TRANSMITTAL

To:	**THE COUNCIL**	Date:	**06/20/24**
From:	**THE MAYOR**		

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.

(Carolyn Webb de Macias for)
KAREN BASS
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

Karen Bass, Mayor

LOS ANGELES HOUSING DEPARTMENT
1910 Sunset Blvd, Ste 300
Los Angeles, CA 90026
Tel: 213.808.8808

housing.lacity.org

June 5, 2024

Council File:	23-0038-S4	
Council Districts:	Citywide	
Contact Persons:	Elizabeth Selby	213.256.2336
	Daniel Huynh	213-808-8901

Honorable Karen R. Bass
Mayor, City of Los Angeles
Room 303, City Hall
200 N. Spring Street
Los Angeles, CA 90012

Attention: Heleen Ramirez, Legislative Coordinator

COUNCIL TRANSMITTAL: LOS ANGELES HOUSING DEPARTMENT REQUEST FOR AUTHORITY TO PROVIDE GAP FINANCING FOR THE LA GUADALUPE AND INGRAHAM VILLA APARTMENTS PROJECTS

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 authority to increase the loan amount for two permanent supportive housing projects, La Guadalupe and the Ingraham Villa Apartments totaling 163 affordable housing units. Additional funds will ensure that these projects reach project occupancy and stabilization.

RECOMMENDATIONS

I. That the Mayor review this transmittal and forward to the City Council for further action;

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

   A. AUTHORIZE the Controller to add sufficient funds to both the La Guadalupe and Ingraham Villa Apartments projects in order to close the financing gaps;

      i. Authorize the General Manager of LAHD, or designee, to obligate and disburse $3,500,000 in SB2/64R, 43W723 - Rental New Construction for the Ingraham Villa Apartments project.

ii. Authorize the General Manager of LAHD, or designee, to obligate and disburse $1,593,457.50 in HOME/561, account 43V800 – AHMP and, $1,294,301.50 in HOME/561, account 43W800 – AHMP for the La Guadalupe project.

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

C. AUTHORIZE the General Manager of LAHD, or designee, to prepare Controller instructions and any necessary technical adjustments consistent with Mayor and City Council actions, subject to the approval of the City Administrative Officer (CAO), and instruct the Controller to implement the instructions.

BACKGROUND

The Department has released over $100 million in gap financing over the past year between two rounds of Fast Track and the addition of the ULA Accelerator Plus program. Many projects have been faced with enormous challenges related to increased construction loan interest, increased materials costs, and project delays due to COVID. Both Ingraham Villas Apartments and La Guadalupe have faced the same challenges as other projects in this lending environment.

This transmittal seeks to add sufficient funds to both the La Guadalupe and Ingraham Villa Apartments projects in order to close the financing gaps. The attachments included are detailed Staff Reports demonstrating the need for additional funding.

Both projects exhausted efforts to resolve their financing gaps. The projects applied for the ULA Accelerator funding and were highly ranked, but were determined to be not eligible because although they both had Project Labor Agreements, as required in the Accelerator and ULA guidelines, the La Guadalupe project did not have the approved PLA that complied with the ULA requirements, and the Ingraham Villa Apartments had substantially completed construction. As an alternative solution, LAHD is submitting this request to Council for supplemental funding so that both projects can finish all work, repay high interest rate construction loans and convert to permanent financing.

Because the department has already invested a combined amount of $29.2M for both projects, LAHD recommends providing additional gap financing. This will ensure the units of housing can be occupied quickly and the projects can stabilize. Both projects have fully exhausted other funding sources privately and publicly. The gap financing provided through this action will allow the projects to complete construction and convert to permanent financing.

FISCAL IMPACT

There is no impact to the General Fund.

Approved By:

ANN SEWILL
General Manager
Los Angeles Housing Department

ATTACHMENTS:

Attachment A: Ingraham Village Apartments Staff Report
Attachment B: La Guadalupe Staff Report

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

Karen Bass, Mayor

LOS ANGELES HOUSING DEPARTMENT
1200 West 7th Street, 9th Floor
Los Angeles, CA 90017
Tel: 213.808.8808

housing.lacity.org

Ingraham Villa Apartments
Staff Report

Recommended Loan

The request for Additional Gap Financing being recommended for Ingraham Villa Apartments is $3,500,000 for a total LAHD loan investment of $15,500,000. The Additional Gap Financing loan amount will represent a cost of $28,926 per unit and 5.4% of the Total Development Cost. The LAHD funds are leveraged primarily by equity proceeds from 4% low-income housing tax credits and the other permanent funding sources outlined below.

