

STAFF REPORT

City of Lancaster

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DATE: September 8, 2015

TO: Mayor Parris and City Council Members

FROM: Vern Lawson, Economic Development Director

SUBJECT: **Disposition and Development Agreement with the City of Lancaster, Potential Investments, LLC and Julian Bay**

Recommendations:

- a. Adopt **Resolution No. 15-51**, approving a Disposition and Development Agreement (DDA) with the City of Lancaster, Potential Investments, LLC and Julian Bay to facilitate the sale of approximately fourteen acres of City-owned property to Potential Investments for development of a brewery and authorize the City Manager or his designee to execute all related documents.
- b. Appropriate \$850,000 in Measure R Local Return Fund Balance to Capital Improvement Account No. 210-15ST057-924, Trevor Avenue Widening.

Fiscal Impact:

Potential Investments, LLC will purchase the property from the City at appraised market value, \$2.00 per square foot. The property is approximately fourteen acres, but the exact square footage is yet to be determined. The sale should result in proceeds of approximately \$1.2 Million, which will be used to replenish General Fund Balance Reserves. Sufficient funds are available in Measure R Fund Balance.

Summary:

Approval of the proposed DDA will empower Kinetic Brewing Company to write the next chapter in their remarkable home-grown success story by creating a new subsidiary, Potential Investments, which will open a large-scale production brewery in Lancaster. In return for street improvements, the community will receive new jobs, economic diversification, increased tax revenues, and a brand-new tourism destination, as well as a new shovel-ready project site poised for additional new developments.

Background:

The renaissance of downtown Lancaster has catalyzed the creation of a number of successful small businesses, founded and operated by Antelope Valley residents. In 2011, the Lancaster City Council initiated a program to assist such startups in launching their operations. Called the Downtown Commercial Property Improvement Program, it provided matching grant funding of up to \$40,000 for such activities as renovating facades and capitalizing on the BLVD's pedestrian-friendly design to build outdoor dining spaces.

Kinetic Brewing Company was among the beneficiaries of this grant program. Since opening for business in December 2011, Kinetic has taken the microbrewery world by storm. Under the leadership of co-owner Myrle McLernon and co-owner/master brewer Steve Kinsey, Kinetic has won top awards at national and international competitions such as the Great American Beer Festival, Los Angeles International Beer Competition, and Bistro Double IPA Festival. The Los Angeles Times named the microbrewery/brewpub one of "Five Standout" brewers at 2013's L.A. Beer Week, while L.A. Weekly ranked it one of the top five "Best Brewpub Happy Hours in Los Angeles" in 2014. With continuous critical acclaim and media attention, Kinetic has quickly grown from a fledgling startup to a premier microbrewery in northern Los Angeles County.

With growing notoriety has come expanded reach. Kinetic is now making four times as many barrels of its specialty microbrews as it did in its first year of operation. Currently, these brews can be found in a variety of gastropubs and microbreweries throughout Los Angeles and San Diego Counties – and demand is steadily increasing.

To satisfy this demand, Kinetic would like to expand beyond its current status as a brewpub to a large-scale production brewery. To this end they will create a new subsidiary called Potential Investments, which will develop the brewery. The City has worked with Potential to identify an ideal site, located at Avenue H and Trevor Avenue, for construction of the new facility. This approximately 14-acre site will enable them to immediately quadruple production capacity to 4,500 barrels a year, with production ramping up to 15,000 annually by its third year of operation. This exponential growth will enable the brewery to broaden distribution to counties throughout central and southern California, establishing a presence in boutique supermarkets such as Whole Foods in addition to gastropubs. Once production nears 20,000 barrels a year, it is anticipated that they will outgrow this new space and begin construction on phase two of the brewery. Phase two will double its size and capacity yet again, allowing the firm to expand distribution of its award-winning brews statewide. The facility is expected to employ approximately 100 workers at full build-out.

While Kinetic's location on the BLVD is already considered a must-visit destination for microbrew enthusiasts, the new facility will increase the company's tourism cachet still further. The brewery will feature a tasting room and outdoor space suitable for lounging and outdoor games, as well as event space capable of accommodating up to 500 people. The space is designed as an ideal venue for such events as weddings and small festivals. In a nod to the firm's sustainability initiatives, it will be irrigated with water recycled on-site from the brewing process.

The proposed site is currently owned by the City and will be purchased at a price of \$2.00 per square foot. The eastern portion of the property, which fronts on Trevor Avenue, is currently part of a parcel owned by private property owner Julian Bay. Thus, the City-owned parcel is currently landlocked, rendering it unusable without the subdivision and sale of the pertinent portion of Mr. Bay's property. Additionally, in order to develop the project site, Trevor Avenue must be improved.

Approval of the proposed DDA will enable the City to provide an incentive for the development of the brewery in the form of street improvements on Trevor Avenue. Mr. Bay has agreed to the subdivision of his property to align with the street. Following this subdivision, Mr. Bay will give the portion of his property needed for Potential Investment's development to the City, who will in turn sell it to Potential Investments for development along with the City's existing parcel.

The Trevor Avenue street improvements, which will be funded by increasing funds in the Capital Improvement Program, are essential to development of the Potential Investment project site and the associated community benefits in terms of job creation and revenue generation. These improvements will also further the City's efforts to establish an optimal street network for this vital industrial corridor. Finally, this effort will mold Mr. Bay's property into a fully improved site that is primed for still more job-creating development.

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Attachments:

Resolution No. 15-51

Disposition and Development Agreement