

MEMORANDUM

DATE: AUGUST 23, 2007 EA2130
TO: AGENCY COMMISSIONERS CT2000
FROM: CECILIA V. ESTOLANO, CHIEF EXECUTIVE OFFICER CI2130

RESPONSIBLE PARTIES: DAVID RICCIHELLO, REGIONAL ADMINISTRATOR
STEVE VALENZUELA, REGIONAL ADMINISTRATOR

SUBJECT: AUTHORIZATION TO NEGOTIATE AND EXECUTE (1) FLOAT LOAN AGREEMENTS WITH THE COMMUNITY DEVELOPMENT DEPARTMENT, (2) PURCHASE AND SALE AGREEMENTS WITH VARIOUS PROPERTY OWNERS TO ACQUIRE SEVEN RESIDENTIAL HOTELS IN THE DOWNTOWN REGION AND 1115 SOUTH BOYLE AVENUE IN THE EASTSIDE REGION FOR AN APPROXIMATE AMOUNT OF \$58,500,000, AND (3) ACQUISITION LOAN AGREEMENTS WITH VARIOUS NON-PROFIT HOUSING DEVELOPERS IN A TOTAL AMOUNT NOT TO EXCEED \$50,500,000; APPROVAL OF BUDGET AMENDMENT AND VARIOUS RELATED ACTIONS
ADELANTE EASTSIDE, CENTRAL INDUSTRIAL AND CITY CENTER REDEVELOPMENT PROJECT AREAS
DOWNTOWN AND EASTSIDE REGIONS (CDS 9 AND 14)

RECOMMENDATION

- A. That the Agency authorize the Chief Executive Officer or designee to take the necessary actions and enter into purchase and sale agreements to carry out the acquisition of real properties in the 1) Downtown Region located at: 501 S. Los Angeles Street (Baltimore Hotel); 1002 E. 7th Street (Ford Hotel); 752 S. Main Street (Huntington Hotel); 121 E. 5th Street (King Edward Hotel); 116 E. 5th Street (Leland Hotel); 423 E. 7th Street (Madison Hotel); and 112 W. 5th Street (Roslyn Hotel) for an approximate amount of \$50,500,000; and 2) Adelante Eastside Region located at 1115 S. Boyle Avenue (Dynamic Spectrum development site) for an approximate amount of \$8,000,000;
- B. That the Agency, subject to City Council review and approval:
 - 1. Authorize the Chief Executive Officer or designee to take all actions necessary to negotiate and execute Float Loan Agreements with the City's Community Development Department (CDD) for an approximate amount of \$50,500,000, and purchase and sale agreements with various property owners and/or Acquisition Loan Agreements with various non-profit housing corporations for an approximate amount of \$50,500,000 for the potential acquisition of real properties in the Downtown Region as listed in the above Agency Recommendation A;
 - 2. Authorize the Chief Executive Officer or designee to take all actions necessary to negotiate and execute a Float Loan Agreement with the City's Community

Development Department (CDD) for an approximate amount of \$8,000,000 for the purchase of property from Dynamic Builders in the Eastside Region as listed in the above Agency Recommendation A;

3. Amend the FY08 Budget and Work Program for future receipt of approximately \$58,500,000 in Float Loan proceeds, establish new work program objectives, and take all other actions necessary for the acquisition and/or loan of funds of the hotels and the Dynamic Spectrum development site.

SUMMARY

These recommended actions will allow Agency staff to negotiate and execute Community Development Block Grant (CDBG) Float Loans with the CDD and to take all other actions necessary to acquire or assist with the acquisition of: a) seven (7) residential hotels over a multi-year basis in the Central Industrial and City Center Redevelopment Projects (Site Map - Attachment "A") and b) a development site at the Dynamic Spectrum in the Adelante Eastside Redevelopment Project (Site Map - Attachment "B"). These properties are for sale at a total combined asking price of approximately \$58,500,000 and will be acquired at not more than fair market value supported by appraisals by certified independent appraisers using universal standards of professional appraisal standards ("USPAP"). These actions will also allow staff to negotiate and execute acquisition loan agreements with non-profit housing corporations for their potential acquisition, rehabilitation and operation of the hotels located in the Downtown Region.

Under CDBG regulations, the City is allowed to provide Float Loans from its currently approved Letter of Credit for periods up to 30 months with no interest payments for eligible CDBG activities, including land acquisition. While the proposed Float Loans would be available on a multi-year program basis, three (3) Float Loans proposed to be made this calendar year will be for acquisition of the Madison Hotel, Rosslyn Hotel, and the development site at the Dynamic Spectrum.

Site Description

Acquisition of the seven (7) residential hotels, as listed in Table 1 below, is part of a comprehensive multi-year program of acquiring and rehabilitating residential hotels located in Downtown Los Angeles into permanent affordable housing with 55-year covenants. The recommended actions will allow the Agency to obtain Float Loans and in turn enter into acquisition loan agreements with various non-profit housing developers for the acquisition, rehabilitation and operation of the hotels. Alternatively, the Agency may purchase the hotels directly from current property owners and in turn sell them to non-profit housing corporations for rehabilitation and operation. The Float Loans will be repaid from public or intermediary financing. Rehabilitation costs are expected to be funded from a variety of sources including tax-exempt bonds, tax credits, Proposition 1C funds, the State of California's Multifamily Housing Program funds, and Agency gap funding.

