MOTION

I MOVE that the matter of the CONTINUED CONSIDERATION OF COMMUNICATION FROM THE LOS ANGELES HOUSING AND COMMUNITY INVESTMENT DEPARTMENT (HCIDLA) relative to implementing a Recapitalization Policy to establish administrative procedures and a framework for lending public funds relative to implementing a Recapitalization Policy to establish administrative procedures and a framework for lending public funds. (C.F. 16-0085), Item 27 on today's Council Agenda, BE AMENDED to adopt the following paragraphs (see attached) in lieu of the substantially similar paragraphs in the POLICIES FOR EVALUATING THE RECAPITALIZATION OF CERTAIN AFFORDABLE HOUSING DEVELOPMENTS WITH PRE-EXISTING FINANCING FROM HCIDLA.

I FURTHER MOVE that the matter of the CONTINUED CONSIDERATION OF COMMUNICATION FROM THE LOS ANGELES HOUSING AND COMMUNITY INVESTMENT DEPARTMENT (HCIDLA) relative to implementing a Recapitalization Policy to establish administrative procedures and a framework for lending public funds relative to implementing a Recapitalization Policy to establish administrative procedures and a framework for lending public funds. (C.F. 16-0085), Item 27 on today's Council Agenda, BE ADOPTED AS AMENDED.

PRESENTED BY

HERB J. WESSON, JR.
Councilmember, 10th District

SECONDED BY

FEB - 2 2016

1. INTRODUCTION

This document outlines HCIDLA's policies ("HCIDLA Recapitalization Policy") guiding HCIDLA's review and evaluation of certain affordable housing developments with existing HCIDLA financing ("Existing Financing") that are proposed to be restructured pursuant to a new allocation of tax- exempt bonds and 4% low income housing tax credits *and* require certain discretionary approvals from HCIDLA with regard to the Existing Financing. For purposes of this policy, Existing Financing also includes financing originally provided by certain predecessor agencies now under the jurisdiction of HCIDLA (e.g., the Community Redevelopment Agency of the City of Los Angeles).

This HCIDLA Recapitalization Policy will allow HCIDLA to consistently evaluate proposed restructure requests for projects described herein that also require discretionary HCIDLA approvals for Existing Financing. The HCIDLA Recapitalization Policy is intended to enable developers of affordable housing and HCIDLA staff to determine amounts, if any, the City of Los Angeles (City) shall receive as repayment of the Existing Financing coincident with HCIDLA discretionary approvals. Amounts received shall be used by HCIDLA for further affordable housing purposes in the City.

This HCIDLA Recapitalization Policy shall be part of the Bond Program Policies and are incorporated therein by reference. Unless otherwise specifically noted, these policies shall not supersede or eliminate the applicability of any other relevant policy of the City or HCIDLA.

The General Manager of HCIDLA, Mayor and City Council may modify the HCIDLA Recapitalization Policy requirements if justified by the combined benefits to the City, the project, and the project sponsor. The General Manager of HCIDLA has the authority to amend and restate existing loans and to execute new loans in accordance with this policy.

5. PRUDENT LENDING PRACTICES

HCIDLA is responsible for following Prudent Lending Practices, which are defined as generally accepted underwriting and lending practices for public loan programs, based on sound judgment to protect Federal and lender interests. Prudent Lending Practices provide for compliance with local laws and maintenance of a security interest in loan collateral. Toward this end, after achieving the public objectives, HCIDLA shall seek repayment of outstanding public debt when feasible, including outstanding principal and accrued interest, or a portion thereof. Any loan repayments will be recirculated into the Affordable Housing Trust Fund to be reinvested in new affordable housing units.

6. BACKGROUND

New Tax Credits

When the 15-year Federal Tax Credit Compliance Period ends, the project is eligible for new acquisition as well as rehabilitation tax credits if syndicated with tax exempt private activity bonds. However, affordability restrictions are usually not at risk of being lost. HCIDLA's key policy objective is to determine that the equity raised from the new allocation of LIHTC, in combination with the other newly available sources, are sufficient to improve and maintain the physical asset. This document contains Administrative

Policies to provide procedural direction to HCIDLA staff and Underwriting Policies to guide the public in their requests for HCIDLA cooperation and support.

