

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: October 23, 2015

CAO File No. 0220-00540-1150

Council File No. 99-1272-S1

Council District: Citywide

To: The Mayor
The Council

From: Miguel A. Santana, City Administrative Officer



Reference: Housing and Community Investment Department Transmittal dated September 17, 2015; Received by the City Administrative Officer on September 22, 2015

Subject: **REQUEST FOR AUTHORIZATION TO CREATE TWO NEW ASSET PROTECTION ACCOUNTS WITHIN THE HOUSING PRODUCTION REVOLVING FUND AND THE LOW AND MODERATE INCOME HOUSING FUND; AND APPROPRIATE \$500,000 INTO THE ACCOUNTS FOR AS-NEEDED ASSET PROTECTION**

SUMMARY

In a transmittal dated September 17, 2015, the Housing and Community Investment Department (HCID) requests authority to establish a new Asset Protection account within the HCID Housing Production Revolving Fund No. 240 and appropriate \$250,000 into the account. Subsequently after release of their transmittal, the Department requests to establish a second Asset Protection account within the HCID Low and Moderate Income Housing Fund No. 55J and appropriate an additional \$250,000 of Los Angeles Community Redevelopment Agency (CRA/LA) program income into the account.

The total of \$500,000 in Asset Protection funds will be used on an as-needed basis for time-sensitive expenditures in enforcing and protecting the City's liens, covenants, collateral and real estate assets. This Office concurs with the Department's request to create two new Asset Protection accounts and appropriate a total of \$500,000 into the accounts for as-needed expenditures related to the City's liens, covenants, collateral and real estate assets.

BACKGROUND

The HCID manages approximately \$1.9 billion in City assets, consisting of approximately 43,000 housing units, which includes 23,000 units that were recently transferred to the City from the CRA/LA (C.F. 12-0049). In 2001, an Asset Protection account was first established within the Rental Rehabilitation Program Fund No. 562 for time-sensitive expenses related to asset protection and loss mitigation for properties owned, controlled or financed by HCID (C.F. 97-0426 and C.F. 99-1272). Historically, Asset Protection funds have been utilized for activities that

include: 1) advancing funds to pay past due senior loan obligations to avoid third-party foreclosure; 2) advancing funds to pay delinquent property taxes to avoid tax foreclosure; 3) paying unfunded litigation and settlement costs associated with borrower disputes; 4) funding insurance, emergency repairs, and receiverships to protect at-risk HCID financed properties; 5) funding the enforcement of lender rights for the protection of HCID loan and security; and 6) funding the management, maintenance, insurance and repair of properties owned or controlled by HCID.

The use of Asset Protection funds allows HCID to defend against the loss of existing City liens and affordability covenants. Asset Protection funds may also be used to fund emergency repairs and receiverships for properties, where existing borrowers' non-compliance with City agreements and HCID loans or questionable property management practices place both the collateral and residents/tenants at risk. The Department can use Asset Protection funds to take action to protect against property neglect, the non-payment of debts and theft of assets. Without the availability of these funds, HCID may be at risk of significant financial losses due to the deterioration of the collateral.

All real estate properties owned and controlled by HCID, including properties transferred from the former CRA/LA, are insured, secured and maintained until appropriate disposition of a property authorized by Mayor and Council. Challenges to owning and controlling vacant assets include but are not limited to: vandalism and trespassing, trash dumped at the site, fire hazards resulting from uncontrolled growth of vegetation, and blight and crime which can create significant liabilities for the City. The HCID requests to utilize the Asset Protection funds to protect vacant HCID-owned real estate and address property management challenges that may occur on an as-needed basis.

From Fiscal Year (FY) 2010-11, through FY 2014-15, HCID has expended an average of approximately \$800,000 per year in funds from Asset Protection accounts. These annual expenditures have ranged from a high of approximately \$1 million for FY 2010-11 to a low of approximately \$600,000 for FY 2011-12. The HCID requests that two new Asset Protection accounts be created for FY 2015-16, containing \$250,000 each for a total of \$500,000. One account will be within the HCID Housing Production Revolving Fund No. 240 while the other will be within the HCID Low and Moderate Income Housing Fund No. 55J. There is \$2.6 million available in the HCID Housing Production Revolving Fund No. 240 and \$4.2 million available in the HCID Low and Moderate Income Housing Fund No. 55J for the creation of the new accounts. This \$500,000 request represents 0.026% of HCID's \$1.9 billion asset portfolio.

As of August 2015, the combined total of remaining available funds in existing Asset Protection accounts created from prior fiscal years is approximately \$6,700. It is anticipated that HCID will incur \$45,000 in loss mitigation expenses by October 2015. When all prior year account balances are exhausted, HCID will continue to pay for expenditures from the 43M221 Asset Protection account, as recommended in this transmittal. The HCID will request additional increases to the Asset Protection account if there are funding shortages for anticipated expenses.

This Office concurs with the Department's request to authorize the creation of two new Asset Protection accounts, appropriation of \$250,000 into each of those accounts, and HCID to expend

a total of \$500,000 on an as-needed basis for the continued protection of the loan portfolio and real estate assets managed by the Department. A copy of the HCID transmittal dated September 17, 2015 has been forwarded to the City Attorney for concurrent review and approval as to form and compliance with the City's contracting requirements.

RECOMMENDATIONS

That the Council, subject to the approval of the Mayor, take the following actions:

I. Authorize the Controller to:

A. Establish new accounts and appropriate as follows

Fund	Account	Title	Amount
Low and Moderate Income Housing Fund No. 55J	43M221	Asset Protection	\$ 250,000
Housing Production Revolving Fund No. 240	43M221	Asset Protection	250,000
Total			\$ 500,000

B. Expend funds in an amount not to exceed \$500,000 from Account 43M221 Asset Protection upon proper written demand of the General Manager of the Housing and Community Investment Department (HCID), or designee, for costs related to the protection, loss mitigation, and/or enforcement of the City's liens, covenants, collateral, and real estate owned properties; and,

II. Authorize the HCID General Manager, or designee, to prepare Controller instructions and make any necessary technical adjustments consistent with Mayor and Council actions on this matter, subject to the approval of the City Administrative Officer, and authorize the Controller to implement these instructions.

FISCAL IMPACT STATEMENT

There will be no impact on the General Fund. The recommendations in this report authorize the creation of two new accounts with \$250,000 each, one within the Housing Production Revolving Fund No. 240 and one within the Low and Moderate Income Housing Fund No. 55J. The recommendations in this report are in compliance with the City's Financial Policies in that the appropriations are from special funds.