

REPORT OF THE PRESIDENT AND CEO

March 29, 2018

RESOLUTION AUTHORIZING THE PRESIDENT AND CEO, OR DESIGNEE, TO TAKE ALL NECESSARY STEPS TO PREPARE BOND POLICIES AND PROCEDURES FOR THE HOUSING AUTHORITY OF THE CITY OF LOS ANGELES TO ISSUE CONDUIT BONDS FOR CERTAIN RESIDENTIAL MULTI-FAMILY DEVELOPMENTS IN THE CITY OF LOS ANGELES

For

Douglas Guthrie
President and CEO

Jenny Scanlin
Chief Development Officer

REQUEST: To authorize the President and CEO, or designee, to take necessary steps to prepare Bond Policies and Procedures for the Housing Authority of the City of Los Angeles ("HACLA") to act as an issuer of conduit bonds for certain residential multi-family developments in the City of Los Angeles including multi-family residential developments owned, ground leased or sold by HACLA, or an associated affiliate or instrumentality, or for which HACLA or its instrumentality is a co-developer, or for which HACLA is the primary governmental lender or provider of subsidy.

FUNDING: The Chief Administrative Officer confirms that no additional funding authority will be necessary to take the steps required to develop Bond Policies and Procedures and any related documents for the purpose of establishing HACLA's authority to issue bonds This initiative was considered and budgeted as part of HACLA's 2018 operating budget at a total cost not expected to exceed ten thousand dollars (\$10,000) including outside counsel legal fees. Significant portions of the required research and vetting will be undertaken by HACLA staff and internal legal counsel.

PURPOSE: The City, through the Housing + Community Investment Department of Los Angeles ("HCIDLA"), acts as the primary issuer of tax-exempt and taxable private activity bonds, notes or other evidences of indebtedness authorized under applicable law ("Bonds") for qualified multifamily residential developments located in the City. HACLA can support the City by acting as an issuer of Bonds for multi-family residential developments in the City and as the primary issuer of Bonds for multifamily residential projects owned or sold by HACLA as part of a recapitalization, acquisition/rehabilitation or a redevelopment program or for which HACLA participates as a co-developer or primary governmental subsidy provider. HACLA's goal as a conduit issuer is to provide residents of the City of Los Angeles access to quality affordable housing, to create viable, healthy communities and to empower able residents to achieve financial independence. HACLA's initiation of a bond issuance program would facilitate consistency and expediency on projects HACLA is a stakeholder and provide potential fee revenue which can be programmed to support HACLA's programs and projects.

ISSUES:

Background

On August 31, 2017, HACLA issued a purchase order with CSG Advisors Incorporated ("CSG") to explore the feasibility of becoming an active issuer of tax-exempt bonds for multifamily housing in the City of Los Angeles through the

establishment of a bond issuance program (“Program”). As a prerequisite to establishing such a Program and undertaking Program activity, HACLA required a clearer understanding of: (1) Roles and responsibilities, (2) Required expertise & staffing, (3) the Legal and regulatory framework (and requirements); and (4) Potential financial benefit (and cost) for such a Program. Based on CSG’s analysis, summarized in this report, staff believes initiating such a Program at HACLA is a viable and sustainable option.

Currently, the City of Los Angeles Multi-family Bond Policies and Procedures (2005) (the “HCID Bond Policy”) allows HACLA to issue bonds for projects in which it has a “substantial interest” or for which it provides a “substantial subsidy.” The HCID Bond Policy also contains certain restrictions on bond issuance and is currently under review by the City. Its requirements and amendments will be considered in connection with the preparation of HACLA’s own Bond Policy and related Procedures to ensure alignment and compatibility.

Legal Authority

Pursuant to the California Health and Safety Code (Article 5, Section 34350) a housing authority may “issue bonds for any of its corporate purposes” and may issue bonds “to refund previously issued bonds in whole or in part at any time.”

In addition to this general authority, a housing authority may issue bonds to provide housing for persons of low income (Section 34312), revenue bonds to finance the acquisition, construction, rehabilitation, refinancing, or development of multifamily rental housing and for capital improvements necessary for such rental housing (Section 34312.3), for refunding bonds (Sections 34312.7, 34372) and as part of a joint powers authority (Section 34324). Under Article 5.5 (Sections 34376 and 34377) the State declares it beneficial to empower housing authorities to issue tax-exempt revenue bonds to nonprofit organizations within the territorial jurisdiction of the authority for the development of multifamily rental housing.

If HACLA chooses to move forward as a bond issuer, HACLA would be subject to Section 142 of the Internal Revenue Code which contains rules and regulations applicable to tax-exempt bonds, including the requirement to maintain policies and procedures for the issuance program and to engage in on-going compliance monitoring for the Federal tax requirements. Additionally, HACLA would need to receive authorization for its conduit bond policy from the California Debt Limit Allocation Committee (CDLAC) to issue bonds.

Bond Issuer Program

Responsibilities related to a Bond Issuance Program can be divided into three categories: (1) Issuance Process; (2) Post-Issuance compliance, and (3) Ongoing Program Management.

The Issuance Process includes reviewing projects, reviewing the CDLAC application, obtaining board approval of the CDLAC application, creating the inducement and final bond resolutions, holding the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) hearings, managing the day-to-day issuance process and schedule, participating in the financing team calls and meetings for each project as necessary, causing the production of bond documents, and

managing the closing process including execution of documents and notification to CDLAC and the IRS.

The Post-Issuance obligations include compliance monitoring, record retention, collection of fees, occasional modification of documents if there are credit substitutions or structural changes, causing calculation of arbitrage rebate and refunding or reissuing of existing bonds.

