

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER


Date: September 21, 2015

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Council File No. 15-0132-S1

Council District: 1, 13, and 15

To: The Mayor
The Council

From: Miguel A. Santana, City Administrative Officer 

Reference: Housing and Community Investment Department transmittal dated August 25, 2015;
Received by the City Administrative Officer September 1, 2015

Subject: **HOUSING AND COMMUNITY INVESTMENT DEPARTMENT (HCID) REQUEST
FOR AUTHORIZATION TO ISSUE UP TO \$13,600,000 IN TAX-EXEMPT MULTI-
FAMILY CONDUIT REVENUE BONDS FOR THE LEASTER 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 \$13,600,000, to finance the construction of the affordable housing development known as the Wilshire Towers Apartments Project (Project). The Project consists of 133 multifamily residential affordable rental housing units located at three scattered sites: 825 Green Ave., Los Angeles, CA 90017 in Council District 1 (48 units); 911 E. 120th St., Los Angeles, CA 90059 in Council District 15 (36 units); and, 1422 and 1430 Miramar St., Los Angeles, CA 90026 in Council District 13 (49 units). The California Debt Limit Allocation Committee (CDLAC) awarded the bond allocation for the Project to the City on March 18, 2015 in an amount not to exceed \$13,600,000 and an original bond issuance deadline of September 16, 2015. CDLAC later extended the bond issuance deadline to December 15, 2015.

The Project involves the acquisition and rehabilitation of existing buildings at the three sites and will include the replacement of various building fixtures including but not limited to: interior and exterior doors; windows; countertops; appliances; toilets; and sinks. Additionally, the rehabilitation will include the installation of accessibility features and energy star laundry equipment, upgrades to irrigation systems and new interior and exterior paint.

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 Leaster Apartments, 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:

- Leaster Apartments, L.P. (WTL) is the Project Sponsor, known also as the Borrower;
- Pico Union Housing Corporation (PUHC), a California 501(c)(3) non-profit, is the Managing General Partner and the Developer. The HCID states that PUHC has been involved in the development of more than nine projects consisting of a total of 950 affordable multifamily rental housing units;
- Hudson Housing Capital is the Tax Credit Investor;
- Goldfarb & Lipman LLP are the Attorneys;
- Alpha Construction is the General Contractor;
- Genessy Management is the Property Manager; and,
- Birba Group is the Architect.

Financial History

The HCID received authorization to induce the Project on April 20, 2005 (C.F. 04-2646), and on January 13, 2015, HCID induced the Project, thereby enabling the Project Sponsor to apply for a tax-exempt bond allocation from CDLAC. On January 16, 2015, HCID, on behalf of the Project Sponsor, submitted the CDLAC application for an allocation of tax-exempt bonds. On January 29, 2015, HCID conducted a public hearing in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), and on February 10, 2015, the TEFRA Resolution and Minutes were adopted by the Council (C.F. 15-0132). On March 18, 2015, the Project was awarded an allocation of \$13,600,000 in tax-exempt bonds from CDLAC and given a bond issuance deadline of September 16, 2015. The deadline was subsequently extended to December 15, 2015.

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 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	51	2		53
One Bedroom	48	2	1	51
Two Bedroom	7	4		11
Three Bedroom	11	6	1	18
TOTAL	117	14	2	133

Financing Structure

The HCID states that the bonds will be privately placed with BBCN Bank (BBCN) and will be unenhanced and unrated, but still subject to HCID Bond Policies. BBCN will use the proceeds to provide a construction loan to the Project Sponsor in the amount of \$13,600,000 with a 24-month term and a conditional six-month extension. The construction loan will carry a variable interest rate equal to the prime rate plus 1.25 percent (current indicative rate is 4.5 percent). When the Project converts to permanent financing, the BBCN construction loan will be paid down by funds from available tax credit equity. Subsequently, BBCN will provide a permanent loan in the amount of \$9,162,000 with a 35-year term and an interest rate equal to the prime rate plus 2 percent (current indicative rate is 5.25 percent). On May 20, 2015 the Project Sponsor received an allocation of \$7,853,900 in Four Percent Low Income Housing Tax Credits. Additionally, the seller will carry two notes as payment for a portion of the acquisition of the Miramar Street site and the Wadsworth Place site, in the total amount of \$5,450,000 (\$1,996,000 for the Miramar Street site and \$3,454,000 for the Wadsworth Place site). The two notes will have a 57-year term and carry an interest rate equal to the Applicable Federal Rate (current indicative rate is 2.64 percent).

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. BBCN 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 BBCN; 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 August 25, 2015, authorizing the issuance of up to \$13,600,000 in tax-exempt multi-family conduit revenue bonds for the development of the Leaster Apartments Project;
2. Approve the related loan documents, subject to the approval of the City Attorney as to form; and,
3. 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.