DATE: DECEMBER 12, 2016

TO: GOVERNING BOARD

FROM: STEVE VALENZUELA, CHIEF EXECUTIVE OFFICER

SUBJECT: GRAND AVENUE PROJECT – Non-monetary Action. Various actions to implement the development of Phase I of the Grand Avenue Project on County-owned Parcel Q (APN 5149-010-949) located at 100 South Grand Avenue in the Bunker Hill Redevelopment Project Area

RECOMMENDATIONS

That the Governing Board:

1. Acting as a responsible agency for purposes of the California Environmental Quality Act (“CEQA”), find that the recommended actions are within the scope of the previously certified Final Environmental Impact Report and the First and Second Addenda to the Final Environmental Impact Report;

2. Approve the proposed revision to the Phase I Scope of Development on Parcel Q to allow for adjustments to the prior approvals consistent with the revised concept design and Project description previously approved by CRA/LA to facilitate the design and refinement of terms relative to a mixed-use development featuring a residential tower (including affordable housing), a hotel tower, public plaza, parking, retail/commercial spaces, streetscape and site landscaping by the Phase I Developer;

3. Authorize the Chief Executive Officer (“CEO”) to consent to the Fifth Amendment to the Disposition and Development Agreement (“DDA”) among the Los Angeles Grand Avenue Authority (“Authority”), Grand Avenue L.A., LLC (“GALA”), and the Phase I Developer to implement the Phase I development;

4. Authorize the CEO to execute an update to the Subordination/Non-Disturbance and Attornment Agreement among the County of Los Angeles, CRA/LA, and the Phase I Developer;

5. Authorize the CEO to execute the Termination of Incentive Rent Agreement by and among the Authority, the County of Los Angeles, the City of Los Angeles and CRA/LA, in consideration for the City’s agreement to undertake compliance monitoring;

6. Authorize the CEO to execute a Third Amendment to the Joint Exercise of Powers Agreement between the County of Los Angeles and CRA/LA, to extend and update the ground lease deadlines applicable to future Phases IIC and III;

7. Authorize the CEO to consent to the First Amendment to Phase I Ground Lease between the Authority and the Phase I Developer;
8. Authorize the CEO to execute estoppel certificates and related documents acknowledging CRA/LA’s approvals, authorizations and compliance in connection with Phase I; and,

**SUMMARY**

The recommended actions will facilitate the development of Phase I of the Grand Avenue Project through approval of a Fifth Amendment to the Disposition and Development Agreement (“DDA Fifth Amendment”). Phase I of the Grand Avenue Project is located at 150 South Grand Avenue, in the Bunker Hill Redevelopment Project Area.

The CRA/LA is not a party to the DDA Fifth Amendment between GALA and the Authority; however, its consent as a governmental entity is required for amendments to the DDA and for revisions to the Scope of Development. The County Board of Supervisors approved the DDA Fifth Amendment on November 22, 2016, the Authority approved it on November 28, 2016 and the City Council is scheduled to consider the matter on December 14, 2016. CRA/LA staff, in consultation with legal counsel, has been involved in negotiating the deal points and documents incorporated in the recommendations above.

The DDA has previously been amended four times. The prior amendments outlined the terms and conditions for development and lease of the Bunker Hill properties owned by the County and CRA/LA; approved a change in the Scope of Development to permit construction of The Broad Museum (as Phase IIA on Parcel L); divided the balance of Phase II into Phases IIB (now The Emerson Apartments, on Parcel M) and Phase IIC (proposed as interim open space, on the rear of Parcel L); approved a subsequent revised concept plan and Scope of Development to permit the construction of the redesigned Phase I mixed-use development, including repositioned residential and separate hotel towers, along with a public plaza, retail/commercial, and various streetscape and site landscaping improvements.

