UFI URBAN FUTURES | Incorporated

INFORMATION SUMMARY
FOR PROPOSED
PURCHASE AND SALE AGREEMENT
WITH
JMA VILLAGE, LLC, A CALIFORNIA LIMITED LIABILITY COMPANY
(For the disposition and development of certain real property)
"33433 REPORT"

This summary was prepared for the City of Banning (the "City") pursuant to Section 33433 of the California Community Redevelopment Law (Part 1 of Division 24 of the Health and Safety Code, the "CCRL") with respect to that certain Purchase and Sale Agreement (the "PSA") between the City and JMA Village, LLC, a California Limited Liability Company (the "Developer"). On March 8, 2011, the City and the Community Redevelopment Agency of the City of Banning (the "Agency") entered into an agreement to transfer certain Agency-owned parcels to the City, subject to certain conditions (the "Transfer Agreement"). Among other matters, pursuant to the Transfer Agreement the City is required to conform with the requirements of Section 33433 of the CCRL prior to the approval of the disposition of any land that was transferred to the City pursuant to the Transfer Agreement. The PSA concerns the disposition and development of the Site (as hereinafter defined) for which some of the parcels that constitute the Site were transferred to the City by the Agency pursuant to the Transfer Agreement.

The PSA pertains to the development of an approximately 68,955 sq. ft. mixed-use multi-tenant commercial/retail project (the "Project") on an approximately 5.25-acre site bounded by the southern boundary of East Ramsey Street on the north, the southern boundary of Livingston Street on the south, the western boundary of Martin Street on the east and several "not a part" parcels on the west, which specifically includes all of APNs 541-181-009 thru 012, 541-181-024 through 028, 541-183-001 through 004 and vacated public rights-of-way as depicted on TPM # 36285 (the "Site"). The Site is located within the Downtown Redevelopment Project component area of the Merged Redevelopment Project Area. The Project is more particularly described in City Council Resolution No. 2011-44, CRA Resolution No. 2011-20, Planning Commission Resolution No. 2011-02, Design Review (DR) #10-702, TPM # 36285 and the Conditions of Approval (collectively, the "Land Use Entitlements").

1. **Cost of Project to Agency:** Over a period of several years the Agency has incurred expenses or is obligated to expend funds in the amount of approximately $3,976,623 for property acquisition, tenant relocation, demolition and/or removal of structures and improvements, soil remediation and professional studies/analyses that are directly related to Site. This amount will be offset by approximately $1,101,600 of land sale proceeds and purchase money loan interest resulting in a net cost to the Agency of approximately $2,875,023. This conclusion is based upon the following data:

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a. **Land Acquisition Cost**: The Agency's records reflect the following land acquisition costs with respect to the Site:

Address	Cost	Status
150 E. Ramsey	$1,820,544	Closed
220 E. Ramsey	75,000	Pending
280 E. Ramsey	660,000	Closed
50 S. Alessandro	601,018	Closed
TOTAL:	$3,156,562	

It is important to note that:

- 150 E. Ramsey consists of APNs 541-181-009 through 012 and 541-181-024 through 028;
- 220 E. Ramsey is APN 541-183-001;
- 280 E. Ramsey is APN 541-183-004; and
- 50 S. Alessandro consists of APNs 541-183-002 and 003.

Further, the ultimate cost of 220 E. Ramsey is subject to a superior court determination.

b. **Clearance Costs:** The Agency's records reflect the following clearance costs with respect to the Site:

Address	Cost	Status
150 E. Ramsey	$99,900	Completed
280 E. Ramsey	114,770	Completed
150, 220 & 280 E. Ramsey	210,000	Pending
TOTAL:	$424,670	

The pending costs associated with 150, 220 and 280 E. Ramsey are related to the removal of underground storage tanks and other subterranean structures. The amount shown is an estimate prepared by the City's Department of Public Works.

c. **Relocation Costs:** The Agency's records reflect the following relocation and loss of goodwill costs with respect to the Site:

Address	Cost	Status
280 E. Ramsey (L & R Auto Body)	$150,000	Moved
280 E. Ramsey (Los Bros. Tires)	53,115	Moved
TOTAL:	$203,115	

d. **Improvement Costs**: The Agency has not incurred any improvement costs.

e. **Finance Costs:** None.

f. **Other Costs:** In addition to the foregoing, the Agency has incurred the following indirect costs associated with the acquisition of the Site:

