LADF

LOS ANGELES DEVELOPMENT FUND

Meeting *of the*
Governing Board of Directors *of*

<u>The Los Angeles Development Fund</u>
and
<u>LADF Management, Inc.</u>

September 13, 2018

MEETING *of the*
GOVERNING BOARD OF DIRECTORS *of*

<u>THE LOS ANGELES DEVELOPMENT FUND</u> *and* <u>LADF MANAGEMENT, INC.</u>

SEPTEMBER 13, 2018

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2 Materials regarding Action Item A:

- BOARD MEMO regarding Request for Approval of $10.0 Million Sub-Allocation of New Markets Tax Credits for the Cathedral High School L.A. Project

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LADF
LOS ANGELES DEVELOPMENT FUND

A G E N D A

MEETING *of the*
GOVERNING BOARD OF DIRECTORS *of*
THE LOS ANGELES DEVELOPMENT FUND *and* LADF MANAGEMENT, INC.

CITY HALL, ROOM 1050
200 N. SPRING STREET, LOS ANGELES, CA
Thursday, September 13, 2018 | 2:30pm – 3:30pm

	AGENDA ITEM	**PRESENTER**	**TAB**
	Welcome and Call to Order	Rushmore Cervantes	
	Roll Call	Rushmore Cervantes	
1	Discussion Items		
	a. LADF Pipeline Update – High Tech	Sandra Rahimi	
2	Action Items	Sandra Rahimi	
	a. Request Authorization for LADF President, or his delegate, to execute documents to effectuate a $10 Million Sub-Allocation of New Markets Tax Credits for the **Cathedral High School Performing Arts Center**		Tab 2
	Request for Future Agenda Items	Rushmore Cervantes	
	Next Meeting Date and Time of Governing Board	Rushmore Cervantes	
	• Thursday, October 11, 2018		
	Public Comment	Rushmore Cervantes	
	Adjournment	Rushmore Cervantes	

The LADF's Board Meetings are open to the public. Accommodations such as sign language interpretation and translation services can be provided upon 72 hours notice. Contact LADF @ (213) 922-9694.

PUBLIC COMMENT AT LADF BOARD MEETINGS – An opportunity for the public to address the Board will be provided at the conclusion of the agenda. Members of the public who wish to speak on any item are requested to identify themselves and indicate on which agenda item they wish to speak. The Board will provide an opportunity for the public to speak for a maximum of three (3) minutes, unless granted additional time at the discretion of the Board. Testimony shall be limited in content to matters which are listed on this Agenda and within the subject matter jurisdiction of the LADF. The Board may not take any action on matters discussed during the public testimony period that are not listed on the agenda.

Tab 2

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NEW MARKETS TAX CREDITS INVESTMENT REPORT

TO:	LADF Board of Directors
FROM:	Sandra Rahimi, Secretary
DATE:	September 13, 2018
SUBJECT:	Request to Approve a **$10,000,000** New Markets Tax Credits Allocation to a Portion-Of-The-Business of the Cathedral High School of Los Angeles, Inc. ("**QALICB**") for the Cathedral High School Performing Arts Center and Theater

SUMMARY

Project Name:	Cathedral High School Performing Arts Center and Theater ("**Project**")
Location:	Central City North Community Plan Area (CD 1 – Gilbert Cedillo)
Project Description:	48,000 SF / New Construction / Community Facility
Sponsor / Developer:	Cathedral High School of Los Angeles, Inc. ("**Sponsor**", or "**CHSLA**")
Ownership:	• QALICB will be a Portion-Of-The-Business of the Sponsor • Sponsor controls property through a ground lease with the Archdiocese of LA
NMTC Investor:	Citi Community Capital, *subsidiary of Citigroup, Inc.* ("**Investor**")
Total Project Cost:	$ 19,034,000
Total Allocation / QEI:	$ 18,000,000
LADF Allocation / QEI:	$ 10,000,000 (*$9.25mm 2015-16 Allocation & $0.75mm 2017 Allocation*) • LADF XVIII, LLC *(Certified Sub-Allocatee)*
Job Creation (*Direct*):	• Creating **15** Permanent Jobs / Retaining **59** Permanent Jobs • Creating **275** Construction Jobs
Site Eligibility Criteria:	2010 Census Tract No. 06037206010 • NMTC Eligible and Targeted Distressed Community (*per Allocation Agreements*)**:** • **50.8%** Poverty Rate (*greater than 20%/30%*) – Section 3.2(h)(i) • **27.6%** AMI Households (*less than 80%/60%*) – Section 3.2(h)(ii)
Community Benefits:	• Project will expand educational curriculum offered to Sponsor's **700 students** • Sponsor will make space available to nonprofits and other community partners • Sponsor will offer programming for **160 non-students** annually • Sponsor will offer weekend programming for **60 non-students** per session

Key Compliance Criteria under the 2015-2016 Allocation Agreement and 2017 Allocation Agreement:

☒ Sect. 3.2(a):	Investments in, or loans to, QALICBs	☒ Sect. 3.2(b):	Located within Service Area
☒ Sect. 3.2(c):	Approved/Certified Sub-Allocatees	☒ Sect. 3.2(d):	QLICI Made to Unrelated Entity
☒ Sect. 3.2(f):	Flexible Product	☒ Sect. 3.2(h):	Targeted Distressed Community
☒ Sect. 3.2(j):	100% QEI Investment Usage	☒ Sect. 3.3(j):	Monetize Only Eligible Existing Assets

Projected Residual Value of LADF QLICI that may be obtained by the QALICB: $ 3,315,000

