

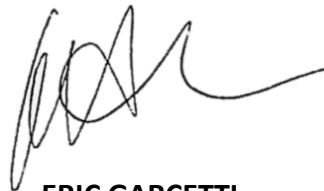
TRANSMITTAL

To: **THE COUNCIL**

Date: **02/18/22**

From: **THE MAYOR**

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.

A handwritten signature in black ink, appearing to be "Eric Garcetti", written in a cursive style.

(Andre Herndon) for

ERIC GARCETTI
Mayor

CITY OF LOS ANGELES

CALIFORNIA

CAROLYN M. HULL
GENERAL MANAGER



ERIC GARCETTI
MAYOR

**ECONOMIC AND WORKFORCE
DEVELOPMENT DEPARTMENT**

1200 W. 7TH STREET
LOS ANGELES, CA 90017

February 8, 2022

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

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

Attention: Heleen Ramirez, Legislative Coordinator

REQUEST AUTHORITY TO EXECUTE THE FIRST AMENDMENT TO THE OPTION AGREEMENT BETWEEN THE CITY AND CRA/LA, A DESIGNATED LOCAL AUTHORITY, TO ACQUIRE THE BETHUNE LIBRARY SITE AT 3685 SOUTH VERMONT AVENUE IN CD 8

The General Manager of the Economic and Workforce Development Department ("EWDD") respectfully requests that your office review this transmittal and forward to the City Council for further consideration.

SUMMARY

EWDD is recommending that the Council approve a First Amendment to the Option Agreement (First Amendment) between the City of Los Angeles (City) and CRA/LA, A Designated Local Authority (CRA/LA), to establish the price for the Bethune Library Site at Seven Million, Three Hundred Thousand Dollars (\$7,300,000.00) under specific conditions.

RECOMMENDATION(S)

The General Manager of EWDD, or designee, respectfully requests that the City Council, subject to the approval of the Mayor as required:

1. Approve the form of the First Amendment to the Option Agreement between the City of Los Angeles (City) and CRA/LA, A Designated Local Authority (CRA/LA) for CRA/LA-owned property known as Bethune Library Site and as provided substantially in conformance with the draft included as Attachment A and subject to the review and approval of mutual parties' legal counsel as to; and

2. Authorize Mayor, or designee, to execute the First Amendment to the Option Agreements for Bethune Library (C.F. 14-0425 S9; Contract No. C-125175) and request that the Mayor transmit the executed Agreement to CRA/LA for further consideration.

BACKGROUND

On January 9, 2015, the City and CRA/LA entered into an Option Agreement that allows the City the right to market and the option to purchase the Bethune Library Property located at 3685 South Vermont Avenue (Property) (C.F. 14-0425 S9; Contract No. C-125175; APN 5040-030-905). The Option Agreement describes the process by which fair market value (FMV) is determined for the Property which results in the final purchase price. Pursuant to Section 12 of the Option Agreement, FMV for the Property is based on a comparison of appraisals by the CRA/LA and the City. If the lower appraised value is within 10% of the higher value, then FMV of the Property is the average of the two. If the values differ by more than 10%, a third appraisal must be obtained. If the third appraisal is less than either of the first two, then the FMV of the Property shall be the average of the two lowest appraisals. If the third appraisal is greater than the first two, then FMV of the Property is to be the average of the two highest appraisals. If the third appraisal falls between the previous two appraisals, the FMV of the Property shall be the value established by the third appraisal.

The City obtained an independent appraisal on May 13, 2021, established an appraised value of Four Million, Nine Hundred Thousand Dollars (\$4,900,000.00). The CRA/LA obtained its appraisal on June 8, 2021, with an appraised value of Seven Million, Three Hundred Thousand Dollars (\$7,300,000.00). The two independent appraised values of the Property differ more than 10%, therefore, a third appraisal could be required pursuant to Section 12 of the Option Agreement.

The Option Agreement for the Property has gone through multiple extensions, and currently expires on September 10, 2022. However, Assembly Bill No. 1486 Section 13 amended Section 54234 of the Government Code, requires all disposition of the CRA/LA properties must be completed no later than December 31, 2022. Therefore, no further extension to the Option Agreement will be possible.

Section 12 of the Option Agreement further requires that the date of the appraisal on which the FVM is determined must be within six months of the Closing Date. This means that both City and CRA/LA appraisals have already expired in November and December 2021 and the City and CRA/LA must reinstate a process to determine the FMV and complete the Property sale transaction within six months of the new FMV. The entailed process includes reappraisal following the process required by Section 12 of the Option Agreement, finalizing project financial feasibility based on the new FMV, finalizing development programs, community benefits programs, securing project financing, obtaining various governmental approvals, finalizing a disposition and development agreement, obtaining City Council and CRA/LA approval and close escrow. Completing these steps in the remaining time available under the current

Option procedure is not feasible and would most likely render the Bethune Library project unattainable.