**PREVIOUS ACTIONS**

May 1, 2014 – Governing Board approval of the Fourth DDA Amendment

November 29, 2012 – Governing Board approval of the Third DDA Amendment

April 21, 2011 – Former Agency Board of Commissioners approval of Second DDA Amendment

July 15, 2010 – Former Agency Board of Commissioners approval of First DDA Amendment

February 1, 2007 – Former Agency Board of Commissioners approval of the Final EIR, DDA, ground leases, and various legal agreements for the Grand Avenue Project

**DISCUSSION & BACKGROUND**

The overall goal of the Grand Avenue Project is to create a vital urban destination in the heart of Downtown Los Angeles. The three-phased project redevelops underutilized publicly-owned land and expands the residential community of Bunker Hill with quality market rate and affordable housing, cultural and entertainment venues, restaurant, retail, office and hotel uses. The Grand Avenue Project also seeks to create new public spaces; the Grand Park and a public plaza between The Emerson and The Broad, and extensive streetscape improvements along Grand Avenue and along secondary streets surrounding the various Project Phases.
Phase I Developer

To implement the Phase I mixed-use development, Related has secured an equity investor from China Communications Construction Group, a Beijing entity (“CCCG”). Related has formed the Phase I Developer, a single-purpose entity to enable CCCG to invest in Phase I. The Phase I Developer is a wholly-owned subsidiary of CORE/Related Grand Avenue JV, LLC (CORE/Related JV”). The only members of CORE/Related JV are (i) Related Grand Avenue, LLC (the indirect parent of GALA and a wholly-owned subsidiary of Related) (“Related Grand Ave”) and (ii) CORE (USA) Grand Avenue, LLC, (“CORE LA”). CORE LA is indirectly controlled by CCCG. Pursuant to the joint venture agreement between CORE LA and Related Grand Avenue, CORE LA (the CCCG-controlled entity) will own 89% of the capital and profits of Phase I Developer and Related Grand Ave will own 11% and serve as the Managing Member of the joint venture.

DDA Fifth Amendment

The DDA Fifth Amendment contains the following major provisions:

Scope of Development

The changes to the Scope of Development vary modestly from those approved in the Fourth DDA Amendment, as follows:

- Residential – A reduction from 450 to 429 units. The residential tower will integrate 128 market rate condominiums with 215 market-rate apartments and 86 affordable rental units (20% of 429). The affordable units will consist of 13 units reserved for occupancy by households at 40% of area median income and 73 units reserved for occupancy by households at 50% of area median income.
- Hotel – An increase from 300 to 305 keys. The proposed hotel tower will consist of a 4-star Equinox Hotel with meeting space and ancillary hotel amenities.
- Office – Elimination of all 47,000 square feet of office
- Retail/Commercial – An increase from 200,000 to 215,000 square feet
- Parking – No change to 1,350 spaces; however, the spaces will yield an additional 150 parking opportunities by valet-assisted tandem parking

Connecting the residential and hotel towers is a public plaza and courtyards with outdoor seating and dining areas that will connect Grand Avenue to Hill Street. The public plaza will also provide an accessible connection to the underground parking garage and a visual connection through the development between Olive and Grand Streets. Acclaimed architect Frank Gehry is the lead architect designing Phase I.

Schedule of Performance

The DDA Fifth Amendment includes changes to the Schedule of Performance; the most substantive includes moving the construction commencement date from November 30, 2017 to November 1, 2018, and the deadline for completion of construction from January 31, 2021 to 38 months after the commencement of construction (or approximately February 2024).

Subordination/Non-Disturbance and Attornment Agreement

This agreement between the County, CRA/LA, Authority and Developer requires updating to ensure that the Authority-Phase I Developer ground lease or the Phase I Developer/Operator lease will not be terminated or otherwise disturbed in the event the County-CRA/LA lease or CRA/LA-Authority sublease is terminated.
Termination of Incentive Rent Agreement

As members of the Authority, the County and CRA/LA will each receive a share of base rent and incentive rent ("Incentive Rent") generated by the Phase I development in the amounts of 67.8 and 32.2 percent, respectively. In 2007 under the provisions of a separate Incentive Rent Agreement between the Authority and the City, the CRA/LA and County previously agreed to forego their rights to all Phase I commercial and hotel Incentive Rent until those Incentive Rents made the City whole on any transient occupancy tax relief provided to the hotel component.

