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**Los Angeles Housing + Community Investment Department (HCIDLA)  
First Substantial Amendment to the 44<sup>th</sup> Year Annual Plan (44-01)**

**Proposed Section 108 Guaranteed Loan Program Funding  
\$22.5 Million Section 108 Loan Application  
and \$3 Million CDBG Allocation**

TO ALL RESIDENTS, AGENCIES, ORGANIZATIONS AND OTHER INTERESTED PARTIES:

In accordance with the City of Los Angeles Citizen Participation Plan (CPP) requirements and Community Development Block Grant (CDBG) regulations, the City of Los Angeles wishes to inform residents and all interested parties of the proposed amendment to the 44<sup>th</sup> Year Annual Plan. A 30-day public comment period will be open to provide the public with an opportunity to review and comment on the proposed amendment.

**Purpose**

In accordance with Code of Federal Regulations (CFR) found in 24 CFR Parts 91.105 and 91.505, and the CPP, the City is required to provide citizens with an opportunity to comment on all Substantial Amendments to its Housing and Community Development Consolidated Plan. In addition, per 24 CFR 570.704(a)(iii), the City is also required to give citizens and stakeholders the opportunity to examine proposed Section 108 Loan applications and to provide comments relating to these applications and the potential use of Section 108 guaranteed loan funds.

This Substantial Amendment is to address the City's intent on funding projects with the Section 108 Guaranteed Loan Program. The U.S. Department of Housing and Urban Development (HUD) regulations state that the Section 108 Loan Citizen Participation Plan may be incorporated into the City's existing CPP for the Consolidated Plan, provided that it complies with the requirements outlined in 24 CFR 570.704(a)(2). It is the City's intent, to the extent possible, to combine these two processes as permitted by federal regulations.

During the 44<sup>th</sup> Year Annual Action Plan, the City estimates to have approximately \$103 million of Section 108 guaranteed loan funds, including program income, to be made available to undertake eligible economic development activities that will benefit low and

May 4, 2018

moderate income persons. Eligible economic development activities include, but are not limited to: acquisition of real property, rehabilitation of publicly owned real property, related relocation, clearance, and site improvements, payment of interest on loan, issuance costs of public offerings, debt service reserves, and finance fees.

The Section 108 Loan program allows the City to transform a small portion of its CDBG funds into federally guaranteed loans to provide resources for economic revitalization projects. While the City must pledge its current and future CDBG allocations as security for the guaranteed loan funds, the goal is for the proposed projects to have sufficient cash flow to repay the Section 108 loan without any need to use current or future CDBG dollars for loan repayment.

Through this Substantial Amendment, the City also proposes to incorporate a \$22.5 million Section 108 Loan application for the Los Angeles Football Club Ancillary Building Project (LAFC Project), as part of the economic development activities to be carried out during the 44<sup>th</sup> Year Annual Action Plan. A detailed description of the proposed LAFC Project is included below, pursuant to the requirements at 24 CFR 570.702(a)(2). The City applied for a waiver to 24 CFR 570.209(b)(3)(ii)(B) - *Assistance to Professional Sports Teams*. A response from the U.S. Department of Housing and Urban Development (HUD) is currently pending.

Furthermore, through this Substantial Amendment, up to \$3 million of CDBG funds may be allocated for the LAFC Project, subject to City Council approval. These CDBG funds, coupled with the Section 108 funding, are needed to complete the reimbursement of construction bridge loans.

### **Public Comment Period**

The public is hereby invited to submit comments regarding this proposed action during a 30-day public comment period. This comment period will begin May 4, 2018 and end on June 3, 2018. The documents relating to this Substantial Amendment, including the LAFC Project Section 108 Loan application may be viewed at the City of Los Angeles Economic and Workforce Development Department (EWDD) located at 1200 W. 7th St., 6th Floor, Los Angeles CA 90017, Monday through Friday, 8 a.m. to 5 p.m. Any person wishing to comment on the Substantial Amendment and the LAFC Project may do so in writing by no later than June 3, 2018 at 5:00 p.m. Questions or comments should be submitted to Angelica Nuñez by e-mail at [angelica.nunez@lacity.org](mailto:angelica.nunez@lacity.org) or in-person at the aforementioned address, during the posted business hours. Spanish translation is available upon request / Traducción al español será disponible cuando se solicite.

