

ATTACHMENT II

CITY OF LOS ANGELES

CALIFORNIA



**ANTONIO R. VILLARAIGOSA
MAYOR**

**RICHARD L. BENBOW
GENERAL MANAGER
COMMUNITY DEVELOPMENT
DEPARTMENT**

**INDUSTRIAL DEVELOPMENT
AUTHORITY**

1200 W. 7TH STREET
LOS ANGELES, CA 90017

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TEFRA MINUTES

April 29, 2008

**Public Hearing by the Industrial Development Authority of the City of Los Angeles
Relating to the Issuance of Tax-Exempt Industrial Development Bonds for Drapes 4
Show, Inc., Sylmar, California (or any related entity or successor thereto)**

Applicant: Drapes 4 Show, Inc., (or any related entity or successor thereto)
Council District 7

Hearing Location: Community Development Department
1200 W. 7th St., 6th Floor, Los Angeles, CA 90017

Conducting the hearing: Melissa Soo Hoo, Management Assistant, Industrial Development Authority
Economic Development Division, Community Development Department

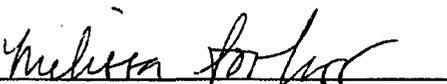
Time Held: 2:00 P.M.

**Date TEFRA
Advertised:** April 14, 2008

**Proposed
Bond Amt:** \$2,000,000

**Public
Comments:** No member of the public attended the hearing. No written comments were
received by Industrial Development Authority staff.

Adjournment: 2:30 P.M.


Melissa Soo Hoo
Economic Development Division
Community Development Department



Community Redevelopment Agency
of the CITY OF LOS ANGELES

DATE / JAN 17 2007
FILE CODE /

354 South Spring Street / Suite 800
Los Angeles / California 90013-1258

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CRA File No. 5201
Council District: 7 ✓
Contact Person: Duran Villegas
(213) 977-1887

Honorable Council of the City of Los Angeles
John Ferraro Council Chamber
200 N. Spring Street
Room 340, City Hall
Los Angeles, CA. 90012

Attention: Alan Alietti, Office of the City Clerk

COUNCIL TRANSMITTAL:

Transmitted herewith, is a Board Memorandum adopted by the Agency Board on January 17, 2008 for City Council review and approval in accordance with the "Community Redevelopment Agency Oversight Ordinance" entitled:

VARIOUS ACTIONS RELATED TO:

Authorization to Execute a Condition Grant Agreement in the Amount of \$900,000 of Tax-Increment Funds with KH Enterprises, LLC for Acquisition and Rehabilitation of a Manufacturing Site Located at 12811 Foothill Boulevard, in the Sylmar Area of the Earthquake Disaster Assistance Project for Portions of Council District 7, East Valley Region.

RECOMMENDATION

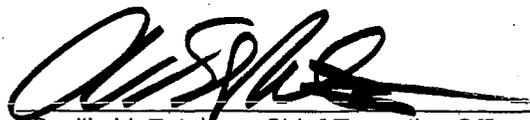
That City Council approve(s) recommendation(s) on the attached Board Memorandum.

ENVIRONMENTAL REVIEW

The recommended Action is categorically exempt from the provisions of the California Environmental Quality Act ("CEQA"), pursuant to Article VII, 1. a. (1) of the CRA/LA CEQA Guidelines and Section 15301 (a) of the State CEQA Guidelines.

FISCAL IMPACT STATEMENT

There is no fiscal impact to the City's General Fund, as a result of this action.


Cecilia V. Estolano, Chief Executive Officer

- cc: Alan Alietti, Office of the City Clerk (Original & 3 Copies on 3-hole punch)
- Lisa Johnson Smith, Office of the CAO
- Ivania Sobalvarro, Office of the CLA
- Helmi Hisserich, Office of the Mayor
- Noreen Vincent, Office of the City Attorney

**HOUSING, COMMUNITY &
ECONOMIC DEVELOPMENT**

JAN 22 2008



CRA/LA
Building communities with jobs & housing

bcc: Ras Mallari
Nenita Tan, Office of the City Controller
Records (2 copies)
Miguel Dager
Duran Villegas
Steven Brady
Margarita H. de Escontrias

THE COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF LOS ANGELES, CALIFORNIA

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MEMORANDUM

DATE: JANUARY 17, 2008 PC2040

TO: CRA/LA BOARD OF COMMISSIONERS

FROM: CECILIA V. ESTOLANO, CHIEF EXECUTIVE OFFICER

RESPONSIBLE PARTIES: MARGARITA H. DE ESCONTRIAS, REGIONAL ADMINISTRATOR
DURAN VILLEGAS, PROJECT MANAGER
STEVEN BRADY, SENIOR REAL ESTATE DEVELOPMENT AGENT

