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Members of the Oversight Board
1200 W. 7th Street, Suite 500
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OVERSIGHT BOARD TRANSMITTAL:

Transmitted herewith, is a Board Memorandum adopted by the CRA/LA Governing Board at a Special Meeting held on April 19, 2012 for Oversight Board review and approval in accordance with the Assembly Bill 1x-26 entitled:

Cleantech Manufacturing Center Purchase and Sale Agreement. Authorize CRA/LA, a Designated Local Authority ("DLA"), to execute Purchase and Sale Agreement ("PSA") with TC LA Development, Inc., a wholly owned subsidiary of the Trammell Crow Company ("Buyer"), for disposition of CleanTech Manufacturing Center ("CTMC") site at 2425-2455 East Washington Boulevard for \$15.4 million

RECOMMENDATION

That the Oversight Board approve the actions of the Governing Board taken at its Special Meeting held on April 19, 2012.

Christine Essel, Chief Executive Officer

cc: CRA/LA-DLA Governing Board

APPROVED

MEMORANDUM

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DATE: APRIL 19, 2012
TO: GOVERNING BOARD
FROM: CHRISTINE ESSEL, CHIEF EXECUTIVE OFFICER
STAFF: JENNY SCANLIN, REGIONAL ADMINISTRATOR
CHRISTINE KALAMAROS, SENIOR REAL ESTATE DEVELOPMENT AGENT
SUBJECT: **Cleantech Manufacturing Center Purchase and Sale Agreement.**
Authorize CRA/LA, a Designated Local Authority ("DLA"), to execute Purchase and Sale Agreement ("PSA") with TC LA Development, Inc., a wholly owned subsidiary of the Trammell Crow Company ("Buyer"), for disposition of CleanTech Manufacturing Center ("CTMC") site at 2425-2455 East Washington Boulevard for \$15.4 million.
DOWNTOWN REGION (CD 14)

CI2140
100033
ROPS#1487

RECOMMENDATIONS

That the Governing Board take the following action(s) subject to Oversight Board approval:

1. Authorize the Chief Executive Officer ("CEO") or designee to negotiate as to environmental issues and any related escrow instructions and to execute, on behalf of the CRA/LA, a Designated Local Authority, a Purchase and Sale Agreement ("PSA") with TC LA Development, Inc., a wholly owned subsidiary of the Trammell Crow Company, for the potential disposition of the CTMC Site at 2425-2455 East Washington Boulevard for \$15.4 million, subject to City Attorney approval and substantially in the form as approved by Prior CRA/LA Board on November 3, 2011 with a modification, the removal of section 12 (d); and to take such other actions as may be necessary to complete the transaction and pay off the East West Bank acquisition loan when due;
2. Authorize the CEO or designee to solicit bids for the continued operation of the environmental remedial system from among CRA/LA-DLA's existing pool of environmental consultants and to extend and amend the contract with the winning bidder, an environmental remediation consultant, for five additional years, in the amount not to exceed \$4 million for continuing environmental remediation work at the CTMC Site;
3. Authorize the CEO to amend and extend as necessary the existing Project Environmental Oversight Agreement for oversight of the environmental remediation at CTMC with the California Department of Toxic Substances Control ("DTSC"); and

That the Governing Board take the following action:

4. Amend the Fiscal Year 2012 Budget to accept the proceeds from the sale of the Site, if needed, and authorize the CEO or designee to use these proceeds to a) pay off the approximately \$13.1 million balance of the East West Bank acquisition loan; b) deposit any balance in an escrow account to be held as additional funds to be used for environmental remediation of the CTMC Site in the event that the existing State Escrow Holdback Account of \$2.3 million is exhausted and until the Site remediation work is completed according to a DTSC approved work plan and a No Further Action letter is issued by the DTSC; and c) distribute any remaining unused balance to the DLA.

SUMMARY

California Assembly Bill 1x-26, as upheld by the California Supreme Court has as one of its core objectives the requirement that the DLA, with Oversight Board direction, dispose of CRA/LA-DLA owned properties, realizing the highest achievable property value in a timely fashion. The recommended actions will help achieve this objective by authorizing the execution of a Purchase and Sale Agreement ("PSA") and a Grant Deed disposing of the Clean Tech Manufacturing Center ("CTMC") Site for \$15.4 million to Trammell Crow as previously approved by The Community Redevelopment Agency of the City of Los Angeles ("Prior Agency") Board on November 3, 2011.

