

CITY OF LOS ANGELES  
INTER-DEPARTMENTAL CORRESPONDENCE

Date: 12/12/12  
Submitted in HCED Committee  
Council File No: 12-0049  
Item No.: 8  
*Joint Report from file*  
~~CAO: 0220-00540-1021~~ *CAO + CLA*  
CLA: 12-12-0982

Date: December 11, 2012

To: The Council  
The Mayor

From: Miguel A. Santana, City Administrative Officer *BH*  
Gerry F. Miller, Chief Legislative Analyst *for*

Subject: **TRANSITION OF HOUSING ASSETS AND FUNCTIONS FROM THE FORMER COMMUNITY REDEVELOPMENT AGENCY OF LOS ANGELES TO THE LOS ANGELES HOUSING DEPARTMENT**

### SUMMARY

Assembly Bill (AB) 1x26 dissolved all redevelopment agencies in California as of February 1, 2012. Consequently, on January 25, 2012, Council (C.F. 12-0049) took action to become the Housing Successor Entity to the former Community Redevelopment Agency of the City of Los Angeles (CRA/LA) and instructed the Office of the City Administrative Officer (CAO) and the Office of the Chief Legislative Analyst (CLA), with assistance of the Los Angeles Housing Department (LAHD), to report with a detailed transition plan that also identified staffing and other necessary resources.

In response to the Council instructions, LAHD issued a report on November 9, 2012 that requested authority to execute a Housing Asset Transfer Agreement, authorization for new staffing, authorization for a Reserve Fund loan, approval of various Controller instructions, and authorization to amend current contracts and to enter into new contracts.

On December 5, 2012, the Housing, Community and Economic Development (HCED) Committee approved a joint CLA/CAO report dated December 4, 2012, which authorized pre-approval of the Housing Asset Transfer Agreement to expedite the transfer of the housing assets and functions once the State Department of Finance (DOF) has approved the Housing Asset List (C.F. 12-0049). The HCED Committee also instructed the CLA/CAO to report to HCED Committee on December 12, 2012 with recommendations on LAHD's request for additional staffing and resources needed to absorb and manage the housing assets and functions to be transferred to LAHD.

In the November 9, 2012 report, the LAHD submitted a request for a \$2.1 million loan from the Reserve Fund to pay for six months of the costs for new staff, contracts and expenses associated with the transfer of the housing assets. Given the City's financial constraints, the Reserve Fund may not be used to fund the LAHD request. Therefore, our Offices recommend that the Housing Production Revolving Fund (HPRF) No. 240 be used to fund the activities associated with the housing asset transfer temporarily until the Residual Receipts payments are received. The HPRF should be used to pay for costs associated with the security, management, maintenance, repair and insurance of LAHD-owned or controlled and, therefore, is eligible to front-fund the work connected to the transfer of the CRA/LA housing assets.

Residual Receipts are derived from a portion of the rent paid by residents of affordable housing developments to repay lenders for the loans that the lenders entered into to ensure that the housing would be built. The Housing Asset List includes some of these loans, which are also referred to as "gap financing." Once the loans are transferred, LAHD portfolio management staff will calculate the Residual Receipt payments owed to LAHD and will then submit the bills and collect the Residual Receipts.

After discussions with the CAO to clarify the initial request, LAHD reduced or eliminated some of the items that were included in the original transmittal, such as leasing, property management and insurance. Also, due to the timeframe to hire the proposed staff and to execute and/or amend contracts, the CAO prorated the salary and contract costs for five months, which reduced the amount needed to complete 2012-13 to \$1.5 million. To lower the impact to the HPRF further, and in anticipation that LAHD would start receiving a substantial amount in Residual Receipts payments by June 2013, the CAO reduced the interim budget amount to \$750,000, which includes \$420,000 for salaries, \$250,000 for contracts and \$80,000 for expenses. Our Offices would work with LAHD to address any potential shortfalls before the end of the fiscal year in the Financial Status Reports. However, LAHD states that the balance in HPRF will cover the costs of this program through June 2013.

The transition of the housing assets and functions is currently on hold pending the completion of the meet and confer process between DOF and LAHD resulting from DOF's rejection of the Housing Asset List in its entirety. At the time of the release of this report, the number of housing assets to be transferred to the LAHD is unknown. In the event that significant changes are made to the Housing Asset List or if the amount of Residual Receipts actually received is lower than projected, LAHD, CAO and CLA should be instructed to report to Council with revised recommendations to this report. LAHD anticipates that the meet and confer process should be completed by January or February 2013.

This joint CAO and CLA report includes recommendations for staffing, contracts and funding for LAHD to ensure that sufficient resources are in place when the assets and functions are transferred to LAHD. The Findings section contains background and explanations for the recommendations, which comply with City Financial Policies in that ongoing funding for the proposed additional work program will be provided by Residual Receipts payments and Conduit Bond fees.

