

TRANSMITTAL

To:

THE COUNCIL

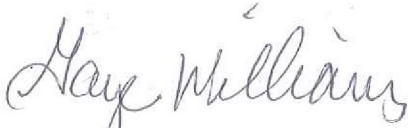
Date:

NOV 01 2010

From:

THE MAYOR

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.


ANTONIO R. VILLARAIGOSA
Mayor



MAJOR PROJECTS DIVISION

Los Angeles Housing Department

LAHD

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Antonio R. Villaraigosa, Mayor

Douglas Guthrie, General Manager

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October 22, 2010

Honorable Antonio R. Villaraigosa
Mayor, City of Los Angeles
Room 303, City Hall
200 N. Spring Street
Los Angeles, CA 90012

Attn: Pamela Finley, Legislative Coordinator

OFFICE OF THE MAYOR
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CITY OF LOS ANGELES

COUNCIL TRANSMITTAL: LOS ANGELES HOUSING DEPARTMENT (LAHD) RECOMMENDATIONS REGARDING THE 2010 ROUND 2 AFFORDABLE HOUSING TRUST FUND (AHTF) AWARDEES AND ISSUES RELATED TO THE AHTF

SUMMARY

The General Manager of the Los Angeles Housing Department requests authority to apply funds equal to the amount of expired AHTF commitments, in combination with other sources, to convert four projects from tax credit to bond financing. This will allow the most highly leveraged AHTF projects not receiving 9% tax credits in 2010 to move forward without filing further competitive funding applications.

Authority is also requested to amend the AHTF Loan Agreement for the Yale Street project to include funding in the amount of \$200,000, in accordance with the Los Angeles Department of Water and Power (LADWP) Sustainable Design and Economic Development guidelines.

RECOMMENDATIONS:

The General Manager respectfully requests that:

1. Your office schedule this transmittal at the next available meeting(s) of the appropriate City Council committee(s) and forward it to City Council for review and approval immediately thereafter;

2. The City Council, subject to the approval of the Mayor, take the following actions:
- A. Authorize the LAHD General Manager or designee to apply funding from 2010 Round 2 returned commitments identified in Table 2, in order to convert the financing structures for the projects identified in Table 3 from 9% tax credit projects to tax-exempt bond deals with 4% tax credits, and issue Amended and Restated Letters of Commitment from the Affordable Housing Trust Fund in the amounts identified, subject to the condition that the project sponsors apply to the California Debt Limit Allocation Committee (CDLAC) in the next available funding round and receive the full amount requested therein;
 - B. Authorize the LAHD General Manager or designee to reallocate and expend \$1,733,480 in NSP2 funds from the 2010 AHTF Round 3 NOFA for the Sherman Village project, which was awarded HOME funds under the 2010 Round 2 NOFA;
 - C. Authorize the LAHD General Manager or designee to reallocate \$1,733,480 in HOME funds from the Sherman Village project and apply the funds to the four projects identified in Table 3 for conversion purposes;
 - D. Authorize the LAHD General Manager or designee to negotiate and execute an acquisition/predevelopment/construction/permanent loan agreement for each project identified in Table 3 that receives a funding award from the leveraging source, subject to the satisfaction of all conditions and criteria stated in the AHTF application, this transmittal, and LAHD's Letter of Commitment; and subject to approval by the City Attorney as to form and legality;
 - E. Authorize the LAHD General Manager or designee to execute subordination agreements wherein the City loan and regulatory agreements on all projects recommended are subordinated to their respective conventional construction and permanent loans;
 - F. Authorize the LAHD General Manager or designee to execute agreements allowing the transfer to and/or execution of the City loans by a limited partnership, to enable admittance of tax credit investors;
 - G. Authorize the LAHD General Manager or designee to amend the previously approved Loan Agreement for the Yale Street project as necessary, to commit funds subsequently approved by the LADWP in the amount of \$200,000;
 - H. Authorize the City Controller to:
 - 1) Establish a new account within the ARRA/NSP2 Fund 52J as follows:

<u>Acct. No.</u>	<u>Fund</u>	<u>Account</u>
G212	52J/43	AHTF

2) Transfer appropriations within ARRA/NSP2 Fund 52J as follows:

From:		
<u>Acct. No.</u>	<u>Account</u>	<u>Amount</u>
F818	NSP2/ARRA Program Operation	\$1,733,480.00
To:		
<u>Acct. No.</u>	<u>Account</u>	<u>Amount</u>
G212	AHTF	\$1,733,480.00

