

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: August 4, 2014

CAO File No. 0220-00540-1101
Council File No. 13-1265
Council District: 9

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 \$8,050,000 IN TAX-EXEMPT MULTI-FAMILY CONDUIT REVENUE BONDS FOR THE PARK PLAZA APARTMENTS PROJECT**

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 \$8,050,000, to finance the rehabilitation of the affordable housing development known as the Park Plaza Apartments (Project). The site to be developed is located at 960 W. 62nd Place, Los Angeles, CA 90044 in Council District 9. The California Debt Limit Allocation Committee (CDLAC) awarded the bond allocation for the Project to the City on January 15, 2014, with an initial bond issuance deadline of April 25, 2014 which has been extended to August 19, 2014.

When completed, the Project will include: Elevator service, a laundry room, a community room, picnic/BBQ areas, after school programs, parking spaces, and a tot lot. Part of the site is vacant land, which will be donated to the Department of Recreation and Parks for the development of a new neighborhood park.

The HCID also requests that the Council adopt the related Resolution which authorizes the bond issuance. The Resolution is included in the attached transmittal from HCID dated July 11, 2014. The Project will use a variety of funding sources including tax-exempt bonds, an HCID seller take back acquisition loan and Neighborhood Stabilization Program 3 (NSP3) loan, and tax credit equity. 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. The financing is consistent with City policies regarding conduit financing. This Office concurs with the recommendations of the Department.

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CITY OFFICE

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BACKGROUND

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

- Vermont Park Plaza, L.P. is the Project Sponsor, known also as the Borrower;
- TSA Park Plaza, LLC, is the General Partner and is comprised solely of Thomas Safran and Associates Development, Inc (TSADI). TSADI is both the Developer and the Property Manager for the Project. TSADI is a California corporation with more than 38 years of experience in the development of affordable housing projects. They have developed 46 projects in Los Angeles County resulting in 4,058 affordable multi-family rental housing units;
- Merritt Community Capital Corporation is the Tax Credit Investor;
- Bocarsly, Emden, Cowan, Esmail and Arndt are the Attorneys;
- Withee Malcolm Architects is the Architect;
- The General Contractor is yet to be determined.

Previously, HCID took possession of the Project site via a foreclosure process. Subsequently, through a Request for Proposals (RFP) process, TSADI was selected to acquire and develop the site (C.F. 12-1941). A non-profit corporation under Section 501(c)(3), and Merritt Community Corporation, a tax credit investor, will be admitted to the Sponsor structure prior to or at construction loan closing.

Financing History

On September 4, 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 August 23, 2013 HCID induced the Project, thereby enabling the Project Sponsor to apply for a tax-exempt bond allocation of up to \$8,050,000 in tax-exempt bonds from CDLAC. In November 2013, HCID, on behalf of the Project Sponsor, submitted the CDLAC application for an allocation of tax-exempt bonds. On January 15, 2014, the Project was awarded an allocation of \$8,050,000 in tax-exempt bonds from CDLAC. The CDLAC bond issuance deadline was originally April 25, 2014, which has been extended to August 19, 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, and the restrictions shown below will have a term of not less than the longer of (i) 15 years after 50 percent of the units 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 at least 55 years. Further, because the Project will receive four percent Low Income Housing Tax Credits, the subject units will also be subject to the restrictions detailed below via a separate agreement, for a minimum of 55 years. The HCID loans' regulatory agreements will also be in effect for a minimum term of 55 years.

Summary of Affordability Restrictions by Unit Type

Unit Type	40% AMI	50% AMI	60% AMI	Manager	Total
1 bedroom		6			6
2 bedroom		41			41
3 bedroom		31		1	32
Total		78		1	79

Financial Structure

The HCID states that the Bonds will be privately placed and purchased by JPMorgan Chase Bank, N.A. (Chase). Chase will provide a construction and permanent loan to the Borrower. The term for the Chase construction loan in the amount of \$8,050,000 will be 18 months, subject to any extension option, with a fixed rate of interest reset every 30 days at 145 basis points (1.45 percent) above the 30-day London Interbank Offered Rate (Libor) rate. The current indicative fixed rate is 1.60 percent. At conversion to permanent financing, the Chase construction loan will be paid down with sources available at the permanent financing stage. The Chase permanent loan will be in the amount of \$2,525,000 with a term not to exceed 30 years and the applicable interest rate shall be the 10 year interest rate swap (currently 2.66 percent) plus 2.57 percent; the current applicable interest rate is 5.22 percent.

