

REPORT FROM

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OFFICE OF THE CITY ADMINISTRATIVE OFFICER 8
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Council District: 8

To: The Mayor
The Council

From: Miguel A. Santana, City Administrative Officer *MAS*

Reference: Community Development Department Transmittal dated June 2, 2010; Referred to the Housing, Community and Economic Development Committee on June 26, 2010; Additional information received through September 29, 2010

Subject: **REQUEST TO SELL CITY-OWNED PROPERTIES LOCATED AT 12243 BLAKELY AVENUE AND 5510 SOUTH MANHATTAN PLACE TO RECOVER COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS**

SUMMARY

The Community Development Department (CDD) requests authority to sell two City-owned properties (single-family dwellings) located at 12243 Blakely Avenue (Blakely) in unincorporated Los Angeles County and 5510 South Manhattan Place (Manhattan) in Council District Eight to recover approximately \$487,000 for a defaulted-small business loan (City Loan) from Community Development Block Grant (CDBG) funds. The properties were provided as collateral for the City Loan. The original small business loan agreement was executed for \$450,000 with Tri-Afram Enterprises, Inc. (Borrower) in April 1994. The Borrower has been in default since 1994. Funding for the services that are required to maintain and sell the properties will be provided from rental revenue, CDBG funds and proceeds from the sale of the properties.

Our Office has discussed this matter with the City Attorney, CDD and the Department of General Services (GSD). We recommend that CDD work with GSD, City Administrative Officer (CAO) and Los Angeles Housing Department (LAHD) to determine the best methodology for the disposal of the properties and report back to Council within 30 days with a plan that is fully researched and that has each General Manager's approval. We also recommend authority for CDD to enter into agreements with existing City contractors that were selected through a Request for Proposals (RFP) issued by GSD and LAHD for property management and various real estate services contingent upon City Attorney approval of the scope of work and contract execution. A discussion on the recommendation for CDD to use existing contractors instead of issuing a new RFP for a professional broker and asset manager is provided in the Background Section of this report.

The CDD also requests authority to write off any remaining uncollectible amount of unpaid accrued interest after the disposition of the properties. We recommend that CDD report back to Council for authority to write of the uncollectible debt once this amount has been determined.

Background

The subject properties are two of three rental properties that were provided as collateral for the City Loan through a contract (Contract No. C-89873/Agreement) between the City and the Borrower. The City Loan was provided to assist the Borrower with the financing of inventory and equipment for the Adams West Town Center Triangle Market located at 2635 South Western Avenue in Los Angeles. Funding for the City Loan was provided from CDBG funds through the Small Business Fund (C.F. No. 94-0561). The third collateral property is located at 1119-1121 Crescent Heights Boulevard (Crescent Heights) in Council District Five. As part of the Agreement, a Deed of Trust was recorded to secure \$150,000 of indebtedness for each of the three properties for a total amount of \$450,000, in case of default of the City Loan.

Appraisals of the properties were conducted in September 2009. The estimated value of the Blakely property was \$182,000 and the estimated value of the Manhattan property was \$190,000.

Outstanding Loan Balance

As of March 2010, the outstanding City Loan balance was \$487,230.46: \$101,236.92 remaining principal and \$385,993.54 in accrued interest. The amount of the accrued interest will be re-calculated based on the proposed sale date.

The CDD received \$348,263.08 in December 2009 from the voluntary sale of the Crescent Heights property by one of the partners of Tri-Afram. The CDD's policy is to apply payments towards the principal amount and subsequently to the accrued interest. As such, the entire \$348,263.08 was applied to the \$449,500 principal balance. This reduced the principal balance of the City Loan from \$449,500 to \$101,236.92.

Sale of Properties

The CDD could not obtain repayment from the other partners of Tri-Afram for the Blakely and Manhattan properties. In January 2010, CDD executed a non-judicial foreclosure on the two properties through trustee sale proceedings. No bids were made for the properties at these proceedings. As a result, the ownership of the two properties was transferred to the City.

The Blakely and Manhattan properties are currently occupied by tenants. The CDD intends to offer the properties for sale without evicting the tenants.

Each property is encumbered by a First Deed of Trust that was recorded in 1991. In August 2010, the CDD was authorized to pay a Bank of America lien of \$49,118 for the outstanding balance of the mortgage for the Manhattan property (C.F. No. 10-1068-S1) to avoid foreclosure of the property. The CDD estimates that the remaining mortgage balance for the Blakely property is \$50,000.

Available Resources and Estimated Expenditures

The CDD is working with the existing tenants to collect rent, including unpaid rent amounts for the properties. The monthly rent for the Blakely and Manhattan properties is \$800 and \$380, respectively. Proceeds from the proposed sale of the properties will pay off the outstanding balance for the Blakely property mortgage and deposit the remaining amount in the Community Development Trust Fund to replenish CDBG for the outstanding balance of the City Loan, reimburse CDBG for expenses related to the disposition of the properties and pay accrued interest on the City Loan.

The CDD intends to recoup the payments from each property as stipulated in the Agreement. As such, the CDD will seek to recover \$150,000 in principal payments from each of the Blakely and Manhattan properties. Based on the value of the properties the net proceeds may not be adequate to cover the outstanding City Loan balance and City expenses.

