

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: December 15, 2006

CAO File No.
Council File No.
Council District: 14

To: The Mayor
The City Council

From: Karen L. Sisson, Acting City Administrative Officer



Reference:

Subject: Proposed Acquisition of the Chicago Building

SUMMARY

On June 29, 2006, the Municipal Facilities Committee (MFC) considered various recommendations to enable the City to proceed with the acquisition of the building at 2130 E. First Street, at the corner of First and Chicago Streets, known as the Chicago Building, in Council District 14. Once acquired, this building would be renovated and then used as a constituent services center. The estimated cost of \$13.6 million would cover the "as-is" purchase price of \$6.35 million, a relocation budget of \$750,000, and \$6.5 million for tenant improvements and repairs to address numerous code violations identified by Building and Safety. This cost would be split between Community Development Block Grant (CDBG) monies (\$1,175,000) and MICLA funds (\$12.425 million, of which \$11.0 million was previously authorized by various actions of the Mayor and Council). This funding does not include about \$400,000 provided in the 2006-07 Adopted Budget Unappropriated Balance for building maintenance, custodial, and utility services for this building.

Specifically, the report contained the following recommendations for Mayor and Council action:

- Find that the acquisition of the building and tenant improvements are exempt from CEQA;
- Approve the acquisition of this property for the price of \$6,350,000;
- Find that previously approved MICLA financing for this project of \$11 million is determined to be taxable debt;
- Approve an additional allocation of \$1,425,000 of taxable MICLA monies for the tenant improvements;
- Instruct BOE to ensure that the building is rehabilitated and restored in a manner consistent with State and National guidelines for historic preservation;
- Authorize GSD to report to MFC on interim leases and relocation agreements; and
- Instruct BOE and GSD to report to MFC on a quarterly basis on the project.

In June 2006, the proposed financing was based on the current use of the building, which consisted of a mix of tenants and available space, as follows:

- City entities, particularly the Council Office and the Community Development Block Grant-funded Youth and Family Services program, occupying 6,058 square feet (20 percent of the building);
- "As-needed" 6,076 square feet auditorium (20 percent of the building);
- Non-profit organizations occupying 9,713 square feet (31.9 percent of the building);
- Commercial tenants occupying 4,156 square feet (13.6 percent of the building); and
- Vacant space of 4,517 square feet (14.5 percent of the building).

Subsequent to the release of that report, various questions have arisen about the ultimate use of the facility, the corresponding impact on the acquisition financing, and other related policy matters. When the matter was initially considered by the Information, Technology and General Services (ITGS) Committee, a question arose about the use of MICLA monies for a building occupied predominantly by community-based organizations (CBOs). Specifically, the question arose in conjunction with a similar building already owned by the City, in a different Council district, also occupied predominantly by non-City agencies, requiring significant repairs, and for which the use of MICLA funds was not recommended, since it was outside the scope of the purpose of MICLA. 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 held the matter and then forwarded it to the Budget and Finance Committee.

In response to the 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. Attached is a chart that has been prepared by the General Services Department to provide a context for consideration of this proposed stack plan and purchase of the building. However, it raises several questions. The building contains 30,520 rentable square feet of space. It is unclear that the various departments have requested to be located in this building, or have committed to being located in this building. Parking needs associated with the staff that would move to this building do not appear to be identified. 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. It is also unclear whether the assignment of staff at a location removed from department management raises management issues. Prior to the 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. Finally, 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.

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 Mayor and Council have been asked to find that \$12.4 million in MICLA funds should be issued as taxable debt. The use of taxable debt results in a higher cost to the City. The estimated debt service on this issuance would

be close to \$1.0 million per year for 30 years. 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 DWP water transfer, it is unclear that increased MICLA debt service is the most prudent use of General Fund monies. While the amount of taxable funding needed may not be this high, the analysis required to determine the actual amount has not occurred, and cannot occur until the use and occupancy of the building is approved.

As noted in the attached chronology (Attachment 2), funding has been provided over a period of years, in an incremental manner. Consequently, there appears to have been no discussion by the Council and Mayor of the fundamental policy considerations presented by this acquisition. For example, this building represents the third "neighborhood city hall" for Council District 14. The City has a small Municipal Building in Eagle Rock, which houses Council District 14 staff, four or five Building and Safety Department Inspectors, and staff from the Bureau of Street Services. The City is also building a "joint use" facility in conjunction with the Barrio Action Youth and Family Center to serve as a constituent services center in El Sereno, and to house Council District staff operations. While a government presence in several locations throughout the district may be desirable, it has not been determined that three in one district are warranted. A decentralized approach to governmental operations should be evaluated from a departmental management and operational perspective, in addition to addressing the service needs of the community.

