



Board Agenda Item: IV A: Action Item

Date: May 12, 2022

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

From: MPS Audit/Facilities Committee
Patrick Ontiveros, General Counsel & Director of Facilities
Mustafa Sahin, Project Manager

RE: Approval of Exercise of Third Option to Extend Due Diligence Contingency
Period for Purchase of 7111 Winnetka Avenue

I. Proposed Motion/Recommendation(s)

Previously presented to the MPS Audit/
Facilities Committee on May 5, 2022

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 December 15, 2021 for the purchase of the property located at 7111 Winnetka Ave. (the “**Property**”) to extend its contingency/due diligence period for one (1) additional thirty (30) day period from April 23, 2022 to June 22, 2022, and in conjunction therewith,
- (2) the release by MPS of Twenty Five Thousand Dollars (\$25,000.00) 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 December 19, 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 Two Hundred Thousand Dollars (\$200,000). Portions of the “Background” section of the December 19th report is excerpted below.

*For the 2021-22 school year, Magnolia Science Academy—5 (“**MSA—5**”) is co-located with Magnolia Science Academy—1 (“**MSA-1**”) at the property located at 18220 and 18238 Sherman Way in Reseda. MPS elected to co-locate MSA—5 with MSA—1 when the Los Angeles Unified School District (“**LAUSD**”) made MSA—5 an offer of space at Chatsworth High School in lieu of Reseda*



High School, where it has been located for several years. MSA—5 subleases space from MSA—1. MSA—1 leases such property 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.... MPS desires to re-locate MSA—5 to its own private campus at the Property which is within close proximity to MSA—5’s original location at Reseda High School....

The Property at 7111 Winnetka Ave ... consists of a 21,849 square foot building on land that is approximately 75,794 square feet. The Property is presently leased to multiple tenants 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	\$9,450,000,000
Free Look/Due Diligence Period	90 Days with option to extend for three 30 day periods for the following consideration: First 30 day Extension = \$15,000 Second 30 day Extension = \$20,000 Third 30 day Extension = \$25,000
Good Faith Deposit	\$200,000, increased to \$350,000 by the end of the Due Diligence Period as such may be extended by Buyer.
Closing Period	30 days. Owner has the option to extend the closing for up to six (6) consecutive 30 day periods for the purpose of removing any tenants.

During the due diligence period, MPS or its assignee, will review the condition of the existing building and land to determine whether there are any hurdles to the development of the property for MSA-5’s use and whether it is affordable. 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.

To date MPS, has exercised its first and second options to extend the contingency period. At its March 8, 2022 meeting the Board approved the exercise of the first option and the release of \$15,000 from escrow. At its April 7, 2022 meeting the Board approved the exercise of the first option and the release of \$20,000 from escrow.

Escrow for the purchase and sale of the Property was opened on December 22, 2021. 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



Staff has worked with Pacific Charter School Development (“**PCSD**”), an architect, and a general contractor to evaluate and price out various design concepts that could be adapted for the Property. MPS Staff has determined that it only will proceed with the project if it will be a new construction project. MPS Staff does not believe that a tenant improvement project would yield the best facilities for MPS and MSA—5.

MPS Staff has advised MSA-5’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 received a term sheet from CLI Capital on April 8, 2022. MPS, with its legal counsel at Musick Peeler & Garrett LLP and its financial adviser John Buck, reviewed and commented on the term sheet. MPS received a revised term sheet on April 28, 2022. MPS Staff is preparing revised projections for review by LACOE and expects to deliver such projections by no later than Friday, May 6th. Accordingly, MPS requires additional time to acquire LACOE’s approval. By exercising its option to extend the due diligence period, MPS will be putting an additional \$25,000 at risk (it already released \$15,000 by exercising its first option and \$20,000 by exercising its second option) and not its entire \$200,000 good faith deposit. In other words, if MPS spends the \$25,000 and decides that it will proceed with the acquisition then the \$25,000 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 One Hundred Forty Thousand Dollars (\$140,000), that is \$200,000 less \$15,000 (first option exercise), less \$20,000 (second option exercise) and less \$25,000 .

III. Conclusion / Budget Impact

MPS would like to acquire or lease the Property for the benefit of MSA-5 to allow MSA-5 to relocate from the MSA-1 campus to its own private facility. MPS is currently working with its financial advisor to secure financing for the Project. It has received a term sheet from CLI Capital. MPS was working with PCSD to see if they are able to either acquire, develop and lease the Property or provide subordinate debt that will allow a subsidiary of Magnolia Properties Management Inc. to acquire the Property. On April 22, 2022, PCSD informed MPS that it would not be able to provide subordinate financing. CLI Capital subsequently agreed to fill the gap and provide 100% financing.

The budget impact to MSA-5 of the purchase transaction is unknown and depends on a multitude of factors including how much equity (i.e., cash) MSA—5 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 third 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 spend additional funds to exercise another option to extend the due diligence period. The budgetary impact of \$25,000 will be incorporated into the MSA 5 operating budget.