

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: February 18, 2022

CAO File No. 0220-00540-1592

Council File No. 22-0167

Council District: 1, 6, 11, & 13

To: The Mayor
The Council

From: *Yplenda Chavez*
for Matthew W. Szabo, City Administrative Officer

Reference: Los Angeles Housing Department transmittal dated February 14, 2022; Received by the City Administrative Officer on February 15, 2021; Additional Information Received through February 17, 2021

Subject: **REQUEST FOR AUTHORITY TO ISSUE FUNDING AWARDS AND SUPPORT LETTERS TO EXISTING AFFORDABLE HOUSING MANAGED PIPELINE PROJECTS APPLYING TO THE CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE (CTCAC) IN 2022 ROUND 1 AND VARIOUS ACTIONS RELATED TO OTHER EXISTING MANAGED PIPELINE PROJECTS**

RECOMMENDATIONS

That the Council, subject to the approval of the Mayor:

1. Note and file the Los Angeles Housing Department (LAHD) transmittal, dated February 14, 2022, relative to issuing funding awards and support letters to existing Affordable and Supportive Housing Managed Pipeline projects applying to the California Tax Credit Allocation Committee (CTCAC) in 2022 Round 1 and various actions related to other existing Managed Pipeline projects;
2. Authorize the General Manager of the LAHD, or designee, to:
 - a. Issue a funding recommendation letter for the Alvarado Kent Apartments, Miramar Gold, Kite Crossings (also known as Red Tail), and Luna Vista Apartments projects identified in this report's Table, subject to the following conditions:
 - i. The final funding commitment will not exceed the amount listed;
 - ii. The project sponsor must apply to the CTCAC in the next available Low Income Housing Tax Credits (LIHTC) allocation round; and,
 - iii. The disbursement of LAHD funds will occur only after the sponsor obtains enforceable commitment for all proposed funding;

- b. Negotiate and execute acquisition/predevelopment/construction/permanent loan agreements with the legal owners of all of the projects identified in this report's Table, which receive awards from the proposed leveraging sources, subject to the satisfaction of all conditions and criteria contained in the LAHD Pipeline application, LAHD's transmittal, and the LAHD Award Letter (if applicable), and the review and approval of the City Attorney as to form;
- c. Execute subordination agreements of the City's financial commitment for all of the projects identified in this report's Table, wherein the City Loan and Regulatory Agreements are subordinated to their respective conventional or municipally-funded construction and permanent loans, as required;
- d. Allow the transfer of the City's financial commitment for all of the projects identified in this report's Table to a limited partnership, or other legal entity formed solely for the purpose of owning and operating the project, in accordance with City and Federal requirements;
- e. Issue Nine Percent LIHTC tie-breaker letters of support for the Kite Crossings (also known as Red Tail) project in the Geographic set-aside, as identified in this report's Table; and,
- f. Obligate HOME Investment Partnership Program (HOME) funds for the projects listed below:

Project	Fund	Account	Account Name	Amount
Alvarado Kent Apartments	561/43	43S800	Affordable Housing Managed Pipeline	\$ 7,400,000
Luna Vista Apartments	561/43	43R011	Affordable Housing Trust Fund	1,767,626
Miramar Gold	561/43	43V010	Affordable Housing Trust – PY	9,035,075
Total				\$18,202,701

- g. Obligate Housing Impact Trust Fund funds for the projects listed below:

Project	Fund	Account	Account Name	Amount
Luna Vista Apartments	59T/43	43S723	Rental New Construction	\$2,000,000
Kite Crossings (Red Tail)	59T/43	43S723	Rental New Construction	1,200,000
Miramar Gold	59T/43	43S723	Rental New Construction	2,000,000
Total				\$5,200,000

- h. Obligate Housing Opportunities for Persons with AIDS funds for the project listed below:

Project	Fund	Account	Account Name	Amount
Alvarado Kent Apartments	569/43	43P440	HOPWA PSH	\$1,000,000

- i. Prepare Controller instructions and any technical corrections as necessary to the transactions included in this report to implement the intent of those transactions, subject to the approval of the City Administrative Officer.