Additional policy considerations and questions should be addressed:

- The guidelines for establishing neighborhood city halls, approved by the Council, indicate that the first step should be to define the community's needs by seeking their input to determine what services are needed in the community. Once the needs are identified, the services to be provided can be defined and a funding source(s) approved. It is not clear that this community's needs have been determined and would, therefore, be met by the current proposal. Consequently, should the Mayor and Council decide to acquire this property, it may be prudent to authorize only the funding for the purchase and postpone a determination of repairs and improvements to be made.
- Should the City acquire or construct buildings primarily for use by CBOs or departmental field operations that do not currently exist at the same time we have limited funds to meet the City's highest priority needs and face significant revenue issues in the coming year? The effort to identify governmental uses for this building is rather recent. Other Council offices have expressed interest in having facilities to house CBOs.
- To the extent that this building is occupied by CBOs, it is unclear that the City is using MICLA funding in the manner in which it is intended. The policy question of using the City's debt financing program ("MICLA funds") to acquire and repair a building that does not appear to be required to serve a governmental purpose has not been addressed. Also, many City departments have significant facility needs, for new, expanded or renovated facilities. Should existing City department needs be given a higher priority than CBOs or the creation of new departmental field offices?

- BOE has estimated the cost of repairs to bring the building in compliance with building codes is \$1.8 million. It is unclear that it would be prudent to acquire a building that requires such extensive improvements.
- It should also be noted that the most recent, Class "A" appraisal of this building, which takes into account the lack of code compliance, is \$5.737 million, while the "as-is" purchase price is \$6.35 million. Should taxpayer dollars be used to offer a higher than appraised price?
- Acquisition and occupancy of this building create an on-going maintenance and service need for the City's General Services Department at a not insignificant expense or cost. That Department must also use its limited budget to maintain more than 300 City government buildings throughout the City, including the Lincoln Heights Jail, which is an example of an existing City facility in need of significant repairs. Should existing City facilities be given higher priority for scarce maintenance dollars?
- In the past, the rental cost for the Chicago Building has been paid using Block Grant monies. Should the purchase cost now be shifted to the General Fund and how does that expenditure compare to the City's other high-priority needs?

Ultimately, the decision to acquire this building is a policy decision to be made by the Mayor and Council. 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. This Office cannot, in any event, 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, we would recommend that Community Development Block Grant 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.

It should be noted that the Municipal Facilities Committee considered this matter on December 14, 2006, and voted two-to-one to recommend moving forward with the acquisition, and requested staff to return to the Committee in 14 to 21 days with additional information on the tenants to be located in the building and the corresponding funding sources for the acquisition.

CONCLUSION

While the fundamental policy issues and concerns outlined above do not appear to support the acquisition of the property at this time, should the Mayor and Council approve the acquisition of the property located at 2130 E. First Street for the price of \$6,350,000, the following actions would be necessary to implement that decision:

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

1. Find that the acquisition and tenant improvements for the Boyle Heights Neighborhood City Hall is exempt under City CEQA Guidelines, Article 111, Section 1 and State CEQA Guidelines Section 15300 et seq.
2. Authorize the Department of General Services to process all necessary documents to purchase the property.
3. Instruct the CAO to
 - a. Work with the Community Development Department, CLA, and the Office of the Mayor to identify and maximize the use of up to \$6,350,000 in Community Development Block Grant funds to acquire this property, to the extent eligible, and
 - b. Report to the Mayor and Council on any remaining funding gap and potential funding sources.
4. Consistent with the previously adopted Neighborhood City Hall policy, instruct the Department of General Services to work with the Council office to determine the community's needs and to report to the Municipal Facilities Committee with a proposed occupancy plan to meet those needs, consistent with the funding sources used to acquire the building.
5. Instruct the Department of General Services and Bureau of Engineering to report to the Municipal Facilities Committee with relocation agreements for the current tenants and a schedule and recommendations, including proposed funding, to bring the building into compliance with the code and perform immediate repairs required at the building.
6. Authorize the City Administrative Officer to make any technical corrections as needed to implement the intent of the Mayor and Council.

FISCAL IMPACT STATEMENT

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 Community Development Block Grant funds to finance eligible costs associated with this transaction. Additional 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 \$12.4 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.