The City encourages citizen participation, particularly by low and moderate income persons who reside in slum and blighted areas, and other areas in which Section 108 funds are proposed to be used.

## **Los Angeles Football Club (L AFC) Section 108 Loan Application**

As the first Section 108 Loan application in the 44<sup>th</sup> Year Annual Action Plan, the City of Los Angeles would like to present the following information about the proposed Los Angeles Football Club Ancillary Building Project (L AFC Project):

### **Public Hearings**

The City held two public hearings at different stages of the L AFC Project Section 108 Loan application process. The first public hearing was held on June 30, 2015, authorizing EWDD to explore federal incentives and financing options, including the use of Section 108 guaranteed loan funds for the project. A second public hearing was held on August 5, 2016, whereby the City Council passed a motion authorizing the City to proceed with a \$22.5 million Section 108 loan for the L AFC Project. Both of these meetings were held by the City Council, and provided the public with an opportunity to comment on the proposed use of Section 108 guaranteed loan funds. There was reasonable notice of both public hearings held at City Council meetings. The time and location were convenient and accessible to potential and actual beneficiaries. In addition, language translation services were made available at these meetings.

In order to afford another opportunity for the public and interested parties to examine and comment on the L AFC Project Section 108 Loan application, the City is providing a 30-day public comment period from May 4, 2018 through June 3, 2018.

### **Proposed Funding**

The City is proposing the use of \$22.5 million in funding assistance through the Section 108 Loan Program for construction costs and for repayment of construction bridge loans for the development of an ancillary facility adjacent to the new Banc of California Stadium. Additionally, up to \$3 million in CDBG funding may be allocated to the project, subject to City Council approval.

While the City will pledge its current and future CDBG allocations as security for the L AFC Project Section 108 guaranteed loan funds, based on the City's underwriting review, the proposed project is expected to have sufficient cash flow to repay the Section 108 loan without any need to use current or future CDBG funds for loan repayment. Program income generated through repayment of the L AFC Project Section 108 Loan will be used for the debt service of said loan.

The proposed Section 108 loan funds and CDBG allocation will not be used to pay fees required under 24 CFR 570.705(g). The loan applicant will be required to pay the HUD Credit Subsidy Fee, totaling 2.365% of the loan amount (up to \$532,165).

### **L AFC Project Application**

The Section 108 Loan Guarantee Application is attached for review and comment.

May 4, 2018

**Address all questions or comments on the proposed Section 108 loan to:**

Angelica Nuñez, Loan Officer  
Economic and Workforce Development Department  
1200 W. 7th Street, 6th Floor  
Los Angeles, CA 90017  
Telephone: (213) 744-9377

E-mail: [angelica.nunez@lacity.org](mailto:angelica.nunez@lacity.org)

## SECTION 108 LOAN GUARANTEE APPLICATION

**Applicant:** City of Los Angeles, California  
**Project Name:** Los Angeles Football Club Ancillary Project  
**Project Location:** 3939 S. Figueroa Street, Los Angeles, CA 90027

One of the City's primary goals as outlined in the current Consolidated Plan is to foster attractive and diverse employment opportunities in highly accessible locations. The LAFC Ancillary Facility would spur job creation and improve educational and job readiness in an area that is currently enduring higher than average unemployment and poverty levels.

The Project is part of the ongoing revitalization efforts in the City's Figueroa Corridor, and will provide an economic boost to the neighboring communities and create jobs in an area that has an unemployment rate approximately four times the rate of Los Angeles County. Based on data obtained from the U.S. Department of Housing and Urban Development (HUD) CPD maps, the census tracts immediately surrounding the Project have an average poverty rate of 42.77%, and an average unemployment rate of 14.29%.