Ongoing Program Management would include developing and maintaining appropriate policies and procedures, selecting and overseeing related consultant contracts for bond counsel, trustee, municipal advisors and investment bankers, and regular reporting to the Board of Commissioners and relevant stakeholders on the program.

Staffing & Fee Considerations

CSG reviewed the staffing levels of other municipal issuers in California, including the City of San Francisco, City of San Diego, and the City of San Jose. These issuers operate fairly robust programs (generally 3-5 issuances annually) with generally one staff person dedicating the majority of their time to the bond issuance program. Compliance staffs are generally much larger, as they perform compliance not only on bond issues but also on other programs run by those cities. For instance, the City of San Diego monitors about 17,000 units including for HOME, CDBG, and (former) redevelopment affordability requirements in addition to bond requirements on approximately 70 outstanding bond issues with a staff of approximately five people. The City of San Francisco is similar in this regard, with a compliance staff of approximately 6 persons and more than 100 outstanding bond issues.

For HACLA, a likely initial staffing would include a single dedicated staff person acting as Bond Manager to handle both transaction and compliance, with one additional compliance staff added for each 15 outstanding bond issues. There are staff both within HACLA's Asset Management Department and Finance Department who currently carry out similar compliance functions and can be relied on for early implementation of compliance requirements.

CSG modeled the gross financial performance of a conduit issuance program assuming HACLA would be able to do 2 or 3 issuances per year sustainably by Year 3 with an initial issuance fee of 0.25% and ongoing fees of 0.125% of outstanding principal and bond issuances at levels seen recently for developments at Dana Strand and Jordan Downs. Under the assumption of one Bond Manager position and one compliance staff per 15 outstanding bonds, the Program is expected to be self-sustaining and should provide net cash flow. The Table below summarizes the projected net results (profit) after deducting the cost of administering the program including additional FTE expense:

Table. Comparative Program Performance

	Two Issues Per Year		Three Issues Per Year	
	<u>Year 3</u>	<u>Year 5</u>	<u>Year 3</u>	<u>Year 5</u>
Total Staff	1	1	1	2
Outstanding Bond Issues	6	10	9	15
Cumulative Program Surplus/Deficit	\$137,000	\$264,000	\$332,000	\$566,000

Next Steps

If recommended to move forward, HACLA will need to draft and approve a Conduit Bond Policy and both internal and external procedures for processing and monitoring bonds. In its adoption process, HACLA shall also consider budget and authority for hiring a Bond Manager. The Bond Policy would then need to be submitted and approved by CDLAC. Additionally, HACLA may enter into a Memorandum of Understanding with HCID+LA to discern which projects would be handled by either agency and under what circumstance and the Mayor's Office for clarity on Mayor's role in approving TEFRA hearings for HACLA. HACLA staff will return to the Board for approval of the final draft of the Conduit Bond Policy.

Attachments:

1. Resolution

ATTACHMENT 1

RESOLUTION

RESOLUTION NO. _____

RESOLUTION AUTHORIZING THE PRESIDENT AND CEO, OR DESIGNEE, TO TAKE ALL NECESSARY STEPS TO PREPARE BOND POLICIES AND PROCEDURES FOR THE HOUSING AUTHORITY OF THE CITY OF LOS ANGELES TO ISSUE CONDUIT BONDS FOR CERTAIN RESIDENTIAL MULTI-FAMILY DEVELOPMENTS IN THE CITY OF LOS ANGELES

WHEREAS, the State of California's Health and Safety Code has declared it beneficial and authorizes housing authorities to issue and refund bonds for multiple purposes, pursuant to subsections 34350, 34312, 34312.3, 34312.7, 34372, 34376 and 34377 among others, throughout the state to act as conduit bond issuers for multi-family residential developments; and

WHEREAS, the Authority's mission to expand and preserve affordable housing has encouraged the authority to investigate opportunities to improve its own portfolio of deeply affordable units and to invest tremendous resources in projects that expand opportunities for affordable housing availability and acquire properties to manage and maintain as part of this effort; and

WHEREAS, the Authority has benefitted from conduit bonds issued to developer partners to support the redevelopment of its public housing sites, refinancing of debt and rehabilitation of many of its units; and

WHEREAS, the Authority would like to participate in bond financing as a conduit issuer to streamline the developmental financing process for projects for which it is associated or has provided financing or subsidy and create a rigorous but less cumbersome approach to producing more affordable housing within its own portfolio and within the City of Los Angeles at large; and

WHEREAS, the Authority utilized third party expertise to analyze the cost and benefits of a bond issuance program and determined that it would in all likelihood provide a net positive result to achieving HACLA's mission and financial bottom line; and

WHEREAS, the Authority will need to spend a reasonable amount of staff time to prepare documents and agreements that need to be presented to the Board of Commissioners for further consideration and will return to the Board for approval of a final Conduit Bond Policy.

NOW, THEREFORE, BE IT RESOLVED that the Board of Commissioners of the Housing Authority of the City of Los Angeles does hereby authorize the President and CEO, or designee(s), to initiate the drafting of policies, procedures and cooperative agreements, all with the consent and assistance of legal counsel, for the purpose of establishing the Authority's program to issue conduit bonds and will return to the Board of Commissioners with final recommendations and related policies by the 3rd quarter of 2018 for further consideration and approval.

APPROVED AS TO FORM:
MICHAEL FEUER

HOUSING AUTHORITY OF THE
CITY OF LOS ANGELES

CITY ATTORNEY



BY: _____
GENERAL COUNSEL

BY: _____
CHAIRPERSON

DATE: _____

ADOPTED