

0220-03145-0331

TRANSMITTAL

TO Council	DATE 8-30-19	COUNCIL FILE NO.
FROM Proposition K – L.A. For Kids Steering Committee		COUNCIL DISTRICT CD 8

At its meeting held on August 29, 2019, 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) Authorize subordination of the City's Deed of Trust as requested by the non-profit operator, People Who Care (PWC), for the facility located at 1512-1516 West Slauson Avenue, which received an award of Proposition K 3rd Cycle funds;
- 2) Authorize the City Engineer, with the assistance of the City Attorney, to negotiate and execute a Subordination Agreement and related document(s) 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 subordination of the city's Deed of Trust.

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.

PWC is requesting the City to subordinate its secured interest to Val-Chris Investments (VCI) per the requirements of the \$1 million loan PWC is pursuing with VCI. If approved, the City would be in second position to VCI and would have little leverage to enforce PWC's compliance with their service payback obligations. This has been previously granted for other agencies in order to enable them to be financially viable and continue operations of the Prop K funded improvements and avoid the need for the City to incur costs to directly operate the facility or secure a viable replacement operator.

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, AUGUST 29, 2019
AGENDA ITEM (4)
PEOPLE WHO CARE YOUTH CENTER
REQUEST FOR SUBORDINATION OF THE CITY'S DEED OF TRUST
BUREAU OF ENGINEERING

DATE: August 29, 2019

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) 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.
2. Authorize and instruct the City Engineer, with the assistance of the City Attorney, to negotiate and execute a Subordination Agreement and related document(s) 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/BACKGROUND

In November 30, 2001, PWC submitted a proposal for Proposition K 3rd Funding Cycle competitive funds to demolish and reconstruct a then-existing structure located at 1512-1516 West Slauson Avenue, thereby providing approximately 3,000 square feet of interior and exterior spaces for the three-story PWC Youth Center (Youth Center). On June 18, 2002, PWC was awarded a Proposition K competitive grant in the total amount of \$735,829. The overall project budget presented in the original application was \$749,829, with \$14,000 in matching funds to come from various sources, including in-kind donations, private contributions, and volunteer work. In addition to the \$735,829 in Proposition K funds, PWC also obtained a State Proposition 12 Murray Hayden Urban

Parks and Youth Services Program grant in the amount of \$750,000, and a California Corrections Standards Authority grant in the amount of \$1,000,000. The total funding available for the Youth Center Project was \$2,499,829, which included the \$14,000 in matching funds.

The Proposition K Grant Agreement No. C-104745 between PWC and the City of Los Angeles was executed on May 21, 2003 and specified that construction of the project was to be completed by May 21, 2005. The original scope of the Proposition K funded project was to reconstruct the building located at 1512-1516 West Slauson Avenue using Proposition K funds. This was to be Phase I of an overall project. Phase II was to rehabilitate the PWC owned building located at 1500 West Slauson Avenue (the Administration Building). Proposition K funds were used only for Phase I and the Proposition K grant did not encompass Phase II.

PWC owns three adjacent parcels of land (an existing structure and two parking lots), but in August 2003, PWC lost ownership of the parcel located at 1516 West Slauson Avenue parcel and one of the parking lot parcels because the parcels were sold through a Los Angeles County land auction for non-payment of property taxes. PWC was able to repurchase the parking lot parcel, but were unsuccessful in repurchasing the 1516 West Slauson Avenue parcel.

On February 23, 2005, the L.A. for Kids Steering Committee recommended, and which Council approved on May 18, 2005, Amendment No. 1 to Grant Agreement No. C-104745 to allow PWC to adjust the location of the Youth Center in light of the configuration of the lots that PWC owned (C.F. 05-0640). Amendment No.1 was executed on May 23, 2005, authorizing PWC to revise the project by excluding the 1516 West Slauson Avenue parcel and shifting the project 30 feet to the east. Amendment No. 1 authorized construction to occur on APNs 6002-003-027 (existing building), 6002-003-028 (parking lot) and 6002-003-029 (parking lot) instead of APNs 6002-003-026 and 6002-003-027 as originally planned. Amendment No. 1 also extended the deadline for completion of design and construction from May 21, 2005 to November 21, 2006.

