At its meeting held July 26, 2012, the L.A. for Kids Steering Committee adopted the recommendations of the attached report, which is hereby transmitted for Council consideration. The Westside Children's Center received a first cycle Proposition K competitive award of $900,000 to construct a childcare facility. As a condition of the Proposition K grant agreement, the agency is required to complete a 15 year service payback period and execute a Promissory Note secured by a Deed of Trust and an Option to Lease. The agency has complied with these terms and has currently completed ten of the requisite service years.

The agency has requested that the City approve subordination of the City's lien against the property in order to refinance a line of credit that would result in lower monthly payments. Once the loan is repaid, the City's secured interest in the property would move up to first position. Approval of the attached report recommendations would enable the City Engineer to negotiate and execute the necessary subordination agreement and related documents. There is no impact on the General Fund as a result of the recommended actions.

Miguel A. Santana, City Administrative Officer
Chair, L.A. for Kids Steering Committee
DATE: July 26, 2012

TO: Proposition K – L.A. for Kids Steering Committee

FROM: Neil Drucker, Program Manager
        Proposition K, L.A. for Kids Program
        Bureau of Engineering

SUBJECT: WESTSIDE CHILDREN’S CENTER – REQUEST FOR SUBORDINATION OF THE CITY’S DEED OF TRUST

RECOMMENDATION

The Bureau of Engineering (BOE) recommends that the Proposition K – L.A. for Kids Steering Committee recommend that City Council:

1. Approve Westside Children's Center's (Grantee) request for subordination of the City’s Deed of Trust, recorded on September 24, 1999, as Instrument Number 99-1828895.

2. Authorize the City Engineer to negotiate and execute a Subordination Agreement and related document(s) to effectuate the above request.

DISCUSSION/BACKGROUND

The Westside Children's Center submitted a proposal for Proposition K competitive funding in the First Competitive Funding Cycle (1997-1999) and was awarded $900,000 for the design and construction of a 6,500 square foot building to be used to house a child care center with classrooms, restrooms, outdoor play area, a parent center, family conference rooms, a staff room and a kitchen. The project is located at 12120 Wagner Street, Culver City, CA 90230. Although the mailing address indicates "Culver City," the child care center is located at 12120 Wagner Street, which is within the boundaries of the City of Los Angeles. Additionally, the Grantee has provided data confirming that an average of 50% or more of the families served at the child care center live within the boundaries of the City of Los Angeles.
The City and Westside Children's Center entered into Proposition K Grant Agreement No. C-96487, attested on June 22, 1999, which was amended by Amendment No. 1 attested on June 29, 2001, and was modified by Supplemental Agreement No. 1 attested on September 11, 2002, for design and construction, and the operation and maintenance of the child care center. Construction of the child care center was completed in 2002 and Westside Children's Center entered into the service payback period of the Grant Agreement beginning on January 30, 2002. Section 213 of the Grant Agreement provides that the service payback period is for 15 years, amortized at an equivalent service value of $60,000 per year ($900,000 ÷ 15 Years = $60,000). Service payback has been continuous since 2002 and the Grantee has less than five years of service remaining to complete its service obligations under the Grant Agreement.

The Westside Children's Center currently has a line of credit (LOC) with Comerica Bank on the property where the Proposition K project is located. The LOC is for $1.25 million, of which Westside Children's Center has used $745,000. Westside Children's Center has been offered superior terms by Wedbush Bank. The current monthly payment on the credit line with Comerica Bank is $2,566. However, with the more favorable credit terms offered by Wedbush Bank, the monthly payments would be reduced to $2,382. Given the better terms, Westside Children's Center would like to pay off the LOC from Comerica Bank and establish a new LOC with Wedbush Bank.

In order to ensure that the Grantee provides the services for the requisite 15 years, concurrent with executing the Grant Agreement, the Grantee also executed a Promissory Note secured by a Deed of Trust and an Option to Lease. The City is currently in second position to the deed of trust that supports the LOC with Comerica Bank. When the current LOC with Comerica is paid off and a new LOC with Wedbush Bank is established, the City will automatically move up to first position. However, Wedbush Bank, the new lender, is requiring that its deed of trust securing its LOC be in first position. Thus, the Grantee is requesting that the City subordinate its secured interest would be in second position to that of Wedbush Bank, just as the City is currently in second position on the Comerica Bank LOC. Wedbush is also requiring subordination of the City's leasehold interest in the property (Option to Lease).

Westside Children's Center will not be taking out any cash from the new LOC with Wedbush Bank at this time. There are no other outstanding loans on the property. The appraisal prepared for the Wedbush Bank LOC transaction shows that the property currently appraises for $4.8 million. See attached excerpts from that appraisal.

Subsection A of Section 216 – Grantee Mortgages, Sales or Transfers of Property, of the Grant Agreement provides that the Grantee may not "... encumber or increase the mortgage, liens, or other encumbrances against the property such that the equity in the property will be less than the Proposition K Grant amount." The subject property appraised value is $4,800,000, the proposed Wedbush LOC is for $1,250,000, which
leaves $3,550,000 equity in the property, which is greater than the Proposition K grant amount of $900,000.

