

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Date: *September 19, 2005*

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Council File No. 01-2069-S1

Council District: 8 ✓

To: The Mayor  
The Council

From: William T Fujioka, City Administrative Officer *WTF by mf*

Reference: Community Development Department Transmittal Dated August 25, 2005 and Community Redevelopment Agency Transmittal Dated September 1, 2005; Received by the City Administrative Officer on September 16 and September 2, 2005 respectively; Additional Information received by the City Administrative Officer on September 15, 2005

Subject: **AUTHORIZATION TO NEGOTIATE AND EXECUTE AN ECONOMIC DEVELOPMENT INITIATIVE GRANT AGREEMENT BETWEEN THE COMMUNITY DEVELOPMENT DEPARTMENT AND THE LOS ANGELES COMMUNITY REDEVELOPMENT AGENCY FOR THE MARLTON SQUARE PROJECT**

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### SUMMARY

The Community Development Department (CDD) and the Community Redevelopment Agency (Agency) by separate reports request approval to negotiate and execute an Economic Development Initiative (EDI) Cooperation Agreement between the CDD and the Agency to transfer \$998,287 of the total \$1.5 million in EDI Grant funds to the Agency. Subsequent to the release of the CDD and the Agency transmittals, the departments verbally amended their transmittals and requested approval to transfer the entire \$1.5 million in EDI Grant funds to the Agency because the U.S. Department of Housing and Urban Development (HUD) originally approved the grant funds with the requirement that the entire \$1.5 million go to the Agency for the Marlton Square (Marlton Square) project. The funds will be used to reimburse the Agency for HUD eligible expenses, such as land acquisition costs and relocation expenses associated with the retail component of Marlton Square. The CDD must draw down the funds from HUD by September 30, 2005 (Disbursement Deadline) and disburse the funds within three days thereafter to avert the loss of the funds. If these actions are not taken, the grant funds will no longer be available to the project.

HUD requires that the companion \$9.0 million Section 108 Loan funds be drawn down in order for the City to request the EDI Grant funds. However, the CDD states that HUD has agreed to allow the City to draw down \$1,000 of the Section 108 Loan funds by the HUD Disbursement Deadline with the remaining amount to be drawn down within the next 12 months. The loan will have a 20-year term with interest only payments for a 2.5-year period and principal and interest payments for a 17.5-year period. Upon the EDI Grant draw down, HUD will bill the City for the interest only payments

associated with the amount of the Section 108 Loan drawn down. The City will in turn bill the Agency for the cost of issuance and loan fees (\$501,713) and the HUD Section 108 Loan interest only payments. The Agency will use the \$1.5 million in EDI Grant funds to repay the City. Since the Agency did not expect to receive reimbursement for these expenses, the use of the grant funds will not create a shortfall of funds for the project or any other Agency work program objective.

Marlton Square will be comprised of the following four components and associated parking: 1) single family detached homes (140 units); 2) retail (119,000 sq. ft.); 3) condominiums (150 units); and, 4) affordable senior housing (180 units). The project is bordered by Martin Luther King Jr. Boulevard, Marlton Avenue, Santa Rosalia Drive and Buckingham Road within the Amended Crenshaw Redevelopment Project Area. The project will provide approximately 330 permanent jobs as well as employ another 200 people during construction.

**Project Financing**

In October and November 2004 respectively, the Council and the Mayor approved three Implementation Agreements, subject to certain modifications to be made prior to execution, for ownership arrangements between three different entities for the development of three of the four phases of the project (C.F. 01-2069-S3). The three development entities include Santa Rosalia Homes, LLC (Single Family Developer), the Lee Group, Inc. (Condominium Developer) and LNR Marlton Square Associates, LLC (Retail Developer). The actions included, among other approvals, authority for the CDD to negotiate and execute agreements with the Marlton Square Associates, LLC (Master Developer). The Agency states that the modifications were made and incorporated into the Implementation Agreements as ratified by the Agency on April 21, 2005. The affordable senior housing component was previously approved by the Council and is proceeding under a separate agreement (C.F. 01-2069-S2).

