

# TRANSMITTAL

To:

**THE COUNCIL**

Date: 4/27/2017

From:

**THE MAYOR**

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



(Ana Guerrero)

**ERIC GARCETTI**  
Mayor



Eric Garcetti, Mayor  
Rushmore D. Cervantes, General Manager

**Housing Development Bureau**  
1200 West 7th Street, 8th Floor, Los Angeles, CA 90017  
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hcidla.lacity.org

April 25, 2017

Council File:	New
Council District:	Citywide
Contact Persons:	
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The Honorable Eric Garcetti  
Mayor, City of Los Angeles  
Room 300, City Hall  
200 N. Spring Street  
Los Angeles, CA 90012

Attention: Mandy Morales, Legislative Coordinator

**COUNCIL TRANSMITTAL: REQUEST ADOPTION OF RESOLUTION AUTHORIZING THE LOS ANGELES HOUSING AND COMMUNITY INVESTMENT DEPARTMENT TO APPLY TO THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE FOR AN ALLOCATION OF THE STATE CEILING ON QUALIFIED PRIVATE ACTIVITY BONDS FOR A MORTGAGE CREDIT CERTIFICATE PROGRAM IN THE AMOUNT OF \$25,670,700**

**SUMMARY**

The Mortgage Credit Certificate (MCC) Program is a citywide homeownership program administered by the Los Angeles Housing and Community Investment Department (HCIDLA) that assists individuals and families to achieve homeownership in the City of Los Angeles. The MCC Program assists qualified first-time, low- and moderate-income homebuyers by providing a federal income tax credit of twenty percent (20%) of the annual mortgage interest paid to the lender. By utilizing an MCC, a homebuyer may realize annual tax savings that can be applied to their home mortgage payment, thereby increasing the homebuyer's purchasing power.

For over twenty years, HCIDLA has successfully obtained allocations of Single Family Mortgage Revenue Bond authority from the State of California Debt Limit Allocation Committee (CDLAC) and has used these allocations to assist low- and moderate-income families achieve homeownership in the city. Over the past five allocations, HCIDLA has received approximately \$141 million in MCC authority which has assisted 830 families realize their dream of homeownership.

In order to issue MCC's to qualified homebuyers, HCIDLA, with authority and approval of this transmittal by City Council, must apply for and receive an allocation of Single Family Mortgage Revenue Bond authority for the MCC Program from CDLAC. Through this transmittal, HCIDLA is requesting the authority to apply to CDLAC for an allocation of \$25,670,700 for the MCC Program. HCIDLA anticipates submittal of the application to CDLAC prior to the deadline of July 21, 2017, for an award allocation at its meeting on September 20, 2017. In order for CDLAC to accept HCIDLA's application, CDLAC requires the City to adopt the attached Resolution authorizing HCIDLA to continue operation of the MCC Program. In addition, the City must authorize HCIDLA to submit an MCC application to CDLAC.

## **RECOMMENDATIONS**

The General Manager of HCIDLA respectfully requests that:

- I. Your office schedule this transmittal at the next available meeting(s) of the appropriate City Council committee(s) and forward it to the City Council for review and approval immediately thereafter.
- II. The City Council, subject to the approval of the Mayor, take the following actions:
  - A. Adopt the attached Resolution approving the MCC Program and authorizing the General Manager of HCIDLA, or designee, to apply for an allocation of MCC's from CDLAC and to issue MCC's, per Section 25 of the Internal Revenue Code of 1986, as amended, not to exceed a cumulative amount of \$25,670,700;
  - B. Authorize the Controller, or designee, to expend funds from Fund 643, Account 43L407, in an amount not to exceed \$130,000, upon proper written demand of the General Manager of HCIDLA, or designee, for application costs associated with the MCC Program (i.e., CDLAC Initial Application Fee, CDLAC Second Installment for Allocation Award Fee, CDLAC Performance Deposit Fee and Financial Analysis/Advisor services).
  - C. Authorize the General Manager of HCIDLA, or designee, to prepare Controller instructions and make any necessary technical adjustments consistent with the Mayor and City Council actions, subject to the approval of the City Administrative Officer, and authorize the Controller to implement these instructions.

## **BACKGROUND**

HCIDLA has successfully obtained allocations of Single Family Mortgage Revenue Bond authority for MCC's from CDLAC since 1994. HCIDLA has received approximately \$141 million in MCC authority in the past five allocations from CDLAC, which have resulted in 830 families receiving an MCC.

