

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: April 22, 2014

CAO File No. 0220-00540-1088

Council File No. 13-1087-S1

Council District: 7

To: The Mayor
The Council

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

Reference: Transmittal from the Housing and Community Investment Department dated March 12, 2014; received by the City Administrative Officer on March 28, 2014

Subject: **REQUEST FOR AUTHORIZATION TO ISSUE TAX-EXEMPT MULTI-FAMILY
CONDUIT BONDS FOR THE LAUREL VILLAGE APARTMENTS PROJECT**

SUMMARY

The Los Angeles Housing and Community Investment Department (HCID) requests authority to issue tax-exempt, multi-family housing conduit revenue bonds in an amount not to exceed \$14,325,000 to finance the rehabilitation of an affordable housing development called the Laurel Village Apartments (Project). The California Debt Limit Allocation Committee (CDLAC) awarded the bond allocation for the Project to the City on November 13, 2013, with June 17, 2014 as the anticipated allocation expiration date. This Office concurs with the HCID request to issue the bonds for the Project.

The proposed Project site is located at 9700 Laurel Canyon Boulevard in Los Angeles in Council District 7. The Project consists of 80 units in 10 buildings and will continue to provide affordable housing for families. The renovation of the buildings consists of two laundry rooms, a basketball court, a children's play area and 173 parking spaces.

The HCID also requests Council to adopt the related Resolution authorizing the bond issuance. The Resolution is included in the attached Transmittal from HCID. The Project funding will be provided through tax-exempt bonds and General Partner and tax-credit equity. The City's involvement in these transactions is considered true conduit financing because the obligation for repayment of the bonds is the Borrower's responsibility and the City bears no financial responsibility for the repayment. There will be no impact to the General Fund. The Project complies with the City's Debt Management Policy in that applicable guidelines regarding general requirements, qualified organizations, conduit procedures, conditions for consideration and document requirements relative to conduit financing policies appear to be met.

The Project Development Team is comprised of the following groups:

- Project Sponsor and Borrower: Laurel Village, L.P., Los Angeles, CA.
- Developer and Property Manager: Abode Communities, Los Angeles, CA.

- Attorney: Bocarsly Emden Cowan Esmail & Arndt, Los Angeles, CA.
- General Contractor: Walton Construction Services, San Dimas, CA.
- Equity Investor: Wells Fargo Bank, Irvine, CA.

In July 2013, HCID induced the Project thereby enabling the Sponsor to apply for a tax-exempt bond allocation (C.F. 04-2646). In August 2013, HCID conducted a public hearing in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). The HCID was authorized to apply on behalf of the Sponsor for an allocation of up to \$14,325,000 in tax-exempt bonds from CDLAC. In September 2013, HCID, on behalf of the Developer, submitted the CDLAC application, and in November 2013, CDLAC awarded \$14,325,000 in tax-exempt bonds for the Project. The HCID states that the Borrower and Developer are in compliance with the HCID Business Policy and that labor costs are subject to the State of California's Prevailing Wage requirements and/or Federal Davis Bacon wages, if applicable.

Financial Structure

The bonds will be privately placed and purchased by Wells Fargo Bank. The Borrower will use the proceeds from the construction loan to provide affordable housing within the City in compliance with federal, State and local laws and with the policies and procedures of the City. The construction loan term will be 18 months with two three-month extensions and a variable interest rate of approximately three percent. Permanent financing for the Project is proposed to be through Union Bank; the permanent interest rate for the Tranche A note is five percent while the interest rate for the Tranche B note is 4.9 percent (tranche securities make up a deal's capital structure and are related securities offered as part of the same transaction. These notes are generally paid sequentially from the most senior to most subordinate). The Developer received four percent Low Income Housing Tax Credits (LIHTC) and has at least \$6,966,614 in tax credit equity.

The Council adopted a Responsible Banking Ordinance (RBO) in May 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 acts only as a conduit issuer in these types of bond transactions and has no financial interest; therefore, the selection of Wells Fargo and/or Union Bank does not constitute City business.

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, Laurel Village, L.P., is solely responsible for paying the debt. While conduit bonds are usually based on the credit of the conduit borrower, the subject bonds are non-rated. HCID states that this is an exception to its bond issuance policy; however, the exception was made because the bonds will be held by one bondholder and future transfer of the bonds will be limited to qualified buyers or an affiliate of Wells Fargo. The draft Loan Agreement among the City, Wells Fargo and Laurel Village, L.P., states that, to the fullest extent permitted by law, the City is fully indemnified by Laurel Village, L.P. (C.F. 13-1087-S1). HCID states that all bond opinions will be executed when the bonds are issued.

