From: **Joyce Dillard** <dillardjoyce@yahoo.com>
Date: Wed, Sep 4, 2013 at 9:54 AM
Subject: Comments to Agenda No. 26-CF 13-1135-La Kretz Innovation Campus-LADWP-New Markets Tax Credit
To: Alan Alietti <alan.alietti@lacity.org>, Patrice Lattimore <patrice.lattimore@lacity.org>, The Honorable Tom LaBonge <councilmember.labonge@lacity.org>, "The Honorable Bernard C. Parks" <councilmember.parks@lacity.org>, "The Honorable Herb J. Wesson Jr." <councilmember.wesson@lacity.org>, The Honorable Jose Huizar <councilmember.huizar@lacity.org>, The Honorable Paul Koretz <Paul.Koretz@lacity.org>, The Honorable Paul Krekorian <Councilmember.Krekorian@lacity.org>, "The Honorable Gilbert A. Cedillo" <councilmember.cedillo@lacity.org>, The Honorable Bob Blumenfield <councilmember.blumenfield@lacity.org>, The Honorable Felipe Fuentes <councilmember.fuentes@lacity.org>, "The Honorable Curren D. Price Jr." <councilmember.price@lacity.org>, The Honorable Mike Bonin <councilmember.bonin@lacity.org>, The Honorable Mitch O'Farrell <councilmember.ofarrell@lacity.org>, The Honorable Nury Martinez <councilmember.martinez@lacity.org>, The Honorable Mitchell Englander <councilmember.englander@lacity.org>, The Honorable Joe Buscaino <councilmember.buscaino@lacity.org>, Michael Feuer <alma.zavaleta@lacity.org>
Cc: Fred Pickel <fred.pickel@lacity.org>

Deny approval of the Categorical Exemption for the leasing of:

1. 525 South Hewitt Street owned by LA City not LADWP
2. 537 South Hewitt Street owned by LA City not LADWP
3. 516 Colyton Street owned by LA City not LADWP
4. 542 Colyton Street owned by LA City not LADWP

Deny the concurrence of Board of Water and Power Commissioner's action of August 27, 2013 by Resolution No. 014042.

You need to review the illegalities of this transaction, erroneous and misleading disclosure, and liability to the CITIZENS of CITY OF LOS ANGELES if approved.

There is a Conflict of Interest as the City of Los Angeles through its employees from the Chief Administrative Officer, Chief Legislative Analyst, Department of Housing and Community Investment as the Board of Directors for the Los Angeles Development Fund has approved an allocation of New Markets Tax Credit NMTC for the project LA KRETZ INNOVATION CAMPUS PROJECT.

Chief Administrative Officer, Chief Legislative Analyst, Department of Housing and Community Investment also serve as the Board of Directors for LADF Fund IV LLC, the Certified Sub-Allocatee.

Chief Administrative Officer CAO is a City Officer.

From the CAO website:

The City Administrative Officer (CAO), Miguel A. Santana, is the chief financial advisor to the Mayor and the Council and reports directly to both. The CAO conducts studies and investigations, carries out research and makes recommendations on a wide variety of City management matters for the Mayor and Council. The CAO assists the Mayor and Council in the preparation of the City budget, plans and directs the administration of the budget and directs the development of work programs and standards. The CAO represents the management of the City in negotiating all labor contracts. In addition, the CAO chairs and participates in many coordinating committees and performs other duties required by the Mayor and Council.

CAO waived the preparation of a report. Financial disclosures are not being addressed for bond indebtedness and disclosure and for the cap on debt based on income and revenue.

LOS ANGELES DEPARTMENT OF WATER AND POWER LADWP is a department of the City of Los Angeles.

LA KRETZ INNOVATION CAMPUS incorporation was filed April 16, 2013 listing Barbara Moschos (LADWP employee) as the Agent for Service of Process. We cannot locate the authorization by the Los Angeles City Council for the incorporation.

There is no indication or documentation that a non-profit tax-exempt status was approved either by the State of California or the Internal Revenue Service.

There is no authorization to form a CDE Community Development Entity. No Conflict of Interest Code, Bylaws, Officers and Board of Directors are submitted with the LADWP Resolution or Board Approval Letter. There was not a plan for NMTC compliance.

LADWP approved transfer the property to LA KRETZ INNOVATION CAMPUS with a leaseback of the property. This does not appear to be legal under the CITY CHARTER. There was no finding that the property is a WATER ASSET or POWER ASSET to enter into any transaction, accordingly.

According to this report, POWER REVENUE FUND and WATER REVENUE FUND will be used. POWER REVENUE FUND and WATER REVENUE FUND are assets of the CITY OF LOS ANGELES under the authority of the BOARD OF WATER AND POWER COMMISSIONERS with oversight by the CITY COUNCIL.

Community Development Entity CDE functions are being co-mingled with UTILITY functions for TAX CREDITS on public property. There will be a TAX CREDIT INVESTOR for this public property. There will be SUBORDINATION documents without benefit to protecting the Public Interest, as a City.

The proposed lease 1.2. Recitals states:

1.2.2. *La Kretz and LADWP desire to enter into a sublease for the use of the Premises as an innovation campus (the "Campus")* *<u>fostering a community for cleantech demonstration centers, research and development laboratories, conference facilities, work force training facilities and rentable space for existing and emerging cleantech companies.</u>*

We cannot see a finding of a WATER ASSET or POWER ASSET in this description. It appears to be an investment, which is not specified for the DEPARMENT OF WATER and POWER in the CITY CHARTER.

New Markets Tax Credit NMTC application to the Community Development Financial Institutions Fund CDFI appears to be submitted under false pretense.

CITY CHARTER <u>Sec. 104. Restrictions on the Powers of the City</u> states:

(*c*) *<u>Sale of Public Utilities.</u> No public utility owned by the City shall be sold, eased or otherwise transferred without the assent of two-thirds of the registered voters of the City voting on the proposition.*

CITY CHARTER <u>Sec. 601. Departmental Purposes</u> states:

The boards and general managers shall operate the Proprietary Departments for the following purposes, which shall be known as the Departmental Purposes:

Water and Power: In connection with, or for the production and delivery of water and electric power, and for the promotion of the conservation of water and power resources.

CITY CHARTER <u>Sec. 602. Possession, Management and Control of Assets</u>states:

The board of each Proprietary Department shall have possession, management and control of all property and rights of every kind whatsoever:
(a) conferred upon the department by the Charter;
(b) purchased with funds under its control; or
(c) received through ordinance, or with approval of the board, through other action of the Council or from any other source, if consistent with Departmental Purposes.

CITY CHARTER <u>Sec. 605. Power to Grant Franchises, Concessions, Permits and Licenses and Enter Into Leases</u> states:

(a) <u>For Departmental Purposes</u>. Subject to any limitations imposed upon a specific proprietary board in this Article, each board shall have the power to grant and set the terms and conditions for any franchise, concession, permit, license, or lease concerning any property under its control that will further Departmental Purposes or anything incidental to those purposes and, with respect to the Harbor Department, will not be inconsistent with any trust upon lands held by the City.

(b) <u>For Non-Departmental Purposes</u>. The board of each Proprietary Department shall have the power to grant a license or to enter into a lease concerning property under its control for purposes other than Departmental Purposes, <u>if the board finds in writing that:</u>
<u>(1) the property to be licensed or leased is not presently needed for Departmental Purposes;</u>
<u>(2) the grant of the license or lease will not interfere with Departmental Purposes</u>; and
(3) with respect to the Harbor Department, the license or lease is not inconsistent with any trust upon lands held by the City.

CITY CHARTER <u>Sec. 606. Process for Granting Franchises, Permits, Licenses and Entering Into Leases</u> states:

Board action granting franchises, concessions, permits and licenses or approving leases shall be taken by order or resolution. <u>If the board's order or resolution grants a franchise, permit or license or approves a lease for a term greater than five years, it shall be submitted to Council for its approval or disapproval.</u> The Council may, by ordinance, further define what constitutes a term of more than five years. Unless Council takes action disapproving the franchise, permit, license or lease within 30 days after submission of it to Council, the franchise, permit, license or lease shall be deemed approved. If Council does not approve the franchise, permit, license or lease, Council shall return it to the originating board for reconsideration and resubmission. <u>Any order or resolution granting a franchise for a term of more than five years shall be published once in the same manner as ordinances of the City and shall take effect 30 days after publication.</u>

CITY CHARTER <u>Sec. 607. Limitations on Franchises, Concessions, Permits, Licenses and Leases</u> states:

Franchises, concessions, permits, licenses and leases shall be subject to further limitations specified in this Article for each Proprietary Department and the following:
(a) <u>Length. The term shall not exceed 30 years or the term specified by applicable federal or state law, whichever is less. If Council makes a finding that a term longer than 30 years would be in the best interest of the City, Council may, by a two-thirds vote, subject to Mayoral veto, or three-fourths vote over the veto of the Mayor, authorize a term up to 50 years, or the maximum period allowed by any federal or state law, whichever is less.</u>
(b) Compensation Adjustments. Every franchise, concession, permit, license, or lease shall include a procedure to adjust the compensation periodically but in no case shall the period between adjustments exceed five years.

CITY CHARTER <u>Sec. 675. Powers and Duties of the Board</u> states:

(a) Rules and Regulations. The board shall have the power and duty to make and enforce all necessary rules and regulations <u>governing the construction, maintenance, operation, connection to and use of the Water and Power Assets for Departmental Purposes.</u>

(c) <u>Development of the Water and Power Assets</u>. The board shall have the power and duty to acquire, provide for, construct, extend, maintain and operate all improvements, utilities, structures, facilities and services as it may deem necessary or convenient for Departmental Purposes.

Per the COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND CDFI website,

The New Markets Tax Credit Program (NMTC Program) was established by Congress in 2000 to spur new or increased investments into operating businesses and real estate projects located in low-income communities. The NMTC Program attracts investment capital to low-income communities by permitting individual and corporate investors to receive a tax credit against their Federal income tax return in exchange for making equity investments in specialized financial institutions called Community Development Entities (CDEs). The credit totals 39 percent of the original investment amount and is claimed over a period of seven years (five percent for each of the first three years, and six percent for each of the remaining four years). The investment in the CDE cannot be redeemed before the end of the seven-year period.

Per the LA DEVELOPMENT FUND INVESTMENT REPORT from August 1, 2013, the location of this project (2010 Census tract 06037206031) suffices the census criteria for NMTC New Markets Tax Credit as a

Qualified Highly Distressed Census Tract based on either of two qualifying measures (pursuant to Section 3.2(h) of LADF's Allocation Agreements):
- *Poverty rate of 40.1% (greater than 30%)*
- *Unemployment rate of 2.0x the National unemployment rate (greater than 1.5x)*

Community Benefits listed are:

- *Clean Tech: Investment in the clean/renewable energy industry in City of L.A.*
- *Job Training: Workforce training for "cleantech" jobs provided onsite*
- *Union Hiring: LADWP Perm. Jobs – 80% of Constr. Jobs (union subcontractors)*
- *Sustainability: Project expected to achieve LEED Gold accreditation*
- *Public Space: Project will provide a new park for the Arts District community*

East Los Angeles State Enterprise Zone listed has been dissolved.

LA DEVELOPMENT FUND INVESTMENT REPORT of August 1, 2013 lists:

PROJECT DESCRIPTION
The La Kretz Innovation Campus Project includes the complete building rehabilitation of an existing 59,985 SF industrial building.<u>The Project will be a cleantech industry hub, a place where entrepreneurs, engineers, scientists and policy makers1 will interact to promote and support the development of clean technologies and Los Angeles' green</u>

economy. The Project is named after Morton La Kretz, a leading businessman and philanthropist in Los Angeles. Mr. La Kretz's philanthropic work focuses on education, the environment and conservation. Among his works are UCLA's La Kretz Hall (houses the Institute of the Environment and Sustainability) and Cal State L.A.'s La Kretz Hall of Sciences.

1 This highlights one of the primary goals for the Project, that it will bring together business, government, and academia to grow LA's cleantech sector and to promote sustainability and economic growth by connecting LA's cleantech professionals through advocacy, networking, and education. Once the workforce job training partner comes onboard, it is anticipated that LACI, LADWP staff, and workforce training staff will all interact with each other.

The amenities of the Project, upon completion, will include:
- *Offices*
- *Conference Rooms*
- *Wet Lab1*
- *Prototype Manufacturing Workshop*
- *Classrooms*
- *New Arts District Park (open to the public)*
- *Surface Parking with Photovoltaic Solar Canopy*

LA DEVELOPMENT FUND INVESTMENT REPORT of August 1, 2013 lists estimated new jobs at:

- *Permanent "Direct" Jobs: 78*
- *Permanent "Indirect" Jobs: 421*
- *Construction "Direct" Jobs: 168*
- *Construction "Indirect" Jobs: 42*

and

- *QALICB require the General Contractor ("GC") to make best efforts to hire 40% of construction jobs with subcontractors that are located within the City of LA and 80% of construction jobs with union subcontractors*
- *100% of the construction jobs will pay Davis-Bacon wages*
- *Low-Income Hiring: 13 low-income individuals will be hired by LACI and/or LACI Portfolio Companies through the City of LA's WorkSource Centers*
- *"Induced" Job Creation: 239 Permanent "Induced" Jobs and 77 Construction "Induced" Jobs*
- *Construction Tax Impact: $2.6 million Federal and $1.4 million State & Local*
- *Operations Tax Impact: $1.5 million Federal and $0.8 million State & Local*

Compliance with 2011 Allocation Agreement has marked off **Sect. 3.2(h): Targeted Distressed Community.**

TARGETED POPULATIONS UNDER SECTION 45D(E)(2) FINAL RULE (Internal Revenue Service) are defined:

(B) Qualified active low-income community business requirements for low-income targeted populations—(1) In general. An entity will not be treated as a qualified active low-income community business for low-income targeted populations unless—
(i) Except as provided in paragraph (d)(9)(i)(D)(2) of this section, at least 50 percent of the entity's total gross income for any taxable year is derived from sales, rentals, services, or other transactions with individuals who are low-income persons for purposes of section 45D(e)(2) and this paragraph (d)(9);
(ii) At least 40 percent of the entity's employees are individuals who are low-income persons for purposes of section 45D(e)(2) and this paragraph (d)(9); or
(iii) At least 50 percent of the entity is owned by individuals who are low-income persons for purposes of section 45D(e)(2) and this paragraph (d)(9).

This project does not qualify.

CRA project titled:

LA KRETZ INNOVATION CAMPUS/CLEANTECH INCUBATOR

described as

Funding of Cleantech Incubator tenant improvements, off-site public improvements, and capital equipment pursuant to terms of MOU with LADWP.

was submitted to the California Department of Finance DOF for approval (ROPS3 DOF Line 101) in the amount of $3,000,000.

On December 26, 2012 DOF denied the transfer:

Items Nos. 100 through 109- Agreements between the City of Los Angeles (City) and the Agency totaling $12.7 million. Finance continues to deny the items. Finance denied the items as HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city, county, or city and county that created the redevelopment agency (RDA) and the former RDA are not enforceable obligations.

Therefore, the items are not enforceable obligations and not eligible for funding.

According to the California Department of Finance, this project does not fall under ENFORCEABLE OBLIGATIONS. The TAX INCREMENT of $1,235,000 is not available with this denial.

Since the property was transferred to LA CITY without DOF approval, there may be problems of title.

Joyce Dillard
P.O. Box 31377
Los Angeles, CA 90031

Attachments:
1-Fact Sheet-CDFI NMTC
2-NMTC_IRS Federal Register 120511
3-2013.08.01-Board Book-Joint Board Special Meeting

FACT SHEET

NEW MARKETS TAX CREDIT PROGRAM

COMMUNITY

Revitalization by Rewarding Private **INVESTMENT**

Over the past decade, our nation's low-income communities have suffered more than others due to factors such as dormant manufacturing facilities, inadequate education and healthcare services, vacant commercial properties, and lower property values. As a result, many of these communities find it difficult to attract the necessary capital from private investors. The New Markets Tax Credit Program (NMTC Program) helps economically distressed communities attract private investment capital by providing investors with a Federal tax credit. Investments made through the NMTC Program are used to finance businesses and real estate projects, breathing new life into neglected, underserved low-income communities.

HOW DOES THE NMTC PROGRAM WORK?

Through the NMTC Program, the CDFI Fund allocates tax credit authority to Community Development Entities (CDEs) through a competitive application process. CDEs are financial intermediaries through which investment capital flows from an investor to a qualified business located in a low-income community. CDEs use their authority to offer tax credits to investors in exchange for equity in the CDE. With these capital investments, CDEs can make loans and investments to businesses operating in distressed areas that have better rates and terms and more flexible features than the market.

The NMTC Program helps to offset the perceived or real risk of investing in distressed and low-income communities. In exchange for investing in CDEs, investors claim a tax credit worth 39 percent of their original CDE equity stake, which is claimed over a seven-year period.

In addition to receiving a tax benefit, investors have the advantage of entering new, unsaturated markets before their competitors, thereby increasing their chances of success. The NMTC Program enables investors to gain recognition for supporting the revitalization of America's communities.

The NMTC Program allows CDEs to increase the volume of their lending and investing activities. Equity raised by a CDE through a NMTC award must be:

- Used within a period of 12 months; and
- Invested as loans or equity in qualified active low-income businesses and/or other CDEs; used to purchase qualifying loans originated by other CDEs; or used to provide financial counseling to businesses in low-income communities.

HOW DO COMMUNITIES BENEFIT?

The immediate and positive community effects of the NMTC Program substantiate this innovative program. The NMTC Program has supported a wide range of businesses including manufacturing, food, retail, housing, health, technology, energy, education, and childcare. Communities benefit from the jobs associated with these investments, as well as greater access to public facilities, goods, and services. Since its inception, the NMTC Program has created or retained an estimated 358,800 jobs. It has also supported the construction of 17.1 million square feet of manufacturing space, 49.4 million square feet of office space, and 42.7 million square feet of retail space. In addition, as these communities develop, they become even more attractive to investors, catalyzing a ripple effect that spurs further investments and revitalization.

HOW DO BUSINESSES BENEFIT?

The NMTC Program helps small and medium-sized businesses with access to financing that is flexible and affordable. Investment decisions are made at the community level, and typically 90 to 97 percent of NMTC business and real estate investments involve more favorable terms and conditions than the market typically offers. Terms can include lower interest rates, flexible provisions such as subordinated debt, lower origination fees, higher loan-to-values, lower debt coverage ratios and longer maturity.

To see which CDEs have received NMTC allocation authority, please visit our searchable award database at www.cdfifund.gov/awards.

AN EFFICIENT AND EFFECTIVE USE OF FEDERAL DOLLARS

For every $1 invested by the Federal government, the NMTC Program generates over $8 of private investment. The NMTC Program catalyzes investment where it's needed most – over 70 percent of New Markets Tax Credit investments have been made in highly distressed areas. These are communities with low median incomes and high rates of unemployment, and the NMTC investments can have a dramatic positive impact.

FIND OUT MORE

Visit our website: www.cdfifund.gov/nmtc
Learn about CDE Certification: www.cdfifund.gov/cde
Call our help desk for support: (202) 653-0421
Email us your questions: cdfihelp@cdfi.treas.gov

for this AD, follow the procedures in 14 CFR 39.19. Contact the Manager, Safety Management Group, Rotorcraft Directorate, FAA, ATTN: Gary Roach, Aviation Safety Engineer, Regulations and Policy Group, ASW–111, 2601 Meacham Blvd., Fort Worth, Texas 76137, telephone (817) 222–5130, fax (817) 222–5961, for information about previously approved alternative methods of compliance.

(c) The Joint Aircraft System/Component (JASC) Code is 2700: Flight Control System.

(d) This amendment becomes effective on December 20, 2011.

Note: The subject of this AD is addressed in Direction Generale de l'Aviation Civile (France) AD No. F–2005–175, dated October 26, 2005, and Eurocopter Alert Service Bulletin No. 67A011, Revision 1, dated October 24, 2005.

Issued in Fort Worth, Texas, on October 5, 2011.

Kim Smith,

Manager, Rotorcraft Directorate, Aircraft Certification Service.

[FR Doc. 2011–30939 Filed 12–2–11; 8:45 am]

BILLING CODE 4910–13–P

DEPARTMENT OF TREASURY

Internal Revenue Service

26 CFR Part 1

[TD 9560]

RIN 1545–BE89

Targeted Populations Under Section 45D(e)(2)

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations relating to how an entity serving certain targeted populations can meet the requirements to be a qualified active low-income community business for the new markets tax credit. The regulations reflect changes to the law made by the American Jobs Creation Act of 2004. The regulations will affect certain taxpayers claiming the new markets tax credit.

DATES: *Effective Date:* These regulations are effective on December 5, 2011.

Applicability Dates: For dates of applicability, see § 1.45D–1(h)(3).

FOR FURTHER INFORMATION CONTACT: Julie Hanlon Bolton, (202) 622–3040 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

This document amends 26 CFR part 1 to provide rules relating to certain targeted populations under section 45D(e)(2). On May 24, 2005, the Community Development Financial Institutions Fund published an advance notice of proposed rulemaking (ANPRM) (70 FR 29658) to seek comments from the public with respect to how targeted populations may be treated as eligible low-income communities under section 45D(e)(2). In response to the ANPRM, the IRS received various suggestions relating to the definition of the term *targeted populations* and proposing amendments to the requirements to be a qualified active low-income community business under § 1.45D–1. On June 30, 2006, the IRS and Treasury Department released Notice 2006–60 (2006–2 CB 82), which announced that § 1.45D–1 would be amended to provide rules relating to how an entity meets the requirements to be a qualified active low-income community business when its activities involve certain targeted populations under section 45D(e)(2). On September 24, 2008, a notice of proposed rulemaking (NPRM) (REG–142339–05) was published in the **Federal Register** (73 FR 54990). Written and electronic comments responding to the proposed regulations were received and a public hearing was held on January 22, 2009. After consideration of all the comments, the proposed regulations are adopted as amended by this Treasury decision.

General Overview

Section 45D(a)(1) provides a new markets tax credit on certain credit allowance dates described in section 45D(a)(3) with respect to a qualified equity investment in a qualified community development entity (CDE) described in section 45D(c).

Section 45D(b)(1) provides that an equity investment in a CDE is a *qualified equity investment* if, among other requirements: (A) The investment is acquired by the taxpayer at its original issue (directly or through an underwriter) solely in exchange for cash; (B) substantially all of the cash is used by the CDE to make qualified low-income community investments; and (C) the investment is designated for purposes of section 45D by the CDE.

Under section 45D(b)(2), the maximum amount of equity investments issued by a CDE that may be designated by the CDE as qualified equity investments shall not exceed the portion of the new markets tax credit limitation set forth in section 45D(f)(1) that is allocated to the CDE by the Secretary under section 45D(f)(2).

Section 45D(c)(1) provides that an entity is a CDE if, among other requirements, the entity is certified by the Secretary as a CDE.

Section 45D(d)(1) provides that the term *qualified low-income community investment* means: (A) Any capital or equity investment in, or loan to, any qualified active low-income community business (as defined in section 45D(d)(2)); (B) the purchase from another CDE of any loan made by the entity that is a qualified low-income community investment; (C) financial counseling and other services specified in regulations prescribed by the Secretary to businesses located in, and residents of, low-income communities; and (D) any equity investment in, or loan to, any CDE.

Under section 45D(d)(2)(A), a qualified active low-income community business is any corporation (including a nonprofit corporation) or partnership if for such year, among other requirements, (i) At least 50 percent of the total gross income of the entity is derived from the active conduct of a qualified business within any low-income community, (ii) a substantial portion of the use of the tangible property of the entity (whether owned or leased) is within any low-income community, and (iii) a substantial portion of the services performed for the entity by its employees are performed in any low-income community.

Under section 45D(d)(3), with certain exceptions, a qualified business is any trade or business. The rental to others of real property is a qualified business only if, among other requirements, the real property is located in a low-income community.

Section 221(a) of the American Jobs Creation Act of 2004 (Act) (Pub. L. 108–357, 118 Stat. 1418) amended section 45D(e)(2) to provide that the Secretary shall prescribe regulations under which one or more targeted populations (within the meaning of section 103(20) of the Riegle Community Development and Regulatory Improvement Act of 1994 (12 U.S.C. 4702(20))) may be treated as low-income communities. The regulations shall include procedures for determining which entities are qualified active low-income community businesses with respect to those populations. Section 221(c)(1) of the Act provides that the amendment made by section 221(a) of the Act shall apply to designations made by the Secretary of the Treasury after October 22, 2004, the date of enactment of the Act.

