

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

---

Date: January 13, 2015

CAO File No. 0220-00540-1115

Council File No. 14-1706

Council District: 8

To: The Mayor  
The Council

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

Reference: Housing and Community Investment Department Transmittal dated December 3, 2014; Received by the City Administrative Officer on December 12, 2014

Subject: **HOUSING AND COMMUNITY INVESTMENT DEPARTMENT (HCID) REQUEST FOR AUTHORIZATION TO ISSUE UP TO \$9,500,000 IN TAX-EXEMPT MULTI-FAMILY CONDUIT REVENUE BONDS FOR THE MARTHA BRYANT MANOR 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 \$9,500,000, to finance the construction of the affordable housing development known as the Martha Bryant Manor Apartments Project (Project). The Project site is located at 8300 and 8327 South Hoover Street, Los Angeles, CA 90044 in Council District 8. The California Debt Limit Allocation Committee (CDLAC) awarded the bond allocation for the Project to the City on September 17, 2014 in an initial amount not to exceed \$9 million and an initial bond issuance deadline of October 24, 2014. Subsequently, the Project Sponsor/Borrower, Martha Bryant Village II, L.P. (MBVII), requested an extension of the issuance deadline and a supplemental bond application of \$500,000. The CDLAC awarded the Project the supplemental bond allocation, for a total bond allocation of \$9.5 million, and extended the issuance deadline to February 10, 2015.

The Project will entail the rehabilitation of the two existing buildings at the Project site which consist of 77 rental units targeted for families. The Project will replace systems and appliances, increase energy efficiency of appliances, install a new roof, repair landscaping and sidewalks, and improve other landscape fixtures.

The HCID also requests that the Council adopt the related Resolution which authorizes the bond issuance. The Resolution is included in the transmittal from HCID dated December 3, 2014. The project will use a variety of funding sources including tax-exempt bonds through a back-to-back loan structure, tax credit equity, seller's reserves, an existing loan from the former Los Angeles Community Redevelopment Agency (CRA/LA) transferred to HCID as the Housing Successor, deferred fees, and project net operating income.

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 responsibility of MBVII and the City bears no financial responsibility for repayment as the issuer. 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.

## **BACKGROUND**

The Project Development Team is comprised of the following groups:

- Martha Bryant Village II, L.P. is the Project Sponsor, known also as the Borrower;
- The Partners are: Greater Bethany Economic Development Corporation (GBEDC), as Managing General Partner, R4 Capital, LLC (R4), as limited partner, and VHJS Martha Bryant, LLC (VMB) as a Class B LP and entity of the partnership;
- VHJS, LLC (VL) is the Developer, and is a partnership comprised of Valued Housing II, LLC (VHL) and John Stanley, Inc. (JS). The HCID states that VL has more than six years of experience developing multi-family rental housing and has developed more than eight projects in California resulting in approximately 779 housing units;
- R4 is the Tax Credit Investor;
- Bocarsly, Emden, Cowan, Esmail and Arndt, LLP are the Attorneys;
- The Law Offices of Michael M. Stein is the General Partner Attorney;
- Portrait Construction is the General Contractor;
- Levine Management Group is the Property Manager; and,
- An architect has not yet been selected for the Project.

### 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 May 9, 2014, HCID induced the Project, thereby enabling the Project Sponsor to apply for a tax-exempt bond allocation from CDLAC. On May 16, 2014, HCID, on behalf of the Project Sponsor, submitted the CDLAC application for an allocation of tax-exempt bonds. On July 16, 2014, the Project was initially awarded an allocation of \$9 million in bonds from CDLAC, with an issuance deadline of October 24, 2014. Subsequently, the Project Sponsor requested an extension of the issuance deadline and a supplemental bond application of \$500,000. On November 12, 2014, CDLAC awarded the Project the requested supplemental bond allocation of \$500,000, for a total bond allocation of \$9.5 million, and extended the issuance deadline to February 10, 2015.

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 to be paid, whichever is higher, 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. The restrictions of this agreement are shown below and 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. In addition, the Project will receive four percent Low Income Housing Tax Credits, and the subject units will 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. Further, the Project will execute a project based Section 8 contract with the Housing Authority of the County of Los Angeles (HACOLA). The table below identifies the number and sizes of units by a percentage of the Area Median Income (AMI). The AMI 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    | 50% AMI   | 60% AMI   | Manager  | TOTAL     |
|--------------|-----------|-----------|----------|-----------|
| 1 Bedroom    | 9         | 14        |          | 23        |
| 2 Bedroom    | 8         | 22        | 1        | 31        |
| 3 Bedroom    | 8         | 12        |          | 20        |
| 4 Bedroom    | 1         | 2         |          | 3         |
| <b>TOTAL</b> | <b>26</b> | <b>50</b> | <b>1</b> | <b>77</b> |

Financing Structure

The HCID states that the bonds will be privately placed with Boston Private Bank and Trust Company (Boston). The Community Reinvestment Act of 1977 (CRA) requires large banking organizations, such as Boston, to achieve two types of CRA goals: (1) they are required to have a certain dollar volume of investment activity, and (2) they must achieve a certain dollar volume of lending activity in each period. To satisfy the requirements of CRA, Boston has proposed a back-to-back loan bond structure, which may be characterized as a loan of tax-exempt proceeds rather than a purchase of tax-exempt bonds (replacing the “Bond” with a “Note”). Boston’s ability to meet these requirements is fundamental to its ability to continue to allocate significant levels of capital to affordable housing activity in the City.

