

CITY OF LOS ANGELES  
CALIFORNIA



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06-1608

CD 14

December 29, 2006

Councilmember Huizar  
City Administrative Officer  
Chief Legislative Analyst

Department of Building and Safety  
Department of General Services  
Bureau of Engineering

RE: ACQUISITION OF THE CHICAGO PLAZA BUILDING, LOCATED AT 2130 EAST FIRST STREET, FOR THE BOYLE HEIGHTS NEIGHBORHOOD CITY HALL

At the meeting of the Council held December 20, 2006, the following action was taken:

Attached report adopted.....	_____
Attached amending motion (Huizar - Parks) adopted.....	_____ X _____
Attached resolution adopted.....	_____
FORTHWITH.....	_____ X _____
Mayor concurred .....	_____
To the Mayor FORTHWITH .....	_____
Motion adopted to approve communication recommendation(s).....	_____
Motion adopted to approve committee report recommendation(s), as amended.....	_____ X _____
Ordinance adopted.....	_____
Ordinance number.....	_____
Generally exempt.....	_____

City Clerk  
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TO THE COUNCIL OF THE  
CITY OF LOS ANGELES

Your **BUDGET AND FINANCE** Committee

reports as follows:

Public Comments: Yes No  
X     

CATEGORICAL EXEMPTION and BUDGET AND FINANCE COMMITTEE REPORT relative to acquisition of the Chicago Plaza Building, located at 2130 E. First Street, for the Boyle Heights Neighborhood City Hall.

Recommendations for Council action:

1. INSTRUCT the Department of Building and Safety to complete the final seismic inspection on the Chicago Plaza Building and advise the Department of General Services (DGS) of the status and sign-off.
2. INSTRUCT the DGS to work with the Department of Building and Safety and the Bureau of Engineering to report back to the Budget and Finance Committee on January 8, 2006, with cost estimates on the following:
  - a. relocation of the current tenants; estimates should include relocation during renovation, and permanent relocation costs
  - b. bringing the building into compliance with the City Building Code
  - c. costs to perform immediate repairs required for the building
  - d. any necessary seismic retrofit
3. INSTRUCT the DGS to keep escrow active until all cost estimates are provided to Budget and Finance Committee, and a final approval provided by City Council and the Mayor.
4. FIND that the acquisition and tenant improvements for the Boyle Heights Neighborhood City Hall is categorically exempt under from the California Environmental Quality Act (CEQA) of 1970, pursuant to Article 111, Section 1 of the City's CEQA guidelines.
5. APPROVE the acquisition of property located at 2130 E. First Street for the price of \$6,350,000 to house the Boyle Heights Neighborhood City Hall building and AUTHORIZE the DGS to process all necessary paperwork to purchase the property.
6. INSTRUCT the Bureau of Engineering to ensure that the building will be rehabilitated and restored in a manner consistent with the Secretary of the Interior's Standards for the Treatment of Historic Properties with Guidelines for Preserving, Rehabilitating, Restoring and Reconstructing Historic Buildings, since the building has been found to be eligible for State and National historical resource designation.
7. AUTHORIZE the DGS to report back to the Municipal Facilities Committee (MFC) on interim leases and relocation agreements with the current tenants of the building.
8. INSTRUCT the Bureau of Engineering and the DGS to report to the MFC on a quarterly basis on the progress of this project.

9. INSTRUCT the City Administrative Officer (CAO), with the DGS and the Chief Legislative Analyst, to report back to the Budget and Finance Committee on January 8, 2006 relative to the following:
- a. a final stacking plan for tenancy at the Boyle Heights Neighborhood City Hall
  - b. that the previously approved Municipal Improvement Corporation of Los Angeles (MICLA) financing for this project is determined to be \$11 million of taxable monies
  - c. an additional allocation of \$1,425,000 of taxable MICLA monies for this project to provide sufficient funds for tenant improvements at this facility

Fiscal Impact Statement: The CAO reports that acquisition of the property located at 2130 E. First Street using taxable MICLA debt raises significant policy concerns. The cost to acquire the property "as-is" is \$6.35 million. Additionally, the City would incur costs to relocate existing tenants (currently estimated at \$750,000), and to perform tenant improvements and repairs to address code violations identified by Building and Safety (currently estimated at \$6.5 million), resulting in a total project cost of \$13.6 million. The City would also incur costs annually for maintenance, custodial and utility services. For 2006-07, \$407,022 has been budgeted in the Unappropriated Balance.

Currently, \$1,175,000 is available in CDBG funds to finance eligible costs associated with this transaction. Addition Block Grant monies of up to \$5,175,000 would fully finance the acquisition costs of the building. However, pending a determination of eligibility, the actual amount of that funding cannot be determined, leaving a potential gap of up to \$5,175,000, which might result in a General Fund cost. Should the City issue up to \$12.5 million in taxable MICLA debt, the annual debt service paid by the General Fund would be \$927,000 for 30 years, for a total General Fund cost of \$27,810,000.

