

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

CF # _____

Assignment No. 13-10-0930
0220-04698-0022

Date: April 7, 2014

To: Honorable Members of the Economic Development Committee

From: Gerry F. Miller, Chief Legislative Analyst *GF Miller*
Miguel A. Santana, City Administrative Officer *MAS*

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

SUMMARY

On February 1, 2012, the former Community Redevelopment Agency of the City of Los Angeles ("Former CRA") was dissolved pursuant to the California State Legislature and Governor enacting Assembly Bill X1-26 ("ABX1-26"), the Redevelopment Dissolution Act ("Dissolution Act"). On February 3, 2012, CRA/LA, a Designated Local Authority ("CRA/LA-DLA") was established to serve as the successor agency of the Former CRA and charged with winding down its affairs including the disposition of all real property and interests held by the Former CRA. The Dissolution Act, as amended by AB1484 in June 2012, allows successor entities to retain former agency assets for future redevelopment as identified in an existing redevelopment plan or community plan ("Future Development" properties).

This report requests authority to negotiate Option Agreements giving the City the rights to manage and market nine (9) such Future Development properties for disposition and development ("Option"), to ensure the properties are developed in a manner that best serves the City's interests. For each optioned Future Development property, the Offices of the Chief Legislative Analyst ("CLA"), City Administrative Officer ("CAO"), and the Mayor will work with the respective Council Office to develop a plan for disposition and development. Within the Option term, the City will have the right to select a developer and purchase the property from CRA/LA-DLA for development. By the end of each Option term, if the City does not have a development agreement with a developer, the City may either exercise the option to purchase at fair market value, or allow the property to revert to CRA/LA-DLA to sell. The only costs associated with the execution of these Option agreements will be property maintenance to ensure the value of the

the Option term. Property maintenance will be performed by City workers or contractors and cost estimates are currently being solicited.

This report further requests authority to negotiate Option rights for one additional property for a total of ten properties. On March 18, 2014, the Office of the Mayor formally requested that CRA/LA-DLA re-categorize the property from For Sale to Future Development. Upon approval of CRA/LA-DLA Governing and Oversight Boards and the State Department of Finance ("DOF"), the City may enter into an Option Agreement as described above.

All properties are described later in this report.

The properties from which the City is interested in securing option rights from CRA/LA-DLA are subject to the negotiation of Option Agreements. At the conclusion of DOF's review of CRA/LA-DLA's property disposition strategy, the CLA and CAO will provide the Council with a final list of properties, final Option Agreement terms, cost estimates for property maintenance and request authority to enter into Option Agreements.

Long Range Property Management Plan

On June 27, 2012, the State Legislature and Governor enacted AB1484 which made technical and substantive amendments to the Dissolution Act allowing for certain flexibility and local benefits in connection with property disposition for successor agencies that have received a DOF Finding of Completion ("FOC"). A FOC signals that a successor agency has satisfied its obligations resulting from DOF's due diligence review of its financial reports. AB1484 established the Long Range Property Management Plan ("LRPMP") as the mechanism for planning and seeking approval for the disposition of CRA/LA-DLA assets. As per the statute, the LRPMP must contain an inventory of all CRA/LA-DLA-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 including Government Use, Retention for Future Development, Retention to Fulfill an Enforceable Obligation, and Property for Sale. AB1484 provides for the successor agency's retention for redevelopment of properties that meet certain distinguishing characteristics as follows:

- Property identified for use or development in Redevelopment Plans
- Property identified for use or development in Five-Year Implementation Plans
- Property identified for use or development in a Community Plan, General Plan, or Specific Plan
- Property encumbered with obligations related to federal funding

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), GSD, 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, worked with respective Council Offices to identify which of the CRA/LA-DLA properties represent particularly important

development opportunities for the City to provide well-paying jobs, affordable housing, catalytic commercial projects, and other public benefits to communities. Based on those discussions, the City compiled a list of desired properties and requested that CRA/LA-DLA include the properties as Future Development in the LRPMP.

