



Metropolitan
Transportation
Authority

One Gateway Plaza
Los Angeles, CA
90012-2952

**FINANCE & BUDGET COMMITTEE
MAY 15, 2003**

SUBJECT: UNION STATION GATEWAY CLOSE OUT ISSUES

**ACTION: APPROVE AMENDMENT TO AGREEMENTS WITH
CATELLUS DEVELOPMENT CORPORATION**

RECOMMENDATION

- A. Authorize Chief Executive Officer to execute the appropriate documents to restructure the Amended and Restated Development Agreement, Construction Management Agreement, and other ancillary documents by and between Catellus Development Corporation ("Catellus") and MTA; and
- B. Accept the combination of cash, real property and improvements totaling \$12.2 million as final payment in lieu of an indebtedness of \$16,689,901 as of December 31, 2002 consisting of the following:
 1. MTA accepts a cash payment of \$5.6 million.
 2. MTA accepts title to the Triangle Parcel located at the corner of Vignes and Ramirez.
 3. Catellus obligated to construct the Ramirez Flyover at an estimated cost of \$3 million which includes authorizing the CEO to negotiate resolution of this payment if the Flyover is not constructed within a five year period.
 4. Catellus waives payment of \$1.88 million that MTA owes to Catellus.

RATIONALE

MTA and Catellus Development Corporation entered into a Development Agreement ("Development Agreement") in October 1991 for the construction of the MTA Headquarters Building, the Patsouras Transit Plaza and the East Portal of the Metro Red Line. The Agreement was subsequently amended and restated by the Amended and Restated Development Agreement dated March 31, 1994 ("Amended Agreement"). Certain provisions of the Amended Agreement have not been met and cannot be met under current circumstances as discussed below. An amendment to the Amended Agreement, as proposed by Catellus, would resolve these open issues and permit the closeout of several outstanding issues and open contracts.

Background

MTA bore full financial responsibility for the construction of the Gateway Intermodal Transit Plaza ("Transit Plaza"), subject to the obligation of Catellus to repay certain amounts allocated to it based upon its benefit from the transit plaza and parking improvements. The Amended Agreement indicated that Catellus could satisfy the obligation either by a pay down of principal and interest or at its election, by securing the obligation until its maturity 30 years from the satisfaction date with a lien upon specified Catellus Property. The "Lien-to-value" ratio of the encumbered property was not to exceed 70%. Catellus proposed to place a lien on the two parcels located directly adjacent to the MTA headquarters building. An appraisal of these two parcels indicated that the value of the parcels did not meet the 70% lien-to-value ratio. Discussions have been on going between MTA staff and Catellus for the past two years in an effort to resolve the lien issue. Pursuant to the Amended Agreement, Catellus is obligated to pay MTA the following amounts as of December 31, 2002:

Category of Payment	Amount Due as of December 31, 2002
<i>Reimbursement Amount</i> of \$8.5 million plus interest until its maturity 30 years from October 1995.	\$12,523,158
<i>Additional Costs</i> – There are two assessments within this category as follows: <ul style="list-style-type: none">• Reimbursement for construction of parking below grade rather than above grade at an amount not to exceed \$1.9 million in constant 1995 dollars against any future building that Catellus builds on 2 parcels adjacent to Gateway.• Reimbursement for extra costs of constructing subterranean parking and utility structures capable of supporting the weight of any Catellus improvements on the 2 adjacent parcels	\$2,296,466 \$1,870,277
Total Debt as of December 31, 2002	\$16,689,901

The proposal attached as Exhibit "A" summarizes the conceptual agreement that would permit Catellus to pay-off the outstanding obligations for a combination of cash, real property and new improvements.

FINANCIAL IMPACT

Acceptance of the proposal as negotiated would generate a one-time cash payment of \$5.6 million to MTA from Catellus and avoid a payment of \$1.88 million by MTA to Catellus. In addition, MTA would obtain ownership of the triangle parcel located above and below the Helical Ramp access at the entrance to the Gateway Parking Garage on Vignes Street. Another component of

the proposal would require Catellus to construct the Ramirez Flyover connecting the east end of the south roadway of Patsouras Transit Plaza to Ramirez Street for a cost of \$3 million. Acceptance of this proposal would not require any cash outlay from MTA. MTA would accept the cash payment of \$5.6, the real property and the construction cost of the Ramirez Flyover in lieu of carrying an ongoing receivable on its books that would continue to accumulate interest until the year 2025. The payoff amount for all three categories of costs as of December 31, 2002 was \$16,689,901.