SUMMARY

In its transmittal, dated February 14, 2022 (Report), the Los Angeles Housing Department (LAHD) requested authority to issue Funding Commitment Letters for four Affordable Housing Managed Pipeline (AHMP) projects (Alvarado Kent Apartments, Miramar Gold, Kite Crossings (also known as Red Tail), and Go for Broke – South Phase) applying for Nine Percent Low Income Housing Tax Credits (LIHTC) in the California Tax Credit Allocation Committee (CTCAC) 2022 Round 1, which has a deadline of March 1, 2022. The LAHD also requested authority to issue Letters of Support for two out of the four projects (Kite Crossing (aka Red Tail) and Go for Broke-South Phase) that are applying for Nine Percent LIHTC in the City of Los Angeles Geographic Apportionment set-aside category. The four AHMP projects will be funded by one of the following funding sources: HOME Investment Partnerships Program Fund (HOME), Housing Impact Trust Fund (HITF), or Housing Opportunities for Persons with AIDS Fund (HOPWA). The LAHD further requested authority to negotiate and execute agreements with the projects receiving City funds for acquisition, predevelopment, construction and permanent loans, and to subordinate City loans and regulatory agreements. The LAHD also requested authority to transfer the City's financial commitments for the projects receiving LAHD funding to a legal entity formed for the sole purpose of owning and operating the project.

In addition, the LAHD requested authority for the following actions related to the disposition of the Go for Broke – South Phase project sites: 1) to effectuate a non-financial transfer of jurisdiction and control of 200 North Central Avenue and 150 North Judge John Aiso Street (Properties) to LAHD; 2) to negotiate and execute a Disposition and Development Agreement for the Properties; and 3) request that City Council to declare that the disposition constitutes as exempt, surplus property.

Subsequent to the release of its Report, the LAHD notified this Office that the Go for Broke – South project will be applying to CTCAC 2022 Round 2, instead of Round 1, and requested that the project be removed from consideration at this time. The LAHD indicates that this will allow the LAHD team and developer to resolve issues related to the project's financing structure.

The LAHD also requested to add one existing AHMP project, Luna Vista Apartments, for consideration since the project is ready to apply for Four Percent LIHTC, which has a CTCAC 2022 application deadline of March 16, 2022. The LAHD provided the Staff Report for the Luna Vista Apartments project, which is attached to this report for Council's consideration.

The projects applying for Nine Percent and Four Percent LIHTC, and the requested funding commitments for existing AHMP projects are shown in the following Table:

Table: Nine and Four Percent LIHTC Projects Competing in CTCAC 2022 Round 1

Project Name	CD	Project Type	Total Units	SH Units	LAHD Award	Total Development Cost (TDC)	TDC/ Unit
Nonprofit and Special Needs Set-aside (Nine Percent LIHTC)							
Alvarado Kent Apartments	13	New Construction	81	80	\$8,400,000	\$42,644,600	\$526,477
Miramar Gold	1	New Construction	94	47	\$11,035,075	\$46,122,848	\$490,669
City of Los Angeles Geographic Set-aside (Nine percent LIHTC)							
Kite Crossings (aka Red Tail)	11	New Construction	102	40	\$1,200,000	\$61,774,960	\$605,637
Four Percent LIHTC							
Luna Vista Apartments	6	New Construction	73	36	\$3,767,626	\$46,537,456	\$637,499
TOTAL			350	203	\$24,402,701		

The CAO concurs with the Department's recommendations, as amended, to reflect the following revisions based on changes requested, or information provided, by LAHD: 1) remove Go for Broke – South Phase and all related recommendations; 2) add the Luna Vista Apartments project; 3) include revised funding commitment totals for the four, revised projects.

FISCAL IMPACT STATEMENT

There is no impact to the General Fund. The Affordable Housing Managed Pipeline commitments are funded by the HOME Investment Partnerships Program Fund, Housing Impact Trust Fund, and Housing Opportunities for Persons with AIDS Fund.