(Information Technology and General Services Committee waived consideration of the above matter)

#### SUMMARY

At its meeting of December 18, 2006, the Budget and Finance Committee considered DGS and CAO reports relative to acquisition of the Chicago Plaza Building, located at 2130 East 1st Street, for the Boyle Heights Neighborhood City Hall. In a report dated June 29, 2006, the DGS requests to purchase the property for the sum of \$6,350,000 on an "as-is" basis. The building on the property presently houses Council District 14 Field Office, Community Development Department's (CDD) Youth and Family Center, and several other commercial and non-profit tenants; additionally, the Community Redevelopment Agency (CRA) would like to lease space in the building. An estimate of \$13.5 million would cover the "as-is" purchase price, a relocation budget of \$750,000, and \$6.5 million for tenant improvements and repairs to address numerous code violations identified by the Department of Building and Safety. Once acquired and renovated, the building would be used as a constituent service center.

DGS reports that a total of \$12,175,000 is available for this project as follows: funds totaling \$1.175 million were approved in August 2003 from the proceeds of the sale of the Produce market located in Council District 14 for the purchase of the Boyle Heights Constituent Service Center; \$1 million in MICLA funds were approved in the 2004-05 Budget; \$6 million in MICLA funds were approved in the 2004-05 second financial status report; and \$4 million in MICLA funds were approved for this project in the 2006-07 Budget. Because of the age of the building and areas of deferred maintenance, the property will require substantial repairs and renovations. The cost of these improvements as well as tenant improvements is estimated to cost \$6,500,000. Additionally, the DGS representative stated his belief that funding has not been identified for design development or to renovate, restore, and seismically retrofit a historically significant building. During the Committee's discussion, DGS reported that preliminary plans and construction documents have not yet been prepared, therefore DGS is unsure if the \$6.5 million that has been identified for building repairs and tenant improvements is sufficient.

The CAO reports that subsequent to release of DGS's June 29, 2006 report, various questions have arisen about the ultimate use of the facility, the corresponding impact on the acquisition financing, and other related policy matters. During consideration of this matter by the Information Technology and General Services (ITGS) Committee, question arose about the use of MICLA monies for a building occupied predominantly by community-based organizations (CBOs). The purpose of MICLA is to provide financing, repaid by the General Fund with interest, to support the governmental activities and functions of the City. After raising the questions, the ITGS Committee forwarded the matter to the Budget and Finance Committee for its consideration and recommendation.

In response to concerns about this building serving a governmental purpose, and in an effort to support the use of tax-exempt financing, the Council office developed a list of potential tenants to be located in the Chicago Building. The CAO report, attached to the Council file, contains a chart prepared by the DGS to provide a context for consideration of this proposed stack plan and purchase of the building. The CAO notes however, that several questions have arisen: (1) the building contains 30,520 rentable square feet of space. It is unclear that the various departments identified in the proposed stack plan have requested to be located in this building, or have committed to being located in the building; (2) parking needs associated with the staff that would move to this building do not appear to be identified; (3) the operations are not addressed in a way that would allow for a determination as to whether the funds identified for tenant improvements would be sufficient; (4) whether the assignment of staff at a location removed from department management raises management issues. The CAO reports that prior to approval of this or any stack plan, not only would these questions need to be addressed, but also the need to transfer staff from other facilities (CalTrans building, Animal Services South LA Annex, among others) should be explained along with the use of space at vacated facilities. A stack plan should address which suites would be occupied by specific entities so that the appropriate review and analysis of tenant improvement costs can occur. The space assignments have not yet been done. The CAO states that in the absence of an approved stack plan that allocates specific space to specific City department occupants, it is not possible to conclusively determine that the building use serves a governmental purpose and that either tax-exempt or taxable MICLA funding is appropriate. The CAO additionally reports that at a time when the City faces severe threats to its revenue stream and is considering potentially dramatic reductions to address a possible loss of both telephone users' tax funds and the Department of Water and Power water transfer, it is unclear that increased MICLA debt service is the most prudent use of General Fund monies.

The CAO raises additional policy concerns in its report but states that ultimately the decision to acquire this building is a policy decision to be made by the Mayor and the Council. The CAO states that given the current financial circumstances and uncertainties facing the City, it is difficult to recommend acquiring a building with significant costs and without a clearly established governmental need. The CAO cannot recommend the use of MICLA funds to acquire and renovate this building. However, should a decision be made to acquire the building, and incur the costs associated with refurbishing it and making the necessary code improvements, the CAO would recommend that CDBG funds be re-programmed for the acquisition to the extent that such use is eligible and such funds are available, and that only the acquisition costs be covered at this time. CDBG funds of \$1,175,000 are currently available for this purpose, leaving a balance of \$5,175,000 needed to finance the acquisition.

During the Committee's discussion, Councilmember Huizar reported that his staff had been working with a number of City departments to generate interest and involvement in being located at the building, and that there is an appropriate balance between City and non-City services. Mr. Huizar stated there will be an approximate ratio of 78 percent City use to 22 percent non-profit use, which he believes will resolve questions concerning MICLA funding eligibility. The Councilmember additionally reported that there are more non-profit organizations interested in being located at the facility than there is space available. The CAO stated that to the extent there are more CBOs in the building, non-General Fund monies such as CBDG funds can be used for tenant improvements that will be required. The CAO further stated that given the uncertainty resulting from the lack of a finalized tenant occupancy or stacking plan, the default position is to use taxable debt, which is more expensive than tax exempt debt.