CLA and CAO staff also met with each respective Council Office to discuss how property in their district had been categorized in order to provide an opportunity to address any questions or concerns. As a result, the properties identified in this report were selected by the group to be pursued as Future Development sites and make up the entire list of Future Development properties currently listed in the LRPMP. The remaining CRA/LA-DLA properties fall under Government Use, Retain to Fulfill an Enforceable Obligation, or Property for Sale, as defined by AB1484.

Properties Recommended for Future Development

In alignment with the City's request, the LRPMP identifies a total of nine (9) CRA/LA-DLA properties consisting of various parcels as Future Development properties under the Dissolution Act. The nine properties are situated throughout the City but specifically in Council Districts One, Three, Eight, Ten, Fourteen, and Fifteen. A summary of the properties recommended for Future Development is included as Attachment A. For all nine properties, GSD would serve as the City's recipient department to manage each property while in the City's possession, with the assistance of property maintenance contractors.

Council District One (1 property)

The 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. 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.

Council District Three (2 properties)

The first property located within the Reseda/Canoga Park Redevelopment Project Area consists of four parcels totaling approximately 92,790 square feet of land designated for commercial uses. There are two vacant commercial buildings that are proposed for demolition by the CRA/LA-DLA in the summer of 2014. 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.

The second property, also within the same redevelopment project area, consists of two parcels combined 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.

Council District Eight (1 property)

The former Bethune Library site located within Exposition/University Park Redevelopment Project Area is also designated as a Future Development site. It consists of one parcel of approximately 33,399 square feet of vacant, unimproved land with a fence in need of replacement by the City, if transferred. The site may be proposed for housing with a commercial or non-profit component.

Council District Ten (1 property)

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 and unimproved with one building that is proposed for demolition by the CRA/LA-DLA in the summer of 2014. The property is currently fenced off to prevent trespassing.

Council District Fourteen (3 properties)

Bunker Hill Parcel Y-1/Angels Knoll ("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 park space commonly known as Angels Knoll, a grassy slope in the midsection, and a plaza on the downhill section. 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. Adjacent to the staircase is the currently inoperable Angel's Flight funicular which resides on 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.

The second property commonly referred to as the First/Boyle 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 property is classified as a transit oriented development ("TOD") site for its proximity to the Metro Gold Line station. As such, the site may be proposed for commercial or mixed-use development with housing.

Also in the Adelante Eastside Redevelopment Project Area is the First/Mission TOD Site consisting of a single parcel of approximately 20,564 square feet of land. The property contains a 12,000 square foot building with a tenant and a surface parking lot. The lease requires the tenant to be responsible for all building maintenance and the CRA/LA-DLA has allocated funding in the lease for building improvements.

Council District Fifteen (1 property)

Wilmington Block 27 is located in the Los Angeles Harbor Industrial Center Redevelopment Project Area and consists of 18 parcels combined totaling approximately 60,452 square feet of unimproved land. The site is currently being used on a month-to-

month basis for truck parking through a Permit to Enter issued by the CRA/LA-DLA. There may also be contamination issues present that the CRA/LA-DLA will be responsible to remediate. In the future, the site may be developed for industrial use.

Contingent Properties Recommended for Option Rights

In addition to the above properties, the Office of the Mayor has made a formal request to the CRA/LA-DLA to amend its LRPMP to change the categorization of one additional property in Council District 15 that is currently categorized as For Sale under the LRPMP. The property is made up of multiple parcels that neighbor the Historic Watts Train Station Depot, Markham Middle School, and the Metro Blue Line Station and are further described in Attachment B. Staff believes it would be in the City's best interest to preserve the right to redevelop the property in the future for possible transit oriented development and is therefore requesting a change in LRPMP category from For Sale to Future Development. Such a change would require the CRA/LA-DLA to seek approval from its Governing and Oversight Boards followed by DOF's review and determination. If ultimately approved by all bodies, City staff will negotiate an Option Agreement for the rights to manage and market the property for disposition and development, returning to City Council for final approval.