The term *targeted population,* as defined in 12 U.S.C. 4702(20) and 12 CFR 1805.201, means individuals, or an identifiable group of individuals, including an Indian tribe, who (A) are low-income persons; or (B) otherwise lack adequate access to loans or equity investments. Under 12 U.S.C. 4702(17) as interpreted by 12 CFR 1805.104, the term *low-income* means having an income, adjusted for family size, of not more than (A) for metropolitan areas, 80 percent of the area median family income; and (B) for non-metropolitan areas, the greater of (i) 80 percent of the area median family income; or (ii) 80 percent of the statewide nonmetropolitan area median family income.

Section 101(a) of the Gulf Opportunity Zone Act of 2005 (Pub. L. 109–135, 119 Stat. 2577) added new sections 1400M and 1400N to the Code. Section 1400M(1) provides that the Gulf Opportunity Zone (GO Zone) is that portion of the Hurricane Katrina disaster area determined by the President to warrant individual or individual and public assistance from the Federal Government under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (the Act) by reason of Hurricane Katrina.

Section 1400M(2) provides that the Hurricane Katrina disaster area is an area with respect to which a major disaster has been declared by the President before September 14, 2005, under section 401 of the Act by reason of Hurricane Katrina. After determination by the President that a disaster area warrants assistance pursuant to the Act, the Federal Emergency Management Agency (FEMA) makes damage assessments. The categories for damage assessment in the wake of a hurricane are: flooded area, saturated area, limited damage, moderate damage, extensive damage, and catastrophic damage.

Under section 1400N(m)(1), a CDE shall be eligible for an allocation under section 45D(f)(2) of the increase in the new markets tax credit limitation described in section 1400N(m)(2) only if a significant mission of the CDE is the recovery and redevelopment of the GO Zone. Section 1400N(m)(2) provides that the new markets tax credit limitation otherwise determined under section 45D(f)(1) shall be increased by an amount equal to $300,000,000 for 2005 and 2006 and $400,000,000 for 2007, to be allocated among CDEs to make qualified low-income community investments within the GO Zone.

Under section 45D(b)(1), a qualified equity investment does not include any equity investment issued by a CDE more than 5 years after the date the entity receives an allocation under section 45D(f). Under section 45D(f)(3), if the new markets tax credit limitation for any calendar year exceeds the aggregate amount allocated under section 45D(f)(2) for the year, then the limitation for the succeeding calendar year is increased by the amount of the excess. However, no amount may be carried to any calendar year after 2016.

Summary of Comments and Explanation of Provisions

Ownership Requirement and Non-Profit Businesses

Generally, the proposed regulations provide that an entity will not be treated as a qualified active low-income community business for low-income targeted populations unless (*i*) At least 50 percent of the entity's total gross income for any taxable year is derived from sales, rentals, services, or other transactions with individuals who are low-income persons for purposes of section 45D(e)(2) (the 50-percent gross-income requirement), (*ii*) at least 40 percent of the entity's employees are individuals who are low-income persons for purposes of section 45D(e)(2), or (*iii*) at least 50 percent of the entity is owned by individuals who are low-income persons for purposes of section 45D(e)(2).

Commentators recommended that the ownership requirement for being treated as a qualified active low-income community business for low-income targeted populations under the proposed regulations be amended to accommodate non-profit businesses that are not individually owned. Commentators suggested that if a non-profit business can document that at least 20 percent of its board, with a minimum of two board members, are low-income persons or represent low-income targeted populations, then the non-profit business should be treated as satisfying the ownership requirement.

The final regulations do not adopt this recommendation because, if a non-profit business does not derive at least 50 percent of its gross income from sales, rentals, services, or other transactions with low-income persons, or if at least 40 percent of the non-profit business' employees are not low-income persons, then the non-profit business is not adequately serving targeted populations solely because 20 percent or more of its board members are low-income persons.

Start-Up or Expanding Businesses

Commentators requested that, in order to accommodate start-up entities, the final regulations should provide a rule allowing an entity to meet the requirements to be a qualified active low-income community business for low-income targeted populations if the CDE reasonably expects that the entity will generate revenues within three years after the date the CDE makes the investment in, or loan to, that entity. If an entity serving targeted populations chooses to apply the 50-percent gross-income requirement rather than the employee requirement or the ownership requirement, then the commentators' suggestion could potentially allow an entity to be a qualified active low-income community business for three years without having to meet any requirement. As stated in the preamble of the proposed regulations, this result is clearly inappropriate. Therefore, the final regulations do not adopt the commentators' suggestion. In addition, the final regulations clarify that the three-year active conduct of a trade or business safe harbor in § 1.45D–1(d)(4)(iv)(A) does not apply to the 50-percent gross-income requirement.

Documenting Low-Income Persons

The IRS and Treasury Department specifically requested comments on what measure of income should be used to determine an individual's income for purposes of the definition of low-income persons found in the proposed regulations. The proposed regulations asked whether the measure of income should be the same as the measure of income used by the U.S. Census Bureau, the measure of income on the Form 1040, or the measure of income in 24 CFR part 5, which is used for certain Department of Housing and Urban Development (HUD) programs and other Federal programs.

Two commentators recommended that the IRS and Treasury Department accept as a proxy for income documentation proof of an individual's participation in other federal programs targeted specifically to low-income individuals and families. The final regulations do not adopt the commentators' recommendation because, as stated in the proposed regulations, the IRS and Treasury Department have not analyzed other Federal programs to determine whether they meet the statutory requirements under section 45D(e), and whether the programs currently meeting the requirements will continue to do so in the future.

Another commentator recommended that the IRS and Treasury Department allow an entity to measure income using any reasonable method including measures of income by the U.S. Census Bureau, Form 1040, or the HUD rules in 24 CFR part 5. If one measure must be used, the commentator recommended using the HUD rules because they are consistent with low-income determinations used for the Section 8 rental voucher program and the low-income housing tax credit under section

42. The final regulations adopt this commentator's recommendation that an entity may use any of the three stated methods. Specifically, the final regulations allow an individual's family income to be determined using household income as measured by the U.S. Census Bureau or HUD, or using the individual's total family income as reported on Form(s) 1040. An individual's family income includes the income of any member of the individual's family (as defined in section 267(c)(4)) if the family member resides with the individual regardless of whether the family member files a separate return. Lastly, the final regulations incorporate the preamble language in the proposed regulations that provides additional detail on what estimates may be relied upon in determining the applicable income limitation for *area median family income*.

Items Included in Gross Income

A commentator requested that the final regulations conclude that the term *derived from* in the proposed regulations includes gross income derived from payments made directly by low-income persons to an entity and amounts and contributions of property or services provided to the entity for the benefit of low-income persons. Another commentator recommended that only operating revenue should be included for the purpose of meeting the 50-percent gross-income requirement.

The final regulations adopt the first commentator's recommendation that the term *derived from* includes gross income derived from both payments made directly by low-income persons to the entity and money and the fair market value of contributions of property or services provided to the entity primarily for the benefit of low-income persons. However, persons providing the money and contributions cannot receive a direct benefit from the entity (notably, a contribution that benefits the general public is not a direct benefit). Accordingly, an entity's total gross income derived from transactions with low-income persons for purposes of section 45D(e)(2) can include Federal, state, or local grants, charitable donations, or in-kind contributions, as well as collected fees, insurance reimbursements, and other sources of income as long as these payments and contributions are provided for the benefit of low-income persons on an individual basis or as a class of individuals. If an entity receiving such payments can document that those amounts are legally required to be paid on behalf of individuals that meet the definition of low-income persons, the amounts may be treated as derived from transactions with low-income persons. The second commentator's suggestion to limit a gross income consideration to operating revenue is too restrictive because any money, property, or services provided to the entity may be provided to the entity for the benefit of low-income persons.

Owners

The proposed regulations provide that the determination of whether an owner is a low-income person must be made at the time the qualified low-income community investment is made. If an owner is a low-income person at the time the qualified low-income community investment is made, that owner is considered a low-income person for purposes of section 45D(e)(2) throughout the time the ownership interest is held by that owner. A commentator suggested that the rule locking in an owner's status as a low-income person as of the time of investment should be similarly applied to low-income persons who acquire an ownership interest after the time the qualified low-income community investment is made. The final regulations adopt this suggestion by locking in the status of an owner as a low-income person at the time the qualified low-income community investment is made or at the time the ownership interest is acquired by the owner, whichever is later.

Rental to Others of Real Property

Commentators requested clarification on the 50-percent gross-income requirement under the proposed regulations for an entity whose sole business is the rental to others of real property. Because an entity whose sole business is the rental to others of real property will often not have employees, the entity will have to satisfy the 50-percent gross-income requirement or the ownership requirement for low-income targeted populations. To satisfy the 50-percent gross-income requirement, the proposed regulations require that the entity must derive gross income solely from low-income individuals. However, in the case of an entity engaged solely in the rental of property, the entity's gross income would only be derived from rents, and in many instances, the tenants are not individuals as required under the proposed regulations. Thus, commentators recommend that the 50-percent gross-income requirement be deemed satisfied if at least 50 percent of gross rental income is derived from tenants that are low-income individuals and entities that are qualified active low-income community businesses for low-income targeted populations. The final regulations adopt a rule similar to this recommendation by providing a special rule that generally treats an entity whose sole business is the rental to others of real property as satisfying the 50-percent gross-income requirement if the entity is treated as being located in a low-income community.

Gross Income—Fair Market Value of Sales, Rentals, Services, or Other Transactions

The IRS and Treasury Department specifically requested comments in the proposed regulations on the question of whether the 50-percent gross-income requirement should be modified to include the fair market value of goods and services provided to low-income persons at reduced fees. Commentators responded by stating that a CDE should have the option to include the fair market value of goods and services provided to low-income persons for purposes of the 50-percent gross-income requirement. The final regulations adopt the commentator's suggestion but limit the rule to an entity with gross income that is derived from sales, rentals, services, or other transactions with both non low-income persons and low-income persons. The entity may treat the value of the sales, rentals, services, or other transactions with low-income persons at fair market value even if the low-income persons do not pay fair market value.

Individuals or Groups That Otherwise Lack Adequate Access to Loans or Equity Investments

Commentators have asked that the IRS and the Treasury Department consider defining particular individuals or groups of individuals as lacking adequate access to loans or equity investments. Although the IRS and the Treasury Department cannot include new rules describing additional targeted populations in these final regulations, taxpayers are hereby invited to submit comments: (1) Identifying individuals or groups that may be considered to lack adequate access to loans or equity investments, (2) describing the reasons such individuals or group of individuals qualify as lacking adequate access to loans or equity investments, and (3) suggesting ways for additional targeted populations rules to appropriately limit the definition of such individuals or group of individuals to ensure that the purposes of the targeted populations provision are not abused. Send submissions to:

Submissions to the Service submitted by U.S. mail: Internal Revenue Service, *Attn:* Julie Hanlon Bolton, CC:PSI:5, Room 5111, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044.

Submissions to the Service submitted by a private delivery service: Internal Revenue Service, *Attn:* Julie Hanlon Bolton, CC:PSI:5, Room 5111, 1111 Constitution Ave. NW., Washington, DC 20224.

Effect on Other Documents

Notice 2006–60 (2006–1 CB 82) is obsolete for taxable years ending on or after December 5, 2011.

Special Analyses

It has been determined that this Treasury decision is not a significant regulatory action as defined in Executive Order 12866, as supplemented by Executive Order 13563. Therefore, a regulatory assessment is not required. It has also been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations. It is hereby certified that these regulations will not have a significant economic impact on a substantial number of small entities. This certification is based upon the fact that the final regulations provide a benefit to small entities in low-income communities from the proceeds of a tax credit because, consistent with legislative intent, the final regulations allow a tax credit to be claimed in situations where it was previously unavailable without the Secretary providing for such situations in final regulations. Accordingly, a Regulatory Flexibility Analysis under the provisions of the Regulatory Flexibility Act (5 U.S.C. chapter 6) is not required. Pursuant to section 7805(f) of the Code, the notice of proposed rulemaking was submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Drafting Information

The principal author of these regulations is Julie Hanlon Bolton with the Office of the Associate Chief Counsel (Passthroughs and Special Industries), IRS. However, other personnel from the IRS and Treasury Department participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Adoption of Amendments to the Regulations

Accordingly, 26 CFR part 1 is amended as follows:

PART 1—INCOME TAXES

■ **Paragraph 1.** The authority citation for part 1 is amended by adding an entry in numerical order to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

Section 1.45D–1 also issued under 26 U.S.C. 45D(e)(2) and (i); * * *

■ **Par. 2.** Section 1.45D–0 is added to read as follows:

§ 1.45D–0 Table of contents.

This section lists the paragraphs contained in § 1.45D–1.

(ii) Individuals who otherwise lack adequate access to loans or equity investments.
(A) In general.
(B) GO Zone Targeted Population.
(C) Qualified active low-income community business requirements for the GO Zone Targeted Population.
(*1*) In general.
(*2*) Location.
(*i*) In general.
(*ii*) Determination.
(D) 200-percent-income restriction.
(*1*) In general.
(*2*) Population census tract location.
(E) Rental of real property for the GO Zone Targeted Population.
(e) Recapture.
(1) In general.
(2) Recapture event.
(3) Redemption.
(i) Equity investment in a C corporation.
(ii) Equity investment in an S corporation.
(iii) Capital interest in a partnership.
(4) Bankruptcy.
(5) Waiver of requirement or extension of time.
(i) In general.
(ii) Manner for requesting a waiver or extension.
(iii) Terms and conditions.
(6) Cure period.
(7) Example.
(f) Basis reduction.
(1) In general.
(2) Adjustment in basis of interest in partnership or S corporation.
(g) Other rules.
(1) Anti-abuse.
(2) Reporting requirements.
(i) Notification by CDE to taxpayer.
(A) Allowance of new markets tax credit.
(B) Recapture event.
(ii) CDE reporting requirements to Secretary.
(iii) Manner of claiming new markets tax credit.
(iv) Reporting recapture tax.
(3) Other Federal tax benefits.
(i) In general.
(ii) Low-income housing credit.
(4) Bankruptcy of CDE.
(h) Effective/applicability dates.
(1) In general.
(2) Exception for certain provisions.
(3) Targeted populations.

■ **Par. 3.** Section 1.45D–1 is amended by:
■ 1. Revising paragraph (a).
■ 2. Revising the first sentence in paragraph (b)(1).
■ 3. Revising paragraph (d)(4)(i) introductory text.
■ 4. Adding a new sentence to the end of paragraph (d)(4)(i)(A).
■ 5. Adding a new sentence to the end of paragraph (d)(4)(i)(B)(*1*).
■ 6. Adding a new sentence to the end of paragraph (d)(4)(i)(C).
■ 7. Adding a new sentence at the end of paragraph (d)(4)(iv)(A).
■ 8. Adding new paragraph (d)(9).
■ 9. Revising the heading for paragraph (h) and adding new paragraph (h)(3).

The additions and revisions read as follows:

§ 1.45D–1 New markets tax credit.

(a) *Current year credit.* The current year general business credit under section 38(b)(13) includes the new markets tax credit under section 45D(a).

(b) * * * (1) * * * A taxpayer holding a qualified equity investment on a credit allowance date which occurs during the taxable year may claim the new markets tax credit determined under section 45D(a) and this section for such taxable year in an amount equal to the applicable percentage of the amount paid to a qualified community development entity (CDE) for such investment at its original issue. * * *

* * * * *

(d) * * *

(4) * * *

(i) *In general.* The term *qualified active low-income community business* means, with respect to any taxable year, a corporation (including a nonprofit corporation) or a partnership engaged in the active conduct of a qualified business (as defined in paragraph (d)(5) of this section), if the requirements of paragraphs (d)(4)(i)(A), (B), (C), (D), and (E) of this section are met (or in the case of an entity serving targeted populations, if the requirements of paragraphs (d)(4)(i)(D), (E), and (d)(9)(i) or (ii) of this section are met). Solely for purposes of this section, a nonprofit corporation will be deemed to be engaged in the active conduct of a trade or business if it is engaged in an activity that furthers its purpose as a nonprofit corporation.

(A) * * * See paragraph (d)(9) of this section for rules relating to targeted populations.

(B) * * *

(*1*) * * * See paragraph (d)(9) of this section for rules relating to targeted populations.

* * * * *

(C) * * * See paragraph (d)(9) of this section for rules relating to targeted populations.

* * * * *

(iv) *Active conduct of a trade or business*—(A) * * * This paragraph (d)(4)(iv) applies only for purposes of determining whether an entity is engaged in the active conduct of a trade or business and does not apply for purposes of determining whether the gross-income requirement under paragraph (d)(4)(i)(A), (d)(9)(i)(B)(*1*)(*i*), or (d)(9)(ii)(C)(*1*)(*i*) of this section is satisfied.

* * * * *

(9) *Targeted populations.* For purposes of section 45D(e)(2), targeted populations that will be treated as a low-income community are individuals, or an identifiable group of individuals, including an Indian tribe, who are low-income persons as defined in paragraph (d)(9)(i) of this section or who are individuals who otherwise lack adequate access to loans or equity investments as defined in paragraph (d)(9)(ii) of this section.

(i) *Low-income persons*—(A) *Definition*—(*1*) *In general.* For purposes of section 45D(e)(2) and this paragraph (d)(9), an individual shall be considered to be low-income if the individual's family income, adjusted for family size, is not more than—

(*i*) For metropolitan areas, 80 percent of the area median family income; and

(*ii*) For non-metropolitan areas, the greater of 80 percent of the area median family income, or 80 percent of the statewide non-metropolitan area median family income.

(*2*) *Area median family income.* For purposes of paragraph (d)(9)(i)(A)(*1*) of this section, *area median family income* is determined in a manner consistent with the determinations of median family income under section 8 of the Housing Act of 1937, as amended. Taxpayers must use the annual estimates of median family income released by the Department of Housing and Urban Development (HUD) and may rely on those figures until 45 days after HUD releases a new list of income limits, or until HUD's effective date for the new list, whichever is later.

(*3*) *Individual's family income.* For purposes of paragraph (d)(9)(i)(A)(*1*) of this section, an individual's family income is determined using any one of the following three methods for measuring family income:

(*i*) Household income as measured by the U.S. Census Bureau,

(*ii*) Adjusted gross income under section 62 as reported on Internal Revenue Service Form 1040. Adjusted gross income must include the adjusted gross income of any member of the individual's family (as defined in section 267(c)(4)) if the family member resides with the individual regardless of whether the family member files a separate return,

(*iii*) Household income determined under section 8 of the Housing Act of 1937, as amended.

(B) *Qualified active low-income community business requirements for low-income targeted populations*—(*1*) *In general.* An entity will not be treated as a qualified active low-income community business for low-income targeted populations unless—

(*i*) Except as provided in paragraph (d)(9)(i)(D)(*2*) of this section, at least 50 percent of the entity's total gross income for any taxable year is derived from sales, rentals, services, or other transactions with individuals who are low-income persons for purposes of section 45D(e)(2) and this paragraph (d)(9);

(*ii*) At least 40 percent of the entity's employees are individuals who are low-income persons for purposes of section 45D(e)(2) and this paragraph (d)(9); or

(*iii*) At least 50 percent of the entity is owned by individuals who are low-income persons for purposes of section 45D(e)(2) and this paragraph (d)(9).

(*2*) *Employee.* The determination of whether an employee is a low-income person must be made at the time the employee is hired. If the employee is a low-income person at the time of hire, that employee is considered a low-income person for purposes of section 45D(e)(2) and this paragraph (d)(9) throughout the time of employment, without regard to any increase in the employee's income after the time of hire.

(*3*) *Owner.* The determination of whether an owner is a low-income person must be made at the time the qualified low-income community investment is made, or at the time the ownership interest is acquired by the owner, whichever is later. If an owner is a low-income person at the time the qualified low-income community investment is made or at the time the ownership interest is acquired by the owner, whichever is later, that owner is considered a low-income person for purposes of section 45D(e)(2) and this paragraph (d)(9) throughout the time the ownership interest is held by that owner.

(*4*) *Derived from.* For purposes of paragraph (d)(9)(i)(B)(*1*)(*i*) of this section, the term *derived from* includes gross income derived from:

(*i*) Payments made directly by low-income persons to the entity; and

(*ii*) Money and the fair market value of property or services provided to the entity primarily for the benefit of low-income persons, but only if the persons providing the money, property, or services do not receive a direct benefit from the entity (for this purpose, a contribution that benefits the general public is not a direct benefit).

(*5*) *Fair market value of sales, rentals, services, or other transactions.* For purposes of paragraph (d)(9)(i)(B)(*1*)(*i*) of this section, an entity with gross income that is derived from sales, rentals, services, or other transactions with both non low-income persons and low-income persons may treat the gross income derived from the sales, rentals, services, or other transactions with low-income persons as including the full fair market value even if the low-income persons do not pay fair market value.

(C) *120-percent-income restriction*—(*1*) *In general*—(*i*) In no case will an entity be treated as a qualified active low-income community business under paragraph (d)(9)(i) of this section if the entity is located in a population census tract for which the median family income exceeds 120 percent of, in the case of a tract not located within a metropolitan area, the statewide median family income, or in the case of a tract located within a metropolitan area, the greater of statewide median family income or metropolitan area median family income (120-percent-income restriction).

(*ii*) The 120-percent-income restriction shall not apply to an entity located within a population census tract with a population of less than 2,000 if such tract is not located in a metropolitan area.

(*iii*) The 120-percent-income restriction shall not apply to an entity located within a population census tract with a population of less than 2,000 if such tract is located in a metropolitan area and more than 75 percent of the tract is zoned for commercial or industrial use. For this purpose, the 75 percent calculation should be made using the area of the population census tract. For purposes of this paragraph (d)(9)(i)(C)(*1*)(*iii*), property for which commercial or industrial use is a permissible zoning use will be treated as zoned for commercial or industrial use.

(*2*) *Population census tract location*—(*i*) For purposes of the 120-percent-income restriction, an entity will be considered to be located in a population census tract for which the median family income exceeds 120 percent of the applicable median family income under paragraph (d)(9)(i)(C)(*1*)(*i*) of this section (non-qualifying population census tract) if at least 50 percent of the total gross income of the entity is derived from the active conduct of a qualified business (as defined in paragraph (d)(5) of this section) within one or more non-qualifying population census tracts (non-qualifying gross income amount); at least 40 percent of the use of the tangible property of the entity (whether owned or leased) is within one or more non-qualifying population census tracts (non-qualifying tangible property usage); and at least 40 percent of the services performed for the entity by its employees are performed in one or more non-qualifying population census tracts (non-qualifying services performance).

(*ii*) The entity is considered to have the non-qualifying gross income amount if the entity has non-qualifying tangible property usage or non-qualifying services performance of at least 50 percent instead of 40 percent.

(*iii*) If the entity has no employees, the entity is considered to have the non-qualifying gross income amount and non-qualifying services performance if at least 85 percent of the use of the tangible property of the entity (whether owned or leased) is within one or more non-qualifying population census tracts.

(D) *Rental of real property for low-income targeted populations*—(*1*) *In general.* An entity that rents to others real property for low-income targeted populations and that otherwise satisfies the requirements to be a qualified business under paragraph (d)(5) of this section will be treated as located in a low-income community for purposes of paragraph (d)(5)(ii) of this section if at least 50 percent of the entity's total gross income is derived from rentals to individuals who are low-income persons for purposes of section 45D(e)(2) and this paragraph (d)(9) or rentals to a qualified active low-income community business that meets the requirements for low-income targeted populations under paragraphs (d)(9)(i)(B)(*1*)(*i*) or (*ii*) and (d)(9)(i)(B)(*2*) of this section.

(*2*) *Special rule for entities whose sole business is the rental to others of real property.* If an entity's sole business is the rental to others of real property under paragraph (d)(9)(i)(D)(*1*) of this section, then the gross income requirement in paragraph (d)(9)(i)(B)(*1*)(*i*) of this section will be considered satisfied if the entity is treated as being located in a low-income community under paragraph (d)(9)(i)(D)(*1*) of this section.

(ii) *Individuals who otherwise lack adequate access to loans or equity investments*—(A) *In general.* Paragraph (d)(9)(ii) of this section may be applied only with regard to qualified low-income community investments made under the increase in the new markets tax credit limitation pursuant to section 1400N(m)(2). Therefore, only CDEs with a significant mission of recovery and redevelopment of the Gulf Opportunity Zone (GO Zone) that receive an allocation from the increase described in section 1400N(m)(2) may make qualified low-income community investments from that allocation pursuant to the rules in paragraph (d)(9)(ii) of this section.

(B) *GO Zone Targeted Population.* For purposes of the targeted populations rules under section 45D(e)(2), an individual otherwise lacks adequate access to loans or equity investments only if the individual was displaced from his or her principal residence as a result of Hurricane Katrina or the individual lost his or her principal source of employment as a result of Hurricane Katrina (GO Zone Targeted Population). In order to meet this definition, the individual's principal residence or principal source of employment, as applicable, must have been located in a population census tract within the GO Zone that contains one or more areas designated by the Federal Emergency Management Agency (FEMA) as flooded, having sustained extensive damage, or having sustained catastrophic damage as a result of Hurricane Katrina.

