Evaluation of
Joint Development Proposals for
RTD Division 7 Site in
West Hollywood, California

March 2, 1992

Prepared by:

Coopers & Lybrand
Paul, Hastings, Janofsky & Walker
Robinson and Pearman
Tierra Concepts

DRAFT

2604 1344

TABLE OF CONTENTS

DRAFT

SECTION I:
EXECUTIVE SUMMARY

The Southern California Rapid Transit District (RTD) owns the 8.4+/- acre site located at the southeast corner of Santa Monica and San Vincente Boulevards in the City of West Hollywood ("Site"). RTD hired the consulting team of Coopers & Lybrand in association with Paul, Hastings, Janofsky, and Walker; Robinson and Pearman; and Tierra Concepts to evaluate development proposals for the Site submitted in response to RTD Request for Proposal (RFP) 89-54. This report documents the conclusions of the consulting team regarding the development strategy for the Site.

RFP 89-54 was issued by the District in November, 1990. At that time functional criteria for the development of the Division 7 Site called for the relocation of the bus operations to a subterranean level while maintaining on-going operations. Since the issuance of the RFP, the 2.5 +/- acre Sheriff's station site has been added to the 8.4 acre Division 7 Site in exchange for the turnkey relocation of the Sheriff's station to an alternative site within West Hollywood. The total area of the Site as considered in this report is 10.9 +/- acres.

In January 1990, four development teams responded to the initial RFP with proposals ranging from a mixed use, multi-phased development to a major off-price retail center. The development teams were recontacted in December, 1991 to assess their continued interest in the subject site given the softening of local real estate markets. Of the initial four teams, only two teams wished to remain in consideration: James McCormick and Company and Lowe Development. Both developers are proposing a mixed use development for the subject property.

The consulting team recommendations regarding these two proposals can be summarized as follows:

- The development potential of the Division 7 Site can be greatly enhanced if RTD pursues entitlements before entering into a development agreement. By eliminating the entitlement risk, RTD not only helps create value in the site, but also puts this project within reach of a larger group of potential developers. A

DRAFT

more competitive developer selection process gives RTD more leverage in negotiating more beneficial ground rent structure.

- RTD should encourage the City of West Hollywood to declare the Site a redevelopment area. The formation of a redevelopment area will allow the potential for public financing of some or all of the Site development costs associated with decking the site and relocating the Sheriff's station. Mitigating some of the Site development costs enhances the investment potential of the project for both RTD and the developer. The City benefits from additional property and sales tax revenues which might otherwise go to the County.

move

- The City of West Hollywood should be considered a "partner" in this project rather than simply an approving jurisdiction. In addition to additional property and sales tax benefits for the City, the project will mitigate the impact of the bus facility on the local neighborhood and help create an important commercial focus within the City. A civic center element within the project will both enhance the image of the project and solve the City's long search for a permanent home. could

- Given the level of uncertainty regarding the entitlements for the site, no development team should be selected until the site is entitled. The entitlement can be done by RTD staff, outside consultants, or a combination of both.

Both of the remaining developers offer considerable skills for the ultimate development of this site. James McCormick has demonstrated a creative approach to the project, but would require capital from either RTD or an equity investor in order to develop the site. Lowe Development has significant experience in the development of large, mixed use projects. However, the terms of the Lowe offer to RTD in the initial response to RFP 89-54 do not meet RTD's expectations for potential return on this project. By eliminating the entitlement risk and securing public financing for potential infrastructure costs, RTD will both enhance the value of the site and increase the potential for a stronger and more competitive response from the development community.

- The development agreement between RTD and the selected developer should be structured appropriately for each of the three major phases of the project: construction and lease up; stabilized operation; and sale or refinance of the improvements. The basic ground rent structure should be based on a minimum ground rent amount and participation in the success of the project through receipt of a percentage of gross revenues. The ground lease terms should include participation in the proceeds from the sale or refinance of the improvements. The scenario shown in the following exhibits demonstrate a ground rent range of \$3,200,000 to \$1,300,000 under stabilized operating conditions.

INSERT SITE AND LOCATION MAP HERE

DRAFT

SECTION II:
APPROACH AND METHODOLOGY

The consulting team for the evaluation of the Division 7 Site consisted of four firms: Coopers & Lybrand; Paul, Hastings, Janofsky, and Walker; Robinson and Pearman; and Tierra Concepts. The team established five objectives for this study:

- To assess the potential constraints of the legal envelope for site development, given the constraints of development within the City of West Hollywood.

- To understand the concerns of local neighborhood community groups regarding both the continuing operation of the RTD Division 7 facility, as well as potential new development on the site.

- To evaluate the potential economic return to RTD given continued ownership of the Site, continuing operations of the Division 7 facility, and the cost of relocating the Sheriff's station, putting the bus facility on a subterranean level, and "decking" the rest of the Site.

- To assess the ability to utilize public financing techniques to minimize site development costs.

- To evaluate the developer responses to RFP 89-54 and make a recommendation of either a potential developer or an alternate strategic approach.

The team met with RTD staff to discuss the work completed on this project to date, to consider any changes in circumstances which might impact development of the Site, and to review the developer responses submitted for RFP 89-54. The initial January, 1990 developer responses to the RFP addressed the development of only the Division 7 Site. Since the issuance of the original RFP, the L.A. County Sheriff has decided to relocate from the corner of Santa Monica and San Vincente Boulevards. This could be done on a "turnkey" basis, with the developer for the Division 7 Site responsible for acquiring a new site for the Sheriff's station and building a new facility. The developer would be fully

DRAFT

reimbursed for the construction cost of the new facility. The land acquisition cost would be an additional infrastructure cost of the Division 7 project.

RTD staff indicated that the District would like to allow responding developers the opportunity to update their original responses to RFP 89-54. The update would allow developers to decide whether or not they would like to continue being considered for this project given the weakening of local real estate markets and the added requirement of relocating the Sheriff's substation on a turnkey basis.

The team members compiled a summary of initial developer responses and began initial investigations into their respective areas of expertise. Coopers & Lybrand was responsible for the economic/financial analysis of the proposed development projects; Paul, Hastings, Janofsky and Walker was responsible for the assessment of the legal envelope; Robinson and Pearman addressed the applicability of public financing techniques to fund some of the initial project costs; and Tierra Concepts assessed the concerns of the local neighborhood groups.

Once initial investigations were complete, the consulting team met with RTD staff to discuss their preliminary findings an discuss potential development strategies for the Site. Issues discussed included soils conditions, site topography, project economics, the ability to maintain continuous operation of the bus facilities, and the concerns of neighbors and adjoining uses such as the Pacific Design Center.

Each of the four developers who responded to RFP 89-54 were contacted to determine their continuing interest in the Division 7 project. Only two developers wished to remain in consideration: James McCormick and Company and Lowe Development. The other two developers felt that the entitlement risk and the poor investment environment for real estate would not support their continued participation in the developer selection process.

The two remaining developers received a letter requesting additional information updating their original development proposals. Responses were received within three weeks, and evaluations of the responses prepared using an evaluation matrix developed in conjunction with RTD staff.

Further research and analysis was performed by each of the team members. Interviews were conducted with City of West Hollywood staff, local community groups, RTD representatives, local area brokers, and real estate industry representatives.

The economic analysis was performed assuming full project build out and stabilized operation. This analysis was then tested under "best case" and "worst case" scenarios for RTD. Assumptions about rents, vacancy, construction costs, etc. remained constant between best and worst case scenarios. Under the best case scenario the cost of site development is assumed to be covered by tax increment financing, and the entire ground rent payment would go to RTD. Under the worst case scenario, tax increment financing would not be available to pay for site development costs, and RTD would pay the required debt service from its ground rent receipts.

The community outreach was limited in scope because the proposed development is only in the preliminary, conceptual stages of consideration. Thus, interviews were conducted primarily with representatives from resident and commercial associations; i.e., Westbourne Homeowners Association and Santa Monica Boulevard Merchants Association. A detailed list of those contacted and interviewed is included in the Exhibit A.

Preliminary interviews and research disclosed that there was significant hostility by certain residents, particularly those residing on Huntley Drive regarding the longstanding complaints related to noise, fumes, vibration, etc. Initial outreach efforts began with attendance at a meeting hosted by RTD and the community to discuss these ongoing problems. Based upon the animosity and suspicion reflected in the residents' comments made at this meeting, it was clear that it would be very difficult to discuss any proposed development with the residents.

Subsequent to this initial meeting, contact was made with staff in the City of West Hollywood. The purpose was to obtain a list of the homeowner groups located in the City as well as the names of retail and commercial representative groups. Upon receiving this information, a letter was sent to all representatives indicating our desire to meet and to discuss the proposed development. The letter was followed by telephone calls to arrange meetings with interested individuals. Three meetings were eventually held with resident and commercial representatives.

The format for the meetings was basically the same for all three meetings. The meeting was opened with a brief overview of the scope of services for the consultant. A description of the consultant's qualifications for this project. Attendees at each meeting were then informed that our task was not to discuss the ongoing problems between RTD and the community, but rather to assess the receptivity of the community to a mixed-used development and to determine the types of uses which might be acceptable at this Site. Following these remarks each attendee was given an opportunity to voice his or her opinions, concerns, and recommendations.

The consulting team met to discuss our preliminary conclusions and strategize about the overall development approach. Our conclusions were discussed with RTD staff, and modified in response to new information about potential tenants and infrastructure costs.

SECTION III:
POTENTIAL RETURN TO RTD

Introduction

This section of the report presents the details of our financial analysis for the subject Site. The financial analysis is presented as though the entire project is developed and has reached stabilized operations. The purpose of this type of analysis is to demonstrate what RTD's best case and worst case potential returns could be under current market conditions assuming different levels of public sector support. The level of return can be significantly affected by factors such as development costs, rental rates, absorption rates, occupancy levels, debt terms, and infrastructure costs. For the purposes of this analysis, the best case scenario assumes that site development costs can be absorbed using public financing techniques, with no additional cost to RTD. The worst case scenario assumes that all site development costs must be absorbed by RTD from its ground rent payment.

The first part of this section presents an overview of the proposed project. The rest of the section discusses the structure for the ground rental terms, how this structure could change over the life of the ground lease term, and the assumptions used in the financial analysis. The final part of this section presents the conclusions of our financial analysis and the detailed schedules showing potential operating performance each project element.

?

Overview of the Project

The proposed project program reflects a mixed use, multi-phased project. RTD commissioned a market feasibility study from Halcyon Real Estate Advisors for the development of the RTD-owned portion of the Site. The study, dated December, 1990, indicates potential market support for office space, retail space, apartment/condominium units, and a hotel. These recommendations, combined with an analysis of the legal envelope more fully defined below, formed the basis for the mixed use development program shown below.

Zoning for the RTD Division 7 Site establishes a maximum floor area ratio (FAR) of 2.25:1. However, there are no specific guidelines from the City of West Hollywood regarding the appropriate mix of uses within a mixed use project. The final development program and entitlements for the subject Site will depend on a number of factors, including traffic impacts and other environmental issues. A detailed discussion of the legal envelope issues related to the subject property is provided in the section which follows.

RTD DIVISION 7 SITE
PROPOSED PROJECT PROGRAM

Project Element	Rentable Area (SF)	Required Parking
City Hall Office Space	60,000	210
Office Towers	500,000	1,750
Neighborhood Retail	50,000	175
Destination Retail	120,000	420
Hotel (200 rooms)	100,000	220
Apartments (200 units)	180,000	400
Total rentable area/parking	**1,010,000 SF**	**3,175 parking spaces**

This development program has not been tested for factors such as constructability, and no related planning, traffic, or environmental studies have been conducted to verify its physical feasibility.

The parking requirements are estimated based on the City of West Hollywood development standards. RTD staff has indicated that these requirements may be reduced for the subject property given the high level of transit service to the site. Parking is assumed to be in a parking structure or structures on-site. There would be no public subterranean parking, and little or no surface parking.

A city hall/civic center is included in the development program for two reasons. First, the construction of a civic center will solve a long-standing problem for the City of West Hollywood. As a participant in the project, the City may work to facilitate the entitlement and approval process. Furthermore, the presence of the civic center might increase the visibility of the project and reinforce its image as an important address. The location of a civic center on this Site is controversial. It should be noted that the community did not feel the civic center should be included on this Site.