FINANCIAL POLICIES STATEMENT

The recommendations in this report comply with the City's Financial Policies.

MWS:MOF:02220110c

Attachment

STAFF REPORT
As of: February 17, 2022

Luna Vista project
8767 N. Parthenia Place Los Angeles, CA 91343
New Construction
73 Units
Council District 6

Project Description

Luna Vista Apartments is a proposed 73-unit new construction affordable housing development located at 8767 N. Parthenia Place in the North Hills community of the San Fernando Valley (Los Angeles Council District (CD) 6). The subject property consists of two contiguous lots that form an approximately 26,883 square foot, irregular-shaped parcel of land. Currently, the parcel holds a 4,840 square foot commercial structure, which was formerly a charter school and more recently a commercial warehouse. The remaining portions of the property are paved with asphalt and used for parking.

The development will offer fifty-four (54) 1-bedroom units averaging 518 square feet and nineteen (19) 2-bedrooms units averaging 840 square feet, respectively. The project is conceived of as one building with the appearance of two apartment structures connected by an open frame which sits atop a subterranean parking garage. The building will be 4-stories serviced by two elevators and one level of subterranean parking containing forty (40) parking spaces. Two elevators will be provided for additional accessibility to all 73 units and the subterranean parking.

Borrower and Proposed Ownership Structure

The ownership structure is a limited partnership (**Luna Vista, L.P.**) that will consist of Hollywood Community Housing Corporation (HCHC) as sole managing member of the General Partner, **HCHC Luna Vista GP, LLC**. At closing, the Limited Partnership will admit an investor as the Investor Limited Partner. The long-term ownership structure will consist of the following:

1. HCHC Luna Vista GP, LLC wholly controlled by HCHC., as Managing General Partner (0.01%)
2. TBD, as Investor Limited Partner (99.99%)

Population Served

Of the 71 income restricted units, thirty-six (36) will be set aside for families and individuals that are homeless, chronically homeless or at-risk of homelessness with special needs, including persons who are frequent users of the Department of Health Services earning at or below 30% of AMI. In addition, thirty-five (35) units will be reserved for low-income households earning at or below 40-50% of AMI. The project team has secured thirty-six (36) Project Based Vouchers (PBVs) from the Housing Authority of the City of Los Angeles (HACLA) to assist the special needs units at 30% AMI. Of the thirty-six (36) special needs households, thirty-two (32) units will be set aside for chronically homeless individuals.

Affordability Structure

Unit Type	20% AMI	30% AMI	40% AMI	50% AMI	Mgr	Total	HHH PSH Unit	Non-HHH PSH Unit
Studio								
1- Bdrm	32		16	6		54	0	32
2- Bdrm		4	5	8	2	19	0	4
3- Bdrm								
Total	32	4	21	14	2	73	0	36

Permanent Funding Sources

Funding Uses

Permanent	Total Sources	Per Unit	% Total
Permanent Loan Tax – Exempt	\$3,254,000	\$44,575	6.99%
LAHD - AHMP	\$3,767,626	\$51,611	8.10%
Accrued Deferred Interest - AHMP	\$0	\$0	0.00%
HCD - MHP *	\$17,452,256	\$239,072	37.50%
GP Loan - HCD IIG	\$3,407,000	\$46,671	7.32%
Deferred Developer Fee	\$300,000	\$4,110	0.64%
GP Capital Contribution	\$100	\$1	0.00%
Tax Credit Limited Partner Equity 4%	\$18,356,474	\$251,459	39.45%
Total	\$46,537,456	\$637,499	100.00%

