



County of Los Angeles CHIEF EXECUTIVE OFFICE

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September 29, 2016

Oversight Board of the Successor Agency to the
Industry-Urban Development Agency,
Santos Kreimann, Chair
City of Industry City Hall
15651 Stafford Street
City of Industry, CA 91744

Dear Oversight Board Members:

PROPOSED PURCHASE AND SALE OF THE TRES HERMANOS RANCH

The County of Los Angeles, as a local taxing entity, hereby submits its Statement of Objections to the proposed purchase and sale of the Tres Hermanos Ranch (the Property). The County believes the proposed sale to the City of Industry is not consistent with the approved Long Range Property Management Plan and Dissolution Law, and does not provide appropriate value to the taxing entities.

Attached is a detailed report expressing our objections to the proposed sale. The County respectfully requests that your Oversight Board reject the current proposed sale of the Property to the City of Industry. The County further recommends your Board undertake an independent appraisal of the Property that incorporates current zoning conditions in order to determine a current and fair value of the Property consistent with the Long Range Property Management Plan. If you have any questions regarding this submission, please contact Doug Baron of this office at (213) 974-8355, or dbaron@ceo.lacounty.gov.

Sincerely,

DAVID P. HOWARD
Assistant Chief Executive Officer

SAH:JJ:DPH
DSB:RM:acn

Attachment

- c: Michael Gregoryk, Vice Chair
Darin DeKnikker, Board Member
Cindy Chen, Board Member
Yolanda Duarte, Board Member
Congressman Esteban Torres, Board Member
Sean Varner, Legal Counsel to the Oversight Board

STATEMENT OF OBJECTIONS

TO

**THE PROPOSED SALE OF THE TRES HERMANOS RANCH PROPERTY TO
THE CITY OF INDUSTRY**

BY

THE COUNTY OF LOS ANGELES

DEMO

September, 2016

SUMMARY

The Successor Agency to the Industry Urban Development Agency is seeking the approval of its Oversight Board to sell the 2,450-acre Tres Hermanos Ranch Property (the "Ranch Property") for \$41.65 million. The property is currently held in trust by the Successor Agency on behalf of all the taxing entities. The approved Long Range Property Management Plan (LRPMP) lists the current value of the property at \$85.75 - \$122.5 million. In July, 2015 GH America submitted a \$101 million bid to the Successor Agency to purchase the Ranch Property. The County therefore objects to the proposed offer of \$41.65 million by the City of Industry, and encourages the Oversight Board to reject that offer. Specifically, the County of Los Angeles has the following objections:

- The City believes that it has a right to purchase the property. The County does not question this authority in general. The acquisition of the property must comply with Dissolution Law and the approved LRPMP. Dissolution Law requires an expeditious wind down of the affairs of the former Redevelopment Agency and that dispositions be done to maximize value to the taxing entities. The property at issue here is on a list of properties for sale subject to valuation maximization.
- In July, 2015 the Successor Agency received a bid for the Ranch Property from GH America for \$101 million. That bid was apparently rejected by the Successor Agency, and was not forwarded to the Oversight Board for consideration.
- Retention for Government Use is an allowable category in the LRPMP. However, the Successor Agency chose not to identify the Ranch Property as government use, and instead listed the property for sale. Had the Successor Agency proposed to retain the property for government use, a deed restriction would have been required.
- The City's bid of \$41.65 million is based on an appraisal by R.P. Laurain & Associates. That appraisal is flawed, as it includes a hypothetical assumption that the Ranch Property is encumbered with a covenant that restricts its use to open space. In reality, no such covenant exists, and is not consistent with current zoning designations. The current highest and best use of the property requires a sales price consistent with the valuation listed in the Industry LRPMP.

The City's Right to Purchase

The City believes that it has a right to purchase the property. The first sentence of Attachment B (attached) of the approved LRPMP states: "Attachment B contains those properties to be made available for sale. The properties include those to be offered to tenants and/or the City first and if no interest offered generally for sale." However, the remainder of Attachment B describes a "process" that should be followed for all properties in this Attachment. It appears that the Agency did not follow this process in selecting the City as the buyer of the property. The process is as follows:

The properties the staff recommends be offered for sale utilize the process outlined below. It is anticipated that any sale including those properties above would have to meet the basic criteria of agreement to pay a reasonable price based on a current appraisal and submission of a Development Plan and Schedule acceptable to the City. The properties would be distributed to brokers and interested parties. Competing proposals would be evaluated based upon the following criteria to determine which prospective buyer to work with on finalizing a project to forward to the Successor Agency and Oversight Board for approval.

