File #: 19-0487

AGENDA REPORT
REQUEST FOR CITY COUNCIL AND
CORONA HOUSING AUTHORITY ACTION

DATE: 5/15/19

TO: Honorable Mayor and City Council Members
Honorable Chairman and Board of Commissioners

FROM: Management Services - Economic Development

SUBJECT:
City Council and Corona Housing Authority consideration of First Amendment to Disposition and Development Agreement between the City of Corona and Lab Holding, LLC for the acquisition and development of (17) Corona Housing Authority properties and (9) City of Corona properties generally located East of Main Street between East Fourth Street and West Eighth Street, and West of Ramona Avenue (Corona Mall Property) originally approved May 17, 2017.

RECOMMENDED ACTION:
That the:

1. Corona Housing Authority approve and authorize the Executive Director, or his designee, to execute the First Amendment to Disposition and Development Agreement with Lab Holding, LLC.

2. City Council approve and authorize the City Manager, or his designee, to execute the First Amendment to Disposition and Development Agreement with Lab Holding, LLC.

ANALYSIS:
Beginning in the early 2000's the Corona Redevelopment Agency began to acquire properties within the Corona Mall area in hopes of assembling enough property for a complete redevelopment of the area. On June 29, 2011 Governor Brown signed Assembly Bill 1X 26 (AB 1X 26) eliminating Redevelopment Agencies in the State of California. Pursuant to Resolution 2012-04 adopted January 11, 2012, the City of Corona became the Successor Agency to the Redevelopment Agency. As part of Corona's wind down of redevelopment activities, as required by AB 1X 26, the properties within the Corona Mall area were transferred to the Corona Housing Authority allowing for the development of housing, if feasible, or the sale of such properties at market value with proceeds being returned to the

Corona Housing Authority. Ultimately, it was determined that a housing development in the Corona Mall was not in the best interest of the community and the City proceeded forward with interest in a commercial development on the site. On May 17, 2017, the City and the Housing Authority entered into a Disposition and Development Agreement ("DDA") with Lab Holding, LLC ("Developer") for the Developer's acquisition and development of the 17 parcels of real property owned by the Corona Housing Authority ("Corona Mall Property"), as well as an option to acquire and develop 9 parcels of real property owned by the City of Corona that is currently used for parking and common area purposes ("City Option Property").

The current DDA imposes certain obligations on the Developer to develop the Corona Mall Property in accordance with a schedule of performance. The DDA also prohibits the Developer from transferring, assigning or selling any portion of the Corona Mall Property without the prior written consent of the Housing Authority/City for 10 years after escrow closes, unless the transfer or assignment is to persons/entities in which the Developer owns more than 50% of the assets or has a majority voting interest.

Shortly before the close of escrow on the 17 Housing Authority parcels, Lab Holding, LLC (Developer) indicated that it wanted title to the Corona Mall Property to be vested in an entity entitled Las Artes Corona, LLC. However, a review of the corporate documents for Las Artes Corona, LLC revealed that Shaheen Sadeghi was the sole member of the Las Artes Corona, LLC. Since the Developer (i.e., Lab Holding, LLC) did not have any ownership or voting interest in Las Artes Corona, LLC, a transfer to Las Artes Corona, LLC would have required the consent of the City by the City Council. The Developer chose to instead proceed with the close of escrow and take title to the Corona Mall Property under Lab Holding, LLC, which is owned by Shaheen Sadeghi and Linda Sadeghi, each having a 50% interest in the company.

The Developer is now requesting that an amendment to the DDA be approved to provide more flexibility for the Developer to assign or transfer property and rights under the DDA to project-specific limited liability companies. The Developer believes this to be necessary in order to successfully execute their development strategies in a manner consistent with the Developer's business model. It should be noted that the Developer (Shaheen Sadeghi) is well-known in Southern California for transforming under-utilized parcels into creative, one-of-a-kind developments. The Developer is responsible for the redevelopment of the Anaheim Packing House and the CAMP and the Anti-Mall in Costa Mesa. The Developer's approach in these types of developments is to establish, own and manage many of the businesses within a development project, which allows for control of daily operations, events programming, and overall atmosphere and branding of the development.

City staff has worked with the Developer for several months to draft the First Amendment to the DDA, which are attached to this report in redline and final form. Below is a summary of the substantive revisions to the DDA:

- Merger of Anti-Speculation Covenant and Assignment Limitation: Under the current DDA, the Developer is not permitted to sell any portion of the Corona Mall Property or City Option Property without the City's consent until June 5, 2028 (10 years after close of escrow on Corona Mall Property). This is referred to in the DDA as the "Anti-Speculation Covenant". Additionally, the DDA limits the Developer's ability to assign the DDA, or any of its interests or obligations without the City's consent, unless Lab Holding, LLC owns 50% of the assets or has a majority voting interest in the assignee. This assignment limitation applies for the term of the

DDA and does not go away after June 5, 2028 like with the Anti-Speculation Covenant. The First Amendment to the DDA would merge the Anti-Speculation Covenant and the assignment limitation such that the Developer would be able to transfer or assign the DDA or any portion of the Corona Mall Property and the City Option Property without the consent of the Housing Authority or the City after June 5, 2028.

