

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: May 13, 2021

CAO File No. 0220-00540-1540

Council File No. 20-0148-S2

Council District: 1

To: The Council

From: Richard H. Llewellyn, Jr., City Administrative Officer



Subject: **COUNCIL MOTION (C.F. 20-0148-S2): SOURCE OF FUNDING FOR \$45,695,000 TO INITIATE THE ACQUISITION OF THE HILLSIDE VILLA APARTMENTS, LOCATED AT 636 NORTH HILL PLACE, TO PRESERVE 124 AFFORDABLE UNITS**

SUMMARY

Motion (Cedillo-Buscaino [C.F. 20-0148-S2]) requests the City Administrative Officer, with the assistance of the City Attorney and the Housing and Community Investment Department (HCID), to identify \$45,695,000 in funds, subject to eligibility, in conjunction with State and Federal agencies if necessary, to initiate the acquisition of the Hillside Villa Apartments, located at 636 North Hill Place, Los Angeles, CA 90012 (property) in Council District One through the use of eminent domain, in order to preserve the property as affordable housing.

The Hillside Villa Apartments is a 124-unit apartment complex that was completed in 1989 and had a former Community Redevelopment Agency of the City of Los Angeles (CRA/LA) affordable housing covenant for 30 years. The complex has 87 two-bedroom apartments, 20 three-bedroom apartments and 17 one-bedroom apartments. The property also has a California Housing Finance Agency Regulatory Agreement that expires in March 2024, and there are two additional CRA/LA loans totaling approximately \$5.5 million that mature on March 1, 2024. Once the regulatory agreement expires and the loan matures, the property will no longer be required to maintain affordable rents. This loss of affordable rents could displace the 124 households currently living in the property.

This Office and HCID reviewed all possible funding options for the acquisition of Hillside Villa Apartments. Unfortunately, none of the federal and state sources the City receives for housing are eligible for this purpose. The only option available is a Reserve Fund loan of \$45,695,000. The Reserve Fund loan would be used as the bridge funding until HCID selects a new owner/developer through a competitive Request for Proposals process and the new owner applies for and receives the acquisition/redevelopment funding to repay the loan.

It must be noted that the City has not made a Reserve Fund loan of this size in the past, and normally expects repayment of such loans in the same fiscal year. The repayment of this loan may take two to five years, depending on whether the property owner accepts the City's offer. According to the City Attorney, if the current owner does not accept the City's offer to purchase the property and the Mayor and Council approve proceeding with the eminent domain process, the funds would have to be deposited in a State account and must remain available throughout the eminent domain process. Moreover, this type of large Reserve Fund loan outstanding for an extended period could have a negative impact on the City's ability to respond to emergencies in the intervening years.

Potential sources of funds for the repayment of the Reserve Fund loan include a private loan and equity from the sale of Low Income Housing Tax Credits allocated by the California Tax Credit Allocation Committee (CTCAC). The HCID believes the property is an excellent candidate for the CTCAC preservation set-aside allocation. Depending on the financing sources available, at least two years would be required for a selected developer or nonprofit entity to secure funds to repay the Reserve Fund Loan for acquisition costs, as well as for additional project costs for the rehabilitation of units and the temporary and/or permanent relocation of existing tenants to meet the affordability and accessibility requirements of various funding sources.

Based on the projected Reserve Fund balance of \$696.1 million on July 1, 2021 in the Mayor's Fiscal Year 2021-22 Proposed Budget, which is still pending approval by the Council and Mayor, approval of a \$45,695,000 Reserve Fund Loan would result in a remaining Reserve Fund balance of \$650.4 million, or 8.87 percent of General Fund revenues. The remaining balance would be compliant with the City's Financial Policies because the Reserve Fund would be greater than five percent of the proposed General Fund budget of \$7.3 billion.