TABLE 1

Name	Address	Units	Redevelopment Project Area
Rosslyn Hotel	112 W. 5th Street	264	City Center
Ford Hotel	1002 E. 7th Street	293	Central Industrial
Huntington Hotel	752 S. Main Street	204	City Center
Madison Hotel	423 E. 7th Street	194	City Center
King Edward Hotel	121 E. 5th Street	150	City Center
Leland Hotel	116 E. 5th Street	60	City Center
Baltimore Hotel	501 S. Los Angeles Street	158	City Center
TOTAL UNITS		1,323	

The first two hotels proposed for acquisition with a \$14,600,000 Float Loan and a \$4,600,000 Float Loan, respectively, are the 264-unit Rosslyn Hotel located at 5th and Main Streets and the 194-unit Madison Hotel located on 7th Street between Wall and San Julian Streets, in the City Center Redevelopment Project Area. The Float Loans will be repaid at the end of the 30-month term from a commitment of traditional local and state housing sources, such as Low Income Housing Tax Credits or local interim financing from intermediary lenders such as the Corporation for Supportive Housing and the Low Income Investment Fund (LIIF).

Dynamic Spectrum, a 12.6-acre property located at 1115 S. Boyle Avenue, is in the Adelante Eastside Redevelopment Project, as well as the State Eastside Enterprise Zone and the Los Angeles Federal Empowerment Zone. Dynamic Builders is in escrow (estimated to close on August 21, 2007) to purchase the site and intends to improve the site with modern industrial facilities for manufacturing and other related uses. Dynamic Builders would grade and improve the entire 12.6-acre site and subdivide it, creating at least one 4-acre parcel which Dynamic Builders has agreed to sell to CRA/LA at cost of \$8,000,000.

RE

Initial action

SOURCE OF FUNDS

CDBG Float Loan

PROGRAM AND BUDGET IMPACT

Upon execution of the Float Loans by the Agency as described above, approximately \$58,500,000 million in debt will be incurred for these recommended actions. It is anticipated that \$50,500,000 acquisition costs for the hotel Float Loans will be repaid through traditional public or intermediary funds. Redevelopment of the Dynamic Spectrum development site is expected to generate sufficient proceeds for the repayment of this debt through a combination of sale proceeds, public financing (i.e. Section 108 loan), and planned issuance of an Adelante Eastside tax allocation bond in FY2010. There is no fiscal impact to the City’s General Fund as a result of the recommended action.

ENVIRONMENTAL REVIEW

Pursuant to California Environmental Quality Act Section 15004(b)(2)(A) future use and/or disposition of the properties would be subject to environmental review pursuant to CEQA and Agency approval of the future projects.

BACKGROUND

As part of an on-going multi-year program in the Downtown Region, Agency staff in the Central Industrial and City Center Redevelopment Project Areas is seeking ways to acquire and finance the rehabilitation of seven residential hotels over the next five years into permanent affordable housing with 55-year covenants. As neither Redevelopment Project Area currently receives any tax increment due to ongoing litigation, these CDBG Float Loans provide a viable financing alternative to help fund the creation of deed-restricted permanent affordable housing. The seven hotels consist of the Baltimore (158 units), Ford (293 units), Huntington (204 units), King Edward (150 units), Leland (60 units), Madison (194 units) and Rosslyn (264 units) for a total of 1,323 units. Acquisition and rehabilitation of buildings into permanent affordable housing are goals for both the Central Industrial and City Center Redevelopment Plans. The proposed acquisition and rehabilitation of the seven hotels will alleviate blighting conditions, secure safety and livability for residents and conserve structures of historic and/or architectural significance in Downtown Los Angeles.

The Dynamic Spectrum development site in the Eastside Region presents an opportunity for catalytic economic development in Boyle Heights. Pursuant to the Redevelopment Plan, CRA/LA has designated the Site for industrial use. Redevelopment of the Site into industrial uses will further the CRA/LA's goals of alleviating blighting conditions, encourage the development of an industrial environment that positively relates to adjacent land uses, including an emphasis on the development of industrial parks and industrial operations that are environmentally safe and that expand employment opportunities for residents of the Project Area and adjacent neighborhoods.

Under CDBG regulations, the City is allowed to provide Float Loans from its approved Letter of Credit (LOC) for periods up to 30 months for any eligible CDBG activities, including land acquisition. At the City's discretion, terms of the Float Loans are flexible and can include no interest payments. The proposal to use Float Loans for land acquisition activities by the Agency was presented on August 10, 2007 to the City's Block Grant Task Force Timeliness Committee on CDBG expenditures. The City is currently is interested in placing a number of float loans to assist in reducing its overall LOC balances by January 30, 2008. The Task Force will present the proposed land acquisition float loan alternative in their list of recommendations to the City Council's Housing, Community and Economic Development Committee (HCED).

Cecilia V. Estolano
Chief Executive Officer

By

Glenn F. Wasserman
Chief Operating Officer

There is no conflict of interest known to me which exists with regard to any Agency officer or employee concerning this action.

Attachment A – Location Map of Residential Hotels

Attachment B – Dynamic Spectrum Development Site