The Bureau of Engineering recommends that the Proposition K – L.A. for Kids Steering Committee recommend to the City Council that it approve Westside Children's Center's subordination request and authorize the City Engineer to negotiate and execute a Subordination Agreement and the related Subordination Agreement – Lease to effectuate the request.

Attachments

1. Letter dated June 15, 2012, from Westside Children's Center requesting subordination (1 page)
2. Excerpts from Appraisal Report for the property located at 12120 Wagner Street (6 pages)
Dear Sir,

Re: Subordination by the City of lien/charge of its beneficiary Deed of trust.

I write to you to submit our request to L.A. for Kids Steering Committee for its consideration and approval, the subordination of City's lien/charge of its beneficiary deed of trust recorded on September 24, 1999 as instrument number 99-1828895.

The deed of trust relates to the original note in the amount of $900,000 on property located at 12120 Wagner Street, Culver City, CA 90230. The facility is utilized wholly to serve underserved children under State and Federal contracts.

The note is set to be forgiven over 15 years provided Westside Children's Center continues to provide its current services. 10 years of the term have expired with 5 more remaining. Currently the note is subordinated to our existing financial institution Comerica Bank. We have been offered superior terms by Wedbush Bank and our Board has approved the move of the existing $1.25 million credit facility from Comerica Bank to Wedbush Bank.

We therefore attach the following documents for your consideration:

1. Subordination agreement from Wedbush Bank
2. Draft Promissory Note and
3. Current appraisal of the property located at 12120 Wagner Street, Culver City, CA 90230.

We request the committee to favorably review the request. Please let us know, if we can provide any clarifications.

Sincerely,

Rahul Bahri
Director of Finance

WESTSIDE CHILDREN'S CENTER

June 15, 2012

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Serving children and families — Early involvement, lifelong success
5721 W. Slauson Avenue, Suite 150, Culver City, California 90230 TEL: 310.826.4100 FAX: 310.826.4112 www.westsidechildren.org
APPRaisal REPORT
Effectively Vacant Land
Currently Improved with a
Non-Profit School Facility
Westside Children's Center
12120 Wagner Street
Los Angeles, California 90230

File Number: 8334-11
May 24, 2012

WEDBUSH Bank
c/o Mr. Mark Taylor
1000 Wilshire Boulevard, Suite 1150
Los Angeles, CA 90017

RE: Summary Appraisal Report
Effectively Vacant Land Currently improved with a Non-Profit School Facility
Westside Children's Center
12120 Wagner Street
Los Angeles, California 90230
File No. 8334-11

Dear Mr. Taylor:

Per your request, we have appraised the above referenced property. Our appraisal is intended to conform with the Uniform Standards of Professional Appraisal Practice (USPAP) and with the requirements set forth in Title XI of the Federal Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA).

Our analyses and conclusions are contained in this Summary appraisal report which is intended to comply with the reporting requirements set forth under USPAP Standards Rule 2-2(b). This transmittal letter is an integral part of the appraisal report and may only be used in conjunction with the entire report.

In conformance with the Scope of Work rule of USPAP, the sections below describe the Scope of Work for this assignment.

Client - The client for this assignment is WEDBUSH Bank. c/o Mr. Mark Taylor.

Intended User - The intended user of this report is exclusively the Client stated above. There are no other authorized users of this report.

Intended Use - The intended use of this assignment is to assist with loan underwriting purposes.
Purpose of This Assignment - The purpose of this assignment is to develop an opinion of the “As is” Market Value of the Fee Simple Estate in the subject property. Please see Definitions Section in the Addenda for definition of relevant terms.

Effective Date of Value - The effective date of value for this assignment is April 9, 2012, based on the last date that we inspected the subject property.

Relevant Characteristics of the Subject Property - The subject property is located at 12120 Wagner Street in the Del Rey area of the City of Los Angeles, in Los Angeles County, California. The property is commonly known as the “Westside Children’s Center” -- early care and education center.

The subject property consists of a 2001-built, single story, private school facility with a total gross building area of 14,130 square feet. The improvements are situated on an irregular shaped, interior, R1-1 zoned site totaling 2.632± net acres, or 114,649± sf. The school facility includes nine classrooms, a multi-purpose room, kitchen, administrative offices, outdoor playground areas, garden area, and asphalt paved parking areas. The subject property features a low site coverage ratio of 12% which includes a portion of undeveloped excess land located at the southwestern section of the site.

As of the date of our on-site property inspection, the subject was 100% owner/occupied by Westside Children’s Center which operates an early care and education center. The subject’s current use as a day care facility is permitted based on a zone variance dated December 21, 1999. In addition, the appraiser was provided with documentation from the State of California Department of Social Services verifying that the subject property is licensed to operate as a day care center.

