LADF

LOS ANGELES DEVELOPMENT FUND

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

<u>The Los Angeles Development Fund</u>

and

<u>LADF Management, Inc.</u>

May 12, 2022

MEETING *of the*

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

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

May 12, 2022

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LADF
LOS ANGELES DEVELOPMENT FUND

AGENDA

MEETING *of the*
GOVERNING BOARD OF DIRECTORS *and* ADVISORY BOARD OF DIRECTORS *of*
THE LOS ANGELES DEVELOPMENT FUND *and* LADF MANAGEMENT, INC.

MEETING BY TELECONFERENCE (*AUTHORIZED EXCEPTION TO THE BROWN ACT*):
To join via telephone, dial this number: (669) 900-6833 US
***Meeting ID*: 835 9252 3098**
Thursday, May 12, 2022 | 2:30pm – 3:30pm

	AGENDA ITEM	PRESENTER	TAB
	Welcome and Call to Order	Carolyn Hull	
	Roll Call	Sandra Rahimi	
	Findings to Continue Teleconference Meetings Pursuant to AB 361	Carolyn Hull	

The Governing Board of the Los Angeles Development Fund and of LADF Management, Inc. to consider a determination in accordance with AB 361 Section 3(e)(3) that, while the state of emergency due to the Covid-19 pandemic, as originally proclaimed by the Governor on March 4, 2020, remains active and/or state or local officials have imposed or recommended measures to promote social distancing, this legislative body has reconsidered the circumstances of the state of emergency and that the state of emergency continues to directly impact the ability of the members of these Boards, and the ability of the members of all of these Boards' advisory bodies, including, but not limited to, the Advisory Board of the Los Angeles Development Fund, as well as the public who might attend these meetings, to meet safely in person and/or state or local officials continue to impose or recommend measures to promote social distancing.

	AGENDA ITEM	PRESENTER	TAB
1	**Special Action Item(s):**	Carolyn Hull	
	a. That the Governing Board of the Los Angeles Development Fund and of LADF Management, Inc. here determine, in accordance with AB 361 Section 3(e)(3), that this legislative body has reconsidered the circumstances of the state of emergency and that the state of emergency continues to directly impact the ability of the members to meet safely in person, and/or state or local officials continue to impose or recommend measures to promote social distancing.		
2	**Discussion Item(s):**		
	a. LADF Pipeline Update	Sandra Rahimi	
	b. Pipeline Project Presentation: The Shakespeare Center of Los Angeles	*Project Rep.*	Tab 2
3	**Action Item(s):**	Carolyn Hull	
	a. Request for Authorization for LADF President, or his or her delegate, to execute documents to effectuate a **$11,000,000** Sub-Allocation of New Markets Tax Credits for the **Vermont Manchester Center Project**.		Tab 3
	Request for Future Agenda Items	Carolyn Hull	
	a. RFP for NMTC Consulting Services		
	Next Meeting Date and Time of Governing Board	Carolyn Hull	
	a. Thursday, June 9, 2022, 2:30pm – 4:00pm (*via Zoom*)		
	Public Comment	Carolyn Hull	

NOTE: When it is time for public comment:

If you joined by phone only. Please press *9 on your phone keypad to raise your hand to be acknowledged for Public Comment.

If you joined by clicking on the meeting link and have joined us online, please click the participant icon at the bottom of your screen. This will launch a participant panel, where you will see the "raise hand" icon on the far right side. Please click "raise hand" to be acknowledged for Public Comment.

	Adjournment	Carolyn Hull	

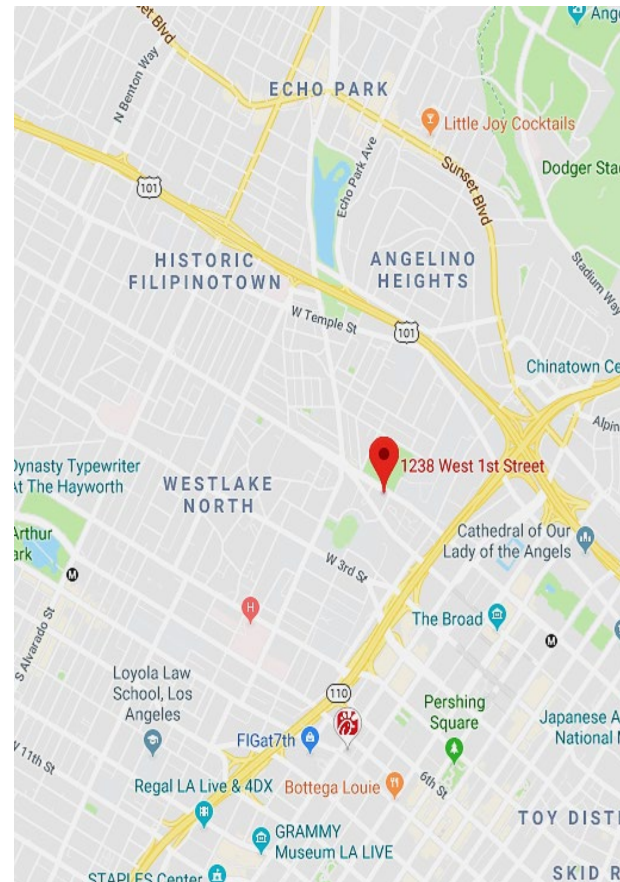
The LADF's Board Meetings are open to the public. Accommodations such as sign language interpretation and translation services can be provided upon 72 hours notice. Contact LADF @ (213) 808-8959.

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

SHAKESPEARE CENTER OF LOS ANGELES

Developer:	The Shakespeare Center of Los Angeles, Inc.
Project Type:	Live Theater/Arts Facility, Substantial Rehabilitation
Description:	Project will repurpose **22,000 SF** in the Westlake neighborhood of Los Angeles into a fully equipped convertible rental income generating sound stage, 300 seat theater, cultural and educational enrichment facility, as well as workforce training center. The sponsor's programs focus on employment and empowerment of poverty-threshold youth 15-24 and chronically unemployed and honorably discharged military veterans. The new community cultural facility will provide sponsor with the space and amenities to offer its programs year-round, enabling the expansion of the number of paid program participants.
Location:	1238 W 1st Street, Los Angeles, CA 90026 (**CD 1**)
Census Tract Eligibility (2015-16):	➢ **<u>33.2%</u>** Poverty Rate (*greater than 20% and 30%*) ➢ **<u>47.8%</u>** of Metro/State Median Income (*less than 80% and 60%*)
Estimated TDC/ NMTC Allocation:	TDC: $ 12,000,000 — Total QEI: $ 12,000,000 LADF QEI: $ 12,000,000
Potential Sources of Funds:	Capital Campaign (grants): $ 8,500,000 — **Lev. Loan Eligible** NMTC Equity ($0.75 / NMTC): $ 3,500,000
Projected Closing:	August 2022
Current Status:	➢ $8.5 million in grants secured from State of CA and Ahmanson Foundation, $3 million EDA grant applied for and pending currently (*a portion of these grants require to be allocated to operations*) ➢ Construction commencement expected in Q3 2022
Community Benefits/Impact:	➢ Job Creation: **99** Permanent (16 ret. / 83 new) ➢ New jobs created for 120 youth and 40 veterans per year ➢ Provide equally accessible cultural enrichment to 18,000 students and 2,000 veterans annually ➢ Provide work-readiness training to the students



Tab 3

LADF
LOS ANGELES DEVELOPMENT FUND

NEW MARKETS TAX CREDITS INVESTMENT REPORT

TO:	LADF Board of Directors
FROM:	Sandra Rahimi, Secretary
DATE:	May 12, 2022
SUBJECT:	Request to Approve a **$11,000,000** New Markets Tax Credits Allocation to VM Commercial, LLC ("**QALICB**") for the Vermont Manchester Center ("**Project**")

