

CITY OF LOS ANGELES

CALIFORNIA



MIGUEL A. SANTANA
CITY ADMINISTRATIVE OFFICER

MERCEDES M. MÁRQUEZ
GENERAL MANAGER

ANTONIO R. VILLARAIGOSA
MAYOR

June 12, 2013

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Council File: 12-1334
Council District: Citywide
Contact Person: Yaneli Ruiz
(213) 808-8951

Honorable Antonio R. Villaraigosa
Mayor, City of Los Angeles
Room 303, City Hall
200 N. Spring Street
Los Angeles, CA 90012

Honorable Members of the City Council
City of Los Angeles
c/o City Clerk, City Hall
200 N. Spring Street
Los Angeles, CA 90012

Attention: Mandy Morales,
Legislative Coordinator

Attention: Richard Williams
Legislative Assistant

REPORT BACK ON MOTION REQUESTING RECOMMENDATIONS TO UPDATE POLICIES TO STREAMLINE AND COORDINATE THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982 (TEFRA) HEARING AND APPROVAL PROCESS AND APPROVE REVISED BOND POLICIES TO CLARIFY OTHER ITEMS.

SUMMARY

At the City Council hearing held on August 21, 2012, Councilmember Tony Cardenas introduced a motion (CF 12-1334) instructing the General Managers of Los Angeles Housing Department (LAHD) and Community Development Department (CDD), and the City Administrative Officer (CAO), to: (1) review the tax-exempt financing policies, existing Joint Powers Agreement (JPA) and TEFRA hearing process; (2) compare the cost, fees and timeline associated with the issuances by the City versus other issuers; (3) provide recommendations to the City Council to update the polices, if necessary, to streamline and coordinate the TEFRA

hearing process while ensuring policy compliance and timeliness; and (4) report to the City Council within 60 days.

In accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) and as part of the bond issuance process, qualified private activity bonds must be approved by the government entity. The TEFRA hearing is a public hearing required by the IRS held before elected government official(s) before the issuance of tax-exempt, private activity bonds (including qualified 501(c)(3) bonds issued for the benefit of housing, health care or educational organizations). These bonds will not qualify for tax-exempt status unless the bonds are approved by elected officials in that jurisdiction. The hearing gives the public an opportunity to comment on the use of the tax-exempt funds by the borrowing institution to finance its capital needs. An applicable elected representative of the government entity can approve private activity bonds after a public hearing following reasonable notice to the public. Section 147(f) of the Code and section 5f.103-2 of the Treasury regulations define the specific rules for this requirement.

In addition, conduit housing bonds may be issued by a joint powers authority (JPA) of which the City is a member. Outside issuers of all conduit bonds must comply with the same IRS Codes as City issued bonds. Further, they must conduct a TEFRA hearing that is approved by the governing body in whose jurisdiction the project is located. However, due to continued pressure by outside issuers to expedite the City's lengthy approval process, two separate processes for bond approvals developed within the City: one followed by the JPAs and one followed by City Departments. These two processes have created confusion for borrowers of municipal bonds with the City.

This report will only address private activity bonds that are issued for the development of affordable housing within the City of Los Angeles. This report seeks to provide a response to the issues related to housing bonds issued by LAHD enumerated in the motion, and recommend policy changes to streamline and coordinate the issuance process for housing bonds within the City. A separate report analyzing bond policies for industrial development bonds issued by the Industrial Development Authority (IDA) and non-housing conduit bonds issued by CDD and the CAO, will be prepared in conjunction with reports regarding the consolidation of economic development functions within the City.

RECOMMENDATIONS:

The General Managers of the Los Angeles Housing Department and the City Administrative Officer respectfully request that:

1. Your office schedule this transmittal at the next available meeting(s) of the appropriate City Council committee(s) and forwards it to the City Council for review and approval immediately thereafter.
2. That the City Council:

- a. Authorize the General Manager of LAHD and the CAO to revise the TEFRA approval process for all Housing Bonds as follows:
 - i. Identify LAHD as the primary issuer of all conduit housing bonds for projects located in the City of Los Angeles.
 - ii. Authorize LAHD to recommend the denial of a TEFRA approval.
 - iii. Adjust the LAHD fee structure to improve competitiveness while continuing to support the City's monitoring requirement;
3. Instruct the CLA with the approval of the Council President's Office to streamline the Housing Bond TEFRA Council approval process;
4. Approve the LAHD's revised Multi-Family Housing Bond Policies and Procedures, which have been reviewed and approved by the City Attorney's Office, herein attached;
5. Authorize LAHD to revise the bond fees structure based on cost recovery due to the revised State compliance requirements;
6. Clarify that all housing bond projects within the City of Los Angeles must pay prevailing wage;
7. Authorize LAHD to revise the bond policies to include an "expedited service" available to projects that have all financing and team members in place;
8. Instruct the CLA and CAO to include non housing conduit bond financing in the discussion of the new economic development model;

Through these steps LAHD and the CAO will streamline and improve the TEFRA hearing process and eliminate the two-track system of approvals while ensuring policy compliance and timeliness.

9. That the Mayor concur with the action of the City Council.

BACKGROUND

The Los Angeles Housing Department (LAHD) and the City Administrative Officer (CAO) have the ability to conduct TEFRA hearings on behalf of the City, with certain policy restrictions. In addition, the City is a program participant in Statewide joint powers authorities (as described above), which also have the authority to issue bonds within the City. In response to the Motion regarding the City's TEFRA process, specifically the process, cost, fees and timing for each of the issuing departments and the JPAs, the following is an assessment of each of these components and a summary of the impact of each of these components on the City.

A. LAHD ROLE IN HOUSING BOND ISSUANCE

LAHD's current bond policy limits the City's use of statewide issuers for housing bonds, and delegates the authority to the General Manager of LAHD.

LAHD, as with other larger municipalities, would like to keep the "first right" to review and approve projects seeking TEFRA approval. Although the City is not the lender in a conduit bond transaction, the City does have a direct interest in maintaining its role as the primary provider of conduit bond financing for housing in Los Angeles. LAHD regulates and provides financing for affordable housing in Los Angeles. In its capacity as a regulatory agency, the City monitors the occupancy of affordable housing developments and performs annual health and safety code inspections of multi-family housing.

In 2003, the City Council approved a "New Business" policy (CF 99-1272) authorizing the General Manager of LAHD to preclude borrowers, their related entities and other partnerships that have common general partners from accessing the lending or bond programs, if any of those entities are non-compliant with their loan obligations, including monetary or non-monetary obligations. The City, for example, does not issue bonds for developers who are out of compliance with regulatory agreements on other projects within the City, or in default on existing loan obligations with the City. Furthermore, the City mitigates the displacement and relocation of tenants in existing housing through enforcement of the Rent Stabilization Ordinance, the Tenant Habitability Program (THP) and other City ordinances. The THP requires landlords to mitigate conditions related to the rehabilitation work that might make occupied housing temporarily uninhabitable. The contractual relationship created through a housing bond issuance is the City's most reliable mechanism for enforcing City ordinances and ensuring the preservation of a stable supply of affordable housing in the City.

