LADF

LOS ANGELES DEVELOPMENT FUND

Meeting *of the* Governing Board of Directors

The Los Angeles Development Fund
and
LADF Management, Inc.

December 12, 2019

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

THE LOS ANGELES DEVELOPMENT FUND *and* LADF MANAGEMENT, INC.

DECEMBER 12, 2019

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Tab 1

LADF
LOS ANGELES DEVELOPMENT FUND

AGENDA

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, December 12, 2019 | 2:30pm – 4:00pm

	AGENDA ITEM	PRESENTER	TAB
	Welcome and Call to Order	Rushmore Cervantes	
	Roll Call	Sandra Rahimi	
1	**Discussion Items**	Sandra Rahimi	
	a. Pipeline Update		Tab 2
2	**Action Items**	Sandra Rahimi	
	a. Request for Authorization for LADF President, or his delegate, to execute documents to effectuate a $11 Million Sub-Allocation of New Markets Tax Credits for the **Children's Institute – Watts Campus** from the 2018 allocation.		Tab 3
	b. Request for Authorization for LADF President, or his delegate, to execute documents to effectuate an additional Sub-Allocation of New Markets Tax Credits of **not to exceed $6 Million** for the **Heart of Los Angeles Project** from the 2018 allocation and on an **unsecured** basis.		Tab 4
	Request for Future Agenda Items	Rushmore Cervantes	
	Next Meeting Date and Time of Governing Board	Rushmore Cervantes	
	• Thursday, January 9, 2020, 2:30pm – 4:00pm		
	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) 808-8959.

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

Allocation Awards

2007 NMTC Allocation	75,000,000
2011 NMTC Allocation	50,000,000
2015/16 NMTC Allocation	50,000,000
2017 NMTC Allocation	50,000,000
2018 NMTC Allocation	35,000,000
TOTAL AWARDS	**260,000,000**

Project Name	**CD**	**Total Allocation**	**LADF Alloc.**	**Closed**	**Unwound**
YWCA Job Corp Center	14	70,000,000	20,000,000	Dec-09	yes
Kroger/ Food4Less	multi	27,500,000	27,500,000	Dec-10	yes
One Santa Fe	14	38,000,000	15,000,000	Dec-11	yes
Anderson Munger YMCA	10	28,300,000	12,500,000	Aug-12	yes
Dream Center	13	49,700,000	10,000,000	Aug-12	yes
Bobrick Washroom Equip.	2	20,000,000	10,000,000	Dec-12	in process
Discovery Cube	7	15,000,000	10,000,000	Dec-12	in process
La Kretz Innovation Campus	14	43,000,000	10,000,000	Sep-13	
LA Prep Lincoln Heights	1	16,000,000	10,000,000	Mar-14	
Orthopaedic Institute for Children	9	24,500,000	10,000,000	Apr-17	
Anita Mae Rosen LGBTQ Campus	4	43,000,000	10,000,000	Jun-17	
Heart of Los Angeles Arts Center	10	14,550,000	2,750,000	Sep-17	
Joshua House Health Center	14	26,000,000	3,923,000	Dec-17	
Thai Town Marketplace	13	4,068,000	4,068,000	Jan-18	
Budokan	14	31,200,000	10,000,000	Mar-18	
Jordan Downs Retail Center	15	41,500,000	10,000,000	Jun-18	
Cathedral HS Performing Arts Center	1	18,000,000	10,000,000	Sep-18	
TOTAL DEPLOYED			**185,741,000**		70,741,000
UNDEPLOYED ALLOCATION			**74,259,000**		

UNDEPLOYED ALLOCATION $ 74,259,000

Project Name	CD	Total Allocation	Req. LADF Alloc.	Target Closing	LOI
Vallarta Van Nuys	6	30,000,000	15,000,000	Dec-19	issued, VALID
Children's Institute	15	24,000,000	11,000,000	Jan-20	issued, VALID
HOLA Phase 2	10	3,000,000	6,000,000	Jan-20	$3MM approved
Debbie Allen Dance	10	16,000,000	11,000,000	Mar-20	issued, VALID
Angeles House	n/a	30,000,000	15,000,000	Mar-20	$10MM issued, VALID
OUTSTANDING LOIs			**58,000,000**		
REMAINING UNCOMMITED			**16,259,000**		
REQUESTS					
Shakespeare Theater	1	12,000,000	10,000,000	Mar-20	none
Goodwill	1	36,000,000	10,000,000	Aug-20	issued, never executed
Brine	15	27,800,000	10,000,000	Oct-20	issued, expired w/ deposit
South LA Hub	8	15,000,000	10,000,000	Mar-20	none
1st and Boyle	14	5,300,000	5,300,000	Oct-20	none
TOTAL REQUESTS			**151,559,000**		

Tab 3

LADF
LOS ANGELES DEVELOPMENT FUND

NEW MARKETS TAX CREDITS INVESTMENT REPORT

TO:	LADF Board of Directors
FROM:	Sandra Rahimi, Secretary
DATE:	December 12, 2019
SUBJECT:	Request to Approve a **$11,000,000** New Markets Tax Credits Allocation to Children's Institute of Watts ("**QALICB**") for the Children's Institute – Watts Campus ("**Project**")

SUMMARY

Project Name:	Children's Institute – Watts Campus ("**CI Watts**")
Location:	Watts Neighborhood (CD 15 – Joe Buscaino)
Project Description:	20,000 SF / New Construction / Community Facility
Sponsor / Developer:	Children's Institute, Inc. ("**Sponsor**", or "**CII**")
Ownership:	• Sponsor owns *Land, Building, and Improvements* • Property to-be-transferred to QALICB and leased back to Sponsor at closing
NMTC Investor:	Wells Fargo Bank ("**Investor**")
Total Project Cost:	$ 24,655,600
Total Allocation / QEI: *LADF Allocation / QEI*:	$ 24,000,000 $ 11,000,000 (*2018 Allocation*) • LADF XX, LLC *(Certified Sub-Allocatee)*
Job Creation (*Direct*):	**15** Permanent Jobs, **44** Construction Jobs
Site Eligibility Criteria:	2011-2015 ACS Census Tract No. 06037242300 • NMTC Eligible and Targeted Distressed Community (*per 2018 Allocation Agmt*)**:** • 37.3% Poverty Rate (*greater than 20% and 30%*) – Section 3.2(h)(ii) • 47.9% AMI Households (*less than 80% and 60%*) – Section 3.2(h)(ii) • 2.25x National Avg. Unemployment Rate (*greater than 1.5x*) – Section 3.2(h)(vi)
Community Benefits:	• Project will serve **2,000 *Low Income Persons* per year** • Sponsor will provide an array of programs and services focused on mental health, early care and education, youth development, and family support services

Key Compliance Criteria under the 2018 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-Allocatee	☑ 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: $ 3,646,500

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SITE ANALYSIS

The project site is approximately 1.9 acres and located in the Watts neighborhood of South Los Angeles. The site is located at the corner of Success Avenue and 102nd Street in Los Angeles, and has used the following contiguous address locations:

- 1522 E. 102nd Street, Los Angeles, CA 90002
- 1468½-1516 E. 102nd Street, Los Angeles, CA 90002

As part of the City's plan check process, the project was asked to elect a new address. The project's new common address (which will be reflected on the building permit eventually issued by the City) is going to be:

- 10200 Success Avenue Los Angeles, CA 90002.

The site is under the jurisdiction of Council District 15 of the City of Los Angeles, represented by Councilmember Joe Buscaino. Additionally, the site lies within the following designated economic development areas:

- *State Enterprise Zone*: Los Angeles State Enterprise Zone

There are two existing buildings, one is 6,000 SF and the other is 14,000 SF, on the eastern portion of the property. The new 20,000 SF facility financed with NMTCs will be built on the western portion of the property, and the Sponsor will maintain the two existing buildings for community meeting space and space for lease to other nonprofits and community-serving businesses.

