


TRANSMITTAL

TO Council	DATE 01-05-18	COUNCIL FILE NO.
FROM Municipal Facilities Committee		COUNCIL DISTRICT 14

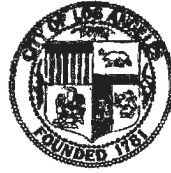
At its Special meeting held on December 21, 2017, the Municipal Facilities Committee adopted the recommendations of the attached General Services Department (GSD) report, which is hereby transmitted for Council consideration. Adoption of the report recommendations would authorize GSD to amend termination rights in the real property lease contract. The second amendment to the lease with LTSC Community Development Corporation along with the accompanying Notice and Cure Rights agreement are required as a condition of receiving the allocation of New Market Tax Credits that are required to fully fund and move forward with the construction of the new facility. There is no impact to the General Fund as a result of the recommended actions.



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

CITY OF LOS ANGELES
CALIFORNIA

TONY M. ROYSTER
GENERAL MANAGER
AND
CITY PURCHASING AGENT



ERIC GARCETTI
MAYOR

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December 21, 2017

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

Attention: John White, Legislative Assistant

**REQUEST FOR AUTHORIZATION TO AMEND TERMS IN THE
2ND AMENDMENT LEASE FOR LITTLE TOKYO SERVICE
CENTER, A CALIFORNIA NONPROFIT CORPORATION AND
EXECUTE A NOTICE OF CURE RIGHTS AGREEMENT**

The Department of General Services (GSD) requests authority to amend the termination rights in the lease contract C-118897 as an additional provision to the execution of a 2nd amendment in order to facilitate the New Market Tax Credits closing at 237-249 South Los Angeles Street, Los Angeles, California 90013. GSD also requests authority to execute a separate Notice of Cure and Rights Agreement in conjunction with the lease amendment.

BACKGROUND

The City of Los Angeles (City) has an existing real property lease dated June 3, 2011 between the City and the Little Tokyo Service Center (LTSC) Community Development Corporation, a California Nonprofit Corporation. The lease allows the premises to be used for the creation of a recreation center and gymnasium that will provide a 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 the City of Los Angeles Proposition K funds for the 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.

On August 29, 2017, City Council approved amending the lease to facilitate the NMTC closing with four separate provisions as outlined in the attached report to the Municipal Facilities Committee dated July 27, 2017. During the lease amendment drafting process, the LTSC has requested one additional amendment to the original lease that requires Council approval. LTSC is also requesting that the City sign a Notice of Cure and Rights Agreement.

The Council Office supports these changes and state that both the NMTC investor and the lending agencies for the Budokan project require both the termination rights amendment and Notice of Cure agreement or they will not proceed with the financing of the project.

The LTSC requires City Council approval and City execution of documents by January 12, 2018 or the NMTC will be jeopardized.

LEASE AMENDMENT

Amend the City's Ground Lease Termination Rights -- a modification to the City's termination rights during the first seven year period of the 30 year loan pursuant to the Ground Lease so that City could terminate the Ground Lease only after the NMTC lenders unreasonably rejects a replacement operator if the NMTC lender needs to replace LTSC and LTSC's affiliate in the Budokan NMTC transaction. This would help protect the collateral interest the NMTC lender would have against the sub-ground lease hold interest holder -- which will be the LTSC's affiliate formed for purposes of the NMTC transaction.

After seven years, the ground lease termination rights would revert to the lease's original language as the loan requirements from the lender would end.

NOTICE OF CURE RIGHTS AGREEMENT

The State Department of Parks and Recreation (DPR), in connection with the Proposition 84 grant to the Budokan project, has requested that the City be provided with a means to ensure that the Budokan project remain a nonprofit operated recreational facility open to the public. The LTSC, the DPR, and the NMTC lender partners have collectively proposed a solution where the City is provided Notice and Cure Rights to help protect the Budokan project if a default occurs under the NMTC loan documents.

To facilitate this, the City would approve and execute a Notice of Cure Rights Agreement as a separate document in conjunction with this 2nd amendment to the lease. In the event NMTC lenders would need to foreclose on the property, the City would be provided a 60 day notice to give the City an opportunity to cure any defaults and prevent a foreclosure action by the NMTC lenders against the City's sub-ground leasehold interest. This would provide assurances to DPR that the City could help prevent a default under the NMTC loan documents, which could lead to a foreclosure action by the NMTC lenders against the sub-ground leasehold interest. Both items have been reviewed by the City's Prop K Attorney.

FISCAL IMPACT

There is no impact to the General Fund.

RECOMMENDATION

That the Los Angeles City Council:

1. Authorize the Department of General Services to amend the termination rights currently provided in the real property lease contract as an additional provision to the execution of 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.
2. Authorize the Department of General Services to execute any collateral documents that are necessary to facilitate the New Market Tax Credit financing for this Project, including but not limited to the Notice and Cure Rights Agreement, subject to review and approval by the City Attorney.


for Tony M. Royster
General Manager

TONY M. ROYSTER
GENERAL MANAGER
AND
CITY PURCHASING AGENT

CITY OF LOS ANGELES
CALIFORNIA



ERIC GARCETTI
MAYOR

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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 5181-026-904, -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