Process for Negotiating Option Agreements for Future Development

DOF issued a Finding of Completion to CRA/LA-DLA on September 10, 2013, beginning a six-month period within which CRA/LA-DLA must adopt the LRPMP for submission to DOF. The LRPMP was approved by the CRA/LA-DLA Governing Board on November 7, 2013, and its Oversight Board on November 14, 2013. Following those approvals, the LRPMP was transmitted to the DOF on November 27, 2013 for further review and approval. DOF has not provided a timeframe in which a final approval would be determined but CRA/LA-DLA and City staff anticipate receiving a response in the spring of 2014.

Upon receipt of DOF's approval of the LRPMP, the CRA/LA-DLA and City would have three (3) months in which to enter into individual Option Agreements for the City's marketing and eventual acquisition of the Future Development properties. Once the Option Agreements have been executed, the City will have two to three years in which to market each property and implement a plan of disposition and development. The general terms to negotiate for each Option Agreement include:

1. A specified period of time during which the City will be required to ready the property for ultimate development or disposition to a developer. The time horizon will be specific to each property and its current state of readiness. In the event the City cannot fulfill this requirement or decides to opt out, the property will revert back to CRA/LA-DLA at the end of the Option Agreement term. The CRA/LA-DLA would then likely dispose of the property under the Sale of Property category requirements.
2. A requirement that the City be responsible for maintaining asset value, by ongoing property management, during the Option Agreement period. If the City fails to do

so, it may be held liable for any loss of value incurred as a result. The CAO is in the process of obtaining cost estimates for the ongoing maintenance of each Future Development property.

3. An exclusive assignment to the City of all rights to negotiate the ultimate value, disposition and development of a property while the Option Agreement period is active.
4. Milestones to be achieved during the Option Period demonstrating progress leading to the property transfer. If the City requires an extension to the Option Period, it will need to provide a written request, providing an explanation for any delays, and a detailed description of what will be achieved during the Extension Period.
5. A requirement that the City submit a Disposition Plan for approval by CRA/LA-DLA staff. The Disposition Plan must evidence that the property will be developed for its originally-intended purpose under the Redevelopment and/or Implementation Plans and the Fair Market Value will be paid. If the Disposition Plan proposes that the property be sold for a purpose other than what was intended in the relevant Plan documents and/or proposes compensation be less than Fair Market Value, the Disposition Plan must be approved by the CRA/LA-DLA Governing Board and Oversight Board and is subject to DOF review.

The final terms of each Option Agreement will be presented to the City Council for review and approval under separate cover and prior to their execution.

FISCAL IMPACT

There is no General Fund impact for the City of Los Angeles at this time. Upon DOF's approval of the LRPMP and negotiation of Option Agreements with CRA/LA-DLA, the City's future execution of Option Agreements on the properties will entail property maintenance costs that have not yet been determined. A subsequent report seeking approval to execute instruments to transfer the properties will include the costs associated with maintenance. There would be no costs associated with liability coverage since the City self-insures real property.

If the City chooses to exercise the option to purchase from CRA/LA, the fair market purchase price would represent a General Fund impact.

RECOMMENDATIONS

That the Council:

1. Authorize the Chief Legislative Analyst (CLA), City Administrative Officer (CAO), and the Office of the Mayor to work with CRA/LA-DLA and the Department of Finance (DOF) to:
 - a. Negotiate Option Agreements for the City's acquisition of nine (9) CRA/LA-DLA Retained for Future Development properties, as identified in Attachment A; and
 - b. Negotiate an Option Agreement for the City's acquisition of one (1) contingent CRA/LA-DLA Retained for Future Development property, as identified in Attachment B;
2. Instruct the CLA and CAO to:
 - a. Report to the Council and Mayor with the results of negotiations and a final list of properties and cost estimates, to seek further approval to enter into Option Agreements or other real property transfer agreements with CRA/LA-DLA and relevant parties, and recommendations for funding; and
 - b. Report to the Council and Mayor on any CRA/LA-DLA properties denied as Future Development by DOF and any legal parameters available to the City to pursue remediation of such action.