The office towers could be constructed in phases, with the size and configuration of each phase determined by market conditions and site constraints. As the taller elements in the development program, it is likely that the office towers would be massed toward the center rear of the Site, allowing height to step back from Santa Monica and San Vincente Boulevards.

The Halcyon market feasibility study recommended a total retail buildout of 65,000 to 120,000 rentable square feet. The current development program reflects a total of 170,000 rentable square feet of retail space, with both neighborhood and destination retail uses. The neighborhood retail would be located along Santa Monica Boulevard to create a "pedestrian friendly" environment in the context of an "urban village", to use the terms of the City's development standards. Destination retail could be built as one or two "anchor stores" which would serve to attract visitors to the Site. The southeast corner of Santa Monica and San Vincente Boulevards, currently occupied by the Sheriff's substation, would be an excellent location for a destination retail user. During the course of this study RTD was contacted by a potential destination retail tenant expressing an interest in the Site.

The zoning code does not specify whether housing on the Site should be apartments or condominiums. For the purpose of this study we have assumed that the housing will be all apartments. The City may also require that twenty percent of the housing on site be dedicated to low and moderate income tenants. This requirement for inclusionary housing is discussed in detail in the Legal Envelope section which follows. The development program and economic analysis presented only reflect market rate units.

We have assumed for this analysis that the Division 7 project becomes part of a redevelopment area, allowing the issuance of public debt to help pay some of the site development infrastructure costs associated with this site. These infrastructure costs would include the acquisition of an alternative site for the Sheriff's substation relocation, the decking and reconstruction of the Division 7 bus facility, and the entitlement costs associated with the site. Details of the budget for site development costs are shown in Section IV.

Structuring an Appropriate Ground Lease

As owner of the underlying land at the Division 7 Site, RTD is concerned about maximizing its potential economic return on its investment in the land. In order to accomplish this objective it is important to recognize the risks that are inherent in each stage of a development's "life cycle" and seek not only to maintain a competitive ground rent income stream, but also to minimize the associated risks. This section of the report presents an overview of the ground rent structure, as well as a discussion of the levels of development risk and the appropriate risk mitigation techniques.

In a traditional private sector joint venture where one party contributes land as equity in the project and one party is responsible for the development process, it is not uncommon for the partners to divide the cash flow available after all operating expenses and debt service have been paid. The parties would similarly share in any value that is realized when the development is sold or refinanced. The percentage of this cash flow that each of the private party receives is subject to negotiation between the parties.

This traditional structure is not appropriate for a public/private joint venture. Splitting the available cash flow after the payment of operating expense and debt would put RTD at risk for elements that they could not control. For example, the developer could categorize some of his costs as operating expenses, thus limiting the amount of money available to the public agency. Also, private sector debt is typically more expensive than public sector debt. Splitting the cash flow after debt service would mean that the public sector is effectively subsidizing the private sector's higher cost of capital.

In order to protect the public sector against private sector risks and costs, it is important to structure a ground lease which limits risk exposure. The most successful ground lease structure for public/private joint ventures incorporates three important elements: a ground rent payment that is based on a project's gross revenues, to protect against operating risk, a minimum ground rent payment to protect against leasing risk, and a formula for public sector participation in the proceeds from the sale or refinance of the development in question.

Ground rent payments based on gross revenues limit the public sector's operating risk exposure. Under this scenario, inefficient property management practices will not affect the ground rent paid to the agency. The term gross revenues means the total rental revenue received from tenants, less vacancy and collection losses. In the case of most projects such as apartments, offices, and hotels, this is expressed as a percentage of total effective gross rental revenues. For large retail projects, however, the ground rent is often expressed as a percentage of sales. This is a common practice in the retail industry where lease payments for stores on land owned by the developer are also based on a percentage of sales. Leases for neighborhood retail space, however, are typically based on a flat lease rate since these businesses have highly fluctuating sales levels.

Our research included the review of several public/private ground leases to establish the appropriate level of ground lease payment for each element in the proposed Division 7 mixed use project. Our economic analysis is based on the following percentage ground rents:

Office Buildings	10.0% of gross rental income
City Hall	10.0% of gross rental income
Neighborhood Retail	10.0% of gross rental income
Destination Retail	25.0% of gross sales volume
Hotel	7.0% of gross rooms revenue and 3.0% of food and beverage income
Apartments	10.5% of gross rental income
Parking	10.0% of gross rental income

It is important to mitigate the public agency's exposure to fluctuations in rental income through the establishment of a minimum ground rent payment for each proposed use. This minimum ground rent payment may fluctuate over the life of the project. For example, the minimum ground rent due during the construction stage might be nominal since there is no income stream to offset the expense. This minimum payment would be adjusted upwards during the project's lease-up period when income begins to flow. The standard ground rent formula would apply once the project has reached stabilized occupancy, with a minimum ground rent in excess of the level used during the construction and lease-up phases.

The ground lease usually spans a term of up to 99 years. The terms of the lease should call for periodic review and adjustment of the terms. These adjustments include the level of percentage rents to be paid, as well as the minimum ground rent level. For example, it is not unusual for the renegotiated minimum ground to be set at 80 percent of the previous year's total ground rent payment.

Finally, it is important that the public agency be able to participate in the proceeds from the sale or refinance of the development. The proceeds from the sale of property on leased land will vary dramatically depending on the length of time left on the ground lease. This makes it difficult to draft a participation agreement that will be equitable to both the public agency and the developer. Two commonly used approaches include a predetermined formula that both parties can agree to, or the division of proceeds based on the pro-rata value of each party's interest at the time of sale.

The financial analysis which follows shows the percentage of gross income approach as applied to a stabilized year of operation. Issues such as minimum ground rent payments and participation in sale or refinance are an important part of the ground lease structure, even though they are not specifically illustrated in the financial exhibits.

Assumptions about Operating Performance

The financial analysis which follows is based on the development program shown in the Project Overview section of this report. This program is based on the recommendations of the Halcyon market study, an analysis of the legal envelope for the subject property, and an inquiry by a potential retail tenant during the course of the study. The consulting team has not performed a detailed market analysis for the subject property.

Rental rates and vacancy rates used in the financial analysis which follows are based on rates for comparable buildings as determined from interviews with local area brokers. The level of research performed was strictly limited to ensuring that our assumptions for the financial analysis were within the range of the market. This analysis does not reflect the level of effort for a full economic feasibility study.

Construction cost information is based on data from Marshall and Swift Valuation Services, and has been adjusted for current local market conditions. Construction costs do not include City of West Hollywood linkage fees as described in the Legal Envelope section. The level of fees assessed is highly dependent on the design of the project and factors such as traffic mitigation measures, child care facilities, amount of inclusionary housing units, etc. The cost of various fees and exactions can only be estimated when the project design is at a more advanced stage. Consequently, our construction cost estimates represent the low end of the range of potential construction costs.

Assumptions about loan terms and interest rates are based on Crittenden Income Property Rates Report averages for thirty year, fixed rate loans as of March, 1992. Assumptions about interest rates for publicly financed debt are based on similar industry data sources.

This analysis assumes that 100 percent of the construction cost of the improvements is funded by debt. Traditionally, lenders have required that the loan amount not exceed 75 to 80 percent of the total value of the land and buildings. At the Division 7 Site there is no capital cost of the land to the developer, so we have assumed that 100 percent financing of the construction cost represents approximately 75 percent of the total value of land and buildings.

This financial analysis shows both best case and worst case scenarios. Assumptions about rental rates, vacancies, operating expenses, etc. are identical for both scenarios. Under the best case scenario the site development costs associated with the purchase of the new Sheriff's station site, the relocation of the bus operations, and the entitlement would be fully borne by the redevelopment agency in exchange for the increased property and sales tax revenues that might be realized from the development of this site. The worst case scenario assumes that these costs are completely borne by RTD from its ground rent payments.

By using public money to purchase an alternative site for the Sheriff's substation, RTD would effectively swap the newly purchased land for the site located at the southeast corner of Santa Monica and San Vincente Boulevards. RTD would then receive ground rent payments derived from uses constructed on that portion of the site. Structuring an economic ground lease will insure that ground rent from the former station site meets or exceeds the debt service payment for the new station site.

Operating assumptions for each of the project elements are as follows:

City Hall

The City of West Hollywood currently occupies temporary facilities at a monthly rental rate of $2.75 per rentable square foot, net of common area charges, taxes, and insurance (triple net or NNN). We have assumed that they would be willing to pay an equivalent rental rate in a new civic center. Since the City would be the sole occupant of the building, we have assumed 100 percent occupancy for this building.

City employees do not currently pay for parking, therefore we have assumed that no revenues would be derived from the 210 parking spaces associated with the civic center.

Office Space

As noted in the Halcyon report, there is very little new, directly comparable office space in the local market. Based on discussions with local area brokers and recent leases in the most directly comparable buildings that we could identify, we have assumed a monthly rental rate of $2.60 per square foot, including $0.75 per month for common area expenses. This equates to a monthly rental rate of $1.85 per month, NNN. We have also assumed a ten percent vacancy rate in the office space.

Most local office buildings charge tenants and visitors for parking. The monthly and daily rates for parking vary greatly by location. Based on a daily rate of $6.00 at the Pacific Design Center to the south of the subject site, we have assumed that the office parking earns $5.00 per day at 100 percent occupancy for 260 days per year.

Neighborhood Retail

Retail rates for small, service-oriented neighborhood retail centers also vary greatly depending on whether or not the center has a strong anchor or no anchor, the available parking, and its physical location. For this analysis we have assumed that the neighborhood retail space would rent for $2.50 per rentable square foot per month, NNN.

Most competitive unanchored shopping centers in the area do not charge for parking. Therefore, we have assumed that there would be no revenue generated from the parking associated with the neighborhood retail parking spaces.

Destination Retail

Destination retail may be comprised of one large or two smaller anchor tenants. For example, during the course of our study Costco, a discount retailer, expressed an interest in the site. Costco stores typically range between 100,000 and 120,000 rentable square feet. Other examples of smaller anchors include grocery store and drug store operators usually found in community shopping centers.

Large retail tenants may pay rents on either a straight lease basis, or as a percentage rent based on the gross sales volume of the store. For the purposes of this analysis, we have assumed that the destination retail tenant(s) would pay a percentage rent of three percent of gross sales. Assuming a discount retail tenant, we anticipate annual sales levels of approximately $450 per square foot. Like city hall, the destination retail space is designed for a single user. We have assumed 100 percent occupancy for the destination retail element.

Parking is usually free to destination retail customers. Therefore, we have assumed that no parking revenue will be generated from the parking associated with the destination retail.

Hotel

We have assumed that a full service hotel on the subject property would have 200 rooms and a moderate level of food service, banquet, and meeting space. This analysis assumes that the hotel achieves a stabilized occupancy of 70 percent and an average daily rate of $90.

Hotel guests and visitors are assumed to pay for parking. The revenue associated with the hotel parking is also $5 per day, based on a 260-day year.

Apartments

The project program shows 200 apartment units planned for the project Site. There may be an inclusionary housing requirement from the City of West Hollywood to provide up to an additional 20 percent (40 units) reserved in perpetuity for low- and moderate-income tenants. The financial analysis does not reflect the costs or revenues associated with the inclusionary housing requirement. It is assumed that the income from these units would just cover the incremental cost of construction. It is also assumed that these units do not contribute any income to ground rent.

Monthly rents for the apartment units is estimated at $1.20 per square foot of rentable area, with an operating expense ratio of 45 percent of gross revenues.

Parking is typically included in the monthly rental charge for the apartment units. Therefore, we have assumed no revenues will be generated from the parking spaces associated with the apartment units.

Parking

As outlined above, parking revenues are only assumed to be generated by the spaces associated with the office and hotel parking. Based on 100 percent occupancy, the parking spaces are assumed to generate $5.00 per day, with a 260-day operating year. Operating expense ratios are assumed to be 15 percent of gross revenues.

Only certain elements of the mixed use project may generate income from parking. Office tenants and hotel guests, for example, might be expected to pay for parking while apartment tenants would expect to receive the parking under the terms of their lease.

