

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: July 31, 2018

CAO File No. 0220-00540-1282

Council File No. 17-1410

Council District: 14

To: The Mayor
The Council

From:  Richard H. Llewellyn, Jr., City Administrative Officer

Reference: Housing and Community Investment Department transmittal dated June 28, 2018; Received by the City Administrative Officer on July 5, 2017; Additional Information Received through July 31, 2018

Subject: **HOUSING AND COMMUNITY INVESTMENT DEPARTMENT (HCID) REQUEST FOR AUTHORITY TO ISSUE TAX-EXEMPT MULTIFAMILY CONDUIT REVENUE BONDS IN THE AMOUNT UP TO \$32,007,814 AND AMEND A HOPWA ACQUISITION LOAN FOR THE SP7 PROJECT**

RECOMMENDATIONS

That the Council, subject to the approval of the Mayor:

1. Adopt Recommendations I through III included in the Housing and Community Investment Department (HCID) transmittal dated June 28, 2018 related to the financing of the SP7 Project (C.F. 17-1410); and,
2. Authorize the General Manager of HCIDLA, or designee, to prepare Controller instructions and any necessary technical adjustments consistent with the Mayor and Council actions on this matter, subject to the approval of the City Administrative Officer, and authorize the City Controller to implement those instructions.

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 \$32,007,814 to finance the construction of the affordable housing development known as the SP7 Project (Project). The HCID indicates that the Project consists of the acquisition of two existing sites, new construction, and rehabilitation of 99 units of affordable housing and one unrestricted manager unit. The subject sites are located at 519 E. 7th Street, Los Angeles, CA 90014 (Site 1) and 647 S. San Pedro Street, Los Angeles, CA 90014 (Site 2) in Council District 14. The California Debt Limit Allocation Committee (CDLAC) awarded the tax-exempt bond allocation for the Project to the City on March 21, 2018 in an amount not to exceed \$32,007,814

and designated an October 1, 2018 issuance deadline. The HCID additionally requests authority to amend the terms of an existing Housing Opportunities for Persons with HIV/AIDS (HOPWA) acquisition loan for Site 1 to combine and incorporate the HOPWA loan for Site 2. This Office concurs with the recommendations of the Department, as amended.

Subsequent to the release of HCID's transmittal, the Department reported that it recommends an interest rate reduction for the Project's Proposition HHH loan from a 3.0% to a 1.0% simple interest rate. The proposed reduction is consistent with recently approved amendments to the 2018-19 Proposition HHH Regulations that permits HCIDLA to decrease the interest rate up to 2.0% in cases where the equity investor's capital accounts are negative, and/or other demonstrated adverse financial condition(s) are present. The issue of the negative capital accounts is partly due to the 2016 tax reform, which included changes to calculating depreciation. HCID reports that with SP7's large Proposition HHH loan amount of \$12,000,000, the interest rate reduction will resolve the equity investor's capital account concerns, and will allow the investor to maintain their tax credit purchase price of \$0.96. However additional time is needed to consider this request, and our Office recommends that HCID report on this issue separately.

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 SP7 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.

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. MUFG Union Bank, N.A. (Union Bank) is currently in compliance with the reporting requirements of the RBO and HCID will ensure that Union Bank continues to adhere to the RBO. The City has business relations with Union Bank; 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.

FISCAL IMPACT STATEMENT

There will be no impact to the General Fund as a result of the issuance of these tax-exempt multi-family conduit revenue bonds (bonds) for the SP7 Project (Project). 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.

RHL:EIC:02190010C