(C) *Qualified active low-income community business requirements for the GO Zone Targeted Population*—(*1*) *In general.* An entity will not be treated as a qualified active low-income community business for the GO Zone Targeted Population unless—

(*i*) At least 50 percent of the entity's total gross income for any taxable year is derived from sales, rentals, services, or other transactions with the GO Zone Targeted Population, low-income persons as defined in paragraph (d)(9)(i) of this section, or some combination thereof;

(*ii*) At least 40 percent of the entity's employees consist of the GO Zone Targeted Population, low-income persons as defined in paragraph (d)(9)(i) of this section, or some combination thereof; or

(*iii*) At least 50 percent of the entity is owned by the GO Zone Targeted Population, low-income persons as defined in paragraph (d)(9)(i) of this section, or some combination thereof.

(*2*) *Location*—(*i*) *In general.* In order to be a qualified active low-income community business under paragraph (d)(9)(ii)(C) of this section, the entity must be located in a population census tract within the GO Zone that contains one or more areas designated by FEMA as flooded, having sustained extensive damage, or having sustained catastrophic damage as a result of Hurricane Katrina (qualifying population census tract).

(*ii*) *Determination*—For purposes of the preceding paragraph, an entity will be considered to be located in a qualifying population census tract if at least 50 percent of the total gross income of the entity is derived from the active conduct of a qualified business (as defined in paragraph (d)(5) of this section) within one or more qualifying population census tracts (gross income requirement); at least 40 percent of the use of the tangible property of the entity (whether owned or leased) is within one or more qualifying population census tracts (use of tangible property requirement); and at least 40 percent of the services performed for the entity by its employees are performed in one or more qualifying population census tracts (services performed requirement). The entity is deemed to satisfy the gross income requirement if the entity satisfies the use of tangible property requirement or the services performed requirement on the basis of at least 50 percent instead of 40 percent. If the entity has no employees, the entity is deemed to satisfy the services performed requirement and the gross income requirement if at least 85 percent of the use of the tangible property of the entity (whether owned or leased) is within one or more qualifying population census tracts.

(D) *200-percent-income restriction*—(*1*) *In general*—(*i*) In no case will an entity be treated as a qualified active low-income community business under paragraph (d)(9)(ii) of this section if the entity is located in a population census tract for which the median family income exceeds 200 percent of, in the case of a tract not located within a metropolitan area, the statewide median family income, or, in the case of a tract located within a metropolitan area, the greater of statewide median family income or metropolitan area median family income (200-percent-income restriction).

(*ii*) The 200-percent-income restriction shall not apply to an entity located within a population census tract with a population of less than 2,000 if such tract is not located in a metropolitan area.

(*iii*) The 200-percent-income restriction shall not apply to an entity located within a population census tract with a population of less than 2,000 if such tract is located in a metropolitan area and more than 75 percent of the tract is zoned for commercial or industrial use. For this purpose, the 75 percent calculation should be made using the area of the population census tract. For purposes of this paragraph (d)(9)(ii)(D)(*1*)(*iii*), property for which commercial or industrial use is a permissible zoning use will be treated as zoned for commercial or industrial use.

(*2*) *Population census tract location*—(*i*) For purposes of the 200-percent-income restriction, an entity will be considered to be located in a population census tract for which the median family income exceeds 200 percent of the applicable median family income under paragraph (d)(9)(ii)(D)(*1*)(*i*) of this section (non-qualifying population census tract) if—at least 50 percent of the total gross income of the entity is derived from the active conduct of a qualified business (as defined in paragraph (d)(5) of this section) within one or more non-qualifying population census tracts (non-qualifying gross income amount); at least 40 percent of the use of the tangible property of the entity (whether owned or leased) is within one or more non-qualifying population census tracts (non-qualifying tangible property usage); and at least 40 percent of the services performed for the entity by its employees are performed in one or more non-qualifying population census tracts (non-qualifying services performance).

(*ii*) The entity is considered to have the non-qualifying gross income amount if the entity has non-qualifying tangible property usage or non-qualifying services performance of at least 50 percent instead of 40 percent.

(*iii*) If the entity has no employees, the entity is considered to have the non-qualifying gross income amount and non-qualifying services performance if at least 85 percent of the use of the tangible property of the entity (whether owned or leased) is within one or more non-qualifying population census tracts.

(E) *Rental of real property for the GO Zone Targeted Population.* The rental to others of real property for the GO Zone Targeted Population that otherwise satisfies the requirements to be a qualified business under paragraph (d)(5) of this section will be treated as located in a low-income community for purposes of paragraph (d)(5)(ii) of this section if at least 50 percent of the entity's total gross income is derived from rentals to the GO Zone Targeted Population, rentals to low-income persons as defined in paragraph (d)(9)(i) of this section, or rentals to a qualified active low-income community business that meets the requirements for the GO Zone Targeted Population under paragraph (d)(9)(ii)(C)(*1*)(*i*) or (*ii*) of this section.

* * * * *

(h) *Effective/applicability dates.*

* * * * *

(3) *Targeted populations.* The rules in paragraph (d)(9) of this section and the last sentence in paragraph (d)(4)(iv)(A) of this section apply to taxable years ending on or after December 5, 2011. A taxpayer may apply the rules in

paragraph (d)(9) of this section to taxable years ending before December 5, 2011 for designations made by the Secretary after October 22, 2004.

Approved: November 22, 2011.

Steven T. Miller,

Deputy Commissioner for Services and Enforcement.

Emily S. McMahon,

Acting Assistant Secretary of the Treasury (Tax Policy).

[FR Doc. 2011–31169 Filed 12–2–11; 8:45 am]

BILLING CODE 4830–01–P

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[TD 9561]

RIN 1545–BK46

Treasury Inflation-Protected Securities Issued at a Premium

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Temporary regulations.

SUMMARY: This document contains temporary regulations that provide guidance on the tax treatment of Treasury Inflation-Protected Securities issued with more than a de minimis amount of premium. The text of these temporary regulations also serves as the text of the proposed regulations (REG–130777–11) set forth in the Proposed Rules section in this issue of the **Federal Register**.

DATES: *Effective Date:* These regulations are effective on December 5, 2011.

Applicability Date: For the date of applicability, see § 1.1275–7T(k).

FOR FURTHER INFORMATION CONTACT: William E. Blanchard, (202) 622–3950 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

Treasury Inflation-Protected Securities (TIPS) are securities issued by the Department of the Treasury. The principal amount of a TIPS is adjusted for any inflation or deflation that occurs over the term of the security. The rules for the taxation of inflation-indexed debt instruments, including TIPS, are contained in § 1.1275–7 of the Income Tax Regulations. *See also* § 1.171–3(b) (rules for inflation-indexed debt instruments with bond premium).

The coupon bond method described in § 1.1275–7(d) has applied to TIPS rather than the more complex discount bond method described in § 1.1275–7(e). Under § 1.1275–7(d)(2)(i), however, the coupon bond method is not available with respect to inflation-indexed debt instruments that are issued with more than a de minimis amount of premium (that is, an amount greater than .0025 times the stated principal amount of the security times the number of complete years to the security's maturity).

In Notice 2011–21 (2011–19 IRB 761), to provide a more uniform method for the federal income taxation of TIPS, the Department of the Treasury and the Internal Revenue Service announced that regulations would be issued to provide that taxpayers must use the coupon bond method described in § 1.1275–7(d) for TIPS issued with more than a de minimis amount of premium. As a result, the discount bond method described in § 1.1275–7(e) would not apply to TIPS issued with more than a de minimis amount of premium. Notice 2011–21 provided that the regulations would be effective for TIPS issued on or after April 8, 2011.

Explanation of Provisions

The temporary regulations in this document contain the rules described in Notice 2011–21. Under the temporary regulations, a taxpayer must use the coupon bond method described in § 1.1275–7(d) for a TIPS that is issued with more than a de minimis amount of premium. The temporary regulations contain an example of how to apply the coupon bond method to a TIPS issued with more than a de minimis amount of premium. As stated in Notice 2011–21, the temporary regulations apply to TIPS issued on or after April 8, 2011. See § 601.601(d)(2)(ii)(b).

Special Analyses

It has been determined that this Treasury decision is not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory assessment is not required. It has also been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations, and because the regulations do not impose a collection of information on small entities, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Pursuant to section 7805(f) of the Code, these regulations have been submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on their impact on small business.

Drafting Information

The principal author of these regulations is William E. Blanchard, Office of Associate Chief Counsel (Financial Institutions and Products). However, other personnel from the IRS and the Treasury Department participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Amendments to the Regulations

Accordingly, 26 CFR part 1 is amended as follows:

PART 1—INCOME TAXES

■ **Paragraph 1.** The authority citation for part 1 continues to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

Section 1.1275–7T also issued under 26 U.S.C. 1275(d). * * *

■ **Par. 2.** Section 1.1275–7T is added to read as follows:

§ 1.1275–7T Inflation-indexed debt instruments (temporary).

(a) through (h) [Reserved]. For further guidance, see § 1.1275–7(a) through (h).

(i) [Reserved]

(j) *Treasury Inflation-Protected Securities issued with more than a de minimis amount of premium*—(1) *Coupon bond method.* Notwithstanding § 1.1275–7(d)(2)(i), the coupon bond method described in § 1.1275–7(d) applies to Treasury Inflation-Protected Securities (TIPS) issued with more than a de minimis amount of premium. For this purpose, the de minimis amount is determined using the principles of § 1.1273–1(d).

(2) *Example.* The following example illustrates the application of the bond premium rules to a TIPS issued with bond premium:

Example. (i) *Facts.* X, a calendar year taxpayer, purchases at original issuance TIPS with a stated principal amount of $100,000 and a stated interest rate of .125 percent, compounded semiannually. For purposes of this example, assume that the TIPS are issued in Year 1 on January 1, stated interest is payable on June 30 and December 31 of each year, and that the TIPS mature on December 31, Year 5. X pays $102,000 for the TIPS, which is the issue price for the TIPS as determined under § 1.1275–2(d)(1). Assume that the inflation-adjusted principal amount for the first coupon in Year 1 is $101,225 (resulting in an interest payment of $63.27) and for the second coupon in Year 1 is $102,500 (resulting in an interest payment of $64.06). X elects to amortize bond premium under § 1.171–4. (For simplicity, contrary to actual practice, the TIPS in this example were issued on the date with respect to which the calculation of the first coupon began.)

(ii) *Bond premium.* The stated interest on the TIPS is qualified stated interest under § 1.1273–1(c). X acquired the TIPS with bond premium of $2,000 (basis of $102,000 minus

LOS ANGELES DEVELOPMENT FUND

Special Meeting *of the* Governing Board of Directors *and* Advisory Board of Directors *of*

The Los Angeles Development Fund *and* LADF Management, Inc.

August 1, 2013

SPECIAL MEETING *of the*

GOVERNING BOARD OF DIRECTORS *and* ADVISORY BOARD OF DIRECTORS *of*

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

AUGUST 1, 2013

Tab Table of Contents

Tab 1

LADF
LOS ANGELES DEVELOPMENT FUND

A G E N D A

SPECIAL MEETING *of the*
GOVERNING BOARD OF DIRECTORS *and* ADVISORY 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, August 1, 2013 | 1:00pm – 2:30pm

	AGENDA ITEM	PRESENTER	TAB
1	Welcome and Call to Order	Rushmore Cervantes	
2	Roll Call	Rushmore Cervantes	
3	Discussion Items	Sandra Rahimi	
	• Replacement of Greg Irish as signer on all bank accounts for the Los Angeles Development Fund and LADF Management, Inc.		
4	Action Items	Sandra Rahimi	
	1. Appoint the General Manager of the City of Los Angeles Economic Development Department (or her designee) to replace the General Manager of Community Development Department of the City of Los Angeles on the Governing Board of Los Angeles Development Fund and LADF Management, Inc. This position is currently held by Jan Perry.		Tab 2
	2. Appoint the Executive Officer for the City of Los Angeles Housing and Community Investment Department (or his designee) to replace the Executive Officer for the City of Los Angeles Housing Department on the Governing Board of Los Angeles Development Fund and LADF Management, Inc. This position is currently held by Rushmore Cervantes.		Tab 2
	3. Approve $10 Million Sub-Allocation of New Markets Tax Credits for the La Kretz Innovation Campus Project		Tab 3
	4. Approve $10 Million Sub-Allocation of New Markets Tax Credits for the WattStar Project		Tab 4
	5. Approve Butler Snow as NMTC transaction counsel for WattStar, YWCA Job Corps, Food4Less, One Santa Fe, and Bobrick transactions		
5	Request for Future Agenda Items	Rushmore Cervantes	
6	Next Meeting Date and Time of Governing Board	Rushmore Cervantes	
	• TBD		
7	Public Comment	Rushmore Cervantes	
8	Adjournment	Rushmore Cervantes	

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

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

Tab 2

RESOLUTIONS

of the
Board of Directors
of
The Los Angeles Development Fund

At a meeting of the Board of Directors of The Los Angeles Development Fund, a California nonprofit public benefit corporation (the "Corporation"), duly convened and held on the 1st day of August, 2013, at which a quorum was present and acting throughout, the following resolutions were adopted:

WHEREAS, pursuant to the Articles of Incorporation, as amended, of the Corporation, the members of the Board of Directors are (i) the General Manager of the Community Development Department of the City of Los Angeles; (ii) the Executive Officer of the Los Angeles Housing Department of the City of Los Angeles; (iii) the Chairman of the Industrial Development Authority of the City of Los Angeles; (iv) the Chief Legislative Analyst of the City of Los Angeles; and (v) the City Administrative Officer of the City of Los Angeles, or their designees;

WHEREAS, effective July 1, 2013, the Mayor and City Council approved the dissolution of the Community Development Department, and transferred all functions of the Community Development Department into the Housing and Community Investment Department and the Economic and Workforce Development Department;

WHEREAS, as part of the transfer to the Los Angeles Housing Department of certain of the functions of the Community Development Department, the City has renamed that department the "Los Angeles Housing and Community Investment Department"; and

WHEREAS, the existing Board of Directors wish to provide for the continuation of the Board of Directors with five (5) directors.

NOW THEREFORE, BE IT RESOLVED, that the Director representing the Community Development Department be removed from the Board of Directors, and replaced with the General Manager of the Economic and Workforce Development Department, or designee;

RESOLVED FURTHER, that the membership on the Board of Directors reserved for the Executive Officer of the Los Angeles Housing Department, or his or her designee, shall now be reserved for the Executive Officer of the Los Angeles Housing and Community Investment Department, or designee;

RESOLVED FURTHER, that the Articles of Incorporation of the Corporation be amended to reflect the composition of the Board of Directors as set forth in these resolutions; and

RESOLVED FURTHER, that the President of the Corporation is authorized to execute such a Certificate of Amendment of Articles of Incorporation of the Corporation and to file the same with the California Secretary of State.

The above resolutions were passed by the necessary majority of those present and voting in accordance with the Bylaws and Articles of Incorporation of the Corporation.

The original executed copy of this document shall be filed in the minute book of the Corporation and become a part of the records of the Corporation.

*   *   *

SECRETARY'S CERTIFICATE

I HEREBY CERTIFY that I am the duly elected and acting Secretary and keeper of the records and corporate seal of the Los Angeles Development Fund, a California nonprofit public benefit corporation (the “Corporation”); that the attached is a true and correct copy of the resolutions duly adopted by the Board of Directors (the “Board”) of the Corporation at a duly noticed and called meeting of such Board on August 1, 2013 (collectively, the “Resolution”); that the Resolution does not conflict with the corporate charter or bylaws of the Corporation, nor has the Resolution been in any way altered, amended or repealed and that it is in full force and effect, unrevoked and unrescinded, as of this day, and has been entered upon the regular minute book of this Corporation, as of the aforementioned date, and that the Board of the Corporation has, and at the time of adoption of the Resolution, had, full power and lawful authority to adopt the Resolution and to confer the powers thereby granted to the officers and staff therein named who have full power and lawful authority to exercise the same.

____

Sandra Rahimi, Secretary

Tab 3

LADF
LOS ANGELES DEVELOPMENT FUND

NEW MARKETS TAX CREDITS INVESTMENT REPORT

TO:	LADF Board of Directors
FROM:	Sandra Rahimi, Secretary
DATE:	August 1, 2013
SUBJECT:	Request to Approve a $10,000,000 New Markets Tax Credits Allocation to La Kretz Innovation Campus ("**QALICB**", or "**La Kretz**") for the La Kretz Innovation Campus Project ("**Project**")

SUMMARY

Project Name:	La Kretz Innovation Campus
Location:	Downtown Los Angeles / Arts District BID (CD 14 – Jose Huizar)
Project Description:	59,985 SF / Building Rehabilitation / Commercial-Industrial Use
Sponsor / Operator:	Department of Water and Power of the City of Los Angeles ("**LADWP**")
Ownership:	• QALICB will purchase *Land, Building, and Improvements* at closing • Master Lease *(30 Years):* QALICB (*Lessor*), LADWP (*Lessee*)
NMTC Investor:	US Bancorp Community Development Corporation ("**Investor**")
Total Project Cost:	$ 47,500,000
Total Allocation / QEI: *LADF Allocation / QEI*:	$ 43,000,000 $ 10,000,000 (*2011 Allocation*) • *LADF IX, LLC (Certified Sub-Allocatee)*
Job Creation:	**499** Permanent Jobs, **210** Construction Jobs – (*Sum of Direct & Indirect Jobs*)
Site Eligibility Criteria:	2010 Census Tract No. 06037206031 • 40.1% Poverty Rate (*greater than 30%*) • 2.03x National Average Unemployment Rate (*greater than 1.5x*)
Community Benefits:	• *Clean Tech:* Investment in the clean/renewable energy industry in City of L.A. • *Job Training*: Workforce training for "*cleantech*" jobs provided onsite • *Union Hiring*: LADWP Perm. Jobs – 80% of Constr. Jobs (union subcontractors) • *Sustainability:* Project expected to achieve LEED Gold accreditation • *Public* Space: Project will provide a new park for the Arts District community

Compliance with 2011 Allocation Agreement:

☑ Sect. 3.2(a):	Loan to Real Estate QALICB	☑ 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% Pushdown of QEI		

Projected Residual Value of QLICI that may be obtained by the QALICB: $ 3,198,000

CONTENTS

LADF
LOS ANGELES DEVELOPMENT FUND

SITE ANALYSIS AND SITE CONTROL

The Project site is approximately 3.2 acres and located near the eastern bounds of Downtown Los Angeles. It is made up of the following contiguous address locations:

- 501 & 537 S. Hewitt Street, Los Angeles, CA 90013
- 516, 524 & 542 Colyton Street, Los Angeles, CA 90013

The site is under the jurisdiction of Council District 14 of the City of Los Angeles, represented by Councilmember Jose Huizar. Additionally, the site lies within the following designated economic development areas:

- *Bus. Improvement District*: Arts District
- *Revitalization Community*: Central City
- *State Enterprise Zone*: East Los Angeles State Enterprise Zone

The site is also located in the middle of LA's Cleantech Corridor, which is a four-mile long development district on the east and west banks of the Los Angeles River. The Project scope aligns with the Cleantech Corridor initiative, which is to support businesses dedicated to cleantech manufacturing processes and technologies.

The site is 1 mile west of the Santa Ana Freeway (101), Santa Monica Freeway (10), and Golden State Freeway (5). It is less than 1 mile south of the Little Tokyo / Arts Districts Metro Gold Line rail station. Public bus transportation is located nearby on 4th Place and on Central Avenue.

The site is currently zoned "M3" Heavy Industrial Zone, which allows for the Project's uses. The land uses adjacent to the site comprise multifamily residential to the east, commercial retail to the north, as well as other industrial.

Site Control

LADWP owns the Project site and will enter into a Purchase and Sale Agreement with the QALICB prior to closing of the NMTC transaction. At closing, all fee interest in the subject property will transfer to the QALICB. LADWP has also negotiated a Master Lease Agreement of the subject premises for a term of 30 years (including land, buildings, and improvements) with the QALICB, which will be executed at closing. As master tenant, LADWP will operate the Project and be responsible for management and maintenance of the subject property.

Both the Purchase and Sale Agreement (including addendum) and Master Lease Agreement are subject to approval by the Los Angeles City Council, and will be presented at the Council meeting on August 9, 2013. LADWP expects that the approval requests will not be denied.

PROJECT DESCRIPTION

The La Kretz Innovation Campus Project includes the complete building rehabilitation of an existing 59,985 SF industrial building. The Project will be a cleantech industry hub, a place where entrepreneurs, engineers, scientists and policy makers[1] will interact to promote and support the development of clean

[1] This highlights one of the primary goals for the Project, that it will bring together business, government, and academia to grow LA's cleantech sector and to promote sustainability and economic growth by connecting LA's cleantech professionals through advocacy, networking, and education. Once the workforce job training partner comes onboard, it is anticipated that LACI, LADWP staff, and workforce training staff will all interact with each other.

technologies and Los Angeles' green economy. The Project is named after Morton La Kretz, a leading businessman and philanthropist in Los Angeles. Mr. La Kretz's philanthropic work focuses on education, the environment and conservation. Among his works are UCLA's La Kretz Hall (houses the Institute of the Environment and Sustainability) and Cal State L.A.'s La Kretz Hall of Sciences.

The amenities of the Project, upon completion, will include:

- Offices
- Conference Rooms
- Wet Lab[1]
- Prototype Manufacturing Workshop
- Classrooms
- New Arts District Park (open to the public)
- Surface Parking with Photovoltaic Solar Canopy

Proposed Tenant Mix

The primary tenant will be the Los Angeles CleanTech Incubator ("**LACI**"), which will enter into an agreement to sublease space from the LADWP. LADWP will also occupy some of the space for back office use.

The complete building program and tenants for the Project are as follows:

• LACI	27,613 SF
• LACI – Prototype Manufacturing Workshop	5,205 SF
• LADWP – Smart Grid DRDL[2]	5,230 SF
• LADWP – Energy Efficiency Administration Center	9,345 SF
• Clean Tech Institute (*proposed*)	8,000 SF
• Common Areas	4,592 SF
	59,985 SF

The Clean Tech Institute ("**CTI**") is the current proposed tenant to provide onsite workforce training. The CTI provides workforce training specifically focused on jobs in the clean and renewable energy industry. They currently operate 6 training centers, all within California, in Los Angeles, Irvine, Riverside, San Diego, Sacramento, and Moffett Field (Silicon Valley). Other potential workforce training operators have been identified in case an agreement is not reached with CTI. These include the Pacific Asian Consortium in Employment (operator of a WorkSource Center), L.A. Trade Technical College, and the International Brotherhood of Electrical Workers. The eventual workforce training partner selected for the Project site will focus on training for cleantech jobs. .

Los Angeles CleanTech Incubator

LACI is a City of LA-conceived, private nonprofit that works in partnership with the City's educational and research organizations to accelerate the commercialization of clean technologies in addition to accelerating new products developed by independent entrepreneurs. LACI was founded in 2011 to empower the City's primary economic strategy, which is to drive the innovation and growth of its green economy. It was funded by the former Community Redevelopment Agency of the City of Los Angeles ("**CRA/LA**") and LADWP for the City of LA and is a result of the Clean Tech Los Angeles (CTLA) alliance among the Mayor's office, USC, UCLA, Caltech, the Art Center College of Design, the Los Angeles County Economic Development

[1] A wet lab is where hands-on scientific research and experimentation may be performed, as opposed to computer analysis or other theoretical work. (*Paraphrased from multiple sources*)
[2] Demand Response Demonstration Laboratory ("DRDL")

Corporation, the Los Angeles Business Council, the Los Angeles Area Chamber of Commerce, LADWP, and the former CRA/LA.

LACI's existing facility is a 3,500 SF building located on 411 S. Hewitt Street, one block north of the Project site. Operating out of this temporary facility, LACI provides many services and resources to 15 carefully vetted cleantech entrepreneurs ("**Portfolio Companies**"), including office space, CEO coaching and mentoring, continuing education, and access to a network of experts and capital. Seven of the 15 have full-time office space in the temporary facility, and another 4 of them share open desktops[1] onsite. Upon completion of the Project, LACI will have 210 desktops in its new permanent facility capable of accommodating anywhere between 40 to 100 companies depending on their size and stage of development. Additionally, LACI anticipates assisting an average of 50 Portfolio Companies each year (both onsite and offsite) from the new permanent facility, and scaling as demand merits.

LACI management operates as a fairly flat organization for maximum impact with a small staff. Neal Anderson[2], COO, will be responsible for overseeing day-to-day operations of LACI, as well as the Portfolio Company programs. Mr. Anderson will manage the weekly executive coaching of the Portfolio Companies. Advisors are brought in on an as-needed basis to assist with specific Portfolio Company needs that require specialized domain expertise. One of the greater value-add for Portfolio Companies is getting plugged into the extended network of cleantech stakeholders in the region. That ranges from identifying potential customers and demo projects, to connecting with academic institutions for research and collaboration, to recruiting employees, to identifying potential investors. Portfolio Company needs are identified through the coaching process, and connections are made through the network by the LACI staff members that have the closest relationship.

