



CITY OF SALINAS COUNCIL STAFF REPORT

DATE: OCTOBER 10, 2017

DEPARTMENT: PUBLIC WORKS

FROM: DON REYNOLDS, ASSISTANT PUBLIC WORKS DIRECTOR

TITLE: ES CARWASH #1 LEASE FOR 282 EAST ASIAL STREET

RECOMMENDED MOTION:

A motion to approve a Resolution authorizing the City Manager to execute a short-term lease with ES Carwash #1 at 282 East Alisal Street.

RECOMMENDATION:

It is recommended that the City Council approve a Resolution authorizing the City Manager to execute a lease with Dongjun Cho, owner of ES Carwash #1 for two years (plus one if necessary) while the Owner relocates his business.

EXECUTIVE SUMMARY:

Relocating ES Carwash #1 from 282 East Alisal Street will assist the City to fulfil its intentions of buying the 2-parcel, 2-acre site adjacent to the new Police Service Headquarters at the western corner of East Alisal and Murphy Street. During the recent acquisition of this property, the rights affiliated with the lease transferred from the previous owner to the City. It is proposed that the Owner continue this lease for a two-year term, while it relocates its business to a different location. The lease can be extended if necessary, but the goal is to vacate the property by the time the new Police Service Headquarters is built.

Consistent with Government Code Section 7260 and 25 California Code of Regulations Section 6000, (the "Relocation Laws") the City acting as the "Displacing Entity" must follow the requirements set forth in the Relocation Laws. The Lease therefore, also includes a negotiated cost for the business of \$700,000, and reimbursement for the negotiating expenses caused by the City to the owner not to exceed \$16,000. The Tenant is agreeing to use these funds to build a new carwash in Salinas.

BACKGROUND:

Since 2013, the City has been working towards the consolidation of various properties to secure a sight of at least 6-acres for the new Police Service Headquarters. The City has control over the former County public works yard at 312 East Alisal Street and this parcel is 4.5 acres. A second parcel of approximately 1.7 acres is adjacent to and behind 312 E Alisal Street at 7 Murphy Street.

The owner of this parcel also owned the carwash parcel at 282 E. Alisal Street. When escrow closed the last week in August 2017, the City became the owner of both parcels.

The property at 282 E Alisal Street has been owned and operated as a carwash since the mid-1960's. The previous property owner had executed a ground lease with the owner through May 31 2019, with an option to extend that lease another two five-year term to 2029. Between 2007 and 2009, the relocation of the carwash was under negotiations with the developer of the Alisal Market Place. In 2015, the owner of the carwash sold it and two other smaller car washes to his nephew Dongjun Cho for \$1 million dollars. In the spring of 2016, the City and Mr. Cho began discussing its relocation a second time. The City retained a credible appraiser in May 2016, and by September 9, 2016, had a completed appraisal but was not successful coming to agreement as to the value of the carwash with its owner. The owner felt that this carwash was worth at least \$700,000 of the \$1 million dollar price. The Owner co-mingles the revenue and expenses of the three businesses, making it difficult to determine which monies originated from the Salinas enterprise. Lacking the data to support the claimed value, the City's appraiser would not provide an opinion of value above \$300,000. At that point, the Owner retained his own appraiser who concluded that the assessed value of the business was \$829,400.

On January 30, 2017, pursuant to the requirements of the State's Relocation Law, the City sent a letter advising the Owner of their rights should the City be successful in efforts to buy the property. The City Council approved the execution of the Purchase and Sale Agreement to acquire 282 East Alisal Street on May 17, 2017.

On May 2, 2017, the City sent an offer to the carwash owner suggesting a price of \$475,000. It was the verbal opinion of the City's appraiser that he would not "pay more than \$500,000" for it. The Owner's appraiser and the City met and negotiated a price of \$700,000. The Owner also agreed to a rent increase to bring the rent closer to market value. Based on a two-year lease term, the revenues of \$96,160 will bring the net cost to the City down closer to \$500,000.

Also part of the State's Relocation Law is the cost of negotiating this price. The owner spent \$5,000 on a car-wash expert to help him negotiate the terms of the relocation, help him find a new location and to help him build his new facility. The Owner spent \$10,000 on the appraiser. These expenses are part of the City's obligation to relocate the business, and this one-time reimbursement is included in the Lease Agreement.

The property acquisition had to occur for the Police Service Headquarters to move forward. The negotiations with the property owner, rekindling conversations already ensued by the developer of the Alisal Market Place, proceeded in a manner influenced strongly by the City's ability to exercise its power of condemnation. The original owner and the new owner of the carwash were both negotiating under the same impression that the City had to buy the land and relocate the business. It is under these unique circumstances that the City had to weigh the benefits of paying the cost of a condemnation and the time it would take to resolve these matters in this manner, or decide to apply these expenses directly to the business owner within the range of its fair market value, and assist it to relocate and prosper.