B. JPA ROLE IN CONDUIT BOND ISSUANCES

In 1988, the California State Association of Counties and the League of California Cities jointly sponsored the creation of the California Statewide Communities Development Authority ("CSCDA"), a joint powers authority ("JPA"), established pursuant to the Joint Exercise of Powers Act (commencing with Section 6500 of the Government Code) to promote economic development within the State of California through the issuance of bonds and other financing programs. The City became a CSCDA program participant in July 1990 (CF 90-1196). The California Municipal Finance Authority (CMFA) was created on January 1, 2004 to assist local government, non-profit organizations and businesses with the issuance of taxable and tax-exempt financing. The City became a program participant in the CMFA in late 2007 (CF07-3892).

In limited circumstances it is appropriate for housing bonds to be issued by a bonding authority other than the City of Los Angeles. A typical example is the financing of a scattered site housing development that is located in multiple jurisdictions with one or more of the properties outside of the City of Los Angeles boundaries. Other municipalities may prefer to use JPAs to issue bonds on their behalf due to either limited municipal resources, or lack of staff or expertise in the

process of issuing municipal bonds. The JPA agreements have set timing requirements for approval and disapproval, usually 45 days within the filing of the request.

In addition, there are good reasons to use the JPAs for other tax-exempt activities besides housing bonds. There are hospital financings and other risky bond issues that the City may or may not want to be the issuer but simple approve the TEFRA.

C. COMPARISON OF BOND OVERSIGHT

LAHD engages in active oversight of projects developed in the City of Los Angeles using affordable housing bonds, where the City is the issuer. This active oversight ensures that borrowers have a strong track record of compliance on affordable housing projects within the City of Los Angeles, and that all projects fully comply with the City's adopted ordinances. Housing bonds that are issued by outside issuers monitor projects in accordance with the tax code, but do not monitor projects for conformance with City policies.

The following chart summarizes differences between LAHD and JPA oversight during the bond issuance and construction periods.

ACTIVITY	LAHD	JPA
PRIOR TO BOND ISSUANCE		
a. Background check per LAHD "New Business" Policy (CF 99-1272)	LAHD evaluates borrower compliance with existing City Contracts and Codes including: i. Existing LAHD loans ii. Regulatory Agreements iii. Code Compliance iv. SCEP/ RSO fees	Does not perform background check per City "New Business" Policy
b. Loan Documents & Financing	Draft Bond Documents are approved by City Council.	Bond Documents are not provided to or approved by the City Council.
c. Consultant contracts for Bond Team are not competitively procured.	Consultants selected via the City's procurement process	State audit found that consultants are not procured through a competitive bid process.
d. Issuer Fees	Issuer fees are based on cost recovery for LAHD bond finance and compliance monitoring. All LAHD staff work on salary, and do not have any financial incentive to approve bonds.	According to State audit, the two JPAs rely wholly on private consulting firms for staff and pay them a percentage of the fees associated with each conduit financing.
AFTER BOND ISSUANCE, DURING CONSTRUCTION		
e. Monitor Relocation of Tenants	Required per City Council	Does not monitor
f. Monitor Prevailing wage	Required per City Council	Does not monitor

g. Monitor draws during construction	Required per City Controller Audit	Does not monitor
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It should be noted that in September 2009, the County of Los Angeles voted to withdraw its membership with CSCDA, citing a “lack of scrutiny, transparency and regulation” of the JPA. Their report to withdraw concluded that the policy is intended to protect the County from potential liability. In addition, two other large municipalities in southern California also limit the use of JPAs to issue housing bonds and enforce the right to review requests by developers to use JPAs in order to continue to safeguard and protect their City’s affordable housing stock.

In August 2012, the California State Auditor completed a report on Conduit Bond Issuers specifically concerning the organizational structure and significant policies and practices. The report concluded that it may be helpful for the Legislature or the Fair Political Practices Commission, to provide clear policy direction regarding whether consultants to the JPA, acting in the capacity of public employees, should be paid fees based on the percentage of bonds issued. In contrast, the report noted that LAHD staff is paid a fixed salary, which is not contingent on bond fee revenue.

The CAO is currently working on revising the City’s Financial Policies to address the issue of conduit borrowing. The LAHD will work with the CAO to coordinate the revised process.

Recommendation:

1. LAHD shall be the primary issuer of all conduit housing bonds for projects located in the City of Los Angeles;
2. Authority to recommend denial of a TEFRA by the City of Los Angeles shall be delegated to the LAHD General Manager;

D. COST COMPARISON

LAHD Bond issuance fees are based on cost recovery for project finance and compliance monitoring, as well as, a review of comparable fee schedules from other bond issuers in the State of California. LAHD’s current Annual Issuer Fee is 12.5% basis points (bps) of the permanent principal amount of the bonds as of the conversion date or a minimum of \$2,500 annually. A 2012 State Auditor report compared issuer fees on a \$10 million housing bond over 30 years. The report showed LAHD fees are higher than JPAs, but lower than other large municipalities in the State. It is LAHD’s opinion that the City’s higher fee is warranted based on a more rigorous monitoring of the projects by the City than that done by the JPAs. The report based its calculation on a construction bond amount of \$10 million and a permanent bond amount also of \$10 million. However, during the past seven years, the average LAHD construction bond amount was \$12.2 million while the average permanent bond amount was \$5.8 million. LAHD used these figures and compared its current fee structure and determined that the LAHD fee is adequate and continues to be conservatively priced while minimizing overall costs to developers and encourages bond financed transactions. Still, the minimum fee of \$2,500 was found to be

inadequate in the overall cost recovery, especially with the recent increased monitoring required by CDLAC. Therefore, LAHD proposes to increase the minimum amount to \$4,000 to adequately cover the increased monitoring requirements.

Housing Bond Issuer Fee Comparison (Exhibit A)

Totals based on calculation of \$12.2 M construction and \$5.8M permanent

	LAHD	LAHD Revised	County	San Diego	San Fran	CSCDA	CMFA
Initial Issuer Fee	0.25%	.25%	0.125%	0.230%	0.500%	0.200%	0.1875%
Annual Issuer Fee	0.125% of balance at conversion or min \$2,500	0.125% of balance at conversion or min \$4,000	0.125% of original issue amount	0.230% of balance at conversion or min \$10,000	0.125% of outstanding balance or min \$2,500	0.050% of outstanding balance or min \$5,000	0.080% of outstanding balance or min \$4,000
Current Total	186,367	186,367	503,250	484,380	229,035	123,060	113,488

Recommendation:

1. Adjust LAHD fee structure to improve competitiveness with JPAs while continuing to support the City's monitoring requirements;

E. COMPARISON OF TEFRA TIMING:

TEFRA HEARING PROCESS

Currently City departments follow a different – and much slower - approval process than the JPAs. The City departments file a transmittal with the Mayor's Office. Once initially reviewed, the item is scheduled to be heard by the City's Housing Community and Economic Development Committee (HCED) and, forwarded to the full City Council for approval, a process which typically takes about 8 – 10 weeks. In contrast, JPAs ask a Councilmember to make a motion in City Council, bypassing the Mayor's staff review and the HCED committee process and thereby decreasing the approval time by several weeks.