The estimated revenue (\$372,000), the estimated costs (\$146,772) to maintain and sell the properties and the estimated net proceeds (\$226,228) are as follows:

	<u>Item</u>	<u>Amount</u>
Revenue:	Appraised Market Value of Blakely property	\$182,000
	Appraised Market Value of Manhattan property	190,000
	Subtotal	\$372,000
Expenses:	Expenses for Trustee's Sale Proceeding	\$7,654
	Mortgage Lien for Manhattan property	49,118
	Estimated Mortgage Obligation for Blakely property	50,000
	Estimated Maintenance Costs	15,000
	Estimated Sales Broker Fee and Closing Costs	25,000
	Subtotal	\$146,772
	Estimated Net Proceeds (Revenue less Expenses)	\$226,228

The estimated uncollectible amount is \$261,002 based on the outstanding loan as of March 2010 as follows:

	<u>Item</u>	<u>Amount</u>
	Outstanding City Loan Balance (including accrued interest) as of March 2010	\$487,230
	Net Proceeds (Revenue less Expenses)	226,228
		\$261,002

The CDD will revise the amount of uncollectible principal, expenses and unpaid interest on the City Loan after the sale of the properties.

City's Surplus Property process

State of California (State) and the City statutes establish basic guidelines for the sale of City-owned surplus property. Any real property owned by the City that is no longer required for use by the City, and which the public interest and necessity requires to be sold, is subject to guidelines established through Los Angeles City Charter Section 385, Los Angeles Administrative Code Division 7, Sections 7.22 and 7.27, and California Government Code Section 54220.

The subject properties should be reviewed under the City's Surplus Property process by GSD and the CAO in accordance with relevant City and State guidelines. This review would determine whether the properties are required or not for City purposes and whether the properties may be sold as a direct sale or at an auction. If the properties are to be sold through a direct sale, the properties must first be offered to various agencies and the Council must make a determination that the direct sale is in the public interest.

The CDD will need to report back to Council after GSD and CAO review for a determination that the City-owned properties are not required for City use and for approval of other necessary actions.

Analysis on Use of Existing Contracts For Real Estate Services

In the CDD transmittal, dated June 2, 2010 (Transmittal), CDD requested authority to issue a RFP for the services of a broker and asset manager for the properties. Our recommendation is for the Council and Mayor to authorize CDD to use existing City contracts, contingent upon approval of the City Attorney of the scope of work and contract execution.

The GSD and LAHD have staff and contractors with experience and expertise in the maintenance of single-family dwellings and sale of properties. The Council and Mayor approved a list of contractors for LAHD in December 2009 (C.F. No. 09-0374) for services that are similar to those required by CDD. The contractors that were selected pursuant to the RFP issued by LAHD include Property Management Services and Real Estate Broker Services.

Discussions with GSD also indicate that its Asset Management and Real Estate Division could provide these services for CDD through a Memorandum of Understanding between CDD and GSD. In addition, GSD currently works with contractors that perform real estate services that are available for CDD to execute contracts with, contingent upon approval of the City Attorney of the scope of work and contract execution. The recommendations include instructions for CDD to work with GSD, CAO and LAHD to determine the best methodology for the disposal of the properties and report back to Council within 30 days with a plan that is fully researched and that has each Department Manager's approval.

The recommendations in this report are in compliance with City Financial Policies in that ongoing federal funds are available for the proposed services. Additional information on the properties is provided in the Transmittal that is available on the City's Internet website, www.cityclerk.lacity.org/Council File Management System, (C.F. No. 10-1068).

RECOMMENDATIONS

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

1. Instruct the General Managers, Community Development Department (CDD), Department of General Services (GSD) and Los Angeles Housing Department (LAHD), and the City Administrative Officer (CAO), or designees, to develop a plan for the disposition of the City-owned properties (single-family dwellings) located at 12243 Blakely Avenue, Assessor Parcel No.(APN) 6148-021-018 and 5510 South Manhattan Place, APN 5005-31-009 and for CAO and CDD to report back to Council within thirty days with a plan that is fully researched and that has each General Manager's approval;
2. Authorize the General Manager, CDD, or designee, to enter into a Memorandum of Understanding with GSD to provide services that are required to review the Properties through the City's Surplus Property process and to assist CDD to sell the Properties, subject to the review and approval of the City Attorney, as to form and legality;
3. Authorize the General Manager, CDD, or designee to negotiate and execute contracts with existing contractors currently utilized by GSD and LAHD for property management and real estate services, if necessary, contingent upon City Attorney approval of the scope of work and contract execution and subject to the review and approval of the City Attorney as to form and legality, and the review of the Department of Public Works, Bureau of Contract Administration, as to compliance with all applicable City contracting requirements;

4. Authorize the General Manager, CDD, or designee, to expend up to \$50,000 from Fund 100/22, CDD Account 1010, Salaries General to repay the existing mortgage for the property located at 12223 Blakely Avenue, and up to \$15,000 from Fund 100/22, Account 3040, Contractual Services for property management and real estate services;
5. Instruct the General Manager, CDD, or designee, to report back to Council with the uncollectible debt amount that remain after the sale of the Properties; and,
6. Authorize the General Manager, CDD, or designee, to prepare Controller instructions and/or prepare technical corrections consistent with the Mayor and Council action on this matter, subject to the approval of the CAO, and instruct the Controller to implement these instructions.

FISCAL IMPACT STATEMENT

There is no General Fund impact. Approval of the recommendations in this report will authorize the Community Development Department to work with the Department of General Services, the Los Angeles Housing Department and the City Administrative Officer to determine the best methodology to dispose of two City-owned single-family dwellings to recover the outstanding balance of a defaulted-City Loan issued with Community Development Block Grant funds. The recommendations comply with City Financial Policies in that the full cost of the services to be provided will be paid through available rental revenue, proceeds from the sale of the properties and federal grant funds.

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