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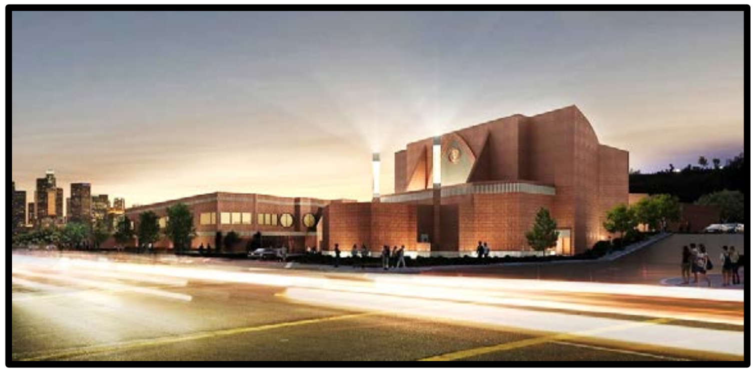
PROJECT DESCRIPTION



Cathedral High School of Los Angeles, Inc. ("**CHSLA**", or "**Sponsor**") will use the NMTC financing to fund the completion of construction of a new Performing Arts Center and Theater ("**PAC**", or "**Project**"). Construction of the 40,000 SF facility began in July 2017 and is expected to be completed in December 2018.

The PAC will be operated by CHSLA, an all boys' high school located in one of the most economically and socially challenged neighborhoods in Los Angeles. The school has educated underserved and disadvantaged high school boys since 1925. CHSLA's annual enrolment hovers around 700 students – 70% are Latino and 10% are African American. Seventy percent (70%) of CHSLA students qualify for the Federal Free/Reduced Lunch Programs, with the majority of the remaining students coming from families with incomes just above this level. CHSLA commonly graduates 100% of its seniors, of which 80% of are accepted to a four-year university. In comparison, high schools in the Los Angeles Unified School District graduate 80% of students, with only 26% of students receiving acceptance to four-year university. Below are additional statistics of its current student body (702 students):

- 87% of students receive tuition assistance.
- 22% of students receive financial aid covering 75% or more of tuition costs.
- 48% of students receive financial aid covering 50% of tuition costs.
- 30% of students receive financial aid covering 25% of tuition costs.

The PAC will allow CHSLA to expand its educational curriculum with an emphasis on the fine arts, performing arts, and media production. Curriculum and learning opportunities provided by the PAC are designed to prepare students for opportunities in journalism, public relations, advertising, marketing, and multimedia content production. In addition to the educational outcomes supported by the project, the PAC will provide community residents with professional and career development opportunities and serve as a community resource center for other service providing non-profit and impact agencies. The PAC will provide community engagement and education opportunities to all, regardless of religious affiliation.

The PAC will be spread across two adjoining buildings and includes classrooms, studio space, and a 350-seat theatre. The first floor of Building 1 is dedicated to musical instruction, restrooms, and electrical equipment. The second level of Building 1 houses the art room, television production facilities, theater arts instruction and general classroom space. Building 2 houses the 350-seat theater, the performance stage, scenery construction shop, dressing rooms, and other theater related offices.

The proposed mix of uses for the PAC project is as follows:

• Theater (*incl. Theater Arts Instruction*) …………	14,000 SF	*35%*
• Classrooms (*Music, TV Production, Arts/Ceramics, General*) …………	16,000 SF	*40%*
• Parking (*approx. 30 spaces*) …………	10,000 SF	*25%*
TOTAL:	**40,000 SF**	**100%**

The PAC will expand CHSLA's:

- Theater Arts curriculum focusing on the craft of acting by way of improvisation, theater games, and exercise to develop flexibility, imagination, agility, and expressiveness;

- Studio Arts curriculum focusing on developing, expanding and improving each students' art portfolio emphasizing theme, methodology and concentration of effort in correlated areas of expression;
- Music history curriculum focusing on an introduction to world music, emphasizing musical traditions from India and Africa;
- Music Theory curriculum focusing on the effect of jazz and rock music on American musical history in the twentieth century with a heavy concentration on the blues as a common thread and its interaction with classical Western modes of harmony, melody, and rhythm;
- Video Production and TV Media Design curriculum focusing on television production, content and programing, and online streaming services;
- Media Graphics curriculum focusing on contemporary media, complete graphic design and illustration projects, and introduced to animation;
- CAD Design curriculum focusing on introduction to designing and three-dimensional modeling; and
- Digital Media Center focusing on the production of programming and content and preparing students for opportunities in the digital media production.

Although CHSLA is an all-boys school, CHSLA will also use the PAC to serve students of both genders attending other elementary and high schools in the community and/or receiving services from one of CHSLA's partner agencies. CHSLA's partners have limited or non-existent programing or curriculum in the arts. Partners include but are not limited to: Los Angeles Theater Academy; Solano Elementary School; Alpine park; Chinatown Business Improvement District; Los Angeles Historic State Park; and Weingart YMCA. Seventy-five percent (75%) of the youth served at the PAC are expected to come to CHSLA via non-faith based (Catholic) partnerships.

Construction began in April 2017 and the shell is on budget to-date. The NMTC Financing will reimburse for expenditure in the past 24 months and funds will be used to complete construction and interior build-out and purchase program equipment.

SITE ANALYSIS

The project will be built in the Central City North community plan area and is located in the Chinatown Redevelopment Project Area of the former Community Redevelopment Agency of Los Angeles. The site is located at:

- 1253 N. Bishops Road, Los Angeles, CA 90012

The site is 6.5 acres and under the jurisdiction of Council District 1 of the City of Los Angeles, represented by Councilmember Gilbert Cedillo. Additionally, the site lies within the following designated economic development areas:

- *State Enterprise Zone*: East Los Angeles State Enterprise Zone
- *Revitalization Zone*: Central City

The site is considered a transit-oriented development and is within walking distance of the Chinatown Metro Gold Line rail station and public bus transportation.