Cleantech startups can apply to become incubated at LACI. The application process includes analyzing the candidate's plans, interviewing the management team, seeking advice from advisors, reviewing financials, and checking references. To-date, two companies have "graduated" from LACI's incubator: 350Green and Gridtest Systems. 350Green designs, builds and operates a scalable, nationwide network of electric vehicle charging stations. The company was acquired by Car Charging Group, Inc., a larger publicly-traded corporation in the same industry, which is headquartered in Miami, FL and has offices in California, New York, Canada, and Spain. Since the acquisition of their company, the founders of 350Green have launched a new company that is now a Portfolio Company of LACI.

Gridtest Systems is the first independent manufacturer of test and measurement equipment for electric vehicle infrastructure. The company developed an "EV Emulator" that empowers electric vehicle infrastructure players like manufacturers, service providers, utilities and installers with the ability to ensure their product is safe, reliable and compatible with all electric vehicles. In early 2012, Gridtest completed a seed investment round with leading Southern California angel investors and has been

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[1] An "open desktop" is one that is not enclosed inside of office walls and a door (*e.g.* workstation). This is common practice in incubators, and leveraged to maintain maximum flexibility as well as a collaborative working environment. Open desktops are grouped within zones. Those zones may be used by a single company, or shared by multiple companies, depending on their needs.

[2] Neal Anderson has over 15 years of experience boosting productivity, revenue and profit for both startups and existing organizations. As Co-Founder and Managing Partner of the Propellant Group, Mr. Anderson has focused on helping early stage organizations manage critical transitions. Additionally, he has consulted for Stanford University and Idealab, spearheaded one of the first online marketplaces for government procurement with Visa and Chase, ran Marketing & PR for a remote communications software company, and helped to start a nonprofit aimed at mentoring at-risk youth in entrepreneurship.

expanding ever since. The company is currently headquartered in Westlake Village, CA with international distribution channels through Ireland, Taiwan, Korea, Australia, and New Zealand.

Project Background

The history of the Project began with the LADWP entering into a MOU with the former CRA/LA on April 30, 2010. The MOU stated that both LADWP and CRA/LA would collaborate on the planning and development of a "Clean Tech Innovation Campus". With the enactment of the "Dissolution Bill" in California in 2011, the CRA/LA was effectively dissolved and its obligations were taken over by its successor agency, CRA/LA, a Designated Local Authority ("**CRA/LA DLA**"). Since this time, LADWP assumed a larger role in the development of the Project. CRA/LA DLA is no longer involved in management of the Project.

COMMUNITY AND ECONOMIC BENEFITS

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

- Creating **499** Permanent Jobs and **210** Construction Jobs
- Supporting the clean/renewable energy industry and sustainable initiatives in the City of L.A.
- Providing onsite job training for trades in cleantech
- Union hiring of all LADWP Permanent Jobs and 80% of Construction Jobs (union subcontractors)
- Building to LEED Gold standards and applying for accreditation
- Providing a new park as public space amenity for the Arts District community

The community benefits discussed in this section will be required of the Project borrower, QALICB, by way of a Community Benefits Agreement ("**CBA**"). The CBA will also include an annual reporting requirement that will include tracking for many of the measurable community impacts. As of the time of this report, the CBA is still under negotiation.

Job Creation

Due to the unique nature of the incubator space, the Sponsor ordered two IMPLAN analyses, dated July 2013, for the Project and for the incubator space (separately) to estimate the job creation that could be expected from the NMTC financing. IMPLAN is an economic impact assessment software that is used in many planned projects today to create reasonable expectations for the economic outcomes. Direct Jobs reflects the LADWP employees onsite as well as the number of jobs associated with the incubator. Indirect Jobs reflects those jobs associated with incubated companies once they move offsite.

Taking into consideration the reporting guidelines for the CDFI Fund's Community Investment Impact System ("**CIIS**"), the total permanent job creation estimate for the Project is broken out as follows:

- Permanent "Direct" Jobs: **78**
- Permanent "Indirect" Jobs: **421**

The total construction job estimate was provided by the first IMPLAN analysis for the whole Project and broken out as follows:

- Construction "Direct" Jobs: **168**
- Construction "Indirect" Jobs: **42**

The CBA will also stipulate that the QALICB require the General Contractor ("**GC**") to make best efforts to hire 40% of construction jobs with subcontractors that are located within the City of LA and 80% of construction jobs with union subcontractors. The CBA will also stipulate that 100% of the construction jobs will pay Davis-Bacon wages[1].

Other Community and Economic Benefits

The IMPLAN analyses generated for the entire Project and the incubator space also provided for the following benefits expected from the Project:

- Low-Income Hiring: 13 low-income individuals will be hired by LACI and/or LACI Portfolio Companies through the City of LA's WorkSource Centers[2]
- "Induced" Job[3] Creation: 239 Permanent "Induced" Jobs and 77 Construction "Induced" Jobs
- Construction Tax Impact: $2.6 million Federal and $1.4 million State & Local
- Operations Tax Impact: $1.5 million Federal and $0.8 million State & Local

Though LACI is only under obligation to hire 13 low-income individuals during the first two years of operations, LACI expects this number to be much higher considering that 25% of jobs created in the cleantech sector are manufacturing jobs.

DEVELOPMENT TEAM

"Real Estate" QALICB: La Kretz Innovation Campus ("La Kretz")

La Kretz is a California nonprofit public benefit corporation formed on April 16, 2013. This entity will serve as the Qualified Active Low Income Community Business ("**QALICB**") for the NMTC transaction purposes. The entity is affiliated with and established by LADWP for the purposes of owning the real estate interests in the Project, including land, building, and improvements. It will master lease the premises to LADWP to carry out the development and operation of the Project.

An Agreed-Upon Procedures ("**AUP**") contract will not be required of the QALICB. La Kretz 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.

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 LADWP originally solicited.

Sponsor/Guarantor: Department of Water and Power of the City of Los Angeles ("**LADWP**")

LADWP is the nation's largest public utility, providing commercial and residential electricity and water service for over 100 years. It serves 3.8 million residents and businesses in Los Angeles.

"As a revenue-producing proprietary department, the LADWP transfers a portion of its annual estimated electric revenues to the City of Los Angeles general fund. LADWP's operations are financed solely by the sale of water and electric services. Capital funds are raised through the sale of bonds. No tax support is received.

[1] The Davis–Bacon Act of 1931 is a federal law that requires paying the local prevailing wages on public works projects for laborers and mechanics.
[2] This is a requirement of the CDBG funding provided for the Project (see "FINANCING STRUCTURE")
[3] As defined by the CDFI Fund: "Induced jobs are generated by the spending of households in the local economy as the result of direct and indirect effects from an economic activity (i.e. project, business financing, etc.). The induced effects arise when employees who are working for the project business and at suppliers that may provide goods and services to the business (e.g. new manufacturing plant and local manufacturer supplier chain businesses) spend their new income in the community. Induced jobs cannot be reported in [CIIS]."

A five-member Board of Water and Power Commissioners establishes policy for the LADWP. The Board members are appointed by the Mayor and confirmed by the City Council for five-year terms."[1]

LADWP activities are organized into and funded by two enterprise funds of the City of Los Angeles:

- LADWP Power Revenue Fund ("**LADWP Power**")
- LADWP Water Revenue Fund ("**LADWP Water**")

The activities of both are self-supporting: LADWP Water activities are funded primarily through the sale of water to the public it serves; and LADWP Power activities are funded primarily through the sale of energy, transmission, and distribution services to the public it serves.

LADWP will be providing guaranties and indemnities for the purposes of the NMTC transaction, but only to the extent that funds are available through LADWP Power. The assets of LADWP Water will not be available to support any guaranties or indemnities. For further discussion see the section entitled "COLLATERAL AND GUARANTEES".

Financial Statement Analysis

Since the QALICB is newly formed and has no financial reports, LADF has reviewed the audited financial statements of LADWP Power only, for the fiscal years ending June 30, 2010, June 30, 2011, and June 30, 2012. The following table includes several line items to summarize LADWP's financial position:

in 000s	**June 30, 2012**	**% Chg**	**June 30, 2011**	**% Chg**	**June 30, 2010**
Total Assets	**$ 12,627,575**	0.9%	**$ 12,520,138**	6.7%	**$ 11,732,819**
Current Assets	$ 1,683,934	(8.8%)	$ 1,846,753	13.8%	$ 1,623,226
• *Cash – Unrestricted*	$ 417,895	(25.6%)	$ 561,414	32.5%	$ 423,855
• *Cash – Restricted*	$ 395,225	28.0%	$ 308,879	(9.1%)	$ 339,806
Total Liabilities	**$ 7,572,837**	(0.1%)	**$ 7,583,586**	10.6%	**$ 6,853,908**
Current Liabilities	$ 916,745	9.4%	$ 838,155	6.4%	$ 787,481
Fund Net Assets	**$ 5,054,738**	2.4%	**$ 4,936,552**	1.2%	**$ 4,878,911**
Unrestricted Net Assets	$ 1,996,651	(9.7%)	$ 2,211,952	11.4%	$ 1,985,102
Operating Revenue	**$ 3,081,680**	(1.4%)	**$ 3,125,957**	(3.4%)	**$ 3,235,193**
Operating Income	**$ 452,139**	4.9%	**$ 430,832**	(29.4%)	**$ 609,893**
Cash Flow from Operations	**$ 851,610**	27.8%	**$ 666,479**	(10.2%)	**$ 741,881**
Debt Service (Prncpl + Intrst)	**($ 333,094)**	(21.1%)	**($ 422,034)**	21.9%	**($ 346,116)**

Based on the LADWP Power audited financial statements, LADF made the following calculations for financial health indicators[2]:

Indicator Ratios	**June 30, 2012**	**June 30, 2011**	**June 30, 2010**	***2010 Industry Avg.***
Long-term Debt / Total Assets	50.3%	51.9%	48.7%	*N/A*
Current Assets / Current Liabilities[1]	1.84x	2.20x	2.06x	*2.78x*

[1] Excerpt from LADWP website (www.ladwp.com), July 2013
[2] Industry averages provided by Grand Rapids (Minnesota) Public Utilities Commission report for 2002-2011 (Sept. 2012)

Net Operating Income / Debt Service Payments[2]	2.92x	2.23x	3.12x	*4.54x*
Operating Expenses / Operating Revenues[3]	72.5%	73.8%	70.7%	*89.9%*
Net Income / Operating Revenues[4]	11.1%	9.2%	16.4%	*3.7%*
Cost per KWh	$0.097	$0.100	$0.098	*$ 0.071*
Revenues per KWh	$0.134	$0.136	$0.138	*$ 0.084*

By comparison to the performance of the utility industry in 2010, LADWP Power posts higher profitability with greater returns on revenue while controlling for operating expenses better than the industry average. Though it achieves healthy levels for operations, LADWP Power is performing under the industry average with regards to leverage. Debt service coverage ranged from 2.23x to 3.12x in the past 3 fiscal years, well below the 2010 industry average of 4.54x. This might indicate that the public utility is slightly more leveraged than other utilities on average. With long-term debt at around 50% of total assets, leverage is not expected to pose a material risk.

MANAGEMENT PROFILE – KELLI BERNARD, DIRECTOR OF ECONOMIC DEVELOPMENT[5]

LADWP has placed Ms. Kelli Bernard, its Director of Economic Development, in charge of managing the La Kretz project. Ms. Bernard is also the Chairperson of the Board of Directors for LACI. She has over 15 years experience in economic and real estate development in the City of Los Angeles. As LADWP's Director of Economic Development, Ms. Bernard is responsible for developing and managing the Department's economic development initiatives, including its Cleantech Initiative and ensuring that LADWP continues to play a prominent role as an economic catalyst for the City of LA.

Prior to LADWP she served as Director of Planning and Economic Development for LA City Council President Eric Garcetti where she was responsible for overseeing key development projects in the district, facilitating CD13's economic development initiatives, and providing staffing for the Council President on Citywide planning and land use issues. She was formerly Vice President of Real Estate at Genesis LA, a nonprofit economic development corporation, where she was responsible for Genesis LA's real estate development services. Ms. Bernard is experienced in the areas of economic development, land use planning, housing, redevelopment and public affairs. She also has in-depth knowledge of public/private partnerships, public funding and local, state and federal regulatory and legislative issues.

As of July 2013, by appointment of the Mayor of the City of Los Angeles, Ms. Bernard will be the Interim Chief of Economic Development for the office of the Mayor. Ms. Bernard will assume the roles and responsibilities of this position in addition to her current position as LADWP's Director of Economic Development. It is intended that once the Mayor makes a permanent appointment for the Chief of Economic Development, Ms. Bernard expects to return to her role at LADWP.

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[1] This is a measure of the utility's short-term liquidity (the ability to pay bills). The current ratio takes a snapshot of the utility's liquidity at a point in time and thus may vary considerably at other times of the year.
[2] This ratio measures the utility's ability to meet its annual long-term debt obligation. Net revenues available for debt service equal net utility operating income (operating revenues minus operating expenses) plus net utility non-operating income, plus depreciation. Debt service includes principle and interest payments on long-term debt. This ratio may be influenced by a utility's financial policies.
[3] The ratio calculates total operation and maintenance expenses to total operating revenues.
[4] This ratio measures the utility's profitability, also referred to as return on sales.
[5] Kelli Bernard's bio provided by website for LACI Board of Directors: http://laincubator.org/about/board-of-directors/

LADF
LOS ANGELES DEVELOPMENT FUND

General Contractor: USS Cal Builders, Inc.

USS Cal Builders, Inc. ("**USSCB**") was selected to be the GC for the Project from a RFP process coordinated by LADWP. USSCB is a general contracting firm established in 1984 and headquartered in Stanton, California (Orange County). Since inception, it has successfully completed over a billion dollars of publicly-funded and privately-owned projects. Among various projects completed within City of LA, USSCB has completed the Los Angeles Fire Station #64 (LEED Silver certified) and the northeast campus of LA City College.

USSCB will provide a Guaranteed Maximum Price contract ("**GMP**"), which is expected to be executed by the end of July 2013. Please refer to the section entitle "COMMUNITY AND ECONOMIC BENEFITS" for discussion about local hire, union labor and Davis Bacon wage requirements.

Architect: John Friedman Alice Kimm Architects, Inc. ("**JFAK**")

JFAK was selected by the former CRA/LA as the general architect for the Project. JFAK was on CRA/LA's list of pre-qualified firms and applied to the CRA/LA Request for Proposal issued specifically for the Project on July 13, 2010.

JFAK was formed in 1996 and has achieved 50 significant design distinctions, including 16 American Institute of Architects Chapter and State awards. In 2004, the firm's LA Design Center received an AIA Institute Honor Award, widely accepted to be the most significant architecture award that a single project can win in the US. JFAK's work has been published worldwide in over 100 periodicals and books. In recognition of these ongoing achievements, John Friedman and Alice Kimm were named "Emerging Voices" in 2004 by The Architectural League of New York.

> "The firm's portfolio encompasses a range of building types and sizes that have been widely recognized for their technological, material, and sustainable intelligence, as well as for their spatial fluidity, quality of light, and social significance. Noteworthy early projects including Club Sugar, the L.A. Design Center, and the SK Swim Center are followed by more recent examples such as the King Residence, the Graduate Aerospace Laboratories at Caltech, and the Guest of Honor Pavilion for the 2009 Guadalajara International Book Fair. Both the Ehrlich Residence and the Green Dot East 27th Street Charter High Schools have been widely lauded for their integration of the most up-to-date sustainable strategies, the latter project being the first LEED-rated charter school facility in Los Angeles."[1]

PROJECT FEASIBILITY

Property Appraisals

An appraisal has been ordered for the "as is" market value of fee simple interest in the existing 59,985 SF building, in its present condition. The appraisal is expected to be issued by the end of July. This appraised value will be used to support the One-Day Loan provided by US Bank for property acquisition.

Environmental Inspections

A Phase I environmental report of the subject property was provided by Tetra Tech in July 2010. In the report, the inspector identified 7 vacant and 2 occupied warehouse structures, and no environmental concerns from the current use of the site at the time of the inspection. However, the report identified recognized environmental concerns with regards to historical use of the site. Among the prior uses onsite

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[1] Excerpt from JFAK's website: http://www.jfak.net/info

were an auto repair facility, an auto paint shop, and several underground storage tanks. The report recommended additional investigation based on the historical uses of the site. A Phase II subsurface investigation of the site was also made in July 2010, along with a methane study and a Human Health Risk Assessment. Each report has made recommendations for addressing concerns that require further action. Such action includes installation of a sub-slab vent system and impervious membrane for methane mitigation, as well as other procedures recommended for removal of asbestos-containing materials and lead-based paint prior to any demolition or renovation activities. All such necessary actions will be taken as recommended.

An updated Phase I report was ordered by the QALICB. If the updated assessment discovers no new conditions arising from the time of the last assessment, then it would be expected that further investigation would be unnecessary. A reliance letter will be provided naming LADF and LADF's SubCDE as parties that may rely on the report.

Construction Feasibility

LADWP will be responsible for development of the Project by way of a Development Services Agreement that it will enter into with the QALICB. The Los Angeles Bureau of Engineering ("**BOE**") in conjunction with the Bureau of Contract Administration ("**BCA**") will manage construction of the Project at a cost of $1.3 million, which amount is included in the Project's soft cost budget. BOE coordinated the bid process, evaluated project bids, and will enter into the GMP with the selected GC on behalf of LADWP. During construction, BOE will monitor progress and inspect the work done, as well as coordinate the disbursement process with the CDE Lenders (included parties discussed in section "FINANCING PARTNERS"). BOE will also coordinate with BCA for the purposes of contract administration and oversight of the GC, including contract compliance with all applicable City, federal, state, and local laws and regulations, contractor payments, and construction inspections. Construction and development activities are delegated as such pursuant to an existing inter-agency MOU between BOE and LADWP.

BOE serves as the project and construction management entity for the City of Los Angeles and has the necessary expertise and capacity to provide such related services for other City departments. BOE is responsible for the City's vast network of public infrastructure, which includes the planning, design, and construction of all public facilities, management of billions of dollars of voter-approved public bond funds, and the delivery of cross-sector local government programs that serve millions of residents and businesses in diverse neighborhoods and industries.

The preliminary construction budget estimates construction hard costs of $23.7 million (not including hard cost contingency of $3.6 million) and soft costs of $3.1 million (not including $1.4 million of expended pre-development costs to-date). The cost estimates are based on the final bid by the selected GC. A costing analysis of the Project was made by BOE and BCA earlier in the pre-development stage.

Probable Maximum Loss Report

A Probable Maximum Loss (PML) study will be required of the QALICB. It is expected that the design and scope of the rehabilitation will reflect the most current seismic design standards and thus result in an acceptably low PML.

The PML report is provided by an engineer and is based on predictions of the largest seismic event that will occur within a given period for a given location. Most PMLs are modeled to the 475-year event; the 475-year event has a 10% likelihood of occurring in 50 years. The PML is also called the "damage ratio" and expresses the ratio of the building's expected damage as a percentage of the building's replacement cost. The PML report ultimately predicts the damage in dollars that a structure will experience when "the big one" occurs. Historically, lenders have treated damage ratios (or PMLs) above 20% as high-risk properties requiring mitigation via insurance or seismic retrofit.

Project Financial Feasibility

SOURCES		USES	
Investment Fund Level (NMTC)		**Construction Uses**	
LADWP Lev. Loan (IF 1)	27,815,400	*Acquisition Costs:*	
LADWP Lev. Loan (IF 2[1])	2,636,000	- Land Value	11,125,000
Leverage Loan Sources	$30,451,400	- Reimb. of Arch/Eng Costs (spent)	1,400,000
		Hard Costs:	
NMTC Equity (IF 1) - $0.82/TC	12,472,200	- Construction Costs	23,698,000
NMTC Equity (IF 2[1]) - $0.90/TC	1,404,000	- Contingency (15%)	3,555,000
NMTC Investor Equity	$13,876,200	*Soft Costs:*	
		- Soft Costs (inc. Contingency)	3,102,000
Project Level (Direct Sources)		***Sub-Total***	$42,880,000
LADWP Contribution to Project	$3,204,300		
		Financing-Related Uses	
		Construction Period Interest	600,000
		NMTC Closing Costs:	
		- Legal & Accounting Fees	460,000
		- NMTC Consultant's Fee	500,000
		- CH CDFI[2] Sponsor Fee	200,000
		- CA CDE[2] Sponsor Fees	490,000
		- URP[2] Upfront Fee	870,000
		- URP[2] Req'd Charitable Donation	240,000
		- **LADF** CDE Sub-Allocation Fee	200,000
		NMTC Reserves:	
		- Fund Management Fee Rsv	40,000
		- CA CDE[2] Asset Mgmt Fee Rsv	140,000
		- CH CDFI[2] Fee/Expense Rsv	405,000
		- **LADF** Asset Management Fee Rsv	350,000
		- **LADF** Expense Rsv	120,000
		- USBCDE[2] Expense Rsv	36,900
		Sub-Total	$4,651,900
Total Project Sources	**$47,531,900**	**Total Project Uses**	**$47,531,900**

DEVELOPMENT PRO FORMA

The total project cost is estimated to be $47.5 million, $44.3 million of which will be leveraged through the NMTC structure to make $42.7 million in Qualified Low-Income Community Investment ("**QLICI**") loans to the Project. The construction costs for the rehabilitation work are estimated at $31.8 million, $1.4 million of which has been expended to-date.

[1] US Bank is creating a separate investment fund for its USBCDE allocation. Please see "FINANCING STRUCTURE".
[2] Please refer to the section entitled "FINANCING PARTNERS" for defined abbreviations of the parties to the transaction.

The total $42.7 million of QLICI funds will be disbursed as follows at closing:

- $12.5 million – Acquisition of Property (Repayment of One-Day Loan)
- $1.7 million – Pay for NMTC Closing Costs
- $1.1 million – Fund the CDE-Controlled Fee and Expense Reserve Accounts
- $27.4 million – Fund the CDE-Controlled Construction Disbursement Account

The project's draw process will be coordinated by BOE, as construction manager. BOE's role will include obtaining date down endorsements from the title company and lien waivers throughout the construction period. BOE will also monitor the construction progress of the Project and coordinate the disbursement process.

NMTC-related reserves held by the QALICB will total $1.4 million and be held for the quarterly payments of asset management fees and expense reimbursements to the subsidiary Community Development Entities ("Sub-CDEs"). The SubCDEs will require that their fees and expense reimbursements for the entire NMTC Compliance Period be held in separate reserve accounts, including $470,000 held in an account pledged to LADF for LADF fees and expense reimbursements. Unlike most non-bank CDEs, US Bank's CDE does not charge asset management fees, but it does require reimbursement of its operating expenses. US Bank as the Investor Member of both Investment Funds will engage Twain Financial Partners, LLC ("**Twain**") to manage the Investment Funds. Twain will collect a Fund Management Fee that totals about $40,000 for the entire seven-year NMTC Compliance Period.

OPERATING PRO FORMA

The Project's operating revenues collected by the QALICB will consist of rental payments made by LADWP under the Master Lease Agreement. The rental rates will be set at a level that allows the QALICB to make payment on all of its QLICI notes, with a stabilized debt service coverage ratio of 1.02x. The rental rates will also be supported by market data from the Project's appraisal.

LADWP's financial capacity supports its capability as the Master Tenant to make rental payments for the duration of the seven-year NMTC Compliance Period (please refer to the section entitled "DEVELOPMENT TEAM").

For transactions that are self-leveraged by the QALICB's sponsor, as is the case in this transaction, a low debt service coverage ratio is acceptable from a lender's perspective. This is because QLICI loan payments made by the QALICB are used only to service the leverage loans that are provided by the Sponsor, LADWP.

Project Timeline

The Project's development has reach 95% completion of construction documents, pending final plan check corrections on mechanical drawings by the City of L.A. Department of Building and Safety. The following list represents the remaining milestone items left for the Project's completion:

- July 31, 2013: Final Building Permits Obtained
- July 31, 2013: GMP Contract Execution between BOE and GC
- August 1, 2013: Construction Commencement (Notice to Proceed Issued)
- August 20, 2013: LADWP Board Final Approval of Transaction
- August 22, 2013: City Council Final Approval of Transaction
- August 30, 2013: NMTC Transaction Close
- January 31, 2015: 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 LADWP direct contribution dollars. The financing parties to the NMTC structure will include one NMTC Investor at the upper tier, as well as five NMTC allocatees, or Community Development Entities ("**CDEs**"), making the QLICI loans to the Project through their Subsidiary CDEs ("**Sub-CDEs**") at the lower tier.

