Los Angeles
HOUSING+COMMUNITY
Investment Department

Finance & Development Division
1200 West 7th Street, 8th Floor, Los Angeles, CA 90017
tel 213.808.8901 | fax 213.808.8918
hcidla.lacity.org

Eric Garcetti, Mayor
Mercedes M. Márquez, General Manager

September 9, 2013

Council File: 12-1334
Council District: Citywide
Contact Person: Yaneli Ruiz
213-808-8951

Honorable Eric Garcetti
Mayor, City of Los Angeles
Room 303, City Hall
200 N. Spring Street
Los Angeles, CA 90012

Attention: Mandy Morales
Legislative Coordinator

Honorable Members of the City Council
City of Los Angeles
c/o City Clerk, City Hall
200 N. Spring Street
Los Angeles, CA 90012

Attention: Richard Williams
Legislative Assistant

ERRATUM TO JOINT REPORT: REPORT BACK ON MOTION REQUESTING RECOMMENDATIONS TO UPDATE POLICIES TO STREAMLINE AND COORDINATE THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982 (TEFRA) HEARING AND APPROVAL PROCESS AND APPROVE REVISED BOND POLICIES TO CLARIFY OTHER ITEMS. (CF 12-1334)

On June 12, 2013, the Los Angeles Housing Department (LAHD) and the City Administrative Officer (CAO) submitted a joint report in response to a request by then Council Member for the 6th Council District, Tony Cardenas, to streamline and coordinate the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) hearing and approval process. As a result, the Housing Bond Policies were revised to include changes to streamline and clarify conflicting provisions. A draft of the revised policies was attached to the report back.

Recently, the Los Angeles Housing + Community Investment Department (HCIDLA formerly LAHD) has received several requests to issue conduit tax-exempt bonds on housing developments, which propose to also use the U.S. Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) Housing Programs. The majority of the FHA programs trigger the payment of federal Davis-Bacon wages. The Davis-Bacon wage rates apply to HUD programs because of prevailing wage requirements expressed in HUD "Related Acts" such as the U.S. Housing Act of 1937 and Housing and Community Development Act of 1974, as amended.

As a way to further clarify the Bond Polices as requested by the motion, the HCIDLA proposes to defer its own prevailing wage requirement to the HUD's federal labor standards for projects

RECEIVED
CITY CLERK'S OFFICE

2013 SEP 12 PM 12:09

CITY CLERK

BY____________ DEPUTY

proposing to use at least one federal program. Federal and state wage scales may vary depending on the job classification but are not significantly different. Deferring to HUD's federal labor standards will clarify the process for the developers and contractors. In addition, it will also standardize the requirements, eliminate the duplication of paperwork plus duplication of staff time to review and monitor the requirements.

HCIDLA respectfully requests replacement of the policies attached to the report back with the revised Policies as attached to this Erratum. The changes made in the revised Policies are as follows:

Revision to Section IV. A. Prevailing Wage:
Any tax-exempt bond financed project located in the City of Los Angeles, including projects funded by tax-exempt bonds issued by any statewide issuer or joint powers authority, must adhere to the State of California and City of Los Angeles prevailing wage requirements. Project sponsors shall be responsible for determining the applicability of residential versus commercial wage scales. *For projects, which propose to use a funding source that is mandated to comply with the federal labor standards of the Davis Bacon Act (DBA), including the payment of prevailing wage rates and submission of certified payroll reports, the bond requirement to pay State prevailing wages and/ or City living wages will defer to the funding source that is requiring the DBA (including but not limited to the HOME program, CDBG program and FHA programs).*

If you need additional information regarding this erratum, please contact Yaneli Ruiz at (213) 808-8951.

MERCEDES MÁRQUEZ
General Manager

Los Angeles
HOUSING+COMMUNITY
Investment Department

Finance & Development Division
1200 West 7th Street, 8th Floor, Los Angeles, CA 90017
tel 213.808.8901 | fax 213.808.8918
hcidla.lacity.org

Eric Garcetti, Mayor
Mercedes M. Márquez, General Manager

Housing + Community Investment Department

Affordable Housing Bond Program
Multi-family Tax-exempt and Taxable Bonds
Policies and Procedures

Draft

September 2013

TABLE OF CONTENTS

Multi-Family Bond Policies and Procedures

Program Description

I. General

The City of Los Angeles, through the Housing + Community Investment Department (HCID), acts as the primary issuer of tax-exempt and taxable multi-family housing bonds for qualified developments located in the City of Los Angeles (City). The City maintains the role of primary issuer in view of the potentially substantial impact of housing development projects to the neighborhoods and citizens of the City of Los Angeles. The City's Multi-family Bond Policies and Procedures adhere to the Financial Policies of the City, which can be viewed at the City Administrative Office's (CAO) website http://www.lacity.org/cao/Debt_Mgmt/index.htm

Qualified private activity bonds are tax-exempt bonds issued by a state or local government, the proceeds of which are used by an entity other than the government issuing the bonds (the "conduit borrower")for a defined qualified purpose, such as low income multi-family housing,. Tax-exempt private activity bonds (non-refunding) require an allocation of bond authority from the California Debt Limit Allocation Committee (CDLAC).