3) Reallocate and expend funds from the following funds and accounts for the Sherman Village and 28th St YMCA Residences projects:

From:				
<u>Project Acct.</u>	<u>Fund</u>	<u>Acct. No.</u>	<u>Account</u>	<u>Amount</u>
Sherman Village	561/43	G212	AHTF	\$2,295,346.00
To:				
<u>Project Acct.</u>	<u>Fund</u>	<u>Acct. No.</u>	<u>Account</u>	<u>Amount</u>
Sherman Village	52J/43	G212	AHTF	\$1,733,480.00
Sherman Village	561/43	G212	AHTF	\$561,866.00
Total				\$2,295,346.00

From:				
<u>Project Acct.</u>	<u>Fund</u>	<u>Acct. No.</u>	<u>Account</u>	<u>Amount</u>
28 th St YMCA Res	561/43	F212	AHTF	\$3,098,431.00
28 th St YMCA Res	561/43	G212	AHTF	\$181,503.00
Total				\$3,279,934.00

To:				
<u>Project Acct.</u>	<u>Fund</u>	<u>Acct. No.</u>	<u>Account</u>	<u>Amount</u>
28 th St YMCA Res	561/43	F212	AHTF	\$1,890,424.00
28 th St YMCA Res	561/43	G212	AHTF	\$1,389,510.00
Total				\$3,279,934.00

- 4) Allocate and expend additional funds from the following funds and accounts for the following 2010 Round 2 projects:

<u>Project</u>	<u>Fund</u>	<u>Acct. No.</u>	<u>Account</u>	<u>Amount</u>
5555 Hollywood	561/43	G212	AHTF	\$2,700,000.00
Del Rey Sr. II	561/43	G212	AHTF	\$3,081,536.00
Menlo Family Hsg.	561/43	G212	AHTF	\$3,883,922.00
N. Hwd. Sr. Villas	561/43	G212	AHTF	<u>\$4,238,907.00</u>
Total				\$13,904,365.00

- 5) Allocate and expend funds from the following fund and account for the LADWP approved project, upon proper written demand from the General Manager, LAHD, or designee:

<u>Project</u>	<u>Account No.</u>	<u>Account Name</u>	<u>Amount</u>
Yale Street	44G/F215	DWP	\$200,000.00

- 6) Establish a new account within the AHTF Fund 44G as follows:

<u>Acct. No.</u>	<u>Fund</u>	<u>Account</u>
G215	44G/43	DWP

- 7) Transfer appropriations within the AHTF Fund 44G as follows:

From:		
<u>Acct. No.</u>	<u>Account</u>	<u>Amount</u>
T215	DWP	\$1,000,000.00
To:		
<u>Acct. No.</u>	<u>Account</u>	<u>Amount</u>
G215	DWP	\$1,000,000.00

- I. Authorize the LAHD General Manager or designee to use uncommitted funds from prior years' accounts within Fund No. 561 first, before current year funds and accounts, as needed, to close out old accounts for projects related to this report;
- J. Authorize the LAHD General Manager or designee to prepare Controller instructions and make any necessary technical adjustments consistent with the Mayor and

Council actions, subject to the approval of the City Administrative Officer (CAO), and authorize the Controller to implement these instructions;

K. That the Mayor concurs with the action of the City Council.

BACKGROUND

Sixteen LAHD projects had originally planned to compete in the Tax Credit Allocation Committee's most recent funding round. Under the 2010 AHTF Round 2 Notice of Funding Availability (NOFA), LAHD issued \$35.5 million in commitments to 13 projects seeking allocations from TCAC. In addition, three projects with allocations from 2010 Round 1 reapplied to TCAC under the state's second tax credit funding cycle.

Two of the 16 projects were authorized to apply to the California Department of Housing and Community Development (HCD) for alternative financing. Of the remaining 14 projects, five projects consisting of 294 units received tax credit allocations. Together with the successful Round 1 projects, this brought the number of units moving into production in 2010 to 500, which is only 55% of the annual average of the past six years.

As a result, \$24.8 million in expired commitments are being returned to LAHD. The reasons for this drop in the success rate are due to changes in the tax credit scoring system and the backlog of projects with Proposition 1 (C) funds that were delayed by the state budget freeze.

For 2010, TCAC adopted a scoring system that is weighted by the percentage of public funds. The result was that smaller cities which were willing to highly subsidize projects were now on a level field with larger cities trying to minimize funding to produce the most units of housing. In addition, TCAC limited the amount of credits awarded to senior projects to 15% of the overall allocations. Several AHTF projects that did not receive awards scored highly enough to win but were passed over because the limit on senior projects had already been reached. Since the State budget freeze had stalled so many projects, there were essentially twice as many competitive senior projects as there would have been in other years.