## **RECOMMENDATIONS**

That the Council, subject to the approval of the Mayor:

1. Approve the addition of the following nine resolution authorities through June 30, 2013, subject to review and approval by the Personnel Department as to classification, the Office of the City Administrative Officer (CAO) Employee Relations Division as to pay grade determination, the Managed Hiring Committee, and approval by the State Department of Finance (DOF) regarding the transfer of housing assets:

<u>Classification</u>	<u>Quantity</u>
Community Housing Programs Manager	1
Finance Development Officer II	1
Finance Development Officer I	1
Project Coordinator	1
Accountant II	2
Senior Clerk Typist	2
Programmer Analyst V	1

2. Approve the addition of the following five resolution authorities through June 30, 2013, and exempt them from civil service provisions, subject to review and approval by the Personnel Department as to classification, the CAO Employee Relations Division as to pay grade determination, the Managed Hiring Committee, and approval by the State Department of Finance (DOF) regarding the transfer of housing assets:

<u>Classification</u>	<u>Quantity</u>
Senior Project Coordinator	1
Project Coordinator	4

3. Authorize the Controller to:

- a. Establish a new interest-bearing Fund xxx titled "Low and Moderate Income Housing Fund," and new Accounts within Fund xxx for 2012-13 as follows:

<u>Account No.</u>	<u>Account Title</u>
43J143	Housing
43J299	Related Costs
43J112	City Attorney
43J411	Unallocated
43J412	Service Delivery

- b. Provide five months of interim funding in the amount of \$750,000 for the requested position authorities and direct the Controller to transfer the funds from the Housing Projection Revolving Fund No. 240 to Fund xxx/43, Low and Moderate Income Housing Fund, in the following accounts and amounts:

<u>Account No.</u>	<u>Account Title</u>	<u>Amount</u>
43J143	Housing	\$435,000
43J112	City Attorney	40,000
43J411	Unallocated	25,000
43J412	Service Delivery	250,000
	<b>Total</b>	<b>\$750,000</b>

- c. Expend funds in an amount not to exceed \$750,000 from the Fund and Accounts in Recommendation 3.b. above upon proper written demand from the General Manager, Los Angeles Housing Department, or designee;

d. Increase appropriations in Fund 100/43 in fiscal year 2012-13 as follows:

<u>Account No.</u>	<u>Account Title</u>	<u>Amount</u>
001010	Salaries, General	\$380,000
003310	Transportation	5,000
006010	Office & Administrative	50,000
	<b>Total</b>	<b>\$435,000</b>

e. Expend funds in an amount not to exceed \$435,000 from the Fund and Accounts in Recommendation 3.d. above upon proper written demand from the General Manager, Los Angeles Housing Department, or designee;

f. Increase appropriations in Fund 100/12, City Attorney, in fiscal year 2012-13 as follows:

<u>Account No.</u>	<u>Account Title</u>	<u>Amount</u>
001010	Salaries, General	\$40,000

4. Instruct the General Manager, Los Angeles Housing Department, or designee, to:

- a. Reimburse the General Fund for Related Costs incurred in 2012-13 once the Residual Receipts are received;
- b. Negotiate and execute the Third Amendment to Contract No. C-118528 with Urban Futures, Inc. to increase compensation in an amount not to exceed \$400,000 to conduct occupancy monitoring functions based on the proposed Housing Asset Transfer Agreement, subject to compliance with the City's contracting requirements, approval by the City Attorney as to form, and approval by the state Department of Finance (DOF) of the Housing Asset Transfer Agreement and Asset List;
- c. Negotiate and execute the First Amendment to Contract No. C-121127 with AmeriNational Community Services, Inc. to increase compensation in an amount not to exceed \$50,000 to service amortizing loans based on the proposed Housing Asset Transfer Agreement, subject to compliance with the City's contracting requirements, approval by the City Attorney as to form, and approval by the DOF of the Housing Asset Transfer Agreement and Asset List;
- d. Negotiate and execute the Second Amendment Contract No. C-120169 with Rydek Computer Professionals to increase compensation in an amount not to exceed \$160,000 to provide programming services to enhance current LAHD systems to manage the former CRA/LA housing assets that are included in the proposed Housing Transfer Agreement, subject to compliance with the City's contracting requirements, approval by the City Attorney as to form, and approval by the DOF of the Housing Asset Transfer Agreement and Asset List;
- e. Negotiate and execute a contract in an amount not to exceed \$150,000 with a consultant auditor via the Controller's Audit Assistance Master Service Agreement to

conduct auditing and accounting functions based on the proposed Housing Asset Transfer Agreement, for a term of one year from the date of execution, subject to compliance with the City's contracting requirements, approval by the City Attorney as to form, and approval by the DOF of the Housing Asset Transfer Agreement and Asset List;

- f. Issue a Request for Proposals (RFP) to select a document and records management contractor in an amount not to exceed \$115,000 to provide document management services based on the proposed Housing Transfer Agreement and report back to the Council and Mayor regarding the selection, or work with the Department of Building and Safety (DBS) to determine whether or not it would be feasible to use the current DBS contract for document management services; and,
  - g. Prepare Controller instructions and make any necessary technical adjustments consistent with the Mayor and Council actions, including receipts, appropriation of funds received from interest earned, repayment from borrowers of portfolios that will be transferred from the former Community Redevelopment Agency, and reimbursements to other funds, subject to the approval of the City Administrative Officer.
5. Instruct the LAHD, CAO, and CLA report to Council with revised recommendations to this report in the event that significant changes are made to the Housing Asset List.