SUMMARY

Project Name:	Vermont Manchester Center ("**Project**")
Location:	South Los Angeles – Vermont/Manchester (CD 8 – Councilmember Harris-Dawson)
Project Description:	147,497 SF / New Construction / Educational Facility
Sponsor / Developer:	Primestor Development, Inc. ("**Sponsor**", or "**Primestor**")
Ownership:	• County of Los Angeles owns *Land, Building, and Improvements* • Bridge Housing will ground lease property from the County of Los Angeles • Primestor's affiliate QALICB will sublease property from Bridge Housing
NMTC Investor:	Chase Community Equity ("**Investor**")
Total Project Cost:	$ 59,483,500
Total Allocation / QEI: *LADF Allocation / QEI*:	$ 40,000,000 $ 11,000,000 (*2018 & 2020 Allocation*) • LADF XXVI, LLC *(Certified Sub-Allocatee)*
Job Creation (*Direct*):	**145** Permanent Jobs, **424** Construction Jobs
Site Eligibility Criteria:	2011-2015 ACS Census Tract No. 06037238320 • NMTC Eligible and Targeted Distressed Community (*per 2018 & 2020 Alloc Agmts*)**:** • 47.2% Poverty Rate (*greater than 20% and 30%*) – Section 3.2(h)(ii) • 43.2% AMI Households (*less than 80% and 60%*) – Section 3.2(h)(ii)
Community Benefits:	• Add **49,321 SF** of community-serving retail, including a full-service anchor tenant • Incubator retail spaces for local businesses with 75% subsidized rents • Metro's onsite job training center will serve **194 individuals annually** • Sponsor is a ***Minority Business Enterprise***

Key Compliance Criteria under the 2018 Allocation Agreement:

☑ Sect. 3.2(a):	Investments in, or loans to, QALICBs	☑ 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% QEI Investment Usage	☑ Sect. 3.3(j):	Monetize Only Eligible Existing Assets

Projected Residual Value of LADF QLICI that may be obtained by the QALICB: $ 3,174,600

CONTENTS

SITE ANALYSIS

The project site is located in the Vermont Manchester neighborhood of South Los Angeles. The site is under the jurisdiction of 8th District of the City of Los Angeles, represented by Councilmember Marqueece Harris-Dawson. The site is located at the following address:

- 8426 S. Vermont Ave., Los Angeles, CA 90044

The project is part of a larger community development site that will include the new construction of a mixed-use affordable housing and the SEED LA charter school, on a total 4.2 acres of urban infill land.

Site Control

The County of Los Angeles acquired the site via eminent domain in April 2019. Through an RFP process, the County of Los Angeles selected Bridge Housing Corporation to develop a portion of the site into a mixed-use project incorporating affordable housing and commercial retail and office components. The County of Los Angeles selected the SEED Foundation to develop the remainder of the site for purposes of a college-preparatory public charter boarding school for 400 students. LADF invested $5.3 million NMTC Allocation in the SEED LA charter school project, which closed in April 2021 and is adjacent to the Vermont Manchester Center project discussed in this memo.

Bridge Housing Corporation is partnering with Primestor Development, Inc. ("**Sponsor**", or "**Primestor**") on the master development of the project site. Bridge Housing will develop the low-income housing and senior housing components (*financed separately outside the NMTC structure*) and Primestor will develop the commercial retail and office components (*financed with NMTCs*).

Concurrent with the closing of the NMTC Transaction, Bridge Housing will ground lease the site from the County of Los Angeles and in turn sub-ground lease the commercial parcels to VM Commercial, LLC, the Qualified Active Low-Income Community Business ("**QALICB**") in the NMTC Transaction. The QALICB was established by and is affiliated with Primestor for purposes of the NMTC Transaction to develop and lease the real estate interests in the commercial portion of the development, referred to as the Vermont Manchester Center. Pursuant to the pre-negotiated ground lease between the County of Los Angeles and Bridge Housing, the lease term shall be for 75 years. The terms of the ground lease include a fixed payment of $50,000 for years 1 to 5 which then increases at a rate of 10% every five years. The sub-ground lease between Bridge Housing and the QALICB in the NMTC Transaction will in turn carry the same term as the ground lease.

Bridge Housing and Primestor have signed joint development and construction management agreements to delegate responsibilities between the two developers, as well as establish the cost sharing arrangement between the housing component and commercial component.

PROJECT DESCRIPTION

Primestor will use the NMTC financing to fund the new construction of the Vermont Manchester Center ("**Project**"). With the NMTC closing in May 2022, the Project will be fully funded and is expected to complete construction in July 2024.

The Vermont Manchester Center project will be a 64,480 SF commercial (*retail and pre-leased office*) components of a transformative 160,000 SF mixed-use development, comprising the following uses:

- 49,321 SF of community-serving retail
- 15,913 SF for a new job training and innovation center to be subleased by Metro
- Public plaza and transit hub

The Project will add a 40,000 SF anchor retail tenant with a full-service grocery component, which will bring healthy food options to the Low-Income Community, as well as a pharmacy component. Additionally, the Sponsor expects to lease one of the inline retail units to a locally owned coffee shop at a below-market rental rate. Lastly, 1,482 SF of the inline retail space will be provided at free rent to the LA County's Community Impact Entrepreneurship Academy. This space will be built out for food-related uses, and the County may utilize it as a popup space for new businesses started by graduates of their Academy, with a one-year lease for turnkey space provided by the County. Alternatively, the County may use it for programming space of its Academy where it may provide its training programs to new entrepreneurs from the surrounding community. Though there is significant spending potential in this community, there is scarcity of quality shopping and dining opportunities such as grocery stores, pharmacy, and sit-down restaurants. The Project expects to address the disparity of these retail amenities present in the community.

The Project will also add office space that is pre-leased by Metro for purposes of a new job training and innovation center. At this location, Metro will provide training for existing employees to move up and new training and hiring of individuals from the surrounding community. Metro is expected to make a significant investment of $10 million on tenant improvements for this space. Additionally, the Project will add the Metro Transit Plaza which will be available to local businesses and residents of the Low-Income Community for community gathering space and public events at no charge.

The Project is part of a 4.2-acre community development project, which includes an affordable and senior housing development (*developed by Bridge Housing*) and a public charter school (*developed by the SEED Foundation*). The Bridge Housing project will include 180 affordable and senior housing units – 62 one-bedroom units for persons 62 years of age or older and incomes at or below 30% of the area median income <u>and</u> 118 one-, two-, and three-bedroom units for individuals and families with incomes between 30% and 80% of the area median income. The housing development will be constructed within the same building as a portion of the retail and office project. Specifically, one of the three buildings in the development will contain the anchor retail space on the first floor, the Metro office space on the second floor, and housing units on the floors above the second-floor office. There will also be two separate, newly constructed buildings containing inline retail units. The Project is located on a blighted property left vacant since the 1992 Rodney King civil unrest.

For details about the proposed community benefits provided at the Project, please refer to the section entitled “COMMUNITY AND ECONOMIC BENEFITS”.

COMMUNITY AND ECONOMIC BENEFITS

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

Job Creation/Retention:	• Creating: **145** Permanent Jobs* and **424** Construction Jobs • Retaining: **N/A** ** Based on Kosmont data using industry standard IMPLAN estimates*
Quality Jobs:	• **100%** of the construction jobs will provide prevailing wage, and the wage rates will be the applicable rates at the time of construction start
Accessible Jobs:	• Project will be required to meet **30%** local hire; Sponsor has surpassed 78% local hire on its most recent projects. • Metro’s onsite job training center will serve **194 individuals annually** • Sponsor will engage the LA County Department of Workforce Development and Aging Services to secure employment training opportunities in order to prepare neighborhood residents for short- and long-term training opportunities.
Commercial Goods/Services to Low-Inc. Communities:	• Project will add **49,321 SF** of community-serving retail, including a full-service anchor retail tenant providing healthy foods and a pharmacy • Project will also add **15,913 SF** of office space for a new job training and innovation center to be subleased by Metro
Healthy Food Financing:	• Sponsor anticipates on partnering with its **40,000 SF** commercial anchor to help address the community’s shortage of fresh food options by ensuring these offerings are provided. However, if the anchor tenant decides that the healthy food offering is not economically viable, it has the option to pay $1 million to be released from this obligation. If that is the case, the Sponsor has agreed to utilize these proceeds to provide an alternative access to healthy foods, such as a farmers’ market, at the project site. In the case that the QALICB is unable to provide alternative access to healthy food at the site, the proceeds will then be used to fund a nonprofit outside of the project that is providing access to healthy foods in a NMTC-eligible census tract. • Sponsor will also target tenants that provide a broad range of food options for the other retail units at the Project, including a locally owned coffee shop
Community Goods/Services to Low-Inc. Communities:	• Sponsor will make good faith efforts to install a community notice board in a highly visible and publicly accessible area of the Project. • The Metro Transit Plaza will be open to neighboring tenants throughout the year for community gathering space. Additionally, the Metro Transit Plaza at the Project will be made available to the immediate neighborhood for public events, at no charge.