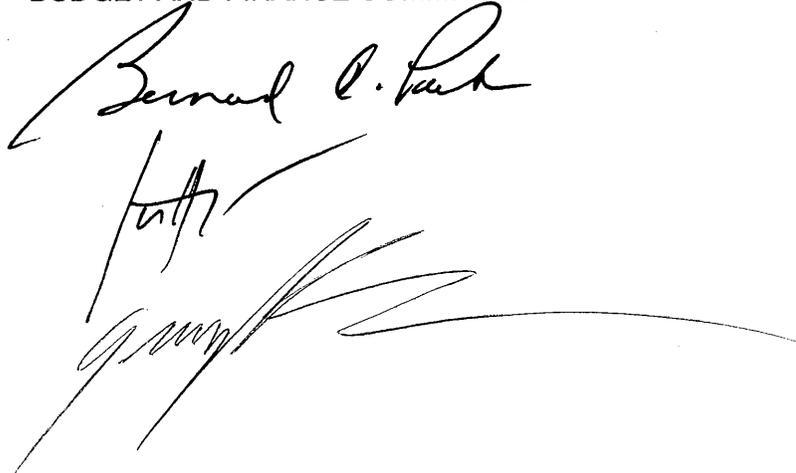
The Chief Legislative Analyst (CLA) reported to the Committee that since approximately 2003, funds have been set aside to establish this facility, and that during the Hahn administration both the Mayor and the Council expressed a strong policy desire to bring City services closer to the public. The CLA recommended to the Committee to move forward with the property acquisition, stating that there are concerns that need to be addressed relative to the stacking plan and the method of financing the project. The CLA additionally reported that the building owner has been working with the City for two years and has stated that he wants the building purchased or he wants to put it on the market.

The Committee expressed an interest, particularly relative to MICLA financing, to see a policy come forward from the CAO that the Council can adopt, that includes criteria for prioritization of projects for MICLA funding as well as other debt financing vehicles.

At its meeting of December 18, 2006, the Budget and Finance Committee recommended to approve the acquisition of the Chicago Plaza Building, located at 2130 E. First Street, for the Boyle Heights Neighborhood City Hall. The Committee recommended approval of the DGS recommendations 1,2,5,6 and 7 of the DGS report dated June 29, 2006, relative to acquisition of the building, and requested that the CAO, with the DGS and the CLA, report back to the Committee on January 8, 2006 relative to a final stacking plan, DGS report recommendations three and four concerning the financing structure, and various cost estimates. Additionally, the Committee recommended that the Department of Building and Safety be instructed to complete the final seismic inspection of the building and advise the DGS of the status and final sign-off. The Committees recommendations are reflected in this Committee report. This matter is now forwarded to the Council for its consideration.

Respectfully submitted,

BUDGET AND FINANCE COMMITTEE



<u>MEMBER</u>	<u>VOTE</u>
PARKS:	YES
GREUEL:	YES
SMITH:	YES
ROSENDAHL:	YES
HUIZAR:	YES

LB  
#061608a  
12/18/06  
CD 14

**ADOPTED**  
MOTION ADOPTED TO APPROVE COMMITTEE REPORT RECOMMENDATIONS, AS AMENDED  
DEC 20 2006

**LOS ANGELES CITY COUNCIL**

*See ATTACHED motion*

**FORTHWITH**

**MOTION**

Today's Council Agenda contains a proposal to authorize staff to proceed with acquisition and development of a Neighborhood City Hall in Boyle Heights (Item #39). The recommendations on file instruct staff to revise cost estimates for bringing the building into compliance with the City's Building Code, including any necessary seismic work, and further instruct staff to present a 'stacking plan' for the building's final occupancy. The latter will affect the type of financing that may be used to purchase and build out the facility.

So that the City Council will have the most accurate information available when considering the project's final budget, City staff should use the approved stack plan to develop final construction documents and a "Class A" estimate of the total cost of tenant improvements. This information will also allow City staff to identify the appropriate sources and types of financing for the project.

I THEREFORE MOVE that Item #39 on the Wednesday, December 20, 2006 City Council Agenda be amended to add the following recommendations:

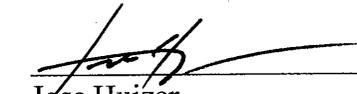
- 10. AUTHORIZE AND INSTRUCT the Bureau of Engineering and the General Services Department to proceed with the development of construction documents based on the approved 'stack plan' and report to the City Council with a Class A estimate of the total project costs.
- 11. INSTRUCT the CAO to use the Class A estimate to develop and present to the City Council a final financing plan to cover the total cost of purchasing and developing a Neighborhood City Hall at this location.

*Amending motion*  
**ADOPTED**  
DEC 20 2006

**LOS ANGELES CITY COUNCIL**

DEC 20 2006

**FORTHWITH**

PRESENTED BY:   
Jose Huizar  
Councilmember, 14<sup>th</sup> District

SECONDED BY: 