REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: June 10, 2011

CAO File No. 0220-00540-0948
Council File No. 11-0932
Council District: All

To: The Budget and Finance Committee

From: Miguel A. Santana, City Administrative Officer

Reference: Report from the Housing Authority of the City of Los Angeles (HACLA) dated June 6, 2011 (C.F. 11-0932); City Administrative Officer Report dated June 3, 2011 (C.F. 11-0932); Supplemental Report from HACLA provided as the Attachment

Subject: **REQUEST FOR ADDITIONAL INFORMATION RELATIVE TO THE HOUSING AUTHORITY OF THE CITY OF LOS ANGELES' (HACLA) REQUEST TO WAIVE PAYMENT IN LIEU OF TAXES (PILOT) FEES**

SUMMARY

At the Budget and Finance Committee (Committee) held June 6, 2011, the Committee heard and discussed reports from the Housing Authority of the City of Los Angeles (HACLA) and this Office relative to a request from HACLA that the City waive the Payment In Lieu Of Taxes (PILOT) fees for the years 2005 through 2011 at an estimated total amount of $14.2 million (C.F. 11-0932). At that meeting, the Committee requested HACLA and this Office to report back with additional information on various topics. HACLA has submitted a Memorandum, provided as the Attachment, to address the additional detail requested by the Committee. HACLA's responses are summarized in the following sections, along with additional information provided by this Office.

Use of PILOT fees to Provide a One-Time Budget Solution for HACLA

The HACLA requests to utilize $5 million of the waived 2005-2011 PILOT fees to off-set federal budget cuts to HACLA. As detailed in the Attachment, HACLA indicates that the federal budget cuts to HACLA in the current year total $7.7 million. The Authority anticipates that this $7.7 million reduction will be an on-going reduction. Due to the difference between the federal fiscal year and HACLA's fiscal year, the Authority indicates that this reduction would have to be implemented in a six-month period, as opposed to a full year. HACLA has already implemented a number of off-setting measures, totaling $2.7 million, to partially mitigate the $7.7 million federal reduction. These measures include expenditure reductions, increased revenues, and other measures as listed within Table One on Page Four of the Attachment. The Authority is requesting the remaining $5 million of the federal reduction be mitigated with the PILOT fee monies. The Authority indicates the use of the PILOT fee waiver for this purpose would be a one-time solution, as the Authority has already begun measures to reduce on-going expenditures through the elimination of staffing, as salary expenditures consist of approximately 80 percent of the Authority's budget.

If the Authority were to reduce staffing in the second half of the current year, HACLA indicates the Authority would be required to lay off approximately twice as many staff in order to achieve the savings required to off-set the entire $5 million. HACLA has estimated that a total of 105 staff members, including 69 staff in the Section 8 program and 35 staff in the Public Housing program, would have to be laid off in the current year in order to achieve the $5 million in savings. More detail regarding these staff reductions can be found on Page Two of Attachment, as well as on the Attachment to HACLA's Memorandum which provides a specific position breakdown for the 35 positions in the Public Housing program. Note that the Authority's calculations assume seven months of salary savings, which would not be attained as it is currently mid-June and HACLA's fiscal year ends December 31. Therefore, the actual amount of staff required for layoff would likely be higher than the 105 positions. Additionally, HACLA has also indicated that due to staff bumping rights and other layoff procedures, it would like take time for the layoff process to occur, resulting in even more staff required to be laid off in order to achieve the $5 million in savings. HACLA notes that allowing the Authority to utilize the $5 million in PILOT funds in the current year will allow them to begin the layoff process, which will still likely require that the Authority reduce staffing by approximately 50 positions in order to achieve the on-going reduction for this $5 million.

