

LIGHTHOUSE FOR CHILDREN, INC.
BOARD MEETING

DATE: Wednesday, December 9, 2020

TIME: 12:00 p.m. – Regular Meeting

Per the Governor of California's Executive Order N-29-20 issued on March 17, 2020, this Regular Meeting will be held via Zoom using the following link
<https://zoom.us/j/91285638699?pwd=TTZjNFZlK3ZDK1BUaksvUGV0YjkwQT09> **Meeting ID: 912 8563 8699 and Passcode: 609598.** The public may participate in the meeting, as otherwise permitted under the Brown Act, by joining using the link above.

AGENDA

ITEM	SUBJECT	PRESENTER
1.	CALL TO ORDER	Chair Pacheco
2.	POTENTIAL CONFLICTS OF INTEREST Any Commission Member who has potential conflict of interest may now identify the item and recuse themselves from discussing and voting on the matter.	Chair Pacheco
3. Action Pg. 1	MINUTES FROM OCTOBER 21, 2020 BOARD MEETING Supporting Document	F. González, E.D.
4. Action Pg. 3	FINANCIAL REPORT FOR PERIOD ENDING SEPTEMBER 2020 Supporting Documents	F. González, E.D., A. Hillis, Staff
5. Information Pg. 6	NEW MARKET TAX CREDIT – EXIT DOCUMENTS & ACTIVITIES Supporting Documents	F. González, E.D., K. Price, Legal Counsel
6.	PUBLIC COMMENT Limit two minutes per speaker. Public Comment is also taken on individual agenda items throughout the meeting at the conclusion of each agenda item.	Chair Pacheco
7.	ADJOURNMENT	Chair Pacheco

NOTE: If you need disability modification(s) and/or other accommodation(s) in order to participate in this meeting, please contact the office at (559) 558-4900 at least 48 hours prior to the start of the meeting. Government Code Section 54954.2(a).

LIGHTHOUSE FOR CHILDREN, INC.

**Board Meeting
December 9, 2020 – 12:00 p.m.**

AGENDA ITEM NO. 3

RECOMMENDED ACTION:

Approve Lighthouse for Children Meeting Minutes – October 21, 2020

ACTION SUMMARY MINUTES

October 21, 2020 – 11:30 A.M.

Present: **Board Members:** Brian Pacheco (Chair), Hugo Morales, Dawan Utecht, Stacy Sablan

Absent: None

Staff: Fabiola González, Ken Price (Legal Counsel)

1. CALL TO ORDER

Role call: Utecht, Morales, Sablan, Pacheco

- 2. POTENTIAL CONFLICTS OF INTEREST:** Any Board Member who has a potential conflict of interest may now identify the item and recuse themselves from discussing and voting on the matter.

None heard

3. APPOINTMENT OF LIGHTHOUSE FOR CHILDREN, INC. EXECUTIVE DIRECTOR

Public Comment: None heard.

Motion by: Sablan Second by: Utecht

Ayes: Utecht, Morales, Sablan, Pacheco

Noes: None heard.

4. MINUTES FROM MAY 27, 2020 BOARD MEETING

Public Comment: None heard.

Motion by: Utecht Second by: Morales

Ayes: Utecht, Morales, Sablan, Pacheco

Noes: None heard.

5. FINANCIAL AUDIT REPORT FOR FISCAL YEAR 2019-2020

Public Comment: Ken Price, Legal Counsel, clarified that even though the Lighthouse for Children, Inc's financial audit has been included within the Children & Families Commission of Fresno County's audit, the limited liability legal protections are not eliminated.

Motion by: Morales Second by: Sablan
Ayes: Utecht, Morales, Sablan, Pacheco
Noes: None heard

6. PUBLIC COMMENT

Fabiola González, Executive Director, shared that the building continues to operate at a reduced capacity and reduced services. Tenants continue to work out of the building and have modified the delivery of their services. The Lighthouse for Children has partnered with University of California San Francisco, Fresno's COVID-19 Equity Project to offer free testing outside of the building.