OPTIONS FOR THE CITY COUNCIL

1. The City Council may choose not to authorize a Reserve Fund loan of \$45,695,000; or
2. The Council may choose to approve a Reserve Fund Loan of \$45,695,000 to initiate the acquisition of the Hillside Villa Apartments, located at 636 North Hill Place, for the preservation of affordable housing, which will be repaid within approximately two to five years by funding sources secured by a developer or nonprofit entity selected through a Request for Proposals process to take over ownership and management of the affordable housing; or
3. The Council may approve a motion as part of the Fiscal Year 2021-22 Budget process to authorize the action outlined in # 2 above; and further take the following actions,
 - a. AUTHORIZE the Housing and Community Investment Department (HCID), with the assistance of the City Attorney, to initiate the acquisition of the Hillside Villa Apartments, including obtaining a California Environmental Quality Act review, with the offer subject to a contingency that the property will need a thorough inspection

and accessibility report by a licensed and Certified Accessibility Consultant;

- b. DIRECT the City Administrative Officer to report back on the revised timeframe for the reserve fund loan repayment if the City's purchase offer is accepted by the property owner; and,
- c. DIRECT the HCID to establish an expedited timeframe for the transfer of the property to a qualified owner/manager if the City's purchase offer is accepted by the property owner.

FISCAL IMPACT STATEMENT

There is no net impact to the General Fund. If the Council proposes a Reserve Fund loan of \$45,695,000 to initiate the acquisition of the Hillside Villa Apartments, it should be repaid within approximately two to five years by funding sources secured by a developer or nonprofit entity selected through a Request for Proposals process to take over ownership of the affordable housing.

FINANCIAL POLICIES STATEMENT

The recommendations in this report comply with the City's Financial Policies.

FINDINGS

1. SOURCES FOR LOAN REPAYMENT

The Housing and Community Investment Department (HCID) proposes a financial plan to repay the Reserve Fund Loan through other sources of funding secured by a developer or nonprofit entity selected through a Request for Proposals (RFP) process to take over ownership of the affordable housing. The other sources of funds include a private loan and equity from the sale of Low Income Housing Tax Credits (LIHTC) allocated by the California Tax Credit Allocation Committee (CTCAC). Information on additional costs to be considered and potential sources of funding in the financial plan are included in Section 3 below.

2. TIMING FOR LOAN REPAYMENT

Repayment of the Reserve Fund Loan would depend on the timeframe to complete the following: 1) the acquisition of the Hillside Villa Apartments through either a direct sale or through eminent domain; 2) the selection of a developer or nonprofit entity to take over ownership of the affordable housing through a RFP process; and 3) the accumulation of other sources of funds for the total cost to acquire and rehabilitate the Hillside Villa Apartments.

Direct Purchase or Eminent Domain Process

If the owner accepts the City's offer to purchase the property, the City would proceed with acquisition through a direct purchase. If the owner does not accept the City's offer, the Mayor and Council would have to approve the initiation of the eminent domain process when that matter is presented at a later date. The HCID transmittal dated June 12, 2020 (C.F. 20-0148) lists several steps necessary to utilize eminent domain to acquire the Hillside Villa Apartments that include the following: 1) provision of a written offer to purchase the property based on the fair market value as determined by an appraisal; 2) adoption of an Ordinance to initiate an eminent domain proceeding and requesting the City Attorney to file a complaint if negotiations with the current owner to acquire Hillside Villa Apartments fail; and 3) litigation resulting in a final judgment or settlement. This Office estimates that the acquisition of Hillside Villa Apartments could take two to five years, if the current owner does not accept the City's offer to purchase the property, but less than two years if the owner agrees with the City's offer. This Office will report back on the revised time frame if the City's offer is accepted.

Request for Proposals (RFP)

The HCID estimates that a RFP to select a developer or nonprofit entity to take over ownership of the Hillside Villa Apartments for affordable housing could take 120 days to complete. To expedite the repayment of the Reserve Fund loan, HCID could initiate a RFP process as soon as the actions in this report are approved, but should not make a final selection or enter into any agreements until the City has officially obtained the property through a successful purchase, judgment, or settlement.

Securing Funds for Loan Repayment

The HCID reports that it could take up to two years for the selected developer or nonprofit entity to secure all the necessary funds to repay the City for the acquisition of the property as well as to meet various requirements of potential funding sources. These requirements include minimum rehabilitation, compliance with accessibility regulations, relocation costs, and maintaining reserve funds for replacement, operating, and debt service. Some funding sources are acquired through a competitive process, such as Nine Percent LIHTC, which only has two funding rounds per year.

3. ADDITIONAL COSTS AND FINANCING PLAN

Table 1 below illustrates the various costs a selected developer or nonprofit would have to finance in addition to repaying the Reserve Fund Loan for the acquisition of the Hillside Villa Apartments. The HCID estimates a total cost of \$59,782,000 to acquire, rehabilitate, and adequately relocate existing tenants on a temporary or permanent basis to be compliant with funding and affordability requirements.