### **1. Project Description**

The Los Angeles Football Club (LACF) submitted an application on May 23, 2016, for twenty-two million five hundred thousand dollars (\$22,500,000) in funding assistance through the City's Section 108 Loan Program, for the development of an ancillary facility (Project) that is adjacent to the new Major League Soccer Stadium located in Exposition Park.

The Project consists of a 35,500 square foot, 2-story structure that will include a team store, conference event spaces, entertainment areas/rooftop deck, and an International Food Hall with local and noted culinary artisans, restaurants, catering kitchens and a culinary/hospitality training academy.

LACF expects the Project to generate approximately seven hundred thirty-one (731) full-time equivalent (FTE) jobs, of which 51% will be held by low-to-moderate income individuals from the local community. In addition, the Project will establish new healthy dining options, increase the availability of event and conference space, and provide improved safety in the surrounding area through upgraded lighting and visibility.

The LACF and its partners privately financed the new stadium in its entirety. The private investment will also fund a portion of the Project. However, LACF identified a gap in funding of \$25,500,000 needed to complete construction and consequently applied for Section 108 loan funding for \$22,500,000, and \$3,000,000 in Community Development Block Grant (CDBG) grant funding.

### **2. Project Participants**

**Borrower:** LAFC AncillaryCo, LLC  
**Parent Company:** LAFC Partners, LLP (HoldCo)  
**Site Landlord:** University of Southern California (USC)  
**Stadium Operator:** LAFC Sports, LLC (TeamCo)  
**Landlord to Borrower:** LAFC StadiumCo, LLC, (StadCo)

### **3. Repayment**

Borrower will pay interest only for the first four years on the Section 108 guarantee loan. Thereafter, the outstanding principal and interest will be amortized for the next sixteen (16) years. Here are the loan terms:

#### **Loan Terms**

- a. Interest rate and amortization
  - i. Initial variable Interest Rate Period: On the closing date and until the Conversion Date, the Loan shall bear interest at a variable rate equal to one-month LIBOR plus .20% per annum, adjusted and payable on a quarterly basis. The Conversion Date shall mean the fourth anniversary of the closing of the City Section 108 Loan.
  - ii. Fixed Interest Rate Period: From the Conversion Date through the Maturity Date, the City Section 108 Loan shall bear interest at a fixed rate equal to the then-current interest rate on 10-year US Treasury Notes plus 1.5% per annum, payable on a quarterly basis.
  - iii. During the Fixed Interest Rate period, the principal of the Section 108 Loan will be repaid based on a twenty-five (25) year amortization schedule, payable on a quarterly basis, with a balloon payment of the outstanding principal amount payable at the loan's maturity date.
- b. Term: The loan's maturity date shall be the twentieth anniversary of the closing on the Section 108 Loan.
- c. Payment frequency: Quarterly
- d. Loan Fee: A HUD Credit Subsidy Fee totaling 2.365% of the loan amount (up to \$532,165) will be required to be paid up front.

### **4. Project Implementation**

The Construction Management Agreement submitted by L AFC requires construction completion by no later than May 8, 2018. Due to this timeline, L AFC started construction prior to approval of the City's Section 108 funding. The Project broke ground around July 2017, and it is approximately 80% built, according to the City's Construction Specialist and Building and Safety inspection records. L AFC indicated that the Project's on-going construction is being financed through bridge loans provided by the owners, as necessary in order to stay within their construction timeline. L AFC is requesting for Section 108 loan proceeds be used to repay the existing construction bridge loans, which requires HUD approval.