The recommended actions will also authorize the repayment of a loan from East West Bank ("EWB") and avert a default declaration against DLA by East West Bank. The EWB loan was obtained in 2008 to purchase the Site from the State of California and is secured by a first priority lien on the Site. Repayment was originally due May 1, 2011, but the repayment date has been extended a number of times in the past year, with a current maturity date of May 1, 2012.

Given that the PSA cannot be duly executed until Oversight Board approval is obtained, and the Oversight Board will not be in place until May 2012, another 3-month extension to extend the EWB loan maturity date to August 1, 2012 will be required. The estimated 3-months interest payment of \$125,027 is on the ROPS that was approved by DLA Board on March 1, 2012 subject to Oversight Board approval.

Pursuant to the Project Environmental Oversight Agreement ("PEOA"), dated January 8, 2007, which the Prior Agency entered into with DTSC at the time of acquiring the Site, the Prior Agency was required to oversee the environmental investigation and cleanup of the Site. State funding in the amount of \$2.5 million was made available for this purpose ("State Cleanup Funds"). The Prior Agency undertook a long series of environmental investigations and conducted cleanup activities at the CTMC Site. The recommended actions will allow for the restart of the environmental remediation effort at the CTMC Site that was disrupted by State Budget action.

To comply with AB1x-26, CRA/LA staff is preparing a real property disposition plan for approval of the Governing Board and Oversight Board. There are exigent factors present that require the CTMC Site be disposed of ahead of the other CRA/LA real property assets. First, the subject property is encumbered by an approximately \$13 million mortgage that matures in May 2012. As the project area has insufficient resources to repay this obligation, the recommended action would allow this secured debt to be paid in full, avoiding a default under the loan. Second, after nearly three decades, the CTMC Site remains the subject of considerable public interest and investment. The State of California and the City of Los Angeles have initiated multiple strategies

and invested many thousands of dollars in environmental cleanup and marketing efforts aimed at putting this important and sizable industrial property back into productive use. With the EWB acquisition loan now coming due, a fully negotiated PSA and a willing Buyer with a proven track record are now finally in place. The recommended actions, if approved and implemented, will represent a major milestone for the community, for the Central Industrial Redevelopment Project Area.

DISCUSSION & BACKGROUND

The CTMC Site (Location Map attached in Attachment A) was the subject of a Request For Proposals ("RFP") in September 2010 and limited reopening of the same RFP on June 29, 2011 for proposals to purchase the Site and construct a cleantech industrial manufacturing or assembly facility. The September 2010 CTMC RFP process resulted in the selections of Genton Property Group and Trammell Crow Company as the first and second respondents with whom staff negotiated a PSA and a contingent PSA. Prior Agency Board and City Council approved the PSA and Grant Deed on March 17, 2011.

Due to environmental contamination issues on the Site, the first top respondent Genton was unable to secure financing and elected to terminate the Prior Agency Board- and Council-approved PSA and Grant Deed Terms. Staff then offered Trammell Crow an opportunity to execute the same PSA and Grant Deed; Trammell Crow declined. Staff reopened the RFP on June 29, 2011 to the seven firms that submitted under the original RFP. Trammell Crow submitted the most responsive package under the limited reopening of the CTMC RFP. Trammell Crow's responses included: 1) an agreement to pay \$15.4 million up front for the Site, the best sales price terms among all seven responding firms, and two unsolicited proposals; 2) indicated Trammell Crow has access to capital and that funds are available to close escrow, while other respondents had contingencies on their capital; 3) included an agreement to pay for the vapor barriers and moving wells if they changed their site plan, while other proposers asked the Prior Agency to cover these costs; and 4) set forth one of the shortest timeframes for closing (15 days), saving the continued cost of EWB extensions.

