

TRANSMITTAL

To:
THE COUNCIL

Date: 4/2/19

From:
THE MAYOR

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.

A handwritten signature in blue ink, appearing to be 'Eric Garceiti', is written over the printed name.

(Ana Guerrero) for

ERIC GARCEITI
Mayor

CITY OF LOS ANGELES

CALIFORNIA

JOHN L. REAMER, JR.
INTERIM GENERAL MANAGER

ECONOMIC AND WORKFORCE
DEVELOPMENT DEPARTMENT



1200 W. 7TH STREET
LOS ANGELES, CA 90017

ERIC GARCETTI
MAYOR

April 1, 2019

Council File: 14-0425-S9
Council District No: 8
Contact Person: Samuel Hughes
Contact Phone: (213) 744-9723

The Honorable Eric Garcetti
Mayor, City of Los Angeles
Room 303, City Hall

Attention: Mandy Morales, Legislative Coordinator

REQUEST AUTHORIZATION TO PREPARE AND EXECUTE AN EXCLUSIVE NEGOTIATING AGREEMENT WITH BETHUNE HOTEL VENTURES, LLC FOR THE CITY-OPTIONED PROPERTY LOCATED AT 3685 S. VERMONT AVENUE

The Interim General Manager of the Economic and Workforce Development Department, or designee, respectfully requests that your office review this transmittal and forward to the City Council for further consideration.

RECOMMENDATIONS

The Interim General Manager of the Economic and Workforce Development Department ("EWDD" or "City"), or designee, respectfully requests that the City Council, subject to the approval of the Mayor as required:

1. AUTHORIZE the Interim General Manager of the Economic and Workforce Development Department (EWDD), or designee, to prepare and execute an Exclusive Negotiating Agreement (ENA) with Bethune Hotel Ventures, LLC (the "Buyer" or also known as "Orion Capital, LLC" or "Orion") to construct a hospitality project, and effectuate the purchase and sale of 3685 S. Vermont Avenue, Los Angeles, CA, 90007, Los Angeles County Assessor's Parcel Number (APN) 5040-030-905 (the "Property");
2. REQUEST the City Attorney to prepare a Purchase and Sale Agreement, and related documents to effectuate the City's purchase of the Property from CRA/LA, a Designated Local Authority (CRA/LA) for the fair market value as

determined by the methods described within the Option Agreement C-125175 (“Option Agreement”);

3. REQUEST the City Attorney to prepare and present a Development and Disposition Agreement, a Grant Deed, Covenant Agreement, and Sale Ordinance to effectuate the City’s sale of the Property to Buyer under the terms to be negotiated and for the fair market value as determined by the methods described within the Option Agreement;
4. AUTHORIZE the Interim General Manager of EWDD, or designee, with the assistance of the Chief Legislative Analyst (CLA) and City Administrative Officer (CAO) to prepare any additional documents necessary to effectuate the purchase and sale of the Property; and
5. AUTHORIZE the Interim General Manager of EWDD, or designee, to make technical corrections or adjustments that may be required and are consistent with this action, subject to the approval of the CAO.

SUMMARY

On December 22, 2014, the City Council authorized the Mayor to enter into Option Agreements to purchase ten (10) properties from CRA/LA, the successor agency to the former Redevelopment Agency of the City of Los Angeles (C.F. 14-0425). The City Council also authorized the EWDD and the Los Angeles Housing and Community Investment Department (HCID), with the assistance of other City departments, to determine the City’s best use of the ten (10) CRA/LA properties for economic development and/or affordable housing purposes and solicit development proposals. The Property is one of the ten (10) properties.

The Property is currently owned by CRA/LA and is categorized as a Future Development Property in CRA/LA’s Long Range Property Management Plan. Through the term of the Option Agreement, the City has the right to acquire the Property for the appraised fair market value as defined in Section 12.b. of the Option Agreement (“Fair Market Value”), as well as the right to solicit, and sell the Property to a buyer that will use the Property consistent with the provisions of the Redevelopment Plan, the Five Year Implementation Plan, and the Community Plan for the Project Area.

The recommendations in this report are for the authorization to prepare and execute an ENA with Orion, and to instruct City Attorney to prepare other transactional documents for the City to enable the acquisition of Property from CRA/LA and its subsequent sale to the Buyer, as required under the Option Agreement. Future approvals by the City Council and the Mayor will be required to authorize the execution of such other transactional documents and adoption of the Sale Ordinance.

FISCAL IMPACT STATEMENT

The proposed actions regarding the purchase and sale of the Property have no impact on the General Fund. As an Affected Taxing Entity under the Dissolution Statute, the

City will receive into its General Fund a portion of the sales proceeds as property tax income upon the future sale of the Property.

BACKGROUND

In March 2013, the City Council and the Mayor requested that CRA/LA include the Property as a Future Development property on the CRA/LA Long Range Property Management Plan (C.F. 14-0425). By doing so and entering into an Option Agreement for the Property, the City ensured the disposition of the Property would provide ongoing community benefits, rather than being sold at auction to the highest bidder, as otherwise required in the State Dissolution statutes.

On January 12, 2015, the City Council authorized the Mayor to execute the Option Agreement for the Property and authorized the EWDD to identify development opportunities and solicit development proposals.

