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City of Los Angeles



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LOS ANGELES HOUSING DEPARTMENT
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July 22, 2024

Council File: 20-1096
Council Districts: 6
Contact Persons: Nancy Remo (213) 766-8819
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Honorable Members of the City Council
City of Los Angeles
c/o City Clerk, City Hall
200 N. Spring Street
Los Angeles, CA 90012

COUNCIL TRANSMITTAL: REQUEST FOR AUTHORITY TO ISSUE A SUPPLEMENTAL TAX-EXEMPT MULTIFAMILY CONDUIT REVENUE NOTE IN THE AMOUNT UP TO \$1,100,000; AND EXECUTE RELATED FINANCING DOCUMENTS FOR OATSIE'S PLACE, A SUPPORTIVE HOUSING PROJECT.

SUMMARY

The General Manager of the Los Angeles Housing Department ("LAHD") respectfully requests authority to issue, supplemental to the allocation award to the Project in Resolution No. 20-124 adopted on September 16, 2020, \$1,100,000 of tax-exempt multifamily conduit revenue note for the development of Oatsie's Place ("Project"). The Project consists of a 46-unit development located at 16015 Sherman Way, Los Angeles, CA, 91406 in Council District 6, being developed by Decro Corporation and Daylight Community Development, with a total development cost of \$24,706,945 and a per-unit HHH subsidy of \$136,957. The California Debt Limit Allocation Committee ("CDLAC") has designated November 04, 2024 as the note issuance deadline date for the Project.

RECOMMENDATIONS

- I. That the City Council, subject to the approval of the Mayor:
 - A. CONSIDER the TEFRA Minutes, provided as Attachment A to this report, held on June 7, 2024 for Oatsie's Place project;
 - B. ADOPT the TEFRA and Note Resolution, provided as Attachment B to this report, approving and authorizing the issuance of up to \$1,100,000 of newly allocated tax-exempt note which is supplemental to the \$11,037,000 existing note, resulting in an outstanding principal amount not to exceed of \$12,137,000 of tax-exempt multifamily conduit revenue note;

- C. AUTHORIZE the General Manager of LAHD, or designee, to negotiate and execute the relevant note documents for the Project, subject to the approval of the City Attorney as to form

BACKGROUND

Project Summary

The proposed supportive housing development is located at 16015 Sherman Way, Los Angeles CA 91406 in Council District 6, in the Lake Balboa Community. The development entails the demolition of a vacant office building and new construction of a four-story apartment building. The building will be constructed utilizing steel modular construction (Type VA); and is expected to be wrapped with fiber cement siding to provide the project with an elegant façade. When completed, the project will provide a total of 46 housing units (45 affordable housing units plus 1 manager's unit). The proposed Project's unit mix includes 20 studios, 25 one-bedroom units and 1 two-bedroom manager's unit. All of the 45 affordable units will be targeted to households at or below 50% of the Area Median Income (AMI).

The target population is women experiencing chronic homelessness and victims of domestic violence. The project amenities will include one elevator, three on grade parking spaces (two for handicap use), community spaces, service offices, security gates, a robust security system, a large open-air central courtyard, case management offices, a conference room, a laundry room, a learning center, and bicycle storage. Balconies are excluded as a measure for privacy and security. Supportive Services will be provided by Downtown Women's Center, through LA County Department of Health Services. Trillium Property Management will provide property management services to ensure tenants receive the support needed to remain housed and stable.

The funds resulting from the Supplemental note proceeds will fund compliance measures imposed by both the lender and investor.

Construction of Oatsie's Place commenced during the COVID-19 pandemic, which resulted in significant delays. Construction costs and interest rates increased during the period; and the extended construction period has resulted in increases to hard costs and construction loan interest carry. In addition, the project sustained water damage due to heavy rains in early 2022. The construction is still ongoing and currently completed at 77%. The supplemental allocation being requested is necessary to meet the 50% test and maintain the tax-exempt status of the bonds and eligibility for low-income housing tax credits.

