

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: June 4, 2013

CAO File No. 0220-00540-1048

Council File No. 13-0380-S1

Council District: 12

To: The Mayor
The Council

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

Reference: Transmittal from the Los Angeles Housing Department dated May 9, 2013; received by the City Administrative Officer on May 20, 2013

Subject: **REQUEST TO AUTHORIZE THE ISSUANCE OF UP TO \$13,000,000 IN TAX-EXEMPT MULTI-FAMILY MORTGAGE REVENUE BONDS FOR THE CORAL WOOD COURT APARTMENTS PROJECT**

SUMMARY

The Los Angeles Housing Department (LAHD) requests authority to issue tax-exempt multi-family housing revenue bonds in the amount of \$13,000,000 to finance an affordable housing development known as the Coral Wood Court Apartments project (Project) located at 8025-8039 Reseda Boulevard, Los Angeles, CA 91335 in Council District 12. The California Debt Limit Allocation Committee (CDLAC) has designated August 15, 2013 as the bond allocation expiration date.

The Project includes acquisition and rehabilitation of a 106-unit apartment building that will continue to provide affordable housing for families and one manager unit. In addition, the tenants will have access to a community room, two swimming pools, a fitness center, parking spaces, a courtyard, a picnic/barbeque area, a playground for children, and laundry facilities.

The LAHD also requested Council to adopt the resolution and approve related loan documents provided as attachments to the LAHD transmittal dated May 9, 2013 (C.F. 13-0380-S1). The Project will use a variety of funding sources including tax-exempt bonds, equity investments and a loan from Citibank. The total cost of the Project is estimated to be \$26,355,261. 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 29, 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 February 19, 2013 in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). Council adopted the TEFRA Resolution and Minutes on April 9, 2013 (C.F. 13-0380). The LAHD was authorized to apply on behalf of the sponsor for an allocation of up to \$14,000,000 in tax-exempt bonds from CDLAC; but the Sponsor recently stated that only \$13,000,000 of the bond allocation will be needed. The CDLAC bond allocation expiration date is August 15, 2013; however, the Purchase and Sale Agreement requires the bonds to be issued by June 28, 2013.

In November 1995, the LAHD provided a Community Development Block Grant (CDBG) loan of \$4,630,207 to Coral Wood Court Apartments, L.P. (Seller) under the Earthquake Emergency Loan Program to finance rehabilitation of the Project. Additionally, the LAHD issued \$3,690,000 in bonds in October 1999 for further rehabilitation of the project. These debts will be repaid when the new bonds are issued for the project.

The Project Sponsor/Borrower will be Coral Wood Court Community Partners, LP (CWCCP). The Sponsor and Seller are unrelated parties. The CWCCP is a California limited partnership and includes AHDF-Coral Wood Court G/P, LLC (ACWCGP) as its Managing General Partner, and Coral Wood Court G/P, LLC (CWCGP) as its Co-General Partner. The ACWCGP is comprised of Affordable Housing Development Fund, Inc. (AHDF) as its Member and AHDF—Coral Wood Court G/P, LLC. Michael K. Moore is the Manager of ACWCGP. The Member of WNCDP is WNC Development Partners, LLC (WNCDP). The Members of WNCDP are Cooper Living Trust (CLT) and Cooper Revocable Trust (CRT). The AHDF Board consists of: Thomas M. Van Vleet, Jack Ahrens, Saverio Burdi, Ken Smith, Mark Adams, and Earl De Cloux. The Developer is Community Preservation Partners, LLC (CPP). The Member of CPP is WNC & Associates, Inc. (WAI), a California corporation. The Board of WAI is comprised of: Wilfred N. Cooper Sr., Wilfred N. Cooper Jr., Kay L. Cooper, and Jennifer E. Cooper. The developer has seven years of experience with affordable housing and has developed 41 affordable housing projects with a total of 1,956 units.

The bonds will be privately placed with Citibank. Citibank will make a tax-exempt loan in the approximate amount of \$13,000,000 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 24 months, with interest only payments due during the construction phase. The loan will bear interest at a fixed rate calculated by adding a 0.35 percent spread to the two-year MMD Index which is currently at 0.34 percent, resulting in a rate of 0.69 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 "AAA" rated money market fund so that the Citibank loan achieves a rating of at least "AA+," 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 3.25 percent. The developer has also received four percent Low Income Housing Tax Credits and has at least \$7,646,964 in tax credit equity. Additional permanent financing includes a developer fee, capitalized interest, and Seller financing.

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, CWCCP, is solely responsible for paying the debt. In addition, the bonds are 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 Borrower, CWCCP.

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 related Resolution attached to the Los Angeles Housing Department transmittal dated May 9, 2013 (C.F. 13-0380-S1), authorizing the issuance of up to \$13,000,000 in tax-exempt multi-family mortgage revenue bonds for the development of the Coral Wood Court Apartments Project (Project);
2. Approve the related loan documents attached to the Los Angeles Housing Department transmittal dated May 9, 2013 (C.F. 13-0380-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 Coral Wood Court Apartments Project (Project) to secure funding to 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.

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