7. ADJOURNMENT

Public Comment: None heard.

Motion by: Sablan Second by: Morales
Ayes: Utecht, Morales, Sablan, Pacheco
Noes: None heard.

LIGHTHOUSE FOR CHILDREN, INC.

**Board Meeting
December 9, 2020 – 12:00 p.m.**

AGENDA ITEM NO. 4

TO: Lighthouse for Children Board
FROM: Fabiola González, Executive Director
SUBJECT: Financial Report for Period Ending September 2020

RECOMMENDED ACTION:

Accept the Financial Report for period ending September 30, 2020.

BACKGROUND:

This item is intended to keep the Board apprised of the Lighthouse for Children (LFC) financial activity as of September 30, 2020 and to provide an opportunity to discuss and review financial activities for the reporting period.

KEY POINTS:

Revenues (\$37,000 - 25%) – Revenues are in line with budget estimates.

Operating Expenses: (\$35,875 - 24%) – Expenses remain within budget limits.

- Administrative Contract: (\$0 - 0%) – The administrative contract with First 5 Fresno County is paid at the end of the fiscal year for services rendered.
- Insurance & Taxes: (\$1,637 - 14%) – The total for this line item includes general liability insurance coverage cost for the period. Upcoming expenses include cost associated with the annual tax return and expenses for legal counsel's participation in Board meetings and support with the NMTC exit process.
- New Market Tax Credit (NMTC) Interest Payments: (\$31,519 – 27%) – NMTC expenses include quarterly payments and NMTC partner audit expenses.

FISCAL IMPACT:

Overall, expenses are within budget constraints for period ending September 30, 2020.



**FINANCIAL STATEMENT
SEPTEMBER 2020 (25%)**

Revenues

	<u>Budget Amounts</u>	<u>Actual Amounts</u>	<u>Percent Variance</u>
	<u>07/01/2020 - 06/30/2021</u>	<u>07/01/20 - 09/30/2020</u>	
Annual Rent Income	\$148,000	\$37,000	25%
Other Revenue/Donations	\$0	\$0	0%
Total Revenues	\$148,000	\$37,000	25%

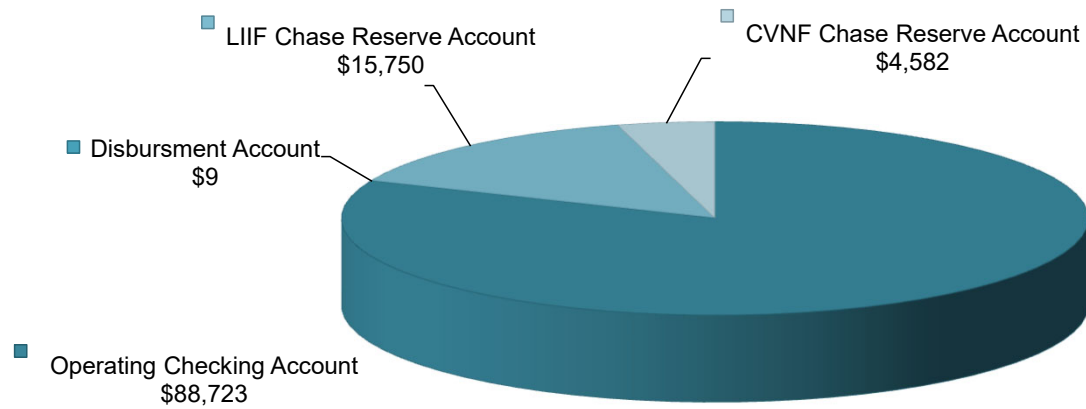
Expenses

	<u>Budget Amounts</u>	<u>Actual Amounts</u>	<u>Percent Variance</u>
Administrative Contract	\$3,643	\$0	0%
Insurance & Taxes	\$11,708	\$1,637	14%
Professional Services	\$17,300	\$2,720	16%
NMTC Interest Payments	\$115,349	\$31,519	27%
Total Operating	\$148,000	\$35,875	24%