RFP Process

On January 3, 2019, EWDD released a RFP for the Property seeking creative development proposals which would capitalize on a set of preferred uses and contribute to long-term economic growth in the area. While there is no preferred community request for a particular development program, the key uses contemplated in the RFP included community serving commercial use targeting hospitality with ground floor commercial retail or small open space. The RFP notice was posted to the Los Angeles Business Assistance Virtual Network (BAVN), the EWDD website, and with the assistance of CAO e-blasted to the development firms who are on the CAO Asset Management list of real estate database, to ensure the broadest reach possible. In response to the RFP, EWDD received four (4) valid proposal responses. There was a fifth firm who attempted to submit a proposal by the due date of February 14, 2019. The firm in question however, had not met the prerequisite of evidencing its good faith effort documentation required of the Business Inclusion Program (BIP) utilizing the BAVN service prior to the BIP deadline of January 30, 2019. The Department checked with ITA who confirmed that the BIP outreach requirement was not met. Due to this failure to comply, the proposal was not accepted when submitted.

On March 5, 2019, a panel consisting of staff from four City departments convened to review, score, rank, and recommend a developer. In addition to the standard submission requirements, the scoring criteria included: 1) Development Team Qualifications and Finance Capacity; 2) Development Program, Design, and Concepts; 3) Financial Feasibility of the Proposed Project; and 4) Community Experience. After reviewing and evaluating the proposals based on the above-mentioned criteria, out of a possible 100 points, Orion (hotel with commercial) scored the highest with an average score of 95, followed by PAG with an average score of 82 (99-year ground lease, hotel with commercial), Raintree with an average score of 75 (mixed-use housing), and Universal with an average score of 71 (100% affordable housing). Orion is therefore recommended for entering into an ENA with the City for further negotiation of a Disposition and Development Agreement for the Property.

Proposed Project

The proposed project is located in Council District 8, consisting of a vacant lot of approximately 34,000 square feet within a commercially zoned, Transit Oriented Development area (C2-2D-CPIO) in South Los Angeles located at 3685 S. Vermont Avenue, Los Angeles, CA 90007. Orion proposes to acquire the Property from the City and develop a 167-room Courtyard by Marriott Hotels & Resorts with 7,000 square feet ground floor retail and a media room (Project).

Property

The Property is currently owned by CRA/LA and is categorized as a Future Development property in CRA/LA's Long Range Property Management Plan. Through the term of the Option Agreement, the City has the right to acquire the Property for the appraised Fair Market Value, as well as the right to solicit and sell the Property to a buyer that will use the Property consistent with the provisions of the Redevelopment Plan, the Five Year implementation Plan, and the Community Plan for the Project Area.

Selected Developer/Buyer

Orion is the highest scored responder to the Bethune Library Opportunity Site RFP. Orion is organized to effectively manage the execution of the project, and its assembled team is uniquely positioned to achieve the goals sought by the City given the extensive experience of the firm, particularly in developing high quality hotel projects in close partnership with cities throughout Southern California. Bethune Hotel Ventures, LLC is a special purpose entity, founded on February 7, 2019, solely for the development of the Project by the two partners of the Orion Capital, LLC.

Disposition Plan

Section 6.a. of the Option Agreement between the City and CRA/LA requires the City to submit to CRA/LA for approval a Disposition Plan which sets forth:

- An anticipated schedule for the date of the City's proposed acquisition of the Property from CRA/LA;
- A detailed plan for the development of the Property; and
- Evidence that the proposed use of the Property is consistent with the Redevelopment Plan, the Five Year Implementation Plan, and the South Los Angeles Community Plan.

The Disposition Plan was submitted to CRA/LA on May 3, 2018 and received approval by the CRA/LA Oversight Board and State of California Department of Finance on August 1, 2018.

Anticipated Schedule for Acquisition

The City anticipates acquiring the Property from the CRA/LA and conveying it to the Developer in a double escrow; the Developer will submit the purchase price and CRA/LA will submit the grant deed to convey the Property. Although the City will be a party to the escrow and the transaction, the City does not plan to utilize any General Funds for the acquisition nor will the City receive any of the initial sale proceeds.

Sale for Economic Development Purpose

In May 2016, the City Council and Mayor adopted the Asset Management Strategic Planning Framework for the evaluation of City properties for economic development uses ("Framework") under C.F. 12-1549-S3. In the Framework, CRA/LA Future Development Properties are included as a separate category of properties, for which EWDD and other department as necessary will manage solicitation and disposition. Such properties are not subject to the Administrative Code provisions for surplus properties.

The proposed sale of the Property to the Buyer and the anticipated development of the Property will further the goals of the Redevelopment Plan and serve the affordable housing and economic development goals of the City by alleviating blight and by providing affordable housing and community-serving retail uses. Because of the circumstances related to the dissolution of redevelopment in Los Angeles, the Option Agreement sets forth a series of actions and approvals between the CRA/LA and the City. These actions include provision for agreement on the purchase price and the City's exercise of the option to acquire the Property. Additional actions include provisions between the City and the Buyer, through which the City sells the Property to the Buyer and memorializes the conditions of the sale through recordation of a covenant. Provision of these community benefits will be secured by the covenant recorded on the Property. Although sale proceeds will initially go to CRA/LA, the City as a taxing entity will receive approximately 26% of the sale proceeds as General funds, through disbursement by the County Auditor-Controller as part of its general distribution of former Agency "tax increment" funds.

Current and Future City Council/Mayor Actions

The actions currently proposed will authorize the preparation and execution of an ENA with Orion, and will instruct City Attorney to prepare other transactional documents for the City to enable the acquisition of Property from CRA/LA and its subsequent sale to the Buyer, as required under the Option Agreement. Future approvals by the City Council and the Mayor will be required to authorize the execution of such other transactional documents and adoption of the Sale Ordinance.

Environmental Review

Future use of the Property would be subject to environmental review compliance pursuant to CEQA and CRA/LA approval of the proposed project.



JOHN L. REAMER, JR.
Interim General Manager

JR/SH/CK/KS/JP