



**COMMUNITY DEVELOPMENT COMMISSION/
HOUSING AUTHORITY**
of the County of Los Angeles

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Executive Director

July 31, 2018

The Honorable Board of Commissioners
Community Development Commission
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Commissioners:

**APPROVAL OF THE RESTRUCTURE OF THE LOS ANGELES COUNTY HOUSING INNOVATION
FUND II
(ALL DISTRICTS) (3 VOTE)**

SUBJECT

This letter recommends approval for the Community Development Commission (Commission) to restructure the Los Angeles County Housing Innovation Fund II (LACHIF), enter into new loan agreements with Low Income Investment Fund (LIIF), Century Housing Corporation (Century) and the Corporation for Supportive Housing (CSH) (collectively, Lenders), and delegate authority to the Commission to enter into loan agreements with new Community Development Financial Institutions (CDFIs) in response to a solicitation to expand the participating lenders in LACHIF. LACHIF makes below-market interest rate predevelopment and acquisition loans available to affordable housing developers through a revolving loan fund. Approval of these actions will increase the availability of funds and participating lenders for developers and the supply of affordable housing in Los Angeles County.

IT IS RECOMMENDED THAT THE BOARD:

1. Find that entering into loan agreements between the Commission and Lenders for projects loans, is not subject to the provisions of the California Environmental Quality Act (CEQA), as described herein, because the action is not defined as a project under CEQA.
2. Approve the changes to LACHIF as described herein, and authorize the Executive Director or designee to execute all documents necessary to implement these changes and to restructure LACHIF.

ADOPTED

BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES

4-D July 31, 2018

CELIA ZAVALA
ACTING EXECUTIVE OFFICER

3. Authorize the Executive Director or designee to terminate for convenience the existing loan agreements between the Commission and the respective Lenders.
4. Authorize the Executive Director or designee to negotiate, execute, and if necessary, amend, or reduce the loan agreements with the Lenders for an eight-year term, and all related documents, necessary for the implementation of the restructured LACHIF program, following approval as to form by County Counsel.
5. Delegate authority to the Executive Director or designee to enter into loan agreements with new CDFIs in response to a solicitation to expand the participating lenders in LACHIF, and to negotiate, execute, and if necessary, amend, or reduce the loan agreements with the new CDFIs for an eight-year term, and all related documents, necessary for the implementation of the restructured LACHIF program, following approval as to form by County Counsel.
6. Direct the Executive Director or designee to provide an annual report to the Board regarding LACHIF lending activity. The first report will be issued at the close of the fiscal year following the launch of the restructured LACHIF program and reporting will continue annually thereafter.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

The purpose of this action is to authorize the Commission to restructure the existing LACHIF program to further encourage the development of affordable housing in LA County. LACHIF was initially established by the Board in 2006 and underwent its first restructure in 2013. On May 30, 2017, the Board directed the Commission to evaluate the performance of LACHIF. The Commission was directed to identify potential opportunities for increased flexibility, as well as improved terms and underwriting criteria, to ensure that LACHIF adequately meets the needs of an increased pipeline of both special needs and affordable housing developers. Since that time, the Commission has reviewed the LACHIF program in comparison to other revolving loan funds, engaged in extensive discussions with lenders, and surveyed developers regarding their needs for acquisition and predevelopment funding in general and from LACHIF specifically.

Based on this input, the Commission is now seeking the Board's approval of the restructure to the LACHIF program. The major changes include: (i) an increase of the predevelopment loan maximum from \$750,000 per project to \$1.5 million per project; (ii) an increase in the Commission's participation percentage on each predevelopment loan from 33% to 50%, which makes the higher predevelopment loan amount feasible for the Lenders; and (iii) an decrease in the Commission's participation percentage on each acquisition loan from 33% to 25%, which allows the Commission's capital to potentially assist a larger number of deals (depending on the size of each loan). Upon approval, the current LACHIF loan agreement and related documents will be terminated, and new documents will be executed to incorporate the restructured parameters and govern the relationship between the Commission and the Lenders.