Financing Minority Businesses	•	Sponsor is a Minority Business Enterprise
	•	Sponsor has committed to providing contracting opportunities for minority-owned businesses during construction. Sponsor will have an open bid process throughout the development of this project and will take MBE/WBE/DBE status into consideration when comparing bids.
Flexible Lease Rates	•	1,482 SF retail unit pre-leased to the County of Los Angeles at free rent for its Community Impact Entrepreneurship Academy incubator space (*i.e. leased to graduates of the Academy on a one-year basis to operate a popup storefront*) and/or programming space related to entrepreneurship training programs
	•	Sponsor anticipates providing the remainder of the retail spaces to local businesses with rents lower than market rates.

The community benefits discussed in this section will be required of the QALICB and Sponsor by way of a Community Benefits Agreement ("**CBA**"). The CBA will require the QALICB to use commercially reasonable efforts to achieve the impacts. The CBA will include an annual reporting requirement for tracking the quantifiable community impacts. As of the time of this report, the CBA is still under negotiation. If there are any material or significant changes to the CBA, as presented in this memo, during the course of the negotiation, LADF staff will inform the LADF Governing Board of such changes and seek reaffirmation of approval.

DEVELOPMENT TEAM

Real Estate QALICB: VM Commercial, LLC

VM Commercial, LLC was formed on December 8, 2020, and is a Delaware limited liability company that was organized to serve as the *Qualified Active Low Income Community Business* ("**QALICB**") for the NMTC transaction purposes. The entity was established for the purposes of owning and managing the real estate interests in the project, including land, building, and improvements. The QALICB will enter into a sub-ground lease agreement with Bridge Housing to develop and operate the Vermont Manchester Center.

The QALICB will be considered a "real estate" QALICB for NMTC purposes. The QALICB 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. An Agreed-Upon Procedures report[1] will not be required by LADF for the QALICB.

Since this is a recently formed company, there are no financial statements to review. The company will be the beneficiary of the NMTC and direct project financing sources, which the Sponsor originally solicited. The joint Sponsor and QALICB management team will carry out the development of the project and be responsible for management and maintenance of the subject property.

Developer/Sponsor: Primestor Development, Inc. ("**Sponsor**", or "**Primestor**")

Primestor is a for-profit, minority-owned corporation founded in 1991. The company focuses on all aspects of the retail real estate sector, including leasing, property management, development, construction

[1] Agreed-Upon Procedures engagements are carried out by auditors to report factual findings, which in an NMTC transaction relates to the nature of the business of the QALICB and its compliance with NMTC regulation. Compliance is determined for the QALICB as of the closing date, and expectations for compliance during the seven-year NMTC compliance period.

management, rehabilitation, and acquisitions. Primestor has developed, managed, and acquired several million square feet of space throughout the United States. Its emphasis is strategically in dense, intense use urban markets handled by professional and highly committed team members. Primestor has raised, developed, and managed nearly $1 billion in assets.

Primestor specializes in development and managing properties in urban areas, and has been honored by the Latino Business Association's 2002 Business of the Year Award, the City of Los Angeles' Minority Construction Firm of the Year Award of 2005, the Developer of the Year award by Alternative Living for the Aging in 2008, Business Leadership Award by HUB Cities Job Consortium in 2008, the Community Pioneer Award by S.E.A. in 2009, the Los Angeles Business Journal's Minority Business of the Year for 2010. Habitat for Humanity's 2012 Hammer of Hope Award, the 2015 Los Angeles Business Journal for Best Retail Project and most recently, the 2016 Preservation Award from the Los Angeles Conservancy.

With regards to this NMTC transaction, Primestor will be providing certain guaranties and indemnities. The assets of the company will be available to support any guaranties or indemnities. For further discussion see the section entitled "COLLATERAL AND GUARANTEES".

General Contractor: Suffolk Construction Company, Inc.

Suffolk Construction Company, Inc. ("**GC**") was established in 1982 and has 2,500 employees nationwide, and is headquartered in Boston, MA. They are ranked by Engineering News Record as No. 8 nationally on the 2020 list of "CM at Risk Firm". The firm has worked on several relevant projects, including 10 affordable housing projects in California (*two in Los Angeles*) as well as six office and two retail projects within a 50-mile radius of the Project site.

Suffolk is the selected GC for the entire project, including both the housing component (*not financed by NMTCs*) and the commercial component (*financed by NMTCs*). The QALICB and GC entered into a final GMP contract in April 2022. The total construction contract amount with Suffolk is approximately $131 million for the entire development, of which $32.5 million will be charged to the commercial component owned by the QALICB in this NMTC Transaction.

With current revenue of $3.6 billion, Suffolk's single project bonding capacity is in excess of $1 billion with an aggregate capacity in excess of $5.5 billion. The bonding companies that provide Suffolk with this bonding capacity are Liberty Mutual Insurance Company, Federal Insurance Company, and Fidelity and Deposit Company of Maryland Zurich American Insurance Company.

Architect: TCA Architects

TCA Architects ("**Architect**", or "**TCA**") is the architect of record for the Vermont Manchester Center project. TCA was originally established in 1993 and has three offices in Los Angeles, Irvine, and Oakland. TCA's portfolio includes over 100,000 multifamily units spanning over 70 cities across the nation; with another 40,000 currently in various phases of design/construction. Additionally, TCA has over a million square feet of mixed-use programmed retail space.

PROJECT FEASIBILITY

Property Valuation

An appraised valuation as of April 6, 2022 has been provided by Newmark Valuation & Advisory to determine the as-complete and as-stabilized market value of the QALICB's leasehold interest in the property after project completion. The appraisal indicates a valuation of the leasehold interest in the as-built project of $34.2 million. With a total QLICI loan amount of $39.3 million and $10.5 million Genesis LA senior loan, this results in a Loan-to-Value ratio for the total debt to the Project of 145.7%.

It is common for NMTC projects, located in Low-Income Communities, to have a significant shortfall between project cost and project valuation. This is typical in NMTC transactions because NMTCs are invested in low-income communities, which suffer from lack of capital investment arising from valuations too low to justify the construction costs. NMTCs and other public financing programs were established to address this gap and help projects in low-income communities obtain the financing they need. Additionally, this is one of the more common criteria under which a project meets the "but for" test required under NMTC regulations.

Environmental Inspections

A Phase I environmental report of the subject property was produced by Rincon Consultants, Inc. dated September 14, 2020. The report concluded that the assessment revealed two recognized environmental conditions (RECs), two potential RECs, and two notable findings in connection with the subject property.

Environmental investigations were done on the subject property from 2017 to 2021, and LADF has been provided with the following reports:

1. Oct. 10, 2017: Preliminary Endangerment Assessment, Arcadis U.S. Inc.
2. Oct. 17, 2018: Phase II Environmental Site Assessment Report, Rincon Consultants, Inc.
3. Dec. 21, 2018: Additional Soil Vapor Assessment, Rincon Consultants, Inc.
4. Sep. 14, 2020: Phase I Environmental Site Assessment (Phase I), Rincon Consultants, Inc.
5. Jul. 8, 2021: Phase II Environmental Site Assessment Update, Rincon Consultants, Inc.
6. Oct. 19, 2021: Phase II Environmental Site Assessment, Partner Engineering and Science, Inc.

In the most recent Phase II report dated October 19, 2021, Partner Engineering and Science concluded there is evidence of VOC impacts to soil gas beneath the subject property at concentrations exceeding regulatory screening criteria, and which the source of the identified impacts is likely related to the historical on- and/or off-site operations. Partner recommended design and implementation of mitigative steps during future construction activities (*i.e. vapor barrier/venting system*) to address the identified vapor intrusion concern. Additionally, as a contingency measure, Partner recommended development and implementation of a Soil Management Plan to correctly handle impacted soils and/or other unidentified subsurface features which may be encountered during future redevelopment activities at the subject property.

