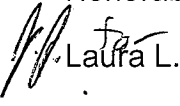


Date: May 5, 2009
To: Honorable Mayor and Members of the City Council
From:  Laura L. Doud, City Auditor
Subject: Updated Information on the Los Cerritos Wetlands Cost Benefit Analysis

Please see the attached revised "cost benefit" analysis prepared by my Office. The notable revisions include a clarification from Management regarding the zoning of the parcel of land [7237-020-052] that was not included in the 2003 appraisal (third bullet point under "Valuation Analysis"), and a reminder that the "SURGE agreement" could have some unknown affect on the value of the main parcel (final bullet point under "Valuation Analysis").

Please contact me with any questions you may have.

Attachment

Cc: Patrick H. West, City Manager
Suzanne Frick, Assistant City Manager
Michael Conway, Director of Public Works
Robert E. Shannon, City Attorney

**City of Long Beach / LCW Partners Land Exchange
Cost Benefit Analysis
May 5, 2009**

Note: the City Auditor's Office has not seen the final agreement, and therefore this analysis is subject to change.

Assumptions

- The stated reasoning for having the City of Long Beach (City) purchase the wetlands property is to create public ownership in order to streamline the process of having the land purchased by the Los Cerritos Wetlands Authority (LCWA) with State Bond funds. The transaction assumes that State Bond funds from Proposition 84 (November 2006) will be available for the LCWA to purchase the property from the City.
- The current zoning of this 33 (+) acre parcel under SEADIP designates this property as "Business Park/Commercial" for development. It is assumed by Management that land zoned as "Business Park/Commercial" under SEADIP would likely be able to be developed as such, and thus generate a greater land value than if the land were valued as wetlands.
- In valuing the property, the State will look beyond the zoning of the subject land and consider many factors to determine if the land is truly developable.

Benefits

- Potential restoration of wetlands or open space
- Acquire 33.77 acres of land to be placed in public domain
- Land acquired would be protected against threat of potential future development
- City could receive funds from potential sale of land to LCWA
- Underutilized Public Service Yard would be "activated" by private developer
- Return public property to the tax base, potential job creation
- Acquired land may be eligible for State grants for wetlands restoration; thus, acquisition could lead to funds for wetlands improvements
- Currently, Bryant property is landlocked by other parcels; this would allow public access to that parcel
- Opportunity for the Port to take out all oil rigs and put in "slant drilling" with one pumping site to make property cleaner and more useable. In turn, the Port would receive mitigation credits for their upcoming development in the Port.

Costs/Risks

- Relinquish 12.1 acres of Public Service Yard, currently estimated by Management at \$7.9 million (including deductions for environmental costs to cure, demolition, and relocation of train depot). This property was valued previously by the City at \$10.9 million in June 2007 without deductions.
- Environmental/Remediation Costs of Public Service Yard remain with the City – this liability is unknown, but could be significant.
- Relocation costs of Public Service Yard – Total cost of moving Public Service Bureau from Public Service Yard must be considered. Several costs to consider: (1) cost of relocation of most of Public Services Bureau to the Airport, including lease costs, are unknown at this time, (2) long term cost to lease or buy space for the Street Maintenance Division of the Public Services Bureau (or opportunity cost if City-owned land used), as the entire Bureau cannot fit at the Airport; Management plans to house this function temporarily at a City-owned vacant site (such as the MTA lot), (3) the transition costs of moving the Public Services Bureau (Management has estimated this at \$500,000).
- Without a delineation study or an appraisal of land to be acquired, market value is unknown. Current owner will not allow such study, so City assumes risk.
- In the event City sale of wetlands to LCWA is less than value of Public Service Yard (e.g., \$7.9 million), City would be effectively subsidizing acquisition with General Fund dollars.
- There is uncertainty surrounding the availability of State Bond funds for the LCWA to purchase the property from the City. These funds have been “frozen” due to the State budget issues. It is extremely difficult to forecast a timeframe for when these funds will be available.

