

**REPORT OF THE
CHIEF LEGISLATIVE ANALYST**

DATE: December 8, 2014

TO: Honorable Members of the Economic Development Committee

FROM: Sharon M. Tso *SMT* Council File No: 14-0120 ✓
Chief Legislative Analyst Assignment No: 14-12-0854

SUBJECT: Hollywood & Highland Project – Urban Development Action Grant

SUMMARY

On January 28, 2014, the Council adopted a Motion (C.F. 14-0120; Attachment A) that, among various actions, instructed the Chief Legislative Analyst (CLA) to seek authorization to enter into an Assignment and Assumption Agreement with CRA/LA, A Designated Local Authority (CRA/LA-DLA) and successor entity to the former Community Redevelopment Agency of the City of Los Angeles (Former CRA) for the receipt and administration of future Community Improvement Fees received by the CRA/LA-DLA from the Developer of the Hollywood and Highland Project (Project). The Community Improvement Fees are used to repay an outstanding United States Department of Housing and Urban Development Urban Development Action Grant (UDAG) the City provided to the Former CRA in 2002 to assist in the development of the Project.

The Assignment and Assumption Agreement would eliminate the need for the CRA/LA-DLA to continue collecting the payments from the developer and placing the payments on a Recognized Payment Obligation Schedule (ROPS) for review and approval from State Department of Finance (DOF), and if approved by DOF, submit the collected funds to the City. The Assignment and Assumption Agreement would allow the Community Improvement Fees to flow directly from the Developer to the City without involvement from the CRA/LA and DOF. The funds would be placed in a special fund to be used on Community Development Block Grant (CDBG) eligible projects in the Hollywood Redevelopment Project Area in accordance with the original terms of the Cooperation Agreement between the City and Former CRA. The Motion identified above appropriated \$1.5 million of Community Improvement Fees that will go towards the UDAG loan repayment forthcoming from the CRA/LA-DLA to be used on the rehabilitation and construction of The Center at Blessed Sacrament in Hollywood. The Center at Blessed Sacrament provides low-income and homeless persons with social services to improve their quality of life.

BACKGROUND

In 1999, the Former CRA entered into a Disposition and Development Agreement (DDA) with TrizecHahn Hollywood, LLC (Developer) for development of the Hollywood and Highland Project consisting of a live broadcast theater with approximately 3,000 seats, a mixed-use entertainment/retail center, restaurants, nightclubs, public parking, and renovation of the then Holiday Inn and now Loews Hollywood Hotel. The Project was completed in 2001.

On January 30, 2002, the City and Former CRA entered into a Cooperation Agreement (Agreement; City Contract C502351 and C109558) to implement the United States Department of Housing and Urban Development's Urban Development Action Grant Agreement with the former Community Development Department. The Agreement provided \$4,250,000 in UDAG funds (UDAG Loan) for the development of the live broadcast theater component of the Project. The Former CRA executed a Promissory Note (Note)

in favor of the City, requiring the Note to bear simple interest at 5.5 percent per year and included the following twenty year repayment schedule:

- Years 1 through 5 - \$250,000 per year
- Years 6 through 10 - \$500,000 per year
- Years 11 through 15 - \$750,000 per year
- Years 16 through 20 - \$1,000,000 per year

The total repayment amount of the UDAG Loan is \$12,500,000.

On March 3, 2006, the City and Former CRA entered into a First Amendment to the Agreement that allowed the Former CRA to make payments on the UDAG Loan from the Community Improvement Fee received by the Former CRA from the Developer of the Project (TrizecHahn Hollywood, LLC) per the Disposition and Development Agreement (DDA) dated February 10, 1999. As per Section 3.8 of the Agreement, once the Former CRA made the required annual payment, the City would grant the Former CRA an amount equal to the annual payment on the UDAG Loan to be used towards community and economic development activities which are in accordance with Federal regulations governing the use of UDAG program income. The Community Improvement Fee may be used on Community Development Block Grant (CDBG) eligible projects in the Hollywood Redevelopment Project area and work program.