Site Control

The Children's Institute, Inc. ("**CII**", or "**Sponsor**") currently owns the site, and acquired it in 2014. Per NMTC regulations, the land value will not be capitalized in this financing.

PROJECT DESCRIPTION

CII will use the NMTC financing to fund the new construction of the Children's Institute – Watts Campus ("**CI Watts**"). Construction is expected to begin in January 2020 and be completed in July 2021.

CII currently operates some of its programs in a re-purposed school located on the subject site. The CI Watts project includes construction of a new 20,000 SF community facility which will allow CII to increase delivery of its unique blend of clinical and enrichment services to vulnerable children and fragile families in one of Los Angeles's most challenged communities. By consolidating its programs in a single Watts location, CII clients will have improved access to the full breadth of CII offerings, thereby enhancing the services that each family receives. The CI Watts will also allow the organization to add new programs to meet client needs. CII estimates that the new facility will result in a 15-20% increase in families receiving additional services.

The new facility is being specifically designed to advance CII's integrated services and is expected to serve approximately 2,000 individuals annually, 100% of which are expected to be *Low-Income Persons*. The CI Watts will include an array of programs and services focused on mental health, early care and education, youth development, and family support services.

CII will provide the following programs and services for *Low-Income Persons* at the CI Watts:

- Community Mental Health
- Intensive Mental Health
- Family Preservation
- Individualized Transition Skills Program
- Project Fatherhood
- Innovations-2
- Reach Team: Children Exposed to Gun Violence
- Project ABC
- CalWORKS
- School-based programs
- Child welfare services
- Youth development services including soccer, art, camps and experiential learning
- Space for staff and community trainings

Following are descriptions of several of the specific programs that will be offered at the Watts Campus:

Individualized Transition Skills Program (ITSP). CII's ITSP program supports youth between the ages of 16 and 21 as they transition from foster care to becoming productive and self-sufficient adults. Los Angeles has the most foster youth in the country, and young people leaving the foster care system are more likely to experience adverse outcomes including low educational attainment, unemployment, poverty, homelessness, mental illness and incarceration. CII's ITSP program provides individualized support, social connectedness and concrete resources to ensure that youth leaving the foster care system can achieve self-sufficiency and positive outcomes in their adulthood.

Project Fatherhood. This unique, federally-funded program is based on a growing body of research attesting to the critical importance of positive father involvement in the lives of their children with respect to children's social-emotional and educational outcomes. The program provides support, therapy, job readiness training, and parenting education to fathers and significant others of at-risk children to increase father involvement in child rearing and strengthen the father-child relationship. Project Fatherhood specializes in working with fathers whose children are in the child welfare system.

Reach Team: Children Exposed to Gun Violence. With the new CI Watts, CII will be well-positioned to implement a brand-new program focused on supporting children exposed to gun violence in Watts. Announced in September 2018, the Reach Team program is being spearheaded by CII in partnership with the Los Angeles Police Department and the Los Angeles City Attorney's office. In 2017, 110 calls were made to the LAPD reporting shots fired in the area, and more than 40% of those calls came from local housing developments. The Reach Team, comprised of counselors and therapists, will be notified by LAPD when a gunshot is reported in Watts, and will offer a crisis response to the families involved. Children identified for follow-up will be referred to CII to receive trauma-informed health services and other support.

COMMUNITY AND ECONOMIC BENEFITS

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

Job Creation/Retention:	• Creating: **15** Permanent Jobs and **44** Construction Jobs • Retaining: **N/A**
Quality Jobs:	• **100%** of the permanent jobs will be provided with the following benefits: Medical, Dental, Vision, and Retirement and/or 401(k) Benefits • **100%** of the permanent jobs will be provided opportunities for upward advancement and ongoing training • Subsidized continuing education opportunities will be provided to employees if there is an alignment with job requirements
Accessible Jobs:	• Hiring of Low-Income Community Residents ("**LICR**") or Low-Income Persons ("**LIP**") for construction jobs (*% or # of individuals not yet negotiated for this requirement*)
Community Goods/Services to Low-Inc. Communities:	• Increase Sponsor capacity for providing critically needed programs and services for low-income youth and families by **2,000 individuals annually** (*increasing Sponsor's total capacity by 15-20% more than individuals currently being served in its existing Watts locations*) • *For information about specific programs, see "PROJECT DESCRIPTION"*
Environmentally Sustainable Outcomes:	• Expected to attain **LEED Silver certification** for the project.

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 a biannual 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.

DEVELOPMENT TEAM

Real Estate QALICB: Children's Institute of Watts

Children's Institute of Watts is a 509(a)(3) California nonprofit public benefit corporation and supporting organization of the Sponsor that was formed on October 23, 2019. This entity will serve as the Qualified Active Low Income Community Business ("**QALICB**") for the NMTC transaction purposes. The entity was established for the purposes of owning and managing the real estate interests in the project, including land, building, and improvements. The QALICB will enter into a lease agreement with the Sponsor to operate CI Watts.

The QALICB is controlled by a five-member Board of Directors and 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. The joint CII and QALICB management team will carry out the development of the project and be responsible for management and maintenance of the subject property.

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-formed company, there are no financial statements to review. The company will be the beneficiary of the NMTC and direct project financing sources, which CII originally solicited.

Developer/Sponsor: Children's Institute, Inc. ("**Sponsor**", or "**CII**")

Children's Institute, Inc. is a 501(c)(3) nonprofit corporation founded in 1906, is one of the country's largest children's services organizations, serving more than 28,000 children and families a year in some of Los Angeles's most challenged communities. CII's integrated services include mental health, early care and education, child welfare, family support, and youth development services. CII currently provides 27 direct service programs at three main campuses, dozens of schools, and thousands of homes.

For more than a century, CII has served the most at-risk and often overlooked young people in Los Angeles – those harmed by child abuse, neglect, domestic violence, gang and community violence. CII addresses the needs of vulnerable children and youth on multiple levels with its Integrated Service Model, which is designed to address the whole child as well as the entire family. The CII model blends evidence-based clinical services to address trauma; youth development programs to enable children and youth to develop skills and self-esteem; early childhood programs which provide critical early intervention; and family support services to build on family strengths and promote stability.

With regards to this NMTC transaction, CII 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".

Financial Statement Analysis

LADF has reviewed the consolidated audited financial statement for CII for the fiscal years ending June 30, 2016, June 30, 2017, and June 30, 2018. The company had a total of $11.0 million in cash and $96.9 million in total assets (*including the subject real estate*) as of June 30, 2018. Additionally, the company has $23.1 million in liquid short-term investments, consisting mostly of equity securities, corporate and municipal bonds, and fixed income securities. In conjunction with financing this project, the Sponsor has raised $7.9 million in pledges through a capital campaign within the last 5 years.

General Contractor: To-Be-Selected

The GC has not been selected yet for the CI Watts project. The GC that is eventually selected will provide a Guaranteed Maximum Price contract, which is expected to be executed in December 2019 prior to NMTC closing.

Architect: Gehry Partners, LLP

Gehry Partners, LLP ("**Gehry**") is the architect of record for the CI Watts project and will complete all of the design work for a contract amount of $500,000 for its services. Gehry was founded by Frank Gehry, an

[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.

internationally renowned architect, and has agreed to a fee for this project that is substantially less than the fee the firm typically receives for its work. Additionally, Gehry is waiving $1.1 million in fees for design work previously performed for the project when it had a different project scope (*previously project scope included development of the entire site).*

Frank Gehry established his practice in Los Angeles, California in 1962. The Gehry partnership was formed in 2001. Gehry employs a large number of senior architects who have extensive experience in the technical development of building systems and construction documents, and who are highly qualified in the management of complex projects.

