TRANSMITTAL

To: THE COUNCIL

Date: 5/1/2017

From: THE MAYOR

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.

(Ana Guerrero)

ERIC GARCETTI
Mayor

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Honorable Eric Garcetti
Mayor, City of Los Angeles
Room 300, City Hall
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Attention: Mandy Morales, Legislative Coordinator

COUNCIL TRANSMITTAL: LOS ANGELES HOUSING + COMMUNITY INVESTMENT DEPARTMENT (HCIDLA) REQUEST FOR APPROVAL TO ISSUE SUPPLEMENTAL FINANCIAL ASSISTANCE COMMITMENTS TO EXISTING MANAGED PIPELINE PROJECTS AND VARIOUS ACTIONS RELATED TO THE HCIDLA PIPELINE

SUMMARY

The Los Angeles Housing + Community Investment Department (HCIDLA) requests authority to issue supplemental financial assistance (assistance) to projects facing financial challenges due to changing market conditions.

Several projects moving through HCIDLA's Managed Pipeline in 2016 experienced sharp cost increases as the construction industry rebounded from recession. This occurred after an award of fixed allocation of tax credits, threatening the ability of the projects to close on construction financing. In addition, following the presidential election, the value of tax credits decreased in anticipation of tax reform, which threatened a second subset of HCIDLA projects. In the past, HCIDLA has taken proactive measures to prevent projects from missing critical funding milestones and is again seeking the authority to address and resolve funding gaps caused by market fluctuations in the construction industry.

HCIDLA is recommending a total of $7,517,000 comprised of HOME Investment Partnerships Program (HOME) funds, former Community Redevelopment Agency of Los Angeles (CRA/LA) funds, and Greenland LA Metropolis Funds (Greenland) public benefits payment, be awarded to five projects containing 246 affordable housing units.

RECOMMENDATIONS

The General Manager of HCIDLA respectfully requests that:

I. Your office schedule this transmittal at the next available meeting(s) of the appropriate Council Committee(s) and forward it to the City Council for review and approval immediately thereafter;

II. The City Council, subject to the approval of the Mayor, take the following actions:

A. Authorize the General Manager of HCIDLA, or designee, to amend the funding commitments to the below projects, subject to the following conditions:

1) Amend and increase the HCIDLA funding commitment for the Coronel Apartments from $6,527,000 to $8,544,000 by utilizing $2,017,000 in CRA/LA funds;

2) Amend and increase the HCIDLA funding commitment for the Florence Mills Apartments from $3,100,000 to $4,705,972.63 by utilizing $1,605,972.63 in Greenland LA Metropolis Funds;

3) Amend and increase the HCIDLA funding commitment for the Paul Williams Family Apartments from $2,826,408 to $4,720,435.37 by utilizing $1,000,000 in HOME funds and $894,027.37 in Greenland LA Metropolis Funds;

4) Amend and increase the HCIDLA loan amount for the Marmion Way Apartments from $4,333,928 to $5,333,928 by utilizing $1,000,000 in HOME funds;

5) Amend and increase the HCIDLA loan amount for the Norwood Learning Village from $1,179,360 to $2,179,360 by utilizing $1,000,000 in HOME funds; and

6) Amend and decrease the HCIDLA funding commitment for the PATH Metro Villas Phase 2 project by $2,000,000 in HOME funds, from $6,200,000 to $4,200,000.

B. Authorize the HCIDLA General Manager, or designee, to negotiate and execute, or amend an acquisition/predevelopment/construction/permanent loan agreement with the legal owner of projects identified above, subject to the satisfaction of all conditions and criteria stated in the HCIDLA original application, this transmittal, and the HCIDLA Commitment Letter (if applicable); subject to the review and approval by the City Attorney as to form;

C. Authorize the HCIDLA General Manager, or designee, to execute Subordination Agreements for the projects identified above, wherein the City Loan and Regulatory agreements are subordinated to their respective conventional or municipally funded construction and permanent loans, as required;

