

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: October 23, 2013 CAO File No. 0220-00540-1068
To: The Mayor Council File No. 13-0756
The Council Council District: 13
From: Miguel A. Santana, City Administrative Officer 
Reference: Transmittal from the Los Angeles Housing and Community Investment Department dated October 1, 2013; received by the City Administrative Officer on October 15, 2013.
Subject: **AUTHORIZATION TO ISSUE TAX-EXEMPT MULTI-FAMILY HOUSING CONDUIT REVENUE BONDS FOR THE HOLLYWOODLAND APARTMENTS PROJECT**

SUMMARY

The Los Angeles Housing and Community Investment Department (HCID), formerly known as the Los Angeles Housing Department (LAHD), requests authority to issue tax-exempt, multi-family housing conduit revenue bonds in an amount not to exceed \$10,500,000 to finance the acquisition and rehabilitation of the development known as the Hollywoodland Apartments (Project). The California Debt Limit Allocation Committee (CDLAC) awarded the bond allocation for the Project to the City on September 18, 2013, with the allocation expiring on December 17, 2013. The Project is financed through the Federal Housing Administration (FHA) of the U.S. Department of Housing and Urban Development (HUD). The HCID has requested and the Project Sponsor recommends that this transaction close by the end of October 2013 to ensure that the FHA-insured mortgage is issued in a timely fashion. This Office concurs with HCID's recommendations for approval to issue the bonds for this Project.

The proposed Project consists of seven two-story walk-up buildings, located on four existing scattered sites in Council District 13, located at 1206, 1208, and 1222 N. Gower Street; 1438 Gordon Street; 5155 and 5169 Marathon Street; and 977 N. Wilton Place. The buildings will undergo substantial renovation and will continue to provide affordable housing for elderly and low income households. Renovation includes replacement of bathroom fixtures, carpeting and vinyl flooring, and preparation and painting of bathroom and kitchen ceilings. In addition, microwave ovens and dishwashers will be added to all units. The Project amenities include laundry facilities, limited access gate, intercom entry and transportation coordination. The Gower site contains nine parking spaces.

The HCID also requests Council to adopt the related Resolution authorizing the bond issuance. The Resolution is included in the attached Transmittal from HCID dated October 1, 2013. The

Project will use a variety of funding sources including tax-exempt bonds, limited partner equity and developer equity. The City's involvement in these transactions is considered true conduit financing, in which the obligation for repayment of the bonds is the Borrower's responsibility and the City bears no financial responsibility for the repayment. There will be no impact to the General Fund. The City's Debt Management Policy is not applicable as no City funds are being used to issue the bonds.

BACKGROUND

The Project Development Team is comprised of the following group:

- The Project Sponsor, also known as the Borrower, is Steele Hollywoodland, L.P., a California limited partnership consisting of CHC Hollywoodland MGP LLC (CHC) as the Managing General Partner and Steele Hollywoodland GP LLC (Steele LLC) as the Administrative General Partner. The CHC is comprised of Community Housing Concepts, Inc., a Colorado non-profit corporation, and the board of directors are Marty Dimas, Neal Bhamre and Hud Karshmer. Steele LLC is comprised of Steele Properties Holdings LLC, a Colorado limited liability company, and the members are Chad Asarch, Stuart Heller and Hud Karshmer;
- The Developer is Steele Properties LLC, a Denver limited liability corporation. Nationally, the Developer has 60 years of experience in developing and/or rehabilitating multi-family rental housing and has developed and/or rehabilitated 35 projects totaling 3,500 units;
- The Tax Equity Advisor is PNC Real Estate, or an affiliate.

On April 1, 2013, LAHD induced the Project, which enabled the Project Sponsor to apply for a tax-exempt bond allocation (C.F. 04-2646). On April 23, 2012, LAHD conducted a public hearing in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). The LAHD was authorized to apply on behalf of the Project Sponsor for an allocation of up to \$13,750,000 in tax-exempt bonds from CDLAC. On June 18, 2013, the TEFRA Resolution and Minutes were adopted by the City Council (C.F. 13-0756). On July 2, 2013, HCID submitted the CDLAC application on behalf of the Project Sponsor, for an allocation of tax-exempt bonds. On September 18, 2013, the Project was awarded an allocation of \$10,500,000 in tax-exempt bonds from CDLAC. The allocation expires on December 17, 2013.

The HCID states that the Borrower and Developer are in compliance with HCID's Business Policy, and that labor costs are subject to the State of California's Prevailing Wage requirements and/or Federal Davis Bacon wages, if applicable.