Comparison of Current Bond Approvals Process

	LAHD	JPA
Application submitted	Required	Required
City Background Check	2-3 weeks	None
Inducement Resolution	Letter to Developer 3 days	JPA process
Publish and hold TEFRA hearing	2-3 weeks	CAO- holds TEFRA (2-3 weeks) CLA- holds TEFRA at Council (2-3 weeks)
TEFRA resolution approval	8-10 weeks (via transmittal)	2-4 weeks (via Motion)

LAHD, CAO, and the City Attorney's office concurred that there are disparities in the current process for TEFRA approvals between City departments and JPAs. The approval process is more cumbersome and lengthier for City departments because the JPAs do not have the same public disclosure, transmittal process and issuance requirements as the City. JPA TEFRA requests through Council Offices are usually handled via a motion, thereby avoiding many of the City's advance filing requirements when submitting TEFRA approvals via a transmittal. In addition, JPAs do not perform a "background check" in accordance with the City business policy. This background check takes approximately two weeks, during which LAHD reviews the borrower's existing compliance with City contracts, regulatory agreements and building codes. This process is mandatory prior to consideration by the City Council and Mayor. The revised TEFRA approval process will reduce LAHD bond approval timing by six weeks and require the JPA projects to have a background check prior to consideration for a TEFRA approval by the City. LAHD will work with the Council President's Office staff to coordinate and finalize the approval process.

Recommendation:

1. Revise TEFRA approval process for housing bonds via the City Council's motion process, as follows:
 - A. All requests for TEFRA approval, irrespective of ultimate issuer, shall be submitted to the LAHD with a copy to the Council Office and CAO;
 - B. LAHD will conduct a "background review" per the City's Business Policy (Exhibit B); and notify the applicant, Council Office and CAO of approval or disapproval;
 - C. If the TEFRA request is approved, LAHD will publish and hold the TEFRA hearing;
 - D. LAHD will request TEFRA approval via motion from the respective Council Office;
 - E. If use of an outside issuer is approved, the TEFRA hearing will be published and held by CAO, via the motion process.

LAHD BOND POLICIES

The City's housing bond policies were last adopted in April 2005 (CF#04-2846) in order to provide guidelines to developers seeking bond allocation for financing their project(s). In March 2012, LAHD sought to revise the LAHD's Bond Policies with input from housing developers, bankers and other stakeholders. In addition, other issuers' policies were also reviewed and used as a comparison. To coordinate the City's overall efforts with those of each individual department, LAHD recommends approval of the revised LAHD's Multi-Family Bond Policies and Procedures, as attached.

Previously discussed:

1. LAHD shall continue to administer and issue all conduit bonds for affordable housing projects located in the City of Los Angeles;
2. Adjust LAHD fees to improve competitiveness with JPAs while continuing to support the City's monitoring requirements;
3. Revise TEFRA approval process via the City Council's motion process;

To be revised via the policies:

4. Clarify that all housing bond projects must pay prevailing wages per the City Council motion, and require bond projects using outside issuers to pay for monitoring costs;
5. Revise the LAHD's bond policy to include and make available an "expedited service" to developers whose projects require a fast-track process.

Item #4- Clarify requirement to pay prevailing wages.

On December 9, 1998, a verbal motion (CF 98-2175) was introduced on the City Council floor to require the payment of a "living wage or prevailing wage, whichever was higher," on a set of new construction and acquisition/rehabilitation affordable housing bond projects that at that specific time were being considered for approval and submission to the California Debt Limit Allocation Committee (CDLAC). The motion passed, and from that point forward, the LAHD has applied the prevailing wage requirement on all bond projects, regardless of who the issuer was.

While the payment of prevailing wages for projects receiving City subsidies is very clear, the requirement to pay prevailing wages for projects with no City subsidy, except for conduit tax-exempt bond financing, is not clear and lacks clarity. The LAHD requests for clear and uniform policy from City Council. Given that this matter is highly critical in the financing of affordable housing, it is imperative that further review and discussion take place prior to submission of a comprehensive recommendation.

In the interim, the LAHD would like to recommend a revision to the bond policy regarding prevailing wage. In order to coordinate current efforts, the LAHD proposes to require developers who are approved to use outside issuers, to pay an annual monitoring fee to the LAHD during the construction phase, in the amount of 12.5 basis points, to cover the monitoring of payment of prevailing wages during construction. A deposit shall be made at the time of approval to hold the TEFRA hearing. This recommendation will clarify the prevailing wage requirement to include all housing bond issuances in the City of Los Angeles.

Item #5- Include an expedited service to developers whose projects require a fast-track process.

1. Expedited service to be made available to projects which have all financing in place.
2. Transmittal for bond issuance approval can begin prior to the CDLAC issuance but will not be issued until CDLAC allocation is received.
3. Expedited service to require an issuer fee deposit.
4. Issuer fee to be credited towards the closing issuer fee or forfeited if the project fails to meet deadlines or deal points are changed during the transmittal process.

CONCLUSION

This report is requesting that the TEFRA approval process be modified so that TEFRA approval requests can be submitted via Council Motion to create a uniform approval process.

It is LAHD's goal that this streamlined Council motion process will reduce the City's standard, optimal eight-week-approval process through the Mayor's Office to approximately four weeks. This improvement should render the City's handling more competitive with industry norm, and provide the basis for a level playing field with JPAs. In addition, streamlining of the TEFRA approval process will also benefit the development community by eliminating the process approval uncertainty and expediting the approval process thereby meeting funding deadlines and allowing developers to better utilize the bond market.

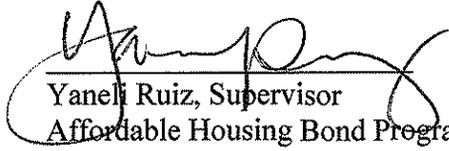
FISCAL IMPACT STATEMENT

There will be no fiscal impact on the General Fund.

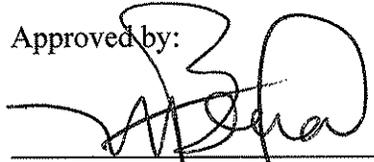
LAHD:

CAO:

Prepared by:


Yaneli Ruiz, Supervisor
Affordable Housing Bond Program

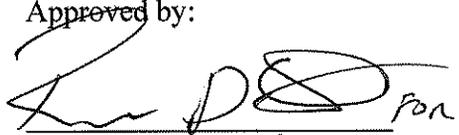
Approved by:


MANUEL BERNAL
Director

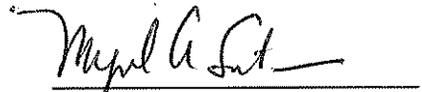
Approved by:


HELMI HISSERICH
Assistant General Manager

Approved by:


MERCEDES M. MÁRQUEZ
General Manager

Approved by:


MIGUEL A. SANTANA
City Administrative Officer

Los Angeles Housing Department
Comparative Issuer Fee Calculation

Exhibit A

Assumptions

Construction Loan	\$ 12,200,000
Construction Period (yrs)	2
Rating	Unrated
Perm Loan	\$ 5,800,000
Interest Rate	4.50%
Discount Rate	4.00%
# units	81
per aff unit minimum	\$ 60.00