D. Authorize the HCIDLA General Manager, or designee, to allow the transfer of the City's financial commitment to a limited partnership or other legal entity formed solely for the purpose of owning and operating the project in accordance with City and federal requirements;

E. Authorize the General Manager of HCIDLA, or designee, to negotiate and execute amendments to the documents related to the Community Development Block Grant (CDBG) loan for the Paul Williams Apartments. Revisions will include but are not limited to: 1) execution of an Assignment and Assumption Agreement; 2) reduction of the restricted units from 41 to 20; and, 3) execution of a subordination agreement to a new permanent loan, subject to the approval of the City Attorney as to form;

F. Obligate and de-obligate the Managed Pipeline projects as follows:

1. De-obligate HOME funds for the project listed below:

Project	Fund	Account	Account Name	Amount
PATH Metro Villas II	561/43	43N008	AHTF	$2,000,000.00
				$2,000,000.00

2. Obligate HOME funds for the projects listed below:

Project	Fund	Account	Account Name	Amount
Paul Williams	561/43	43N008	AHTF	$1,000,000.00
Marmion Way	561/43	43N008	AHTF	$1,000,000.00
				$2,000,000.00

3. Obligate AHTF funds for the projects listed below:

Project	Fund	Account	Account Name	Amount
Paul Williams	44G/43	43L419	GREENLAND LA METROPOLIS TFAR	$ 894,027.37
Florence Mills	44G/43	43L419	GREENLAND LA METROPOLIS TFAR	$1,605,972.63
				$2,500,000.00

4. Obligate Low & Moderate Income Housing funds for the project listed below:

Project	Fund	Account	Account Name	Amount
Coronel	55J	43N397	Coronel-Non Restricted	$1,605,972.63
Coronel	55J	43N398	Coronel Restricted	411,027.37
				$2,017,000.00

5. Obligate HOME funds from the pending 2017-2018 HUD allocation for the project listed below:

Project	Fund	Account	Account Name	Amount
Norwood	561	43P008	AHTF	$1,000,000.00

Loan documents for Norwood will not be executed or expenditures incurred until the receipt of HOME federal funding. In the event that federal funds are not available the project will be de-obligated.

G. Authorize the Controller to:

1. Establish a new account "***43N397 – Coronel Non Restricted***" within the Low and Moderate Income Housing Fund 55J/43;

2. Appropriate $1,605,972.63 to new account "***43N397 – Coronel Non Restricted***" from existing Program Income to be repaid after Florence Mills closes within the Low and Moderate Income Housing Fund 55J/43;

3. Establish a new account "***43N398 – Coronel Restricted***" within the Low and Moderate Income Housing Fund 55J/43; and

4. Transfer $411,027.37 from Tax Exempt Restricted Cash to Unrestricted Cash and appropriate therefrom to Account 43N398 Coronel Restricted.

H. Authorize the General Manager of HCIDLA, or designee, to prepare Controller instructions and make any necessary technical adjustments consistent with the Mayor and City Council action on this matter, subject to the approval of the City Administrative Officer, and request the Controller to implement these instructions.

BACKGROUND

Projects receiving a reservation of competitive tax credits must close construction financing within 180 or 194 days of the award in each semiannual funding round. In 2016, HCIDLA became aware that some developers had to start construction with financing gaps to meet the first round March deadline that approached. Those developers had hoped to overcome these gaps through value engineering. In addition, other developers were going to be unable to meet the second round December 6, 2016 deadline altogether due to similar funding gaps. HCIDLA determined that urgent action was needed to prevent HCIDLA's affordable housing production from stalling. The City of Los Angeles (City) had previously undertaken a similar effort in response to the unprecedented need for building materials created by Hurricane Katrina (CF# 04-2264).