Site Control

The Sponsor controls the site through an operating lease, which was originally executed between the Archdiocese and De La Salle Institute and concurrently assigned to CHSLA on November 1, 2000. The initial lease term is for 34 years through October 31, 2034 with one six-year option that would take the lease to October 31, 2040 (*40 years total, with 22 years remaining on the term*). For purposes of the NMTC transaction, CHSLA will establish a portion of its business ("**QALICB**"), which will then make the premises available to CHSLA to operate its programming in exchange for lease/use payments. The Archdiocese has owned the site of where the Project is located since at least the 1930s.

COMMUNITY AND ECONOMIC BENEFITS

The primary community benefits created by the NMTC transaction are the following:

Job Creation/Retention:	• Creating: **15** Permanent FTEs and **275** Construction Jobs • Retaining: **59** Permanent FTEs
Quality Jobs:	• **74%** of all permanent jobs will be provided with livable wage jobs based on MIT's Living Wage for L.A. County[1] at $13.54 ($28,163 annually) • **100%** of the permanent full-time jobs will receive benefits including comprehensive healthcare and vision, matching retirement program, and opportunities for career advancement
Accessible Jobs:	• To-date, **11%** of the predevelopment/construction contractors, or **$2 million** in contract amounts awarded, were minority business enterprises (MBEs)
Community Goods/Services to Low-Inc. Communities:	• The PAC will expand CHSLA's student programming in its curriculums in (1) theater arts, (2) studio arts, (3) music theory, (4) video production and TV media design, (5) media graphics, (6) CAD design, and (7) digital media center • **75%** of the youth served at the PAC are expected to come from non-faith based partnerships • The PAC will allow CHSLA to expand its community relationships and serve a Community Resource Center. The PAC is expected to host **5,000 community guests** over seven years.
Financing Minority Businesses	• The Board of CHSLA is minority-controlled
Flexible Lease Rates	• Sub-lease or otherwise allow use of space to other local nonprofits and community groups at **very low or no cost** (*or 100% below market*)

The community benefits discussed in this section will be required of the QALICB and Sponsor by way of a Community Benefits Agreement ("**CBA**"). The CBA will require the QALICB to use commercially reasonable efforts to achieve the impacts. The CBA will include an annual reporting requirement for tracking the quantifiable community impacts. As of the time of this report, the CBA is still under negotiation. If there are any material or significant changes to the CBA, as presented in this memo, during the course of the negotiation, LADF staff will inform the LADF Governing Board of such changes and seek reaffirmation of approval.

[1] With Minimum Wage exceeding the MIT Living Wage in 2019, the Project will have to comply with Minimum Wage requirements by laws, and thus will meet this community benefit by default. However, if the MIT Living Wage exceeds Minimum Wage at some point during the seven-year NMTC compliance period, the Sponsor has expressed that it will make best efforts to keep wages above the MIT Living Wage mark, and not just above Minimum Wage.

DEVELOPMENT TEAM

Real Estate QALICB: Portion-of-the-Business of Sponsor ("**QALICB**", or "**Cathedral POB**")

The Sponsor will set up a portion of its business ("**POB**") as a separate books subsidiary, which will serve as the Qualified Active Low-Income Community Business ("**QALICB**") for the NMTC transaction purposes. The POB will not be a separate entity, but will be a portion of the Sponsor's existing business that will implement separate operating policies and maintain separate books and records based on income generated from the Project. The POB will be established to control and manage the real estate interests in the Project, including ground lease, building, and improvements. The POB will receive lease and use payment from the Sponsor, which will operate the programming at the PAC facility, as well as rental income from third party nonprofits and community organizations for use of the Project's facilities.

The POB will be considered a "real estate" QALICB for NMTC purposes. It will have no employees and maintain at least 85% of its tangible property within the low-income community where the project is located during the seven-year NMTC compliance period.

An Agreed-Upon Procedures report[1] will not be required for the QALICB because it is a mission-driven, real estate entity. Since this is a newly-designated POB, there are no financial statements to review. The company will be the beneficiary of the NMTC and direct project financing, which CHSLA originally solicited.

Sponsor: Cathedral High School of Los Angeles, Inc. ("**Sponsor**", or "**CHSLA**")

Cathedral High School of Los Angeles, Inc. was founded in 1924 in California as a nonprofit religious corporation and incorporated on September 26, 1926. The purpose of the organization is to manage and operate the Cathedral High School, an all boys' high school located in Los Angeles, in accordance with the Canon Laws of the Catholic Church, the religious education tradition of the Brothers of the Christian Schools and the laws of the State of California regarding private school education. The Canon Laws are the system of laws and legal principles made and enforced by the hierarchical authorities of the Catholic Church to regulate its external organization and government and to order and direct the activities of Catholics toward the mission of the Church. The Institute of the Brothers of the Christian Schools (*also known as the Christian Brothers, the Lasallian Brothers, the French Christian Brothers, or the De La Salle Brothers*) is a Catholic religious teaching congregation, founded in France by Jean-Baptiste de La Salle (1651–1719), and now based in Rome.

CHSLA's bylaws indicate that membership in the nonprofit corporation shall consist of one member, the Lasallian Education Corporation ("**LEC**"). The LEC is also a nonprofit religious corporation. Among other rights, LEC has the power to appoint and remove the President of CHSLA and persons from the Board of Trustees. LEC also approves the annual audit of CHSLA. The Board of Trustees provides governance over the activities of CHSLA and exercises all corporate powers.

With regards to this NMTC transaction, CHSLA will be providing certain guaranties and indemnities. The assets of the company will be available to support any guaranties or indemnities. For further discussion see the section entitled "COLLATERAL AND GUARANTEES".

[1] Agreed-Upon Procedures engagements are carried out by auditors to report factual findings, which in an NMTC transaction relates to the nature of the business of the QALICB and its compliance with NMTC regulation. Compliance is determined for the QALICB as of the closing date, and expectations for compliance during the seven-year NMTC compliance period.

