

MEMORANDUM

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DATE: JUNE 16, 2011 NH2340

TO: CRA/LA BOARD OF COMMISSIONERS

FROM: CHRISTINE ESSEL, CHIEF EXECUTIVE OFFICER

STAFF: MARGARITA H. DE ESCONTRIAS, REGIONAL ADMINISTRATOR
GAZALA PIRZADA, PROJECT MANAGER
STEVEN BRADY, SENIOR REAL ESTATE DEVELOPMENT AGENT

SUBJECT: **Industrial Incentive Program (IIP) Section 33444.6 Public Hearing.**
Resolution and findings pursuant to Section 33444.6 to fund purchase of Capital Equipment in the amount of \$206,075, pursuant to the IIP Administrative Guidelines, for Levan Industries, LLC, located at 5457 Cleon Avenue in the North Hollywood Redevelopment Project Area
EAST VALLEY REGION (CD4)

**INVESTMENT
COMMITTEE:** N/A

RECOMMENDATION(S)

That the CRA/LA Board of Commissioners hold a public hearing and adopt a resolution which finds that the \$206,075 of proposed capital equipment financing assistance to be provided through the Industrial Incentive Program using tax increment funds in budget line item economic development (NH2340) is (a) necessary for the economic feasibility of the development and (b) that the assistance cannot be obtained on economically feasible terms in the private market.

SUMMARY

The California Community Redevelopment Law ("CRL") allows Redevelopment Agencies to provide financing for capital equipment in association with the rehabilitation or construction of properties used for industrial or manufacturing purposes if the agency can make findings, after a public hearing, pursuant to Section 33444.6 of the CRL.

Levan Industries, LLC ("Levan") has requested \$206,075 in financing assistance through the CRA/LA and City Council-approved Industrial Incentive Program (IIP) to assist with the acquisition and installation of capital equipment (the "Project."). CRA/LA staff has completed underwriting pursuant to the IIP Administrative and IIP Underwriting Guidelines and has determined that the \$206,075 in assistance is appropriate, meets the IIP criteria, and has made the findings required by Section 33444.6 as detailed in the attached resolution (Attachment A). The IIP Underwriting Summary Report (Attachment B) provides an overview of the underwriting findings and provides the backup analysis to the Section 33444.6 resolution.

This action will facilitate the purchase and installation of a new coffee roaster, as part of the rehabilitation Project to be completed at Levan Industries, a wholesale coffee roasting, manufacturing and distribution business. The Project includes building upgrades and capital equipment that will replace existing, less efficient coffee roasting equipment.

IIP Conditional Loan – Levan Industries, LLC

PREVIOUS ACTIONS

August 5, 2010 and November 5, 2010 – CRA/LA Board and City Council approved actions related to the establishment of an Industrial Incentive Program (CF# 10-1480)

DISCUSSION & BACKGROUND**Location**

Levan Industries, LLC is located at 5457 Cleon Avenue, North Hollywood, CA 91601 (Attachment C), in the North Hollywood Redevelopment Project Area. The property is improved with a 4,465 square foot industrial building constructed in 1955, and currently used for Levan's coffee roasting, manufacturing and distributing business. The surrounding uses are also manufacturing and light industrial.

IIP Participant

Levan Industries, LLC, a California limited liability company, roasts and distributes coffee and related products and services for wholesale purposes under the brand names Supreme Bean Coffee and GroundWorks Coffee. Levan is the owner of the roasting and distribution business, while the facility is owned by Atlas Real Estate Holdings, LLC ("Atlas"), a California limited liability company. Both Levan and Atlas are held by Steven Levan and Jeff Chean as managing members, and Jody Baker as a member. Levan began its coffee business in 2002, growing the business significantly through strategic acquisitions of other coffee roasting and distribution businesses.

