Los Angeles
HOUSING+COMMUNITY
Investment Department

Eric Garcetti, Mayor
Rushmore D. Cervantes, Interim General Manager

Strategic Planning & Policy Division
1200 West 7th Street, 9th Floor, Los Angeles, CA 90017
tel 213.928.9071 | fax 213.808.8999
hcidla.lacity.org

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Council File: 14-0361
Council District(s): All
Contact Person(s):
Rushmore Cervantes (213) 808-8405
Edwin Gipson (213) 808-8597
Claudia Monterrosa (213) 808-8650

The Honorable Eric Garcetti
Mayor, City of Los Angeles
200 N. Spring Street, Room 303
Los Angeles, CA 90012

The Honorable Paul Krekorian
Chair, City Council Budget and Finance Committee
200 North Spring Street, Room 340
Los Angeles, CA 90012

Attn: Mandy Morales, Legislative Coordinator

Attn: Erika Pulst, Legislative Assistant

REPORT BACK REGARDING CITY COUNCIL MOTION 14-0361: REQUEST FOR APPROVAL TO PERMANENTLY EARMARK A PORTION OF THE CITY'S FORMER TAX INCREMENT DOLLARS TO THE CITY'S AFFORDABLE HOUSING TRUST FUND (AHTF)

SUMMARY

In response to the housing affordability crisis in Los Angeles, Councilmembers Mitch O'Farrell (CD15) and Gilbert A. Cedillo (CD1) introduced a motion requesting a report back on a policy to permanently earmark, for affordable housing, a percent of the tax revenue the City receives subsequent to the dissolution of the former redevelopment agency.

On October 1, 2011, Governor Jerry Brown dissolved all California redevelopment agencies, effectively eliminating approximately $50 million in locally-generated affordable housing funds in the City of Los Angeles. Faced with steep rents and limited affordable housing, cities throughout California began working to dedicate a percent of the former redevelopment agency's tax revenue toward affordable housing projects and programs. Some localities now permanently dedicate 20 percent of former tax increment dollars to affordable housing.

In Los Angeles, the lack of affordable housing and the sharp decline in funding have reached crisis proportions. Today, a majority of Los Angeles' renters are rent-burdened. In this new funding reality, it is imperative that the City of Los Angeles directly confront the persistent affordable housing shortage by creating a new and permanent funding resource. This report presents two options for a permanent allocation of future tax increment dollars to the AHTF.

RECOMMENDATIONS

The General Manager of the Los Angeles Housing and Community Investment Department (HCIDLA) respectfully requests that:

I. Your offices schedule this transmittal at the next meeting(s) of the appropriate City Council committee(s) and forward it to the City Council for review and approval immediately thereafter;

II. The City Council, subject to the approval of the Mayor, take the following actions:

   A. Approve a set aside, by way of ordinance, of former tax increment funds to the Affordable Housing Trust Fund (AHTF) as follows:
      a. *Option 1:* Set aside by way of ordinance, 25 percent of the former CRA tax increment revenues to the AHTF beginning in fiscal year 2014-2015, or
      b. *Option 2:* Establish a 3-year phased-in set aside beginning in fiscal year 2014-2015, by way of ordinance, to the AHTF to achieve a maximum dedication of 35 percent of the former tax increment dollars as follows:
         i. 10% FY 2014-2015
         ii. 25% FY 2015-2016
         iii. 35% FY 2016-2017

   B. Direct the City Attorney's Office to draft an ordinance to permanently set aside a portion of the City's former tax increment funds based on the City Council's and the Mayor's approved option,

   C. Authorize the General Manager of HCIDLA, or designee, to prepare Controller's instruction(s) for any necessary technical adjustments consistent with the Mayor and Council action on this matter, subject to the approval of the City Administrative Officer, and authorize the Controller to implement the instructions.

BACKGROUND

In response to the housing funding and affordability crisis faced by Angelenos, Councilmembers Mitch O'Farrell and Gilbert A. Cedillo introduced a motion requesting a report back on recommendations to permanently earmark, for affordable housing, a percent of the tax revenue the City receives from the dissolution of the former redevelopment agency. On April 9, 2014, the City Council's Housing Committee approved and referred the motion to the City Council's Budget and Finance Committee and directed the Housing and Community Investment Department (HCIDLA) to report back on said policy proposal.

Los Angeles is a City of renters, out of 1.3 million housing units, 63 percent (842,793 units) are rental housing units. Of the 3.7 million people living in Los Angeles' housing units, 2.2 million are living in rental units. Despite the foreclosure crisis and accompanying declines in housing costs, rents continue to consume a significant portion of renters' wages. The 2012 American Community Survey reports that 62 percent of renter households are rent-burdened paying more than 30 percent of their income for rent, while 33 percent of Los Angeles' renters are severely rent-burdened, meaning that 50 percent or more of their income is dedicated to paying rent. Los Angeles has the highest rate of severe rent burden compared to other high cost cities such as San Jose and San Francisco.