Every project undertaken by Gehry is designed personally and directly by Frank Gehry. All of the resources of the firm and the extensive experience of the firm's partners are available to assist in the design effort and to carry this effort forward through technical development and construction administration.

The partners in Gehry are: Frank Gehry, John Bowers, Jennifer Ehrman, Berta Gehry, Meaghan Lloyd, David Nam, Tensho Takemori, Laurence Tighe & Craig Webb.

PROJECT FEASIBILITY

Property Valuation

A broker opinion of value letter has been provided by the brokerage firm Cushman & Wakefield to determine market value of the fee simple interest in the property after project completion. The letter indicates a valuation of the as-built project in the range of $225 to $250 per square foot. The project size is 20,000 SF, which equates to a valuation range of $4.5 million to $5.0 million. This results in a Loan-to-Value (LTV) ratio between 472% to 525%. It is common for NMTC projects, located in Low-Income Communities, to have a significant shortfall between project cost and project valuation. This is one of the more common criteria under which a project meets the "but for" test for NMTC financing.

Additionally, the broker opinion of value letter indicates the property could attract tenants at a lease rate of $4.33, or $52 per square foot annually, growing at 2% to $60 per square foot by 2027. With a conservative 8% cap rate, $52 psf would result in a completed value of approximately $13MM, which results in a LTV of 184%.

The QALICB will master lease the property to the Sponsor at a very low rate of $10.75 per square foot annually, with a rent escalation in year seven to $56.35 per square foot annually. Given that the project will be 100% Sponsor-occupied and that the NMTC structure will be self-leveraged, the rental payments only need to be enough to cover the below-market interest on the QLICIs at the lower tier and the same below-market interest on the Sponsor leverage loan at the upper tier.

Environmental Inspections

A Phase I environmental report of the subject property was produced by Pacific Environmental Company dated September 24, 2019. The report concluded that the assessment revealed no evidence of recognized environmental conditions (RECs), historical recognized environmental conditions (HRECs), or controlled recognized environmental conditions (CRECs) in connection with the subject property.

A reliance letter will be provided naming LADF XX, LLC (*LADF's Sub-CDE*) as a party that may rely on the Phase I report.

Construction Feasibility

The QALICB will be responsible for developing the project and has elected officers and directors that are all either senior officers, board members, or staff of the Sponsor. The QALICB will enter into the GMP contract with the GC.

A costing analysis of the project will be completed by a third-party firm that will be selected by the financing team (*including Sub-CDEs and Wells Fargo*) prior to NMTC closing. The same firm will also inspect progress and work done during the construction period, and the firm will provide monthly reports to Wells Fargo and the Sub-CDE lenders.

The project's disbursement process will be coordinated by Wells Fargo in its role as the disbursement servicer. Wells Fargo's role will include obtaining a full draw package from the QALICB, monthly inspection report, and subsequent approvals from the Sub-CDE lenders and Wells Fargo as NMTC Investor. The Sub-CDE lenders will have full approval rights over each draw. The full draw package submitted by the QALICB will require also that the Sub-CDE lenders receive date down endorsements from the title company and lien waivers from the GC and all subcontractors.

PROBABLE MAXIMUM LOSS REPORT

A Probable Maximum Loss (PML) study will not be required since 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 (*unrestricted funds*):	8,276,800	- Pre-Incurred Project Costs:	1,193,300
- Sponsor Equity (*capital campaign*):	6,900,000	- Hard Costs:	15,661,400
- Bridge Loan (*pre-incurred cost reimb*):	867,200	- Soft Costs:	2,905,700
Leverage Loan Sources	$16,044,000	- FF&E:	175,000
		- Owner Contingency:	1,813,800
- NMTC Equity (**LADF QEI**):	3,646,500	***Sub-Total***	$21,749,200
- NMTC Equity (Genesis QEI):	4,309,500		
NMTC Investor Equity	$7,956,000	**Financing-Related Uses**	
		- Interest Expense (*net of reserves*):	117,000
Project Level (Direct Sources)		*NMTC Closing Costs*	
- Sponsor Equity (*unrestricted funds*):	329,500	- Legal/Acctg./Consulting Fees:	612,300
- Sponsor Equity (*pre-incurred cost reimb*):	326,100	- LADF CDE Placement Fee:	220,000
Direct Sources	$655,600	- Genesis CDE Upfront Fees:	390,000
		NMTC Reserves	
		- LADF Asset Mgmt. Fee Reserve:	577,500
		- LADF Expense Reserve:	120,000
		- Genesis CDE Fee/Exp. Reserves:	869,600
		Sub-Total	$2,906,400
Total Project Sources	**$ 24,655,600**	**Total Project Uses**	**$ 24,655,600**

DEVELOPMENT PRO FORMA

The total project cost is estimated to be $24.7 million, $24.0 million of which will be leveraged through the NMTC structure to make $23.6 million in Qualified Low-Income Community Investment ("**QLICI**") loans to the project. The QLICI funds will be disbursed as follows at closing:

- $0.9 million – Reimbursement of pre-closing development costs incurred within the last 24 months
- $1.2 million – Pay NMTC and Other Closing Costs
- $1.6 million – Fund the CDE-Controlled Fee and Expense Reserve Accounts
- $19.9 million – Fund the CDE-Controlled Construction Disbursement Account

NMTC-related reserves held by the QALICB will total $1.6 million 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 for the entire NMTC Compliance Period be held in separate reserve accounts, including $697,500 held in an account pledged to LADF for LADF's fees and expense reimbursements.

OPERATING PRO FORMA

The project's operating revenues will consist of rental payments made to the QALICB by the Sponsor as under its master lease of the building. The rental rates to be paid by the Sponsor are projected at $10.75 per square foot, or $215,000 annually, starting in August 2021 after construction completion, and escalating in 2027 after the seven-year NMTC Compliance Period. After accounting for operating expenses, the QALICB's debt service coverage for the Project is estimated at 1.01x (*per the current financial projections dated October 29, 2019*). Since the project will be 100% Sponsor-leased and the NMTC transaction is funded with a leverage loan that is 100% Sponsor equity, there is minimal risk of the QALICB not making its debt service payments.

Project Timeline

The following list represents the milestone items and the project's completion and expected completion dates (*as of October 28, 2019*):

- December 2019: Building Permit approval and GC Contract execution
- January 2020: **NMTC Transaction Close**
- January 2020: Construction Commencement (*post-NMTC closing*)
- July 2021: Construction Completion (*approx. 18-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 contribution dollars (*Sponsor will use equity and debt sources to fund its direct contributions to the project*). The financing parties to the NMTC structure will include one NMTC Investor at the upper tier, as well as two 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 (*Sponsor will use capital campaign funds raised and its own cash reserves to fund the leverage loan*).

NMTC Investor

Wells Fargo Community Investment Holdings, LLC ("**Investor**"), a subsidiary of Wells Fargo Bank, is the NMTC Investor that will provide the equity contribution to the Investment Fund. Wells Fargo provides tax credit equity to low- and moderate-income communities through community development lending and equity investments.

LADF has closed two previous transactions with Wells Fargo as Investor. The transactions were for the Bobrick Washroom Equipment manufacturing facility project (*closed in December 2012*) and Anita May Rosenstein Campus / LGBT Center community facility project (*closed in June 2017*).