These recommendations were implemented into the Sponsor's development plan and all associated costs have been included in the project budget. Specifically, the Sponsor entered into contracts for soil removal and disposal with AMPCO North, Inc., a soil management plan with Partner, soil VOC vapor mitigation system plans and specifications with GeoKinetics, and construction of a vapor mitigation system with DSM Construction. These costs have been included in the project budget.

Prior to closing, a reliance letter will be provided naming LADF XXVI, LLC (*LADF's Sub-CDE*) as a party that may rely on all of the relevant environmental reports.

Construction Feasibility

As the sole member of the QALICB, the Sponsor will be responsible for developing the project. The QALICB will enter into the GMP contract with the GC.

A costing analysis of the project will be completed by GTG Consultants, Inc. ("**GTG**"). GTG will also inspect progress and work done during the construction period, and the firm will provide monthly reports to Chase Bank and the Sub-CDE lenders. Should the costing analysis conclude a higher construction cost than what is budgeted, then the NMTC lenders will assess the reasonableness of the variance in projected costs and require the Sponsor and QALICB to secure the capital needed to fill any anticipated gap in the budget prior to NMTC Closing.

This will be the first LADF deal using GTG as the plan and cost reviewer and the construction monitor. GTG is a national architectural and engineering consulting firm founded in 1991, and have offices in Chicago, San Francisco, and New York. The firm worked on a relevant project recently located in Colorado, comprising a four-story, 150-unit family affordable project, with two commercial ground-floor spaces and a 24,000-sf medical clinic. LADF approved GTG as the construction monitor and plan and cost reviewer for the Vermont Manchester Center project. LADF will have reliance on the review and the monthly construction monitoring projects.

The project's disbursement process will be coordinated by Chase Bank in its role as the disbursement servicer. Chase Bank's role will include obtaining a full draw package from the QALICB, monthly inspection report, and subsequent approvals from the Sub-CDE lenders and Chase Bank as NMTC Investor. The Sub-CDE lenders will have full approval rights over each draw. The full draw package submitted by the QALICB will require also that the Sub-CDE lenders receive date down endorsements from the title company and lien waivers from the GC and all subcontractors.

Additionally, shared costs between the commercial component (*financed by NMTCs*) and the residential component (*financed by LIHTC*), including the plaza and parking construction, are split according to the terms of a Joint Development Agreement and further specified in a schedule of values in the GC contract. There will also be a Joint Construction Management Agreement that establishes intercreditor provisions among the lenders on the commercial and residential components to coordinate the disbursement processes across both components and the shared components of the overall development.

Probable Maximum Loss Report

A Probable Maximum Loss (PML) will not be required because the project is new construction. The design will reflect the most current seismic design standards which could be reasonably expected to result in a PML of 20% or less.

Financial Feasibility

SOURCES		USES	
Investment Fund Level (NMTC)		**Construction Uses**	
- Chase One-Day Loan (*Pre-Inc. Costs*):	2,721,100	- Pre-Incurred Costs:	3,516,100
- Sponsor LL (*Source-Genesis LA Loan*):	13,500,000	- Hard Costs:	38,949,800
- Sponsor LL (*Source-Sect. 108 Loan*):	9,650,000	- Soft Costs:	10,130,000
- Sponsor LL (*Source-Cash on Hand*):	2,773,400	***Sub-Total***	$52,595,900
Leverage Loan Sources	$28,644,500		
		Financing-Related Uses	
- NMTC Equity (LADF QEI):	3,174,600	- Direct Financing Costs:	2,176,200
- NMTC Equity (Genesis LA QEI):	4,617,600	- NMTC Interest Exp. (*net of reserves*):	817,400
- NMTC Equity (TELACU QEI):	2,886,000	*NMTC Closing Costs*	
- NMTC Equity (Chase QEI):	865,800	- Legal/Acctg./Consulting Fees:	595,000
NMTC Investor Equity	$11,544,000	- LADF CDE Placement Fee:	220,000
		- Other CDE Upfront Fees:	880,000
Project Level (Direct Sources)		*NMTC Reserves*	
- Genesis LA Senior Loan:	10,500,000	- LADF Asset Mgmt. Fee Reserve:	577,500
- Metro Contribution/Grant:	6,500,000	- LADF Expense Reserve:	104,000
- EDA Grant:	1,500,000	- Other CDE Fees/Exp. Reserves:	1,504,000
- Sponsor Contrib. (*Pre-Inc. Costs*):	795,000	- Investment Fund Reserves:	13,500
Direct Sources	$19,295,000	***Sub-Total***	$6,887,600
Total Project Sources	**$ 59,483,500**	**Total Project Uses**	**$ 59,483,500**

DEVELOPMENT PRO FORMA

The total project cost is estimated to be $59.5 million, $40.2 million of which will be leveraged through the NMTC structure to make $39.3 million in Qualified Low-Income Community Investment ("**QLICI**") loans to the Project.

All of the $39.3 million QLICI proceeds will be disbursed as follows:

- $2.7 million – Reimbursement of pre-closing development costs incurred within the last 36 months[1]
- $0.8 million – Pay NMTC and Other Closing Costs
- $2.2 million – Fund the CDE-Controlled Fee and Expense Reserve Accounts
- $33.6 million – Fund the CDE-Controlled Construction Disbursement Account

Upon expending all NMTC proceeds in the construction disbursement account, the following direct funding sources will be advanced and expended in this order: (1) $6.5 million Metro contribution grant, (2) $1.5 million EDA grant, and (3) $10.5 million Genesis LA loan. The CDEs, including Chase and LADF, will retain draw approval rights for these outside funding sources, even after NMTC funds are fully disbursed.

NMTC-related reserves held by the QALICB will total $2.2 million and be held for the payments of asset management fees and expense reimbursements to the Sub-CDEs. The Sub-CDEs will require that their

[1] An AUP will be provided by Novogradac, the accounting firm also producing the financial projections for the NMTC transaction, to confirm that any cost reimbursed through the NMTC structure was incurred within the allowed timeframe.

ongoing fees and expense reimbursements for the entire NMTC Compliance Period be held in separate reserve accounts, including $681,500 held in an account pledged to LADF for LADF's fees and expense reimbursements.

OPERATING PRO FORMA

The project's operating revenues will consist of rental payments made to the QALICB by the grocery anchor retail tenant, Metro (*office tenant*), and inline retail tenants at the project. The gross rental income to be generated by the project are projected to be $2.4 million annually, at stabilization starting in 2025. After accounting for operating expenses, the QALICB's debt service coverage for the Project is estimated at 1.76x in 2025 at stabilization (*per the current financial projections dated April 20, 2022*). This debt service coverage ratio accounts for debt service payment on (1) the QLICI loans and (2) the refinance loan of the Genesis LA senior direct loan (*utilized for construction costs after NMTC proceeds are expended*). The Genesis LA senior direct loan will be paid out at the maturity of its three-year term in 2025 with a permanent loan. The debt service coverage ratio is higher than traditional market lending terms and ensures minimal risk of the QALICB not being able to make its debt service payments during the NMTC Compliance Period.

Since 88% of the Project rentable area is pre-leased, the leasing risks associated with projects like the Vermont Manchester Center are substantially reduced. The anchor retail tenant will be leasing 40,000 SF of the Project's total rentable area at an initial rate of $24.50 per SF per year. Additionally, Metro has pre-leased 15,913 SF for its training center and office space at an initial rate of $42.00 per SF per year, and the County of Los Angeles has pre-leased 1,482 SF of inline retail space which is being provided at free rent for incubator and/or programming space related to its Community Impact Entrepreneurship Academy.