PWC signed a construction contract with Tobo Construction Company on August 24, 2006, and broke ground in September 2006. On October 26, 2006, the L.A. for Kids Steering Committee recommended, and which Council approved on November 21, 2006, Amendment No. 2 to the Grant Agreement to extend the term for completion of design and construction (C.F. 05-0640). Amendment No. 2 was executed on February 23, 2007, extending the deadline for completion of construction from November 21, 2006 to November 21, 2008.

However, in a letter dated March 26, 2009, PWC and the construction contractor declared March 27, 2009 as the accepted Date of Substantial Completion. The Department of Building and Safety issued the Certificate of Occupancy on June 2, 2009. Therefore, on July 30, 2009, the L.A. for Kids Steering Committee recommended, and the Council approved on September 22, 2009, a third extension of the deadline for

completion of design and construction (C.F. 09-2169). Amendment No. 3 to the Grant Agreement was executed on November 9, 2009, extending the deadline for completion of design and construction from November 21, 2008 to December 21, 2009.

Lease of Youth Center Building

On October 9, 2018, the City Council approved Amendment No. 4 to the Grant Agreement to allow PWC to enter into a lease with the United Automobile Workers Labor Employment and Training Corporation (UAW-LETC) to use the Proposition K funded Youth Center located at 1512 W. Slauson to operate the South Los Angeles WorkSource Center under its contract with the City. In addition, Council authorized BOE to modify PWC's services and maintenance obligations to allow them to provide recreational programming at the rooftop of the youth center and at the PWC Administration Building (C.F.18-0865).

PWC was in the process of obtaining a traditional commercial loan in order to pay off existing debts. The lease with UAW-LETC allows PWC to generate revenue to cover monthly payments on the new loan and have some capital available for operating expenses. As a WorkSource Center, UAW-LETC provides a wide variety of job training and employment services, with a particular focus on job training for 16 to 24 year old individuals in the construction and manufacturing fields. Operated by UAW-LETC, the WorkSource Center offers a state-of-the-art Career Resource Center, a Computer Technology Center, workshops, and customized assistance in the areas of: professional career counseling, assessment and job search assistance.

The Youth Center building that UAW-LETC occupies has a rooftop basketball court that PWC continues to use and provide recreational programming. The lease allows PWC to use the rooftop basketball court during afterschool hours Monday through Friday, from 9:00 A.M to 7:00 P.M. on Saturdays, and from 12:00 P.M. to 5:00 P.M. on Sundays. PWC currently operates a basketball program (basketball clinic and a basketball league) for youth ages 13 to 17. PWC uses college students and community volunteers to provide skills training and supervision, along with PWC staff.

Construction Loan

During construction of the Youth Center, Tobo Construction Company reorganized and one of its business partners took over the PWC construction contract operating as Acon Development, Inc. (Acon). Due to the State budget crisis, the State stopped providing PWC funding under the two State grants that were being used to pay for ongoing construction costs. There had also been some construction cost overruns. In order to continue with construction, Acon "loaned" PWC the cost to complete construction that would be reimbursed with the State grant funding once it was received by PWC. Acon and PWC executed a construction loan in the amount of \$1,184,008.42 with a promissory note and deed of trust. Acon filed its deed of trust with the County Recorder

on August 27, 2010, and thus is in junior position to the City's Deed of Trust, which was filed on November 12, 2004.

In 2014-2015, Acon began foreclosure proceeding on the Youth Center property because PWC was delinquent in its loan payments. PWC then filed for Chapter 11 Bankruptcy (reorganization) in order to suspend the foreclosure proceedings while attempting to refinance their debt. Acon and PWC renegotiated the loan because PWC was able to make a substantial balloon-type of payment to Acon (approximately \$350,000) from grant funds PWC obtained from the County of Los Angeles. In addition, without the City's knowledge, PWC also leased the Youth Center to a charter high school and anticipated using the lease payments to pay the Acon loan. That bankruptcy case was dismissed.