- $12,500 for professional services related to acquisition and relocation services performed by Overland Pacific Cutler (i.e., for 220 & 280 E. Ramsey Street);
- $7,500 for appraisal services performed by Saddleback Realty Analysis, Inc., DBA Integra Realty Resources – Orange and Riverside Counties (i.e., for 220 & 280 E. Ramsey Street);
- $10,000 for appraisal services performed by Villegas Appraisal Company (i.e., for 150 E. Ramsey Street and 50 Alessandro Street);
- $26,766 for Phase I and Phase II environmental analyses prepared by Geo Tek, Inc. (i.e., for 220 and 280 E. Ramsey Street);
- $2,200 for Phase I environmental analyses prepared by Terra Nova Environmental Services, LLC (i.e., for 150 E. Ramsey Street and 50 Alessandro Street);
- $7,515 for Phase II environmental analyses prepared by Geo Tek, Inc. (i.e., for 150 E. Ramsey Street and 50 Alessandro Street);
- $39,600 for real estate brokerage fees paid to NAI Capital Commercial Real Estate Services (i.e., for 280 E. Ramsey Street);
- $58,350 for an Environmental Impact Report for the demolition of the former San Gorgonio Inn building prepared by Romo Planning Group, Inc. (i.e., for the structure previously located at 150 E. Ramsey Street);
- $14,105 for an Historical Resource Evaluation Report prepared by Romo Planning Group, Inc. (i.e., for the structure previously located at 150 E. Ramsey Street);
- $2,740 for an Historical Building Research Analysis prepared by CRM TECH, Inc. (i.e., for the structure previously located at 280 E. Ramsey Street); and
- $11,000 for miscellaneous closing costs attributable to the Site (rounded).

On a combined basis, the Agency has incurred approximately $192,276-worth of indirect costs associated with the acquisition of the Site.

g. **Offsetting Revenue:** The sum of the above costs (i.e., items "a" through "f") is $3,976,623, which represents the Agency's current total investment in the Site. These costs are offset by the $1,020,000 in land sales proceeds. It is also important to note that the PSA calls for the purchase price to be financed with a purchase money loan. The maximum term on the loan is 24 months from the date escrow closes. The parties have negotiated a fair market simple interest rate of 4.00%. By way of comparison and as of the date of this report, the interest rate proposed for the Agency Loan is .75% above the Prime Rate and is equal to the SBA 504 Program rate. Given these parameters, Urban Futures, Inc. concurs that the interest rate proposed for the purchase money loan is fair and reasonable.

Pursuant to the note, any remaining principal and interest due shall be paid in a lump-sum on a date that is subsequent to the accomplishment of all the conditions precedent thereto, as defined in the PSA, or not later than 24 months from the date that escrow closes. The note allows the Developer to pre-pay any amount prior to completion of the term of the note and to receive offsetting credit (as described in Section 2, below), without penalty. Based on the proposed rate and assuming the full principal amount is outstanding, the purchase money loan will generate $3,400 of interest earnings per month during the term of the loan. If the entire purchase money loan remains outstanding for its full 24-month term, the loan will generate a total of up to $81,600 of interest earnings (assumes no partial repayment or offsetting credit).

Notwithstanding the foregoing, the PSA includes certain City-related performance responsibilities pertaining to the completion of the assembly of the Site that are prerequisite to the Developer obtaining a commercial policy of title insurance for the Site that is acceptable to its first lender. In the event that the City is unable to meet its obligations with respect to this matter within 24 months of the close of escrow on the Site, the Developer has the option of terminating the PSA, transferring the Site to the City and extinguishing the note without any obligation to pay either the principal or interest that would have otherwise been due. In addition, to the extent that the Developer has received any offsetting credit (as described in Section 2, below), the City will be required to reimburse the Developer for such expenses.

Assuming the Project proceeds in the matter contemplated in the PSA and is consistent with the assumptions noted above, the sum of the above noted sources is $1,101,600 (i.e., $1,020,000 + $81,600 = $1,101,600). Therefore, Urban Futures, Inc. projects on a net basis that the Agency's overall costs for the project will be approximately $2,875,023 (i.e., $3,976,623 - $1,101,600 = $2,875,023).

