

TRANSMITTAL

To:

THE COUNCIL

Date:

FEB 24 2014

From:

THE MAYOR

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.



(Ana Guerrero)

ERIC GARCETTI
Mayor

JAN PERRY
GENERAL MANAGER

CITY OF LOS ANGELES
CALIFORNIA



ERIC GARCETTI
MAYOR

ECONOMIC AND WORKFORCE
DEVELOPMENT DEPARTMENT

1200 W. 7TH STREET
LOS ANGELES, CA 90017

Council File No.:
Council Districts: 10
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February 10, 2014

The Honorable Eric Garcetti
Mayor, City of Los Angeles
Room 303, City Hall

Attention: Mandy Morales, Legislative Coordinator

**COMMITTEE TRANSMITTAL: REQUEST FOR AUTHORITY TO RESTRUCTURE
COMMUNITY BUILD, INC. COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)
LOAN**

RECOMMENDATIONS

The General Manager, Economic and Workforce Development Department (EWDD), requests that the Mayor and City Council:

1. AUTHORIZE the General Manager of EWDD, or designee, to negotiate and execute an amendment with Community Build, Inc. (Borrower) to City Contract C-97477 and the related documents to restructure an existing Community Development Block Grant loan with outstanding principal of \$450,784.82, plus applicable accrued interest of \$118,800.55, relative to the intent of this transmittal, subject to approval of the City Attorney as to form and legality;
2. AUTHORIZE the EWDD to prepare Controller's instructions and/or make any technical adjustments that may be required and are consistent with this action, subject to the approval of the City Administrative Officer, and instruct the Controller to implement these instructions.

FINANCIAL IMPACT STATEMENT

There will be no impact on the City's General Fund for the proposed action.

SUMMARY

The Borrower, Community Build, Inc. is a non-profit corporation established in 1992 in response to the conditions which led to the Los Angeles Civil Unrest of 1992. Since the inception, Community Build, Inc. continues its mission to revitalize the south Los Angeles communities through investment in youth and commercial economic development.

In 1998, the Mayor and City Council approved a \$500,000 CDBG gap-financing loan assisting the Borrower to construct an approximate 15,000 sq. ft. commercial office and retail mixed building at 4305 Degnan Blvd., Los Angeles, CA 90008. The loan terms were at 6% amortized over 25 years.

In 2000, the Borrower requested to restructure the loan because the construction was delayed and the building did not generate enough lease income for debt service. The request was approved with new terms of a nine-month payment deferral and the outstanding principal was re-amortized at 5.75% over 30 years. Since the restructuring, the Borrower had been paying the regular payments in a fair manner until the end of 2009.

In October 2009, the Borrower lost a major tenant, Crystal Stairs Childcare, which occupied 7,600 square feet of the building since October 2000. Crystal Stairs Childcare had to close business and vacate the building after they lost both federal and state funding for their program. Since then, the Borrower has been delinquent on the loan.

The Borrower has notified EWDD of the financial hardship and requested to restructure the delinquent loan again. Considering the building is currently 100% occupied and with Borrower's continuous provision of good services to the community, EWDD performed a new underwriting based on the existing project conditions. In the following section, EWDD is proposing new terms which shows the project is now financially feasible to pay its loan payment.

UNDERWRITING

Occupancy

For three years, the Borrower was unable to fully lease the space vacated by Crystal Stairs Children due to the economy downturn. Currently the building is fully occupied, with the Borrower occupying a portion of the space to operate the following City funded programs:

1. Greater Leimert Park Village/Crenshaw Corridor Property Business Improvement District – City Clerk

2. Gang Reduction and Youth Development Prevention for Florence-Graham/77th and Baldwin Village/Southwest Areas – Office of Mayor Eric Garcetti
3. Project SAVE – Housing & Community Investment Department
4. FamilySource Center, Southwest II – Housing & Community Investment Department

There are a total of six units in the building, details as follows:

Tenant (Gross Lease)	Suite	Lease Date	Monthly Lease
Delroy & Marlene Beckford	100	5/1/2009	\$1,550.00
Delroy & Marlene Beckford	103	5/1/2009	\$1,637.50
JanGary Production	101	10/1/2010	\$2,000.00
Healthy African American Families	105	4/1/2011	\$2,358.00
Nami Urban Los Angeles	104	4/1/2012	\$1,000.00
Community Build, Inc.	102	Owner Occupied	\$4,859.00
Total per Month			\$13,404.50

Operating Income (per year)

Lease Revenue (\$13,404.50x12)	\$160,854.00
Vacancy (15%)	(\$ 24,128.10)
Expenses	
Property Tax	\$13,000
Utilities	\$ 7,000
Insurance	\$ 3,600
Administration	\$ 7,500
Broadway Loan	\$32,562
Others (15%)	\$24,000
	<u>(\$ 87,662.00)</u>
Net Operating Income	\$ 49,063.90
Loan Payment (Based on proposed new terms: 3%, 20 years)	\$ 37,906.92
Net Cash Flow	\$ 11,156.98
Debt Service Coverage	1.29

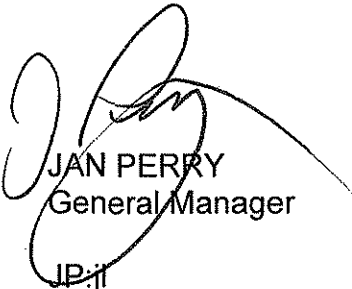
Terms

The proposed restructuring will add the outstanding accrued interest of \$118,800.55 (as of March 31, 2014) to the outstanding principal and re-amortize a new payment starting from April 1, 2014. The proposed payment is almost the same as the existing payment, but it is financially feasible based on current leasing condition.

	Existing	Proposed New
Principal	\$450,784.82	\$569,585.37 (\$450,784.82+\$118,800.55)
Interest Rate	5.75%	3.00%
Amortization	30 years	20 years
Payment per Month	\$3,198.42	\$3,158.91
Collateral	Second Deed of Trust	Second Deed of Trust

Loan Restructure Justification

1. The Borrower has fair payment history after the first restructuring until October 2009.
2. The Borrower has shown good effort to workout current delinquency by contacting EWDD staff, supplying necessary information and obtaining tenants during the economic downturn.
3. The building is currently 100% occupied.
4. As of August 2002, the project has met the National Objective of benefiting low/moderate income persons by creating the required jobs.
5. The Operating Income is underwritten conservatively with 15% vacancy and 15% other costs included; and debt coverage ratio is at 1.29, which is acceptable and above the underwriting standard of 1.20.
6. The restructuring will help the Borrower to catch up with the outstanding payments and bring the project from "delinquent" to "current" status.
7. City will still hold second position Deed of Trust on the building and all other terms and conditions in the current City Contract (C-97477) will remain the same.



JAN PERRY
General Manager
JP:ji

cc: Curtis Kidder, Assistant City Attorney