Financial Structure

The bonds will be privately placed with Citibank, and Citibank will use its Multi-Family Cash Collateralized Structure with a high rated, cash collateralized short term note. This is a "back-to-back"

loan structure whereby, instead of purchasing the note, Citibank will make a tax-exempt loan in the approximate amount of \$10,500,000 to the City of Los Angeles (Citibank Loan). The City will then loan the proceeds of the Citibank Loan to the Borrower (Borrower Loan) to finance a portion of the Project costs. The proceeds of the Borrower loan will be held in an escrow account, and as the Borrower draws down for project costs, the FHA loan will pay back the Borrower loan funds, dollar for dollar. The Citibank Loan will be a strictly limited, non-recourse loan and will be evidenced by a note delivered in either a physical or book entry form. The HCID states that the City Attorney has reviewed the bond sale structure. Kutak Rock, L.L.P., HCID's outside bond legal counsel, have reviewed this structure and assessed no undue risk or liability.

The Borrower Loan term will be 18 months and will bear interest at a fixed rate calculated by adding a 0.30% spread to the two-year MMD Index, which is currently at 0.45%, resulting in a rate of 0.75% based on current rates. The Developer has received 4% Low Income Housing Tax Credits and anticipated at least \$6,849,845 in tax credit equity. Currently, the project has a HUD Project-Based Voucher Housing Authority Program Contract, which covers 82 units.

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 this bank does not constitute City business.

For this bond financing, the City only acts as a conduit issuer. The bonds are not general obligations of the City because the conduit Borrower, Steele Hollywoodland, L.P., is solely responsible for paying the debt. In addition, the bonds are usually based on the credit of the conduit Borrower. Furthermore, HCID must ensure that the Funding Loan Agreement states that the City is fully indemnified by Steele Hollywoodland, L.P.

RECOMMENDATIONS

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

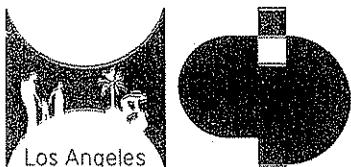
1. Adopt the Resolution included in the attached Transmittal from the Los Angeles Housing and Community Investment Department (HCID) dated October 1, 2013, authorizing issuance of tax-exempt multi-family conduit revenue bonds in the form of multi-family collateralized notes in an amount up to \$10,500,000 for the acquisition and rehabilitation of the Hollywoodland Apartments Project;
2. Approve the related loan documents, subject to the approval of the City Attorney as to form; and,
3. Authorize the General Manager, HCID, or designee, to negotiate and execute the relevant loan documents, subject to the approval of the City Attorney as to form.

FISCAL IMPACT STATEMENT

There is no impact to the General Fund. Funding authority for the tax-exempt multi-family housing revenue bonds is provided by the California Debt Limit Allocation Committee. The borrower, Steele Hollywoodland, L.P., 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 provide the Hollywoodland Apartments Project with funding to acquire and rehabilitate the Hollywoodland Apartments Project to provide affordable housing for the community. The City's Debt Management Policy is not applicable as there are no City funds being used to issue the bonds.

MAS:SAM/MMR:02140039C

Attachment



Los Angeles
HOUSING + COMMUNITY
Investment Department

Finance & Development Division

1200 West 7th Street, 8th Floor, Los Angeles, CA 90017
tel 213.808.8901 | fax 213.808.8918
hcida.lacity.org



Eric Garcetti, Mayor

Mercedes M. Márquez, General Manager

2013 OCT 15 PM 3:29

ADMINISTRATIVE OFFICER

October 1, 2013

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Council District:	13
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Honorable Eric Garcetti
Mayor, City of Los Angeles
Room 303, City Hall
200 N. Spring Street
Los Angeles, CA 90012

Attention: Mandy Morales, Legislative Coordinator

**COMMITTEE TRANSMITTAL: REQUESTING THAT MAYOR AND CITY COUNCIL
AUTHORIZE THE ISSUANCE OF UP TO \$10,500,000 IN TAX-EXEMPT MULTI-FAMILY CONDUIT REVENUE BONDS FOR THE HOLLYWOODLAND APARTMENTS PROJECT.**

SUMMARY

- The Los Angeles Housing and Community Investment Department (HCIDLA), formerly known as the Los Angeles Housing Department (LAHD), respectfully requests authority for the City of Los Angeles to issue its tax-exempt multi-family housing conduit revenue bonds in the form of multi-family collateralized notes in the amount of up to \$10,500,000 to finance the acquisition and rehabilitation of the development known as the Hollywoodland Apartments ("Project"). While the California Debt Limit Allocation Committee (CDLAC) has designated December 17, 2013 as the allocation expiration date, the project is FHA financed and Sponsor recommends to close by end of October 2013 to avoid delays due to federal budget constraints. HCIDLA requests that this transaction close by end of October 2013. This will ensure that the FHA insured mortgage is issued in timely fashion.
- The proposed project consists of seven two-story walk-up buildings located on four existing scattered sites located at 1206, 1208, 1222 N. Gower Street, 1438 Gordon Street, 5155 & 5169 Marathon Street, and 977 N. Wilton Place, all in the 13th Council District. The buildings will undergo substantial renovation and will continue to provide affordable housing for elderly and low income households.

