City of Long Beach
Working Together to Serve

Memorandum

Date: December 3, 2008

To: Mayor and Members of the City Council

From: for Patrick H. West, City Manager

Subject: **Response to Questions Regarding the Purchase and Sale Agreements for Acquisition of Amerigas Propane Property**

The information below is provided in response to Councilmember Reyes-Uranga's memo dated November 18, 2008 requesting information about the purchase and sale agreements for the Amerigas Propane Property. Many of the questions contained in Councilmember Reyes-Uranga's memo were also posed by other Councilmembers.

1. **What is the purchase price of the Amerigas property and when was the appraised price established?**

   The 8-acre Amerigas Property was appraised in March 2006 at $7.5 million. The current negotiated sale price is $5 million.

2. **When is the proposed close of escrow?**

   The Close of Escrow will occur when Wilmington-Lomita Blvd, LLC (WLB) contingencies are cleared, which is estimated to take 60 days.

3. **Can WLB negotiate directly with Amerigas, and why is the City involved in the negotiations of the property in light of the following statement in the Council letter? *"Without identified funding, the Sports Park project is not achievable, and there is no need for the City to acquire the Site."***

   WLB can negotiate directly with Amerigas. If so, the price will likely increase. More importantly, the City will lose the ability to maintain control of future development of the property through deed restrictions and covenants. The City's ability to maintain control of future development minimizes the City's exposure to environmental liability and ensures that development occurs consistent with the City's interests.

4. **How much has the City invested in the Sports Park project and surrounding properties? Please detail costs i.e. staff time, federal, state, county and local dollars.**

The City has expended $4.76 million on the Sports Park. Of this amount, approximately $2 million was expended for the EIR, $1.7 million was expended for engineering, $0.56 million was expended for Big League Dreams consulting services and licensing, and $0.5 million was expended for Community Development property management services (e.g., fencing, tenant relocation, appraisals).

The funding for the expenditures came from the following sources:

- $2.85 million -- Oil Revenue/General Fund
- $1.53 million -- County Park Bond
- $0.38 million – EPA/Brownfield Grant

The City also received $1 million in federal highway funds for the redesign of California Avenue. The plans for this project are 90 percent complete.

5. **Is the City's purchase from Amerigas and sale to WLB contingent upon the sale and development of the adjacent Hilltop parcel? If so, why?**

No. The Amerigas Property is not contingent upon any other sale or transaction.

6. **Why can't WLB negotiate directly with Los Cerritos Wetlands Authority ("LCWA") to buy the wetlands property that is proposed to be "exchanged" for the Hilltop property?**

Because of the restrictive methodology of State sanctioned appraisals, appraised values have not achieved the owner's perception of value. This has consistently derailed prior negotiations and continuing to proceed in this manner will likely never result in State acquisition of the wetlands. However, if the City can exchange its property for the wetlands, it can sell them to the LCWA at the State's appraised value. Also, WLB is not a party to the proposed Land Exchange. It is party only to the Amerigas purchase/sale.

7. **Given the Hilltop site is virtually in the geographic center of the city and the 6th and 7th Council districts are in desperate need of parks and open space, why is it necessary to trade this project for the wetlands project?**

This proposal benefits the City through the addition of 19 acres of new open space in Wrigley Heights, 18 acres of wetlands/open space at the Hilltop Property, maintains control of development through covenants and deed restrictions to be consistent with the City's interests and creates 52 new acres of scarce and valuable land available for commercial and light industrial developments, resulting in the creation of high-quality jobs and increased tax generation.

8. **The second paragraph of the Council Memo staff indicates this site is a "potential" location for a crane sale business. What is the likelihood of the relocation and when would it occur? What would be the impact to traffic, noise and air quality in the California Heights neighborhood? Especially in light of the City Council's rejection of a Negative Declaration for light industrial use adjacent to the hilltop property.**

   The Hilltop Property could be developed for commercial purposes, with the remainder developed for light industrial purposes, which would create high-quality jobs and increased tax generation. One such potential business includes the relocation of a crane sale business. Such relocation of this use will be subject to permitting requirements and the California Environmental Quality Act (CEQA) and would examine the traffic, noise, and air quality impacts to the surrounding neighborhood and the City.

9. **What is the total proposed sales tax the city would receive from WLB?**

   On an annual basis, the City may receive approximately $200,000 in tax revenue.

10. **Has the City reviewed audited financials and tax returns to verify the projections of sales and sales tax are accurate?**

    As this is a proposal, the City has not reviewed any financials and tax returns regarding this transaction.

11. **What is the annual revenue generated by the City's royalty interest in oil production?**

    The exact figure of royalties for the uplands property is not available at this time. However, it is estimated that royalties for the uplands property will be approximately $500,000 on an annual basis. This revenue will not be affected by the proposed transaction.

12. **Explain in detail why the City is placing a restriction on the development of the property until the adjoining Hilltop property is developed. Given the second paragraph of the report extols the virtues of the WLB relocation to the site why would the City restrict the relocation. What happens if the Hilltop property is not developed?**

    The City's ability to maintain control of development by placing a restriction on the re-development of the site ensures that grading activities are conducted in concert with the rest of the Hilltop Property in order to minimize the City's exposure to potential environmental liability. It is important for the City to control the WLB relocation to minimize environmental exposure to the City, which is on title to the Amerigas Property. If the Hilltop Property is not developed, it will continue to be a blighting influence on our community.