Project Description

Ingraham Villa Apartments (the "Project") completed construction in May 2023. The five-story building is located at 1230 Ingraham Street, Los Angeles in Council District 1. The building consists of 120 affordable studio rental apartment units and one one-bedroom manager's unit. Forty-five (45) of the units have been occupied by formerly chronically homeless individuals at or below 30% Area Median Income (AMI), and forty-five (45) of the units have been occupied by formerly homeless individual with special needs at or below 30% AMI. The remaining thirty (30) units are restricted to individuals at or below 50% AMI. Ninety (90) of the units are PSH units and are subsidized by project-based vouchers administered by the Housing Authority of the City of Los Angeles (HACLA).

The Project received its Temporary Certificate of Occupancy (TCO) on October 19, 2023. The Certificate of Occupancy (CO) was issued on January 3, 2024. Since CO, the Project has achieved 100% Qualified Occupancy and all parties are working to complete Permanent Finance Conversion by August 1, 2024.

The additional funds will help to relieve the additional burden on the project and developer from the cost increases discussed below.

Project Cost Increase

Since the project's construction financing closed in August 2020, there have been three key factors that have contributed to the need for supplemental funding:

> Construction Loan Interest: The first factor was the increase in construction loan interest and fee by nearly $2.8 million. Whereas, the overall development cost increased by $2.94 million. Interest rates increased dramatically over the Ingraham Apts. construction period, and since construction loans have floating rates, the monthly interest charges were much higher than had been projected. The project construction was delayed because of pandemic and supply chain issues, multiple delays with City of Los Angeles inspections and Department of Water and Power (DWP) meter installation.

Reduction of Permanent Loan Amount: The second factor was the decrease of the permanent loan. At initial construction closing, the bid from the insurance company for the property and liability insurance was approximately $70,000. The most recent insurance invoice is $440,000. Therefore, there is $370,000 less per year available for debt service impacting the Permanent Loan. The second reason for the reduced permanent loan is that interest rates for Ingraham went up from 4.00% at construction closing to 6.75% today.

Downward Equity Adjuster: The third factor was the reduction in tax credit equity. In the case of Ingraham Villa Apartments, the project is over a year behind schedule in construction and lease up due to factors described in the project narrative. The new projected amount of equity is $786,593 than had originally been projected.

(The project's financials follow this report)

Construction Sources

Construction Sources	**Construction Closing Sources (August 2020)**	**REVISED Sources (April 2024)**	**Revised Sources/unit**	**$ Variance**	**% Variance**
Construction Loan	$32,500,000	$32,500,000	$268,595	$0	0%
LAHD Prop HHH Loan	$610,839	$1,504,351	$12,433	$893,512	146.3%
LAHD Additional Gap Financing Loan	$0	$0	$0	$0	N/A
LAHD Deferred Construction Interest	$0	$378,745	$0	$378,745	N/A
Deferred Costs	$ 615,701	$228,505	$1,888	$228,505	-62.89%
Capitalized Operating Reserves	$0	$1,742,292	$14,399	$1,742,292	N/A
Deferred Developer Fee	$1,000,000	$1,625,000	$13,430	$625,000	62.50%
Federal Home Loan Bank Affordable Housing Program	$1,500,000	$1,500,000	$12,397	$0	0%
LACDA No Place Like Home	$15,000,000	$15,000,000	$123,967	$0	0%
LACDA Housing Trust Fund	$1,950,000	$4,950,000	$40,909	$3,000,000	153.85%
LACDA Mental Health Housing Program	$3,000,000	$0	$0	-$3,000,000	-100%
Tax Credit Limited Partner Equity	$5,144,000	$5,144,000	$42,512	$0	0%
Total	**$61,320,540**	**$64,572,893**	**$533,660**	**$3,252,353**	**5.3%**

