



Eric Garcetti, Mayor
Rushmore D. Cervantes, General Manager

Housing Development Bureau
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November 3, 2014

Council File: New
Council District: 4 and 10
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The Honorable Eric Garcetti
Mayor, City of Los Angeles
Room 303, City Hall
200 N. Spring Street
Los Angeles, CA 90012

The Honorable Herb Wesson
President, Los Angeles City Council
c/o City Clerk, 3rd Floor
City Hall, 200 N. Spring Street
Los Angeles, CA 90012

Attention: Mandy Morales,
Legislative Coordinator

Attention: Richard Williams,
Legislative Assistant

COMMITTEE TRANSMITTAL: REQUESTING THAT THE MAYOR AND CITY COUNCIL AUTHORIZE THE ISSUANCE OF UP TO \$14,000,000 IN TAX-EXEMPT MULTI-FAMILY CONDUIT REVENUE BONDS FOR THE LDK SENIOR APARTMENTS PROJECT.

SUMMARY

- The Los Angeles Housing and Community Investment Department (HCIDLA) respectfully requests authority to issue tax-exempt multi-family conduit revenue bonds in the amount of up to \$14,000,000 to help finance the development of the LDK Senior Apartments Project. The California Debt Limit Allocation Committee (CDLAC) awarded the bond allocation on July 16, 2014 and designated October 24, 2014 as the original bond issuance deadline. CDLAC later extended the deadline to November 12, 2014 and HCIDLA has requested that the deadline be further extended to December 31, 2014.
- The proposed development consists of two different sites located at 900-906 Crenshaw Bl., Los Angeles, CA 90019 (in Council District Four) and 540-542 S. Kingsley Dr., Los Angeles, CA 90020 (in Council District Ten); the two sites are about 1.6 miles apart. Currently there are two multi-story structures at the Crenshaw site and a parking lot at the Kingsley site. The development entails demolition and new construction of 67 affordable residential units for senior citizens. The project will include social services, a community room with a kitchenette, a courtyard, a computer room, a multi-purpose room, laundry facilities, elevator service, and 41 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 its tax-exempt multi-family housing conduit revenue bonds in the form of multi-family collateralized notes in the amount of up to \$14,000,000 (“Note”) for the development of the LDK Senior Apartments Project;
 - b. Approve the bond 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 bond documents, subject to the approval of the City Attorney as to form.
 - d. Authorize the General Manager, HCIDLA, or designee, to negotiate and execute the amendments related to the existing HCIDLA and CRA loan agreements. Revisions will include but are not limited to; changes to the interest rate, execute subordination agreements to new bond documents, allow the transfer to a new limited partnership to enable admittance of tax credit investors, and allow the interest accrued during construction to continue to accrue and not be amortized at the permanent phase; all changes are subject to the Affordable Housing Trust Fund (AHTF) program guidelines and shall be subject to approval by the City Attorney as to form and legality;
3. That the Mayor concur with the action of the City Council.

BACKGROUND/PROJECT DETAIL

Financing History

Timeline

Inducement	May 13, 2014 (CF 04-2646)
TEFRA Hearing	May 28, 2014
TEFRA Approved by Council	June 10, 2014 (CF 14-0726)
CDLAC Application Submitted	June 2, 2014
CDLAC Allocation Award	July 16, 2014
<u>CDLAC Allocation Expiration Date</u>	<u>November 12, 2014 (extension has been requested)</u>

Under and pursuant to the authority granted to the General Manager by the City Council by Resolution approved on April 20, 2005, (CF 04-2646), HCIDLA previously induced this project thereby enabling the sponsor to apply for a tax exempt bond allocation. On May 28, 2014,

HCIDLA conducted a public hearing in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). In June 2014, HCIDLA, on behalf of the sponsor, submitted the CDLAC application for an allocation of tax-exempt bonds. On June 10, 2014, the TEFRA Resolution and Minutes were adopted by the City Council. On July 16, 2014, the project was awarded an allocation of \$14,000,000 in tax-exempt bonds from CDLAC. The bond issuance deadline is November 12, 2014 and HCIDLA has requested an extension.

Affordability Restrictions (from CDLAC application)

UNIT TYPE	50% AMI	Mgr.	TOTAL
Efficiency	16		16
1 bedroom	49	2	51
TOTAL	65	2	67

Pursuant to the City’s Conduit Financing Policies, the project must provide a public benefit. Therefore, a Bond Regulatory Agreement will be executed in connection with the issuance of tax-exempt bonds, and the above referenced restrictions will have a term of not less than the longer of: (i) 15 years after the 50% 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, if applicable. In addition, CDLAC’s resolution and rental income restrictions will be in place for at least 55 years. Also, because the Project received an allocation of 4% Low Income Housing Tax Credits (LIHTCs), the subject units will also be restricted via separate agreement, for a minimum term of 55 years. The HCIDLA loans’ regulatory agreements will also be in effect for a minimum term of 55 years. The other non-bond regulatory agreements may be more restrictive.

