

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: May 14, 2013

CAO File No. 0220-00540-1043
Council File No. 13-0148-S1
Council District: 15

To: The Mayor
The Council

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

Reference: Transmittal from the Los Angeles Housing Department dated April 15, 2013;
received by the City Administrative Officer on April 29, 2013

Subject: **REQUEST TO AUTHORIZE THE ISSUANCE OF UP TO \$10,100,000 IN TAX-EXEMPT MULTI-FAMILY MORTGAGE REVENUE BONDS FOR THE BANNING 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 \$10,100,000 to finance an affordable housing development known as the Banning 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 1100 North Banning Boulevard, Los Angeles, CA 90744 in Council District 15. The Project includes acquisition and rehabilitation of a 90-unit complex that will continue to provide affordable housing for seniors. In addition, the tenants will have access to a large community/laundry building, a picnic area, and 53 parking spaces.

The LAHD also requests Council to adopt the resolution attached to this report and to approve related loan documents which are provided as an attachment to the LAHD transmittal dated April 15, 2013 (C.F. 13-0148-S1). The Project will use a variety of funding sources including tax-exempt bonds, equity investments and loans from Citibank. The total cost of the Project is estimated to be \$21,065,825. 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 a Collateral Pledge by the Fiscal Agent. This Office concurs with the Department's recommendations.

BACKGROUND

On January 11, 2013, LAHD induced the Project with authority from Council (C.F. 04-2646) which enables the Project Sponsor to apply for a tax-exempt bond allocation. The LAHD conducted a public hearing on August 30, 2012 in accordance with the Tax Equity and Fiscal Responsibility

Act of 1982 (TEFRA). Council adopted the TEFRA Resolution and Minutes on February 12, 2013 (C.F. 13-0148). The LAHD was authorized to apply on behalf of the sponsor for an allocation of up to \$13,312,500 in tax-exempt bonds from CDLAC. On September 27, 2012, the Project was awarded an allocation of \$10,100,000 in bonds. The CDLAC bond allocation expiration date is June 11, 2013.

The Project Sponsor will be Preservation Partners Development III, L.P. (PPD); the Managing General Partner is Banning Villa Housing Partners, LLC (BVHP), a California limited liability company; the Administrative General Partner is BVHP; and, the Developer is Clifford Beers Housing, Inc. (CBH), a California non-profit corporation. The principals of PPD are Teresa Szymczak, President and Chief Operating Officer, Christian Szymczak, Director of Finance, and William Szymczak, Managing Member. The principals of CBH are David Bloomgarden, President, Larry Kirk, Treasure, and Omar Hall, Secretary.

The bonds will be privately placed with Citibank. Citibank will make a tax-exempt loan in the approximate amount of \$10,100,000 to the City of Los Angeles. The City will then loan the proceeds to the Borrower to finance a portion of the project. The Borrower will use the proceeds to rehabilitate the property (construction loan). The Construction loan term will be 18 months, plus one six-month extension with interest only payments due during the construction phase. The loan will bear interest at a fixed rate calculated by adding a 0.65 percent spread to the one-year MMD Index which is currently at 0.20 percent, resulting in a rate of .085 percent based on current rates. The obligation of the Borrower to repay the City loan will be secured by a pledge of cash held by the Fiscal Agent (Collateral Pledge) in an amount equal to the maximum principal amount of the Citibank loan plus interest. The Collateral Pledge will be invested in a permanent investment so that the Citibank loan achieves a rating of at least AA+ from Standard and Poor's, thereby satisfying the City's Multi-family Bond Policies and Procedures as an investment grade rated and credit enhanced issue not subject to the City's private placement restrictions. This loan will be a strictly limited, non-recourse loan.

Once construction is completed, the Citibank loan will be paid in full from the liquidation of the Collateral Pledge. Permanent financing will be made from a Federal Housing Administration-insured (FHA) conventional mortgage loan. The current FHA rate is 3.3 percent. The developer has also received four percent Low Income Housing Tax Credits and has at least \$6.79 million in tax credit equity. Additional permanent financing includes property income during construction and deferred developer fees. The property has a U.S. Housing and Urban Development Section Eight Housing Assistant Payments contract providing subsidies to 100 percent of the units.

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, Preservation Partners Development III, L.P., 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 LAHD states in its 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.

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; however, since the City acts only as a conduit issuer in these bond transactions and has no financial interest, the selection of Citibank as the bond owner for this financing does not constitute City business.

RECOMMENDATIONS

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

1. Adopt the Resolution attached to this report authorizing the issuance of up to \$10,100,000 in tax-exempt multi-family mortgage revenue note for the development of the Banning Villa Apartments Project (Project);
2. Approve the related loan documents attached to the Los Angeles Housing Department transmittal dated April 15, 2013 (C.F. 13-0148-S1), subject to the approval of the City Attorney as to form; and,
3. Authorize the General Manager, LAHD, or designee, to negotiate and execute the relevant loan 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 Banning 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. The bonds are solely secured by, and payable from, the nonprofit organization.