Summary Fee Calculations

Issuer:	LAHD		County	San Diego	San Fran	CSCDA	CMFA
	CURRENT Scenario 1	PROPOSED	Scenario 1	Scenario 1	Scenario 1	Scenario 1	Scenario 1
	\$ 12,200,000	\$ 12,200,000	\$ 12,200,000	\$ 12,200,000	\$ 12,200,000	\$ 12,200,000	\$ 12,200,000
Fee Parameters							
Initial	0.25%	0.25%	0.125%	0.230%	0.500%	0.200%	0.1875%
Fixed Increment						\$ -	\$ -
Annual	0.125%	0.125%	0.125%	0.230%	0.125%	0.050%	0.080%
Annual Basis	Balance @	Balance @	Original Issue	Balance @	Outstanding	Outstanding	Outstanding
Annual Minimum	Conversion	Conversion	Amount	Conversion	Balance	Balance	Balance
	\$ 2,500	\$ 4,000	\$ -	\$ 10,000	\$ 2,500	\$ 5,000	\$ 4,000
Fee Calculatons							
Initial	\$ 30,500	\$ 30,500	\$ 15,250	\$ 28,060	\$ 61,000	\$ 24,400	\$ 22,875
Annual							
Construction	\$ 30,500	\$ 30,500	\$ 30,500	\$ 56,120	\$ 30,500	\$ 12,200	\$ 19,520
Perm							
NPV 15yr	\$ 80,608	\$ 80,608	\$ 228,750	\$ 200,100	\$ 91,005	\$ 55,592	\$ 46,398
NPV 30yr	\$ 125,367	\$ 125,367	\$ 457,500	\$ 400,200	\$ 137,535	\$ 86,460	\$ 71,093
Total							
NPV 15yr	\$ 141,608	\$ 141,608	\$ 274,500	\$ 284,280	\$ 182,505	\$ 92,192	\$ 88,793
NPV 30yr	\$ 186,367	\$ 186,367	\$ 503,250	\$ 484,380	\$ 229,035	\$ 123,060	\$ 113,488



Antonio R. Villaraigosa, Mayor
Mercedes M. Méndez, General Manager

TEFRA Process Motion

Exhibit B

TEFRA Approval

“New Business” policy (CF 99-1272) authorized the General Manager of LAHD to preclude borrowers, their related entities and other partnerships that have common general partners from accessing the lending or bond programs, if any of those entities are non compliant with their obligations, including monetary or non-monetary obligations.

Submittal Requirements:

1. LAHD TEFRA Checklist items including:

- a. List all entities that will be part of the proposed ownership structure
- b. List of all properties owned by each entity that are within the City boundaries

Background Review

1. LAHD Portfolio

- a. Do all entities and their liabilities pass a monetary review?

2. LAHD Occupancy:

- a. Do all properties pass a review of non-monetary issues with regulatory agreements?

3. LAHD Code enforcement:

- a. Do all properties pass review by LAHD’s systematic code enforcement program (SCEP)?
- b. Do any properties fall within the Rent Stabilization Program (RSO)? Are they compliant?
- c. Are all properties current on annual inspection fees?

4. LAHD Financing Programs

- a. Have any entities been involved in past projects which violated any Bond Policies or Affordable Housing Trust Fund policies?

Polices and Forms can be found on the Los Angeles Housing Department webpage, under Municipal Housing Bonds



City of Los Angeles
Housing Department
Affordable Housing Bond Program
Multi-family Tax-exempt and Taxable Bonds
Policies and Procedures

DRAFT

Web Site Address: <http://lahd.lacity.org/municipalbondfinance>

March 2013

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**City of Los Angeles Housing Department
Multi-Family Bond Policies and Procedures**

Program Description

I. General

The City of Los Angeles, through the Los Angeles Housing Department (LAHD), acts as the primary issuer of tax-exempt and taxable multi-family housing bonds for qualified developments located in the City of Los Angeles (City). The City maintains the role of primary issuer in view of the potentially substantial impact of housing development projects to the neighborhoods and citizens of the City of Los Angeles. The City's Multi-family Bond Policies and Procedures adhere to the Financial Policies of the City, which can be viewed at the City Administrative Office's (CAO) website http://www.lacity.org/cao/Debt_Mgmt/index.htm

Qualified private activity bonds are tax-exempt bonds issued by a state or local government, the proceeds of which are used by an entity other than the government issuing the bonds (the "conduit borrower") for a defined qualified purpose, such as low income multi-family housing. Tax-exempt private activity bonds (non-refunding) require an allocation of bond authority from the California Debt Limit Allocation Committee (CDLAC).

The following procedures outline LAHD's program requirements for issuing multi-family housing bonds.

A. Eligible Projects

1. Location

Projects must be located in the City of Los Angeles.

2. Minimum Transaction Size

Federal law limits how much tax-exempt debt a state can issue in a calendar year. Typically, issuance amount is determined by the loan to value and overall project cost and revenues available to pay debt service. Financings of any size must demonstrate the commitment of project lenders, credit enhancers, and other critical financial parties. No more than 2% of the proceeds of tax-exempt private activity bonds may be used to pay costs of issuance. Costs of issuance for smaller projects may substantially exceed the 2% restriction and must be paid from other sources of financing secured by the developer.

3. Priority Projects

Projects to be considered on a priority basis include: projects that will contribute to neighborhood revitalization, provide significant public benefit, and preserve existing affordable housing.

4. Use of Funds

Bond proceeds may be used for costs of property acquisition (as allowed pursuant to federal requirements), construction, rehabilitation, improvements and soft costs, such as architectural and engineering services, loan interest and fees and other costs of the project incurred within the time period allowed from the inducement date.

5. Application Requirement

Applications must be submitted for all multi-family projects seeking bond financing where LAHD will act as issuer, or where LAHD will sponsor or hold the public hearing required under the Tax Equity and Fiscal Responsibility Act of 1982 (the "TEFRA" hearing). This requirement includes all new money issuances requiring an allocation of bond authority from the CDLAC, new 501(c)(3) issues, and refunding of existing bond issues. This requirement also includes projects for which bonds will be issued by an issuer other than LAHD, such as the California Statewide Communities Development Authority.

B. Types of Bonds

LAHD may issue either tax-exempt or taxable bonds. Taxable bonds would generally be issued only in combination with tax-exempt bonds.

1. Tax-Exempt Private Activity Bonds (Non-Refunding)

a. Non-501(c)(3) private activity bonds

Non-501(c)(3) private activity bonds require an allocation of bond authority from CDLAC. To obtain the allocation, LAHD must submit an application to CDLAC on behalf of the developer. Submittal of the application is at the discretion of LAHD, not the developer. The developer must pay all required CDLAC fees and post any CDLAC required deposits in advance of application submittal.

b. 501(c)(3) private activity bonds

LAHD may issue 501(c)(3) bonds on behalf of qualified not-for-profit organizations. These bonds are tax-exempt but do not require an allocation from CDLAC. In addition, these bonds cannot be used in conjunction with the Low Income Housing Tax Credit Program.