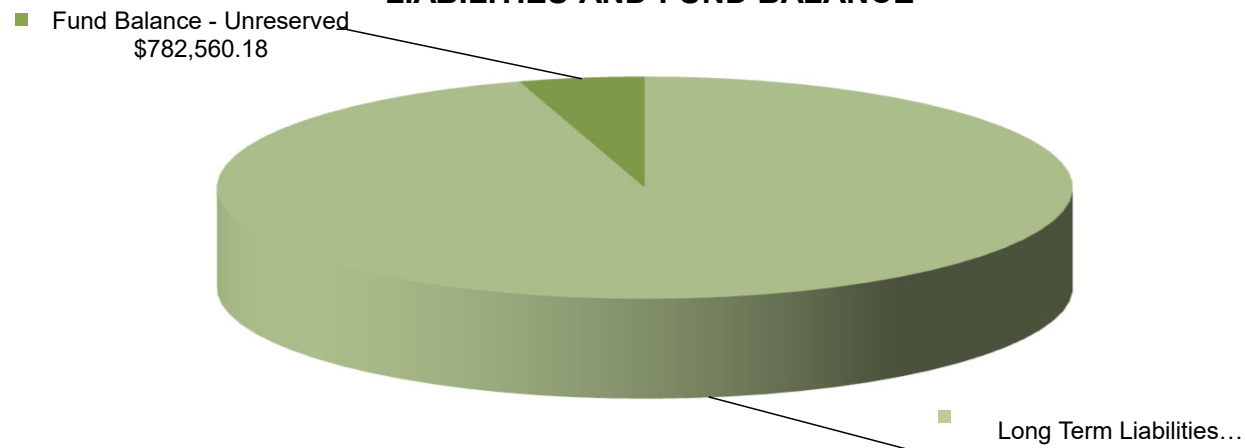
SEPTEMBER 2020

Financial Charts - Balance Sheet

ASSETS



LIABILITIES AND FUND BALANCE



LIGHTHOUSE FOR CHILDREN, INC.

**Board Meeting
December 9, 2020 – 12:00 p.m.**

AGENDA ITEM NO. 5

TO: Lighthouse for Children Board

FROM: Fabiola González, Executive Director

SUBJECT: New Market Tax Credit – Exit Documents & Activities

RECOMMENDED ACTION:

Authorize Lighthouse for Children Chair to execute New Market Tax Credit (NMTC) Exit Agreement, and Executive Director to pay all exit expenses, and carryout all related activities to NMTC exit.

SUMMARY:

In 2013, First 5 Fresno County (the "First 5") entered into a series of transactions to benefit from the New Market Tax Credit ("NMTC") program including a seven-year loan period set to expire on December 13, 2020. As of this date, all outstanding loans will be assumed by First 5, which means that First 5 will, in effect, be the lender/holder of the outstanding debt and Lighthouse for Children, Inc ("LFC"), a California nonprofit 501(c)(3) public benefit corporation, which owns title to the Lighthouse for Children building will, in effect, be the borrower.

As you may recall, LFC and First 5 entered into a long-term lease, wherein LFC, as the owner, rents the entire Lighthouse for Children building to First 5, as the master tenant. First 5 entered into various lease arrangements with tenants such as the Fresno County Superintendent of Schools and Simpson Speech & Language, which all use the premises to benefit children ages 0-5. In exchange for being the master tenant, First 5 pays for operational expenses for the building.

As explained in greater detail below, upon completion of this NMTC exit transaction, First 5 and LFC have two options: (1) First 5 may continue to hold the original notes and, in exchange for forbearance of any payments on the loan by LFC, First 5 would continue to serve as the master tenant and keep revenues earned by the property (the status quo option); or (2) upon consent by the LFC Board and the First 5 Commission, LFC would convey title to the Lighthouse for Children building to First 5. Under option 2, all loans would be extinguished and First 5 would own the Lighthouse for Children building free and clear. The LFC Board, with the input from First 5, would then have to decide on the purpose and future of the LFC.