On April 23, 2013, HCIDLA conducted a public hearing in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). HCIDLA was authorized to apply for an allocation of up to \$13,750,000 in tax-exempt bonds. On June 18, 2013, the TEFRA Resolution and Minutes were adopted by the City Council (CF#13-0756). On July 2, 2013, HCIDLA, on behalf of the sponsor, submitted the CDLAC application for an allocation of tax-exempt bonds. On September 18, 2013, the project was awarded an allocation of \$10,500,000 in tax-exempt bonds from CDLAC. CDLAC allocation expiration date is December 17, 2013.

Affordability Restrictions

UNIT TYPE	50% of AMI	60% of AMI	MGR	TOTAL
0-Bdr.	18	40		58
1-Bdr.	5	12		17
2-Bdr.	3	4	1	8
TOTAL	26	56	1	83

Pursuant to the Bond Regulatory Agreement to be executed in connection with the issuance of the tax-exempt bonds, the above referenced restrictions will have a term of not less than the latest of: (i) the date which is 15 years after 50% of the dwelling units are first occupied, (ii) the first date on which no Tax-exempt private activity bond issued with respect to the Project is outstanding, or (iii) the date on which any assistance provided with respect to the Project under Section 8 of the United States Housing Act of 1937 terminates. In addition, CDLAC's resolution and rental income restrictions will be in place for at least 55 years. Also, because the Project will receive 4% Low Income Housing Tax Credits the subject units will also be restricted, via separate agreement, for a minimum of 55 years.

Currently the project has a U.S. Department of Housing and Urban Development (HUD) Project-Based Voucher (PBV) HAP Contract, which covers 82 units.

Development Team

The Project Sponsor/Borrower is Steele Hollywoodland, L.P., a California limited partnership consisting of CHC Hollywoodland MGP LLC (CHC), as the Managing General Partner, and Steele Hollywoodland GP LLC (Steele LLC), as the Administrative General Partner. CHC is made up of Community Housing Concepts, Inc., a Colorado nonprofit corporation and the board of directors are Marty Dimas, Neal Bhamre, and Hud Karshmer. Steele LLC is made up of Steele Properties Holdings LLC, a Colorado limited liability company and the members are Chad Asarch, Stuart Heller, and Hud Karshmer. The developer is Steele Properties LLC, a Denver limited liability corporation. Nationally, the developer has a total of 60 years experience developing/rehabilitating multi-family rental housing and has developed/rehabilitated 35 projects totaling 3,500 units. The tax equity investor is PNC Real Estate or an affiliate.

In addition, Citibank will use its “back-to-back” loan structure whereby, instead of purchasing the note, Citibank will make a tax-exempt loan in the approximate amount of \$10,500,000 to the City of Los Angeles (“Citibank Loan”). The City will then loan the proceeds of the Citibank Loan to the Borrower (“City Loan” or “Borrower Loan”) to finance a portion of the Project costs.

In order to meet Community Reinvestment Act (“CRA”) requirements, large banking organizations such as Citibank are required to achieve two types of CRA goals in the markets they serve. In each market, they are required to have a certain dollar volume of “investment” activity and they are also required to achieve a certain dollar volume of “lending” activity in each period. Citibank has developed the tax-exempt back-to-back loan structure to recharacterize their product as a “lending” transaction to achieve these very important CRA goals. Citibank’s ability to achieve these goals is fundamental to its ability to continue to allocate significant levels of capital to affordable housing activity in the City of Los Angeles.

The Citibank Loan will not be secured by a mortgage on the Project, but will be secured by a pledge of cash held by the Fiscal Agent under the Funding Loan Agreement (the “Collateral Pledge”) in an amount equal to the maximum principal amount of the Citibank Loan plus interest to accrue thereon to the maturity date of the Citibank Loan. The Collateral Pledge will be invested in a “Permitted Investment” under the Funding Loan Agreement in order that the Note achieves a rating of at least “AA+” from Standard and Poor’s. Thus, the Note satisfies the City’s Multi-family Bond Policies and Procedures (the “City Policies”) as an investment grade rated and credit enhanced issue and thus is not subject to the City’s private placement restrictions as described in the City Policies.