In January 2018, Acon again initiated foreclosure proceedings on the Youth Center property. The PWC lease with the charter school expired in August 2017, and thus PWC did not have a source of revenue from which to make the loan payments to Acon. PWC again filed for Chapter 11 Bankruptcy (reorganization) on January 24, 2018 to suspend the foreclosure proceedings.

PWC has been actively working with a loan broker, LendingExpress, to secure a traditional commercial loan in order to pay off the Acon loan and its other debts. PWC is currently seeking a loan in the amount of \$1,000,000 with the current, proposed lender, Val-Chris Investments, Inc (VCI). The current terms of the loan are 40 years, an interest rate of 12.00% and a monthly payment of \$10,085.00.

Section 216, Subsection A, of the Proposition K Grant Agreement provides that "...the Grantee agrees not to encumber or increase the mortgage, liens, or other encumbrances against the property such that the equity in the property will be less than the Proposition K Grant amount." PWC conducted an appraisal of the Youth Center property and it was valued at approximately \$2.4 million. In addition to the \$1,000,000 loan being sought through LendingExpress, the title report received by the City indicates that there is approximately \$606,994 in other liens/encumbrances on the property. The remaining equity in the property is \$795,000, which is greater than the Proposition K Grant amount of \$735,829.

To secure the loan, the actual lender, VCI, is requiring that it be in the first position in the Deed of Trust. The City's secured interest is currently in the first position as a result of a Promissory Note and a Deed of Trust with Assignment of Rents that was executed concurrent with the Grant Agreement. In a letter dated July 11, 2019, PWC requested that the City subordinate its secured interest to VCI's Deed of Trust. The City agrees to subordinate its interest only to the commercial loan between PWC and VCI and will not subordinate its interest to any other liens on the property. If the subordination is approved, the City's secured interest would be in second position to that of VCI. In the event that the loan cannot be closed with VCI, any other lender that LendingExpress secures will also require the subordination of the City's interest.

Services and Maintenance Payback Requirements

The Grant Agreement requires that PWC 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. This is known as the services and maintenance payback obligations. The City secured its interest in the Youth Center by having PWC execute a Promissory Note and a Deed of Trust with Assignment of Rents, which was recorded with the County Recorder on November 12, 2014 (Document No. 04-2942150). The Promissory Note provides that PWC'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 Proposition K Grant Agreement, at the rate of \$49,055.27 per year of services completed and maintenance provided (\$4,087.94 per month).

In a letter dated February 1, 2010 from BOE to PWC, BOE declared that the services and maintenance period for PWC began on July 1, 2009 and was scheduled to end on June 30, 2024. PWC provided the required services and maintenance without issues until May 2015.

In a letter dated August 31, 2015 from BOE to PWC, BOE declared that as of May 1, 2015, PWC was out of compliance with the Services and Maintenance requirements of the Proposition K Grant Agreement. Working with PWC, records showed that the last Services Quarterly Report and Maintenance Quarterly Report received from PWC was for the January-March 2016 quarter and that services were not being provided as of March 31, 2016. PWC can be 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 \$404,706.06 ($\$4,087.94 \times 99$ months).

PWC has commenced providing recreational services utilizing the basketball court and UAW-LETC already occupies the space and is making lease payments. When the loan is secure, PWC anticipates that it will be able provide additional recreational programming at the Administration Building starting in mid-September. Therefore, based on these factors, BOE is confident that PWC will fully satisfy their grant payback obligations.

The former executive director of PWC passed away a couple of years ago from a prolonged illness, which in part impacted the operations of PWC. Renovations to the Administration Building are complete and acquiring the loan will assist with the implementation of childcare programming for children ages three months to 12 years old at the Administration Building. The current leadership of PWC has experience in operating childcare centers and is confident that the childcare center can operate with financial stability, relying primarily on enrolling children who qualify for government subsidized childcare benefits. The Administration Building is also large enough that it can also be used to provide additional recreational programming. The building has a very large high-ceiling room that PWC and conversion of it into an indoor basketball

court and recreation space for youth under the age of 12. Other spaces within the Administration Building could be used for art, dance, yoga, and music programming has also been completed.

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

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 \$404,706.06 (\$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