Table 1: Uses of Funds for Acquisition and Development

Uses	Estimated Amount
Acquisition Costs	\$45,695,000
Architectural Fees	315,000
Construction Interest and Fees	2,800,000
Permanent Financing Costs	447,600
Legal Fees	320,000
Soft Costs	2,500,000
Rehabilitation	5,440,000
Relocation	1,760,000
Replacement Reserve	43,400
Three-Month Operating Reserve	223,000
Debt Service Reserve	238,000
Total	\$59,782,000

Table 2 below shows HCID’s estimates for potential sources of funding for a developer or nonprofit entity to repay the Reserve Fund Loan for the City’s acquisition costs along with the other project costs. The funding sources consist of private debt such as a Federal Housing Association-insured first mortgage, equity raised from the sale of LIHTC allocated by the CTCAC, and public subsidies provided by HCID.

Table 2: Sources of Funds for Reserve Fund Loan Repayment and Development

Uses	Estimated Amount
Private Loan	\$22,400,000
Low Income Housing Tax Credits	25,000,000
Gap Financing with Public Subsidies	12,382,000
Total	\$59,782,000

At this time, HCID anticipates that the Affordable Housing Linkage Fee (AHLF) and HOME Investment Partnerships Program (HOME) could fund the \$12.4 gap financing identified in Table 2 above. HCID further recommends the use of these funds for this project if the City can determine a source for the bridge loan for the purchase price. The AHLF allocates funds for rental preservation in order to rehabilitate and preserve affordable housing. There is a cap per unit and per project loan amounts. The HOME funds are awarded on a competitive basis through HCID’s Affordable Housing Managed Pipeline (AHMP). Under the current Notice of Funding Availability for the AHMP, the maximum HCID loan available to any one project is the lesser of \$14 million or 50 percent of the Total Development Costs of the project based on final costs at the time of loan closing.

Given the number of two and three bedrooms in the complex and the estimated total cost per unit of \$482,113 (of which \$99,855 is the estimated cost per unit of City financing needed), it is more cost efficient to preserve this complex than to build a new project with 124 equivalent units.

4. OTHER SOURCES OF FUNDS

The HCID and this Office considered other sources of funding to initiate the acquisition of the Hillside Villa Apartments should the property be acquired through eminent domain but identified limitations and barriers for the uses of those funds. The HCID reports that the Community Development Block Grant funds cannot be used for the acquisition of property through eminent domain due to eligible use restrictions, and HOME funds are not allowed to sit in an escrow account. Only a flexible source of funding can be placed in escrow without regulatory limitations.

5. CONDITION OF THE PROPERTY

As part of the acquisition process, the HCID must complete a California Environmental Quality Act (CEQA) review. Additionally, the HCID would need to obtain additional information regarding the property including its compliance with government codes and regulations, including the American Disabilities Act, to provide a better estimate of potential project costs for rehabilitation and relocation. According to HCID, the acquisition of the property would be subject to a contingency that the property will need a thorough inspection and accessibility report by a licensed and Certified Accessibility Consultant.

6. POTENTIAL CHANGE IN ACQUISITION COSTS

The General Services Department conducted an appraisal that concluded with a Hypothetical

Market Value Upon Stabilization of \$45,695,000, effective as of September 1, 2020. If the current owner does not accept the City's offer and the Mayor and Council approve initiating the eminent domain process, the City may be required to conduct another appraisal that could result in a lower or higher market value for the Hillside Villa Apartments. Additionally, the current property owner could conduct an independent appraisal with a different result. If the City and current property owner cannot agree upon a price for the Hillside Villa Apartments after the owner does not accept the \$45,695,000 offer and the City has initiated the eminent domain process, a jury could decide that the property owner's independent appraisal is the appropriate price, which could be greater or lower than the current appraised value of \$45,695,000.

7. GENERAL FUND RESERVES

The Mayor's Fiscal Year 2021-22 Proposed Budget projects that the Reserve Fund will have a balance of \$696.1 million on July 1, 2021, or 9.49 percent of the proposed \$7.3 billion in estimated General Fund revenues for 21-22. Approval of a \$45,695,000 Reserve Fund Loan to initiate the acquisition of Hillside Villa Apartments would result in a remaining Reserve Fund balance of \$650.4 million, or 8.87 percent of General Fund revenues. The remaining balance would be compliant with the City's financial policies because the Reserve Fund would be greater than five percent of the General Fund budget.

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