

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: November 18, 2016

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Council File No. 16-1208
Council District: 9

To: The Mayor
The Council

From: Miguel A. Santana, City Administrative Officer 

Reference: Housing and Community Investment Department Transmittal dated October 25, 2016; Received by the City Administrative Officer on October 26, 2016; Additional Information Received through November 15, 2016

Subject: **REQUEST FOR AUTHORITY TO NEGOTIATE AND AMEND EXISTING AGREEMENTS FOR THE GILBERT LINDSAY APARTMENTS**

RECOMMENDATIONS

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

1. Approve the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) Meeting Minutes dated August 4, 2016, and adopt the TEFRA Resolution included in the Housing and Community Investment Department (HCID) transmittal dated October 25, 2016 as Attachments A and B, respectively;
2. Authorize the General Manager of the Housing and Community Investment Department (HCID), or designee, to:
 - a. Negotiate and execute amendments to the Disposition and Development Agreement (DDA), including an Implementation Agreement, Loan Agreement (Los Angeles Community Redevelopment Agency (CRA/LA) Loan or #C-871721) and related loan documents, and ground lease (Ground Lease), collectively referred to as Development Documents, associated with the Gilbert Lindsay Apartments (Project), located at 601 W. 40th Place, subject to the approval of the City Attorney as to form, to:
 - i. Change the Borrower/Sponsor of the Project from Coliseo Housing Partnership to Gilbert Lindsay Housing Limited Partnership;
 - ii. Reduce the interest rate on the CRA/LA Loan from 9.45% to 3%;
 - iii. Restructure payment for the Ground Lease and CRA/LA Loan to be 10% of Residual Receipts for the Ground Lease, and 40% for the CRA/LA Loan until it is repaid; thereafter 50% toward the Ground Lease, while the remaining 50% goes

- to the Borrower/Sponsor;
- iv. Extend the term and affordability restrictions in connection with the Development Documents through 2090;
 - v. Convert 76 of the 96 Moderate Income Units, which are currently restricted at 120% of the Area Median Income (AMI), to Low Income Units, or 60% of AMI; and,
 - vi. Ensure that there is no "Rent Catch Up" on the re-designated Low Income Units, such that any household that currently pays less than the 60% rent for Low Income Units remains in place at their current rent, and that all future rent increases are done pursuant to applicable rent regulations; and,
- b. Negotiate and execute relevant documents, such as a Subordination Agreement; Lease Addendum; Rider to Lease; and other amendments or other required documents for acquisition financing sources including, but not limited to, conventional and U.S. Department of Housing and Urban Development Federal Housing Administration financing, subject to the approval of the City Attorney as to form.

SUMMARY

The General Manager of the Los Angeles Housing and Community Investment Department (HCID) requests authority to negotiate and execute amendments to existing agreements related to the proposed acquisition and rehabilitation of the Gilbert Lindsay Apartments (Project) located at 601 W. 40th Place. The existing agreements consist of a Disposition and Development Agreement (DDA) and its Implementation Agreements, Loan Agreement, and a Ground Lease that were executed by the former Los Angeles Community Redevelopment Agency (CRA/LA), collectively known as Development Documents. The proposed amendments would effectuate the Coliseo Housing Partnership's sale of the Project to the Gilbert Lindsay Housing Limited Partnership, which would assume the existing former CRA/LA Development Documents, and outstanding City debt of \$11,880,537. The amendments would also extend and increase the Project's affordability; reduce the interest rate and restructure payments outlined in the Development Documents to allow funds to be available for rehabilitating the property; and establish new ownership and management entities.

The HCID also requests 1) approval of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) Meeting Minutes dated August 4, 2016; 2) adoption of the TEFRA Resolution attached HCID's report; and 3) authority to negotiate and execute relevant documents for acquisition financing sources. The Department reports that approval of these recommendations will allow the Project to obtain other sources of funds from the California Debt Limit Allocation Committee, conventional financing, and U.S. Department of Housing and Urban Development Federal Housing Administration financing. The HCID will submit a subsequent request to issue \$25,875,000 in tax-exempt bond financing for the Project, which is anticipated to close on or

about December 20, 2016.