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Attachments

Proposed Chicago Building Stack Plan

Proposed City Tenants	Number of Staff	Proposed Square Ft Allocation	Percent of Gross Sq Ft	Percent of RSF	Current Location	Annual Rent Income/ Savings
Aging Department	4 - 6	1750	5	5.7	NA – proposed as a new service	NA
Animal Services CSC	22 (15 field workers)	1750	5	5.7	South LA Annex	NA
LADBS Construction Inspection/Code Inspectors	6-8	1750	5	5.7	4815 Valley Blvd, LA	\$15,433
Housing Department	4-6	1250	3.6	4.1	NA	NA
Planning	20	4250	12.1	13.9	City Hall	NA
DOT Sub District Central Office	8	3000	8.6	9.8	100 S. Main Street, 1 st Floor	NA
DOT Transit Store & Citations Payment Counter	4	1250	3.6	4.1	NA – proposed as a new service	NA
CRA	3	1000	2.9	3.3		NA
Neighborhood Prosecutor Program/Central	3-4	1150	3.3	3.8	Hollenbeck Police Station	NA
TOTALS	74 - 81	17,150	49	56.2		\$15,433
Existing City Tenants	Number of Staff	Proposed Square Ft Allocation	Percent of Gross Sq Ft	Percent of RSF	Current Location	Annual Rent Income/Savings
CD# 14 Field Office	8 - 10	2250	6.4	7.4	Chicago Building	NA
Auditorium/ Shared Conference Room		3000	8.6	9.8	Chicago Building	NA
TOTALS CITY TENANTS (NEW & EXISTING)	82 - 91	22,400	64	73.4		
Existing Non-City Tenants	Number of Staff	Proposed Square Ft Allocation	Percent of Gross Sq Ft	Percent of RSF	Current Location	Annual Rent Income/Savings
CDD YFC Program (CDBG eligible)		3250	9.3	10.6	Chicago Building	NA
El Centro de Ayuda Corporation		3250	9.3	10.6	Chicago Building	\$57,240 @ \$1.59/sf
TOTALS NON CITY TENANTS		6,500	18.6	21.2		\$57,240

The following chronology outlines previous actions by the Mayor and Council to make funding available for constituent service facilities in Council District 14:

June, 2002 – Mayor and Council approve the transfer of \$1.4 million from the Ascot Park account in the Capital Improvement Expenditure Program (CIEP) to a new account called the El Sereno Constituent Service Center (CSC). In addition, \$3 million in Municipal Improvement Corporation of Los Angeles (MICLA) funding was identified to acquire and initiate design for a Constituent Service Center in Council District 14.

May, 2004 – Mayor and Council authorize \$1.175 in UDAG funds from the sale of the Produce Market to leverage current funds available for the purchase of the Boyle Heights Constituent Service Center in CD 14 (C.F. 04-0820). The motion does not identify the current funds being leveraged.

In June, 2004, since a site for the Constituent Service Center in El Sereno was not yet identified, the Mayor and Council approved a project that would combine this Constituent Service Center with the Barrio Action Youth and Family Center. This project consists of one floor to be occupied by the Council office, LAPD and other groups as yet undetermined, and the second and third floors are to be occupied by Barrio Action for community services. The Barrio Action portion of the project is funded by various grants, including City Proposition K.

July 1, 2004 - the Adopted Budget provides \$1.0 million in MICLA funds for a Constituent Services Center for CD 14. The budget does not identify the location or total cost of the Center. It states: "Funding is provided to complete construction of a constituent service center in Council District 14."

November, 2004 - Mayor and Council authorized an additional \$6.0 million in MICLA funds for land acquisition for the Boyle Heights Neighborhood City Hall/Constituent Services Center. At that time, the CAO was instructed to report back with a total estimated budget for the municipal facility construction project(s) identified as part of that action, including previous funding by funding source, recommended new funding by funding source, and any additional funding requirements.

February, 2005 – Mayor and Council approve Guidelines for Establishing Neighborhood City Halls (C.F. 02-1521).

July 1, 2006 - the Adopted Budget provides \$4.0 million in MICLA funds to perform tenant improvements to the Boyle Heights Neighborhood City Hall/Constituent Service Center building after purchase, in anticipation of acquisition occurring in 2006. It states: "Upon acquisition, GSD will perform code-related repairs with previously budgeted funds. In addition, tenant improvements will be required." At the time the budget was proposed (April, 2006), the total cost of the project was estimated at \$12,175,000.

Subsequent to the budget proposal, and prior to July 1, 2006, the cost estimate increased to \$13.6 million. The additional funds are currently pending approval by the Mayor and Council.