

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCEC.F. 14-0425
0220-04698-0027
Assignment No. 14-12-0853

Date: December 8, 2014

To: Honorable Members of the Economic Development Committee

From: Miguel A. Santana, City Administrative Officer 
Sharon M. Tso, Chief Legislative Analyst 

Subject: **OPTION AGREEMENTS FOR CRA/LA FUTURE DEVELOPMENT PROPERTIES**

SUMMARY

On April 7, 2014, Council authorized the Chief Legislative Analyst (CLA), City Administrative Officer (CAO) and the Office of the Mayor to negotiate Option Agreements with the CRA/LA, A Designated Local Authority and successor to the Community Redevelopment Agency of the City of Los Angeles (CRA/LA) (C.F. 14-0425). The Option Agreements will grant the City the right to market and the option to purchase ten (10) CRA/LA Future Development properties for disposition and development in a manner that supports the City's objectives for economic development, affordable housing, transit-oriented development, and other community benefits. The properties would otherwise be sold by CRA/LA without consideration of community benefits or future use. The Long Range Property Management Plan adopted by CRA/LA and approved by the State Department of Finance gives the City until January 7, 2015 to enter into the Option Agreements.

The Option Agreements for each property will provide the City a two (2) or three (3) year option to purchase, with potential for term extensions of one (1) or one and a half (1.5) years, depending on each particular property's Option terms. During each Option term, the property will remain under CRA/LA ownership, while the City can solicit a third party to purchase the property from the City for development. The City may exercise the option to purchase the property from CRA/LA at fair market value during the term, at which point the City can sell the property to a developer. As per the Option terms, the sale of any of property must go through the City and cannot be transferred directly from the CRA/LA to the Developer. Option Agreements are structured to allow the City to help determine the disposition and development of important properties that represent significant opportunities in communities to provide housing, commercial services and economic development benefits, potentially without the expenditure of General Funds. The City's solicitation for third-party developers will be performed in accordance with applicable Administrative Code provisions. The City can terminate any of the Options by providing the CRA/LA with a 60-day notice, at any time and for any reason.

During the Option term, the City will be responsible for maintenance of the properties. Given the need to maintain these highly visible properties in good condition, to eliminate blight, and to position the properties for development, this report recommends use of contractors procured through the Board of Public Works Office of Community Beautification to perform such services, as overseen by the Economic and Workforce Development Department (EWDD). The estimated annual cost for property maintenance is approximately \$120,000. Funds in the amount of \$60,000 are budgeted and available for Citywide Nuisance Abatement in the Capital Improvement Expenditure Program, Account 00L068 to cover the

maintenance costs through June 2015. The City will maintain insurance for the properties, and will indemnify CRA/LA against any damages incurred as a result of the City's actions on the property.

The current recommendations will authorize the City to enter into Option Agreements with CRA/LA for the Future Development properties. Further Council actions will be necessary to exercise each of the purchase options and to enter into each contingent disposition and development agreement with third-party developers.

Future Development Properties Opportunities

The City's working group on issues related to the Former CRA's dissolution, composed of the Office of the Mayor, CLA, CAO, Department of Public Works Bureau of Engineering (BOE), General Services Department (GSD), Housing and Community Development Department (HCID), Department of Recreation and Parks (RAP), Economic and Workforce Development Department (EWDD), and the City's outside legal counsel on redevelopment dissolution, Richards Watson & Gershon (Working Group), worked with respective Council Offices to identify which of the CRA/LA properties represent particularly important development opportunities for the City to provide well-paying jobs, affordable housing, catalytic commercial projects, and/or other public benefits to communities. The City's priority properties were identified as Future Development properties in the Long Range Property Management Plan adopted by CRA/LA and approved by the State Department of Finance.

The development opportunities and proposed uses described here have been developed in consultation with the respective Council Offices and the Working Group. Future development proposals must also conform to the relevant Redevelopment Plans, Five-year Implementation Plan, and/or the City's Community Plan, subject to CRA/LA approvals.

Westlake Theater (CD1)

This property located within the Westlake, MacArthur Park Redevelopment Project Area, commonly referred to as the Westlake Theater, consists of a single parcel that is approximately 20,681 square feet of land designated for commercial retail space. The theater is a historically designated building that is currently vacant and boarded up. Federal funds were initially used in the former CRA's acquisition of the property. In the future, the property may be proposed for entertainment, commercial retail, and/or housing use.

