

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: March 20, 2012

CAO File No. 0220-00540-0985

Council File No. 11-1920

Council District: All

To: The Mayor
The Council

From: Miguel A. Santana, City Administrative Officer *DJA*

Reference: Los Angeles Housing Department Transmittal dated February 21, 2012, and received by the City Administrative Officer on February 28, 2012; Additional information received through March 19, 2012

Subject: **RESULTS OF THE FIRST ROUND OF THE 2012 AFFORDABLE HOUSING TRUST FUND NOTICE OF FUNDING AVAILABILITY, REQUEST FOR AUTHORITY TO ISSUE LETTERS OF COMMITMENT AND OTHER RELATED ACTIONS**

SUMMARY

On December 7, 2011, the Mayor and Council approved the issuance of the 2012 Affordable Housing Trust Fund (AHTF) Notice of Funding Availability (NOFA) and authorized up to three funding rounds (C.F. 11-1920). On December 8, 2011, the Los Angeles Housing Department released the 2012 Round 1 AHTF NOFA. On February 28, 2012, the Los Angeles Housing Department (LAHD) released a transmittal (Transmittal) requesting authority to issue Letters of Commitment (LOC) totaling \$21.2 million to seven affordable housing projects as a result of the 2012 AHTF NOFA – Round 1 (C.F. 11-1920). The source of funds for the \$21.2 million is previously approved HOME Investments Partnerships Program (HOME) funds. In addition, LAHD is requesting authority to: 1) amend three AHTF loan agreements and one AHTF commitment for previously approved projects that received funding (\$200,000 per project) from the Los Angeles Department of Water and Power (LADWP) Sustainable Design and Economic Development guidelines; and, 2) participate as a co-grantee with McCormack Baron Salazar (MBS), project sponsor of the AHTF-funded Taylor Yard Apartments, in order to receive \$15 million in Infill Infrastructure Grant (IIG) funds awarded to MBS from the State of California Department of Housing and Community Development (HCD). This Office recommends approval of all of the LAHD requests as proposed. The recommendations contained in this report comply with City Financial Policies because dedicated special funding sources will pay for the proposed funding commitments to projects.

Background

In December 2011, the Council and Mayor approved the 2012 AHTF NOFA, authorized the LAHD to release up to three rounds of the 2012 AHTF NOFA, and instructed LAHD to report to the Council and Mayor for approval of funding recommendations (C.F. 11-1920). The AHTF NOFAs are issued to fund the rehabilitation, construction and preservation of multi-family rental housing for low and very-low income households throughout the City. AHTF awards are utilized to fill the financing gap between the total development cost of a project and other available funding sources. Since 2003, a total of \$583 million in AHTF funding has been allocated to 169 projects comprised of 10,193

affordable units. LAHD provides additional detail as to previous AHTF and Permanent Supportive Housing Program awards in Attachment 3 to the LAHD Transmittal.

On December 8, 2011, the LAHD released the 2012 AHTF Round 1 NOFA, with an application due date of January 9, 2012. The timeline of the 2012 AHTF Round 1 NOFA corresponds with the upcoming California Tax Credit Allocation Committee (TCAC) deadline of March 26, 2012, so that projects selected for 2012 AHTF Round 1 NOFA awards may apply for tax credits in the upcoming TCAC round with an AHTF commitment in place. The 2012 AHTF Round 1 NOFA identified \$21.2 million in funding available for projects, including \$10 million for Permanent Supportive projects serving homeless individuals and families, \$3 million for Preservation/At-Risk projects for which funding is sought to preserve existing affordable housing that is in jeopardy of converting to market rate due to expiring affordability covenants, and \$8.2 million for all other affordable housing. The LAHD reports that 28 proposals were submitted totaling approximately \$91.2 million, including 13 proposals for permanent supportive housing (\$40.8 million), one proposal for at-risk/preservation (\$3 million) and 14 proposals for affordable housing (\$47.4 million).