- Agreement to pay a reasonable price based upon a current appraisal*
- A development Plan and schedule through construction acceptable to the City*
- An estimate of the assessed value of the project*
- Identification of the end user, the job creation and if the user is a local company*
- identification of the type of intended tenants if the project is speculative*

It is planned that the appraisals required for each property will be the responsibility of the prospective buyer and would be undertaken by an appraiser selected from a pre approved list determined by issuing a Request for Qualifications. Keyser Marston would assist with the RFQ and selection process for Brokers and appraisers as well as review and selection of proposals.

The LRPMP has four allowable categories for property disposition: 1) Retention of the property for government use; 2) Retention of the property for future development; 3) Sale of the property; and 4) Use of the property to fulfill an enforceable obligation. Note there is no category where the City has priority to purchase a property. The Agency's approved LRPMP places the Ranch Property in the category of "Properties for Sale."

The original LRPMP was approved by the Oversight Board on October 8, 2013, and subsequently approved by the California Department of Finance on February 21, 2014. The Successor Agency received a bid for the property from a private entity in July, 2015. It apparently did not entertain that bid. Nor did the

Successor Agency submit the offer to the Oversight Board for approval or rejection as required by law. In September, 2016, the City of Industry submitted a bid to purchase the Ranch Property. This process is contrary to the Successor Agency's responsibility to expeditiously wind down the affairs of the former redevelopment agency and maximize the value returned to the taxing entities. The Successor Agency and the City understand this dual requirement. From the City Attorney's memorandum to the City Council of September 1, 2016: "The Dissolution Act requires the Successor Agency to dispose of all Agency owned property expeditiously, and in a manner that maximizes value."

GH America, Inc. & Current Value

In July, 2015, GH America, Inc. offered to purchase the Ranch Property for \$101 million. According to a presentation made to the Oversight Board by GH America (attached), their offer was based on a master planned community of 1,881 residential units, including affordable housing, 38 acres of general commercial and mixed use development, and significant open space preservation.

It is unknown why the Successor Agency rejected this offer, or chose not to bring the offer before the Oversight Board for consideration. The GH America offer of \$101 million is within the range of the current value listed in the approved LRPMP (\$85.75 - \$122.5 million), and therefore is consistent with Dissolution Law that requires the Successor Agency, in addition to expeditiously winding down the affairs of the former redevelopment agency, to maximize the value of property dispositions. The City's significantly lower offer of \$41 million would not maximize value.

Another indicator of the true value of the Ranch Property can be found in the R.P. Laurain & Associated Appraisal (see below). In its analysis, a number of comparable properties are examined. One of the comparable properties, a ranch property with modest improvements, was valued at \$40,514 per acre. Using that valuation, the Ranch Property, at 2,450-acres, would be valued at \$99.3 million.

Government Use

Dissolution Law allows for the retention of certain property if it is for official government use. However, according to the resolution of the Oversight Board approving the LRPMP (Resolution No. OB 2013-15), a deed restriction is required:

WHEREAS, the transfer of any governmental use property under the approved long-range property management plan will be subject to a deed restriction requiring the transferred property to be utilized only for a governmental purpose and upon the discontinuance of such governmental use, the property will transfer back to the Successor Agency, or its successor.

The City's bid to purchase the Ranch Property is described as being for municipal purposes. However, the Purchase and Sale Agreement and Grant Deed approved by the City Council of the City of Industry on September 8, 2016, include nondiscrimination/nonsegregation clauses, but do not appear to include any covenants that place an open space restriction on the Ranch Property. And, Resolution No. SA 2016-15 includes the sentence, "Any future development at the property will be subject to additional environmental review and independent analysis as required by CEQA."

Therefore, given the lack of an open space requirement in the Purchase and Sale Agreement and Grant Deed, it appears the City could resell the Ranch Property at a future date without the open space requirement. The revenue owed to affected taxing entities from such non-open space use would also never be realized.

R.P. Laurain & Associates Appraisal

The City of Industry's offer of \$41.65 million for the Ranch Property is based on an appraisal by R.P. Laurain & Associates. The appraisal, done at the request of the City, clearly states that the appraisal is based on the assumption that the entire Ranch Property will be encumbered with a covenant that will restrict the use of the Ranch Property to open space, public use or preservation use. Laurain describes this assumption as a "hypothetical condition" defined as:

"A condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis."

and

"Hypothetical conditions are contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of date used in an analysis."

The condition that a covenant exists on the Ranch Property that restricts its future use to open space is not only hypothetical, but is contrary to the current zoning of the Ranch Property. According to the GH America offer, the zoning for the Ranch Property includes: 690-acres designated AG (Agriculture) and 30-acres designated RH-30 (High Density Residential) in the City of Diamond Bar; and 1,680-acres designated R-A (Agriculture-Ranch), 14-acres designated RM-3 (Very High Density Residential), 18-acres designated C-G (General Commercial), and 20-acres designated M-U (Mixed Use) in the City of Chino Hills. Additionally, the Laurain Appraisal acknowledges that the various

designations include agriculture/ranches, commercial, mixed use, very high density residential development, and very low density development.