Levan is seeking IIP financing to acquire and install a new state-of-the-art coffee roaster, to increase its production and distribution of coffee beans and related products. The roaster is needed to produce the existing and planned increase in production, as a result of Levan completing its acquisition of the GroundWorks Coffee retail outlets and another coffee roasting company. With these planned acquisitions, Levan expects to grow its sales an average of approximately 20% per year in the projected 2011-2013 period. Based on Levan's history of acquisitions and growth, the company will be well positioned to achieve these goals, and the capital equipment is essential in achieving this growth.

Selection Process

Levan contacted the CRA/LA East Valley Region ("EVR") in 2010 to inquire about business assistance opportunities. The EVR staff visited Levan's site and toured the facility, met the staff, and gained an understanding of the coffee roasting and distribution business, as well as the proposed improvements planned for the business. EVR staff recommended both its Business Assistance Program ("BAP") and the CRA/LA IIP programs. Levan requested IIP assistance in a February 10, 2011, submitting a Phase I Application and cover letter. Levan subsequently submitted a complete underwriting package, including business plan, credit, financials/tax returns, balance sheets, profit and loss statements, project budget and future operational projections, for staff review. The findings of the underwriting analysis that support this project are included as Attachment B.

IIP Project

Levan proposes to rehabilitate the facility by upgrading the "foot" of the coffee roaster; improving the electrical, plumbing and exhaust needs of the coffee roaster; and acquiring and installing a new coffee roaster; at a total cost of \$232,353 ("Project"). Levan will fund the construction portion of the Project, estimated at \$26,278 (11% of Project cost); the CRA/LA IIP will fund \$206,075 of the Project (89% of the Project cost). Levan has obtained a bid from US

Coffee Roaster Corporation for one Revolution Roaster, at an acquisition and installation cost of \$206,075. Pursuant to the Board- and City Council-approved IIP, the funding will take the form of a \$206,075 loan with a term of four years, conditioned upon the creation and maintenance of living wage-jobs on the site. Under the procedures established in the IIP, the Regional Administrator is authorized to negotiate and execute this agreement. There is no feasibility assistance requested.

The EVR approved a BAP loan in the amount of \$98,000 in March 2011, for the purpose of acquiring and installing solar panels on the roof. One of Levan's business goals is to reduce its carbon footprint by using new technology equipment and energy-saving practices such as solar and equipment replacement.

Community Benefits

The Project will create six (6) new full time jobs, and retain twenty-one (21) full time jobs. All of Levan's current jobs are at or above Living Wage, and all new jobs will comply with Living Wage requirements. Levan will comply with the Local Hire requirements of the IIP. Levan currently provides its employees with a comprehensive benefits package including health and dental care, paid vacation, company holidays, and transit subsidies. The IIP will invest in an existing manufacturing business's rehabilitation project to improve its facility and increase production, which directly supports the EVR's efforts to retain its industrial/manufacturing core businesses.

Variances from CRA/LA Policies and/or Guidelines

The Project will adhere to all applicable CRA/LA policies as described in the IIP Administrative Guidelines.

Industrial Incentive Program Overview

The CRA/LA developed the IIP with the primary objectives of promoting the creation of Living Wage industrial and manufacturing jobs; attracting, retaining and expanding the industrial base in CRA/LA's Redevelopment Project Areas ("Project Areas"); and promoting the incorporation of sustainable principles into the expansion of Los Angeles' industrial base. The IIP affirms and helps implement the CRA/LA Strategic Plan objective to "Strengthen the Los Angeles Economy" which includes the following goals: create middle class jobs, support and attract business, grow key sectors and employ innovative economic development strategies.

The IIP includes the following components: 1) Conditional Loans up to \$250,000 for the purchase of capital equipment or machinery in connection with the development or rehabilitation of a property that will be used for industrial manufacturing purposes; 2) Energy Audit grants up to \$50,000 to pay for all or part of the costs of identifying energy and water reduction opportunities that create cost benefits; and 3) Feasibility Assistance grants up to \$50,000 to pay for all or part of the costs of planning/feasibility studies, case management, entitlements, or lean and sustainable manufacturing processing. The IIP Administrative Guidelines provide a detailed guide to program implementation. As a pre-approved program, the IIP provides a mechanism by which the CRA/LA, utilizing Project Area identified resources, can provide assistance to support job generating, industrial businesses in CRA/LA Project Areas.

