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LOS ANGELES HOUSING DEPARTMENT

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Council File: 20-0600-S101
Council Districts: Citywide
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Honorable Members of the City Council
City of Los Angeles
c/o City Clerk
200 N. Spring Street
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COUNCIL TRANSMITTAL: REPORT BACK FROM THE LOS ANGELES HOUSING DEPARTMENT REGARDING RESERVE FUND LOAN RECOMMENDATIONS TO INITIATE THE ACQUISITION OF HILLSIDE VILLA APARTMENTS

SUMMARY

The General Manager of the Los Angeles Housing Department (LAHD) respectfully submits various recommendations relative to Council File No. 21-0600-S101 concerning a Reserve Fund loan for the purchase and preservation of Hillside Villa Apartments. At the September 13, 2021 Budget and Finance Committee meeting on this motion, the Los Angeles Housing Department (LAHD) received the following instructions:

1. Instruct the Housing Department, in consultation with the CAO and the City Attorney, to prepare and present recommendations within 30 days with potential funding sources, including limitations inherent to those sources, the sequence of actions required to acquire, possess, and transfer the property to an owner that will maintain affordability, and in what scenarios any of the current tenants may be displaced.
2. Instruct the Housing Department to include in its report any violations of the owner's affordability requirements, including failures to submit any mandatory reports to the City as a condition of its covenants, as well as any violations of the terms of their financing from public agencies.

LAHD has prepared recommendations to address aforementioned instructions.

RECOMMENDATIONS

- I. That the City Council, subject to the approval of the Mayor:

- A. AUTHORIZE the General Manager of LAHD, or designee, to obtain an updated appraisal of Hillside Villa Apartments located at 636 North Hill Place, Los Angeles.
- B. AUTHORIZE the General Manager of LAHD, or designee, to make an offer to purchase Hillside Villa Apartments in the amount not to exceed the updated appraised value with customary conditions and due diligence reviews.
- C. Instruct the LAHD to report back to the Council and Mayor with a feasible financing plan prior to the release of all conditions and to request authority for a Reserve Fund Loan and/or commercial financing loan for the acquisition of Hillside Villa Apartments.
- D. AUTHORIZE the General Manager of LAHD, or designee, to enter into a Professional Services Agreement with the Housing Authority of the City of Los Angeles (HACLA) to assist with the acquisition and to conduct and pay for due diligence at commercially reasonable rates including appraisals, physical needs inspections, environmental site assessments (Phase I and II), Certified Access Specialist (CASp) inspection, and any other due diligence reports deemed necessary. Authorize the City Attorney’s Office to assist with conducting due diligence, by including applying for an order permitting entry and making a deposit for the same. Authorize LAHD to reimburse HACLA up to \$125,000 of the cost of the noted due diligence reports from the Affordable Housing Linkage Fee account.
- E. AUTHORIZE the General Manager of LAHD, or designee, to negotiate a Purchase and Sale Agreement with HACLA to acquire, rehabilitate and operate the property as covenanted affordable housing for 55 years. As part of the Agreement, HACLA will agree to provide rental vouchers and to issue bonds. Execution of the Agreement will be contingent upon securing site control of Hillside Villas, and upon approval of a recommendation to the Mayor and Council for a conditional commitment to provide a deferred payment, residual receipts loan with terms and conditions as set forth in the Council approved Affordable Housing Managed Pipeline guidelines; and.
- F. AUTHORIZE the General Manager of LAHD, or designee, to:
 - i. OBLIGATE Affordable Housing Linkage Fee (AHLF) funds for the project listed below for reimbursement of due diligence related costs:

Project Name	Fund No	Account	Amount
Hillside Villa Apartments	59T	43R724	\$125,000

BACKGROUND

Hillside Villa Apartments (“Project”) is a 124-unit apartment complex located at 636 North Hill Place completed in 1989. The Project had a former Community Redevelopment Agency of the City of Los Angeles (CRA/LA) affordable housing covenant for 30 years. The Project 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 Project will no longer be required to maintain affordable rents.