Project financing is estimated at \$183.3 million with a funding gap of \$43.0 million. The funding gap will be closed with up to \$38.1 million in previously approved public contributions (\$31.4 million from the City and \$6.7 million from the Agency) and \$4.9 million (net bond proceeds) from a proposed creation of a Mello-Roos Public Facilities District. Of the \$31.4 million in previously approved public contributions, the Council approved \$8.5 million in Home Investment Partnership Program funds for the affordable senior housing component. For the single family and retail components, the remaining \$22.9 million in City funds will be as follows:

<b>Funds</b>	<b>Amount</b>
Section 108 Loan Guarantee	\$15,175,000
EDI	2,000,000
Brownfields Economic Development Initiative (BEDI)	2,000,000
Community Development Block Grant (CDBG)	2,700,000
Mayor's Urban Development Action Grant	1,000,000
<b>Total</b>	<b><u>\$22,875,000</u></b>

The CDD will provide two Section 108 Loans in an amount not to exceed \$15.2 million (\$9.0 million and \$6.2 million) for acquisition costs for the project. Each of the EDI and BEDI Grant funds has a companion Section 108 Loan, which have HUD Disbursement Deadline dates. They are as follows:

- The \$2 million EDI Grant has a companion \$9.0 million Section 108 Loan. In November 1998, HUD originally awarded the City a \$1.5 million EDI Grant (Disbursement Deadline is September 30, 2005). In July 2002, HUD earmarked an additional \$0.5 million EDI Grant for a total of \$2 million (Disbursement Deadline for the additional \$0.5 million EDI Grant is September 30, 2006); and,
- The \$2 million BEDI Grant has a companion \$6.2 million Section 108 Loan, which was awarded by HUD to the City in November 2002. These funds have a Disbursement Deadline of September 30, 2008.

### EDI Grant funds

The \$1.5 million EDI Grant was originally approved by HUD to be used as reimbursement to the Master Developer land acquisition and related costs for the retail component. The terms of the Retail Implementation Agreement (RIA) require that the Master Developer attain certain milestones as a condition of receiving any funds, including the grant funds, allocated for the retail component. The CDD and the Agency state that the Master Developer will not attain these milestones in time for CDD to meet the September 30, 2005 HUD Disbursement Deadline. After the deadline, the funds would be forfeited and unavailable to assist the proposed project, as required by the RIA between the Agency and the Master Developer.

In order to draw down the \$1.5 million EDI Grant, CDD must draw down the companion \$9.0 million Section 108 Loan for Marlton Square (\$1,000 by the Disbursement Deadline with the remaining amount to be drawn down within the next 12 months). The City will bill the Agency for the cost of issuance and its fees (estimated at \$501,713) and the interest only payments for the Section 108 Loan. The interest rate will be variable and is tied to London InterBank Offered Rate (estimated at 3.8 percent). The interest only payments for the \$1,000 in Section 108 Loan funds will begin upon the disbursement date (September 30, 2005). For the entire \$9.0 million Section 108 Loan, the annual interest payments will be approximately \$347,000. The CDD states that HUD has already approved this process.

The \$1.5 million EDI Grant funds will be used as follows:

<b>Cost Description</b>	<b>Amount</b>
Land Appraisal Fees	\$188,000
Acquisition/Relocation Plan/Services	150,000
Application/Legal & Related Fees	644,472
Agency Staff Costs	<u>517,528</u>
<b>Total</b>	<b><u>\$1,500,000</u></b>

The Agency will use the \$1.5 million in EDI Grant funds for the Section 108 Loan cost of issuance and CDD loan fees (\$501,713) and the HUD interest only payments. The City will in turn bill the Agency on a periodic basis. The CDD will disburse into its Union Bank Account the \$501,713 to cover the Section 108 Loan cost of issuance and CDD loan fees.