Valuation Analysis

- 2003 appraisal for approximately 189 acres of Bixby property, including subject property 7237-020-021, was for \$14.25 million (not including oil rights). It valued wetlands at an average of \$42,260 an acre, and land that could be used as “business park” at \$210,000/acre.
- 2003 appraisal states that 24.18 acres could be developed as “business park” and would be worth \$5.08 million (24.18 acres x \$210,000/acre). It appears this land is part of the subject property. If the remaining 9.52 acres were valued as wetlands, that portion would be worth \$402,315 (9.52 acres x \$42,260/acre), and the total value of the property would be valued at \$5,482,315 (\$5,080,000 + \$402,315).
- According to the current zoning of the property under SEADIP, 29 acres of the property is zoned for Business Park (Office, Commercial, Light Industrial), restaurants and hotel. An additional 4.39 acres is zoned for Commercial. City Management assumes under this zoning the entire 33 (+) acres could be

developed. Based on this assumption and using the valuation of the 2003 appraisal of \$210,000 per acre for "Business Park" (including for the "Commercial" acres) the entire property would be valued at \$7,091,700 (33.77 acres x \$210,000/acre). The California State Coastal Conservancy will likely play a significant role in determining the scope of the future appraisal of the property and determining if and how much funding the State will provide to the LCWA to purchase the property from the City. Based on input we have received from the State Coastal Authority we believe it is unlikely the State will fund the purchase by LCWA based solely on the SEADIP zoning. As noted in the Assumptions above, the State will likely consider other factors including environmental, historical, and legal precedents to determine the percentage of the property that is developable.

- Assessed valuation of the main portion of this land [7237-020-021] is currently listed at \$4,800,000, not including separate oil rights; note that assessed value and market value are not synonymous. The property appears to have been recently reassessed, as assessed value previously was \$11,520,000. Additionally, parcel 7237-020-003 is currently assessed at \$15,000 and parcel 7237-020-052 is assessed at \$1,295,218 with an additional value of \$179,158 for improvements on the land.
- At the low end of the financial spectrum, if it is determined that the property is not developable, the City will only be able to sell the land as open space or wetlands at the amount determined by the State appraisal. Based on the 2003 appraisal of the property, the value of wetlands is averaged at \$42,250. Therefore, the value of the property would be \$1,424,162 (\$42,250 per acre x 33.7 acres).
- 2006 Bryant acquisition by Los Cerritos Wetlands Authority = \$7 million for 68 acres, including 26 acres under San Gabriel River; Signal Hill Petroleum paid extra \$3 million for property's oil rights.
- According to the assessor, nine parcels including the subject parcels at the Bixby property were sold in 2007 for a total of \$36 million (this does not include mineral rights).
- The more of this property that turns out to be wetlands, the less it is worth on the open market, as it has lost its development potential. Thus, the amount of this land that is wetlands is a key question, and one that the State appraisal will depend on.
- Endangered species, if they exist, could hurt the value of the property. If such species were to exist on this property, it is unknown what mitigation might be required or to what extent development potential (and thus value) might be affected.
- The "SURGE Agreement," granting access to the property's oil wells and allowing them to remain, could have some unknown impact on the land's valuation.

Notes

- Timing of when to record the deed restriction is key. If done too early, it will devalue property to the detriment of the City, as it would lower the amount of

money that the LCWA would be willing to pay the City for the property. Thus, the City must make sure there is a valid contract in place with LCWA before recording the deed restriction, or that alternate protections are put in place to protect the City financially.

- This transaction could influence the sales comparables or the new market rate for future acquisitions of wetlands.
- Consideration should be given to whether LCW's insurance policy (through AIG) provides adequate protection for the City. Key provisions to look for include whether the insurance covers risks, such as environmental hazards, and have necessary policy limits given the risks.
- Note that the indemnity offered by LCW Partners to the City will help protect the City from environmental impacts related to ongoing oil field operations, but that this protection is only as strong as the party offering it (e.g., if LCW were to go bankrupt or dissolve, this indemnity would no longer protect the City).