- Pre-Approved Transfers: The First Amendment to the DDA would add new provisions to allow the Developer to transfer, assign, or sell its interest in the Corona Mall Property or the City Option Property to certain pre-approved entities, without the Housing Authority's or City's consent. The pre-approved entities include the Corona Arts District, LLC, and any other single entity in which Shaheen Sadeghi maintains a 50.1% ownership interest. The First Amendment would also add a process for approval by the Housing Authority and/or the City of discretionary transfers/assignments (i.e., any transfer/assignments that do not qualify as "Pre-Approved Transfers"). An assignment and assumption agreement will be required for any transfer of the Corona Mall Property or the City Option Property

- Removal of the acceleration clause from the Agreement and promissory notes: The current DDA provides that any amounts due under the Housing Authority promissory notes would be immediately due and payable upon the transfer or assignment of any of the Corona Mall Property. The First Amendment would eliminate this acceleration clause and would allow the promissory notes to be transferred and assumed by the assignee so long as the Corona Mall Property is transferred to and the promissory notes are assumed by a single entity in which Shaheen Sadeghi maintains a minimum 50.1% ownership interest. This will allow the promissory note to be transferred and assumed by the project-specific LLC that acquires the Corona Mall Property from the Developer. The deed of trust that provides the security for the promissory notes will remain as an encumbrance on the Corona Mall Property until the promissory note is paid in full.

- Modification of City Option Property Conditions: A condition has been added to the DDA that requires the Developer, prior to exercising the option and acquiring the City Option Property, to prepare a Reciprocal Easement Agreement (REA) to be recorded against the Corona Mall Property the City Option Property, and any other parcel that may be acquired by the Developer prior to the REA recordation date. The purpose of the REA is to provide for the improvement, maintenance, repair, replacement, and cohesive development of the improvement, fixtures, and equipment in the Corona Mall.

- Modification of Option Agreement Exhibits: The First Amendment would also revise the option agreements for the City Option Property, which are attached as exhibits to the DDA. The option agreements would be revised to incorporate the same pre-approved transfer provisions proposed to be added to the DDA, as described above. Additionally, language has also been included in the option agreements to ensure that the entity that owns the north side of the Corona Mall Property will also own the City Option Property, thus facilitating a cohesive development.

COMMITTEE ACTION:
Not applicable.

STRATEGIC PLAN:
This action supports the City's Strategic Plan Goal 2: Focus on the Revitalization of the Downtown Area: Sixth and Main.

FISCAL IMPACT:
The total purchase price of the Corona Housing Authority Properties was $1,860,000, of which $970,000 was for the Authority North Mall properties and $890,000 for the Authority South Mall properties. The Corona Housing Authority financed the purchase price of the Authority North Mall property as well as Authority South Mall property less the earnest deposit for an amount equal to $873,000 and $801,000 evidenced by two separate promissory notes. Additionally, Lab Holding has an option to purchase the City-owned common area property for $1 and the City-owned parking lot property for $6,000,000 minus reasonable and documented expenses incurred by Lab Holding for improvements made to the Corona Mall properties acquired from the Housing Authority and acquisition of fee title interest in any of the privately owned real property within the Corona Mall. Sales price has not been renegotiated as part of this amendment and there is no other fiscal impact associated with this amendment.

ENVIRONMENTAL ANALYSIS:
This action is exempt pursuant to section 15061(b)(3) of the Guidelines for the California Environmental Act (CEQA), which states that a project is exempt from CEQA if the activity is covered by the general rule that CEQA applies only to projects that have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. This action merely amends the conditions of the disposition and development agreement and any future development of the property will be subject to review under CEQA prior to development. Therefore, there is no possibility that approving this amendment will have a significant effect on the environment and no environmental analysis is required at this time.

PREPARED BY: RYAN CORTEZ, ECONOMIC DEVELOPMENT COORDINATOR

REVIEWED BY: JAMIE RAYMOND, CHIEF DEPUTY CITY ATTORNEY

REVIEWED BY: DEAN DERLETH, CITY ATTORNEY

REVIEWED BY: KERRY D. EDEN, ASSISTANT CITY MANAGER/ADMINISTRATIVE SERVICES DIRECTOR

REVIEWED BY: MICHELE NISSEN, ASSISTANT CITY MANAGER

SUBMITTED BY: MITCHELL LANSDELL, ACTING CITY MANAGER

Attachments:

1. Location Map
2. Exhibit A - Proposed First Amendment to Disposition and Development Agreement (Redline)
3. Exhibit B - Proposed First Amendment to Disposition and Development Agreement (Final)