SUBJECT: AUTHORIZATION TO EXECUTE A CONDITIONAL GRANT AGREEMENT IN THE AMOUNT OF \$900,000 OF TAX-INCREMENT FUNDS WITH KH ENTERPRISES, LLC FOR ACQUISITION AND REHABILITATION OF A MANUFACTURING SITE LOCATED AT 12811 FOOTHILL BOULEVARD, IN THE SYLMAR AREA OF THE EARTHQUAKE DISASTER ASSISTANCE PROJECT FOR PORTIONS OF COUNCIL DISTRICT 7, EAST VALLEY REGION (CD7)

COMMITTEE REVIEW: LOAN COMMITTEE, APPROVED 5:0; DECEMBER 5, 2007

RECOMMENDATIONS

That the CRA/LA Board of Commissioners, subject to City Council review and approval:

1. Authorize the Chief Executive Officer or designee to execute a Conditional Grant Agreement ("CRA/LA Loan") in an amount not to exceed \$900,000, with waivers to the CRA/LA Conditional Grant Policy, and other related documents between CRA/LA and KH Enterprises, LLC; and
2. Authorize subordinating the CRA/LA's Deed of Trust to the conventional lender's and the Community Development Department's Industrial Development Bond loans.

SUMMARY

Drapes 4 Show, Inc. ("Drapes") is a Calabasas-based manufacturer of finished and unfinished commercial and hospitality linens and is currently seeking to relocate and expand their business to the City of Los Angeles. Drapes, through the newly formed KH Enterprises, LLC entity, is currently in escrow to purchase an existing 16,800 square foot industrial building located at 12811 Foothill Boulevard ("Site"). The Site is approximately

DRAPES 4 SHOW CONDITIONAL GRANT AGREEMENT

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0.62 acres in size and generally located northwest of the 118 and 210 freeway interchange (Attachment A). The Site is located in the Sylmar area within Council District 7.

Drapes was previously planning to relocate their current operations to Las Vegas, Nevada where they had purchased two homes and were seeking a new site for business expansion. However, through Drape's desire to remain a local business and retain its experienced long-term employees, and seek local programs and incentives offered by the City of Los Angeles, including CRA/LA, Community Development Department of the City of Los Angeles ("CDD") and the State Enterprise Zone, they decided to remain in Los Angeles and pursue acquiring a site and relocating their business. Drapes worked closely with a broker and CRA/LA staff to find appropriate sites, and has entered escrow to purchase the Sylmar property.

Drapes estimates the total cost to relocate from Calabasas to Sylmar at approximately \$3.6 million including acquisition, rehabilitation, and financing and other related costs. CRA/LA's economic consultant, Rosenow Spevacek Group, Inc. ("RSG") reviewed and analyzed Drape's estimated costs and projected cash flow and determined that the project had a feasibility gap of approximately \$914,000. As a result of this feasibility gap and that Drapes is unwilling to take on additional market-rate debt to achieve its business objectives, Drapes is seeking CRA/LA financial assistance of \$900,000.

CRA/LA's assistance will be in the form of a Conditional Grant Agreement, structured in the form of an Acquisition and Development Loan Agreement, with provisions for debt forgiveness over a 10-year period. In addition, the following terms and conditions will be included in the CRA/LA Loan and transaction:

1. The owner of the Site will be KH Enterprises, LLC, a newly formed California Limited Liability Corporation, with Karen Honigberg as the Managing Member.
2. The owner will relocate 30 permanent jobs to the Site.
3. The owner will execute all necessary documents in conformance with all provisions relating to CRA/LA's Living Wage, Prevailing Wage and Local Hiring programs and policies.
4. The owner will obtain other financing in the amount of \$2.0 million, in the form of Industrial Bond financing, bridge loan or other financing as described below.
5. The CRA/LA will subordinate its Deed of Trust to the conventional lender's and the Community Development Department's Industrial Development Bond loans.

RE

Initial action

DRAPES 4 SHOW CONDITIONAL GRANT AGREEMENT

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FUNDING SOURCE

Earthquake Disaster Assistance Project Area for Portions of Council District 7 Tax Increment Funds.

PROGRAM AND BUDGET IMPACT

The recommended action, is consistent with the CRA/LA's FY08 Work Program and budget; sufficient funds exist in budget line item "Commercial and Industrial".

ENVIRONMENTAL REVIEW

The recommended action is categorically exempt from the provisions of the California Environmental Quality Act ("CEQA"), pursuant to Article VII, 1. a. (1) of the CRA/LA CEQA Guidelines and Section 15301 (a) of the State CEQA Guidelines.