The following procedures outline HCID's program requirements for issuing multi-family housing bonds.

A. Eligible Projects

1. Location

Projects must be located in the City of Los Angeles.

2. Minimum Transaction Size

Federal law limits how much tax-exempt debt a state can issue in a calendar year. Typically, issuance amount is determined by the loan to value and overall project cost and revenues available to pay debt service. Financings of any size must demonstrate the commitment of project lenders, credit enhancers, and other critical financial parties. No more than 2% of the proceeds of tax-exempt private activity bonds may be used to pay costs of issuance. Costs of issuance for smaller projects may substantially exceed the 2% restriction and must be paid from other sources of financing secured by the developer.

3. Priority Projects

Projects to be considered on a priority basis include: projects that will contribute to neighborhood revitalization, provide significant public benefit, and preserve existing affordable housing.

4. Use of Funds

Bond proceeds may be used for costs of property acquisition (as allowed pursuant to federal requirements), construction, rehabilitation, improvements and soft costs, such as architectural and engineering services, loan interest and fees and other costs of the project incurred within the time period allowed from the inducement date.

5. Application Requirement

Applications must be submitted for all multi-family projects seeking bond financing where HCID will act as issuer, or where HCID will sponsor or hold the public hearing required under the Tax Equity and Fiscal Responsibility Act of 1982 (the "TEFRA" hearing). This requirement includes all new money issuances requiring an allocation of bond authority from the CDLAC, new 501(c)(3) issues, and refunding of existing bond issues. This requirement also includes projects for which bonds will be issued by an issuer other than HCID, such as the California Statewide Communities Development Authority.

B. Types of Bonds

HCID may issue either tax-exempt or taxable bonds. Taxable bonds would generally be issued only in combination with tax-exempt bonds.

1. Tax-Exempt Private Activity Bonds (Non-Refunding)

a. Non-501(c)(3) private activity bonds

Non-501(c)(3) private activity bonds require an allocation of bond authority from CDLAC. To obtain the allocation, HCID must submit an application to CDLAC on behalf of the developer. Submittal of the application is at the discretion of HCID, not the developer. The developer must pay all required CDLAC fees and post any CDLAC required deposits in advance of application submittal.

b. 501(c)(3) private activity bonds

HCID may issue 501(c)(3) bonds on behalf of qualified not-for-profit organizations. These bonds are tax-exempt but do not require an allocation from CDLAC. In addition, these bonds cannot be used in conjunction with the Low Income Housing Tax Credit Program.

2. Taxable Bonds

Taxable bond issues must meet all applicable requirements of these policies and procedures (including certain State law and rating requirements) and any additional regulations which may, from time to time, be promulgated by HCID. The interest on taxable bonds is not exempt from whether federal or state taxation. These bonds do not require an allocation from CDLAC and can be used in combination with the LIHTC.

3. Refundings

HCID will allow refundings of bond issues that meet the following conditions:

a. The project sponsor agrees to cover all costs of HCID including the Fees and Expenses set forth in Section VI.

b. The affordability and tenant income restrictions of the existing bond regulatory agreement are subject to extension at the discretion of the issuer and/ or as required by applicable state and/ or federal law. HCID reserves the right to impose requirements in addition to regulatory agreement extension. All specifics of refunding proposals must be approved by the Mayor and City Council.

c. For refinancings initiated by the defaulting project owner or sponsor, the default refunding application will require a default refunding analysis to determine the eligibility for a default refunding. The analysis shall be prepared by a qualified firm and costs shall be borne by the sponsor/ owner. In general, a default refunding analysis determines whether the default was out of the control of the project owner or sponsor such as poor market conditions or other extraordinary circumstances.

4. Credit substitutions

Credit substitutions which are the functional equivalent of a refunding will be treated by HCID in the same manner as refundings for purposes of these policies and procedures.