The remainder approximately 8,000 SF of inline retail space that has yet to be leased is projected at $33.00 per SF per year in gross rental income. According to the market data provided in the appraisal report by Newmark Valuation & Advisory referenced above, retail rental rates as of Q1 2022 are $34.49 for Los Angeles County and $29.35 for the Inglewood/South Los Angeles sub-market more specifically. Though the neighborhood that the Project is located in generates lower retail rental rates than the rest of the County, three factors that support higher rental rates for the Project's inline retail units are (1) new construction and design of the overall development with housing units above the retail, (2) foot traffic anticipated to be generated by the grocery anchor tenant, and (3) anticipated recovery of retail rents in Los Angeles and marked by an upward trend beginning in Q3 2021 after seven consecutive quarters of declining rents in most sub-markets in Los Angeles. Although the appraisal forecasts these rents for the retail space at the Project, for purposes of deriving an as-built value of the Project, the Sponsor is committing to leasing the inline retail space to local businesses at lower rents.

Litigation Matters

After L.A. County acquired the site totaling 183,000 square feet via eminent domain action, the previous owner proceeded to file a legal motion against L.A. County, specifically regarding (1) the valuation price paid to the previous owner for the taking by L.A. County, (2) validity of the CEQA exemption received by the Project, and (3) validity of the street vacation approved by the City of L.A. to accommodate the Project.

LADF staff has spoken extensively with attorneys at Nixon Peabody (*representing LADF in this transaction*) who have expertise in all of these litigation matters, to gauge and manage the litigation risk. They have advised that the latter two actions regarding CEQA and the street vacation are likely tactics to apply pressure on settling the first matter. Should L.A. County reach any settlement on the first matter, it will more than likely include requiring the litigant to drop the litigation related to item 2 and 3.

Regarding item 1, the dispute over the condemnation valuation of the property, the L.A. County paid $18 million to the previous owner based on an as-is appraisal that was completed at the time. The previous owner accepted this payment, yet still filed a suit against the County over the price claiming that their experts value the property at $42 million. It is difficult to determine at what amount the County will decide to settle the lawsuit, but the L.A. County is an AA rated municipal entity that has the financial capability to cover the loss. Further, the County has committed $60 million to settle the case regarding the valuation claims. Should this amount be insufficient to settle this matter, the County is prepared to abandon the eminent domain and utilize its $60 million to repay the lenders on the Vermont Manchester Center project and the adjacent SEED LA project. The next trial date for this matter has been set for May 17, 2022.

Regarding item 2, there was a recent court hearing on March 16, 2022 when the court made a final ruling on the CEQA claim. The court granted the County's motion to strike the plaintiff's CEQA claims, thus concluding this matter in favor of the County.

Regarding item 3, the case poses some risk that a judge may grant relief to the litigant regarding the street vacation pursuant to the street and highways code. In gauging the risk of this outcome, LADF counsel has expressed that an injunction order would come with reasonable methods to remedy the issues related to the street vacation. These remedies would likely involve stopping construction until the County and Sponsor can refile for a street vacation. The anticipated time to refile for a street vacation would be about one year at most, but likely could be completed in a shorter timeframe. The next trial date for this matter has been set for November 4, 2022.

Project Timeline

The following list represents the milestone items and the project's completion and expected completion dates (*as of April 2022*):

- February 2022: Ready-to-Issue Building Permit received from L.A. County
- April 2022: GC Contract executed
- May 2022: **NMTC Transaction Close**
- May 2022: Construction Commencement
- July 2024: Construction Completion (*approx. 27-month construction schedule*)

Despite the construction schedule totaling 27 months, the NMTC proceeds are projected to be fully expended by May 2023, or 12 months from NMTC closing. Upon expending all NMTC proceeds, the following direct funding sources will be advanced and expended in this order: (1) $6.5 million Metro contribution grant, (2) $1.5 million EDA grant, and (3) $10.5 million Genesis LA loan. The CDEs, including Chase and LADF, will retain draw approval rights for these outside funding sources, even after NMTC funds are fully disbursed.

FINANCING PARTNERS

The project-level costs of the QALICB will be funded in whole by the QLICI loans, Sponsor direct contribution of pre-incurred project expenses, a Genesis LA senior direct loan, and additional grant dollars contributed to the QALICB. The financing parties to the NMTC structure will include one NMTC Investor at the upper tier, as well as four NMTC allocatees, or Community Development Entities ("**CDEs**"), making the QLICI loans to the project through their Subsidiary CDEs ("**Sub-CDEs**") at the lower tier. Additionally, the leverage loans at the upper tier will be sourced 100% from the Sponsor (*Sponsor will use grant funding raised, Section 108 loan, and equity on hand*).

LADF
LOS ANGELES DEVELOPMENT FUND

NMTC Investor

Chase Community Equity ("**Investor**"), a subsidiary of Chase Bank, is the NMTC Investor that will provide the equity contribution to the Investment Fund. Chase Bank provided $2.6 billion to low- and moderate-income communities through community development lending and equity investments. Chase Bank offers leverage loans and tax credit equity investments for eligible projects, with a focus on small business, not-for-profit and for-profit real estate projects, community development financial institutions, NMTC loan funds, and more.

LADF has closed ten previous transactions with Chase as Investor. The transactions were for the YWCA Urban Campus Development, Food4Less, Anderson Munger YMCA, Dream Center, Orthopaedic Institute for Children, Thai Town Marketplace, Jordan Downs Retail Center, Vallarta Van Nuys Supermarket, Debbie Allen Dance Academy, and SEED LA Charter School projects, which closed in December 2009, December 2010, August 2012, August 2012, April 2017, January 2018, June 2018, January 2020, June 2020, and February 2022, respectively.

Chase will also invest NMTC allocation in the Project through its CDE, Chase New Markets Corporation, as indicated in the sub-section entitled "CDE Lenders".

CDE Lenders

The Transaction will include four 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
Los Angeles Development Fund	*LADF XXVI, LLC*	$11,000,000
Genesis LA CDE LLC	*GLA Sub-CDE XXX, LLC*	$16,000,000
New Markets Community Capital, LLC	*New Markets Community Capital XXXI, LLC*	$10,000,000
Chase New Markets Corporation	*CNMC Sub-CDE 199, LLC*	$3,000,000
	Total NMTC Allocation	$40,000,000

Genesis LA CDE LLC

Genesis LA CDE LLC ("**Genesis**") is a certified CDE located in Los Angeles, California, and has received seven NMTC allocations totaling $375 million: 2005-$80mm, 2006-$50mm, 2009-$40mm, 2013-$20mm, 2014-$30mm, 2015-2016-$45mm, 2018-$55mm, and 2020-$55mm. Genesis was established in 1998 to advance economic opportunity in Los Angeles County. The organization uses allocation to invest in community facilities and commercial and mixed-use real estate projects that deliver programs, goods, services, and quality jobs to the county's low-income communities. Genesis has $43.6 million in NMTC allocation remaining from its 2020 allocation, with a local service area covering Los Angeles County, California. This will be the fifth transaction that LADF has closed with Genesis as a partner CDE. LADF co-invested NMTC allocation with Genesis in the One Santa Fe retail and office project (closed in December 2011), the Anita May Rosenstein Campus / LGBT Center community facility project (closed in June 2017), the Children's Institute Watts Campus project (closed in January 2020), the URM Angeles House (closed in March 2020), and the Hollywood Arts Collective and Career Center (closed in 2022).

For purposes of the Vermont Manchester Center Project, in addition to being a CDE providing allocation to the transaction, Genesis is also providing a $13.5 million source loan to the self-leverage lender and a $10.5 million senior direct loan to the QALICB. The source of funds that Genesis will utilize for making the source loan are grant dollars from the County of Los Angeles secured by the Sponsor, a portion of which will be provided upfront at closing the NMTC Transaction and a portion which will be funded on a reimbursement basis. Genesis will provide its own bridge funding for those sources of funds that are not provided upfront at closing of the NMTC Transaction. The Genesis LA senior direct loan to the QALICB will have a three-year term, at which time it is anticipated the QALICB will refinance the Genesis LA loan with a permanent loan.

