

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER


Date: May 14, 2013

CAO File No. 0220-00540-1042

Council File No. 12-1118-S3

Council District: 1

To: The Council
The Mayor

From: Miguel A. Santana, City Administrative Officer 

Reference: Transmittal from the Los Angeles Housing Department dated April 8, 2013;
received by the City Administrative Officer on April 29, 2013

Subject: **REQUEST TO AUTHORIZE THE ISSUANCE OF UP TO \$4,850,000 IN TAX-EXEMPT
MULTI-FAMILY MORTGAGE REVENUE BONDS FOR THE FREEMAN VILLA
APARTMENTS PROJECT**

SUMMARY

The Los Angeles Housing Department (LAHD) requests authority to issue tax-exempt multi-family housing revenue bonds in the amount of \$4,850,000 to finance an affordable housing development known as the Freeman Villa Apartments project (Project). The California Debt Limit Allocation Committee (CDLAC) has designated June 11, 2013 as the allocation expiration date.

The Project will be located at 1229 South Westmoreland Avenue, Los Angeles, CA 90006 in the Pico Union area of Council District 1. The Project includes acquisition and rehabilitation of a 41-unit complex that will continue to provide affordable housing for seniors. In addition, the tenants will have access to a community room, a laundry facility and 25 parking spaces.

The LAHD also requests Council to adopt the resolution which is provided as an attachment to this report and to approve related loan documents attached to the LAHD transmittal dated April 8, 2013 (C.F. 12-1118-S3). The Project will use a variety of funding sources including tax-exempt bonds, equity investments and loans from California Bank and Trust (CB&T). The total cost of the Project is estimated to be \$7,859,638. The bond issuance is in accordance with the City's Debt Management Policy in that no City funds are being used to issue the bonds or to support the Project, and the debt is solely secured by the nonprofit organization. This Office concurs with the Department's recommendations.

Background

On June 11, 2012, LAHD induced the Project (C.F. 12-1118-S3 and 04-2646), which enabled the Project Sponsor to apply for a tax-exempt bond allocation. The LAHD conducted a public hearing on June 22, 2012 in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). The

LAHD was authorized to apply on behalf of the sponsor for an allocation of up to \$5,075,000 in tax-exempt bonds from CDLAC. Council adopted the TEFRA Resolution and Minutes on August 22, 2012. On September 27, 2012, the Project was awarded an allocation of \$4,850,000 in bonds. The CDLAC bond allocation expiration date is June 11, 2013.

The Project Sponsor will be Freeman Villa Associates, L.P (FVA). The Sponsor is also known as the Owner or Borrower. The Managing General Partner is Affordable Housing Solution (AHS), a nonprofit public benefit corporation located in Sherman Oaks. The Administrative General Partner is Omega Stone (OS), a California limited liability company. The Developer is Blackbriar Development, LLC (BD), a joint venture of the Treadstone Companies and the InterCoastal Group of Companies and located in San Diego. Other members of the development team include Resch Polster & Berger, LLP (Attorney); 21st Century Construction, LLC (General Contractor); EMP III, Inc. (Property Manager); and AEGON (Equity Investor).

The CB&T will purchase the tax-exempt bonds and will provide a construction loan to the Borrower (FVA). The \$4,850,000 construction loan term will be 18 months with a rate equal to the sum of the 18 year interpolated Treasury Swap Rate plus 3.13 multiplied by a tax-exempt factor of .785 with a floor rate of 4.5 percent. Once construction is completed, the construction loan will be paid with proceeds from tax credits. The permanent loan will be from CB&T and is anticipated to be the lower of \$3,975,000 or 70 percent loan-to-value and will have an 18/30-year term with an estimated interest rate of 4.5 percent. The property has a contract for project-based U.S. Housing and Urban Development (HUD) Section 8 Housing Assistance Payments providing subsidies to 100 percent of the units. This contract will be renewed for 20 years at the time of the bond closing. The Developer has applied for four percent Low Income Housing Tax Credits and anticipates raising at least \$2,085,000 in tax credit equity.

For this bond financing, the City only acts as a conduit issuer. The bonds are not general obligations of the City because the conduit Borrower, Freeman Villa Associates, is solely responsible for paying the debt. In addition, the bonds are usually based on the credit of the conduit Borrower. Furthermore, LAHD must ensure that the Funding Loan Agreement states that the City is fully indemnified by the nonprofit organization (FVA).

