

TRANSMITTAL

To:

THE COUNCIL

Date:

DEC 02 2014

From:

THE MAYOR

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.



(Ana Guerrero)

ERIC GARCETTI
Mayor



Eric Garcetti, Mayor
Rushmore D. Cervantes, General Manager

Housing Development Bureau
1200 West 7th Street, Los Angeles, CA 90017
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hcidla.lacity.org

November 19, 2014

Council File: NEW
Council District: 3
Contact Persons:
Rochelle Cox (213) 808-8960
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Manuel Bernal (213) 808-8901
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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 \$14,000,000 IN TAX-EXEMPT MULTIFAMILY CONDUIT REVENUE NOTES FOR THE WINNETKA SENIOR APARTMENTS.

SUMMARY

- The Los Angeles Housing and Community Investment Department (HCIDLA), respectfully requests authority to issue its tax-exempt multi-family housing conduit revenue bonds in the amount of \$14,000,000 to finance the development of an affordable housing development known as the Winnetka Senior Apartments ("Project"). The California Debt Limit Allocation Committee (CDLAC) has designated December 16, 2014 as the allocation expiration date.
- The subject site is located at 20750 Sherman Way, Los Angeles, CA 91306 in the 3rd Council District. The proposed project is currently a vacant lot and will involve the new construction of 95 units, which will be targeted to seniors. Amenities will include a large courtyard with a water feature, a large community room, a computer and multimedia room, a library, a fitness center, a security system and laundry rooms. The project will contain 64 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 Winnetka Senior 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.
 - d. Authorize the General Manager, HCIDLA, or designee, to negotiate and execute amendments to the loan documents related to the existing HCIDLA loans. Revisions will include but are not limited to interest rate, loan and affordability terms, paydown and subordination to a new permanent loan, and assignment and transfer to a new limited partnership, subject to the approval of 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 12, 2014 (CF# 04-2646)
TEFRA Hearing	May 28, 2014
CDLAC Application Submitted	July 18, 2014
TEFRA Approved by Council	August 13, 2014
CDLAC Allocation Award	September 17, 2014
CDLAC Allocation Expiration Date	December 16, 2014

On May 12, 2014, HCIDLA induced the project (CF# 04-2646), 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). On July 18, 2014, HCIDLA, on behalf of the developer, submitted the CDLAC application for an allocation of tax-exempt bonds. HCIDLA was authorized to apply on behalf of the sponsor for an allocation of up to \$17,000,000 in tax-

exempt bonds from CDLAC). On August 13, 2014, the TEFRA Resolution and Minutes were adopted by the City Council (CF#14-1087). On September 17, 2014, the project was awarded an allocation of \$14,000,000 in bonds from CDLAC. The current bond allocation expiration date is December 16, 2014.

Affordability Restrictions

UNIT TYPE	15% AMI	20% AMI	60% AMI	Manager	TOTAL
1 bedroom	40	22	32		94
2 bedroom	0	0	0	1	1
TOTAL	40	22	32	1	95

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. The project will also execute a project based Section 8 contract with HACLA.

Development Team

The Project Borrower/ Sponsor is Winnetka Senior Apartments, L.P. (WS). The Administrative General Partner is Winnetka Senior Apartments, LLC (WSAL), a limited liability company. The Managing General Partner will be PATH Ventures (PATH), a 501c3 entity. PATH is also providing supportive services to the tenants. The tax credit equity investor is Red Stone Equity Partners, LLC (Red Stone), a limited liability company. The principals of WS and WSAL are John Huskey, President; Kasey Burke, Vice-President; Aaron Mandel, Vice-President and George Russo, Chief Financial Officer. The principal of PATH is John Molloy, President. The principals of Red Stone are Eric McClelland, President and Chief Executive Officer and Bob Fein, Chief Operating Officer.

The Developer is Meta Housing Corporation (MHC), a for profit corporation. The developer has over 7 years of experience in the development of multifamily rental housing and has developed over 6 projects in California resulting in a total of approximately 371 housing units.