ECONOMIC IMPACT

The following table* describes the economic impacts estimated to be created by this project.

Estimated Economic Impacts Created by this Project*	
Estimated Construction Jobs Created	1.5
Estimated Permanent Jobs Created	6**
Estimated Gross Property Tax Increment (TI) Revenue (Year 1 of Tax Increment Generated)	\$1,704
Estimated Net Present Value (NPV) of Net Property TI Generated (Revenue to the CRA/LA Project Area through the last Tax Increment Receipt Date)	\$8,206
Estimated NPV of Utility User Tax Revenue (Revenue to City of Los Angeles)	\$29,033
Estimated NPV of Sales Tax Revenue (1% portion of taxable sales to City of Los Angeles)	\$217,698
Estimated NPV of Business Tax Revenue (Revenue to City of Los Angeles)	\$27,648

*The figures provided in the table about are for estimation purposes only; actual fiscal impact or job creation may be higher or lower than these estimates. Standardized formulas were used to generate these figures and are based on accepted econometric practices and basic tax calculations taken from research performed by a variety of sources, including the Los Angeles Economic Roundtable, California Redevelopment Association, US Department of Housing and Urban Development, CRA/LA, and the City and County of Los Angeles.

**Based on the IIP loan amount, the Borrower must create and maintain a minimum of six (6) Living Wage jobs. For purposes of calculating all fields in this worksheet, "retail" was used as the business type to calculate revenues. The resulting CRA/LA spreadsheet indicates "9" permanent jobs will be created.

SOURCE OF FUNDS

North Hollywood Tax Increment

PROGRAM AND BUDGET IMPACT

The \$206,075 for the purchase of capital equipment for Levan Industries, LLC is funded in the North Hollywood Project Area proposed FY12 budget and work program. Sufficient funds are available in budget line Economic Development (NH2340) to fund the purchase of capital equipment.

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

ENVIRONMENTAL REVIEW

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

Christine Essel
Chief Executive Officer

By:

Dalila Sotelo
Deputy Chief Executive Officer

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

ATTACHMENTS

- Attachment A. Section 33444.6 Resolution
- Attachment B. IIP Underwriting Summary Report
- Attachment C. Location Map

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

CRA/LA RESOLUTION NO. _____

A RESOLUTION OF THE COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF LOS ANGELES, CALIFORNIA MAKING CERTAIN FINDINGS PURSUANT TO HEALTH AND SAFETY CODE SECTION 33444.6 REGARDING THE USE OF TAX INCREMENT TO ASSIST IN THE PURCHASE OF CAPITAL EQUIPMENT ASSOCIATED WITH THE REHABILITATION OR DEVELOPMENT OF AN INDUSTRIAL/ MANUFACTURING PURPOSE

WHEREAS, the City Council ("City Council") of the City of Los Angeles, California ("City"), has adopted a redevelopment plan (the "Redevelopment Plan"), for redevelopment of the North Hollywood Redevelopment Project Area ("Project Area"); and

WHEREAS, the Community Redevelopment Agency of the City of Los Angeles, California ("CRA/LA") is responsible for administering the Redevelopment Plan to cause redevelopment of the Project Area; and

WHEREAS, the CRA/LA and Los Angeles City Council have approved and adopted the Industrial Incentive Program ("IIP") to promote the development of industrial properties, job creation and sustainable practices in Los Angeles' industrial base; and

WHEREAS, Levan Industries, LLC has approached the CRA/LA for assistance in the purchase and installation of industrial equipment consisting of a coffee roaster and related improvements as part of the rehabilitation of their manufacturing facility located at 5457 Cleon Avenue, North Hollywood, CA, 91601 (the "Project"); and