Consistent with the 2012 AHTF NOFA selection process adopted by the Mayor and Council (C.F. 11-1920), each application received was evaluated and scored according to the criteria identified in the 2012 AHTF Round 1 NOFA. Projects were ranked according to the lowest ratio of calculated gap financing relative to the maximum eligible AHTF loan amount, including the following subsidy boosts: Transit Oriented Developments (five percent boost); South Los Angeles (five percent); Balanced Communities (five percent); New Generation Fund or Supportive Housing Loan Fund (15 percent); Elimination of Physical or Economic Blight (five percent); and Additional Support from Local Community Groups (two percent). Priority was given to projects in the following order: 1) projects intending to compete in the TCAC Non-Profit/Homeless or Single Room Occupancy (SRO) Set-Asides, or projects with other sources of homeless funding, such as Multifamily Housing Program (MHP) for Supportive/Homeless Youth; 2) projects competing in the TCAC At-Risk set-aside; 3) projects that intend to compete in the TCAC Los Angeles County Geographic Apportionment; and, 4) projects that are fully funded, with the exception of the requested AHTF funds and are similar to the projects previously listed.

Proposed AHTF funding commitments were based both on the calculated LAHD score including applicable boosts, as well as on a TCAC tie break score which is calculated and applied to ensure that projects awarded AHTF funds can reasonably be perceived to be successful in the next TCAC funding round. LAHD reports that in some cases, the calculation of the TCAC tie break score resulted in the adjustment of some AHTF awards below the applicant's requested amount based on the Department's financial need analysis.

Recommended Projects and Scoring

As Attachment 1 to their Transmittal, LAHD has provided a detailed chart that delineates each applicant's projects' LAHD score and the TCAC target tie break score. Projects with the highest LAHD scores and in which the TCAC tie break self-score exceeded the TCAC target score are recommended for funding.

Staff reports that provide project descriptions and funding details for each recommended project are provided as Attachment 2 to the LAHD Transmittal. LAHD recommends the following seven projects, with a total of 723 housing units, for 2012 AHTF Round 1 NOFA awards totaling \$21.2 million, as follows:

2012 AHTF Round 1 NOFA – Recommended Projects

	<i>Project Name</i>	<i>Type</i>	<i>Units</i>	<i>C.D.</i>	<i>AHTF Amount</i>	<i>PBVs Awarded</i>
<i>Homeless Housing Projects</i>						
1	Day Street Apartments	Special Needs	46	2	\$1,745,082	21
2	New Pershing Apartments	Special Needs	69	9	3,500,000	52
3	Rosslyn Hotel	Special Needs	<u>264</u>	9	<u>8,138,435</u>	<u>93</u>
	Subtotal:		379		\$13,383,517	166
<i>At-Risk Projects</i>						
1	Banning Villa	At-Risk	90	15	\$1,500,000	N/A
<i>Affordable Housing Projects</i>						
1	Rio Vista	Family	87	1	\$2,542,354	N/A
2	Riverwalk at Reseda	Family	77	3	301,059	
3	Sage Park	Family	<u>90</u>	15	<u>3,473,070</u>	
	Subtotal:		254		\$6,316,483	
	TOTAL		723		\$21,200,000	166

Of the \$21.2 million in recommended projects, all of the funding is from HOME funds. There are no Community Redevelopment Agency (CRA) funds in this NOFA due to the dissolution of the CRA (C.F. 12-0049). The AHTF loans for these projects will be contingent on the projects applying for tax credits in the next TCAC round and receipt of all identified sources of funds. The interest rate for all AHTF loans will be set at five percent simple interest. Payments will be derived from residual receipts of the projects. All units funded through the AHTF NOFA must be affordable to households at or below 60 percent of the area median income (AMI) levels. Rents for the affordable units must be set at least 10 percent below market rents in that neighborhood. The required term of the affordability covenant will be 55 years from the completion of construction of the project. The projects must comply with the affordability requirements of the applicant's identified leveraging source.

Permanent Supportive Housing Projects

The Round 1 NOFA is the first round of the Collaborative NOFA for Permanent Supportive Housing, in which LAHD, the Housing Authority of the City of Los Angeles (HACLA), and three Los Angeles County Health agencies (Department of Health Services, Department of Mental Health, and Department of Public Health) are combining resources to provide capital, operating subsidy, and supportive services funding via one application system. HACLA is making 300 Project Based Section 8 Vouchers (PBV) available for the 2012 NOFA.