CDE Lenders

The CI Watts 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 XX, LLC*	$11,000,000
Genesis LA CDE LLC	*GLA Sub-CDE XXVII, LLC*	$13,000,000
	Total NMTC Allocation	$24,000,000

Genesis LA CDE LLC

Genesis LA CDE LLC ("**Genesis**") is a certified CDE located in Los Angeles, California, and has received seven NMTC allocations totaling $320 million: 2005-$80mm, 2006-$50mm, 2009-$40mm, 2013-$20mm, 2014-$30mm, 2015-2016-$45mm, and 2018-$55mm. Genesis was established in 1998 to advance economic opportunity in Los Angeles County. The organization uses allocation to invest in community facilities and commercial and mixed-use real estate projects that deliver programs, goods, services, and quality jobs to the county's low-income communities. Genesis has $65 million in NMTC allocation remaining, $10 million from its 2015-2016 allocation and $55 million from its 2018 allocation, with a local service area covering Los Angeles County, California. This will be the third transaction that LADF has closed with Genesis as a partner CDE. LADF co-invested NMTC allocation with Genesis in the One Santa Fe retail and office project (*closed in December 2011*) and in the Anita May Rosenstein Campus / LGBT Center community facility project (*closed in June 2017*). Additionally, in 2014, LADF invested NMTC allocation in the L.A. Prep food production facility, which Genesis also participated in as leverage lender using its CDFI program funds.

Leverage Lenders

The NMTC Transaction will be self-leveraged by the Sponsor, which has sourced $16.0 million from capital campaign contributions received, cash reserves, and a term loan. For discussion about the Sponsor, refer to the section entitled "DEVELOPMENT TEAM".

FINANCING STRUCTURE

The project's total development cost will be funded by the $24.0 million QEI generated through the NMTC leverage structure, and the following project sources outside the NMTC structure: (1) $326,100 Sponsor net contribution of land and pre-closing development costs to the QALICB and (2) $329,500 Sponsor equity. For a full diagram showing the flow of funds at closing, please refer to Exhibit A.

The Sponsor equity for the NMTC leverage loan will be fully advanced prior to, or at, closing of the NMTC transaction. Please see the section entitled "DEVELOPMENT TEAM" for further discussion about the financial capacity of the Sponsor.

NMTC Financing

There will be one investment fund established for the NMTC transaction. Wells Fargo will be the NMTC Investor Member and own 100% of the investment fund. The equity contribution at the upper tier by Wells Fargo will total $8.0 million. In exchange, Wells Fargo will receive $9.4 million in tax credits that will be generated through the Fund (39% of the total $24.0 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 Genesis's allocations.

The $16.0 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 1.1743%. After the end of the interest-only period, the self-leverage loan will amortize over the following 21 years.

Wells Fargo's tax credit equity contributions combined with the leveraged loan will be used to capitalize the investment fund with $24.0 million in total. Upon closing of the NMTC transaction, the investment fund will use its capital to make a $11 million QEI to the LADF Sub-CDE and an $13 million QEI to the Genesis 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 $23.6 million after $390,000 in upfront fees charged by Genesis at the Sub-CDE tier.

With regards to LADF's Sub-CDE, LADF Management, Inc. (*LADF's subsidiary entity*) will contribute $1,100 to capitalize the LADF Sub-CDE and own 0.01% share in the LADF Sub-CDE. LADF will earn $82,500 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 the leverage loan ("**A note**") and the other with the NMTC equity component ("**B note**"). The A notes will have interest rates of 1.5081% and 33-year terms with interest-only payments for the first seven years during NMTC compliance period. The B notes will have the same loan terms as the A notes.

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

1. Genesis Sub-CDE – first $12.6 million of capital redeployment
2. LADF Sub-CDE – next $11.0 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 Wells Fargo to identify for reinvestment a project within the City of Los Angeles that is acceptable to both entities; thereafter Wells Fargo Bank can remove LADF Management, Inc. as managing member of LADF XX, LLC and choose an investment without LADF's input. However, it must still be within Los Angeles County per LADF's 2018 Allocation Agreement. With Wells Fargo'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 on or before January 2020. Pursuant to LADF's policies and procedures, the readiness of the project is determined as follows:

- *Control of Site*: Sponsor purchased in 2014, to-be-transferred to QALICB at closing
- *Entitlement Process*: Project is by-right according to zoning guidelines
- *Design/Pre-Development*: Completed
- *Working Drawings*: Currently at 80% construction drawings
- *Value Engineering*: Ongoing up until NMTC Closing
- *Permits*: Expected in December 2019
- *Tenant Leases*: Leaseback to Sponsor to-be-executed concurrent with NMTC closing
- *GMP Construction Contract*: GC contract execution expected in December 2019
- *Financing Commitments*: LOIs have been issued by Genesis and Wells Fargo Bank (*as NMTC Investor*). The Sponsor has committed capital campaign funds and cash reserves for the Leverage Loan and direct project contributions. The Sponsor is in process of securing a $4.2 million term loan, which it will use to partially fund the Leverage Loan, from either City National Bank or Wells Fargo.
- *Outstanding 3rd Party Issues*: Required insurance policies have been ordered and will be provided prior to NMTC closing.

NMTC ELIGIBILITY AND COMPLIANCE

The subject site is located in the 2010 Census Tract 06037242300. The population within the Census tract is 4,842 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 both qualifying measures:

- Poverty Rate of 37.3% (*greater than 20%*)
- Median Family Income of 47.9% of the greater Metro area (*less than 80%*)

Further, the site also qualifies under Section 3.2(h) of LADF's 2018 Allocation Agreement as a Targeted Distressed Community based on any one of the three qualifying measures listed:

- Poverty Rate of 37.3% (*greater than 30%*)
- Median Family Income of 47.9% of the greater Metro area (*less than 60%*)
- Unemployment Rate that is 2.25x the National Unemployment Rate (*greater than 1. 5x*)

QALICB Analysis

The Children's Institute of Watts 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 2018 Allocation Agreement[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

[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.

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 2018 Allocation Agreements Compliance

This transaction will use $11 million in allocation from LADF's 2018 Allocation award from the CDFI Fund. With the closing of this transaction, the 2018 Allocation award will be 31.4% invested.

The LADF has determined that the transaction complies with the authorized uses of its NMTC allocation under Section 3.2 of its 2018 Allocation Agreement, evident through the following characteristics of the transaction:

- §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 XX, LLC is a listed Subsidiary Allocatee in Schedule I of the Allocation Agreement
- §3.2(d) – QALICB is controlled 100% by persons unrelated to LADF
- §3.2(e) – LADF must issue $10mm in additional QEIs to meet the 60% threshold by Dec. 31, 2021
- §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*), and Section 3.2(l) (*Innovative Investments*) are marked "Not Applicable" in LADF's 2018 Allocation Agreement.

Section 3.2(k) (*Affordable Housing*) is marked "Applicable" in LADF's 2018 Allocation Agreement. However, the Project does not include any housing units, so LADF will maintain compliance with Section 3.2(k).

As the transaction relates to Section 3.2(f) (*Flexible Products*) of the 2011 Allocation Agreement, 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 1.5081% and satisfy part (b) of this paragraph. To support the compliance with this provision, LADF will reference a market rate lending terms letter provided by Wells Fargo. This letter will be provided one week before closing, and it is expected that the market interest rate for the transaction is at least 2 times greater than LADF's QLICI interest rate (*making LADF's QLICI 50% lower than the prevailing market rate*).

Reimbursement of Costs

As part of guidance published by the CDFI Fund in December 2015 a new provision, Section 3.3(j), was incorporated into all allocation agreements after that time pertaining to monetizing existing assets in NMTC transactions. Section 3.3(j) reads as follows:

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[1] Flexible or non-traditional rates and terms listed in Section 3.2(f) include: (i) Below market interest rates; (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.

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

(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, CII, prior to the 24-month period ending on the NMTC closing. Additionally, (1) Novogradac will perform a reconciliation of all prior incurred expenses reimbursed through the NMTC financing and (2) the QALICB and CII will execute a cost reimbursement certification agreement, for the benefit of the CDE lenders, certifying that these costs were incurred within the 24-month period ending on the NMTC closing.

