City of Culver City, California
Agenda Item Report

Meeting Date: 03/07/11	Item Number: A-1
REDEVELOPMENT AGENCY BOARD AGENDA ITEM: (1) Approval of Purchase Agreements for Properties Located at 8906, 8910-12, 8914, 8916-18, 8926 and 8936 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 (03/04/11); (E-Mail) Bill Feldman (03/04/11), Dawson Family c/o Phil Tangalakis (03/04/11), and Rhodes Family (03/04/11). Segal Family (03/04/11)	
Department Approval: Sol Blumenfeld: (03/03/11)	Agency General Counsel Approval: Murray Kane: (03/03/11)
Chief Financial Officer Approval: Jeff Muir (by N. Kimball): (03/03/11)	Executive Director Approval: John M. Nachbar: (03/04/11)

RECOMMENDATION:

Staff recommends the Culver City Redevelopment Agency Board (Agency Board) approve Purchase Agreements with: (1) Bill Feldman in the amount of $3,906,400 for the property located at 8906 Venice Boulevard; (2) the Rhodes Family for the property located at 8926 Venice Boulevard in the amount of $3,359,200; and, (3) the Dawson Family for the property located at 8936 Venice Boulevard in the amount of $2,736,000 in connection with the Agency's proposed Washington/National Transit Oriented Development (TOD).

BACKGROUND:

The Metropolitan Transportation 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]

On February 28, 2011, the Agency Board considered and approved the acquisition of property owned by Melvin Segal at 8910-12, 8914, 8916-18 Venice Boulevard and property owned by Bob and Ben Kalmuk at 8930 Venice Boulevard.

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 surveys, preparing preliminary land plans and development pro-forma, 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 developments in Sacramento by the Governor and State legislature related to a proposal to eliminate redevelopment authority in an attempt to balance the State budget, the Venice property owners have reconsidered their position related to a land purchase.[3]

The Owners have all now agreed to sell pursuant to a purchase agreement. A purchase agreement is of interest to the Owners because the Agency is offering an attractive purchase price, it provides certainty 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 adverse tax consequences. The agreement is structured as a single payment (outright sale) for all owners subject to the terms below.

Feldman - 8906 Venice Boulevard:

Terms of Sale:	Sale
Land Cost:	$3,906,400
Closing:	Close of escrow on or about April 15, 2011[4]. Shared closing costs.
Due Diligence:	Sale contingent on Agency acceptance of environmental reports for the property.
Relocation:	No tenant relocation is necessary as the property is not encumbered by a lease.

Rhodes - 8926 Venice Boulevard:

Terms of Sale:	Sale
Cost:	$3,359,200
Closing:	Close of escrow on or about April 15, 2011[4]. Shared closing costs.
Due Diligence:	Sale contingent on Agency acceptance of environmental reports for the property.
Relocation:	Tenant relocation/ A relocation settlement may be required for a single tenant

Dawson - 8936 Venice Boulevard:

Terms of Sale:	Sale
Land Cost:	$2,736,000
Closing:	Close of escrow on or about April 15, 2011[4]. Shared closing costs.
Due Diligence:	Sale contingent on Agency acceptance of environmental reports.
Relocation:	Tenant relocation may be required for a single tenant.

Segal - 8910-12, 8914, 8916-18 Venice Boulevard:

Terms of Sale:	Sale
Land Cost:	$ 6,035,960

Closing:	Close of escrow on or about April 15, 2011[4] . Shared closing costs.
Due Diligence:	Sale contingent on Agency acceptance of environmental reports.
Relocation:	Tenant relocation may be required for a single tenant.

The Feldman sale was always anticipated to be an outright standard purchase. Very recent developments have led Segal, Dawson, and Rhodes to also accept an outright standard purchase rather than an installment sale.

Terms

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);
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; and
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 15, 2011 after the Agency's environmental consultant concludes remaining environmental testing.

FISCAL ANALYSIS:

Approximately $1.4 million were appropriated in the Agency Board Adopted Budget for Fiscal Year 2010/2011 (55092620) for relocation services and in anticipation of lease/installment payments made in this current year. Subsequently, the Agency Board approved a budget amendment appropriating an additional $2.1 million for the purchase of the Kalmuk property. In order to fund the proposed land purchase agreements, a budget amendment will be needed.

There are sufficient unrestricted tax increment funds to appropriate $10,001,600 to purchase the Feldman, Dawson, and Rhodes properties. This appropriation will completely deplete the Agency's estimated unrestricted reserve funds. Therefore, the Segal property will need to be funded from 2011 Taxable Bond proceeds.

MOTIONS:

That the Redevelopment Agency Board:

1) Approve a budget amendment appropriating $10,001,600 from unrestricted tax increment funds for property acquisition to the Washington/National Sites program (55092620); and

2) Approve a budget amendment appropriating $6,100,000 from Taxable 2011 Bond Proceeds for property acquisition at the Washington/National sites; and

3) Approve Purchase Agreements with Bill Feldman in the amount of $3,906,400 for the property located at 8906 Venice Boulevard, the Rhodes Family in the amount of $3,359,200 for the property located at 8926 Venice Boulevard, and the Dawson Family in the amount of $2,736,000 for the property located at 8936 Venice Boulevard; and

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

5) 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. Anticipated date is April 15, 2011 or may close earlier if the Agency completes its due diligence and accepts the property.