To understand the full magnitude of the current situation, on September 20, 2016, HCIDLA outreached to a limited number of borrowers. The borrowers identified were those in jeopardy of missing critical milestones, possibly resulting in the loss of leveraged resources, and borrowers suffering from damaging economic conditions with the potential to endanger the long term viability of the project. This outreach included owner/developer/borrower (developer) of projects that had been admitted into the HCIDLA Pipeline, had obtained all leveraging sources, but had not yet obtained a Certificate of Occupancy for the project. This outreach was necessary in order to determine if any action on HCIDLA's part was critical to prevent any loss of affordable housing units. The results of HCIDLA's research indicated that several developers were in need of immediate additional financial assistance to protect the viability of the affordable housing project.

In light of the research findings, HCIDLA developed a plan to assist struggling developers. In order to be eligible for consideration of supplemental financial assistance, the project must have experienced a greater than 15% construction cost increase since its tax credit application, and have exhausted all available funding options, including a 50% developer fee deferral. To support their request for supplemental funding assistance, developers were required to submit an explanation of the problem, ways the developer attempted to overcome the difficulty, and evidence demonstrating that the cause of the increase was beyond the developer's reasonable ability to control. A letter was sent to developers of 20 projects establishing a deadline of October 14, 2016 to respond.

By the October 14, 2016 deadline, HCIDLA received seven applications requesting assistance in excess of $10 million (See Table 1 below). HCIDLA determined that assistance would only be considered for amounts above the first $500,000 of a funding gap, and initially limited the additional supplemental assistance to $1 million per project.

Table 1 – Request For Supplemental Funding Assistance

	Project	Developer	Supplemental Funding Request
1	Cielito Lindo	East LA Community Corp.	$1,000,000
2	Crenshaw Gardens	Retirement Housing Foundation	$2,700,000
3	Crenshaw Villas	American Communities, LLC	$1,000,000
4	Florence Morehouse	Century Housing	$1,500,000
5	Marmion Way	Palm Communities	$1,000,000
6	Norwood Learning Village	Thomas Safran & Associates	$1,359,964
7	Taylor Yard Senior Housing	McCormack Baron Salazar, Inc.	$1,500,000

HCIDLA determined that applications from the Cielito Lindo and Taylor Yard Senior Housing projects (numbers 1 and 7, Table 1) were non-responsive due to incomplete applications, and/or the project had not received prior HCIDLA assistance. Applicants were given a chance to appeal the findings; all appeals were reviewed by an appeals committee, consisting of knowledgeable HCIDLA staff from outside the Finance and Development Division. The resulting findings were upheld by the appeals committee. Supporting documentation provided by applicants such as contractor bids, were reviewed by cost estimators from HCIDLA's Technical Services Unit, and financial documents such as narratives and pro-formas were evaluated by HCIDLA's Finance Development Officers assigned to the individual projects.

HCIDLA determined that immediate action was necessary for Crenshaw Gardens and Crenshaw Villas (numbers 2 and 3, Table 1), to meet their December 6th tax credit closing deadlines. Crenshaw Gardens was recommended to receive $1,000,000 in CRA/LA Educational Revenue Augmentation Funds which was approved under CF# 15-0784. It was also determined that the CDBG acquisition loan to Crenshaw Villas in the amount of $2,517,000 approved under CF# 15-1090 could be converted into permanent financing. Deferring the repayment of the loan freed up other sources that were used to fill the financing gap. The Florence Morehouse project, previously assisted with Neighborhood Stabilization Program (NSP) funds for acquisition, was provided with an additional $1,000,000 in NSP funds under CF# 16-0419-S1.

Additional funding for the Marmion Way and Norwood Learning Village projects (numbers 5 and 6, Table 1), is also being recommended in this transmittal. Immediate action was not taken on these projects by HCIDLA because both were able to start construction, however, both were unable to balance their budgets through cost cutting measures and faced shortfalls which would prevent the conversion of the loan to permanent financing.