On February 1, 2012, the California Assembly Bill (AB) 1x26 dissolved all redevelopment agencies in California. In July 2012, CRA/LA, a Designated Local Authority (CRA/LA-DLA) was created as the successor agency to the Former CRA and now administers the obligations of the Former CRA but is not authorized to engage in any new development activity. The Recognized Obligation Payment Schedule (ROPS) 13-14B authorized the CRA/LA-DLA to provide the City with \$1.5 million in Community Improvement Fees received from the Project as repayment of the UDAG Loan. The CRA/LA-DLA has obtained authorization to enter into an Assignment and Assumption Agreement that would provide the City with direct receipt and administration of future Community Improvement Fees/UDAG Loan repayments. Upon entering into the Assignment and Assumption Agreement, the Developer would be required to directly remit annual payments specified in the DDA directly to the City. The City would assume all of the CRA/LA-DLA's rights, titles, and interests to the Community Improvement Fees as referenced in the DDA.

According to the CRA/LA-DLA, approximately \$8,000,000 remains to be paid by the Developer pursuant to the DDA. The recommended actions contained in the report will allow future payments to flow directly from the Developer to the City without needing to engage the CRA/LA-DLA and DOF in an approval process. In exchange for assignment of the Community Improvement Fees, the CRA/LA-DLA is requesting termination of the UDAG Loan Note that will release them of all future liability. Based on information gathered thus far by CLA staff, it is believed that termination of the Note does not have an adverse impact on the City's obligations with HUD, but the authorization to enter into the Assignment and Assumption Agreement would be contingent upon EWDD confirming in writing that termination of the Note is allowable under HUD regulations and does not have an adverse impact on the City.

Upon the City's receipt of the Community Improvement Fees from the Developer, the Community Improvement Fees would be placed into a special fund to be created and designated for CDBG eligible projects in the Hollywood Redevelopment Project Area as originally intended by the Agreement.

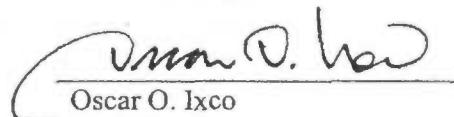
FISCAL IMPACT

The recommended actions will result in the City's receipt of up to \$8 million in future years that will be held in a special fund to be used for purposes as indicated in the original Agreement between the City and Former CRA (Contract C502351 and C109558).

RECOMMENDATIONS

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

1. AUTHORIZE the Economic and Workforce Development Department (EWDD) with the assistance of legal counsel to negotiate and execute an Assignment and Assumption Agreement with CRA/LA-DLA for the receipt and administration of future Community Improvement Fees from the Hollywood and Highland Project in accordance with Section 807 of the Disposition and Development Agreement dated February 10, 1999, between the former Community Redevelopment Agency of the City of Los Angeles (Former CRA) and TrizecHahn Hollywood, LLC (Original Developer) to continue satisfying repayment of an Urban Development Action Grant (UDAG Loan) provided by the City to the Former CRA in the amount of \$4,250,000 to assist in the development of the Project;
2. INSTRUCT EWDD prior to the execution of the Assignment and Assumption Agreement to confirm with HUD in writing that termination of the Promissory Note in the amount of \$4,250,000 related to the UDAG Loan does not violate any United States Department of Housing and Urban Development regulations and if so, AUTHORIZE EWDD to terminate the Promissory Note held by CRA/LA-DLA;
3. INSTRUCT EWDD prior to the execution of the Assignment and Assumption Agreement to obtain from CRA/LA-DLA an accounting report of all UDAG Loan payments made related to the Hollywood and Highland Project including sources and uses of the UDAG Loan payments and a schedule of future payments to be received in Community Improvement Fees;
4. INSTRUCT the City Attorney to prepare and present an ordinance creating a special fund to deposit and administer the Community Improvement Fees received from the Hollywood and Highland Project for CDBG eligible projects in the Hollywood Redevelopment Project Area to be administered by EWDD; and
5. INSTRUCT EWDD to prepare any Controller instructions necessary to effectuate the intent of this action and AUTHORIZE the Controller to implement said instructions subject to CLA approval.