The DDA Fifth Amendment now terminates Related’s obligations to pay any Incentive Rent to the Authority and CRA/LA from the Phase I residential components. The Authority and CRA/LA have agreed to waive rights to any future Incentive Rent as consideration for the City’s agreement to assume compliance monitoring of certain construction and post-construction policies. Specifically, the City has agreed to undertake responsibility for monitoring compliance by the Phase I Developer with regards to Payment of Prevailing Wages, Living Wages, Contracting Procedures, Contractor Responsibility Program, Service Contractor Retention Policy, Art Policy, and Housing Affordability Covenants.

Furthermore, the Phase I Developer has agreed to undertake expanded community benefits to be monitored by the Authority, including:

- Workforce Development – Hiring of a jobs coordinator to design and achieve local hiring goals during construction and also for permanent jobs.
- Community Access – Committing to provide public programming in the Phase I plaza accessible and appealing to a broad cross-section of the general public.
- Retail Space – Agreeing to an inclusive leasing policy to ensure retail tenants offer products and offerings in a range of price points, and dedicating at least 10,000 square feet of retail/food and beverage space to be rented to local business.

Third Amendment to Joint Exercise of Powers Agreement

This amendment would extend by one year the time provided for Project parcels not yet under lease, including the rear of Parcel L (CRA/LA-owned parcel) and Parcel W-2 (County-owned parcel).

Consent to Amendment of Phase I Ground Lease

The Phase I Ground Lease between the Authority and Phase I Developer must be amended to conform to the updated terms in the Fifth Amendment. Although not a party to the Phase I Ground Lease, CRA/LA’s consent is required under the terms of the Conveyance and Funding Agreement.

SOURCE OF FUNDS

There is no new CRA/LA funding required in connection with the recommended actions.

ROPS AND ADMINISTRATIVE BUDGET IMPACT

The Conveyance and Funding Agreement, CRA/LA agreed to provide financial assistance towards the development of certain Phase I components: (a) affordable housing; (b) public plaza and streetscape; and, (c) off-site public improvements.
CRA/LA agreed to facilitate the Phase I affordable housing component by underwriting a low-interest loan to the Phase I Developer/Authority at the rate of $100,000 per affordable unit (or $8.6 million pursuant to the now final Scope of Development). The CRA/LA also agreed to provide a loan to the County/Authority in the amount of $5,000,000 for public plaza improvements. Finally, the CRA/LA agreed to reimburse the Phase I Developer up to $12 million for eligible off-site public improvements; funding to come from site specific property taxes with the County contributing $4.6 million. DOF has acknowledged these payments are enforceable obligations and eligible for funding from property taxes (RPTTF) when they appear on a valid ROPS.

ENVIRONMENTAL REVIEW

On November 20, 2006, acting as lead agency, the Authority certified the Final EIR for the Grand Avenue Project, made Environmental Findings, and adopted Mitigation Measures and a Statement of Overriding Considerations in connection with the approval of the Grand Avenue Project. In February, 2007, acting as a responsible agency, the Former Agency’s Board of Commissioners certified the Project Environmental Impact Report (Final EIR) for the Project, a mixed use development on Parcels Q and W-2, L and M-2 (M), and potentially W-1, along with a revitalized and expanded civic park.

In August, 2010, acting as a responsible agency, the Former Agency’s Board certified the First Addendum to the Final EIR in connection with the First Amendment to the DDA and a change in the scope of development to permit the Broad Museum on Parcel L.

Acting as lead and responsible agencies, the Authority and CRA/LA, respectively, approved in 2014 a Second Addendum to the Final EIR, which updated environmental documentation in connection with the revised concept plan for Phase I, based on the reformulated project description as designed by Frank Gehry in January 2014.

The Final EIR with its addenda includes in its scope of potential impacts analyzed the currently recommended scope of development for Phase I, consisting of two towers repositioned as approved in 2014 and a mix of residential, retail and hotel uses consistent with those analyses. No further environmental review is required based on the record of the Grand Avenue Project because since certification of the Final EIR and approval of the First and Second Addenda, there have been no changes to the project or substantial changes in circumstances or new information that would warrant subsequent environmental analysis in accordance with CEA, including but not limited to California Public Resources Section 21166 and State CEQA Guidelines Sections 15162, 15163 and 15164. The mitigation measures and related conditions of approval from the certified EIR applicable to the Phase I project as revised have been reviewed and will be monitored for compliance.

By:

Steve Valenzuela
Chief Executive Officer

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