## **FISCAL IMPACT STATEMENT**

If the recommendations in this report are adopted, there is no impact to the General Fund. However, there is an impact of at least \$750,000 to the Housing Production Revolving Fund (HPRF) No. 240 to pay for staff, contracts and expenses associated with the transfer of the housing assets from the former Community Redevelopment Agency to the Los Angeles Housing Department (LAHD). This amount does not include Related Costs, which will be paid from the Residual Receipts once they are received. In addition, the LAHD will reimburse the HPRF with Residual Receipts payments and other sources of funding that will be available as a result of the housing assets transfer. The recommendations in this report comply with City Financial Policies in that ongoing funding for the proposed additional work program and resources will be provided temporarily by the HPRF and long-term by Residual Receipts payments. Any funding issues regarding support of this work program will be addressed in the Financial Status Reports.

*MAS:GFM:MMR:MKK:02130061C*

### **Attachments:**

- 1 – Comparison of Current LAHD Staff Support to CRA Staff Support for the Housing Assets to be transferred to LAHD
- 2 – Proposed Organization for the CRA/LA Transition and Implementation Team

## Findings

### 1. Basis for Report

On June 19, 2012, Council instructed the Office of the City Administrative Officer (CAO) and the Office of the Chief Legislative Analyst (CLA), with assistance from the Los Angeles Housing Department (LAHD), to report to Council with a detailed transition plan that also identified staffing and other necessary resources to transfer the housing assets from the former Community Redevelopment Agency of Los Angeles (CRA/LA) to LAHD (C.F. 12-0049). The LAHD released a report on November 9, 2012, which included requests for staffing, authorization for a Reserve Fund loan, Controller instructions, and authority to amend current contracts and to enter into new contracts. The CLA and CAO prepared a joint report released on December 4, 2012 containing a discussion of the Housing Asset Transfer Agreement. This report adds to the December report with recommendations for staffing, contracts and funding for LAHD.

### 2. New LAHD Assets and Functions

Attachment 1 to this report lists the number and value of the assets to be transferred and the titles of the staff that supported those functions at the CRA/LA. The Attachment also compares the proposed new assets to the number of loans, covenants, bonds and grants that LAHD currently oversees.

Once the housing assets are transferred, the number of Residual Receipt Loans managed by LAHD is anticipated to increase by 79 percent from 414 to 739 loans. The number of Home Ownership Loans is anticipated to increase by eight percent from 2,045 to 2,218 loans. The 67 properties anticipated to be transferred represent a new work program for the Department. The LAHD is currently responsible for approximately 20,000 Affordable Housing Covenants which may more than double to 42,826 after the transfer of assets takes place. Rental covenants have a 30-to-55-year lifespan. Home ownership covenants generally have a 45-year life span.

Conduit Bonds are expected to increase from 139 to 165. However, the value of the Conduit Bonds overseen by LAHD is anticipated to expand by \$663 million from \$596 million to more than \$1.2 billion. In addition to loans, bonds and covenants, LAHD is expected become responsible for unexpended bond proceeds, five housing grants and a total of 32 affordable housing development projects that have not begun construction yet. The five grants include the MacArthur Foundation, the Northeast Los Angeles Collaborative, Figueroa Corridor, Crenshaw/Mid-Cities Corridor, and Yale Street Family Housing. The LAHD states that the grants do not require a cash match. The City is currently revising its Financial Policies to clarify housing and non-housing conduit bond issuance procedures.

### 3. Staffing

Based on the information in Attachment 1, prior to its dissolution, CRA/LA assigned at least 14 technical, administrative and clerical employees to manage the loans and other assets that

are slated to be transferred to LAHD. This number of staff does not include the group which managed the CRA/LA Real Estate Department.

In the November 9, 2012 report, LAHD identified 16 positions to perform the anticipated increase in workload resulting from the transfer of housing assets. The request includes management, technical, administrative and clerical employees. The plan also contains one Deputy City Attorney and one City Planner. The proposed organization chart from LAHD is found in Attachment 2.