The proformas which follows estimate parking operating expense as a percentage of revenues. Since not all uses generate parking revenues, there is an unallocated parking expense which is shown as a deduction from the developer return.

The pages which follow show our construction cost and operating assumptions, as well as operating proformas for a stabilized year. We have included an estimate of return on invested capital calculation as a check to verify that the overall development economics fall within a reasonable range of returns.

FINANCIAL ANALYSIS:
CONSTRUCTION COST AND OPERATING ASSUMPTIONS

RTD West Hollywood Division 7 Site
Summary of Projected Construction Costs

	Area (SF)	Stories	Projected Construction Cost	Projected Total Cost Per SF	Projected Total Cost
1) Office Building / City Hall	60,000	3	$5,765,502	$125.09	$7,505,502
2) Office Building / Phase I	250,000	11	$27,816,913	$140.27	$35,066,913
3) Office Building / Phase II	250,000	11	$27,816,913	$140.27	$35,066,913
4) Neighborhood Retail / Building I	25,000	1	$1,398,872	$79.95	$1,998,872
5) Neighborhood Retail / Building II	25,000	1	$1,398,872	$79.95	$1,998,872
6) Destination Retail / Building I	60,000	1	$2,818,919	$55.98	$3,358,919
7) Destination Retail / Building II	60,000	1	$2,818,919	$55.98	$3,358,919
8) Hotel	183,335	5	$12,960,418	$70.69	$12,960,418
9) Apartment Building	150,000	5	$8,488,921	$56.59	$8,488,921
10) Shared Parking Facility	N/A	N/A	$28,118,594	N/A	$28,118,594
Total	$1,063,335		$119,402,844		$137,922,844

RTD West Hollywood Division 7 Site
Site Development Costs

Decking Costs	$16,000,000
Sherriff's Station (1)	$4,900,000
Entitlement Costs	$500,000
Total Site Development Costs	$21,400,000
Rounded to nearest $500,000:	**$21,500,000**
Annual Debt Service on Total Site Development Costs (2)	**($1,820,432)**

(1) Assumes 2.5 acres @ $45 per square foot.
(2) Assumes $21,500,000 @ 7.5% interest for 30 years.

DRAFT

DRAFT

RTD West Hollywood Division 7 Site
Summary of Operating Assumptions

	Base Rent Per Month	Vacancy	Lease Terms	Operating Expenses	Debt Service Interest	Debt Service Term	Ground Rent Payment
1) Office Building / City Hall	$2.75/SF	0.00%	NNN (1)	$.75 / SF / Mo.	9.50%	30 Years	10% of Effective Gross Rental Income
2) Office Building / Phase I	$2.60/SF	10.00%	FSG (2)	$.75 / SF / Mo.	9.50%	30 Years	10% of Effective Gross Rental Income
3) Office Building / Phase II	$2.60/SF	10.00%	FSG	$.75 / SF / Mo.	9.50%	30 Years	10% of Effective Gross Rental Income
4) Neighborhood Retail / Building I	$2.50/SF	10.00%	NNN	N/A	9.50%	30 Years	10% of Effective Gross Rental Income
5) Neighborhood Retail / Building II	$2.50/SF	10.00%	NNN	N/A	9.50%	30 Years	10% of Effective Gross Rental Income
6) Destination Retail / Building I	3% of Gross Sales	0.00%	NNN	N/A	9.50%	30 Years	25% of Effective Gross Rental Income
7) Destination Retail / Building II	3% of Gross Sales	0.00%	NNN	N/A	9.50%	30 Years	25% of Effective Gross Rental Income
8) Hotel	Average Daily Rate $90.00	30.00%	N/A	N/A	9.50%	30 Years	7.0% of Effective Gross Rental Income
9) Apartment Building	$1.20/SF	10.00%	N/A	45% of Effective Gross Rental Income (.49/SF/Mo)	9.50%	30 Years	9.5% of Effective Gross Rental Income

(1) Under Triple-Net (NNN) lease tenants pay their pro-rata share of common-area charges.
(2) Under Full-Service Gross (FSG) lease the owner pays common area charges from rental income.

FINANCIAL ANALYSIS:
STABILIZED YEAR PRO-FORMAS

RTD West Hollywood Division 7 Site
Projected Cash Flow Available to Developer and RTD

Office:

Potential Gross Rental Income	$15,600,000
Less: Vacancy Factor	($1,560,000)
Effective Gross Rental Income	$14,040,000
Less: Operating Expenses	($4,500,000)
Net Operating Income	$9,540,000
Less: Debt Service	(7,822,676)
Cash Flow Before Ground Rent	$1,717,324
Less: Ground Rent to RTD	($1,544,400)
Before Tax Cash Flow from Operation (to Developer)	**$172,924**

Office Parking:

Gross Rental Income (EGI)	$2,275,000
Less: Operating Expense	(341,250)
Net Operating Income	1,933,750
Less: Proportional Parking Debt Service	(1,575,846)
Cash Flow Before Ground Rent	$357,904
Less: Ground Rent to RTD	($250,250)
Before Tax Cash Flow from Operation (to Developer)	**$107,654**

City Hall:

Potential Gross Rental Income	$1,980,000
Less: Vacancy Factor	$0
Effective Gross Rental Income	$1,980,000
Less: Operating Expenses	$0
Net Operating Income	$1,980,000
Less: Debt Service	(846,135)
Less: Proportional Parking Debt Service	(189,101)
Cash Flow Before Ground Rent	$944,763
Less: Ground Rent to RTD	($217,800)
Before Tax Cash Flow from Operation (to Developer)	**$726,963**

RTD West Hollywood Division 7 Site
Projected Cash Flow Available to Developer and RTD

Neighborhood Retail

Potential Gross Rental Income	$1,500,000
Less: Vacancy Factor	($150,000)
Effective Gross Rental Income	$1,350,000
Less: Operating Expenses	$0
Net Operating Income	$1,350,000
Less: Debt Service	(348,535)
Less: Proportional Parking Debt Service	(157,585)
Cash Flow Before Ground Rent	$843,880
Less: Ground Rent to RTD	($148,500)
Before Tax Cash Flow from Operation (to Developer)	**$695,380**

Destination Retail

Potential Gross Rental Income	$1,800,000
Less: Vacancy Factor	0
Effective Gross Rental Income	1,800,000
Less: Operating Expenses	0
Net Operating Income	1,800,000
Less: Debt Service	(731,575)
Less: Proportional Parking Debt Service	(378,156)
Cash Flow Before Ground Rent	$690,268
Less: Ground Rent to RTD	($450,000)
Before Tax Cash Flow from Operation (to Developer)	**$240,268**

DRAFT

RTD West Hollywood Division 7 Site
Projected Cash Flow Available to Developer and RTD

Apartment

Potential Gross Rental Income	$2,160,000
Less: Vacancy Factor	(216,000)
Effective Gross Rental Income	1,944,000
Less: Operating Expenses	(874,800)
Net Operating Income	1,069,200
Less: Debt Service	(863,163)
Less: Proportional Parking Debt Service	(360,193)
Cash Flow Before Ground Rent	(154,156)
Less: Ground Rent to RTD	($204,120)
Before Tax Cash Flow from Operation (to Developer)	**($358,276)**

DRAFT

RTD West Hollywood Division 7 Site
Summary of Projected Annual Cash Flows to Developer (1)
& Projected Annual Ground Rent Payments to RTD

(1) Cash flow defined as operating income excluding depreciation, less debt service.

Hotel	
Rooms Revenue	$4,599,000
Room Cost	(1,150,000)
	3,449,000
Departmental Expenses:	
A&G	(460,000)
Adv. & Sales Promotion	(230,000)
Management & Franchise Fee	(276,000)
Energy	(253,000)
Repairs & Maintenance	(184,000)
Total Departmental Expenses	(1,403,000)
Fixed Costs:	
Property Tax	(182,000)
Insurance	(46,000)
Ground Rent to RTD	(321,000)
Reserve (3%)	(137,000)
Total Fixed Costs	(686,000)
Subtotal	1,360,000
Debt Service	($1,317,823)
Before Tax Cash Flow from Operation (to Developer)	**$42,177**
Hotel Parking	
Effective Gross Rental Income	$286,000
Less: Operating Expenses	(42,900)
Net Operating Income	243,100
Less: Proportional Parking Debt Service	(198,106)
Cash Flow Before Ground Rent	44,994
Ground Rent Paid to RTD	(28,600)
Before Tax Cash Flow from Operation	**$44,994**
Shared Parking Facility	
Effective Gross Rental Income	$0
Less: Operating Expenses	(234,975)
Net Operating Income	(234,975)
Less: Proportional Parking Debt Service	0
Cash Flow Before Ground Rent	(234,975)
Ground Rent Paid to RTD	0
Before Tax Cash Flow from Operation	**($234,975)**
Total Before Tax Cash Flow from Operation (to Developer):	**$2,417,947**

FINANCIAL ANALYSIS:
BEST AND WORST CASE SCENARIOS
INVESTMENT ANALYSIS

RTD West Hollywood Division 7 Site
Summary of Projected Annual Cash Flows to Developer (1)
& Projected Annual Ground Rent Payments to RTD
Scenario 1 (Best Case): 100% of Site Costs Paid by Public Financing

Cash Flow to Developer (1):

Property	BTCF Available to Developer
Office	$1,004,752
Office Parking	130,404
City Hall	829,735
Retail	650,922
Destination Retail	288,770
Apartments	(338,831)
Hotel	42,177
Hotel Parking	44,994
Shared Parking Facility	(234,975)
Total Before Tax Cash Flow Available to Developer (1)	**$2,417,947**

Ground Rent Payments to RTD:

Property	Ground Rent Paid to RTD
Office	$1,404,000
Office Parking	227,500
City Hall	198,000
Retail	135,000
Destination Retail	450,000
Apartments	184,680
Hotel	321,000
Hotel Parking	28,600
Total Before Tax Cash Flow Available to RTD	**$2,948,780**

(1) Cash flow defined as operating income excluding depreciation, less total debt service.

DRAFT

RTD West Hollywood Division 7 Site
Summary of Projected Annual Cash Flows to Developer (1)
& Projected Annual Ground Rent Payments to RTD
Scenario 2 (Worst Case): 100% of Site Costs Paid by RTD

Cash Flow to Developer (1):

Property	BTCF Available to Developer
Office	$1,004,752
Office Parking	130,404
City Hall	829,735
Retail	650,922
Destination Retail	288,770
Apartments	(338,831)
Hotel	42,177
Hotel Parking	44,994
Shared Parking Facility	(234,975)
Total Before Tax Cash Flow Available to Developer (1)	**$2,417,947**

Ground Rent Payments to RTD:

Property	Ground Rent Paid to RTD
Office	$1,404,000
Office Parking	227,500
City Hall	198,000
Retail	135,000
Destination Retail	450,000
Apartments	184,680
Hotel	321,000
Hotel Parking	28,600
Total Ground Rent Paid to RTD	**$2,948,780**
Less: Annual Debt Service on Site Development / Decking Costs	(1,820,432)
Total Before Tax Cash Flow Available to RTD	**$1,128,348**

DRAFT

RTD West Hollywood Division 7 Site
Investment Analysis

Net Operating Income from Properties:

Property	NOI Available
Office	$9,540,000
Office Parking	1,933,750
City Hall	1,980,000
Retail	1,350,000
Destination Retail	1,800,000
Apartments	1,069,200
Hotel	1,360,000
Hotel Parking	243,100
Shared Parking Facility	(234,975)
Total Net Operating Income Available to Developer	**$19,041,075**

Ground Rent Payments to RTD:

Property	Ground Rent Paid to RTD
Office	$1,404,000
Office Parking	227,500
City Hall	198,000
Retail	135,000
Destination Retail	450,000
Apartments	184,680
Hotel	321,000
Hotel Parking	28,600
	$2,948,780

Total Net Operating Income Available to Developer	**$19,041,075**
Less: Total Ground Rent Paid to RTD	**(2,948,780)**
	$16,092,295
Divided by Total Project Cost	**137,922,844**
RETURN ON INVESTED CAPITAL	**11.67%**

DRAFT

SECTION IV:
PROJECT DEVELOPMENT ISSUES

The Redevelopment Strategy

The City of West Hollywood greatly values the RTD Site and has always viewed it " . . . . as a critical `opportunity´ site".

