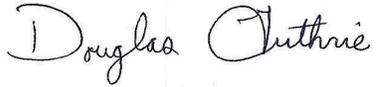


## REPORT OF THE PRESIDENT &amp; CEO

June 25, 2020

**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 \$55 MILLION TO FINANCE AND REFINANCE ALL OR A PORTION OF THE COST OF THE REDEVELOPMENT, REHABILITATION, CONSTRUCTION, AND EQUIPPING OF ROSE HILL COURTS PHASE I, AND TO UNDERTAKE VARIOUS ACTIONS IN CONNECTION THEREWITH**




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Douglas Guthrie  
President & Chief Executive Officer




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Jenny Scanlin  
Chief Strategic Development Officer

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**Purpose:** The purpose of this action is to assist in making low interest rate financing available for the redevelopment and rehabilitation of Rose Hill Courts Phase I (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 approving this resolution now, the Borrowers may be reimbursed for predevelopment costs expended 60-days prior to the adoption of this resolution and through the bond issuance (the "Reimbursement Expenditures") if the bond issuance is completed. 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 Ross Financial ("Ross") 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 federal 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 Authority’s 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 funds described in the “Financing Structure” section below will be used to finance the new construction of Rose Hill Courts Phase I, an 89-unit affordable multifamily housing project located at 4466 Florizel Street Los Angeles, CA 90032 in the City of Los Angeles (the “Project”).

The residential unit distribution, which will include one (1) two-bedroom property manager unit, is:

<u>Unit type</u>	<u>Number of units</u>	<u>Average Gross Square Footage</u>
SRO	0	not applicable
Studio	0	not applicable
1-Bedroom	51	635 – 708 sq. ft.
2-Bedroom	26	953 – 968 sq. ft.
3-Bedroom	8	1,130 – 1,268 sq. ft.
4-Bedroom	4	1,516 sq. ft.
5-Bedroom	0	not applicable

Residents

No residents will be displaced as all residents in good standing will have the right to return after any temporary relocation that might be required.

## Site Description and Scope of Work

Rose Hill Courts is an existing 5.24-acre (228,255 square feet) public housing site (Project Site) located within the Northeast Los Angeles Community Plan (Community Plan), in the El Sereno community of the City of Los Angeles (City). Rose Hill Courts is a low-income public housing project constructed in 1942 by the Housing Authority of the City of Los Angeles (HACLA). The redevelopment as a whole includes 185 new multi-family units, 174 parking spaces and a Management Office/Community Building. The existing 15 structures onsite, which currently have significant capital needs due to their age, will be demolished.

The Project is located on the northeast corner of the site at McKenzie and Florizel, and includes 89 units (replacing seven buildings consisting of 20 units and the existing administration building).

Of the 20 units in the footprint, only 12 are currently occupied, and this will minimize the number of residents that will need to be temporarily relocated during construction. Once built out, the Project will include two four-story elevator buildings (Buildings A and B) with flats, in order to provide the maximum level of accessibility for the existing tenant population (many of whom are elderly/disabled). The new sustainably designed buildings would be energy efficient and the landscaping would include water-efficient irrigation.

The project sponsor is The Related Companies of California, LLC; the borrowing entity ("Borrower") is Rose Hill Courts I Housing Partners, L.P., a California Limited Partnership (the "Partnership"); the Managing General Partner ("MGP") is La Cienega LOMOD, Inc. ("LCL") or a Single Purpose Non-profit Entity with LCL as the Sole Member; and the Administrative General Partner ("AGP") is Related/Rose Hill Courts I Development Company, LLC. The identity of the Investor Limited Partner ("ILP") will be determined at a future date.

## 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 Borrower, intends to submit an application to

CDLAC in September 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)). 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 Borrower 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 \$47.3 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 financing will also include the issuance of approximately \$7.7 million of taxable debt. The tax-exempt and the taxable debt aggregate to \$55.0 million. 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 10% 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. Staff proposes to apply a 10% increase for the Project, due to fluctuating markets and unknown impacts of COVID on construction costs and timeline. The Authority may reduce the amount of debt allocation request, should conditions warrant such action.

Staff have ensured 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 contract HA-2019-137-B-NF executed between the Authority and Ross Financial ("Ross"), the Authority intends to engage Ross as its municipal advisor for the conduit debt issuance associated with the Project. Ross has extensive experience with multifamily housing conduit debt issuance and is an established and respected municipal advisor to various governmental entities in California. Peter Ross is the owner and sole proprietor of Ross Financial and has been a highly respected municipal advisor in California for more than two decades. During the most recent three years, he successfully provided municipal advisory services to the San Diego Housing Authority (ten bond transactions), the City and County of San Francisco (eleven transactions), the City of San Jose (seven transactions) and the Chula Vista Housing Authority (three transactions). In summary, those 31 multifamily housing conduit bond transactions total \$1,853,854,955 of bonds issued, which averages to approximately \$59.8 million per transaction.

This engagement represents the inaugural engagement between the Authority and Ross. The service fee for each debt offering is estimated at \$35,000 to \$45,000

for a bond issuance sized up to \$30 million, and \$45,000 to \$55,000 for a bond sized up to \$50 million. Payment of this fee is the obligation of the Borrower. The Authority has concluded that these 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 \$65,000 for each debt offering. Payment of Kutak’s fees is the obligation of the Borrower. 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.

Conduit 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:

All costs associated with the bond issuance are covered by fees described further below.

### Budget and Program Impact:

The budget impact to the Authority is expected to be minimal, yet positive. The Authority can expect to receive approximately \$212,000 in conduit program fees at bond closing, an additional \$67,000 at the one-year anniversary of closing, and \$21,000 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 Authority will continue to receive its annual issuer (conduit bond program) fee until the bonds are fully paid off or refunded at a future date. The annual issuer fee is 12.5 basis points multiplied by the principal amount of debt outstanding each year. Total fees to the Authority have an estimated

present value of \$690,000, based on a 3.5% discount factor and 35-years to final maturity.

The Borrower is 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 \$55 MILLION TO FINANCE AND REFINANCE ALL OR A PORTION OF THE COST OF THE REDEVELOPMENT, REHABILITATION, CONSTRUCTION, AND EQUIPPING OF ROSE HILL COURTS PHASE I, 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 pre-issuance 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, including the President and CEO and his or her designees, 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, including the President and CEO and his or her designees, are hereby authorized and directed to take whatever further action relating to the aforesaid financial assistance may be deemed reasonable and desirable, all with the approval of legal counsel, 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:

<b>Project Name:</b>	<b>Address:</b>	<b># Units:</b>	<b>Project Sponsors:</b>	<b>Maximum Amount:</b>
Rose Hill Courts Phase I	▪ 4466 Florizel Street, Los Angeles, California 90032	89	Rose Hill Courts I Housing Partners, L.P.	\$55 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 25th day of June, 2020.

APPROVED AS TO FORM:  
JAMES JOHNSON

HOUSING AUTHORITY OF THE  
CITY OF LOS ANGELES

BY: \_\_\_\_\_  
GENERAL COUNSEL

BY: \_\_\_\_\_  
BEN BESLEY, CHAIRPERSON

DATE ADOPTED: \_\_\_\_\_