On October 20, 2021, the EWDD and CRA/LA received a correspondence from Bethune Hotel Ventures, LLC, the Developer of the proposed Bethune Library project. The Developer requested that the CRA/LA Governing Board and the City of Los Angeles amend the term of the Option Agreement to establish the final Purchase Price at the CRA/LA's appraised value, dated June 8, 2021, of \$7,300,000.00.

EWDD is in support of the request from the Developer that the Bethune Library Site Option Agreement be amended to establish the final purchase price as of the June 8, 2021, appraised value of \$7,300,000.00. Establishing a fixed purchase price would improve the Developer and City's ability to assess the economic feasibility of the Project and not be subject to fluctuations in the real estate market that may adversely impact the Project. Without purchase price certainty, the Developer is unable to secure project financing that could cause further delays in finalizing the development agreement negotiations with the City. The recommended First Amendment to the Option Agreement will provide needed certainty in the project financing as the City works to complete negotiations with the City's selected Developer to develop this long-vacant site and return it to productive use.

ADDITIONAL BACKGROUND – THE BETHUNE LIBRARY SITE AND PROPOSED DEVELOPMENT

The Bethune Library site is located across the street from the University of Southern California (USC) along the western edge of a former Redevelopment Project Area and the location of the former Mary McLeod Bethune Library. In 2009, the 33,400 square foot property was sold to the CRA/LA after the Los Angeles Public Library relocated to a new regional branch library at 3900 South Western Avenue. As a result of the 2012 dissolution of all redevelopment agencies in California, the Bethune Library site has been vacant and underutilized for over a decade.

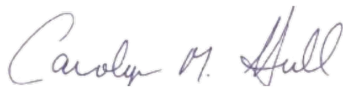
The Bethune Library Site sits in a vibrant and evolving mixed income commercial and residential neighborhood. The Developer, selected through a competitive Request for Proposals process, proposes to acquire the Site from the City and develop a 167-room Courtyard by Marriott Hotel and Resort with 7,000 square feet ground floor retail and a media room (Project). The proposed hotel development will contribute to the much-needed long-term economic growth in the area. The proposed development is currently proceeding through the entitlement and California Environmental Quality Act (CEQA) clearance phase, received a Zoning Administrative public hearing on October 21, 2021, and now pending determination.

One key negotiated term is that the purchase price money received by the City from the Developer will then be paid to CRA/LA immediately in a back-to-back double escrow such that the City would not be required to go "out of pocket" for any amount throughout the entire transaction.

If the First Amendment is approved by the City and CRA/LA, the fixed purchase price of \$7.3 million will be reflected in the future definitive agreements that will be presented to the City Council and Mayor for review and approval. EWDD staff and the Developer expect to complete that process within the next six (6) months and prior to the expiration of the Option Agreement on September 10, 2022.

FISCAL IMPACT STATEMENT

Approval of the recommendations in this report will not have an impact on the General Fund. The extent of any future impact on the General Fund is currently unknown.



CAROLYN M. HULL
General Manager

CH:FJ:CK

ATTACHMENT: The First Amendment to the Option Agreement of the Bethune Library Site

**FIRST AMENDMENT TO OPTION AGREEMENT
(Property Retained for Future Development)**

(3685 South Vermont Avenue, Los Angeles, California, aka “Bethune Library”)
(APN 5040-030-905)

This First Amendment to Option Agreement (“First Amendment”) is entered into as of this _____ day of _____, 2021 by and between CRA/LA, a Designated Local Authority, a public body formed under California Health & Safety Code Section 34173(d)(3) (“CRA/LA”) and the City of Los Angeles, a municipal corporation (“City”) with reference to the following facts:

RECITALS

A. WHEREAS, CRA/LA and the City entered into that certain Option Agreement dated as of January 8, 2015 (City Contract No. C-125175) (“Option Agreement”) to provide the City with an option to purchase the real property located at 3685 South Vermont Avenue (“Property”) owned by CRA/LA and located in Los Angeles, California; and

B. WHEREAS, the Option Agreement had an original term of two (2) years (“Initial Term”); and

C. WHEREAS, on January 5, 2017, the CRA/LA Governing Board approved an 18-month extension (through July 11, 2018) to the Initial Term (“First Extended Term”); and

D. WHEREAS, on June 25, 2018, the CRA/LA Governing Board approved an 18-month extension (through January 11, 2020) to the First Extended Term (“Second Extended Term”) and approved the Disposition Plan for the Property; and

E. WHEREAS, on August 1, 2018, the State of California Department of Finance (“DOF”) approved the Disposition Plan for the Property; and