Reseda Theater (CD3)

This property in the Reseda/Canoga Park Redevelopment Project Area consists of two parcels totaling approximately 20,027 square feet of land designated for commercial use. One parcel contains the former Reseda Theater which is now vacant and boarded up. The second parcel is a vacant, unimproved parking lot that is currently fenced off, located directly behind the theater. The property may be proposed for mixed-use development including commercial, entertainment, and/or housing use.

Reseda Town Center (CD3)

The second property in the Reseda/Canoga Park Redevelopment Project Area consists of four parcels totaling approximately 92,790 square feet of land designated for commercial uses. CRA/LA is currently underway on the demolition of two vacant commercial buildings on the property at CRA/LA's cost. The site is commonly referred to as the Reseda Town Center and was previously proposed for a large commercial retail center through a public/private partnership development. Commercial retail and/or mixed-use development may be proposed in the future for the site.

Bethune Library (CD8)

The former Bethune Library site is located within Exposition/University Park Redevelopment Project Area. The 33,399 square-foot property is unimproved and surrounded by a fence that would need to be

replaced once the City assumes property maintenance. The site may be proposed for housing with a commercial or non-profit component.

Marlton Square (CD10)

The property commonly referred to as Marlton Square is located in the Crenshaw, Amended Redevelopment Project Area and consists of seven parcels totaling approximately 117,562 square feet of land proposed for commercial retail space. Federal funds were initially used in the former CRA's acquisition of the property. The area is mostly vacant with one remaining commercial building that is being demolished by CRA/LA in December, 2014, at CRA/LA's cost. The property is fenced off to prevent trespassing.

Bunker Hill Y-1 (CD14)

Bunker Hill Parcel Y-1, also known simply as Y-1 is located in the Bunker Hill Redevelopment Project Area and comprised of a single parcel of approximately 104,947 square feet of sloped vacant land. The property includes an uphill open space commonly known as Angels Knoll, a grassy slope in the midsection, and a plaza on the downhill section adjacent to the Metro Red Line Pershing Square station. Each individual section is currently fenced off and inaccessible to the public. The northern side of the property has an accessible staircase that connects Hill Street to Olive Street. The currently inoperable Angel's Flight funicular is adjacent to the staircase and resides in an airspace easement. The Y-1 property can accommodate a mixed-use high rise development that may include commercial, office, residential, hotel, and/or ground floor commercial.

First/Boyle Transit Oriented Development (CD14)

The First/Boyle Transit-Oriented Development (TOD) Site is located in the Adelante Eastside Redevelopment Project Area. It is comprised of a single parcel of approximately 14,600 square feet of vacant, unimproved land that is fenced off. The highly visible property is classified as a transit oriented development ("TOD") site for its proximity to the Mariachi Plaza Metro Gold Line station. As such, the site may be proposed for commercial or mixed-use development with housing.

First/Mission Transit Oriented Development (CD14)

This property is also located in Adelante Eastside project area, and directly across from the Metro Gold Line Pico/Aliso station. The site consists of a single parcel measuring approximately 20,564 square feet and is improved with a 12,000 square foot building identified as the Ocean Queen with a tenant and a surface parking lot within the same parcel. The lease requires the tenant to be responsible for all building maintenance although the CRA/LA recently completed some necessary structural repairs to the building. Redevelopment opportunities for the property may include a mixed-use project to incorporate non-profit, commercial, and residential uses.

Watts Train Station Transit Oriented Development (CD15)

This property is composed of multiple parcels totaling approximately 131,667 square feet including the historic Watts Train Station Depot and an adjacent plaza and Park-and-Ride lot at the Metro Blue Line Station. A Los Angeles Department of Water and Power (LADWP) customer service center currently occupies and maintains a portion of the historic train station building. The development opportunity here consists of transit-oriented public improvements and/or commercial or mixed use development in accordance with pertinent historic requirements for the Watts Train Station Depot.

Wilmington Block 27 Industrial (CD15)

This industrial property is located in the Los Angeles Harbor Industrial Center Redevelopment Project Area and consists of 18 parcels totaling approximately 60,452 square feet of unimproved land. CRA/LA began site remediation activities in November 2014 to address contamination on the site. In the future, the site will be developed for industrial use to support economic development near the Port of Los Angeles area.

See Attachment A for an overview of the 10 Future Development properties and terms of the Option Agreements.