Financing History

On April 29, 2020 LAHD executed an inducement letter in then amount not to exceed \$ 13,797,356. The letter evidenced the official intent of the City to issue its bonds for the development. The letter was executed per previous authority granted to LAHD by the City Council and Mayor (C.F. No. 04-2646). On June 11, 2020, on behalf of 16015 Sherman, L.P. (Borrower), LAHD submitted a bond application to CDLAC requesting a \$11,037,885 allocation which was awarded on September 16, 2020. A copy of the inducement letter and evidence that the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) requirements have been met were

included as part of the bond application. Per the TEFRA requirements on September 8, 2020, a TEFRA Resolution was approved by the City Council and the Mayor (C.F. No. 20-1096). The TEFRA Resolution summarized that a public hearing was publicized, took place and the hearing minutes were provided to the City Council and Mayor.

On May 6, 2024, Resolution # 24-111 was approved by the Executive Director within the parameters of CDLAC regulations granting the City of Los Angeles, to apply \$1,100,000 of its 2022 Carryforward Allocation for Oatsie's Place. This allocation is supplemental to the allocation awarded to the Project in Resolution No 20-124 adopted on September 16, 2020.

Sources and Uses

Tables 1, 2, and 3, below, provide a summary of the sources and uses for the Project, including cost per unit and cost category percentages.

TABLE 1 – CONSTRUCTION SOURCES			
Construction	Total Sources	Per Unit	% Total
Tax-Exempt Loan	\$12,137,000	\$263,848	49%
Taxable Loan	\$668,468	\$14,532	3%
CSH Bridge Loan	\$2,000,000	\$43,478	8%
LAHD HHH Loan	\$6,300,000	\$136,957	26%
Total Tax Credit Equity	\$1,300,000	\$28,261	5%
Deferred Developer Fee	\$1,544,288	\$33,571	6%
Deferred Cost	\$757,089	\$16,458	3%
General Partner, Capital	\$100	\$2	0%
TOTAL	\$24,706,945	\$537,108	100%

TABLE 2 – PERMANENT SOURCES			
Permanent	Total Sources	Per Unit	% Total
Tax Credit Equity	\$7,228,312	\$157,137	29%
LAHD HHH Loan	\$6,300,000	\$136,957	26%
Permanent Funding Loan	\$10,178,533	\$221,272	41%
Deferred Developer fee	\$1,000,100	\$21,741	4%
TOTAL	\$24,706,945	\$537,108	100%

TABLE 3 – USES OF FUNDS			
Uses of Funds	Total Uses	Cost/Unit	% TDC
Acquisition Costs	\$2,227,530	\$48,425	9%
Construction Hard Costs	\$12,671,254	\$275,462	51%
Architecture & Engineering	\$1,373,390	\$29,856	6%
Construction Interest Fees & Expenses	\$3,525,485	\$76,641	14%
Permanent Financing Costs	\$100,000	\$2,174	0%
Total Hard Contingency Costs	\$850,000	\$18,478	3%
Total Soft Contingency Costs	\$200,000	\$4,348	0%
Legal Costs	\$235,000	\$5,109	2%
Total Reserve Costs	\$206,356	\$4,486	1%
Permits and Local Fees	\$332,532	\$7,229	2%
Developer Fee	\$1,937,181	\$42,113	8%
Other Projects Costs	\$1,048,217	\$22,787	4%
Relocation Costs	\$0	\$0	0%
TOTAL	\$24,706,945	537,108	100%

Labor Costs

Labor costs for the Project are subject to California prevailing wage requirements, and/or federal wage requirements under the Davis–Bacon Act of 1931 and Related Acts, as applicable.

Affordability Restrictions

Pursuant to the City’s Affordable Housing Bond Policies & Procedures (“AHBPP”) for Private Activity Bonds for Multifamily Rental Properties, approved September 24, 2019, the Project must provide long-term affordable housing in the City of Los Angeles. Therefore, in connection with the issuance of the tax-exempt bond(s) or note(s), one or more Bond Regulatory Agreements will be executed and recorded in the official records of the Los Angeles County Recorder’s Office. Each Bond Regulatory Agreement will include affordability restrictions throughout a term ending no sooner than the later of: 1) 15 years after the date on which 50% of the dwelling units are first occupied; 2) the date such bond(s) or note(s) are paid in full; or, 3) the date on which any Section 8 assistance terminates, if applicable. In addition to the above, the bond award includes a CDLAC Resolution, which requires that the Project’s affordable housing units remain affordable for 55 years.