BACKGROUND

Drapes is a manufacturer of commercial linens (tablecloths, napkins, convention/display table draping and backdrop features, and bed linens) used at hotels, conventions and other event-oriented functions. Clients include the Ritz-Carlton, Four Seasons, MGM Grand (Las Vegas), Intercontinental Hotels and several other high-end hotel, convention and hospitality clients. Drapes is a woman-owned business with thirty (30) employees. Karen Honigberg, the President of Drapes, began the business more than 25 years ago from her garage and has grown it into a successful, growing and well-capitalized family business. Ms. Honigberg is joined by her husband, Jack Hendershot, as Chief Financial Officer, and her son, Jason Honigberg, as Vice President of Sales. Of the 30 Drapes' employees, 24 live in the San Fernando Valley. Of them, nine employees live in one of the four CRA/LA Project Areas of the East and West Valley regions (Attachment B). Drapes indicates that they plan to hire up to ten (10) new employees upon the relocation and expansion of the business, which will provide a larger facility, newer and expanded equipment and the ability to store more variety and amounts of fabrics.

Drapes will comply with the Living Wage Policy, Prevailing Wage Policy (for construction/rehabilitation of Site) and a Local Hire Program for all new employees. The Living Wage Policy compliance will become effective on the full biweekly pay period after the close of escrow, and will apply to all existing and future employees, and run for a period of eighteen (18) years. Compliance with the Living Wage requirement will be secured through an Agreement Containing Covenants and Performance Deed of Trust, both of which will be recorded. Currently, 43% of Drapes' workforce earns at/above the 2007/2008 Living Wage rate, with the remaining 57% (17 employees) earning between \$8.00 - \$9.50/hour. Drapes provides all employees with medical coverage, and employees may purchase additional spouse/domestic partner and/or family coverage at their cost. Additionally, Drapes provides paid vacation and sick leave, and a profit participation program for all vested employees. Drapes will comply with the Living Wage requirements for an 18-year period, which is eight (8) years longer than the term of the Agreement. Drapes has also agreed to utilize the CRA/LA standard Local Hiring Program for new employees for the term of the Agreement. Drapes will also comply with the CRA/LA Art Policy, providing \$36,000 (4% of total cost) as an Arts Development Fee to the CRA/LA.

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PROPOSED CRA/LA LOAN

The proposed CRA/LA Loan ("Loan") will provide a portion of financing (25%) to be used for Site acquisition, construction/rehabilitation and/or related costs to relocate equipment, business and staff. Drapes has asked for flexibility on the use of the funds. Drapes has executed the Agreement and all attachments. The proposed Loan will be one of three funding sources for the project's development, as detailed below.

Sources and Uses of Funds

SOURCES	TOTAL	PERCENT TOTAL
Industrial Development Bond ("IDB")	\$2,000,000	56%
CRA/LA Loan	\$900,000	25%
Karen Honigberg (Owner Equity)	\$700,000*	19%
TOTAL	\$3,600,000	100%

*Funds will come from a verified Schwab investment account.

USES	TOTAL	PERCENT TOTAL
Purchase	\$2,680,000	74 %
Improvements	\$400,000	11%
Moving Expenses	\$100,000	3%
Bond Issuance Cost	\$70,000	2%
Escrow Fees	\$40,000	1%
FF&E	\$40,000	1%
Cash Reserve	\$270,000	8%
TOTAL	\$3,600,000	100%

The Conditional Grant Agreement will be structured as an Acquisition and Development Loan with a debt forgiveness schedule similar to a Conditional Grant. The Loan is tied to the creation and maintenance of a minimum of 30 Living Wage jobs, as well as compliance with the CRA/LA's Local Hiring Policy. Additionally, the Loan is secured by a Deed of Trust in the event of sale of the property, loan default or nonconformance to the Living Wage and Local Hiring policies, and further secured with an Agreement Containing Covenants and Performance Deed of Trust.

The Loan term will be 10 years from recordation and bear interest at 3% annually with an 18-year compliance period for Living Wage and Local Hiring. The CRA/LA will permit debt forgiveness of the Loan, including accrued interest, 10% annually for 10 years. Credit reports for Drapes and Karen Honigberg were obtained and found to be clear and without exception.

The 0.62-acre Site being purchased is an existing manufacturing site with adequate parking

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and allow for additional machinery, storage of materials and capacity, all of which is essential to their growth plan. Drapes obtained an independent appraisal from Alliance Valuation Group. The report, dated November 14, 2007, valued the property as is at \$2,680,000, the purchase price. A CRA/LA review appraiser is currently reviewing the report and a condition of the Agreement will be the successful review of the existing appraisal (so that loan proceeds may be used for acquisition). Drapes also obtained a Phase I report of the Site, completed by Anderson Environmental. The assessment report, dated October 19, 2007, revealed no evidence of recognized environmental conditions in connection with the property.

