

Attachment E

Real Property Conveyance Questionnaire* for ASR

(*Applies to sale, lease, license, or easement of County or District owned assets)

Instructions:

- This questionnaire was developed with input from Auditor Controller, Internal Auditor and CEO Real Estate to assure County leadership is fully informed.
- Insert the complete answer after each question below.
- When completed, save and include as an Attachment to your ASR.
- In the body of the ASR focus on the considerations relevant to the decision.
- If you need assistance, please contact CEO Real Estate.

1. What property interest is being considered for conveyance (e.g. fee, lease, license, easement)?

Conveyance of fee interest in the property located at 363 Glenneyre Street, Laguna Beach (Property) from the County of Orange (County) to the City of Laguna Niguel (City) is being considered.

a) Why is this property being considered for lease, license, sale or other conveyance?

The County and City entered into an agreement (Library Agreement) dated January 20, 1970. Per the Library Agreement, the County acquired parcels 608-2 and 608-2.1 from private sellers and the City conveyed adjacent parcels 608-1 and 608-1.1 to the County without monetary consideration, forming the site of the Property. The Agreement provided the City an option to purchase the Property with all improvements within 50 years of the execution date of the Library Agreement in exchange for the fair market value of the County's investment in the underlying parcels of the Property, which the City exercised on or about January 9, 2020.

b) How and who identified this property as a potential conveyance?

The County and City agreed to the potential conveyance via the Library Agreement in 1970.

c) What factors are key in recommending this property for conveyance?

The City exercised its option to purchase on or about January 9, 2020 per the terms of the Library Agreement. The sale process was paused during the COVID-19 pandemic but has resumed.

d) How does the proposed conveyance fit into the County's/District's strategic or general plan?

A 25-year lease agreement (Lease) with one additional 25-year option is being proposed concurrently with the proposal of the conveyance. Operation of the Laguna Beach Library on the Property will continue post-conveyance in accordance with the County's plans.

e) What are the short and long term anticipated uses of the property?

The Property is expected to continue its existing use as a library and the City's Chamber of Commerce.

f) Are there any limitations on the use of the property in the conveyance documents?

No.

2. What analysis has been performed as to whether to convey the proposed real property interest?

No analysis was required to determine whether to convey the Property. The City is exercising its option to purchase which was reserved in the Library Agreement.

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a) Have there been any internally or externally prepared reports regarding this property conveyance?

An appraisal for the fair market value of parcels 608-2 and 608-2.1 was performed by R. P. Laurain & Associates, Inc. at the City's request and reviewed by CEO Real Estate.

b) Who performed the analysis?

The appraisal was performed by John P. Laurain of R. P. Laurain & Associates, Inc.

c) Provide details about the analysis and cost/benefit comparison.

The appraisal provided a valuation of \$4,290,000 for parcels 608-2 and 608-2.1.

3. How was the conveyance price, or lease/license rent, determined?

Per the Library Agreement, the conveyance price shall be the fair market value of the County's investment in the underlying parcels that form the Property. The \$4,290,000 proposed conveyance price is the appraised value of parcels 608-2 and 608-2.1, which were acquired by the County from private sellers. Since the City conveyed parcels 608-1 and 608-1.1 to the County without monetary consideration, the value of those parcels was not included in the proposed conveyance price.

a) Who performed the appraisal or market study and what certifications do they possess?

John P. Laurain of R. P. Laurain & Associates, Inc. performed the appraisal on behalf of the City. He is certified by the California Office of Real Estate Appraisers as a general real estate appraiser, a designated member of the Appraisal Institute, and a senior member of the American Society of Appraisers.

b) How does the price/rent compare with comparable properties?

The valuation of parcels 608-2 and 608-2.1 is comparable with land values in the area.

c) Does the setting of the price/rent follow industry standards and best practices?

The price was determined in accordance with the Library Agreement and the valuation follows industry standards and best practices.

e) What are the specific maintenance requirements and other costs within the agreement and who is responsible? Provide an estimate of the costs to the County/District if applicable.

