

MEMORANDUM

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DATE: JANUARY 4, 2018

TO: GOVERNING BOARD

FROM: STEVE VALENZUELA, CHIEF EXECUTIVE OFFICER

STAFF: BARRON MCCOY, CHIEF OPERATING OFFICER
DANIEL KAHN, SR. REAL ESTATE DEVELOPMENT AGENT

SUBJECT: PROPERTIES RETAINED FOR FUTURE DEVELOPMENT. Approval of a 12 month extension to the Option Agreement with the City of Los Angeles (“City”) providing additional time for the City to exercise its option to acquire the fee interest in CRA/LA-owned property located at 110 S. Boyle Avenue and identified as Long Range Property Management Plan (“LRPMP”) Asset ID No. 475.

RECOMMENDATION

That the Governing Board approve the City’s request to extend the term of the Option Agreement (“Agreement”), providing an additional twelve (12) months for the City to exercise its option to acquire the fee interest in the CRA/LA-owned property located at 110 S. Boyle Avenue and identified as LRPMP Asset ID No. 475 (“1st & Boyle”).

SUMMARY

Approval of the recommended action would extend the Term of the Agreement through January 10, 2019. In a letter dated November 27, 2017 (Attachment A), the City requested an additional eighteen (18) month extension through July 10, 2019. The City is requesting the extension for several reasons.

First, to allow sufficient time to complete additional environmental site assessments to determine the extent of soil contamination and related remediation costs. Phase I and Phase II Environmental Site Assessments prepared for CRA/LA in 2008 and 2009 and reviewed by the City indicated soil contamination and recommended site remediation. If the precise extent and cost of remediation is determined in the next 12 months, the City will move forward with an affordable housing development.

Second, to allow sufficient time to negotiate a Disposition and Development Agreement (“DDA”) with Azure Development (“Developer”) for a mixed use affordable housing project. In September 2017, the City, following a solicitation for request for proposals, entered into an Exclusive Negotiating Agreement with the Developer. Under the proposed DDA, the Developer would apply for Measure HHH bond funds. The developer must demonstrate site control to secure a commitment of funds.

If the extension is granted, the City expects to meet the schedule and milestones set forth in the City’s letter, Attachment A.

After careful consideration of the City’s request and to ensure the proposed scope of work is completed in a timely manner, CRA/LA staff is recommending a shorter extension period of 12 months through January 10, 2019.

PREVIOUS ACTIONS

January 5, 2017 - Governing Board approval of a 12 month extension to the Option Agreement for CRA/LA Asset ID No. 475 ("1st & Boyle).

January 9, 2015 – Following approvals by the Governing and Oversight Board and DOF, CRA/LA entered into 10 Option Agreements with the city of Los Angeles for assets categorized as Retain for Future Development within the LRPMP.

DISCUSSION & BACKGROUND

The Initial Term of the Agreement was for two years with an option to extend the Agreement by 12 months. On January 5, 2017, the Governing Board approved the 12 month extension through January 10, 2018.

SOURCE OF FUNDS

No funding is being requested for this item.

ROPS AND ADMINISTRATIVE BUDGET IMPACT

There is no ROPS impact anticipated with this action. There is no impact on the Administrative Budget associated with this action.

ENVIRONMENTAL REVIEW

The proposed action does not constitute a Project pursuant g to the California Environmental Quality Act (CEQA).

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.

Attachments

Attachment A – City of Los Angeles correspondence of November 27, 2017

ATTACHMENT A



ERIC GARCETTI
MAYOR

VIA ELECTRONIC AND U.S. POSTAL SERVICE

November 27, 2017

Mee Semcken, Chair
Ed P. Reyes, Vice Chair
Governing Board of the CRA/LA – DLA
c/o Steve Valenzuela, Chief Executive Officer
448 S. Hill Street, 12th Floor
Los Angeles, CA 90013

**RE: REQUEST FOR EXTENSION OF OPTION AGREEMENT
CITY – CRA/LA OPTION AGREEMENT C-125181
110 S. BOYLE AVENUE, ID 475
EXPIRATION OF CURRENT EXTENDED TERM: JANUARY 10, 2018**

Dear Governing Board members:

On September 13, 2017, the City of Los Angeles entered into an Exclusive Negotiating Agreement (ENA) with Azure Development (Azure) for the financing and development of a mixed use affordable housing project at 110 S. Boyle Avenue (Site). The project will include permanent supportive housing for formerly homeless households on a transit-oriented development site. In addition to being a transit oriented project that will serve to improve the nexus between housing and transportation, the proposed project will help the City achieve its goals of addressing homelessness. Azure was selected through a competitive Request for Proposals (RFP) process.