In addition to the "opportunity" site designation, the City also identified eight "districts" and five key "centers" in the General Plan. The point of this designation is that each key center has common distinguishing characteristics and functions. The Santa Monica Boulevard District was identified as containing the types of uses and scale of development that has established a "village-like" pedestrian ambiance. And, as a key center, greater consideration is given to allowing greater intensity and height for the development if it promotes the policies adopted by the City. The adoption of a redevelopment project area would allow the City greater latitude with respect to development policy heights, while maintaining strict controls on the type and intensity of the development.

Potential Use of Redevelopment Funds

Adoption of this Site as a redevelopment area could provide funding assistance to the developer and, ultimately, the RTD. The funding assistance would come in the form of an allocation toward site development costs. The City could justify an allocation for site development costs based on the potential to realize incremental property tax and sales tax increments. This decision will be impacted, either negatively or positively, by the tenor of the relationship between RTD and the City of West Hollywood.

The other funding source from a redevelopment project area is the 20% set-aside required for affordable housing development by all redevelopment agencies. It should be noted however, that a project area at this site is not a prerequisite for accessing the 20% set-aside funding. This funding source may be allocated to affordable housing projects citywide and is not limited to specific project areas.

Entitlement Processing

Creation of a redevelopment project area gives the City a vested interest in the timely and satisfactory completion of the project, and would assist in the entitlement processing phase.

The City might expedite entitlement processing because of its economic interest in tax increments, as well as civic pride in completing this development intended to make a major statement about the City. Absent this vested interest by the City, entitlement processing could be a long and costly process. The entitlement processing is a critical component of this project and an expensive, up-front cost consideration for any private developer.

Advantages of a Redevelopment Project Area to the City of West Hollywood

The greatest advantage to the City of West Hollywood is the increase to City revenues generated by the adoption of a redevelopment project area. In the Framework Plan developed by the City of West Hollywood, the focus was to develop a public/private joint venture, through adoption of a redevelopment project area, at this Site. The Framework Plan recommends that the City participate in the development since this would give the City greater leverage and influence over the project as well as financial benefit.

The other advantage to the City of a redevelopment project area is that it provides much greater control over the ultimate design and uses incorporated into this development. The redevelopment approach may streamline and consolidate the actions required under the entitlement process, and allow the City greater flexibility in granting zoning variances for height, setbacks, density, etc.

There has been some discussion about the possibility of including a new and permanent City Hall at this Site. If this were agreed to by the City of West Hollywood, a project area may be more attractive to the City. The development of a civic center, combined with the redevelopment approach would help to reinforce the concept of the City as a participant in this project.

A redevelopment project area would neither enhance nor diminish this Site for a civic center, although funding for site development could be available from the project area. The tax increment would not cover the cost of building a City Hall, however, and bonds would be required for a project of that magnitude.

DRAFT

Disadvantages of a Redevelopment Project Area to the City of West Hollywood

A disadvantage to a redevelopment project concept is the length of time it will take to adopt a project area. If the development at the RTD Site is contingent upon the approval of a project area, it could be delayed for a considerable length of time.

Given the current "soft" condition of local real estate markets, it is not clear at this point how quickly RTD wishes to move forward on the project. RTD should focus its efforts on memorializing the terms of the development agreement with the City as soon as practically possible. Once memorialized in writing, the project could proceed forward with the certainty that entitlements would be forthcoming only as a matter of form.

While not exactly a disadvantage, the distrust and disapproval by the residents of a redevelopment project area could prove to be a major stumbling block. Adopting a redevelopment project area in a city where previously there was no redevelopment agency is generally very difficult. Local citizens are not familiar with redevelopment laws and are generally opposed to the formation of redevelopment areas. Most people think of redevelopment only as eminent domain power and the possible loss of their property. Considering the organized nature of the West Hollywood residents and their propensity for opposing development, adoption of a redevelopment project area would require a considerable program of public interface.

DRAFT

Legal Envelope

The RTD site has always been viewed by the young City of West Hollywood as a critical "opportunity" site, and the legal constraints put on the site reflect that view. There are three key documents which establish the City's vision for, and limitations on, the Site: West Hollywood General Plan (1988), West Hollywood Zoning Ordinance (1991) and the Development Framework Plan (1988) study for the site. Each will be discussed separately below.

City of West Hollywood General Plan

General

West Hollywood takes its General Plan very seriously. They spent a great deal of time (over three years) and money (over $1 million) on its preparation. Although some issues and policies are now being revisited, it continues to reflect the goals and vision for the city.

The City also takes seriously the relationship between the General Plan and the Zoning Ordinance. They have striven to insure that both documents are internally consistent, and that proposed projects are consistent with those pieces of legislation. In fact, it frequently reads like a zoning ordinance with detailed numerical standards and criteria.

Santa Monica Boulevard

It is important first to establish the legal context within which the Site is found. Santa Monica Boulevard is considered by the General Plan to be a "primary path", which is "a street which provides the means of principal vehicular and pedestrian movement in the city and interconnects land use and activity sub-areas."

The General Plan identified eight "districts", which had common distinguishing characteristics and function. The first district discussed is the "Santa Monica Boulevard Corridor", where "the types of uses and scale of development have established a village-like pedestrian ambiance ...."

The Plan also identifies five key "Centers", which function "as concentrated or single-location districts." One of those is the "Santa Monica Boulevard - San Vicente Boulevard Commercial Lane." Interestingly, every other "Center" is either a single parcel (like Plummer Park) or under single ownership (like Pacific Design Center).

Because the General Plan description of this "Center" gives us a great deal of information about what the City would like to see along the street edge of the RTD Site, it is quoted here in its entirety:

> "Santa Monica Boulevard near the intersection of San Vicente Boulevard contains the greatest concentration of restaurants, bars, clothing stores, financial institutions, and similar uses oriented to `upscale´ users in the City of West Hollywood. It is a primary focus of daytime and nighttime activity. The area is dominated by one - and two - story buildings which front directly onto the sidewalk. Many are older buildings which have been renovated. Most incorporate extensive glass so that their activities are visible from the street, landscaped planters, and awnings to enhance pedestrian activity."

In general, the General Plan allows commercial development on Santa Monica Boulevard to reach a floor area ratio of 1.5:1 and height of 35 feet (or three stories). If residential development is added, a FAR bonus of 0.5:1 may be granted, but there is no height bonus for residential development.

In addition, scattered throughout the General Plan, are policies which might limit the legal envelope of the RTD Site. The key ones are as follows:

- Neighborhood-serving commercial uses must be incorporated into the ground level of all municipal parking structures.

- New "large scale, mixed use" development projects must have neighborhood-serving commercial services.

- The facades of all parking structures facing residential parcels must be enclosed; rooftop parking adjacent to residential areas must also be enclosed.

- All parking areas must be either behind or underneath structures.

- Large-scale development on sloping sites must "reflect the slope".

<u>RTD Site</u>

In the General Plan "Overview of Land Use and Urban Design Policy", the City stated that:

> "Five areas will be considered for slightly greater intensity and height for the development of key uses which contribute significant benefits to the city. These include two areas whose development increases are intended to stimulate their revitalization: the Movie Studio District, and the Santa Monica Boulevard - Melrose Avenue - Almont Avenue Triangle. Other areas include parcels on the south of Sunset Boulevard west of La Cienega Boulevard, the San Vicente Boulevard - Beverly Boulevard - Sherbourne Drive Triangle, and the SCRTD site."

Thus, the City focused its General Plan controls throughout the town, but especially on Santa Monica Boulevard, and then identified five "opportunity" sites where it was willing to provide more generous rules.

This strategy seems to be working in the midst of a deep recession, the following has occurred:

- Warner Bros. has submitted a draft master plan to take advantage of the Movie Studio controls;

- The City has just approved a major retail/office project which took advantage of the rules on the Sunset Strip;

- Cedars-Sinai Hospital bought the San Vicente-Sherbourne site to take advantage of the bonus rules; and

- The RTD is discussing the joint development of the Division 7 Site.

The City was fairly specific in articulating what it wanted on the site in exchange for granting bonus density and height. Again, because of its importance, it is quoted in its entirety:

> "1.19.22 - Permit an increase of floor area ratio of 0.75, to a maximum of 2.25, for the redevelopment of the Southern California Rapid Transit District (SCRTD) site (Santa Monica Boulevard and San Vicente Boulevard) for a mixed-use project containing the SCRTD facilities, commercial, and/or residential uses provided that a comprehensive development or specific plan is prepared and approved by the City which demonstrates that the project:
>
> - steps back the building heights from Santa Monica Boulevard and abutting residential parcels on Huntley Drive;
>
> - the maximum permissible height shall be determined by that required to adequately accommodate SCRTD operations in concert with the mixed uses, while minimizing shadow impacts of adjacent sites;
>
> - all uses and buildings enhance pedestrian activity along Santa Monica and San Vicente Boulevards in accordance with the land use and urban design policies and standards specified for Issue Six (Policies 1.37.1-1.37.8);
>
> - contains activities and functions which will be a significant asset for the city;
>
> - achieves a higher level of architectural and urban design performance than would normally occur;

- adequately mitigates all impacts attributable to the increase in floor area ratio and height;

- conveys the sense of an `urban village´, in its citing of structures, massing, scale, use of open space incorporating `pedestrian-friendly´ uses, and architectural character, and;

- provides additional benefits to the adjacent community and greater city above those which can be exacted to account for its direct impacts (some examples, which are not all-inclusive, include additional parking above code requirements for adjacent commercial or residential uses, where deficient; make available unused parking spaces for off-site uses during evening hours; dedication of on-site parkland; senior day care `respite care´ facilities; of contributions to part acquisition and improvements; public urban design improvements, or human services programs; or acquisition and maintenance of significant architectural or historical buildings and properties) (I1.1, I1.4, I1.5, I1.7, *1.8, I1.9 and I1-10)."

The "land use and urban design policies and standards" mentioned above are attached as Exhibit B. They limit the site in the following key ways:

- Buildings have to be located in close proximity to the sidewalks. There are numerical standards detailing this.

- The first level of a building has to occupy at least 75% of a lot's lineal frontage.

- Ground floor elevators must be `penetrable´ with lots of glass and openings.

- Uses on the ground floor are limited to those which are `pedestrian-friendly´.

- At least 50% of the ground story must be within two feet of the sidewalk elevation.

- Building stepbacks are required after 30 feet of height even though most of the first 30 feet must, in essence, hug the sidewalk.

Zoning Ordinance

General

The West Hollywood Zoning Ordinance, in general, is very restrictive. It set strict and detailed standards for virtually all aspects of development, makes all entitlements discretionary, and gives a great deal of latitude to the Planning Commission and City Council to go beyond the restrictive numerical standards outlined in the book.

Process

The Zoning Ordinance requires any applicant to obtain a Development Permit, which is granted by the Planning Commission (or City Council on appeal) after a public hearing. In West Hollywood, major projects usually require numerous hearings and are virtually always appealed to the Council.

That process usually results in significant design changes to the project, and numerous other exactions or conditions of approval. Thus, there is a great deal of uncertainty as to the final composition of an approval package even when the applicant is comfortable that the decision-makers support the project.

An Environmental Impact Report (EIR) will definitely be required for a project of the size contemplated for the RTD Site. West Hollywood prepares "arms-length" EIRs in which the developer pays the City who, in turn, hires its own EIR firm to draft the document. A complex EIR may take 15-18 months from start to completion. The total cost should be expected to exceed $100,000.

Although it is not discussed in the Zoning Ordinance, the General Plan contemplates the preparation of a Specific Plan on this Site. The Plan could be "instigated by private developers or the City." A Specific Plan is a legislative action which would have to be reviewed by both the Planning Commission and the City Council.

The RTD would, in all likelihood, want to obtain both a vesting tract map (VTM) and development agreement from the City, in order to insure that development rights were vested after completing the entitlement process. The VTM is reviewed and approved by the Planning Commission, whereas the development agreement is a legislative action requiring approval by the City Council.