NMTC Investor

US Bancorp Community Development Corporation ("**Investor**", or "**USBCDC**") is the NMTC Investor that will provide the equity contribution to the Investment Funds. USBCDC finances affordable housing and community development projects, and also provides various financial services. The company was incorporated in 2002, based in St. Louis, Missouri, and operates as a subsidiary of US Bank.

LADF has closed one previous transaction with USBCDC as Investor. The transaction was for the Discovery Science Center of Los Angeles project, which closed in December 2012.

CDE Lenders

The La Kretz Transaction will include five 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
Clearinghouse CDFI	*Clearinghouse NMTC (Sub 30), LLC*	$10,000,000
Consortium America, LLC	*Consortium America XXXIII, LLC*	$7,000,000
Urban Research Park CDE, LLC	*URP Subsidiary CDE XVII, LLC*	$12,000,000
Los Angeles Development Fund	*LADF IX, LLC*	$10,000,000
USBCDE, LLC	*USBCDE Sub-CDE 92, LLC*	$4,000,000
	Total NMTC Allocation	$43,000,000

CLEARINGHOUSE CDFI

Clearinghouse CDFI ("**CH**") is a certified Community Development Financial Institution ("**CDFI**"), as the term is defined by regulations of the Department of Treasury's CDFI Fund. CH CDFI is headquartered in Lake Forest, California. As a CDFI, CH is also a certified CDE and may apply for and administer any awarded NMTC allocations. CH has received seven NMTC allocation awards totaling $473 million: 2002-$56mm, 2005-$75mm, 2006-$37mm, 2008-$90mm, 2009-$100mm, 2010-$35mm, and 2012-$80mm. CH currently has $80 million of its allocation not invested, all from its 2012 allocation which it just received in April 2013. The service area for CH's 2012 allocation is in California and Nevada. LADF has closed one other transaction with CH as a partner CDE, which was for the One Santa Fe transaction that closed in December 2011.

CONSORTIUM AMERICA, LLC

Consortium America, LLC ("**CA CDE**") is a certified CDE located in Washington D.C., and has received seven NMTC allocation awards totaling $555 million: 2003-$110mm, 2006-$115mm, 2008-$85mm, 2009-$80mm, 2010-$35mm, 2011-$80mm, and 2012-$50mm. CA CDE was established and is controlled by the Trammell Crow Company, a large institutional real estate developer and investor established in Texas in 1948. Trammell Crow is an independently-operated subsidiary of CBRE Group, Inc., which is a Fortune 500 and S&P 500 company headquartered in Los Angeles, and the world's largest commercial real estate services and investment firm (in terms of 2012 revenue). Additionally, Trammell Crow partnered with The Bernstein Companies, a commercial real estate company in Washington D.C., to carry out the NMTC activities of CA CDE nationwide.

In its mission statement submitted to the CDFI Fund, CA CDE states that it "will focus on projects with significant union participation and job-training programs for neighborhood residents, striving to create new, long-term, high-wage jobs for those residents and low-income persons." The CA CDE has $56 million in NMTC allocation remaining from its 2011 and 2012 allocations, both with a National service area. This will be the first transaction that LADF has closed with CA CDE.

Urban Research Park CDE, LLC

Urban Research Park CDE, LLC ("**URP**") is a certified CDE located in Hunt Valley, Maryland, and has received five NMTC allocations totaling $229 million: 2006-$50mm, 2007-$60mm, 2009-$30mm, 2010-$39mm, and 2012-$50mm. URP was established and is controlled by Townsend Capital, LLC, a private equity investment firm established in 1975 with a current focus on the acquisition and development of real estate and technology oriented operating companies. In 2008, Townsend shifted its focus to the emerging energy sector. Its recent investments include Dow Kokam LLC, a joint venture between The Dow Chemical Company and affiliates of Townsend Capital created to manufacturer lithium ion cells and battery packs for the electric vehicle and hybrid electric vehicle markets. URP has $50 million in NMTC allocation remaining, all from its 2012 allocation, with a National service area. This will be the first transaction that LADF has closed with URP.

USBCDE, LLC

USBCDE, LLC is the NMTC allocatee of US Bank. In many transactions where it is also the NMTC Investor, US Bank provides $3 to $5 million of allocation from its CDE allocatee to help those projects fill any remaining gaps in financing. US Bank's CDE allocation is particularly valuable due to the fact that it does not charge any fees, only reimbursement of expenses for operating its Sub-CDE special purpose entities. LADF has closed one other transaction with USBCDE, LLC as a partner CDE, which was for the Discovery Science Center of Los Angeles ("**DSCLA**") project. In addition to being the NMTC Investor on DSCLA, US Bank also provided $5 million in allocation to DSCLA through its CDE allocatee.

FINANCING STRUCTURE

The project's total development cost will be funded by the $43 million QEI generated through the NMTC leverage structure, an additional $1.3 million provided at the upper tier to cover certain closing costs, and $3.2 million in direct project sources. For a full diagram showing the flow of funds at closing, please refer to Exhibit A.

The $3.2 million of direct sources of funding to the project (i.e. funded outside of the NMTC structure) is provided in whole by a charitable contribution by LADWP. These funds were approved by the LADWP at its board meeting in early June 2013.

NMTC Financing

There will be two investment funds established for the NMTC transaction, one ("**IF 1**") for QEIs related to the CH, CA CDE, URP, and LADF allocations and one ("**IF 2**") for the USBCDE's QEI. The reason for the separate investment funds is to accommodate US Bank's policy regarding management of USBCDE allocation. Certain investors, such as US Bank, use this structure and approach when their own CDE is providing allocation in a transaction.

USBCDC will be the NMTC Investor Member and own 100% of both investment funds. Twain will be the managing member of the investment funds. The equity contribution at the upper tier by USBCDC will total about $13.9 million. In exchange, USBCDC will receive $16.77 million in tax credits that will be generated through the Fund (39% of the total $43 million QEI). This exchange of equity for tax credits reflects a pricing of $0.82 per tax credit dollar for QEIs made by IF 1 and $0.90 per tax credit dollar for the QEI made through IF 2. This delivers an effective blended rate of $0.83 per tax credit dollar.

In addition to its charitable contribution to the QALICB, LADWP will also provide $30.5 million of leverage loans to the investment funds, which will be interest-only for seven years during the NMTC compliance period. LADWP's funding sources for the leverage loan and charitable contribution will be:

- $14.1 million – various grants
- $12.5 million – One-Day Loan by US Bank
- $8.4 million – Federal Qualified Energy Conservation Bond ("**QECB**")

The various grants include a $3.9 million Community Development Block Grant ("**CDBG**"), $2.1 million Federal Economic Development Administration ("**EDA**") grant, $1.2 million CRA/LA tax-increment financing, and other LADWP program-specific grants. The QECB, EDA, and CRA/LA funds are all fully committed. The former CRA/LA's committed funds have been expended for the architectural services contract with JFAK (see "DEVELOPMENT TEAM"). The EDA grant is funded on a reimbursement basis, but the grant contract is fully executed. The QECB funds have already been advanced to LADWP. The CDBG funds are committed and are also provided on a reimbursement basis. The CDBG contract detailing the reimbursement procedure is expected to be completed by mid-August 2013. Regardless of the timing of the sources for the funds, LADWP will be advancing the monies.

The amount of the One-Day Loan to be provided by US Bank is supported by the current market value provided by the appraisal report (see PROJECT FEASIBILITY).

US Bank's tax credit equity contributions combined with the LADWP's leveraged loans will be used to capitalize both investment funds with $44.3 million in total. Upon closing of the NMTC transaction, the investment funds will use their capital to make $43 million in combined QEIs to the five Sub-CDEs – according to allocations provided by each CDE allocatee in the transaction (see "FINANCING PARTNERS").

In exchange for its contributions, the investment funds will receive a 99.99% membership share in each Sub-CDE. The five Sub-CDEs will use the contributed capital to make $42.7 million in QLICIs to the QALICB.

In the case of LADF's Sub-CDE, LADF Management, Inc. will contribute $1,000 to capitalize the LADF Sub-CDE and own 0.01% share in the LADF Sub-CDE. LADF will earn 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 and the other with the NMTC equity component. The notes will be for a term of 30 years, with interest-only payments in the first seven years during the NMTC compliance period, and amortizing payments thereafter.

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

1. CH and CA CDE (*pari passu*) – up to $16,660,000
2. URP – up to $12,000,000
3. USBCDE – up to $4,000,000
4. LADF – up to $10,000,000

Upon a return of capital during the 7-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. Being lower in the order of redeployment provides the benefit of reducing this risk of a Recapture Event when the return of capital is only a portion of the QLICI principal amount.

PROJECT READINESS

The project is expected to be ready for NMTC closing on August 15, 2013. Pursuant to LADF's policies and procedures, the readiness of the Project is determined as follows:

- *Control of Site*: LADWP currently owns the site
- *Entitlement Process*: Project is a "by-right" development
- *Design/Pre-Development*: Design is at 95% CD's
- *Working Drawings*: 95% complete pending last remaining plan check corrections
- *Value Engineering*: The solicitation of bids for LKIC included deductive alternates such that the project scope can be adjusted downward
- *Permits*: Expected by end of July 2013
- *Tenant Leases*: A Master Lease with LADWP will be executed concurrently with the close of the NTMC transaction. Four sub-tenants are anticipated for the Project :
  (1) LACI
  (2) LADWP Customer Engagement Laboratory
  (3) Energy Efficiency
  (4) a workforce training partner (*TBD*)
- *GMP Construction Contract*: GC selected, expected contract execution by July 31, 2013
- *Financing Commitments*: With exception of NMTCs, all other external funding committed
- *Outstanding 3rd Party Issues*: Sublease with LACI and a workforce training partner expected in August 2013

US Bank approved the investment in the tax credits, the One-Day Loan, and the $4 million sub-allocation. US Bank, LADF, and the 3 other CDEs have provided LOIs to the Project for the entire $43 million in allocation needed.

NMTC ELIGIBILITY AND COMPLIANCE

The subject site is located in the 2010 Census tract 06037206031. The population within the Census tract is 5,760 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 Highly Distressed Census Tract based on either of two qualifying measures (pursuant to Section 3.2(h) of LADF's Allocation Agreements):

- Poverty rate of 40.1% (*greater than 30%*)
- Unemployment rate of 2.0x the National unemployment rate (*greater than 1.5x*)

QALICB Analysis

The La Kretz Innovation Campus special purpose entity will satisfy the requirements for QALICBs and will be consider a "real estate" QALICB.

The QALICB will meet the Non-Qualified Financial Property Test since 100% of the QLICI proceeds will be expended for development of the Project within 18 months of closing.

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

LADF 2011 Allocation Agreements Compliance

This transaction will use $10 million in allocation from LADF's 2011 Allocation award from the CDFI Fund. With the closing of this transaction, the 2011 Allocation award will 80% invested and $10 million in allocation will remain outstanding.

The LADF has determined that this project complies with its 2011 Allocation Agreement, evident through the following characteristics of the Transaction:

- 100% push down of QEI to QALICB
- QLICI interest rate is more than 50% below market
- Project is located in a targeted distressed community

As the transaction relates to Section 3.2(a) of the 2011 Allocation Agreement, the project will have a "real estate" QALICB. The 2011 Allocation Agreement allows for "Investments in, or loans to, QALICBs whose principal activities involve the development or rehabilitation of real estate", therefore this transaction conforms to the activities listed in Schedule 1 for Section 3.2(a).

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

The equity generated through the NMTC structure will provide an estimated $11.1 million in equity (net of NMTC closing costs, placement fees, management fees, and on-going expenses) to the Project, approximately 25.7% of the $43 million QEI in the transaction, and 23.3% of the $47.5 million of total Project costs. The LADF Sub-CDE's portion of the total net equity is approximately $2.5 million.

Given the nonprofit QALICB and nature of the proposed facility, the Project's operations could not support financing from traditional capital sources. The Project could not move forward without the NMTC equity injection.

COLLATERAL AND GUARANTEES

The LADF's QLICI loan, along with the QLICI loans from the other 4 Sub-CDEs, will be secured *pari passu* by a First Deed of Trust on the QALICB's fee interest in the subject property. Additional collateral for the QLICI loans will consist of a security interest in the reserve accounts and guaranties from the QALICB and LADWP.

As discussed earlier, LADWP will be providing guaranties and indemnities for the purposes of the NMTC transaction, but only to the extent that funds are available through LADWP Power. The assets of LADWP Water will not be available to support any guaranties or indemnities.

LADWP and the QALICB will provide an indemnity to the CDE lenders, including LADF (Allocatee) and LADF IX, LLC (Sub-CDE), for environmental losses. LADWP and the QALICB will also provide an indemnity to the Investor for reimbursement of lost tax credits and losses related to loss of tax credits, in addition to environmental losses. A completion guaranty will be provided by LADWP for construction for the Project. Payment of the QLICI loans provided through the NMTC structure will be guaranteed by the QALICB.

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 A Note, which is tied to the Leverage Loan amount, will be accelerated and the QLICI B Note, which is tied to the NMTC Investor equity amount, may be forgiven at the end of the compliance period.

A Put-Call Agreement will be entered into by LADWP (as the Leverage Lender) and US Bank (as the Investor). US Bank may exercise its put option and sell its respective interest in the Fund to the Leverage Lender. If US Bank chooses not to exercise its put option, the Leverage Lender may exercise its call option. Upon exercising of either put or call option by the respective parties, the Leverage Lender 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 obtained a license for specially-designed compliance software to assure that all required reporting to the CDFI Fund is completed in a timely manner. This will prevent the LADF from losing its certification with the CDFI Fund.
- 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 insure 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 last in the waterfall and would receive a return of capital only after **$32.7 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 LADWP, in both of their capacities as guarantors and indemnitors and the LADWP's 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 QALICB 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 – approx. $200,000 (2% of QEI). LADF will receive fee in lump sum at closing.
- CDE Servicing & Compliance Fee – approx. $350,000 (quarterly installments of $12,500 for 7 years)
    - 0.50% of QEI per year for $10 million of 2011 Allocation
- CDE Expense Reimbursements – approx. $120,000 (estimated at $15,000 annually per CDE for 8 years) – QALICB will be responsible for paying all ongoing costs incurred by the SubCDE 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 $470,000, will be placed in a separate, controlled reserve account upon funding at close.

POLICY EXCEPTIONS

None.

RECOMMENDATION

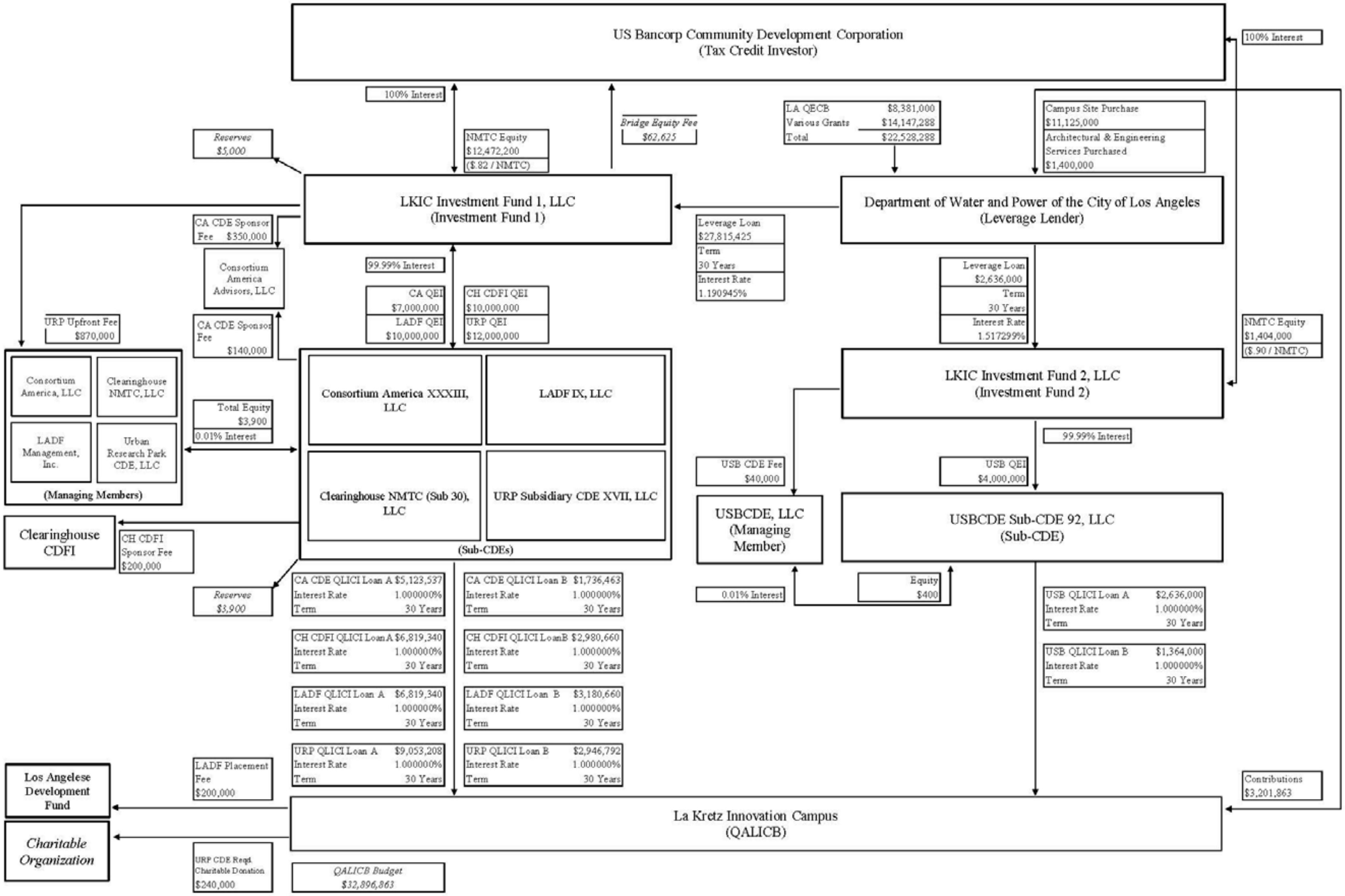
Approval of this funding request is recommended based on the project's feasibility, readiness and community benefits.

ATTACHMENTS

EXHIBIT A: La Kretz Innovation Campus Flow of Funds (*as of July 3, 2013*, Final Projections Pending)

LADF
LOS ANGELES DEVELOPMENT FUND

EXHIBIT A: La Kretz Innovation Campus Flow of Funds (*as of July 3, 2013*, Final Projections Pending)



CERTIFICATE OF THE SECRETARY OF
THE LOS ANGELES DEVELOPMENT FUND

As of August __, 2013

The undersigned certifies that she is the Secretary of The Los Angeles Development Fund, a California nonprofit public benefit corporation duly organized and existing under the laws of the State of California ("*LADF*"), and that in her capacity as such Secretary, she is the keeper of the corporate records of LADF.

The undersigned further certifies that:

1. Attached hereto as **<u>Exhibit A</u>** is a true, complete and correct copy of the Articles of Incorporation of LADF dated September 7, 2006 and filed with the Secretary of State on September 8, 2006, and amended by Certificate of Amendment to Articles of Incorporation dated October 2, 2012 and filed with the Secretary of State on October 29, 2012 (as amended, the "*Articles*"), which have not been further amended, rescinded or modified, and are in full force and effect on the date hereof.

2. Attached hereto as **<u>Exhibit B</u>** is a true, complete and correct copy of the Bylaws of LADF, adopted on October 2, 2006 (the "*Bylaws*"), which have not been further amended, rescinded or modified, and are in full force and effect on the date hereof.

3. Attached hereto as **<u>Exhibit C</u>** is a true, correct and complete copy of the Certificate of Good Standing of LADF, dated August __, 2013.

4. Attached hereto as **<u>Exhibit D</u>** is a true, complete and correct copy of joint resolutions which were duly adopted by the Board of Directors of LADF and its Advisory Board on the date stated thereon, which resolutions have not been amended, rescinded or modified, are in full force and effect on the date hereof in the form originally adopted, and are in conformity with the Bylaws.

5. The person named below, pursuant to the Resolutions, is authorized to execute and deliver documents on behalf of LADF, and the signature set forth below opposite such person's name is such person's genuine signature.

NAME	**OFFICE/POSITION**	**SIGNATURE**
Rushmore Cervantes	President	____________________

[Signature page to follow]

IN WITNESS WHEREOF, I have hereunto affixed my signature and the seal of the Corporation as of this ____ day of August, 2013.

By: ______________________________________
Name: Sandra Rahimi
Title: Secretary

EXHIBIT A

ARTICLES OF INCORPORATION

[SEE ATTACHED]

EXHIBIT B

BYLAWS

[SEE ATTACHED]

EXHIBIT C

CERTIFICATE OF GOOD STANDING

[SEE ATTACHED]

EXHIBIT D

JOINT RESOLUTION

of the
Board of Directors and the Advisory Board
of the Los Angeles Development Fund

At a meeting of the Board of Directors of the Los Angeles Development Fund, a California nonprofit public benefit corporation ("Corporation"), and the Advisory Board to the Corporation ("Advisory Board"), duly convened and held on the 1st day of August, 2013, at which a quorum of each of the Board of Directors and the Advisory Board was present and acting throughout, the following resolutions were adopted:

WHEREAS, LADF Management, Inc., a Delaware corporation ("LADF Management") is the Managing Member, and LKIC Investment Fund 1, a Missouri limited liability company ("Investment Fund") is the investor member of LADF IX, LLC, a California limited liability company (the "Sub-CDE").

WHEREAS, Investment Fund will contribute equity in the aggregate amount of up to $10,000,000 to the Sub-CDE, which equity is expected to constitute a "qualified equity investment" (as the term is defined in Section 45D of the Internal Revenue Code, and as such eligible for New Markets Tax Credits, the "QEI").

WHEREAS, the proceeds of the QEI made by Investment Fund will be used by the Sub-CDE to (a) fund a loan with a principal amount of up to $6,958,000 ("Loan A") to La Kretz Innovation Campus, a California nonprofit public benefit corporation ("Borrower"), and (b) fund a loan with a principal amount of up to $3,042,000 to Borrower ("Loan B" and together with Loan A, the "Loans"), all pursuant to that certain Loan Agreement to be dated as of closing among Borrower, Sub-CDE, Consortium America XXXIII, LLC, Clearinghouse NMTC (Sub 30), LLC, URP Subsidiary CDE XVII, LLC, and USBCDE Sub-CDE 92, LLC (the "Credit Agreement").

WHEREAS, each of the Loans is expected to constitute a "qualified low-income community investment" within the meaning of Section 45D(d) of the Code (each a "QLICI," and collectively "QLICIs" as such term is further defined below).

WHEREAS, the Limited Liability Company Agreement of Sub-CDE shall be amended and restated pursuant to the First Amended and Restated Limited Liability Company Agreement of the Sub-CDE.

NOW THEREFORE, BE IT RESOLVED, that Rushmore Cervantes, as President of the Corporation, is authorized on behalf of the Corporation to execute that certain CDE Recapture Indemnity among the Corporation, LADF Management and Sub-CDE in favor of

Investment Fund, and all of documents related to the Loan to which the Corporation is a party (collectively, the "Transaction Documents").

RESOLVED FURTHER, that Rushmore Cervantes as the President of the Corporation is authorized and directed to execute and deliver the Transaction Documents on behalf of the Corporation, their execution and delivery being conclusive evidence of such approval.

RESOLVED FURTHER, that the President of the Corporation is authorized on behalf of the Corporation to execute, deliver and perform all such further agreements, certificates, filings, financing statements, instruments and other documents as may be necessary or appropriate in connection with the transaction contemplated by the Transaction Documents.

FURTHER RESOLVED, that the Corporation, by and through its President, is hereby authorized and empowered to take any and all other actions and execute, perform and deliver to the Investment Fund, or any other appropriate party any and all other agreements, documents, instruments and certificates as may be necessary or appropriate to consummate the transactions authorized by these resolutions and to perform all of the terms, provisions and conditions of each of the agreements, documents, instruments and certificates referred to in these resolutions. The execution by said officer of the Corporation of any agreement, document, instrument or certificate referred to in these resolutions shall be conclusive evidence and full proof of the approval thereof and of all of the terms, provisions and conditions contained therein. Any and all acts and things which said officer of the Corporation may do or perform in conformity with the powers conferred upon him by these resolutions are hereby expressly authorized, approved, ratified and confirmed by the Corporation.

FURTHER RESOLVED, that any actions of the Corporation which would have been authorized by these resolutions except that such acts were taken prior to the adoption of such resolutions are hereby ratified, confirmed, approved and adopted as the actions of the Corporation.

FURTHER RESOLVED, that these resolutions of the Corporation are intended to be and may be relied upon by any person or entity involved in the above-described transactions.