RECOMMENDATIONS

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

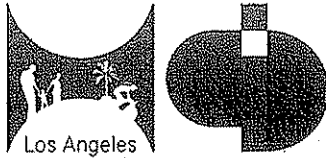
1. Adopt the Resolution included in the attached Transmittal from the Los Angeles Housing and Community Investment Department (HCID) dated March 28, 2014, authorizing the issuance of up to \$14,325,000 in tax-exempt multi-family mortgage conduit revenue bonds for the development and rehabilitation of the Laurel Village Apartments Project;
2. Approve the related loan documents, subject to the approval of the City Attorney as to form; and,
3. Authorize the General Manager, 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 Borrower, Laurel Village L.P., 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 provide the Laurel Village Apartments Project (Project) with funding to rehabilitate the Project and enhance affordable housing for the community. The Project complies with the City's Debt Management Policy in that applicable guidelines regarding general requirements, qualified organizations, conduit procedures, conditions for consideration and document requirements relative to conduit financing policies appear to be met.

MAS:KDU:02140092c

Attachment



Los Angeles
HOUSING+COMMUNITY
Investment Department

Housing Development Bureau
1200 West 7th Street, 8th Floor, Los Angeles, CA 90017
tel 213.808.8638 | fax 213.808.8610
hcidla.lacity.org



Eric Garcetti, Mayor
Rushmore D. Cervantes, Interim General Manager

March 12, 2014

Council File: NEW
Council District: 7
Contact Persons:
Rochelle Cox (213) 808-8960
Yaneli Ruiz (213) 808-8951
Manuel Bernal (213) 808-8901
Helmi Hisserich (213) 808-8662

Honorable Eric Garcetti
Mayor, City of Los Angeles
Room 303, City Hall
200 N. Spring Street
Los Angeles, CA 90012

Attention: Mandy Morales, Legislative Coordinator

COMMITTEE TRANSMITTAL: REQUESTING THAT MAYOR AND CITY COUNCIL AUTHORIZE THE ISSUANCE OF UP TO \$14,325,000 IN TAX-EXEMPT MULTIFAMILY CONDUIT REVENUE BONDS FOR THE LAUREL VILLAGE APARTMENTS PROJECT.

SUMMARY

- The Los Angeles Housing and Community Investment Department (HCIDLA) formerly known as the Los Angeles Housing Department (LAHD), respectfully requests authority to issue its tax-exempt multi-family housing conduit revenue bonds in the amount of \$14,325,000 to finance the development of an affordable housing development known as the Laurel Village Apartments ("Project"). The California Debt Limit Allocation Committee (CDLAC) has designated June 17, 2014 as the allocation expiration date.
- The subject site is located at 9700 Laurel Canyon Boulevard, Los Angeles, CA 91331 in the 7th Council District. The proposed project entails the rehabilitation of ten two-story wood-framed buildings, totaling 80-units. The existing complex will continue to provide affordable housing for families. Amenities include two laundry rooms, a half-size basketball court and children's play area. The project contains 173 parking spaces.

RECOMMENDATIONS

The General Manager, HCIDLA, respectfully requests the following:

1. That your office schedule this transmittal for consideration at the next available meeting(s) of the appropriate Committee(s) of the City Council and forward it to the City Council for review and approval immediately thereafter;
2. That the City Council:
 - a. Adopt the attached Resolution authorizing the issuance of up to \$14,325,000 in tax-exempt multi-family mortgage conduit revenue bonds ("Bond") for the development of the Laurel Village Apartments Project;
 - b. Approve the related loan documents, subject to the approval of the City Attorney as to form;
 - c. Authorize the General Manager, HCIDLA, or designee, to negotiate and execute the relevant loan documents, subject to the approval of the City Attorney as to form.
3. That the Mayor concur with the action of the City Council.

BACKGROUND/PROJECT DETAIL

Financing History

Timeline

Inducement	July 2, 2012 (CF# 04-2646)
TEFRA Hearing	August 1, 2013
CDLAC Application Submitted	September 13, 2013
TEFRA Approved by Council	September 3, 2013
CDLAC Allocation Award	November 13, 2013
CDLAC Allocation Expiration Date	June 17, 2014

On July 2, 2012, LAHD induced the project (CF# 04-2646), thereby enabling the sponsor to apply for a tax-exempt bond allocation. LAHD was authorized to apply on behalf of the sponsor for an allocation of up to \$14,325,000 in tax-exempt bonds from CDLAC. On August 1, 2013, HCIDLA conducted a public hearing in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). On September 3, 2013, the TEFRA Resolution and Minutes were adopted by the City Council (CF#13-1087). On September 13, 2013, HCIDLA, on behalf of the developer, submitted the CDLAC application for an allocation of tax-exempt bonds. On November 13, 2013, the project was awarded an allocation of \$14,325,000 in bonds from CDLAC. The current bond allocation expiration date will be June 17, 2014.