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 not have business relations with California Bank and Trust, and since the City acts only as a conduit issuer in these bond transactions and has no financial interest, the selection of California Bank and Trust as the bond owner for this financing does not constitute City business.

The LAHD states in the transmittal that labor costs for the Project are subject to the State of California's Prevailing Wage requirements and/or Federal Davis Bacon wages, if applicable. In December 1998, the Mayor and Council adopted a motion (Hernandez – Wachs, C.F. 98-2175) that requires the Prevailing Wage or Living Wage, whichever is higher, be paid and included as a requirement for affordable housing developers on all projects funded by the housing bond allocation.

RECOMMENDATIONS

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

1. Adopt the Resolution attached to the City Administrative Officer report authorizing the issuance of up to \$4,850,000 in tax-exempt multi-family mortgage revenue note for the development of the Freeman Villa Apartments Project (Project);
2. Approve the related Project bond documents attached to the Los Angeles Housing Department (LAHD) transmittal dated April 8, 2013 (C.F. 12-1118-S3), subject to the City Attorney as to form; and,
3. Authorize the General Manager, LAHD, or designee, to negotiate and execute the Project bond documents, subject to the approval of the City Attorney as to form.

FISCAL IMPACT STATEMENT

There is no impact to the General fund. The City bears no financial responsibility for repayment of the bond. Approval of the recommendations will enable the Freeman Villa Apartments Project (Project) to secure funding to purchase and rehabilitate an affordable housing development. The recommendations are in accordance with the City's Debt Management Policy in that no City funds are being used to issue the bonds or to support the Project and the debt is solely secured by the nonprofit organization.

MAS:MMR:02130132C

Attachment

RESOLUTION

CITY OF LOS ANGELES

A RESOLUTION AUTHORIZING THE ISSUANCE, SALE AND DELIVERY OF A BOND BY THE CITY OF LOS ANGELES DESIGNATED AS ITS MULTIFAMILY HOUSING REVENUE BOND (FREEMAN VILLA SENIORS APARTMENTS PROJECT) SERIES 2013C IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$4,850,000 TO PROVIDE PERMANENT FINANCING FOR THE ACQUISITION, REHABILITATION AND EQUIPPING OF THE MULTIFAMILY HOUSING PROJECT SPECIFIED IN PARAGRAPH 16 HEREOF AND APPROVING AND AUTHORIZING THE EXECUTION AND DELIVERY OF AN INDENTURE OF TRUST, A REGULATORY AGREEMENT AND DECLARATION OF RESTRICTIVE COVENANTS, A LOAN AGREEMENT AND RELATED DOCUMENTS AND AGREEMENTS AND THE TAKING OF RELATED ACTIONS, INCLUDING THE EXECUTION OF AMENDATORY DOCUMENTS THERETO.

WHEREAS, the City of Los Angeles (the "City") is authorized, pursuant to Section 248, as amended, of the City Charter (the "Charter") of the City and Article 6.3 of Chapter 1 of Division 11 of the Los Angeles Administrative Code, as amended (the "Law"), to issue its revenue bonds for the purposes of providing permanent financing for the acquisition, rehabilitation and development of multifamily rental housing for persons and families of low or moderate income (the "Program") which will satisfy the provisions of Chapter 7 of Part 5 of Division 31 of the Health and Safety Code of the State of California (the "Act"); and

WHEREAS, the City desires to issue pursuant to the Law and in accordance with the Act, its revenue bond to provide permanent financing for the acquisition, rehabilitation and equipping of that certain multifamily rental housing project described in paragraph 16 below (the "Project"); and

WHEREAS, the Project will be located wholly within the City; and

WHEREAS, it is in the public interest and for the public benefit that the City authorize financing for the Project, and it is within the powers of the City to provide for such a financing and the issuance of such bond; and

WHEREAS, the City proposes to issue, pursuant to the Law and in accordance with the Act, its Multifamily Housing Revenue Bond (Freeman Villa Seniors Apartments Project) Series 2013C in an aggregate principal amount not to exceed \$4,850,000 (the "Bond"); and

WHEREAS, the City proposes to use the proceeds of the Bond to cause the financing of the Project and, if applicable, to pay certain costs of issuance in connection with the issuance of the Bond; and

WHEREAS, California Bank & Trust, a California banking corporation (the "Purchaser"), has expressed the intention of the Purchaser to purchase the Bond authorized hereby or to cause such Bond to be purchased by its affiliate, in whole and this Council (the "City Council") finds that the public interest and necessity require that the City at this time make arrangements for the sale of such Bond; and