Boston will buy the bonds in an amount not to exceed \$9,500,000, and the City will subsequently loan the proceeds of the private placement (Funding Loan) to the Borrower (Borrower Loan) to finance a portion of the Project. The Borrower will use the proceeds from the Borrower Loan to fund the construction of the proposed Project. The term of the Funding Loan will be 24 months and will bear an interest rate of 3.15 percent. Upon completion of construction, the Funding Loan will be paid in full from the permanent financing sources.

The obligation of the Borrower to repay the Borrower Loan will be secured by a mortgage on the Project, which, along with the Borrower Loan, will be pledged by the City to a trustee/fiscal agent acting on behalf of Boston as the sole security for payment of the Funding Loan. The obligations of the City are secured only by and payable only from payments received from the Borrower under the Borrower Loan Agreement between the Borrower and the City. The Funding Loan will be a strictly limited, non-recourse loan. The Funding Loan will be evidenced by a note (Note) delivered in physical (non-book entry) form subject to the restrictions of transfer set forth in the City's Housing Bond Policies and Procedures. The City is indemnified from repayment.

Additionally, Boston has requested a waiver of certain HCID policies related to the issuance of non-rated tax-exempt bonds. The HCID has agreed to a limited number of modifications that nonetheless retain the City's protections intended by the policies to prevent the City from incurring undue risk or liability. The City Attorney, Bond Counsel and Issuer Financial Advisor have reviewed this proposal and assessed no undue risk or liability. The modifications are as follows:

- (a) The HCID has agreed to allow the sale or transfer of the Note or beneficial ownership interest in the Note to: 1) a qualified institutional buyer (QIB); 2) an affiliate of the Funding Lender; or 3) a trust or custodial arrangement established by the Lender, the beneficial interest in which will be owned only by a QIB. Each transfer shall require an executed Transferee Representation Letter in place of the traditional Investor Letter;
- (b) No beneficial ownership interest in the Note shall be sold in an amount that is less than 15 percent of the outstanding principal amount of the Note; and,
- (c) The HCID may, in its sole and absolute discretion, permit the Noteholder Representative to declare a default under the Note and Funding Loan Agreement and direct the Fiscal Agent and Boston as the Funding Lender to exercise the remedies contained in the Funding Loan Agreement

The bond structure adheres to both HCID's Bond Policies and the City's Financial Policies and has been reviewed by the City Attorney's Office and bond counsel. Bond counsel will provide the City with the required legal opinions as to 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.

The CRA/LA loaned the Project Sponsor \$5,544,000 in 1994 to fund the Project. This loan was subsequently transferred to HCID as the Housing Successor after the dissolution of CRA/LA. The Project has completed the original tax credit compliance period and requests recapitalization of the existing CRA/LA loan to allow the Project to resyndicate and complete the rehabilitation of the Project site buildings. The HCID conducted a financial analysis and review of this request, and determined that the borrower will pay down the CRA/LA loan from \$8,654,452 to \$7,674,300, which will result in \$1,020,152 in program income. The HCID plans to execute an amended and restated loan agreement for the CRA/LA loan with the Project Sponsor that will have a 42-year term from the date of execution and a four percent interest rate.

The HCID will require Boston to adhere to the reporting requirements of the City's Responsible Banking Ordinance. 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 not have prior business relations with Boston; 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 transmittal from the Housing and Community Investment Department (HCID) dated December 3, 2014, authorizing the issuance of up to \$9,500,000 in tax-exempt multi-family conduit revenue bonds in the form of multi-family collateralized notes for the development of the Martha Bryant Manor Apartments Project;
2. Approve the related loan documents, subject to the approval of the City Attorney as to form;
3. Require that Boston Private Bank and Trust Company fulfill the reporting requirements of the Responsible Banking Ordinance adopted by the Council on May 25, 2012 (C.F. 09-0234) prior to the execution of the relevant bond documents;
4. Authorize the General Manager, HCID, or designee, to:
  - a. Negotiate and execute the relevant loan documents, subject to the approval of the City Attorney as to form; and,
  - b. Negotiate and execute amendments to the existing HCID loan agreement documents for the Martha Bryant Manor Apartments Project. Revisions will include, but are not limited to changes to the interest rate, affordability and loan term, pay down, subordination to a new permanent loan, assignment and transfer to a new limited partnership to enable admittance of tax credit investors; and shall be subject to the approval of the City Attorney as to form.

## **FISCAL IMPACT STATEMENT**

There will be no impact to the General Fund as a result of the issuance of these bonds. The City is a conduit issuer and does not incur liability for the repayment of the bonds, which are a limited obligation payable solely from the revenues of the Project, and the City will in no way be obligated to make payments on the bonds.

*MAS:MMR:NSC:02150040C*