RESOLUTION AUTHORIZING THE PRESIDENT AND CEO, OR DESIGNEE, TO ENTER INTO A FIRST AMENDMENT TO THE DISPOSITION AND DEVELOPMENT AGREEMENT FOR ROSE HILL COURTS – PHASE I TO PROVIDE UP TO $2,850,000 IN ADDITIONAL GAP FUNDING TO ROSE HILL COURTS I HOUSING PARTNERS, L.P. OR TO MAKE A LOAN TO HOUSING PROMISE CORPORATION IN CONNECTION WITH THE REDEVELOPMENT OF ROSE HILL COURTS PHASE I, AN 89 UNIT AFFORDABLE HOUSING RESIDENTIAL DEVELOPMENT, AND TO EXECUTE ANY AND ALL DOCUMENTS AND AGREEMENTS RELATED THERETO AND TO UNDERTAKE VARIOUS ACTIONS IN CONNECTION THEREWITH

Douglas Guthrie
President and CEO

Jenny Scanlin
Chief Strategic Development Officer

Purpose: To authorize the President and CEO to enter into a First Amendment to the Disposition and Development Agreement ("DDA") for Rose Hill Courts – Phase I with Rose Hill Courts I Housing Partners, LP (the "Developer" or "Owner") for the development of an 89 unit affordable housing residential development in Phase I of the Rose Hill Courts Redevelopment (the "Project") to provide up $2,850,000 in additional gap addressing a projected funding shortfall caused by current economic and public health conditions.

Regarding: On November 20, 2014, by Resolution 9171, the Board of Commissioners ("BOC") authorized the President and CEO to award an Exclusive Right to Negotiate an MOU between the Housing Authority of the City of Los Angeles (the “Authority” or “HACLA”) and Related CA, for a period of ninety (90) days in accordance with the RFQ for the Rose Hill Courts project to define the terms and conditions under which Related would perform the scope of work.

On November 26, 2019, by Resolution 9543, the BOC certified the Environmental Impact Report ("EIR") prepared in full compliance with the California Environmental Quality Act ("CEQA") and the State CEQA Guidelines for the teardown of the existing 100-unit Rose Hill Courts public housing site and its redevelopment into 185 units with supporting amenities. Further, the BOC adopted the Mitigation Monitoring and Reporting Program (MMRP) and approved the Project.

On January 23, 2020, by Resolution 9568, the BOC authorized the President & CEO to enter into a Disposition and Development Agreement ("DDA"), a long term Ground Lease and Predevelopment Loan documents with both Rose Hill Courts I Housing Partners, L.P. and Rose Hill Courts II Housing Partners, L.P. (the “Developers” or “Owners”) for the development of an 89 unit affordable housing residential development in Phase I of the Rose Hill Courts
redevelopment and a 96 unit affordable housing residential development in Phase II of the Rose Hill Courts redevelopment, respectively.

**ISSUES:**

*Background*

Rose Hill Courts Phase I is the first phase of the redevelopment of Rose Hill Courts and is expected to be constructed on approximately 1.79-acres of land located at the northeastern corner of the 5.24 acre Rose Hill Courts public housing site owned by HACLA.

The Project would demolish the existing 15 structures and construct a total of 185 residential housing units (183 affordable housing units onsite plus two market-rate managers’ units) in two phases. The Project includes 88 one-bedroom units, 59 two-bedroom units, 30 three-bedroom units, and 8 four-bedroom units, a 6,300 square-foot Management Office/Community Building and a “Central Park” green space, creating a park-like setting for residents. The Project includes ample open space and recreational amenities to promote continued community outdoor use such as outdoor communal space with shaded seating and grills, children’s play areas with tot lots, paved surfaces, and several courtyards. The Project would provide a total of 174 parking spaces onsite, with at-grade and tuck-under parking; upgraded lighting, fencing, signage, and security features; and storm drain and utility improvements. The new sustainably designed buildings including solar panels would be energy efficient and the landscaping includes water-efficient irrigation. When developed, the Project will contribute to the health, welfare and economic vitality of the Rose Hill and El Sereno communities through the creation of high quality replacement housing units, quality prevailing wage construction jobs for residents, as well as permanent jobs within the development.

