

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Date: January 22, 2013

CAO File No. 0220-00540-1025  
Council File No. 12-1669-S1  
Council District: 2

To: The Mayor  
The Council

From: Miguel A. Santana, City Administrative Officer

Reference: Los Angeles Housing Department Transmittal dated December 26, 2012  
(C.F. 12-1669-S1)

Subject: **AUTHORIZATION TO ISSUE \$4,000,000 IN TAX-EXEMPT, MULTI-FAMILY HOUSING MORTGAGE REVENUE BONDS FOR THE HAMLIN ESTATES PROJECT**

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### SUMMARY

The Los Angeles Housing Department (LAHD) requests that the Council adopt a Resolution authorizing issuance of \$4 million of tax-exempt multi-family housing mortgage revenue bonds (bonds) in support of the Hamlin Estates Project (Project) located at 11735 Hamlin Street in Council District 2, approve related bond documents, and authorize the LAHD to negotiate and execute the loan documents--the Resolution and related documents are attached to the LAHD transmittal relative to the Project dated December 26, 2012 (C.F. 12-1669-S1). The City's involvement in these transactions is considered true conduit financing because the obligation for repayment of the bonds is the borrower's responsibility and the City bears no financial responsibility for repayment. The City's Debt Management Policy is not applicable as no City funds are being used to issue the bonds. This Office recommends approval of the Department's recommendations.

### BACKGROUND

The Project involves the acquisition and rehabilitation of four two and three-story buildings that will include 30 units of which 29 units will be designated as affordable housing reserved for low-income families and one unit for an onsite manager. The site includes 58 parking spaces, laundry facilities, and one tot lot.

The LAHD provided an inducement letter on March 5, 2012, enabling the sponsor to apply for a tax-exempt bond allocation from the California Debt Limit Allocation Committee (CDLAC); the CDLAC awarded the requested bond allocation on December 12, 2012 with a deadline for issuance of March 12, 2013. The LAHD conducted a public hearing in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) on February 2, 2012 and the Council adopted the TEFRA Resolution and Minutes on November 9, 2012 (C.F. 12-1669).

A current loan on the property from the Community Redevelopment Agency (CRA) will be assumed by the Borrower. As of November 2012, the loan balance was about \$1.3 million, but proceeds from the bond sale and tax credits will pay down the loan to about \$869,868 once the Borrower assumes the loan. Thereafter, the CRA loan will continue to be structured as a residual receipts loan. The loan assumption will also involve loan modifications as follows: 1) Amortize the new loan over a 35-year term, plus a two-year construction term; 2) Reduce the interest rate from 7.5 percent to three percent; and, 3) Extend the affordability term to 55 years from the date of recordation of the assignment agreement. The loan (No. 871515) is on the Housing Asset Transfer list being considered by the State Department of Finance (DOF) for transfer to the City; the DOF review is expected to conclude its review in the second quarter of this year.

The LAHD reports that the borrower/sponsor of the Project Hampstead Hamlin Partners, L.P. (HHP) and its Officers include: CARE Housing Services (CARE) as the Managing General Partner and Hampstead Hamlin Estates, LLC (HHE) as its Administrative General Partner. The Hampstead Group, Inc. (HG) is the developer and WNC and Associates Inc. (WNC) is the tax credit equity investor and limited partner. The Principals of HHP and HHE are Chris Foster, Managing Member, Jeff Jallo, Member, and Greg Gossard, Member. The Principals of CARE are Gerald W. Parker, President, Andy Parker, Vice-President, and Howard Embry, Treasurer and Secretary. The Principals of HG are Chris Foster, President, Jeff Jallo, Vice-President and Treasurer and Greg Gossard, Secretary. The Principal of WNC is Wilfred N. Cooper, Jr., its President and CEO.

Citibank will provide financing through a back-to-back loan structure, making a tax-exempt loan of \$4 million to the City. The City will then loan these proceeds to the HHP to finance a portion of the Project. The construction loan term will be 18 months, plus one six-month extension with interest only payments due during the construction phase. The construction phase interest rate will be a variable rate equal to SIFMA plus a spread of three percent during the construction phase; which is a current rate of 3.17 percent. Once construction is completed, the construction loan will be paid down with proceeds from permanent sources. The permanent loan will be in the amount of \$3,440,000 and will have a 30/35 years term/amortization period. The currently underwritten permanent interest rate is 4.71 percent. The developer has received four percent Low Income Housing Tax Credits (LIHTCs) and has at least \$1,529,285 in tax credit equity.