Permanent Sources

Permanent	Construction Closing Sources (August 2020)	REVISED Sources (April 2024)	Revised Sources/unit	$ Variance	% Variance
Tax Exempt Bond Perm Loan (CCRC)	$7,281,000	$7,000,000	$57,851	-$281,000	-28.58%
Taxable Bond Tranche B Permanent Loan	$0	$0	$0	N/A	N/A
Federal Home Loan Bank Affordable Housing Program	$1,500,000	$1,500,000	$12,397	$0	0%
Deferred Interest on County and City Loans	$0	$315,563	$12,397	$0	0%
LAHD Prop HHH Loan	$12,000,000	$12,000,000	$99,173	$0	0%
LAHD Additional Gap Financing Loan	$0	$3,500,000	$28,926	$3,500,000	N/A
LACDA No Place Like Home	$15,000,000	$15,000,000	$123,967	$0	0%
LACDA Housing Trust Fund	$2,000,000	$5,000,000	$41,322	$3,000,000	150%
LACDA Mental Health Housing Fund	$3,000,000	$0	$0	-$3,000,000	-100%
Tax Credit Limited Partner Equity	$20,539,540	$19,752,947	$163,247	-$786,593	-3.8%
Deferred Developer Fee	$0	$504,383	$4,168	$504,383	N/A
Total	**$61,320,540**	**$64,572,893**	**$533,660**	**$3,252,353**	**5.3%**

Uses

Uses of Funds	Total Uses (August 2020)	Revised Uses (April 2024)	Revised Uses/Unit	$ Variance	% Variance
Acquisition Costs	$8,450,000	$8,518,575	$70,401	$68,575	0.81%
Construction Hard Costs	$34,506,117	$37,683,477	$311,434	$3,177,360	9.2%
Architecture & Engineering	$1,866,985	$1,657,915	$13,702	-$209,070	-11.20%
Construction Interest Fees/ Expenses	$3,958,978	$7,836,262	$64,763	$3,124,179	78.91%
Permanent Financing Costs	$377,029	$316,934	$2,619	-$60,095	-15.94%
Total hard & Soft Contingency Costs	$3,756,034	$0	$0	-$3,756,034	-100%
Legal Costs	$149,500	$309,618	$2,559	$160,118	107.10%
Capitalized Reserves	$1,412,160	$1,742,292	$14,399	$330,132	23.38%
Permits and Local Fees	$1,052,870	$918,513	$7,591	-$134,357	-12.76%
Developer Fee	$2,500,000	$2,500,000	$20,661	$0	0%
Other Project Costs	$3,290,867	$3,089,307	$25,531	-$201,380	-6.1%
Total	**$61,320,540**	**$64,572,893**	**$533,660**	**$2,252,353**	**5.3%**

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

Karen Bass, Mayor

LOS ANGELES HOUSING DEPARTMENT
1910 Sunset Blvd, Ste 300
Los Angeles, CA 90026
Tel: 213.808.8808

housing.lacity.org

La Guadalupe
Staff Report

Recommended Loan

The request for $2,887,759 HOME funds is being recommended for La Guadalupe for a total revised loan amount of $11,870,602. It represents a combination of the new funds and a prior award of Proposition HHH funds in the amount of $8,982,843. The HOME loan amount will represent a cost of $276,061 per restricted unit and 28.89% of the total development cost. In addition, $946,084 in accrued Los Angeles Housing Department (LAHD) construction period interest is being deferred. The LAHD funds are leveraged primarily by equity proceeds from the sale of 4% LIHTCs and the other permanent funding sources outlined below.

Project Description

La Guadalupe, also known as 1800 E. 1st Street, is a mixed-use project proposed for development at 1800 E. 1st St. Los Angeles, CA 90033, in the neighborhood of Boyle Heights. The land is owned by the City of Los Angeles and has been conveyed to the Borrower through a ground lease (C-139221). The Project will be a five-story building with a level of subterranean parking that will contain 24 residential parking spaces, six commercial spaces, and 38 long-term bike parking spaces. On the ground floor, there will be three commercial/retail for-lease spaces with over 6,500 square feet and 11 additional commercial parking spaces. Above the commercial component will be four floors of supportive housing. There will be 43 affordable units and one unrestricted, two-bedroom manager's unit. Of the 43 affordable units, 19 are studios, 19 are one-bedroom units, and 5 are two-bedroom units. The project is currently under construction and expects to be completed in March 2025. The addition of the HOME loan will help relieve the additional burden on the Project and developer from the cost increases discussed below.

Project's Cost Increase

La Guadalupe was identified as a Brownfield site and the City of Los Angeles, under a water board grant, conducted hazardous petroleum contamination remediation prior to the end of construction closing. However, once grading started at the site and mass excavation began, it became apparent that the soil on-site following the City's remediation efforts was still heavily contaminated due to the overwhelming presence of "gas" fumes.