We note that the existing improvements do not represent the Highest and Best Use of the property, as the site is worth more vacant than as improved. Our valuation analysis therefore considers the property as an effectively vacant site that is available for development to its Highest and Best Use. For the purposes of this analysis, the subject is considered to be an effectively vacant land site. In addition to presenting the market value of the subject property based on highest and best use, we have also included an analysis of the subject’s value based on the current use which is a school facility with excess land area.

The subject has approximately 32,500 sf of excess land located at the southwestern portion of the subject site. Discussions with the property manager indicated that there was no construction completed on the southwestern portion of the site due to budgetary reasons in 2001. However, the owner has future plans to expand the school facility on this portion of the subject site.
Conditions of the Assignment - This assignment is subject to the following Special Limiting Condition:

Special Limiting Condition #1: Substantial volatility in the capital markets has increased uncertainty in the real property marketplace. It is difficult to predict what may happen in the capital markets going forward. As a result, it is difficult to predict what may happen to real property values over time. Our valuation of the subject property considered the best information that was available at the time of our analysis. Due to ongoing volatility in the marketplace, users of this appraisal should consider the current market uncertainty when determining the level of confidence they choose to place on these analyses and conclusions. Users are reminded that the appraisal conclusions in this report are effective as of the stated date of valuation.

Otherwise, there are no other Special Limiting Conditions, Assumptions, Extraordinary Assumptions, or Hypothetical Conditions.

Our analysis of the subject property included an on-site inspection of the subject property, research of general data relating to the subject locale, research of improved sales and recent rentals in the subject district, as well as research of other market-related influences affecting the subject property. These influences include achievable rent levels, absorption rates, marketing times and current development trends. In our analysis, we gave consideration to the applicability of each of the traditional approaches to value, including the Cost, Sales Comparison and Income approaches. The methodology and data utilized in our valuation of the subject property are detailed in the Valuation Section of this appraisal report.

Significant Valuation Issues

The subject property's nature as a school facility is considered a specialized use. Generally, the demand for school facilities is generated by owner-users. Investors typically do not seek these property types. As such, comparable income information is scarce. Thus, in our analysis, we have not performed an Income Approach as it is not a method utilized by buyers and sellers of the subject property type. Furthermore, the subject is considered a legal, non-conforming use due to the fact that the underlying zoning is restricted to single family residential use. Due to the fact that the subject is considered a legal, non-conforming use of the underlying land, a Cost Approach was also not utilized in our analysis of the subject property. Also, as noted previously, the subject improvements are considered to be an underutilization of the subject site and we have valued the subject as an effectively vacant land site.
As a result of our investigation and analysis, it is our opinion that the “As Is” Market Value (as defined herein) of the Fee Simple Estate in the subject property as of the date of valuation, April 9, 2012, is:

FOUR MILLION EIGHT HUNDRED FIFTY THOUSAND DOLLARS

$4,850,000

Our analyses and conclusions are based on the Scope of Work described above and the General Assumptions and Limiting Conditions that are made a part of this appraisal report. Special attention should be given to Special Limiting Conditions #1.

Thank you for the opportunity to have been of service to your company. If you should require any further assistance or should you have any questions regarding the material discussed in this report, please do not hesitate to call.

Sincerely,
CURTIS-ROENTHAL, INC.

Roy J. Kim, CGREA
CA #AG036275

Thomas E. Curtis, CGREA
CA #AG015747

David M. Rosenthal, MAI, FRICS
CA #AG001641

CURTIS-ROENTHAL INC.
REAL ESTATE APPRAISAL & CONSULTING
**EXECUTIVE SUMMARY**

**PROPERTY IDENTIFICATION:**
Westside Children’s Center  
12120 Wagner Street  
Los Angeles, CA 90230

**FILE NUMBER:**
6334-11

**INTENDED USER:**
WEDBUSH Bank  
Mark Taylor

**LEGAL DESCRIPTION:**
Refer to Legal Description Report Heading

**THOMAS BROTHERS MAP GUIDE:**
872-E3

**CENSUS TRACT:**
270510

**ASSESSOR PARCEL NUMBER:**
4221-002-104

**PROPERTY TYPE:**
Land  
Effectively Vacant and Currently Improved with a Non-Profit School Facility

**LAND AREA:**
2.632 Acres  
114,649 Square Feet

**BUILDING AREA:**
14,130

**ZONING:**
R1-1 (One Family Dwelling Zone)

**HIGHEST AND BEST USE:**
As Improved  
Future Single Family Residential Development Existing Use "As Is"

**CRITICAL DATES:**
Date of Inspection  
April 9, 2012  
Date of Value  
April 9, 2012

**INTEREST APPRAISED:**
Fee Simple Estates  
Market Value "As Is"

**EXTRAORDINARY ASSUMPTION(S):**
None

**HYPOTHETICAL CONDITION(S):**
None

**SPECIAL LIMITING CONDITION(S):**
See Scope of Work

### OPINION OF VALUE CONCLUSIONS

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<th>VALUE CONCLUSION - School Improvements &amp; Excess Land</th>
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