

**Board Report**

File #: 2017-0688, **File Type:** Agreement**Agenda Number:** 6.

**PLANNING AND PROGRAMMING COMMITTEE
MARCH 14, 2018****SUBJECT: VERMONT/SANTA MONICA STATION JOINT
DEVELOPMENT PROJECT****ACTION: AUTHORIZE EXECUTION OF EXCLUSIVE NEGOTIATION AGREEMENT AND
PLANNING DOCUMENT****RECOMMENDATION**

AUTHORIZE the Chief Executive Officer to execute an 18-month Exclusive Negotiation Agreement and Planning Document (“ENA”) with Little Tokyo Service Center Community Development Corporation (“LTSC” or “the Proposer”) for the development of 1.06 acres of Metro-owned property at the Vermont/Santa Monica Station (“Site”), subject to resolution of protest(s), if any.

ISSUE

In January 2017, Metro received an Unsolicited Joint Development Proposal from LTSC which contemplated joint development of Metro-owned property and adjacent privately-owned parcels at the Vermont/Santa Monica Station (see Attachment A - Site Map). After completing a two-phased review and public solicitation in accordance with the Joint Development Unsolicited Proposals Policy and Process (“JD UP Policy”), the Metro staff evaluation committee recommends advancing the proposal by entering into an ENA with LTSC (see Attachment B - Procurement Summary).

DISCUSSION**Background**

In January 1993, the Metro Red Line opened and began providing heavy rail subway transit service between downtown Los Angeles and Westlake/MacArthur Park. By early 2000, the service was extended to North Hollywood. The Vermont/Santa Monica Station includes parcels of land that were acquired by Metro to build the station as well as adjacent parcels that are currently vacant and leased to neighboring businesses for parking.

A study was conducted in December 2015 to determine the feasibility of development on the Metro-owned parcels at the Vermont/Santa Monica Station. The analysis concluded that, due to the constraints of the irregularly shaped parcels and location of the station’s portal and plaza, the only potentially feasible development scenario would be limited to a small single-story 20,000 square foot shopping center with 37 surface parking spaces. While technically feasible, this scenario with solely

the Metro-owned parcels was not deemed to be the highest and best use for this high traffic urban corridor and staff decided to not actively pursue joint development of the site at that time.

The Joint Development Unsolicited Proposals Process

In February 2016, the Metro JD UP Policy was released. The JD UP Policy provides instructions for submission of joint development proposals not submitted in response to a formal request for proposals issued by Metro. It also outlines the criteria by which proposals are evaluated, and was written in accordance with Federal Transit Administration (FTA) procurement requirements. Since its release, five joint development unsolicited proposals have been received.

Per the JD UP Policy, LTSC submitted a Phase I Conceptual Proposal. After review by an interdepartmental evaluation committee, Metro invited LTSC to submit a Phase II Detailed Proposal. After review of the Phase II submission, Metro publicized its interest in the joint development of this Site for 30 days in order to provide adequate opportunity for interested parties to comment or submit competing proposals. This solicitation was posted on the Metro Vendor Portal, run in the *Los Angeles Times*, and sent to Metro's Joint Development interested developers email list. Metro staff also notified the Office of Los Angeles City Councilmember Mitch O'Farrell, the East Hollywood Business Improvement District (BID), and the East Hollywood Neighborhood Council to make them aware of Metro's interest in joint development at the Vermont/Santa Monica Station. A competing proposal was received on October 23, 2017. After completing a review of the competing proposal, the evaluation committee concluded the LTSC proposal has greater potential to advance Metro's Transit Oriented Communities objectives and Joint Development Policy goals, and therefore recommended pursuing the LTSC proposal.

Site Description

The Site is located within the East Hollywood community in the City of Los Angeles and is surrounded by several prominent neighborhoods, such as Hollywood, Silver Lake, and Los Feliz. The site's close proximity to Los Angeles Community College (LACC), major commercial corridors along Santa Monica Boulevard and Vermont Avenue, and the Hollywood Presbyterian Medical Center makes the Vermont/Santa Monica Station a busy terminus attracting over 2,000 riders a day.

The Site is made up of four parcels owned by Metro, which together form an irregularly shaped site with a total area of 1.06 acres. The Site has substantial frontage along Vermont Avenue, with a portion that extends west to New Hampshire Avenue. It includes an approximately 18,340 sq. ft. (.42 acres) public plaza with a 30 foot long almond-shaped metal-clad canopy cantilevered 30 feet above the station portal. Three surface parking lots surround the plaza and are leased to local businesses.

LTSC's proposal includes the four Metro-owned parcels as well as four adjacent LTSC-owned parcels (4718-4722 Santa Monica Boulevard and 1020 N. Hampshire Avenue). These four parcels add another .45 acres to the development, for a total of 1.51 acres and create a more regular street-to-street lot suitable for mixed-use development.

Developer Proposal

The unsolicited proposal was submitted by LTSC, a 501(c)(3) nonprofit and Community-Based Organization (CBO) founded in 1979 with the mission to contribute to community revitalization and cultural preservation in Little Tokyo. LTSC has since expanded to other communities and provides

affordable housing, community services, community organizing, and wealth building services to low-income individuals and families. Since 1979, LTSC has developed close to 1,000 units of affordable rental housing and 130,000 square feet of community-based commercial real estate.