NEW MARKETS COMMUNITY CAPITAL, LLC

New Markets Community Capital, LLC ("**TELACU**") is a certified CDE located in Los Angeles, California, and has received seven NMTC allocations totaling $365 million: 2002-$30mm, 2008-$40mm, 2009-$55mm, 2011-$20mm, 2012-$25mm, 2014-$35mm, 2015-2016-$55mm, 2019-$55mm, and 2020-$50mm. TELACU utilizes tax credits to provide substantially below-market financing for qualified commercial, retail, and industrial developments. TELACU has $40.5 million in NMTC allocation remaining, $8 million from its 2019 allocation and $32.5 million from its 2020 allocation, with a statewide service area covering the State of California. This will be the fourth transaction that LADF has closed with TELACU as a partner CDE. LADF co-invested NMTC allocation with TELACU in the Dream Center (closed in 2012), the AMR Campus projects (closed in 2017), and the Heart of Los Angeles Arts, Enrichment and Recreation Center (closed in 2017).

Leverage Lenders

The NMTC Transaction will be self-leveraged by the Sponsor, which has sourced $28.6 million from various sources listed below. For discussion about the Sponsor, refer to the section entitled "DEVELOPMENT TEAM".

Sponsor Self-Leverage Loan Sources	Amount
County of Los Angeles Section 108 Loan	$9,650,000
Genesis LA Loan	$13,500,000
Sponsor Equity	$2,773,400
Chase Bank Bridge / One-Day Loan	$2,721,100
	$28,644,500

The Sponsor has secured a CDBG grant, Measure A grant, and TOD grant from the County of Los Angeles. These three sources of funding each require that the beneficiary of the funding is organized as a nonprofit organization. Since the Sponsor and its affiliated self-leverage lender and QALICB entities are all for profit entities, the Sponsor has engaged Genesis LA to be the beneficiary of these grant sources and pass them through to the Sponsor's affiliated self-leverage lender entity. The County of Los Angeles has approved this structure and has also approved funding the CDBG and Measure A grants upfront at closing of the NMTC Transaction. However, the $5 million TOD grant will fund on a reimbursement basis as construction costs are incurred. In order to fully capitalize the loan to the leverage lender, Genesis LA will bridge the $5 million upfront and, along with the total $8.5 million (*combined*) from CDBG and Measure A grants, will provide the full $13.5 million loan to the leverage lender at closing of the NMTC Transaction.

FINANCING STRUCTURE

The project's total development cost will be funded by the $40.0 million QEI generated through the NMTC leverage structure, and the following project sources outside the NMTC structure: (1) $10.5 million Genesis LA senior direct loan (*to be drawn upon after NMTC proceeds are fully expended*), (2) $6.5 million contribution from Metro pursuant to the terms of its lease for the office portion of the project, (3) $1.5 million EDA grant (*approved*), and (4) $0.8 million Sponsor net contribution pre-closing development costs to the QALICB. For a full diagram showing the flow of funds at closing, please refer to Exhibit A.

NMTC Financing

There will be one investment fund established for the NMTC transaction. Chase Bank will be the NMTC Investor Member and own 100% of the investment fund. The equity contribution at the upper tier by Chase Bank will total $11.5 million. In exchange, Chase Bank will receive $15.6 million in tax credits that will be generated through the Fund (*39% of the total $40.0 million QEI*). This exchange of equity for tax credits reflects a pricing of $0.74 per tax credit dollar for QEIs associated with SubCDE's allocations.

The $25.9 million leverage loan provided to the investment fund by the Sponsor as the Leverage Lender will be interest-only for seven years during the NMTC compliance period and bear an interest rate of 1.0%. After the end of the interest-only period, the self-leverage loan will amortize over the following 21 years. The self-leverage loan will be sourced from four sources of funding provided from the County of Los Angeles, all which are approved by the County, and $2.8 million of Sponsor equity. The County will be funding a $9.65 million Section 108 loan directly to the Sponsor. Additionally, the County will be funding three separate grants (*$2.5 million CDBG, $6 million Measure A, and $5 million TOD*) to Genesis LA, which in turn will make a $13.5 million loan to the Sponsor. The CDBG and Measure A grants will be funded to Genesis LA upfront, and Genesis LA will bridge the TOD grant with its own funds since that grant is paid out on a reimbursement basis (*based on construction progress*). In addition to the $25.9 million Sponsor leverage loan, Chase Bank will provide a $2.7 million bridge loan to the investment fund, funded and repaid on the day of NMTC Closing (*i.e. one-day loan*), which will be used to capitalize project expenses incurred by the Sponsor prior to NMTC Closing. The total of the leverage sources to the investment fund will equal $28.6 million.

Chase Bank's tax credit equity contributions combined with the leveraged loan will be used to capitalize the investment fund with $40.2 million in total. Upon closing of the NMTC transaction, the investment fund will use its capital to make a combined $10 million QEIs to the TELACU Sub-CDE, $16 million QEI to the Genesis LA Sub-CDE, $11 million QEI to the LADF Sub-CDE, and $3 million QEI to the Chase Sub-CDE.

In exchange for its contributions, the investment fund will receive a 99.99% membership share in each Sub-CDE. The four Sub-CDEs will use the contributed capital to make combined QLICIs to the QALICB totaling $39.3 million after $0.9 million in upfront fees charged by TELACU and Genesis LA.

With regards to LADF's Sub-CDE, LADF Management, Inc. (*LADF's subsidiary entity*) will contribute $1,100 to capitalize the LADF Sub-CDE and own 0.01% share in the LADF Sub-CDE. LADF will earn $82,500 in annual income related to management services it provides on behalf of the Sub-CDE.

Each Sub-CDE will provide three QLICI notes – matching one with the portion of the leverage loan traced to the Section 108 loan ("**A note**"), another with the remainder of the sources of the leverage loan ("**B note**"), and the third with the NMTC equity component ("**C note**"). All notes will bear interest rates of 1.391% and interest-only payments for the first seven years during NMTC compliance period. All notes will have 33-year terms.

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

1. Genesis LA Sub-CDE – first $9.8 million of capital redeployment
2. TELACU Sub-CDE – next $15.5 million of capital redeployment
3. LADF Sub-CDE – next $11 million of capital redeployment
4. Chase Sub-CDE – last $3 million of capital redeployment

Upon a return of capital during the seven-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. As in its other NMTC investments, LADF will have nine months to work with Chase Bank to identify for reinvestment a project within the City of Los Angeles that is acceptable to both entities; thereafter Chase Bank can remove LADF Management, Inc. as managing member of LADF XXVI, LLC and choose an investment without LADF's input. However, it must still be within Los Angeles County per LADF's 2018 & 2020 Allocation Agreements. With Chase Bank's strong presence in the City of Los Angeles, and LADF's close relations with City partners, it is expected that nine months should be sufficient time to identify an alternative investment acceptable to both.

PROJECT READINESS

The project is expected to be ready for NMTC closing on or before the end of May 2022. Pursuant to LADF's policies and procedures, the readiness of the project is determined as follows:

- *Control of Site*: Bridge Housing will execute the Ground Lease with the County of Los Angeles and concurrently execute a sub-ground lease with the QALICB at or prior to closing of the NMTC Transaction
- *Entitlement Process*: Completed
- *Design/Pre-Development*: Completed
- *Working Drawings*: Completed
- *Value Engineering*: Completed
- *Permits*: >Ready-to-Issue Permits received on February 16, 2022
- *Tenant Leases*: >Metro training center and office lease is final and executed
>Anchor retail tenant lease is fully negotiated and final pending further negotiation of ancillary documents, including the SNDA
>LA County has pre-leased 1,482 SF retail at no cost for its Community Impact Entrepreneurship Academy
>Approximately 7,700 SF, or 12% of the rentable area, of inline retail space will be leased post-NMTC closing
- *GMP Construction Contract*: >GC contract executed in April 2022
- *Financing Commitments*: >LOIs issued by Sub-CDEs for NMTC Allocation
>LOI issued by Chase Bank as NMTC Investor
>LOI issued by Genesis LA as senior direct lender
>Grants and Section 108 funds are fully approved
>Sponsor has committed equity for the Leverage Loan and direct project contributions
- *Outstanding 3rd Party Issues*: >Litigation relating to eminent domain, CEQA, and street vacation (*resolution not required for closing)*

NMTC ELIGIBILITY AND COMPLIANCE

The subject site is located in the 2010 Census Tract 06037238320. The population within the Census tract is 3,916 individuals per the 2011-2015 American Community Survey. Based on the CDFI Fund's GeoCode Report for the site, LADF has determined that the site is located in a Qualified Census Tract based on the following qualifying criteria:

- Poverty Rate of **47.2%** of the greater Metro area (*greater than 20%*)
- Median Family Income of **43.3%** of the greater Metro area (*less than 80%*)

Further, the site also qualifies under Section 3.2(h) of LADF's 2018 & 2020 Allocation Agreements as a Targeted Distressed Community based on the following qualifying criteria:

- Poverty Rate of **47.2%** of the greater Metro area (*greater than 30%*)
- Median Family Income of **43.3%** of the greater Metro area (*less than 60%*)

QALICB Analysis

The VM Commercial, LLC special purpose entity will satisfy the requirements for QALICBs and will be considered a business engaged in "Real Estate Activities", as defined by LADF's 2018 & 2020 Allocation Agreements[1], because its sole business activities are the development and management of the project.

