

RESOLUTION AUTHORIZING THE HOUSING AUTHORITY OF THE CITY OF LOS ANGELES TO DECLARE ITS OFFICIAL INTENT (THE INDUCEMENT) TO ISSUE, SOLEY AS CONDUIT BOND ISSUER, ONE OR MORE SERIES OF REVENUE BONDS OF THE AUTHORITY IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$44.40 MILLION TO FINANCE AND REFINANCE ALL OR A PORTION OF THE COST OF THE REDEVELOPMENT, REHABILITATION, CONSTRUCTION, AND EQUIPPING OF JORDAN DOWNS PHASE S2, AND TO UNDERTAKE VARIOUS ACTIONS IN CONNECTION THEREWITH



Douglas Guthrie
President & Chief Executive Officer



Jenny Scanlin
Chief Strategic Development Officer

Purpose: The purpose of this action is to assist in making low interest rate financing available for the redevelopment and rehabilitation of Jordan Downs Phase S2 (the "Project"). The Housing Authority of the City of Los Angeles ("Authority") is authorized to use its tax-exempt borrowing status to pass on lower interest rate financing to developers of affordable housing. The Authority would serve in the capacity of a conduit issuer of private activity bonds, notes or other debt to finance the Project, thus the Authority will not be the obligor of the debt. The obligor of the debt will be the owners and/or operators of the Project (the "Borrowers", as further defined in "Issues" below).

Additionally, by taking this resolution now, the Borrowers will be reimbursed for predevelopment costs expended 60-days prior to the adoption of this resolution and through the bond issuance (the "Reimbursement Expenditures"). The proceeds of the debt offerings are expected to cover debt issuance costs, Reimbursement Expenditures, and a portion of the financing for the Project. U.S. Treasury regulations require the Authority to declare its reasonable official intent to reimburse prior expenditures using the proceeds of a subsequent debt offering. By adopting the inducement resolution, the Authority declares this intent. Adoption of the inducement resolution does not bind the Authority to make any expenditure, incur any debt, perform as a conduit issuer, or to proceed with the Project.

Adopting this resolution authorizes the Authority to submit one or more applications to the California Debt Limit Allocation Committee ("CDLAC") requesting an allocation of private activity debt issuance capacity for the Project, and to take actions to prepare for the bond issuance. This includes forming a conduit debt issuance financing team, initially consisting of CSG Advisors Incorporated ("CSG") as municipal advisor and Kutak Rock LLP ("Kutak") as bond counsel and arranging, scheduling and conducting a public hearing concerning the proposed Project, in accordance with the requirements of the Tax Equity and Fiscal Responsibility Act ("TEFRA").

This resolution before the Board of Commissioners ("BOC") today is the Inducement Resolution for the Project. Staff will return to the BOC to present more

fully the structure and financing for the Project, and to seek approval of an Issuance Resolution authorizing the Authority to proceed with the conduit debt issuance, provided documentation is substantially final and complete and conditions precedent have been met. The BOC retains absolute discretion over the Authority's issuance of private activity debt (i) under the Housing Conduit Bond Policy; and (ii) through the BOC review and adoption of an Issuance Resolution at a future date.

Regarding: On September 27, 2018, the BOC, by Resolution No. 9455, approved the establishment of the Authority's Conduit Bond Program through adoption of the Housing Conduit Bond Policy.

On December 19, 2017, the BOC, by Resolution No. 9404, approved the Debt Management Policy of the Authority.

Issues: The Project and the Borrower

The Project is an 81-unit affordable multifamily housing project and represents a component of the second phase of development of the Jordan Downs Redevelopment Plan. Upon completion, the Project will feature approximately 109,323 square feet of gross floor area, comprised of 82,003 square feet of residential area and 1,200 square feet of non-residential area—including a community room. The balance of 26,120 square feet will be comprised of parking and enclosed circulation areas. Total project costs, including the cost to acquire the land and construct new buildings, is estimated at \$52,614,296 or \$649,559 per dwelling unit.

Thirty-five percent of the residential units will serve households earning less than 40% of the Area Median Income (AMI), while the balance will serve households earning less than 50% percent of AMI. The Borrowers have committed to a build first strategy and is working closely with the Authority to coordinate and plan for the relocation of households and the demolition of existing buildings.

The project sponsor is The Michaels Development Company I, LP; the borrowing entity is Jordan Downs Phase S2, LP, a California Limited Partnership (the "Partnership"); the Managing General Partner ("MGP") is La Cienega LOMOD, Inc.; the Administrative General Partner ("AGP") is Jordan S2-Michaels, LLC. The identity of the Investor Limited Partner ("ILP") will be determined at a future date. The MGP, AGP and IGP are projected to have 0.0049%, 0.0051% and 99.990% interest in the Partnership. The MGP, AGP and ILP are, collectively, the "Borrowers."