Developer: Meta Housing Corporation
1640 S. Sepulveda Boulevard, Suite #425
Los Angeles, CA 90025
Phone : (310) 575-5543 x109
Contact : Aaron Mandel

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: Optimus Construction, Inc.
440 Western Avenue, Suite 202
Glendale, CA 91201
Phone: (818) 550-8411 x 211
Contact: Emily Geller

Property Manager: The John Stewart Company
888 S. Figueroa Street, Suite 700
Los Angeles, CA 90017
Phone : (213) 833-1860
Contact : Lori L. Horn

Equity Investor: Red Stone Equity Partners, LLC
200 Public Square, Suite 2050
Cleveland, OH 44114
Phone: (216) 820-4754
Contact: Don Synder

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 ("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 21 months and the construction phase interest rate will be 3.30%. 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) HCID may, in its sole and absolute discretion, permit the Noteholder Representative to declare a default under the Note and Funding Loan Agreement and direct Citibank as Funding Lender and the Fiscal Agent to exercise remedies contained in the Funding Loan Agreement

The bond structure adheres to both HCIDLA's Bond Policies and the City's Financial Policies and has been reviewed by the City Attorney's office and bond counsel. HCIDLA will require the bank to adhere to the reporting requirements of the City's Responsible Banking Ordinance. 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 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 June 26, 2014, a \$12,900,000 HCIDLA (HOME) loan was executed to help finance the development of the Project (CF 13-0303 and 13-0303-S4). The HOME loan consists of a construction loan in the amount of \$12,900,000 which will carry a 0% interest rate in order to assist the financing of the project. The construction loan will be paid off, prior to the permanent phase. The permanent loan in the amount of \$4,400,000 will stay in the project and will carry a 4% interest rate for 42 years.

Other financing for the project will be provided from 4% tax credit equity (Red Stone), the California Department of Housing and Community Development, the Housing Authority of County of Los Angeles (HACOLA), the Affordable Housing Program (AHP) and the Los Angeles County Department of Mental Health.

Sources and Uses:

Construction	Total Sources	Per Unit	% Total
Tax-Exempt Bonds (Citibank)	\$14,000,000	\$147,368	53%
HCID Loan	\$4,400,000	\$46,316	16%
HCID- Accrued Interest	\$252,179	\$2,655	1%
HCD (IIG)	\$1,750,000	\$18,421	6%
HACOLA	\$1,500,000	\$15,789	5%
HACOLA- Accrued Interest	\$87,070	\$917	1%
AHP	\$940,000	\$9,895	3%
Tax Credit Equity (4%) (Red Stone)	\$1,311,884	\$13,809	5%
Deferred Sources	\$2,619,880	\$27,578	10%
TOTAL	\$26,861,013	\$282,748	100%

Permanent	Total Sources	Per Unit	% Total
Tax-Exempt Bonds (Citibank)	\$2,487,477	\$26,184	9%
Citibank- DHS Overhang Loan	\$715,332	\$7,530	3%
HCID Loan	\$4,400,000	\$46,316	16%
HCID- Accrued Interest	\$252,179	\$2,655	1%
MHP	\$3,785,026	\$39,842	15%
HCD (IIG)	\$1,750,000	\$18,421	6%
HACOLA	\$1,500,000	\$15,789	5%
HACOLA- Accrued Interest	\$87,070	\$917	1%
AHP	\$940,000	\$9,895	3%
MHSA	\$750,000	\$7,895	3%
School Fee Refund	\$265,548	\$2,795	1%
Deferred Sources	\$1,181,610	\$12,438	4%
Tax Credit Equity (4%) (Red Stone)	\$8,746,771	\$92,071	33%
TOTAL	\$26,861,013	\$282,748	100%

Uses of Funds	Total Uses	Cost/Unit
Acquisition Costs	\$3,174,439	\$33,415
Construction Costs	\$14,457,331	\$152,182
Arch., Eng., Legal	\$1,344,395	\$14,152
Financing Costs	\$1,577,884	\$16,610
Reserves	\$1,358,980	\$14,305
Other Soft Costs	\$2,447,984	\$25,768
Developer Costs	\$2,500,000	\$26,316
TOTALS	\$26,861,013	\$282,748

The HCIDLA Bond Team for the financing of the Winnetka Senior 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
777 S. Figueroa Street, Suite 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 – Bond Closing Date

The California Debt Limit Allocation Committee has designated December 16, 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. 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:



ROCHELLE COX
Finance Development Officer



YANELI RUIZ, Supervisor
Affordable Housing Bond Program

Reviewed By:



GEORGE GUILLEN
Manager of Multi-Family Housing Finance



MANUEL BERNAL
Director of Housing

Approved By:



HELMHI HISSERICH
Assistant General Manager



RUSHMORE D. CERVANTES
General Manager