The Ramirez Flyover ("Flyover") was included in the original Union Station Joint Development Project. The Flyover is primarily a bridge structure that will connect the south end of the Transit Plaza with Ramirez Street and provides a second ingress and egress connection into the Transit Plaza. The MTA funds originally allocated for the construction of the Flyover are no longer available. While not required for current operations of the Transit Plaza, the Flyover will increase the capacity of the Transit Plaza by over 600 buses per day, improve traffic circulation in the Plaza and on surrounding streets and result in significant operational cost savings for MTA and other regional operators. The current estimated cost to construct the flyover is within the \$3 million proposed by Catellus. However, the actual cost may be higher pending final design and approval by the various oversight agencies such as the City of Los Angeles and Caltrans. If the cost were higher, Catellus would be responsible for any additional costs above the \$3 million. Discussions are still underway with Catellus to resolve the disposition of the \$3 million allocated to construction of the Flyover if for some reason the cost of the Flyover exceeds \$3 million and Catellus is unable to obtain the additional funds required to complete construction. Agreement has been tentatively reached to place the \$3 million in an interest bearing escrow account for up to a period of 5 years while Catellus seek to obtain any additional funds needed to finance construction of the Flyover. The alternatives discussed include returning the funds to MTA for its unrestricted use or returning the funds to MTA for use designated for construction of the Flyover only. Discussions will continue until a resolution is reached. This portion of the deal is only an issue if the cost of the Flyover exceeds \$3 million. It is requested that the Chief Executive Officer be given authority to approve the final resolution of this issue.

The triangle parcel is located at the corner of Vignes Street and Ramirez. The site contains the entrance to the Gateway Parking Garage located on the east side of Vignes Street. The helical ramp that provides ingress and egress to the garage is located on the property under an easement from Catellus to MTA. The transfer of fee simple title to this area would provide full ownership to this portion of the garage and provides MTA with ownership of the entire parcel bound by Vignes Street, Cesar Chavez, Lyon Street and Ramirez Street. The future development potential of this site would be an enhancement to MTA's real estate portfolio.

The Design and Construction Agreement between MTA and Catellus required MTA to calculate the final fee for managing the construction of the Gateway Project based on a predetermined formula. The final fee consists of three elements—the Basic Fee, the Performance Fee and the Personnel Fee. Catellus was eligible to receive certain payments that were a percentage of the total cost of the project. The final fee due to Catellus was determined in early 2002 to be \$1,881,000. The fee was determined by applying the contractual formula to the total cost of the project confirmed as of December 2001.

The total benefit to MTA from the proposed transaction is \$12.2 million consisting of a cash payment of \$5.6 million, the value of the Triangle parcel at \$1.8 million, the cost to construct the Flyover at \$3 million and the waiver of MTA payment to Catellus at \$1.8 million. The potential operating savings from the availability of the Ramirez Flyover and the development potential of the triangle parcels would enhance the total value of the deal over time.

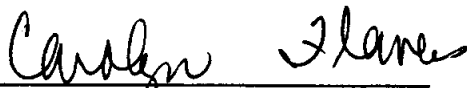
ALTERNATIVES CONSIDERED

Do not enter into this settlement agreement and allow the lien amount to continue to accrue interest. The original payoff period for the obligation is 30 year with no periodic payments required. The receivable could continue on MTA's books with no cash offset until the year 2025. This alternative is not recommend due to the long period of time before receiving any cash payment. A cash payment now is more beneficial to MTA than waiting another 25 years. The combination of cash, land and construction of the Ramirez Flyover would generate unrestricted cash that could be used to offset current budget deficits. In addition, the Ramirez Flyover would serve as an improvement to the operation of the Transit Plaza that is now overburdened due to the limited ingress and egress options. Ownership of the Triangle Parcel would provide MTA with complete ownership of the entire triangular parcel bounded by Vignes Street, Cesar Chavez, and Lyon for future development.

