

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Date: August 28, 2014

CAO File No. 0220-00540-1100

Council File No. 13-1265-S1

Council District: 13

To: The Mayor  
The Council

From: Miguel A. Santana, City Administrative Officer

Reference: Housing and Community Investment Department transmittal dated July 9, 2014;  
Received by the City Administrative Officer on July 28, 2014

Subject: **HOUSING AND COMMUNITY INVESTMENT DEPARTMENT (HCID) REQUEST FOR AUTHORIZATION TO ISSUE UP TO \$8,750,000 IN TAX-EXEMPT MULTI-FAMILY CONDUIT REVENUE BONDS FOR THE BERENDOS APARTMENT PROJECT**

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### SUMMARY

The Housing and Community Investment Department (HCID) requests authority to issue tax-exempt, multi-family housing conduit revenue bonds, in an amount not to exceed \$8,750,000, to finance the affordable housing development known as the Berendos Apartments (Project). The Project consists of two existing, non-contiguous apartment buildings situated across the street from each other at 235 and 226 S. Berendo Street, Los Angeles, CA 90004 in Council District 13. The Project will target homeless and special needs individuals. The California Debt Limit Allocation Committee (CDLAC) awarded the bond allocation for the Project to the City on May 21, 2014 with a bond allocation expiration date of September 29, 2014. The financing is consistent with City policies regarding conduit financing. This Office concurs with the recommendations of the Department.

The Project includes the acquisition and rehabilitation of a combined 72-units (70 plus two manager units) in two apartment buildings. The buildings will be renovated and upgraded with high energy efficient systems and products. The renovations will include new kitchen cabinetry and countertops, bath cabinets, refrigerators, stove and hood lighting, carpeting, and upgrades to heating/air conditioning systems. Common area improvements will include improved accessibility, painting, flooring and hall ventilation. Energy and water efficiency improvements will include low-flow bath fixtures, solar energy systems on the roof, and new windows.

The HCID also requests that the Council adopt the related Resolution which authorizes the bond issuance. The Resolution is included as an attachment to the HCID transmittal dated July 9, 2014. The Project will use a variety of funding sources including tax-exempt bonds, an HCID loan, a loan from the former Community Redevelopment Agency (CRA), a California Department

of Housing and Community Development California Housing Rehabilitation Program (HCD-CHRP) loan, tax credit equity, and a loan from Berendos, L.P. (Project Sponsor/Borrower) to A Community of Friends (ACOF), also known as the Developer. The City's involvement in the issuance of tax-exempt, multi-family housing conduit revenue bonds is considered true conduit financing, in which the obligation for repayment of the bonds is the Borrower's responsibility and the City bears no financial responsibility for repayment. There will be no impact to the General Fund.

## **BACKGROUND**

The Development Team of the Project is comprised of the following groups:

- Berendos, L.P. is the Project Sponsor, also known as the Borrower;
- A Community of Friends (ACOF), is the General Partner, Developer and Property Manager for the Project. ACOF is a Section 501(c)(3) nonprofit corporation with 22 years of experience in the development of multi-family rental housing and has developed 43 properties in California resulting in more than 1,700 housing units, primarily in Los Angeles County;
- Enterprise Community Partners is the Tax Credit Investor;
- Gubb & Barshay, LLP are the Attorneys;
- Walton Construction is the General Contractor.

### Financing History

On September 13, 2013, HCID conducted a public hearing in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) and on October 2, 2013, the TEFRA Resolution and Minutes were adopted by the Council (C.F. 13-1265). The HCID received authorization to induce the Project on April 20, 2005 (C.F. 04-2646) and on October 8, 2013 HCID induced the Project, thereby enabling the Project Sponsor to apply for a tax-exempt bond allocation of up to \$8,750,000 in tax-exempt bonds from CDLAC. On March 21, 2014, HCID, on behalf of the Project Sponsor, submitted the CDLAC application for an allocation of tax-exempt bonds. The Project was awarded an allocation of \$8,750,000 from CDLAC on May 21, 2014 with a bond allocation expiration date of September 29, 2014.

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. In December 1998, the Mayor and Council adopted a motion (Hernandez-Wachs, C.F. 98-2175) that requires the Prevailing Wage or Living Wage, whichever is higher, to be paid and included as a requirement for affordable housing developers on all projects funded by the housing bond allocation.

Affordability Restrictions

Pursuant to the City’s Conduit Financing Policies, the Project must provide a public benefit necessitating the execution of a Bond Regulatory Agreement in connection with the issuance of tax-exempt bonds. In accordance with the Bond Regulatory Agreement, the restrictions shown below will take effect beginning on the first day on which 10 percent of the dwelling units in the Project are first occupied and ending no earlier than the longer of (i) 15 years after 50 percent of the dwelling units in the Project are first occupied, (ii) the date such bonds are paid in full, or (iii) the date on which any Section 8 assistance terminates. The CDLAC resolution and rental income restrictions will be in place for 55 years following the date on which 50 percent occupancy is achieved.