Development Team

The Borrower/Sponsor is LDK Senior Apartments, LP, a California limited partnership. The Borrower is the current owner of the site located at 540-542 S. Kingsley Drive and will own the site located at 900-906 Crenshaw Blvd. The limited partnership will own the Crenshaw site by the time of closing of the construction financing. The limited partnership is comprised of LTSC Community Development Corporation (LTSC CDC), as its Managing General Partner, Decro Alpha Corporation (DAC), as its General Partner, and Korean Resource Center (KRC), as its Administrative General Partner. MUFG Union Bank, N.A. (Union Bank or UB) will be admitted as a tax credit investor (into the Sponsor structure) by the closing of the construction financing. LTSC CDC currently owns the Crenshaw property.

The Officers of LTSC CDC include: Alan Nishio, President, Debra Nakatomi, Lloyd Kajikawa, VP and CFS, Kathy Masaoka, VP SS, David Mitani, VP, CED, Edwin Takahashi, Treasurer, Linda Yamauchi, Secretary. The Board of Directors of KRC include: Kil Joo Lee, President, Bong Kyu Park, Vice President, Yeon Ok Suh, Treasurer, and Will Oh, Secretary. The Board of Directors of DAC include: James P. Shaner, President & CEO, Christopher Wilke, Vice President, Alexander J. Nweeia, Secretary/Treasurer, J. Warren Avery, Director, Katherine T. Gazunis, Director, and Timothy Wetzel, Director.

The Developer, LTSC CDC, is a 501(c)3 California non-profit corporation, has 24 years of housing development experience, and has developed 20 projects, which resulted in 684 housing units.

Developer: LTSC Community Development Corporation
231 E. Third Street (Ste. G-106)
Los Angeles, CA 90013
Phone: (213) 473-1691
Contact: Dean Matsubayashi

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

The additional development team members are:

Architect: Carde Ten Architects
1638 19th Street
Santa Monica, CA 90404
Phone: (310) 453-4427 x22
Contact: Brian Ten

Attorney: Bocarsly, Emden, Cowan, Esmail and Arndt
633 W. 5th Street (70th floor)
Los Angeles, CA 90017
Phone: (213) 239-8020
Contact: Darryl Kidd

General Contractor: Walton Construction Services
358 East Foothill Boulevard, Suite 100
San Dimas, CA 91773
Phone: (909) 267-7777
Contact: Tom Gibson - President

Property Manager: Levine Management Group, Inc.
822 South Robertson Bl. (Ste. 20)
Los Angeles, CA 90035
Phone: (310) 358-3489
Contact: Mark Nishinaka

Tax Credit Investor: Union Bank
1901 Avenue of the Stars (Ste. 600)
Los Angeles, CA 90067
Phone: (310) 551-8967
Contact: Johanna Gullick

Financial Structure

The bonds will be privately placed with Citibank, N.A. (“Citi”). Citi has proposed a “back-to-back loan” bond structure. In order to meet Community Reinvestment Act (“CRA”) requirements, large banking organizations such as Citi are required to achieve two types of CRA goals in the markets that they serve. In each market, they are required to have a certain dollar volume of “investment” activity and they are also required to achieve a certain dollar volume of “lending” activity in each period. Citi’s proposed tax-exempt back-to-back loan structure characterizes Citi’s involvement as a “loan” of tax-exempt proceeds rather than a purchase of tax-exempt bonds (replacing the “Bond” with a “Note”) in order to achieve these very important CRA goals. Citi’s ability to achieve these goals is fundamental to its ability to continue to allocate significant levels of capital to affordable housing activity in the City of Los Angeles.

Instead of purchasing bonds, Citi will make a tax exempt loan in the amount of up to \$14,000,000 to the City of Los Angeles (“Funding Loan”). The City will then loan the proceeds of the Funding Loan to the Borrower (“Borrower Loan”) to finance a portion of the Project. The Borrower will use the proceeds from the Borrower Loan to fund the construction of the proposed Project. The construction loan term will be 24 months (plus one 6 month extension) and will bear an interest rate equal to one month LIBOR Index plus a spread of 1.70% during the construction phase; the current all in rate is 1.85%. Once construction is completed, the Funding Loan will be paid in full from the permanent financing sources.