2. Taxable Bonds

Taxable bond issues must meet all applicable requirements of these policies and procedures (including certain State law and rating requirements) and any additional regulations which may, from time to time, be promulgated by LAHD. The interest on taxable bonds is not exempt from whether federal or state taxation. These bonds do not require an allocation from CDLAC and can be used in combination with the LIHTC.

3. Refundings

LAHD will allow refundings of bond issues that meet the following conditions:

- a. The project sponsor agrees to cover all costs of LAHD including the Fees and Expenses set forth in Section VI.
- b. The affordability and tenant income restrictions of the existing bond regulatory agreement are subject to extension at the discretion of the issuer and/ or as required by applicable state and/ or federal law. LAHD reserves the right to impose requirements in addition to regulatory agreement extension. All specifics of refunding proposals must be approved by the Mayor and City Council.
- c. For refinancings initiated by the defaulting project owner or sponsor, the default refunding application will require a default refunding analysis to determine the eligibility for a default refunding. The analysis shall be prepared by a qualified firm and costs shall be borne by the sponsor/ owner. In general, a default refunding analysis determines whether the default was out of the control of the project owner or sponsor such as poor market conditions or other extraordinary circumstances.

4. Credit substitutions

Credit substitutions which are the functional equivalent of a refunding will be treated by LAHD in the same manner as refundings for purposes of these policies and procedures.

C. Bond Sale Modes

Housing bonds may be sold in a public sale transaction, where bonds are marketed to the bond-purchasing “public,” or on a private placement basis, where the bonds usually are placed with a single purchaser. LAHD will issue bonds for either a public sale or private placement, so long as its issuing criteria are met.

1. Private Placement

Bonds that are privately placed are purchased directly by, most often, a single buyer. These transactions usually occur without the use of an underwriter (although occasionally include a placement agent). Because an underwriter is not involved, transaction costs may be significantly less, allowing for smaller feasible transaction sizes. LAHD reserves the right to require project sponsors to include any member of its finance team to take part in any private placement financing.

2. Public Sale

a. Negotiated Bid

In this structure, the Issuer “negotiates” the terms of the sale of the bonds with the underwriting team and the developer to structure the sale of the bonds.

Upon pricing of the bonds, the Issuer and underwriter execute a bond purchase agreement obligating the underwriter to purchase the bonds. After purchasing the bonds, the underwriter resells them to their individual customers.

b. Competitive Bid.

In this structure, the issuer structures the bonds with the assistance of its finance team, including the financial advisor. Underwriters or underwriter syndicates then bid on the bonds. The bid that results in the lowest cost to the issuer wins the competitive bid. The winning underwriter or underwriter syndicate then executes a bond purchase contract obligating the winning entity to purchase the bonds. Upon purchasing the bonds, the underwriter generally re-sells the bonds to other investors. Housing bonds are not usually sold via competitive bid since the underlying real estate and credit of these transactions require significant description and explanation to potential buyers. Underwriters purchasing bonds in a competitive structure usually are not able to spend significant time analyzing the structure and underlying real estate/credit issues prior to the bid, and therefore cannot “pre-market” the bonds to gauge the interest of potential investors.

3. Pricing Requirements for Projects Receiving LAHD Subordinate Financing

The permanent period interest rate for privately placed bonds on projects receiving LAHD subordinate financing shall be within an acceptable market range compared with bonds in like amount, terms and conditions if such similar bonds were to be purchased directly by Fannie Mae (including forward delivery premium, if any).

D. Other Issuers

Projects financed with subordinate financing from LAHD will not be eligible to be financed by bonds issued by a statewide issuer or any issuer other than LAHD.

Other City agencies and authorities with statutory authority to issue bonds may issue housing bonds for projects in the City of Los Angeles. In particular, the Housing Authority of the City of Los Angeles may issue bonds for projects in which it has a substantial interest (e.g., as owner or land lessor) or for which it provides a substantial subsidy.

The City of Los Angeles may consent to the use of statewide issuers for private activity bonds (including 501(c)(3) bonds) to finance projects located in the City of Los Angeles only when such projects are part of a common plan of finance with one or more projects that are not located in the City of Los Angeles. Necessary elements of a common plan of finance shall include: 1) common credit structure and/or credit enhancement; 2) common indenture (that may include multiple series of bonds) or separate but identical or parity indentures; and 3) common financing schedule (including common pricing and closing dates).

The General Manager of LAHD may, at his or her sole discretion, waive the limitations on the use of statewide issuers. Outside issuances are still subject to all City requirements and procedures, including the payment of prevailing wages and any associated monitoring fees.

II. Bond Requirements

A. Bond Security

LAHD issues bonds solely on a conduit basis. Repayment of principal or interest on bonds issued by LAHD will not be secured by any assets of the City of Los Angeles or LAHD.

B. Bond Rating

LAHD requires that bonds for which it acts as issuer must be both (i) credit enhanced and have a minimum rating in the "A" category by Standard and Poor's, Fitch or Moody's (equivalent from another bona fide agency rating also acceptable), or (ii) privately placed as provided below. LAHD reserves the right to impose these minimum requirements on bond issues for which LAHD or the City holds a TEFRA hearing.

C. Credit Enhancement

Credit enhancement/ rating may take any form, including a letter of credit (LOC), credit enhancement guaranty, bond insurance or collateral pledge. The form of credit enhancement must be sufficient to meet the minimum rating criteria. The bond rating must be obtained before the closing of the bond issue.

D. Privately Placed Bonds

For privately placed bond issues that do not meet the minimum rating requirements noted above, the following requirements shall apply:

1. There may not be more than one bond owner at any one time.
 - a. The bonds must be purchased by an entity meeting the definition of an institutional "accredited investor" or "qualified institutional buyer" as defined in the Securities Act of 1933.

- b. All initial and subsequent purchasers must provide an investor letter in a form acceptable to LAHD wherein the investor acknowledges having sufficient knowledge and experience to evaluate the bond investment and wherein the investor waives any due diligence obligation on the part of the City.
 - c. Any changes to the CDLAC Resolution regarding bond ownership, including transfers, must be approved by LAHD..
 - d. The developer/owner must indemnify LAHD against any costs incurred by the City, including any lawsuit initiated by the bondholder or any other party, regardless of whether the developer is negligent.
 - e. Unrated bonds may not be issued to finance any portion of a continuing care retirement facility.
 - f. Bond purchasers must be aware of the substantial user prohibition. For projects with LAHD subordinate financing, the LAHD reserves the right to approve cases where the proposed bond purchaser is the same entity or a related entity as the project owner.
2. Redemption provisions
- a. A default under the loan agreement would not be defined as a bond default, even though full payments were not being made on the bonds. Redemption provisions would apply as follows:
 - b. Bond holder would be free to work out a loan default situation with the current project owner or through foreclosure of the project and its sale to a new owner, while keeping the bonds and regulatory agreement outstanding.
 - c. In the event a workout cannot be achieved, the documents would allow the bond holder to cause a mandatory redemption of the bonds through a deemed redemption mechanism.
 - d. If the interest on the bonds ever were determined to be table, bonds would be subject to mandatory redemption.

