

November 22, 2002

Honorable Mayor and Members of
the Hermosa Beach City Council

City Council Meeting of
November 26, 2002

**ADOPTION OF RESOLUTION NO. 02-____ APPROVING AMENDMENT NO. 3
TO THE INDEPENDENT CITIES LEASE FINANCE AUTHORITY (ICLFA)
JOINT POWERS AGREEMENT**

Recommendation:

It is recommended that the City Council adopt Resolution No 02-_____, approving Amendment No. 3 to the ICLFA Joint Powers Agreement. The amendment enables ICLFA to issue tax-exempt revenue bonds for the purpose of funding the purchase of mobile home parks and possibly multi-family rental housing.

Background:

ICLFA was created to allow cities to achieve cost effective funding through “pooled” financing. ICLFA originally provided funding to cities for equipment and capital projects through pooled issuance of bonds and certificates of participation (COPs). The ICLFA agreement was amended subsequently to allow funding of home mortgages (meeting certain income and property value limitations) through the issuance of bonds. The purchase of our greenbelt was financed through an ICLFA pooled COP issue.

Analysis:

Amendment of the ICLFA Joint Powers Agreement requires approval from 2/3 of member-city City Councils. Hermosa Beach is one of the eleven member-cities. (There are 43 other associate city members, who do not have voting rights.) Approval of the amendment allows other cities to participate in the program, whether or not Hermosa Beach chooses to use the program.

A question and answer memo from ICLFA staff, which provides more detailed information about ICLFA and the program, is attached.

Respectfully submitted,

NOTED:

Viki Copeland
Finance Director

Stephen R. Burrell
City Manager

DATE: November 11, 2002

TO: Honorable Sam Edgerton (ICLFA Delegate)
Viki Copeland, Finance Director (ICLFA Alternate)

FROM: David Smith, ICLFA Program Administrator

SUBJECT: Amendment No. 3 To the ICLFA Joint Powers Agreement Questions & Answers

Several City staff members who are preparing City Council agenda reports relating to Amendment No. 3 to the Independent Cities Lease Finance Authority (ICLFA) Joint Powers Agreement have asked the following questions. President McCormick directed staff to distribute all of the questions and answers thereto to each of the voting member cities for use in preparing staff reports for city council approval of the resolution relating to Amendment No. 3.

Q. WHAT DOES AMENDMENT NO. 3 TO THE ICLFA JOINT POWERS AGREEMENT DO?

A. Amendment No. 3 enables ICLFA to issue tax exempt revenue bonds for the purpose of funding the purchase of mobilehome parks and possibly multi-family rental housing by its non-profit partners.

ICLFA was previously enabled by the Joint Powers Agreement to fund leases through the issuance of bonds and by a subsequent amendment to the Joint Powers Agreement to fund home mortgages through the issuance of bonds.

Q. WILL ICLFA ISSUE A PREDETERMINED AMOUNT OF REVENUE BONDS AND HOPE THE FUNDS ARE USED -- A POOLING CONCEPT?

A. No. In most cases, each purchase will involve a separate issue. There is a possibility that if the purchase of two properties concluded at the same time that one issue would be used to fund the two purchases. There will, however, be no "blind pool" and thus no unused bond funds.

MEMBER CITIES:

Alhambra	Compton	Hawthorne	Monrovia	San Bernardino
Azusa	Covina	Hermosa Beach	Montebello	San Diego County
Baldwin Park	Downey	Huntington Park	Monterey Park	San Fernando
Barstow	Duarte	Indio	Norwalk	Santa Clarita
Bell	El Monte	Inglewood	Palmdale	Signal Hill
Bellflower	Fontana	La Puente	Paramount	South Gate
Carson	Gardena	Lakewood	Pico Rivera	Vernon
Chino	Garden Grove	Lawndale	Pomona	West Covina
Claremont	Glendale	Long Beach	Rancho Cucamonga	Whittier
Colton	Glendora	Los Angeles	Rialto	Yucaipa
Commerce	Hawaiian Gardens	Lynwood	Riverside	

Q. WILL ICLFA AND ITS MEMBER CITIES HAVE FINANCIAL LIABILITY?

A. No. Neither ICLFA nor its member cities will have any liability for repayment of the bond funds. The bonds are supported by the non-profit's revenues and, as such, are revenue bonds. In oversimplified lay terms, there are some risks in purchasing revenue bonds as an investment, just as there are risks in any other investment (see ICLFA General Legal Counsel [Burke, Williams & Sorensen] opinion letter re liability dated October 23, 2002). A disclosure document, required by law, will provide all necessary information to purchasers of the revenue bonds.