Additionally, the Committee requested this Office report on whether it would be precedent-setting for the City to waive PILOT fees for the purpose of providing a budget solution for HACLA. The City has waived HACLA's PILOT payment since 1988. In 1992, the City approved the waiver of HACLA's PILOT payment for the years 1988 through 1992 (C.F. 92-0208). At that time, HACLA indicated that the Authority's rising operational costs resulted in annual operating budget deficits as high as $3.9 million in 1990, resulting in the inability of HACLA to make the PILOT payments. Therefore, use of $5 million as proposed by the Authority to be utilized to offset a current budget deficit in HACLA is consistent with the justification authorizing this prior waiver for the years 1988 through 1992, which were made due to HACLA's adverse budgetary conditions.

A subsequent Council waiver of PILOT fees occurred in 1996, waiving the PILOT payment for the years effective from 1993 through 2002 (C.F. 92-0208). During this waiver, the Council and Mayor were provided information relative both to HACLA's funding shortfalls as well as City's funding shortfalls associated with making needed street repairs within and adjacent to HACLA's public housing developments. Pursuant to the Cooperation Agreement between the City and HACLA, which is included within Division Eight, Chapter Six of the Los Angeles Administrative Code, the City is responsible for providing a variety of City services to HACLA, including street maintenance and repair. HACLA, and what was at that time the Department of Public Works, Bureau of Street Maintenance, reported that there were approximately 23.8 miles worth of streets within and adjoining HACLA's public housing developments that were in need of repair, for which the City had not identified funding to make the needed repairs (C.F. 95-2113). The City waived the PILOT fees for the years 1993 through 1996 so that the PILOT funds could be utilized by HACLA exclusively for street repairs. The waiver for the years 1997 through 2002 was approved so that the PILOT funds could be utilized for continued street repair, infrastructure projects, and HACLA policing services.

The City's last waiver of PILOT fees occurred in 2004 for the years including 2003 and 2004. The 2003-2004 waiver directed HACLA to utilize waived PILOT funds for supplemental policing services to be provided by the Los Angeles Police Department (C.F. 04-0661). These supplemental policing services were necessary due to HACLA's decision to eliminate the HACLA Police Department due to funding shortfalls (C.F. 01-1561).

Detail of the $4 million in PILOT Fees Requested for Jordan Downs

The Committee requested that HACLA provide additional detail as to how the $4 million in PILOT fees proposed to be waived to support infrastructure improvements at the Jordan Downs public housing project would be utilized. In 2008, HACLA acquired a vacant property located adjacent to the existing Jordan Downs public housing development. The proposed redevelopment of Jordan Downs incorporates both the existing Jordan Downs site and the newly acquired parcel, and includes the extension of Century Boulevard through the housing development to meet Alameda Street. Because the newly acquired land was previously an industrial property, several environmental studies have identified the presence of heavy metals and petroleum hydrocarbons that require remediation and/or mitigation. HACLA indicates that initial estimates of this remediation and/or mitigation cost vary between $4 million to $10 million. The $4 million in PILOT fees that HACLA is requesting to be waived associated with Jordan Downs would be utilized to fund these remediation and/or mitigation costs, in full or part depending on final cost estimates. HACLA provides additional detail regarding the Jordan Downs project on Page Three of the Attachment.

Utilizing PILOT funds for Infrastructure Improvements to Smaller HACLA-owned Properties

HACLA proposes to use a total of $2.4 million of the 2005-2011 PILOT funds for installation of ADA-compliant sidewalks, trash bin enclosures, and other infrastructure improvements at various public housing developments. A breakdown of the infrastructure improvements by location was provided in Table Four on Page Three of HACLA's Memorandum dated June 6, 2011 (C.F. 11-0932). The Committee requested information on whether some of these PILOT funds for infrastructure improvements could be used for improvements to some of HACLA's smaller housing projects, as opposed to all being directed to the large public housing developments. At the Committee hearing on June 6, 2010, HACLA verbally suggested that the large public housing developments are the areas that the Authority believes that have the greatest need for infrastructure improvements. Additionally, within the Attachment, HACLA indicates that the smaller, scattered site housing projects are owned by HACLA's associated non-profit Asset Management section. Therefore, these sites are not incorporated into the PILOT fee calculation.