The entire package of approvals could probably be obtained within 18-24 months of the application filing. In West Hollywood, the land owner/developer is assessed many of the costs associated with the processing of such applications, including the cost of special studies and City Attorney time for analysis of the development agreement.

Use

The property is presently zoned Public (P). That district allows typical public and quasi-public uses, but does not permit private commercial development. Thus it will be necessary either 1) to modify the Public Zone District regulations to permit commercial development through some process, or 2) change the zoning to some other district.

The real dilemma here is that all other commercial zoning districts have very restrictive height limits which could limit the ability to mass density on the Site. Thus the most likely entitlement path will be to first amend the P District chapter to enable the submission of specific plans, and then to prepare a specific plan delineating the development standards and phases.

Development Standards

- **Floor Area Ratio (FAR):** The underlying FAR is 1.5 but the General Plan allows an increase of 0.75 to a total of 2.25. Residential development counts against the FAR.

- **Height:** No height is established.

- **Dedication:** The City will require additional street dedication/widening on Santa Monica Boulevard, and on San Vicente Boulevard.

- **Density:** There is no residential density established for the Site. Mixed use projects could presumably build as many units as possible, as long as the FAR of 2.25 was not exceeded.

- **Open Space:** There are restrictive private and common open space requirements for all residential units, typically 133 sq. ft. for efficiency units and 350 sq. ft. for all others.

- **Setbacks:** A 15-foot setback will be required from adjacent residential zones, unless the RTD Site is developed at that location with housing, in which case the setback may be reduced to ten feet. No setback is required when abutting a commercial zone; no front setback is required. (In fact, its is discouraged.)

- **Parking:** The City will generally require the following:

(1)	Efficiency:	1 space
(2)	1 Bedroom:	1.5 spaces
(3)	2 Bedrooms:	2.0 spaces
(4)	Guest:	1 space/4 units
(5)	Restaurants:	9/1000
(6)	Office:	3.5/1000
(7)	Hotel:	1.1/unit
(8)	Retail:	3.5/1000

  There are numerous standards which allow for parking reductions through shared use. The compact allowance is 40%. There are many gradations to the parking standards so the discussion above is meant merely to give typical requirements.

- **Inclusionary Housing:** At least 20% of the residential units must be dedicated in perpetuity to low- and moderate-income households. However, the City then grants a density bonus equal to the inclusionary requirement. It is not clear whether an FAR bonus would be granted in a Commercial Zone; however, the RTD should argue for such an interpretation.

Development Framework Plan

In 1988, the City seriously considered the formation of a redevelopment agency. As part of that analysis, they analyzed three potential project areas. One of them included the RTD Site. As is typically done, the City completed a Development Framework Plan which also gives information regarding the City's goals and preferences.

The study mentioned the following new objectives for the area:

- Anchor the design showroom presence and further establish West Hollywood as the design showroom center for Los Angeles.

- Attract the film and television industry management sector in order to establish more of a presence along Santa Monica Boulevard.

- Create a unique entertainment district by augmenting existing uses.

- Create much needed housing, some of which will be affordable to the local employee base.

The study called for a public/private joint venture on the Site. It recommended that the City "participate" in the development, and it pointed out that the City will thereby gain greater influence over the project and benefit financially. It further added that the project offers "significant long-term cash flows which can be used or bonded against to create funds for much needed community-serving projects within the city."

City Fees, Concessions and Exactions

Predicting the final demands or requirements put on a project in West Hollywood is always difficult, because each project is debated separately and the outcome is a function of the issues raised during that debate. Nevertheless, it is possible to identify the mandatory exactions, and to discuss typical requirements imposed on large projects over the last few years. Mandatory requirements are as follows:

- **Dedications:** The City will require street dedications and/or widenings.

- **Art:** The City requires the installation of art equal to 1% of the construction value of the project.

- **Housing:** The City imposes a housing linage fee equal to $2.85 per square feet of commercial development; however, that may be reduced through the construction of on-site inclusionary units.

- **Child Care:** The City imposes a child care fee of $0.65 per square foot of commercial development; however, that may be reduced through the construction of on-site child care space.

- **Open Space:** The City imposes a public open space development fee of $0.79 per square foot of commercial development; again, this may be reduced through the construction of on-site public open space.

- **Traffic Mitigation:** A traffic mitigation fee will be imposed equal to $1.85 per square foot of commercial development and $4.48 for each residential unit. That fee may be reduced through the development or construction of transportation system improvements, or implementation of transportation demand management strategies. Various site-specific traffic improvements (queuing lanes, signals, on-site lane striping, etc.) will also be required in addition to the fee.

  All of the above fees have CPI escalators, and all require 25% to be paid at the time of the building permit with the other 75% paid in three annual installments.

- **Congestion Management Plan:** The Los Angeles County Transportation Commission (LACTC) will require the payment of a Congestion Management Plan (CMP) fee to improve the "regional" transportation system. That fee won't be approved by the LACTC until late 1992, but early estimates are $1.00 per square foot.

<u>Typical Discretionary Requirements</u>

- **Design:** The City will require numerous design modifications during the staff review and public hearing stages. Those will have an unknown cost impact because of additional architectural fees and possible loss of leasable space.

- **Bonds:** The City will attempt to enforce conditions of approval through requiring a performance bond of at least $75,000, which may be held for ten years.

- **Bicycles:** Bicycle spaces and showers will be required.

- **Waste:** An on-site wastewater treatment facility may be required. On-site solid waste separation will be required.

- **Conservation:** State-of-the-art water and energy conservation devices and equipment will be required.

- **Community Space:** A community room or some sort of public meeting space may be required.

- **Hours:** The City may attempt to limit both hours of operation and hours of construction, which may have an affect on tenant income streams and total construction cost (due to delays).

Civic Center

Ever since incorporation, the City has debated the need for, and location of, a civic center. Presently, it rents office space for its city hall on the north side of Santa Monica Boulevard east of the site. It is considering relocating the civic center to the east end of town, but if that does not happen, it has discussed including the civic center in the RTD project. This could be achieved through the relocation of the Los Angeles County Sheriff's station and expansion of the Division 7 Site by 2.5 +/- acres.

To accommodate the civic center, the development should include a suitable location, access, parking and a building pad for a 50,000 - 65,000 sq. ft. city hall. The City would absorb the cost of constructing the government center.

Physical Constraints

The site constraints will be analyzed from five perspectives: general, north, east, south, west.

General

The site slopes downhill from north to south. The elevation change is approximately 25 feet and the site is approximately 740 +/- feet deep. Thus there is a typical slope of 3.4%. The potential presence of toxics may present some construction and cost implications, but should not present design or project constraints.

There is a high water table in the area, caused both by underground streams flowing down from the Hollywood Hills and by rising abandoned water wells. The water table may range between five and 20 feet. Thus subterranean excavation and construction may be costly, limited or prohibitive, depending upon a hydrologist's analysis.

Another general site constraint is the unknown height limit. The conflicting policies can be summarized in the following way:

- The City normally is very restrictive regarding height.

- Its rules seem to recognize that substantial height should be granted on the Site.

- It typically requires stepping with the site, so that projects cascade evenly down a hill. Because it is requiring low buildings on Santa Monica Boulevard (uphill), this could seriously limit the amount of development.

- On the other hand, City officials have stated they will accept applications with height proposals similar to the Pacific Design Center to the south. Those buildings are both over 100 feet in height and are not designed to reflect the underlying slope.

A last general site constraint is the perceived importance of the corner of Santa Monica and San Vicente Boulevards. Because the general area around the corner is so successful from an urban design, retail and entertainment perspective, the City will be predictably tough on the corner design.

The outcome of that debate regarding the corner is unpredictable. It may require relatively low-scaled and detailed development at the corner, with greater height stepping away; or it may allow a taller, more prominent statement on the corner. Presently, the other three corners are two stories or less.

<u>North</u>

Santa Monica Boulevard is the northern edge. For reasons discussed earlier in this report, the City in all likelihood will require relatively low-scale (two or three story) buildings along the front property edge. The uses will be pedestrian-friendly on the ground story, with offices probably above. The project will then be able to step up as it goes away from the Boulevard.

Another site constraint on the north is the need to provide a north access for both RTD buses and project parking. The City and Caltrans will want to minimize the project impact on Boulevard traffic (as this is also State Route 2). Therefore queuing and acceleration lanes (and possible underground turn lanes for eastbound Santa Monica Boulevard) will be considered.

East

To the east, adjacent to the site, is an existing low-density residential neighborhood. The neighbors there are, on the one hand, some of West Hollywood's most vocal opponents to new development and, on the other hand, are the very people who are pressuring the RTD to enclose the noise and fumes coming from the existing bus yard.

Residential development along the eastern edge is the better solution to these political constraints. The eastern edge of the RTD property is already at least ten feet above the front property lines of the adjacent houses (which front on Huntley Drive).

Therefore, with the required ten or 15 foot setback from the property line (which presently is undeveloped because it is also a utility easement and, if expanded, could be used for a fire lane, if necessary), the RTD bus yard could be covered over with a tall one-story base which would not be viewable from Huntley Drive (because of the aforementioned slope condition). The housing could then be stepped up and away from that platform, creating decks with views looking toward Downtown.

South

The principal constraint to the south is the driveway/access point shared by the RTD and Pacific Design Center. The shared arrangement should be expected to continue because the Design Center access system is established, and because the City will want the vehicular access for the RTD project as far away as possible from the Santa Monica Boulevard/San Vicente Boulevard intersection.

West

Along San Vicente Boulevard, it should be expected that the City will again limit the height of the base of the new building, along the street property line, to two or three stories. Detailed facade treatment will be required, although retail shops may not be mandatory.

Access will also limit the Site on the San Vicente side. In addition to the southern driveway, queuing/acceleration and drop-off will be debated and probably required.

Neighborhood Concerns

Statement Of The Issue

The Rapid Transit District (RTD) has operated a maintenance facility within the City of West Hollywood for a number of years. For quite some time, there have been complaints from residents regarding the noise, vibration, dust and fumes emanating from the busses arriving and leaving the Site. Most recently, it has been discovered that there are toxic materials leaking from the site onto the properties of residents on Huntley Drive, located immediately adjacent to the east of the RTD Site. This incident has served to again arouse the concern of nearby residents

Summary Of Community Concerns and Recommendations

The concerns regarding the proposed mixed-use development expressed by residents had a different focus than those expressed by the business community. Thus, the issues are presented here separately for ease of discussion and review.

Residents' Concerns and Recommendations

- The bus facility must be completely enclosed.
- Eliminate the facility entrance on Santa Monica Boulevard.
- The architecture must reflect the scale and history of the existing neighborhood.
- Limit the height of development to that allowed by the code, 45'.
- Conduct exhaustive traffic studies, focusing on Santa Monica and San Vicente Boulevards.
- Prevent users of the development, as well as Santa Monica Boulevard motorists, from using the surrounding residential streets.

- Consult with area residents in planning for the uses to be included in this development.

Business Community Concerns and Recommendations

- Promote a pedestrian friendly environment on Santa Monica Boulevard.
- Integrate the uses and design of this development with the Pacific Design Center.
- Housing should be included as a use.
- Create a transportation center that encourages use of public transportation.
- A conference center, with accommodations for 2,500 people, should be considered as a strongly needed use.
- Place a significant architectural monument at the southeast corner of Santa Monica and San Vicente.
- Extend the park space across San Vicente to the site.
- Immediately provide better lighting in front of the RTD facility.
- Immediately install a covered bus bench in front of the facility.
- Uses at the site should promote an evening as well as daytime ambience.
- Civic center at this site is not a good use.

Narrative Detail of Community Concerns and Recommendations

RTD Maintenance Facility

Enclosing the Facility: There are longstanding complaints from the community, particularly Huntley Drive residents, regarding the noise, vibrations, exhaust fumes, etc. which result from the busses using this facility. The community was receptive to the idea of enclosing the facility through the mixed-use development concept. There was a small group of residents expressing concern at having a residential use at this Site. These residents thought it reprehensible that people would actually be living over a problem which these residents felt would not be resolved simply by enclosing the facility.