C. Bond Sale Modes

Housing bonds may be sold in a public sale transaction, where bonds are marketed to the bond-purchasing "public," or on a private placement basis, where the bonds usually are placed with a single purchaser. HCID will issue bonds for either a public sale or private placement, so long as its issuing criteria are met.

1. Private Placement

Bonds that are privately placed are purchased directly by, most often, a single buyer. These transactions usually occur without the use of an underwriter (although occasionally include a placement agent). Because an underwriter is not involved, transaction costs may be significantly less, allowing for smaller feasible transaction sizes. HCID reserves the right to require project sponsors to include any member of its finance team to take part in any private placement financing.

2. Public Sale

a. Negotiated Bid

In this structure, the Issuer "negotiates" the terms of the sale of the bonds with the underwriting team and the developer to structure the sale of the bonds. Upon pricing of the bonds, the Issuer and underwriter execute a bond purchase agreement obligating the underwriter to purchase the bonds. After purchasing the bonds, the underwriter resells them to their individual customers.

b. Competitive Bid.
In this structure, the issuer structures the bonds with the assistance of its finance team, including the financial advisor. Underwriters or underwriter syndicates then bid on the bonds. The bid that results in the lowest cost to the issuer wins the competitive bid. The winning underwriter or underwriter syndicate then executes a bond purchase contract obligating the winning entity to purchase the bonds. Upon purchasing the bonds, the underwriter generally re-sells the bonds to other investors. Housing bonds are not usually sold via competitive bid since the underlying real estate and credit of these transactions require significant description and explanation to potential buyers. Underwriters purchasing bonds in a competitive structure usually are not able to spend significant time analyzing the structure and underlying real estate/credit issues prior to the bid, and therefore cannot "pre-market" the bonds to gauge the interest of potential investors.

3. Pricing Requirements for Projects Receiving HCID Subordinate Financing
The permanent period interest rate for privately placed bonds on projects receiving HCID subordinate financing shall be within an acceptable market range compared with bonds in like amount, terms and conditions if such similar bonds were to be purchased directly by Fannie Mae (including forward delivery premium, if any).

D. Other Issuers
Projects financed with subordinate financing from HCID will not be eligible to be financed by bonds issued by a statewide issuer or any issuer other than HCID.

Other City agencies and authorities with statutory authority to issue bonds may issue housing bonds for projects in the City of Los Angeles. In particular, the Housing Authority of the City of Los Angeles may issue bonds for projects in which it has a substantial interest (e.g., as owner or land lessor) or for which it provides a substantial subsidy.

The City of Los Angeles may consent to the use of statewide issuers for private activity bonds (including 501(c)(3) bonds) to finance projects located in the City of Los Angeles only when such projects are part of a common plan of finance with one or more projects that are not located in the City of Los Angeles. Necessary elements of a common plan of finance shall include: 1) common credit structure and/or credit enhancement; 2) common indenture (that may include multiple series of bonds) or separate but identical or parity indentures; and 3) common financing schedule (including common pricing and closing dates).

The General Manager of HCID may, at his or her sole discretion, waive the limitations on the use of statewide issuers. Outside issuances are still subject to all City requirements and procedures, including the payment of prevailing wages and any associated monitoring fees.

II. Bond Requirements

A. Bond Security

HCID issues bonds solely on a conduit basis. Repayment of principal or interest on bonds issued by HCID will not be secured by any assets of the City of Los Angeles or HCID.

B. Bond Rating

HCID requires that bonds for which it acts as issuer must be both (i) credit enhanced and have a minimum rating in the "A" category by Standard and Poor's, Fitch or Moody's (equivalent from another bona fide agency rating also acceptable), or (ii) privately placed as provided below. HCID reserves the right to impose these minimum requirements on bond issues for which HCID or the City holds a TEFRA hearing.

C. Credit Enhancement

Credit enhancement/ rating may take any form, including a letter of credit (LOC), credit enhancement guaranty, bond insurance or collateral pledge. The form of credit enhancement must be sufficient to meet the minimum rating criteria. The bond rating must be obtained before the closing of the bond issue.