Financial Statement Analysis

LADF has reviewed the consolidated audited financial statement for CHSLA for the fiscal years ending June 30, 2015, June 30, 2016, and June 30, 2017 (*audited financials for the fiscal year ending June 30, 2018 are not yet completed as of the date of this report*). The company had a total of $1.2 million in cash and $18.5 million in total assets as of June 30, 2017. The company has a history of successful fund raising to support its program services and real estate developments, including the PAC. CHSLA raised $5.2 million in FY 2017, $4.5 million in FY 2016, and $3.1 million in FY 2015 from donations and grants. Additionally, CHSLA generates tuition income from its school operations; these revenues (*net of financial aid*) totaled $3.4 million in FY 2017, $3.7 million in FY 2016, and $3.8 million in FY 2015.

General Contractor: Bayley Construction, LP

The GC selected for the PAC project is Bayley Construction, LP ("**Bayley**"). Since 1963, Bayley has earned a reputation for building strong teams. With 55 years of construction experience, Bayley has completed construction projects in 20 States and is currently licensed in nine western States. They have regional headquarters in Mercer Island, Washington; Lake Forest, California; and Scottsdale, Arizona.

Their project list over the last five years includes 49 projects with approximately $224 million in total project costs, and spans across all commercial product types including educational and recreational facilities.

Bayley and the Sponsor entered into a GC contract for $14.4 million, which was executed March 16, 2017.

Architect: JP Darling & Associates, Inc.

JP Darling & Associates, Inc. ("**JPDA**") is the architect of record for the PAC project. Established by James P. Darling in in 1980, JPDA has worked with the Archdiocese of LA since 1992. The firm's project list since 1992 is composed of mostly school and church related projects. The firm currently has four projects ongoing (*including the PAC*) that are either in the construction or pre-construction phase, with a total project cost of over $31 million.

PROJECT FEASIBILITY

Property Valuation

Because of the special purpose nature of the Project, the lenders will not obtain a third-party valuation of leasehold interest in the real estate. For purposes of determining flexible terms in its allocation compliance reporting, LADF will use a loan-to-cost calculation.

Environmental Inspections

Phase I environmental report of the subject property was produced by Pacific Environmental Company dated July 23, 2018. The Phase I report concluded that there was no evidence of recognized environmental conditions (RECs) and recommended no additional investigation. A reliance letter for this Phase I report will be provided naming LADF XVIII, LLC (*LADF's Sub-CDE*) as a party that may rely on the report.

Construction Feasibility

The QALICB will be responsible for completing the development of the project. A GC contract is already in place with the GC.

A costing analysis of the project will be required based on final plans and specifications prior to closing by a third-party construction management firm (*Project Delivery Professionals, or PDP*). Citibank will engage

PDP to inspect progress and work done during the construction period, and the firm will provide monthly reports to-be-relied upon by Citibank and the CDE lenders.

Citibank will serve as the disbursing agent and as such will coordinate construction draws. Citibank's role as disbursing agent will include obtaining a full draw package from the QALICB, inspection report from PDP, and subsequent approvals from LADF and Citi CDE, as CDE lenders and Citibank as NMTC Investor. The CDE lenders will have full approval rights over each draw. The full draw package submitted by the

Probable Maximum Loss Report

A Probable Maximum Loss (PML) study may be performed upon finalizing plans and design. However, it is unlikely given that the project is new construction. It is a reasonable expectation that the design will reflect the most current seismic design standards which would result in a PML of 20% or less.

Financial Feasibility

SOURCES		USES	
Investment Fund Level (NMTC)		**Construction Uses**	
Sponsor Equity (*capital campaign*)[1]	3,763,000	*Hard & Soft Costs (inc. FF&E):*	
Citibank Bridge Loan[2]	8,366,000	- Reimbursed Pre-Incurred Costs[3]	8,366,000
Leverage Loan Sources	$12,129,000	- Pre-Incurred Costs Donated by CHSLA[4]	1,714,000
		- Additional Hard Costs	6,303,000
NMTC Equity (**LADF**)	3,315,000	- Additional Soft Costs	792,000
NMTC Equity (Citi CDE)	2,652,000	Owner Contingency[5]	255,000
NMTC Investor Equity	$5,967,000	***Sub-Total***	$17,430,000
Project Level (Direct Sources)		**Financing-Related Uses**	
Sponsor Equity (*pre-inc. cost reimb.*)	1,714,000	Interest Expense (*net of reserves*)	50,000
Direct Sources	$1,714,000	Citi Bridge Loan Fee	84,000
		NMTC Closing Costs:	
		- Legal/Accounting/Consulting Fees	956,000
		- **LADF** CDE Placement Fee	200,000
		- Citi CDE Upfront Fees	200,000
		NMTC Reserves:	
		- **LADF** Asset Mgmt. Fee Reserve	525,000
		- **LADF** Expense Reserve	96,000
		- Other CDEs Fee/Expense Reserves	269,000
		Sub-Total	$,000
Total Project Sources	**$ 19,810,000**	**Total Project Uses**	**$ 19,810,000**

[1] This line represents capital campaign funds committed and fully funded to CHSLA, not including the $10 million donation from the Shea Foundation.
[2] The Citibank Bridge Loan will be provided to CHSLA to bridge the pre-incurred costs of the Project, and will be paid back to Citibank the same day of the NMTC Closing.
[3] Reimbursement is limited to costs incurred 24 months prior to closing of the NMTC transaction, per NMTC guidance.
[4] Pre-Incurred Costs donated by CHSLA are not reimbursed because they were more than 24 months prior to NMTC closing.
[5] Note that in addition to the Owner's Contingency, the GC is carrying 2% contingency on its contract.

