

HOUSING COMMITTEE REPORT and RESOLUTION relative to authorization to issue up to \$32,007,814 in tax-exempt multifamily conduit revenue bonds or notes for the development of the SP7 Apartment Scattered Site Project (SP7 Project).

Recommendations for Council action, SUBJECT TO THE APPROVAL OF THE MAYOR:

1. ADOPT the accompanying RESOLUTION authorizing the issuance up to \$32,007,814 in tax-exempt multifamily conduit revenue bonds or notes for the development of the SP7 Project.

2. AUTHORIZE the General Manager, Los Angeles Housing and Community Investment Department (HCIDLA), or designee, to:
 - a. Negotiate and execute relevant loan documents and amendments to Contract No. C-131386, including but not limited to:
 - i. Amending interest rates, loan and affordability terms, and loan amount.
 - ii. Executing separate promissory notes and regulatory agreements for the two properties.
 - iii. Subordination to new permanent loans; and, assumption, assignment, and transfer of ownership to a new limited partnership, subject to the approval of the City Attorney as to form.
 - b. Negotiate and execute the relevant bond documents for the development, subject to the approval of the City Attorney as to form.

3. AUTHORIZE the General Manager, 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 (CAO); and, AUTHORIZE the Controller to implement those instructions.

4. AUTHORIZE the General Manager, HCIDLA, or designee, to reduce the interest rate of the SP7 Project's Proposition HHH loan of \$12,000,000 from three percent to a one percent simple interest rate.

Fiscal Impact Statement: The CAO reports that there will be no impact to the General Fund as a result of the issuance of these tax-exempt multi-family conduit revenue bonds for the SP7 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.

Community Impact Statement: None submitted.

Summary:

On August 8, 2018, your Committee considered July 31, 2018 CAO and June 28, 2018 HCIDLA reports and Resolution relative to authorizing the issuance of up to \$32,007,814 in tax-exempt multifamily conduit revenue bonds or notes for the development of the SP7 Project. According to the CAO, the HCIDLA is requesting 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. The HCIDLA indicates that the SP 7 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). 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 HCIDLA 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. The CAO indicated that it concurs with the recommendations of the HCIDLA, 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% to a 1% simple interest rate. The proposed reduction is consistent with recently approved amendments to the 2018-19 Proposition HHH Regulations that permits the HCIDLA to decrease the interest rate up to 2% 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 Project'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 the CAO is recommending that the HCIDLA 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. After consideration and having provided an opportunity for public comment, the Committee moved to recommend approval of the recommendations contained in the July 31, 2018 CAO report, as amended, and detailed in the above recommendations. This matter is now submitted to Council for its consideration.

Respectfully Submitted,

HOUSING COMMITTEE

A handwritten signature in black ink, appearing to read "J. Cedillo". The signature is written in a cursive, flowing style with a large initial "J" and a long, sweeping underline.

| <u>MEMBER</u> | <u>VOTE</u> |
|----------------|-------------|
| CEDILLO: | YES |
| KREKORIAN: | YES |
| HARRIS-DAWSON: | YES |

ARL
8/8/18

-NOT OFFICIAL UNTIL COUNCIL ACTS-