Before funding recommendations for those projects could be scheduled for Council consideration, HCIDLA learned that three additional projects which received the second round of tax credit allocations in September 2016 would also be unable to meet their loan closing deadlines. Following the presidential election in November 2016, and in anticipation of pending tax reform, tax credit investors either withdrew from the market or dramatically reduced the price they were willing to pay for tax credits. The funding gaps caused through reduced equity investments were greater than construction cost increases experienced by the earlier tax credit recipient group. Such dramatic increases to the funding gap could not be resolved with the $1 million per project amount previously offered by HCIDLA in September 2016. The impacted projects include the Coronel Apartments, Paul Williams Family Apartments, and the Florence Mills Apartments, which are also being recommended for funding in this transmittal. Geographically restricted funds have been identified to help offset these additional costs including CRA/LA and Greenland public benefits sources discussed below. In addition, the introduction of Proposition HHH funds freed up previously committed HOME funds that had not been available to developers before. Finally, since the 43rd year Consolidated Plan has been approved by the Mayor and Council, it is now possible to earmark additional HOME funds for this purpose. However, loan documents will not be executed or expenditures incurred until the receipt of HOME federal funding. In the event that federal funds are not available, the project will be de-obligated of funds.

Supplemental Funding Assistance Recommendations

HCIDLA recommends that supplemental funding assistance be provided to the following five projects in the amounts summarized in Table 2. The Marmion Way Apartments and Norwood Learning Village both responded to the HCIDLA letter after experiencing construction cost increases. The other three were impacted by tax credit market conditions that resulted in funding gaps.

Marmion Way Apartments and Norwood Learning Village Projects

The Marmion Way Apartments and Norwood Learning Village were both admitted into HCIDLA's Managed Pipeline through the 2013 Call for Projects. Both projects were previously awarded HCIDLA funds and 9% tax credits. Marmion Way Apartments were completed in December 2016, and Norwood Learning Village is currently in construction. Due to increased construction costs unanticipated by the developers, financing gaps exist that prohibit the projects from closing their permanent financing, putting HCIDLA loans at risk. Based on the contract amounts, it was determined by HCIDLA that supplemental funding of $1 million in HOME funds for each project would be sufficient to fully repay the private construction loans.

Coronel Apartments

The Coronel Apartments (Coronel), located in Council District 13 was admitted into the HCIDLA Pipeline through a July 2013 Initial Call for Projects. The project was subsequently awarded a 9% Low Income Housing Tax Credit (LIHTC) allocation from the California Tax Credit Allocation Committee (CTCAC) after submitting an application for funding in the 2016 Round 2 competition. After the LIHTC award, the market for federal housing tax credits declined and the anticipated pricing of Coronel's LIHTC was greatly reduced. In addition, construction bids submitted to the developer by general contractors were considerably higher than what was estimated at the time of the LIHTC application. The aforementioned factors contributed to a funding gap of approximately $4 million. To help offset this gap, the developer value engineered the housing structures and deferred more of its developer fee. To help close the $4 million gap, HCIDLA staff is recommending $2,017,000 in assistance to enable the project to close on its construction financing on schedule. The $2,017,000 consists of $1,605,972.63 in CRA/LA Program Income and $411,027.37 in eligible CRA/LA Project Area Bond Proceeds.

Paul Williams Family Apartments (aka Angelus Funeral Home site)

The Paul Williams Family Apartments (PW) was admitted into the HCIDLA Pipeline through the May 2015 Call for Projects. The project was subsequently awarded a 9% LIHTC allocation from CTCAC after submitting an application for funding in Round 2 of 2016. After the award of the LIHTC, the market for federal housing tax credits declined and the anticipated pricing of PW's LIHTC was greatly reduced. The effect of this market decline resulted in a funding gap of approximately $3 million. To help offset this gap the developer has value engineered the housing structures and deferred more of its developer fee. In addition, HCIDLA staff is recommending $1,894,027.37 in supplemental funding to enable the project to close on its construction financing. The $1,894,027.37 consists of $1 million in HOME funds and $894,027.37 in Greenland Funds, described in detail later in this document.