D. Privately Placed Bonds

For privately placed bond issues that do not meet the minimum rating requirements noted above, the following requirements shall apply:

1. There may not be more than one bond owner at any one time.

   a. The bonds must be purchased by an entity meeting the definition of an institutional "accredited investor" or "qualified institutional buyer" as defined in the Securities Act of 1933.

   b. All initial and subsequent purchasers must provide an investor letter in a form acceptable to HCID wherein the investor acknowledges having sufficient knowledge and experience to evaluate the bond investment and wherein the investor waives any due diligence obligation on the part of the City.

   c. Any changes to the CDLAC Resolution regarding bond ownership, including transfers, must be approved by HCID.

d. The developer/owner must indemnify HCID against any costs incurred by the City, including any lawsuit initiated by the bondholder or any other party, regardless of whether the developer is negligent.

e. Unrated bonds may not be issued to finance any portion of a continuing care retirement facility.

f. Bond purchasers must be aware of the substantial user prohibition. For projects with HCID subordinate financing, the HCID reserves the right to approve cases where the proposed bond purchaser is the same entity or a related entity as the project owner.

2. Redemption provisions

a. A default under the loan agreement would not be defined as a bond default, even though full payments were not being made on the bonds. Redemption provisions would apply as follows:

b. Bond holder would be free to work out a loan default situation with the current project owner or through foreclosure of the project and its sale to a new owner, while keeping the bonds and regulatory agreement outstanding.

c. In the event a workout cannot be achieved, the documents would allow the bond holder to cause a mandatory redemption of the bonds through a deemed redemption mechanism.

d. If the interest on the bonds ever were determined to be table, bonds would be subject to mandatory redemption.

E. Bond Transfers

Bond transfers may be allowed, with prior written approval from HCID, and must follow the same guidelines and requirements as outlined in Section II. In addition, the current borrower must not be in default under the bond documents, the purchaser must also not be in default according to the City's Business policy and satisfactory evidence must be presented to the City that the purchaser has at least three year's experience in the ownership, operation and management of affordable rental housing.

F. Alternative Bond Structures

The General Manager of HCID may, at his or her sole discretion, waive the limitations on the above bond structures. Alternative bond structures must be presented to HCID for review prior to submitting the CDLAC application. The proposal will be reviewed and analyzed on a project by project basis and must meet the HCID's public benefit requirements.

III. Affordability Requirements

A. Number of Affordable Units

To be eligible for tax-exempt bond financing, projects must meet the Income and Rent Restrictions required by CDLAC, currently set at a minimum of 10% of the units must have Gross Rents that are restricted to households with incomes no greater than 50% of area median income. In addition, federal law requires that the project meet one of the following: (i) at least 20% of the units in each project must be rented to or held available for rent to very low-income tenants (50% of median income, adjusted for household size) or (ii) 40% of the units in such project must be rented to or held available for rent to tenants at or below 60% of median income. Project rents must be structured to maximize competitiveness under the CDLAC Affordability Matrix. The City reserves the right to impose additional restrictions. Restricted units must meet the CDLAC requirements regarding unit size and comparability.

B. Term

The term of the affordability requirement is the longer of: (a) 15 years from the beginning of the Qualified Project Period (as defined in the Internal Revenue Code of 1986), (b) as long as the bonds remain outstanding, or (c) such period as may be required in the opinion of bond counsel to meet federal or state law, or (d) such period as may be required by CDLAC. The rent of "in-place" tenants at the conclusion of the required affordability period will continue to be governed by the applicable affordability restriction, to the extent required by State or Federal law. The City reserves the right to impose additional restrictions.

C. Income Limits

Total household income for income-restricted units may not exceed 50% or 60% of the Area Median Income, as applicable, adjusted by household size, as set by the U.S. Department of Housing and Urban Development (HUD). These limits will be adjusted periodically when HUD adjusts the median-income standards it imposes. The City reserves the right to impose additional restrictions.

D. Rent Limits

The maximum rents for all the affordable units are adjusted based on the percentage increase in the HUD-determined median-income for Los Angeles County. These rents are based on 1/12 of 30% of the appropriate income limits, assuming one person in a studio, two persons in a one-bedroom, three persons in a two-bedroom and four persons in a three-bedroom unit. These assumptions differ for projects using Low Income Housing Tax Credits (LIHTC). In the event tax-exempt bonds are used with LIHTCs, the more restrictive rents apply.

E. Annual Certification of Tenant Income

The project owner must certify tenant eligibility annually. If at the annual certification a tenant's income exceeds 1.4 times the then income limit for initial occupancy, the owner must rent the next available unit of comparable or smaller size to a new income-eligible tenant. The owner may raise the current tenant's rent to market rent only upon renting the next available unit to a new low-income or very low-income household, as applicable, to be counted toward meeting the affordable unit requirements.