E. Bond Transfers

Bond transfers may be allowed, with prior written approval from LAHD, and must follow the same guidelines and requirements as outlined in Section II. In addition, the current borrower must not be in default under the bond documents, the purchaser must also not be in default according to the City's Business policy and satisfactory evidence must be presented to the City that the purchaser has at least three year's experience in the ownership, operation and management of affordable rental housing.

F. **Alternative Bond Structures**

The General Manager of LAHD may, at his or her sole discretion, waive the limitations on the above bond structures. Alternative bond structures must be presented to LAHD for review prior to submitting the CDLAC application. The proposal will be reviewed and analyzed on a project by project basis and must meet the LAHD's public benefit requirements.

III. Affordability Requirements

A. **Number of Affordable Units**

To be eligible for tax-exempt bond financing, projects must meet the Income and Rent Restrictions required by CDLAC, currently set at a minimum of 10% of the units must have Gross Rents that are restricted to households with incomes no greater than 50% of area median income. In addition, federal law requires that the project meet one of the following: (i) at least 20% of the units in each project must be rented to or held available for rent to very low-income tenants (50% of median income, adjusted for household size) or (ii) 40% of the units in such project must be rented to or held available for rent to tenants at or below 60% of median income. Project rents must be structured to maximize competitiveness under the CDLAC Affordability Matrix. The City reserves the right to impose additional restrictions. Restricted units must meet the CDLAC requirements regarding unit size and comparability.

B. **Term**

The term of the affordability requirement is the longer of: (a) 15 years from the beginning of the Qualified Project Period (as defined in the Internal Revenue Code of 1986), (b) as long as the bonds remain outstanding, or (c) such period as may be required in the opinion of bond counsel to meet federal or state law, or (d) such period as may be required by CDLAC. The rent of "in-place" tenants at the conclusion of the required affordability period will continue to be governed by the applicable affordability restriction, to the extent required by State or Federal law. The City reserves the right to impose additional restrictions.

C. **Income Limits**

Total household income for income-restricted units may not exceed 50% or 60% of the Area Median Income, as applicable, adjusted by household size, as set by the U.S. Department of Housing and Urban Development (HUD). These limits will be adjusted periodically when HUD adjusts the median-income standards it imposes. The City reserves the right to impose additional restrictions.

D. Rent Limits

The maximum rents for all the affordable units are adjusted based on the percentage increase in the HUD-determined median-income for Los Angeles County. These rents are based on 1/12 of 30% of the appropriate income limits, assuming one person in a studio, two persons in a one-bedroom, three persons in a two-bedroom and four persons in a three-bedroom unit. These assumptions differ for projects using Low Income Housing Tax Credits (LIHTC). In the event tax-exempt bonds are used with LIHTCs, the more restrictive rents apply.

E. Annual Certification of Tenant Income

The project owner must certify tenant eligibility annually. If at the annual certification a tenant's income exceeds 1.4 times the then income limit for initial occupancy, the owner must rent the next available unit of comparable or smaller size to a new income-eligible tenant. The owner may raise the current tenant's rent to market rent only upon renting the next available unit to a new low-income or very low-income household, as applicable, to be counted toward meeting the affordable unit requirements.

IV. City Additional Requirements

A. Prevailing Wage

Any tax-exempt bond financed project located in the City of Los Angeles, including projects funded by tax-exempt bonds issued by any statewide issuer or joint powers authority, must adhere to the State of California and City of Los Angeles prevailing wage requirements. Project sponsors shall be responsible for determining the applicability of residential versus commercial wage scales.

B. Compliance Monitoring

LAHD may at its sole discretion, intend to select outside consulting firms to monitor compliance with prevailing wage, Davis Bacon wage, and rent restrictions requirements for City bond financed projects. All costs associated with these monitoring activities shall be the responsibility of the project developer.

C. Intercreditor Agreement

LAHD, at its sole discretion, will enter into an intercreditor agreement with a lender for disbursement of bond proceeds for construction costs. The agreement will ensure that all construction costs will be reviewed by the LAHD compliance unit prior to disbursement. LAHD has prepared a standard form of agreement which will be used in all projects; any deviations from the form will require the approval of LAHD staff and the City Attorney. LAHD, at its sole discretion, may elect to use an outside consulting firm to monitor wage compliance. The fees shall be born by the sponsor/ owner.

D. Relocation

Any developer requesting multi-family housing bonds through the City for a project that may result in the temporary or permanent displacement of tenants or businesses will be required to fully comply with applicable local, state, and federal relocation laws.

1. At the time of Intake Application, the following must be submitted:
 - a. A relocation summary, which includes a description of the intended relocation activities and an estimated relocation budget.
 - b. A tenant rent roll (residential and/or commercial), which includes the unit number, name, unit type and size, rent (including any Section 8 subsidies), utilities paid by tenant, total number of occupants in each unit, and tenant income.
2. At the time of the submittal of the CDLAC application, a relocation plan prepared by a third-party consultant must be submitted. The relocation plan must reference all financing sources and the requirements for each, along with a relocation budget, which should be included in the total development costs.
3. No over-income tenants shall be required to move, even though the result may impact the loss of tax-credits.
4. Any buildings constructed prior to 1978 must also comply with the LAHD's policies for RSO properties (see LAMC 151.00, et seq.), including the Tenant Habitability Ordinance (see LAMC 152.00, et seq.).

E. Council Office Support

All applicants must submit a letter of support from the Council Office(s) in which the project site(s) is/are located. The date of the letter must be within six (6) months prior to the application deadline date.

F. LAHD Business Policy

Per the City's "New Business" policy adopted by City Council on April 16, 2003 (CF99-1272), LAHD is authorized to prevent borrowers, their related entities, and other partnerships that have common general partners, from accessing LAHD's bond programs, if the borrower is non compliant with loan obligations, including both monetary and non-monetary obligations (non payment of amount due, failure to complete project on time, failure to abide by regulatory agreement, loan written off as uncollectible, failure to correct any building deficiency noted by any governmental agency in a timely manner). An application is deemed ineligible to compete for funding if any member of the applicant's ownership entity has an interest in a current project or projects that are in monetary or non-monetary default.

G. Bond Requisitions

LAHD will require the use of a Trustee to disburse all bond proceeds. For each bond issuance, the trustee selection will be made through a request for proposal solicited from a list of Trustee's previously selected through a request for qualifications. Bond disbursements shall be outlined in an Indenture of Trust to be entered into by the selected Trustee, Issuer and Bond Purchaser.

H. Closing Requirements

1. The Department requires delivery of the following items prior to the issuance of the Bonds:

- a. All required permits, including building, demolition and special permits and all waivers and variances must be issued by the City of Los Angeles and all other agencies having jurisdiction over the Project.
- b. An executed construction or rehabilitation contract which encompasses all major components of the construction or rehabilitation of the Project.
- c. All financing for the acquisition, rehabilitation, and construction of the Project shall be in place and available; all necessary documentation shall have been entered into and there shall be no contingencies for funding other than normal and standard requirements relating to dutiful progress of the Project. So called "dry closings" will not be allowed
- d. Deposit and Commitment to Pay Fees. Acknowledgement wherein the applicant agrees to pay all the issuer's costs related to the financing, including all third party costs and costs of issuance in addition to any deposit amounts. The developer shall further indemnify LAHD for all costs or liabilities related to the proposed bond transaction. Under no circumstances will fees be refundable if the developer decides not to proceed with the transaction

I. Special Financing

These procedures generally apply to single project financings and developer initiated pooled financings. However, LAHD may from time to time develop special programs to meet particular housing needs (e.g., pooled financings for earthquake recovery, etc.). At such time as these programs are developed, LAHD may promulgate regulations to govern the implementation of the special programs.