The obligation of the Borrower to repay the City Loan will be secured by the Collateral Pledge and any other funds held under the Funding Loan Agreement and payments received from the Borrower under the Borrower Loan Agreement between the Borrower and the City. The principal amount of the Collateral Pledge will be sized to pay the principal of the Citibank Loan plus accrued interest thereon to the maturity date of the Citibank Loan. The obligations of the City under the Citibank Loan are secured only by and payable only from the Borrower’s payments under the Loan Agreement, the Collateral Pledge and other amounts held under the Funding Loan Agreement. The Citibank Loan will be a strictly limited, non-recourse loan. The Citibank Loan will be evidenced by a note (the “Note”) delivered in either a physical or book entry form. The City Attorney has reviewed the bond sale structure. The Bond Counsel and Financial Advisor have also reviewed and assessed no undue risk or liability.

The Borrower Loan term will be 18 months and will bear interest at a fixed rate calculated by adding a 0.30% spread to the 2-year MMD Index, which is currently at 0.45%, resulting in a rate of 0.75% based on current rates. Once construction is completed, the Citibank Loan will be paid in full from the liquidation of the Collateral Pledge. Permanent financing for the project will take the form of an FHA-insured conventional mortgage loan from PNC. The currently underwritten permanent interest rate is 4.60%. The developer has received 4% Low Income Housing Tax Credits and anticipates at least \$6,849,845 in tax credit equity. Additional permanent financing includes property income during construction and deferred developer fees.

Labor Costs

Labor costs are subject to the State of California's Prevailing Wage requirements and/or Federal Davis Bacon wages, if applicable.

Timeline – Bond Closing Date

The California Debt Limit Allocation Committee established December 17, 2013 as the expiration date for the issuance of the tax-exempt bonds.

FISCAL IMPACT STATEMENT

There will be no fiscal impact on the General Fund as a result of the issuance of the bonds. The City is a conduit issuer and does not incur liability for repayment of the bonds.

KUTAK ROCK LLP
09/12/13

RESOLUTION

CITY OF LOS ANGELES

A RESOLUTION AUTHORIZING THE ISSUANCE, SALE AND DELIVERY OF ONE OR MORE SERIES OF MULTIFAMILY NOTES BY THE CITY OF LOS ANGELES DESIGNATED MULTIFAMILY COLLATERALIZED REVENUE NOTES (HOLLYWOODLAND APARTMENTS) SERIES 2013N IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$10,500,000 TO PROVIDE PERMANENT FINANCING FOR THE ACQUISITION, REHABILITATION AND EQUIPPING OF THE SCATTERED SITE MULTIFAMILY HOUSING PROJECT SPECIFIED IN PARAGRAPH 16 HEREOF AND APPROVING AND AUTHORIZING THE EXECUTION AND DELIVERY OF RELATED DOCUMENTS AND AGREEMENTS AND THE TAKING OF RELATED ACTIONS, INCLUDING THE EXECUTION OF AMENDATORY DOCUMENTS THERETO.

WHEREAS, the City of Los Angeles (the "City") is authorized, pursuant to Section 248, as amended, of the City Charter (the "Charter") of the City and Article 6.3 of Chapter 1 of Division 11 of the Los Angeles Administrative Code, as amended (the "Law"), to issue its obligations for the purposes of providing permanent financing for the acquisition, rehabilitation and development of multifamily rental housing for persons and families of low or moderate income (the "Program") which will satisfy the provisions of Chapter 7 of Part 5 of Division 31 of the Health and Safety Code of the State of California (the "Act"); and

WHEREAS, the City desires to issue pursuant to the Law and in accordance with the Act, its revenue Notes to provide permanent financing for the acquisition, rehabilitation and equipping of that certain scattered site multifamily rental housing project described in paragraph 16 below (the "Project"); and

WHEREAS, the Project is located wholly within the City; and

WHEREAS, it is in the public interest and for the public benefit that the City authorize financing for the Project, and it is within the powers of the City to provide for such a financing and the issuance of such Notes; and

WHEREAS, the City proposes to issue, pursuant to the Law and in accordance with the Act, its Multifamily Collateralized Revenue Notes (Hollywoodland Apartments) Series 2013N in an aggregate principal amount not to exceed \$10,500,000 (the "Notes"); and

