

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Council File No. 14-0726-S2

Council District: 4 and 10

To: The Mayor
The Council

From: Miguel A. Santana, City Administrative Officer 

Reference: Housing and Community Investment Department transmittal dated November 3, 2014; Received by the City Administrative Officer on November 6, 2014

Subject: **HOUSING AND COMMUNITY INVESTMENT DEPARTMENT (HCID) REQUEST FOR AUTHORIZATION TO ISSUE UP TO \$14,000,000 IN TAX-EXEMPT MULTI-FAMILY CONDUIT REVENUE BONDS FOR THE LDK SENIOR APARTMENTS PROJECT**

SUMMARY

The Housing and Community Investment Department (HCID) requests authority to issue tax-exempt, multi-family housing conduit revenue bonds, in an amount not to exceed \$14,000,000, to finance the development of the affordable housing development known as the LDK Senior Apartments Project (Project). The Project consists of two different sites located at 900-906 Crenshaw Blvd., Los Angeles, CA 90019 (in Council District 4) and 540-542 S. Kingsley Dr., Los Angeles, CA 90020 (in Council District 10). The California Debt Limit Allocation Committee (CDLAC) awarded the bond allocation for the Project to the City on July 16, 2014, with an initial bond issuance deadline of October 24, 2014 which has been extended to November 12, 2014. The HCID has requested that the deadline be further extended to December 31, 2014.

The Project entails demolition and construction of 67 affordable residential units for senior citizens. When completed, the Project will include: social services, a community room with a kitchenette, a courtyard, a computer room, a multi-purpose room, laundry facilities, elevator space, and 41 parking spaces.

The HCID also requests that the Council adopt the related Resolution which authorizes the bond issuance. The Resolution is included in the transmittal from HCID dated November 3, 2014. The project will use a variety of funding sources including tax-exempt bonds through a back-to-back loan structure, tax credit equity, a grant from the State of California Department of Housing and Community Development (HCD) Infill Infrastructure Grant Program (IIG), a loan from the County of Los Angeles Community Development Commission (LA County), and a grant from the Federal Home Loan Bank of San Francisco's Affordable Housing Program (AHP). Other sources of funds include loans from the former Los Angeles Community Redevelopment Agency (CRA/LA), transferred to and administered by HCID and an HCID loan using HOME Investment Partnerships

Program (HOME) funds. 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 responsibility of LDK Senior Apartments (Borrower) 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 Project Development Team is comprised of the following groups:

- LDK Senior Apartments, L.P. is the Project Sponsor, known also as the Borrower;
- The General Partners are: LTSC Community Development Corporation (LTSC-CDC), as Managing General Partner, Decro Alpha Corporation (DAC), as General Partner, and Korean Resource Center (KRC), as Administrative General Partner;
- LTSC-CDC is the Developer. LTSC-CDC is a 501(c)(3) California non-profit corporation which has 24 years of housing development experience and has developed 22 projects resulting in 800 housing units;
- MUFG Union Bank, N.A. is the Tax Credit Investor;
- Bocarsly, Emden, Cowan, Esmail and Arndt are the Attorneys;
- Carde Ten Architects is the Architect;
- Walton Construction Services is the General Contractor

Financing History

On May 28, 2014, HCID conducted a public hearing in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) and on June 10, 2014, the TEFRA Resolution and Minutes were adopted by the Council (C.F. 14-0726). The HCID received authorization to induce the Project on April 20, 2005 (C.F. 04-2646) and on May 13, 2014 HCID induced the Project, thereby enabling the Project Sponsor to apply for a tax-exempt bond allocation of up to \$14,000,000 in tax-exempt bonds from CDLAC. In June 2014, HCID, on behalf of the Project Sponsor, submitted the CDLAC application for an allocation of tax-exempt bonds. On July 16, 2014, the Project was awarded an allocation of \$14,000,000 in tax-exempt bonds from CDLAC. The CDLAC bond issuance deadline was originally October 24, 2014, which has been extended to November 12, 2014. The HCID has requested that the deadline be further extended to December 31, 2014.

