

MEMORANDUM

14

DATE: NOVEMBER 2, 2006 HW1500

TO: AGENCY COMMISSIONERS

FROM: CECILIA V. ESTOLANO, CHIEF EXECUTIVE OFFICER

RESPONSIBLE PARTIES: HELMI HISSERICH, REGIONAL ADMINISTRATOR  
JOHN PERFITT, SENIOR REAL ESTATE DEVELOPMENT AGENT

SUBJECT: APPROVAL OF A PERMANENT LOAN AND SUBORDINATION OF THE AGENCY DEED OF TRUST AND USE-RESTRICTION COVENANTS IN CONNECTION WITH CONVERTING AN EXISTING \$2,499,200 ACQUISITION AND PREDEVELOPMENT LOAN INTO A PERMANENT LOAN WITH BRONSON COURT APARTMENTS, LP, FOR THE BRONSON COURTS AFFORDABLE HOUSING PROJECT LOCATED AT 1227-1239 NORTH BRONSON AVENUE

HOLLYWOOD REDEVELOPMENT PROJECT AREA  
HOLLYWOOD & CENTRAL REGION (CD 13)

LOAN COMMITTEE REVIEW: OCTOBER 10, 2006

RECOMMENDATIONS

That the Agency, subject to City Council review and approval:

1. Authorize the Chief Executive Officer or designee to execute a Permanent Loan Agreement in order to convert, without any additional Agency funding, an existing \$2,499,200 acquisition and predevelopment loan with the Los Angeles Housing Partnership into a permanent loan with Bronson Court Apartments, LP, for the Bronson Courts project located at 1227-1239 North Bronson Avenue.
2. Adopt the attached resolution making a finding that an economically feasible alternative method of financing the project, on substantially comparable terms, without subordination of the Agency's deed of trust and low and moderate income deed restrictions, is not reasonably available, and authorizing subordination of the Agency's Deed of Trust, covenants and use restrictions to the conventional construction and permanent loan for the Bronson Courts project.

SUMMARY

The above actions will convert the current \$2,499,200 acquisition and predevelopment loan with the Los Angeles Housing Partnership ("LAHP") for Bronson Courts into a permanent loan with Bronson Court Apartments, LP ("Developer"), whose general partner is LAHP. These actions will also subordinate the Agency's deed of trust and affordability covenants to allow Developer to obtain construction financing for the Bronson Courts Project. Together, these actions allow Developer to access and implement more than \$7.5 million in 9% tax credit financing already reserved for the project.

RE

December 1, 2005 – Agency approval of an acquisition/predevelopment loan with LAHP.  
December 28, 2005 - Council File #: O5-2698/Council approval of December 1, 2005 Agency action.

SOURCE OF FUNDS

There is no impact on the Agency budget as a result of this action.

PROGRAM AND BUDGET IMPACT

This project is contained in the FY'07 Budget and Work Program under Work Objective HW1500.

ENVIRONMENTAL REVIEW

The proposed actions are categorically exempt from the California Environmental Quality Act (CEQA) pursuant to the Agency CEQA Guidelines, Article 1 c (15).

BACKGROUND

On December 1, 2005 the Agency approved a \$2,499,200 acquisition and predevelopment loan ("Agency Loan") with the Los Angeles Housing Partnership for the acquisition of real property located at 1227-1239 North Bronson Avenue (refer to Attachment A, Location Map). LAHP proposed to acquire the property, relocate any existing tenants, and construct a 32-unit affordable housing project using a highly leveraged financing package including 9% tax credits. At the time of approval, the project had not secured a reservation of tax credits, which would provide more than 50% of the equity financing necessary for the project. Over the last six months, staff has disbursed the loan proceeds to LAHP to acquire the property, relocate all current tenants, and carry out numerous predevelopment activities. In July 2005, LAHP was successful in securing 9% tax credits for Bronson Courts, which completed the financing package for the project. LAHP is now ready to move forward in obtaining construction financing for Bronson Courts in order to commence construction by November 20, 2006 pursuant to California Tax Credit Allocation ("TCAC") requirements.

When the Agency approved the acquisition and predevelopment loan in late 2005, staff advised the Agency Board that the Agency Loan would come back to the Agency to be converted into a permanent loan and subordinated to a construction loan necessary to build Bronson Courts. Evidence of construction financing is a necessary precondition for using the tax credit equity funds for the project. To facilitate LAHP and Developer in obtaining construction financing from Wells Fargo Bank, the Agency now proposes to: (i) convert the existing short-term acquisition and predevelopment loan into a 55-year, residual-receipts permanent loan and (ii) subordinate its use-restriction covenants and deed of trust to the construction loan for the project.

**BRONSON COURTS PROJECT DESCRIPTION**

The Bronson Courts project will consist of 32 units of family housing. The project includes 12 one-bedroom units, 9 two-bedroom units, and 11 three-bedroom units. It will also include a community room, learning center, laundry room, a central landscaped courtyard and circulation light well, and private balconies. The community room will be located on the ground floor and

will open into, and be integrated with, the courtyard space and surrounding landscaped open spaces. Each unit will have a private outdoor storage closet. Parking for tenants is provided in a one-level, partially subterranean parking garage that accommodates 31 regular parking stalls and one handicap space, a laundry room with natural daylight, and bike storage.

The site plan for Bronson Courts calls for a three-story structure with a center courtyard space from which three of the first-floor units will enter directly, i.e. townhouse style. All units will have private balconies and will take advantage of natural day lighting and screened entry doors and ceiling fans to encourage natural air flow.

