TRANSMITTAL

To:	**THE COUNCIL**	Date:	**08/10/22**
From:	**THE MAYOR**		

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.

(Andre Herndon) for **ERIC GARCETTI**
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

Eric Garcetti, Mayor

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August 2, 2022

Council File:	NEW		
Council Districts:	6		
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Honorable Eric Garcetti
Mayor, City of Los Angeles
Room 303, City Hall
200 North Spring Street
Los Angeles, CA 90012

Attention: Heleen Ramirez, Legislative Coordinator

COUNCIL TRANSMITTAL: REQUEST FOR APPROVAL OF RECOMMENDATIONS TO AMEND, REVISE, AND CLARIFY AFFORDABLE RENTAL COVENANTS AND SUBORDINATE THE STRATHERN PARK APARTMENTS LOAN TO ALLOW THE BORROWER TO REFINANCE THE EXISTING SENIOR LOAN AND TO ACCOMMODATE PROPERTY REHABILITATION FOR THE PROPERTIES LOCATED AT 11040 WEST LORNE ST AND 11111 WEST STRATHERN ST, SUN VALLEY, CA 91352 FOR THE DEVELOPMENT OF AFFORDABLE HOUSING

SUMMARY

The General Manager of the Los Angeles Housing Department (LAHD) respectfully requests that your office review and approve this transmittal and forward it to the City Council for further consideration. Through this transmittal, LAHD seeks approval, and requests authority to take recommended actions related to amending the loan agreement terms of the property owned by the Strathern Park, Limited Partnership, with the purpose of providing 35 more years of affordable housing.

RECOMMENDATIONS

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. 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 11040 West Lorne Street and 11111 West Strathern Street in Sun Valley, CA 91352 (APN(s) 2314-006-035 & 2314-006-048); and,

B. AUTHORIZE the General Manager of LAHD, or designee, to negotiate and execute all documents required for the affordable housing project at 11040 West Lorne Street and 11111 West Strathern Street in Sun Valley, CA 91352 (APN(s) 2314-006-035 & 2314-006-048), per the terms of the loan agreement or as set forth herein.

BACKGROUND

In April 2013, LAHD executed a Transfer Agreement and accepted the housing assets of the former Community Redevelopment Agency of the City of Los Angeles (CRA/LA) (C.F. No. 12-0049). Among the housing assets received were the properties at 11040 West Lorne Street and 11111 West Strathern Street (Site) (APN(s) 2314-006-035 & 2314-006-048).

In 1989, the CRA/LA funded a $3,472,255 loan to the borrower for the Lorne Park Apartments project for the new construction of 72 units. In the same year, the CRA/LA funded an $8,152,025 loan for the Strathern Park Apartments project to the same developer for the new construction of 169 units. The unit configurations consist of one-, two-, and three-bedroom units (96, 111, and 31 respectively, in addition to 3 managers units). The borrower's original investment in the project was $8,585,256. In 2006 the original investor limited partner was replaced by a new set of limited partners who still remain involved in the project. Also in 2006, the two loans were consolidated into a single project called the Strathern Park Apartments totaling 241 units with a single CRA loan agreement totaling $11,624,280. The loan agreement consists of four separate loans and five affordable rental covenants. The two Low and Moderate Income Housing Finance (LMIHF) loans consist of a 40-year repayment period with residual receipts (60% to the borrower and 40% to the City) and a 5% simple interest rate. The two Housing Development Grant (HDG) loans consists of a 40-year repayment period with residual receipts (60% to the borrower and 40% to the City) and a 7% simple interest rate. The unit affordability is as follows: 75 units at 50% Area Median Income (AMI), 42 units at 80% AMI, and 124 units at 120% AMI levels. The projects were completed in June 3, 1992 and placed in service the same year. Currently, the existing outstanding LAHD debt, including principal and interest, is $27,313,106 and the loans mature in June 2030. This project has provided nearly 30 years of affordable housing to its tenants.

The loan agreement contains Net Proceed language which is applicable at the time of sale or refinancing. It dictates the proceeds distribution: first, to the borrower for their total original investment in the project; second, additional net proceeds are distributed 50/50 between the developer and the City until the LMIHF (Gap Loan) and HDG Loans have been repaid in full; and third, any remaining Net Proceeds to be distributed 80% to the developer and 20% to the City.

<u>Request</u>

LAHD is requesting authority to allow the borrower to obtain new financing to rehabilitate the property and change the existing LAHD repayment terms for a minimum of 35-years, using the HUD 223 (f) loan program, not to exceed $23,119,395. The final HUD loan terms and conditions will be reviewed by LAHD and approved if those terms and conditions are acceptable to LAHD. The proposed changes to the existing LAHD loan terms are as follows:

- To amend, revise, combine and clarify the affordability covenants to correct certain ambiguities regarding their terms, including the termination date, and include current City standard requirements and City ADA requirements, among other things.

