

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: August 19, 2015

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Council File No. 13-1265

Council District: 9

To: The Mayor
The Council

From: Miguel A. Santana, City Administrative Officer



Reference: Housing and Community Investment Department transmittal dated July 8, 2015;
Received by the City Administrative Officer on July 14, 2015

Subject: **REQUEST TO ISSUE UP TO \$950,000 IN SUPPLEMENTAL TAX-EXEMPT
MULTI-FAMILY CONDUIT REVENUE BONDS FOR THE PARK PLAZA
APARTMENTS PROJECT**

SUMMARY

The Housing and Community Investment Department (HCID) requests authority to issue supplemental tax-exempt, multi-family housing conduit revenue bonds, in an amount not to exceed \$950,000, to finance the rehabilitation of the affordable housing development known as the Park Plaza Apartments (Project). The site to be developed is located at 960 W. 62nd Place, Los Angeles, CA 90044 in Council District 9. The City previously issued \$8,050,000 in tax-exempt bonds to finance the development of the Project in August 2014 (C.F. 13-1265). The California Debt Limit Allocation Committee (CDLAC) awarded the supplemental bond allocation for the Project to the City on May 20, 2015, with an initial bond issuance deadline of September 8, 2015.

The HCID also requests that the Council adopt the Resolution attached to the HCID report dated July 8, 2015 which authorizes the bond issuance. The Project will use a variety of funding sources including tax-exempt bonds, an HCID seller take back acquisition loan, Neighborhood Stabilization Program 3 (NSP3) loan, and tax credit equity. The City's involvement in the issuance of tax-exempt, multi-family housing conduit revenue bonds 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. There will be no impact to the General Fund. The financing is consistent with City policies regarding conduit financing. This Office concurs with the recommendations of the Department.

BACKGROUND

The Development Team of the Project is comprised of the following groups:

- Vermont Park Plaza, L.P. is the Project Sponsor, known also as the Borrower;
- The Coalition for Responsible Community Development is the Managing General Partner, TSA Park Plaza, LLC (TSA Park Plaza), is the Administrative General Partner, and Merritt Community Capital Fund XVII, L.P. is a limited partner. TSA Park Plaza is comprised solely of Thomas Safran and Associates Development, Inc (TSADI). TSADI is both the Developer and the Property Manager for the Project. TSADI is a California corporation with more than 38 years of experience in the development of affordable housing projects. They have developed 46 projects in Los Angeles County resulting in 4,058 affordable multi-family rental housing units;
- Merritt Community Capital Corporation is the Tax Credit Investor;
- Bocarsly, Emden, Cowan, Esmail and Arndt are the Attorneys;
- Withee Malcolm Architects is the Architect;
- ICON Commercial Contractors, Inc. is the General Contractor.

Previously, HCID took possession of the Project site via a foreclosure process. Subsequently, through a Request for Proposals (RFP) process, TSADI was selected to acquire and develop the site (C.F. 12-1941).

Financing History

On March 24, 2015, HCID conducted a public hearing in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) and on April 17, 2015, the TEFRA Resolution and Minutes were adopted by the Council (C.F. 15-0436). The HCID received authorization to induce the Project on April 20, 2005, (C.F. 04-2646) and on March 17, 2015, HCID induced the Project, thereby enabling the Project Sponsor to apply for a tax-exempt bond allocation of up to \$950,000 in tax-exempt bonds from CDLAC. On March 20, 2015, HCID, on behalf of the Project Sponsor, submitted the CDLAC application for an allocation of tax-exempt bonds. On May 20, 2015, the Project was awarded an allocation of \$950,000 in tax-exempt bonds from CDLAC. The CDLAC bond issuance deadline is September 8, 2015.

The HCID states that the Borrower and Developer are in compliance with HCID's 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.

