

TRANSMITTAL

To:

THE COUNCIL

Date:

DEC 11 2014

From:

THE MAYOR

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.



ERIC GARCETTI
Mayor

(Ana Guerrero)



Eric Garcetti, Mayor
Rushmore D. Cervantes, General Manager

Housing Development Bureau
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December 3, 2014

Council File: NEW
Council District: 8
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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 \$9,500,000 IN TAX-EXEMPT MULTI-FAMILY CONDUIT REVENUE NOTES FOR THE MARTHA BRYANT MANOR APARTMENTS PROJECT.

SUMMARY

- The Los Angeles Housing and Community Investment Department (HCIDLA) respectfully requests authority to issue its tax-exempt multi-family housing conduit revenue notes in the amount of up to \$9,500,000 to finance the development of an affordable housing development known as the Martha Bryant Manor Apartments (“Project”). The California Debt Limit Allocation Committee (CDLAC) previously designated October 24, 2014 as the allocation expiration date for the present bond allocation. On September 12, 2014, the borrower requested both an extension request and a supplemental bond application for \$500,000. As such, on November 12, 2014, CDLAC awarded an extension request and an additional bond allocation. Consequently, the CDLAC allocation deadline is February 10, 2015. Although the project has an allocation deadline in February, the Sponsor has indicated the equity investor requires the bonds be issued before December 31st in order to meet tax credit deadlines.

- The subject site is located at 8300 and 8327 South Hoover Street, Los Angeles, CA 90044 in the 8th Council District. The proposed project includes two existing buildings, which consists of 77 units and is targeted for families. The project will involve rehabilitation, consisting of replacing systems and appliances, increasing the energy efficiency of appliances, installing a new, cool roof, landscaping and sidewalk repairs and other landscaping improvements. The project amenities include community space, a laundry facility, a security entrance and camera system, onsite social services and playgrounds.

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 its tax-exempt multi-family housing conduit revenue bonds in the form of multi-family collateralized notes in the amount of up to \$9,500,000 (“Note”) for the development of the Martha Bryant Manor Apartments Project.
 - b. Approve the related bond loan 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 loan documents, subject to the approval of the City Attorney as to form;
 - d. Authorize the General Manager, HCIDLA, or designee, to negotiate and execute amendments to the existing loan documents related to the existing HCIDLA loan. Revisions will include but are not limited to interest rate, loan and affordability terms, paydown and subordination to new permanent loans, and assignment and transfer to a new limited partnership, subject to the approval of the City Attorney as to form and legality;
3. That the Mayor concur with the action of the City Council.

BACKGROUND/PROJECT DETAIL

Financing History

Timeline

TEFRA Hearing	March 20, 2014
Inducement	May 9, 2014 (CF# 04-2646)
CDLAC Application Submitted	May 16, 2014
TEFRA Approved by Council	June 10, 2014 (CF# 13-1265)
CDLAC Allocation Award	July 16, 2014
CDLAC Allocation Expiration Date	February 10, 2015

On March 20, 2014, HCIDLA conducted a public hearing in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). On May 9, 2014, the Los Angeles Housing and Community Investment Department (HCIDLA), induced the project (CF# 04-2646), thereby enabling the sponsor to apply for a tax-exempt bond allocation. HCIDLA was authorized to apply on behalf of the sponsor for an allocation of up to \$9,000,000 in tax-exempt bonds from CDLAC. On May 16, 2014, HCIDLA, on behalf of the developer, submitted the CDLAC application for an allocation of tax-exempt bonds. On June 10, 2014, the TEFRA Resolution and Minutes were adopted by the City Council (CF#14-0726). On July 16, 2014, the project was previously awarded an allocation of \$9,000,000 in bonds from CDLAC, with an allocation expiration date of October 24, 2014. Additionally, on November 12, 2014, the project was awarded a supplemental allocation of \$500,000 and consequently, the current allocation expiration date is February 10, 2015.

Affordability Restrictions

UNIT TYPE	50% AMI	60% AMI	MGR	TOTAL
1-Bdr.	9	14		23
2-Bdr.	8	22	1	31
3-Bdr.	8	12		20
4-Bdr.	1	2		3
TOTAL	26	50	1	77

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 longer of: (i) 15 years after 50% of the units are first occupied, (ii) the date such bond is paid in full, or (iii) the date on which any Section 8 assistance terminates, if applicable. 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. The project will also execute a project based Section 8 contract with HACLA.