The LAHD prepared Position Descriptions, organization charts and other supporting documentation for the 16 positions. In summary, the work performed would be as follows:

- The Community Housing Programs Manager (CHPM) is responsible for the implementation of the transition of housing assets from the CRA/LA to LAHD and directs the staff assigned to manage the transfer assets.
- The Senior Project Coordinator and five Project Coordinators will develop and monitor contracts, monitor the new loan portfolio, monitor occupancy, ensure compliance with covenants and other restrictions, outreach to potential clients, and develop administrative procedures to integrate the CRA/LA assets and functions into LAHD processes.
- The two Finance Development Officers (FDO) will manage and perform the monitoring, evaluation and reporting for loans, bonds, fees, reserves and other financial services related to the CRA/LA portfolio. The FDOs will also analyze financial data, tax returns, and budgets, and will prepare invoices and collect residual receipts and fees.
- The two Accountant IIs will monitor income, prepare financial reports, process payments and invoices, and ensure that the new assets are tracked in the City's Cost Accounting systems.
- The two Senior Clerk Typists will manage data entry, handle correspondence and reports, file and scan documents, and provide administrative support.
- The Programmer Analyst V will lead the migration of the CRA/LA's Loan Receivables System, Housing Management System and Portfolio Management System to the existing LAHD systems. This position will ensure that data from the two departments can be merged or migrated accurately.
- The Deputy City Attorney will provide legal advice on matters pertaining to the transition of functions and assets from the CRA/LA to LAHD. Once the transition is complete, the Deputy City Attorney will advise LAHD on California Redevelopment Law, real estate transactions and affordable housing projects.

- The City Planner will review and assess properties to determine their potential for development as affordable housing opportunities and will assist with the City's land-use entitlement process.

### *Three Exempt Positions*

In June 2012, the Council and Mayor approved the CHPM, a FDO I and a Project Coordinator from the 16 positions and exempted them from the civil service provisions of the City Charter (C.F. 12-0829). The three positions, which are funded temporarily from the Municipal Housing Finance Fund, are currently preparing for the transfer of the housing assets and functions to LAHD. The LAHD used vacant existing authorities to hire staff to initiate the transition process. The CHPM is employed in lieu of a Chief Management Analyst that has been vacant and used for in-lieu staffing for about three years. The FDO I is employed in lieu of a regular authority FDO II, which has been vacant since October 2011. The Project Coordinator is employed in lieu of a Management Analyst II, which has been vacant since 2008 and has been used for in-lieu staffing. The LAHD requests new resolution authorities for the three positions rather than continuing to employ them with in-lieu authorities. The CAO and CLA concur with the request to add the three exempt positions rather than continuing the use of in-lieu authorities.

### *Deputy City Attorney*

Due to the number of vacant positions in the Office of the City Attorney, our Offices do not recommend adding another City Attorney authority to support the housing asset transfer. However, funding to fill an existing Deputy City Attorney vacancy is included in the recommendations.

### *City Planner*

The Council directed the Planning Department (DCP) to prepare a plan to transition redevelopment land-use authority from the CRA/LA to DCP. A CAO report (C.F. 11-0086-S4) with recommendations to provide DCP with six new employees, including a Senior City Planner, a City Planner and two City Planning Associates, is being reviewed by Council. If approved, these Planners will provide services that are similar to those described in the LAHD transmittal. One of the recommendations in the CAO land-use transition report directs DCP and the CAO to evaluate the staffing levels and work program over time to determine if and when it may be necessary to request additional staff for Planning. If Council and the Mayor adopt the recommendations in the Planning Department transition report, the CAO and DCP would include the LAHD housing asset workload when evaluating the staffing levels for the CRA/LA land-use transition. Furthermore, LAHD does not plan to hire the proposed City Planner until six months after the housing assets are transferred. Therefore, at this time, our Offices do not recommend adding a City Planner position either to LAHD or DCP to support the CRA/LA housing asset transition. This recommendation, together with the use of a vacant Deputy City Attorney position, reduces the staffing request from 16 to 14 new positions.



*Staff Costs*

The CAO/CLA recommends approval of 14 positions and additional funding for one Deputy City Attorney III position. The total annual cost is estimated at \$2,014,879 (\$1,384,752 in salaries and \$630,127 in Related Costs). In the event that the meet and confer process between the DOF and LAHD is completed by February 2013, only five months of funding will be needed for FY 2012-13. The costs for five months of staff costs are estimated at \$839,533. Table 1 shows the annual and five-month costs for each position.