The Authority and Developer have been working closely to implement the vision of a redeveloped Rose Hill Courts since BOC approval of all deal terms and legal documents in January 2020. The Developer has progressed significantly in finalizing its construction drawings, and has submitted for the building permit, demolition permit, grading and retaining wall permit among other City permits necessary to start construction. The Authority has selected a Relocation Consultant for the implementation of the Relocation Plan. The Authority has applied for approval from HUD for a Section 18 Demolition-Disposition with approval expected by this fall. The Financing Plan for Phase 1 has progressed as per schedule and the Project was successful in receiving the Infill Infrastructure Grant (IIG) Program 2019 Large Jurisdiction award in the amount of $3,519,300 and the 2018-2019 Round 5 Affordable Housing and Sustainable Communities (AHSC) Program award for $20,186,958; $12,000,000 awarded for affordable housing. The only remaining competitive funding that the Project will need in order to achieve financial close are the Tax Exempt Bond financing and the 4% Low income Housing Tax Credits (“LIHTC”).

The Developer expects to start construction by mid-2021.
The DDA was executed by Developer and HACLA in February 2020 prior to the onset of the COVID-19 pandemic. While the project is on schedule, the COVID-19 pandemic has caused economic uncertainties leading to a significant funding gap for the Phase I Project. The major factors for the increased funding gap are outlined below:

1) There has been a significant reduction in pricing and demand from equity investors in 2020 and this is anticipated to continue in 2021, due to the impact of COVID-19 on the current equity market. Investors currently providing equity commitments for projects that received early 2020 allocations are pricing in the range of $0.90 to $0.93. In addition to lower pricing, most/all investors are cutting back significantly on their investments in 2020 and 2021. This lack of demand will certainly drive future pricing downward. Investors are tightening their underwriting in other ways as well, such as requiring 6 months, and in some cases 9 months, of operating reserves, which is also expected to increase costs.

2) Despite COVID-19, construction costs have continued to rise due to volatility in material pricing and availability and a relatively steady supply of affordable housing projects starting construction, keeping subcontractors busy.

3) Pursuant to the HACLA Board meeting on November 26, 2019, the Board requested that the Developer analyze the use of photovoltaics (PVs) to increase Project sustainability. Additionally, the AHSC application committed to energy reduction and sustainability. Based on the AHSC requirement, and in alignment with HACLA Board’s desire, the Project will now include PVs. Therefore, the project budget now includes PVs (estimated at $630,000). The PVs will offset common area electrical costs, so reduced utility costs have been included in the operating budget.

4) The AHSC application was a joint application between Rose Hill Courts I Housing Partners, L.P. (for the housing development) and the City of Los Angeles (for the transportation improvements). The City of Los Angeles requires projects that receive AHSC funding to comply with the Los Angeles Housing + Community Investment Department’s (HCIDLA) Voluntary Compliance Agreement. At the end of construction, HCIDLA inspectors and third party inspectors hired by HCIDLA are required to physically inspect each unit, produce written reports, and sign off on the Project. The construction schedule was increased to account for the additional time associated with complying with HCIDLA’s inspection protocol, which results in greater construction loan interest costs.

Based on staff review and further discussion with the Developer it was determined that an increase to the Authority’s gap loan is necessary to address changes in underwriting impacted by the above mentioned factors.

A higher Gap Loan is needed to demonstrate financial viability to CTCAC and CDLAC. Based on a detailed review and analyses of the Developer pro forma, staff believes that the HACLA Gap Loan will need to be increased from the
current commitment of $5,500,000 to an amount up to $8,350,000, an increase of $2,850,000 in funding authority.

