

**TRANSMITTAL**

To:  
**THE COUNCIL**

Date: **NOV 09 2015**

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  
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November 5, 2015

Council File: New  
Council District: 14  
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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

**COUNCIL TRANSMITTAL: REQUEST FOR AUTHORITY TO ISSUE TAX-EXEMPT MULTIFAMILY CONDUIT REVENUE BONDS IN THE AGGREGATE AMOUNT OF UP TO \$10,200,000 FOR THE SKID ROW SOUTHEAST 1 APARTMENTS**

**SUMMARY**

The Los Angeles Housing + Community Investment Department (HCIDLA) respectfully requests authority to issue tax-exempt multifamily conduit revenue bonds in the amount of up to \$10,200,000 to help finance the acquisition and rehabilitation of the Skid Row Southeast 1 Apartments. The California Debt Limit Allocation Committee (CDLAC) awarded the original bond allocation on May 20, 2015 and a supplemental bond allocation on September 16, 2015 and has designated December 16, 2015 as the bond issuance deadline.

**RECOMMENDATIONS**

The General Manager of HCIDLA respectfully requests the following:

- I. 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;
- II. That the City Council, subject to the approval of the Mayor, take the following actions:
  - A. Adopt the Resolution, provided as Attachment A to this report, authorizing the issuance of up to \$10,200,000 in tax-exempt multifamily conduit revenue bonds for the development of the Skid Row Southeast 1 Apartments; and

- B. Authorize the HCIDLA General Manager, or designee, to negotiate and execute relevant bond documents for the Skid Row Southeast 1 Apartments, subject to the approval of the City Attorney as to form; and
- C. 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 not limited to, modification of one interest rate, loan and affordability terms, subordination to new permanent loans, and assignment and transfer to a new limited partnership, subject to the approval of the City Attorney as to form and legality.

## **BACKGROUND**

### Project Summary

The proposed project entails the acquisition and rehabilitation of two scattered sites consisting of a total of 106 multifamily affordable rental housing units for individuals or families including veterans with special needs. The two sites are located at: 1201 E. 7<sup>th</sup> Street (Site 1 of 2: The Olympia, 46 units); and, 1205 E. 6th Street (Site 2 of 2: the Las Americas, 60 units). Each building will be retrofitted with major building systems to increase the physical lifetime and energy efficiency, and comply with applicable housing regulations, including fire and life safety codes and American with Disabilities Act requirements. Both lobbies will be reconfigured to more adequately represent independent and permanent living and well-designed common area amenities.

The Las Americas building has 59 Single Room Occupancy (SRO) units and 1 manager studio unit. The Las Americas building will include the installation of a new elevator, which will drastically reduce a major mobility barrier for residents. The Olympia currently has 48 units but will be reduced to 46 units. The owner proposes to convert two units on the ground level into two case management offices. Additionally, the project will provide an increased quality of life for the residents by updating units, replacing windows, replacing toilets, sinks and hot water boilers. The community kitchens will be upgraded to include new cabinetry, storage and upgraded countertops. Improvements will also include new solar roof panels and solar hot water heating, new Energy Star appliances and expanding common areas and services spaces.

### Financing History

On April 20, 2005, the Mayor and City Council delegated inducement authority to HCIDLA (formerly the Los Angeles Housing Department) to issue bonds for the benefit of qualified affordable multifamily residential projects seeking bond financing from the City (C.F. 04-2646). On February 27, 2015, HCIDLA induced the Skid Row Southeast 1 housing development, which enabled the sponsor to apply for a tax-exempt bond allocation. On March 4, 2015, HCIDLA submitted the CDLAC application for an allocation of \$8,786,918 in tax-exempt bonds on behalf of the sponsor which was awarded on May 20, 2015. On July 15, 2015, HCIDLA submitted another CDLAC application for a supplemental allocation of \$1,413,082 tax exempt bonds which was awarded on September 16, 2015.

On March 24, 2015, HCIDLA conducted a public hearing in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). On April 17, 2015, the TEFRA Resolution and Minutes were approved by the Mayor and Council (C.F. 15-0436). The CDLAC bond issuance deadline is December 16, 2015.

#### Housing Replacement Plan

The Skid Row Southeast 1 housing development proposes a reduction in the unit count at The Olympia building from 48 to 46 units to create on-site office space dedicated for supportive services space to better serve the special needs residents. HCIDLA is responsible for managing all former CRA/LA housing assets and is required to comply with California Health and Safety Code Section 33413.5, which requires the adoption of a Replacement Housing Plan (the "Plan"). A Replacement Housing Plan is required when units are removed from the housing market that was financed with CRA/LA funds. The Plan and accompanying Resolution are currently under review by the City Attorney's office. The Plan describes the location, timetable and financing for the future replacement units. Once the Plan is finalized and approved, the City Attorney will prepare the Resolution approving the Plan. HCIDLA will make the Plan available for public review and comment on the HCIDLA website and will report back to City Council for formal approval.