This soil management practice significantly extended the projected time it would take to complete the excavation of the subterranean lot and has led to significant cost impacts as the handling of the contaminated soil came at a much higher cost than the hauling of the non-contaminated soil. As this work progressed it was discovered that a significant portion of the site was contaminated. The developer had anticipated receiving a clean site ready for standard soil excavation. This unexpected remediation work led to an 8-month delay in the critical path of construction.

Archaeological Discovery: On May 11, 2022, during excavation, the developer's archeological monitor identified what was believed to be an archeological find on the project site. It was confirmed that the find was pieces of pottery dating back to the late 1800s. The area was quarantined from the rest of the site so that work could continue. This area of the site was then under management of the developer's Archeological team as they conducted further excavation of the surrounding area utilizing specialized practices to protect any potential new discoveries. This unexpected archeological work led to a 4-week delay in the critical path of construction.

Borderline Hazardous Contamination: Delays compounded once excavation occurred to facilitate the subterranean garage and work started on the excavation for the building footings. It was found that the soil at this level had a much higher concentration of contamination. The personal protective equipment and specialty disposal skills necessary to perform further work required the developer to hire a new subcontractor outside of the grading subcontractor that was already engaged on the job. The process of sourcing a new contractor that was qualified, coordinating mobilization, and negotiating their contract only further delayed the excavation of the building footings. This unexpected footing remediation work led to a three-month delay in the critical path of construction.

Multiple Major Rain Events: Major rain events occurred during January and February of 2023 that flooded the footing excavations and rendered the exposed soil conditions on the project site unworkable. In addition to the site conditions being unworkable, there were concerns over the water that filled the site being contaminated by the soil and it was determined that a specialty crew would be necessary to pump the water from the footings and dispose of it at a qualified facility. This work resulted in an inability to progress critical path in any considerable amount for nearly two months.

Car Crash Incident: In February 2023, a car dived into the project's excavation pit striking one of the footing rebar structures and colliding into a concrete cistern. The damage to the footing required a complete rebuild and the cistern is no longer structurally sound. The cistern is a specialty item that took considerable time to reproduce and be delivered to the development.

Financing Impacts Due to Delays: Given that the schedule has significantly shifted since the initial Notice to Proceed was issued, most of the subcontracting offers of interest expired. The project had been bid on in July of 2021 and Notice to Proceed was released in December 2021. The project has been delayed over 14 months since then due to the soils conditions and subsequent work that was required along with the series of unconventional and unfortunate events that have occurred related to archaeology, rain, and the car crash incident. This has prevented the General Contractor, Dreyfuss Construction, from being able to buy out the original subcontractors as originally proposed. Due to this, there have been significant increases in costs for every trade as the General Contractor had to re-bid most of the subcontractors to accommodate the amended schedule. The new pricing is reflective of the chaotic state of the materials market and labor rate increases in the construction industry coupled with a limited amount of qualified union labor willing to bid on the job.

The existing Project Labor Agreement entered by the developer and general contractor as a voluntary commitment to supporting Union workers on this development significantly limited the available subcontractors that were eligible to work on the project. The borrower has had little success receiving competitive bids from the union subcontractor pool despite requesting assistance in sourcing potential parties from the various union trade halls. Most parties contacted provided substantially higher markups, were not interested in a project of this size, or simply did not respond. These subcontracting parameters reduced the general contractor's options significantly when trying to put together the most cost-effective construction budget.

The delay in scheduling and increases in costs have also yielded higher construction loan interest costs as the borrower looks to bring in additional financing at a time when interest rates are continually on the rise. The extended construction schedule creates a significantly higher total interest cost for the project as the interest carry will be much longer than had been originally projected.

In addition, there are numerous other aspects of the project that had to be extended as well due to the delays. The builder's risk and liability insurance policies will expire mid-construction now and will require renewal for another year.

The borrower is carrying several reoccurring monthly expenses such as owner's construction manager, Los Angeles County Metropolitan Transportation Authority (Metro) construction management, labor compliance monitoring, soils monitoring, shoring monitoring, site security, construction camera uplink service, contractor's general conditions, semi-annual trustee/bond service fees, real estate taxes, and architectural supervision costs for a longer duration than originally projected in the budget. The developer has had to hire specialty soils consultants that were not included in the original budget. There were costs associated with the removal, study and documenting of the archeological find. Several building permits and associated bonds pertaining to the project are expiring soon and will need to be renewed. Finally, there are significant legal and other closing costs associated with the two supplemental bond closings and the various financial restructuring actions such as transactional costs with bringing in additional funding.

