

0220-03145-0341

TRANSMITTAL

TO Council	DATE 01-31-20	COUNCIL FILE NO.
FROM Proposition K – L.A. For Kids Steering Committee		COUNCIL DISTRICT CD 8


At its meeting held on January 30, 2020, the L.A. for Kids Steering Committee adopted the recommendations of the attached Bureau of Engineering report, which is hereby transmitted for Council consideration. Adoption of the report recommendation would:

- 1) Approve People Who Care's (PWC) request that the City subordinate its Deed of Trust subject to execution of a use restriction covenant for the Proposition K services to be provided by PWC;
- 2) Authorize and instruct the City Engineer, with the assistance of the City Attorney, Chief Legislative Analyst, City Administrative Officer, and Council District Eight staff to negotiate and execute a Subordination Agreement, the use restriction covenant, and any related documents to effectuate the above request; and,
- 3) Authorize the City Engineer and City Attorney to make technical corrections in order to facilitate PWC's request.

PWC was awarded a Proposition K (Prop K) competitive grant for \$735,829 to demolish and reconstruct a then-existing structure located at 1512-1516 West Slauson Avenue. Since execution of the original grant agreement in 2003, there have been a number of issues regarding this property and with the former leadership of PWC that includes bankruptcy, foreclosures, and liens against the property.

At its meeting held November 21, 2019, the L.A. for Kids Steering Committee approved rescission of the Bureau of Engineering's prior report dated August 29, 2019 to give staff additional time to discuss with PWC their future operational plans for the site. City staff subsequently had numerous meetings with PWC and their attorney. City staff now recommends approval of PWC's revised request for the City to subordinate its Deed of Trust on the condition that a use restriction covenant be executed to ensure the continued use of the subject facility for youth and recreational purposes as required by the Proposition K Grant Agreement. The use restriction covenant will allow the City's lien to retain senior priority position with respect to the service requirement of Proposition K.

There is no impact on the General Fund as this facility will be maintained by a non-profit organization.



 Richard H. Llewellyn, Jr.
 City Administrative Officer
 Chair, L.A. For Kids Steering Committee

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

L.A. FOR KIDS STEERING COMMITTEE MEETING, JANUARY 30, 2020
AGENDA ITEM (9)
PEOPLE WHO CARE YOUTH CENTER
REQUEST FOR SUBORDINATION OF THE CITY'S DEED OF TRUST
BUREAU OF ENGINEERING

DATE: January 30, 2020

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

FROM: Neil Drucker, Program Manager 
Proposition K, L.A. for Kids Program
Department of Public Works: Bureau of Engineering, Architectural Division

**SUBJECT: PEOPLE WHO CARE YOUTH CENTER (PROP K ID C97-3; CD8) -
REQUEST FOR SUBORDINATION OF THE CITY'S DEED OF TRUST**

RECOMMENDATION

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

1. Approve People Who Care's (PWC's) request that the City subordinate its Deed of Trust with Assignment of Rents relating to the Promissory Note for Proposition K Grant Agreement No. C-104745, for the PWC Youth Center (Youth Center) project, recorded on November 12, 2004, as Instrument Number 04-2942150 subject to execution of a use restriction covenant for the Proposition K services to be provided by PWC.
2. Authorize and instruct the City Engineer, with the assistance of the City Attorney, Chief Legislative Analyst, City Administrative Officer, and Council District 8 staff, to negotiate and execute a Subordination Agreement, the use restriction covenant, and any related documents to effectuate the above request.
3. Authorize the City Engineer and City Attorney to make technical corrections in order to facilitate PWC's request.

DISCUSSION

On August 29, 2019, the L.A. for Kids Steering Committee (LAFKSC) approved the recommendation of the Bureau of Engineering (BOE) that the City subordinate its Deed of Trust with Assignment of Rents relating to the Promissory Note for Proposition K Grant Agreement No. C-104745, for the PWC Youth Center (Youth Center) project, recorded on November 12, 2004, as Instrument Number 04-2942150.

