

## TRANSMITTAL

TO Council	DATE 08-04-17	COUNCIL FILE NO.
FROM Municipal Facilities Committee		COUNCIL DISTRICT 14

At its meeting of July 27, 2017, the Municipal Facilities Committee (MFC) adopted the recommendations of the attached General Services Department (GSD) report, which is hereby transmitted for Council consideration. Adoption of the report recommendations would authorize GSD to negotiate and execute a second amendment to lease with LTSC Community Development Corporation, a California nonprofit public benefit corporation. The lease amendment is for a real property lease contract (contract number C-118897) in order to facilitate the New Markets Tax Credits closing at 237-249 South Los Angeles Street, Los Angeles, California 90012.

There is no additional impact on the General Fund as a result of the recommended actions.



Richard H. Llewellyn, Jr.  
Interim City Administrative Officer  
Chair, Municipal Facilities Committee

TONY M. ROYSTER  
GENERAL MANAGER  
AND  
CITY PURCHASING AGENT



ERIC GARCETTI  
MAYOR

DEPARTMENT OF  
GENERAL SERVICES  
ROOM 701  
CITY HALL SOUTH  
111 EAST FIRST STREET  
LOS ANGELES, CA 90012  
(213) 928-9555  
FAX No. (213) 928-9515

July 27, 2017

Honorable City Council  
City of Los Angeles  
c/o City Clerk  
Room 395, City Hall  
Los Angeles, CA 90012

Attention: Eric Villanueva, Legislative Assistant

**REQUEST FOR AUTHORIZATION TO NEGOTIATE AND EXECUTE A  
SECOND AMENDMENT TO LEASE WITH LTSC COMMUNITY DEVELOPMENT  
CORPORATION, A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION**

The Department of General Services (GSD) requests authority to negotiate and execute a second lease amendment to real property lease contract (contract number C-118897) in order to facilitate the New Markets Tax Credits closing at 237-249 South Los Angeles Street, Los Angeles, CA 90013.

**BACKGROUND**

The existing real property lease dated June 3, 2011 ('Lease') is between the City of Los Angeles and LTSC Community Development Corporation, a California Nonprofit Corporation ('LTSC'). This Lease allows the premises to be used for the creation of a recreation center and gymnasium, and recognizes that the recreation center will provide significant benefit to the public.

In order to construct the facility, LTSC has undergone a multi-year capital campaign from many public and private sources. In 2010, LTSC was awarded \$250,000 in City of Los Angeles Proposition K funds for the Little Tokyo Recreation Center, Grant Agreement No. C-117491, and in 2016, LTSC was awarded \$1,300,000 in Proposition K funds for Budokan of Los Angeles, Grant Agreement No. C-127723. The final source anticipated will be to use the federal New Markets Tax Credit ('NMTC') program. This is a tax credit program that promotes investment in businesses and public facilities

located in low-income communities that helps to provide services or jobs to low-income households. A new nonprofit entity will be created for the purpose of receiving the New Markets Tax Credits.

Accordingly, for the proposed second amendment, the changes to the lease would be to facilitate the New Markets Tax Credit closing. These include, but are not limited to, authority for LTSC to sub-lease the entire leased premises to the newly formed nonprofit entity; permit a leasehold security interest; authority for the nonprofit entity to also sub-lease the entire project back to LTSC to operate the project; and other lease amendments as required by NMTC restrictions.

Please note LTSC requires City Council approval and signature on documents by September 15, 2017 or New Market Tax Credits will be jeopardized.

#### LEASE AMENDMENT PROPOSAL

The proposed lease amendment will contain the following:

#### TERMS AND CONDITIONS

**LOCATION:** Property located on the west side of Los Angeles Street, south of Second Street in Los Angeles, California, APNs 5161-026-904, -905, -906, and -910, which totals 39,149 square feet

**LESSEE:** LTSC Community Development Corporation

**USE:** Recreation Center and Gymnasium

The New Markets Tax Credits investor and lending agencies for the Budokan project will require certain amendments to the existing Lease between the City of Los Angeles and LTSC. Below is a description of changes that will need to be made to the Lease to accommodate the NMTC financing for this project.

**1. Sub-Lease of the Lease** – the NMTC investor for this project will require that a special purpose entity be created to own and construct the Budokan project and be the borrower of the NMTC construction loans. There will be board members or employees of LTSC participating on the board of this nonprofit entity. The entire property will need to be sub-leased to this nonprofit entity prior to or at the time of the NMTC loan closing.

**2. Permitting a Leasehold Security Interest and Public Agency Use Restrictions** - the lending agencies making the NMTC loan to the new nonprofit entity will require a security interest to be recorded on the new nonprofit's sub-leasehold interest in the property. The fee-title interest held by the City would remain with the City and would not itself be encumbered by the NMTC financed loan. The lending agencies would record a deed of trust encumbering the new nonprofit's sub-leasehold interest held in the property. The City and LTSC may record a Memorandum of Unrecorded Grant Agreement for Prop A with Los Angeles County and may record a Memorandum of Unrecorded Grant Contract for Prop 84 with the State of California.

**3. Sub-Lease back to LTSC** – As part of the NMTC transaction, the new nonprofit entity will lease the entire property back to LTSC to operate the Budokan project. LTSC will be the sole tenant of the nonprofit entity.


**4. Subordination Non-Disturbance (SNDA) provisions** – As part of the NMTC financing, the lending agencies will require that the Lease contain standard SNDA language to ensure that the ground lease remains in place. Essentially, if the lenders would ever have to foreclose on the sub-lease interest held by the new nonprofit entity, they would have against the property (see 2 above), they would want to make sure that the City agree to not disturb the Lease to LTSC or the sub-lease to the new nonprofit, if the new nonprofit is not in default on the sub-lease.

#### FISCAL IMPACT

There is no impact to the General Fund.

#### RECOMMENDATION

That the Los Angeles City Council authorize the Department of General Services to negotiate and execute a second amendment to the lease with LTSC Community Development Corporation for the City-owned property located at 237-249 South Los Angeles Street in order to facilitate the New Market Tax Credit closing.



Tony M. Royster  
General Manager