REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: March 14, 2016

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Council File No. 16-0224
Council District: 7

To: The Mayor
The Council

From: Miguel A. Santana, City Administrative Officer

Reference: Housing and Community Investment Department transmittal dated February 24, 2016; Received by the City Administrative Officer February 26, 2016

Subject: **HOUSING AND COMMUNITY INVESTMENT DEPARTMENT (HCID) REQUEST FOR AUTHORIZATION TO ISSUE UP TO $25 MILLION IN TAX-EXEMPT MULTI-FAMILY CONDUIT REVENUE BONDS AND RELATED ACTIONS FOR THE SYLMAR COURT APARTMENTS**

SUMMARY

The Housing and Community Investment Department (HCID) requests authority to issue tax-exempt, multi-family, housing conduit revenue bonds in the form of a note, in an amount not to exceed $25 million, to finance the construction of the affordable housing development known as the Sylmar Court Apartments Project (Project). HCID also requests authority to increase the existing loan to the Project, in the amount of $4,875,000, by $1,100,000 for a revised loan of amount of $5,975,000. In addition, it is requested that the Economic and Workforce Development Department (EWDD) be granted the authority to convert a Community Development Block Grant (CDBG) award to the Project, in the amount of $665,000, to a loan. The Project consists of 101 multi-family residential affordable rental housing units, including 25 units reserved for the chronically homeless, located at 12415 San Fernando Road Los Angeles, CA 91342 in Council District 7. The California Debt Limit Allocation Committee (CDLAC) awarded the bond allocation for the Project to the City on September 16, 2015 in an amount not to exceed $25 million and an original bond issuance deadline of December 16, 2015. HCID submitted an allocation extension request on December 2, 2015 and CDLAC approved the request extending the issuance deadline to March 15, 2016.

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 12415 San Fernando 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:

- 12415 San Fernando Apartments, L.P. (SPA) is the Project Sponsor, known also as the Borrower;
- WCH Affordable IX, LLC (WCH), a California 501(c)(3) non-profit, is the Managing General Partner and 12415 San Fernando Apartments, LLC (SA) is the Administrative General Partner.
- Meta Housing Corporation (Meta) is the Developer. The HCID states that Meta has been involved in the development of 55 projects consisting of a total of 5,338 rental housing units;
- Wells Fargo Bank is the Tax Credit Investor;
- Bocarsly Emdeb Cowan Esmail & Arndt LLP are the Attorneys;
- KPRS Construction Services, Inc. is the General Contractor;
- Solari Enterprises, Inc. is the Property Manager; and,
- Y & M Architects is the Architect.

Financial History

The HCID received authorization to induce the Project on April 20, 2005 (C.F. 04-2646), and on March 17, 2015, HCID induced the Project, thereby enabling the Project Sponsor to apply for a tax-exempt bond allocation from CDLAC. On March 24, 2015, HCID conducted a public hearing in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), and on April 17, 2015, the TEFRA Resolution and Minutes were adopted by the Council (C.F. 15-0132). On July 17, 2015, HCID, on behalf of the Project Sponsor, submitted the CDLAC application for an allocation of tax-exempt bonds. On September 16, 2015, the Project was awarded an allocation of $25 million in tax-exempt bonds from CDLAC and given a bond issuance deadline of December 16, 2015. The deadline was subsequently extended to March 15, 2016.

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 Project will also utilize tenant-based Section 8 vouchers from the Housing Authority of the

City of Los Angeles for 25 units reserved for the chronically homeless and designated as Mental Health Services Act units. 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 the U.S. Department of Housing and Urban Development.

Summary of Affordability Restrictions by Unit Type

Unit Type	30% AMI	50% AMI	60% AMI	Manager	TOTAL
1 Bedroom	25	0	0	0	25
2 Bedroom	0	37	0	1	38
3 Bedroom	0	0	38	0	38
TOTAL	**25**	**37**	**38**	**1**	**101**

Financing Structure

The HCID states that the bonds will be privately placed with Citibank, N.A. (Citi). To meet Community Reinvestment Act (CRA) requirements Citi has proposed a "back-to-back loan bond structure." Under the proposed financial structure, Citi will make a tax-exempt loan in an amount not to exceed $25 million to the City (Funding Loan). The Funding Loan will have a construction and permanent phase. The City would loan the proceeds of the Funding Loan to the Project Sponsor (Borrower Loan) to finance the acquisition, rehabilitation, and construction work for the Project. The Borrower Loan construction term will be 21 months with one 6-month extension option and will carry an interest rate of 2.85 percent. When the Project converts to permanent financing, the construction loan will be paid down by permanent funding sources and the outstanding obligation will be converted to a permanent loan in the amount of $5,710,782 with a 15 year term, 35 year amortization period and carry an interest rate that HCID estimates will be 4.65 percent. The obligation of the Project Sponsor to repay the Borrower Loan is secured by a mortgage on the Project and the mortgage and Borrower Loan will be pledged by the City to a trustee acting on behalf of Citi as the sole security for the payment of the Funding Loan.

Additionally, Citi has requested a waiver of specific HCID Bond policies which have been agreed to by HCID. The City Attorney, Bond Counsel, Kutak Rock LLP, and the Issuer's Financial Advisor, CSG Advisors Inc., have reviewed the policy waiver proposal from Citi and determined that there would be no undue risk or liability. The agreed upon modifications are listed below:

- HCID has agreed to allow the sale or transfer of the Note or beneficial ownership interests 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 QIBs. Each transfer shall require an executed Transferee Representation Letter in place of the traditional Investor Letter;

- No beneficial ownership interest in the Note shall be sold in an amount less than 15 percent of the outstanding principal amount of the Note; and,

- HCID has agreed to permit the Funding Lender to declare a default under the Note and request the City authorize the exercise of remedies.

City Loans to the Project Sponsor

On November 4, 2015 the Mayor and Council approved a loan to the Project in the amount of $4,875,000 (C.F. 15-0340). The borrower subsequently submitted a request to increase the loan amount by $1,100,000, for a total loan amount of $5,975,000, due to unforeseen construction costs. The HCID recommends approval based on its financial review.

Additionally, EWDD requests authority to convert a CDBG grant awarded to the Project in the amount of $665,000 to a 55-year residual receipts loan with an approximately three percent interest rate. If approved, the loan repayment would be dependent on the residual revenues realized by the project after maintenance, staffing, and senior obligations are paid. The EWDD states that this conversion will allow the City to earn interest and receive repayment of the CDBG funds awarded. Payments received for this loan would be recorded as CDBG program 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. Citi is not currently in compliance with the reporting requirements of the RBO and HCID will ensure Citi adheres to the RBO prior to the execution of the relevant loan agreements. 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 February 24, 2016, authorizing the issuance of up to $25,000,000 in tax-exempt multi-family conduit revenue bonds for the development of the Sylmar Court 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 loan documents;

4. Increase the obligation for the Sylmar Court Apartments by $1,100,000 of HOME Investment Partnership funds for a new total obligation of $5,975,000;

5. Authorize the General Manager, HCID, or designee, to negotiate and execute:

    a. The relevant loan documents related to the tax-exempt bonds for the Sylmar Court Apartments Project, subject to the approval of the City Attorney as to form;

    b. Loan documents and amendments to the loan documents related to the existing HCID loan. Revisions will include but are not limited to interest rate, loan and affordability terms, and an increase in the loan amount, subject to the approval of the City Attorney as to form and legality; and,

6. Authorize the General Manager, Economic and Workforce Development Department, or designee, to negotiate and execute the necessary documents to convert the existing Community Development Block Grant award for the Project to a loan, 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.

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