In comparison to other cities experiencing high rent increases annually, renter households in Los Angeles have the highest gap between their hourly wage and the wage needed to pay an affordable rental rate (see graph below). Angelenos face a gap of $17.46 per hour. To afford an average rental rate of $1,771[1] per month, a renter would have to earn $34.06 per hour. The gap between rental costs and income is so great that many are forced to double up or accept substandard living conditions to make ends meet.

Wage Gap

Source: Real Facts 4O 2013: ACS 2012

An acute affordable housing shortage, coupled with stricter underwriting requirements for home loans, and increasing rents is making Los Angeles unaffordable for many. The widening gap is forcing a growing number of households to allocate a larger portion of their income towards rent and thereby spend fewer dollars in the community, or altogether move out of the City to endure longer commutes into job centers within the City boundaries.

Historically, in the City of Los Angeles, a large proportion of units needed by above-moderate income households have been built by housing developers without public subsidy. However, it has been difficult for the City to meet the housing needs of renters at the moderate-, low-, very low-, and extremely low-income levels. The state mandated Regional Housing Needs Assessment (RHNA)

[1] Real Facts Online. Fourth Quarter 2013.

represents the total number of housing units (by affordability level) that each jurisdiction must accommodate to meet the needs of the projected population growth. In Los Angeles, during the previous RHNA period (2006 to 2012), only 17 percent of the low-income units needed in the City were built; meanwhile 79 percent of the above moderate-income units needed were supplied entirely by the private sector. Thus, the City fell short in meeting its housing needs despite achieving an AHTF funding height of $100 million or more, within the years 2008, 2009, and 2010 during the previous RHNA period. It is important to note that the funding included HOME Investment Partnerships Program (HOME), redevelopment funds, and other one-time funding from the federal government, but no City General Funds. The situation today is more precarious with significantly less funding.

AFFORDABLE HOUSING FUNDING CRISIS: CITY OF LOS ANGELES

Federal

Affordable housing funding in Los Angeles has been hard-hit by multiple financial losses. The most severe being that over the past four years, the City of Los Angeles has lost 42 percent of its Community Development Block Grant (CDBG) funds and 57 percent of its HOME funds due to Congressional budget cuts. Lastly, the City's Neighborhood Stabilization Program (NSP) Funds grant have been fully committed and will not be reauthorized.

Loss of Redevelopment

Until 2011, the redevelopment tax increment financing represented the City's largest and only local source of funding for affordable housing in Los Angeles. Prior to the loss of redevelopment, localities dedicated (by law) a minimum of 20 percent of their tax increment to affordable housing. In Los Angeles, beginning in fiscal year 2002-2003 the Community Redevelopment Agency of Los Angeles (CRA/LA) dedicated an additional 5 percent of all tax increment funds annually to the City's AHTF. In total, Los Angeles expended over 25 percent of tax increment funds to affordable housing, as a matter of law and policy. Depending on the project area, the CRA/LA sometimes spent more than 25 percent on housing.

The dissolution of the CRA/LA represents a loss of approximately $50 million annually in tax increment funds dedicated to affordable housing. The CRA/LA loans often included predevelopment funds used to finance the entitlement process and/or secure the land. These loans also signaled the City's support for a project in its earliest phase. However, while the CRA/LA is gone, this does not mean tax increment has disappeared. In fact, these funds have been reallocated with approximately 28 percent of the former tax increment returning to the City of Los Angeles as unrestricted property tax revenue.

State

At the state level, the California Prop 1C Housing & Emergency Shelter Trust Fund Grant for affordable housing development throughout California is nearly depleted; funding from previously unrealized projects was recaptured and is currently being spent. With the impending end of this funding stream and with no other State funding on the horizon for affordable housing, it is imperative to look to local solutions to address the City's AHTF funding shortage.