The QALICB will meet the Non-Qualified Financial Property ("NQFP") Test since 100% of the QLICI proceeds will be expended for development of the project within 18 months of closing. The NQFP test requires that less than 5% of the average of the annual aggregate unadjusted basis of the property held by the QALICB is attributable to NQFP which includes debt, stock, etc.

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 controlled by any entity having an interest in any Sub-CDEs, so there is no Related Party entity issue.

LADF 2018 & 2020 Allocation Agreements Compliance

This transaction will use $10,066,666 from LADF's 2018 Allocation Award and $933,334 from LADF's 2020 Allocation Award from the CDFI Fund. With the closing of this transaction, the 2018 Allocation award will be 100% invested and the 2020 Allocation award will be 25.9% invested.

The LADF has determined that the transaction complies with the authorized uses of its NMTC allocation under Section 3.2 of its 2018 & 2020 Allocation Agreements, evident through the following characteristics of the transaction:

- §3.2(a) –LADF's allocation will be used to make a loan to a QALICB
- §3.2(b) – Project is located in the County of Los Angeles
- §3.2(c) – LADF XXVI, LLC is a listed Subsidiary Allocatee in Schedule I of the Allocation Agreement
- §3.2(d) – QALICB is controlled 100% by persons unrelated to LADF
- §3.2(e) – LADF will have invested greater than 60% threshold in QEIs by Dec. 31, 2023
- §3.2(f) – LADF's QLICI provides flexible terms (*discussed below*)
- §3.2(h) – The subject site is located in a Targeted Distressed Community (*discussed above*)
- §3.2(j) – 100% of QEI will be passed down as a QLICI

Section 3.2(g) (*Non-Metropolitan Counties*), 3.2(i) (*Loan Purchases Reinvestment*), and Section 3.2(l) (*Innovative Investments*) are marked "Not Applicable" in LADF's 2018 & 2020 Allocation Agreements.

Section 3.2(k) (*Affordable Housing*) is marked "Applicable" in LADF's 2018 & 2020 Allocation Agreement. However, the Project does not include any housing units, so LADF will maintain compliance with Section 3.2(k).

[1] "Real Estate Activities" is the development (including construction of new facilities or rehabilitation/enhancement of existing facilities), acquisition, management, or leasing of real estate by a business.

As the transaction relates to Section 3.2(f) (*Flexible Products*) of the 2018 & 2020 Allocation Agreements, LADF must comply with the following:

"All of the Allocatee's QLICIs must (a) be equity or equity-equivalent financing, (b) have interest rates that are 50 percent lower than either the prevailing market rates for the particular product or lower than the Allocatee's current offerings for the particular product, or (c) satisfy at least 5 of the indicia of flexible or non-traditional rates and terms, as listed in Section 3.2(f) [1]."

LADF's QLICI notes bear interest rates of 1.391% and satisfy part (b) of this paragraph. To support the compliance with this provision, LADF will reference a better rates and terms letter provided by the Sponsor. This letter will be provided before closing, and it is expected that the market interest rate for the transaction is at least two-times greater than LADF's QLICI interest rate.

Reimbursement of Costs

As part of guidance published by the CDFI Fund in December 2015 a new provision, Section 3.3(j), was incorporated into all allocation agreements after that time pertaining to monetizing existing assets in NMTC transactions. Section 3.3(j) reads as follows:

The Allocatee shall not use the proceeds of a QEI to make a QLICI in a QALICB where such QLICI proceeds are used, in whole or in part, to repay or refinance a debt or equity provider whose capital was used to fund the QEI, or are used to repay or refinance any Affiliate of such a debt or equity provider, except where:

(i) the QLICI proceeds are used to repay or refinance documented reasonable expenditures that are directly attributable to the qualified business of the QALICB, and such expenditures were incurred no more than **36 months**[2] prior to the QLICI closing date; or

(ii) no more than **5%** of the total QLICI proceeds from the QEI are used to repay or refinance documented reasonable expenditures that are directly attributable to the qualified business of the QALICB.

LADF's QLICI will comply with Section 3.3(j)(i) since all of the QLICI proceeds used to reimburse any prior-incurred costs by the QALICB or Sponsor will have been incurred within the 36-month period ending on the NMTC closing. Additionally, (1) Novogradac will perform a reconciliation of all prior incurred expenses reimbursed through the NMTC financing and will provide an AUP to confirm this and (2) the QALICB and Sponsor will execute a cost reimbursement certification agreement, for the benefit of the CDE lenders, certifying that these costs were incurred within the 36-month period ending on the NMTC closing.

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

The equity generated through the NMTC structure will provide an estimated $7.7 million in subsidy (*net of NMTC closing costs, placement/origination fees, management fees, and on-going expenses*) to the project, approximately 19.1% of the $40 million QEI in the transaction and 12.9% of the $59.5 million of total project costs. The LADF Sub-CDE's portion of the total net subsidy is approximately $2.5 million.

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[1] Flexible or non-traditional rates and terms listed in Section 3.2(f) include: (i) Below market interest rates; (ii) Lower than standard origination fees; (iii) A longer than standard period of interest only loan payments; (iv) Higher than standard loan to value ratio; (v) A longer than standard amortization period; (vi) More flexible borrower credit standards; (vii) Nontraditional forms of collateral; (viii) Lower than standard debt service coverage ratio; or (ix) Subordination.

[2] To help mitigate the impacts of COVID-19, the CDFI Fund issued an Amendment (*dated May 2, 2022*) to all 2015-2016, 2017, 2018, 2019, and 2020 Allocation Agreements revising Section 3.3(j) from a 24-month to a 36-month look back for reimbursable project costs for QLICIs closed between June 1, 2020 and December 31, 2022.

Given the location of the proposed facility and the lack of private investment into the surrounding neighborhood, the project's operations could not support the needed equity and debt investment from traditional capital sources. The Sponsor already has committed a significant amount of equity (*approx. $6.0 million*) using its corporate cash on hand, and the Sponsor has secured as much senior debt as the project could attract (*approx. $20.2 million*) from the Genesis LA direct loan and Section 108 source loan. Its ability to invest an additional $7.7 million in equity would decrease the project returns below its threshold return requirements to justify the investment. Additionally, a commercial lender providing the required gap financing with a junior deed of trust as collateral would charge excessive interest and fees to justify making a loan without good security in the loan. This onerous cost to the project would also push the returns below the Sponsor's threshold requirements. Without the NMTC equity injection, the Project would need to be scaled back or could not move forward.

COLLATERAL AND GUARANTEES

The LADF's QLICI loans will be secured by the following security instruments:

- Second Deed of Trust on the QALICB's leasehold interest in the subject property – subordinate in lien position to Genesis LA in its capacity as senior lender to the Project in first position;
- Security interest in the construction disbursement and reserve accounts (*totaling $33.6 million at NMTC Closing*); and
- Additional security for the QLICI loans will consist of guaranties from the Sponsor.

The QALICB and Sponsor will provide an indemnity to the CDE lenders, including LADF XXVI, LLC (*LADF Sub-CDE*), for environmental losses. The QALICB and Sponsor will also provide an indemnity to the Investor for reimbursement of lost tax credits and losses related to loss of tax credits. The QALICB and Sponsor will also provide the CDE lenders: (1) a guaranty of payment for all construction work, interest on the QLICI loan, and fees and expenses due to the CDE and the Fund during the seven-year Compliance Period and (2) a guaranty of completion of all construction work for the Project.