Oscar O. Ixco
Analyst

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ECONOMIC DEVELOPMENT

On January 30, 2002, the City of Los Angeles and former Community Redevelopment Agency of the City of Los Angeles (CRA/LA) entered into a Cooperation Agreement (Agreement; City Contract No. 502351) to implement the United States Department of Housing and Urban Development's Urban Development Action Grant (UDAG) Agreement with the former Community Development Department. The Agreement provided \$4,250,000 in UDAG funds (UDAG Loan) for the development of a live broadcast theater as part of the Hollywood and Highland Project (Project). The UDAG Loan has a twenty year term and repayment schedule. As per Section 3.8 of the Agreement, the City would grant the former CRA/LA an amount equal to the annual payment on the UDAG Loan to be used for community and economic development activities which are in accordance with Federal regulations governing the use of UDAG program income.

On March 3, 2006, the City and former CRA/LA entered into a First Amendment to the Agreement that allowed the CRA/LA to make payments on the UDAG Loan from the Community Improvement Fee received from the Disposition and Development Agreement dated February 10, 1999 between the former CRA/LA and TrizecHahn Hollywood LLC (Developer). As per the amendment, the Community Improvement Fee may be used on Community Development Block Grant (CDBG) eligible projects in the Hollywood Redevelopment Project area and work program.

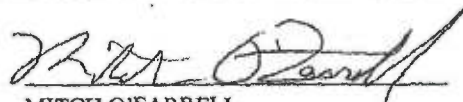
On February 1, 2012, the California Assembly Bill (AB) 1x26 dissolved all redevelopment agencies in California. In July 2012, CRA/LA, a Designated Local Authority (CRA/LA-DLA) was created as the successor agency to the former CRA/LA and now administers the obligations of the former CRA/LA but is not authorized to engage in any new development activity. The current Recognized Obligation Payment Schedule (ROPS) 13-14B authorizes the CRA/LA-DLA to provide the City with \$1.5 million in Community Improvement Fee received from the Project as repayment of the UDAG Loan. The CRA/LA-DLA is in the process of seeking authorization to enter into an Assignment and Assumption Agreement that would provide the City with direct receipt and administration of future Community Improvement Fees/UDAG Loan repayments.

Prior to the dissolution of redevelopment, former CRA/LA staff were working to allocate \$1.5 million in Community Improvement Fees/UDAG Loan repayment to assist Social Services at Blessed Sacrament, Inc. in the rehabilitation and construction of The Center at Blessed Sacrament (The Center). The Center provides low-income and homeless persons with social services to improve their quality of life. The Center's renovation project remains in need of the financial assistance the former CRA/LA could no longer provide.

I THEREFORE MOVE that the City Council;

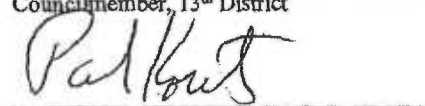
- 1) Instruct the Chief Legislative Analyst (CLA) and City Administrative Officer (CAO) to work with the CRA/LA-DLA to transmit the \$1.5 million in Community Improvement Fee/UDAG Loan repayment funds from ROPS 13-14B to the City for use in the Hollywood Redevelopment Project Area;
- 2) Authorize the Economic and Workforce Development Department (EWDD) to negotiate and execute an agreement with Social Services at Blessed Sacrament, Inc. in an amount not to exceed \$1.5 million for the purpose of assisting in the rehabilitation and construction of The Center at Blessed Sacrament, subject to approval of the City Attorney as to form and legality, and instruct EWDD to prepare the necessary Controller's instructions, with concurrence of the CAO, to meet the intent of this motion, and instruct the Controller to implement these instructions; and
- 3) Instruct the CLA to report on the status of, and seek authorization to enter into, an Assignment and Assumption Agreement for the receipt and administration of future Community Improvement Fees/UDAG Loan repayment from the Hollywood and Highland Project and any other actions as required.

PRESENTED BY:



MITCH O'FARRELL
Councilmember, 13th District

SECONDED BY:





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