On November 21, 2019, the L.A. for Kids Steering Committee approved rescission of the approval of BOE's aforementioned report, dated August 29, 2019, to give staff additional time to discuss with PWC their future operational plans for the site. The LAFKSC also instructed BOE, Office of the City Administrative Officer (CAO), and Office of the Chief Legislative Analyst (CLA) to negotiate viable options, in consultation with Council District 8 and PWC, that would promote the continued use of the subject facility for youth and recreational purposes.

Under these instructions, the Council Office, BOE, CAO, CLA and City Attorney have had numerous meetings with PWC and their attorney. City staff recommends approval of PWC's request that the City subordinate its Deed of Trust with Assignment of Rents relating to the Promissory Note for Proposition K Grant Agreement No. C-104745, for the Youth Center project subject to the City's execution of a use restriction covenant that will be recorded to ensure the continued use of the subject facility for youth and recreational purposes as required by the Proposition K Grant Agreement.

The use restriction covenant will allow the City's lien to retain a senior priority position with respect to the service requirement of Proposition K until such time as either (i) the City's claim has been reduced to \$0 by use of PWC's property for the remaining Proposition K Service and Maintenance Term of 99 months for youth and recreational purposes; or (ii) the remaining balance of the City's allowed claim (approximately \$404,706) is paid off. PWC has indicated that they may seek refinancing in an amount that would allow it to pay off the City's lien, obviating the subordination.

The Bureau of Engineering recommends that the Proposition K – L.A. for Kids Steering Committee recommend to the City Council that it approve PWC's subordination request and authorize the City Engineer to negotiate and execute a Subordination Agreement, a use restriction covenant, and related document(s).

The remainder of this report provides a summary of major developments relative to PWC's service performance and financial history prior to the receipt of PWC's initial request that the City subordinate its lien.

BACKGROUND

- During construction of the youth center, PWC stopped receiving State grant funding due to the State's budget crisis. In order to continue with construction, Acon Development, PWC's contractor for the project, loaned PWC the cost of completing construction. Acon and PWC executed a construction loan with a promissory note and Deed of Trust. Acon filed its Deed of Trust with the County Recorder on August 27, 2010 and is in a junior position to the City's Deed of Trust, which was filed on November 12, 2004.

- August 31, 2015 - BOE sent a letter to PWC that informed them that PWC was out of compliance with the Services and Maintenance requirements of the Proposition K (Prop K) Grant Agreement. PWC's Service and Maintenance payback term has been suspended since March 2016, at which time BOE received PWC's last monthly service report. At this time, there is 99 months remaining for PWC's Service and Maintenance term, which factors to a value of approximately \$404,706.

- Between 2014 and 2015 - PWC fell behind with making payments on the construction loan, and Acon began foreclosure proceedings on the youth center property. PWC then filed for Chapter 11 Bankruptcy protection, in order to suspend the foreclosure proceedings while PWC refinanced their debt. Acon and PWC renegotiated the loan, wherein PWC made a balloon payment of \$350,000 to Acon utilizing grant funds that PWC had received from the County of Los Angeles.

Without the City's knowledge, PWC leased the youth center to a charter school and used the lease payments to pay the Acon loan. The first bankruptcy case was dismissed.

- January 2018 - Acon reinitiated foreclosure proceedings on the youth center property because the lease with the charter school expired, and PWC could no longer make payments to Acon. On January 24, 2018, PWC again filed for Chapter 11 Bankruptcy to suspend the foreclosure proceedings.

- October 5, 2018 - The City Council approved BOE's recommendation to authorize PWC to enter into a lease with the UAW-Labor and Employment Training Corporation for the Prop K-funded youth center located at 1512 West Slauson Avenue to be utilized as the South Los Angeles WorkSource Center (C.F. 18-0865). This report also authorized the City Engineer to negotiate and execute Amendment No. 4 to the Prop K Grant Agreement No. C-104745, with PWC to modify the terms of the service and maintenance obligations and to include additional recreational and child care services at the adjacent Administration building owned by PWC.