Underwriting Considerations

CRA/LA's economic consultant, Rosenow Spevacek Group, Inc. ("RSG"), reviewed and analyzed Drape's complete business operation, including three years of income and expenses, business operations, vendor purchasing history, monthly cashflow, and related information, and concluded that based on the estimated transaction costs and projected cash flow to determine whether the project warranted the \$900,000 assistance that Drapes is requesting and determined that the project had a feasibility gap of approximately \$914,000. As a result of this feasibility gap, Drapes is seeking CRA/LA financial assistance of \$900,000.

Drapes' balance sheet indicates significant assets in materials and machinery, all of which will be transferred to the new site. Drapes' 2006/2007 net income of \$188,000 reflects the significant investment in materials and machinery, as well as labor and benefits costs. It should be noted that the Site being purchased has an existing billboard lease that is sold with the site. The lease was executed by the seller in 1995, has a 15-year term and currently earns \$24,000/year (base rent of \$18,000/year was increased a maximum 3% annual increase after year 4). Drapes has indicated that this income source will be invested in their expansion plan for the site, investing in machinery, improvements, staff and business development.

Staff supports the RSG analysis and recommendation.

Transaction Waivers

The proposed transaction includes waivers to the CRA/LA's Conditional Grant Policy (Grant Policy) for grants in excess of \$500,000, including:

- The Grant Policy states: Grants in excess of \$500,000 are available to non-profit entities and require a 25% match.

The proposed loan of \$900,000 will be provided to a for-profit business, and the Owner's match of \$700,000 is equal to 17% of total transaction costs. The proposed loan does comply with the CRA/LA Grant Policy with it being evidenced by a Promissory Note and secured by a recorded Deed of Trust.

Staff supports these waivers based on the following:

- High Quality Living Wage Job Creation. The proposed grant will be used by the Owner to acquire a new site for its growing business, and to bring 30 high quality

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Project Area. All 30 jobs, as well as all new jobs, will comply with CRA/LA's Living Wage policy for a period of 18 years, well beyond the ten-year term of the Conditional Grant Agreement. Lastly, these are net new jobs to the City of Los Angeles, as the Owner is relocating from Calabasas, an incorporated city in the west San Fernando Valley.

- Local Hire Program. Owner has agreed to comply with the CRA/LA's Local Hiring Program for all new employees.
- Prevailing Wage Policy. Owner has agreed to comply with the CRA/LA's Prevailing Wage Policy for all construction/rehabilitation of the new site.
- Loan Amount is Determined by Market Costs. The proposed grant amount of \$900,000 reflects the gap financing required for Drapes to acquire and rehabilitate a permanent site for their business. Therefore, all transaction costs have been evaluated and deemed correct.
- Investment in Locally Owned and Operated Business. The proposed grant provides needed funds for a locally owned and operated business to relocate and expand its business operations. The business is a successful, long standing women-owned business of more than 25 years, and this Site will enable it to expand storage of linen materials for manufacture, expand production (additional employees), and take advantage of economic incentives such as CRA/LA funds, industrial bond financing and State Enterprise Zone tax credits.
- Significant Owner Investment. The proposed transaction includes significant investment by the Owner, Karen Honigberg and family, including relocating its business much farther from the principal's current homes, a cash investment of \$700,000 from Ms. Honigberg's personal investment account, a commitment toward CRA/LA Living Wage, Prevailing Wage and Local Hire policies, and a strategic move to own a larger facility that will provide new cost efficiencies and business opportunities.
- Improve Existing Manufacturing Site. The proposed acquisition of the 12811 Foothill Boulevard site in Sylmar provides an opportunity for both internal and external improvements to an existing facility in average condition. The proposed rehabilitation plan will invest funds in new systems and interiors for the business to operate safely and more efficiently.
- Economic Investment Meets Goals of Project Area. The proposed investment meets many goals of the Pacoima/Panorama City Project Area, including job creation and improving blighted and underutilized businesses.

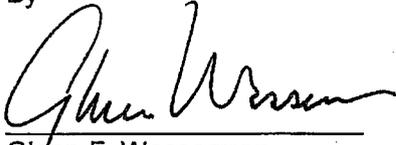
Councilmember Richard Alarcón is aware of and supports this project.

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Cecilia V. Estolano
Chief Executive Officer

By



Glenn F. Wasserman
Chief Operating Officer

There is no conflict of interest known to me to exist with regard to any CRA/LA officer or employee concerning this action.

Attachment A
Attachment B

Site Map
Drapes 4 Show Employee Residence Map

ATTACHMENT A
SITE LOCATION MAP

Pacoima/Panorama City

CRA/LA

