

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: November 6, 2014

CAO File No. 0220-00540-1108
Council File No. 14-0726-S1
Council District: 1

To: The Mayor
The Council

From: Miguel A. Santana, City Administrative Officer *MAS*

Reference: Housing and Community Investment Department transmittal dated October 2, 2014;
Received by the City Administrative Officer on October 17, 2014

Subject: **HOUSING AND COMMUNITY INVESTMENT DEPARTMENT (HCID) REQUEST FOR AUTHORIZATION TO ISSUE UP TO \$10,600,000 IN TAX-EXEMPT MULTI-FAMILY CONDUIT REVENUE BONDS FOR THE PASEO AT CALIFORNIAN 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 \$10,600,000, to finance the development of the Paseo at Californian Apartments Project (Project). The Project entails the construction of a rental housing development on a currently vacant parcel located at 1901-1919 W. 6th St, Los Angeles, CA 90057 in Council District 1. The California Debt Limit Allocation Committee (CDLAC) awarded the bond allocation for the Project to the City on July 16, 2014, with a bond allocation expiration date of October 14, 2014, which has subsequently been extended to November 12, 2014. This Office concurs with the recommendations of the Department.

The Project includes the acquisition of a vacant parcel and the construction of a 53 unit (52 plus one manager unit) multi-family rental housing development, which will consist of a single elevator equipped, mission style building. The Project will also include 54 parking spaces, a laundry room, courtyard/playground, landscaped rear yard, first floor lobby with mail room and manager's office, and a second floor community room featuring a small kitchen, lounge, television, and computer facilities.

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 October 2, 2014. The Project will use a variety of funding sources including tax-exempt bonds, a California Department of Housing and Community Development (HCD) Transit Oriented Development (TOD) grant, and tax credit equity. Other sources of funds include loans to the Project from HCID, the County of Los Angeles Community Development Commission (LACDC), and the HCD-TOD loan program.

The financing is consistent with City policies regarding conduit bond financing. 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:

- The Californian Partners, L.P. is the Project Sponsor, also known as the Borrower and Owner;
- Central Valley Coalition for Affordable Housing, LLC and American Communities, LLC are the General Partners;
- American Communities, LLC is the Developer and General Contractor for the Project. American Communities has been involved in the development of at least 11 projects which resulted in over 700 affordable rental housing units;
- Credit Capital, LLC is the Tax Credit Investor;
- American Community Home Builders, Inc. is the General Contractor

Financing History

On March 20, 2014, HCID conducted a public hearing in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) and on June 10, 2014, the TEFRA Resolution and Minutes were adopted by the Council (C.F. 14-0726). The HCID received authorization to induce the Project on April 20, 2005, (C.F. 04-2646) and on April 17, 2014, HCID induced the Project, thereby enabling the Project Sponsor to apply for a tax-exempt bond allocation of up to \$10,600,000 in tax-exempt bonds from CDLAC. On May 15, 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 \$10,600,000 from CDLAC on July 16, 2014, with a bond allocation expiration date of October 14, 2014, which was subsequently extended to November 12, 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.

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 first date that 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. Also, because the Project will receive Four Percent Low Income Housing Tax Credits, the subject units will also be restricted via separate agreement for a minimum of 55 years. The regulatory agreements for the HCID loan will be in effect for at least 55 years. The table below references Area Median Income (AMI), which is the median income within the Los Angeles-Long Beach Metropolitan Fair Market Rent Area as defined by the United States Department of Housing and Urban Development (HUD).

Summary of Affordability Restrictions by Unit Type

| Unit Type | 35% AMI | 40% AMI | 50% AMI | 60% AMI | Manager | Total |
|--------------|----------|-----------|-----------|-----------|----------|-----------|
| 1 bedroom | 1 | 6 | 7 | 12 | | 26 |
| 2 bedroom | 2 | 3 | 2 | 3 | 1 | 11 |
| 3 bedroom | 3 | 4 | 3 | 6 | | 16 |
| Total | 6 | 13 | 12 | 21 | 1 | 53 |

Financial Structure

The HCID states that the bond will be issued as a single bond, privately placed and purchased by Banc of America Public Capital Corp. (BAPCC), and any transfer of ownership of the bond or the Project property will be subject to the restrictions of the City’s Debt Management Policies. BAPCC will provide a construction loan in the amount of \$10,600,000 with a term of 24 months after the recordation of the deed of trust securing the loan, with an additional six months to extend the loan, and a variable interest rate based on the 30-day London Interbank Offered Rate (LIBOR) rate plus 235 basis points (2.35 percent). At conversion to the permanent financing stage, the BAPCC construction loan will be paid down from available funds. The California Community Reinvestment Corporation (CCRC) will purchase the remaining principal of the bond from BAPCC, thus providing the permanent stage loan in the amount of up to \$2,700,000 for a term of 18 years with an amortization period of 35 years at an estimated interest rate of 4.75 percent.

On June 26, 2014, HCID executed a loan in the amount of \$8,661,417 to the Project Sponsor (C-124137) to help finance acquisition, predevelopment, and construction costs, and permanent stage financing. Upon completion of construction the Project Sponsor will pay down the HCID construction loan by \$5,500,000, leaving a \$3,161,417 balance to be converted to a permanent loan. The HCID loan shall be evidenced by two Promissory Notes. Promissory Note A, in the amount of \$5,500,000, will have a two-year term at a zero percent interest rate. Promissory Note B, in the amount of \$3,161,417, will have a 55-year term at a four percent interest rate.

On August 20, 2014, the Sponsor received a reservation of four percent tax credits expected to generate \$7,768,733 in tax credit equity. The Project has been awarded a \$2,600,000 grant for the construction phase under the HCD-TOD grant program and a \$3,791,330 permanent loan under HCD’s TOD loan program. Finally, on February 27, 2013, LACDC granted the Project a \$1,100,000 loan.

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 BAPCC; 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 October 2, 2014, authorizing the issuance of up to \$10,600,000 in tax-exempt multi-family conduit revenue bonds for the development of the Paseo at Californian 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, 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 to the loan documents related to the existing HCID loans. Revisions will include but are not limited to interest rate, loan, and affordability terms, and subordination to new permanent loans, 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, Californian Partners, 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:02150029C