WHEREAS, the CRA/LA staff has underwritten Levan Industries, LLC according to the IIP Administrative Guidelines and has recommended grant financing in the amounts of \$206,075 for the financing of the Project; and

WHEREAS, the recommended financing will create at least six (6) new jobs and retain at least twenty-one (21) jobs and will support the rehabilitation of the subject property, and Levan shall make best efforts to fill new jobs in compliance with the Local Hire requirements in the Loan Agreement; and incorporate sustainable principles and practices through the completion of the Project and use of CRA/LA funds; and

WHEREAS, the Project will benefit the Project Area and serve major Redevelopment Plan goals and objectives by alleviating blight in the Project Area by rehabilitation of a blighted site; and providing employment opportunities to Project Area residents;

WHEREAS, the CRA/LA underwriting has confirmed that the assistance to be provided through the IIP is necessary for the economic feasibility of the development; and

WHEREAS, the CRA/LA underwriting has confirmed that the required Project financing cannot be obtained on economically feasible terms in the private market; and

WHEREAS, the CRA/LA Board of Commissioners has reviewed and considered the facts, information and testimony (if any) presented to them with respect to the Project, including but not limited to the Board Memorandum dated June 16, 2011, which is incorporated herein by this reference, and do hereby base their consent and findings upon those facts.

NOW, THEREFORE, THE COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF LOS ANGELES, CALIFORNIA DOES HEREBY RESOLVE AS FOLLOWS:

1. The CRA/LA finds that the above Recitals are accurate.
2. The CRA/LA assistance is necessary for the economic feasibility of the development.
3. The CRA assistance cannot be obtained on economically feasible terms in the private market.

I HEREBY CERTIFY that the foregoing Resolution was introduced at a regular meeting of **The Community Redevelopment Agency of the City of Los Angeles** held on June 16, 2011, by _____ who moved its adoption and passage by the following vote:

APPROVED _____

ATTEST: _____

Industrial Incentive Program
Section 33444.6 Underwriting Analysis Summary

Project Overview

Levan Industries, LLC ("Levan") is a California limited liability company. Based in North Hollywood, California, Levan has been roasting, catering, and distributing coffee since 2002. Levan specializes in local and fair trade coffee roasting and frequent distribution to maintain the highest quality and standards. Levan is seeking CRA/LA financing to purchase and install a state-of-the art coffee roaster that will increase roasting capacity by 200% and productivity by 100%, reduce energy costs, and allow for the business to continue to expand and grow. Levan has selected a Revolution Roaster ("Roaster") from US Coffee Roaster Corporation, based in Oklahoma City, Oklahoma. The Roaster utilizes catalytic converters in its equipment, which reduces overall energy consumption (by reusing system energy) and lower energy costs while increasing roasting capacity.

Levan has grown the company significantly since 2002, through strategic acquisitions of coffee roasting and distribution businesses (occurring about every two years from 2002 to 2010), and increasing sales at an average annual rate of 10%. The company has increased in size from 8 to 21 employees, all of which are paid at or above CRA/LA Living Wage, and are provided a comprehensive benefit package. The company's success is the result of strategic acquisitions largely financed by partner loans and minimal market debt, cost containment, long-term dedicated staff, and a commitment to produce and distribute the highest quality roast coffee. The company has a minimal debt level of approximately \$170,000 (as of May 2011). Levan's financials have been analyzed by CRA/LA staff, and indicate annually increasing sales, fluctuating Permanent Working Capital (based on acquisitions and related costs), and a historically strong Debt Service Coverage Ratios ("DSCR") that decreases in the projected 2011-2013 years. Levan's projected 2011 DSCR is negative, due to the planned GroundWorks Coffee retail acquisition; however, the 2012-2013 DSCR is positive, reflecting adequate funds to cover operational costs. In order for Levan to fund the proposed rehabilitation project and propel the company to larger roasting, distribution and sales capacity, it requires additional debt to finance the project. Levan has been unable to secure financing due to its fluctuating cash flow and projected DSCRs. The CRA/LA Capital Finance Department have reviewed the underwriting of Levan, and concur with the analysis, conclusions and recommendations made herein.