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DEVELOPMENT PRO FORMA

The total project cost is estimated to be $19 million, $18 million of which will be leveraged through the NMTC structure to make $17.8 million in Qualified Low-Income Community Investment ("**QLICI**") loans to the project. The QLICI funds will be disbursed as follows at closing:

- $8.9 million – Reimbursement of pre-closing development costs incurred within the last 24 months[5]
- $1.2 million – Pay NMTC and Other Closing Costs
- $0.9 million – Fund the CDE-Controlled Fee and Expense Reserve Accounts
- $6.8 million – Fund the CDE-Controlled Construction Disbursement Account

NMTC-related reserves held by the QALICB will total $890,000 and be held for the payments of asset management fees and expense reimbursements to the Sub-CDEs. The Sub-CDEs will require that their ongoing fees and expense reimbursements reserved will be held in separate bank accounts, including $621,000 held in an account pledged to LADF for all of its asset management fees and expense reimbursements for the seven-year NMTC Compliance Period.

OPERATING PRO FORMA

The project's operating revenues will consist of use fees paid to the QALICB by the Sponsor for operating at the Project site. The use fees to be paid by the Sponsor are projected at $110,000 annually, starting in 2019 after construction completion. After accounting for operating expenses, the QALICB's debt service coverage for the Project is estimated at 1.0x (*per the current financial projections dated July 25, 2018*). Since the project will be 100% Sponsor-operated and the NMTC transaction is not funded with a third-party leverage loan, there is minimal risk of the QALICB not making its QLICI debt service payments.

Project Timeline

The following list represents the milestone items and the project's completion and expected completion dates (*as of November 28, 2017*):

- March 2017: Ready-To-Issue Permits and GC Contract execution (*prior to NMTC closing*)
- April 2017: Construction Commencement
- September 2018: **NMTC Transaction Close (*currently targeting October 1*)**
- March 2019: Construction Completion (*approx. 24-month construction schedule*)

FINANCING PARTNERS

The project-level costs of the QALICB will be funded in whole by the QLICI loans and the Sponsor direct contributions. The financing parties to the NMTC structure will include one NMTC Investor at the upper tier, as well as two (2) NMTC allocatees, or Community Development Entities ("**CDEs**"), making the QLICI loans to the project through their Subsidiary CDEs ("**Sub-CDEs**") at the lower tier. Additionally, the leverage loan at the upper tier will be sourced from the Sponsor.

NMTC Investor

Citi Community Capital ("**Investor**", or "**CITI**") is the NMTC Investor that will provide the equity contribution to the Investment Fund. CITI is the community lending and investing arm of Citigroup, Inc. CITI provides a comprehensive array of financial products, from investment banking to lending and equity investment and designed to create strong communities. CITI has a national presence and has been the #1 affordable housing lender in the United States in each of the past seven years as reported by Affordable Housing Finance magazine. That success is due in large part to having the strongest, most innovative team of professionals in the country.

This will be LADF's first transaction with CITI as Investor.

CDE Lenders

The PAC Transaction will include two CDE allocatees providing NMTC allocation and making QLICI loans to the project through their Sub-CDE special purpose entities. The following table lists the CDE allocatees, along with their Sub-CDEs, and the Qualified Equity Investment ("**QEI**") associated with their NMTC allocations:

CDE Allocatee	Sub-CDE	Sub-Allocation Amount
Los Angeles Development Fund	*LADF XVIII, LLC*	$10,000,000
Citibank NMTC Corporation	*Citi NMTC Subsidiary XXXII, LLC*	$8,000,000
	Total NMTC Allocation	$18,000,000

CITIBANK NMTC CORPORATION

Citibank NMTC Corporation ("**CITI CDE**") is a certified CDE located in New York, NY. CITI CDE has received six NMTC allocations totaling $391 million, with a $65 million award in the most recent 2017 application round. CITI CDE is a division of Citigroup, Inc., which is also the parent corporation of the NMTC Investor in the PAC Transaction. CITI CDE will use its allocation to finance projects that provide critical services, such as education, health care, and social services; create jobs; and act as catalysts for economic development and revitalization in underserved urban and minor urban communities with the greatest need. The organization will bring senior and subordinated debt to projects across the country that generate meaningful impact by providing economic opportunities and stabilizing social services that help alleviate poverty. CITI CDE has a national service area. This will be the first transaction that LADF has closed with CITI CDE as a partner CDE.

Leverage Lenders

The NMTC Transaction will leverage funds provided by the Sponsor using $8.4 million of pre-incurred Project costs (*spent within the last 24 months*) and $3.8 million from its capital campaign funds and cash-on-hand. For discussion about the Sponsor, refer to the section entitled "DEVELOPMENT TEAM".

FINANCING STRUCTURE

The project's total development cost will be funded by:
(1) the $18.0 million QEI generated and
(2) a $1.7 million Sponsor net contribution of pre-incurred Project costs to the QALICB outside the NMTC structure. For a full diagram showing the flow of funds at closing, please refer to Exhibit A.

NMTC Financing

There will be one investment fund established for the NMTC transaction. CITI will be the NMTC Investor Member and own 100% of the investment fund. The equity contribution at the upper tier by CITI will total $6.0 million. In exchange, CITI will receive $7.0 million in tax credits that will be generated through the Fund (39% of the total $18.0 million QEI). This exchange of equity for tax credits reflects a pricing of $0.85 per tax credit dollar for QEIs associated with LADF's and CITI CDE's allocations. LADF's *pro rata* share equates to $3.9 million in tax credits generated by LADF's $10 million in allocation, for which CITI provides $3,315,000 in equity at the upper tier.

The $12.0 million leverage loan provided to the investment fund by the Sponsor as the Leverage Lender will be interest-only for seven years during the NMTC compliance period and bear an interest rate of 1.0%, which is estimated to be 85% less than market interest rates for similar loans. After the end of the interest-only period, the self-leverage loan will amortize over the following 13 years.