For tax purposes, HACLA will need the flexibility to make a loan comprising portions of the gap funding, to Housing Promise Corporation, a non-HACLA affiliate who in turn will make a loan to the Developer. This arrangement might be necessary to prevent related party debt issues that could potentially restrict the ability of the Managing General Partner ("MGP"), a La Cienega LOMOD affiliate, from receiving the negotiated cash flow and/or capital split.

In exchange for providing additional gap funding, Related has agreed to increase the Developer fee by $2.0 million beyond the $3.5 million cap imposed by CA Housing and Community Development Department. The $2.0 million will be payable to the MGP but will be stated as a Capital Contribution to the Project in the form of MGP Equity. While this MGP Equity will be realized upon a capital event occurring in the future and paid from available net proceeds, the biggest advantage of this arrangement is that the MGP equity generates additional basis and tax credit equity amounting to approximately $0.5 million and reduces the gap funding needed.

As stewards of limited public funding resources, HACLA will continue to carry out its due diligence on the design, financing and predevelopment to reduce the Authority’s Gap Loan funding to the extent feasible by ensuring that the development costs are reasonable and that competitive terms for the Tax Credit and permanent loans are achieved. After the Project receives an allocation of tax credits and tax exempt bonds, the Developer shall perform an open and competitive solicitation for any lender or equity investor and the Authority shall reasonably approve the final selection of any lender or equity investor. In addition, the Authority and the Developer will jointly bid the General Contractor for construction and the Authority shall have the right to approve the Construction Contract. The Developer must also submit a Final Financing Plan to the Authority for its review and approval, prior to the start of construction.

The Developer shall make good faith efforts to apply for a pre-selected list of sources including the Affordable Housing Program (AHP) loan in order to reduce the HACLA Gap Loan. If a new viable funding source becomes available at a later date, the Authority and the Developer will mutually agree whether to modify the list of sources to which the respective Owner must apply. HACLA shall be provided a copy of the applications as records of the submission.

The actions recommended in this report provide for these necessary modifications and create an appropriate approach that protects public investment and HACLA as a fee owner, lender and regulatory body. Otherwise, the actions taken under Resolution 9568 are still valid and provide all authority necessary to move the Project forward under administrative review and approval of the President and CEO or his designee.
Vision Plan: **PLACE Strategy #1: Stabilize the physical and financial viability of the conventional public housing portfolio.**

The Rose Hill Courts redevelopment will allow for the construction of 185 new housing units, 183 of which will be deeply affordable and 100 of which are replacement units. This development will further HACLA’s goals of improving its affordable housing stock as well as improved ADA-compliant, modern, sustainably designed, and amenitized units. This action will help HACLA extend the life of critical, deeply affordable housing in the City of Los Angeles to serve existing public housing residents and future income-qualified households within the city.

Funding: The Chief Administrative Officer confirms the following:

Source of Funds:

Subject to the BOC’s approval, the Authority will be providing the Phase I Project with an additional $2,850,000 in gap loan authority for a total not-to-exceed commitment of $8,850,000.

The Chief Administrative Officer confirms that $2,850,000 in funds are available from uncommitted Rent Subsidy proceeds.

*Budget and Program Impact:* Although this represents an increase in funding from HACLA, the Authority sustains a stake in the developer fee and is expected to receive a partial repayment if the Developer successfully receives AHP funding. Further, as discussed above, the MGP will receive additional Developer fee that will be realized in future capital events. The Project will continue to be analyzed for cost savings and the amount recommended is intended to be an upper limit of financing required. Acting in advance of final underwriting is critical given the competitiveness of tax credits which require that all other sources of funds be committed prior to application and award. This action allows the Project to move forward on its timeline to initiate construction in 2021.