IIP Request: \$206,075 Conditional Loan for reimbursement of a portion of capital equipment expenses (acquisition and installation) of a new coffee roaster for the production facility. Levan will fund \$26,278 or 11% of the total project costs (\$232,353) for building upgrades and rehabilitation in support of the new equipment. The Project's sources and uses are detailed below:

Summary of Underwriting Analysis For Section 33444.6 Findings

<u>SOURCES</u>			<u>USES</u>		
		% Cost			% Cost
Borrower Equity	\$26,278	11%	Roasting Equipment	\$199,575	86%
CRA/LA Cond. Loan	\$206,075	89%	Building Upgrades	\$26,278	11%
			Installation	\$6,500	3%
Sources	\$232,353	100%	Uses	\$232,353	100%

Summary of Findings related to CRL Section 33444.6(b):

CRL Section 33444.6(b) requires that any capital equipment financing assistance must be “necessary for the economic feasibility of the development and that the assistance cannot be obtained on economically feasible terms in the private market.”

1. Necessary for the Economic Feasibility of the Development

For Levan, the economic feasibility of the rehabilitation project is dependent upon the purchase and installation of the capital equipment. The new coffee roaster will increase Levan’s roasting capacity by 200% and coffee production by 100%, allowing Levan to supply all of its existing clients and future contracts. The company will not expand if it cannot obtain financing to purchase the Roaster.

2. Assistance cannot be obtained on economically feasible terms in the private market

The total cost of the capital equipment purchase and installation, and building upgrades, is \$232,353, of which the Borrower will be paying for the construction portion totaling \$26,278 (11%), and the IIP loan funding the purchase and installation totaling \$206,075 (89%).

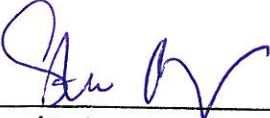
Based on the analysis of the Company’s projected financials, CRA/LA Staff has determined that there is no cash flow available to support additional debt for the capital equipment purchase. For 2011-2013, the Debt Service Coverage Ratio (“DSCR”) is -1.16, .09 and .52, respectively. In 2011, the DSCR reflects the planned acquisition of the GroundWorks retail component and another coffee roasting company, and the positive numbers in 2012 and 2013 reflect the stabilization and growth of the company’s operations. However, it is these DSCR numbers that indicate no additional debt is supportable, and Levan’s inability to secure financing for the capital equipment and rehabilitation project.

Therefore, it is economically infeasible for Levan to pay debt service on additional equipment financing. As a result, 0% interest financing, such as the subject IIP Conditional Loan, is necessary for the economic feasibility of the project.

Summary of Underwriting Analysis For Section 33444.6 Findings

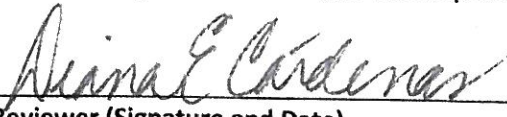
Summary: Given that there is very little to no additional debt supportable based on future cash flow, and debt coverage service ratios required by conventional banks and financing companies for additional debt are not achievable, it is reasonable to conclude that the financial assistance needed cannot be obtained on economically feasible terms in the private market. This is further evidenced by a rejection letter from IMCA dated March 31, 2011, for the Company's capital equipment financing request, as well as Wells Fargo Bank requiring unacceptable terms for capital equipment financing.

A more detailed underwriting analysis is part of the project file.

 5/30/11

Author/Underwriter (Signature and Date)

Steven Brady, Senior Real Estate Development Agent, East and West Valley Regions

 5/30/2011

Reviewer (Signature and Date)

Diana E. Cardenas, Senior Finance Officer, Capital Finance

CRA/LA