Attachment

MAS:TJM:02130131c

RESOLUTION

CITY OF LOS ANGELES

A RESOLUTION AUTHORIZING THE ISSUANCE, SALE AND DELIVERY OF ONE OR MORE SERIES OF MULTIFAMILY NOTES BY THE CITY OF LOS ANGELES DESIGNATED MULTIFAMILY COLLATERALIZED REVENUE NOTE (BANNING VILLA SENIOR APARTMENTS) SERIES 2013E IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$10,100,000 TO PROVIDE PERMANENT FINANCING FOR THE ACQUISITION, REHABILITATION AND EQUIPPING OF THE MULTIFAMILY HOUSING PROJECT SPECIFIED IN PARAGRAPH 18 HEREOF AND APPROVING AND AUTHORIZING THE EXECUTION AND DELIVERY OF 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 obligations 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 note 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 is 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 note; and

WHEREAS, the City proposes to issue, pursuant to the Law and in accordance with the Act, its Multifamily Collateralized Revenue Note (Banning Villa Senior Apartments) Series 2013E in an aggregate principal amount not to exceed \$10,100,000 (the "Note"); and

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

WHEREAS, Citibank, N.A. or an affiliate thereof (the "Purchaser") has expressed its intention to purchase the Note (or cause the Note to be purchased by an affiliate) authorized

hereby 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 Note; and

WHEREAS, the interest on the Note 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 Note is approved in accordance with Section 147(f) of the Code; and

WHEREAS, pursuant to the Code, the Note is required to be approved, following a public hearing, by an elected representative of the issuer of the Note 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 Note 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 August 15, 2012 to the effect that a public hearing would be held on August 30, 2012 regarding the issuance of the Note; 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 Note; 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 Funding Loan Agreement (as hereinafter defined), a revenue note of the City, to be designated as "City of Los Angeles Multifamily Collateralized Revenue Note (Banning Villa Senior Apartments) Series 2013E," in an aggregate principal amount not to exceed \$10,100,000 is hereby authorized to be issued. The principal amount of the Note to be issued shall be determined by a Designated Officer (as defined below) in accordance with this Resolution.

3. The proposed form of Funding Loan Agreement (the "Funding Loan Agreement"), by and among the City, the Funding Lender named therein and a fiscal agent to be designated by the City (the "Fiscal Agent"), 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 Note authorized hereunder. The Mayor of the City, the General Manager or any Interim

General Manager, any Assistant General Manager or any Interim Assistant General Manager, Executive Officer or the 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 Funding Loan Agreement with such additions, changes or corrections (including, without limitation, the designation of the Fiscal Agent) 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 Note in excess of the amount stated above, such approval by the City Attorney, to be conclusively evidenced by the execution and delivery of the Funding Loan Agreement with such additions, changes or corrections.

4. The proposed form of Borrower Loan Agreement (the “Loan Agreement”), by and between the City 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 said Loan Agreement with such additions, changes or corrections.

5. The proposed form of the Note, as set forth in the Funding Loan Agreement, is hereby approved, and the Mayor and 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 Fiscal Agent or an authenticating agent is hereby authorized and directed to authenticate, by manual signatures of one or more authorized officers of the Fiscal Agent or an authenticating agent, the Note in substantially such form, and the Fiscal Agent is hereby authorized and directed to sell and deliver the Note to the Purchaser in accordance with the Funding Loan Agreement. The date, maturity dates, interest rate or rates (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 Note shall be as provided in the Funding Loan Agreement as finally executed; provided, however, that the principal amount of the Note shall not exceed \$10,100,000, the interest rate on the Note shall not exceed 12% per annum and the final maturity of the Note shall be no later than May 1, 2053. The initial purchase price of the Note shall be 100% of the principal amount thereof to be paid as advances are made with respect to the Note by the Purchaser. Such Note may be delivered in temporary form pursuant to the Funding Loan Agreement if, in the judgment of the City Attorney, delivery in such form is necessary or appropriate until the Note in definitive form can be prepared.

6. The proposed form of Regulatory Agreement and Declaration of Restrictive Covenants (the “Regulatory Agreement”) to be entered into by and among the City, the Fiscal Agent 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 Note remains tax-exempt.

7. All actions heretofore taken by the officers and agents of the City with respect to the sale and issuance of the Note 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 Funding Loan Agreement, 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 Note 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 Note, 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 Note be delivered directly to the Fiscal Agent, instead of the City Treasurer, to be deposited into the funds and accounts established under the Funding Loan Agreement.

11. Pursuant to Section 147(f) of the Code, the City Council hereby approves the issuance of the Note to finance the Project. It is intended that this Resolution constitute approval of the Note by the applicable elected representative of the issuer of the Note 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 Note or the agreements relating thereto subsequent to their issuance.

14. The Note 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
Banning Villa Senior Apartments	89 plus 1 manager unit	1100 North Banning Boulevard, Los Angeles CA 90744	Banning Villa Preservation Limited Partnership

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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 _____