### **ARCHITECTURAL STYLE**

Drawing inspiration from the local neighborhood and single-family living, the proposed project will be organic in design featuring the expression of natural materials, colors and spaces that are earthy, free flowing, and consistent with a contemporary interpretation of Craftsman-style architecture. The building form will complement the neighboring bungalow apartments as well as the neighboring single-family homes through the use of color, exterior detailing, exposed wood rafters, balconies, simple window fenestration, and landscaping. The building will have subtle color and material shifts employing the renaissance custom of separating buildings into tiers to help with massing and scale of the building. A raised landscaped planter at the front setback will further visually reduce the massing and height of the building. The exterior detailing will include appropriately scaled trellis accents, lighting, and concrete pavers to the front door entrance, and mature landscaping.

### **COMMON AREAS, AMENITIES, AND BALCONIES**

Common areas include a 1,000 square-foot community room and learning center. The community room will be furnished, include a kitchen, and will open to an outdoor covered patio area leading to the courtyard area. The courtyard, multiple private entrances, and an 18 foot front setback are essential features of the project. Lush landscaping with varied plant material complementary to the architecture of the building and the Southern California weather will also be incorporated. The proposed landscaping will employ a variety of plant materials with diverse colors and textures and will include an irrigation system, community garden planters, and secured play areas visible from the community room and learning center.

The building entry will feature a secured foyer directly adjacent to the manager's office and living quarters with visual connection to the interior courtyard. The open-air courtyard will feature a covered patio, tot lot, landscaped planters, a water feature and sitting areas. The courtyard will open at the rear of the building to tie into the landscaped rear yard with subtle stepped elevation differences.

### **BUILDING SECURITY**

In order to maximize security for all building residents, the proposed project will have a central security gate with a telephone and camera. Additionally, each individual apartment will have an emergency alarm, a door peek-hole, and an intercom system connected to the front gate. Doors and unit entrances will be closely situated near the front of the building to maximize resident self-patrolling.

### **FINANCIAL ANALYSIS AND LOAN COMMITTEE REVIEW**

The Bronson Courts project is underwritten with TCAC allowable rents and uses a minimum debt coverage ratio of 1.2 between years 1 and 15 of the project. The project is expected to begin providing cash flow to debt-service the Agency loan in year 14. The total estimated

development costs for the project are \$13,734,454. In addition to the CRA acquisition and predevelopment loan, the Developer has obtained: \$7,522,588 in tax credit equity, \$2,240,000 from the LAHD Housing Trust Fund, \$1,075,965 in conventional debt, and \$396,700 in deferred developer fees/equity. The amount of conventional debt is approximately \$225,000 more than contemplated when the Project was approved and the Agency Loan disbursed.

The Bronson Courts project has twice been reviewed and analyzed by the Agency Loan Committee. Most recently, the Agency Loan Committee reviewed the Bronson Courts project on October 10, 2006 in advance of the requested subordination of the Agency Loan. The Loan Committee, working with the Director of Housing, evaluated the subordination and found it to be generally acceptable as the Developer is not seeking more funds and the amount of debt senior to the Agency loan has only slightly increased. The Loan Committee had the following questions and issues regarding the project:

- **Issue #1 – Debt Coverage Ratio**

The project uses a 1.15 debt coverage ratio, rather than 1.2 as prescribed by TCAC.

The bank providing the conventional debt for the Project has required the more conservative 1.15 rather than 1.2 coverage.

- **Issue #2 – Exit Taxes**

Staff should review the partnership agreement between LAHP and the tax credit investor to assure that the Agency is not obligated to pay an exit tax or fee on behalf of the equity investor.

Staff has reviewed the partnership agreement and will require that the Agency not be responsible for any exit costs or taxes, nor can these fees be paid from reserve accounts.

- **Issue #3 – Affordability and Reporting Requirements**

The project is using TCAC rents for the project and not California Department of Housing and Community Development (“HCD”) rents. This could cause errors when reporting affordable housing production to reporting to HCD.

The 55-year affordable covenants to be recorded against the Project, when it receives permanent financing, will contain language that shows affordability levels consistent with HCD levels and not TCAC affordability levels.

- **Issue #4 – Housing Management System**

The Bronson Courts project is not in the Housing Management System.

Staff has entered the Bronson Courts project into the Housing Management System.

## **DEVELOPER**

The general partner of the Developer is Los Angeles Housing Partnership, a non-profit housing developer with significant affordable housing development experience. Los Angeles Housing Partnership has completed numerous projects with Agency assistance, including several with both Agency and Los Angeles Housing Department assistance. A check by the Agency’s Asset Management Department indicates that the Developer is not in default on any other loans with the Agency. Louis Bernardy is the President & Chief Executive Officer of Los Angeles Housing

Partnership. LAHP directors are: Marva Smith Battle-Bey, Richard Tarbell, Kerry Doi, and Louis Bernardy. The Developer will comply with all Agency policies including without limitation: Prevailing Wage; Living Wage; Contractor Responsibility; Service Worker Retention and Equal Benefits; Equal Opportunity/Affirmative Action; and the Public Art Program.

Cecilia V. Estolano  
Chief Executive Officer

By

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Glenn F. Wasserman  
Chief Operating Officer

There is no conflict of interest known to me which exists with regard to any Agency officer or employee concerning this action.

ATTACHMENTS

- A. Location Map
- B. Subordination Resolution