Trammell Crow Company, founded in 1948, is one of the nation's premier integrated North American commercial real estate operators. Trammell Crow has developed or acquired over 2,500 buildings valued in excess of \$60 billion. Trammell Crow's Los Angeles Development and Investment Group provides more than 28 years of experience and expertise in development, investment and construction of 3.5 million square feet of office, mixed use, retail and industrial space valued in excess of \$1.2 billion. Trammell Crow is headquartered in Dallas, Texas, with local offices in Los Angeles, and is wholly owned by Los Angeles-based CB Richard Ellis, a publicly-traded company.

In early November 2011 Trammell Crow executed the PSA; and staff presented the PSA to the Prior Agency Board on November 3, 2011. The PSA was approved contingent upon California Supreme Court Stay being lifted.

Under the PSA terms, Buyer will have 15 days to pay purchase price and close escrow after CRA/LA execution of the PSA. Detailed timeline of events are: 1) Opening of Escrow: five business days following the mutual execution of PSA and Grant Deed; 2) Due Diligence: closes five business days following the Opening of Escrow; and 3) Closing of Escrow: five business days following the expiration of Due Diligence period.

The only modification staff proposes to the previously approved PSA is removing the provision in PSA section 12 (d) that "all or a portion of the Excess Funds (i.e., all funds remaining after the East West Bank loan has been fully paid off) may be withheld and released to CRA/LA for the purpose of inducing a clean tech tenant for CTMC." With the dissolution of the former Community Redevelopment Agency, activities to induce clean tech tenants is not an allowable spending item under California Assembly Bill 1x-26.

Property Value

The CTMC site was appraised in March 2011. The appraised fair market value for CTMC was \$16,130,000. While unable to pay for another appraisal at this time, staff has had an in-depth discussion with the appraiser who performed the March 2011 appraisal. The appraiser advised that this value may still hold today as industrial land market in this location has not seen much movement in the last year. The appraised value reflects a market value free of soil contamination, gases, or toxins. This assumption is consistent with standard appraisal practices and the fact that the remediation will be completed by the current property owner, CRA/LA-DLA.

At this time, it is not possible to be certain about the length of time that will be necessary to complete environmental remediation of the Site. According to the latest remediation work plan, the clean up could take up to four years before the property can receive the necessary "No Further Action" letter from DTSC. This extended period of time, along with uncertainty of potential groundwater contamination, will likely make advance decisions about occupying new commercial space by prospective tenants problematic. Moreover, awareness of the need for environmental remediation will likely further stigmatize the value of the property. Standard appraisal practices recognize the extreme difficulty of estimating the value of properties with a remediation timing risk. Therefore, the proposed purchase price is a reasonable Fair Market Value taking into consideration the risk associated with the timing of the environmental remediation and the potential added cost to the developer to move wells, as necessary, as they develop the Site.

The PSA and Grant Deed as negotiated contain Clean Tech and Living Wage covenants which combined have a negotiated value of \$1 million. After the dissolution of redevelopment, these policies may no longer be held to apply, however Buyer is willing to honor the previously negotiated Clean Tech and Living Wage covenants.

Status of East West Bank Acquisition Loan, No. 29182 (the "EWB Loan")

In February 2008, Prior Agency exercised its Purchase Option to acquire the Site from the State for a purchase price of approximately \$11 million. On April 14, 2008, the Prior Agency closed its purchase on the majority of the Site, and closed on the remaining parcels in November 2008. The entire acquisition, including 3 years of accrued interest, was funded by the EWB Loan (a small portion of the closing costs were funded by Prior Agency's Special Revenue and General Revenue). No Project Area Tax Increment was used in the acquisition of the Site.

To allow time for the environmental remediation before the Site could be marketed, sold and the loan repaid, the EWB Loan initially allowed the accrued loan interest to be added back to the loan principal of approximately \$11 million up to \$15.4 million (similar to a negative amortization loan). The EWB Loan had an initial term of 36 months at a variable rate indexed to the 1-month LIBOR plus 250 basis points (2.5%). The EWB Loan is secured by a first lien on the Site. Full repayment of the EWB Loan balance of \$13,032,245.81 was originally due on May 1, 2011.