RESOLVED FURTHER, that the Advisory Board hereby consents to the Corporation entering into the transaction as described above.

The above resolutions were passed by the necessary majority of those present and voting in accordance with the Bylaws and Articles of Incorporation of the Corporation and the Bylaws of the Advisory Board.

The original and executed copy of this document shall be filed in the minute book of the Corporation and become a part of the records of the Corporation.

SECRETARY'S CERTIFICATE

I HEREBY CERTIFY that I am the duly elected and acting Secretary and keeper of the records and corporate seal of the Los Angeles Development Fund, a California nonprofit public benefit corporation (the "Corporation"); that the attached is a true and correct copy of the resolutions duly adopted by the Board of Directors (the "Board of Directors") of the Corporation and the Advisory Board to the Corporation (the "Advisory Board") at a duly noticed and called joint meeting of such Board of Directors and Advisory Board on August 1, 2013 (collectively, the "Resolution"); that the Resolution does not conflict with the corporate charter or bylaws of the Corporation or the Bylaws of the Advisory Board, nor has the Resolution been in any way altered, amended or repealed and that it is in full force and effect, unrevoked and unrescinded, as of this day, and has been entered upon the regular minute book of this Corporation and the minute book of the Advisory Board, as of the aforementioned date, and that the Board of Directors of the Corporation has, and at the time of adoption of the Resolution, had, full power and lawful authority to adopt the Resolution and to confer the powers thereby granted to the officers and staff therein named who have full power and lawful authority to exercise the same, and that the Advisory Board has, and at the time of the adoption of the Resolution, had, full power and lawful authority to review the proposed action of the Board of Directors and consent thereto.

____

Sandra Rahimi, Secretary

CERTIFICATE OF THE SECRETARY OF THE MANAGING MEMBER OF LADF IX, LLC

As of August __, 2013

The undersigned certifies that she is the Secretary of LADF Management, Inc. (the "*Corporation*"), which Corporation is the Managing Member of LADF IX, LLC, a limited liability company duly organized and existing under the laws of the State of California (the "*Company*"), and that in her capacity as Secretary of the Corporation, she is the keeper of the corporate records of the Company.

The undersigned further certifies that:

1. Attached hereto as **Exhibit A** is a true, complete and correct copy of the Articles of Organization of the Company, filed as of March 6, 2012 (the "*Articles*"), which have not been further amended, rescinded or modified, and are in full force and effect on the date hereof.

2. Attached hereto as **Exhibit B** is a true, complete and correct copy of the First Amended and Restated Limited Liability Company Agreement of the Company, dated as of August __, 2013 (the "*Company Agreement*"), which has not been further amended, rescinded or modified, and is in full force and effect on the date hereof.

3. Attached hereto as **Exhibit C** is a true, correct and complete copy of the Certificate of Good Standing of the Company, dated August __, 2013.

4. The person named below, pursuant to the Resolutions attached hereto as **Exhibit D**, is the President of the Corporation and is authorized to execute and deliver documents on behalf of the Company, and the signature set forth below opposite such person's name is such person's genuine signature.

NAME	**OFFICE/POSITION**	**SIGNATURE**
Rushmore Cervantes	President	____________________

[Signature page to follow]

IN WITNESS WHEREOF, I have hereunto affixed my signature and the seal of the Corporation as of this ____ day of August, 2013.

By: ______________________________
Name: Sandra Rahimi
Title: Secretary

EXHIBIT A

ARTICLES OF ORGANIZATION

[SEE ATTACHED]

EXHIBIT B

FIRST AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT

[SEE ATTACHED]

EXHIBIT C

CERTIFICATE OF GOOD STANDING

[SEE ATTACHED]

EXHIBIT D

RESOLUTION

of the
Board of Directors of LADF Management, Inc.

At a meeting of the Board of Directors of LADF Management, Inc., a Delaware corporation ("Corporation"), duly convened and held on the 1st day of August, 2013, at which a quorum of the Board of Directors was present and acting throughout, the following resolution was adopted:

WHEREAS, the Corporation is the Managing Member of, and LKIC Investment Fund 1, LLC, a Missouri limited liability company ("Investment Fund") is the investor member of, LADF IX, LLC, a California limited liability company (the "Sub-CDE").

WHEREAS, Investment Fund will contribute equity in the aggregate amount of up to $10,000,000 to the Sub-CDE, which equity is expected to constitute a "qualified equity investment" (as the term is defined in Section 45D of the Internal Revenue Code, and as such eligible for New Markets Tax Credits, the "QEI").

WHEREAS, the proceeds of the QEI made by Investment Fund will be used by the Sub-CDE to (a) fund a loan with a principal amount of up to $6,958,000 ("Loan A") to La Kretz Innovation Campus, a California nonprofit public benefit corporation ("Borrower"), and (b) fund a loan with a principal amount of up to $3,042,000 to Borrower ("Loan B" and together with Loan A, the "Loans"), all pursuant to that certain Loan Agreement dated as of the date of closing among Borrower, Sub-CDE, Consortium America XXXIII, LLC, Clearinghouse NMTC (Sub 30), LLC, URP Subsidiary CDE XVII, LLC, and USBCDE Sub-CDE 92, LLC (the "Credit Agreement").

WHEREAS, each of the Loans is expected to constitute a "qualified low-income community investment" within the meaning of Section 45D(d) of the Code (each a "QLICI," and collectively "QLICIs" as such term is further defined below).

WHEREAS, the Limited Liability Company Agreement of Sub-CDE shall be amended and restated pursuant to the First Amended and Restated Limited Liability Company Agreement of the Sub-CDE.

NOW THEREFORE, BE IT RESOLVED, that Rushmore Cervantes, as President of the Corporation is authorized on behalf of the Corporation to execute the First Amended and Restated Limited Liability Company Agreement of the Sub-CDE, that certain CDE Recapture Indemnity among the Corporation, The Los Angeles Development Fund ("LADF") and Sub-CDE in favor of Investment Fund, and all of the Loans and related loan documents to which the Sub-CDE and/or the Corporation is a party (collectively, the "Transaction Documents").

RESOLVED FURTHER, that Rushmore Cervantes as the President of the Corporation is authorized and directed to execute and deliver the Transaction Documents on behalf of the Corporation, their execution and delivery being conclusive evidence of such approval.

RESOLVED FURTHER, that at Investment Fund's request, the Corporation shall continue to serve as the Managing Member of the Sub-CDE.

RESOLVED FURTHER, that the President of the Corporation is authorized on behalf of the Corporation to execute, deliver and perform all such further agreements, certificates, filings, financing statements, instruments and other documents as may be necessary or appropriate in connection with the transaction contemplated by the Transaction Documents.

FURTHER RESOLVED, that the Corporation, by and through its President, is hereby authorized and empowered to take any and all other actions and execute, perform and deliver to the Sub-CDE, Investment Fund, or any other appropriate party any and all other agreements, documents, instruments and certificates as may be necessary or appropriate to consummate the transactions authorized by these resolutions and to perform all of the terms, provisions and conditions of each of the agreements, documents, instruments and certificates referred to in these resolutions. The execution by said officer(s) of the Corporation of any agreement, document, instrument or certificate referred to in these resolutions shall be conclusive evidence and full proof of the approval thereof and of all of the terms, provisions and conditions contained therein. Any and all acts and things which said officer of the Corporation may do or perform in conformity with the powers conferred upon him by these resolutions are hereby expressly authorized, approved, ratified and confirmed by the Corporation.

FURTHER RESOLVED, that any actions of the Corporation which would have been authorized by these resolutions except that such acts were taken prior to the adoption of such resolutions are hereby ratified, confirmed, approved and adopted as the actions of the Corporation.

FURTHER RESOLVED, that these resolutions of the Corporation are intended to be and may be relied upon by any person or entity involved in the above-described transactions.

The above resolutions were passed by the necessary majority of those present and voting in accordance with the Bylaws and Articles of Incorporation of the Corporation.

The original and executed copy of this document shall be filed in the minute book of the Corporation and become a part of the records of the Corporation.

SECRETARY'S CERTIFICATE

I HEREBY CERTIFY that I am the duly elected and acting Secretary and keeper of the records and corporate seal of LADF Management, Inc., a Delaware corporation (the "Corporation"); that the attached is a true and correct copy of the resolutions duly adopted by the Board of Directors (the "Board") of the Corporation at a duly noticed and called meeting of such Board on August 1, 2013 (the "Resolution"); that the Resolution does not conflict with the corporate charter or bylaws of the Corporation, nor has the Resolution been in any way altered, amended or repealed and that it is in full force and effect, unrevoked and unrescinded, as of this day, and has been entered upon the regular minute book of this Corporation as of the aforementioned date, and that the Board of the Corporation has, and at the time of adoption of the Resolution, had, full power and lawful authority to adopt the Resolution and to confer the powers thereby granted to the officers and staff therein named who have full power and lawful authority to exercise the same.

____

Sandra Rahimi, Secretary

Tab 4

LADF
LOS ANGELES DEVELOPMENT FUND

NEW MARKETS TAX CREDITS INVESTMENT REPORT

TO:	LADF Board of Directors
FROM:	Sandra Rahimi, Secretary
DATE:	August 1, 2013
SUBJECT:	Request to Approve a $10,000,000 New Markets Tax Credits Allocation to Mega-Watts ("**QALICB**") for the Wattstar Theatre and Education Center ("**Project**")

SUMMARY

<u>Project Name</u>: Wattstar Theatre and Education Center

<u>Location</u>: South Los Angeles / Watts Neighborhood Council (CD 15 – Joe Buscaino)

<u>Project Description</u>: 36,000 SF / New Construction / Job Training Center, 4-Screen Theatre

<u>Sponsor / Operator</u>: The Watts Cinema Education Center, Inc. ("**WCEC**", or "**Sponsor**")

<u>Guarantor</u>: The Annenberg Foundation ("**Annenberg**", or "**Guarantor**")

<u>Ownership</u>:
- QALICB to purchase *Development Parcel* and sublease 2 other parcels from WCEC
- WCEC to Master Lease entire facility from QALICB

<u>NMTC Investors</u>: NorLease, Inc. ("**NT Investor**") and Citi Community Capital ("**Citi Investor**")

<u>Total Project Cost</u>: $ 26,103,000

<u>Total Allocation / QEI</u>: $ 22,000,000
LADF Allocation / QEI: $ 10,000,000 (*2011 Allocation*)
- LADF X, LLC *(Certified Sub-Allocatee)*

<u>Job Creation</u>: **35** Permanent Jobs, **274** Construction Jobs – (*Direct Jobs*)

<u>Site Eligibility Criteria</u>: 2010 Census Tract No. 06037242700
- 34.6% Poverty Rate (*greater than 30%*)
- 38.3% of MSA Median Family Income (*less than 60%*)

<u>Community Benefits</u>:
- *Job Training*: Up to **80** individuals/year, careers in the entertainment industry
- *Theatre*: First commercial movie theatre in Watts since the 1960s
- *Support MBE*: WCEC and QALICB are minority-owned and/or -controlled
- *Sustainability:* Transit-oriented development that is adjacent to Metrorail station

<u>Compliance with 2011 Allocation Agreement</u>:

☑ Sect. 3.2(a):	Loan to Real Estate QALICB	☑ 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% Pushdown of QEI		

Projected Residual Value of QLICI that may be obtained by the QALICB: $ 3,081,000

CONTENTS

LADF
LOS ANGELES DEVELOPMENT FUND

SITE ANALYSIS AND SITE CONTROL

The Project site is approximately 1.7 acres and comprises three parcels located at the following approximate locations:

- 10341 S. Graham Avenue, Los Angeles, CA 90002 ("**Development Parcel**")
- 10403 S. Graham Avenue, Los Angeles, CA 90002 ("**Graham Lot**")
- Grandee Avenue (*adjacent to Graham Lot*), Los Angeles, CA 90002 ("**Grandee Lot**")

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:

- *Targeted Neighborhood Initiative*: Watts
- *Revitalization Community*: Central City
- *State Enterprise Zone*: Los Angeles State Enterprise Zone

The site is also located in the Watts Cultural Crescent, which is a community-driven plan to rebuild the 10-acre area surrounding the Watts Towers, a National Historic Landmark.

The site is 1 mile north of the Century Freeway (105) and adjacent to the 103rd St. / Kenneth Hahn Metro Blue Line rail station. Public bus transportation, including Metro Local and Shuttle services, is located nearby on 103rd St. and Wilmington Ave.

The site is currently a surface parking lot and is zoned "PF-1" Public Facilities with a Conditional Use Permit, allowing for the projected uses on the site (entitled by CRA/LA under provisions of the Watts Redevelopment Plan). The land uses adjacent to the site comprise single- and multi-family residential units, food and convenience retail, public education facilities, and surface parking lots. Proximate residential units are represented primarily by 5 public housing projects located within a 3-mile radius. The population within a 5-mile radius of the site totals to 1,049,000 and has a median annual household income of $27,400.

Site Control

DEVELOPMENT PARCEL

The Development Parcel was conveyed by the former Community Redevelopment Agency of the City of Los Angeles ("**CRA**") to WCEC as part of the Disposition and Development Agreement ("**DDA**") executed on December 29, 2010, along with the First Amendment to the DDA executed on December 30, 2010. WCEC will transfer its interests in the parcel to the QALICB.

All of the building square footage is to be constructed on this parcel, including 86 parking spaces. WCEC will enter into a Master Lease Agreement with the QALICB for the entire gross leasable area of the constructed facility on the Development Parcel. WCEC will enter into a Sublease Agreement with Wattstar Theatres, Inc. ("**WTI**") for the 24,600 SF designated for the 4-screen theatre. Finally, WTI will enter into Management Agreement with Taffet & Associates, LLC ("**Theatre Operator**") to operate the theatre.

GRAHAM LOT

The Graham Lot is owned by the Los Angeles County Metropolitan Transportation Authority ("**MTA**"). MTA entered into a Lease Agreement with the former CRA on December 30, 2010 for the entire lot. The term of the lease was for 40 years, with provisions to extend. Concurrently, the former CRA entered into a Sublease

Agreement with WCEC for the entire lot, also on December 30, 2010 and also for a term of 40 years. The Sublease Agreement will be amended for the NMTC transaction to replace WCEC as the Sublessee with the QALICB. The QALICB will in turn Sub-Sublease the Graham Lot to WCEC for use in conjunction with operating the facility. WCEC will then enter into Sub-Sub-Sublease Agreement with WTI for use in conjunction with the theatre. See Section entitled Dissolution of the CRA for a status update.

This lot will be improved to provide 71 parking spaces.

Grandee Lot

The Grandee Lot was purchased by the former CRA, now owned by the CRADLA. CRADLA entered into a Lease Agreement with WCEC on December 30, 2010 for the entire lot. The term of the lease was for 40 years, with provisions to extend. The lease will be amended for the NMTC transaction to replace WCEC as the Lessee with the QALICB. The QALICB will in turn Sub-Sublease the Grandee Lot to WCEC for use in conjunction with operating the facility. WCEC will then enter into Sub-Sub-Sublease Agreement with WTI for use in conjunction with the theatre. See Section entitled Dissolution of the CRA for a status update.

This lot will be improved to provide 65 parking spaces. The lot will also continue being used as a Park & Ride lot for riders getting on the train at the adjacent MTA Metrorail station. A Memorandum of Understanding will be entered into between CRADLA and MTA to allow for the shared use of the lot.

Dissolution of the CRA

Upon passing of California's Assembly Bill ABx1 26 in 2011, all redevelopment agencies across the state were dissolved. The enforceable obligations of the CRA were then assumed by the successor agency, the CRA/LA, a Designated Local Authority ("**CRADLA**"). The transfer of the Development Parcel and the 3 lease agreements for the Graham Lot and Grandee Lot, all entered into by the former CRA, are listed in the Enforceable Obligation Payment Schedule prepared by the former CRA. Additionally, at the request of the previous title company involved in this transaction, the Governing Board and Oversight Board of the CRADLA provided executed Confirmation Letters as further evidence of the legality of the transfers of interests. CRADLA's legal counsel has advised that the amendments as drafted will not require further board approval in order for CRADLA to execute.

PROJECT DESCRIPTION

The Project is a new construction of a 36,250 SF building that will house a 24,625 SF cinema ("**Theatre**") and a 11,625 SF vocational training center ("**Education Center**") focusing on careers in the entertainment industry. WCEC, the Master Tenant of the entire facility, will operate the programming housed within the Education Center. The Theatre component is to be subleased to WTI, a wholly-owned for-profit subsidiary of WCEC that was formed to operate the Theatre component of the Project. WTI will enter into a Management Agreement with the Theatre Operator, Taffet & Associates, Inc.

Additionally, WCEC is working with several agencies that have shown interest in providing programs at the site. These agencies include: the Hospitality Trade Union, International Alliance of Theatrical Stage Employees, L.A. Trade Tech College, City of Los Angeles Workforce Investment Board, Unite Here Local 11, Pacific Coast Regional, Vermont/Slauson Economic Development Corporation, and the Youth Opportunity (YO) Program in Watts. The programs offered by these third-parties would not necessarily relate to careers in the entertainment industry, but would align with the Sponsor's general goal of improving employment in the community. For example, the Hospitality Trade Union plans to offer to the community job training to qualify for positions as waiters and waitresses.

Education Center Component

The 2-story Education Center will have an audio and video production facility and a business development center. The audio and video production facility will house WCEC's education and training programs focused on teaching the technical and creative skills necessary for a career in the entertainment industry. The Education Center will have the following amenities:

- Training rooms (4)
- Picture editing rooms (2)
- Sound editing rooms (2) and sound booth
- Animation/graphics room and multi-media work room
- Library research center
- Office space with meeting room

The Education Center will provide the Watts community with access to careers in the entertainment industry, business development training, and computer training. The education and training programs are designed for both Youth (middle school, high school, and college students – ages 11 through 21) and Young Adults/Adults (ages 22 and older).

The following lists the Youth programs to-be offered by the Project:

- **Introduction to Entertainment & Technology Program** – 220 students per school – 8 weeks
  This program will take place in Theatre 1 and will teach film history/appreciation, film technology, and careers in film and television. Guest speakers and films will make this program rewarding and fun. The program will initially be offered to students from 4 of the 22 middle/high schools within a 3-mile radius, once a week.
- **Entertainment Industry Program** – 20 students – 16 weeks
  This is an after-school program including film/video production (pre and post), script writing, camera, lighting, editing, sound and music, concluding with student projects.
- **Financial Literacy and Entrepreneurship Program** – 20 students – 16 weeks
  This after-school program will begin with opening banking accounts, balancing check books, and covering business startups including business structures, budgets and marketing. Students will conclude with their own business plans.

The expected outcomes from the Youth education program are diagrammed in Exhibit B.

The following lists the Adult programs to-be offered by the Project:

- **Entrepreneur Education and Business Development Program** – 15 students – 9 months
  This program will include Marketing, Finance, Accounting, and Business Plan Development.
- **Pre-Apprentice/Entertainment Industry Program** – 20 students – 9 weeks
  This program will include cross training in video editing, camera, lighting, music, and sound.
- **Apprentice Program** – 15 students – 3 years
  This program will include Stage Technician/Production Assistant training. Students will work with local unions and the Bureau of Apprenticeship and Training to access paths to employment. The Apprentice Program is being carefully developed with the U.S. Department of Labor and interested parties, eventually to become a certified program.
- **Computer Training Program** – 12 students – 16 weeks
  This program will include MS Word, Excel, PowerPoint, data entry, graphics and clerical training.

The Adult programs will recruit in Watts through direct marketing by handing out flyers and other materials in local community gathering places. WCEC will work with several WorkSource Centers in the area to enhance its recruitment efforts. WCEC will also host several open public seminars in the community to introduce the programs.

The goal of the Adult programs is to place graduates into wide range of occupations within the industry including: Content Creation (ex: script writing), Pre-Production (ex: set design), Production (ex: film and digital, sound), Post-Production (ex: editing, scoring), and Distribution (ex: projection, internet). The training programs will focus on craft union fields within the industry and work in collaboration with local union programs. In this effort, the Project has already obtained a commitment from Warner Brothers to provide 50 job placements for graduates of the Wattstar training programs over the next nine years

The Project will also incorporate a technology component, as highlighted by the Computer Training Program. The United States Department of Commerce has committed to providing 20 high-end computers to WCEC. Beyond using these computers to further serve students within each program, WCEC will also use the equipment to offer Windows and Apple certification. The Economic Development Administration ("**EDA**") has also previously approved funding for equipment for use within the technology component. The EDA has requested that WCEC re-apply when the Project is closer to completion so that their grant may be funded in the year of installation. The expected EDA grant amount is for $1.0 million. If the EDA grant is not approved, the budget includes QLICI loan funds for the purchase of equipment for the Education Center as well as the Theatre.

The business development center will feature financial literacy and entrepreneurial education programs. This center will provide an environment to create, expand, or guide new business within the community

Theatre Component

The Wattstar Theatre will have **4 screens** with stadium seating that hold **1,001 seats** in total, for an average seating of 250 per theatre. According to the Theatre Operator, industry standards for seating capacity range from 100 to 290 seats per screen. The Wattstar Theatre will align with industry standards for seating capacity, but not for number of screens (4). The industry has shifted towards theatres with more screens, now with 84% of all US movie theatres having eight or more screens. Thus, the biggest challenge for the Theatre will be choosing movies that appeal to the local community and create the level of demand projected for the Project.

The Wattstar Theatre is the key economic component of the Project in that Theatre revenues will also support the operations of the Education Center, and WCEC will be relying on the Theatre Operator to achieve the projected levels of Theatre revenue. For further discussion of the Theatre Operator's qualifications, please refer to the section entitled "DEVELOPMENT TEAM". The Wattstar Theatre will play first-run feature films from the major distributors, with a focus on family films, as well as specialty or educational films for specific audiences. All screens will be digital with 3D capabilities. The Theatre will also have a food concession area that is expected to serve meal foods (*e.g.* sandwiches) in addition to the typical cinema snacks (*e.g.* popcorn).

According to the Movie Picture Association of America ("**MPAA**"), 73% of California's population attended at least one movie in 2012, and 21% were frequent moviegoers (defined as once per month). Also according to MPAA, broader moviegoer demographic shares remained relatively stable from 2011 to 2012, with 12-24 year olds and Hispanics continuing to oversample in movie-going versus their proportion of the population – however, 2012 saw increases in the number of frequent moviegoers in nearly every ethnicity and age group, notably in the 40-49 year old group.

LADF
LOS ANGELES DEVELOPMENT FUND

Although WCEC originally intended to have Regal Cinemas manage the Wattstar Theatre, after further discussion, WCEC and Regal decided that a smaller operator could be more flexible and would be better able to adapt to the unique needs and customization necessary for a successful small theatre. Regal introduced WCEC to Taffet, the new proposed Theatre Operator (see "DEVELOPMENT TEAM").

One of the four screens in the Theatre will have a secondary use as a state-of-the-art teleconferencing center. This use will be available to students of the Education Center for distance learning and industry networking opportunities. It will also be available to the community for special events, which may encompass the realms of sports, politics, or cultural activities. The programs related to these uses will be operated by WCEC and will be separate from the Theatre management duties of Taffet.

The Theatre will service the Watts community, which has not had its own theatre in over 40 years. During this time, the closest movie theatres to Watts have been in a 7- to 10-mile proximity.

COMMUNITY AND ECONOMIC BENEFITS

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

- Creating **35** Permanent Jobs (*Direct*) and **274** Construction Jobs (*Direct*)
- The Education Center has capacity to serve **80** individuals per year, training for careers in entertainment industry
- Education Center will train and place **245** individuals into jobs offsite for the first 5 years of operations (during the NMTC compliance period), and total of **407** individuals over a 9-year period
- First commercial movie theatre in Watts since the 1960s
- WCEC and QALICB are minority-owned and/or –controlled
- Project Labor Agreement for construction of the Project provides for:
    - Union hiring for all construction employees
    - **30%** of total hours worked by Community Area and Local Residents[1]
    - **10%** of total hours worked by Disadvantaged Workers[2]
    - **30%** minority participation goal
- Disposition and Development Agreement of the Project provides for:
    - Wages for construction jobs set at higher of (1) Prevailing Wages or (2) Davis-Bacon wages
    - Wages for permanent jobs to comply with City of Los Angeles Living Wage Ordinance
- CDBG Grant Agreement of the Project requires WCEC to create 65 jobs within three years of the completion date, 51% of which will be for the benefit of low-to-moderate income persons
- Transit-oriented development that is adjacent to Metro Blue Line light rail station

The Education Center's capacity for 80 individuals per year includes 20 entertainment industry apprentices, 30 pre-apprentices/interns and 30 entrepreneurs who will build basic business skills and gain access to industry networks.

[1] Community Area Residents are defined as individuals living within (1) the City of Los Angeles, and (2) the 3-mile radius of the Watts Redevelopment Project Area. Local Residents are defined as individuals living with (1) the City of Los Angeles, and (2) a zip code containing at least part of one census tract with a rate on unemployment in excess of 150% of the Los Angeles County unemployment rate.