IV. City Additional Requirements

A. Prevailing Wage

Any tax-exempt bond financed project located in the City of Los Angeles, including projects funded by tax-exempt bonds issued by any statewide issuer or joint powers authority, must adhere to the State of California and City of Los Angeles prevailing wage requirements. Project sponsors shall be responsible for determining the applicability of residential versus commercial wage scales. For projects, which propose to use a funding source that is mandated to comply with the federal labor standards of the Davis Bacon Act (DBA), including the payment of prevailing wage rates and submission of certified payroll reports, the bond requirement to pay State prevailing wages and/ or City living wages will defer to the funding source that is requiring the DBA (including but not limited to the HOME program, CDBG program and FHA programs)

B. Compliance Monitoring

HCID may at its sole discretion, intend to select outside consulting firms to monitor compliance with prevailing wage, Davis Bacon wage, and rent restrictions requirements for City bond financed projects. All costs associated with these monitoring activities shall be the responsibility of the project developer.

C. Intercreditor Agreement

HCID, at its sole discretion, will enter into an intercreditor agreement with a lender for disbursement of bond proceeds for construction costs. The agreement will ensure that all construction costs will be reviewed by the HCID compliance unit prior to disbursement. HCID has prepared a standard form of agreement which will be used in all projects; any deviations from the form will require the approval of HCID staff and the City Attorney. HCID, at its sole discretion, may elect to use an outside consulting firm to monitor wage compliance. The fees shall be born by the sponsor/ owner.

D. Relocation

Any developer requesting multi-family housing bonds through the City for a project that may result in the temporary or permanent displacement of tenants or businesses will be required to fully comply with applicable local, state, and federal relocation laws.

1. At the time of Intake Application, the following must be submitted:
   a. A relocation summary, which includes a description of the intended relocation activities and an estimated relocation budget.
   b. A tenant rent roll (residential and/or commercial), which includes the unit number, name, unit type and size, rent (including any Section 8 subsidies), utilities paid by tenant, total number of occupants in each unit, and tenant income.
2. At the time of the submittal of the CDLAC application, a relocation plan prepared by a third-party consultant must be submitted. The relocation plan must reference all financing sources and the requirements for each, along with a relocation budget, which should be included in the total development costs.
3. No over-income tenants shall be required to move, even though the result may impact the loss of tax-credits.
4. Any buildings constructed prior to 1978 must also comply with the HCID's policies for RSO properties (see LAMC 151.00, et seq.), including the Tenant Habitability Ordinance (see LAMC 152.00, et seq.).

E. Council Office Support

All applicants must submit a letter of support from the Council Office(s) in which the project site(s) is/are located. The date of the letter must be within six (6) months prior to the application deadline date.

F. HCID Business Policy

Per the City's "New Business" policy adopted by City Council on April 16, 2003 (CF99-1272), HCID is authorized to prevent borrowers, their related entities, and other partnerships that have common general partners, from accessing HCID's bond programs, if the borrower is non compliant with loan obligations, including both monetary and non-monetary obligations (non payment of amount due, failure to complete project on time, failure to abide by regulatory agreement, loan written off as uncollectible, failure to correct any building deficiency noted by any governmental agency in a timely manner). An application is deemed ineligible to compete for funding if any member of the applicant's ownership entity has an interest in a current project or projects that are in monetary or non-monetary default.

G. Bond Requisitions

HCID will require the use of a Trustee to disburse all bond proceeds. For each bond issuance, the trustee selection will be made through a request for proposal solicited from a list of Trustee's previously selected through a request for qualifications. Bond disbursements shall be outlined in an Indenture of Trust to be entered into by the selected Trustee, Issuer and Bond Purchaser.

H. Closing Requirements

1. The Department requires delivery of the following items prior to the issuance of the Bonds:

   a. All required permits, including building, demolition and special permits and all waivers and variances must be issued by the City of Los Angeles and all other agencies having jurisdiction over the Project.

   b. An executed construction or rehabilitation contract which encompasses all major components of the construction or rehabilitation of the Project.

   c. All financing for the acquisition, rehabilitation, and construction of the Project shall be in place and available; all necessary documentation shall have been entered into and there shall be no contingencies for funding other than normal and standard requirements relating to dutiful progress of the Project. So called "dry closings" will not be allowed

   d. Deposit and Commitment to Pay Fees. Acknowledgement wherein the applicant agrees to pay all the issuer's costs related to the financing, including all third party costs and costs of issuance in addition to any deposit amounts. The developer shall further indemnify HCID for all costs or liabilities related to the proposed bond transaction. Under no circumstances will fees be refundable if the developer decides not to proceed with the transaction

I. Special Financing

These procedures generally apply to single project financings and developer initiated pooled financings. However, HCID may from time to time develop special programs to meet particular housing needs (e.g., pooled financings for earthquake recovery, etc.). At such time as these programs are developed, HCID may promulgate regulations to govern the implementation of the special programs.