Environmental Review: **CEQA**

No further environmental review is required for the Authority's recommended actions because based on the project record there has been no change to the Rose Hill Courts Redevelopment or substantial changes in circumstances or new information that would warrant subsequent environmental analysis in accordance with CEQA, including but not limited to Public Resources Code section 21166 and State CEQA Guidelines sections 15162, 15163 and 15164. Based on this, the Authority will file a Notice of Determination after the Board of Commissioners has acted on this item.
NEPA: Pursuant to 24 CFR Part 58, the City of Los Angeles, through its Housing and Community Investment Department, serves as the environmentally responsible entity in preparation of the Final Environmental Impact Statement for the Rose Hill Courts Redevelopment Project. HCIDLA issued a Record of Decision on January 24, 2020 and submitted a Request for Release of Funds to HUD on February 8, 2020. On March 9, 2020, the U.S. Department of Housing and Urban Development's Los Angeles Office of Public Housing issued approval of the City of Los Angeles' Environmental Certification.

SECTION 3: The Developer will comply with Section 3 requirements and ensure that employment and other economic opportunities generated by the HUD financial assistance shall, to the greatest extent feasible, and consistent with existing Federal, State, and local laws and regulations, be directed toward qualified low and very low-income persons, and to business concerns which provide economic opportunities to low and very low-income persons and will comply with the implementing regulations at 24 CFR Part 135 as well as the terms negotiated in the operative agreements herein. The Developer will set aside at least thirty percent (30%) of all new predevelopment, construction and post-construction jobs generated by the re-syndication first for current residents of Rose Hill Courts, second to qualified Section 3 residents of the North East Los Angeles neighborhood, third to participants in HUD's Youthbuild programs in the City of Los Angeles; and fourth to residents of the City of Los Angeles who meet Section 3 eligibility requirements. Furthermore, the Partnerships will strive to provide at least ten percent (10%) of all construction work hours to Section 3 Residents according to the hiring priorities set forth above. A Construction and Post-Construction Section 3 Hiring Plan will be submitted to the Authority prior to commencement of activities for review and approval. The Hiring Plan will discuss strategies and investments that will assist in enabling their contractors and consultants to hire and train Section 3 residents during the construction and post-construction stages.

Attachments:
1. Resolution
2. Draft First Amendment to Disposition And Development Agreement for Rose Hill Courts – Phase I
RESOLUTION NO. __________

RESOLUTION AUTHORIZING THE PRESIDENT AND CEO, OR DESIGNEE, TO ENTER INTO A FIRST AMENDMENT TO THE DISPOSITION AND DEVELOPMENT AGREEMENT FOR ROSE HILL COURTS – PHASE I TO PROVIDE UP TO $2,850,000 IN ADDITIONAL GAP FUNDING TO ROSE HILL COURTS I HOUSING PARTNERS, L.P. OR TO MAKE A LOAN TO HOUSING PROMISE CORPORATION IN CONNECTION WITH THE REDEVELOPMENT OF ROSE HILL COURTS PHASE I, AN 89 UNIT AFFORDABLE HOUSING RESIDENTIAL DEVELOPMENT, AND TO EXECUTE ANY AND ALL DOCUMENTS AND AGREEMENTS RELATED THERETO AND TO UNDERTAKE VARIOUS ACTIONS IN CONNECTION THEREWITH

WHEREAS, the Housing Authority of the City of Los Angeles ("Authority") intends to transform the Rose Hill Courts public housing community into a mixed-income, environmentally friendly, vibrant urban village, conducive to healthy living and economically progressive conditions; and

WHEREAS, on January 23, 2020, the Authority's President and CEO executed a Disposition and Development Agreement ("DDA") with Rose Hill Courts I Housing Partners, L.P., (the "Developer") for the redevelopment of Phase I of Rose Hill Courts (the "Project"); and

WHEREAS, the redevelopment is comprised of two Phases with Phase I containing 89 units in two four-story elevator buildings with flats, that will provide the maximum level of accessibility for the existing tenant population and with Phase II containing 96 units that step-down in massing and height to provide a residential scale appropriate for the adjacent land uses, and developed as 3 and 2 story buildings; and

WHEREAS, the Authority and the Developer have been working to implement the Project through financial applications, completion of construction drawings, applications to HUD for Section 18 approval and submission for various City permits; and