As explained in greater detail below, to execute the NMTC Exit Agreement, the LFC Board must give authorization to the Board Chair. In tandem with the Exit Agreement, there may be certain other unknown expenses and activities associated with the exit. This motion would authorize the Chair and Executive Director to carry out these actions.

BACKGROUND:

The NMTC program is intended to attract private capital into low-income communities by permitting certain large scale investors to receive a tax credit against their federal income tax in

exchange for making equity investments in specialized financial intermediaries called Community Development Entities ("CDEs"). In the case of the Lighthouse for Children building, Chase Community Equity is the investor, and two organizations are the CDEs, Central Valley NMTC and the Low Income Investment Fund ("LIIF"). Under the NMTC program, the NMTC credit totals 39% of the original investment amount and is claimed by the investor over a seven-year period.

As part of this transaction, First 5 acquired the vacant real property, which is now the site of the Lighthouse for Children building, and then transferred title of the real property to LFC as a specifically created non-profit 501(c)(3) public benefit corporation. First 5 created LFC because, under the NMTC program, a 501(c)(3) public benefit corporation must own title to the property during the seven-year compliance period. NMTC regulations call this non-profit, a "Qualified Active Low-Income Community Business" ("QALICB").

As a direct product of using the NMTC program, First 5 received approximately \$7.5 million towards what ultimately turned out to be nearly an \$18 million project (with First 5 contributing nearly \$11 million).

The basic structure of the NMTC program is complicated. But, in a nutshell, the CDE's investment in the QALICB is known as a Qualified Low-Income Community Investment (QLICI). Chase Community Equity, as the investor, created and currently owns a single member limited liability company, ours is called Chase NMTC Lighthouse Investment Fund, LLC, which then takes a membership interest in the CDEs. Chase and First 5 each made an equity contribution to Chase NMTC Lighthouse Investment Fund, LLC. The loan and contribution are then passed to the CDE. The CDE then sends these funds in the form of debt or equity in two streams to the QLICI: a senior loan known as the "A Loan" and a junior, subordinated loan called the "B Loan". You will see these terms in the attached documents.

As part of the NMTC exit process, this loan structure is disassembled and Chase Equity assigns 100% of its interest in NMTC Lighthouse Investment Fund, LLC to First 5. The CDEs then assign the A Loan and the B Loan to NMTC Lighthouse Investment Fund, LLC, which is now owned by First 5. At that point, First 5 owns all of the debt on the building. Within 60 days, First 5 must then terminate the NMTC Lighthouse Investment Fund, LLC. First 5 can, but is not required to, terminate LFC, as the QALICB.

The attached Exit Agreement represents LFC's consent to such realignment of financial interests. Both general counsel, Baker Manock & Jensen, PC, and NMTC specialty counsel, Goldfarb & Lipman have reviewed the document. In addition to the LFC Board's authorization, the First 5 Commission will approve several more documents, including the Exit Agreement.

The following is further details as they pertain to the recommended action. The discussion regarding the title transfer will take place at the subsequent Board meeting.

Future of Lighthouse for Children:

During the January 2021 meeting, First 5 will consider whether or not it will request the LFC Board to deed the Lighthouse for Children building back to First 5 in exchange for forgiving the remaining loans.

As mentioned above, if First 5 acquires title to the building, the loans would be extinguished and LFC would have no additional obligations to First 5. On the other hand, if First 5 and LFC desire to keep the status quo, LFC would continue to keep title to the Lighthouse for Children building and, as the landlord, lease the premises to First 5, as the master tenant. First 5 could, unless and until it decides otherwise, lease the building without charge in exchange for the forbearance of a lease payment.

There are advantages and disadvantages to each scenario:

A) Cost: LFC costs not associated with the operation of the building are approximately \$18,000 per year for such expenses as the audit, tax returns, insurance, etc.). Because LFC is a tax-exempt entity and legal counsel was able to obtain a property tax exemption, LFC pays only \$520 per year for property-related assessments. If the Commission chose to transfer title of the Lighthouse for Children to First 5 and dissolve LFC, some of these expenses would survive, such as a portion of the insurance premium and property assessments. Other expenses would gradually expire.