Q. WILL EACH SEPARATE BOND ISSUE REQUIRE THE APPROVAL OF ICLFA?

A. Yes. There will be a complete set of documents prepared, including an issuer's letter on every issue. ICLFA will take an action on each issue.

Q. WILL THERE BE A CAP ON THE AMOUNT OF REVENUE BONDS ISSUED?

A. No. It is the intent of ICLFA to issue revenue bonds in an amount necessary to cover the purchase of each project. For example, if ICLFA had been a partner of Millennium Housing Corporation (the current ICLFA non-profit partner) over the last year approximately \$40 million of mobilehome park funding could have been provided. The Millennium Housing Corporation purchases ranged between \$4 million and \$16 million.

When ICLFA was providing lease funds to cities through the "ELVIS" program for equipment purchases and capital projects funding in an amount adequate to cover the demand was made available. When ICLFA provided funds for home mortgages through the "FreshRate" program, the same principal was followed.

Q. WHAT ARE THE AFFORDABLE HOUSING REQUIREMENTS ASSOCIATED WITH THE ANTICIPATED PROGRAM?

A. While every deal will be unique, depending on the circumstances and level of city participation, if any, the regulations are generally as follows:

With regard to the affordability of a mobilehome park, 20% of park residents must be low income in order for the deal to qualify for the issuance of Tax-Exempt Bonds. "Low income" is defined as 50% of the area median income by household size, which is provided annually by HUD. In addition to the income requirements, 50% of the low-income units will also carry a rent restriction, which considers the total housing cost (i.e., both space rent and mortgage or rental cost of mobilehome). In some cases, depending on city participation, other restrictions will be applicable.

Q. WHAT ARE THE SPECIFICS OF THE FIRST ICLFA REVENUE BOND ISSUE RELATING TO MOBILEHOME PARK PURCHASES?

- A. There is no deal on the table because ICLFA cannot issue any bonds until Amendment No. 3 is approved by two-thirds of the member city city councils. ICLFA has, however, entered into an agreement with a non-profit (Millennium Housing Corporation) to fund the purchase of mobilehome parks if and when the amendment is approved.

There are, however, many similar bond issues in place, all of which have previously been reviewed and approved by cities. Typically, the ICLFA issues will be similar to those deals.

- Q. WHY SHOULD ICLFA MEMBER CITIES PROVIDE A PROGRAM THAT WILL NOT BENEFIT EVERY EXISTING MEMBER?**

- A. California is facing a major housing crisis. The provision of affordable housing will require innovative strategies and techniques. For several years, ICLFA has focused on regional housing programs through the Banc One "FreshRate" program and now the ICLFA/California Rural Home Mortgage Finance Authority (Cal Rural) partnership.

In that regard, it has been clearly demonstrated that the purchase of mobilehome parks by non-profits nearly always results in: the creation and maintenance of an excellent management structure; provides improved operations, maintenance and housing units; locks in affordable housing rental rates for the term of the financing; and gives cities credit for providing affordable housing. In addition, in almost all cases, tenant/landlord disputes and controversies are virtually eliminated.

Amendment No. 3 will allow ICLFA to provide member and associate member cities with a tool to expand affordable housing working together on a regional basis rather than having to structure programs and issue bonds individually. All previous ICLFA programs were conceived and operated based on the same philosophy.

While ICLFA and its member cities cannot solve the State's housing problems, the Authority can help.