Funding for the State's Transit Oriented Development (TOD) and Infill Infrastructure Grant (IIG) programs from Proposition 1(C) were frozen for over a year; therefore, projects with those funds could not move forward. Once the State was able to sell bonds again, a large number of these projects with high public funding levels were very competitive under the new TCAC system. This combination of factors made it more difficult for projects with AHTF commitments to successfully obtain tax credit allocations in 2010. This is in sharp contrast with prior funding cycles that resulted in AHTF projects receiving all of the credits allocated to Los Angeles County or the entire statewide set-aside for Non-Profit/Homeless projects.

Since the State's commitments are valid for five years, this scenario is likely to be repeated in 2011, with an unusually large number of high scoring senior projects again competing for a very limited amount of tax credits. It is also likely that the amount of subsidy needed to be competitive will increase. As the amount of required subsidy increases, the percentage of tax credit equity in project budgets will decrease. Therefore, the difference between the dollars

raised in selling competitive 9% credits and the 4% credits automatically available to bond financed projects also decreases.

Unlike the State's funding commitments, those issued by the Housing Authority of the City of Los Angeles (HACLA) will expire if the projects do not move forward within the year of award. The \$17.8 million opportunity cost of the Project Based Section 8 Vouchers and HACLA capital contributions to AHTF projects is a factor that must be considered. Therefore, it is recommended that funds from expired AHTF commitments be reprogrammed to convert to bond financing the most highly leveraged 2010 AHTF Round 2 projects that were unsuccessful in obtaining 9% tax credits. It is also recommended that sufficient funds from the NSP2 program, which are available through the AHTF 2010 Round 3 NOFA, be reallocated to qualifying successful 2010 Round 2 AHTF projects. The reallocation of NSP2 funds will replace HOME funds, which would allow LAHD to utilize the HOME funds for conversion purposes.

Implementing these changes will enable the four converted projects to move into construction, increasing 2010 housing production to 853 units, which is much closer to traditional annual levels. It will also create an estimated 916 jobs and clear the pipeline of large, highly leveraged senior projects, many of which are unlikely to receive 9% tax credit allocations in a given future funding round. The interest carrying cost of waiting an additional year to receive full funding could jeopardize the financial feasibility of these projects as well as jeopardize the acquisition loan guarantees provided by the City through the New Generation Fund.

Selection Process

The proposed process for the selection of projects to be converted to bond financing was based on the amount of public funding sources committed to the project, excluding the LAHD commitment. Projects were ranked in descending order on the basis of subsidy per unit. The cutoff was the point at which the amount of additional funds necessary for conversion was equal to the amount of funds recaptured from lower ranked projects, plus any exchanged HOME funds from prior commitments to projects qualifying for NSP2 necessary to fund the full conversion cost of the next ranked, partially funded project.

Table 1 below illustrates the status of the 2010 Round 2 projects when evaluated according to the proposed selection process:

**TABLE 1
 LEVERAGE FUNDING**

		# of Units	LOS ANGELES CITY			LOS ANGELES COUNTY			STATE	Total Leverage	Leverage / Unit
			CRA	HACLA		Dept. Mental Health (MHSA)		City of Industry	Prop 1C/64		
			Capital	Operating	Capital	Operating	Capital	Capital	Capital		
Projects to be Converted											
Menlo Family	Little Tokyo	60	\$ 3,175,000	\$ 3,000,000			\$ 524,150	\$ 2,050,000	\$ 689,208	\$ 9,438,358	\$ 157,306
No.Hollywood Sr.	Clifford Beers	49	-			2,383,733	2,620,750		2,698,290	7,702,773	157,199
5555 Hollywood	Meta Housing	120	4,680,000						14,000,000	18,680,000	155,667
Del Rey	Thomas Safran	124	-	9,800,000	5,055,654					14,855,654	119,804
Sutotal		353	7,855,000	12,800,000	5,055,654	2,383,733	3,144,900	2,050,000	17,387,498	50,676,785	
Expired Commitments											
Caroline Severance Manor	Mercy Housing	85	-			4,000,000	5,031,840			9,031,840	106,257
PWC Family Housing	Little Tokyo	44	-					1,732,815	2,403,828	4,136,643	94,015
Broadway Villas	AMCAL	48	1,800,000						1,894,280	3,694,280	76,964
Canby Woods	Thomas Safran	98	6,370,000							6,370,000	65,000
Sub Total		275	8,170,000	0	0	4,000,000	5,031,840	1,732,815	4,298,108	23,232,763	
TOTAL		628	\$ 16,025,000	\$ 12,800,000	\$ 5,055,654	\$ 6,383,733	\$ 8,176,740	\$ 3,782,815	\$ 21,685,606	\$ 73,909,548	

Based on the conversion cost of the highest ranked projects and the funds available from lowest ranked projects, it would be possible to convert four projects to bond financing.