B) LFC as a surviving entity: In the event that First 5 ever ceases operation, LFC would continue to own and maintain the Lighthouse for Children building. LFC could serve as a legacy entity to help carryout First 5's mission. On the other hand, if First 5 were ever faced with such a possibility, First 5 could, at some point in the future, create a new nonprofit to own the building,

Staff and legal counsel will be available to answer any questions you might have.

CONCLUSION:

Nearing the end of the seventh and final year of the NMTC term with its investors and CDEs, the NMTC exit processes requires the LFC Board to authorize 1) the Board Chair to execute the Exit Agreement and 2) the Executive Director to pay all exit expenses and carryout all related activities to NMTC exit.

November 10, 2020

Children and Families Commission of Fresno County
550 E Shaw Avenue, Suite 215
Fresno, CA 93710

Re: PUT/CALL OPTION AGREEMENT ("Agreement") made and entered into as of December 13, 2013, by and between (i) CHASE COMMUNITY EQUITY, LLC, a Delaware limited liability company ("Fund Member"), and (ii) CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY, a California public agency formed pursuant to the California Children and Families Act ("Purchaser").

Dear Children and Families Commission of Fresno County:

Reference is hereby made to the above-described Agreement. Capitalized terms used in this letter but not otherwise defined herein shall have the meanings given to such terms in the Agreement. The undersigned Fund Member has determined to exercise its option (the "Put") to sell the Fund Member's entire membership interest in Chase NMTC Lighthouse Investment Fund, LLC, a Delaware limited liability company (the "Interest"), pursuant to Section 2 of the Agreement. This letter shall constitute written notice of the exercise of, and Fund Member does hereby exercise, the Put.

As previously discussed, it is anticipated that on or about December 14, 2020, the Fund Member and the Purchaser shall enter into a Fund Interest Purchase Agreement to which the Fund Member will assign its Interest to the Purchaser, and the Purchaser shall pay an amount equal to \$1,000 (the "Put Price") to the Fund Member in consideration for the assignment of the Interest. In addition, the Purchaser shall bear all parties' closing costs in connection with the exercise of the Put and the other transactions anticipated to occur substantially concurrently with the assignment of the Interest.


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We look forward to working with you to finalize documentation to effectuate the transfer of the Interest to Purchaser and the payment to the Investor Member, and to memorialize certain other agreements among the Investor Member, the Purchaser, and other parties.

Sincerely,

Chase Community Equity, LLC, a Delaware limited liability company

By:



Jonathon M. Konow
Executive Director

NMTC EXIT AGREEMENT

This NMTC Exit Agreement (this “Agreement”) is executed as of December 14, 2020 by and among (i) CHASE COMMUNITY EQUITY, LLC, a Delaware limited liability company (“Chase”), (ii) LIIF SUB-CDE XXIV, LLC, a Delaware limited liability company (“LIIF CDE Lender”), (iii) LIIF NEW MARKETS, LLC, a Delaware limited liability company (“LIIF CDE Manager”), (iv) CENTRAL VALLEY NMTC SUB IV, LLC, a California limited liability company (“CV CDE Lender” and collectively with LIIF CDE Lender, “CDE Lender”), (v) CENTRAL VALLEY NMTC FUND, LLC, a California limited liability company (“CV CDE Manager” and collectively with LIIF CDE Manager, “CDE Manager”), (vi) CHASE NMTC LIGHTHOUSE INVESTMENT FUND, LLC, a Delaware limited liability company (“Investment Fund”), (vii) LIGHTHOUSE FOR CHILDREN, INC., a California nonprofit public benefit corporation (the “QALICB”), and (viii) CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY, a California public agency formed pursuant to the California Children and Families Act (“Put Purchaser”).