WHEREAS, the City proposes to use the proceeds of the Notes to cause the financing of the Project and, if applicable, to pay certain costs of issuance in connection with the issuance of the Notes; and

WHEREAS, Citibank, N.A. or an affiliate thereof (the "Purchaser") has expressed its intention to purchase the Notes (or cause the Notes to be purchased by an affiliate) authorized

General Manager, any Assistant General Manager or any Interim Assistant General Manager, Executive Officer or the Director—Major Projects Division of the Los Angeles Housing and Community Investment Department (each hereinafter referred to as a “Designated Officer”) are hereby authorized and directed to execute and deliver, for and in the name and on behalf of the City, said Funding Loan Agreement with such additions, changes or corrections (including, without limitation, the designation of the Fiscal Agent) as the Designated Officer executing the same may approve upon consultation with the City Attorney and Bond Counsel to the City and approval of the City Attorney, provided that such additions or changes shall not authorize an aggregate principal amount of the Notes in excess of the amount stated above, such approval by the City Attorney, to be conclusively evidenced by the execution and delivery of the Funding Loan Agreement with such additions, changes or corrections.

4. The proposed form of Borrower Loan Agreement (the “Loan Agreement”), by and between the City and the Owner, in substantially the form attached hereto, is hereby approved. Any Designated Officer is hereby authorized and directed, for and in the name and on behalf of the City, to execute the Loan Agreement, with such additions, changes or corrections as the Designated Officer executing the same may approve upon consultation with the City Attorney and Bond Counsel and approval by the City Attorney, such approval to be conclusively evidenced by the execution of said Loan Agreement with such additions, changes or corrections.

5. The proposed form of the Notes, as set forth in the Funding Loan Agreement, is hereby approved, and the Mayor and City Treasurer or Deputy City Treasurer of the City are hereby authorized and directed to execute, by manual or facsimile signatures of such officers under the seal of the City, and the Fiscal Agent or an authenticating agent is hereby authorized and directed to authenticate, by manual signatures of one or more authorized officers of the Fiscal Agent or an authenticating agent, the Notes in substantially such form, and the Fiscal Agent is hereby authorized and directed to sell and deliver the Notes to the Purchaser in accordance with the Funding Loan Agreement. The date, maturity dates, interest rate or rates (which may be either fixed or variable), interest payment dates, denomination, form of registration privileges, manner of execution, place of payment, terms of redemption, use of proceeds, and other terms of the Notes shall be as provided in the Funding Loan Agreement as finally executed; provided, however, that the principal amount of the Notes shall not exceed \$10,500,000, the interest rate on the Notes shall not exceed 12% per annum and the final maturity of the Notes shall be no later than October 1, 2053. The initial purchase price of the Notes shall be 100% of the principal amount thereof to be paid as advances are made with respect to the Notes by the Purchaser. Such Notes may be delivered in temporary form pursuant to the Funding Loan Agreement if, in the judgment of the City Attorney, delivery in such form is necessary or appropriate until the Notes in definitive form can be prepared.

6. The proposed form of Regulatory Agreement and Declaration of Restrictive Covenants (the “Regulatory Agreement”) to be entered into by and among the City, the Fiscal Agent and the owner of the Project (as set forth in paragraph 16 below, the “Owner”), substantially in the form attached hereto, is hereby approved. Any

12. Pursuant to the City Charter all agreements to which the City is a party shall be subject to approval by the City Attorney as to form.

13. Each Designated Officer and other properly authorized officials of the City as specifically authorized under this resolution are hereby authorized, directed and empowered on behalf of the City and this Council to execute any other additional applications, certificates, agreements, documents or other instruments or any amendments or supplements thereto, subject to approval by the City Attorney as to form, or to do and to cause to be done any and all other acts and things as they may deem necessary or appropriate to carry out the purpose of the foregoing authorizations and to address any issues arising with respect to the Notes or the agreements relating thereto subsequent to their issuance.

14. The Notes shall contain a recital that they are issued pursuant to the Law and in accordance with the Act.

15. This Resolution shall take effect immediately upon its passage and adoption.

16. The "Project" and "Owner", as used herein, shall have the following meanings

Project Name	Addresses	Number of Units	Owner
Hollywoodland Apartments	1206-1222 N. Gower Street, 977 N. Wilton Place, 5155- 5169 Marathon Street, 1438 Gordon Street, Los Angeles, CA	83 (scattered site, incl. 1 manager unit)	Steele Hollywoodland, LP

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I certify that the foregoing Resolution was adopted by the Council of the City of Los Angeles at its meeting on _____, 2013.

By _____
Name _____
Title _____