

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

MEMORANDUM

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DATE: JUNE 16, 2011 CI2150
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TO: CRA/LA BOARD OF COMMISSIONERS

FROM: CHRISTINE ESSEL, CHIEF EXECUTIVE OFFICER

STAFF: JENNY SCANLIN, REGIONAL ADMINISTRATOR
ALEX PAXTON, PROJECT MANAGER
JOSH ROHMER, SENIOR REAL ESTATE DEVELOPMENT AGENT

SUBJECT: **Greenbar Collective Capital Equipment Purchase.** Industrial Incentive Program (IIP) Section 33444.6 Public Hearing, resolution and findings pursuant to Section 33444.6 to fund the purchase of Capital Equipment for \$250,000, pursuant to the IIP Administrative Guidelines, for Greenbar Collective located at 2459 East Eighth Street in the Central Industrial Redevelopment Project Area DOWNTOWN REGION (CD 14)

RECOMMENDATION

That the CRA/LA Board of Commissioners hold a public hearing and thereafter adopt a resolution which finds that the proposed capital equipment financing assistance to be provided through the Industrial Incentive Program (a) is 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.

Greenbar Collective has requested \$250,000 in financing assistance through the CRA/LA and City Council-approved Industrial Incentive Program ("IIP") to assist with rehabilitation of an existing vacant industrial warehouse at 2459 East Eighth Street (the "Project") in the Central Industrial Redevelopment Project Area for use as manufacturing facility for Greenbar Collective ("Greenbar"), an organic, artisanal distillery. CRA/LA Downtown staff, in conjunction with the Capital Finance Department, has completed underwriting pursuant to the IIP Administrative and Underwriting Guidelines and has determined that the \$250,000 in assistance is appropriate, meets the IIP criteria, and has prepared the findings required by Section 33444.6 and 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 rehabilitation of the building and relocation of Greenbar, a growing, green business in the food processing sector, to the Central Industrial Project Area as part of the Industrial Incentive Program.

PREVIOUS ACTIONS

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

DISCUSSION & BACKGROUND**Location**

Greenbar is currently in escrow on the property at 2459 East Eighth Street in the Central Industrial Redevelopment Project Area. The property is improved with an 11,200 square foot industrial warehouse building constructed in 1965. The property and those surrounding the property in all directions are designated in the General Plan for heavy industrial use, and zoned M3 for manufacturing uses. The site is designated for Industrial use in the Redevelopment Plan.

Greenbar Collective

Greenbar is an affiliate of Modern Spirits, LLC, a California Limited Liability Corporation, and is a distillery that has produced organic, artisanal spirits for the last six years from a leased facility in Monrovia, California. Greenbar utilizes green production methods using local ingredients with no artificial fertilizers, synthetic pesticides, or genetically modified organisms. Greenbar seeks to further refine their process to become a “greener” operation, particularly with regard to efficient use of energy in a production process that is traditionally resource intensive.

Greenbar's current location in Monrovia is slated for demolition for the construction of the Metro Gold Line Foothills Extension light rail line. Forced to move the location of the business, Greenbar is interested in being a part of the green movement in Downtown Los Angeles, as exemplified in the City's efforts in developing the CleanTech Corridor.

Selection Process

While working with the Mayor's Office and CRA/LA to find an appropriate location in downtown Los Angeles, CRA/LA's Industrial Incentive Program emerged as an appropriate source of assistance for determining the feasibility of rehabilitating an existing industrial building for Greenbar's use, and outfitting that facility with necessary equipment. Greenbar requested such IIP assistance in a January 2011 letter, the CRA/LA's first request for IIP funding. Greenbar subsequently submitted the required materials for staff review including past balance sheets, profit and loss statements, project budget and future operational projections. The findings of the underwriting analysis that support this project are included as Attachment B.

IIP Project

The proposed funding will pay for purchase of capital equipment to enable Greenbar Collective to expand to distill, infuse, and package its own product on site. Funded equipment purchases will include a grain mill, grain elevator, boiler, fermentation tanks, infusion chambers, a bottling line, a storage racking system, and other equipment associated with the distillation of spirits. Pursuant to the Board- and Council-approved IIP, the funding will take the form of a \$250,000 loan with a term of four years, conditioned upon the creation and maintenance of living-wage jobs on the site. The Regional Administrator is authorized to negotiate and execute this agreement.