CEQA CONSIDERATION:

CEQA Guidelines Section 15061 includes the general rule that CEQA applies only to activities which 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. Because the proposed action and this matter have no potential to cause any effect on the environment, or because it falls within a category of activities excluded as projects pursuant to CEQA Guidelines section 15378, this matter is not a project. Because the matter does not cause a direct or foreseeable indirect physical change on or in the environment, this matter is not a project.

STRATEGIC PLAN INITIATIVE:

The relocation of this business is an integral part of the development of the Police Service Headquarters, initiates the Council's strategy to develop the Alisal Market Place, and supports the Council's Goal moving toward Economic Diversity and Prosperity. Redevelopment of the these properties on East Alisal Street is a key strategy towards the Council's goal to have a "Safe Livable Community" and "Well Planned City and Excellent Infrastructure."

FISCAL AND SUSTAINABILITY IMPACT:

The cost of acquiring property for the Police Service Headquarters and the associated cost of relocating businesses on these properties, is paid by a State Grant of \$3.5 million dollars received in July 2016.

ATTACHMENTS:

Resolution and Lease Agreement

RESOLUTION NO. _____(NCS)

**RESOLUTION APPROVING A LEASE AGREEMENT AND
RELOCATION EXPENSES WITH DONGJUN CHO, OWNER OF ES
CARWASH #1 AT 282 EAST ASISAL STREET**

WHEREAS, the City is the owner of that real property (the “Property”) located at 282 East Alisal Street in the City of Salinas, California, County of Monterey (APN 003-041-031-000), which is more particularly shown on Exhibit A, attached hereto and incorporated herein by reference; and

WHEREAS, the City acquired the Property for future use as a public asset related to development of a Police Service Headquarters on an adjacent property; and

WHEREAS, Dongjun Cho is the business owner of ES Carwash #1 (Tenant); and

WHEREAS, the Tenant currently occupies space on the Property pursuant to a leasehold interest from which he operates a carwash and a pet wash; and

WHEREAS, the City desires to allow the Tenant to continue to occupy a portion of the Property pursuant to this Agreement for a limited time and for the sole purpose of allowing the Tenant to continue operating his carwash and pet wash; and

WHEREAS, the Tenant desires to continue operating his carwash and pet wash on the Property subject to the terms and the conditions contained of this Agreement; and

WHEREAS, the parties intend this Agreement to supersede and to replace all prior agreements, whether written or oral. Specifically, this Agreement supersedes and replaces that Commercial Lease dated June 1, 2009, and entered into by and between the former owner Dong Cho, the Uncle of Tenant from whom the Tenant purchased the Carwash in 2015, and Rita A. Muller and Kathryn M. Garcia, Executors of the Estate of John P. Muller.

WHEREAS, the City intends to develop the Property as part of its Police Service Headquarters, and this development requires the Tenant to relocate its business; and

WHEREAS, consistent with Government Code Section 7260 and 25 California Code of Regulations Section 6000, (the “Relocation Laws”) the City as displacing entity, has provided the Tenant with a general notice (Guidelines §6046) of their rights to relocation assistance from the City for relocating its business in January 30, 2017; and

WHEREAS, on May 2, 2017, after receiving and reviewing two appraisals, the City sent a letter of offer to the Tenant to buy the business, said offer was rejected, and further negotiations ensued arriving at an agreed upon value of \$700,000; and

WHEREAS, the City agrees to compensate Tenant for the negotiating expenses not to exceed \$16,000, and relocation expenses of \$700,000 so the Tenant can re-establish the business in a new location; and

WHEREAS, in exchange, the Tenant agrees to vacate the property within the terms set forth in the Lease, anticipated to be two-years and perhaps three if necessary.

NOW, THEREFORE, BE IT RESOLVED that the City Council hereby finds and determines that the above recitals and accompanying staff report are true and correct and have served as the basis, in part, for the actions of the City Council set forth below.

BE IT FURTHER RESOLVED that the City Council hereby approves Lease and directs the City Clerk to maintain on file a copy of the Lease in the form hereby approved by the City.

BE IT FURTHER RESOLVED, that the City Council hereby authorizes the City Manager to execute the Lease on behalf of the City, substantially in the form on file with the City Clerk.

BE IT FURTHER RESOLVED, that consistent with those rights afforded to business owners when the City, as displacing entity, buys a property for public use as provided within the State Relocation Law, the City Council hereby authorizes the payment of relocation negotiating expenses in an amount not to exceed \$16,000, and relocation expenses not to exceed \$700,000 to the Tenant so that it may immediately initiate the relocation of the ES Carwash #1 and vacate the Property within two years, or three years if necessary.

BE IT FURTHER RESOLVED, that the City hereby authorizes the City Manager to take such other actions and execute such other documents as are appropriate to effectuate the intent of this Resolution and the Lease.

PASSED AND ADOPTED this 10th day of October, 2017 by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

APPROVED:

Joe Gunter, Mayor

ATTEST:

Patricia Barajas, City Clerk