Attachments:

- (A) Properties Recommended for Future Development
- (B) Contingent Property Recommended for Future Development

GFM:MAS/oi:jr

ATTACHMENT A: CRA/LA Future Development Properties

The Long Range Property Management Plan approved by the CRA/LA Governing Board on November 14, 2013 included 9 Future Development projects. Through option agreements, the City will secure the right for 2-3 year terms to market the properties for disposition and development.

| Project/Property | Area (s.f.) | CD | CRA/LA Project Area | Potential Proposed Use |
|--|----------------|----|--|---|
| Westlake Theater 634 S. Alvarado Street | 20,681 | 1 | Westlake, MacArthur Park | Entertainment, commercial retail, housing |
| Reseda Town Center 18128 Sherman Way 18210 Sherman Way | 92,790 | 3 | Reseda / Canoga Park | Commercial or mixed-use with housing |
| Reseda Theater 18447 W. Sherman Way 7215 - 7221 Canby Avenue | 20,027 | 3 | Reseda / Canoga Park | Mixed use including commercial, entertainment, and/or housing |
| Bethune Library 3685 S. Vermont Avenue | 33,399 | 8 | Exposition / University Park, South LA | Housing with commercial or non-profit component |
| Marlton Square Properties | 117,562 | | | |
| 3700 W Martin Luther King Jr Blvd | 34,886 | | | |
| 3750 W Martin Luther King Jr Blvd | 16,801 | | | |
| 3800 W. Martin Luther King Jr Blvd | 33,604 | 10 | Crenshaw, South LA | Commercial retail |
| 4023-4025 Marlton Avenue | 7,000 | | | |
| 3742 W. Martin Luther King Jr Blvd | 8,400 | | | |
| 3760 W. Martin Luther King Jr Blvd | 16,871 | | | |
| Bunker Hill Parcel Y-1 | | | | |
| Angels Knoll 361 S. Hill Street | 104,947 | 14 | Bunker Hill, Downtown | Mixed use high-rise may include commercial, office, residential, hotel, and ground floor commercial |
| First/Boyle TOD Site 110 S. Boyle Avenue | 14,600 | 14 | Adelante Eastside, Boyle Heights | Commercial or mixed-use with housing |
| First/Mission TOD Site Ocean Queen Building 1300 E. First Street | 20,564 | 14 | Adelante Eastside, Boyle Heights | Commercial or mixed-use with housing, potential public purchase |
| Wilmington Block 27 514 - 530 N. McFarland Ave. 801 E. - 829 E. E St. | 60,452 | 15 | Los Angeles Harbor, Wilmington | Industrial |

ATTACHMENT B: Contingent Future Development Properties

These were listed as For Sale properties in the CRA/LA Long Range Property Management Plan (LRPMP) approved by Governing and Oversight Boards and under DOF review. City has requested that CRA/LA revise the LRPMP to designate the below properties for Future Development.

| Project/Property | Area (s.f.) | CD | CRA/LA ID | CRA/LA Project Area | Potential Proposed Use |
|---------------------------------------|----------------|----|-----------|---------------------------|---|
| Watts Train Station TOD | 131,677 | | | | |
| Historic Watts Train Station | 10,236 | 15 | 296 | Watts and Watts Corridors | Transit oriented development with public uses |
| Train Station Plaza | 12,805 | | 294 | | |
| 1663 E. 108th Street | 12,419 | | 290 | | |
| Grandee Ave. Park and Ride | 87,934 | | 510 | | |
| N/o E. 108th St. and E/o Grandee Ave. | 8,283 | | 518 | | |