Eliminate Santa Monica Entrance: A complaint which was expressed repeatedly by residents is the noise and traffic congestion that, in the residents' minds, is precipitated by the busses using the Santa Monica Boulevard entrance. Apparently, the buses entering off of Santa Monica travel along the east edge of the Site, accelerating onto the lot and causing excessive fumes, vibration and noise. The residents are not convinced that this would subside even if the facility is enclosed. A fair number of the residents to whom we spoke indicated that the only acceptable solution is to eliminate this entrance.

Immediate Improvements: The lighting in front of the RTD facility (facing Santa Monica Boulevard) currently is felt to be inadequate. There is considerable nighttime activity along Santa Monica Boulevard. People drive from location to location because the lighting does not give any sense of security for one walking along the south side of Santa Monica. Improved lighting would eliminate the long expanse between San Vicente and the activities which promote nighttime pedestrian activity further east on Santa Monica.

It was expressed by several individuals that the bus waiting area at the RTD facility deserves a better and more inviting look. Currently there is only a sign with no bench or covered area for those waiting for the bus. It was indicated that a number of people access the bus at this location and, since it is a major RTD facility, that it should reflect this importance in a major, tangible way.

Public Transit Center: It was expressed several times that this Site lends itself to becoming a major public transit center. There is a major parking deficit in the City of West Hollywood, and particularly along Santa Monica Blvd. If people were encouraged to use public transit, perhaps driving to this Site, parking and then using the bus, it would help alleviate traffic problems throughout the City.

<u>Traffic Considerations</u>

There is great concern regarding the already difficult traffic problems that will only be exacerbated by a major mixed-use development at this Site. Residents expressed concern that long waits on Santa Monica Boulevard that exist now will be increased, thus encouraging motorists to use the residential streets for shortcuts. Residents already find it dangerous driving in the interior residential neighborhoods because many motorists travel through these neighborhoods, at high speeds according to resident accounts, to avoid the delays on Santa Monica Boulevard. Residents all agreed that some method must be instituted to prevent motorists from using the neighborhoods for access.

There was also great concern expressed regarding the use of San Vicente Boulevard as the primary access to the Site. It was indicated that Cedars/Sinai is building a 500,000 square foot R & D facility with parking for 3,200 cars. The traffic study which was conducted indicated that San Vicente would handle the increased traffic volume. There is a food market also planned for the old Sumitomo site. Again, the traffic study indicated San Vicente would be used to accommodate the increased volume. Prior to development consideration, residents (primarily), would like more conclusive information presented about the potential traffic generation and the mitigation measures to alleviate the increased traffic. These residents emphasized the need for the traffic study to take into consideration these other approved projects as well as the traffic to be generated by this project.

Mixed-Use Development

Potential Uses: There was interest expressed both by the residents and the commercial/retail business owners for pedestrian-oriented commercial uses along Santa Monica Boulevard. There was particular interest in retail uses that promote evening as well as daytime activity. There seems to be great interest in promoting evening activity as part of the Santa Monica Boulevard treatment. A movie theater complex was an idea that was enthusiastically received since it would attract an evening audience.

A residential use, in the form of condominiums (not much interest expressed in rental housing), on the east side of the development was also a use that was well-received by most. The housing should be scaled to accommodate the Huntley Drive residents and terraced back. The concept of affordable housing, even ownership, received only a lukewarm response.

The business community indicated a strong interest in locating a conference center at this site. Again, the idea of integrating the existing Pacific Design Center with the proposed uses at this Site. It was indicated that either the PDC or this Site should have a conference center. Apparently, none of the hotels in the City of West Hollywood have the capacity to accommodate any large gathering of people or to provide display space for a major conference event. Many dinners and other functions are held outside the City for this reason. A hotel at this site directly affiliated with the PDC was also thought to be a generally good idea, depending upon the number of rooms and the height. A hotel did not generate favor with the residential community.

Most people, residents and business people alike, did not want to see the civic center located at this Site. Additionally, there was no support for a medical complex, discount stores, or an office tower. In conclusion, it seemed clear that the residents and business owners in the area should be included in the planning for the proposed uses at the site.

Design and Scale: There is great concern over the design of a development at this Site. Most opposition came from those who feared that the development would be many stories in height. Residents particularly do not want a ten story building, most indicated a preference to limiting the development to that allowed by code which is 45'. This means that the development would be limited to two stories. Residents asked for assurances that the design would be sensitive to the scale and history of the existing residential community and the buildings along Santa Monica Boulevard. The businesses primarily asked for a design that integrates the PDC with this site.

Community Aesthetics and Promotion

Community Monument: Residents and the business community see the corner of Santa Monica and San Vicente Boulevards as the real heart of the community. All agreed that development at this Site provides a real opportunity to create a major symbol for the City at this intersection. Most discussion centered around a monument that becomes the symbol to the world that one is now entering the City of West Hollywood.

Extension of the Park Area: Everyone likes the park across the street from the Site and would like to see that open space adopted at this Site. The PDC adopted an open space concept at the west side of their site, along San Vicente. Continuing that open space across San Vicente, or at least creating comfortable open space within the interior of the site to match the park-like ambience is considered very valuable at this location. One resident went so far as to indicate that the surface of the Site should be totally dedicated to an extension of the open-space of a park.

Conclusion

The tension and suspicion expressed by the residents made it very difficult to discuss the possibilities presented by this project. There are longstanding complaints and concerns that were voiced by residents at each meeting. In fact, several Huntley Drive residents upon discovering that a meeting was planned with community representatives registered complaints with RTD and City Hall indicating that they were intentionally omitted from the meetings. It should be noted that the consulting team contacted representatives referred to us by City Hall. However, it is indicative of the suspicion and frustration surrounding the existing problems. Residents typically expressed great disbelief that anything positive would come of this project.

It would seem advisable that the community be included in the planning stages of this project at the earliest possible juncture. The majority of residents to whom we spoke were much more interested in the affects to them personally by a mixed-used development or resolution of their own problems. Most conversations had a very self-interested edge as opposed to discussions of what may be best for the community-at-large. However, once past the venting of these personal histories, most of the residents seemed genuinely interested in the project and pleased to be a part of the planning process. Many residents posed thoughtful questions about the development and many had excellent recommendations which clearly should be considered in the plans for this Site. Contrasting the fair reception from the residential community, the business community enthusiastically endorsed the proposed mixed-use development. There were concerns expressed regarding the traffic and the types of uses intended for the Site, but, overall the business community heartily endorsed the project.

Public Financing Techniques

Introduction

Financing the initial infrastructure and site development costs is one of the riskiest elements in a multi-phased real estate project. Given the substantial cost of relocating the Sheriff's station and reconstructing the Division 7 bus operations, infrastructure and site development costs could make development of this Site uneconomical for the immediate future.

The use of public financing techniques may provide an incentive to the developer through a combination of cost sharing and/or lower interest costs. Cost sharing could be achieved if the City and/or RTD found it economically beneficial to underwrite some of the Site development costs in order to receive the additional benefit from sources such as ground rent payments or sales and property tax increments. Lower interest costs could be achieved if the developer is able to repay the site development costs at the lower tax-exempt rate.

This section provides an overview of the public financing techniques that might be available for this project. The form and amount of public financing used, as well as the repayment terms, will be the subject of negotiation between RTD, the City of West Hollywood, and the selected developer.

For the purposes of our analysis, we have assumed that this Site becomes part of a redevelopment area. State law provides that redevelopment agencies have the power to finance redevelopment activities and related costs. Agencies can issue both short and long term debt with existing and projected revenues. The debt of a redevelopment agency can be its own, although, it can also include any assignments of revenues from others. For the most part redevelopment agencies utilize tax increment financing as the financing tool; however, other financing mechanisms are also available.

Revenue Increment Financing

Tax Increment Financing: Tax increment financing was authorized in California by a constitutional amendment approved by the voters in the early 1950s. It is the principle method of financing the public costs of redevelopment. Ad valorem property taxes generated from the increase in assessed valuation created by new development that takes place in the redevelopment project area is the source of tax increment revenue. The assessed valuation at the time the redevelopment plan is adopted becomes the base year value and is frozen at the level for the purpose of distribution of taxes to the various affected tax entities. Each fiscal year following adoption of a redevelopment plan, the taxes generated by the assessed valuation that exceeds the base year level, known as the tax increment, is paid to the redevelopment agency for repayment of the debt incurred by the agency in connection with redeveloping the project area. Tax increment financing is one of the most important financing tools available for redevelopment.

When a redevelopment project is approved, there is no tax increment immediately available. The fiscal year following the adoption of the project there is an opportunity for some tax increment to be generated, but only if the next year's project area assessed valuation exceeds the base year assessed value.

Normally, very little tax increment is available to an agency during the first few years of a project's existence. Therefore, funding for the initial cost of forming a new project and the cost of carrying out implementation efforts must be provided from the other sources. Many times the sponsoring city or county loans funds to the redevelopment agency or provides capital improvements in the project areas and the agency agrees to reimburse the city/county when the agency receives its revenues as projects are developed as further explained.

20% Housing Set-Aside: The Community Redevelopment Law (Section 33000, et seq., of the Health and Safety Code) requires twenty percent (20%) set-aside of tax increment to provide affordable housing for low and moderate income persons and families. This has previously applied to only projects formed after January 1, 1977. Agencies are now required to comply with the set-aside provisions for redevelopment plans adopted prior to January 1, 1977. There are, however, provisions contained in this 195 amendment that allow a deferral or waiver of the set-aside if specific agency finding are determined and other conditions are met.

Sales & Use Tax Increment Financing: In 1981, the Legislature enacted into law Senate Bill No. 152 (Stats. 1981, Ch. 951). By means of amendments and additions to the Revenue and taxation code and the Community Redevelopment Law, SB 152 provides redevelopment agencies with an additional mode of financing. Revenue and Taxation Code Sections 7202.5 and 7202.6 authorize a redevelopment agency to impose a sales and use tax of one percent

(1%) or less on retail sales and use of personal property, if the redevelopment agency operates in a city that will give credit against its own sales and use tax for taxes paid to the redevelopment agency.

The constitutionality of this Law has been upheld by the California Supreme Court in Huntington Park Redevelopment Agency v. Martin (1985) 211 Cal. Rptr. 133. In addition, Health and Safety Code Section 33641(d) provides that a redevelopment agency may issue bonds, which will be secured by the proceeds from a sales and use tax imposed by a redevelopment agency. Also sales and use taxes can be used as a basis of insuring that sufficient revenues will be available in the event projected tax increments do not flow to the agency in a timely manner.

Start-Up Funding

City/County Funds: An appropriation of funds by grant or interest bearing loan from the city or county is usually required to create working capital for a redevelopment agency and to pay for the administrative costs associated with the preparation of studies and planning necessary for the establishment of one or more redevelopment projects. Such a grant of funds is an indebtedness of the redevelopment agency and may then be repaid by the redevelopment agency as the redevelopment project generates tax increment revenues or other income.

City/County Projects: For some redevelopment projects, it may be necessary for the city or county to directly undertake the construction of public works or public buildings as a contribution to the redevelopment project in order to stimulate initial revitalization efforts.

Developer Advances: If there is a property owner or developer who wishes to build a project in the redevelopment area, the developer may advance funds to the agency for both start-up costs and implementation work. Part or all of the funds so advanced would be repaid by the agency pursuant to an agreement negotiated with the developer.

Finding a developer with sufficient capital to fund the Division 7 site development costs is unlikely for the near future. However, the use of developer capital may be part of the development agreement negotiations as both real estate market and credit conditions improve.

Developer Funding Assistance to Agencies

Redevelopment agency financial requirements are similar to those of the private sector: Redevelopment agencies need to generate working capitol and demonstrate the ability to support both short and long-term financing. Some of the ways in which developers have assisted agencies in meeting these requirements are as follows:

Loans and Advances: Developers have advanced or loaned working capital to redevelopment agencies for preliminary redevelopment activities. Generally, the developer is at risk with these advances and will be repaid only if the project goes forward.

In the case of the Division 7 site, it seems unlikely that the project economics will support the full cost of site development in the near future. If the project is to proceed, funding sources independent of the developer must be sought.