13. **Is the City retaining the royalty interest in the property following the "exchange" of the Hilltop property to WLB?**

    Royalty interests are not intended to be modified in the Land Exchange. Additionally, WLB is not a party to the Land Exchange.

14. **What is the "level of responsibility regarding the environmental effects of the oil operations" the City will incur and the potential cost associated with this responsibility?**

    The City's level of responsibility is unknown. However, the City is clearly a potential responsible party regarding the environmental condition of the site. The costs are unknown, but can be minimized through the control of land use, site planning and grading, all of which staff is recommending be done in this proposal.

15. **The report indicates the demolition and presumably the environmental cleanup, is "proposed" to be at the expense of WLB. Does the City intend to require WLB be solely responsible for the cost or is this issue unresolved?**

    WLB's subsequent acquisition of the Amerigas site is not intended to convey any obligation for environmental remediation. The Land Exchange is also not intended to convey any obligation for environmental remediation. However, the City's control of land use, site planning and grading will serve to minimize the City's exposure to environmental liability.

16. **Explain in detail why the City needs to be involved in the "demolition, grading and remediation activities and reuse alternatives to minimize risk and reduce liability." To what extent is the city remaining financial liability for the environmental cleanup of the property and why? What are the potential costs?**

    The City's ability to maintain control of future development minimizes the City's exposure to environmental liability and ensures that development occurs consistent with the City's interests. It is a core City function to regulate and oversee development activities in the City, including but not limited to demolition, grading, remediation and reuse. Overseeing these activities ensure the reduction and offset any negative environmental or other impacts to the surrounding neighborhoods and the City as a whole. The City remains a "deep pocket" for environmental conditions on both the Amerigas Property (as the City used to own it) and the remainder of the Hilltop Property. Potential costs are unknown, but the costs could be significant if the site is not graded per City plans.

17. **Given no development will be allowed on the site until the adjacent Hilltop property is developed and given that there is not a Council approved development project for the Hilltop property, what is the urgency of approving these Purchase and Sale Agreements?**

The urgency related to this item is that Amerigas will no longer delay its marketing of the property to third-party buyers, eliminating the City's ability to control grading and site planning, exposing the City to possibly greater financial and environmental risk. The Council letter states that no redevelopment of the site will be allowed, which means that any redevelopment will be required to be done in context of the entire Hilltop Property in order to minimize the City's exposure to environmental liability.

18. Explain in detail the issues and potential cost involved with the "holdover status" of the lease between Signal Hill Petroleum, Inc. ("SHPI") and Amerigas. Could the City be named in legal actions on the matter?

The holdover status is the existing state of the lease. The lease was a "term" lease, who's term has expired and is now in "holdover" status, terminable by 30-days' notice. The City could always be named a party to any legal action. The potential costs to the City resulting from such legal action are unknown.

19. Why is the City accepting responsibility for resolving the lease issues between SHPI and Amerigas? Could WLB not negotiate this to their satisfaction? Should not WLB assume the cost of negotiations and settlement of the issues?

The lease issue between SHPI and Amerigas could not be resolved between the parties and litigation is pending. The City would ultimately be a party to this litigation as it involves environmental liability. Rather than accept the whims of third party litigation, it is in the City's best interest to lay the environmental issues to rest and control the process by which the property is graded, developed and remediated to protect our community and our financial interests.

20. Has SHPI ever expressed an Interest in acquiring the Amerigas property prior to the City's acquisition and conveyance to WLB?

SHPI has negotiated with Amerigas for years to acquire the property. The parties have failed to come to an agreement and are facing potential litigation. To ensure a timely acquisition to facilitate the Hilltop project, the City approached Amerigas directly and identified a willing seller.

21. Will the approval of this purchase and sale create some potential legal liability for the City if the Hilltop project does not go forward?

The Amerigas acquisition is not related to the Land Exchange.

22. What have been the discussions with the City of Signal Hill and SHPI?

The discussions with City of Signal Hill and Signal Hill Petroleum have been through the EIR process.

23. What level of community notice have you given to the California Heights neighborhood, West Long Beach neighborhoods, Planning Commission, Parks and Recreation Commission, The Commission on Youth and Children, and the Redevelopment Agency?

Considerable outreach has been conducted since the first of November in educating the interested stakeholders in the likely end of the Sports Park project.

24. Are we required to repay any dollars received from governmental entities under the auspices of developing a Sports Park, which now appear to be corporate subsidies as opposed to for the good of the public interest?

No. The Hilltop Property is a Brownfield site. Considerable governmental intervention by way of grant funding is typical in cleaning up Brownfields and restoring them to become a productive asset. None of the funds expended are considered a subsidy, as any cleanup and reuse of the property is considered a successful outcome for a Brownfield site.

25. Why is this item time sensitive for the City?

The urgency related to this item is that Amerigas will no longer delay its marketing of the property to third-party buyers, eliminating the City's ability to maintain control of future development of the property through deed restrictions and covenants, which would ensure that grading activities and site planning occur in context of the greater Hilltop Property and consistent with the City's interests.

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