Annual Reports Relative to the PILOT Payment Fee Obligation

The request pending before the Committee is associated with waiving PILOT fees for the seven years effective from 2005 through 2011. The Committee requested that HACLA provide annual information relative to PILOT fees, so that the City is not in the position of waiving fees for multiple prior years at once. An additional associated issue referenced by the Committee is that there is currently no requirement that HACLA provide follow-up information to the Council and Mayor to verify that waived PILOT fees are utilized for the specific purposes for which they have been directed. This Office recommends that HACLA be instructed to provide an annual report to the Council and Mayor no later than July 1 of each year, in order to request waivers of PILOT fees as applicable and to report on actual expenditures associated with PILOT fees previously waived. For future waivers of PILOT funds, HACLA has indicated a desire to request waivers for up to five years at a time and in advance, so that the Authority can better plan for infrastructure and other improvements that would be made with the waived PILOT fees.

RECOMMENDATION

That the Council, subject to the approval of the Mayor, instruct the Housing Authority of the City of Los Angeles (HACLA) to provide an annual report to the Council and Mayor no later than July 1 of each year, in order to request waivers of Payment in lieu of Taxes (PILOT) fees as applicable and to report on actual expenditures associated with PILOT fees previously waived.

FISCAL IMPACT STATEMENT

There no impact to the General Fund as a result of approval of the recommendation of this report. The recommendation directs the Housing Authority of the City of Los Angeles (HACLA) to provide annual reports relative to the Payment in lieu of Taxes (PILOT) fees, which should include requests for waivers of the PILOT fees as applicable. This Office would need to address any fiscal impacts associated with the payment or waiver of these PILOT fees subsequent to any report submitted by HACLA.

MAS:MAF:02110206c

Attachment: HACLA Inter-Office Memorandum dated June 9, 2011

ATTACHMENT

HOUSING AUTHORITY OF THE CITY OF LOS ANGELES
INTER-OFFICE MEMORANDUM

June 9, 2011

TO: Councilmember Bernard C. Parks, Chair, Budget & Finance Committee, Los Angeles City Council

FROM: Ken Simmons, Interim-President & Chief Executive Officer

CC: Councilmember Greig Smith, Vice Chair, Budget & Finance Committee
Councilmember Jose Huizar, Council District 14
Councilmember Paul Koretz, Council District 5
Councilmember Bill Rosendahl, Council District 11

SUBJECT: **Request for Additional Expenditure Detail for HACLA Use of PILOT Funds**

Purpose

The purpose of this memorandum is to provide the Chair and members of the Budget and Finance Committee of the Los Angeles City Council additional information as the HACLA proposed uses of Payment in Lieu of Taxes (PILOT) funds, if waived, and proposed budget reductions.

Background

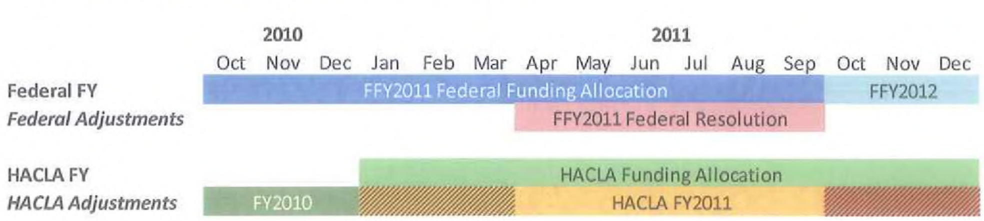
The federal fiscal year (FFY) runs from October 1 through, and including, September 31 of the following year. The Housing Authority's fiscal year (FY) runs from January 1 through, and including, December 31 of the same year. The FFY2011 runs from October 1, 2010, through, and including, September 31, 2011.

The federal government funded its operations from October 1, 2010, until mid-April 2011 by passing, with presidential approval, multiple short-term Congressional Continuing Resolutions. On April 15, Congress and the President resolved the budget impasse, which included significant reductions to appropriations supporting public housing and public housing authorities.

