

TRANSMITTAL

To: **THE COUNCIL**

Date: **08/28/23**

From: **THE MAYOR**

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.



(Chris Thompson) for

KAREN BASS
Mayor

Ann Sewill, General Manager
Tricia Keane, Executive Officer

Daniel Huynh, Assistant General Manager
Anna E. Ortega, Assistant General Manager
Luz C. Santiago, Assistant General Manager

City of Los Angeles



Karen Bass, Mayor

LOS ANGELES HOUSING DEPARTMENT
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July 24, 2023

Council File: 20-0461
Council Districts: 14
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Honorable Karen Bass
Mayor, City of Los Angeles
Room 303, City Hall
200 N. Spring Street
Los Angeles, CA 90012

Attention: Heleen Ramirez, Legislative Coordinator

COUNCIL TRANSMITTAL: LOS ANGELES HOUSING DEPARTMENT REQUEST FOR AUTHORITIES TO AMEND LOAN AGREEMENTS WITH SINGLE ROOM OCCUPANCY HOUSING CORPORATION

SUMMARY

The General Manager of the Los Angeles Housing Department (LAHD) respectfully requests authority to amend the terms of loan agreements with Single Room Occupancy Housing Corporation (SRO Housing), for the purpose of allowing SRO Housing to obtain State preservation funding and providing additional years of affordability in 365 restricted units in six SRO Housing properties. This report outlines the authorizations necessary to extend the loan agreements, amend their terms, and combine projects.

RECOMMENDATION

- I. That the Mayor review this transmittal and forward it to City Council for action;
- II. That the City Council, subject to the approval of the Mayor:
 - A. AUTHORIZE the General Manager of LAHD, or designee, to negotiate and execute all documents required for the Golden West Hotel, Regal Hotel, and Ward Hotel per the terms of the loan agreement or as set forth herein; and,

REQUEST FOR APPROVAL OF RECOMMENDATIONS TO AMEND LOAN AGREEMENTS AND SUBORDINATE CITY LOANS FOR SINGLE ROOM OCCUPANCY HOUSING CORPORATION

- B. AUTHORIZE the General Manager of LAHD, or designee, to negotiate and execute all documents required for the Harold Hotel, Leonide Hotel, and Prentice Apartments per the terms of the loan agreement or as set forth herein; and,
- C. INSTRUCT the City Attorney to prepare all necessary documents, including but not limited to a renewal and modification of a loan agreement (and/or amendments and restatements of any necessary documents) to preserve and support an affordable housing project on the properties located at Golden West Hotel, Regal Hotel, Ward Hotel, Harold Hotel, Leonide Hotel, and Prentice Apartments;

BACKGROUND

In the late 1980s, the Community Redevelopment Agency of the City of Los Angeles (CRA) funded \$8,919,572 to SRO Housing to support the rehabilitation of single-room occupancy buildings in the Skid Row area. Those sites included the Golden West Hotel (58 restricted units), Regal Hotel (69 restricted units), Ward Hotel (71 restricted units), Harold Hotel (57 restricted units), Leonide Hotel (65 restricted units), and Prentice Apartments (45 restricted units). The buildings are all configured for single room occupancy, and support low-income tenants. The loan agreement consists of six separate loans and six affordable rental covenants. All of the loans are Low and Moderate Income Housing Finance (LMIHF) loans with a 3% simple interest rate and a 30-year repayment period through residual receipts. In 2020, LAHD extended the terms of 14 loans for 30 years from their original maturity date. These extensions were for Golden West Hotel, Prentice Apartments, Leonide Hotel, Regal Hotel, and Ward Hotel, in order to bring the projects out of default. As of June 30, 2023, the outstanding LAHD debt, including principal and interest, is \$18,055,309 and all loans mature between 2045 and 2052.

At this time, SRO Housing has been able to secure a commitment of approximately \$40 million in additional preservation financing from the State of California Department of Housing and Community Development (HCD). In order for HCD's support to be effectuated, the terms of LAHD's agreements need to be further amended.

REQUEST

For the Golden West Hotel, Regal Hotel, and Ward Hotel, LAHD is requesting authority extend the terms of the loan agreements, which is necessary to allow the borrower to obtain new financing from HCD to rehabilitate the properties. The new HCD loan terms and conditions will be reviewed by LAHD, in collaboration with the City Attorney's Office, and approved if those terms and conditions are acceptable. The proposed changes to the existing LAHD loan terms are as follows:

- Amend the affordability covenants to correct certain ambiguities regarding their terms, including the termination date, and include current City standard requirements and City ADA requirements.
- Extend the loan and regulatory agreements to mature on September 1, 2081.
- Subordinate the loan agreement and regulatory agreement to HCD.
- Borrower be allowed to admit a 501(c)(3) as the new Managing General Partner, subject to LAHD's approval.

REQUEST FOR APPROVAL OF RECOMMENDATIONS TO AMEND LOAN AGREEMENTS AND SUBORDINATE CITY LOANS FOR SINGLE ROOM OCCUPANCY HOUSING CORPORATION

- Any other technical adjustments which may be required or deemed appropriate by the Office of the City Attorney.