WHEREAS, the interest on the Bond may qualify for a federal tax exemption under Section 142(a)(7) of the Internal Revenue Code of 1986, as amended (the "Code"), only if the Bond is approved in accordance with Section 147(f) of the Code; and

WHEREAS, pursuant to the Code, the Bond is required to be approved, following a public hearing, by an elected representative of the issuer of the Bond and an elected representative of the governmental unit having jurisdiction over the area in which the Project is located; and

WHEREAS, this City Council is the elected legislative body of the City and is the applicable elected representative required to approve the issuance of the Bond within the meaning of Section 147(f) of the Code; and

WHEREAS, pursuant to Section 147(f) of the Code, the City caused a notice to appear in the *Los Angeles Times*, which is a newspaper of general circulation in the City, on June 8, 2012, to the effect that a public hearing would be held on June 22, 2012 regarding the issuance of the Bond; and

WHEREAS, the Los Angeles Housing Department held said public hearing on such date, at which time an opportunity was provided to present arguments both for and against the issuance of the Bond; and

WHEREAS, the minutes of such public hearing, together with any written comments received in connection therewith, have been presented to the City Council;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Los Angeles, as follows:

1. The recitals hereinabove set forth are true and correct, and this City Council so finds. This Resolution is being adopted pursuant to the Law.
2. Pursuant to the Law and in accordance with the Act and the Indenture (as hereinafter defined), a revenue bond of the City, to be designated as "City of Los Angeles Multifamily Housing Revenue Bond (Freeman Villa Seniors Apartments Project) Series 2013C," in an aggregate principal amount not to exceed \$4,850,000 is hereby authorized to be issued. The principal amount of the Bond to be issued shall be determined by a Designated Officer (as defined below) in accordance with this Resolution.
3. The proposed form of an Indenture of Trust (the "Indenture") by and among the City, such party as shall be designated by the City in the final form of Indenture, as trustee (the "Trustee") and a bondholder representative, substantially in the form attached hereto, is hereby approved along with any additions or supplements which

may, in the determination of a Designated Officer, be necessary to document the issuance of the Bond authorized hereunder. The Mayor of the City, the General Manager, the Interim General Manager or any Assistant General Manager, Interim Assistant General Manager, Executive Officer or Director—Major Projects Division of the Los Angeles Housing Department (each hereinafter referred to as a “Designated Officer”) are hereby authorized and directed to execute and deliver, for and in the name and on behalf of the City, said Indenture with such additions, changes or corrections as the Designated Officer executing the same may approve upon consultation with the City Attorney and Bond Counsel to the City and approval of the City Attorney, provided that such additions or changes shall not authorize an aggregate principal amount of the Bond in excess of the amount stated above, such approval by the City Attorney to be conclusively evidenced by the execution and delivery of the Indenture with such additions, changes or corrections.

Any Designated Officer shall be authorized to approve the appointment of the Trustee.

4. The proposed form of the Bond, as set forth in the Indenture, is hereby approved, and the Mayor and City Treasurer, the Interim City Treasurer or Deputy City Treasurer of the City are hereby authorized and directed to execute, by manual or facsimile signatures of such officers under the seal of the City, and the Trustee or an authenticating agent is hereby authorized and directed to authenticate, by manual signatures of one or more authorized officers of the Trustee or an authenticating agent, the Bond in substantially such form, and the Trustee is hereby authorized and directed to sell and deliver such Bond to the Purchaser in accordance with the Indenture and the Loan Agreement (hereinafter defined). The date, maturity date, interest rate (which may be either fixed or variable), interest payment dates, denomination, form of registration privileges, manner of execution, place of payment, terms of redemption, use of proceeds, and other terms of the Bond shall be as provided in the Indenture as finally executed; provided, however, that the principal amount of the Bond shall not exceed \$4,850,000, the interest rate on the Bond shall not exceed 12% per annum and the final maturity of the Bond shall be no later than April 1, 2053. The initial purchase price of the Bond shall be 100% of the par amount thereof as advances are made with respect to the Bond by the Purchaser. The Bond may, if so provided in the Indenture, be issued as a “draw-down” bond to be funded over time as provided in the Indenture. Such Bond may be delivered in temporary form pursuant to the Indenture if, in the judgment of the City Attorney, delivery in such form is necessary or appropriate until the Bond in definitive form can be prepared.