Development Team

The Project Borrower/Sponsor is Martha Bryant Village II, L.P (MBVII), a limited partnership. The Managing General Partner is Greater Bethany Economic Development Corporation (GBEDC), a nonprofit corporation, which is also a 501 c3. VHJS Martha Bryant, LLC (VMB) is also an entity of the partnership and is a "Class B LP." The limited partner is R4 Capital, LLC, (R4) a limited liability corporation. The Developer is VHJS, LLC, (VL) a partnership and is comprised of Valued Housing II, LLC, (VHL) a partnership and John Stanley, Inc. (JS), a corporation. The principals of GBEDC are Eddie Stewart, Chairman; Dr. Lionel Coulter, Treasurer and Robert Rubin, Secretary. The principals of VMB is Peter Barker, President and Saki Middleton, President. The principals of R4 are Ronne Thielen, Executive Vice-President and Brian McMahan, President. The principals of VHL are Peter Barker, Manager; Ann S. Barker, Member and Byron Barker, Member. The principal of JS is Saki Middleton, Manager.

The developer has over six years of experience in the development of multi-family rental housing and has developed over eight projects in California resulting in a total of approximately 779 housing units.

Developer: VHJS, LLC
1101 E. Orangewood Avenue, Suite 200
Anaheim, CA 92805
Phone : (714) 533-3450
Contact : Peter Barker

The borrower and developer are in compliance with HCIDLA's Business Policy.

The additional development team members are:

Developer Attorney: Bocarsly Emden Cowan Esmail and Arndt, LLP
633 W. Fifth Street, 70th Floor
Los Angeles, CA 90071
Phone: (213) 239-8048
Contact: Kyle Arndt

General Partner Attorney: Law Offices of Michael M. Stein
18757 Burbank Boulevard
Tarzana, CA 91356
Phone: (818) 774-1200
Contact: Michael M. Stein

General Contractor: Portrait Construction
265 N. Joy Street, Suite 200
Corona, CA 92879
Phone: (951) 520-8898
Contact: Michael Bourque

Property Manager: Levine Management Group
822 S. Robertson Boulevard, Suite 200
Los Angeles, CA 90035
Phone : (310) 358-3489
Contact : Jeffrey S. Levine

Equity Investor: R4 Capital, LLC
1 MacArthur Place, Suite 110
Santa Ana, CA 92707
Phone: (714) 727-3851
Contact: Ronne Thielen

Financial Structure

The bonds will be privately placed with Boston Private Bank and Trust Company ("Boston"). Boston has proposed a "back-to-back loan" bond structure. In order to meet Community Reinvestment Act ("CRA") requirements, large banking organizations such as Boston are required to achieve two types of CRA goals in the markets that 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. Boston's proposed tax-exempt back-to-back loan structure characterizes Boston's involvement as a "loan" of tax-exempt proceeds rather than a purchase of tax-exempt bonds (replacing the "Bond" with a "Note") in order to achieve these very important CRA goals. Boston'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.

Instead of purchasing bonds, Boston will make a tax exempt loan in the amount of up to \$9,500,000 to the City of Los Angeles ("Funding Loan"). The City will then loan the proceeds of the 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 construction loan term will be 24 months and the construction phase interest rate will be 3.15%. Once construction is completed, 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 ("Mortgage"). The Mortgage and 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. Similar to a private placement tax exempt bond structure, the obligations of the City are secured only by and payable only from payments received from the Borrower under the Loan and Security Agreement among the Borrower, the Bank and the City. The Funding Loan will be a strictly limited, non-recourse loan. The Funding Loan will be evidenced by a note (the "Note") delivered in physical (non-book entry) form subject to the restrictions on transfer set forth in the City's Housing Bond Policies and Procedures.

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

- a) HCIDLA has agreed to allow the sale or transfer of the Note or beneficial ownership interests 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 QIBs. 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% of the outstanding principal amount of the Note.

- c) In its sole and absolute discretion, HCIDLA may agree to permit the Note Holder Representative to declare a default under the Note and request the City to authorize exercise of remedies.

The bond structure adheres to both HCIDLA’s Bond Policies and the City’s Financial Policies and has been reviewed by the City Attorney’s office and bond counsel. HCIDLA will require Boston to adhere to the reporting requirements of the City’s Responsible Banking Ordinance. Bond counsel will provide the City 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 project was originally funded in 1994 with CRA/LA funds in the principal amount of \$5,544,000. The project has completed its original tax credit compliance period and therefore wishes to recapitalize the existing loan in order to be able to resyndicate and complete necessary rehabilitation of the buildings. Per HCIDLA financial analysis and review, the borrower will paydown the HCIDLA/CRA Loan from \$8,694,452 to \$7,674,300. The paydown will result in \$1,020,152, as program income. HCIDLA will be executing an amended and restated loan agreement, with a 42-year term and 4% interest rate.