Analysis

Effects of Staggered Fiscal Years. The mid-FFY federal budget resolution exacerbates the Housing Authority's budgetary position because of the staggered schedules of the federal and HACLA fiscal years and appropriations. As mentioned above the FFY starts October 1, whereas the Housing Authority's FY starts January 1. Although the budgetary reductions will be apportioned over the FFY, in reality, the cuts will result in magnified reductions that will to be instituted during the last six months of the FFY.

Expenditure Pressures on HACLA Operations



As the illustration to the right shows, the staggered schedules of the two fiscal years will significantly affect the Housing Authority's ability to "artfully" respond to the federal budget actions. As the above illustration shows HACLA will have to institute the federal budget reductions within the same time period as federal departments, agencies, and other public housing authorities. However, because HACLA has already reconciled its finances for FY2010, the Housing Authority will not be able to adjust its financial ledgers for the last three months of FY2010 (dark green area), nor modify expenditures for the first three months of its FY2011 (orange-hashed area). Finally, because the new FFY starts October 1 of this year, HACLA will not be able to *reliably* project its appropriations for its operations for the last three months of FY2011.

A. *Housing Choice Voucher, Section 8 Program*

The retroactive 8% reduction in Section 8 administrative fees for 2011 will require a 16% staff cut to implement in the remaining 6 months of the year, this will result in a $3.1 million shortfall or elimination of 69 full-time staff. **Loss of 69 staff will have a severe negative impact on all operations, but especially new leasing and housing homeless families**. If these cuts occur, Section 8 projects the loss of housing for 2,000 families by 2012 due to inability to replace attrition and delays in leasing new families. The long term negative impact is even worse. Annual Section 8 budgets are based on previous year assistance expenditures, so reduced leasing in 2011 and 2012 will result in a long term and probably permanent reduction in housing assistance for thousands of Angeleno families and the irreplaceable loss of tens of millions of dollars of federal assistance to Los Angeles into the future.

Section 8 program objectives and metrics will suffer drastically in all areas, with widespread delays in processing all work, including inspections, re-examinations, family share reductions due to lost CA benefits, rent increases due to landlords, voucher issuance for the homeless, all resulting in the loss of housing for many due to operational incapacity, and severe and probably crippling increases in landlord and tenant complaints. The agency administrative standard will likely be reduced to troubled status, barring us from competing for any new resources from HUD.

B. *Public Housing*

The net effect of a midyear $1.9 million budget cuts will be the elimination of at least 35 positions in the Housing Services Department. This Department manages all aspects of public housing. Over the past several years, gains have been made in the appearance of housing developments, elimination of vacant units and improvement in service delivery of maintenance services. Elimination of these positions would result in a major decline in repair of units at all of our developments. Public housing has deferred maintenance in excess of a half billion dollars due to federal under funding. Vacancies would also increase without staff to process applicants and meet regulations. HACLA has previously achieved a 1% vacancy rate with a waiting list of more than 24,000. Finally, computer labs at 11 sites would likely be shuttered. These labs are heavily used by young people for homework assistance and adults performing job searches and would completely undermine current efforts with the city's WIA program.

C. *Jordan Downs Redevelopment Project*

HACLA acquired a 21-acre, vacant former industrial property (Property) adjacent to its public housing community of Jordan Downs in April 2008. In the past, the Property had periodically been the site of a variety of steel mill and steel processing plants. The strategy to acquire the property was based on facilitating HACLA's plans to redevelop Jordan Downs into a vibrant, mixed-income and mixed-use urban village. The vacant status of the Property will allow HACLA to rebuild Jordan Downs in phases in order to minimize the disruption in the lives of the existing public housing residents. No relocation or demolition of any existing homes will be required in the first phase of the redevelopment. Existing public housing resident can move into new homes built in the first phase to release sites for the next phase.