Affordability Restrictions

UNIT TYPE	50% AMI	60% AMI	Manager	TOTAL
2 bedroom	20	44		64
3 bedroom	4	11	1	16
TOTAL	24	55	1	80

Pursuant to the Bond Regulatory Agreement to be executed in connection with the issuance of the tax-exempt bonds, the above referenced restrictions will have a term of not less than the longer of: (i) 15 years after 50% of the units are first occupied, (ii) the date such bond is paid in full, or (iii) the date on which any Section 8 assistance terminates, if applicable. In addition, CDLAC's resolution and rental income restrictions will be in place for at least 55 years. Also, because the Project will receive 4% Low Income Housing Tax Credits the subject units will also be restricted, via separate agreement, for a minimum of 55 years.

Development Team

The Project Borrower/ Sponsor is Laurel Village, L.P. (LV). The General Partner is Laurel Village GP, LLC (LVGP), of which Abode Communities is the sole member. The principals of LV, LVGP, AC, are Robin Hughes, President and CEO; Rick Saperstein, Executive Vice-President and CFO; Holly Benson, Vice-President, Housing Development and Kasey Archey, Vice-President, Property Management and Resident Services. At the time of the bond closing, the present tax credit equity investor will be replaced with the new tax credit equity investor, Wells Fargo Bank.

The Developer is Abode Communities (AC), a nonprofit corporation under Section 501c3. The developer has over 29 years of experience in the development of multifamily rental housing and has developed over 36 projects in California resulting in a total of approximately 2,309 housing units.

Developer: Abode Communities
701 E. 3rd Street, Suite 400
Los Angeles, CA 90013
Phone : (213) 629-2702
Contact : Holly Benson

The borrower and developer are in compliance with HCIDLA's Business Policy.

The additional development team members are:

Attorney: Bocarsly Emden Cowan Esmail & Arndt
633 W. Fifth Street, 70th Floor
Los Angeles, CA 90017
Phone: (213) 239-8029
Contact: Nicole Deddens

General Contractor: Walton Construction Services
358 Foothill Boulevard
San Dimas, CA 91733
Phone: (909) 267-7777 x10
Contact: Sam Walton

Property Manager: Abode Communities
701 E. 3rd Street, Suite 400
Los Angeles, CA 90013
Phone : (213) 629-2702.
Contact : Kasey Archey

Equity Investor: Wells Fargo Bank
2030 Main Street, Suite 500
Irvine, CA 92624
Phone: (213) 240-3144
Contact: Paul Buckland

Financial Structure

Wells Fargo Bank has proposed a private placement bond structure for the Project that requires waiver of certain Bond policies related to the issuance of non-rated tax-exempt bonds. In general, the policies HCIDLA has been asked to waive address liquidity considerations for Wells Fargo Bank, the bond purchaser. After review, discussion and negotiation, HCIDLA has agreed to a limited modification of its policies solely for this Project. HCIDLA has permitted certain modifications that nonetheless retain City protections intended by the policies and prevent the City from incurring undue risk or liability. HCIDLA has allowed the limited modifications in view of certain financial benefits of the Wells Fargo Bank structure. The policies to which HCIDLA has agreed to are summarized as follows:

(a) Wells Fargo Bank, N.A. as Bond purchaser has agreed that the Bond shall be issuable only as a single fully registered Bond, without coupons in the principal amount equal to the aggregate of the purchase price of the Bond advanced from time to time by Wells Fargo Bank, N.A. and any subsequent owner of the Bond;

(b) HCIDLA has agreed to allow the Bond to be held in a special purpose entity, a trust or custodial arrangement established by Wells Fargo Bank, N.A. or an affiliate thereof with respect to which either (1) the Wells Fargo Bank, N.A. as Bondowner Representative or an affiliate thereof, as transferor, represents in writing to the Trustee that all of the beneficial owners of which are "qualified institutional buyers" ("QIBs"); or (2) the Bondowner Representative or an affiliate thereof, as transferor, represents in writing to the Trustee that all of the interests in such trust or arrangement (other than residual interests retained by QIBs) are rated in the "A" category or higher by a rating agency provided, however, that a

single QIB shall at all times hold a controlling interest in the residual interests and such trust or arrangement shall be controlled by the Bondowner Representative or an affiliate thereof.

