

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: July 31, 2013

CAO File No. 0220-00540-1052
Council File No. 13-0376-S2
Council District: 6

To: The Mayor
The Council

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

Reference: Housing and Community Investment Department, formerly Los Angeles Housing Department, Transmittal dated June 11, 2013; referred by the Mayor on June 21, 2013 (C.F. 13-0376-S2)

Subject: **AUTHORIZATION TO ISSUE \$10,924,067 IN TAX-EXEMPT, MULTI-FAMILY HOUSING MORTGAGE REVENUE BONDS FOR THE WEST VALLEY TOWERS PROJECT**

SUMMARY

The Housing and Community Investment Department (HCID), formerly the Los Angeles Housing Department (LAHD), requests that the Council adopt a Resolution authorizing issuance of \$10,924,067 of tax-exempt multi-family housing mortgage revenue bonds (Bonds) in support of the West Valley Towers Project (Project) located at 14650 Sherman Way in Council District 6. The Resolution and related documents are attached to the HCID transmittal relative to the Project dated June 11, 2013 (C.F. 13-0376-S2). The City's involvement in these transactions is considered true conduit financing, in which the obligation for repayment of the bonds is the borrower's responsibility and the City bears no financial responsibility for repayment. The City's Debt Management Policy is not applicable as no City funds are being used to issue the bonds. This Office recommends approval of the HCID's recommendations.

BACKGROUND

The Project involves the acquisition and rehabilitation of one existing multi-story apartment building that will include 97 units of which 96 units will be designated as affordable housing reserved for low-income families and one unit for an onsite manager. When completed, the site will include 37 parking spaces, laundry facilities, a community room, elevator service, a computer room, a fitness room, gated entry, and a barbecue area.

The California Debt Limit Allocation Committee (CDLAC) awarded the requested bond allocation on May 15, 2013 with a deadline for issuance of September 3, 2013. The LAHD conducted a public hearing in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) and the Council adopted the TEFRA Resolution and Minutes on April 9, 2013 (C.F. 13-0376).

The HCID reports that the project Borrower/Sponsor is West Valley Towers RHF Partners, LP (Borrower). The partnership will include: West Valley Towers RHF Housing, LLC, as the Managing General Partner, which is comprised of West Valley Towers (WVT), a Managing Member and St. Mark's Episcopal Church. The Retirement Housing Foundation (RHF) is the developer of the Project. R4 Capital, LLC will be the tax credit equity investor. The board members of WVT include Alfred K. Theobald, William Hawkins, Robert E. Johnson and Laverne R. Joseph. The board members of St. Mark's Episcopal Church include Charlie Crasher, Beatrice Bowman, Steve Skinner and Evelyn Gaudier. RHF's Officers are Laverne R. Joseph, President and CEO, John E. Trnka, chair, Darryl M. Sexton, Vice Chair, Christina E. Potter, Vice Chair, Tome S. Masuda, Treasurer, and Deborah J. Stouff, Secretary.

Citibank will provide financing through a back-to-back loan structure, making a tax-exempt loan of \$10,924,067 to the City (Citibank Loan). The City will then loan these proceeds to the Borrower (City Loan) to finance a portion of the Project. The construction loan term will be 24 months plus one six-month extension, with interest only payments due during the construction phase. The construction phase interest rate will be a variable rate equal to the 2-year SIFMA plus a spread of 275 basis points during the construction phase equaling the current rate of 3.01 percent. Once construction is completed, the construction loan will be paid down with proceeds from permanent sources. The permanent loan will be in the amount of \$6,987,990 and will have a 30/35 years term/amortization period. The currently underwritten permanent interest rate is 4.59 percent. The developer has received four percent Low Income Housing Tax Credits (LIHTCs) and is expected to raise at least \$6,783,771 in tax credit equity.

The obligation of the Borrower to repay the City Loan will be secured by a mortgage on the Project (Mortgage). The Mortgage will be pledged by the City to a trustee/fiscal agent acting on behalf of Citibank as the sole security for payment of the Citibank Loan. Similar to a private placement tax exempt bond structure, the obligations of the City are secured only by and payable only from payments received from the Borrower under the Loan Agreement between the Borrower and the City. The Citibank Loan will be a strictly limited, non-recourse loan. The Citibank Loan will be evidenced by a note (Note) delivered in physical (non-book entry) form subject to the restrictions on transfer set forth in the City's Housing Bond Policies and Procedures.

In addition, Citibank has requested waiver of certain HCID policies related to the issuance of non-rated tax-exempt bonds. HCID has agreed to a limited number of modifications that nonetheless retain City protections intended by the policies and prevent the City from incurring undue risk or liability. Both the City Attorney and Bond Counsel have reviewed the proposal and assessed no undue risk or liability. The modifications are as follows:

1. HCID has agreed to allow multiple Note holders subject to the following conditions: 1) Note holders shall be limited to Qualified Institutional Buyers (QIB) and institutional Accredited Investors and individual Accredited Investors meeting certain net worth and income requirements; 2) there shall be at all times a Majority Note Holder, owning more than 50% of the Notes or, in certain instances, a Note Holder Representative; 3) Note holders, other than QIBs and affiliates thereof or a trust which issues interests to QIBs or the interests in which are rated "A" or better, shall be required to provide an Investor Letter; 4) the seller of Notes to a QIB shall be required to provide certain certifications that the buyer is a QIB; and 5) minimum bond denominations shall be \$100,000.

2. HCID has agreed to permit the Note Holder Representative to declare a default under the Note and request the City to authorize exercise of remedies.
3. HCID has agreed to allow the Note (or a portion thereof) to be held in a tender option bond trust (TOB Trust) subject to the following: 1) certificates issued by the trust shall be credit enhanced and shall (except for a residual interest owned by a QIB) receive a rating in the "A" category or better; 2) certificate holders shall be QIBs; and 3) if the necessary dissolution of the Trust would result in a majority of the Note not being held by a single note holder, then Citibank or an affiliate thereof shall be appointed the Note Holder representative prior to trust dissolution.

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

RECOMMENDATIONS

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

1. Adopt the Resolution attached to the Housing and Community Investment Department (HCID), formerly the Los Angeles Housing Department (LAHD), Transmittal dated June 11, 2013 (C.F. 13-0376), authorizing the issuance of up to \$10,924,067 in tax-exempt multi-family housing mortgage revenue bonds for the development of West Valley Towers Project located at 14650 Sherman Way in Council District 6;
2. Approve the related loan documents attached to the HCID Transmittal dated June 11, 2013 (C.F. 13-0376), subject to the approval of the City Attorney as to form; and
3. Authorize the General Manager of the HCID, 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. Funding authority for the tax-exempt multi-family housing revenue bonds is provided by the California Debt Limit Allocation Committee. The borrowers will pay all costs associated with the issuance of the bonds, and the City bears no financial responsibility for repayment. Approval of the recommendations will enable the West Valley Towers Project to secure additional funding to rehabilitate affordable housing for families. The City's Debt Management Policy is not applicable as there are no City funds being used to issue the bonds.