In addition to approval of loan agreements with the three existing Lenders (LIIF, Century and CSH), the Commission is requesting delegated authority to solicit additional CDFIs to participate as lenders, and to enter into loan agreements under the same terms as the existing Lenders. Expanding the pool of lenders would increase the options available to developers in LACHIF. The solicitation for additional CDFIs will take place before the end of 2018.

FISCAL IMPACT/FINANCING

There is no impact on the County General Fund. No new funding is being requested.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

Your Board established the funding for LACHIF in 2006 with a \$20,000,000 allocation of County General Funds, and the program became operational in 2008. In 2013, the Commission evaluated LACHIF and restructured the program to respond to the changing needs in the market. As directed by the Board's May 30, 2017 motion, the Commission has again evaluated the program to determine what, if any, modifications are needed to be responsive to the current market environment.

The Commission evaluated the program by initially meeting with County Supervisorial District Deputies, Community Development Financial Institutions (CDFIs), and philanthropic foundation representatives. It was determined that a Technical Working Group was needed to identify the revisions to LACHIF's terms and/or structure in order to meet the needs of the affordable housing development community. This Technical Working Group, formed with Commission staff, representatives of CDFIs, a financial consultant, and foundation representatives, proposed parameters for a restructured program that would assist developers in acquiring property and funding their predevelopment activities.

The Commission also surveyed affordable housing developers to determine their acquisition and predevelopment financing needs and whether the Technical Working Group's proposal would meet their needs. The Commission developed a 40-question, on-line survey, which resulted in responses from 25 affordable housing developers. The survey responses provided the data needed by the Technical Working Group to make recommendations for the restructured LACHIF program.

The Technical Working Group's recommendations were discussed and finalized with the Lenders. An outline of the final proposal for the LACHIF II restructure is attached.

ENVIRONMENTAL DOCUMENTATION

These actions are not subject to the provisions of CEQA pursuant to State CEQA Guidelines 15060(c)(3) and 15378 because they are not defined as projects under CEQA and do not have the potential for causing a significant effect on the environment.

Each project funded under the LACHIF program will require environmental clearance on a project-by-project basis. Prior to funding any particular project, an Environmental Service Request will be submitted to the Commission's Environmental Services Unit for review. Each project must receive an environmental clearance in accordance with CEQA guidelines.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

The restructured LACHIF program will provide a means to ensure that LACHIF continues to meet the acquisition and predevelopment financing needs of affordable housing developers and thereby increase the number of affordable housing units constructed throughout Los Angeles County.

The Honorable Board of Commissioners

7/31/2018

Page 4

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Monique King-Viehlend". The signature is written in a cursive, flowing style.

MONIQUE KING-VIEHLAND

Executive Director

MKV:LK:ns

Enclosures

LACHIF Restructure

Product 1:

Acquisition Loan, Secured - 100% LTV

| | <u>Current Provision</u> | <u>Restructure</u> |
|--|--|---|
| LTV | up to 95% LTV for for-profit entities; up to 100% LTV for non-profit entities | same |
| Maximum Loan | Lesser of \$15MM (All LACHIF Products - Acq and Pre-Dev) or 100% LTV | same |
| CDC / CDFI LTV Split | 33% / 67% | 25% / 75% |
| CDC / CDFI \$ Split | 33% / 67% | 25% / 75% |
| CDC / CDFI Risk Split | 100% of CDC Portion is Top Loss | same |
| CDC / CDFI Share of LTV > 100% | none | n/a |
| CDC / CDFI Funding Timing | CDC generally disburses 100% of CDC's \$\$s to the CDFI at the close of the loan | same |
| Non-Profit / For-Profit | up to 100% / up to 95% | same |
| Guarantees - Project Loan (Loan from CDFI to Developer) | Single Purpose Entity Developer/Borrower - full guaranty from the Sponsor required | Current Provision, <u>Plus:</u> - If the Developer/Borrower Sponsor is a For-Profit Entity, a repayment guaranty may be required (at the CDFI's discretion) from the principals in an amount equal to the loan amount that exceeds 75% of appraised value plus accrued and unpaid interest. |
| Collateral / Security | A deed of trust and assignment of rents against the subject property | Current Provision, <u>Plus:</u> - a first lien against the rights, interests and assets related to the affordable housing project (including entitlements, architectural and engineering studies and contracts) |
| Recourse - Project Loan (Loan from CDFI to Developer) | (silent) | 100% Recourse to the Project Loan Borrower |