WHEREAS, the Developer has been successful in receiving the Infill Infrastructure Grant (IIG) Program of 2019 Large Jurisdiction award in the amount of $3,519,300 and the 2018-2019 Round 5 Affordable Housing and Sustainable Communities (AHSC) Program award for $20,186,958 of which $12,000,000 was awarded for affordable housing development; and

WHEREAS, the Developer intends to apply for tax credits and tax exempt bonds in September 2020; and

WHEREAS, after analyzing the updated Project financing as well as the impact on lending and equity investment due to COVID-19, HACLA staff determined that material provisions of key documents, including an amendment to the Disposition and Development Agreement and increasing the HACLA gap funding by $2,850,000 to a new maximum gap funding amount of $8,350,000 is necessary to keep the Project on schedule; and
WHEREAS, in exchange for providing additional gap funding, Related has agreed to increase the Developer fee by $2.0 million beyond the $3.5 million cap imposed by CA Housing and Community Development Department, which will be payable to the Managing General Partner, a La Cienega LOMOD affiliate but will be stated as a Capital Contribution to the Project in the form of MGP Equity and the additional Tax Credit Equity realized will reduce the funding gap; and

WHEREAS, to prevent related party debt issues that could potentially restrict the ability of the MGP from receiving the negotiated cash flow and/or capital split, HACLA will need the flexibility to make a loan comprising portions of the gap funding to Housing Promise Corporation, a non-HACLA affiliate who in turn will make a loan to the Developer; and

WHEREAS, under the California Public Resources Code, Section 21166 and the California Environmental Quality Act (CEQA) including but not limited to sections 15162, 15163 and 15164, on the basis of substantial evidence contained in the whole record, that since the adoption of the Environmental Impact Report by the Authority on November 26, 2019, for the Rose Hill Courts Redevelopment Project (the "Project") including the Phase 1 Project currently being proposed, there have been no changes to the Project, changes with respect to the circumstances under which the Project is being undertaken, or new information of substantial importance concerning the Project, which cause new significant environmental effects or a substantial increase in the severity of previously identified effects in the Environmental Impact Report.

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

a. To enter into a First Amendment to the Disposition and Development Agreement ("DDA") for Rose Hill Courts – Phase I with Rose Hill Courts I Housing Partners, L.P. (the "Developer" or "Owner") for the development of an 89 unit affordable housing residential development in Phase I of the Rose Hill Courts Redevelopment (the "Project") and any other documents, agreements and certificates necessary to accomplish the transaction contemplated by this Resolution, with such changes therein as approved with the advice of legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof; and

b. To provide up to an additional $2,850,000 for a total maximum gap funding amount of $8,350,000 to Rose Hill Courts I Housing Partners, L.P or to make a loan comprising portions of the gap funding to Housing Promise Corporation for the Project to address the funding shortfall caused by current economic conditions and increased cost estimates prior to applying to the September round of FY2020 CTCAC/CDLAC applications.

BE IT FURTHER RESOLVED that the Board of Commissioners directs staff to prepare and file a Notice of Determination with the Los Angeles County Clerk within five (5) working days of the approval of these actions.
BE IT FURTHER RESOLVED that this Resolution shall take effect immediately.

APPROVED AS TO FORM:
CITY OF LOS ANGELES
BY: ____________________________
General Counsel James Johnson

HOUSING AUTHORITY OF THE
CITY OF LOS ANGELES
BY: ____________________________
Chairperson Ben Besley

DATE ADOPTED: __________________
ATTACHMENT 2

FIRST AMENDMENT TO THE DDA
This First Amendment to Disposition and Development Agreement for Rose Hill Courts – Phase I (the “Amendment”), is made and entered into as of _____________, 2020, by and between the HOUSING AUTHORITY OF THE CITY OF LOS ANGELES, a public body, corporate and politic (the “Authority”) and ROSE HILL COURTS I HOUSING PARTNERS, L.P., a California limited partnership (the “Developer” and collectively with the Authority, the “Parties”) with reference to the following recitals of fact:

R E C I T A L S:

A. WHEREAS, the Parties entered into that certain Disposition and Development Agreement for Rose Hill Courts – Phase I, dated February 5, 2020 (the “Original Agreement”) regarding the proposed acquisition and development of real property located at 4466 E. Florizel Street, Los Angeles, California known as Rose Hill Courts as more specifically set forth therein (the “Property”); and

B. WHEREAS, the Parties desire to amend the Original Agreement as set forth in this Amendment.

A G R E E M E N T:

1. Original Agreement. Except as amended hereby, the Original Agreement remains unmodified and in full force and effect. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Original Agreement.

2. MGP Capital Contribution. The Managing General Partner shall make a capital contribution to the Developer in the amount of $2,000,000 (the “MGP Capital Contribution”). The MGP Capital Contribution shall be contributed to Developer at such time as the General Partners shall mutually agree.

3. Developer Fee. Section 3.1(a)(4)(C) of the Original Agreement is deleted and replaced with the following:

“(C) the Developer Fee is projected to be $5,500,000. With respect to the first $3,500,000 of the Developer Fee paid, the Administrative General Partner shall be entitled to eighty-five percent (85%) and the Managing General Partner shall be entitled to fifteen percent (15%), with each installment paid on a pari passu basis. The remaining $2,000,000 of the Developer Fee shall be paid to the Managing General Partner.”

4. Gap Loan. Section 4.2(d) of the Original Agreement is hereby deleted and replaced with the following:

“Gap Loan. The Gap Loan shall be in the original principal amount of up to $8,350,000 inclusive of any amount of the Predevelopment Loan converted into the Gap Loan and the costs of completing the work required in the Demolition and Remediation Specifications and subject to adjustment pursuant to Section 4.2(e). The Gap Loan shall bear simple interest at three percent (3%) and shall be the first funds utilized at Closing and during construction. The Gap Loan may be converted to permanent financing in accordance with the final Financing Plan.”

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5. **Applicable Law.** This Amendment shall be construed and enforced in accordance with the laws of the State of California.

6. **Counterparts.** This Amendment may be executed in several counterparts, each of which shall be deemed to be an original copy and all of which together shall constitute one agreement binding on all parties hereto, notwithstanding that all the parties shall not have signed the same counterpart.

7. **Severability of Provisions.** Each provision of this Amendment shall be considered severable, and if for any reason any provision which is not essential to the effectuation of the basic purposes of this Amendment is determined to be invalid and contrary to any existing or future law, such invalidity shall not impair the operation of or affect those provisions of this Amendment which are valid.

8. **Amendment Binding.** This Amendment shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives and permitted successors and assigns of the parties hereto. Except as amended hereby, the Original Agreement remains unchanged and in full force and effect and the parties hereto hereby ratify and reaffirm the terms of the Original Agreement as amended hereby.

[signature page(s) to follow]
IN WITNESS WHEREOF, the Parties have duly executed this Agreement by their duly authorized signatories effective on or as of the date written at the commencement of this Agreement.

DEVELOPER:

ROSE HILL COURTS I HOUSING PARTNERS, L.P.,
a California limited partnership

By: Related/Rose Hill Courts I Development Co., LLC,
a California limited liability company
its administrative general partner

By: ___________________________
    Frank Cardone
    President

[signatures continue on the following page]
AUTHORITY:

HOUSING AUTHORITY OF THE CITY OF LOS ANGELES, a public body, corporate and politic

By: ___________________________________
Douglas Guthrie
President and Chief Executive Officer

APPROVED AS TO FORM:

By: ___________________________________
Becky Churchill Clark, Esq.
Authority Senior Staff Attorney

APPROVED AS TO FORM AND LEGALITY:

RENO & CAVANAUGH, PLLC,
Authority Special Counsel

By: ___________________________________
Megan Glasheen, Esq.