The obligation of the Borrower to repay the City Loan will be secured by a mortgage on the Project ("Mortgage"). The Mortgage will be pledged by the City to a trustee/fiscal agent acting on behalf of Citibank as the sale security for payment of the Citibank Loan. Similar to a private placement tax exempt bond structure, the obligations of the City are secured only by and payable only from payments received from the Borrower under the Loan Agreement between the Borrower and the City. The Citibank Loan will be a strictly limited, non-recourse loan. The Citibank Loan will be evidenced by a note (the "Note") delivered in physical (non-book entry) form subject to the restrictions on transfer set forth in the City's Housing Bond Policies and Procedures.

In addition, Citibank has requested waiver of certain LAHD policies related to the issuance of non-rated tax-exempt bonds. LAHD has agreed to a limited number of modifications that nonetheless retain City protections intended by the policies and prevent the City from incurring undue risk or liability. Both the City Attorney and Bond Counsel have reviewed the proposal and assessed no undue risk or liability:

1. LAHD has agreed to allow multiple Note holders subject to the following conditions: 1) Note Holders shall be limited to Qualified Institutional Buyers (QIB) and institutional Accredited Investors and individual Accredited Investors meeting certain net worth and income requirements; 2) there shall be at all times a Majority Note Holder, owning more than 50% of the Notes or, in certain instances, a Note Holder Representative; 3) Note holders other than QIBs and affiliates thereof or a trust which issues interests to QIBs or the interests in which are rated "A" or better, shall be required to provide an Investor Letter; 4) the seller of Notes to a QIB shall be required to provide certain certifications that the buyer is a QIB; and 5) minimum bond denominations shall be \$100,000.
2. LAHD has agreed to permit the Note Holder Representative to declare a default under the Note and request the City to authorize exercise of remedies.
3. LAHD has agreed to allow the Note (or a portion thereof) to be held in a tender option bond trust (TOB Trust) subject to the following: 1) certificates issued by the trust shall be credit enhanced and shall (except for a residual interest owned by a QIB) receive a rating in the "A" category, or better; 2) certificate holders shall be QIBs; 3) if the necessary dissolution of the Trust would result in a majority of the Note not being held by a single note holder, then Citibank or an affiliate thereof shall be appointed the Note Holder representative prior to trust dissolution.

The Council adopted a Responsible Banking Ordinance (RBO) on May 15, 2012 (C.F. 09-0234 and 09-0234-S1). The purpose of the RBO is to create a social investment policy that reflects the community's priorities and acts as a tool when seeking financial services. The City is working with various interest groups to develop an implementation plan for the RBO. The City does have business relations with Citibank (construction and permanent loan); however, since the City acts only as a conduit issuer in these bond transactions and has no financial interest, the selection of these banks does not constitute City business.

## **RECOMMENDATIONS**

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

1. Adopt the Resolution attached to the Los Angeles Housing Department (LAHD) Transmittal dated December 26, 2012 (C.F. 12-1669-S1), authorizing the issuance of up to \$4 million in tax-exempt multifamily housing mortgage revenue bonds for the development of Hamlin Estates Project (Project) located at 11735 Hamlin Street in Council District 2;
2. Approve the related loan documents attached to the LAHD Transmittal dated December 26, 2012 (C.F. 12-1669-S1), subject to the approval of the City Attorney as to form;
3. Authorize the General Manager of the LAHD, or designee, to negotiate and execute the relevant loan documents, subject to the approval of the City Attorney as to form; and
4. That the Mayor concur with the action of the City Council.

## **FISCAL IMPACT STATEMENT**

There is no impact to the General Fund. Funding authority for the tax-exempt multi-family housing revenue bonds (bonds) is provided by the California Debt Limit Allocation Committee. The borrowers will pay all costs associated with the issuance of the bonds, and the City bears no financial responsibility for repayment. Approval of the recommendations will enable the Hamlin Estates Project to secure additional funding to rehabilitate affordable housing for families. The City's Debt Management Policy is not applicable as there are no City funds being used to issue the bonds.

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