RECOMMENDATIONS

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

1. Approve the standard form of the Option Agreement as provided substantially in conformance with the draft included as Attachment B and subject to the review and approval of mutual parties' legal counsel as to form and legality;
2. Authorize the Mayor, or designee, to execute Option Agreements for the following CRA/LA Future Development Properties:
 - a. Westlake Theater (CRA/LA Asset ID #243)
 - b. Reseda Theater (CRA/LA Asset IDs #44 & 403)
 - c. Reseda Town Center (CRA/LA Asset ID #241)
 - d. Bethune Library (CRA/LA Asset ID #86)
 - e. Marlton Square (CRA/LA Asset IDs #82, 505, 506, 507, 508, & 509)
 - f. Bunker Hill Y-1 (CRA/LA Asset ID #168)
 - g. First/Boyle TOD (CRA/LA Asset ID #475)
 - h. First/Mission TOD (CRA/LA Asset ID #325)
 - i. Watts Train Station TOD (CRA/LA Asset IDs #290, 294, 296, 510 & 518)
 - j. Wilmington Block 27 (CRA/LA Asset ID #310);
3. Authorize the Economic and Workforce Development Department (EWDD) and Housing and Community Development Department (HCID), in consultation with the Working Group and the appropriate Council Office, to determine the City's best use of each CRA/LA property for economic development and/or affordable housing purposes, solicit development proposals, and instruct the appropriate departments to report to Council with proposed disposition plans;
4. Authorize the Controller to transfer \$60,000 from Fiscal Year 2014-15 funds budgeted for Citywide Nuisance Abatement in the Capital Improvement Expenditure Program, Account 00L068, to the Board of Public Works Fund 100, Dept. 74, Account 3040 (Contractual Services), to fund property maintenance costs for Future Development properties;
5. Request that the Board of Public Works, Office of Community Beautification prepare a request for consideration by Board of Public Works Commissioners to amend contracts to provide property maintenance services for the Future Development properties;
6. Instruct EWDD to oversee the property maintenance and submit budget requests for Fiscal Year 2015-16 and subsequent years to fund property maintenance costs of Future Development properties;
7. Authorize the General Services Department to collect any rent received by tenants from properties, for deposit into the Economic Development Trust Fund, the formation of which may be authorized by Council under separate cover (C.F. #12-1549-S3), or the General Services Trust Fund until such time as the Economic Development Trust Fund is formed;

8. Authorize the Controller to transfer any funds held in the General Services Trust Fund from rent received from tenants of any Future Development properties into the Economic Development Trust Fund until such time as the Economic Development Trust Fund is formed;
9. Authorize CAO to prepare Controller instructions and make any technical adjustments that may be required to implement the actions described in this report.

FISCAL IMPACT

By entering into the Option Agreements, the City will be obligated to maintain the properties during the Option terms. The costs to maintain the properties in good condition are estimated to be approximately \$120,000 per year. Funds are available for this purpose in the Capital Improvement Expenditure Program, Citywide Nuisance Abatement account. Fiscal Year 2014-15 costs are estimated to be \$60,000. Future year funding will be considered through the budget development process.

If the City chooses to exercise the option to purchase any property from CRA/LA, the fair market purchase price could represent a General Fund impact. However, Option Agreements are structured to allow the City to enter into agreements with third-party developers to purchase the properties from the City at fair market value, with the intent of facilitating the sale of the property from CRA/LA to a third-party developer without impact to the General Fund. The City would also be required to pay all appraisal costs for properties the City elects to purchase, which could range from \$10,000 to \$15,000 per appraisal for each property. A request for authority to exercise any option to purchase would come before the Council for approval along with identification of any funding needed to cover appraisal costs.

Rental income from the First/Mission TOD Site and Watts Train Station properties, estimated at \$40,920 annually, will be collected by GSD and deposited into the Economic Development Trust Fund (EDTF), formation of which is currently proposed in a joint report from our offices (C.F. 12-1549-S3). Alternatively, site revenues collected by GSD will be deposited in the General Services Trust Fund until such time that funds can be transferred to the EDTF.

BACKGROUND

Redevelopment Dissolution and Future Development Properties

On February 1, 2012, the Community Redevelopment Agency of the City of Los Angeles was dissolved pursuant to ABx1 26 and CRA/LA was formed as the successor agency. Among other requirements, the dissolution legislation requires CRA/LA to dispose of its real properties, with sale proceeds to be distributed proportionally to affected taxing entities. AB 1484, adopted June 25, 2012, established the Long Range Property Management Plan (Plan) as the mechanism for planning and seeking approval for the disposition of CRA/LA assets. Per statute, the Plan must contain an inventory of all CRA/LA-owned real properties, extensive information characterizing each property, and a proposal for how to use or dispose of each property in one of four categories: Government Use, Retention for Future Development, Retention to Fulfill an Enforceable Obligation, and Property for Sale. The City has already acted to receive, at no cost, the Government Use properties that were constructed and used for a government purpose, such as roads, school buildings, parks, and fire stations (C.F. 13-1482).