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 B Note, which is tied to the NMTC Investor's equity amount, may be forgiven at the end of the compliance period by way of an option agreement described below.

A Put-Call Option Agreement will be entered into by the Sponsor and Chase Bank (*as the Investor*). Chase Bank may exercise its put option and sell its respective interest in the Fund to the Sponsor for $1,000. If Chase Bank chooses not to exercise its put option, the Sponsor may exercise its call option. Upon exercising of either put or call option by the respective parties, the Sponsor 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: OUTCOME OF PENDING LITIGATION

The litigation risk related to the Project is that a court may order an injunction related to the street vacation action. Per LADF counsel, however, this case is likely to be dropped once a settlement is reached in the eminent domain action relating to the property valuation.

In the unlikely scenario that the street vacation action is carried out and not dropped, the risk of a judge ordering a revocation of permits is seen as improbable by LADF counsel. The more likely outcome would be that a judge orders an injunction that forces construction to stop until the street vacation is reapplied for and obtained once more.

Regarding the litigation over valuation in the eminent domain action, a possible outcome is that the County has to pay the previous owner more money for the property, pursuant to a resulting judgment or settlement. If the County is unable to pay the judgment or settlement amount, then the County's title to the property would be at risk and so would be its ability to ground lease the property to the QALICB. This risk is mitigated by the County committing $60 million to settle this matter. In the highly unlikely scenario that a judgment in this case is higher than this amount, the County will use these committed funds to repay lenders in the Vermont Manchester Center project and adjacent SEED LA project.

RISK: GENERAL

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

- LADF has engaged Ariel Ventures for compliance services and obtained a license for its specially designed compliance software to assure that all required reporting to the CDFI Fund is completed in a timely manner.
- No principal 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 ensure 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 third in the waterfall (*after Genesis Sub-CDE and TELACU Sub-CDE*) and would receive a return of capital only after **$25.3 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 Sponsor in their capacities as guarantors and indemnitors, and the Sponsor in its 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 Sponsor 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 – 2% of QEI (equates to $220,000). LADF will receive this fee in lump sum at closing.

- CDE Servicing & Compliance Fee – 0.75% of QEI per year for $10,066,666 of 2018 Allocation and $933,334 of 2020 Allocation
  - This equates to $577,500 (quarterly installments of $20,625 paid out of QLICI interest received for 7 years)
- CDE Expense Reimbursements – estimated at $13,000 annually per CDE for 8 years (equates to $104,000). 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 $681,500, will be placed in a separate, controlled reserve account at close of the transaction.

POLICY EXCEPTIONS

None.

RECOMMENDATION

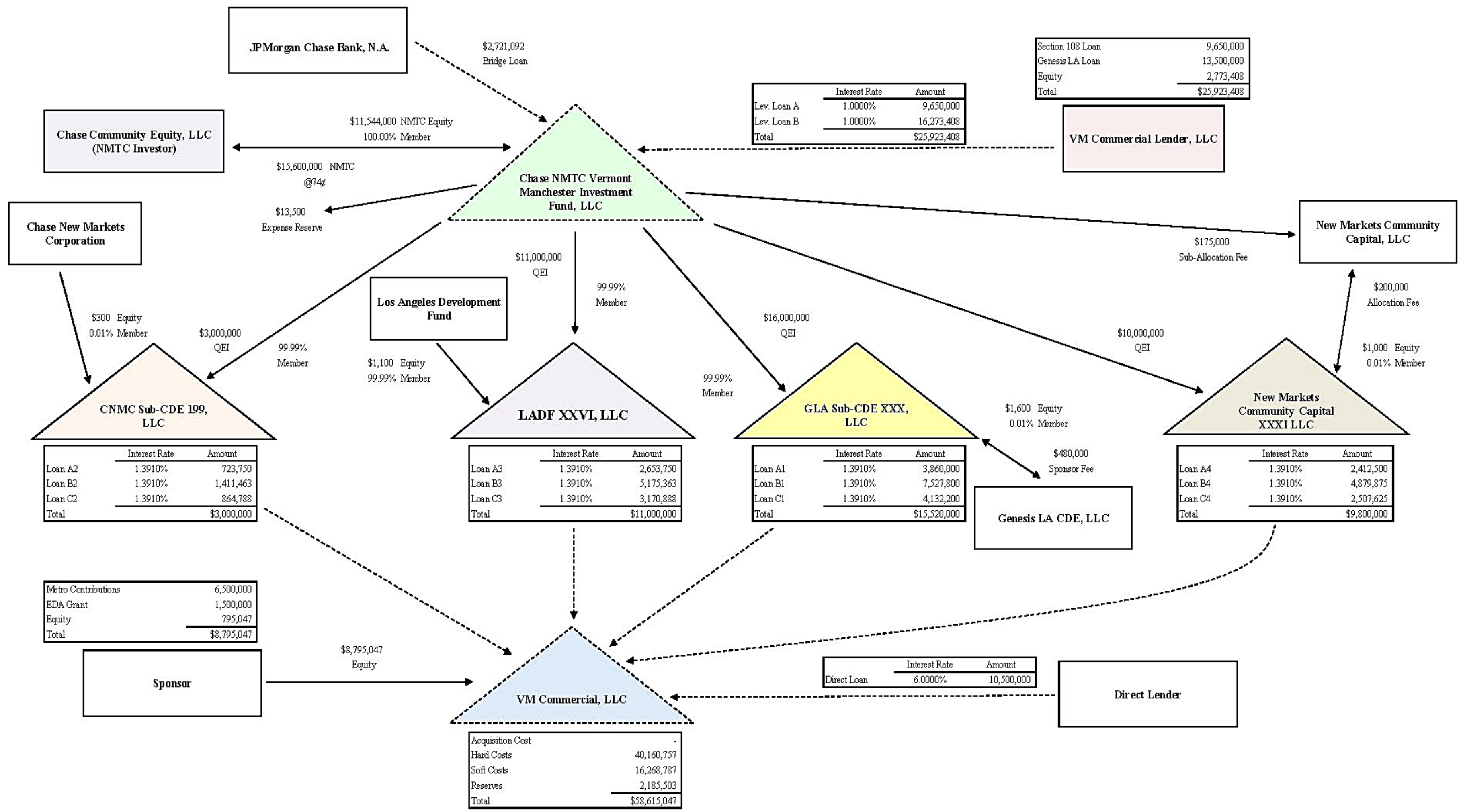
Approval of this funding request is recommended based on the project's feasibility, readiness, and community benefits.

ATTACHMENTS

EXHIBIT A: Vermont Manchester Center Flow of Funds (*as of April 20, 2022*, Final Projections Pending)

LADF
LOS ANGELES DEVELOPMENT FUND

EXHIBIT A: Vermont Manchester Center Flow of Funds (*as of April 20, 2022*, Final Projections Pending)



	Interest Rate	Amount
Lev. Loan A	1.0000%	9,650,000
Lev. Loan B	1.0000%	16,273,408
Total		$25,923,408

Section 108 Loan	9,650,000
Genesis LA Loan	13,500,000
Equity	2,773,408
Total	$25,923,408

	Interest Rate	Amount
Loan A2	1.3910%	723,750
Loan B2	1.3910%	1,411,463
Loan C2	1.3910%	864,788
Total		$3,000,000

	Interest Rate	Amount
Loan A3	1.3910%	2,653,750
Loan B3	1.3910%	5,175,363
Loan C3	1.3910%	3,170,888
Total		$11,000,000

	Interest Rate	Amount
Loan A1	1.3910%	3,860,000
Loan B1	1.3910%	7,527,800
Loan C1	1.3910%	4,132,200
Total		$15,520,000

	Interest Rate	Amount
Loan A4	1.3910%	2,412,500
Loan B4	1.3910%	4,879,875
Loan C4	1.3910%	2,507,625
Total		$9,800,000

Metro Contributions	6,500,000
EDA Grant	1,500,000
Equity	795,047
Total	$8,795,047

	Interest Rate	Amount
Direct Loan	6.0000%	10,500,000

Acquisition Cost	-
Hard Costs	40,160,757
Soft Costs	16,268,787
Reserves	2,185,503
Total	$58,615,047