Other financing for the project will be provided from 4% tax credit equity (R4 Capital) and Project Net Operating Income (NOI).

Sources and Uses:

Construction	Total Sources	Per Unit	% Total
Tax-Exempt Bonds (Boston)	\$9,500,000	\$123,377	48%
Tax Credit Equity (R4 Capital)	\$880,520	\$11,435	5%
Seller’s Reserves	\$352,676	\$4,580	2%
Costs Deferred During Construction	\$1,234,978	\$16,039	6%
Existing HCIDLA/ CRA Loan	\$7,674,300	\$99,666	39%
TOTAL	\$19,642,474	\$255,097	100%

Permanent	Total Sources	Per Unit	% Total
Tax-Exempt Bonds (Boston)	\$4,410,000	\$57,273	22%
Tax Credit Equity (R4 Capital)	\$5,870,136	\$76,235	30%
Seller’s Reserves	\$352,676	\$4,580	2%
Deferred Developer Fee	\$844,433	\$10,967	4%
Project NOI	\$490,929	\$6,376	3%
Existing HCIDLA/CRA Loan	\$7,674,300	\$99,666	39%
TOTAL	\$19,642,474	\$255,097	100%

Uses of Funds	Total Uses	Cost/Unit
Acquisition Costs	\$10,549,285	\$137,004
Construction Costs	\$4,625,072	\$60,066
Architecture & Engineering Fees	\$147,400	\$1,914
Developer Fee	\$2,178,448	\$28,292
Relocation	\$252,500	\$3,279
Other Soft Costs	\$1,889,769	\$24,452
TOTALS	\$19,642,474	\$255,097

The HCIDLA Bond Team for the financing of the Martha Bryant Manor Apartments Project is as follows:

Bond Issuer Financial Advisor
CSG Advisors, Inc.
315 West 5th Street, Suite 302
Los Angeles, CA 90013

Bond Counsel
Kutak Rock, LLP
777 S. Figueroa Street, Suite 4550
Los Angeles, CA 90017

Bond Issuer Counsel
Los Angeles City Attorney
200 N. Main Street, 9th Floor
Los Angeles, CA 90012

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

Although the California Debt Limit Allocation Committee has designated February 10, 2015 as the expiration date for the issuance of the tax-exempt bonds, the Sponsor has indicated the equity investor requires the bonds be issued before December 31st in order to meet tax credit deadlines.

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. The bond debt is payable solely from revenues or other funds provided by the Borrower. The City does not incur liability for repayment of the bonds.

Prepared By:



ROCHELLE COX
Finance Development Officer



YANELI RUIZ, Supervisor
Affordable Housing Bond Program

Reviewed By:



GEORGE GUILLEN
Manager of Multi-Family Housing Finance



MANUEL BERNAL
Director of Housing

Approved By:



HELMI HISSERICH
Assistant General Manager



RUSHMORE D. CERVANTES
General Manager

RESOLUTION

CITY OF LOS ANGELES

A RESOLUTION AUTHORIZING THE ISSUANCE, SALE AND DELIVERY OF ONE OR MORE SERIES NOTES BY THE CITY OF LOS ANGELES DESIGNATED AS ITS MULTIFAMILY HOUSING REVENUE NOTE (MARTHA BRYANT MANOR APARTMENTS) SERIES 2014J IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$9,500,000 TO PROVIDE PERMANENT FINANCING FOR THE ACQUISITION, REHABILITATION AND EQUIPPING OF THE MULTIFAMILY HOUSING PROJECT SPECIFIED IN PARAGRAPH 15 HEREOF AND APPROVING AND AUTHORIZING THE EXECUTION AND DELIVERY OF A LOAN AND SECURITY AGREEMENT, A REGULATORY AGREEMENT AND DECLARATION OF RESTRICTIVE COVENANTS AND 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 "City 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 revenue notes for the purposes of providing permanent financing for the acquisition, rehabilitation, development and equipping of multifamily rental housing for persons and families of low and 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 note to provide permanent financing for the acquisition, rehabilitation, development and equipping of that multifamily rental housing project described in paragraph 15 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 note; and

WHEREAS, the City proposes to issue, pursuant to the Law and in accordance with the Act, its Multifamily Housing Revenue Note (Martha Bryant Manor Apartments) Series 2014J in an aggregate principal amount not to exceed \$9,500,000 (the "Note"); and

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