Purchase Price of Properties Involved: Typically the purchase price for a redevelopment site is paid by a developer at the time that title is conveyed by the redevelopment agency. In certain cases, an advance payment of the purchase price is made i order to provide the agency with necessary working capital to acquire or prepare the site for development. Where the development problem has been site assembly, rather than the cost of land, developers have either advanced and paid agency costs to acquire the site or the developer acquires the site directly if no condemnation is required. Any needed land "write-down" can be accomplished at a later date.

Since RTD owns the fee to the Division 7 site, this technique is not applicable to the RTD portion of the site. However, it may be possible to find a developer who will advance the purchase price of the new Sheriff's Station site. Under this scenario, the developer could own the existing Sheriff's Station site, thus limiting RTD's ground rent payment stream to only those uses on the RTD-owned portion of the site.

Rental Payments: Rental payments by developers take two forms: A lease of land from the redevelopment agency or a lease of public facilities, such as parking facilities. A lease of land may be short-term or long-term and for nominal or market rents, depending on the economics of the proposed development. A lease of public facilities will generally be for the dual purpose of creating annual rental income to the redevelopment agency while shifting operation and maintenance costs to the development. Parking structures providing free public parking in conjunction with new major commercial facilities have been leased in this manner to developers i major projects with regional shopping centers.

In the case of the Division 7 site, the land will be owned by RTD rather than the redevelopment agency. Ground rent payments will be paid from the project to RTD.

Participation in Percentage of Future Cash Flows: A fairly new concept is the contractual right of a redevelopment agency to participate in a percentage basis of the future profits or cash flow from a redevelopment project above a certain level. This provides a degree of flexibility for a redevelopment agency and a developer to arrive at a fair consideration for the redevelopment opportunity.

Tax Increment Guarantees: The willingness or ability of a redevelopment agency to incur project financial obligations for a specific development may be based on a projection that the development will produce tax increments in a certain amount within a definite period of time. As an inducement to the redevelopment agency to proceed with its part of the development activities, such as paying for the costs of public facilities to serve the development, a developer may agree to guarantee to the redevelopment agency the receipt of tax increments from the development in the amount and by the time projected.

<u>Other Sources of Funding</u>

Special Assessment Districts: Special Assessment Districts have been used to fund public improvements that benefit private development. Such assessments place upon the benefitted property the costs which are not borne by the redevelopment agency. California courts have determined that special assessment districts remain a legal means, not limited by Propositions 13 and 4 (Articles XIIIA and XIIIB, respectively, of the California Constitution), to fund such improvements. Additionally, maintenance districts may be formed to assume maintenance costs for public facilities installed to serve private development.

Nonprofit Corporation: In this instance, a nonprofit corporation is formed which may issue bonds for construction of a public facility such as the Sheriff's Station or the Civic Center. There is no interest rate limit. Title must rest in the public agency following the payment of debt. This method has been used most broadly for public facilities; it can be used to provide multi-use facilities. The redevelopment agency may enter into a reimbursement agreement and utilize tax increment resources to service the debt.

Parking Authority

The city or county may appoint a parking authority which may issue bonds for off-street parking facilities and appurtenances. If the city/county leases the facilities no election is required, but the law requires a public sale of these issues. The city/county may then sublease to a developer or to the redevelopment agency. Also, tax increment revenues may be used to pay debt service and operational costs. The current interest rate limitation is twelve percent (12%). The 1986 Tax Reform Act has placed limitations on this type of funding if the facility's use meets certain tests.

The economic scenarios evaluation for this report assume that the cost of constructing the parking (as well as the associated revenue stream) is born by the project, not the redevelopment agency.

Pedestrian Mall Law of 1960: This procedure permits the establishment of a Pedestrian Mall or mall; costs of such establishments and construction could be reimbursed from agency tax increment revenues. Given the emphasis on the pedestrian-friendly orientation required along Santa Monica Boulevard, the Division 7 project might qualify under this procedure.

Mello-Roos Community Facilities District: A community facilities district formed pursuant to the Mello-Roos Community Facilities Act of 1982 (Section 53311, et seq. of the Government code) may be used to provide for the purchase, construction, expansion or rehabilitation of any real or other tangible property with an estimated useful life of at least five (5) years which is necessary to meet increased demands placed upon local agencies as the result of development or rehabilitation occurring within the district. Examples of such facilities are parks, school structures and sites, libraries, natural gal pipeline facilities, telephone lines, facilities for the transmission or distribution of electrical energy, and other public facilities which the legislative body creating the community facilities district is authorized to construct, own or operate.

A community facilities district may also be used to provide for certain services (including the performance by employees of functions, operations, maintenance and report activities) and relocated facilities. Such services and related facilities include police protection, fire protection, and supervision, ambulance/paramedic, recreation and flood and storm protection. Such services and related facilities may be provided by a community facilities district to the extent that they are in addition to and do not supplant those services and facilities already available within the district.

A community facilities district may be created by a duly adopted resolution of the legislative body of the district. The district may then levy a special tax to finance the cost of providing authorized services and related facilities and issue bonds secured by the proceeds of the special tax subject to an approving vote of two-thirds of the qualified electors of the district. The Mello-Roos Community Facilities Act of 1982 provides for both landowners elections and for registered others residing within the boundaries of a proposed district.

This type of financing is becoming very popular and can be structured to reimburse redevelopment agency advances for projects funded in advance of Mello-Roos bond issues.

Certificates of Participation: This financing technique provides long-term financing through a lease with an option to purchase (or a conditional sale agreement) that does not require voter approval. This method is being used for long-term financing of major projects such as administration buildings, public safety facilities, court houses, parking garages, and recreational facilities. This method is also being used to finance the acquisition of motorized equipment, communications systems, computers and other major items of equipment having a life of 3-10 years. Certification of participation financing could potentially be used to fund the Sheriff's Station relocation and/or the Civic Center.

When a public sale of a lease, or certificates of participation in a lease, is planned the principal parties include: (1) The public agency, e.g., redevelopment agencies, parking authorities or joint power authorities; (2) a bank, financial institution or other investors (who may pay he lessor cash for the present value of future lease payments); (3) purchasers or investors (who purchase certificates of participation in lease); (4) a trustee (who holds any security for payment of the lease in trust under a trust indenture between the lessee, lessor and the trustee); and (5) a paying agency or escrow agency (who collects lease payments and distributes them to the holders of certificates of participation). The trustee may also be the paying agency or escrow agent.

Legal basis for this lease financing technique comes form allowing public entities to enter into lease agreements for one year at a time, on the grounds that the governing body of public entity cannot obligate future governing bodies to honor a lease agreement. This may result in the certificates of participation commanding a higher interest rate. The public entity must also comply with the state public bidding of construction laws, usury and legal interest rate laws authorizing the lease, and disclosure requirements.

Joint Powers Authority: A joint powers authority (J.P.A.) may be formed when it is to the advantage of two or more agencies with common powers to consolidate their forces to construct a public use facility or issue debt for public purposes that separately would be less advantageous. A joint exercise of power agreement must be approved by participating entities. The security of any issue of a J.P.A. will depend upon the existing and/or projected cash flows, reserves and other capital resources of the participating entities and the approved obligations of each agency. In some cases it may be advantageous for a redevelopment agency in a city to form a J.P.A. before debt obligations are approved by the individual agencies.

Mark-Roos: Recent legislation has been passed known as the Marks-Roos act which provides for the creation of a financing authority by any two or more public entities. The Marks-Roos act has recently been amended to provide the financing authority with powers specific to each individual public entity. Therefore, Marks-Roos provides for additional financing flexibility and is being used more frequently by public entities to satisfy their various financing needs.

It is possible to utilize the Marks-Roos bond pooling statutes as a bond issuance vehicle for tax increment supported bonds. If the sole security for the financing is tax increments, this approach can be very effective. On the other hand, if multiple forms of bond security are pledged to repay a financing, the market will typically value the financing based on the weakest link in the security pledge. This can serve to increase the debt service costs of the tax increment component.

Marks-Roos bond pooling allows for negotiated financing that combine one or more diverse financing under a single bond issuance. The use of Marks-Roos bond pooling as an advance funding source for redevelopment projects is quickly evolving from the first Marks-Roos tax allocation financing completed in late 1987. The form of debt issuance can potentially provide for the advance funding of redevelopment projects much like escrow bonds.

Bond Anticipation Notes (BANs): Redevelopment Agencies in California have issued BANs for over two decades. Bond Anticipation Notes are utilized when an agency needs to raise higher levels of financing than possible with a standard financing. The basic assumption of BANs financing is that tax increments will grow substantially over several years, due in part or whole to the application of the BANs funding to agency programs, and the agency will subsequently be able to afford a standard financing to refinance the BANs when the whole principal balance becomes due. BANs will typically have interest only payments for the short financing term, with all principal becoming due in anticipation of a fully amortized standard bond financing that will refinance or "take-out" the BANs.

BANs seem well-suited for the Division 7 Site development financing. BANs can raise substantial capital in advance of tax increment generation and project development. These notes can provide funding that will encourage private investment in the early stages of project development - when "seed" capital is most needed.

The customary BANs structure calls for forecasting tax increment revenues three to seven years into the future, making an assumption about what interest rates will be at the end of the forecast/financing period, and then issuing short (two or three year) to medium term (four to six year) notes. The financing program anticipates that the notes will be refinanced with fully amortized standard bonds when the notes mature. BANs financing often include a large component of capitalized (prepaid from note proceeds) interest, as the agency can typically not support full interest payments on the notes with tax increment funds. Thus, for $100.000 of program funding, a BANs financing will require two sets of costs of issuance (both the BANs and the permanent bond financing) totalling approximately $7.00 per hundred plus typically at least $20.00 per hundred of capitalized interest. When the"take-out bonds are issued, the agency will customarily be borrowing over $127.00 (plus reserves) to pay for $100.000 of initial project funding.

Despite these higher financing costs, in a relatively stable political, legal and financial climate BANs financing can prove to be quite effective. The redevelopment agency can borrow substantial additional funds compared to a standard financing and after investing these funds in project improvements cause further tax increment revenue growth. The concept is an attractive and convenient one that answers the problem facing many project areas - subsidies and public investment are needed up front to spur development that generates tax increment twelve to eighteen months following construction.

Unfortunately, California redevelopment finance has not enjoyed the stable environment needed to eliminate the risk factors that come with BANs financing. The risk is quite straightforward - if tax increment do not grow as projected an are not adequate to support a standard financing to take-out the BANs when they become due, the agency faces a number of unpleasant choices, including borrowing funds from the City/County to help pay the debt service.

EXHIBIT A

CONTACTS WITHIN THE WEST HOLLYWOOD COMMUNITY

DRAFT

List of Persons contacted by Tierra Concepts for the RTD Division 7 Bus Facility Development Proposal:

Community Organizations

West Hollywood West			
Marty Strudler	403 Westbourne	90048	657-7868
Ethel Shapiro	328 Westbourne	90048	655-8055
West Hollywood Northwest Association of Homeowners			
Rochelle Sommers-Smith	8858 Cynthia	90069	659-7941
Sherman Group			
Ralph Feely	812 Westbourne #8	90069	855-4251
Santa Monica Boulevard Business Association			
West Hollywood Chamber of Commerce			
Thomas Crail	147 N. Robertson	90048	859-8613
Thomas Cook Foreign Exchange			
David Welch	8901 Santa Monica Bl.	90069	659-6092
Westmount Association			
Andrew Harland	P.O. Box 93871	90093	653-1528
500 Block of Huntley Association			
Danielle Hurst	545 Huntley	90048	855-0663
Huntley Drive Residents			
Jim Henry			652-2018
Bruce Traub			652-1886

DRAFT

City of West Hollywood Personnel

Gay Forbes	Community Development Dept.	854-7400
Nancy Greenstein	Public Safety Coordinator, Assistant to the City Manager	854-7400
Deputy Gerda Speigler	Councilman Guarriello's Office	854-7400

Rapid Transit District Personnel

William Griffin	Division 7 Facility	972-6207
Frank Schroeder	Scheduling Office	972-6931
Marc Mayemura	Community Affairs	972-4691
Karen Heit	Supervising Planner	972-4849
Robin Blair	Senior Planner for Joint Development	972-4846

Miscellaneous

Michael Turner	Concensus Planning	(818) 766-3894

DRAFT

3/17/92

EXHIBIT B

LAND USE AND URBAN DESIGN POLICIES AND STANDARDS

DRAFT

1.36.3 - Encourage the retention of existing buildings by considering methods to compensate for increased parking requirements for adaptive reuse and building improvements which may include:

a. Participating in a parking assessment district in which owners can pay and are credited for spaces which would be provided in a nearby municipal parking structure or lot; or

b. Reduction of the parking requirement for reuse or expansion of existing buildings (to a specified maximum percentage); or

c. Reduction of the in-lieu fee for rehabilitation or expansion of existing buildings (up to a certain percentage); or

d. Other appropriate techniques accepted by the City (I1.1).