5. The proposed form of Regulatory Agreement and Declaration of Restrictive Covenants (the “Regulatory Agreement”) to be entered into by and among the City, the Trustee and the owner of the Project (as set forth in paragraph 16 below, the “Owner”), substantially in the form attached hereto, is hereby approved. Any Designated Officer is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Regulatory Agreement, with such additions, changes and corrections as the Designated Officer may approve upon consultation with the City Attorney and Bond Counsel and approval of the City Attorney, such approval to be conclusively evidenced by the execution of said Regulatory Agreement with such

additions, changes or corrections. Any Designated Officer is hereby authorized and directed for and in the name and on behalf of the City to execute amendments to the Regulatory Agreement in order that interest on the Bond remains tax-exempt.

6. The proposed form of Loan Agreement (the "Loan Agreement"), by and among the City, the Purchaser and the Owner, in substantially the form attached hereto, is hereby approved. Any Designated Officer is hereby authorized and directed, for and in the name and on behalf of the City, to execute the Loan Agreement, with such additions, changes or corrections as the Designated Officer executing the same may approve upon consultation with the City Attorney and Bond Counsel and approval by the City Attorney, such approval to be conclusively evidenced by the execution of the Loan Agreement with such additions, changes or corrections.

7. All actions heretofore taken by the officers and agents of the City with respect to the sale and issuance of the Bond are hereby approved, confirmed and ratified, and each Designated Officer of the City, the City Clerk and other properly authorized officers of the City are hereby authorized and directed, for and in the name and on behalf of the City, to do any and all things and take any and all actions and execute and deliver any and all certificates, agreements and other documents, including, but not limited to, those described in the Indenture, the Loan Agreement, the Regulatory Agreement and the other documents herein approved, which they, or any of them, may deem necessary or advisable in order to consummate the lawful issuance and delivery of the Bond and the implementation of the Program in accordance with the Act and the Law and this Resolution and resolutions heretofore adopted by the City.

8. The City Clerk of the City or any deputy thereof is hereby authorized to countersign or to attest the signature of any Designated Officer and to affix and attest the seal of the City as may be appropriate in connection with the execution and delivery of any of the documents authorized by this resolution, provided that the due execution and delivery of said documents or any of them shall not depend on such signature of the City Clerk or any deputy thereof or affixing of such seal. Any of such documents may be executed in multiple counterparts.

9. In addition to the Designated Officers, any official of the City, including any official of the Los Angeles Housing Department, as shall be authorized in writing by the Mayor of the City, is hereby authorized for and on behalf of the City to execute and deliver any of the agreements, certificates and other documents, except the Bond, authorized by this Resolution.

10. In accordance with procedures established by the City Charter, the City Council, by adoption and approval of this Resolution and with the concurrence of the Mayor, does hereby direct that the proceeds of the Bond be delivered directly to the Trustee, instead of the City Treasurer, to be deposited into the funds and accounts established under the Indenture.

11. Pursuant to Section 147(f) of the Code, the City Council hereby approves the issuance of the Bond to finance the Project. It is intended that this Resolution

constitute approval of the Bond by the applicable elected representative of the issuer of the Bond and the applicable elected representative of the governmental unit having jurisdiction over the area in which the Project is located, in accordance with said Section 147(f).

12. Pursuant to the City Charter all agreements to which the City is a party shall be subject to approval by the City Attorney as to form.

13. Each Designated Officer and other properly authorized officials of the City as specifically authorized under this resolution are hereby authorized, directed and empowered on behalf of the City and this Council to execute any other additional applications, certificates, agreements, documents or other instruments or any amendments or supplements thereto, subject to approval by the City Attorney as to form, or to do and to cause to be done any and all other acts and things as they may deem necessary or appropriate to carry out the purpose of the foregoing authorizations and to address any issues arising with respect to the Bond or the agreements relating thereto subsequent to their issuance.

14. The Bond shall contain a recital that it is issued pursuant to the Law and in accordance with the Act.

15. This Resolution shall take effect immediately upon its passage and adoption.

16. The "Project" and "Owner", as used herein, shall have the following meanings

Project Name	Number of Units	Address	Owner
Freeman Villa Apartments	40 plus 1 manager unit	1229 S. Westmoreland Avenue, Los Angeles CA 90006	Freeman Villa Associates, LP

[remainder of page intentionally left blank]

I certify that the foregoing Resolution was adopted by the Council of the City of Los Angeles at its meeting on _____, 2013.

By _____
Name _____
Title _____