At the permanent conversion of the project, Union Bank will be the permanent lender. The current permanent 15-yr fixed rate is 5% for the Tranche A note and 4.90% for the Tranche B note. The Bond will remain as a single instrument but will be denominated as a Governmental Lender Note, with the Trust Indenture amended and restated into a Funding Loan Agreement and the Loan Agreement amended and restated into a Permanent Loan Agreement.

The property currently has an existing HCIDLA loan in the principal amount of \$1,462,000 plus accrued interest (approx \$305,000). Accrued interest for two months will be waived, approximately \$13,000, based on the delay in the approval of the required TEFRA notice, which was out of the control of the Sponsor. The remaining principal and interest (approx. \$1,754,000) is proposed to be paid-off at the close of escrow.

Additionally, the bond structure adheres to both the Bond Polices and City's Financial Policies and has been reviewed by the City Attorney's office and bond counsel. Bond counsel will provide the City the required legal opinions as to the tax exempt status of the bonds under federal and state law. The legal and financing documents will also include the required items as per the policies, including but not limited to; language that the bond structure is a limited obligation and strictly payable from the project revenues, requiring the borrower to provide annual statements, and providing additional information as may be reasonable requested.

Sources and Uses:

Construction	Total Sources	Per Unit	% Total
Tax-Exempt Bonds (WFB)	\$14,325,000	\$179,063	65%
Cash Reserves From Seller	\$947,207	\$11,840	4%
Seller Note	\$4,437,593	\$55,470	20%
Income From Operations	\$176,205	\$2,202	1%
LP Equity	\$500,000	\$6,250	2%
Deferred Costs	\$1,680,858	\$21,011	8%
TOTAL	\$22,066,863	\$275,836	100%

Permanent	Total Sources	Per Unit	% Total
Tax-Exempt Bonds (Union Bank)	\$5,672,000	\$70,900	26%
Tax-Exempt Perm Loan (Section 8 Increment)	\$3,428,000	\$42,850	15%
Cash Reserves From Seller	\$947,207	\$11,840	4%
Seller Note	\$4,437,593	\$55,470	20%
Income From Operations	\$615,449	\$7,693	3%
LP Equity	\$6,966,614	\$87,083	32%
TOTAL	\$22,066,863	\$275,836	100%

Uses of Funds	Total Uses	Cost/Unit
Acquisition Costs	\$10,327,207	\$129,090
Construction Costs	\$5,865,323	\$73,317
Arch., Eng., Reports, Legal, etc..	\$1,870,096	\$23,376
Financing Costs	\$913,921	\$11,424
Reserves	\$670,800	\$8,385
Other Soft Costs	\$273,816	\$3,423
Developer Fee	\$2,145,700	\$26,821
TOTALS	\$22,066,863	\$275,836

The HCIDLA Bond Team for the financing of the Laurel Village Apartments Project is as follows:

Bond Issuer Financial Advisor
CSG Advisors, Inc.
315 West 5th Street, Suite 302
Los Angeles, CA 90013

Bond Counsel
Kutak Rock, LLP
601 S. Figueroa Street, Suite 4200
Los Angeles, CA 90017

Bond Issuer Counsel
Los Angeles City Attorney
200 N. Main Street, 9th Floor
Los Angeles, CA 90012

Labor Costs

Labor costs are subject to the State of California's Prevailing Wage requirements and/or Federal Davis Bacon wages, if applicable.

Timeline – Bond Closing Date

The California Debt Limit Allocation Committee has designated June 17, 2014 as the expiration date for the issuance of the tax-exempt bonds.

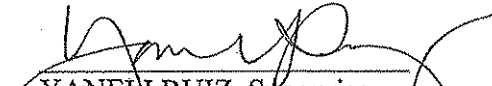
FISCAL IMPACT STATEMENT

There will be no fiscal impact on the General Fund as a result of the issuance of the bonds. The City is a conduit issuer and does not incur liability for repayment of the bonds.

Prepared By:

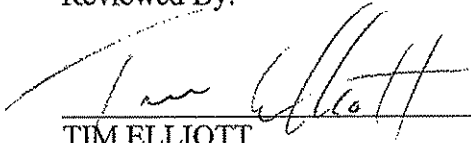


ROCHELLE COX
Finance Development Officer




YANELI RUIZ, Supervisor
Affordable Housing Bond Program

Reviewed By:



TIM ELLIOTT
Manager of Multi-Family Housing Finance

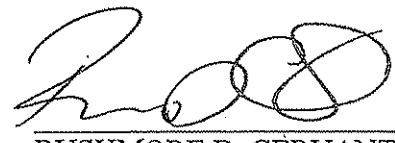


MANUEL BERNAL
Director of Housing

Approved By:



HELMI HISSERICH
Assistant General Manager



RUSHMORE D. CERVANTES
Interim General Manager