City of Culver City, California

Redevelopment Agency Agenda Item Report

Meeting Date: 02/28/11	Item Number: A-2
REDEVELOPMENT AGENCY BOARD AGENDA ITEM(1) Approval of Purchase Agreements for Properties Located at 8910-12, 8914, 8916-18 Venice Boulevard and 8930 Venice Boulevard and (2) Approval of a Budget Amendment Related Thereto.	
Contact Person/Dept.: Sol Blumenfeld/CDD Todd Tipton /CDD	Phone Number: 310-253-5760
Fiscal Impact: Yes [X] No []	General Fund: Yes [] No [X]
Public Hearing: [] Action Item: [X]	Attachments: [X]
Commission Action Required: Yes [] No [X]	Date: ________________
Public Notification: (E-Mail) Meetings and Agendas – Redevelopment Agency (02/24/11); (E-Mail) Melvin Segal (02/24/11) and Bob and Ben Kalmuk (02/24/11). .	
Department Approval: Sol Blumenfeld: (02/24/11)	Agency General Counsel Approval: Murray Kane: (02/22/11)
Chief Financial Officer Approval: Jeff Muir (by N. Kimball): (02/24/11)	Executive Director Approval: John M. Nachbar: (02/24/11)

RECOMMENDATION:

Staff recommends the Culver City Redevelopment Agency Board (Agency Board) approve Purchase Agreements with (1) Melvin Segal in the amount of $6,039,000 for the properties located at 8910-12, 8914, 8916-18 Venice Boulevard and (2) Bob and Ben Kalmuk for the property located at 8930 Venice Boulevard in an amount of $2,082,400, in connection with the Agency's proposed Washington/National Transit Oriented Development (TOD).

BACKGROUND:

The Metropolitan Transit Authority (MTA) anticipates operation of the Exposition Light Rail Line (Expo Line) to commence in 2012. The Expo Line will connect Culver City to Downtown Los Angeles during the initial phase and then to Santa Monica during the subsequent phase.

Over the past several years, the Agency has been assembling properties to create a Transit Oriented Development around the Culver City Expo Station with the intent of bringing shopping, housing, employment and transit together in a place-making development. Prior development plans for the site had extremely inefficient subterranean parking with an estimated cost of $60 million and did not incorporate Venice Boulevard properties. The costly and inefficient parking distorted the development program for the TOD requiring increased density and over-height buildings to support the extraordinary parking costs. Consequently, the project was not well received by the community. In order to more efficiently provide parking, staff prepared a plan to expand the size and change the shape of the site below ground, requiring multi-jurisdictional agreements with Expo, MTA, Caltrans and the City of Los Angeles. The site area was increased below grade by including land beneath a portion of MTA's property, a portion of National Boulevard, and beneath the properties on Venice Boulevard in the City of Los Angeles. In addition to resolving the parking problems, incorporating the Venice Boulevard frontage in the revised plan eliminated their blighting effect on the project. If a project were constructed on the Agency property without including the Venice Boulevard frontage, the parking costs would increase and the value of the Agency's property would decrease due to the poor appearance and condition of the Venice frontage, lack of visibility and connection from Venice Boulevard and the inability to provide sufficient development without increasing building coverage or creating over-height buildings. Thus, the Venice Boulevard properties are a key element in implementing an efficient and attractive TOD project at the Culver City Expo Station.[1]

DISCUSSION:

As authorized by the Agency Board, staff commenced negotiations with the five Venice property owners (Owners) in 2008, conducting preliminary environmental analysis, preparing property survey's, preparing preliminary land plans and development proforma and obtaining relocation estimates from the Agency's relocation consultant in the event tenant relocation was necessary. Pursuant to California Redevelopment Law, the Agency is required to relocate tenants of property it acquires for redevelopment purposes. Because the properties are located in the City of Los Angeles, the Agency does not have the power to acquire property as it might if the property were located in the Redevelopment Project Area.[2]

In order to address the Owner's concerns about tax implications and speculation that property value would increase if the Agency developed its property, staff explored other acquisition methods including a property exchange and long-term ground leasing with option agreements during the anticipated development entitlement period. The ground lease negotiations were problematic since the duration of the leases and the lease interest did not provide immunity from catastrophic defaults nor insure continuity of lease payments over the lease terms.

Due to the inherent problems associated with a long-term lease and recent indications by the State legislature to eliminate redevelopment authority in an attempt to balance the State budget, the Venice property owners reconsidered their position related to a land purchase.[3] Two Owners have now agreed to sell and all have indicated their interest in pursuing a land sale. A purchase agreement is of interest to the Owners because the Agency is offering an attractive purchase price, it provides surety in regard to potential actions by the State, it eliminates the risks associated with the option/ground lease scenario and can be structured to avoid

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adverse tax consequences. The agreement can be structured as a single payment (outright sale) or as installments over a specified term.