Future Development properties under AB 1484 may be retained by successor agencies for disposition and development in accordance with the applicable redevelopment plan. Although many successor agencies across the state are actively pursuing the development of such properties, the CRA/LA, as a distinct legal entity from the City, and with constrained resources, does not intend to pursue future

developments. The Option Agreements contemplated here are structured to give the City the benefit of significant development opportunities that would otherwise not be pursued by the CRA/LA.

Option Agreements

The standard form of an Option Agreement draft is included as Attachment B which is a sample agreement for a property involving federal funds, the Westlake Theater. Each of the 10 Future Development properties would be the subject of a discrete Option Agreement, with common procedures for approvals, as summarized here:

- The term of options are either two or three years, with more complex projects having longer terms.
- During the option term, the City will maintain the properties and solicit third-party developers to purchase the properties for development.
- Six months before end of each term, the City may submit a Disposition Plan, including the anticipated schedule of the City's acquisition, a detailed plan for the development of the property, and evidence that the proposed development conforms with the Redevelopment Plan, Five Year Implementation Plan, and/or the Community Plan.
- The Disposition Plan will be considered for approval by CRA/LA's Governing and Oversight Boards, and potentially the State Department of Finance in the event that the City proposes a project that differs from the Redevelopment Plan, or an acquisition at less than fair market value.
- The City can request an extension of the Option term, for either one or one and a half years, by demonstrating significant progress and explaining any delays, for Governing Board approval.
- The City and CRA/LA will each commission an appraisal of the property – the average of which shall be the purchase price. If the appraised values differ by more than 10 percent, a third appraisal will be commissioned. All appraisal costs will be paid by the City.
- After approval of the Disposition Plan and before the end of the option term, the City may submit notice to exercise the option to purchase, including the purchase price, closing date, and executed agreement with third party developer to purchase the property from the City for development.


If the City exercises an option and acquires a property from CRA/LA, the sale proceeds will go to CRA/LA to fund enforceable obligations and/or be distributed among the affected taxing entities. The City's share of this distribution is approximately 28 percent. For properties in which the City provided federal funds to CRA/LA for acquisition or development, a pro rata portion of the proceeds will return to the City as program income before the remainder is distributed to the affected taxing entities in accordance with HUD requirements. The City has issued notices of default on two of the properties with federal funds. The Option Agreements would rescind those notices of default, while reserving our rights, in return for assurance that the City will receive the appropriate share of program income from sale of the properties.

Property Maintenance

The Future Development sites are generally vacant properties that are currently unimproved or contain blighted structures that will be demolished by CRA/LA. Exceptions include the Westlake Theater and the Reseda Theater, which will remain secured and maintained for future reuse. Two other properties, the Historic Watts Train Station and the First/Mission Transit Oriented Development site (aka the Ocean Queen Building), are improved with structures that are currently occupied by tenants that will remain on the premises.

The City will assume responsibility during the Option term to ensure that these properties remain in good condition. EWDD will oversee property maintenance activities, performed by GSD subject to availability, and utilizing contractors to perform routine, pro-active property maintenance services. The Board of Public Works Office of Community Beautification (OCB) has contracts with numerous firms, including Koreatown Youth and Community Center, Central City Action Committee, Gang Alternatives Program, West Valley Alliance, and Los Angeles Conservation Corps, to provide property maintenance services to

the City. These recommendations would authorize OCB to amend existing contracts to include these additional services for the Future Development properties. Annual property maintenance costs are not expected to exceed \$120,000, funded with funds from the Capital Improvement Expenditure Program, Citywide Nuisance Abatement. In Fiscal Year 2014-15, \$60,000 has been budgeted for this purpose and additional funds would be requested through the annual budget approval process. Property maintenance activities will include weekly visits to each site to ensure that the sites remain intact and secure. As needed, OCB's firms will address any graffiti, and remove debris or dumping from the premises. Weed abatement will be performed on an as-needed basis.

MAS:SMT/JR:OI 
05150067C