

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: November 13, 2012

CAO File No. 0220-00540-1013

Council File No. 12-1118-S1

Council District: 7

To: The Mayor
The Council

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

Reference: Los Angeles Housing Department Transmittal dated September 27, 2012
(C.F. 12-1118-S1)

Subject: **AUTHORIZATION TO ISSUE \$7.5 MILLION TAX-EXEMPT, MULTI-FAMILY HOUSING REVENUE BONDS FOR THE SEVEN PALMS APARTMENTS PROJECT**

SUMMARY

The Los Angeles Housing Department (LAHD) requests that the Council adopt a Resolution authorizing the issuance of up to \$7.5 million of tax-exempt multi-family housing mortgage revenue bonds (bonds) in support of the Seven Palms Apartment Project (Project) located at 12831 San Fernando Road in Council District 7, approve related bond documents, and authorize the LAHD to negotiate and execute the bond documents--the Resolution and related documents are attached to the LAHD transmittal relative to the Seven Palms Project dated September 27, 2012 (C.F. 12-1118-S1). The City's involvement in these transactions is considered true conduit financing because the obligation for repayment of the bonds is the borrower's responsibility and the City bears no financial responsibility for repayment. The City's Debt Management Policy is not applicable as no City funds are being used to issue the bonds. This Office recommends approval of the Department's recommendations.

BACKGROUND

The Project involves the rehabilitation of two structures containing 68 apartment units with 64 units having below median income requirements, three units at market rates, and one unit for an onsite manager. The site also includes 120 parking spaces, a courtyard, and two laundry rooms. The proposed rehabilitation work will include asphalt paving, landscaping and irrigation, repairing building exterior finishes, roofing, patio and balcony enclosures, and the renovation of all apartment units.

The LAHD induced the project on June 25, 2012, enabling the sponsor to apply for a tax-exempt bond allocation from the California Debt Limit Allocation Committee (CDLAC); the CDLAC awarded the requested bond allocation on September 26, 2012 with a deadline for issuance of December 26, 2012. The LAHD conducted a public hearing in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) on July 3, 2012 and the Council adopted the TEFRA Resolution and Minutes on August 22, 2012 (C.F. 12-1118).

The LAHD reports that the borrower/sponsor of the Project is the Seven Palms Sylmar Limited Partnership (SPSLP), a California Limited Partnership. The SPSLP is comprised of: Seven Palms Sylmar MGP, LLC (SPSMGP), a California limited liability company, as the managing general partner; Seven Palms Sylmar GOGP, LLC, as its Co-General Partner; and Mark E Hyatt as its limited partner. The tax credit investor is expected to be Mark E Hyatt. Affordable Housing Access, Inc. is the sole member of the managing general partner; its officers include: William W. Hirsh, Chief Executive Officer, Jonathan B. Webb, President, and Jeffrey A.E. Zoldos, Vice President. The Co-General Partner is also the developer and includes the following members: Mark E. Hyatt, Paul F. Fruchbom, Chris Burns, Heidi K. Bass, and Scott J. Barker; Mark E. Hyatt is the primary managing member. KDF Communities, LLC, is the guarantor of the project of which Mark E. Hyatt and Paul F. Fruchbom are members.

Financing will result in Citibank making a tax-exempt loan of up to \$7.5 million directly to the City. The City will then loan these proceeds to the SPSLP to finance a portion of the acquisition, rehabilitation, and development of the project. The construction loan term will be 24 months with interest only payments due during the construction phase. Once construction is completed, the construction loan will be paid down with proceeds from permanent sources with a 17/35 year term/amortization period. Both the construction and permanent loan interest rate will be fixed—the current rate is 4.62 percent. The developer anticipates raising at least \$2.7 million in tax credit equity. The obligation of SPSLP to repay the loan will be secured by a mortgage on the project which will be pledged by the City to a trustee/fiscal agent acting on behalf of Citibank as the sole security for payment of the Citibank Loan to the City. Similar to a private placement tax exempt bond structure, the obligations of the City for the mortgage are only payable from and secured by payments received from the SPSLP under the Borrower Loan Agreement. The Citibank loan will be a strictly limited, non-recourse loan. This loan structure is known as a "Back-to-Back" bond structure and supports Citibank's efforts relative to Community Reinvestment Act Credit goals, including allocating capital to affordable housing activity in the City of Los Angeles.

The Council adopted a Responsible Banking Ordinance (RBO) on May 15, 2012 (C.F. 09-0234 and 09-0234-S1). The purpose of the RBO is to create a social investment policy that reflects the community's priorities and acts as a tool when seeking financial services. The City is working with various interest groups to develop an implementation plan for the RBO. The City does have business relations with Citibank (construction and permanent loan); however, since the City acts only as a conduit issuer in these bond transactions and has no financial interest, the selection of these banks does not constitute City business.

RECOMMENDATIONS

That the City Council, subject to approval of the Mayor:

1. Adopt the Resolution attached to the Los Angeles Housing Department (LAHD) Transmittal dated September 27, 2012 (C.F. 12-1118-S1), authorizing the issuance of up to \$7,500,000 in tax-exempt multifamily housing revenue bonds for the development of the Seven Palms Apartment Project (Project) located at 12831 San Fernando Road in Council District 7;
2. Approve the related Seven Palms Apartment Project bond documents attached to the LAHD Transmittal dated September 27, 2012 (C.F. 12-1118-S1), subject to the approval of the City

Attorney as to form;

3. Authorize the General Manager of the LAHD, or designee, to negotiate and execute the Seven Palms Apartment Project bond documents, subject to the approval of the City Attorney as to form; and
4. That the Mayor concur with the action of the City Council.

FISCAL IMPACT STATEMENT

There is no impact to the General Fund. Funding authority for the tax-exempt multi-family housing revenue bonds (bonds) is provided by the California Debt Limit Allocation Committee. The borrowers will pay all costs associated with the issuance of the bonds, and the City bears no financial responsibility for repayment. Approval of the recommendations will enable the Seven Palms Apartment Project to secure additional funding to rehabilitate affordable housing for families. The City's Debt Management Policy is not applicable as there are no City funds being used to issue the bonds.

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