#### Affordability Restrictions

Pursuant to HCIDLA Bond Policies, the Skid Row Southeast 1 housing development must provide a public benefit; and therefore a Bond Regulatory Agreement will be executed in connection with the issuance of tax-exempt bonds. The Bond Regulatory Agreement will include affordability restrictions throughout a term of no less than the longer of: 1) 15 years after the 50% of the units are first occupied; 2) the date such bonds are paid in full; or, 3) the date on which any Section 8 assistance terminates, if applicable. The Skid Row Southeast 1 Apartments will also have affordability restrictions under separate agreements with the California Tax Credit Allocation Committee for a term of 55 years as a result of the allocation of 4% Low Income Housing Tax Credits. A portion of the units are currently receiving Shelter Plus Care Rental Subsidy.

The Skid Row Southeast 1 Apartments will be comprised of 106 units, consisting of 37 units targeted to households at or below 30% of Area Median Income (AMI), 30 units targeted to 40% of AMI, 37 units targeted to 50% of AMI, and two manager units. The table below provides a summary of the unit mix for the project.

UNIT TYPE	30% AMI	40% AMI	50% AMI	Manager	TOTAL
SRO	37	29	37		103
0 Bedroom		1		1	2
1 Bedroom				1	1
<b>TOTAL</b>	<b>37</b>	<b>30</b>	<b>37</b>	<b>2</b>	<b>106</b>

Development Team

The Borrower/Sponsor is Skid Row Southeast 1, L.P., a California limited partnership. Skid Row Southeast 1 GP, LLC (SRS1), a California limited liability company, is the General Partner and Skid Row Housing Trust (SRHT) is the sole member/manager and developer. The officers of SRHT include Patrick Spillane, Chairman; Vanesa Rodriguez, Vice Chairman; Adam Handler, Secretary; Bob Morse, Treasurer. SRHT is a 501 (c)(3) organization. SRHT has been involved in the development of at least twenty six projects consisting of a total of 1,833 affordable multifamily rental housing units.

Developer: Skid Row Housing Trust  
1317 E. 7<sup>th</sup> Street.  
Los Angeles, CA 90021  
Phone: (213) 683-0522  
Contact: Dana Trujillo

The Borrower/Sponsor and Developer are in compliance with HCIDLA Business Policies.

The additional development team members are:

Architect: Egan Simon Architecture  
7740 W. Manchester Avenue, Suite 205  
Playa del Rey, CA 90293  
Phone: (310) 306-7804  
Contact: John Egan

Attorney: Gubb & Barshay LLP  
505 14<sup>th</sup> Street, Suite 1050  
Oakland, CA 94612  
Phone: (415) 781-6600  
Contact: Scott Barshay

General Contractor: Walton Construction Services  
358 E. Foothill Boulevard  
San Dimas, CA 91773  
Phone: (909) 267-7777  
Contact: Tim Norris

Property Manager: SRHT Property Management Co.  
1317 E. 7<sup>th</sup> Street  
Los Angeles, CA 90021  
Phone: (213) 683-0522  
Contact: Andres Manriquez

Tax Credit Investor: US Bank Community Development Corp.  
110 S. County Center Way  
Saint Louis, MO 63129  
Phone: (314) 335-2510  
Contact: Jennifer Kelly-Saeger

### Financial Structure

The bonds will be issued as a privately placed single bond and will be purchased by Wells Fargo Bank (WFB). The bonds will be unenhanced and unrated but will be subject to the HCIDLA Bond Policies. WFB will provide a construction loan to the Borrower. The construction loan will be in the amount of up to \$10,200,000 with a maturity of 21 months after the recordation of the deed of trust securing the loan with a conditional two 3-month option to extend. The construction loan shall bear interest at a rate per annum equal to 30-day LIBOR plus 175 basis points, currently at 3.20% interest rate per annum.

At conversion to permanent financing, the WFB construction loan will be paid off by funds from tax credit equity and other available funds. On June 10, 2015, the sponsor received a reservation of 4% Low Income Housing Tax Credits, which is expected to generate \$593,290 in annual federal tax credits, \$1,161,896 in state tax credits and \$89,991 in federal solar energy credits. Combined, these credits will result in \$1,845,177 in tax credit proceeds to partially finance the acquisition and rehabilitation of the housing development.

HCIDLA will require WFB to meet the reporting requirements of the City's Responsible Banking Ordinance. The project financing complies with both the HCIDLA Bond Policies and City Financial Policies. At closing, bond counsel will provide the City the required legal opinions as to the tax-exempt status of the bonds under federal and state law. The legal and financing documents will include language that: establishes the bond structure as a limited obligation and strictly payable from the project revenues; and, requires the Borrower/Sponsor to provide annual statements, and additional information as may be reasonably requested by HCIDLA.

The financing structure also includes three existing HCIDLA loans. The Olympia has an existing CRA/LA loan in the principal amount of \$1,279,625.41. The Las Americas has two existing loans: one CRA/LA loan in the principal amount of \$1,681,000 and one Energy Efficiency and Conservation Block Grant (EECBG) - American Recovery and Reinvestment Act (ARRA) loan in the principal amount of \$221,216 (C.F. 09-2841 & C-118682). Each loan will be separately amended and assigned to the new ownership entity. Each loan will be amended to include principal and accrued interest and will begin a new 55-year term at a 3% rate. The accrued interest will be calculated based on the terms of the existing loan agreements and will be calculated based on a proposed escrow closing date.