[2] Disadvantaged Workers are defined as individuals living within the City of Los Angeles and who either (a) have a household income less than 50% of the AMI or (B) face at least one of the following barriers to employment: (i) being homeless, (ii) being a custodial single parent, (iii) receiving public assistance, (iv) lacking a GED or high school diploma, (v) having a criminal record or other involvement with the criminal justice system, or (vi) suffering from chronic unemployment.

The projection of 245 individuals placed into jobs offsite for the first 5 years (or 49 placements per year) is associated with the adult programs of the Education Center (see "PROJECT DESCRIPTION"). The expectations for the adult programs is to enroll 62 students per year, and with a projected 80% placement rate, 49 students from the adult programs will be placed in jobs or small business per year. There will be no job placements from the youth programs. Rather, the goal is to introduce entertainment industry career paths to youth and promote continuing and furthering academic studies. The number of youth serviced through the youth programs for one year will be 1,760 middle and high school students.

Additionally, the Project is a centerpiece of several community revitalization efforts, including the Watts Cultural Crescent and the famous Watts Towers, and transit-oriented development initiatives at the 103rd Street Blue Line light rail station, supporting economic activity in the commercial district that was hit hardest in the 1965 and 1992 Watts riots.

Many of the community benefits discussed in this section will be required of the Project borrower, QALICB, by way of a Community Benefits Agreement ("**CBA**"). The CBA will also include an annual reporting requirement that will include tracking for many of the measurable community impacts. As of the time of this report, the CBA is still under negotiation.

DEVELOPMENT TEAM

"Real Estate" QALICB: Mega-Watts

Mega-Watts is a California nonprofit public benefit corporation formed on December 7, 2011. This entity will serve as the Qualified Active Low Income Community Business ("**QALICB**") for the NMTC transaction purposes. The entity is affiliated with and established by WCEC for the purposes of owning the real estate interests (fee and leasehold) in the Project, including land, building, and improvements. It will master lease the facility on the Development Parcel to WCEC to carry out the development and operation of the Project.

An Agreed-Upon Procedures ("**AUP**") contract will not be required of the QALICB. Mega-Watts 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 7-year NMTC compliance period.

Since this company was formed for the purposes of the NMTC transaction, there has been no financial activity to review. The company will be the beneficiary of the NMTC and direct project financing sources, which WCEC originally solicited.

Sponsor / Operator: Watts Cinema and Education Center ("**WCEC**")

WCEC was founded in 1995 with a mission to enhance opportunities in the Watts/Willowbrook community for educational and vocational training, economic development, and cultural experiences. WCEC has made efforts to bring a movie theatre to Watts, a community which has not had a first-run film venue in over 40 years. Additionally, WCEC is determined to improve the employment of Watts's residents, 51% of whom are unemployed.

Understanding the importance of the entertainment industry in Los Angeles, WCEC believes that the Watts community would be well-served in gaining greater access to careers in entertainment through academic and vocational training. In past years, WCEC successfully implemented its Youth Entertainment Training Program. This program was funded by the City of LA for 8 years and achieved a job placement rate of over 93%. This was a certificate program designed to serve ten high school students per year, provide classroom training, expose youth to industry guest speakers, and take students on field trips to media-related facilities. The classroom and field trip portions of the curriculum were implemented over the first six-months with mentoring and individual consulting follow-up over the subsequent six-months. It was hailed as one of the best youth programs in Los Angeles. They have since enhanced their academic curriculum for adult and youth programs. They have also established a vocational training program for trades in entertainment, and they are working on certifying this program through the US Department of Labor.

WCEC will be providing guaranties and indemnities for the purposes of the NMTC transaction. For further discussion see the section entitled "COLLATERAL AND GUARANTEES".

FINANCIAL STATEMENT ANALYSIS

LADF reviewed the audited financial statements of WCEC, for the fiscal years ending December 31, 2009, 2010, and 2011. The following table includes several line items to summarize WCEC's financial position:

In actual $	**Dec. 31, 2011**	**Dec. 31, 2010**	**Dec. 31, 2009**
Total Assets	**$2,805,012**	**$2,102,157**	**$1,208,164**
Current Assets	$115,763	$132,736	$10,079
• *Cash*	$7,036	$39,291	$10,079
Total Liabilities (*all current*)	**$120,068**	**$119,674**	**$19,201**
Net Assets (*all unrestricted*)	**$2,684,944**	**$1,982,483**	**$1,188,983**
Revenue (*grants*)	**$910,980**	**$966,437**	*N/A*
Change in Net Assets	**$702,461**	**$793,520**	*N/A*

The audited financial statements for WCEC also reveal that for fiscal years 2011 and 2010, 99% and 92%, respectively, of the total grant revenue was received from one grantor. Also property and equipment, making up more than 90% of WCEC's assets, is represented by construction-in-progress for the Wattstar Project.

MANAGEMENT PROFILES

Barbara J. Stanton is one of the Founders and current President of WCEC. Previously, she was a Program Specialist at USC and the former Administrator for Wattstar's Youth Entertainment Training Program. For the WTEC project, Barbara helped develop the initial concept and was responsible for securing the land acquisition from CRA/LA and guarantee from the Annenberg Foundation. She will also be working towards implementing the vocational programs with the US Department of Labor as well as the small business creation and expansion programs. She is a Member of the Board of Directors for WCEC as well as of the Board of Directors for the for-profit subsidiary Wattstar Theatres, Inc.

The WCEC Advisory Board, established by Ms. Stanton, is made up of 52 individuals representing: entertainment industry professionals, every elected official of the Watts area, law enforcement, communications specialists, Metro and transportation specialists, bankers, and financial institution supporters. Committees are chaired by individuals such as Gary Erickson from The Erickson Group, David Hettler from Warner Bros., Gene Mock from Northrop Grumman, and Frank Estrada from Paramount Pictures. Numerous members of the Advisory Board are connected to various private and public funding sources for the project. These members have worked extensively to gain the capital necessary to begin construction on the project.

Bill Price is the Director of Operations at WCEC, and will facilitate the program delivery of the Education and Training Center as well as the Theatre's operation. His 25 years of experience as the Project Manager of the Watts and South Central LA project areas have made him a valuable consultant on the project.

Among other notable individuals from academia, Bernadette Roberts, who is currently the Vice President at Mount Saint Mary's College, will be working with WCEC. She will be the primary coordinator for youth education.

Guarantor: The Annenberg Foundation

The Annenberg Foundation is a family foundation that provides funding and support to nonprofit organizations in the United States and globally. The Foundation and its Board of Directors are also directly involved in the Watts community with innovative projects that further its mission to advance the public well-being through improved communication. The Foundation encourages the development of effective ways to share ideas and knowledge. The Foundation believes in funding organizations that have a deep level of community involvement, are led by effective leaders and tackle challenging and timely problems.

As of December 31, 2011, the Annenberg Foundation's consolidated financial statements (audited by Grant Thornton LLP) showed Unrestricted Net Assets of over $1.4 billion and Cash and Cash Equivalents (unrestricted) of $155 million. Annenberg will be providing a guaranty for a $15.5 million Senior Loan provided to the Project. For further discussion regarding Annenberg's guaranty, please refer to the section entitled "COLLATERAL AND GUARANTEES".

Theatre Operator: Taffet & Associates, Inc. ("**Taffet**")

WTI will outsource the theatre operations to Taffet. Prior to closing, WTI and Taffet will enter into a Management Services Agreement to effectuate this relationship. Taffet is a consortium of seasoned experts in the motion picture industry, with over 100 combined years of experience in operation, management, food service, and construction. Taffet has worked with many developers in creating venues for motion pictures in their respective locations. It has created and operated entertainment venues in areas that bring economic vitality back to the community. Currently, Taffet's two owned locations, The Pearl in North Philadelphia (PA) and The Pearl in Frackville (PA), are examples of its dedication to the communities which they serve.

Taffet was founded by Bruce M. Taffet in 2004, following his retirement from Regal Entertainment. Mr. Taffet began his professional career in the entertainment business over 41 years ago as an owner/operator of the Orkin/Taffet Theatres. After selling his theatres, he joined United Artists Theatre Circuit and expanded his role in various capacities and virtually every aspect of the business. During this time, he worked with many of the industry's top architects and engineers designing and implementing projects to produce cost effective and efficiently operating theatres. Mr. Taffet has spent a large portion of his career in theatre operations, training, purchasing, food service, and construction serving in many capacities and has established a worldwide network and relationships with a number of top- level theatre circuit and entertainment industry executives. He pioneered the development of many food industry concepts, including self-serve butter, portion pack cheese, and value combo packaging, which are but a few of the many ground breaking concession industry firsts that he has been credited with and are now accepted as industry standards. Since 1995, Bruce served as Executive Vice President of United Artists/Regal, including the transition to ownership with Regal Entertainment Group, the largest theatre circuit in the world.

The film leasing aspect of the theatre operations will be head by Hank Lightstone. Mr. Lightstone, a third-generation film industry executive, has been in the entertainment business since 1976. He joined The Film Group in May 2012 as its Senior Vice President. Previously, he worked with Paragon Entertainment, LLC, where was a Partner since 2009. He has also been a consultant for Muvico since 2006. Prior to those roles, Mr. Lightstone had lengthy tenures at BS Moss Enterprises and United Artists.

General Contractor: Ed Grush General Contractor ("**EGGC**")

EGGC was founded in 1965 and has built over 400 projects in the past 50 years. Ed Grush is the CEO and founder of EGGC and he has remained active in construction throughout the company's history. He personally oversees all construction and assists field supervisors, architects, and subcontractors. Bob Grush, Ed's son, has been in the construction industry since 1981 and joined EGGC in 1983. He assists in ensuring that construction schedules are met in the field and that a consistently high quality of operations is maintained.

The projects that EGGC has built include multi-level retail shopping centers with subterranean parking structures, more than 25 complete ground-up shopping centers, 50 supermarkets, 60 drug stores, 60 major remodels, and other retail and commercial projects. Projects of note with entertainment and education uses include the Pacific Amphitheater (Costa Mesa), an addition to the Greek Theatre (Glendale), and Westview School (Los Angeles). Mixed-use projects of note include The Village at Century (Inglewood), Ross Center (Monrovia), and Pride Center (Woodland Hills).

EGGC has identified SAFECO Insurance Company of America, with whom EGGC maintains a longstanding relationship, as provider of contract surety with bonding capacity in excess of $25 million single and $50 million aggregate.

WCEC and EGGC entered into a Guaranteed Maximum Price contract ("**GMP**") on April 20, 2011.

Architect: Jenkins/Gales & Martinez, Inc. ("**JGM**")

JGM was founded in 1981, headquartered in Los Angeles, and is a certified Minority Business Entity ("**MBE**"), representing one of the largest minority-owned architectural firms. It is headed by Chairman/CEO Earl E. Gales, Jr. and has a staff of approximately 100 professionals, which represent architects, engineers, planners, and construction specialists. The range of services offered includes (but is not limited to) urban planning, design development, constructability reviews, and construction administration.

JGM has experience working with governmental entities (federal, state, and local) and a variety of civic organizations in the development of major institutional facilities, commercial buildings, public works infrastructure, housing, transit/transportation, and educational facilities. JGM has worked on many projects within Los Angeles, which include:

- YWCA GLA Urban Campus Development (Architect of Record, Project Design Manager)
- Compton Community College – Math and Sciences Building (Architecture, Engineering)
- Vermont-Adams Shopping Center with Ralphs Grocery Store (Architecture, Engineering)
- Fair Oaks Plaza in Pasadena (Architecture, Engineering)
- Marriott Hotel – Warner Center (Design)

PROJECT FEASIBILITY

Property Appraisals

The most recent land ("*as is*") appraisal of the Project's site estimated market value at **$4.3 million** with an effective date of June 30, 2013. Early in the history of the Project, a complete appraisal was ordered for the value of the Project upon completion. The "*as built*" appraisal estimated market value at $22.4 million with an effective date of July 1, 2010.

Environmental Inspections

A Phase I environmental report of the subject property was provided by Advanced GeoEnvironmental, Inc. July 10, 2013. The historical uses of the site include a railroad switching station, train car barn, and lumber yard. The investigation revealed no recognized environmental conditions, current or historical.

Further investigation is not recommended. A reliance letter will be provided naming LADF and LADF's Sub-CDE as parties that may rely on the report.

Construction Feasibility

WCEC will be responsible for development of the Project by way of a Development Services Agreement that it will enter into with the QALICB. WCEC has entered into a GMP contract with the GC.

The preliminary construction budget estimates construction hard costs of $10.8 million (not including contingency of $1.6 million and General Conditions and Overhead of $1.4 million)based on the GMP contract and soft costs of $3.6 million (not including $2.5 million of expended costs to-date).

Probable Maximum Loss Report

A Probable Maximum Loss study will not be required of the QALICB. Since the Project is new construction, it is expected that the design will reflect the most current seismic design standards.

Project Timeline

The Project has reached 100% completion of construction documents, and received all necessary permits from the City of L.A. Department of Building and Safety. The following list represents the remaining milestone items left for the Project's completion:

- August 15 – 30, 2013: NMTC Transaction Close
- August 30, 2013: Construction Start
- January 31, 2015: Construction Completion (approx. 18-month construction schedule)

LADF
LOS ANGELES DEVELOPMENT FUND

Project Financial Feasibility

SOURCES		USES	
Investment Fund Level (NMTC)		**Construction Uses**	
Northern Trust Senior Loan	$5,798,300	*Acquisition Costs:*	
One-Day Loan	$1,120,700	- Land Value	$4,270,000
WCEC Leverage Loan (NT Fund)	$6,919,000	*Hard Costs:*	
		- Construction Costs	$10,840,900
Northern Trust Senior Loan	$6,958,000	- Gen. Cond., Overhead, Insurance	$1,376,600
One-Day Loan	$1,344,800	- Contingency (*14% of Hard Costs*)	$1,550,500
WCEC Leverage Loan (Citi Fund)	$8,302,800	*Soft Costs:*	
		- Fees, Permits & Studies	$1,985,000
NMTC Equity (NT Fund) - $0.79/TC	$3,081,000	- Developer's Fee	$800,000
NMTC Equity (Citi Fund) - $0.79/TC	$3,697,200	- Other Soft Costs	$2,768,000
NMTC Investor Equity	$6,778,200	***Sub-Total***	$23,591,000
Project Level (Direct Sources)		**Financing-Related Uses**	
Northern Trust Senior Loan	$2,743,700	Construction Period Interest	$305,000
CRA Loan	$598,000	*NMTC Closing Costs:*	
WCEC Sponsor Equity	$761,300	- NMTC Closing Costs	$1,000,000
Sub-Total	$4,103,000	- Title and Recording	$45,000
		- Citi CDE Sub-Allocation Fee	$240,000
		- **LADF** CDE Sub-Allocation Fee	$200,000
		NMTC Reserves:	
		- Citi CDE Asset Mgmt Fee Rsv	$60,000
		- Citi CDE Expense Rsv	$192,000
		- **LADF** CDE Asset Mgmt Fee Rsv	$350,000
		- **LADF** CDE Expense Rsv	$120,000
		Sub-Total	$2,512,000
Total Project Sources	**$26,103,000**	**Total Project Uses**	**$26,103,000**

DEVELOPMENT PRO FORMA

The total project cost is estimated to be $26.1 million, $22 million of which will be leveraged through the NMTC structure and funded as Qualified Equity Investment ("**QEI**"), ultimately providing $21.8 million in Qualified Low-Income Community Investment ("**QLICI**") loans to the Project. The construction costs are estimated at $19.3 million, and acquisition costs estimated at $4.3 million based on the land appraisal discussed earlier.

The total $22 million of QEI funds will be disbursed as follows at closing:

- $4.3 million – Acquisition of Property
- $1.5 million – Pay for NMTC Closing Costs
- $0.7 million – Fund the CDE-Controlled Fee and Expense Reserve Accounts
- $15.5 million – Fund the CDE-Controlled Construction Disbursement Account

The Project's draw process will be coordinated by Northern Trust. NT's role will include obtaining date down endorsements from the title company and lien waivers throughout the construction period. NT will also coordinate with LM Consultants[1], a third-party construction inspector, for construction monitoring services.

Developer's fees represent approximately 7.4% of construction costs (not including contingencies) and Contractor's overhead and profit represent approximately 4.8% of construction costs (not including contingencies).

NMTC-related reserves held by the QALICB will total $0.7 million and be held for the quarterly payments of asset management fees and expense reimbursements to the NMTC allocatees, or Community Development Entities ("**CDEs**"). The CDEs will require that their fees and expense reimbursements for the entire NMTC Compliance Period be held in separate reserve accounts.

OPERATING PRO FORMA

The Project's operating revenues collected by the QALICB will consist of rental payments made by WCEC under the Master Lease Agreement. The rental rates will be set at a level that allows the QALICB to make payment on all of its QLICI notes, with a stabilized debt service coverage ratio of 1.35x. The rental rates will also be supported by market data from a broker opinion to be obtained.

WCEC will have the financial capability as the Master Tenant to make rental payments for the duration of the 7-year NMTC Compliance Period. An analysis of the Project's operational pro forma shows that in the year of stabilization, 2015, the Project's revenues were as follows:

- $1.5 million – Theatre Net Revenue (*Dividend and Lease Payments from WTI*)
- $0.5 million – Education Center Programmatic Revenue
- $0.2 million – Charitable Contributions

The total $2.2 million in revenue will be sufficient to fund the following expenses of WCEC:

- $1.3 million – Total Operational Expenses
- $0.8 million – NT Senior Loan Interest Payment
- $0.1 million – Lease Payment to QALICB

Additionally, WCEC has committed to capital campaign efforts to raise $7.5 million between 2015 and 2017 to be used for principal pay down of the NT Senior Loan in a subsequent year. Annenberg has committed to assisting WCEC in these efforts.

WTI's operating revenues in the year of stabilization, 2015, will total $5 million, and consist primarily of admissions and concessions sales ($4.7 million), in addition to advertising revenue and rental revenue from the teleconference/post-production studio. WTI's operating expenses in 2015 will total $3.3 million, of which $0.3 million is attributed to the operations and management fee[2] paid to the Theatre Operator.

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[1] LM Consultants was formed in Chicago in 1995 by Gregory E. Lehn and Thomas J. McNamara, two experienced professional engineers who have worked together performing property condition assessments and construction consulting services to real estate lenders and investors on hundreds of properties throughout North America since 1984. In addition to Chicago, LM Consultants has offices in Los Angeles, Atlanta, Dallas, Denver, and New York.

[2] Taffet's management fee is structured to be the greater of $250,000 or 4% of the Theatre's gross sales

Given the long-term focus of WCEC's mission, the entertainment industry's support for WCEC as evidenced by the job hiring commitment by Warner Bros., and the financial sponsorship by Annenberg, the project's revenues are expected to remain stable during the NMTC compliance period.

FINANCING PARTNERS

The Project-level costs of the QALICB will be funded in whole by the QLICI loans and WCEC's Sponsor Equity dollars. The financing parties to the NMTC structure will include two NMTC investors at the upper tier providing tax credit equity to two separate investment funds. There will be two CDEs, one associated with each investment fund and each making QLICI loans to the Project through their subsidiary Community Development Entities ("**Sub-CDEs**") at the lower tier.

The Sponsor will be providing the Leverage Loans to both investment funds. It will use proceeds from a Senior Loan and a One-Day Loan to fund the Leverage Loans; both Senior Loan and One-Day Loan will be provided by Northern Trust Corporation ("**NT**"). NT is an international financial services company headquartered in Chicago. It provides investment management, asset and fund administration, fiduciary and banking services. As of June 30, 2012, Northern Trust Corporation had $94 billion in banking assets, $4.56 trillion in assets under custody and $704 billion in assets under management.

NMTC Investors (2)

NorLease, Inc. ("**NT Investor**") is the NMTC Investor that will provide the equity contribution to the NorLease investment fund ("**NT Fund**"). At closing, the NT Fund will make a QEI into the LADF Sub-CDE. NorLease is a wholly-owned subsidiary of NT.

Citibank, N.A. ("**Citi Investor**") is the NMTC Investor that will provide the equity contribution to the Citibank investment fund ("**Citi Fund**"). At closing, the Citi Fund will make a QEI into the Citi Sub-CDE.

NT will be providing a Senior Loan to the Sponsor, which will use the proceeds to make Leverage Loans to both the NT Fund and the Citi Fund.

LADF has not closed a transaction with NorLease, NT, or Citibank.

CDE Lenders (2)

The Wattstar Transaction will include two CDE allocatees, each 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 associated QEI with their NMTC allocations:

CDE Allocatee	Sub-CDE	Sub-Allocation Amount
Los Angeles Development Fund	*LADF IX, LLC*	$10,000,000
Citibank NMTC Corporation	*Citi NMTC Subsidiary CDE XIV, LLC*	$12,000,000
	Total NMTC Allocation	$22,000,000

CITI CDE

Citibank NMTC Corporation ("**Citi CDE**") is the NMTC allocatee of Citibank. Citibank operates its CDE similar non-bank CDEs, charging market fees and providing approximately $5 to $15 million in allocation. Many bank-affiliated CDEs only provide $3 to $5 million of allocation to help projects fill remaining gaps in financing, and typically will not charge any fees, only reimbursement of expenses for operating its Sub-CDE special purpose entities. LADF has not closed a transaction with Citibank as a partner CDE.

FINANCING STRUCTURE

The project's total development cost will be funded by the $22 million QEI generated through the NMTC leverage structure, and an additional $4.1 million in direct project sources. For a full diagram showing the flow of funds at closing, please refer to Exhibit A.

The $4.1 million of direct sources of funding to the project (i.e. funded outside of the NMTC structure) will be provided by WCEC as Sponsor Equity. WCEC will use a portion of the NT Senior Loan proceeds, CRA Loan proceeds, and the company's available net assets to fund the Sponsor Equity contribution to the Project.

NMTC Financing

There will be two investment funds established for the NMTC transaction, the NT Fund will make the $10 million QEI related to LADF's allocation and the Citi Fund will make the $12 million QEI related to its own Citi CDE allocation. The reason for the two investment funds is to separate the tax credit equity investments made by the each investor, NorLease and Citibank.

NorLease and Citibank will own 100% of the NT Fund and Citi Fund, respectively. Both investors will manage their investment funds. The equity contributions at the upper tier by NT and Citibank will be $3.1 million and $3.7 million respectively. In exchange, NT will receive $3.9 million and Citibank will receive $4.7 million in tax credits that will be generated (39% of QEI). This exchange of equity for tax credits reflects a pricing of $0.79 per tax credit dollar for both investors.

The leverage loans will be provided by WCEC in the amounts of $6.9 million and $8.3 million to the NT Fund and Citi Fund, respectively. The leverage loans will be interest-only for 7 years during the NMTC compliance period. WCEC's funding sources for the Leverage Loans and Sponsor Equity provided directly to the Project will be:

- $15.5 million – NT Senior Loan
- $2.5 million – One-Day Loan (NT)
- $0.6 million – CRA Residual Receipts Loan
- $0.8 million – WCEC Capital Contribution

WCEC will receive a One-Day Loan from NT, which will be supported by the expenses incurred to-date during pre-development of the Project. These expenses were primarily financed by a Community Development Block Grant ("**CDBG**") of $2.25 million. The CDBG funds have been spent on pre-development expenditures such as architects, plan check, permitting, and consultants.

NorLease's and Citibank's tax credit equity contributions combined with the WCEC's leverage loans will be used to capitalize both investment funds with $22 million in total. Upon closing of the NMTC transaction, the investment funds will use their capital to make $22 million in combined QEIs to the two Sub-CDEs – according to allocations provided by each CDE allocatee in the transaction (see "FINANCING PARTNERS").

In exchange for their capital contributions, the investment funds will receive a 99.99% membership share in each Sub-CDE. In the case of LADF's Sub-CDE, LADF Management, Inc. will contribute and own 0.01% share in the Sub-CDE and the LADF will provide and earn income related to management services for the Sub-CDE. The two Sub-CDEs will then use the contributed capital to make $21.8 million in total QLICIs to the QALICB.

Each Sub-CDE will provide 2 QLICI notes – matching one with the leverage loan terms and the other with the NMTC equity component. The notes will be for a term of 30 years, with interest-only payments in the first seven years during the NMTC compliance period, and amortizing payments thereafter.

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

1. Citi CDE – up to $11,760,000
2. LADF – up to $10,000,000

Northern Trust Senior Loan

The NT Senior Loan will be provided to WCEC to make the leverage loans to the investment funds and direct equity contribution to the Project. The loan will have the following terms:

- Loan Amount: $15,500,000
- Interest Rate: 5.00%, Fixed
- Term: 33 years (*Interest-only for first 3 years*)

The interest-only period of 3 years means that WCEC will be making amortizing payments partway through the NMTC 7-year compliance period. Because this loan and these payments will occur outside of the NMTC structure, this will not disturb NMTC structure, which will maintain interest-only payments on all QLICIs for the duration of the 7 years. It is expected that WCEC's fundraising efforts and support from the Annenberg Foundation will cover the principal component of the amortizing payments starting in the 37th month.