The City will be responsible for the cost of title insurance. Per the proposed Lease, the County will generally be responsible for costs associated with maintaining the interior spaces of the Property and utilities and the City will generally be responsible for costs associated with maintaining the building and exterior space. The County and City will work together on a capital improvement plan that will be funded with the \$4,290,000 purchase price principal from the sale of the Property. Any amount of the capital improvement plan costs in excess of the purchase price principal will be the City's responsibility.

4. What additional post-conveyance remodeling or upgrade costs will be needed for the property to meet its intended use?

The County and City will work together to develop a capital improvement plan within two years of the commencement of the proposed Lease.

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a) Will any of the upgrades be required to meet County, ADA, or other standards and requirements?

See response to question 4.

b) Include estimates of the costs.

See response to question 4.

c) What entity will be responsible for the costs?

The County will be responsible for the capital improvement plan costs up to \$4,290,000. Any amount in excess of that will be the City's responsibility.

5. Can the County terminate the sale/easement, lease/license?

The sale of the Property cannot be terminated. The proposed Lease can be terminated by either the County or the City by providing at least 18 months written notice to the other party. However, if the majority of the purchase price principal is expended on improvements to the Property, the proposed Lease cannot be terminated for a period of 15 years after the completion of the improvements unless the County and the City agree to a reimbursement of the costs.

a) What would be necessary to terminate the agreement and when can it be terminated?

See response to question 5(a).

b) Are there penalties to terminate the sale/easement, lease/license?

See response to question 5(a).

6. What entity will be responsible for the payment(s)?

The City will be responsible for payment of the \$4,290,000 purchase price. The proposed lease will be rent-free in exchange for County providing free public library and related services to the community.

a) How will the funds received be used or applied?

The \$4,290,000 will be applied to OC Public Libraries' budget, but may be used to fund the capital improvement plan for the Property.

b) What fund number will the funds from the conveyance ultimately be deposited into?

The funds will be added to the OC Public Libraries FY2022-23 Budget, Budget Control 120.

c) If restricted funds might be created or supplemented, check with the Auditor Controller's General Accounting Unit and Counsel if you have questions about whether restricted funds are involved.)

d) If restricted funds might be created or supplemented, has County Counsel advised that the destination fund for the payment(s) is properly restricted?

Yes.

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7. Does the proposed sale/easement, lease/license agreement comply with the CEO Real Estate standard language?

The proposed purchase and sale agreement and proposed Lease contain non-standard language that have been negotiated with the City, reviewed and approved as to form by County Counsel, reviewed and approved as to content by CEO Real Estate.

- a) List any modified clauses and reasons for modification.

See response to question 7.

8. If this is a lease, is it a straight lease, an operating agreement, a lease with an option to purchase, or a capital lease (see details below)?

The proposed Lease is a straight lease.

Capital Lease Determination: At the inception of any *potential* capital lease, it is important to contact the Auditor-Controller's Capital Asset Unit for further guidance to ensure proper classification and accounting for the lease occurs. There are specialized accounting rules and required forms for capital leases. See further details in the County's Accounting Manual, Policy No. FA-1: *Accounting for Lease Purchases (Capital Leases)*, located on the intranet. For accounting purposes only, a capital lease exists if ANY one (1) of the following four (4) criteria is met:

- i) Lease transfers ownership to another party by the end of the term.
- ii) Lease contains an option for the other party to purchase the property by the end of the term for a price lower than the expected fair market value of the property? (For example \$1 or \$1,000, and based on this option price, for accounting purposes only, the ultimate purchase of the property is deemed reasonably assured at the inception of the lease.)
- iii) Lease term is equal to 75% or more of the remaining estimated useful life of the leased property.*
- iv) Present value of the minimum lease payments is equal to 90% or more of the fair value of the property at the inception of the lease.*

*Criteria iii) and iv) don't apply if the lease term begins in the last 25% of a property's estimated useful life.

To validate whether a lease is a capital lease for accounting purposes, please contact the Auditor-Controller's Capital Asset Unit at capitalassets@ac.ocgov.com.