



Board Agenda Item: IV E: Action Item

Date: April 7, 2022

To: Magnolia Public Schools (“**MPS**”) Board of Directors (“**MPS Board**”)

From: Alfredo Rubalcava, Chief Executive Officer and Superintendent
Patrick Ontiveros, General Counsel & Director of Facilities
Mustafa Sahin, Project Manager

RE: Approval of Exercise of Option to Extend Due Diligence Contingency Period for Purchase of 18242 Sherman Way

I. Proposed Motion/Recommendation(s)

Staff recommends and moves that the Board approve (1) the exercise by MPS of its option under that certain purchase and sale agreement signed by MPS dated as of January 13, 2022 for the purchase of the property located at 18242 Sherman Way (the “**Property**”) to extend its contingency/due diligence period for one (1) thirty (30) day period from April 28, 2022 to May 30, 2022, and in conjunction therewith, (2) the release by MPS of Ten Thousand Dollars (\$10,000.00) from the escrow established for the aforementioned transaction as consideration for the exercise of the extension option, and (3) the execution by the MPS CEO and Superintendent, or his designees, of such documents and instruments as may be necessary to undertake and complete the foregoing actions.

II. Background

At its November 18, 2021 meeting, the MPS Board approved MPS signing a purchase and sale agreement for the purchase of the Property and making a good faith, refundable, escrow deposit of Fifty Thousand Dollars (\$50,000). Portions of the “Background” section of the November 18th report is excerpted below.

*MPS, for the benefit of Magnolia Science Academy –1 (“**MSA-1**”), leases the property located at 18220 and 18238 Sherman Way from MPM Sherman Way LLC, a California limited liability company and wholly owned subsidiary of Magnolia Properties Management, Inc., a California non-profit public benefit corporation and 501(c)(3) tax exempt organization. MSA-1 operates a middle school and high school on the leased premises. ...*

The Property at 18242-1844 Sherman Way is immediately adjacent to the MSA-1 premises on the westerly side of the premises. ... It consists of a 7,729 square foot building, which fronts Sherman Way, and a surface parking lot of approximately 17,140 square feet. The Property is presently leased to another tenant and must delivered free of all tenancies by the close of escrow.



MPS's real estate broker, InSite EFS, Inc., negotiated an offer for the purchase of the Property. The Owner has tentatively agreed to sell the Property to MPS or its assignee subject to the signing of a formal purchase and sale agreement, which is the subject of this report and the recommendation stated herein. The terms agreed upon by the parties include the following:

Price	\$4,000,000
Free Look/Due Diligence Period	90 Days with option to extend by 30 days for \$10,000
Good Faith Deposit	\$50,000
Closing Period	30 days. Owner has the option to extend for an additional 120 days in order to vacate tenant.

During the due diligence period, MPS or its assignee, will review the condition of the existing building and surface parking lot and determine whether there are any hurdles to the development of the property for MSA-1's use within its budget. In addition, MPS will seek the approval of its authorizer, the Los Angeles County Office of Education, for the proposed transaction. Before the end of the due diligence period, MPS has the option to cancel the transaction and will receive a full refund of its good faith deposit.

...

The location of the Property is shown on **Exhibit A**. Escrow for the purchase and sale of the Property was opened on January 28, 2022. Since such time, MPS Staff has been engaged in due diligence activities including commissioning multiple studies: a phase I environmental site assessment, an ALTA and topographic survey, an appraisal, and a zoning/entitlements survey. A soils study and asbestos and lead based paint study are in process.

MPS hired an architect, Berliner Architects, to produce a master plan for the surface parking lot area combining MPS's parking lots and the parking lot to be acquired with the purchase of the Property. MPS intends to build a CIF gym, create open space, and create sufficient parking spaces. A schematic of one scheme is shown on **Exhibit B**.

MPS Staff is working with its financial advisor, John Buck, to arrange financing for the purchase and development of the Property. Finally, MPS Staff has advised MSA-1's charter authorizer, the Los Angeles County Office of Education ("**LACOE**"), of its desire to purchase and develop the Property and is seeking its authorization to do so.

MPS is awaiting a term sheet from a potential lender. Following receipt of the term sheet, MPS will require LACOE to authorize the transaction. Accordingly, MPS requires additional time to confirm its financing and acquire LACOE's approval. By exercising its option to extend the due diligence period, MPS will be putting an \$10,000 at risk and not its entire \$50,000 good faith deposit. In other words, if MPS releases the \$10,000 and decides that it will proceed with the acquisition then the \$10,000 will be applied to the purchase price. In the event that within the extension period MPS determines that it will not proceed with the Project it will be refunded Forty Thousand Dollars (\$40,000), that is \$50,000 less \$10,000.



