

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Date: June 4, 2013

CAO File No. 0220-00540-1048  
Council File No. 13-0422-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 May 9, 2013; received by the City Administrative Officer on May 13, 2013

Subject: **REQUEST TO AUTHORIZE THE ISSUANCE OF UP TO \$9,100,000 IN TAX-EXEMPT MULTI-FAMILY MORTGAGE REVENUE BONDS FOR THE ORANGE WOOD COURT APARTMENTS PROJECT**

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### SUMMARY

The Los Angeles Housing Department (LAHD) requests authority to issue tax-exempt multi-family housing revenue bonds in the amount of \$9,100,000 to finance an affordable housing development known as the Orange Wood Court Apartments project (Project) located at 5050 North Sepulveda Boulevard, Los Angeles, CA 91403 in Council District 4. The California Debt Limit Allocation Committee (CDLAC) has designated August 15, 2013 as the allocation expiration date.

The Project includes acquisition and rehabilitation of an apartment building that will provide 91 affordable housing units for families and one manager unit. In addition, the tenants will have access to a children's playground, a barbeque area, a swimming pool, a community room, a courtyard, elevator services, laundry facilities, and 96 subterranean and 13 un-covered parking spaces.

The LAHD also requested Council adopt the resolution and approve related loan documents provided as attachments to the LAHD transmittal dated May 9, 2013 (C.F. 13-0422-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 \$18,790,673. 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 16, 2013 (C.F. 13-0422). The LAHD was authorized to apply on behalf of the sponsor for an allocation of up to \$11,672,000 in tax-exempt bonds from CDLAC. On May 15, 2013, the Project was awarded an allocation of \$10,150,000 in bonds. The CDLAC bond allocation expiration date is August 15, 2013; however, the Purchase and Sale Agreement requires the bonds be issued by June 28, 2013.

In November 1995, the LAHD provided a Community Development Block Grant (CDBG) loan (\$3.21 million) to Orangewood Court Apartments, L.P. (Seller) under the Earthquake Emergency Loan Program to finance rehabilitation of the Project. Additionally, the LAHD issued \$2.99 million 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 will be Orangewood Court Community Partners, LP (OCCP); OCCP is a California limited partnership and includes AHDF-Orangewood Court GP, L.L.C (AOCG) as its Managing General Partner, and Orangewood Court G/P, LLC (OCG) as its Co-General Partner. AOCG is comprised of Affordable Housing Development Fund, Inc. (AHDF); as its Sole Member, Michael K. Moore is the Manager of AOCG; OCG is comprised of WNC-Orangewood Court GP, LLC (WOCG) as its Sole Member. WOCG is comprised of WNC Development Partners, LLC (WDP) as its Sole Member. Cooper Living Trust (CLT) and Cooper Revocable Trust (CRT) are the Members of WDP. The Principals of CLT are: Wilfred N. Cooper, Jr. and Jennifer Elder Cooper. The principals of CRT are: Wilfred N. Cooper, Sr. and Kay L. Cooper. 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 \$9,100,000 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 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 .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 \$5.58 million 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, OCCP, 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, OCCP.

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. 13-0422-S1), authorizing the issuance of up to \$9,100,000 in tax-exempt multi-family mortgage revenue bonds for the development of the Orange 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. 13-0422-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 Orange 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.

*MAS:TJM:02130142c*