

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

---

Date: December 5, 2014

CAO File No. 0220-00540-1113

Council File No. 14-1087

Council District: 3

To: The Mayor  
The Council

From: Miguel A. Santana, City Administrative Officer 

Reference: Housing and Community Investment Department Transmittal dated November 19, 2014; Received by the City Administrative Office on December 3, 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 WINNETKA 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 construction of the affordable housing development known as the Winnetka Senior Apartments Project (Project). The Project site is located at 20750 Sherman Way, Los Angeles, CA 91306 in Council District 3. The California Debt Limit Allocation Committee (CDLAC) awarded the bond allocation for the Project to the City on September 17, 2014, with a bond issuance deadline of December 16, 2014.

The Project will entail the new construction of 95 affordable housing units at the subject site, which is currently a vacant lot. When completed, the Project 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.

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 19, 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 school fee refund and grants from the State of California Department of Housing and Community Development (HCD) Infill Infrastructure Grant Program (IIG), the Los Angeles County Department of Mental Health, and the Federal Home Loan Bank of San Francisco's Affordable Housing Program (AHP). Other sources of funds include loans from Citibank, N.A. (CITI), the Housing Authority of the County of Los Angeles (HACOLA), the State of California's Multifamily Housing Program (HCD-MHP) and an HCID loan using HOME Investment Partnerships Program (HOME) funds.

RECEIVED  
CITY CLERK'S OFFICE

2014 DEC -5 AM 8:54

CITY CLERK

BY \_\_\_\_\_ DEPUTY

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 Winnetka Senior Apartments, L.P. (Borrower) and the City bears no financial responsibility for repayment as the issuer. 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:

- Winnetka Senior Apartments, L.P. is the Project Sponsor, known also as the Borrower;
- The General Partners are: Winnetka Senior Apartments, LLC (WSAL), as Administrative General Partner and PATH Ventures (PATH), as Managing General Partner;
- Meta Housing Corporation (MHC) is the Developer. MHC is a for-profit corporation with over 20 years of experience in the development of multi-family rental housing and has developed more than 60 projects in California, mostly located in Los Angeles County, resulting in more than 5,000 housing units;
- Red Stone Equity Partners, LLC is the Tax Credit Investor;
- Bocarsly, Emden, Cowan, Esmail and Arndt are the Attorneys;
- Optimus Construction, Inc. is the General Contractor;
- The John Stewart Company is the Property Manager; and
- An architect has not yet been selected for the Project.

### 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 August 13, 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 12, 2014, HCID induced the Project, thereby enabling the Project Sponsor to apply for a tax-exempt bond allocation of up to \$17,000,000 in tax-exempt bonds from CDLAC. On July 18, 2014, HCID, on behalf of the Project Sponsor, submitted the CDLAC application for an allocation of tax-exempt bonds. On September 17, 2014, the Project was awarded an allocation of \$14,000,000 in tax-exempt bonds from CDLAC. The CDLAC bond issuance deadline is December 16, 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 is 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. The restrictions of this agreement are shown 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, the subject 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 HACOLA. The table below references Area Median Income (AMI), which is the median income within the Los Angeles-Long Beach Metropolitan Fair Market Rent Area as defined by the United States Department of Housing and Urban Development (HUD).

Summary of Affordability Restrictions by Unit Type

Unit Type	15% AMI	20% AMI	60% AMI	Manager	Total
1 Bedroom	40	22	32	0	94
2 Bedroom	0	0	0	1	1
<b>TOTAL</b>	<b>40</b>	<b>22</b>	<b>32</b>	<b>1</b>	<b>95</b>

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.

The CITI will buy the bonds (in an amount not to exceed \$14,000,000), and the City will subsequently loan the proceeds of the private placement (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 21 months and will bear an interest rate of 3.3 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. The City is indemnified from repayment.

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) 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 the Fiscal Agent and CITI as the Funding Lender to exercise the 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. 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 HCID (HOME) loan was executed to help finance the development of the Project (C.F. 13-0303-S4). The HOME loan consists of a construction loan in the amount of \$12,900,000 which will carry a zero percent interest rate to assist the financing of the project. The construction loan will be paid off before conversion to the permanent financing phase. A permanent loan in the amount of \$4,400,000 will remain in the place after conversion and will carry a four percent interest rate for 42 years.

Other financing sources for the project are four percent tax credit equity from Red Stone, a school fee refund (\$265,548), grants from HCD-IIG (\$1,750,000), the Los Angeles County Department of Mental Health (\$750,000), and the AHP (\$940,000), and loans from CITI (\$715,332), HCD-MHP (\$3,785,026) and HACOLA (\$1,500,000).

The HCID will require the bank to adhere to the reporting requirements of the City's Responsible Banking Ordinance. 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 19, 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 Winnetka Senior Apartments Project;
2. Approve the related loan 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 loan documents, subject to the approval of the City Attorney as to form; and,
  - b. Negotiate and execute amendments to the existing HCID loan agreement documents for the Winnetka Senior Apartments Project. Revisions will include, but are not limited to changes to the affordability term, interest rate, and loan term, subordination to a new permanent loan, transfer to a new limited partnership to enable admittance of tax credit investors; 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.

*MAS:MMR:NSC:02150039C*