Additional notes regarding the Laurain Appraisal can be found in the memorandum from Allan D. Kotin & Associates attached to this report. In summary, the Laurain Appraisal is not appropriate for the Ranch Property, as it does not reflect the current zoning at the Ranch Property.

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LIST OF ATTACHMENTS

- Attachment #1 Attachment B of the Long Range Property Management Plan
- Attachment #2 Appraisal Report, R.P. Laurain & Associates
- Attachment #3 GH America Presentation
- Attachment #4 Kotin letter

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Attachment #1 – Attachment B from the LRPMP

B. Properties for Sale. Those properties to be marketed through direct contact with interested parties and through the use of brokers. Proposals would be evaluated based upon acceptable development plans.

- Property # 53 on Property List (555 El Encanto Road, El Encanto Hospital)
- Property # 41 on Property List (Grand Crossing)
- Property # 29 on Property List (911 Blxby, Mission Energy)
- Property # 33 on Property List (17545 Gale, Best Buy)
- Property # 35 on Property List (17723 Gale, Mazda)
- Property # 40 on Property List (Industry Business Center 600 acres)
- Property # 43 on Property List, 841 S. 7th street (YAL community youth center)
- Property # 45, 22 and part of 46 on Property List, Stafford Street (Sheriff Helipad)
- Property # 49 and 23 on Property List, 15660 Stafford (Post Office & LA County Fire Prevention plus adjacent vacant property)
- property # 48 and part of 46 on Property List, West side of Hacienda north of Stafford (Sheriff parking)
- Property # 51, on Property List, North side of Stafford west of Mendora (portion Park & Ride)
- Property # 54 on Property List, west side of Parriott Place (adjacent to El Encanto)
- Property #66 on Property List (Garcia Lane Fire Station site)
- Property # 68 on Property List (Tres Hermanos Ranch)
- Property # 65 on Property List (208 Waddingham Way, electrical substation)
- Property # 72 on Property List (Puente Basin Water Rights)
- Property # 10 on Property List (13530 Nelson)
- Property # 12 on Property List (15432 Nelson)
- 19. Property # 59 & 60 on Property List (1123, 1129 & 1135 Hatcher)
- 20. Property #2 on Property List, 333 Turnbull Canyon
- 21. Property # 4 on Property List, 17370 Gale Ave.
- Property #9 on Property List, 15000 Nelson
- Property # 24, 15710 and 15718 Rauech Road
- Property # 7 & 8, 14624 & 14700 Nelson Ave.
- Property # 1 on Property List (333 Hacienda Blvd.)
- Property # 11 on Property List, 15130 Nelson (Los Altos Cheese)
- Property # 16 on Property List, 151 Long Lane
- Property # 17 on Property List Nelson, 125 N. Orange
- Property # 18 on Property List, 111 Hudson
- Property # 32, 17475 Gale (Auto Mall vacant)
- Property # 34, 17647 Gale (Auto Mall vacant)
- Property #28, east side of Parriott Place (6.18 acres)
- Property # 30 on Property List ,east side of Azusa north of Rail Road (10.1 acres)
- Property # 58 on Property List (17300 Chestnut)
- Property #19, 20, 21, 50 & 47 Property List (15625 Stafford Street)
- Property # 5 on Property List (19835 E. Walnut Dr.)
- Property # 31 on Property List (17201-17301 Gale Ave.)

Attachment B

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DEVELOPMENT

June 2013

Property Description

Address: Tres Hermanos Ranch, # 68 on Property List

Size: 2,450 acres, cattle ranch

Date Purchased: November 1978

IUDA Purchase Price: \$12,100,000

Estimated Current Value: \$85,750,000 to \$122,500,000 (preliminary by Keyser Marston)

Reason Acquired: Purchased as potential site for reservoir

Plan and Zoning: Property is located in both Los Angeles and San Bernardino Counties, not entitled for development

Lease Revenue: Leased to Russ Wood for pasture land, \$600 per month

Environmental: None

Potential for Transit-Oriented Development: None

History of Development Proposals: There have been a series of reports and studies on the use of the property for the development of reservoirs and other public uses.

Staff Recommendation: Staff recommends the property be offered for sale to the City and if the City has no interest in acquiring the property would be made generally available for sale.

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Attachment #2 – R.P. Laurain & Associates Appraisal Report

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APPRAISAL REPORT

TRES HERMANOS RANCH
ELEVEN ASSESSOR PARCELS LOCATED IN
THE CITIES OF
DIAMOND BAR AND CHINO HILLS

DEMO



R. P. LAURAIN
& ASSOCIATES
INCORPORATED