In addition to the \$250,000 conditional loan, CRA/LA is providing a Feasibility Assistance Grant in the amount of \$50,000 to Greenbar to assist with feasibility studies for green improvements to the existing building, architectural and structural plans, entitlements assistance for permitting and licensing, and construction management. This feasibility funding has been approved after a staff review of the underwriting analysis, pursuant to the IIP Administrative Guidelines.

Community Benefits

The Project will retain four (4) full-time, living wage jobs and create at least fourteen (14) more full-time, living wage jobs within the first two years of operation after relocating. All eighteen (18) jobs will be new to the City of Los Angeles.

Greenbar's move to this location brings a viable, growing, green manufacturer to the CleanTech Corridor.

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, which was approved by the CRA/LA Board of Commissioners and the City Council, 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. Many of the impacts cannot be determined until Greenbar finalizes its rehabilitation plans.

Estimated Economic Impacts Created by this Project*	
Estimated Construction Jobs Created	4
Estimated Permanent Jobs Created	18
Estimated Gross Property Tax Increment (TI) Revenue (Year 1 of Tax Increment Generated)	\$6,000
Estimated Net Present Value (NPV) of Net Property TI Generated (Revenue to the CRA/LA Project Area through the last Tax Increment Receipt Date)	\$64,000
Estimated NPV of Utility User Tax Revenue (Revenue to City of Los Angeles)	\$70,000
Estimated NPV of Sales Tax Revenue (1% portion of taxable sales to City of Los Angeles)	\$382,874
Estimated NPV of Business Tax Revenue (Revenue to City of Los Angeles)	\$97,250

*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.

SOURCE OF FUNDS

Central Industrial Tax Increment

PROGRAM AND BUDGET IMPACT

The \$250,000 for the purchase of Capital Equipment for Greenbar Collective is funded in the Central Industrial Project Area proposed FY12 budget and work program.

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 Section 15301(a) of the CRA/LA and State CEQA Guidelines.

The Central Industrial Community Advisory Committee reviewed the Project at the regularly scheduled meeting on May 12, 2011, and recommended approval. The Project also has strong support from the Office of Mayor Antonio Villaraigosa.

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

ATTACHMENT A: SECTION 33444.6 RESOLUTION

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 Central Industrial 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, Greenbar Collective, an affiliate of Modern Spirits, LLC has approached the CRA/LA for assistance in rehabilitating the industrial building at 2459 East Eighth Street to relocate and expand a organic distillery operation, (the "Project"); and

WHEREAS, the CRA/LA has underwritten Greenbar Collective according to the IIP Administrative Guidelines and has recommended grant financing in the amounts of \$50,000 for feasibility studies and permitting assistance, and a Conditional Loan in the amount of \$250,000 for the purchase of equipment; and

WHEREAS, the recommended financing will create 12 jobs in the City, shall support the rehabilitation of the subject property, and Greenbar shall make best efforts to hire locally and incorporate sustainable principles into the building rehabilitation and the production process 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 rehabilitating a vacant industrial building, relocating and growing a manufacturing business in the city, and providing employment opportunities to community residents in the Central industrial Redevelopment Project Area; and

ATTACHMENT A: SECTION 33444.6 RESOLUTION

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 have 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/LA 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 2, 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

Greenbar Collective (Greenbar), an affiliate of Modern Spirits, LLC is a California Limited Liability Corporation. Greenbar, currently based in Monrovia, CA, has specialized in manufacturing and distributing organic, artisanal spirits and beverages for the last six years. Greenbar is being forced to move its headquarters in Monrovia, CA because of the construction of the Metro Gold Line Foothills Extension light rail line. At the same time, Greenbar is poised for a significant increase in sales that requires an expansion in manufacturing capacity. Greenbar is also interested in developing a tasting showroom and tour program that could potentially flourish in the Downtown market.