For the Harold Hotel, Leonide Hotel, and Prentice Apartments, LAHD is requesting authority to combine projects and extend the term of the loans in order to bring these projects out of default with HCD, and allow for the possibility of new financing in the future. The proposed changes to the existing LAHD loan terms are as follows:

- Combine all loans into one loan at a 3% interest rate.
- Set the loan and regulatory agreement to mature on December 1, 2053.
- Subordinate the loan agreement and regulatory agreement to HCD.
- Borrower be allowed to admit a 501(c)(3) as the new Managing General Partner, subject to LAHD's approval.
- Any other technical adjustments which may be required or deemed appropriate by the City Attorney's Office.

Analysis

Preservation - Golden West Hotel, Regal Hotel, and Ward Hotel

In 2022, HCD issued a Notice of Funds Available for a new preservation effort, the Portfolio Reinvestment Program (PRP Program). The PRP Program provides loans to rehabilitate, capitalize operating subsidy reserves for, and extend the long-term affordability of HCD-funded housing projects that: 1) have an affordability restriction that has expired; 2) that will expire by 2032; or 3) are otherwise at risk for conversion to market rate due to having been foreclosed on by the Department or by another public lender. SRO Housing submitted a comprehensive proposal and was awarded preservation financing to assist the Golden West Hotel, Regal Hotel, and Ward Hotel.

By allowing SRO Housing to move forward with the financing offered by HCD, LAHD will enable SRO Housing to receive approximately \$40 million for the rehabilitation, and ongoing operation of the Golden West Hotel, Regal Hotel, and Ward Hotel. SRO will rehabilitate the projects to meet current accessibility standards, incorporate building upgrades, and bring the sites up to current fire and building codes. In addition, once the projects are operational, the projects will receive operating subsidies to create positive cash flow for the first 15 years.

All tenants will receive temporary relocation benefits and will be able to reside in other SRO Housing projects during the construction phase. After construction is completed, tenants will have the right to come back to the units at the rents they were paying prior to the relocation, or a lower rent payment if the current rent exceeds 50% of the household income at the time the benefits are released.

The rehabilitation of these projects would allow them to operate under a higher payment standard, which would support cash flow, and incorporate case management offices for provision of supportive services. Although there is a potential minor loss of currently-vacant units for conversion to offices, the rehabilitated building will bring needed services to tenants. SRO Housing will be the Lead Service Provider; the supportive services will be designed around the needs of the target populations. Among the key services to be provided

REQUEST FOR APPROVAL OF RECOMMENDATIONS TO AMEND LOAN AGREEMENTS AND SUBORDINATE CITY LOANS FOR SINGLE ROOM OCCUPANCY HOUSING CORPORATION

are: outreach and engagement to develop trust; case management to assist in the enrollment process for services; advocacy to ensure full participation in public benefits; mental health and substance abuse treatment services; health/medical services; education and employment assistance; community activities/events; and rental assistance. Services will be continually adapted to reflect the changing needs of the clients and residents.

Supporting the PRP proposal is in the best interest of the project and LAHD's mission. HCD is eager to disburse these funds, and no other viable options for similar levels of preservation funding have been identified. The opportunity to preserve affordable housing for the next 58 years outweighs LAHD's interest in being repaid its outstanding loan in the near future.

In conclusion, extending and subordinating the LAHD loans will provide for new financing to enhance the operations of Golden West Hotel, Regal Hotel, and Ward Hotel with a capital infusion that brings the buildings up to current standards and benefits the tenants. LAHD recommends extending and amending the existing loan agreement with the additional provide affordable housing to very low income families for the next 58 years, with annual residual receipts payments to the City.

Loan Modification – Harold Hotel, Leonide Hotel, and Prentice Apartments

For the Harold Hotel, Leonide Hotel, and Prentice Apartments, combining the sites into one loan will rectify the projects being in default with HCD, and allow them to seek additional financing from HCD in future years.

HCD has loans with these three projects that have matured and are currently in default. HCD has consented to recasting these loans to bring the projects out of default; however, HCD is requiring that the City loans mature on or after the date that the HCD loans mature, which is a minimum of 55 years from the date the agreements are executed. As such, LAHD is requesting authority to combine the Harold Hotel, Leonide Hotel, and Prentice Hotel sites into a single scattered-site project and extend the term of these loans for 55 years.

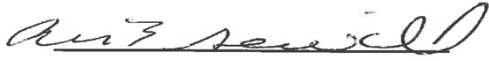
In addition, LAHD is requesting authority to amend the terms of the loan agreements for each project to align loans with current LAHD practices, as follows: 1) allow projects to deduct Supportive Services expenses for supportive services coordination and case management and deposit the Supportive Services amounts into a Supportive Services Reserve Fund from Cash Flow prior to the residual receipts calculation; 2) modify project's Residual Receipts distribution split as 50 percent to the Borrower and 50 percent pro-rata share among public lenders; 3) modify annual Reserves deposit requirements to \$300 per unit for Replacement Reserves, \$200 per unit for Operating Reserves, and \$200 per unit for Transitional Reserves; 4) increase allowable related party/third party fees to \$15,000 annually; and 5) exclude commercial revenue and expenses from the calculation of residual receipts.

FISCAL IMPACT

There is no fiscal impact to the General Fund.

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SINGLE ROOM OCCUPANCY HOUSING CORPORATION

Approved By:

A handwritten signature in cursive script, appearing to read "Ann Sewill".

ANN SEWILL

General Manager

Los Angeles Housing Department