### **5. Eligible Activity under 24 CFR 570.703**

The proceeds from the Section 108 Loan will be used for the construction of a 35,500 square foot ancillary facility adjacent to a Major League Soccer Stadium. The Project is considered a special economic development activity to a private for-profit business, eligible under 24 CFR § 570.703 (i)(1), for activities eligible under 24 CFR § 570.203. However, HUD regulations prohibit the use of Community Development Block Grant (CDBG) / Section 108 funds to assist professional sports teams. Therefore, the L AFC is seeking a waiver from the U.S. Department of Housing and Urban Development (HUD) to facilitate assistance through the City's program. Thus, the Section 108 loan application is subject to HUD's approval of said waiver.

### **6. National Objective Criteria under 24 CFR § 570.208**

The Project will meet CDBG National Objective under 24 CFR 570.208 (a)(4), as an activity that will create jobs, of which at least 51% will be held by the low-to-moderate-income (LMI) persons.

L AFC submitted a staffing plan projecting the creation of 731 jobs required for the operations of the ancillary facility, including the anticipated job classifications for the permanent positions needed. Based on the staffing plan approximately 75% of the job classifications are not specialized, and do not require significant experience or education since they are food service and hospitality oriented. In addition, L AFC has partnered with Legends Hospitality to provide training and staff development.

To help comply with the requirement that 51% of the jobs created will be held by LMI persons, L AFC has negotiated a memorandum of understanding (MOU) with the Vernon/Central WorkSource Center for recruitment and screening to fill the long-term jobs at the ancillary facility. The WorkSource Center is associated with the Los Angeles Trade Tech College, and is actively working with L AFC in the recruitment and screening of local and low-income construction workers.

#### **7. Public Benefit Standard under 24 CFR § 570.209**

Based on L AFC's staffing plan and job projections, the Project may comply with HUD's standards for evaluating public benefit under 24 CFR 570.209 (b)(1)(i) through the creation of 731 FTE jobs within the first 5 years of operation. The City is applying the aggregate standard of thirty-five thousand dollars (\$35,000) per each FTE job generated. Consequently, at least 729 jobs must be created to meet the minimum level of public benefit for the Section 108 Loan (\$22,500,000) and the CDBG grant (\$3,000,000).

Due to L AFC's expedited construction timeline for the Project, it is anticipated that the ancillary facility will be completed by the time the Section 108 Loan is considered and funded. Presumably, the Ancillary Operating Partners will have their retail tenants move in soon thereafter. This would give the City the unique opportunity to confirm actual job creation data, instead of just projections.

#### **8. National Environmental Policy Act (NEPA) Clearance under 24 CFR § 58.22**

HUD's Regional Environmental Officer made a determination that the ancillary facility is a stand-alone project and its construction is separate from the stadium. Accordingly, the City continued its normal environmental review process, and obtained HUD's Authority to Use Grant Funds for the Project on July 13, 2017.

#### **9. Ownership Structure**

The Los Angeles Football Club Sports Franchise owner, L AFC Sports, LLC ("Team") and the stadium developer L AFC Stadium Company LLC ("StadCo") are both owned by a Holding Company ("HoldCo"). The Team has a ground lease with the University of Southern California for the project site for an initial term through December 31, 2054. StadCo subleased the land and is responsible for the design, construction, maintenance, and operation of the stadium. The applicant for the Section 108 loan is L AFC Ancillary Co, LLC ("AncillaryCo"), owned by Stadco.

#### **10. Experience and Management Capacity**

The L AFC Ownership includes 22 owners, including figures from entertainment, such as Peter Guber, motion picture producer, and Will Farrell, actor; business figures such as Anthony Robbins; and sports figures including Ervin "Magic" Johnson, and Mia Hamm Garciaparra. There is considerable sports experience in the management of professional sports teams, as a couple of examples, Magic Johnson is a co-owner of the Dodgers, and Peter Guber is also a current owner of the Los Angeles Dodgers and the Golden State Warriors. L AFC Partners, LLLP and L AFC Sports, LLC are single-purpose entities and do not manage any other developments.

#### **11. Borrower Financial Capacity and Creditworthiness**

The ownership is investing about \$350M into the team’s stadium and ancillary building. As stated above, the ownership includes high-profile figures and high net worth individuals. An April 2016 Balance Sheet indicated that LAFC Partners, LLLP and LAFC Sports, LLC, its team subsidiary, had total assets of \$126.7 million.