Tax-Exempt Private Activity Debt, CDLAC and CTCAC

The Authority, at the request of the Borrowers, intends to submit a CDLAC-CTCAC Joint Application to request (i) tax-exempt bond private activity debt issuance allocation from CDLAC; and, (ii) 4% federal tax credits from the California Tax Credit Allocation Committee ("CTCAC").

The Authority's capability to issue private activity debt is limited under Section 146 of the U.S. Internal Revenue Code of 1986 (the "Code"). The Code limits the amount of multifamily housing mortgage revenue bonds that may be issued in any calendar year by entities within a state and authorizes the governor or the legislature of a state to provide the method of allocation within the state. The

Government Code of the State of California (the “Government Code”) governs the allocation of the state ceiling among California governmental units having the authority to issue multifamily housing mortgage revenue bonds—and CDLAC was created for this purpose. The Government Code requires a local agency (e.g., the Authority) to file an application with the CDLAC prior to the issuance of multifamily housing mortgage revenue bonds.

The Authority, at the request of the Borrowers, intends to submit an application to CDLAC in March 2020, requesting an allocation of private activity debt issuance capacity to facilitate the financing of the Project. This inducement resolution must be obtained prior to CDLAC application submittal, as the adopted resolution must be attached to the CDLAC application at the time of submission (per CDLAC Regulations, Chapter 1, Article 4, Section 5033 (b)(4)). In addition, a TEFRA resolution, adopted by the BOC, must be submitted to CDLAC at least 30 days in advance of the corresponding CDLAC allocation meeting date. CDLAC announces the award (or non-award) of private activity debt allocation requests at its publicly-held allocation meetings conducted every two- to three-month. If the Project is awarded bond allocation, the Borrowers will have 180 days to execute the private activity debt financing. These actions do not bind the Authority to incur costs or to issue private activity debt for the Project.

The amount of tax-exempt private activity debt allocation to be requested is \$44.40 million, and debt sale proceeds will primarily be used to fund construction—and to cover costs of issuance and conduit debt related fees and expenses. The debt is likely to be sold through a private placement, although a public sale will be considered. The amount of debt allocation being requested is approximately 20% greater than the amount identified in the pro-forma. The additional amount serves as a cushion to compensate for unexpected increases in construction costs, an increase in interest rates, and to offset any reduction in other planned funding sources. The practice of applying a cushion is common for a transaction of this type, as exemplified by the Housing Authority of the City of San Diego which uses a 10% cushion. We apply a 20% increase for the Project, given our recent experience with the application submitted on behalf of Pueblo del Sol Phase I. In that instance, projected increased costs drove the bond allocation request up to the maximum amount allowable, and in compliance with, the Pueblo del Sol Phase I Inducement Resolution (Resolution No. 9537). For the Project, the \$44.40 million allocation request represents a not-to-exceed amount and, up to the moment prior to application submission, the Authority may reduce the amount of debt allocation request, should conditions warrant such action. The principal amount of private activity debt ultimately issued for the Project will depend upon project costs, projected revenues and interest rates at the time of issuance.

With regard to the TEFRA process, the maximum aggregate face amount of debt for the Project must be stated in a public notice. The Authority will add a 20% cushion to the proposed debt allocation figure, and the TEFRA public hearing notice also specifies a not to exceed amount of \$44.40 million. This practice is also common for a transaction of this type. It is noted that the Mayor’s Office of Housing and Community Development of the City and County of San Francisco adds a 30% cushion to bond issuance figures when engaged in TEFRA proceedings. There is no penalty for a reasonable over-estimation of the TEFRA amount and, by comparison, underestimating the TEFRA amount necessitates additional notice, hearings, and approvals and can cause significant delays.

The Project represent the Authority's second conduit debt issuance engagement. Staff will ensure that the private activity debt complies with the Authority's Housing Conduit Bond Policy (Resolution No. 9455), that associated continuing disclosure requirements are timely executed (Resolution No. 9404), and that conduit issuance fees due the Authority are collected.

Municipal Advisor

The Authority requires municipal advisor services to assist in facilitating the conduit issuance of private activity debt. Pursuant to a contract being negotiated between the Authority and CSG Advisors Incorporated ("CSG"), the Authority will engage CSG as its municipal advisor for the conduit debt issuance associated with the Project. CSG has extensive experience with conduit debt issuance, is an established and respected municipal advisor to various governmental entities and has aided the Authority on prior debt offerings on a non-conduit issuance basis. CSG's service fee for each debt offering is estimated at \$38,000. Payment of CSG's fee is the obligation of the Borrowers. The Authority has concluded CSG's fees are reasonable, based upon analysis of municipal advisor fees charged to similar transactions during the past two years (source: CDIAC).