2. Estimated value of interest to be conveyed or leased, determined at highest and best use permitted by the Redevelopment Plan:

In order to determine the estimated value of the interest to be conveyed, staff engaged the services of Saddleback Realty Analysis, Inc., DBA Integra Realty Resources – Orange and Riverside Counties ("Integra"). Larry Webb, MAI and Diane Lawler, both Certified General Real Estate Appraisers, prepared the Appraisal for the Site. The Appraisal was prepared in conformance with the Uniform Standards of Professional Appraisal Practice ("USPAP"), the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute and the appraisal regulations issued in connection with the Financial Institutions Reform, Recovery and Enforcement Act ("FIRREA").

It was requested that Integra determine the most probable price for which the Site should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. The appraisal for the site is dated May 12, 2011. The date of value is May 6, 2011. The appraisal is on file with the City. Based upon the value analysis included within the appraisal and subject to the definitions, assumptions and limiting conditions expressed therein, Integra concluded that the "Fair Market" value of the Site at its highest and best use as of May 6, 2011 is $1,020,000.

It is important to state that in determining this value, the appraiser assumed that the improvements on the Site (including all structures, underground storage tanks ["UST"] and paving on APNs 541-183-001 through 004) were demolished or removed. As of the date of this report, all of the structures on the site have been removed and the paving on APNs 541-183-002 through 004 has been removed. However, due to the August 11, 2011 California Supreme Court stay on certain redevelopment agency operations, the Agency has not been able to remove the paving on APN 541-183-001 and USTs on the Site. The costs associated with the removal of these improvements are included in the amount indicated in Section 1 b., above, and are considered an Agency obligation. In order to account for these costs, the PSA includes provisions that transfers the Agency's obligation to cause the removal of these items to the Developer in exchange for the Developer receiving a dollar for dollar credit against the above described note.

The Appraiser also assumed that the Site is free from environmental contamination. With respect to this issue, Agency staff engaged the services of Geo Tek, Inc., an environmental engineer. In their Phase II Environmental Site Assessment, Geo Tek, Inc. indicated that their examination of the property did not revealed evidence of subsurface contamination resulting from the underground storage tanks, oil/water separator, or hydraulic lifts at the Site. Consequently, they did not recommend any additional investigation at this time. However, due to the numerous anomalies they detected below the surface of the Site, they recommended that their personnel be present during excavation of the USTs and Site grading activities in the event that an unforeseen environmental condition is discovered.

Therefore, pursuant to the PSA, the Developer will purchase the Site for $1,020,000 which is equal to its full fair market value.

3. **Estimated value of the interest to be conveyed or leased, determined at the use and with the conditions, covenants and development costs required by the sale or lease:**

The Project will be developed in full accordance with the Land Use Entitlements, which do not affect or cause any unusual conditions, covenants and/or development costs. Therefore, pursuant to the PSA the Developer will purchase the Site for $1,020,000 which is equal to its full fair market value.

4. **The purchase price or sum of the lease payments which the lessor will be required to pay during the term of the lease:**

Pursuant to the PSA, the Developer will purchase the Site for $1,020,000 which is equal to its full fair market value.

5. **Explanation of the reason (if applicable) why the sales price or lease rate paid to the Agency may be less than market value of the property as determined at its highest and best use:**

Not applicable. The sale price of the Agency parcels is at fair market value.

6. Explanation of why the sale or lease of the property will assist in the elimination of blight:

This PSA is part of a greater program effort designed in part to eliminate blight in the Downtown Redevelopment Project component area of the Merged Redevelopment Project Area. For multiple decades the Site has been used for a variety of multi-tenant small-scale commercial purposes. As noted in Section 1 b. funding has been allocated for clearance costs. At the time that the Agency or City acquired the parcels that make up the Site, the structures located on the Site were considered economically obsolete and exhibited severe conditions of physical degradation and dilapidation. As noted above, all of the structures previously located on the Site have been removed, which has specifically eliminated blighting conditions. Pursuant to the PSA, the Developer is obligated to remove the USTs and certain obsolete paving which will also specifically eliminate existing blighting conditions.