V. Transfers

A. Ownership

1. HCID reserves the right to approve any voluntary change in ownership (i) that results in a transfer of 50% or more of the total equity interests in a developer or (ii) that results in a transfer of any general partner or managing member interest in the developer. Such approval to transfer ownership shall be at the discretion of HCID and, lacking any specific requirement or directive to the contrary, shall not require the approval of the Mayor and City Council. Transfers made by a limited partner tax credit investor to its affiliates are exempted from this requirement.

2. HCID shall review management practices of the applicant's current and previously owned properties. Any applicant (including individuals within an ownership) whose currently owned properties have been found by City inspection to have deficiencies that have not been resolved within the time frame prescribed by the Systematic Housing Code Enforcement Program or other governmental housing inspection programs, including but not limited to the City Department of Building and Safety, City Attorney, Housing Authority of the City of Los Angeles, Fire Department or County Health Department, may not assume ownership of any bond financed project. HCID may initiate additional inspections as needed to verify findings.

3. Any applicant (including individuals within an ownership) who's previously or currently owned properties indicate a pattern of deficiencies may not assume ownership of any bond financed project.

4. HCID shall review financial statements and credit histories of the proposed owner or all individuals within an ownership entity. Applicants whose financial statements do not meet with the City's satisfaction may not assume ownership of a bond financed project.

VI. Fees and Expenses

A. Borrower's Agreement

At initial approval of the application and notification to the applicant, the applicant must agree, in writing, to pay all costs of issuing the bonds, including all fees of the issuer, its financial advisor and bond counsel, in the amounts and at the times indicated below. Such costs to the extent incurred must be paid whether or not the bond issue closes. For pooled issues, borrowers shall pay their equitably distributed pro rata share of all costs.

B. Costs of Issuance

Borrowers shall pay all costs of issuance at bond closing or upon forfeiture of any CDLAC deposit or expiration of any TEFRA approval, if earlier, including, but not limited to, fees of bond counsel, underwriter, trustee and financial advisor, as well as rating fees. Only 2% of the proceeds of a tax-exempt bond issue may be used to pay costs of issuance. Costs in excess of 2% must be paid from other sources secured by the developer including, potentially, the proceeds of taxable bonds.

C. Initial Issuer Fee

Borrowers shall pay an initial issuer fee of 25 basis points (0.25%) of the bond amount. This fee is paid at the bond closing and covers HCID's administrative costs as Issuer.

D. Annual Issuer Fee

During the construction period, Borrower shall pay an annual issuer fee in advance (adjusted for partial periods), of 25 basis points (0.25%) of the original principal amount of the Bonds. Upon completion of construction or rehabilitation and conversion of financing to permanent, Borrower shall pay an annual issuer fee in advance (adjusted for partial periods), an issuer fee that is the greater of 12.5 basis points (0.125%) of the outstanding amount (balance at conversion) or a minimum of $4,000. Notwithstanding the foregoing, the fee must be paid so long as the bonds remain outstanding or the Regulatory agreement remains in effect and or the CDLAC compliance period.

E. In-Take Application Processing Fee

A non-refundable fee of $3,000 must accompany each application. This fee shall apply for all applications, irrespective of the issuer.

F. TEFRA Hearing Fee

A non-refundable fee for TEFRA notice publication, currently in the amount of $3,000 per project must accompany each TEFRA request.

G. Expedited Bond Closing Deposit

Upon HCID's approval to move forward using the expedited bond closing, as outlined below, the Sponsor shall pay ½ of the Initial Issuer Fee directly to HCID as an HCID performance deposit. If the terms of the bond resolution and bond documents are modified, as outlined below, the expedited request is voided and the performance deposit shall be forfeited to HCID. Sponsor shall be required to pay the entire Initial Issuer fee at the time that the approval process of the modified terms are approved and the bonds close. If the expedited service is not interrupted due to changes in terms, the Sponsor shall only be required to pay the balance of the Initial Issuer fee due at the time of the bonds close.

H. Consent, Approval, Transfer, Amendment, and Waiver Fee
HCID will charge a processing fee equal to the greater of $5,000 or .125% of the permanent principal amount of the relevant bond issue for any consent, approval, transfer, amendment, or waiver requested of the City.