Recitals

WHEREAS, on or about December 13, 2013, the parties hereto executed loan documents and other agreements evidencing the New Markets Tax Credit (“NMTC”) transaction involving the construction of a childcare center, community-learning center, professional development center, and office space in Fresno, CA, which included, without limitation, (i) that certain QLICI Loan A Note in the original principal amount of \$5,410,400 (“LIIF QLICI Note A”) made by the QALICB in favor of LIIF CDE Lender, (ii) that certain QLICI Loan B Note in the original principal amount of \$2,349,600 (“LIIF QLICI Note B”, and together with LIIF QLICI Note A, the “LIIF QLICI Notes”) made by the QALICB in favor of LIIF CDE Lender, (iii) that certain QLICI Loan A Note in the original principal amount of \$5,545,660 (“CV QLICI Note A”) made by the QALICB in favor of CV CDE Lender, (iv) that certain QLICI Loan B Note in the original principal amount of \$2,408,340 (“CV QLICI Note B” and together with CV QLICI Note A, the “CV QLICI Notes,” (i) through (iv) are collectively the “QLICI Notes”) made by the QALICB in favor of CV CDE Lender, (v) that certain Promissory Note in the original principal amount of \$10,956,060 (“Leverage Loan Note”) made by Investment Fund in favor of Leverage Lender, and (iv) various collateral security documents executed in connection therewith;

WHEREAS, in accordance with NMTC regulations, the compliance period for the investment made by the CDE Lender to the QALICB ended on or before December 13, 2020;

WHEREAS, the parties desire to terminate the NMTC transactions and re-align their interests in accordance with documents executed on or about the date hereof;

Agreement

NOW, THEREFORE, for and in consideration of good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Chase will transfer 100% of its membership interest in the Investment Fund to Put Purchaser pursuant to that certain Fund Interest Purchase Agreement dated on or about the date hereof (the "Purchase").
2. Following the Purchase, CDE Lender will assign the QLICI Notes and certain other documents evidencing, governing or securing the loans made pursuant to the QLICI Notes (collectively, the "QLICI Loan Documents") to the Investment Fund. The assignment of the QLICI Notes and the QLICI Loan Documents shall be in consideration for the redemption of the Investment Fund's 99.99% member interest in the CDE Lender ("Redemption").
3. The Redemption will be evidenced by such documents reasonably requested by the parties, including without limitation, one or more Assignment and Redemption Agreements, an Allonge to LIIF QLICI Note A, an Allonge to LIIF QLICI Note B, an Allonge to CV QLICI Note A, and an Allonge to CV QLICI Note B. Leverage Lender hereby acknowledges and consents to the Redemption.
4. The QALICB hereby agrees to deliver to the CDE Manager, within fifteen (15) days of the request, any information and documentation requested by the CDFI Fund for NMTC reporting purposes, provided such request is made within two years from the date hereof. CDE Manager will forward copies of all such deliveries to Chase upon receipt.
5. CDE Manager agrees to deliver the 2020 financial statements and tax returns for the CDE Lender directly to Chase (in lieu of the Investment Fund) in accordance with the reporting requirements set forth in (a) the Second Amended and Restated Operating Agreement of LIIF CDE Lender dated December 13, 2013 between the LIIF CDE Manager and the Investment Fund and (b) the Second Amended and Restated Operating Agreement of CV CDE Lender dated December 13, 2013 between the CV CDE Manager and the Investment Fund. The parties hereto agree that the obligations to deliver reports as set forth in this paragraph shall be at the sole cost and expense of the CDE Manager and shall survive the consummation of the transactions described in this Agreement.
6. Chase and CDE Lender each have incurred certain attorney fees and accounting and tax costs in connection with the transactions contemplated by this Agreement ("Exit

Costs”). Put Purchaser agrees to reimburse the CDE Lender and Chase for such Exit Costs.