Table 2 below illustrates the funds that can be recaptured from one returned 2009 Round 2 commitment and the lower ranked 2010 Round 2 projects, which can be utilized for conversion purposes:

**TABLE 2
 RETURNED COMMITMENTS**

AHTF 2009 ROUND 2					
	Project Name	Type	Units	C.D.	Amount
1	Park View Metro	Senior	21	1	\$1,808,888
AHTF 2010 ROUND 2					
	Project Name	Type	Units	C.D.	Amount
1	Broadway Villas	Senior	48	8	1,502,729
2	Caroline Severance Manor	Spec Needs – Lg. Family	85	1	6,545,887
3	PWC	Lg. Family	44	13	2,313,381
Total Returned Commitments					\$12,170,885

Additional funds for the conversion cost of the four highest ranked projects are available from proposed increases in funding for two projects from the Los Angeles County Department of Mental Health (DMH), through the Mental Health Service Act program (MHSA). The proposed \$2.0 million increase is subject to final County and State approval.

Table 3 illustrates the \$13.9 million in LAHD funding necessary to convert the four highest ranked projects, taking into account the additional MHSA funds:

**TABLE 3
 2010 AHTF ROUND 2 PROJECTS TO BE CONVERTED TO BOND FINANCING**

	Project Name	Type	Units	C.D.	Original Commitment	Gap	Additional MHSA	New LAHD	Total LAHD
1	5555 Hollywood	Senior	120	4	\$2,204,920	\$2,700,000	\$0	\$2,700,000	\$4,904,920
2	Del Rey Sr. I&II	Senior	124	11	\$6,307,598	\$3,081,536	\$0	\$3,081,536	\$9,389,134
3	Menlo Family Hsg.	Family, Homeless TAY	60	1	\$2,425,965	\$5,383,922	\$1,500,000	\$3,883,922	\$6,309,887
4	N.Hollywood Sr. Villas	Spec Needs	49	4	\$1,095,596	\$5,858,653	\$524,150	\$4,238,907	\$5,334,503
Total					\$12,034,079	\$17,024,111	\$2,024,150	\$13,904,365	\$25,938,444

The final financing source necessary to complete the conversions would be through an exchange of HOME funds committed in 2010 Round 2 to the Sherman Village project with NSP2 funds available under the 2010 AHTF Round 3 NOFA.

The Sherman Village project, which received AHTF and tax credit allocations under 2010 Round 2, is located in an NSP2 area. The project qualifies for the pool of funds that comprise 10% of the total NSP2 funds available, under Eligible Use E (redevelopment that does not require the property to have been foreclosed upon if it is vacant and was previously developed). It is therefore recommended that \$1,733,480 of HOME funds committed to Sherman Village be exchanged for an equal amount of NSP2 funds. The exchanged HOME funds would then be available to fund the conversion cost of the 5555 Hollywood project. Both projects are being developed by Meta Housing.

**TABLE 5
SOURCES FOR CONVERSION**

Returned Commitments	\$12,170,885
HOME Funds Reallocated from Sherman Village	\$1,733,480
TOTAL	\$13,904,365

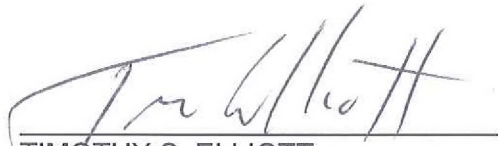
Timeline

Projects selected for conversion will submit applications to the CDLAC in December 2010 and receive allocations of bond authority in February 2011. LAHD will conduct public hearings in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). Resolutions authorizing the issuance of the bonds will be presented to the City Council by March 2011, and the proposed projects will be ready for construction by June 2011.

FISCAL IMPACT:

The proposed actions will utilize a total of \$13,904,365 in HOME funds (\$12,170,885 in HOME funds in the form of returned commitments and \$1,733,480 in HOME funds previously allocated to the Sherman Village project) to produce a total of 353 affordable housing units. There is no impact on the General Fund.

Prepared by:


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Approved by:


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