I. Bond Prepayment Fee
In the event of any payment or prepayment of the tax-exempt bonds in whole, prior to the end of the Qualified Project Period, the Owner shall pay to the City, on or before such payment, an amount equal to the present value of the remaining City fees payable hereunder, as calculated by the City, using a discount rate equal to the rate on the United States treasury security maturing on the date nearest the end of the later of 1) the end of the Qualified Project Period; or 2) the termination of the CDLAC resolution conditions, or such lesser amount as shall be necessary in the opinion of Bond Counsel to preserve the exemption of interest on the Bond from gross income for federal income tax purposes.

VII. The Finance Team

The City selects, at its sole and absolute discretion, the bond financing team to be utilized by HCID through a RFQ process, including bond counsel, co-bond counsel (if any), disclosure counsel (if any) issuer's counsel and financial advisor, trustee and investment banker. The City, through HCID, from time to time, shall promulgate policies regarding the selection of its finance team. The project sponsor may, at its own expense, add additional members to the finance team to represent its interests. The City requires the use of a trustee relative to all its bond financings. Bond counsel, co-bond counsel, financial advisor, trustee, and investment banker are chosen through a RFQ process approved by the Mayor and City Council. The Office of the City Attorney conducts a separate RFQ process for the selection of the bond counsel and co-bond counsel if necessary.

VIII. Departmental Review and Procedures/Timetable

All projects seeking bond financing or significant modifications to existing bond financings are subject to departmental review. Projects must submit an application for review. Upon successful review and initial approval of the application, financing of the project will be contingent upon, as required, payment of fees and expenses, adoption of an inducement resolution by HCID's General Manager, TEFRA hearing, adoption of a bond resolution by City Council with the Mayor's concurrence, submittal of an application to CDLAC and award of a bond allocation from CDLAC. The following outlines the procedural steps from application to closing for a bond financed transaction. Applications may be received on an on-going basis at the discretion of HCID according to the criteria below. Applicants shall submit a separate application for each project.

A. Intake Application

HCID requires the Intake application be submitted 60 days prior to the CDLAC application deadline.. During this review period, HCID has no obligation to initiate or conclude any discretionary action regarding the bonds, including project inducement or TEFRA hearings. Upon completion of its review, HCID will notify the applicant of its initial approval and intent to proceed with the financing or its disapproval of the application.

B. Background Review

During the Intake review period, the HCID will conduct a background check based on the information provided to determine if there are any outstanding violations with each compliance program, including; residual receipts payments, regulatory agreement compliance, Rent Registration or Code (SCEP) fees due, financial statements, unpaid property taxes, lapsed insurance or outstanding cited habitability violations, and/or if the property is in any of the City's compliance programs due to unabated habitability violations (i.e., REAP). Failure to disclose all applicable properties may result in disqualification of the application. It is highly suggested, that applicants contact the individual compliance programs prior to Initial application to verify satisfactory compliance.

C. Meetings of the Staff, Finance Team and Development Team

HCID may require that the applicant and relevant members of the development team meet with Department staff and/or the finance team to review the application.

D. Inducement Letter

After initial approval, staff recommends approval by the HCID's General Manager. The Inducement Letter is delivered to the applicant.

E. TEFRA Hearing

After initial approval, the TEFRA hearing shall be noticed and scheduled. A notice of the TEFRA hearing must be published 14 days prior to the scheduled hearing date. The TEFRA hearing may occur concurrently with the adoption of the bond resolution. HCID staff may prepare the TEFRA notice for publication, but the notice shall be reviewed by HCID counsel and bond counsel. TEFRA approval process will be processed by HCID with the assistance of the respective Council Office.

F. CDLAC Application Review and Evaluation

HCID requires submittal of the CDLAC application(s) 30 days prior to the CDLAC submittal deadline. Applications should be submitted in substantially final form so that HCID staff may begin to review. Applications should be finalized no later than 10 days prior to submittal to CDLAC, in order to complete the process of inducement approval by the General Manager of HCID, and obtaining Mayor and City Council authorization to adopt the TEFRA resolution and TEFRA hearing minutes. Applications not requiring CDLAC approval must be submitted at least 120 days prior to desired bond closing date.

The default analysis that is required of default refunding applications will add an additional 20 days to the application review period. No such time periods are guaranteed. The above periods are minimums subject to change.

G. Deposit and Commitment to Pay Fees

Upon notification to applicant of HCID initial approval, the applicant will be required to acknowledge and agree to pay all the issuer's costs related to the financing, including all third party costs and costs of issuance in addition to any deposit amounts. The developer shall further indemnify HCID for all costs or liabilities related to the proposed bond transaction. Under no circumstances will fees be refundable if the developer decides not to proceed with the transaction.