The creation of a funding collaborative was a key component of the "Home for Good" plan (Plan), which was released by the United Way of Greater Los Angeles and the Los Angeles Area Chamber of Commerce. LAHD notes that the Plan was endorsed by the Mayor, Council, and LAHD's General Manager. The Plan's vision was to provide sponsors of Permanent Supportive Housing projects a single application for multiple funding sources. As such, LAHD recommended \$10 million in the

Round 1 NOFA be made available for Permanent Supportive Housing in coordination with the other Home for Good Collaborative Funding agencies; however, LAHD is ultimately recommending \$13.4 million be provided to three Homeless Housing Projects.

Thirteen proposals for Permanent Supportive Housing projects were received, requesting \$40.8 million in capital and 539 Section 8 PBVs. The PBVs may be used to provide permanent supportive housing and housing assistance to extremely low and very low-income families and seniors. LAHD's online system was the intake vehicle for the applications for all capital, operating subsidy and supportive services applications. This is the first NOFA that allowed applicants to apply online, which LAHD reports was a successful change that will be used in future NOFAs. Similarly, this streamlined funding process represents a significant step forward in implementing one of the key recommendations of this plan.

Application review and funding recommendations were achieved through the collaborative effort of HACLA, LAHD, and Los Angeles County. In mid-January, a panel consisting of staff from the three agencies reviewed PBV applications, and on January 26, 2012, HACLA received approval from its board to award PBVs to Day Street Apartments (21 PBVs), New Pershing Apartments (52 PBVs) and the Rosslyn Hotel (93 PBVs). The total award of 166 vouchers was slightly more than HACLA's proposed allocation of 150.

LAHD recommends that these three projects receive AHTF commitments since the combination of AHTF capital and PBV operating subsidy is essential for TCAC competitiveness and long-term financial feasibility. Approximately \$13.4 million in AHTF capital is required to fund these three recommended projects, which is \$3 million more than the NOFA's allocation for Permanent Supportive Housing projects. By increasing the allocation in this project category, the amount available to Affordable Housing projects decreased commensurately.

These three project sponsors have been recommended for capital funding under this NOFA and have elected to accept applicant referrals from the County Departments. The County Departments will collaborate with projects sponsors to deliver appropriate services for chronically homeless individuals with special needs. This assures that long-term service funding, which traditionally has been difficult to obtain, will be available to these projects.

Preservation/At-Risk Projects

Banning Villas was the only Preservation/At-Risk project to apply, and the project met all LAHD threshold and review requirements.

Affordable Housing Projects

Fourteen proposals for Affordable Housing projects were received, requesting a total of \$47.4 million in capital. Three projects, Riverwalk at Reseda (ranked 5 on Attachment 1 of the LAHD's Transmittal) and Rio Vista Apartments and Sage Park (ranked 7 and 8, respectively), were the top scoring projects to pass threshold and other LAHD review requirements. Although there were four projects that scored higher than Riverwalk at Reseda, it was determined that projects 1 through 3 could reach LAHD's estimated successful TCAC tiebreak score without any LAHD subsidy, due to the amount of public funding from other sources. The project ranked fourth, Brynhurst Apartments, applied for, but was denied, a PBV award by HACLA, rendering the project infeasible. Sylmar Court, ranked sixth on the LAHD's Attachment 1, failed the threshold test because it claimed to have a commitment of

funding from the Community Redevelopment Agency (CRA) that was determined to be invalid. This project also applied for PBVs from HACLA, but did not receive an award.

Various Actions Related to the AHTF

Sustainable Design and Economic Development Funding

In addition to approval of the results of the 2012 AHTF Round 1 NOFA and associated actions, LAHD also requests authority to amend three AHTF loan agreements for the following projects, which previously received AHTF funds: Las Margaritas (C.F. 08-2855), Normandie Terrace (C.F. 09-2841), and Vendome Palms (C.F. 07-3466-S1). These projects received funding (\$200,000 per project) from the Los Angeles Department of Water and Power (LADWP) Sustainable Design and Economic Development guidelines, and were recommended for funding as part previous NOFAs.

In addition, LAHD is requesting authority to amend the AHTF commitment for the Tobias Terrace project, which was recommended for funding as part of the 2011 AHTF NOFA – Round 2 (C.F. 10-1869), to also include \$200,000 in LADWP funds.