Section 33031 (b) of the CCRL describes economic conditions that cause blight as follows:

a. Depreciated or stagnant property values.

b. Impaired property values, due in significant part, to hazardous wastes on property where the agency may be eligible to use its authority as specified in Article 12.5 (commencing with Section 33459).

c. Abnormally high business vacancies, abnormally low lease rates, or an abnormally high number of abandoned buildings.

d. A serious lack of necessary commercial facilities that are normally found in neighborhoods, including grocery stores, drug stores, and banks and other lending institutions.

e. Serious residential overcrowding that has resulted in significant public health or safety problems. As used in this paragraph, "overcrowding" means exceeding the standard referenced in Article 5 (commencing with Section 32) of Chapter 1 of Title 25 of the California Code of Regulations.

f. An excess of bars, liquor stores, or adult-oriented businesses that has resulted in significant public health, safety, or welfare problems.

g. A high crime rate that constitutes a serious threat to the public safety and welfare.

Based on the above, the following describes the types of outcomes that could occur as a result of commercial vacancies:

i. Property values may depreciate or stagnate;

ii. Additional vacancies, degradation of lease rates and increase in abandoned buildings may occur.

iii. A serious lack of necessary commercial facilities that are normally found in neighborhoods, including grocery stores, drug stores, and banks and other lending institutions may occur.

iv. Crime rates may increase to the point of becoming a serious threat to the public safety and welfare.

Among other reasons, the Agency acquired the Site to: i) enhance the economic vitality of the commercial core of the Downtown Redevelopment Project component area of the Merged Redevelopment Project Area; ii) remove existing conditions of blight present on the Site; and iii) prevent the further spread of economic blight. The proposed PSA will facilitate these objectives through the development of an approximately 68,955 sq. ft. mixed-use multi-tenant commercial/retail project. The Project will bring new commercial buildings and tenants into the City thereby increasing the community's economic vitality and activity in general and in the downtown core area in particular. The increased level of economic activity in the Downtown Redevelopment Project component area of the Merged Redevelopment Project Area will assist in the avoidance of future commercial vacancies that may have otherwise contributed to possible conditions that would have caused blight, as described above. Further, not only will the physical aspects of the Project contribute to revitalizing the downtown core area and thus aid in reversing possible conditions that would have caused blight in the Downtown Redevelopment Project component area of the Merged Redevelopment Project Area, the Project will also add a significant number of employment opportunities to the City. As noted in the June 24, 2011 study prepared by economist Evans, Carroll & Associates, Inc., the Project has a job creation capability of approximately 480 direct, indirect and induced jobs.

7. Economic benefits of the Project:

The Project will consist of approximately 13,500 sq. ft. of multi-tenant office space, approximately 13,500 sq. ft. of multi-tenant mixed retail space, an approximately 29,955 sq. ft. office or hotel building, and an approximately 12,000 sq. ft. multi-tenant restaurant building with a mix of food types. For the purposes of this analysis, 10 years is used as the performance measurement period because it approximates the period of time that the Redevelopment Agency may collect tax increment from the original Downtown Redevelopment Project area after the Project is completed.

ANALYSIS OF ESTIMATED SALES TAX GENERATING POTENTIAL

Miscellaneous Retail

The latest information available for estimating retail store taxable sales potential (published by the Hdl Companies [FY 2009-10]) indicates that the taxable sales potential for miscellaneous retail ranges between $100 and $900 per square foot per year. The average taxable sales potential for miscellaneous retail ranges between approximately $160 and $320 per square foot per year. Since the retail users are currently unknown as of the date of this report, the average taxable sales potential is used in this analysis.

Based on this, it is possible that the taxable sales potential for the 13,500 square foot Multi-tenant mixed retail component of the Project could be between $2,160,000 and $4,320,000 per year, if fully occupied. If these sales levels are achieved, the potential sales tax revenue attributable to the City could be between $21,600 and $43,200 per year.

Restaurants

The Project will include 12,000 square feet of multi-tenant restaurant space in the fast casual and/or family dining category. The latest information available for estimating fast casual and/or family dining restaurant taxable sales potential (published by the HdI Companies [FY 2009-10]) indicates that the taxable sales potential for fast casual and/or family dining restaurant ranges between $250 and $700 per square foot per year. The average taxable sales potential for fast casual and/or family dining restaurant ranges between approximately $375 and $600 per square foot per year. Since the fast casual and/or family dining restaurant users are currently unknown at this time, the average taxable sales potential is used in this analysis. Based on this, it is possible that the taxable sales potential for the fast casual and/or family dining restaurant component of the Project could be between $4,500,000 and $7,200,000 per year. If these sales levels are achieved, the potential sales tax revenue attributable to the City could be between $45,000 and $72,000 per year.