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

The equity generated through the NMTC structure will provide an estimated $5.0 million in subsidy (*net of NMTC closing costs, placement/origination fees, management fees, and on-going expenses*) to the project, approximately 21.0% of the $24.0 million QEI in the transaction and 20.5% of the $24.7 million of total project costs. The LADF Sub-CDE's portion of the total net subsidy is approximately $2.7 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 CI Watts 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 for the project, and its ability to raise an additional $5.0 million for this project is highly unlikely and would take a substantial amount of time. The Project could not move forward without the NMTC equity injection.

COLLATERAL AND GUARANTEES

The LADF's QLICI loans will be secured by the following security instruments:

- First Deed of Trust on the QALICB's fee interest in the subject property;
- Security interest in the construction disbursement and reserve accounts (*totaling $22.0 million at NMTC Closing*); and
- Additional security for the QLICI loans will consist of guaranties from the Sponsor.

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

LADF
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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 Wells Fargo Bank (*as the Investor*). Wells Fargo Bank may exercise its put option and sell its respective interest in the Fund to the Sponsor for $1,000. If Wells Fargo Bank 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 credit and 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 second in the waterfall (*after Genesis Sub-CDE*) and would receive a return of capital only after **$12.6 million** was returned.
- To mitigate the possibility that a portion of the QEI is returned via bankruptcy and/or foreclosure on the subject site, 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.

The economic and real estate risks of the project will be borne by the QALICB and Sponsor in their capacities as guarantors and indemnitors, 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 $220,000). LADF will receive fee in lump sum at closing.
- CDE Servicing & Compliance Fee – 0.75% of QEI per year for $11 million of 2018 Allocation
  - This equates to $577,500 (quarterly installments of $20,625 paid out of QLICI interest received for 7 years)
- CDE Expense Reimbursements – estimated at $15,000 annually per CDE for 8 years (equates to $120,000). 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 CDE Expense Reimbursements for the entire Compliance Period, which total approximately $697,500, will be placed in a separate, controlled reserve account at close of the transaction.

POLICY EXCEPTIONS

None.

RECOMMENDATION

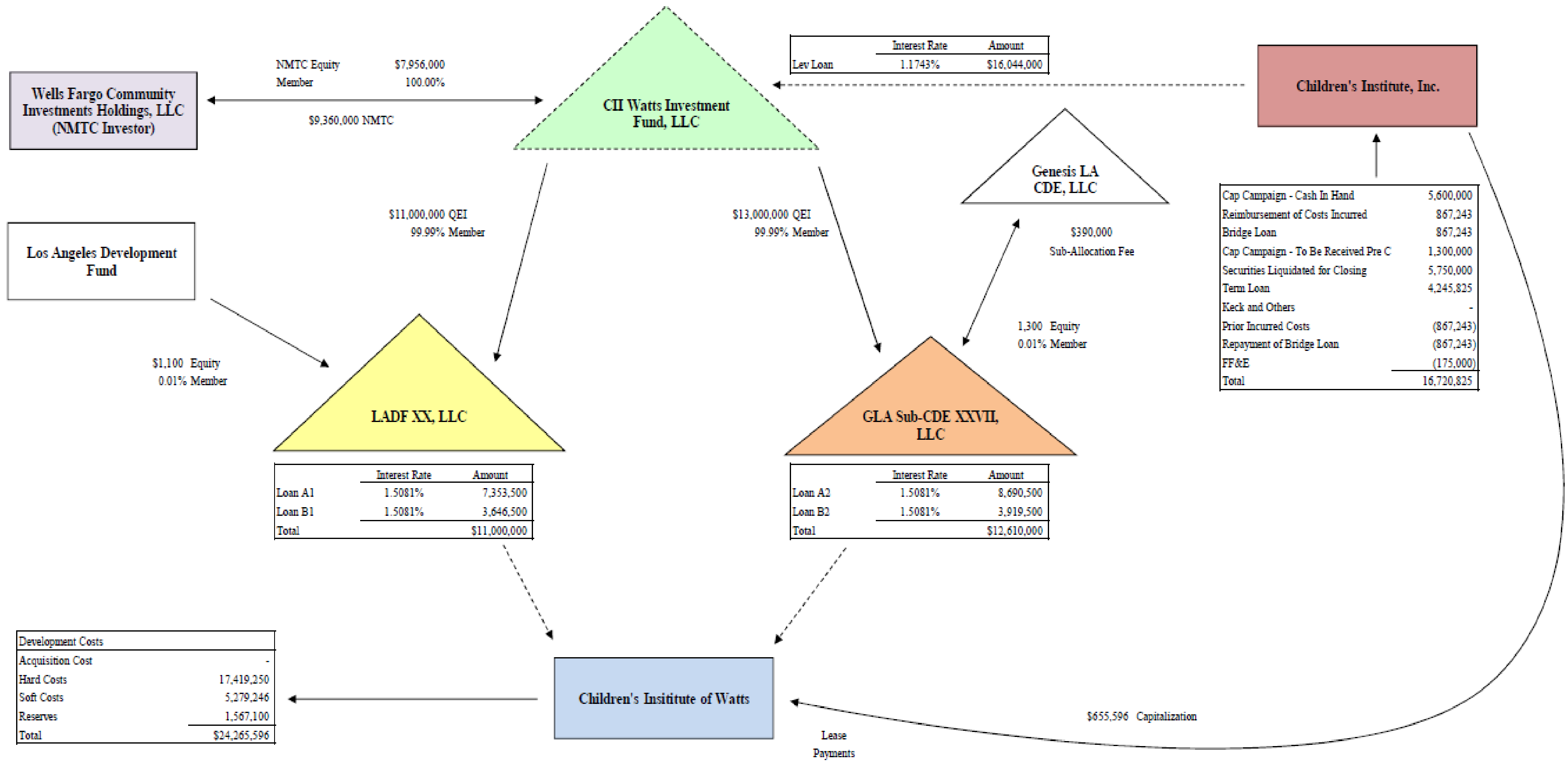
Approval of this funding request is recommended based on the project's feasibility, readiness and community benefits.

ATTACHMENTS

EXHIBIT A: Children's Institute – Watts Campus Flow of Funds (*as of October 29, 2019*, Final Projections Pending)

LADF
LOS ANGELES DEVELOPMENT FUND

EXHIBIT A: Children's Institute – Watts Campus Flow of Funds (*as of October 29, 2019*, Final Projections Pending)



	Interest Rate	Amount
Lev Loan	1.1743%	$16,044,000

Cap Campaign - Cash In Hand	5,600,000
Reimbursement of Costs Incurred	867,243
Bridge Loan	867,243
Cap Campaign - To Be Received Pre C	1,300,000
Securities Liquidated for Closing	5,750,000
Term Loan	4,245,825
Keck and Others	-
Prior Incurred Costs	(867,243)
Repayment of Bridge Loan	(867,243)
FF&E	(175,000)
Total	16,720,825

	Interest Rate	Amount
Loan A1	1.5081%	7,353,500
Loan B1	1.5081%	3,646,500
Total		$11,000,000

	Interest Rate	Amount
Loan A2	1.5081%	8,690,500
Loan B2	1.5081%	3,919,500
Total		$12,610,000

Development Costs	
Acquisition Cost	-
Hard Costs	17,419,250
Soft Costs	5,279,246
Reserves	1,567,100
Total	$24,265,596

Tab 4

MEMORANDUM

TO:	LADF Board of Directors
FROM:	Sandra Rahimi, LADF Secretary
DATE:	December 12, 2019
SUBJECT:	Increase additional Sub-Allocation of New Markets Tax Credits not to exceed $6 Million for the Heart of Los Angeles Project from the 2018 allocation.