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. 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, to be paid and included as a requirement for affordable housing developers on all projects funded by the housing bond allocation.

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, and the restrictions shown below 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. Further, because the Project will receive four percent Low Income Housing Tax Credits, the subject units will also 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.

Summary of Affordability Restrictions by Unit Type

Unit Type	50% Area Median Income	Manager	Total
Efficiency	16	-	16
1 bedroom	49	2	51
Total	65	2	67

Financing Structure

The HCID states that the bonds will be privately placed with Citibank, N.A. (CITI). The Community Reinvestment Act of 1977 (CRA) requires large banking organizations, such as CITI, to achieve two types of CRA goals: (1) they are required to have a certain dollar volume of “investment” activity and (2) they must achieve a certain dollar volume of “lending” activity in each period. In order to satisfy the requirements of CRA, CITI has proposed a “back-to-back loan” bond structure. 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”). CITI’s ability to meet these requirements is fundamental to its ability to continue to allocate significant levels of capital to affordable housing activity in the City.

Using the bond proceeds, CITI will make a tax-exempt loan, in an amount not to exceed \$14,000,000, to the City (Funding Loan). The City will subsequently 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 term of the Funding Loan will be 24-months, with one 6-month extension, and will bear an interest rate equal to the 30-day LIBOR plus 170 basis points (1.7 percent); the current all in rate is 1.85 percent. Upon completion of construction, 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, which, along with the Borrower Loan, will be pledged by the City to a trustee/fiscal agent acting on behalf of CITI as the sole security for payment of the Funding Loan. 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 (Note) delivered in physical (non-book entry) form subject to the restrictions of transfer set forth in the City's Housing Bond Policies and Procedures.

Additionally, CITI has requested a waiver of certain HCID policies related to the issuance of non-rated tax-exempt bonds. The HCID has agreed to a limited number of modifications that nonetheless retain the City's protections intended by the policies to prevent the City from incurring undue risk or liability. The City Attorney, Bond Counsel and Issuer Financial Advisor have reviewed this proposal and assessed no undue risk or liability. The modifications are as follows:

- (a) The HCID has agreed to allow the sale or transfer of the Note or beneficial ownership interest 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 a QIB. 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 percent of the outstanding principal amount of the Note; and
- (c) The HCID 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 the 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 regarding 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/LA loan in the amount of \$4,690,000 was approved to help finance the development of the Project (C.F. 10-2326). The CRA/LA loan will be amended to provide for a reduction in interest rate to allow the project to attain a positive residual value at the expiration of the affordability covenants. The CRA/LA loan will also be amended to correct the calculation of accrued interest and to mirror the method of calculation to HCID standards. On June 25, 2014, HCID executed a loan to the Project Sponsor in the amount of \$8,687,337 using HOME funds (C.F. 13-0303-S4). The HOME loan will be paid down to \$7,687,337 at the permanent financing phase.

Other financing sources for the project are four percent tax credit equity from Union Bank, a grant in the amount of \$2,093,566 from the HCD-IIG grant program, a \$1,100,000 loan from LA County, and a \$650,000 grant from AHP.

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 City does have business relations with CITI; 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 included in the transmittal from the Housing and Community Investment Department (HCID) dated November 3, 2014, authorizing the issuance of up to \$14,000,000 in tax-exempt multi-family conduit revenue bonds in the form of multi-family collateralized notes for the development of the LDK Senior Apartments Project;
2. Approve the related bond documents, subject to the approval of the City Attorney as to form;
3. Require that Citibank, 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 bond documents;
4. Authorize the General Manager, HCID, or designee, to:
 - a. Negotiate and execute the relevant bond documents, subject to the approval of the City Attorney as to form;
 - b. Negotiate and execute amendments to the existing HCID and CRA/LA loan agreements for the LDK Senior Apartments Project. Revisions will include, but are not limited to; changes to the interest rate, subordination agreements to new bond documents, transfer to a new limited partnership to enable admittance of tax credit investors, and to 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 the approval of the City Attorney as to form and legality.

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.