After Genton terminated the PSA and while negotiations with Trammell Crow ("TC") were proceeding, Staff negotiated a 90-day loan extension with EWB, maturing on August 1, 2011. The terms of the extension were a prepayment of loan interest for the period of the extension and 1% increase in the interest rate. Thereafter, a second extension of six months, maturing on

February 1, 2012, was negotiated based on the contemplated transaction with TC. In January 2012, the note was extended a third time to May 1, 2012, due to the California Supreme Court decision which resulted in the dissolution of redevelopment agencies throughout the State.

The current EWB Loan outstanding principal balance with accrued interest is \$13,032,245.81 with the total interest cost for loan extensions from May 1, 2011 to May 1, 2012 at approximately \$600,000. EWB has informed Staff that in the event of any potential additional extensions of the maturity date, loan interest will need to be paid in advance for the entire anticipated extension period. The EWB loan principal balance and an additional 3-month interest payment of approximately \$125,000 is currently on the Board approved ROPS, #1487, subject to Oversight Board approval.

DESCRIPTION, PROJECT CONTEXT AND PROJECT HISTORY

Location

The approximately 20.6 acre (gross) CTMC Site is located at the intersection of 15th Street and Washington Boulevard in the downtown industrial core at the northern terminus of the Alameda Corridor Improvement Project. It consists of a net buildable 16.17-acre northern parcel and a net buildable 1.3-acre southern parcel. In addition, there are two "remnant parcels" on the west side of Santa Fe Avenue, totaling approximately 0.6 acres that are included as part of the Site. New industrial-standard streets have been installed by the Alameda Corridor Transportation Authority ("ACTA") adjacent to and through the Site, providing excellent surface access to and through the CTMC Site.

History

In 1988, the Site was purchased by the State Department of Corrections to construct a prison. However, due to extreme community opposition, the plan was aborted and, in 1995, the State declared the Site as surplus property.

In early 1997, the City's Brownfields team commenced its consideration of the Site as a Brownfields Demonstration Site. The City Council designated the Prior Agency as the lead agency for specified pre-development and real estate actions aimed at completing site environmental investigations as well as development management activities to bring the Site back to productive use. The Prior Agency, under City Council and Mayoral direction, negotiated a Purchase Option to acquire the Site from the State of California Department of General Services ("DGS"). At the time, the Site was not within a redevelopment project area; it is now in the Central Industrial Redevelopment Project Area, adopted in November 2002.

Acquisition of Brownfield Site

The Prior Agency exercised its option and purchased the Site from the DGS in 2008. As noted above, due to contamination at the Site, it was designated as a Brownfields Demonstration Site by the City in 1997. Under the portion of the California redevelopment law known as the "Polanco Act", redevelopment agencies could acquire contaminated brownfield sites, clean them up under the supervision of the DTSC and then, following the remediation, sell them to third party developers. If the remediation is completed in accordance with the applicable plan and the DTSC issued a certificate of completion known as a "No Further Action" letter, then the redevelopment agency and the subsequent third party developer would be immune from state liability with respect to the environmental contamination covered by the remediation plan. During the negotiation of the purchase of the Site, the Prior Agency entered into a Project Environmental Oversight Agreement with DTSC, dated January 8, 2007, requiring the Prior

Agency to oversee the environmental investigation and cleanup of the Site. State funding in the amount of \$2.5 million was made available for this purpose.

City's Involvement

In the summer of 2008, the Prior Agency began a concerted effort to market the CTMC development opportunity to potential clean tech tenants and developers. In September 2008, the Prior Agency released a Request for Interest ("RFI") announcing the CTMC development opportunity.

Two years following this announcement, the Prior Agency staff made extensive efforts in identifying and negotiating with qualified cleantech owner user / developers for the potential use and development of the CTMC Site, including 1) AnsaldoBreda Inc., – an Italian rail car manufacturer, with a proposal to develop the CTMC with a 240,000 square-foot light rail car manufacturing and maintenance facility; 2) Applied Materials - a large manufacturer of solar panels headquartered in Silicon Valley; 3) CODA Automotive Inc., a Santa Monica based manufacturer of electric vehicles, which evaluated the CTMC site for a lithium-ion battery pack assembly facility. Unfortunately, for various reasons, none of the above opportunities came to fruition.