RECOMMENDATION

That the Los Angeles Development Fund (LADF) Board of Directors authorize the President, or designee, execute documents to effectuate an additional investment of NMTC in the Heart of Los Angeles (HOLA) Project in an amount **not to exceed $6 Million and on an unsecured basis**.

SUMMARY

At the September 12, 2019 joint meeting of the Governing and Advisory Boards of the Los Angeles Development Fund an additional investment of $3 Million in NMTC was approved for the HOLA project. At that meeting the Board encouraged HOLA to notify LADF if there were additional costs.

Since that date the new GC engaged by HOLA has done additional due diligence and determined that the cost to repair defectives in the work done by the previous contractor, as well as damages from transport and weather, is approximately $5 Million in addition to the original budget. Because the new GC is taking over work already done, the new GC contract is a Time and Materials contract rather than a Guaranteed Maximum Price contract. This means that the project will remain subject to possible change orders until completion.

The Lender’s Construction Inspector has reviewed the detailed budget and determined that the cost of 20% of the work has not yet been locked in with subcontractors. Therefore, HOLA has requested that LADF approve additional NMTC financing up to $6 Million. The additional allocation will not close until the remaining 20% of possible costs have been locked in with subcontractors. This will reduce the risk of further cost overruns as well as the risk of LADF overfunding.

HOLA continues to pursue its remedies against the original contractor and the original contractor’s insurance. And proceeds derived from these cases would be deposited in a Lender controlled account to be used for purposes consistent with LADF’s mission and the goals of the NMTC program. Examples of such uses would be extra programs offered to low-income students or Title 1 schools or scholarships offered to low-income students participating in HOLA programs.

In order to reduce further delays in closing the additional allocation, and to reduce closing costs, HOLA has requested that LADF provide the second tranche of NMTC on an unsecured basis against the real property interest. The project is on land ground leased from the City Department of Recreation and Parks; therefore to record additional security against the ground lease would require City approval. LADF would still require sponsor guarantees. Additionally, LADF’s asset management fees and expenses for the entire seven-year NMTC Compliance Period associated with the total final allocation request will be reserved at closing. This reserve as well as the construction disbursement balance will be placed in accounts pledged to and controlled by LADF to provide security for the QLICI loans.

ATTACHMENTS

Letter from HOLA dated Dec 6, 2019 requesting additional allocation
Investment Memo dated September 12, 2019 for additional $3MM in allocation

HEART OF LOS ANGELES

December 3, 2019

Sandra Rahimi
Manager
Los Angeles Development Fund
1200 W. 7th Street, 8th floor
Los Angeles, CA 90017

Dear Sandy,

Thank you and LADF for your ongoing support of the Heart of Los Angeles (HOLA) Arts, Enrichment, and Recreation Center in Lafayette Park. As requested, we are providing a brief project update since we presented the project to your Boards on September 12, 2019. We are also providing a number of requests in this memo for LADF's consideration.

Update Since September 12, 2019 Meeting:

On September 12, 2019, LADF's Boards approved a new $3 million allocation for HOLA's project in Lafayette Park. Since that time, activity has happened in each of the following areas.

1. **Construction Budget:** Balfour Beatty, the general contractor (GC) that has taken over the project, has identified additional construction defects caused by the prior GC (SG Blocks) that must be corrected. This has resulted in approximately $1 million of additional cost to the project. There are approximately 10% of costs that are still being refined/bid out in the budget. HOLA is working to keep the budget as low as possible and is confident that the current budget (shown below) will not grow by more than $750,000 when all remaining costs are known. HOLA's construction consultant has met with LADF and TELACU (as the lenders in the first NMTC closing) to go through the current budget line by line.
2. **Proposed NMTC Structure:** HOLA has spoken with its counsel about NMTC structure options for this new NMTC closing and believes that it has identified a path forward that will minimize the time and cost to close. This structure involves: (1) a new, side-by-side NMTC structure with a new Fund and Sub-CDE, and the same QALICB, and (2) unsecured QLICIs in order to minimize documentation, City approvals, and other closing hurdles. The documents used in the new closing are expected to largely mirror those used in the 2017 close. HOLA has preliminarily discussed this structure with LADF and US Bank (as the NMTC investor), and parties believe that it will work.

Summary Request:

Based on the activities above, we are asking LADF to consider:

1. An up-to $6 million allocation amount to help cover budget increases. It is hoped that the actual allocation amount needed will be closer to $4 million.
2. Providing unsecured QLICIs.

Budget Snapshot:

Below is the current project budget, as compared to the budget at NMTC close in September 2017. You will see that the project cost is now ~$3.95 million higher.

Projected Budget October 2019	At Close, Sept. 2017	Projected Budget, Now	Increase/(Reduction)
Design/Build*	$ 5,108,211	$ 7,655,000	$ 2,546,789
Storm Drain	$ 338,996	$ 393,616	$ 54,620
Sitework Hard Costs	$ 3,605,346	$ 3,829,365	$ 224,019
Sitework GC Fees and Costs	$ 959,144	$ 1,576,526	$ 617,382
Misc Direct Costs	$ 120,000	$ 66,456	$ (53,544)
Soft Costs	$ 2,060,949	$ 2,474,608	$ 413,659
GC Subtotal	**$ 12,192,646**	**$ 15,995,571**	$ 3,802,925
FFE	$ 420,803	$ 500,000	$ 79,197
Owner's Contingency	$ 303,951	$ 368,473	$ 64,522
Total	**$ 12,917,400**	**$ 16,864,044**	**$ 3,946,644**

The Current Gap:

To date, HOLA has spent ~$11.2 million on the project. With a new budget of ~$16.9 million, there is still ~$5.65 million to spend and a shortfall of ~$3.5 million.

1	Budget at Close	$	12,917,400
2	Current Budget	$	16,864,044
3	*Increase (Decrease)*	*$*	*3,946,644*
4	Total Spent to Date (through Draw 11)	$	11,218,772
5	Amount of Costs Remaining (Line 2 - Line 4)	$	5,645,272
6	Unspent NMTC Loan Proceeds from 2017	$	2,123,413
7	Amount HOLA Has Paid Directly to Date	$	642,024
8	**Shortfall to Complete Project (Line 5 - Line 6)**	**$**	**3,521,859**

Completing the Project:

As shown below, HOLA has funds in its NMTC disbursement account and HOLA fundraising accounts to complete the project in 2019. ***However,*** it will not then have enough money to repay the $5.75 million capital campaign bridge loan to US Bank, which was part of the first NMTC closing. This is shown below.

Heart of Los Angeles (HOLA)		
	Now	**Notes**
Total Cost	16,864,044	
Spent to Date	(11,218,772)	
Remainder to Be Spent	5,645,272	
US Bank Account Balance - Available For Construction	2,123,413	This is the amount in the HOLA Community Partners account as of October 2019 (after the funding of Draw #11)
Additional Funds needed for Construction	**3,521,859**	
Wells Fargo Capital Campaign Account	4,000,000	This is the amount in the HOLA capital campaign account at Wells Fargo as of October 2019 (after Draw 11 reimburses HOLA for some costs incurred on behalf of the project). This account holds the collected pledges and will be used to pay down a $5.75MM loan to HOLA from US Bank. The Weingart Foundation (the guarantor on the US Bank loan) has allowed HOLA to draw upon this account in order to complete the project. Some funds have already been pulled from this account to pay for the project and interest on the US Bank loan. The Foundation expects the US Bank loan to be paid back on time.
Additional WF Capital Funds To Be Used	(3,521,859)	
	478,141	Amount left in the Wells Fargo capital campaign account after cash used to complete the project.
US Bank Loan due September 2020	(5,750,000)	
Amount of Additional Fundraising to Get to $5.75MM	**(5,271,859)**	Amount needed to complete project, plus pay off US Bank Loan in Sept. 2020 (NOTE: This does not include the interest cost for the debt. Additional fundraising of $240-300,000 is needed to pay for that.)