At the September 13, 2021 Budget and Finance Committee meeting on Council Member Cedillo's Motion (C.F. No. 21-0600-S101) relative to amending the Budget and Finance Committee report on the Mayor's Proposed Budget for 2021-22 to instruct the CAO to present a Reserve Fund loan proposal to initiate the acquisition of Hillside Villa Apartments for the preservation of affordable housing, the committee instructed LAHD to report back on loan repayment terms and risks. Council also directed LAHD to get updated eligibility information on the Hillside tenants and report on any violations of the owner's affordability requirements.

To determine the loan repayment plan staff needed to know the current rents, current tenant incomes, projected rehabilitation costs, and eligible funding sources. New Capital LLC (NEW) was engaged to conduct a "census" of tenant's rent, household composition and income. This information was used to help determine if there are tenants that would be over-income or otherwise ineligible under proposed new regulatory agreements, and informed the assumptions for scenarios under which any of the current tenants may be displaced and the eligible basis and/or relocation expense. Based on the report provided, at least 85% of the current tenants report incomes of less than 80% of Area Median Income, and the units occupied by those eligible tenants could be financed with tax exempt bonds. We also obtained the current rents for each unit, and the potential eligible rents for tenants if additional Section 8 rental vouchers could be secured. Our financial advisor, Keyser Marston & Associates, prepared several scenarios considering various rehabilitation budgets and financing plans, and reported that if rental vouchers could be secured for the 88% of units that do not currently have vouchers, the acquisition and rehabilitation project could be feasible with a mix of tax exempt bonds, Low Income Housing Tax Credits, and a deferred payment subordinated loan from the City of Los Angeles's Affordable Housing Managed Pipeline preservation program.

A key variable that must still be confirmed is what the rehabilitation need would be to bring the project systems up to date and in good condition. The scope of rehabilitation would be assessed during the due diligence period. If the scope is within our financial advisor's conservative estimates, a loan repayment plan is feasible.

Another key issue is the availability of Section 8 rental vouchers. Although HACLA's ability to commit vouchers to specific projects is limited by the national cap of 30% of the portfolio, the cap does not apply to buildings owned by the housing authority. This capability, along with HACLA's extensive experience as a developer and operator of affordable housing and as a bond issuer, leads to the recommendation that HACLA be the designated subsequent purchaser and operator of the project if the City is successful in acquiring it. Initial discussions with HACLA indicate its support in performing this work, but its commitment is subject to board approval upon review of due diligence findings.

With the due diligence completed to date about rents and incomes, and the financial projections developed by Keyser Marston, we have concluded that a purchase at a fair market value, and the expected scope of rehabilitation work, will result in a total development cost that can be supported by a mix of tax exempt financing, Low Income Housing Tax Credits, and a loan from the City within our housing program guidelines. These sources would repay the City's acquisition loan in full when the tax credits and financing is secured.

REPORT ON VIOLATION OF AFFORDABILITY REQUIREMENTS

As of the time of the tenant census there did not appear to be violations of the affordability requirements. Eighteen (18) of the tenants or units were either vacant or did not report income or rent information, but the other units were in compliance.

SUMMARY

In the event that the Project can be acquired for the expected appraised value and if due diligence shows rehabilitation costs, income and operating expenses to be within projected ranges, the City's acquisition loan would be repaid in full when HACLA closes construction loans and commences rehabilitation. Repayment of the loan will come from capital proceeds including tax credits and a City loan from Affordable Housing Managed Pipeline (AHMP)/Preservation program within guidelines. LAHD will be required to return to Council for conditional approval of a permanent LAHD loan amount and approval of a financing plan prior to releasing purchase conditions.

FISCAL IMPACT

The proposed acquisition price would be paid with a loan from the General Fund Reserve, to be secured by the property and repaid at the earlier of four years or when all permanent financing is secured.

Approved By:



ANN SEWILL
General Manager
Los Angeles Housing Department