Uses of Funds	Total Uses	Cost/Unit	% TDC
Acquisition Costs	\$5,167,570	\$70,788	11.10%
Construction Hard Costs	\$24,782,786	\$339,490	53.26%
Architecture & Engineering	\$1,566,000	\$21,452	3.37%
Construction Interest Fees and Expenses	\$2,306,075	\$31,590	4.96%
Permanent Financing Costs	\$112,540	\$1,541	0.24%
Total hard & Soft Contingency Costs	\$2,387,980	\$32,712	5.13%
Legal Costs	\$145,000	\$1,986	0.31%
Capitalized Reserves	\$617,652	\$8,460	1.33%
Permits and Local Fees	\$700,380	\$9,594	1.50%
Developer Fee	\$2,500,000	\$32,246	5.37%
Contingency Costs	\$	\$	
Other Project Costs	\$6,245,473	\$85,554	13.42%
Relocation (if applicable)	\$6,000	\$82	0.01%
TOTAL*	\$46,537,456	\$637,499	100%

High-Cost Justification

The total development cost of \$637,499 per unit reflects several factors:

- **Construction Cost:** Construction costs are estimated to be \$29.2MM or approximately \$400K/unit. Construction costs are increasing across all projects in the City due to unprecedented supply chain issues impacting the price of building materials, including lumber, steel, flooring, equipment, and fixtures, and labor shortages created by a surge in construction projects in the City and impacts from the COVID-19 pandemic. Projects currently under construction are seeing an unprecedented escalation of material costs by up to 15% compared to the prior year. The construction cost estimate provided by AMJ Construction Management assumes this 15% increase in hard costs (material and labor) driving project costs up by approximately \$4.4MM, or approximately \$60K per unit.
- **Subterranean Parking:** The site is an urban infill site and requires one complete level of subterranean parking to provide 40 parking spaces. The subterranean parking requires additional excavation, shoring, concrete and waterproofing, which adds approximately 45% in cost to the Project compared to surface parking. The total cost of the underground parking structures is currently estimated at \$2.4MM. Of the 2.4 million, 45% or \$1.2MM is attributed to the underground placement of the parking garage, or approximately \$16K per unit.
- **Acquisition/Predevelopment Loan Interest:** The project budget includes \$241,635 in predevelopment loan interest and \$1,014,000 in acquisition loan interest, adding a total of \$1,255,635 to project costs, or approximately \$17K per unit. The holding period for these loans will be over 3 years by the time of construction financing close. The extended holding period is due to difficulty securing highly competitive financing. For example, Luna Vista applied to AHP and LACDA for funding twice, and was rejected both times. Additionally, a number of NOFAs were paused at the outset of the COVID-19 pandemic due to the uncertainty of the moment. In addition, interest rates for all loans have risen in recent months due to the Federal Reserve's announcement of forthcoming rate hikes. This has increased the cost to borrow across the board.
- **Transition Reserve:** The project team has secured HCD – MHP funds for the project. For projects with operating subsidies HCD requires a 12 month capitalized transition reserve. of \$353,652, or \$4,845 per unit.
- **Furnishings for Special Needs Units:** The Luna Vista Apartments will include 36 special needs units. These units will be fully furnished adding an additional \$126,999 or \$3,500 per unit.
- **Land Cost:** According to the Los Angeles County Property Assessment Information website, the recorded land value of the subject property was \$2,345,000 in July of 2018. HCHC purchased the property for \$3,600,000 in August of 2019, just one year later. Since its last recording date, the property's appraised value increased by 35%, adding \$1,255,000 in cost to the project, or \$34,860 per unit.

Funding Recommendation

A LAHD funding commitment of up to \$3,767,626 is recommended. AHMP funds will represent a cost of \$51,611 per unit and 8.1% of the total development cost. AHMP funding is leveraged with a \$17,452,256 award from HCD – MHP (Multifamily Housing Program), a \$3,407,000 grant from HCD IIG and has been awarded an allocation of 4% federal Low Income Housing Tax Credits that will generate approximately \$18,356,474 in tax credit equity to partially finance the construction of the project. The taxable loan will be paid off at closing and the tax exempt construction loan will convert to a \$3,254,000 permanent loan when the project is completed and operating

Prepared by: Los Angeles Housing Department