Combined Basis

Based on the above, on a combined basis it is estimated that the retail/restaurant component of the Project could generate potential sales tax revenue attributable to the City during its first full year of operation (i.e., FY 2012-13) in the range of $66,600 and $115,200. During the first 10 years of full operations (i.e., post FY 2012-13) and assuming a 2% growth rate beginning during FY 2014-15, the Project is estimated to generate between $729,000 and $1,261,000 in total sales tax revenue (rounded). Of this amount, at least 50% is estimated to be new revenue to the City.

ANALYSIS OF ESTIMATED BUSINESS LICENSE REVENUE POTENTIAL

Based on the City's current schedule of business license fees, it is estimated that beginning during FY 2012-13 the Project will generate between $2,610 and $3,350 per year of business license fee revenue. This is estimated based on the following number of businesses and their employment levels:

Employment Range	No. of Businesses	Applicable Tax
21 to 25	2	$275.00
6 to 10	16 to 20	$110.00
0 to 5	6 to 8	$50.00

During the first 10 years of full operations (i.e., post FY 2012-13) and assuming a 2% growth rate in business license fees beginning during FY 2013-14, the Project is estimated to generate between $29,000 and $37,000 in total business license fees (rounded).

ANALYSIS OF ESTIMATED TAX INCREMENT REVENUE POTENTIAL

The Project site consists of approximately 5.25 acres of land divided among 15 separate parcels. The City and Agency do not have complete records with respect to the combined base value of the 15 parcels that comprise the Site. Consequently, it was necessary to estimate the applicable base value. Therefore, based on the data available and on information provided by City staff, UFI has estimated that the combined base value of the 15 parcels that comprise the Site is approximately $1 million. Based on UFI's experience, the assumed $1 million-worth of assessed base value is, therefore, a reasonable starting point.

The Developer has estimated that the Project's all-in development value (theoretically, the new assessed value) will be $20.5 million. The differential between the two values is $19.5 million, which represents the growth in assessed value directly attributable to the Project. The Project is anticipated to be completed during spring of 2013. However, for property tax roll purposes, the incremental value will not fully appear on the tax rolls until FY 2013-14. Therefore, for the purposes of this analysis, $9.5 million in incremental value is reflected during FY 2012-13 and $9.5 million in additional incremental value is reflected during FY 2013-14.

The combination of the LMI Housing set-aside and the tax increment pass through payments are projected to be approximately 36% of the total. Based on the foregoing, during FY 2012-13, the Project is estimated to generate approximately $62,400 in net new non-housing tax increment revenue. Beginning during FY 2013-14, the Project is estimated to generate approximately $124,800 in net new non-housing tax increment revenue. During the remaining period during which the Agency may collect tax increment from the original Downtown Redevelopment Project area (i.e., 10 years) and assuming a 2% growth rate beginning during FY 2012-13, the Project is estimated to generate a total of approximately $1.4 million of net new non-housing tax increment revenue (rounded).

SUMMARY OF ESTIMATED ECONOMIC BENEFITS:

Jobs:	**480 direct, indirect and induced jobs**
Sales Tax:	**$66,600 to $115,200 first year** **$729,000 to $1,261,000 over 10 years**
Business License:	**$2,610 to $3,350 first year** **$29,000 to $37,000 over 10 years**
Tax Increment:	**$124,800 first year after completion** **$1.4 million over 10 years**
Building Permit:	**$1,633,000-worth of permit fees are projected for the Project by the Developer (does not include TUMF)**

These additional jobs, tax revenues and permit fees will assist the City and Agency in removing blight within Downtown Redevelopment Project component area of the Merged Redevelopment Project Area as well as promoting economic development, job creation and affordable housing projects and programs.

Certification: I certify that this report complies with the reporting requirements of Section 33433 of the CCRL. Further, I do not have a present or perspective interest in the Site, the PSA or the parties to the PSA. My engagement to prepare this report was not contingent upon developing or reporting predetermined results. The statements of fact contained herein and the substance of this report are based on public records, data provided by the City or Agency, reports provided by its consultants or as otherwise noted herein. This report reflects my personal, unbiased professional analyses, opinions and conclusions. If any of the underlying assumptions related to the PSA change after the date provided below, then the undersigned reserves the professional privilege to modify the contents and/or conclusions of this report.

Respectfully Submitted,
URBAN FUTURES, INC.

STEVEN H. DUKETT
Managing Principal

Dated: December 23, 2011