How HOLA Proposes to Close the $5.27 Million Gap:

In order to complete the project and close the loan repayment gap, HOLA is engaging in additional fundraising. NMTCs are a crucial part of this as well. This is shown below.

HEART OF LOS ANGELES

Attack Plan to Complete Project & Pay Off Loan by Sep. 2020		
Total Left to Fundraise	5,271,859	Amount needed to complete project, plus pay off US Bank Loan in Sept. 2020
Total Left to Fundraise, plus Interest	5,571,859	Estimate interest at $300,000
Already pledged funds	(699,000)	*Uncollected pledges as of 4/30*
HOLA Insurance	(400,000)	*$200k Mold Remediation ; $200k to put back floors. (50% likely to come in during end of construction.)*
New Fundraising	(3,702,859)	*Foundations, Individuals, Grand Opening Host Committee*
New Market Tax Credits	(770,000)	*Assume $4MM of NMTCs from LADF. Amount is net of fees and likely closing costs.*
	-	

Thank you for your ongoing support of the project and your consideration of the requests above.

Sincerely,

Tony Brown

Executive Director

LADF
LOS ANGELES DEVELOPMENT FUND

NEW MARKETS TAX CREDITS INVESTMENT REPORT

TO:	LADF Board of Directors
FROM:	Sandra Rahimi, Secretary
DATE:	September 12, 2019
SUBJECT:	Request to Approve a Second Qualified Equity Investment of **$3,000,000** New Markets Tax Credits Allocation to HOLA Community Partners ("**QALICB**") for the Heart of Los Angeles Arts, Enrichment and Recreation Center ("**Project**")

SUMMARY

Project Name:	Heart of Los Angeles Arts, Enrichment and Recreation Center ("**Project**")
Location:	Westlake Neighborhood (CD 10 – Herb J. Wesson, Jr.)
Project Description:	25,000 SF / New Construction (*Modular Build, Containers*) / Community Facility
Sponsor / Developer:	Heart of Los Angeles Youth, Inc. ("**Sponsor**", or "**HOLA**")
Ownership:	• QALICB will control *Land* through a long-term ground lease with the City of LA • Property will be sub-leased to Sponsor during operations
NMTC Investor:	U.S. Bank ("**Investor**")
Total Project Cost:	$ 18,483,000 (*Original Budget in 1st NMTC Closing in 2017: $15,122,000*)
Total Allocation / QEI: *LADF Allocation / QEI*:	$ 17,550,000 (*$ 14,550,000 NMTC Allocation invested in 2017*) • **$ 3,000,000** (*2018 Allocation, proposed investment in 2019*) • LADF XIII, LLC *(Certified Sub-Allocatee)*
Job Creation (*Direct*):	• **12** Permanent Jobs, **280** Construction Jobs • **54** Permanent Jobs Retained
Site Eligibility Criteria:	2010 Census Tract No. 06037211120 • NMTC Eligible and Targeted Distressed Community (*2018 Alloc. Agmts*)**:** • **20.3%** Poverty Rate (*greater than 20%*) – Section 3.2(h)(i) • **56.6%** AMI Households (*less than 60%*) – Section 3.2(h)(ii) • Federally designated **Promise Zone** – Section 3.2(h)(xiv)
Community Benefits:	• Increasing Sponsor's capacity by **300 youth per day** and **1,700 persons per year** • Expanding Sponsor's music programs to serve **200 additional youth per year** • Creating additional space for use by Sponsor's nonprofit partners at no cost

Key Compliance Criteria under the 2018 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: $ 1,891,500
$ 947,700 from $3mm 2018 Alloc.

LADF
LOS ANGELES DEVELOPMENT FUND

NMTC REQUEST SUMMARY

LADF invested $2.75 million of its 2015-2016 NMTC Allocation in the Project on September 14, 2017, alongside Telacu's $11.8 million NMTC Allocation for a total of $14.55 million NMTC Allocation invested. Since this time, the Project has experienced significant delays and subsequent cost overruns. These delays were mostly related to the non-performance of one of the Project's sub-contractors, SG Blocks, which was responsible for the fabrication and installation of built-to-suit storage containers used in the construction of the Project.

SG Blocks' non-performance caused physical damage to the Project in addition to delaying construction. As a result, HOLA terminated SG Blocks in December 2018, and has engaged Balfour Beatty Construction, the general contractor for the Project, to perform the work that SG Blocks was originally hired to complete. The revised budget presented in this memo reflects the increased cost estimates provided by Balfour Beatty, the cost associated with the termination of the SG Blocks contract, and additional expenses associated with the delayed construction. Construction is ongoing at the site and Balfour Beatty is already performing the additional work at the Project.

The Project's current request is for an additional $3 million NMTC Allocation from LADF to cover the cost overruns. To make this investment, LADF would use $3 million of its 2017 NMTC Allocation to make a Qualified Low Income Community Investment ("**QLICI**") using the same Subsidiary Community Development Entity ("**Sub-CDE**"), LADF XIII, LLC, which LADF used in making its $2.75 million QLICI with its 2015-2016 NMTC Allocation.

PROJECT DESCRIPTION

HOLA will use the NMTC financing to complete the new construction of the Heart of Los Angeles Arts, Enrichment and Recreation Center ("**HOLA Center**", or "**Project**"). Construction began in September 2017 and is expected to be completed in December 2019.

The HOLA Center will be 25,000 SF and built using modified shipping containers as "building blocks" to create an energy- and cost-efficient structure. These components will be blended with more traditional modular construction to create a large multi-purpose pavilion and various common areas in the building.

The HOLA Center will be operated by HOLA, a youth services non-profit, for its renowned academic, arts, music, and community engagement programs. HOLA serves youth and families located in the Rampart District of Los Angeles. This area is among the poorest and densest in the City of LA. Of the youth that HOLA serves, 97% live in poverty and 86% are Latino.

Currently, HOLA provides youth (ages 6-24) with academic, arts, music and athletic activities in four separate buildings. This project will allow HOLA to move out of one 10,000 square foot building which has less than optimal space, poor management and high rent. Moving to the new building will increase HOLA's space while reducing its rent expense by 15-20%. This will allow the organization to invest more of its funds in operations that benefit the community.

HOLA's ability to increase the number of youth and families participating in its programs means that the number of Rampart District youth that graduate high school and attend college will increase. Nearly 100% of the students who participate in HOLA's academic, arts and music programming graduate high school and go on to post-secondary education. Over 85% of HOLA's students who go to college obtain a degree. This is compared with a sub-50% high school graduation rate in this community overall. This is notable because high school graduates and those with a Bachelor's degree annually earn 150% to 280% more than high school dropouts; the poverty rate for high school dropouts is 30.8% as compared to 13.5% for those with Bachelor's degrees; and the incarceration rate is 63 times higher among high school dropouts than college graduates.