**Table 1**

**Recommended Staffing and Funding for the CRA/LA Housing Asset Transition to LAHD**

<b>Classification</b>	<b>Number</b>	<b>Annual Salaries</b>	<b>Annual Related Costs</b>	<b>Annual Total</b>	<b>Five Month Total</b>
Community Housing Programs Manager	1	\$136,179	\$56,364	\$192,543	\$80,226
Programmer Analyst V	1	113,669	47,048	160,717	66,965
Finance Development Officer II	1	119,445	49,438	168,883	70,368
Finance Development Officer I	1	109,476	45,312	154,788	64,495
Senior Project Coordinator	1	96,895	40,105	137,000	57,083
Project Coordinator	5	386,725	160,065	546,790	227,829
Accountant II	2	134,746	55,771	190,517	79,382
Senior Clerk Typist	2	128,328	53,115	181,443	75,601
<b>Subtotal</b>	<b>14</b>	<b>1,225,463</b>	<b>507,219</b>	<b>1,732,682</b>	<b>721,951</b>
Deputy City Attorney III (Using existing vacant position)	1	159,289	122,907	282,196	117,582
<b>Total</b>	<b>15</b>	<b>\$1,384,752</b>	<b>\$630,127</b>	<b>\$2,014,879</b>	<b>\$839,533</b>

*CRA/LA Staff*

The possibility of transferring CRA/LA staff to City departments has been raised during discussions about the dissolution of the CRA/LA. As previously reported by the CAO on January 31, 2012, (C.F. 12-0049), "Consistent with advice from the City Attorney, it is clear that the language in the Retention of Existing Benefits Article in the CRA/LA MOUs does not require that any employees be included when a function is transferred from the CRA/LA. The City is free to employ or not employ CRA/LA employees, but that freedom is constrained by the City's Charter, Administrative Code and labor contracts." It should be noted that union representation, where applicable, will be under existing City bargaining unit representation. In addition, the Personnel Department is notifying the CRA/LA whenever a City civil service exam opens that some of their employees are likely to qualify for. Recent examples include Senior Housing Inspector, Real Estate Officer, Housing Investigator, and Senior Housing Investigator.

*Exemptions from Civil Service*

The LAHD requested that eight of the new positions be exempted from civil service. The positions include one Community Housing Programs Manager, one Finance Development Officer I, one Senior Project Coordinator and five Project Coordinators. The LAHD states that the exemptions will allow flexibility and timeliness in hiring. The use of exempt positions would be subject to review by the Personnel Department. Table 2 lists the regular, resolution and exempt positions, including off-budget positions that are currently authorized in LAHD.

**Table 2**  
**List of Regular, Resolution and Exempt Authorities for the**  
**Los Angeles Housing Department**

<b>Classification</b>	<b>Regular / Filled</b>	<b>Resolution / Filled</b>	<b>Exempt / Filled</b>
<b>Community Housing Programs Manager</b>	4 / 3	0	1 / 1
<b>Finance Development Officer II</b>	7 / 5	0	0
<b>Finance Development Officer I</b>	18 / 18	1 / 1	2 / 2
<b>Senior Project Coordinator</b>	1 / 0	3 / 0	4 / 4
<b>Project Coordinator</b>	0	1 / 1	2 / 2
<b>Programmer Analyst V</b>	1 / 1	0	0
<b>Accountant II</b>	9 / 8	6 / 4	4 / 4
<b>Senior Clerk Typist</b>	38 / 29	3 / 3	0

*Staffing, Work Program and Transfer Timeframe*

On August 1, 2012, LAHD submitted the Housing Asset List to the DOF, which details all housing assets with an explanation indicating how those assets meet the definition. In a letter dated August 31, 2012, the DOF rejected the Housing Asset List in its entirety on the grounds that LAHD did not provide sufficient documentation to substantiate that the listed housing assets meet the definition of a housing asset. The LAHD disagrees with this determination and is currently in ongoing meet and confer discussions with DOF. The LAHD expects a final determination in early 2013.

If the City does not approve the staffing request, the LAHD states that it will not be able to perform the work associated with the housing assets and functions that will be transferred from the CRA/LA, including the ability to bill for and collect Residual Receipts and bond fees, which would impact potential income to the LAHD.

**4. Funding**

After the LAHD submitted its November 9, 2012 transmittal, the Department updated the amount and distribution of funding needed to support the housing asset transfer. Following a review of the revised LAHD data for staffing, contracts and expenses, our Offices estimate

that five months of funding would address the transfer in 2012-13, due to the time required to hire staff and establish contracts and/or amendments. The total for five months would be approximately \$1.5 million and includes funding for salaries, related costs, contracts and expenses. The expenses contain property management services for the 67 new properties, office and administrative costs, and unallocated or contingency funds.

The LAHD originally included \$400,000 for property management. However, after receiving an estimate from a private firm, the Department reduced the maintenance cost to \$100,000 annually. The LAHD is developing a property management agreement with the Department of General Services (GSD) to ensure that the properties are clean and secure. The actual cost to maintain the properties will be determined once the two departments agree on the terms of service; therefore, LAHD has removed property management funding from its most recent proposal.

In addition, LAHD identified funding for property and liability insurance related to the 67 new properties. At this time, insurance is not included in the proposed funding pending a review and recommendations by the CAO's Risk Management group.

The \$55,000 in the proposed budget for office and administrative expenses will pay for computers, software and office equipment related to the hiring of the new employees. These items cannot be funded by the current LAHD budget due to restrictions on the use of those funds. The \$25,000 in unallocated funding would be used for unanticipated costs that are identified as a result of the transfer of housing assets.