CITI's tax credit equity contributions combined with the leveraged loan will be used to capitalize the investment fund with $18.0 million in total. Upon closing of the NMTC transaction, the investment fund will use its capital to make a $10.0 million QEI to the LADF Sub-CDE and a $8.0 million QEI to the CITI CDE Sub-CDE.

In exchange for its contributions, the investment fund will receive a 99.99% membership share in each Sub-CDE. The two Sub-CDEs will use the contributed capital to make QLICIs to the QALICB totaling $17.8 million after $160,000 in upfront fees paid to CITI CDE at the Sub-CDE level.

With regards to LADF's Sub-CDE, LADF Management, Inc. (*LADF's subsidiary entity*) will contribute $1,000 to capitalize the LADF Sub-CDE and own 0.01% share in the LADF Sub-CDE. LADF will earn $75,000 (*0.75% of $10.0 million QEI*) in annual income related to management services it provides on behalf of the Sub-CDE.

Each Sub-CDE will provide two QLICI notes – matching one with its share of the leverage loan ("**A note**") and the other with the NMTC equity component ("**B note**"). The A notes and B notes will each have interest rates of 1.234865% and 22-year terms with interest-only payments for the first seven years during NMTC compliance period. LADF will not require repayment of its B-note or an exit-fee.

If there should be a return of capital during the seven-year NMTC compliance period, the order of capital redeployment will be as follows:

1. CITI CDE Sub-CDE – first $7.8 million of capital redeployment
2. LADF Sub-CDE – next $10.0 million of capital redeployment

Upon a return of capital during the seven-year NMTC compliance period, a CDE has 12-months to redeploy the capital in a qualifying NMTC project or it becomes a "Recapture Event" and triggers a loss of the tax credits as well as penalties for the Investor. As in its other NMTC investments, LADF will have nine months to work with CITI to identify for reinvestment a project within the City of Los Angeles that is acceptable to both entities; thereafter CITI can remove LADF Management, Inc. as managing member of LADF XVIII, LLC and choose an investment without LADF's input. However, it must still be within Los Angeles County per LADF's 2015-2016 and 2017 Allocation Agreements. With CITI's strong presence in the City of Los Angeles, and LADF's close relations with City partners, it is expected that nine months should be sufficient time to identify an alternative investment acceptable to both.

PROJECT READINESS

The project is expected to be ready for NMTC closing in September 2018. Pursuant to LADF's policies and procedures, the readiness of the project is determined as follows:

- *Control of Site*: Ground lease with the Archdiocese of LA was executed in 2000
- *Entitlement Process*: Completed in 2017
- *Design/Pre-Development*: Completed in 2017
- *Working Drawings*: Completed in 2017
- *Value Engineering*: Completed in 2017

- *Permits*: Permits issued and pulled in 2017
- *Tenant Leases*: Not Applicable
- *Construction Contract*: GC contract was executed in March 2017
- *Financing Commitments*: LOI was issued by Citibank (*for NMTC equity, Bridge Equity, and NMTC Allocation*). The Sponsor has committed capital campaign funds for the Leverage Loan and direct project contributions.
- *Outstanding 3rd Party Issues*: None

NMTC ELIGIBILITY AND COMPLIANCE

The subject site is located in the 2010 Census Tract 06037206010. The population within the Census tract is 3,157 individuals per the 2010 Census. Based on the CDFI Fund's GeoCode Report for the site, LADF has determined that the site is located in a Qualified Census Tract based on the following qualifying measure:

- Poverty Rate of **50.8%** of the greater Metro area (*greater than 20%*)
- Median Family Income of **27.6%** of the greater Metro area (*less than 80%*)

Further, the site also qualifies under Section 3.2(h) of LADF's 2015-2016 and 2017 Allocation Agreements as a Targeted Distressed Community based on the following qualifying measure:

- Poverty Rate of **50.8%** of the greater Metro area (*greater than 30%*)
- Median Family Income of **27.6%** of the greater Metro area (*less than 60%*)

QALICB Analysis

The CHSLA POB special purpose entity will satisfy the requirements for QALICBs and will be considered a business engaged in "Real Estate Activities", as defined by LADF's 2015-2016 and 2017 Allocation Agreements[1], because its sole business activities are the development of the project and leasing of the completed improvements to the Sponsor.

The QALICB will meet the Non-Qualified Financial Property ("**NQFP**") Test since 100% of the QLICI proceeds will be expended for development of the project within 18 months of closing. The NQFP test requires that less than 5% of the average of the annual aggregate unadjusted basis of the property held by the QALICB is attributable to NQFP which includes debt, stock, etc.

Since 100% of the tangible property of the QALICB will be within a qualifying Low-Income Community ("**LIC**") census tract, the Tangible Property, Services Performed, and Gross Income Tests are all satisfied. In addition, less than 50% of the QALICB will be controlled by any entity having an interest in any Sub-CDEs, so there is no Related Party entity issue.

LADF 2015-2016 Allocation and 2017 Allocation Agreements Compliance

This transaction will use $9.25 million in allocation from LADF's 2015-2016 Allocation and $0.75 million from 2017 Allocation awards from the CDFI Fund. With the closing of this transaction, the 2015-16 Allocation award will be 100% invested and the 2017 Allocation award will be 21.5% ($10.75 million of $50 million) invested.

The LADF has determined that the transaction complies with the authorized uses of its NMTC allocation under Section 3.2 of its 2015-2016 and 2017 Allocation Agreements, evident through the following characteristics of the transaction:

[1] "Real Estate Activities" is the development (including construction of new facilities or rehabilitation/enhancement of existing facilities), acquisition, management or leasing of real estate by a business.