Additionally, on September 16, 2020, the Project was awarded an allocation of 4% Low Income Housing Tax Credits (“LIHTC”) from the California Tax Credit Allocation Committee (“CTCAC”). On February 09, 2021, Council approved this Project for Proposition HHH funding. As a result of this award, the project will have affordability restrictions for a term of 55 years. Affordability restrictions mean that for at least 55 years at least 100% of the units have to be rented at or below 50% of the area median income. Please see Table 4 for the specific affordability restrictions.

All of the 45 residential units will be targeted to households at or below 50% of Area Median Income (AMI). The target population will be as follows: 100% of the units will be targeted to women experiencing homelessness and victims of domestic violence; 50% of the total units will be targeted to the chronically homeless.

Table 4, below provides a summary of the project unit mix pursuant to the CDLAC resolution.

TABLE 4 – CDLAC AFFORDABILITY RESTRICTIONS			
Unit Type	Units at or below 50% AMI	Un-restricted (Manager's Unit)	Total Number of Units
Studio	20	0	20
One-Bedroom	25	0	25
Two-Bedroom	0	1	1
Total	45	1	46

In addition, project rents will be restricted with a 55-year covenant of rents below 50% of area median income as a project receiving HHH funds, as described earlier on February 09, 2021 in C.F. No. 20-1096.

Development Team

The Borrower is 16015 Sherman, L.P. a California limited partnership, comprised of Decro Sherman, LLC as the Managing General Partner, Daylight Sherman, LLC an Angelino Supportive Housing Partners, LLC as the co-Administrative General Partners (GP) having .45%, .45% and .1% ownership interest, respectively, and R4 Capital, LLC as the Limited Partner, having 99% interest. The Borrower is currently in compliance with LAHD's Business Policy (C.F. No. 99-1272).

The Key Staff members for Decro Corporation, as the Lead Developer are: Ted Handel, CEO and Nicole Wilick, Project Manager. Decro Corporation, a California nonprofit corporation, has previously been, or is currently involved with, the development of 20 multifamily rental housing projects consisting of over 1,030 housing units.

The Key Staff members of Daylight Sherman, LLC include Sonya Falcone (Partner), Greg Comanor (Partner) and Aaron Sassounian (Partner).

Borrower: 16015 Sherman, L.P.
3431 Wesley Street, Suite F
Culver City, CA 90232
Contact: Greg Comanor, Partner
Phone: (818) 400-1510

Additional Project development team members are:

Lead Developer: Decro Corporation
3431 Wesley Street, Suite F

Culver City, CA 90232
Contact: Ted Handel, CEO
Phone: (310) 959-4421

Developer: Daylight Community Development
806 Westmount Dr, Unit 2
West Hollywood, CA 90069
Contact: Greg Comanor, Partner
Phone: (818) 400 - 1510

Developer: Angelino Supportive Housing Partners
5600 W Jefferson Boulevard
Los Angeles, CA 90016
Contact: Brian Mikhail, Member
Phone: (310) 666-6860

Architect: Studio 111
245 East Third Street
Long Beach, CA 90802
Contact: Michael Bohn
Phone: (562) 901-1500

Attorney: Law Offices of Patrick R. Sabelhaus
1724 10th Street, Suite 110
Sacramento, CA 95811
Contact: Steve Strains
Phone: (916) 444-0286

General Contractor: Howard CDM
3750 Long Beach Blvd. Suite 200
Long Beach, CA 90807
Contact: Martin Howard
Phone: (562) 427-4124

Property Manager: Trillium Property Management
3187 Red Hill Avenue, Suite 220
Costa Mesa, CA 92626
Contact: George Garcia
Phone: (916) 358-7299