Affordability Restrictions

Pursuant to the City's Conduit Financing Policies, the Project must provide a public benefit necessitating the execution of a Bond Regulatory Agreement in connection with the issuance of tax-exempt bonds. The restrictions of this agreement are shown below and will have a term of not less than the longer of (i) 15 years after 50 percent of the units are first occupied, (ii) the date

such bonds are paid in full, or (iii) the date on which any Section 8 assistance terminates. The CDLAC resolution and rental income restrictions will be in place for at least 55 years. In addition, the Project will receive four percent Low Income Housing Tax Credits, and the affected units will be subject to the restrictions detailed below via a separate agreement for a minimum of 55 years. The HCID loans' regulatory agreements will also be in effect for a minimum term of 55 years. Further, the Project will execute a project based Section 8 contract with the Housing Authority of the County of Los Angeles (HACOLA). The table below identifies the number and sizes of units by a percentage of the Area Median Income (AMI). The AMI is the median income within the Los Angeles-Long Beach Metropolitan Fair Market Rent Area as defined by HUD.

Summary of Affordability Restrictions by Unit Type

Unit Type	40% AMI	50% AMI	60% AMI	Manager	Total
1 bedroom		10			6
2 bedroom		38			41
3 bedroom		30		1	32
Total		78		1	79

Financial Structure

The HCID states that the \$950,000 in supplemental tax-exempt bonds will be privately placed and purchased by JP Morgan Chase Bank, N.A. (Chase). Chase will use the bond proceeds from the original and supplemental issuances to provide a construction loan to the Project Sponsor in the amount of \$9 million (\$8,050,000 original + \$950,000 supplemental). The Chase construction loan will have an 18-month term, subject to any extension option, with a fixed monthly interest rate of 145 basis points (1.45 percent) above the 30-day London Interbank Offered Rate (LIBOR). The current indicative fixed rate is 1.64 percent. At conversion to permanent financing, the Chase construction loan will be paid down with available funding sources and Chase will issue a permanent loan to the Project Sponsor in the amount of \$2,397,110 with a term not to exceed 30 years. The applicable interest rate for the permanent loan will be the 10-year interest rate swap (currently 2.45 percent) plus 2.57 percent; the current indicative all in rate is 5.02 percent.

On January 24, 2014, HCID executed two loans to the Borrower: a \$7,150,000 seller take back loan (C-123595) to finance acquisition and a \$3 million loan (C-123594) to finance predevelopment/construction costs. At the time of acquisition, the Borrower assumed and paid down \$1,632,000 of the acquisition loan which brings the current balance of the \$7,150,000 acquisition loan to \$5,518,000. On January 29, 2014, the Project Sponsor received a reservation of four percent tax credits which is projected to generate \$5,288,407 in tax credit equity.

The bond structure adheres to both HCID's Bond Policies and the City's Financial Policies and has been reviewed by the City Attorney and bond counsel. Bond counsel will provide the City with 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 HCID's Bond Policies and the City's Financial 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 reasonably requested.

The Council adopted a Responsible Banking Ordinance (RBO) in May 2012 (C.F. 09-0234 and C.F. 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 HCID will require Chase to adhere to the reporting requirements of the City's RBO. The City has business relations with Chase; however, since the City acts only as a conduit issuer in these bond transactions and has no financial interest, the selection of the bank does not constitute City business.

RECOMMENDATIONS

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

1. Adopt the Resolution attached to the transmittal from the Housing and Community Investment Department (HCID) dated July 8, 2015, authorizing the issuance of up to \$950,000 in supplemental tax-exempt multi-family conduit revenue bonds for the development of the Park Plaza Apartments Project;
2. Approve the related loan documents, subject to the approval of the City Attorney as to form;
3. Require that JP Morgan Chase Bank, N.A. fulfill the reporting requirements of the Responsible Banking Ordinance adopted by the Council on May 25, 2012 (C.F. 09-0234) prior to the execution of the relevant loan documents; and,
4. Authorize the General Manager, HCID, or designee, to negotiate and execute the relevant loan documents related to the tax-exempt bonds, subject to the approval of the City Attorney as to form.

FISCAL IMPACT STATEMENT

There will be no impact to the General Fund as a result of the issuance of these bonds. The City is a conduit issuer and does not incur liability for the repayment of the bonds, which are a limited obligation payable solely from the revenues of the Project, and the City will in no way be obligated to make payments on the bonds.