Other funding partners and amounts are included on table 1.

Table One: Sources and Uses

The tables below provide a summary of the sources and uses for the project, including cost per unit and cost category percentages.

<b>Construction</b>	<b>Total Sources</b>	<b>Per Unit</b>	<b>% Total</b>
Wells Fargo Bank	\$10,200,000	\$96,226	49%
HCD CHRP/RHCP Recast	\$4,317,466	\$40,732	21%
HCIDLA/ CRA Recast (Olympia)	\$1,279,626	\$12,072	6%
HCIDLA/ CRA Recast (Americas)	\$1,681,000	\$15,858	8%
HCIDLA/ EECBG Recast (Americas)	\$245,650	\$2,317	1%
LACDC	\$500,000	\$4,717	3%
GP Recourse Loan (Reserves)	\$338,246	\$3,191	2%
Accrued/Deferred Interest	\$187,080	\$1,765	1%
Cost Deferred until conversion	\$1,038,577	\$9,798	5%
Tax Credit Limited Partner Equity	\$839,161	\$7,917	4%
<b>TOTAL</b>	<b>\$20,626,806</b>	<b>\$194,593</b>	<b>100%</b>

<b>Permanent</b>	<b>Total Sources</b>	<b>Per Unit</b>	<b>% Total</b>
HCD VHHP	\$1,278,050	\$12,057	6%
HCD CHRP/RHCP Recast	\$4,317,466	\$40,732	21%
FHLB AHP	\$1,500,000	\$14,150	7%
HCIDLA/ CRA Recast (Olympia)	\$1,279,626	\$12,072	6%
HCIDLA/ CRA Recast (Americas)	\$1,681,000	\$15,858	8%
HCIDLA/ EECBG Recast	\$245,650	\$2,317	1%
LACDC	\$500,000	\$4,717	3%
GP Resource Loan (Reserves)	\$338,246	\$3,191	2%
Accrued/Deferred Interest	\$187,080	\$1,765	1%
GP Partner contribution fee	\$774,217	\$7,304	4%
Limited Partner (BE Tax Credit)	\$133,862	\$1,263	1%
Limited Partner (Tax Credit)	\$8,170,543	\$77,081	39%
LP Equity for Deferred Fee	\$221,066	\$2,086	1%
<b>TOTAL</b>	<b>\$20,626,806</b>	<b>\$194,593</b>	<b>100%</b>

<b>Uses of Funds</b>	<b>Total Uses</b>	<b>Cost/Unit</b>
Land & Improvements	\$7,523,741	\$70,979
Rehabilitation Costs	\$6,339,790	\$59,809
Relocation	\$80,500	\$759
Construction Interests & Fees	\$2,290,283	\$21,607
Permanent Financing Costs	\$2,188,975	\$20,651
Legal Fees	\$88,500	\$835
Cost of Issuance fees	\$340,800	\$3,215
Developer Fee	\$1,774,217	\$16,738
<b>TOTALS</b>	<b>\$20,626,806</b>	<b>\$194,593</b>

The HCIDLA Bond Team for the financing of the Skid Row Southeast 1 Apartments is as follows:

Bond Issuer Financial Advisor  
CSG Advisors, Inc.  
315 W. 5<sup>th</sup> Street, Suite 302  
Los Angeles, CA 90013

Bond Issuer Counsel  
Los Angeles City Attorney  
200 N. Main Street, 9<sup>th</sup> Floor  
Los Angeles, CA 90012

Bond Counsel  
Kutak Rock LLP  
777 S. Figueroa Street, Suite 4550  
Los Angeles, CA 90017

#### Labor Costs

Labor costs for the Skid Row Southeast 1 housing development are subject to California prevailing wage requirements and/or federal wage requirements under the Davis–Bacon Act of 1931 and Related Acts, if applicable.

#### Timeline

Although CDLAC designated December 16, 2015 as the bond issuance deadline, TCAC designated December 7, 2015 as the deadline to submit all required documentation to receive the Federal and State tax credit.

#### **FISCAL IMPACT STATEMENT**

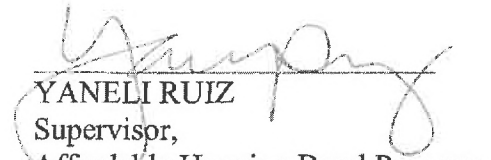
There is no fiscal impact on the General Fund as a result of the issuance of the bonds. The City is a conduit issuer and will not incur liability for repayment of the bonds. The bonds are a limited obligation payable strictly from revenue from the project. The City will not be obligated to make payments on the bonds.




Prepared By:

  
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Rehabilitation Project Coordinator I


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HELMI HISSERICH  
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Reviewed By:

  
LAURA K. GUGLIELMO  
Executive Officer

Approved By:

  
RUSHMORE D. CERVANTES  
General Manager

- Attachment A – Resolution for Bond Issuance
- Attachment B – Loan Agreement
- Attachment C – Indenture of Trust
- Attachment D – Regulatory Agreement