Summary of Affordability Restrictions by Unit Type

Unit Type	40% AMI	50% AMI	60% AMI	Manager	Total
Studio	16	12	31	2	61
1 Bedroom		11			11
<b>Total</b>	<b>16</b>	<b>23</b>	<b>31</b>	<b>2</b>	<b>72</b>

Financial Structure

The HCID states that the Bonds will be privately placed and purchased by Wells Fargo Bank (Wells Fargo), and any transfer of ownership of the Bonds or the Project properties will be subject to the restrictions of the City’s Debt Management Policies. Wells Fargo will provide a construction loan in the amount of \$8,750,000 with a term of 18 months and a variable interest rate based on the 30-day London Interbank Offered Rate (LIBOR) rate plus 175 basis points (1.75 percent), and a bank origination fee of 75 basis points (0.75 percent). At conversion to the permanent financing stage, the Wells Fargo construction loan will be paid off from available funds. All subordinate loans from the construction phase including the Project Sponsor loan will be carried over and converted to permanent funding.

Additional funding sources for the construction phase include existing loans, private and public loans, and equity proceeds from the tax credit investor. The ACOF will provide a no interest loan to Berendos, L.P. in the amount of \$844,714 for a 55-year term. An existing HCD-CHRP loan in the amount of \$1,681,983 will be extended to a total term of 55 years at a 3 percent interest rate. An existing HCID loan in the amount of \$1,399,671 (C.F. 91-2332 and C-98928) plus accrued interest (approximately \$1,015,885) and a loan from the CRA, transferred to HCID as the Housing Successor to the former CRA, in the amount of \$1,788,214 plus accrued interest (approximately \$1,213,197) will be combined. The HCID has proposed that half of the accrued interest for the HCID and former CRA loans will be paid by the Project Sponsor and the other half will be waived (approximately \$1,114,541).

As a result of a recapitalization analysis of the Project, HCID found that the Project Sponsor could pay-down a portion of the accrued interest for the HCID and former CRA combined loan; however, the remaining debt on this loan, in conjunction with other existing debt, was more than the Project Sponsor could hold without creating tax implications for the Project that would make completion unfeasible. To maintain project feasibility, HCID proposes to waive half of the accrued interest for the combined HCID and former CRA loan but has also stated that as a result, the Project Sponsor will make a mandatory loan payment of 0.42 percent of the principal (approximately \$13,389) prior to the calculation of residual receipts. The remaining principal amount for the combined loan (approximately \$3,187,885) will be extended to a new 55-year term at the Applicable Federal Rate, currently 3.02 percent, compounded annually.

The bond structure adheres to both the City's Bond Policies and the City's Financial Policies and has been reviewed by the City Attorney and Bond Counsel. Bond Counsel will provide the City with the required legal opinions regarding the tax-exempt status of the bonds under federal and State law. The legal and financing documents will also include the required items as per the City policies, including but not limited to language that the bond structure is a limited obligation and strictly payable from the Project revenues, requiring the Borrower to provide annual statements, and providing additional information as may be reasonably requested. Additionally, the bonds are based on the credit of the conduit Borrower. Further, HCID must ensure that the Funding Loan Agreement states that the City is fully indemnified by the Borrower.

The Council adopted a Responsible Banking Ordinance (RBO) in May 2012 (C.F. 09-0234 and C.F. 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 does have business relations with Wells Fargo (purchaser); however, since the City acts only as a conduit issuer in these bond transactions and has no financial interest, the selection of the bank does not constitute City business.

## **RECOMMENDATIONS**

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

1. Adopt the Resolution included in the Housing and Community Investment Department (HCID) transmittal dated July 9, 2014, authorizing the issuance of up to \$8,750,000 in tax-exempt multi-family conduit revenue bonds (Bonds) for the development of the Berendos Apartments Project;
2. Approve the related bond documents, subject to the approval of the City Attorney as to form; and,

3. Authorize the General Manager, Housing and Community Investment Department (HCID), or designee, to:
  - a. Negotiate and execute the relevant bond documents, subject to the approval of the City Attorney as to form; and,
  - b. Negotiate and execute amendments, in substantial conformance to the loan documents related to the existing HCID loans, approved in Council File 91-2332, subject to the approval of the City Attorney as to form and legality.

### **FISCAL IMPACT STATEMENT**

There is no impact to the General Fund. Funding authority for the tax-exempt multi-family conduit revenue bonds is provided by the California Debt Limit Allocation Committee. The Borrower, Berendos, L.P., will pay all costs associated with the issuance of the bonds, and the City bears no financial responsibility for repayment.

*MAS:MMR:NSC:02150010C*