This Office concurs with HCID's request. The recommendations in this report are in compliance with the City's Financial Policies in that there is no additional cost to the City.

Proposed Project Borrower/Sponsor

Coliseo Housing Partnership proposes to sell the Project to Thomas Safran & Associates Development, Inc. Prior to closing the proposed transaction, the Borrower/Sponsor will create a single purpose entity for the Project called Gilbert Lindsay Housing Limited Partnership, comprised of Housing Corporation of America (a nonprofit as the Managing General Partner), and Gilbert Lindsay Housing, LLC as the Administrative General Partner.

Interest Rates and Payment Structure

The former CRA/LA loan to Coliseo Housing Partnership had an original principal amount of \$3,954,000 with an interest rate of 9.45%. The current outstanding debt is \$11,880,537. Payment of the CRA/LA loan and Ground Lease are in the form of Residual Receipts, defined as the gross rental income of the Project, less actual, reasonable costs of operation, including a reasonable operating reserve, maintenance, taxes and management of the Project, and debt service. The proposed amendments will reduce the interest rate to 3% and restructure payments using Residual Receipts according to the following Table.

Categories for Residual Receipts	Existing Loan	Proposed Amendments
Pay off CRA/LA Loan	50%	40%
Ground Lease before CRA/LA Loan payoff	10%	10%
Developer before CRA/LA loan payoff	40%	50%
Subtotal	100%	100%
Ground Lease after CRA/LA loan payoff	30%	50%
Developer after CRA/LA loan payoff	70%	50%
Subtotal	100%	100%

The HCID reports that the proposed amendments to the interest rate and payment structure would 1) support a minimum required debt coverage ratio of 1.15, and 2) provide the necessary cash flow for the Borrower/Sponsor to defer \$2,704,130 of the \$4,573,529 total developer fee. Subsequent to issuing HCID's report, the Department states that at this time, the permanent sources of financing for the Project do not anticipate a partnership loan.

Affordability

The proposed amendments will extend the Development Documents' terms and affordability through 2090 and re-designate a portion of the units' affordability. The HCID states that these amendments are needed in order to address a significant need for affordable housing units targeted to Low Income households. The existing number of units at the Project is 137, with 41 dedicated to Very Low Income (50% of the Area Median Income, or AMI) and 96 dedicated to Moderate Income (120% AMI). The proposed breakdown of units for Very Low Income, Low Income (60% AMI) and Moderate Income are included in Table 1 of HCID's report. The Department also states that the Borrower/Sponsor has agreed that there will be no "Rent Catch Up" on the re-designated Low Income Units.

Cash Out to Coliseo Housing Partnership

The HCID reports that Coliseo Housing Partnership anticipates receiving approximately \$12 million as part of the sale of the Project. In accordance with the existing DDA, Coliseo Housing Partnership will receive approximately \$1.2 million to pay off the First Mortgage. Coliseo Housing Partnership will also receive \$5.8 million to pay off the original principal amount and a portion of the accrued interest of the General Partner loan for the Project. Per the existing DDA, the remaining proceeds from the sale of the Project, approximately \$5 million, should be split 50% to the City and 50% to the Developer. The City's share of the sale proceeds should first be used to pay the outstanding CRA/LA Loan, or if already paid, as an additional lease payment. However, for this proposed transaction, the City's share will be paid to Coliseo Housing Partnership in order to extend housing affordability through 2090 and obtain lower qualified income requirements.

FISCAL IMPACT STATEMENT

There will be no impact to the General Fund. The Housing and Community Investment Department (HCID) is proposing to forego the City's share of proceeds from the Coliseo Housing Partnership's sale of the Gilbert Lindsay Apartments (Project) to the Gilbert Lindsay Housing Limited Partnership in order to rehabilitate the Project and extend the affordability of the units through 2090 for very low, low, and moderate income households. Per the existing Disposition and Development Agreement, the City's share of sale proceeds would have been used to pay the outstanding Los Angeles Community Redevelopment Agency Loan. The Gilbert Lindsay Housing Limited Partnership would assume the existing outstanding debt of \$11,880,537 owed to the City. The HCID will report back with additional recommendations to issue tax-exempt bond financing for the Project. The recommendations in this report are in compliance with the City's Financial Policies in that there is no additional cost to the City.