The redevelopment Master Plan envisions building 350 to 400 residential units, in excess of 200,000 square feet of office and retail product, a community service building and a park in the first phase located on the Property. In addition, Century Boulevard, which currently dead ends at the western boundary of Jordan Downs, is planned to be extended to Alameda Street in this phase. The new extended Century Boulevard will serve as the main spine of the redeveloped community and is anticipated to reconnect it with the greater Watts neighborhood. In short, the acquisition of the Property was instrumental and has allowed for HACLA's vision of a redeveloped Jordan Downs to proceed.

HACLA commissioned several site environmental studies which have identified the presence of heavy metals and petroleum hydrocarbons on the Property in amounts that exceed California Human Health Screening Levels. In July 2010, HACLA entered into an agreement with the Department of Toxic Substances Control to oversee the ultimate remediation and/or mitigation of any hazardous substances from the Property. It is estimated that the remediation and/or mitigation of the Property will cost between $4 million to $10 million. This estimate will be narrowed subject to the findings of a future Remedial Action Plan.

Remediation and/or mitigation of any hazardous substances located on the Property are the initial critical steps necessary before HACLA can secure federal funding, build the necessary infrastructure and complete the extension of Century Boulevard.

Generations of Jordan Downs residents have unwittingly been living next to an industrial site which has now been identified as impacted by environmental contaminants. Through the purchase of the Property, HACLA has made a commitment to not only improve the living conditions of the Jordan Downs residents and the greater community of Watts, but to also rid the neighborhood of an unsightly and potentially dangerous nuisance. An environmentally-friendly, vibrant urban village will serve as a catalyst for the economic and social rejuvenation of the Watts neighborhood.

D. *Small Scattered Sites*

All of our small scattered sites were transferred over through disposition to our non-profit Asset Management section. Therefore, as a non-profit, the scattered sites do not apply to ***PILOT***.

Proposed Actions. At the June 6 meeting of the Budget and Finance Committee of the City Council, the Housing Authority provided a proposal for the expenditure of the accrued $14.2 million PILOT funds. In its proposal HACLA requested the use of $5.0 million to resolve its current fiscal year shortfall resulting from the Federal *mid-year* budget resolution.

Table 1

Summary of Budget Changes - All Programs

As of: 8-Jun-11

Program / Fund		Impact of Fed Budget Cuts		Cuts to Balance		Remaining Shortfall
Public (Low Rent) Housing	$	(2,382,536)	$	462,500	$	(1,920,036)
Non-Public Housing (Asset Management)	$	(69,006)	$	69,006	$	-
Section 8	$	(5,294,401)	$	2,188,325	$	(3,106,076)
Total Reductions - All Funds & Depts	**$**	**(7,745,943)**	**$**	**2,719,831**	**$**	**(5,026,112)**

Cuts to Balance	***$***	***(2,719,831)***
Consulting Contracts		(143,500)
Legal Services		(70,000)
Travel		(106,000)
Training		(210,000)
One Director Position		(234,000)
Inter-agency Activities & Support		(120,000)
Suspension of Merit Plan		(235,000)
New Section 8 Grant Funds		(824,160)
Reduction of Intra-Department Fees		(777,171)

Table 1 shows the program allocation and total amount of the federal budget reductions on the HACLA. The table also shows the current budget reduction items and amounts made by the Housing Authority. Although HACLA continues to assess its budgetary expenditures for additional savings, it will have to initiate personnel cuts to close the remaining budget shortfall of $5.0 million.

Personnel Cuts. In most public agencies, personnel costs constitute approximately 75 percent to 85 percent of the organization's total operating costs. The proposed budget reductions above in Table 1 represent roughly 35 percent of the total federal budget cuts to HACLA. The remaining 65 percent of the federal budget reductions will have to come out of personnel costs and positions.

Conclusion

Should members of the City Council's Budget and Finance Committee have further questions or comments, please contact me by email at david.esparza@hacla.org, or by phone at (213) 252-6190.