The terms of the sale to the Segals and Kalmuks are summarized as follows:

<u>Segal - 8910-12, 8914, 8916-18 Venice Boulevard</u>:

- Installment sale of $6,035,960 (net present value) calculated over 32 annual payments.[4]
- 60 day escrow with an April 1, 2011 closing date or as soon as the Agency completes due diligence and accepts the property.
- Sale contingent on Agency acceptance of environmental reports for the property.
- Tenant relocations estimated at $300,000 for two tenants.
- Shared Closing Costs.

<u>Kalmuk - 8930 Venice Boulevard</u>:

- Outright sale of $2,082,400.[5]
- 60 day escrow with an April 1, 2011 closing date or as soon as the Agency completes due diligence and accepts the property.
- No tenant relocation.
- Sale contingent on Agency acceptance of environmental reports.
- Shared closing costs.

<u>Terms</u>

Mr. Segal is interested in a purchase agreement that includes installment payments that will be made over a 32 year period (see attached Purchase Agreement payment schedule). The value of the sale is approximately 50 percent greater than the appraised value determined at the start of negotiations.

Staff, Agency General Counsel and the Agency's financial consultant (Keyser Marston Associates) believe the value is acceptable because:

1. Other acquisition approaches would result in costs equal to or greater than this amount.
2. Without the Venice properties the Agency would incur far greater cost to construct parking on its property (due to less land area and decreased parking efficiency);

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3. The value of the Agency's adjacent property will increase because it will have visibility from Venice Boulevard and won't be located adjacent to aged and unattractive properties;
4. A Purchase Agreement is less costly than the option/ground lease scenario;
5. Staff time and legal fees associated with ongoing option/ground lease negotiations will cease;
6. Legal fees associated with a City acquisition effort will be avoided;
7. Financing for a TOD project will be less complicated if the Agency owns the property as opposed to controlling it via a ground lease.

If the Agency Board approves the Purchase Agreements, escrow would close no later than April 1, 2011 after the Agency's environmental consultant concludes remaining environmental testing.

FISCAL ANALYSIS:

Payments will be made in accordance with the Purchase Agreement payment schedule. Sufficient funds are currently appropriated in the Washington/National Sites Program (55092920) to fund the initial annual installment payment for the Segal property. Future annual payments will be paid from future tax increment receipts and included in the adopted budget.

The lump sum purchase of the Kalmuk property would be funded from available unrestricted tax increment reserve. A budget amendment appropriating $2.1 million in the Washington/National Sites Program (55092620) is necessary to fund the purchase.

In addition to the purchase amount, the Agency would be subject to relocation costs, which have been included in the FY 2010-11 Adopted Budget. In the event a Purchase Agreement is authorized, staff and the Agency's relocation consultant will initiate discussions with the existing tenants in an effort to determine specific relocation costs. Staff will return to the Agency for additional authorization once the specific amount has been determined.

ATTACHMENTS:

1. Segal draft Purchase Agreement (to be provided at the Closed session)
2. Segal payment Schedule.

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MOTIONS:

That the Redevelopment Agency Board:

1) Approve a budget amendment appropriating $8,135,960 for property acquisition to the Washington/National Sites program (55092620); and

2) Approve Purchase Agreements with Melvin Segal in the amount of $6,039,000 for the properties located at 8910-12, 8914, 8916-18 Venice Boulevard and Bob and Ben Kalmuk in the amount of $2,082,400 for the property located at 8930 Venice Boulevard; and

3) Authorize the Agency General Counsel to review/prepare the necessary documents; and

4) Authorize the Executive Director to execute such documents on behalf of the Agency.

NOTES:

1. With Venice frontage, the project can be developed with significant public amenities including substantial open space (park, plazas and a transit plaza); substantial setbacks permitting outdoor dining, streetscape improvement and include high quality design and neighborhood serving uses (smaller format retail) that complements the area and contributes to the surrounding neighborhood.

2. Although the Agency does not have certain powers to acquire property outside of the Project Area, the City possesses acquisition powers that can be utilized when a public purpose is involved (affordable housing, public parking, public open space, etc.).

3. Agency General Counsel determined that the option/ground lease scenario could be invalidated if the Agency was eliminated because the option was not a binding Purchase Agreement.

4. The purchase price is equivalent to 150% of the appraised value (based upon 8% interest over 32 years. (Total interest costs over 32 years = $14,663,080).

5. The purchase price is equivalent to 150% of the appraised value.

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