The MCC Program is a homebuyer assistance program that benefits qualified first-time, low- and moderate-income homebuyers by providing a federal income tax credit of twenty percent (20%) of the annual mortgage interest paid to the homebuyer's lender. The homebuyer receives the MCC credit each year when they file their federal income tax return, and is available throughout the term of the original mortgage, typically 30 years. By reducing the borrower's federal tax liability the MCC reduces the



amount of income tax paid to the federal government, thereby providing the homebuyer with additional disposable income increasing his/her purchasing power. The homebuyer can use this additional income to qualify for a larger first mortgage. The MCC may also reduce the amount of purchase assistance loan funds needed from HCIDLA to purchase a home in the City. The MCC Program may be used alone or in conjunction with HCIDLA's existing low- and moderate-income purchase assistance loan programs.

HCIDLA also administers the Reissued Mortgage Credit Certificate (RMCC) Program, which is designed to reissue MCC's to current MCC holders who refinance their original mortgage loan, allowing them to maintain their federal tax credit as long as the home remains their principal residence.

### **NEW CDLAC MCC APPLICATION**

HCIDLA is requesting authority to submit an MCC application to CDLAC in an amount not to exceed \$25,670,700. HCIDLA will submit its application to CDLAC prior to the deadline of July 21, 2017, for an award allocation at its meeting on September 20, 2017. If approved, a new \$25,670,700 allocation of MCC authority will assist approximately 130 families to become first-time homebuyers in the city.

Upon receipt of the MCC allocation award, HCIDLA will notify its participating lenders of the availability of MCC funds for eligible homebuyers through a series of lender training sessions and email notifications. At HCIDLA's training sessions, lenders will be provided with background information regarding MCC Program eligibility, application process and requirements.

### **APPLICATION COSTS**

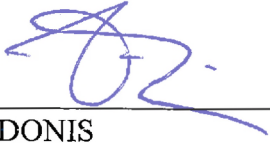
Over the 20 plus years of operating the MCC Program, HCIDLA has accrued approximately \$217,000 in application fees and penalties (i.e., MCC Funds). The MCC Funds are held in Fund 643 Account 43L407. HCIDLA is requesting to utilize up to \$130,000 in MCC Funds for costs associated with the proposed MCC Program application. CDLAC charges an Initial Application Fee of \$1,200; however, if the City is awarded an MCC allocation, there will be an additional Allocation Award Fee of approximately \$9,000. CDLAC also requires certification that a Performance Deposit of up to \$100,000 be held in HCIDLA's Mortgage Credit Certificate Fund No. 643, consistent with CDLAC regulations. Upon award of the Single Family Private Activity Bonds, CDLAC will authorize the release of the \$100,000 Performance Deposit. The remainder of the funds will be utilized for costs associated with services provided by Bond Tax Counsel and/or Financial Analysis/Advisor services, if needed, to complete the MCC application. The proposed expenditures, as required by the CDLAC MCC application, are eligible expenditures within the MCC Program.

Additionally, HCIDLA is proposing to use up to \$10,000, from current MCC Funds, for marketing purposes for the MCC Program with the intention of expanding the MCC Program and being able to reach out to more first-time homebuyers, lenders and other real estate professionals. This outreach will also be targeted to tenants in Rent Stabilized multifamily housing who are facing eviction under the Ellis Act.

### **FISCAL IMPACT STATEMENT**

There will be no impact to the City's General Fund. HCIDLA's MCC Program Fund has sufficient funds to cover costs associated with the HCIDLA application to CDLAC. Any additional MCC receipts will be appropriated as received.

Prepared By:



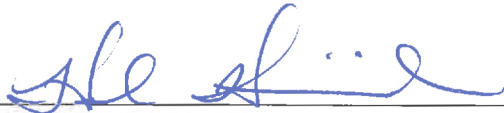
TIM DONIS  
Finance Development Officer I

Reviewed By:



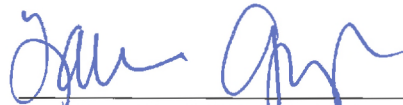
GLORIA TORRES  
Finance Development Officer II

Reviewed By:



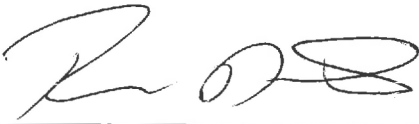
HELMI HISSERICH  
Director

Reviewed By:



LAURA K. GUGLIELMO  
Executive Officer

Reviewed By:



RUSHMORE D. CERVANTES  
General Manager

RESOLUTION NO. \_\_\_\_\_

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LOS ANGELES TO CONTINUE OPERATION OF A MORTGAGE CREDIT CERTIFICATE PROGRAM, TO AUTHORIZE AN APPLICATION TO THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE FOR AN ALLOCATION FOR THE ISSUANCE OF MORTGAGE CREDIT CERTIFICATES IN AN AMOUNT NOT TO EXCEED \$25,670,700, TO AUTHORIZE THE GENERAL MANAGER OF THE LOS ANGELES HOUSING AND COMMUNITY INVESTMENT DEPARTMENT TO EXECUTE THE NECESSARY FORMS AND AGREEMENTS, INCLUDING A DEPOSIT CERTIFICATION FORM, AND TO EXPEND A MAXIMUM OF \$10,000 FROM THE PROGRAM FUND FOR PURPOSES OF PROGRAM PROMOTION

WHEREAS, there is a shortage of decent, safe and sanitary housing in the City of Los Angeles ("City") particularly of housing affordable to first-time homebuyers; and

WHEREAS, the preservation and encouragement of homeownership is a vital component of the City's strategy for preserving and protecting its communities from forces of decline and disinvestment; and

WHEREAS, in its adopted housing policies has established the preservation and encouragement of homeownership opportunities, particularly for first-time homebuyers, as a major priority for the City and the City has determined that establishment and adoption of a mortgage credit certificate program ("Program") is in the best interests of the City, in furtherance of these adopted policies and priorities; and

WHEREAS, Section 25 of the Internal Revenue Code of 1986, as amended (the "Code") permits and limits the amount of mortgage credit certificates that may be issued in a calendar year by entities within a state, based on an allocation of state mortgage revenue bond authority and further, the Government Code requires a local agency to file an application for a portion of the state mortgage revenue bond and mortgage credit certificate authority according to the procedures and directions of the California Debt Limit Allocation Committee ("CDLAC") prior to the issuance of mortgage credit certificates; and

WHEREAS, the procedures established by the CDLAC and adopted pursuant to Section 8869.84 of the Government Code require that participating entities such as the City, deposit into escrow, 1/2 of 1% of the amount of the allocation (not to exceed \$100,000) to be held as insurance that the allocation will be used and establish certain fees which must be paid by the City, and these funds are available from existing resources of the Los Angeles Housing and Community Investment Department ("HCID"); and

WHEREAS, HCID also has Program Fund (Fund 643) in which it deposits fees that it collects relative to the Program including, but not limited to application fees and late fees from lenders and borrowers; and



WHEREAS, HCID would like to expand the Program so that it may apply for an allocation every year as opposed to every other year and believes this expansion would be assisted through Program promotion.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF LOS ANGELES AS FOLLOWS:

The recitals hereinabove set forth are true and correct, and the Council so finds.

This Resolution is being adopted pursuant to Chapters 1 through 5 of Part 5 of Division 31 of the Health and Safety Code of the State of California, as amended (the "Act"), Ordinance No. 173302 and the Charter of the City (the "Law").

For the purpose of meeting its housing goal of increasing and preserving homeownership, the City may continue to operate the Program and declares its intent to issue mortgage credit certificates as authorized by the Code.

The City Council hereby approves and authorizes the General Manager of the HCID or his designee to execute the necessary agreements and declarations necessary to carry out the Program.

Pursuant to the Act in accordance with the Law, the City hereby authorizes the General Manager of the HCID or his designee to:

- (1) Submit applications and other documents as may be required to the CDLAC for an allocation in an amount not to exceed \$25,670,700 in mortgage credit certificate authority.
- (2) Expend a maximum of \$1,200, payable to the CDLAC, for each 2017 MCC application. The Controller, upon proper demand of the HCID, shall provide a check in the amount of \$1,200 to accompany each 2017 application to the CDLAC and shall post the required deposit fees with the CDLAC in an amount not to exceed \$100,000 with respect to the program.
- (3) Pay additional fees (not to exceed \$28,800) related to the MCC application, as necessary. These fees may include, but are not limited to, the MCC Filing Fee to the CDLAC if awarded an MCC allocation and fees paid to a third party consultant for helping HCID staff complete the MCC application.
- (4) Expend a maximum of \$10,000 from the Program Fund (Fund 643) for the purpose of promoting and expanding the Program.

This Resolution shall take effect immediately upon its adoption.

APPROVED AND ADOPTED BY THE CITY COUNCIL of the City of Los Angeles  
this \_\_ day of , 2017 at Los Angeles, California.

I hereby certify that the foregoing Resolution was adopted by the Council of the City of  
Los Angeles at its meeting held \_\_\_\_\_, 2017.

By: \_\_\_\_\_  
City Clerk

(SEAL)