- Q. WILL CITIES THAT ARE NOT CURRENTLY A MEMBER OR ASSOCIATE MEMBER OF ICLFA BE ALLOWED TO PARTICIPATE?**

- A. Yes, after becoming an associate member. They will then also be able to participate in ICLFA's other programs. ICLFA has expanded over the years from eight cities to fifty-four cities because of the value of the programs provided.

- Q. WHAT HAS ICLFA DONE SINCE ITS INCEPTION?**

- A. Beginning in 1988, ICLFA provided funding to cities for equipment and capital projects. The funds were provided through a pooling program by issuing approximately \$50 million of tax exempt lease revenue bonds and tax exempt certificates of participation. The cities borrowing the funds and ultimately the letter-of-credit bank assumed all liability for the funds. ICLFA and its member cities had no liability unless a city was a

direct participant, in which case the city was liable for the funds it borrowed.

In 1998 and 1999, after approval of an amendment to the Joint Powers Agreement, ICLFA provided funding for home mortgages through the issuance of \$115 million of taxable single family mortgage revenue bonds. Liability for the bond funds was assumed by GNMA.

At this time, through a partnership with Cal Rural, ICLFA provides home mortgages, including 6% of down payment and closing costs, to qualified individuals to purchase homes. The issuer in this program is Cal Rural. Between March 15, 2002 and October 15, 2002 the ICLFA partnership with Cal Rural has allowed 200 families to own homes. ICLFA is indemnified from any and all financial liability relating to the ICLFA/Cal Rural programs.

Q. WHO BELONGS TO ICLFA?

A. ICLFA has eleven full members who make all policy decisions relating to the Authority. In addition, there are forty-three associate members who participate in the programs, provide input on all matters, but do not have a vote (see ICLFA letterhead for a listing of member cities).

Q. WHEN WILL AMENDMENT NO. 3 TO THE JOINT POWERS AGREEMENT BE EFFECTIVE?

A. The amendment will be effective after two-thirds of the eleven member city city councils approve it. If the amendment is not approved, the program proposed by the ICLFA Board will not be implemented.

Q. WHO CREATED ICLFA?

A. ICLFA was created by the cities of Baldwin Park, Compton, El Segundo, Hawthorne, Huntington Park, Indio, Lynwood and Manhattan Beach, with Independent Cities Association sponsorship and staffing. A cadre of elected officials, city managers, finance directors and city attorneys from the noted cities spearheaded the organizational efforts. The purpose for creating the Authority was to provide cities with a vehicle that could provide programs to multiple cities on a cost effective basis. ICLFA has been successful in the past and will continue to be successful. Over the years, membership in the Authority has been expanded to the current level of fifty-four members due to the effectiveness and efficiency of the joint powers concept. Each time a city is added a city council takes an affirmative action based on a staff recommendation and city attorney review.

Q. IS IT IMPORTANT THAT THE APPROVAL BE EXPEDITED?

A. Yes, within a reasonable time frame. The ICLFA Board is prepared to move forward with this program as soon as the amendment is approved. Long delays in member city approval will simply delay ICLFA participation in important purchases. The ICLFA Board anticipates that two-thirds of the member cities will take action before the end of November.

If you have questions not answered in the staff report and in this memorandum, please call me at (877) 906-0941.

David Smith
Program Administrator

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SECTION 1. That the City Council hereby approves Amendment No. 3 to Joint Powers Agreement creating The Independent Cities Lease Finance Authority in the form presented to this meeting and on file with the City Clerk.

SECTION 2. That the Mayor of the City is hereby directed to give the Authority notice of such approval in accordance with the notice requirements of Article 23 of the Joint Powers Agreement.

SECTION 3. That this resolution shall take effect and be in force immediately upon its adoption.

SECTION 4. That the City Clerk shall certify to the passage and adoption of this resolution and cause the same to be entered into the book or original resolutions of the City.

PASSED, APPROVED and ADOPTED this _____ day of November, 2002.

PRESIDENT of the City Council and **MAYOR** of the City of Hermosa Beach, California

ATTEST:

APPROVED AS TO FORM:

City Clerk

City Attorney