tax revenues to the City. The actual tenants are not known, but given the expected mix of tenants, it is reasonable to estimate that taxable sales volumes could range from $200 per square foot traditional retailers to $500 per square foot for sit down and quick service restaurants. With this range of sales, the annual taxable sales at the Site would be approximately $11.1 million at full buildout by Year 2, which would generate approximately $111,000 in local sales tax revenues. The West Anaheim area is currently underserved from a retail perspective, so it is estimated that all or nearly all of the sales tax revenues would be new to the City. Over a 25-year period the Project is expected to generate nearly than $3.7 million in local sales tax revenues, which has a net present value of nearly $1.7 million.

No public revenue projections have been made Grocery Store Component or the Mixed-Use Commercial Component. The City will clearly benefit from such development, through additional property taxes, sales taxes and possibly transient occupancy taxes, however the potential scope of development and timing of such development is unclear at this time.

VI. CREATION OF ECONOMIC OPPORTUNITY

Implementation of the Agreement helps to remove blighting influences within the Project Area boundaries by improving the physical appearance of the Project Area, and by creating a buffer between commercial/industrial properties and residential areas. Moreover, the Project mitigates the problems associated with a former landfill. Further the development of the Project is projected to generate temporary construction jobs and permanent jobs. The Retail Component and Residential Component are approximately 138,000 square feet. Construction employment for this phase would be approximately 403 construction jobs and permanent employment would be -54 full time equivalent jobs. The Grocery Component and Mixed Use Commercial Component project are not defined at this time so no estimates are provided.

The full development of the site is projected to generate significant public revenues for the City. At the completion of the Retail Component and Residential Component in Year 2, it is estimated that the City would receive approximately $66,000 as its share of property tax revenues and $111,000 in sales tax revenues, as shown in Table 1. Over a 25-year period the project is estimated to generate $5.7 million in property tax and sales tax revenues, which has a net present value of nearly $2.6 million, discounted at 6.0%. If the Grocery Store Component and the Mixed Use Commercial Component are developed, then the public revenues will increase significantly.

The proposed development would fulfill goals and objectives defined in the City's adopted Redevelopment Plan and create economic opportunity in the following ways:

1. The improvement of the physical appearance of the Project Area through the stimulation of new commercial and industrial buildings and sites, through public improvements including undergrounding electrical utilities, upgrading streets, sidewalks, and streetscape, and through a comprehensive urban design and planned signage program.

2. The provision of walls and landscaping to create a buffer between commercial properties and residential area.

3. The remediation of the landfill makes it a viable development Site, which allows for the development of the commercial center on the site, which creates local permanent jobs and business activity.

4. The public revenues created by the Project can be used by the City to promote other economic development activities and to provide additional services in the community.

Attachment

TABLE 1

ESTIMATE OF PROPERTY TAX AND SALES TAX REVENUES
ANAHEIM BEACH & LINCOLN - 39 COMMONS PROJECT
ANAHEIM, CALIFORNIA

No. of Years	Value	Property Taxes	City Share @10.8%	Taxable Sales	Sales Tax	Total City Revenues
1	$20,400,000	$204,000	$22,000	$10,843,500	$108,435	$130,435
2	60,808,000	608,000	66,000	11,100,000	111,000	177,000
3	62,024,000	620,000	67,000	11,400,000	114,000	181,000
4	63,264,000	633,000	68,000	11,700,000	117,000	185,000
5	64,529,000	645,000	70,000	12,000,000	120,000	190,000
6	65,820,000	658,000	71,000	12,300,000	123,000	194,000
7	67,136,000	671,000	72,000	12,600,000	126,000	198,000
8	68,479,000	685,000	74,000	12,900,000	129,000	203,000
9	69,849,000	698,000	75,000	13,200,000	132,000	207,000
10	71,246,000	712,000	77,000	13,500,000	135,000	212,000
11	72,671,000	727,000	79,000	13,800,000	138,000	217,000
12	74,124,000	741,000	80,000	14,100,000	141,000	221,000
13	75,606,000	756,000	82,000	14,500,000	145,000	227,000
14	77,118,000	771,000	83,000	14,900,000	149,000	232,000
15	78,660,000	787,000	85,000	15,300,000	153,000	238,000
16	80,233,000	802,000	87,000	15,700,000	157,000	244,000
17	81,838,000	818,000	88,000	16,100,000	161,000	249,000
18	83,475,000	835,000	90,000	16,500,000	165,000	255,000
19	85,145,000	851,000	92,000	16,900,000	169,000	261,000
20	86,848,000	868,000	94,000	17,300,000	173,000	267,000
21	88,585,000	886,000	96,000	17,700,000	177,000	273,000
22	90,357,000	904,000	98,000	18,100,000	181,000	279,000
23	92,164,000	922,000	100,000	18,600,000	186,000	286,000
24	94,007,000	940,000	102,000	19,100,000	191,000	293,000
25	95,887,000	959,000	104,000	19,600,000	196,000	300,000
Total		$18,701,000	$2,022,000		$3,697,435	$5,719,435
Net Present Values @ 6.0%		$8,836,000	$955,000		$1,668,000	$2,573,000

[1] Assumes annual CPI increase of 2.5%.
[2] Sales tax revenue estimated at $325 per square foot of development.

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