**12. Financial Information**

The total development costs for the Project is approximately \$67.2 million. The sources of funds will be from LAFC AncillaryCo, LLC’s (Borrower) equity, private loans and Section 108/CDBG loans. The projected uses of funds and sources of funds detail is as follows:

Sources of Funds

Borrower Equity Investment	\$ 19,485,013
Private Loan	\$ 22,131,696
Section 108 Loan	\$ 22,500,000
CDBG	<u>\$ 3,000,000</u>
Total Sources of Funds	\$ 67,116,709

Uses of Funds

Base Shell & Other Hard Costs	\$ 21,000,000
Ancillary TI and Other Improvements	\$ 9,000,000
Other Development Cost & Soft Costs	\$ 30,924,281
Contingency	\$ 4,986,468
Interest Reserve (4 years)	<u>\$ 1,215,000</u>
Total Uses of Funds	\$ 67,116,709

Comparative Analysis of the proposed sources and uses of funds

LAFC provided EWDD with a financial pro forma dated November 1, 2017, which included the Sources and Uses representing a \$294M Stadium Project budget. However, the CBRE appraisal included a Budget and Sources and Uses that totaled \$357.8M. The Financial Analysis in this section is based on the November 2017 pro forma as presented and provided by LAFC.

*Assumptions*

The following assumptions were presented by LAFC:

1. Section 108 interest rates (pre- construction and post construction)
2. Section 108 repayment schedule
3. Section 108 credit subsidy fee
4. Section 108 financing fees (capitalized interest)

For the purposes of performing the City’s underwriting analysis, these assumptions were adjusted to reflect terms that had been previously agreed to, including Section 108 Loan interest rate and payment amount.

The following assumptions must be verified prior to loan closing:

1. The \$67.1 million ancillary development costs will require additional documentation to support both the budget and costs to date. Documentation such as cost allocation methodology, current ancillary expense reports, and ancillary bid packages will be needed in order to assist the City in identifying and isolating costs specific to the Project.



2. The operating expense allocation methodology to account for operating expenses such as insurance, property taxes, utilities, and maintenance, will be required prior to loan closing.

#### *Revenue Projections*

The Ancillary generates four sources of revenue:

1. Conference and Events
2. Tours
3. Team Store
4. Food Market & Retail

Based on LAFC pro forma, the first year net revenue projection is \$8,770,528.

The basis for the revenue projection is twofold: 1) a Market Feasibility Study completed by Conventions, Sports, and Leisure (CSL) in June 2016 and 2) updated assumptions as prepared/recommended by the Ancillary Operating Partners.

Currently, the City continues to seek verification for the following:

- Relevant financial information from the Operating Agreement with Legends, the Operating Partner of the International Food Experience (IFE). The document provided by LAFC has redacted information, including profit sharing provisions.
- Increased revenue projections in the amount of \$2,210,201 for the food market and retail.
- Increased revenue projections for the team store, which increased from \$1.2 million a year to \$1.95 million, along with the new and final Operating Agreement with Fanatics.

#### *Debt Service Coverage Ratio*

The Project's Debt Service Coverage Ratio (DSCR) on the initial year of operation is 2.96. Subsequent to the initial year, but prior to the Conversion Date, the DSCR is 3.08, 3.31, 3.55. The DSCR is anticipated to decrease to 1.6 when Section 108 Loan debt service payments start.

The healthy DSCR evidences LAFC's ability to meet its payment obligations and have sufficient cash flow for any unexpected expenses.

### **13. Collateral**

- a) Section 108 Debt Service Reserve account from StadCo to Borrower.
- b) Second (2<sup>nd</sup>) position on the Leasehold Deed of Trust of the project site.
- c) Loan approval is subject to a complete appraisal report with a value at no less than 80% of the loan amount.