

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: January 28, 2015

CAO File No. 0220-00540-1120
Council File No. 15-0051
Council District: 10

To: The Mayor
The Council

From: Miguel A. Santana, City Administrative Officer



Reference: Housing and Community Investment Department transmittal dated January 8, 2015;
Received by the City Administrative Officer January 20, 2015

Subject: **HOUSING AND COMMUNITY INVESTMENT DEPARTMENT (HCID) REQUEST FOR AUTHORIZATION TO ISSUE UP TO \$27,000,000 IN TAX-EXEMPT MULTI-FAMILY CONDUIT REVENUE BONDS FOR THE WILSHIRE TOWERS APARTMENTS**

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 \$27,000,000, to finance the construction of the affordable housing development known as the Wilshire Towers Apartments Project (Project). The Project site is located at 616 Normandie Ave., Los Angeles, CA 90005 in Council District 10. The California Debt Limit Allocation Committee (CDLAC) awarded the bond allocation for the Project to the City on January 21, 2015 in an amount not to exceed \$27,000,000 and a bond issuance deadline of May 11, 2015.

The Project will entail the acquisition and rehabilitation of a 287-unit apartment complex that will be reduced to a 283-unit senior housing building. Amenities will include a courtyard, community room, business center, service coordinator, and an onsite manager. The Project will include 95 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 January 8, 2015. The project will use a variety of funding sources including tax-exempt bonds, prior mortgage proceeds, tax credit equity, developer equity and Project net operating income.

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 Wilshire Towers, L.P. 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:

- Wilshire Towers, L.P. (WTL) is the Project Sponsor, known also as the Borrower;
- Housing Corporation of America, a Section 501(c)(3) non-profit, is the Sole General Partner and Wilshire Manor, LLC is the Administrative Limited Partner;
- Thomas Safran & Associates, Inc. (TSAI) is the Developer. The HCID states that the developer has more than 33 years of experience in the development of multi-family rental housing and has developed more than 15 projects in California resulting in approximately 1,562 housing units;
- Wells Fargo Bank is the Tax Credit Investor;
- Kantor Taylor Nelson Evatt & Decina, PC are the Attorneys;
- KPRS, Inc. is the General Contractor;
- TSAI is the Property Manager; and,
- An architect has not yet been selected for the Project.

Financial History

On October 8, 2014, HCID conducted a public hearing in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), and on November 7, 2014, the TEFRA Resolution and Minutes were adopted by the Council (C.F. 14-1484). The HCID received authorization to induce the Project on April 20, 2005 (C.F. 04-2646), and on September 19, 2014, HCID induced the Project, thereby enabling the Project Sponsor to apply for a tax-exempt bond allocation from CDLAC. On October 10, 2014, HCID, on behalf of the Project Sponsor, submitted the CDLAC application for an allocation of tax-exempt bonds. On January 15, 2015, PNC Bank, N.A. (PNC) received a commitment letter from the U.S. Department of Housing and Urban Development (HUD) securing mortgage loan insurance under Section 221(d)(4) of the National Housing Act, for the permanent loan to be granted to the Project Sponsor.

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	50% AMI	60% AMI	Manager	TOTAL
Studio	42	166	0	208
1 Bedroom	15	57	2	74
2 Bedroom	0	0	1	1
TOTAL	57	223	3	283

Financing Structure

The HCID states that the bonds will be privately placed with Citibank, N.A. (Citi), cash collateralized and rated AA+. Citi will use the proceeds to provide a construction loan to WTL in the amount of \$27,000,000 with a 24-month term, 0.75 percent interest rate and interest-only payments. When the Project converts to permanent financing, PNC will issue a permanent loan insured by HUD pursuant to Section 221(d)(4) of the National Housing Act. The PNC permanent loan will be in the amount of \$29,181,300 with a term of 39 years and 11 months and a fixed interest rate of 4.8 percent. The permanent loan will be used to pay off the Citi construction loan.

Other sources of financing will include prior mortgage proceeds, Four Percent Tax Credits, developer equity, developer fee loan, and Project net operating income.

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 PNC to adhere to the reporting requirements of the City's RBO. Citi is currently in compliance with the reporting requirements of the RBO and HCID will insure that they continue to adhere to the RBO. The City has 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 January 8, 2014, authorizing the issuance of up to \$27,000,000 in tax-exempt multi-family conduit revenue bonds for the development of the Wilshire Towers Apartments Project;
2. Approve the related loan documents, subject to the approval of the City Attorney as to form;
3. Require that PNC 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.

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