- October 2019 - BOE was notified that the youth center building failed the State's initial seismic assessment and the rooftop basketball court could not be used. PWC needs to contract with a structural engineer (if they haven't done so already) to determine what, if any, mitigation is required to allow continued use of the rooftop.

Attachment

1. Letter dated July 11, 2019, from People Who Care requesting subordination

PEOPLE WHO CARE YOUTH CENTER

1512 West Slauson Avenue
Los Angeles, CA 90047

July 11, 2019

Mr. Neil Drucker, Interim Division Manger
Architectural Division
Bureau of Engineering
1149 S. Broadway, Suite 860
Los Angeles, CA 90015

Dear Sir,

**RE: PEOPLE WHO CARE YOUTH CENTER (PROP K ID C97-3; CD 8)
SUBORDINATION BY THE CITY OF LIEN/CHARGE OF ITS BENEFICIARY DEED
OF TRUST**

I am writing to you to submit our request to the Proposition K - L.A. for Kids Steering Committee for its consideration and approval of the subordination of the City's lien/charge of its beneficiary Deed of Trust recorded on November 12, 2004 as instrument number 04-2942150.

The Deed of Trust relates to the original Proposition K grant amount of \$735,829.00 on the property located at 1512 West Slauson Avenue, Los Angeles, California 90047. People Who Care was awarded a Proposition K competitive grant in the 3rd Funding Cycle to demolish and reconstruct a then-existing structure located at the property, thereby providing approximately 3,000 square feet of interior and exterior spaces for a youth recreation center.

Proposition K Grant Agreement C-104745 required that People Who Care maintain the youth center and provide recreational programming for youth for 15 years (180 months) from completion of construction and occupancy of the youth center. The City secured its interest in the youth center being operated and maintained through a Promissory Note and a Deed of Trust with Assignment of Rents, which was recorded with the County Recorder on November 12, 2004.

The Promissory Note provides that People Who Care's financial obligation in the sum of \$735,829 is payable by providing the youth recreational services and maintenance of the youth center as specified in the Grant Agreement, at the rate of \$49,055.27 per completed year of services and maintenance provided (with is \$4,087.94 per completed month). To date, People Who Care been credited with having completed 81 months of services and maintenance obligations, with 99 months remaining unfulfilled. The dollar value of the remaining 99 months is \$404,705.06 (\$4,087.94 X 99 months).

People Who Care is currently seeking a loan of approximately \$1,000,000 as a mean to meet all of its outstanding obligations to creditors and taxing agencies. As a condition, the lending institution is requesting that the City subordinates its interest.

Justification for Loan and Subordination

1. The previous Director was great, but developed cancer. So, she was not able to put the time into the non-profit any longer. This caused the project to shut down. I am the new Director, and I am eager to get the project back up and running. I have been rehabbing the property, and getting set-up to operate a daycare.
2. I have already rehabbed one of the units and the lease has been fully approved by the City and cash is flowing in.
3. People Who Care Youth Center has past obligations that need to be handled. Construction loan, IRS Lien, EDD Lien, Property Taxes, etc. This loan for \$1,000,000 will pay off all of these past obligations.
4. The loan will include a payment reserve holdback of \$56,922.00 to cover six months of payments. This will give me time to get the services and daycare up and running.
5. People Who Care Youth Center previously owed \$168,000 in property taxes. Most of these taxes were exempt and the County has completed the exemption process and now the taxes due are about \$6,500. Now that the exemption process is complete, and the small balance will get paid through loan closing, the remaining balance will be used to pay down the balance of the new 1st mortgage. This will put both the Lender and the City of L.A. in a better position.

Therefore, I that request the Steering Committee favorably review the request for subordination. Please let me know if I can provide any additional information or clarifications.

Sincerely,

Michelle Mcarn
President

Michelle Mcarn