The obligation of the Borrower to repay the Borrower Loan will be secured by a mortgage on the Project (“Mortgage”). The Mortgage and Borrower Loan will be pledged by the City to a trustee/fiscal agent acting on behalf of Bank as the sole security for payment of the Funding 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 Borrower Loan Agreement between the Borrower and the City. The Funding Loan will be a strictly limited, non-recourse loan. The Funding Loan will be evidenced by a note (the “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, Citi has requested waiver of certain HCIDLA policies related to the issuance of non-rated tax-exempt bonds. HCIDLA 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. The City Attorney has reviewed this proposal. The Bond Counsel and Issuer Financial Advisor have also reviewed and assessed no undue risk or liability. The modifications are as follows:

- a) HCIDLA has agreed to allow the sale or transfer of the Note or beneficial ownership interests in the Note to 1) a “qualified institutional buyer” (“QIB”), 2) an affiliate of the Funding Lender, or 3) a trust or custodial arrangement established by the Lender, the beneficial interest in which will be owned only by QIBs. Each transfer shall require an executed Transferee Representation Letter in place of the traditional Investor Letter.

- b) No beneficial ownership interest in the Note shall be sold in an amount that is less than 15% of the outstanding principal amount of the Note.
- c) HCIDLA has agreed to permit the Note Holder Representative to declare a default under the Note and request the City to authorize exercise of remedies.

The bond structure adheres to both HCIDLA’s Bond Polices and the 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 reasonably requested.

On February 17, 2011, a CRA loan in the amount of \$4,690,000 was approved to help finance the development of the Project (CF 10-2326). The CRA loan will be amended to provide for the reduction in interest rate so that the project can achieve a positive residual value at the end of the affordability. The CRA loan will also be amended to correct the calculation of the accrued interest and provide for the mirroring of the method of calculation to the traditional method of the HCIDLA. On June 25, 2014, a \$8,687,337 HCIDLA (HOME) loan was executed to help finance the development of the Project (CF 13-0303-S4). The HOME loan will be paid down to \$7,687,337 at the permanent financing phase.

Other financing for the project will be provided from 4% tax credit equity (Union Bank), the State of California Department of Housing and Community Development Infill Infrastructure Grant Program (IIG), the Community Development Commission of the County of Los Angeles (LA County), and the Federal Home Loan Bank of San Francisco's Affordable Housing Program (AHP).

Sources and Uses:

Construction	Total Sources	Per Unit	% Total
Tax-Exempt Bond Proceeds (Citi)	\$14,000,000	\$208,955	55%
HCIDLA (CRA)	\$4,690,000	\$70,000	19%
HCIDLA (HOME)	\$1,287,831	\$19,221	5%
LA County	\$1,100,000	\$16,418	4%
AHP	\$650,000	\$9,702	3%
State of CA (IIG)	2,093,566	\$31,247	8%
4% Tax Credit Equity (UB)	\$963,430	\$14,380	4%
Deferred Costs	\$552,881	\$8,252	2%
TOTAL	\$25,337,708	\$378,175	100%

Permanent	Total Sources	Per Unit	% Total
HCIDLA (CRA)	\$4,690,000	\$70,000	19%
HCIDLA (HOME)	\$7,687,337	\$114,736	30%
LA County	\$1,100,000	\$16,418	4%
AHP	\$650,000	\$9,702	3%
State of CA (IIG)	\$2,093,566	\$31,247	8%
4% Tax Credit Equity (UB)	\$9,116,805	\$136,072	36%
TOTAL	\$25,337,708	\$378,175	100%

Uses of Funds	Total Uses	Cost/Unit
Acquisition	\$3,150,000	\$47,015
On/Off Site Costs	\$183,960	\$2,746
Construction Costs	\$12,571,551	\$187,635
Architecture & Engineering	\$1,265,075	\$18,882
Overhead & Profit	\$1,739,924	\$25,969
Developer Fee	\$762,000	\$11,373
Other Soft Costs	\$5,665,198	\$84,555
TOTALS	\$25,337,708	\$378,175

The HCIDLA Bond Team for the financing of the LDK Senior Apartments Project is as follows:

Bond Issuer Financial Advisor
 CSG Advisors Incorporated
 315 W. 5th Street (Ste. 302)
 Los Angeles, CA 90013

Bond Counsel
 Kutak Rock, LLP
 777 S. Figueroa Street (Ste. 4550)
 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.

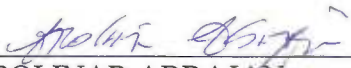
Timeline

The CDLAC designated October 24, 2014 as the original bond issuance deadline. CDLAC later extended the deadline to November 12, 2014 and HCIDLA has further requested that CDLAC extend the issuance deadline to December 31, 2014.

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. The bonds are a limited obligation payable strictly from revenue from the project and the City will in no way be obligated to make payments on the bonds.

Prepared By:


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Finance Development Officer


YANELI RUIZ, Supervisor
Affordable Housing Bond Program

Reviewed By:


TIM ELLIOTT
Manager of Housing Finance


MANUEL BERNAL
Director of Housing

Approved By:


HELMI HISSERICH
Assistant General Manager


for RUSHMORE D. CERVANTES
General Manager