H. Preparation and Submittal of the CDLAC Application

New-money tax-exempt private activity bond issues (except 501(c)(3) issues) require application to and allocation from CDLAC. The application to CDLAC is from HCID, not the applicant or the project sponsor. Therefore, while the developer may prepare the application, it must be completed to the satisfaction of and reviewed by HCID before submittal. In order to submit the application, the following must be completed:

1. A completed CDLAC application (plus required copies) must be submitted to HCID at least 30 days prior to the relevant CDLAC application deadline.

2. The CDLAC application must be reviewed and approved by HCID.

3. All previously required fees must have been paid and submitted, including:

   a. A deposit amount required by CDLAC, currently in the amount of one-half of one percent (0.5%) of the allocation amount requested. The deposit shall be delivered to HCID as a cashiers check payable to the City of Los Angeles.
   b. The CDLAC filing fee (currently in the amount of $600) made payable to CDLAC.

I. Document preparation and approval (including bond resolution).
Bond counsel and HCID may begin work on bond documents after the bond allocation has been approved and received from CDLAC. If approval from CDLAC is not required, bond counsel and HCID may begin work on bond documents, at the sole and absolute discretion of HCID, after initial approval of the application and after the agreement to proceed (including any required fee) has been received from the developer. No deemed consent is given for any document amendment. Subsequent amendments may require Mayor and City Council approval (as determined by Issuer's counsel).

J. Scheduling and Approval of the Bond Resolution
The transaction may not close without the adoption of the bond resolution by the City Council and concurrence of the Council action by the Mayor. Bond counsel prepares the bond resolution with review by issuer counsel. The bond resolution is adopted, and the bond documents are approved concurrently by the City Council with the concurrence of the Mayor. The CAO will review any disclosure documents involved in a public or private offering. In order for any resolution to be approved by City Council, the following must occur:

1. Resolutions must be submitted by HCID for consideration to the Housing, Community, and Economic Development Committee (HCED) of the City prior to consideration by the full City Council. If the resolution under consideration is the final bond resolution, commitments from credit enhancers or bond purchasers and substantially final bond documents must be provided to HCID prior to this date.

2. Upon approval by the HCED, the resolution will be forwarded to the City Council and Mayor for consideration and approval. Approvals by the HCED, City Council, and Mayor may, depending on their schedules, require approximately eight weeks, (subject to the approval of the final bond documents by the City Attorney's office before the issuance of the bonds.) If the financial structure is substantially modified, HCID shall seek Mayor and Council approval for the modification.

K. Expedited Bond Closing.
Upon HCID approval, HCID may expedite the preparation of bond documents and bond resolution approval process. After submittal of the CDLAC application and after the proof of TEFRA deadline, HCID may begin the preparation of bond documents and bond resolution transmittal process simultaneous to the CDLAC review process and pending a CDLAC allocation. If the resolution under consideration is the final bond resolution, commitments from credit enhancers or bond purchasers and substantially final bond documents must be provided to HCID prior to this date. Sponsor shall agree to accept the terms outlined in the application and in the draft bond documents to be true and correct and shall agree that if the terms that have been presented to the Mayor and City Council are materially modified, the expedited request is forfeited, and changes may cause s

delay in closing. Nullification of the expedited process will result in a loss of the Initial Issuer fee deposit.

L. Bond Sale and Closing

Except as provided below, the following may occur, in the approximate order presented, only after the City Council adopts the bond resolution and approves the bond documents and the Mayor concurs with the Council action.

1. Mail the Preliminary Official Statement (POS)
2. Bond Pricing
3. Pricing call with underwriter, HCID staff, financial advisor and developer. Final pricing occurs with the concurrence of HCID.
4. Bond Purchase Agreement (BPA)
5. Following pricing, the BPA is executed by HCID, the developer and the underwriter.
6. Pre-closing
7. The parties should allow approximately five business days to obtain required City approvals and signatures.
8. Closing

IX. Program Marketing

In order to facilitate optimal use of the bond program, HCID may, from time to time, actively market the program to potential developers and project sponsors. The program marketing will be intended to reach sophisticated project sponsors in a broad range of Los Angeles neighborhoods who are able to utilize bond financing.

The marketing program may have two parallel tracks:

1. Continuous marketing on a scheduled, periodic basis of HCID's ongoing bond financing programs. This marketing could take the form of simple newspaper ads (e.g., the Los Angeles Times) or targeted advertisements intended to reach specific markets or groups.

2. Occasional marketing of special programs to occur as the special programs are developed.