On January 24, 2014, HCID executed two loans to the Borrower: a \$7,150,000 seller take back loan (C-123595) to finance acquisition and a \$3,000,000 loan (C-123594) to finance predevelopment/construction costs. At the time of acquisition, the Borrower assumed and paid down \$1,632,000 of the acquisition loan which brings the current balance of the \$7,150,000 acquisition loan to \$5,518,000. On January 29, 2014, the Project Sponsor received a reservation of four percent tax credits which is projected to generate \$5,288,407 in tax credit equity.

The bond structure adheres to both the 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 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 Chase (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 attached transmittal from the Housing and Community Investment Department (HCID) dated July 11, 2014, authorizing the issuance of up to \$8,050,000 in tax-exempt multi-family conduit revenue bonds (Bonds) for the development of the Park Plaza 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 negotiate and execute the relevant bond 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 conduit revenue bonds is provided by the California Debt Limit Allocation Committee. The borrower, Vermont Park Plaza, 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:02150007C

Attachment: 1. HCID Transmittal dated July 11, 2014



Housing Development Bureau
 1200 West 7th Street, 8th Floor, Los Angeles, CA 90017
 tel 213.808.8638 | fax 213.808.8610
 hcidla.lacity.org



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 CITY ADMINISTRATIVE OFFICER

Eric Garcetti, Mayor
 Rushmore D. Cervantes, Interim General Manager

July 11, 2014

Council File: NEW
 Council District: 9
Contact Persons:
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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 THE MAYOR AND CITY COUNCIL AUTHORIZE THE ISSUANCE OF UP TO \$8,050,000 IN TAX-EXEMPT MULTI-FAMILY CONDUIT REVENUE BONDS FOR THE PARK PLAZA APARTMENTS PROJECT.

SUMMARY

- The Los Angeles Housing and Community Investment Department (HCIDLA) respectfully requests authority to issue tax-exempt multi-family conduit revenue bonds in the amount of up to \$8,050,000 to help finance the development of the Park Plaza Apartments Project. The California Debt Limit Allocation Committee (CDLAC) awarded the bond allocation on January 15, 2014 and designated April 25, 2014 as the initial bond issuance deadline; recently CDLAC extended the bond issuance deadline date to August 19, 2014.
- The subject site is located at 960 W. 62nd Place, Los Angeles, CA 90044 in the Ninth Council District. The development entails the rehabilitation of a 79 unit multi-story affordable family housing structure. Part of the site is vacant land. When completed, the project will include: elevator service, a laundry room, a community room, picnic/BBQ area(s), after school programs, parking spaces, and a tot lot. The vacant land will be donated to the Department of Recreation and Parks for the development of a new neighborhood park.

RECOMMENDATIONS

The General Manager, HCIDLA, respectfully requests the following:

1. That your office schedule this transmittal for consideration at the next available meeting(s) of the appropriate Committee(s) of the City Council and forward it to the City Council for review and approval immediately thereafter;
2. That the City Council:
 - a. Adopt the attached Resolution authorizing the issuance of up to \$8,050,000 in tax-exempt multi-family conduit revenue bonds (Bonds) for the development of the Park Plaza Apartments Project;
 - b. Approve the related bond documents, subject to the approval of the City Attorney as to form;
 - c. Authorize the General Manager, HCIDLA, or designee, to negotiate and execute the relevant bond documents, subject to the approval of the City Attorney as to form.
3. That the Mayor concur with the action of the City Council.

BACKGROUND/PROJECT DETAIL

Financing History

Timeline

Inducement	August 23, 2013 (CF 04-2646)
TEFRA Hearing	September 4, 2013
TEFRA Approved by Council	October 2, 2013 (CF 13-1265)
CDLAC Application Submitted	November 2013
CDLAC Allocation Award	January 15, 2014
CDLAC Allocation Expiration Date	August 19, 2014

Under and pursuant to the authority granted to the General Manager by the City Council by Resolution approved on April 20, 2005, (CF 04-2646), the HCIDLA previously induced this project thereby enabling the sponsor to apply for a tax exempt bond allocation. On September 4, 2013, HCIDLA conducted a public hearing in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). In November 2013, HCIDLA, on behalf of the sponsor, submitted the CDLAC application for an allocation of tax-exempt bonds. On October 2, 2013, the TEFRA Resolution and Minutes were adopted by the City Council. On January 15, 2014, the project was awarded an allocation of \$8,050,000 in tax-exempt bonds from CDLAC. The initial CDLAC bond issuance deadline date was April 25, 2014 and has been extended to August 19, 2014.