Table 3 at the end of this section lists the annual costs for all of the resources requested, the five month prorated amount, and the distribution of \$750,000 in temporary funding from the Housing Production Revolving Fund, which is discussed further below.

#### *Residual Receipt Payments*

The LAHD receives audited rental income statements for its affordable housing projects usually within 90 days of the close of a building's fiscal year. The portfolio management employees then calculate the Residual Receipt payments owed to LAHD by subtracting the standard expenses and fees needed to operate a building or project from the rental income. The LAHD staff submits the bills to the building owner and collects the Residual Receipts. If a building's fiscal year ends in December, LAHD usually receives the corresponding Residual Receipts payments in the following June. The LAHD states that most affordable housing projects have fiscal years that end either on June 30 or December 30, so the majority of Residual Receipts payments are received in November and June. If the Housing Asset Transfer Agreement is approved in January or February 2013, LAHD anticipates receiving the first major payment of Residual Receipts in June 2013.

Based on the average amount collected by the CRA/LA between 2010 and 2012, LAHD anticipates that it will receive approximately \$5,100,000 in additional Residual Receipts payments due to the transfer of the \$560 million in CRA/LA Residual Receipts loans. The LAHD becomes the recipient of the payments immediately when it takes over the loan

portfolio. The LAHD expects that the \$5,100,000 in income from the loans will continue for the next five to ten years. As the loans mature, the income from the former CRA/LA residual receipts will decrease. LAHD will evaluate the loan portfolio after the transfer is complete and will prepare a schedule that shows the estimated payments over time. The LAHD may need to adjust staffing and funding due to the lifespan of the loans and also due to swings in the economy. Residual Receipts payments may pay for the new LAHD staff, contracts and other expenses related to the housing asset transfer.

It should be noted that there is uncertainty surrounding the transfer of Residual Receipts payments that have been or are currently being collected by the CRA/LA. The LAHD is waiting for clarification from the DOF relative to the status of these funds.

#### *Residual Receipts Reserve Fund*

The LAHD currently oversees approximately 20,000 housing covenants. The administrative obligations to monitor the additional 22,826 CRA/LA housing covenants for up to 55 years and to manage the additional loan portfolio for close to 30 years will require long-term staffing and funding. Historically, Residual Receipt payments fluctuate from year to year. As stated in the Residual Receipts Payments section above, LAHD anticipates that this revenue stream will exceed annual administrative costs. However, LAHD requests authority to reserve ten percent of the gross revenue stream to address any potential negative fluctuations in the portfolio, which would eliminate the need to allocate General Funds to offset a potential deficit in a year with low Residual Receipts payments. LAHD will review the Residual Receipts loan portfolio projections and reserve balance on an annual basis to determine if modifications to the reserve are necessary. Our Offices recommend that LAHD work with the Controller, City Attorney and CAO to prepare instructions and related policies to establish a Residual Receipts Reserve Fund.

#### *Bond Fees*

The LAHD will oversee approximately \$663 million in new Conduit Bonds once the CRA/LA assets are transferred. The bonds generally have a minimum 17-year life. The CRA/LA acts as a pass-through agent for these bonds, and as a result, currently receives an estimated \$500,000 annually in administration fees. This income may be used to pay for the new LAHD staff, contracts and other expenses related to the housing asset transfer. As mentioned previously, the City's Financial Policies are being updated to clarify housing and non-housing conduit bond issuance procedures.

#### *Temporary Funding from the Housing Production Revolving Fund*

With \$5,100,000 in Residual Receipts payments and \$500,000 in bond fees anticipated, LAHD will have an additional annual income of \$5,600,000 to pay for the transferred CRA/LA functions and responsibilities. If the transfer takes place early in 2013, LAHD may not receive a sizeable portion of the new funds until June 2013, due to the timing of the Residual Receipts payments. Since LAHD may not use its restricted special funds to pay for the new staff and contractors, the Department included a Reserve Fund loan of \$2,187,208 in its

November 9, 2012 transmittal to cover the costs for the first six months of expenses. Based on the calculations in Table 3, expenses for five months would be approximately \$1.5 million through June 2013. Given the City's financial constraints, the Reserve Fund should not be used to fund the LAHD request. Therefore, our Offices recommend that the Housing Production Revolving Fund No. 240 be used to fund the activities associated with the housing asset transfer temporarily in the amount of \$750,000 until the Residual Receipts payments are received. This amount does not include Related Costs, which will be reimbursed from the Residual Receipts. The HPRF may be used to pay for costs associated with the security, management, maintenance, repair and insurance of LAHD-owned or controlled and, therefore, is eligible to front-fund the work connected to the transfer of the CRA/LA housing assets.