V. Transfers

A. Ownership

1. LAHD reserves the right to approve any voluntary change in ownership (i) that results in a transfer of 50% or more of the total equity interests in a developer or (ii) that results in a transfer of any general partner or managing member interest in the developer. Such approval to transfer ownership shall be at the discretion of LAHD and, lacking any specific requirement or directive to the contrary, shall not require the approval of the Mayor and City Council. Transfers made by a limited partner tax credit investor to its affiliates are exempted from this requirement.
2. LAHD shall review management practices of the applicant's current and previously owned properties. Any applicant (including individuals within an ownership) whose currently owned properties have been found by City inspection to have deficiencies that have not been resolved within the time frame prescribed by the Systematic Housing Code Enforcement Program or other governmental housing inspection programs, including but not limited to the City Department of Building and Safety, City Attorney, Housing Authority of the City of Los Angeles, Fire Department or County Health Department, may not assume ownership of any bond financed project. LAHD may initiate additional inspections as needed to verify findings.
3. Any applicant (including individuals within an ownership) who's previously or currently owned properties indicate a pattern of deficiencies may not assume ownership of any bond financed project.
4. LAHD shall review financial statements and credit histories of the proposed owner or all individuals within an ownership entity. Applicants whose financial statements do not meet with the City's satisfaction may not assume ownership of a bond financed project.

VI. Fees and Expenses

A. Borrower's Agreement

At initial approval of the application and notification to the applicant, the applicant must agree, in writing, to pay all costs of issuing the bonds, including all fees of the issuer, its financial advisor and bond counsel, in the amounts and at the times indicated below. Such costs to the extent incurred must be paid whether or not the bond issue closes. For pooled issues, borrowers shall pay their equitably distributed pro rata share of all costs.

- B. **Costs of Issuance**
Borrowers shall pay all costs of issuance at bond closing or upon forfeiture of any CDLAC deposit or expiration of any TEFRA approval, if earlier, including, but not limited to, fees of bond counsel, underwriter, trustee and financial advisor, as well as rating fees. Only 2% of the proceeds of a tax-exempt bond issue may be used to pay costs of issuance. Costs in excess of 2% must be paid from other sources secured by the developer including, potentially, the proceeds of taxable bonds.
- C. **Initial Issuer Fee**
Borrowers shall pay an initial issuer fee of 25 basis points (0.25%) of the bond amount. This fee is paid at the bond closing and covers LAHD's administrative costs as Issuer.
- D. **Annual Issuer Fee**
During the construction period, Borrower shall pay an annual issuer fee in advance (adjusted for partial periods), of 25 basis points (0.25%) of the original principal amount of the Bonds. Upon completion of construction or rehabilitation and conversion of financing to permanent, Borrower shall pay an annual issuer fee in advance (adjusted for partial periods), an issuer fee that is the greater of 12.5 basis points (0.125%) of the outstanding amount (balance at conversion) or a minimum of \$4,000. Notwithstanding the foregoing, the fee must be paid so long as the bonds remain outstanding or the Regulatory agreement remains in effect and or the CDLAC compliance period.
- E. **In-Take Application Processing Fee**
A non-refundable fee of \$3,000 must accompany each application. This fee shall apply for all applications, irrespective of the issuer.
- F. **TEFRA Hearing Fee**
A non-refundable fee for TEFRA notice publication, currently in the amount of \$3,000 per project must accompany each TEFRA request.
- G. **Expedited Bond Closing Deposit**
Upon LAHD's approval to move forward using the expedited bond closing, as outlined below, the Sponsor shall pay ½ of the Initial Issuer Fee directly to LAHD as an LAHD performance deposit. If the terms of the bond resolution and bond documents are modified, as outlined below, the expedited request is voided and the performance deposit shall be forfeited to LAHD. Sponsor shall be required to pay the entire Initial Issuer fee at the time that the approval process of the modified terms are approved and the bonds close. If the expedited service is not interrupted due to changes in terms, the Sponsor shall only be required to pay the balance of the Initial Issuer fee due at the time of the bonds close.

- H. **Consent, Approval, Transfer, Amendment, and Waiver Fee**
LAHD will charge a processing fee equal to the greater of \$5,000 or .125% of the permanent principal amount of the relevant bond issue for any consent, approval, transfer, amendment, or waiver requested of the City.
- I. **Bond Prepayment Fee**
In the event of any payment or prepayment of the tax-exempt bonds in whole, prior to the end of the Qualified Project Period, the Owner shall pay to the City, on or before such payment, an amount equal to the present value of the remaining City fees payable hereunder, as calculated by the City, using a discount rate equal to the rate on the United States treasury security maturing on the date nearest the end of the later of 1) the end of the Qualified Project Period; or 2) the termination of the CDLAC resolution conditions, or such lesser amount as shall be necessary in the opinion of Bond Counsel to preserve the exemption of interest on the Bond from gross income for federal income tax purposes.

VII. The Finance Team

The City selects, at its sole and absolute discretion, the bond financing team to be utilized by LAHD through a RFQ process, including bond counsel, co-bond counsel (if any), disclosure counsel (if any) issuer's counsel and financial advisor, trustee and investment banker. The City, through LAHD, from time to time, shall promulgate policies regarding the selection of its finance team. The project sponsor may, at its own expense, add additional members to the finance team to represent its interests. The City requires the use of a trustee relative to all its bond financings. Bond counsel, co-bond counsel, financial advisor, trustee, and investment banker are chosen through a RFQ process approved by the Mayor and City Council. The Office of the City Attorney conducts a separate RFQ process for the selection of the bond counsel and co-bond counsel if necessary.

VIII. Departmental Review and Procedures/Timetable

All projects seeking bond financing or significant modifications to existing bond financings are subject to departmental review. Projects must submit an application for review. Upon successful review and initial approval of the application, financing of the project will be contingent upon, as required, payment of fees and expenses, adoption of an inducement resolution by LAHD's General Manager, TEFRA hearing, adoption of a bond resolution by City Council with the Mayor's concurrence, submittal of an application to CDLAC and award of a bond allocation from CDLAC. The following outlines the procedural steps from application to closing for a bond financed transaction. Applications may be received on an on-going basis at the discretion of LAHD according to the criteria below. Applicants shall submit a separate application for each project.

- A. **Intake Application**
LAHD requires the Intake application be submitted 60 days prior to the CDLAC application deadline.. During this review period, LAHD has no obligation to initiate or conclude any discretionary action regarding the bonds, including project inducement or TEFRA hearings. Upon completion of its review, LAHD will notify the applicant of its initial approval and intent to proceed with the financing or its disapproval of the application.