Tax Credit Investor: R4 Capital, LLC

780 Third Avenue, 16th Floor
New York, NY 10017
Contact: Marc Schnitzer
Phone: (602) 793-2256

Financial Structure

The City, as "Issuer", will issue up to \$12,137,000 of tax-exempt notes (the "Notes"), the proceeds of which will be used to fund a loan to the Borrower to finance a portion of the acquisition, construction and equipping of the Project. The Notes will be unenhanced and unrated but subject to the City's AHBPP, in one or more series. The Notes will be privately placed with Citibank, N.A. (the "Funding Lender"). The Funding Lender will purchase the Notes in an amount up to \$12,137,000 pursuant to the terms of two Funding Loan Agreements, both among the Issuer, the Funding Lender, and U.S. Bank Trust Company, National Association as fiscal agent (the "Fiscal Agent") (together, the "Funding Loan Agreement"). The proceeds of the Notes will be loaned to the Borrower in the amount not to exceed \$12,137,000 (the "Construction Loan"), pursuant to the terms of two Borrower Loan Agreements both between the Issuer and the Borrower. The Construction Loan will convert to a permanent loan in an amount not to exceed \$10,178,553 (the "Permanent Loan"). The Borrower will execute one or more promissory notes (the "Promissory Note") to evidence its obligation to repay the Construction Loan and Permanent Loan. The Issuer will assign the Promissory Note to a to the Fiscal Agent, as security for the Notes. Among its various functions, the Fiscal Agent will receive funds advanced by the Funding Lender in exchange for additional principal amount of the Notes and release such funds to the Borrower for Project construction. The Construction Loan will have a term of 24 months (from May, 2021) with Three (3) six-month extension options. The Construction Loan will have a preliminary rate currently estimated to be 7.7%.

At conversion from construction financing to permanent financing, the taxable portion of the construction loan will be paid in full and the Construction Loan will be paid down in part with sources available at the permanent financing phase, including investor equity. Concurrently, the tax-exempt Permanent Loan of \$6,874,040 (subject to an increase of up to \$10,178,533 upon satisfaction of certain earn-out requirements) with Citibank, N.A. will convert to an amortizing loan and will have a 30-year amortization, due in 18 years, with \$6,874,040 bearing interest at the fixed interest rate of 4.66% and an earn out amount of up to \$3,3304,493 bearing interest at a preliminary estimated rate of 6.51%.

The financing structure will include financing or loans from the Proposition HHH Permanent Supportive Housing Loan Program ("HHH", see C.F. No.17-0090-S8); CSH Bridge Loan and 4% federal tax credit equity; State tax credit equity and the Housing Authority of the City of Los Angeles ("HACLA") Section 8 Project Based Voucher rental subsidy programs.

LAHD requires that the Funding Lender meet the City's Responsible Banking Ordinance #182138 reporting requirements. At closing, bond counsel will provide the required legal opinions as to the tax-exempt status of the interest on the Notes, under federal and state law. The legal and financing documents will include language that establishes the note structure as a limited obligation and strictly payable from Project revenues. The Project

financing complies with both the City's AHBPP and Financial Policies. Additionally, the legal and financing documents will require the Borrower to provide annual statements and information as requested by LAHD.

LAHD's Bond Team for the financing of the Project is as follows:

Bond Issuer Municipal Advisor:	CSG Advisors, Inc. 315 W. 5 th Street, Suite 302 Los Angeles, CA 90013
Bond Issuer Counsel:	Los Angeles City Attorney 200 N. Spring Street, 21st Floor Los Angeles, CA 90012
Bond Counsel:	Kutak Rock LLP 777 S. Figueroa Street, Suite 4550 Los Angeles, CA 90017

FISCAL IMPACT

There is no fiscal impact to the General Fund as a result of the issuance of the Notes. The City is a conduit issuer and will not incur liability for repayment of the Notes. The Notes are limited obligations, payable strictly from revenue derived from the Project. The City will not be obligated to make payments on the Notes.

Approved By:



ANN SEWILL
General Manager
Los Angeles Housing Department

ATTACHMENTS:

Attachment A- TEFRA minutes
Attachment B- Bond Resolution
Attachment C- Funding Loan Agreement
Attachment D- Project Loan Agreement
Attachment E- Regulatory Agreement