ATTACHMENT

Attachment "A" – Proposal Summary

Prepared by Velma C. Marshall



Carolyn Flowers
Executive Officer, Administration



Roger Snoble
Chief Executive Officer

PROPOSAL SUMMARY

PROPOSAL FOR RESTRUCTURING OF AMENDED AND RESTATED DEVELOPMENT AGREEMENT, CONSTRUCTION MANAGEMENT AGREEMENT, AND ANCILLARY DOCUMENTS BY AND BETWEEN CATELLUS DEVELOPMENT CORPORATION AND METROPOLITAN TRANSPORTATION AUTHORITY WITH RESPECT TO THE GATEWAY CENTER DEVELOPMENT.

TIMING OF ADJUSTMENTS: The adjustments described below regarding the Construction Management Fees, Reimbursement Amount and additional Cost shall be effective as of December 31, 2002.

CONSTRUCTION MANAGEMENT FEES: Catellus will waive the payment of Construction Management Fees that are agreed by both parties to equal \$1.88 million.

CONSTRUCTION OF RAMIREZ FLYOVER: Catellus will be responsible for the design and construction of the Ramirez Flyover based upon specifications mutually agreed upon by Catellus and MTA. In addition to Catellus' obligations to design and construct the Ramirez Flyover, Catellus will be responsible for all costs of the project up to \$3 million.

Catellus will proceed with design and engineering for the Ramirez Flyover as detailed in the schedule, provided that in the event that after completing engineering/design work and obtaining contractor pricing, the estimated costs for the Ramirez Flyover exceed \$3 million, that the funding source(s) for the balance to complete the project are approved and liquid prior to the commencement of construction. Catellus will be primarily responsible for identifying and obtaining other funding sources.

If Catellus is unable to obtain funding for any excess over \$3 million after a diligent effort, Catellus will place \$3 million less project cost incurred into an interest earning escrow account reserved only for construction of the Ramirez Flyover. **(Discussions are still underway with Catellus to resolve the disposition of the \$3 million allocated to construction of the Flyover if for some reason the cost of the Flyover exceeds \$3 million and Catellus is unable to obtain the additional funds required to complete construction after a period of 5 years).**

REIMBURSEMENT AMOUNT: As consideration for waiving the payment for Construction Management Fees and constructing the Ramirez Flyover, the starting Reimbursement Amount will be reduced by the total of 1) the Construction Management Fees, 2) and the Ramirez Flyover costs. Catellus will pay off the balance of the Reimbursement Amount with a cash payment to MTA in the amount of \$4 million.

ADDITIONAL COSTS: Catellus will pay MTA \$1.6 million as payoff for the Part "A" costs. Catellus shall transfer title to the Triangle Parcel as payment for Part B of

the Additional Costs that is estimated to be \$1.8 million.

**AGREEMENTS/
TRACT MAP:**

In order to resolve the various open issues with respect to the Gateway Center in a timely and cost efficient manner, the Tract Map, all Ancillary Agreements such as the Public Transit Use Agreement, Reciprocal Easement and Operating Agreement, all other agreements between Catellus and MTA at Gateway Center be finalized in conjunction with the full execution of this proposal.

TIMING:

Subject to coordination with MTA, Cal Trans and Department of Transportation, the following general timeframes will be required to close the transaction and initiate the design and construction of the Ramirez Flyover:

- | | |
|---------------------------------------|---------------|
| 1. MTA Board Approval | May 22, 2003 |
| 2. Catellus Management approval | May, 2003 |
| 3. Close Transaction | June 15, 2003 |
| 4. Commence Design & Engineering | July 1, 2003 |
| 5. Complete Design & Engineering | 9 Months |
| 6. Cal Trans/DOT/MTA Approvals | 4 Months |
| 7. Plan Check Review & Permitting | 3 Months |
| 8. Contractor Pricing /Negotiate Docs | 4 Months |
| 9. Construction Period | 16 Months |

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Catellus Proposed Amended Agreement

Proposed Amendment

- Cash \$5.6m
- Triangle Parcel \$1.8m
- Construction/Ramirez Flyover \$3.0m
- Waiver of Management Fee \$1.8m

TOTAL \$12.2m

Catellus Owing MTA – Present Value

- Reimbursement Assessment*** \$12.5m
- Additional Cost Components**
 - A \$2.3m
 - B. \$1.9 m

TOTAL \$16.7m

** Payable when Catellus finances additional construction on the parcels to Gateway.
*** Due 2025