

TRANSMITTAL

To:

THE COUNCIL

Date:

SEP 21 2015

From:

THE MAYOR

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.



ERIC GARCETTI
Mayor

Ana Guerrero



Eric Garcetti, Mayor
Rushmore D. Cervantes, General Manager

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September 17, 2015

Council File: New
Council District: Citywide
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Honorable Eric Garcetti
Mayor, City of Los Angeles
Room 303, City Hall
200 N. Spring Street
Los Angeles, CA 90012

Attention: Mandy Morales, Legislative Coordinator

COUNCIL TRANSMITTAL: REQUEST FOR AUTHORITY TO APPROPRIATE \$250,000 FOR ASSET PROTECTION AND LOSS MITIGATION

SUMMARY

The Los Angeles Housing + Community Investment Department (HCIDLA) requests for a new account to be established within the Housing Production Revolving Fund for unanticipated Asset Protection and Loss Mitigation (Asset Protection) expenditures that may be incurred for the continued protection of the loan portfolio and real estate assets managed by HCIDLA. The HCIDLA portfolio is currently valued at \$1.9 billion. HCIDLA also requests for authority to expend Asset Protection funds in the amount of \$250,000 on an as-needed basis for time-sensitive expenditures in enforcing and protecting the City's liens, covenants, collateral and real estate assets.

RECOMMENDATIONS

The General Manager of HCIDLA respectfully requests the following:

- I. That your office schedule this transmittal for consideration at the next available meeting(s) of the appropriate City Council committee(s) and forward it to the City Council for review and approval immediately thereafter;
- II. That the City Council, subject to the approval of the Mayor, take the following actions:
 - A. Authorize the Controller to establish a new account within the Housing Production Revolving Fund No. 240, entitled 43M221 Asset Protection, and appropriate \$250,000 to the new account;

- B. Authorize the Controller to expend funds not to exceed \$250,000 from account 43M221 Asset Protection within the Housing Production Revolving Fund No. 240, upon proper written demand of the General Manager of HCIDLA, 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
- C. Authorize the General Manager of HCIDLA, or designee, to prepare Controller instructions and make any necessary technical adjustments consistent with the Mayor and City Council actions, subject to the approval of the City Administrative Officer, and authorize the Controller to implement these instructions.

BACKGROUND

HCIDLA manages approximately \$1.9 billion in City assets, consisting of over 5,300 affordable housing loans and 35 occupied or vacant City-owned properties. In 2001, an Asset Protection account was established by the Mayor and Council for time-sensitive expenses related to asset protection and loss mitigation for properties owned, controlled or financed by HCIDLA, formerly the Los Angeles Housing Department (CFs 97-0426 & 99-1272). Requests for the expenditure of Asset Protection funds are initiated by HCIDLA to protect and mitigate against potential losses regarding City liens, covenants and properties owned, controlled or financed by HCIDLA. Asset Protection funds are 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 HCIDLA financed properties; 5) funding the enforcement of lender rights for the protection of HCIDLA loan and security; and 6) funding the management, maintenance, insurance and repair of properties owned or controlled by HCIDLA.

As stated above, the use of Asset Protection funds would prevent third-party or property tax sale foreclosure, and allow for HCIDLA to defend against the loss of existing City liens and affordability covenants. Without Asset Protection funds, HCIDLA could lose City liens through the foreclosure on properties that would result in the total loss of HCIDLA loans on affordable housing projects. HCIDLA would also lose affordability covenants through foreclosure actions which may result in: 1) the loss of affordable housing units; and, 2) an obligation to repay federal housing grant funds for failure to meet national objectives related to affordability.

Asset Protection Funds may be used to fund emergency repairs and receiverships for properties, where existing borrowers' non-compliance with City agreements and HCIDLA loans or questionable property management practices place both the collateral and residents/tenants at risk. The availability of Asset Protection funds allow for HCIDLA to take action to protect against property neglect, the non-payment of debts and theft of assets. Otherwise, HCIDLA may be at risk of property neglect, resulting in health and safety hazards to the residents of the affordable housing properties owned, controlled or financed by HCIDLA. In addition, HCIDLA may also risk significant financial losses due to the deterioration of the collateral.

All real estate assets owned and controlled by HCIDLA are insured, secured and maintained until appropriate disposition of a property authorized by Mayor and Council. Historical 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. HCIDLA requests to utilize the Asset Protection funds to protect vacant HCIDLA-owned real estate and address property management challenges that may occur on an as-needed basis.

HCIDLA requests that a new Asset Protection account 43M221 be established for Fiscal Year 2015-16; and, \$250,000 be appropriated from Housing Production Revolving Fund No. 240 for the continued protection and maintenance of the HCIDLA loan portfolio and real estate assets. HCIDLA will subsequently request additional increases to the Asset Protection account if there are funding shortages for unanticipated expenses. This \$250,000 request represents 0.04% of the \$1.9 billion asset portfolio. There is \$2.6 million available within the Housing Production Revolving Fund No. 240 for the creation of the new account.

From Fiscal Year 2010-11 through Fiscal Year 2014-15, HCIDLA has expended an average of approximately \$800,000 per year in funds from the Asset Protection account. These annual expenditures have ranged from a high of approximately \$1 million for Fiscal Year 2010-11 to a low of approximately \$600,000 for Fiscal Year 2011-2012.

As of August 2015, the combined total of available funds in existing Asset Protection accounts created from prior fiscal years is approximately \$6,700. The \$6,700 in available funds will continue to be utilized for loss mitigation or property management expenses as intended by the Mayor and Council. When all prior year account balances are exhausted, HCIDLA proposes to continue to pay for expenditures from the 43M221 Asset Protection account, as recommended in this transmittal. It is anticipated that HCIDLA will incur \$45,000 in loss mitigation expenses by October 2015.

FISCAL IMPACT STATEMENT

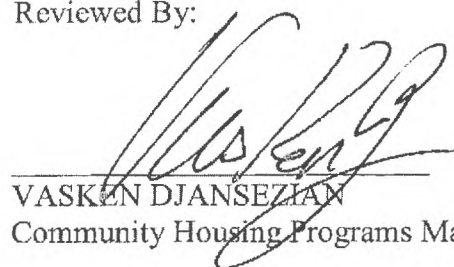
There is no impact to the General Fund. The recommendations in this report will authorize the creation of a new account in Housing Production Revolving Fund No. 240, and allow for HCIDLA to expend \$250,000 on an as-needed basis for the continued protection of the loan portfolio and real estate assets managed by HCIDLA. Within Housing Production Revolving Fund No. 240, there is \$2.6 million available for the creation of the new account.

Prepared By:

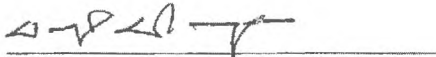


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