*Dissolution of the Low and Moderate Income Housing Fund*

As stated in AB 1484, the redevelopment budget trailer bill, unencumbered funds in the CRA/LA Low and Moderate Income Housing Fund are to be dissolved and distributed to the taxing entities. The exact amount that the City is anticipated to receive as part of this payment is unknown at this time. Although CRA/LA was legally required to allocate these funds for affordable housing purposes, the City is not required to set the funds aside for affordable housing purposes. It will be a policy decision of the Council to determine the best use of these funds.

**Table 3**

**Summary of Costs Related to the Transfer of CRA/LA Housing Assets**

	<b>Annual by Item</b>	<b>Annual Total</b>	<b>Pro-rated Five Month Total</b>	<b>Housing Production Revolving Fund</b>
<b>Salaries and Related Costs</b>				
Salaries	\$1,384,752			\$420,000
Related Costs	630,127			0
<i>Subtotal Salaries and Related Costs</i>		\$2,014,879	\$839,533	\$420,000
<b>Contracts</b>				
Amendment to Contract No. C-118528 with Urban Futures, Inc. for Occupancy Monitoring	\$400,000			
Amendment to Contract No. C-121127 with AmeriNational Community Services, Inc. for Loan Servicing	50,000			
Amendment to Contract No. C-120169 with Rydek Computer Professionals for Programming Services	160,000			
Consultant Auditor from the Controller's Audit Assistance Master Service Agreement	150,000			
Consultant for Document and Records Management Services	115,000			
<i>Subtotal Contracts</i>		\$875,000	\$364,583	\$250,000
<b>Miscellaneous Operations</b>				
Property Management	100,000			
Lease Space	400,000			
Property and Liability Insurance	250,000			
Unallocated	25,000			25,000
Office and Transportation Expenses				55,000
<i>Subtotal Miscellaneous Operations</i>		\$775,000	\$322,917	\$80,000
<b>Total</b>		<b>\$3,664,879</b>	<b>\$1,527,033</b>	<b>\$750,000</b>

**5. Contracts**

The LAHD requests authorization to amend existing contracts and to enter into new agreements with consultants to provide technical assistance for various housing functions as a result of the housing assets transfer.

*Urban Futures, Inc.*

The LAHD requests authority to negotiate and execute the Third Amendment to Contract No. C-118528 with Urban Futures, Inc. for affordable occupancy compliance monitoring services. The amount of the contract would be increased by an amount not to exceed \$400,000. The

current contract amount is \$1,167,742; therefore, the new not-to-exceed amount would be \$1,567,742. As a result of a prior contract amendment, the current term is October 1, 2010 through June 30, 2013. The term of the contract would not be changed. Urban Futures, Inc. monitors properties in five program categories to ensure that the properties are in compliance with all of the affordable housing regulatory agreements tied to the funding sources or land uses. The proposed increase in funding would pay for the cost of monitoring the CRA/LA inventory that would be transferred to LAHD. Urban Futures, Inc. would prepare occupancy reports, rent increases, income verifications, notifications, and related compliance and financial documents.

A Charter Section 1022 determination was performed when the contract was originally proposed. The Personnel Department and the CAO found that City staff does not have the expertise to perform the work proposed to be contracted and that the contractor has proprietary knowledge needed by the City. Therefore, the work could be performed more feasibly by a contractor than by City employees.

*AmeriNational Community Services Inc.*

The LAHD requests authority to negotiate and execute the First Amendment to Contract No. C-121127 with AmeriNational Community Services, Inc. for loan servicing. The amount of the contract would be increased by an amount not to exceed \$50,000. Since the current annual limit is \$150,000, the new not-to-exceed amount for the contract would be \$200,000 per year, for a total of \$600,000 over three years. The term of the contract, which is from May 1, 2012 through April 30, 2015 with the option for two three-year extensions, would not be affected. AmeriNational Community Services, Inc. provides real estate loan setup services, debt collections, accounting of funds, monitoring of insurances and taxes, subordinations, foreclosure processing, and other financial services. The company performs the same services for the CRA/LA and is, therefore, already familiar with the CRA/LA loan portfolio. The increase in in the contract amount would cover the cost of servicing the CRA/LA loans when they are transferred to LAHD.

A Charter Section 1022 determination was performed when the contract was originally proposed. The Personnel Department and the CAO found that City employees do not have the expertise to perform the work proposed for contracting. Therefore, the work could be performed more feasibly by a contractor than by City employees.

*Rydek Computer Professionals*

The LAHD requests authority to negotiate and execute the Second Amendment to Contract No. C-120169 with Computer Professionals Unlimited, Inc., dba Rydek Computer Professionals. The amount of the contract would be increased by \$160,000 from \$900,000 for a new total amount not to exceed \$1,060,000. The term of the contract, which is from January 1, 2012 through December 31, 2013, would not be changed. Rydek Computer Professionals has contracts with several City departments, including LAHD, to provide contract employees experienced in analysis, design, implementation and support of data processing systems and the operation of data processing equipment and related activities. Under Contract No.