IIP Request: \$300,000 total, consisting of a \$250,000 Conditional Loan for reimbursement of a portion of capital equipment expenses (equipment to distill, infuse, and package their product lines on site) and a \$50,000 Feasibility Assistance Grant to assist in sizing and planning for the moving and expansion into a new space; to fund consultants to assist with managing the expansion project, including optimal floor planning for more efficient and greener distillery operations and, to assist with securing permits and entitlements for the proposed expansion.

<u>SOURCES</u>			<u>USES</u>		
		<u>% Cost</u>			<u>% Cost</u>
Borrower Equity	\$236,000	14%	Building Acquisition	\$950,000	56%
SBA Loan	\$520,000	30%	Tenant Improvements	\$350,000	21%
Bank Loan	\$650,000	38%	Capital Equipment	\$356,000	21%
CRA/LA Cond. Loan	\$250,000	15%	Feas. Assist. & Case Mgmt.	\$50,000	3%
CRA/LA Grant	\$50,000	3%			
Sources	\$1,706,000	100%	Uses	\$1,706,000	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 Modern Spirits, the economic feasibility of the expansion project is dependent upon both the purchase of the building in the Central Industrial Project Area as well as the purchase of \$356,000 in capital equipment. If the building can successfully be financed and purchased, the overall project is only economically feasible with the purchase of the capital equipment to manufacture and distribute additional product on a larger scale.

Summary of Underwriting Analysis for Section 33444.6 Findings

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

The Capital Equipment purchase can be achieved through either debt financing or equity:

Equity: The Company owners will be injecting the project with \$236,000 in new owner's equity, or 14% of project costs. This includes \$106,000 towards the purchase of the capital equipment, or 30% of equipment costs. After reviewing the company's current and projected financials, Capital Finance staff has determined that this equity infusion (1) is a reasonable investment and (2) additional equity is not available for the capital equipment purchase because the company must maintain a healthy cash flow to support operations and expansion plans, as well as the new debt that will support the expansion project.

Debt: The Company has secured a \$650,000 loan from a conventional bank and a \$520,000 loan from SBA to finance acquisition and rehabilitation costs. Capital Finance staff analyzed the Company's projected financials assuming this financing and determined that there is no cash flow cushion to support additional debt for the capital equipment purchase. With this new debt, debt service coverage (DSC) is projected at -0.38x, 0.58x, and 0.22x, respectively, for 2011 – 2013. Note that these DSC ratios would indicate that the Company may have difficulty in securing *any* of the funding for the project. However, the bank and SBA have given final approvals on the building acquisition loans, allowing the CRA/LA to be comfortable that the financing is in place. CRA/LA staff has received and reviewed the commitment letters for the financing and these commitments are a condition precedent to disbursement of IIP funds. With the projected DSC ratios, it is not reasonable to conclude that Modern Spirits could obtain capital equipment financing in the private market.

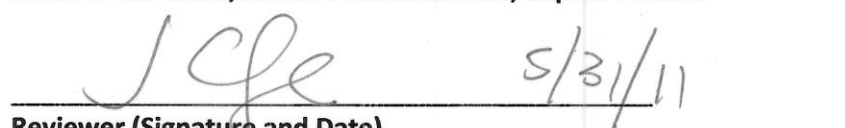
Further, assuming the building purchase with the planned financing, there is no excess cash flow in 2011, 2012, or 2013 to service additional debt from the private market for a capital equipment purchase totaling \$356,000 (assuming a 90% loan to cost ratio). As a result, 0% interest financing is necessary for the economic feasibility of the project. Such financing is not available in the private market.

Summary: Given that there is very little to no additional debt supportable based on future cash flow, and DSC ratios required by a conventional bank 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 a conventional bank dated December 24, 2010 for the Company's capital equipment financing request.

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

 5/30/2011
Author/Underwriter (Signature and Date)

Diana E. Cardenas, Senior Finance Officer, Capital Finance

 5/31/11
Reviewer (Signature and Date)
Jenna Gulager, Chief, Strategic Planning and Economic Development

ATTACHMENT C: PROJECT LOCATION

2459 E. Eighth Street