FINANCIAL FEASIBILITY

To date, HOLA has spent $9,980,000 on the project. With a new budget of $15.17 million, there is still $5,190,000 to spend. Below is a table showing the original and revised budget for the Project:

Budget Analysis	**Initial Budget (*Sept. 2017*)**	**Rev. Budget (*Jun. 2019*)**	***Increase/(Reduction)***
Hard & Soft Costs	$ 12,200,000	$ 14,300,000	*$ 2,100,000*
FF&E	$ 420,000	$ 500,000	*$ 80,000*
Owner's Contingency	$ 300,000	$ 370,000	*$ 70,000*
TOTAL	**$ 12,920,000**	**$ 15,170,000**	***$ 2,250,000***

Below is a table showing the sources and uses for the second NMTC investment in the Project:

SOURCES		**USES**	
2nd QEI Sources		**Construction Uses**	
Leverage Loan (*Sponsor Equity*):	2,052,300	Hard & Soft Costs:	14,300,000
NMTC Equity	947,700	FF&E:	500,000
Sub-Total	$3,000,000	Owner's Contingency:	370,000
		Sub-Total	$15,170,000
1st QEI Sources			
Pre-Incurred Hard & Soft Costs:	9,980,000	**Financing-Related Uses**	
Pre-Incurred NMTC Costs:	2,055,000	Pre-Incurred NMTC Costs (1st QEI):	2,055,000
QLICI Funds Available:	3,087,000	NMTC Reserve Bal. from 1st QEI:	600,000
Sub-Total	$15,122,000	NMTC Add'l Fee Reserve for 1st QEI:	41,250
		NMTC Closing Costs (2nd QEI):	
Direct (Non-NMTC) Sources		- Legal/Accounting/Consulting Fees	200,000
Sponsor Equity (*cash on hand*):	361,000	- **LADF** CDE Placement Fee	60,000
Sub-Total	$361,000	*NMTC Reserves (2nd QEI):*	
		- **LADF** Asset Mgmt. Fee Reserve	157,500
		- **LADF** Expense Reserve	20,000
		- **Telacu** Asset Mgmt. Fee Reserve	141,600
		- **Telacu** Expense Reserve	26,000
		- Fund Management Fee Reserve	11,650
		Sub-Total	$3,313,000
Total Project Sources	**$ 18,483,000**	**Total Project Uses**	**$ 18,483,000**

REVISED PROJECT TIMELINE

The following list represents the milestone items and the updated project's completion and expected completion dates (*as of August 2019*):

- September 14, 2017: **NMTC Transaction Close (*1st Closing – $14.55 million NMTC Allocation*)**
- September 2017: Construction Commencement
- November 2019: **NMTC Transaction Close (*2nd Closing – $3 million NMTC Allocation*)**
- December 2019: Expected Construction Completion

NMTC ELIGIBILITY AND COMPLIANCE

The subject site is located in the 2010 Census Tract 06037211120. The population within the Census tract is 5,139 individuals per the 2011-2015 American Community Survey. 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 both qualifying measures:

- Poverty Rate of **20.3%** (*greater than <u>20%</u>*)
- Median Family Income of **56.6%** of the greater Metro area (*less than <u>80%</u>*)

Further, the site also qualifies under Section 3.2(h) of LADF's 2018 Allocation Agreement as a Targeted Distressed Community based on the two qualifying measures listed:

- Median Family Income of **56.6%** of the greater Metro area (*less than <u>60%</u>*)
- Located in a Federally designated **Promise Zone**

<u>LADF 2018 Allocation Agreements Compliance</u>

This transaction will use $3.0 million in allocation from LADF's 2018 Allocation award from the CDFI Fund. With the closing of this transaction, the 2018 Allocation award will be 8.6% invested.

The LADF has determined that the transaction complies with the authorized uses of its NMTC allocation under Section 3.2 of its 2018 Allocation Agreement, evident through the following characteristics of the transaction:

- §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 XIII, LLC will be a listed Subsidiary Allocatee in an Amendment to the Allocation Agreement
- §3.2(d) – QALICB is controlled 100% by persons unrelated to LADF
- §3.2(e) – LADF must issue $18 in additional QEIs to meet the 60% threshold by Dec. 31, 2021
- §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*), and Section 3.2(l) (*Innovative Investments*) are marked "Not Applicable" in LADF's 2018 Allocation Agreement. Although Section 3.2(k) (*Affordable Housing*) is applicable to LADF's 2018 Allocation Agreement, this Project does not apply since it does not include any housing.

As the transaction relates to Section 3.2(f) (*Flexible Products*) of the 2018 Allocation Agreement, 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 will bear interest rates in line with its notes in the first NMTC closing, or 1.41%, and satisfy part (b) of this paragraph. To support the compliance with this provision, LADF references a market rate lending terms letter provided by Berkadia Commercial Mortgage LLC, which was ordered to support the flexible terms of LADF QLICI notes in another transaction closed on April 10, 2017 (*Orthopaedic Institute for Children*). This letter states that the market interest rate for the transaction (*which is similar in project type as the subject HOLA Center transaction*) is between 5.5% to 6.0%.

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

The equity generated through the NMTC structure will provide an estimated $290,000 in subsidy (*net of NMTC closing costs, placement fees, management fees, and on-going expenses*) to the project, approximately 9.7% of the $3 million Qualified Equity Investment ("**QEI**") in the transaction. Combined with the approximate $3 million in net subsidy (*from both LADF's and NMCC's QEIs*) from the first NMTC closing, NMTC subsidies from both closings will cover and 21.9% of the $15.2 million of total construction costs (*excluding financing costs*). The LADF Sub-CDE's total net subsidy, including the subsidy generated from its first QEI of $2.75 million in 2017, is approximately $1.0 million.

NMTCs are a crucial part in completing the construction of the HOLA Arts, Enrichment, and Recreation Center. Without NMTCs, HOLA will have to cut into its programming dollars to complete the project and pay its debt. This will negatively impact the students served, especially in the early years of operation for the Project.

LOAN REPAYMENT ANALYSIS/EXIT STRATEGY

At the end of the seven-year NMTC compliance period of this second NMTC closing, the LADF's Sub-CDE will distribute the QLICI notes from its first and second NMTC closings to the investment fund. LADF's and Telacu's Sub-CDEs will keep their QLICI notes from the first NMTC closing invested in the project until the seven-year NMTC compliance period ends for LADF's second NMTC allocation investment. Additionally, the QLICI B Notes from both closings, which are 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 was entered into by the Sponsor and US Bank (*as the Investor*) in the first NMTC closing on September 14, 2017. US Bank can exercise its put option and sell its respective interest in the Fund to the Sponsor for $1,000. If US Bank chooses not to exercise its put option, the Sponsor can 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 first NMTC transaction and this proposed NMTC transaction.

[1] Flexible or non-traditional rates and terms listed in Section 3.2(f) include: (i) Below market interest rates; (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.

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LADF FEE LOAD AND RESERVES

The LADF will receive the following fees from the transaction:

- Placement Fee – 2% of QEI (equates to $60,000). LADF will receive fee in lump sum at closing.
- CDE Servicing & Compliance Fee – 0.75% of QEI per year for $3.0 million of 2018 Allocation
    - This equates to $157,500 (quarterly installments of $5,625 paid out of QLICI interest received for 7 years)
- CDE Expense Reimbursements – estimated at $10,000 annually per CDE for 8 years. Since this reserve was already established in the first NMTC closing in 2017, the second NMTC closing will only have to add 2 additional years of reserve, or $20,000. 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.

Additionally, the two extra years of asset management for LADF's $2.75 million NMTC Allocation will require two additional years of payments for CDE Servicing & Compliance Fees on that allocation. This equates to $41,250 (or $20,625 per year). Below is a table describing the total fees and expenses related to the first and second NMTC closings:

	Allocation Amount	**CDE Serv. & Comp. Fees**		**Expense Reimbursements**	
		1st Closing	**2nd Closing**	**1st Closing**	**2nd Closing**
2015-16 Alloc.:	$ 2,750,000	$ 144,375	$ 41,250 (*add'l*)	$ 80,000 (*8 yrs*)	N/A
2018 Alloc.:	$ 3,000,000	N/A	$ 157,500	N/A	$ 20,000 (*2 yrs*)
	$ 5,750,000		**$ 198,750**		**$ 20,000**

All of LADF's CDE Servicing and Compliance Fees and estimated CDE Expense Reimbursements for the entire Compliance Period, which total $218,750, will be placed in LADF's separate, controlled reserve account (*which includes LADF's reserve from the first NMTC closing*) at close of the second NMTC transaction.

POLICY EXCEPTIONS

None.

RECOMMENDATION

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