Attachment: breakdown of Public Housing budget reduction impact

Detail of $1.9 million Public Housing Potential Budget Reduction Impact

	Positions Cut:	FTE	Annual Salary	7mo savings
CHPS	Admin. Programs Specialist (Res. Serv.)	1	$ 74,825.00	$ 43,647.92
CHPS	CSC Project Director (Res. Serv.)	1	$ 66,789.00	$38,960.25
B&T	Ceramic Tile Setter (Per Diem)	1	$ 67,349.00	$39,286.92
B&T	Locksmith (Per Diem)	1	$ 81,772.00	$47,700.33
B&T	Laborer (Per Diem)	1	$ 60,327.00	$35,190.75
B&T	Plumber	1	$ 71,417.00	$41,659.92
B&T	Carpenter	1	$ 61,953.00	$36,139.25
SEIU	Working Foreman (IC)	1	$ 47,060.00	$27,451.67
CHPS	Assistant Mgr (EC)	1	$ 59,663.00	$34,803.42
CHPS	Tenant Relations Asst. (NG)	1	$ 55,505.00	$32,377.92
CHPS	Sr. Community Case Mgr (Res. Serv.)	1	$ 55,910.00	$32,614.17
CHPS	Sr. Community Case Mgr (Res. Serv.)	1	$ 55,910.00	$32,614.17
AFSCME	Youth Program Asst (Res. Serv.)	1	$ 45,677.00	$26,644.92
AFSCME	Youth Program Asst (Res. Serv.)	1	$ 45,677.00	$26,644.92
AFSCME	Eligibility Interviewer (AC)	1	$ 44,928.00	$26,208.00
AFSCME	Eligibility Interviewer (PDR)	1	$ 44,928.00	$26,208.00
AFSCME	Eligibility Interviewer (MVG)	1	$ 44,928.00	$26,208.00
AFSCME	Eligibility Interviewer (Res. Serv.)	1	$ 44,928.00	$26,208.00
AFSCME	Eligibility Interviewer (Res. Serv.)	1	$ 44,928.00	$26,208.00
AFSCME	Mgmt Clerk (App. Cntr.)	1	$ 40,373.00	$23,550.92
AFSCME	Mgmt Clerk (App. Cntr.)	1	$ 40,373.00	$23,550.92
AFSCME	Mgmt Clerk (Resident Serv.)	1	$ 40,373.00	$23,550.92
AFSCME	Mgmt Clerk (IC/MVG)	1	$ 40,373.00	$23,550.92
CHPS	Admin. Analyst (Resident Serv.)	1	$ 63,065.00	$36,787.92
CHPS	Language Services Coordinator	1	$ 65,662.00	$38,302.83
B&T	Buiding Repairer(WM)	1	$ 44,470.00	$25,940.83
B&T	Buiding Repairer(EC)	1	$ 44,470.00	$25,940.83
B&T	Buiding Repairer(JD)	1	$ 44,470.00	$25,940.83
B&T	Buiding Repairer(MVG)	1	$ 44,470.00	$25,940.83
B&T	Buiding Repairer(SFG)	1	$ 44,470.00	$25,940.83
B&T	Buiding Repairer(PG)	2	$ 88,940.00	$51,881.67
B&T	Buiding Repairer (trnsfr from Asset)	1	$ 44,470.00	$25,940.83
B&T	Buiding Repairer (RSP)	1	$ 44,470.00	$25,940.83
B&T	Gardener/Caretaker (JD)	1	$ 40,986.00	$23,908.50
	Total	**35**	**$ 1,805,909.00**	**$1,053,446.92**
	Benefits of 56%			$589,930.27
	Total Salary Cuts			$1,643,377.19

11 Computer Labs

One intern per site @$12.50/hr
Labs open 5 days /week, 5 hours/day
25 hrs x $12.50/hr = $312.50/week
$312.50 x 52 wks/yr = $16,250/yr
$16,250 x 11 sites = $178,750

Computer Eduction Training Specialist (Supr) = $50,773
$50,773 x 56% Benefits rate = $79,206

	$1,643,377.19
	$ 178,750.00
	$ 79,206.00
Grand Total Cuts	$1,901,333.19