The site containing the former Angelus Funeral Home located in Council District 9, at 1010 Jefferson Boulevard was originally acquired with $1 million in CDBG funds in 2007. The Community Enhancement Corporation (CEC) received a loan from the CRA/LA under (CF# 06-0100-S12) which was subsequently transferred to the Community Development Department (CDD). The intent was to develop a child care and/or health care services facility. However, in 2012, CEC filed for bankruptcy and quitclaimed the property to CDD in lieu of foreclosure. On November 17, 2015 the City approved the transfer of the property to the Hollywood Community Housing Corporation (HCHC) with the purpose of developing affordable housing units (CF# 15-1183). The purchase was financed via a Seller-Take-Back Loan (Loan) to HCHC in the amount of the appraised value of $1,200,000. At the time the Loan was executed, certain details of the ownership structure were yet to be determined. In order to accommodate the tax credit investor's role, a limited partnership must be formed for purposes of operating and owning the project. HCHC will serve as the managing general partner of the limited partnership, and the LIHTC investor will be the administrative (investor) limited partner. All loan agreements, contracts, and project related legal documents that are currently in the name of HCHC will also need to be assigned and assumed by the new limited partnership.

Subsequent to the allocation of CDBG funds, the project had also been awarded NSP and HOME funds (CF# 11-2106-S5). To match the restrictions of that loan, HCIDLA recommends the CDBG loan be revised to reduce the number of restricted units from 41 to 20.

Florence Mills Apartments

The Florence Mills Apartments is located directly across the street from the Paul Williams Apartments and therefore is also eligible for the same Greenland Funds. The project has an existing CRA/LA acquisition and predevelopment loan in the amount of $3.1 million. When the original loan was transferred from CRA/LA to HCIDLA it was anticipated that no HCIDLA funds would be needed to complete the project. However, due to the same market conditions impacting other HCIDLA projects, the Florence Mills Apartments is now experiencing a sizeable funding gap. Therefore, HCIDLA recommends that the remaining $1,605,972.63 in Greenland Funds be allocated to this project.

Additional Funding Sources

HCIDLA initially awarded the PATH Metro Villas 2 a funding commitment in the amount of $6,200,000 in HOME funds (CF# 13-0303-S8). However, the project was recently recommended for the Proposition HHH Permanent Supportive Housing Loan Program, therefore, HCIDLA recommends to de-obligate $2 million of the original HOME commitment to be used towards the supplemental funding assistance of the above mentioned projects.

Greenland LA Metropolis Fund

The Greenland LA Metropolis Fund was established pursuant to the requirements in the Owner Participation Agreement (Agreement) for the Metropolis project as approved by the former CRA/LA. The developer paid $4,777,200 in-lieu fees to fulfill their Public Benefit Payments as per the Agreement. The Public Benefits Plan Agreement (PBP Agreement) executed on December 16, 2014, specified that $2,500,000 of these funds shall be utilized for the creation of new affordable rental housing for low and very-low income households within a three mile radius of the Metropolis project site. In addition, the PBP Agreement funds may be used towards land acquisition, relocation, demolition, site preparation, environmental review and remediation, design, and construction of the Permitted Uses, including low interest loans for such construction, and reasonable staff, consultant and other administrative costs in connection with development of the project.

TABLE 2: Supplemental Funding Assistance Recommendations

PROJECT NAME	CD	Units	Existing HCIDLA Funds	New/ Additional HCIDLA Funds	TOTAL HCIDLA FUNDS
Marmion Way Apartments	1	49	$4,333,928	$1,000,000.00	$5,333,928.00
Norwood Learning Village	1	28	$1,179,360	$1,000,000.00	$2,179,360
Paul Williams Family Apt	9	41	$2,826,408	$1,894,027.37	$4,720,435.37
Coronel Apartments	13	54	$6,527,000	$2,017,000.00	$8,544,000.00
Florence Mills Apartments	9	74	$3,100,000	$1,605,972.63	$4,705,972.63
TOTAL		**246**	**$17,966,696**	**$7,517,000.00**	**$25,483,696.00**

FISCAL IMPACT STATEMENT

There is no impact to the General Fund. The recommendations in this report will authorize HCIDLA to issue additional commitments in HOME, CRA/LA and Greenland Funds.

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