Product 2:

Predevelopment Loans, Standalone-Unsecured - Increase Loan Maximum

| | <u>Current Provision</u> | <u>Restructure</u> |
|--|--|--|
| Maximum Loan | \$750,000 | \$1,500,000 |
| CDC / CDFI \$ Split | 33% / 67% | 50% / 50% |
| CDC / CDFI Risk Split | 33% (Top Loss) / 67% | 50% (Top Loss)/ 50% |
| CDC / CDFI Funding Timing | CDC generally disburses 100% of CDC's \$\$s to the CDFI at the close of the loan | CDC / CDFI to fund parri passu (50 / 50) at each funding milestone established for the Borrower (<i>see additional notes in "Funding Milestones" below</i>) |
| Funding Milestones | (silent) | <p>a) 1st Funding at Loan Closing - Up to \$1MM - CDC to fund CDC's portion of the \$1MM to the CDFI once this 1st milestone is reached</p> <p>b) Subsequent funding to occur after the construction and permanent financing obtained: * For projects with Tax Credits, this includes obtaining the Tax Credit award, Letters of interest for equity and soft commitment for conventional debt; or * For projects without Tax Credits, all project financing needs to be firmly committed; and * For all projects - all other requirements established by the CDFIs must be met - CDC to fund CDC \$'s to CDFI once the milestone(s) is(are) achieved. CDC does not need to fund at each draw disbursement of the CDFI to the Borrower</p> |
| Guarantees - Project Loan (Loan from CDFI to Developer) | Single Purpose Entity Developer/Borrower - full guaranty from the Sponsor required | Current Provision, <u>Plus:</u> - If the Developer/Borrower Sponsor is a For-Profit Entity, a full repayment guaranty may be required (at the CDFI's discretion) from the principals. |
| Collateral / Security | Unsecured | Unsecured |
| Recourse - Project Loan (Loan from CDFI to Developer) | (silent) | 100% Recourse to the Project Loan Borrower |

LACHIF Fund-Level Priorities

| | <u>Current Provision</u> | <u>Restructure</u> |
|----------------------------------|---|---|
| Acq to Pre-Dev Loan Ratio | none | Max 25% of LACHIF Fund for unsecured pre-development loans |
| Borrower / Sponsor Limits | 25% of outstanding Project Loans plus Project Loans & Commitments to a single Sponsor. Limit is effective after: (1) > \$20 million in outstanding loans and commitments; and (2) 18 months after initial availability of funds. | - <u>Acquisition Loans</u> : Current Provision - <u>Unsecured Loans</u> : 2 loans with a 3rd loan possible at CDC's discretion |

Other Notes

| | |
|--|--|
| LACHIF and NOFA Pre-Dev Loans - Interaction | NOFA pre-development loans, available after TCAC award, may be used to pay-off (or pay-down) outstanding LACHIF loans |
| Maximum Pre-Dev Funds to a Project | No more than \$1.5MM will be loaned to a Project for predevelopment whether via (i) a LACHIF Pre-Dev loan, (ii) NOFA Pre-Dev lending or (iii) any combination of these products |
| Loans Closed Pre-Restructure | Loans closed before the LACHIF restructured parameters are in place may convert to the restructured loan terms as long as all the project and loan underwriting requirements under the restructure are met |