PROJECT READINESS

The project is expected to be ready for NMTC closing on August 15, 2013, with an outside closing date of August 30, 2013. Pursuant to LADF's policies and procedures, the readiness of the Project is determined as follows:

- *Control of Site*: WCEC currently owns the site
- *Entitlement Process*: Project is a "by-right" development
- *Design/Pre-Development*: Complete
- *Working Drawings*: Complete – permits issued and remain active
- *Value Engineering*: Complete
- *Tenant Leases*: *N/A* – all of space will be occupied by related entities
- *GMP Construction Contract*: Complete – GMP executed
- *Financing Commitments*: With exception of NMTCs, all other external funding committed
- *Outstanding 3rd Party Issues*: - Amendments to Graham Lot Sublease and Grandee Lot Lease
- Management Agreement with Theatre Operator

Northern Trust approved the investment in the tax credits from the LADF allocation, Senior Loan, and the One-Day Loan. Citibank approved the investment in the tax credits from the Citi CDE allocation. LADF and the Citi CDE have provided LOIs to the Project for the entire $22 million in allocation needed.

NMTC ELIGIBILITY AND COMPLIANCE

The subject site is located in the 2010 Census tract 06037242700. The population within the Census tract is 4,636 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 Highly Distressed Census Tract based on either of two qualifying measures (pursuant to Section 3.2(h) of LADF's Allocation Agreements):

- **34.6%** – Poverty rate (*greater than 30%*)
- **38.3%** – Census tract compared to metropolitan area median family income (*less than 60%*)

QALICB Analysis

Mega-Watts is a special purpose entity that will satisfy the requirements for QALICBs and will be considered a "real estate" QALICB.

The QALICB will meet the Non-Qualified Financial Property Test since 100% of the QLICI proceeds will go toward the development and operation of the real estate Project. Additionally, these funds will be expended within 18 months of closing.

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

LADF 2011 Allocation Agreements Compliance

This transaction will use $10 million in allocation from LADF's 2011 Allocation award from the CDFI Fund. With the closing of this transaction, the 2011 Allocation award will be 100% invested and no allocation will remain outstanding.

The LADF has determined that this project complies with its 2011 Allocation Agreement, evident through the following characteristics of the Transaction:

- 100% push down of QEI to QALICB
- QLICI interest rate is more than 50% below market
- Project is located in a targeted distressed community

As the transaction relates to Section 3.2(a) of the 2011 Allocation Agreement, the project will have a "real estate" QALICB. The 2011 Allocation Agreement allows for "Investments in, or loans to, QALICBs whose principal activities involve the development or rehabilitation of real estate", therefore this transaction conforms to the activities listed in Schedule 1 for Section 3.2(a).

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

The NMTC financing will provide an estimated $6.8 million in gross equity and $4.3 million in net equity (net of NMTC closing costs, placement fees, management fees, and on-going expenses) to the Project, approximately 19.4% of the $22 million QEI, and 16.3% of the total Project cost. The LADF Sub-CDE's portion of the total net equity is approximately $2.4 million. The NMTC equity-based loan ("B note") will be provided to the QALICB at a significantly below market rate of 0.72%.

Given the nonprofit QALICB and Sponsor, and social service components of the project, it could not move forward without the NMTC equity. Development projects such as Wattstar historically have had to rely on public sources and capital campaigns to receive funding. The proposed Transaction and the NMTC equity make possible the creation of both culture and education amenities in Watts. The Wattstar project has not generated sufficient corporate investment to fund, but is much needed by Watts and surrounding communities.

COLLATERAL AND GUARANTEES

The LADF and Citi CDE QLICI loans will be secured *pari passu* by a First Deed of Trust on the subject property. Additional collateral for the QLICI loans will consist of security interest in the reserve accounts, assignment of lease and rents, and guarantees from the WCEC, its subsidiary WTI, and Annenberg Foundation.

For the NT Senior Loan, WCEC will provide a pledge of its fundraising dollars, and WTI and Annenberg will provide full repayment guaranties.

For the QLICI loans, WCEC will provide the repayment and completion guaranty. This will guarantee payment of all costs necessary to complete the project and any cost overruns, including construction period fees and expenses owed to the CDEs or the Fund. Additionally, WCEC and the QALICB will provide an environmental indemnity.

Annenberg's guaranties provided in support of WCEC will be recourse. There will be a Reimbursement Agreement between the two companies, for which WCEC will also provide a subordinated pledge of its fundraising dollars and WTI will provide a guaranty of reimbursement obligations.

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 A Note, which is tied to the Leverage Loan amount, will be accelerated and the QLICI B Note, which is tied to the NMTC Investor equity amount, may be forgiven at the end of the compliance period.

A Put-Call Agreement will be entered into by WCEC (as Leverage Lender) and NorLease (as Investor in the Investment Fund that capitalizes the LADF Sub-CDE). NorLease may exercise its put option and sell its respective interest in the investment fund to the leverage lender. If NorLease chooses not to exercise its put option, WCEC may exercise its call option. Upon exercising of either put or call option by the respective parties, the Leverage Lender would own all of the debt associated with the proposed transaction. A similar agreement will be in place for the Citi IF between WCEC and the Citi Investor.

RISKS AND MITIGANTS

There will be limited credit and recapture risk. All significant 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: EDUCATION CENTER'S RELIANCE ON THEATRE NET REVENUE FOR OPERATIONS

Although the Education Center is expected to generate revenue related to the rental of a portion of the educational facilities to third parties, the Project will be heavily reliant on the Theatre's revenues for financial feasibility. This places much of the burden of the Project's success on Taffet, the Theatre Operator, which is a third-party to the Project. The risk is mitigated, however, by the following points:

- Although not implementing a branded theatre, Taffet has substantial experience operating smaller, independent theatres, including offering special discounts and promotions to encourage local attendance

- WCEC and Taffet have extensive contacts within the film industry which will assist them in assuring a successful mix of films at the Project site
- The Annenberg Foundation has committed to assist WCEC in additional fundraising to support the programs of the Education Center

Although experience and track records of all parties in the development of the Project assure a successful movie theatre and educational facility, a lack of success will not necessarily entail an NMTC Recapture Event. Given the financial guarantee by Annenberg of the NT Senior Loan, financial shortfalls for the Project's operations will not put it at risk of defaulting under the loan documents, thus safeguarding the NMTC structure.

RISK: GENERAL

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

- LADF has obtained a license for specially-designed compliance software to assure that all required reporting to the CDFI Fund is completed in a timely manner. This will prevent the LADF from losing its certification with the CDFI Fund.
- 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 says that 85% of the QEI must be continuously invested in QLICIs during the NMTC compliance period.
- The transaction will be structured to insure 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 last in the waterfall and would receive a return of capital only after **$11.8 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, WCEC, and Guarantor, in each of their capacities as guarantors and indemnitors and the WCEC's 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 QALICB 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 – approx. $200,000 (2% of QEI). LADF will receive fee in lump sum at closing.
- CDE Servicing & Compliance Fee – approx. $350,000 (quarterly installments of $12,500 for 7 years)
  - 0.50% of QEI per year for $10 million of 2011 Allocation
- CDE Expense Reimbursements – approx. $120,000 (estimated at $15,000 annually per CDE for 8 years) – 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 $470,000, will be placed in a separate, controlled reserve account upon funding at close.

POLICY EXCEPTIONS

LADF has a policy of only using attorneys from the LADF Board-approved list of legal counsel. As part of the approval for investment in the proposed transaction, LADF staff is requesting an exception to in order to engage Butler Snow as counsel for this transaction. This action is being request because two of LADF's attorneys that formerly worked at Kutak Rock, an LADF Board-approved legal firm, have left Kutak and joined Butler Snow. Those attorneys, Ann Hered and Thane Hodson, were previously partners at Kutak during the time that Kutak responded to LADF's Request for Proposal for NMTC legal counsel and was selected. While at Kutak, Ms. Hered and Mr. Hodson developed a strong working relationship with LADF, and represented LADF in four NMTC transactions totaling $72.5 million of LADF's NMTC allocation. As of July 2013, Ms. Hered and Mr. Hodson joined Butler Snow.

Butler Snow's Public Finance and Incentives Team has substantial expertise in tax credit financing transactions and has represented tax credit investors, leveraged lenders, community development entities and developers in NMTC transactions. In addition, the firm has substantial expertise in transactions utilizing NMTCs in conjunction with other federal, state and local economic development incentives, including combining NMTC financing with tax-exempt bond financing and other tax credit programs like historic rehabilitation and renewable energy credits.

In order to facilitate a timely and smooth closing of the transaction, LADF staff recommends transferring the transaction to Butler Snow to allow Ms. Hered and Mr. Hodson to continue providing legal advice on this transaction.

RECOMMENDATION

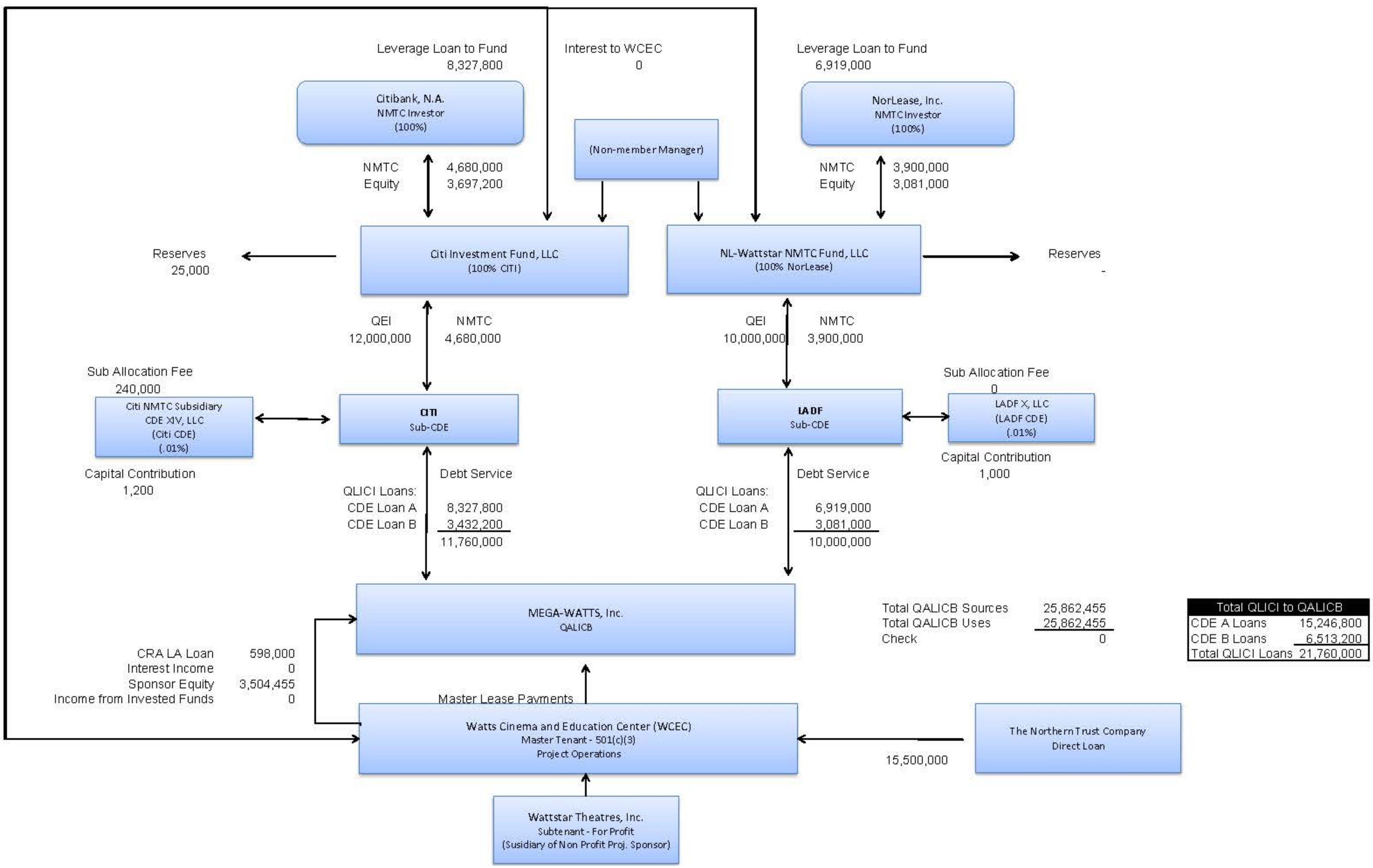
Approval of this funding request is recommended based on the project's feasibility, readiness and community benefits.

ATTACHMENTS

EXHIBIT A: Project Flow of Funds (*as of July 26, 2013*, Final Projections Pending)
EXHIBIT B: Wattstar Youth Education Feeder Chart

LADF
LOS ANGELES DEVELOPMENT FUND

EXHIBIT A: Project Flow of Funds (*as of July 26, 2013*, Final Projections Pending)



LADF
LOS ANGELES DEVELOPMENT FUND

EXHIBIT B: Wattstar Youth Education Feeder Chart

Target Schools:

Markham Middle School	Willowbrook Middle School	Centennial High School	Gompers Middle School
Charles Drew Middle School	Firebaugh High School	Locke High School(s)	Bunche Middle School
Huntington Park High School	Thomas Riley High School	Cesar Chavez Middle School	Jordan High School
Hosler Middle School	Waters Preparatory Academy	Lynwood Middle School	King Drew Medical Magnet
Nimitz Middle School	Verbum Dei High School	Lynwood High School	YO! Watts High School
	South Gate High School	South East High School	

The Watts Cinema and Education Center Embellishment:

- Arts/ Entertainment
- English/Literacy
- Cultural Studies
- Youth Entrepreneurship
- Life Skills/Health

*Classes such as song writing, dance, introduction to entertainment, video/film, nutrition, public speaking, business concepts, and financial literacy will be options for the junior high and high school students. The program will be based in the arts/entertainment and entrepreneurship courses and all other courses will act as electives.

Higher Education and Training:

Wattstar Vocational Classes (Pre-Apprentice & Apprentice Program)		Cal. State Univ., Long Beach	Cal. State Univ., Dominguez Hills
Long Beach City College	El Camino-Compton Complex	El Camino College	Los Angeles Southwest College
University of Southern California	East L.A. Community College	Mount St. Mary's College	Los Angeles City College
	Los Angeles Trade Tech College	University of California, Los Angeles	

Outcome:

Financially-Stable and Educated Citizens of the Watts Community

RESOLUTIONS

of the

Board of Directors
of
THE LOS ANGELES DEVELOPMENT FUND

At a meeting of the Board of Directors of **The Los Angeles Development Fund**, a California nonprofit public benefit corporation (the "Corporation"), duly convened and held on August 1, 2013, at which a quorum was present and acting throughout, the following resolutions were adopted:

WHEREAS, pursuant to that certain New Markets Tax Credit Program Allocation Agreement dated effective as of April 5, 2012, among the Community Development Financial Institutions Fund, a wholly owned government corporation within the U.S. Department of Treasury (the "CDFI Fund"), the Corporation, LADF X, LLC, a California limited liability company (the "CDE"), and certain other subsidiary allocatees of the Corporation, the Corporation received a New Markets Tax Credit Allocation in the amount of $50,000,000 (the "NMTC Allocation") for New Markets Tax Credits under Section 45D of the Internal Revenue Code;

WHEREAS, the Corporation formed the CDE for the purpose, among other matters, of receiving a transfer of a portion of the Corporation's allocation of New Markets Tax Credits from the CDFI Fund as hereinafter set forth in these resolutions;

WHEREAS, the Corporation is currently a Class A Member of the CDE and will withdraw as a Class A Member of the CDE as hereinafter set forth in these resolutions;

WHEREAS, the Limited Liability Company Agreement of the CDE has been or will be amended and restated pursuant to the Amended and Restated Limited Liability Company Agreement, in substantially the form attached hereto; and,

WHEREAS, in order to induce NorLease, Inc., a Delaware corporation or an affiliate thereof (the "Investor"), to invest in NL-Wattstar NMTC Fund, LLC, a Delaware limited liability company, and for such entity, in turn, to make one or more qualified equity investments in the CDE, the Corporation is required to indemnify the Investor against certain conditions as set forth in the Indemnification Agreement (CDE) (the "Indemnification Agreement"), among the Corporation, LADF Management, Inc., a Delaware corporation and the managing member of the CDE, and the CDE, as the indemnifying parties thereunder, and the Investor, as the beneficiary of such indemnification, in substantially the form attached hereto.

NOW THEREFORE, BE IT RESOLVED, that the transfer by the Corporation to the CDE of a portion of the Corporation's NMTC Allocation in the amount of $10,000,000 (the "Sub-Allocation") is hereby authorized and approved, and the officers of the Corporation are authorized and directed to execute such documents and take all necessary steps to effectuate such transfer of the Sub-Allocation to the CDE;

RESOLVED FURTHER, that the officers of the Corporation are authorized and directed to take all necessary action to cause the Corporation to withdraw as a Class A Member of the CDE;

RESOLVED FURTHER, that one or more of the officers of the Corporation are authorized and directed to execute and deliver Amended and Restated Limited Liability Company Agreement of the CDE and the Indemnity Agreement (such documents are referred to herein as the "Transaction Documents") on behalf of the Corporation in such form as such officer or officers may approve, their execution and delivery being conclusive evidence of such approval; and

RESOLVED FURTHER, that the officers of the Corporation are authorized on behalf of the Corporation to execute, deliver and perform such further agreements, certificates, filings, financing statements, instruments and other documents as may be necessary or appropriate in connection with the transaction contemplated by the Transaction Documents.

The above resolutions were passed by the necessary majority of those present and voting in accordance with the Bylaws and Articles of Incorporation of the Corporation.

The original executed copy of this document shall be filed in the minute book of the Corporation and become a part of the records of the Corporation.

* * *

IN WITNESS WHEREOF, these Resolutions are hereby executed by the Directors of the Corporation as of August 1, 2013 as indicated below.

____
Director

____
Director

____
Director

____
Director

____
Director

[Signature Page to Resolutions of the Board of Directors of The Los Angeles Development Corporation]

RESOLUTIONS

of the
Board of Directors
of
LADF Management, Inc.

At a meeting of the Board of Directors of **LADF Management, Inc**., a Delaware corporation ("Corporation"), duly convened and held on August 1, 2013 at which a quorum was present and acting throughout, the following resolutions were adopted:

WHEREAS, the Corporation is the managing member of LADF X, LLC, a California limited liability company (the "CDE");

WHEREAS, the limited liability company agreement of the CDE has been or will be amended pursuant to the First Amended and Restated Limited Liability Company Agreement applicable to the CDE, in substantially the form attached hereto;

WHEREAS, in order to induce NorLease, Inc., a Delaware corporation or an affiliate thereof ("NL"), to invest in NL-Wattstar NMTC Fund, LLC, a Delaware limited liability company ("Fund"), and for the Fund to make one or more qualified equity investments in the CDE, the Corporation is required to indemnify NL against certain conditions specified in the Indemnification Agreement (CDE), among the Corporation, The Los Angeles Development Fund and the CDE, as the indemnifying parties thereunder, and NL, as the beneficiary of such indemnification ("Indemnity Agreement"), in substantially the form attached hereto; and

NOW THEREFORE, BE IT RESOLVED, that the Corporation is hereby authorized to do and perform or cause to be done and performed all such acts and things deemed necessary, advisable or appropriate as Managing Member of the CDE, including execution of resolutions constituting one or more Written Consents of the Managing Member of the CDE relating to the transaction contemplated by the Transaction Documents (as hereinafter defined) and contemplated by that certain Credit Agreement by and among the CDE (in its capacity as a lender thereunder), Citi NMTC Subsidiary CDE XIV, LLC (in its capacity as a lender thereunder) and Mega-Watts, a California nonprofit public benefit corporation (in its capacity as the borrower thereunder);

RESOLVED FURTHER, that one or more of the officers of the Corporation are hereby authorized and directed to execute and deliver the First Amended and Restated Limited Liability Company Agreements of the CDE and the Indemnity Agreement (collectively, "Transaction Documents") on behalf of the Corporation in such form as such officer or officers may approve, their execution and delivery being conclusive evidence of such approval; and,

RESOLVED FURTHER, that the officers of the Corporation are authorized on behalf of the Corporation to execute, deliver and perform such further agreements, certificates, filings, financing statements, instruments and other documents as may be necessary or appropriate in connection with the transaction contemplated by the Transaction Documents.

The above resolutions were passed by the necessary majority of those present and voting in accordance with the Bylaws and Articles of Incorporation of the Corporation.

The original executed copy of this document shall be filed in the minute book of the Corporation and become a part of the records of the Corporation.

*   *   *

IN WITNESS WHEREOF, these Resolutions are hereby executed as of August 1, 2013, as indicated below.

SECRETARY'S CERTIFICATE

I HEREBY CERTIFY that I am the duly elected and acting Secretary and keeper of the records of LADF Management, Inc., a Delaware corporation (the "Corporation"); that the aforementioned is a true and correct copy of resolutions duly adopted by the Board of Directors of the Corporation on August 1, 2013 (collectively, the "Resolution"); that the Resolution does not conflict with the corporate charter or by laws of the Corporation, nor has the Resolution been in any way altered, amended or repealed, and that it is in full force and effect, unrevoked and unrescinded, as of this day, and has been entered upon the regular minute book of this Corporation, as of the aforementioned date, and that the Board of Directors of the Corporation has, and at the time of adoption of the Resolution, had, full power and lawful authority to adopt the Resolution and to confer the powers thereby granted to the officers and staff therein named who have full power and lawful authority to exercise the same.

____
Sandra Rahimi, Secretary

*   *

LADF VII, LLC

WRITTEN CONSENT
OF THE MANAGING MEMBER

[_____________], 2013

LADF Management, Inc., a Delaware corporation, being the managing member ("Managing Member") of **LADF X, LLC**, a California limited liability company ("Company"), does hereby, consent to, adopt and approve the following resolutions.

APPROVAL OF ADMISSION OF INVESTOR MEMBER, DESIGNATION OF QEI, LOANS TO BORROWER AND TRANSACTION DOCUMENTS

RESOLVED, that the Managing Member declares it advisable that the Company admit NL-Wattstar NMTC Fund, LLC, a Delaware limited liability company ("Investor Member"), as the investor member in the Company; and further

RESOLVED, that the Managing Member is authorized on behalf of the Company to accept the capital contribution of the Investor Member in the amount of $10,000,000 and designate such contribution as a Qualified Equity Investment as defined in Section 45D of the Internal Revenue Code of 1986, as amended; and further

RESOLVED, that the Managing Member hereby approves on behalf of the Company of the acceptance of a sub-allocation of new markets tax credits in the amount of $10,000,000 to the Company from The Los Angeles Development Fund, a California nonprofit corporation; and further

RESOLVED, that the Managing Member hereby approves the making of Qualified Low-Income Community Investment ("QLICI") loans to Mega-Watts, a California nonprofit public benefit ("Borrower"), in the aggregate principal amount of $10,000,000, as evidenced by Promissory Notes designated as approved by the Managing Member in the aggregate principal amount of $10,000,000 (collectively, "Loans"); and further

RESOLVED, that the Managing Member hereby approves the forms of the Amended and Restated Operating Agreement of the Company; the Indemnification Agreement (CDE) by the Managing Member and the Company, among other parties, in favor of NorLease, Inc.; and the Credit Agreement by and between the Company (as a lender thereunder), Citi NMTC Subsidiary CDE XIV, LLC, a Delaware limited liability company (as a lender thereunder) and Borrower (collectively, "Transaction Documents") in the forms currently before the Managing Member; and further

RESOLVED, that the Managing Member is hereby authorized, empowered and directed to execute and deliver the Transaction Documents on behalf of the Company but with such changes thereto as the Managing Member may approve, such execution and delivery by the Managing Member being conclusive evidence of such approval of the Managing Member; and further

RESOLVED, that the Managing Member is authorized on behalf of the Company to execute, deliver and perform such further agreements, certificates, filings, financing statements, instruments and other documents as may be necessary or appropriate in connection with the transaction contemplated by the Transaction Documents and the making of the Loans to the Borrower.

IN WITNESS WHEREOF, the undersigned, hereby consents to and evidences its approval of the actions set forth above as of the date first written above.

APPROVED AND SIGNED:

LADF MANAGEMENT, INC., a Delaware corporation, as Managing Member of LADF X, LLC

By ____________________________________

Rushmore Cervantes, President

[Signature Page to Written Consent for LADF X]