- The LAHD regulatory agreement shall at all times remain in a senior encumbrance position to the new loan.
- Extend the loan terms and clarify and revise the CRA/LA affordable regulatory agreement for a new 35-year period to co-terminate with the new senior loan.
- Change the net capital proceeds language so that the net capital proceeds be split 50/50 between the borrower and the City with the borrower waiving (writing off) its balance of the preferred return (original investment). $5 million of the loan proceeds shall go to the borrower and $5 million of the loan proceeds shall go to the City. This enables the City to receive more funds than it would have otherwise received under the original loan terms.
- $9 million of the loan proceeds from the HUD 223 (f) financing are to be used to rehabilitate the property including addressing accessibility requirements which also includes construction related soft costs, permit fees and general contractor load, bond and insurance.
- Change the residual receipts split from 60/40 (Borrower/LAHD) to 80/20 for the first 15 years and then back to 60/40 for the remaining years respectively.
- Include language in the loan agreement that, should a capital transaction occur at any time, then residual receipts split shall change to 50/50. This enables the City's residual receipts split to automatically be increased from 20% to 50% during the first 15 years and go from 40% to 50% after the first 15 years.
- LAHD to change the loan simple interest rates from 5% and 7% to 3% moving forward. This reduces the future debt burden on the project.
- LAHD to subordinate its existing loans to the new senior loan. LAHD to use the current City contract provisions as applicable to loan documents and related agreements.
- The LAHD affordable housing covenant referenced above shall remain senior to the HUD FHA loan and shall survive any foreclosure of the HUD FHA loan. This ensures that affordability will be protected and will continue at the property in the event of a foreclosure action.
- Borrower be allowed to admit a 501 (c) (3) subject to LAHD's approval as the New MGP.
- Any other technical adjustments which may be required or deemed appropriate by the Office of the City Attorney.

The new loan proceeds would pay for the following:

1st Mortgage Payoff	$ 2,744,395.00
Transaction Costs	$ 375,000.00
Capital Improvements	$ 9,000,000.00
Initial Deposit & Replacement	$ 1,000,000.00
Owner Payment -return (50%)	$ 5,000,000.00
CRA/HDG Payment (50%)	$ 5,000,000.00
Total:	$ 23,119,395.00

Note: Based on current climate of rising interest rates, the total loan amount may be less than the $23MM anticipated amount. Accordingly this will decrease the 50/50 distribution to the borrower and LAHD.

<u>Analysis</u>

LAHD compared the net proceeds based on the original loan terms to the proposed changes and determined that LAHD will receive $5,000,000 upfront that it would not have otherwise received should the borrower have decided not to refinance and modify the loan terms. By refinancing and modifying the original loan terms, LAHD will receive an additional $1,675,000 – more than just refinancing and adhering to the original net proceeds loan language.

Should the borrower have not proposed a new property rehabilitation loan, then the projected LAHD residual receipts income is estimated to total $1,404,098 over the next 6 years based on the existing 40/60 residual receipts split. This amount is significantly less than the $5,907,8644 to be received in the next 6 years including the upfront payment of $5,000,000 and property rehabilitation.

The borrower/property owner envisions $9 million worth of property rehabilitation. The funds will first address bringing up the property to current ADA requirements; then to address issues such as building upgrades, new roofing, new exterior siding, kitchen upgrades, and additional work identified in a pending property needs assessment report provided (to the extent of available funds). This includes converting an unused preschool space to a community room and additional rooms to provide tenant services. This would bring new life to an existing 30-year old building as well as increasing the quality of life to its tenants while not requiring any funding from LAHD.

Conclusion

LAHD's loan will mature in eight more years. However, LAHD has determined that it would not be a prudent decision to wait for the loan to be paid off at maturity, nor would it align with LAHD's mission of providing affordable housing. The opportunity to provide affordable housing for the next 35 years outweighs the financial interests of LAHD being repaid its outstanding loan in the near future. The direct financial benefits to LAHD do not worsen as a result of this transaction. Rather, the $5,000,000 of upfront distribution provides LAHD compensating financial benefits. LAHD also obtains greater protection of the affordability covenants, which will continue to remain on the property in the event of a foreclosure. The building will be greatly enhanced by a needed capital infusion to bring the building up to current ADA standards as well needed rehabilitation that will ultimately benefit the tenants. Additionally, given the current housing crisis in the City, LAHD supports extending and amending the existing loan agreement with the Strathern Park limited partnership for an additional 28 years while continuing to provide affordable housing to low- and moderate-income families for the next 35 years, with annual residual receipts payments to the City.

FISCAL IMPACT

There is no fiscal impact to the General Fund.

Approved By:

Ann E. Sewill

ANN SEWILL
General Manager
Los Angeles Housing Department