Review of CRA/LA's Environmental Investigations for the Site determined that the Site has toxic substances in the soil, and may have contaminated groundwater (Ninyo and Moore, 2008 and 2009). Until the extent of the contamination and the cost of remediation can be thoroughly investigated, it will not be possible for the City to exercise its Option to acquire the Site from CRA/LA and proceed to approve a development agreement.

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Despite the concerns about environmental contamination on the site, the City has continued to negotiate with Azure on the financial plan and project milestones which will be included in the Development and Disposition Agreement (DDA). Under the proposed DDA, Azure would apply for future HHH bond funds, a \$1.2 billion affordable housing bond passed by City voters in November, 2016. The Housing & Community Investment Department (HCIDLA) has reviewed the initial proforma for the proposed project and considers the project to be competitive and financially feasible based on the current availability of HHH or alternative bond financing. To secure a commitment of Measure HHH funds, the developer must demonstrate site control.

The City is committed to undertaking the required soil and groundwater investigations, but must do so before proceeding further to acquire the property. If the soil contamination issues and cost of remediation can be identified, the City will move forward with affordable housing development on the Site. However, this effort will minimally require an additional twelve months to complete the required studies and initiate remediation, including required regulatory participation.

To this end, the City has submitted an application to the California State Water Resources Control Board's (State Water Board) Groundwater Quality Funding Program for this project. If the application is approved by the State Water Board, grant funding will be cover the additional site assessment and final cleanup costs.

The City has a tremendous opportunity to create critically needed permanent supporting housing on a transit oriented development site that has long been a vacant blighted site in the community. But for the environmental contamination, the City would be in a position to proceed with a DDA with Azure and exercise our purchase Option with CRA/LA.

For these reasons, we respectfully request a twelve-month extension to the current Option Agreement, with one additional six month extension if the environmental investigations and remediation funding are not complete. This Option extension will allow us to resolve the uncertainties caused by the contamination, complete the DDA with Azure Development, and exercise the Option to acquire the site from CRA/LA.

If the extension is granted, we anticipate proceeding with the following schedule and milestones:

4th Quarter 2017: Apply to California State Water Resources Control Board (State Water Board) for investigation and remediation funding under the Groundwater Quality Funding Program. (Completed)

1st Quarter 2018: Prepare soil and groundwater investigation work program; obtain State Water Board approval; enter into contract with environmental engineering firm for approved investigation work program; initiate investigation field work. If the State Water Board grant is not approved, City to undertake site investigation with City funds.

2nd Quarter 2018: Complete investigation field work and prepare investigation reports and proposed remediation plans for review and approval by City and State Water Board; prepare and initiate remediation work program.

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3rd Quarter 2018: Complete soil remediation work and continue groundwater remediation work plan, if required. Complete underwriting of development financing plan.

4th Quarter 2018: Complete project underwriting and enter into DDA with developer; exercise Option with CRA/LA to purchase the property and sell to developer.

Note: above timeline dependent on review and actions by State Water Board and findings of investigation work plan, which will determine the amount of groundwater remediation required.

Please let us know if you have questions or need for additional information.

Thank you for your consideration.

Sincerely,



WILLIAM CHUN
Deputy Mayor for Economic Development

cc: Hon. Jose Huizar, Councilmember, Council District 14
Rich Llewellyn, Interim City Administrative Officer
Sharon Tso, Chief Legislative Analyst
Jan Perry, General Manager, EWDD
Rushmore Cervantes, HCID