

# TRANSMITTAL

To:

**THE COUNCIL**

Date: 08/09/2016

From:

**THE MAYOR**

**TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.**



(Ana Guerrero)

**ERIC GARCETTI**  
Mayor



Eric Garcetti, Mayor  
Rushmore D. Cervantes, General Manager

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August 8, 2016

Council File: **NEW**  
Council District: 1  
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Honorable Eric Garcetti  
Mayor, City of Los Angeles  
Room 300, City Hall  
Los Angeles, CA 90012

Attention: Mandy Morales, Legislative Coordinator

**COUNCIL TRANSMITTAL: REQUEST FOR APPROVAL TO RESTRUCTURE DEBT AND PRESERVE THE AFFORDABILITY OF THE TC APARTMENTS AT 861-877 BUNKER HILL AVENUE**

**SUMMARY**

The Los Angeles Housing + Community Investment Department (HCIDLA) requests authority to restructure debt and extend the affordability covenant for the TC Apartments located at 861-877 Bunker Hill Avenue (Project) in Council District 1. The debt restructuring will consist of: a loan write-off in the amount of \$1,631,307 for the interest accrued over the last 20 years from a former Community Redevelopment Agency of Los Angeles (CRA/LA) loan; and, subordination of the existing Project loan to a new loan insured under the U.S. Department of Housing and Urban Development (HUD) Federal Housing Administration (FHA) Section 223(f) multifamily loan insurance program. The Owner of the Project will be responsible for: making a payment of \$666,534 to pay down the principal balance of the CRA/LA loan; and, extending the HUD Project-based Section 8 Housing Assistance Payment (HAP) contract for an additional 20 years. HCIDLA is also requesting authority to execute a new affordability covenant restricting the rents for a 20-year period. Approval of the recommendations in this report will preserve a total of 19 units of at-risk affordable housing, which was anticipated to be lost at loan payoff.

**RECOMMENDATIONS**

The General Manager of the HCIDLA respectfully requests that:

- I. Your office schedule this transmittal in the next available meeting(s) of the appropriate City Council committee(s) for consideration and forward it to the full City Council for review and approval immediately thereafter;

- II. The City Council, subject to the approval of the Mayor, take the following actions:
- A. AUTHORIZE the HCIDLA General Manager, or designee, to negotiate and execute loan amendments and/or documents to complete the debt restructuring and preservation of the affordability of the Project, subject to the review and approval by the City Attorney as to form, as follows:
1. Accept the principal reduction payment of \$666,534 for the existing CRA/LA loan CRA871383-001; and,
  2. Modify the existing loan terms to write-off the accrued interest up to the date of principal pay down, currently estimated at \$1,631,307 for CRA/LA loan CRA871383-001, to be written off over 20 years in equal installments and subject to compliance with loan terms for tenant occupancy and affordability; and,
- B. AUTHORIZE the HCIDLA General Manager, or designee, to execute a subordination agreement for the Project wherein the City loan is subordinated to a new HUD FHA Section 223(f) insured loan, subject to the review and approval by the City Attorney as to form.

### **BACKGROUND**

As the City faces an affordable housing crisis, the preservation of the at-risk housing portfolio is critical to prevent the displacement of low income residents. This transaction represents a proactive City and Owner preservation approach to help reduce the loss of existing affordable housing in the City.

The Project is located at 861-877 N. Bunker Hill Avenue in Council District 1, within the former CRA/LA Chinatown Redevelopment Project Area. On August 29, 1985, the Owner of the property received a residual receipts loan in the amount of \$700,000 from the CRA/LA to develop the original six dwelling unit site into 20 units of low or moderate income housing. The original term of the CRA/LA loan was 372 months with a maturity date of August 28, 2016. The source of funds is from the Low Moderate Income Housing Fund. The interest rate for the loan is 8%. The current loan balance is \$666,534 with an accumulated interest amount of \$1,631,307. Under the terms of the original CRA/LA loan agreement and the Affordability Covenants, the expiration of the affordability restrictions was June 26, 2015 or at full repayment of the loan, whichever is later. The affordability restrictions for the 19 units (and one manager's unit) consist of a minimum of four units targeted to households at or below 80% of Area Median Income (AMI) and 16 units targeted to households at 120% AMI.