LTSC's proposal includes the redevelopment of the Metro-owned parcels at the Vermont/Santa Monica Station along with LTSC-owned adjacent properties. The proposal contemplates 160 affordable rental units, with half of the units designated as permanent supportive housing for special needs tenants. Rents would be targeted for households earning 30 to 60% of Area Median Income (AMI). Metro's Joint Development Policy seeks to facilitate construction of affordable housing units, such that 35% of the total housing units in the Metro JD portfolio are affordable for residents earning 60% or less of AMI. This project would support that goal by bringing the total affordable units completed, in construction and/or in negotiations to 36%.

Approximately 21,000 square feet of ground floor commercial space would be provided, along with on-site supportive services and community space. In order to enhance the overall pedestrian experience and connect with the existing neighborhood fabric, the proposal includes transit-related infrastructure and pedestrian amenities such as improvements to bus shelters and streetscape. Sustainable features such as bike storage, electric vehicle charging stations, solar panels, and a cool roof are also included in the proposal.

Financial Offer

The Metro Joint Development Policy has a number of objectives and goals, one of which is fiscal responsibility and a fair financial return to Metro. The proposed project includes a \$4.4M capitalized ground lease payment to Metro at the start of construction, with an \$8.4 million total land value. The proposed capitalized rent payment to Metro appears to be competitive with the surrounding real estate market. The financial terms are preliminary and subject to change during the transaction negotiation. Once the ENA negotiation is complete, the terms for a Joint Development Agreement and Ground Lease will be brought to the Board for consideration.

The ENA Terms

The ENA term is 18 months, with the option to administratively extend up to 30 months. Key activities and goals during the ENA include:

- **Re-scope project design:** The evaluation committee expressed concerns regarding the proposed project's architectural design and programming of ground floor space. Metro's Joint Development projects are seen as a gateway to the transit system with the potential to positively shape a community's built environment, and high quality design and activation of public spaces are critical to achieving this. During the first six months of the ENA, LTSC will be required to refine the project design.
- **Community Engagement:** The JD UP process does not provide the same level of initial, up front community engagement as traditionally-procured JD projects. The ENA requires a robust community engagement plan to introduce the proposed project to stakeholders, and then shape and refine the proposal based on that input.
- Beginning of the entitlement and CEQA process.
- Negotiation of a term sheet for the Joint Development Agreement and Ground Lease.
- Metro and LTSC will also use the ENA period to develop a strategy to resolve the real

estate and entitlements complexities associated with developing across multiple sites with two different owners.

DETERMINATION OF SAFETY IMPACT

Approval of this item will have no impact on safety. Metro's operations staff will review and comment on the proposed development to ensure that the proposal will have no adverse impact on the Vermont/Santa Monica Station, portal and public-serving areas on Metro's property. In addition, the eventual implementation of this joint development project at the Vermont/Santa Monica Station will offer opportunities to improve safety for transit riders through better pedestrian and bicycle connections and improvements to the existing plaza at the station entrance.

FINANCIAL IMPACT

Funding for the joint development activities related to the ENA and the proposed project is included in the FY18 budget in Cost Center 2210, Project 401004. The ENA will require the developer to pay a non-refundable fee of \$50,000, as well as a \$50,000 deposit to cover certain Metro staff costs and third-party expenses during the negotiation period.

Impact to Budget

Metro project planning activities and related costs will be funded from General Fund local right-of-way lease revenues and any deposits secured from LTSC, as appropriate. Local right-of-way lease revenues are eligible for bus/rail operating and capital expenses.

ALTERNATIVES CONSIDERED

The Board could choose not to proceed with the recommended action and could direct staff to (a) not enter into an ENA with LTSC, (b) evaluate whether to enter into an ENA with the competing proposer; or (c) not proceed with the project and seek new development options via a new competitive process. Staff does not recommend proceeding with these alternatives as the selected Proposer is a CBO committed to ongoing stakeholder engagement and project refinement and was selected through a thorough evaluation process. A new competitive process would delay the development of the Site and may fail to take advantage of currently favorable conditions in the real estate market. Further, any proposals received would be unlikely to include the adjacent land required for feasible mixed-use development of this scale. Finally, the proposed project offers 160 units of affordable housing, in support of Metro's JD affordable housing goals.

NEXT STEPS

Upon Board approval of the recommended action, staff will execute the 18-month ENA, and Metro staff and LTSC will commence preliminary negotiations in parallel with community outreach to engage stakeholders in a dialog about the development proposal. LTSC will make appropriate changes to project architectural design and present these changes to Metro for review and approval. Metro staff, with support from a financial consultant and County Counsel, will negotiate a term sheet for a Joint Development Agreement and Ground Lease. Staff will return to the Board with the terms of a recommended Joint Development Agreement and Ground Lease at the end of the ENA negotiation

period.

ATTACHMENTS

Attachment A - Site Map

Attachment B - Procurement Summary

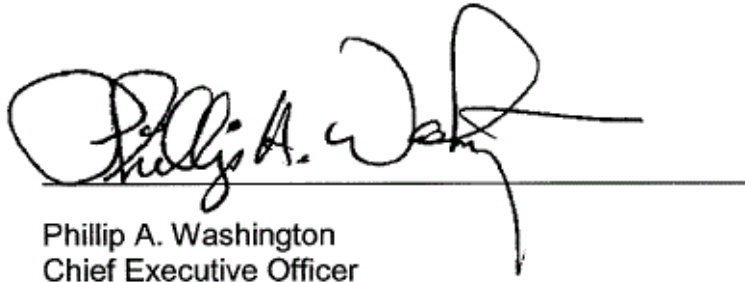
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