Taylor Yard Infrastructure Infill Grant

The LAHD also requests authority to participate as a co-grantee with McCormack Baron Salazar (MBS), project sponsor of the AHTF-funded Taylor Yard Apartments (C.F. 10-1869), in order to receive \$15 million in Infill Infrastructure Grant (IIG) funds awarded to MBS from the State of California Department of Housing and Community Development (HCD).

The Taylor Yard Transit Village, located in Cypress Park, is to be developed by MBS, through its affiliated development entity Taylor Yards, LLC, on land owned by the Los Angeles County Metropolitan Transportation Authority (Metro). The LLC entered into a Joint Development Agreement with Metro in 2008. To facilitate the development, MBS applied for and received an award of \$15,094,990 from the HCD IIG program in 2009.

There are five proposed development blocks, each with a separate long-term ground lease with Metro. In 2011, LAHD committed \$3,860,064 for the development of the 68-unit Taylor Yard Apartments (C.F. 10-1869), as the first phase of the Transit Village. The LAHD is also recommending \$2,542,354 for an 87-unit affordable housing project for family rental development known as Rio Vista as part of AHTF NOFA – Round 1. To allow for the syndication of Low Income Housing Tax Credits (LIHTC) to private investors, separate MBS ownership entities will be established for each of the five projects. Local non-profit organizations will serve as the Managing General Partners of each of these Limited Partnerships.

In order to facilitate these transactions, LAHD is requesting authority to participate as a co-grantee with MBS to become the recipient of the IIG funds. LAHD's pass-through capacity will convert the State grant into City loans, which LAHD will execute with MBS. This will maximize tax incentives available to the Limited Partnerships and reduce the amount of LAHD subsidy necessary to make the project feasible. Under these IIG loans, LAHD will also be entitled to a larger proportional share of the residual receipts generated from project operations.

RECOMMENDATIONS

That the Mayor and Council:

1. Authorize the General Manager, Los Angeles Housing Department (LAHD), or designee, to:

A. Issue Letters of Commitment for the seven projects detailed below that were selected through Round 1 of the 2012 Affordable Housing Trust Fund (AHTF) Notice of Funding Availability (NOFA), subject to the condition that the project sponsors (except those projects which are otherwise fully funded) apply to the proposed leveraging source in the next available funding round and receive the full amount requested therein:

	<i>Project Name</i>	<i>Type</i>	<i>Units</i>	<i>C.D.</i>	<i>AHTF Amount</i>	<i>PBVs Awarded</i>
Homeless Housing Projects						
1	Day Street Apartments	Special Needs	46	2	\$1,745,082	21
2	New Pershing Apartments	Special Needs	69	9	3,500,000	52
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2	Riverwalk at Reseda	Family	77	3	301,059	
3	Sage Park	Family	<u>90</u>	15	<u>3,473,070</u>	
	Subtotal:		254		\$6,316,483	
	TOTAL		723		\$21,200,000	166

B. Negotiate and execute an acquisition/predevelopment/construction/permanent loan agreement for each project identified in Recommendation 1A above that receives a funding award from their respective leveraging source (if applicable), subject to the satisfaction of all conditions and criteria stated in the AHTF application, the LAHD transmittal dated February 21, 2012 (C.F. 11-1920) and LAHD's Letters of Commitment, subject to approval by the City Attorney as to form;

C. Execute subordination agreements for the projects identified in Recommendation 1A above wherein the City loan and regulatory agreements are subordinated to their respective conventional construction and permanent loans, subject to approval by the City Attorney as to form;