F. WHEREAS, on November 7, 2019, the CRA/LA Governing Board approved a 24-month extension (through January 11, 2022) to the Second Extended Term (“Third Extended Term”); and

G. WHEREAS, on December 2, 2021, the CRA/LA Governing Board approved an 8-month extension (through September 10, 2022) to the Third Extended Term (“Fourth Extended Term”); and

H. WHEREAS, the extensions to the First Extended Term, the Second Extended Term, the Third Extended Term, and the Fourth Extended Term were each evidenced by an approval letter sent to the City by CRA/LA; and

I. WHEREAS, on January 3, 2019, the City issued a Request for Proposals for the development of the Property; and

J. WHEREAS, on April 16, 2019, the City approved Bethune Hotel Ventures, LLC (aka Orion Capital, LLC) (“Developer”) as the preferred developer of the Property based on their proposal to develop a 167-room Courtyard by Marriott Hotels & Resorts with approximately 7,000 square feet ground floor retail and a media room (“Proposed Project”); and

K. WHEREAS, on May 15, 2019, the City and Developer entered into an Exclusive Negotiation Agreement to enter into negotiations with the Developer for the potential disposition and development of the Property in accordance with the terms of the Option Agreement; and

L. WHEREAS, the City has requested to amend the process for designating the Purchase Price in the Option Agreement; and

M. WHEREAS, CRA/LA and the City, at the request of the Developer, now wish to amend the Option Agreement pursuant to this First Amendment to set the Purchase Price for the Property for the amount of CRA/LA’s appraised value, dated June 8, 2021, at Seven Million Three Hundred Thousand Dollars (\$7,300,000.00) in support of the Proposed Project.

NOW, THEREFORE, in reliance of the foregoing and in consideration of the mutual covenants, agreements and conditions set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, CRA/LA and the City agree on the following:

1. Section 1. Definitions.

The following definitions in Section 1 of the Option Agreement are revised as follows:

- a. Appraised Value. The term “Appraised Value” is deleted.
- b. City Appraiser. The term “City Appraiser” is deleted.
- c. CRA/LA Appraiser. The term “CRA/LA Appraiser” is deleted.
- d. Fair Market Value. The term “Fair Market Value” is deleted.
- e. Purchase Price. The definition of “Purchase Price” is deleted in its entirety

and replaced with the following:

“Purchase Price” means Seven Million Three Hundred Thousand Dollars (\$7,300,000.00).

2. Section 12. Appraisals of the Property; Determination of the Purchase Price.

Section 12 of the Option Agreement is deleted in its entirety and replaced with “Reserved”.

3. Section 13. Exercise of Option.

The first two sentences only of Section 13 of the Option Agreement are deleted and replaced with the following:

Exercise of Option. Prior to the expiration of the Term and following the approval of the Disposition Plan as provided in Section 6(b), the City may exercise the Option by delivering the Option Notice and by establishing an escrow with the Title Company specified in Section 14 below. The Option Notice shall set forth: (i) the Purchase Price (ii) the Closing Date, and (iii) shall have attached thereto an agreement executed by the Developer and the City which requires the Developer to develop the Property in accordance with the Disposition Plan.

The balance of Section 13 of the Option Agreement remains unaltered.

4. No Other Changes. Except as provided in this First Amendment, all terms and conditions of the Option Agreement shall continue in full force and effect. Only those provisions of the Option Agreement specifically amended herein shall be affected by this First Amendment.

5. Counterparts. This First Amendment may be executed in counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same agreement. The Parties further agree that facsimile signatures or signatures scanned into .pdf (or signatures in another electronic format) and sent by e-mail shall be deemed original signatures.

6. Effective Date of First Amendment. This First Amendment is dated for convenience only. The effective date of this First Amendment is the latest of (i) the date this First Amendment is approved and executed by the CRA/LA, (ii) the date this First Amendment is approved and executed by the City and (iii) the date this First Amendment is approved by DOF.

[SIGNATURES ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the Effective Date.

CRA/LA:

Date: _____

CRA/LA, A DESIGNATED LOCAL AUTHORITY, a public body formed under Health & Safety Code Section 34173(d)(3)

By: _____

Dan Kahn
Acting Chief Executive Officer

APPROVED AS TO FORM:

GOLDFARB & LIPMAN LLP

By: _____

Thomas H. Webber
CRA/LA Counsel

CITY:

Date: _____

THE CITY OF LOS ANGELES, a municipal corporation

By: _____

KEVIN J. KELLER, AICP
Deputy Mayor for Economic Development

APPROVED AS TO FORM:

MICHAEL N. FEUER,
City Attorney

By: _____

Robert P. Moore
Deputy City Attorney

ATTEST:

HOLLY WOLCOTT,
City Clerk

By: _____
Deputy City Clerk

Date: _____