C-120169, LAHD may select Applications Programmers, Programmer Analysts, Business Intelligence Specialists, Database Architects, Systems Programmers and Geographic Information Specialists. The contract lists the duties associated with each position. The LAHD states that it will use the additional \$160,000 to hire programmers to migrate the housing assets data from the former CRA/LA into the systems LAHD uses to manage its housing assets. The LAHD estimates that the technical assistance provided by Rydek Computer Professionals would be finished between one and two years.

A Charter Section 1022 determination was performed when the contract was originally proposed. The Personnel Department and the CAO found that although there are City classes employed in various departments that could perform the work, the assignments exceeded staffing availability and the projects were of limited durations, which would mean that LAHD would have to lay off staff at the end of the various projects. Therefore, the work could be performed more feasibly by a contractor than by City employees.

#### *Audit Assistance Master Service Agreement*

The LAHD requests authority to negotiate and execute a contract with an auditing consultant in an amount not to exceed \$150,000 from the Controller's Audit Assistance Master Service Agreement. The term would be one year from the date of execution. This contract authorizes the Controller to establish annual lists of approved firms and to award and execute contracts for audit assistance. The scope of work would include auditing the records associated with the housing assets transfer such as the loan portfolio, real property, personal property, and bond proceeds. In addition, the consultant would assist LAHD systems and accounting staff to convert CRA/LA accounting records into LAHD systems.

The Mayor and Council determined, in accordance with Charter Section 1022, that the work contracted under the Audit Assistance Master Service Agreement can be performed more feasibly by independent contractors than be City employees because the work is of limited scope and the technical skills cannot be efficiently maintained by staff in the Controller's Office (C.F. 00-1160). A Charter Section 1022 determination would need to be prepared for this particular LAHD contract.

#### *Document and Records Management Services*

The LAHD requests authority to issue a Request for Proposals (RFP) to select a contractor to provide document and records management services. The amount of the contract would not exceed \$115,000. The scope of work would include configuring, scanning, indexing and importing CRA/LA documents into the LAHD document management system. The LAHD will not know the volume of documents to be scanned until the transfer of housing assets begins.

Other City departments have used contractors to scan, organize and import paper documents into electronic records management systems. The Department of Building and Safety (DBS) contract has ranged between \$300,000 and \$350,000 annually for similar document management services. Since DBS has significant technical expertise in this area, it is recommended that LAHD consult with DBS regarding its document imaging contract and



consider amending that contract to include LAHD. Amending an existing contract could save time and allow LAHD to begin scanning documents sooner.

A Charter Section 1022 determination would need to be prepared if the RFP and scope of work are approved.

## **6. Transition Plan**

In the November 9, 2012 transmittal and in subsequent discussions, LAHD presented a general Transition Plan which begins with a three-to-six-month Transition Phase during which current employees would start organizing the loans and covenants. At least 10 of the proposed new employees associated with this work program would be hired within the first three months of the transfer. The LAHD noted that it would be possible to spread out the hiring of the two Senior Clerk Typists over the first six months of the transition. More details about the Transition Plan will be presented once LAHD has assessed the CRA/LA financial portfolios and paper files.

## Transition of Housing Assets and Functions from the CRA/LA to LAHD

### Attachment 1

#### Comparison of Current LAHD Staff Support to CRA Staff Support for the Housing Assets to be Transferred to LAHD

Assets, Functions and Projects to be Transferred	Proposed CRA Housing Assets to be Transferred and CRA Support Staff			Current LAHD Functions and Support Staff		
	Count	Value	Staffing	Count	Value	Staffing
<b>Residual Receipt Loans</b>	325	\$560,398,780	Director of Asset Management Senior Finance Officer Finance Officer (2) Administrative Analyst (3)	414	\$831,772,448	Finance Development Officer I (2) Management Analyst II (2)
<b>Home Ownership Loans</b>	173	14,852,698	Included with Residual Receipt Loan staff above.	2,045	106,446,346	Included with Residual Receipt Loan staff above.
<b>Housing Real Estate</b>	67	64,100,000	Former Real Estate Department			
<b>Affordable Housing Covenants</b>	22,826		Senior Housing Finance Officer Housing Management Officer Administrative Analyst (2) Administrative Assistant	20,000		Senior Housing/Planning Economic Analyst Finance Development Officer I (2) Management Analyst II Management Assistant (2) Senior Clerk Typist (2)
<b>Conduit Bonds</b>	26	663,000,000	Senior Finance Officer Finance Officer Consultants	139	595,709,077	Finance Development Officer II Finance Development Officer I (2) Consultants
<b>Unexpended Bond Proceeds</b>	25	15,300,000	CRA issued bonds for its own use and Conduit Bonds.			Issues Conduit Bonds only. No Unexpended Bond Proceeds.
<b>Housing Grants</b>	5	2,550,000	Unknown			
<b>Pipeline – Pre-Development</b>	26	81,500,000				
<b>Pipeline – ConstructionReady</b>	6	13,800,000				