The greatest cost factors of those listed above are the renegotiation of the subcontractors involved in the construction of the project and the costs impacted by a monthly rate such as construction management, interest carry, permits and insurance. All these costs together add approximately $12,971,643 to the total development costs and increase the cost per unit by $294,810.

Priority

The date scheduled to be placed-in-service for La Guadalupe is March 14, 2025. In order to ensure that this timeline is met, it is critical that the project not incur any more construction delays. By providing supplemental funds to close the project's financial gap, the project will meet its placed-in-service deadline.

(The project's financials follow this report

TABLE 1. - CONSTRUCTION SOURCES

Construction	Construction Closing	Revised Source	Revised Source/unit	$Variance	% Variance
US Bank Construction Loan - Tax exempt	$13,398,178	$18,887,995	$429,273	$5,489,817	40.97%
US Bank Construction Loan - Taxable	$3,173,142	$5,128,155	$116,549	$1,955,013	61.61%
US Bank Additional Equity at Completion	-	-	$0	$0	-
LAHD HHH	$8,084,559	$8,084,559	$183,740	$0	-
LAHD HOME	-	$2,887,759	$65,631	$2,887,759	-
Federal Home Loan Bank of San Francisco AHP	-	$645,000	$14,659	$645,000	-
Many Mansions Development Loan 1	-	$1,000,000	$22,727	$1,000,000	-
Costs Deferred Until Conversion	$1,965,141	$1,676,188	$38,095	-$288,953	-14.70%
Deferred Developer Fee	$300,000	$690,093	$15,684	$390,093	130.03%
GP Equity	$100	$100	$2	-	-
Limited Partner Equity	$1,200,000	$1,146,830	$26,064	-$53,170	-4.43%
Accrued/Deferred Interest	-	946,084	$21,502	$946,084	
Total	**$28,121,120**	**$41,092,763**	**$933,926**	**$12,971,643**	**46.13%**

TABLE 2. - PERMANENT SOURCES					
Permanent	**Construction Closing**	**Revised Source**	**Revised Source/unit**	**$Variance**	**% Variance**
Citibank Permanent Loan	$2,730,000	$5,489,817	$124,769	$2,759,817	101.09%
Housing and Community Development Department's Multifamily Housing Program	$3,452,443	$3,635,800	$82,632	$183,357	5.31%
City of LA Loan - HHH	$8,982,843	$8,982,843	$204,156	-	-
LAHD HOME	-	$2,887,759	$65,631	$2,887,759	-
Federal Home Loan Bank of San Francisco AHP	-	$645,000	$14,659	$645,000	-
Deferred Developer Fee	$300,000	$690,093	$15,684	$390,093	130.03%
GP Equity	$100	$100	$2	-	-
Limited Partner Equity	$12,655,734	$17,815,267	$404,892	$5,159,533	40.77%
Many Mansions Development Loan 1	-	-	-	-	-
Accrued/Deferred Interest		$946,084	$21,502	$946084	
Total	**$28,121,120**	**$41,092,763**	**$933,926**	**$12,971,643**	**46.13%**

TABLE 3. - USES OF FUNDS					
Uses of Funds	**Construction Closing**	**Revised Use**	**Revised Use/unit**	**$Variance**	**% Variance**
Predevelopment Costs	$28,089	$425,477	$9,670	$397,388	1414.75%
Construction Costs	$19,138,487	$26,245,700	$596,493	$7,107,213	37.14%
Other Soft Costs	$917,661	$781,257	$17,756	-$136,404	-14.86%
Architecture & Engineering	$828,938	$1,746,363	$39,690	$917,425	110.67%
Total Hard & Soft Contingency Costs	$1,221,993	$1,467,356	$33,349	$245,363	20.08%
Legal Costs, Title / Recording	$309,062	$241,400	$5,486	-$67,662	-21.89%
Permit & Inspection fees	$365,157	$1,403,578	$31,900	$1,038,421	284.384%
Financing Costs	$67,300	$421,896	$9,589	$354,596	526.89%
Taxes & Insurance	$446,962	$750,581	$17,059	$303,619	67.93%
Reserves	$ 445,141	$366,282	$8,325	-$78,859	-17.72%
Construction interest & Fees	$ 1,852,330	$4,742,873	$107,793	$2,890,543	156.05%
Developer Fee	$2,500,000	$2,500,000	$56,818	-	-
Total	**$28,121,120**	**$41,092,763**	**$933,926**	**$12,971,643**	**46.13%**