Bond Counsel

Bond Counsel services are essential when issuing tax-exempt debt, and the Authority intends to engage the nationally recognized law firm, Kutak Rock LLP ("Kutak"). Kutak is currently under contract with the Authority to provide transaction legal services, including Bond Services (Contract No. HA-2015-7601-F, approved by the Board of Commissioners on July 23, 2015 by Resolution No. 9218). Kutak's bond counsel fee is estimated to be \$55,000 for each debt offering. Payment of Kutak's fees are the obligation of the Borrowers. The Authority determined that Kutak's bond counsel fees are reasonable, based on analysis of bond counsel fees charged to similar transactions during the past two years (source: CDIAC).

Vision Plan: PLACE Strategy #1: Stabilize the physical and financial viability of the conventional public housing portfolio.

Bond authority developed and utilized. Growth in revenue from bond authority realized to support the Authority's objectives.

PLACE Strategy #2: Increase functionality and effectiveness of Asset Management portfolio.

Utilize available funding tools, including Tax Credits, conventional debt/equity, Project-Based Vouchers and RAD to achieve site-based improvements and stabilized operating income and ensure long-term affordability.

Funding: The Chief Administrative Officer confirms the following:

Source of Funds:

The Project and related debt obligations are expected to be supported through Section 8 HAP, RAD HAP, and LIHTC tenant-paid rents.

Budget and Program Impact:

The budget impact to the Authority is expected to be minimal, yet positive. The Authority can expect to receive approximately \$173k in conduit program fees at bond closing, and additional \$54k at the one-year anniversary of closing, and \$20k on the second anniversary of closing, presuming permanent financing has transpired within 24 months of bond closing and outstanding bond principal has been significantly reduced.

The Borrowers are responsible for payment of all fees and expenses associated with the financing.

Environmental Review: Not Applicable

Section 3: Not Applicable

Attachments:

1. Resolution

RESOLUTION NO. [_____]

RESOLUTION AUTHORIZING THE HOUSING AUTHORITY OF THE CITY OF LOS ANGELES TO DECLARE ITS OFFICIAL INTENT (THE INDUCEMENT) TO ISSUE, SOLELY AS CONDUIT BOND ISSUER, ONE OR MORE SERIES OF REVENUE BONDS OF THE AUTHORITY IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$44.40 MILLION TO FINANCE AND REFINANCE ALL OR A PORTION OF THE COST OF THE REDEVELOPMENT, REHABILITATION, CONSTRUCTION, AND EQUIPPING OF JORDAN DOWNS PHASE S2, AND TO UNDERTAKE VARIOUS ACTIONS IN CONNECTION THEREWITH

WHEREAS, the Housing Authority of the City of Los Angeles (the "Authority") is a public body, corporate and politic, duly created, established and authorized to transact business and exercise powers under and pursuant to the provisions of the Housing Authorities Law, consisting of Part 2 of Division 24 of the California Health and Safety Code (the "Act"), including to issue and sell mortgage revenue bonds, private activity bonds or notes as part of a plan of financing for the purpose of making loans or otherwise providing funds to finance the acquisition, construction, rehabilitation and development of multifamily residential rental housing projects, including units for households meeting the income limits set forth in the Act; and

WHEREAS, the entity described in Section 7 hereof (the "Borrower") has requested that the Authority issue and sell its mortgage revenue bonds or notes pursuant to the Act to provide financing (including reimbursement of Borrower expenditures) for the acquisition, construction, development and rehabilitation of the multifamily rental housing development identified in Section 7 hereof, to be owned and/or operated by the Borrower (the "Project"); and

WHEREAS, the Board of Commissioners of the Authority (the "Board") hereby finds and declares that it is necessary, essential and a public purpose for the Authority to finance multifamily housing projects pursuant to the Act, in order to increase the supply of multifamily housing in Los Angeles available to persons and families within the income limitations established by the Act; and

WHEREAS, as an inducement to the Borrower to carry out its Project, this Board desires to adopt this resolution (this "Resolution") and to authorize the issuance of private activity mortgage revenue bonds, notes or other evidences of indebtedness by the Authority to finance the Project (the "Bonds"), for the Project in an aggregate principal amount not to exceed the maximum amount set forth in Section 7 hereof (the "Maximum Amount"); and

WHEREAS, the Authority, in the course of assisting the Borrower in the financing of the Project, expects that the Borrower has paid or may pay certain expenditures (the "Reimbursement Expenditures") in connection with the Project within 60 days prior to the adoption of this Resolution and may incur additional Reimbursement Expenditures within 60 days prior to the adoption of this Resolution and prior to the issuance of indebtedness for the purpose of financing costs associated with the Project on a long-term basis; and