7. After the date of this Agreement, Put Purchaser will file a certificate of cancellation for the Investment Fund with the Secretary of State of Delaware dissolving the Investment Fund, with the costs of such dissolution being paid by Put Purchaser. The Put Purchaser shall forward evidence of such dissolution to Chase within sixty (60) days of this Agreement. The costs of dissolution and cancellation of the Investment Fund shall be paid by Put Purchaser.
8. Each party hereto acknowledges that, notwithstanding the consummation of the transactions described in this Agreement, including the Purchase, the Redemption, and the assignment of the QLICI Notes, the indemnity obligations set forth in the Transaction Documents shall survive or terminate in accordance with the applicable Transaction Document. For purposes of this Agreement, “Transaction Documents” shall mean all documents executed in connection with the transactions described in the QLICI Loan Documents, including (i) that certain Indemnification Agreement (QALICB) dated December 13, 2013 by QALICB and Put Purchaser in favor of JPMorgan Chase Bank, N.A., a national banking association (“JPMC”), (ii) that certain Indemnification Agreement (LIIF CDE) dated December 13, 2013 by LIIF CDE Lender, LIIF CDE Manager, and Low Income Investment Fund, a California nonprofit public benefit corporation (“LIIF”), in favor of JPMC, and (iii) that certain Indemnification Agreement (CDE) dated December 13, 2013 by CV CDE Lender, CV CDE Manager, and Central Valley NMTC Fund, LLC, a California limited liability company (“CV”), in favor of JPMC.
9. The parties hereto agree to execute all documents necessary to evidence the foregoing agreements of the parties, and consent to all actions necessary to effectuate such agreements.
10. This Agreement shall be governed by the laws of the State of Delaware.
11. This Agreement may be executed in multiple counterparts, each of which shall constitute an original.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, this NMTC Exit Agreement has been duly executed and delivered by the duly authorized person of each party hereto as of the date first above written.

QALICB:

LIGHTHOUSE FOR CHILDREN, INC., a
California nonprofit public benefit corporation

By: _____
Name: Brian Pacheco
Title: Board Chair

PUT PURCHASER:

CHILDREN AND FAMILIES COMMISSION OF
FRESNO COUNTY, a California public agency
formed pursuant to the California Children and
Families Act

By: _____
Name: Brian Pacheco
Title: Commission Chair

[Signatures continued on following page]

IN WITNESS WHEREOF, this NMTC Exit Agreement has been duly executed and delivered by the duly authorized person of each party hereto as of the date first above written.

LIIF CDE LENDER:

LIIF SUB-CDE XXIV, LLC, a Delaware limited liability company

By: LIIF New Markets, LLC,
a Delaware limited liability company,
its managing member

By: Low Income Investment Fund,
a California nonprofit public benefit
corporation, its manager

By: _____
Name: []
Title: []

LIIF CDE MANAGER:

LIIF NEW MARKETS, LLC,
a Delaware limited liability company

By: Low Income Investment Fund,
a California nonprofit public benefit
corporation, its manager

By: _____
Name: []
Title: []

[Signatures continued on following page]

IN WITNESS WHEREOF, this NMTC Exit Agreement has been duly executed and delivered by the duly authorized person of each party hereto as of the date first above written.

CV CDE LENDER:

CENTRAL VALLEY NMTC SUB IV, LLC,
a California limited liability company

By: Central Valley NMTC Fund, LLC,
a California limited liability company,
its managing member

By: _____
[_____] , [Manager]

CV CDE MANAGER:

CENTRAL VALLEY NMTC FUND, LLC,
a California limited liability company

By: _____
[_____] , [Manager]

[Signatures continued on following page]

IN WITNESS WHEREOF, this NMTC Exit Agreement has been duly executed and delivered by the duly authorized person of each party hereto as of the date first above written.

INVESTMENT FUND:

CHASE NMTC LIGHTHOUSE INVESTMENT
FUND, LLC, a Delaware limited liability company

By: Chase Community Equity, LLC,
a Delaware limited liability company,
its Manager

By: _____

Jonathon M. Konow
Executive Director

[Signatures continued on following page]

IN WITNESS WHEREOF, this NMTC Exit Agreement has been duly executed and delivered by the duly authorized person of each party hereto as of the date first above written.

CHASE:

CHASE COMMUNITY EQUITY, LLC,
a Delaware limited liability company

By: _____

Jonathon M. Konow
Executive Director