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Council File: New
Council Districts: 1, 2
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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: LOS ANGELES HOUSING DEPARTMENT REQUEST FOR AUTHORITY TO AMEND LOAN AGREEMENTS WITH LOS ANGELES FAMILY HOUSING

SUMMARY

The General Manager of the Los Angeles Housing Department (LAHD) respectfully requests authority to amend the terms of the loan agreements with Los Angeles Family Housing (LAFH), for the purpose of stabilizing affordable housing properties, providing a regulatory agreement for affordability in six (6) restricted units at the Strong Residence, and extending affordability in 18 restricted units at Harmony Place Apartments. This report outlines the authorization necessary to amend the terms of the loan agreements, create a regulatory agreement (Strong Residence), and amend the terms of a regulatory agreement (Harmony Place Apartments).

RECOMMENDATIONS

I. That the City Council, subject to the approval of the Mayor:

   A. AUTHORIZE the General Manager of LAHD, or designee, to negotiate and execute all documents required for Strong Residence and Harmony Place Apartments;

   B. INSTRUCT the City Attorney to prepare all necessary documents, including but not limited to a recasting of project debt and modification of a loan agreement (and/or amendments and restatements of any necessary documents) to preserve and support affordable housing projects on the Strong Residence property by extending the loan maturity date by twenty-three (23) years from July 8, 2022 to June 10, 2045; and,

   C. INSTRUCT the City Attorney to prepare all necessary documents, including but not limited to a recasting of project debt and modification of a loan agreement (and/or amendments and restatements of any necessary documents) to preserve and support affordable housing projects on the Harmony Place Apartments property by extending the loan maturity date by eighteen (18) years from November 18, 2022 to September 20, 2040 and updating the reserve requirements to be consistent with current LAHD standards; and,

D. AUTHORIZE any other technical adjustments to the loan agreement and other documents as deemed necessary by the City Attorney to implement the changes outlined in this transmittal.

BACKGROUND

In April of 2013, the General Manager of LAHD signed and fully 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 two properties owned by LAFH, Strong Residence and Harmony Place Apartments.

Strong Residence

In 1990, CRA/LA entered into a Disposition and Development Agreement ("DDA"), a Promissory Note, Deed of Trust, and Ground Lease with L.A. Family Housing Corporation ("LAFH", Assignor) to relocate and rehabilitate six (6) units to 826 Coronado Street, a site owned by CRA/LA. The Deed of Trust was executed on October 5, 1990 and included a loan amount of $908,901. On December 16, 1991, CRA/LA increased the loan amount by $90,810 for additional rehabilitation costs with a First Implementation of DDA for a total loan amount of $999,711. The ground lease was executed on October 5, 1990 for a 55-year term with an option to renew for an additional 44 years upon expiration. The 55-year term expires on June 10, 2045. The Deed of Trust and Memorandum of Ground Lease currently remain on title.

There is no separate affordability covenant for the property. Unit affordability appears in Section IV A(401)3(a) of the DDA and in Section V(A)(3)(a) of the Ground Lease. The affordability term restricts 100% of the six (6) units to very low-income households whose income does not exceed 50% of the area median income for a 55-year affordability period with the affordability expiring on June 10, 2045. LAHD will create a regulatory agreement for six (6) units of very low-income households whose income does not exceed 50% of the area median income with the affordability expiring on June 10, 2045.

Harmony Place Apartments

On October 4, 1991, CRA/LA entered into a loan agreement, a Promissory Note, and Deed of Trust with L.A. Family Housing Corporation ("LAFH", Assignor) for $2,291,000 to construct 18 two-bedroom units at 5321 Harmony Drive. LAHD records indicate that the principal balance on the loan was $1,591,000 at the time of the asset transfer from CRA/LA. The loan was issued in the form of a residual receipt loan with a 30-year term with a three percent simple interest rate. The residual receipt split was 50% to CRA/LA and 50% to LAFH. The loan matured on November 18, 2022.

The Agreement Containing Covenants Affecting Real Property (regulatory agreement) restricts 100% of the 18 units to very low-income (50% of the area median income), low-income (80% of the area median income), and moderate income (120% of the area median income) households for a 30-year affordability period. The affordability for the property expired on September 20, 2020. LAHD will extend the regulatory agreement by twenty (20) years for eighteen (18) units of very low-income, low-income, and moderate income households from September 20, 2020 to September 20, 2040.

Request

Strong Residence

For Strong Residence, LAHD is requesting the authority to extend the loan term to be coterminous with the ground lease and to create a regulatory agreement that is coterminous with the ground lease. The repayment of the LAHD loan and the ground lease rent is in the form of residual receipts payments. LAHD's residual receipts for Years 2021-2024 reflect that LAHD calculated $17,625 for 2024, $20,910 for 2023, $1,766 for 2022, and $19,820 for 2021. LAHD's residual receipt for Year 2020 reflects that the project experienced a negative cash flow. LAFH does not share any of the positive cash flow, 50% of the residual receipts payments, if any, are applied to the LAHD residual receipt loan payment and the remaining 50% is applied to the ground lease payment. Based on LAHD's analysis, the project cannot pay off the existing LAHD debt or refinance the debt due to low cash flows. The proposed changes to the existing LAHD loan terms are as follows:

- Extend the loan maturity date by twenty-three (23) years from July 8, 2022 to June 10, 2045.
- Complete any other technical adjustments that may be required or deemed appropriate by the Office of the City Attorney.

Harmony Place Apartments

For Harmony Place, LAHD is requesting the authority to extend the loan term 18 years and the regulatory agreement 20 years to be coterminous. The repayment of the LAHD loan is the form of residual receipts payments. LAHD's residual receipts for Years 2020-2022, 2024 reflect that the project experienced negative cash flow. Year 2023 reflects that the project generated $31,409 in residual receipts. Fifty percent (50%) of residual receipts go to the borrower and 50% goes to LAHD. Based on LAHD's analysis, the project cannot pay off the existing LAHD debt or refinance the debt due to negative cash flows. The proposed changes to the existing LAHD loan terms are as follows:

- Extend the loan maturity date by eighteen (18) years from November 18, 2022 to September 20, 2040.
- Update the reserve requirements to be consistent with current LAHD standards.
- Complete any other technical adjustments that may be required or deemed appropriate by the Office of the City Attorney.

In conclusion, the requested loan modifications will provide a pathway to stabilizing both project's cash flow while protecting the affordability of the 24 very low-income, low-income, and moderate income units.

FISCAL IMPACT

There is no impact to the General Fund.

Approved By:

TIENA JOHNSON HALL
General Manager
Los Angeles Housing Department