- D. Execute agreements allowing the transfer to and/or execution of the City loans by a limited partnership, to enable admittance of tax credit investors, subject to approval by the City Attorney as to form;
 - E. Amend the AHTF Loan Agreements for the Las Margaritas (C.F. 08-2855), Normandie Terrace (09-2841), and Vendome Palms (07-3466-S1) projects to include funds committed by the Los Angeles Department of Water and Power (LADWP) for Sustainable Design and Economic Development in the amount of \$200,000 per project;
 - F. Amend the AHTF commitment for the Tobias Terrace project (C.F. 10-1869) to include funds committed by LADWP for Sustainable Design and Economic Development in the amount of \$200,000 per project;
 - G. Participate as a co-grantee with McCormack Baron Salazar (MBS) of State of California Housing and Community Development (HCD) Infill Infrastructure Grant (IIG) funds awarded June 30, 2009;
 - H. Enter into negotiations with HCD, if necessary, in order to finalize the IIG budget, proposed accomplishments, or other related details for the grant agreement;
 - I. Accept the IIG and receive deposits and/or reimbursements from the IIG Program up to \$15,094,990, and deposit the funds into the Fund and Account identified in Recommendation 2C below;
 - J. Execute a grant agreement, any amendments thereto, and any other documents necessary between HCD and the City of Los Angeles for the disbursement of the IIG funds;
 - K. Negotiate and execute IIG pre-development/construction/permanent loan agreements, separately or as part of the AHTF loan agreements, with MBS for each of the five phases of the Taylor Yard Transit Village development, including the Taylor Yard Apartments (Phase I) (C.F. 10-1869) and the Rio Vista Apartments (Phase II) (C.F.11-1920), subject to approval of the City Attorney as to form;
2. Authorize the City Controller to:
- A. Allocate and expend funds from the following funds and accounts for the 2012 Round 1 AHTF NOFA projects:

<u>Project</u>	<u>Fund</u>	<u>Account</u>	<u>Account Name</u>	<u>Amount</u>
Banning Villa Apts.	561	43H212	AHTF	\$1,500,000
Day Street Apts.	561	43H212	AHTF	1,745,082
New Pershing Apartments	561	43H212	AHTF	3,500,000
Rio Vista Apartments	561	43H212	AHTF	2,542,354
Riverwalk at Reseda	561	43H212	AHTF	301,059
Rossllyn Hotel	561	43H212	AHTF	8,138,435
Sage Park	561	43H212	AHTF	3,473,070
Total:				\$21,200,000

- B. Establish a new interest bearing fund entitled "State HCD-IIG program" for the receipt and disbursements of the IIG in the amount of \$15,094,990.
- C. Appropriate funds within the new Fund No. XXX (number to be assigned by the City Controller upon Mayor and Council approval of this recommendation), Department 43, for fiscal year 2011-12 as follows:

<u>Fund</u>	<u>Account</u>	<u>Account Name</u>	<u>Amount</u>
XXX	43H854	HCD IIG – Taylor Yard	\$15,094,990

- D. Expend funds in an amount not to exceed \$15,094,990 from the above Fund and Account, Department 43, upon proper written demand of the General Manager, LAHD, or designee;
- E. Allocate and expend funds from the following funds and accounts for the LADWP-approved projects below, upon proper written demand of the General Manager, LAHD, or designee:

<u>Project</u>	<u>Fund</u>	<u>Account</u>	<u>Account Name</u>	<u>Amount</u>
Las Margaritas	44G	43T215	LADWP	\$200,000
Normandie Terrace	44G	43T215	LADWP	200,000
Tobias Terrace	44G	43G215	LADWP	200,000
Vendome Palms	44G	43T215	LADWP	200,000
Total:				\$800,000

- F. Use uncommitted funds from prior years' accounts within HOME Fund 561 first, before current year funds and accounts, as needed, to close out old accounts for projects related to the AHTF; and,
3. Authorize the LAHD General Manager, or designee, to prepare Controller instructions and make any necessary technical adjustments consistent with the Mayor and Council actions on these matters, subject to the approval of the City Administrative Officer, and authorize the Controller to implement these instructions.

FISCAL IMPACT STATEMENT

There is no impact to the General Fund. Approval of these recommendations will authorize the Los Angeles Housing Department (LAHD) to issue Letters of Commitments (LOCs) totaling \$21.2 million to projects selected through the 2012 Affordable Housing Trust Fund (AHTF) Notice of Funding Availability – Round 1. The sources of funds for the LOCs are approved HOME Investment Partnership funds. The amendments to previously-approved AHTF projects are funded with \$200,000 per project in Los Angeles Department of Water and Power Sustainable Design and Economic Development funding. These recommendations comply with the City's Financial Policies as dedicated special funding sources will fully fund commitments to projects.