- B. **Background Review**
During the Intake review period, the LAHD will conduct a background check based on the information provided to determine if there are any outstanding violations with each compliance program, including; residual receipts payments, regulatory agreement compliance, Rent Registration or Code (SCEP) fees due, financial statements, unpaid property taxes, lapsed insurance or outstanding cited habitability violations, and/or if the property is in any of the City's compliance programs due to unabated habitability violations (i.e., REAP). Failure to disclose all applicable properties may result in disqualification of the application. It is highly suggested, that applicants contact the individual compliance programs prior to Initial application to verify satisfactory compliance.

- C. **Meetings of the Staff, Finance Team and Development Team**
LAHD may require that the applicant and relevant members of the development team meet with Department staff and/or the finance team to review the application.

- D. **Inducement Letter**
After initial approval, staff recommends approval by the LAHD's General Manager. The Inducement Letter is delivered to the applicant.

- E. **TEFRA Hearing**
After initial approval, the TEFRA hearing shall be noticed and scheduled. A notice of the TEFRA hearing must be published 14 days prior to the scheduled hearing date. The TEFRA hearing may occur concurrently with the adoption of the bond resolution. LAHD staff may prepare the TEFRA notice for publication, but the notice shall be reviewed by LAHD counsel and bond counsel. TEFRA approval process will be processed by LAHD with the assistance of the respective Council Office.

F. CDLAC Application Review and Evaluation

LAHD requires submittal of the CDLAC application(s) 30 days prior to the CDLAC submittal deadline. Applications should be submitted in substantially final form so that LAHD staff may begin to review. Applications should be finalized no later than 10 days prior to submittal to CDLAC, in order to complete the process of inducement approval by the General Manager of LAHD, and obtaining Mayor and City Council authorization to adopt the TEFRA resolution and TEFRA hearing minutes. Applications not requiring CDLAC approval must be submitted at least 120 days prior to desired bond closing date.

The default analysis that is required of default refunding applications will add an additional 20 days to the application review period. No such time periods are guaranteed. The above periods are minimums subject to change.

G. Deposit and Commitment to Pay Fees

Upon notification to applicant of LAHD initial approval, the applicant will be required to acknowledge and agree to pay all the issuer's costs related to the financing, including all third party costs and costs of issuance in addition to any deposit amounts. The developer shall further indemnify LAHD for all costs or liabilities related to the proposed bond transaction. Under no circumstances will fees be refundable if the developer decides not to proceed with the transaction.

H. Preparation and Submittal of the CDLAC Application

New-money tax-exempt private activity bond issues (except 501(c)(3) issues) require application to and allocation from CDLAC. The application to CDLAC is from LAHD, not the applicant or the project sponsor. Therefore, while the developer may prepare the application, it must be completed to the satisfaction of and reviewed by LAHD before submittal. In order to submit the application, the following must be completed:

1. A completed CDLAC application (plus required copies) must be submitted to LAHD at least 30 days prior to the relevant CDLAC application deadline.
2. The CDLAC application must be reviewed and approved by LAHD.
3. All previously required fees must have been paid and submitted, including:
 - a. A deposit amount required by CDLAC, currently in the amount of one-half of one percent (0.5%) of the allocation amount requested. The deposit shall be delivered to LAHD as a cashiers check payable to the City of Los Angeles.

b. The CDLAC filing fee (currently in the amount of \$600) made payable to CDLAC.

- I. Document preparation and approval (including bond resolution).
Bond counsel and LAHD may begin work on bond documents after the bond allocation has been approved and received from CDLAC. If approval from CDLAC is not required, bond counsel and LAHD may begin work on bond documents, at the sole and absolute discretion of LAHD, after initial approval of the application and after the agreement to proceed (including any required fee) has been received from the developer. No deemed consent is given for any document amendment. Subsequent amendments may require Mayor and City Council approval (as determined by Issuer's counsel).
- J. Scheduling and Approval of the Bond Resolution
The transaction may not close without the adoption of the bond resolution by the City Council and concurrence of the Council action by the Mayor. Bond counsel prepares the bond resolution with review by issuer counsel. The bond resolution is adopted, and the bond documents are approved concurrently by the City Council with the concurrence of the Mayor. The CAO will review any disclosure documents involved in a public or private offering. In order for any resolution to be approved by City Council, the following must occur:
1. Resolutions must be submitted by LAHD for consideration to the Housing, Community, and Economic Development Committee (HCED) of the City prior to consideration by the full City Council. If the resolution under consideration is the final bond resolution, commitments from credit enhancers or bond purchasers and substantially final bond documents must be provided to LAHD prior to this date.
 2. Upon approval by the HCED, the resolution will be forwarded to the City Council and Mayor for consideration and approval. Approvals by the HCED, City Council, and Mayor may, depending on their schedules, require approximately eight weeks, (subject to the approval of the final bond documents by the City Attorney's office before the issuance of the bonds.) If the financial structure is substantially modified, LAHD shall seek Mayor and Council approval for the modification.

K. Expedited Bond Closing. Upon LAHD approval, LAHD may expedite the preparation of bond documents and bond resolution approval process. After submittal of the CDLAC application and after the proof of TEFRA deadline, LAHD may begin the preparation of bond documents and bond resolution transmittal process simultaneous to the CDLAC review process and pending a CDLAC allocation. If the resolution under consideration is the final bond resolution, commitments from credit enhancers or bond purchasers and substantially final bond documents must be provided to LAHD prior to this date. Sponsor shall agree to accept the terms outlined in the application and in the draft bond documents to be true and correct and shall agree that if the terms that have been presented to the Mayor and City Council are materially modified, the expedited request is forfeited, and changes may cause a delay in closing. Nullification of the expedited process will result in a loss of the Initial Issuer fee deposit.

L. Bond Sale and Closing

Except as provided below, the following may occur, in the approximate order presented, only after the City Council adopts the bond resolution and approves the bond documents and the Mayor concurs with the Council action.

1. Mail the Preliminary Official Statement (POS)
2. The developer and the investment banker may assume the risk of mailing the POS prior to final Council approval.
3. Bond Pricing
 - a. Pricing call with underwriter, LAHD staff, financial advisor and developer. Final pricing occurs with the concurrence of LAHD.
4. Bond Purchase Agreement (BPA)
 - a. Following pricing, the BPA is executed by LAHD, the developer and the underwriter.
5. Pre-closing
 - a. The parties should allow approximately five business days to obtain required City approvals and signatures.
6. Closing

IX. Program Marketing

In order to facilitate optimal use of the bond program, LAHD may, from time to time, actively market the program to potential developers and project sponsors. The program marketing will be intended to reach sophisticated project sponsors in a broad range of Los Angeles neighborhoods who are able to utilize bond financing.

- A. The marketing program may have two parallel tracks:
 - 1. Continuous marketing on a scheduled, periodic basis of LAHD's ongoing bond financing programs. This marketing could take the form of simple newspaper ads (e.g., the Los Angeles Times) or targeted advertisements intended to reach specific markets or groups.
 - 2. Occasional marketing of special programs to occur as the special programs are developed.

EXHIBITS

- A- Inducement/ TEFRA Checklist
- B- Application Schedule