The repayment of the entire \$15.2 million in HUD Section 108 Loan funds for the project is an obligation of the City. The recommended funds for the Section 108 debt service payments are in compliance with the City Financial Policies in that total debt service payments will require \$24.8 million in principal and interest, which will be comprised of \$5.2 million in City site specific tax revenues (49 percent of site specific tax revenue generated by the project) and \$19.6 million in future CDBG expenditures over 17.5 years (approximately \$1.1 million annually). The Council and the Mayor have previously approved these repayment sources for the project (C.F. 01-2069-S3).

We concur with the CDD and the Agency recommendations to negotiate and execute an Agreement between the CDD and the Agency to transfer \$1.5 million in EDI Grant funds to the Agency to reimburse the Agency for HUD eligible expenses, such as land acquisition costs and relocation expenses associated with the retail component of Marlton Square.

## **RECOMMENDATIONS**

That the Council, subject to the approval of the Mayor:

1. Authorize the General Manager of Community Development Department (CDD) and the Community Redevelopment Agency (Agency) Acting Chief Executive Officer (CEO), Chief Financial Officer, Finance Director, or designees, to negotiate and execute an Agreement and all other related agreements between the CDD and the Agency to transfer \$1.5 million in Economic Development Initiative (EDI) Grant funds from the CDD and for the Agency to receive the \$1.5 million in EDI Grant funds as reimbursement for land acquisition, relocation and related costs associated with the retail component of the Marlton Square project, subject to the review and approval of the City Attorney as to form;
2. Authorize the Agency Acting CEO, or designee, to reimburse the City for: a) periodic interest only payments associated with an amount up to the total of \$9.0 million in U.S. Department of Housing and Urban Development (HUD) Section 108 Loan Guarantee funds; and, b) CDD loan fees and HUD cost of issuance associated with the Marlton Square project (the CDD will provide evidence of such payments to the Agency for the reimbursement to the City);
3. Authorize the Agency Acting CEO, Chief Financial Officer, Finance Director, or designees, to pay the interest only payments, CDD loan fees and HUD cost of issuance associated with the Section 108 Loan;
4. Authorize the Agency Acting CEO, or designee, to take all actions necessary, including amending the Fiscal Year 2005-06 Agency Budget and Work Program, to carry out the recommendations listed in this report;

5. Authorize the Controller to expend funds from Fund No. 47F, CDD Economic Development Projects, Account No. W201, Marlton Square upon proper demand of the General Manager CDD, or designee;
6. Authorize the General Manager CDD, or designee, to prepare Controller instructions and/or make any technical adjustments that may be required and are consistent with this action, subject to the approval of the City Administrative Officer, and instruct the Controller to implement these instructions; and,
7. Authorize the General Manger CDD, or designee, to amend the appropriate Consolidated Plan, as needed, to reflect that the EDI Grant funds are in conformance with the recommendations contained in the report and the HUD requirements and to submit the amended Consolidated Plan(s) to the Mayor and Council for review and approval, subject to the review and approval of the City Attorney as to form.

#### **FISCAL IMPACT STATEMENT**

There is no impact on the City General Fund. The \$9.0 million Section 108 Loan Guarantee and the \$1.5 million Economic Development Initiative Grant funds were previously approved as gap financing for the proposed Marlton Square Project. The recommended funds for the Section 108 debt service payments is in compliance with the City Financial Policies in that 49 percent of City site specific tax revenue generated by the project and future Community Development Block Grant expenditures (approximately \$1.1 million annually for 17.5-year period) will be used to pay the debt service. In addition, the Community Redevelopment Agency will use the \$1.5 million in EDI Grant funds for the interest only payments, the loan fees and the cost of issuance associated with the Section 108 Loan.

*WTF:LJS:02060038c*