F. ISSUE SIX: PEDESTRIAN CHARACTER OF STREETS

Objective

1.37 - Provide for a physical form, scale, and design of development and accommodate uses which induce and enhance the positive and social use and high levels of pedestrian activity along the City's commercial streets (as depicted in Figure 4).

Policies

1.37.1 - Provide for enhanced pedestrian activity along commercial and mixed-use street frontages by the following:

DRAFT

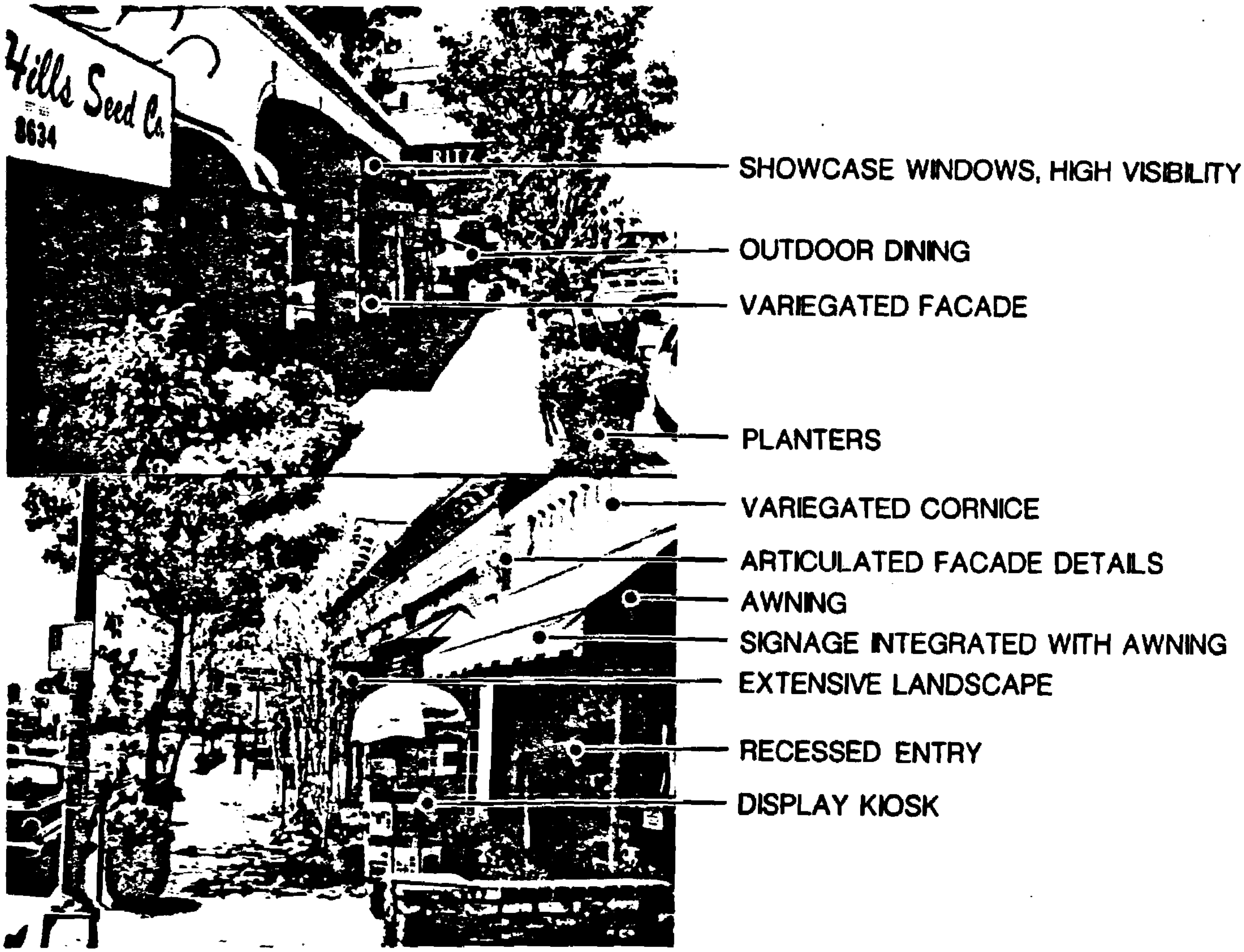
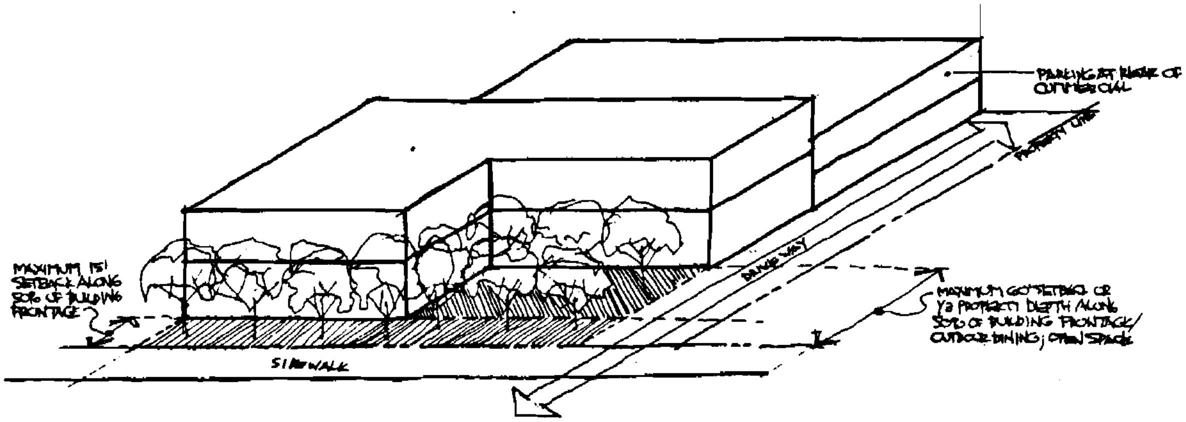
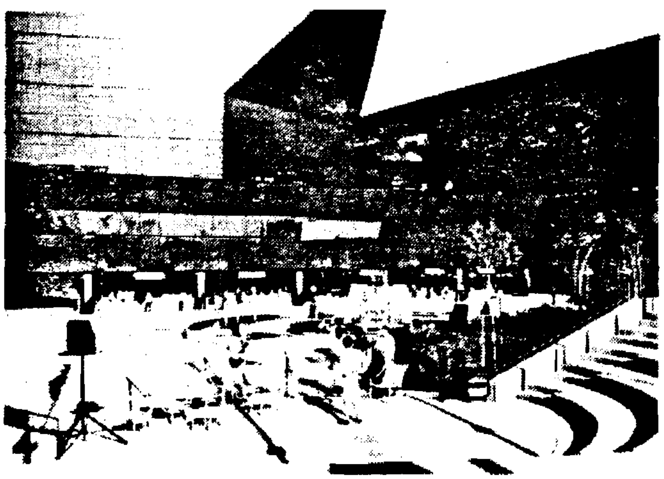


Figure 4	TYPICAL CHARACTERISTICS OF PEDESTRIAN - ORIENTED USES

a. require that building frontages be located in close proximity to sidewalks, except for (1) setbacks to accommodate outdoor dining and plazas, provided that such setbacks do not exceed a depth of one-third of the lot depth, or 60 feet, whichever is smaller, for 50 percent; and (2) internal courtyards, plazas, and walkways which may be located on any portion of the site;





b. require that the first level of a building occupy a minimum of 75 percent of the lot's total lineal frontage, except for areas required by code for vehicular access and in accordance with preceding setback requirements;

c. allow for the development of commercial store fronts and open spaces below the sidewalk grade, provided that pedestrian activity is not adversely impacted;

d. require that the development of outdoor plazas and dining areas be visually attractive, usable and accessible by the public, and incorporate extensive landscape, street furniture, and pedestrian-oriented amenities;

e. require that the ground floor elevation of a building facing the sidewalk must be visually and physically "penetrable", incorporate architectural elements to provide visual interest and relief from flat surfaces (e.g., textured materials, offset planes, differentiated piers and columns, recessed entries and windows, and awnings), and compatibly landscaped;

DRAFT

f. restrict the types of uses which be be located within the ground floor of a structure facing a sidewalk to those which are "pedestrian-friendly" (such as high customer turnover uses such as restaurants, clothing stores, food stores, health clubs, personal services, and community service organizations) for a minimum of seventy (70) percent of any block of the first 50 feet of building depth; and

g. allow variations from these standards when existing structures are recycled for differing tenants or use when such standards are infeasible or cannot be reasonably achieved (I1.1, I1.7, and I1.10).

1.37.2 - Require that a minimum of 50 percent of the first occupiable floor of the street frontage of a structure be located within two feet at any point of the sidewalk elevation at the abutting property line (I1.1, I1.7 and I1.10).

1.37.3 - Encourage the development of landscaped open space setbacks and plazas between the sidewalk and commercial building at the approximate elevation of the abutting sidewalk (I1.1 and I1.10).

1.37.4 - Encourage the development of outdoor cafes, flower sales stalls or kiosks, and other uses which are compatible with and stimulate pedestrian activity (I1.1 and I1.10).

1.37.5 - Require that public open spaces and plazas and outdoor commercial uses be well maintained and kept free of debris (I1.1 and I1.11).

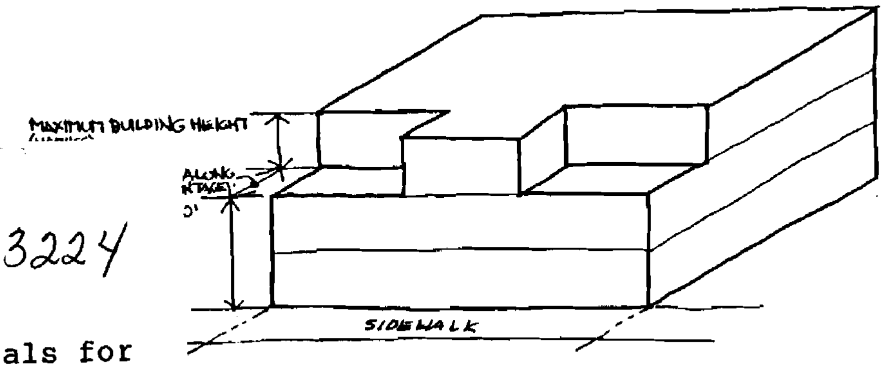
1.37.6 - Encourage the use of awnings (constructed of durable, fade-resistant, and easily maintainable materials), overhangs, porticoes, trellises, and other design elements which provide protection to pedestrians and require that these be located at a height to provide sufficient room for pedestrians (I1.1 and I1.10).

1.37.7 - Require that height and bulk impacts of buildings be minimized on pedestrian areas by setting back the upper levels according to the following standards for the first 20 feet of parcel depth:

a. 0-30' height: none required

b. 31'-45' height: 8" for each additional 12" of height for 70 percent of the elevation (the balance requires no setback)

c. 46'-60' height: 8" for each additional 12" of height for 100 percent of the elevation (I1.1).



1.37.8 - Allow the construction of towers and other architectural projections to a maximum height of 25 feet above the height permitted by the underlying land use classification where these contribute to and are integral with an extremely high level of architectural design performance, under the following conditions:

a. the portion of structure exceeding the height limit shall be non-occupiable;

b. extensions will be limited to 10-15 percent of the total roof area; and

c. extensions shall not result in adverse shadows on adjacent properties (I1.1 and I1.7).

1.37.9 - Develop streetscape improvements in accordance with the public improvement urban design policies (2.1.1-2.6.3) (I1.6 and I1.13).

S.C.R.T.D. LIBRARY