WHEREAS, Section 1.142-4 and Section 1.150-2 of the Treasury Regulations promulgated under the below defined Code (the "Treasury Regulations") require the Authority to declare its reasonable official intent to reimburse prior expenditures for the Project with proceeds of a subsequent borrowing; and

WHEREAS, Section 146 of the Internal Revenue Code of 1986 (the "Code") limits the amount of multifamily housing mortgage revenue bonds that may be issued in any calendar year by entities within a state and authorizes the governor or the legislature of a state to provide the method of allocation within the state; and

WHEREAS, Chapter 11.8 of Division 1 of Title 2 of the Government Code of the State of California (the "Government Code") governs the allocation of the state ceiling among governmental units in the State of California having the authority to issue private activity multifamily housing mortgage revenue bonds; and

WHEREAS, Section 8869.85 of the Government Code requires a local agency to file an application with the California Debt Limit Allocation Committee ("CDLAC") prior to the issuance of private activity multifamily housing mortgage revenue bonds; and

WHEREAS, this Board hereby finds and declares that this resolution is being adopted pursuant to the powers granted by the Act.

NOW, THEREFORE, BE IT RESOLVED, the Board of Commissioners of the Housing Authority of the City of Los Angeles does hereby authorize and approve as follows:

Section 1. The recitals hereinabove set forth are true and correct, and this Board of Commissioners so finds.

Section 2. This Board hereby determines that it is necessary and desirable to provide financing for the Project by the issuance and sale of Bonds pursuant to the Act and hereby authorizes the issuance and sale of the Bonds in one or more series from time to time pursuant to a plan of financing by the Authority, the Bonds for the Project in aggregate principal amount not to exceed its Maximum Amount. This action is taken expressly for the purpose of inducing the Borrower to undertake the Project, provided that nothing contained herein shall be construed to signify that the Project complies with the planning, zoning, subdivision and building laws and ordinances applicable thereto or to suggest that the Authority or any officer, agent or employee of the Authority will grant any approval, consent or permit which may be required in connection with the acquisition and construction or rehabilitation of the Project or the issuance of the Bonds.

Section 3. The issuance and sale of the Bonds shall be upon such terms and conditions as may be agreed upon by the Authority and the Borrower and the initial purchasers of the Bonds; provided, however, that no Bonds shall be sold or issued unless specifically authorized by a subsequent resolution of this Board.

Section 4. This Resolution is being adopted by the Authority for purposes of establishing compliance with the requirements of Section 1.142-4 and Section 1.150-2 of the Treasury Regulations. In that regard, the Authority hereby declares its official intent to use proceeds of indebtedness to reimburse the Reimbursement Expenditures. Notwithstanding the foregoing, this resolution does not bind the Authority to make any expenditure, incur any indebtedness, or proceed with the Project.

Section 5. The authorized officers of the Authority are hereby authorized to file applications with CDLAC and directed to apply to CDLAC for a private activity bond allocation for application by the Authority for the issuance of the Bonds in one or more series from time to time for the Project in an amount not to exceed the Maximum Amount, to collect from the Borrower an amount equal to the performance deposit required by CDLAC and to certify to CDLAC that such amount has been placed on deposit in an account in a financial institution.

Section 6. The authorized officers of the Authority are hereby authorized and directed to take whatever further action relating to the aforesaid financial assistance may be deemed reasonable and desirable provided that the terms and conditions under which the Bonds are to be issued and sold shall be approved by this Board in the manner provided by law prior to the sale thereof.

Section 7. The "Project," the "Borrower" and the "Maximum Amount" are set forth below:

Project Name:	Address:	# Units:	Project Sponsors:	Maximum Amount:
Jordan Downs Phase S2	<ul style="list-style-type: none"> ▪ Bldg. A: 2045 E. 101st Street; ▪ Bldg. B: 2063 E. 101st Street; ▪ Bldg. C: 2031 E. 101st Street; ▪ Bldg. D: 10016 Grape Street; and, ▪ Bldg. E: 10010 Grape Street, and all addresses are located in Los Angeles, California 90002 	81	La Cienega LOMOD, Inc., (or an affiliate thereof or an instrumentality created by or on behalf of the Housing Authority of the City of Los Angeles); and Jordan Downs Phase S2, LP.	\$44.40 million

BE IT FURTHER RESOLVED that this Resolution shall be effective upon its adoption.

PASSED AND ADOPTED by the Housing Authority of the City of Los Angeles this 27th day of February, 2020.

APPROVED AS TO FORM:
JAMES JOHNSON

HOUSING AUTHORITY OF THE
CITY OF LOS ANGELES

BY: _____
GENERAL COUNSEL

BY: _____
CHAIRPERSON

DATE ADOPTED: _____

Handwritten signature and date: 02/27/2020