7. UNDERWRITING REQUIREMENTS

a) Eligible Sponsor

To provide adequate time for project financing to be evaluated prior to the California Debt Limit Allocation Committee (CDLAC) application deadline, a term sheet showing the Limited Partner exit plan must be submitted to HCIDLA at least 60 days before the CDLAC application deadline.

d) Management Deficiencies

HCIDLA desires to ensure affordable housing projects will remain financially viable and well maintained. All projects requesting recapitalization will need to be in compliance with the HCIDLA's occupancy monitoring, portfolio management, code and compliance policies. All entities involved in the new proposed project shall adhere to the City's business policies.

Properties in financial, managerial, or physical distress will be carefully evaluated before refinancing is considered. HCIDLA may require a neutral third party to conduct a comprehensive physical, financial, and managerial assessment of the property to ascertain the reason the property is not performing. HCIDLA will use this report as a basis for making financial decisions in accordance with existing loan and regulatory agreements.

g) Use of Sales Proceeds

Proceeds from the sale upon acceptable project financial structuring shall be used first to pay the balance on the first deed of trust. Any remaining cash proceeds may be used to pay down public debt, including all/or a portion of HCIDLA loan principal and accrued interest balance. If the Project has more than one public loan, HCIDLA will refer to the original loan agreement as the guiding document for priority of payoffs. Payoffs will follow the lien position in the loan agreement. HCIDLA will prioritize the use of proceeds based on the waterfall shown below:

Use of Sales Proceeds - Waterfall

1. 1st Trust Deed
2. Capital Rehabilitation Plan
    a. Property Physical upgrades based on Physical Needs Assessment
    b. ADA Retrofits (Required)
    c. Energy Efficiency Retrofits (Recommended where feasible)
3. Capitalized Reserves as required by lender(s)
    a. Replacement Reserve
    b. Transition Reserve
    c. NOTE: Existing reserves must transfer with the property
4. Unpaid Developer Fee (Deferred Developer fee from prior years)
5. Unpaid Asset Management Fees

6. Unpaid Property Management Fees
7. Exit Taxes
8. GP or Sponsor loans if previously approved by HCIDLA Asset Management
9. Public Debt
10. Miscellaneous Expenses, GP or Sponsor Loans not previously approved by HCIDLA

In the absence of documentation in the loan agreement, HCIDLA may accept a pro-rated amount of the net proceeds. Said prorated amount shall be the same as that amount included in the HCIDLA documents regarding the proration of cash flow for residual receipts when other public lenders are part of the project's financing. The current owner is expected to negotiate this payoff arrangement with the other subordinate public lenders.

l) Developer Fees
Developer fees shall be paid consistent with the City of Los Angeles' and California Tax Credit Allocation Committee's Regulations, Policies and Procedures.

9. EXISTING HCIDLA FINANCING

d) Revisions of HCIDLA's Business Terms:
HCIDLA reserves the right to negotiate changes to the business terms in conjunction with the project sponsor during the financing process. Revision of business terms may include, but are not limited to, revising the annual payment structure, the interest rate, etc. HCIDLA recognizes that such revisions to the business terms will be necessary to satisfy the 50 percent and/or the 95/5 tests.

g) Write-Off of HCIDLA Loan Balances:
HCIDLA recognizes that restructuring the public participation in a project may be required to achieve the public benefits for the City and the Project described in Section 4(a) and 4(b) of this policy. To this end, HCIDLA can write off a portion of the accrued interest on the City's loan if this approach achieves a clear and quantifiable public purpose, which may include assisting the developer to meet the 50 percent and/or 95/5 tests, and only if the underlying economics support this approach. HCIDLA will not consider a transaction that inappropriately shifts financial losses to the City, and financial gains to other parties in the transaction.

HCIDLA expects the developer to work with their tax counsel to prevent, or at worse minimize any proposed write-off of HCIDLA loan interest. However, while HCIDLA will consider restructuring and/or relending (e.g., receiving a loan repayment that is subsequently reloaned to the borrower) to the purchasing entity all, or a portion of, the original loan balance, including accrued interest, to support the purchase side of the transaction.