The CTMC Site is also the southern anchor of the CleanTech Corridor initiative, which is the center of Los Angeles' emergence as the top cleantech manufacturing region in the nation. The Corridor is a four-mile long district on the eastern edge of Downtown Los Angeles, stretching from the Los Angeles State Historic Park in the north, to the CTMC in the south, and includes portions of both the east and west banks of the Los Angeles River.

Request For Proposals Bidding Process

To renew the redevelopment effort for the CTMC Site, on September 3, 2010, staff issued the CTMC RFP No. NP-13518 to invite industrial users and development teams to submit their conceptual development proposals for the purchase or long-term ground lease and development of the CTMC Site. Seven firms responded to the RFP and Genton Property Group was selected on a competitive basis as the top scoring respondent. Following the selection, Genton executed a Board approved PSA. During the contractual due diligence period, Genton elected to terminate the PSA due to uncertainties over environmental concerns. Trammell Crow was the second top scoring respondent to the original RFP and later the top respondent under the limited reopen of the RFP in June 2011, thereafter, executed a Board approved PSA in November 2011.

Environmental Status

The State environmental remediation funds are held in an escrow holdback account for this purpose. The escrow account balance is currently approximately \$2.3 million. The obligation under the PEOA to oversee the Site environmental cleanup activities until a No Further Action letter ("NFA") is issued by the DTSC for the Site is an enforceable obligation.

The Prior Agency undertook a long series of environmental investigations and conducted cleanup activities at the CTMC Site, resulting in a "closure" letter from DTSC for the shallow soil contamination (i.e. the upper 30 feet of soil). The remaining deep soil gases have been characterized and a long-term remediation plan that will allow development to proceed has been approved by DTSC. Guided by the PEOA, during the course of the recent PSA negotiations with Genton, staff negotiated an updated cleanup plan better suited for the then-proposed development concepts. According to this updated plan, the timeline for obtaining the NFA could be as long as four years and could cost up to \$4 million. Therefore the updated plan may

require the CRA/LA-DLA to set aside an additional \$1.7 million in new funds over and above the currently available \$2.3 million State cleanup funds. DTSC approved this updated plan on June 9, 2011.

SOURCE OF FUNDS

No CRA/LA-DLA funds are required for this action. Original source of funds for the purchase is a loan from East West Bank. The CRA/LA-DLA is also able to draw on an escrow account in the amount of \$2.3 million in funds from the State of California to cover remediation costs associated with the DTSC-approved PEOA. The anticipated balance from the purchase price is anticipated to cover any additional remediation costs, if necessary. No tax increment funds have been utilized in the purchase or remediation of the Site.

ROPS AND ADMINISTRATIVE BUDGET IMPACT

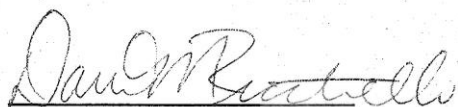
Executed East West Bank Loan Note is #1487 on the adopted Enforceable Obligations Payment Schedule and proposed ROPS. Approximately \$13.1 million of the proceeds from the sale will be used to pay off this outstanding bank note. The balance will be set aside in escrow to cover environmental remediation costs. Once remediation is complete, it is anticipated that any balance remaining will be available for dissemination to the taxing entities per AB1x-26.

ENVIRONMENTAL REVIEW

The proposed actions do not constitute a "project" according to the California Environmental Quality Act (CEQA). Under CEQA Guideline § 15004 (b) there is insufficient information available regarding any proposed project on the site to allow for a meaningful environmental assessment at this time. Any future governmental discretionary decisions for approval of a project on the site will be contingent on full compliance with the CEQA.

Christine Essel
Chief Executive Officer

By:



David Riccitiello
Chief Operating Officer



There is no conflict of interest known to me which exists with regard to any CRA/LA-DLA officer or employee concerning this action.

ATTACHMENTS

Attachment A: Location/Site Map

Central Industrial Redevelopment Project

CRA/LA

-  Central Industrial Redevelopment Project
-  Crown Coach Site

Attachment A