- §3.2(a) –LADF's allocation will be used to make a loan to a QALICB
- §3.2(b) – Project is located in the County of Los Angeles
- §3.2(c) – LADF XVIII, LLC is a listed Subsidiary Allocatee in both the 2015-2016 and 2017 Allocation Agreements
- §3.2(d) – QALICB is controlled 100% by persons unrelated to LADF
- §3.2(e) – With this QEI, LADF will be closer to meeting the 60% threshold prior to Dec. 31, 2020
- §3.2(f) – LADF's QLICI provides flexible terms (*discussed below*)
- §3.2(h) – The subject site is located in a Targeted Distressed Community (*discussed above*)
- §3.2(j) – 100% of QEI will be passed down as a QLICI

Section 3.2(g) (*Non-Metropolitan Counties*), 3.2(i) (*Loan Purchases Reinvestment*), Section 3.2(k) (*Affordable Housing*), and Section 3.2(l) (*Innovative Investments*) are marked "Not Applicable" in LADF's 2015-16 and 2017 Allocation Agreements.

As the transaction relates to Section 3.2(f) (*Flexible Products*) of the 2015-16 and 2017 Allocation Agreements, LADF must comply with the following:

All of the Allocatee's QLICIs must (a) be equity or equity-equivalent financing, (b) have interest rates that are 50 percent lower than either the prevailing market rates for the particular product or lower than the Allocatee's current offerings for the particular product, or (c) satisfy at least 5 of the indicia of flexible or non-traditional rates and terms, as listed in Section 3.2(f)[1]."

LADF's QLICI notes bear interest rates of 1.234865% and satisfy part (b) of this paragraph. To support the compliance with this provision, LADF references a market rate lending terms letter provided by US Bank to support the flexible terms of LADF QLICI notes in another transaction closed on December 20, 2017 (Joshua House Health Center). This letter states that the market interest rate for the transaction is between 1.0% and 3.5% over 30-day LIBOR plus a liquidity premium of 0.2% to 0.86% depending. Assuming an interest rate of 2.0% over 30-day LIBOR and a 0.5% liquidity premium (*within the US Bank market pricing guidelines*), and using the 30-day LIBOR as of September 7, 2019 of 2.13%, the market lending rate would be 4.13%. The LADF QLICI notes are 70% below this assumed market rate.

Reimbursement of Costs

As part of guidance published by the CDFI Fund in December 2015 and applicable to LADF's award from the 2015-2016 and 2017 rounds – Section 3.3(j) is incorporated into all allocation agreements pertaining to monetizing existing assets in NMTC transactions. Section 3.3(j) reads as follows:

"The Allocatee shall not use the proceeds of a QEI to make a QLICI in a QALICB where such QLICI proceeds are used, in whole or in part, to repay or refinance a debt or equity provider whose capital was used to fund the QEI, or are used to repay or refinance any Affiliate of such a debt or equity provider, except where:

(i) the QLICI proceeds are used to repay or refinance documented reasonable expenditures that are directly attributable to the qualified business of the QALICB, and such expenditures were incurred no more than **24 months** prior to the QLICI closing date; or

[1] Flexible or non-traditional rates and terms listed in Section 3.2(f) include: (i) Below market interest rates (or rate of return in the case of equity investments); (ii) Lower than standard origination fees; (iii) A longer than standard period of interest only loan payments; (iv) Higher than standard loan to value ratio; (v) A longer than standard amortization period; (vi) More flexible borrower credit standards; (vii) Nontraditional forms of collateral; (viii) Lower than standard debt service coverage ratio; or (ix) Subordination.

(ii) no more than **5%** of the total QLICI proceeds from the QEI are used to repay or refinance documented reasonable expenditures that are directly attributable to the qualified business of the QALICB."

LADF's QLICI will comply with Section 3.3(j)(i) since none of the QLICI proceeds will be used to reimburse any costs incurred by the QALICB's affiliate, CHSLA, prior to the 24-month period ending on the NMTC closing. Additionally, the QALICB and CHSLA will execute a cost reimbursement certification agreement, for the benefit of the CDE lenders, certifying to that point.

For additional assurance, the CDEs have also required an AUP report from Novogradac. To provide the AUP report, Novogradac obtained all invoices and proofs of payment from the Sponsor for project-related expenses incurred in the prior 24-month period. Novogradac did not perform a full audit, but based on its review and representations made by the Sponsor, Novogradac attests that the reimbursed amounts in the transaction are accurate.

DEMONSTRATED NEED FOR NMTC FINANCING ("BUT FOR" TEST)

The equity generated through the NMTC structure will provide an estimated $3.6 million in subsidy (*net of NMTC closing costs, placement/origination fees, management fees, and on-going CDE and Investment Fund expense reimbursements*) to the project, approximately 20.0% of the $18.0 million QEI in the transaction and 20.7% of the $17.4 million of total construction costs (*excluding financing costs*). The LADF Sub-CDE's portion of the total net subsidy is approximately $2.5 million.

Given the nonprofit Sponsor and social service nature of the proposed facility, the Project could not move forward without the NMTC equity injection. Community facilities projects such as the PAC historically have relied on public funding sources and capital campaigns to provide funds for development costs. The Sponsor already has expended and reserved a significant amount of equity (*approx. $13.1 million*), using capital campaign funds. Its ability to raise an additional $3.6 million for this project is highly unlikely and would take a substantial amount of time. Without the NMTC equity injection, the Project would need to be scaled back or could not move forward without raising the gap funding through a larger capital campaign than anticipated. The lack of collateral makes market rate construction financing by a commercial lender unlikely.

COLLATERAL AND GUARANTEES

The LADF's QLICI loan, along with the QLICI loans from the Citi Sub-CDE, will be secured *pari passu* by the following security instruments:

- Security interest in the PAC Furniture, Fixtures, and Equipment (valued at $2.5 million);
- Security interest in the construction disbursement and reserve accounts (totaling $7.7 million at NMTC Closing);
- Covenant not to encumber the PAC premises with liens (*i.e. Negative Pledge*); and
- Additional security for the QLICI loans will consist of guaranties from the Sponsor.