The Project also received a loan from the California Housing Financing Agency (CalHFA) on August 29, 1985 in the amount of \$1,108,000, for a fully amortizing term of 30 years. The loan matures February 1, 2017 and has a current outstanding balance of \$121,211. The CalHFA affordability restrictions expired on August 1, 2016. The Project also has a rental subsidy from HUD in the form of a HAP Contract, which requires that tenants pay no more than 30% of their gross adjusted income towards rent. The original HAP contract was executed for a term of 30 years and expires October 7, 2016. The Attachment to this report provides a summary of the Project financing and affordability restrictions.

### Preservation Considerations and Factors

The Project is located within a rapidly changing neighborhood of the City and is within ½ mile from the Chinatown Gold Line Metro Station. The property has been recently appraised at \$4,800,000, which allows for the Owner to refinance the Project with equity to pay the outstanding debt and potentially terminate the original CRA/LA loan restrictions. HCIDLA has determined that the Owner is the original proprietor of the Project, according to HUD's Office of Policy Development and Research, Picture of Subsidized Households 2015 Project data. HCIDLA has also determined that the average term of tenant residency is 19 years with 75% of the households age 62 year or older. The average household income is \$7,296 per year, with estimated monthly contribution towards rent in the amount of \$335. Based on this data, the existing tenants would be at risk if the HUD HAP contract for the Project is terminated and the affordable units converted to market rate units.

### Preservation Request

On a Citywide basis, there are approximately 52 properties (equivalent to over 1,700 units) restricted by former CRA/LA covenants whereby the affordability terms are anticipated to expire between 2016 and 2020. HCIDLA is committed to preserve the affordability of these 1,700 units through outreach and negotiations with property owners.

For the Project, HCIDLA and the Owner agreed to the following terms: 1) a pay-down of the existing CRA/LA loan (CRA871383-001) through a principal reduction payment of \$666,534 by the Owner; 2) subordination of the modified HCIDLA loan to a new HUD FHA Section 223(f) insured loan; and, 3) after the principal reduction payment has been made to HCIDLA, a write-off of accrued interest through the date of the principal payment, estimated in the amount of \$1,631,307, which will be applied over 20 years in exchange for an extended affordability covenant during the same 20-year period. The new HUD FHA Section 223(f) insured loan will be in the amount of \$1,800,000. The loan proceeds will be utilized for the principal reduction payment of \$666,534, and to pay off the existing CalHFA loan in the amount of \$121,211.

### FISCAL IMPACT STATEMENT

There is no impact to the General Fund. Approval of the recommendations will allow for the receipt of a principal reduction payment in the amount of \$666,534 to restructure debt for an existing affordable housing project sponsored by the former CRA/LA. In addition, a loan write-off currently estimated at \$1,631,307 will be applied in equal installments over a 20-year period, subject to borrower compliance with loan terms. The purpose of the proposed loan write-off is for the preservation of 19 units of affordable housing located in Council District 1.

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Reviewed by:



LAURA K. GUGLIELMO  
Executive Officer

Approved by:



RUSHMORE D. CERVANTES  
General Manager

Attachment: Financing & Restriction Summary

<b>TC APARTMENTS FINANCING &amp; AFFORDABILITY RESTRICTIONS</b>			
<b>TYPE</b>	<b>CRA/LA</b>	<b>CALHFA</b>	<b>HUD</b>
Loan/Subsidy No.	CRA871383-001	CalHFA loan 83-50-S	HAP CA16H113141
Loan Amount	\$700,000	\$1,108,000	----
Current Balance	\$666,534	\$121,211	----
Interest Accrued	\$1,631,307	----	----
Lien Positions	2 <sup>nd</sup>	1 <sup>st</sup>	----
Funding Source	Low Moderate Income Housing Fund	CalHFA	HUD Project-Based Section 8
Loan/Subsidy Type	Residual Receipts	Fully Amortized	Rental Subsidy
Interest Rate	8%	10.2%	----
Term	30 years	30 years	30 years
Loan Maturity	8/28/2016	2/1/2017	----
Regulatory Agreement – Maturity Date	6/26/2015	8/1/2016	----
Rental Subsidy Expiration Date	----	----	10/7/2016
Restricted units – mix and AMI	4 units at 80% AMI, 16 units at 120% AMI	4 units at 80% AMI	20 units at 80% AMI
Affordability Notes	Under the HUD rental assistance program, residents pay no more than 30% of their gross adjusted income towards rent.		