III. Conclusion / Budget Impact

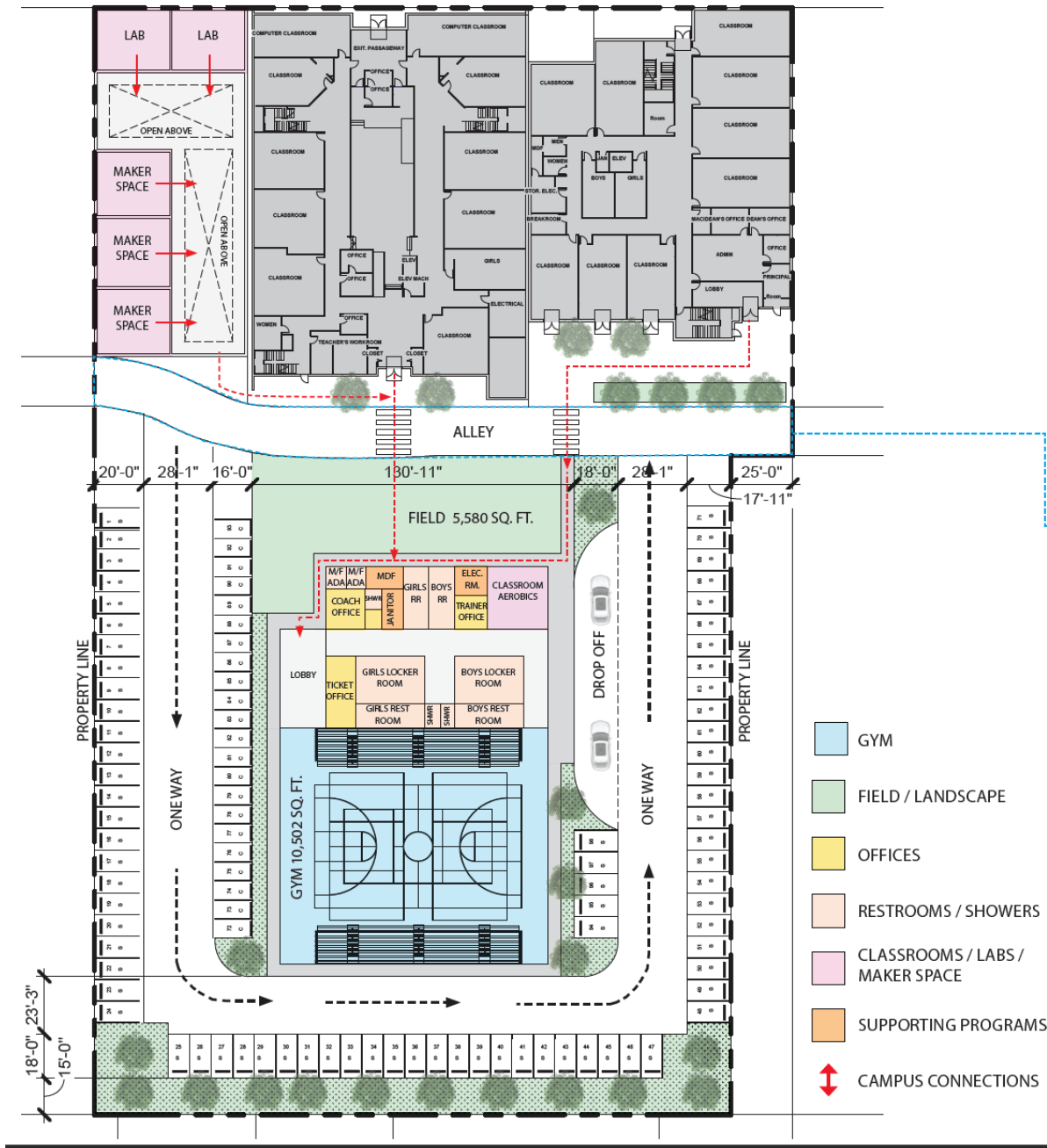
MPS would like to acquire or lease the Property for the benefit of MSA-1 to create additional space for MSA-1 among other things to create more recreational space. MPS is currently working with its financial advisor to secure financing for the Project. The budget impact to MSA-1 is unknown and depends on a multitude of factors including how much equity (i.e., cash) MSA—1 can invest in the Project and financing terms. Staff will keep the Facilities Committee and the Board apprised of the status of the Project, including the status of financing and approval from LACOE. It will seek Committee and Board approval prior to the end of the extended due diligence period in order either to move forward with the transaction and allow its good faith deposit to become non-refundable or to terminate the project and not move forward. The budgetary impact of \$10,000 will be incorporated into the MSA 1 operating budget.



Exhibit A

EXHIBIT B

MASTER PLAN CONCEPT



A

MAGNOLIA SCIENCE ACADEMY 1 - TEST FIT

SUBJECT PHOTOGRAPHS



Subject front



Subject rear