LADF would typically require a senior Leasehold Deed of Trust on the QALICB's leasehold interest in the subject property. However, the Archdiocese of Los Angeles, lessor of the subject property, formally denied the request to collateralize CHSLA's leasehold interest in a letter dated July 31, 2018. In its effort to provide flexible financing terms and products, LADF will allow financing the project without the real estate as collateral.

The Sponsor will provide an indemnity to the CDE lenders, including LADF XVIII, LLC (*LADF Sub-CDE*), for environmental losses. The Sponsor will also provide an indemnity to the Investor for reimbursement of lost tax credits and losses related to loss of tax credits. The Sponsor will also provide the CDE lenders: (1) a guaranty of payment for all construction work, interest on the QLICI loans, and fees and expenses due to the CDEs and the Fund during the seven-year Compliance Period and (2) a guaranty of completion of all construction work for the Project.

LOAN REPAYMENT ANALYSIS/EXIT STRATEGY

At the end of the seven-year NMTC compliance period, the LADF's Sub-CDE will distribute the QLICI notes to the investment fund. Additionally, the QLICI B Note, which is tied to the NMTC Investor's equity amount, may be forgiven at the end of the compliance period by way of an option agreement described below.

A Put-Call Option Agreement will be entered into by the Sponsor and Citibank (*as the Investor*). Citibank may exercise its put option and sell its respective interest in the Fund to the Sponsor for $5,000. If Citibank chooses not to exercise its put option, the Sponsor may exercise its call option. Upon exercising of either put or call option by the respective parties, the Sponsor would own all of the debt associated with the proposed transaction.

RISKS AND MITIGANTS

There will be limited recapture risk. All significant NMTC compliance issues have been or will be addressed. The QALICB is an eligible entity, the project is located in an eligible highly distressed census tract, LADF's Sub-CDE is certified, there are no related party issues, and the transaction has been structured to meet the Substantially-All Test.

RISK: GENERAL

The QALICB, Sponsor, and LADF have taken and will take measures to prevent a Recapture Event. Such measures include:

- LADF has engaged Ariel Ventures for compliance services and obtained a license for its specially-designed compliance software to assure that all required reporting to the CDFI Fund is completed in a timely manner.
- No principle amortization or prepayment will be allowed during the seven-year NMTC compliance period. This will prevent putting the project in violation of the Substantially All Test, which states that 85% of the QEI must be continuously invested in QLICIs during the 7-year NMTC compliance period.
- The transaction will be structured to ensure that up-streamed distributions of cash flow cannot be interpreted as redemption of capital (i.e. a return of equity). While return of equity to the NMTC Investor Member is not permitted, return on equity is permitted. Therefore, all cash flow up-streamed to the NMTC Investor would be structured as return on equity and would be recognized as income. If there is a return of capital, LADF is third in the waterfall (*after Citi Sub-CDE*) and would receive a return of capital only after **$7.8 million** was returned to Citi Sub-CDE.
- To mitigate the possibility that a portion of the QEI is returned via bankruptcy and/or foreclosure on the collateral, through the seven-year NMTC compliance period, the QALICB will be required to commit to maintaining operations at the subject location or providing for an acceptable alternative entity to do so in order to maintain the NMTC structure. Transaction documentation will include legal opinions that all aspects of the transaction comply with the NMTC regulations.

There will be limited credit risk due to the lack of real estate collateral

RISK: QLICI LOAN NOT SECURED BY REAL ESTATE

The risks and mitigating factors associated with providing the QLICI loans without the real estate interests as collateral are listed below:

- Risk: Construction is stalled and does not complete.
  Mitigating Factor(s): (1) Guaranties provided by Sponsor and (2) Site work and construction is substantially complete and past the early stages that are more susceptible to cost overruns.
- Risk: Payment of QLICI Interest and Asset Management Fees
  Mitigating Factor(s): (1) Self-leverage structure and (2) Reserves for construction-period QLICI Interest and Asset Management Fees.
- Risk: Repayment / Refinance
  Mitigating Factor(s): (1) Self-leverage structure and (2) Put-call option mechanism for debt forgiveness.

The economic and real estate risks of the project will be borne by the Sponsor in its capacity as guarantor and indemnitor, and the Sponsor in its capacity as leverage lender. However, the project-related risks are largely mitigated by the experienced development team assembled for the project as well as the feasibility of the project. The Sponsor has the organizational and financial capacity to access sufficient liquidity to cover reasonable cost overruns and move the project to completion.

LADF FEE LOAD AND RESERVES

The LADF will receive the following fees from the transaction:

- Placement Fee – 2% of QEI (equates to $200,000). LADF will receive fee in lump sum at closing.
- CDE Servicing & Compliance Fee – 0.75% of QEI per year for $9.25 million of 2015-2016 Allocation and for $0.75 million of 2017 Allocation
  - This equates to $525,000 (quarterly installments of $18,750 paid out of QLICI interest received for 7 years)
- CDE Expense Reimbursements – estimated at $12,000 annually per CDE for 8 years (equates to $96,000). QALICB will be responsible for paying all ongoing costs incurred by the Sub-CDE related to the transaction, which will consist primarily of audit and tax expenses.

All of LADF's CDE Servicing and Compliance Fees and estimated CDE Expense Reimbursements for the entire Compliance Period, which total approximately $621,000, will be placed in a separate, controlled reserve account at close of the transaction.

POLICY EXCEPTIONS

None.

RECOMMENDATION

Approval of this funding request is recommended based on the project's feasibility, readiness and community benefits.

ATTACHMENTS

EXHIBIT A: Cathedral High School PAC Flow of Funds (*as of September 4, 2018*, Final Projections Pending)

LADF
LOS ANGELES DEVELOPMENT FUND

EXHIBIT A: Cathedral High School PAC Flow of Funds (*as of September 4, 2018*, Final Projections Pending)