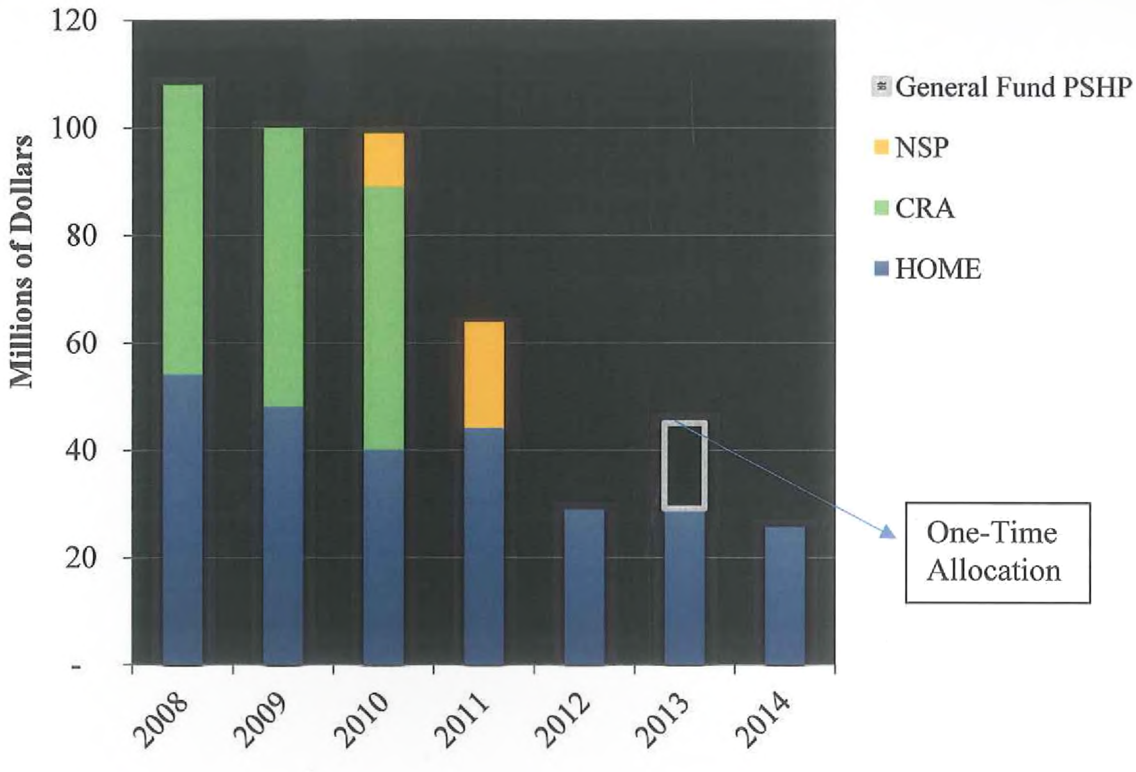
Ramifications

As described above, at a peak year, in 2010, the AHTF was funded at approximately $100 million. Conversely, in fiscal year 2014-2015 the projected total funding is expected to be $26 million, all of which are federal funds. This funding level represents a loss of approximately $74 million from 2010.

This loss of affordable housing funding has had a ripple effect in our local economy, causing dampened investment and diminished job creation. Affordable housing construction boosts the local economy by creating much needed construction jobs and adding affordable homes. In fact, the City leverages $4 for every $1 of HOME investment. The $74 million decline in 2014 represents a loss of approximately $370 million in total affordable housing dollars (including leveraged funding). Based on the Economic Roundtable's job creation formula, this investment loss equates to nearly 4,000 jobs forgone in the City and 1,345 affordable units not built, further limiting housing choices and employment opportunities for Angelenos.

In sum, the graph below captures the City's affordable housing funding's recent history and steep decline since 2010. With the dissolution of redevelopment agencies, a fully expended NSP program, and no City general funding[2], local solutions are necessary to begin to replenish the loss of overall dedicated funding for affordable housing.

City's Affordable Housing Funding



PERMANENT AFFORDABLE HOUSING EARMARKS IN OTHER JURISDICTIONS

Upon the state's dissolution of redevelopment agencies, several localities in California moved quickly to preserve funding for affordable housing development. The affordable housing funding crisis coupled with exorbitant housing and rental costs throughout California cities have compelled many to implement ordinances to permanently set aside former tax increment funds for housing. Localities that recently

[2] The AHTF did not receive any General Fund dollars until April 2013 when the City Council allocated (as a one-time allocation) $16 million dollars for permanent supportive housing projects to specifically serve the chronically homeless.

approved a permanent* affordable housing allocation from their ongoing tax increment revenues are included in the following table.

Tax Increment in Los Angeles County
In Los Angeles County, the Board of Supervisors made a five-year commitment of $15 million per year. Beginning in fiscal year 2013-2014, Los Angeles County set aside $75 million for affordable housing Notices of Funding Availability (NOFA); annually, $15 million of the $75 million will be put forth to the public in a countywide NOFA. Acknowledging that affordable housing is a key impairment in the region's efforts to remain competitive in terms of economic growth, the county is exploring other efforts to make a permanent dedication, beyond the initial 5-year allocation.

Former Tax Increment Dollars Permanently Dedicated to Affordable Housing

Locality	Annual Percent Dedicated to Affordable Housing	Start Date
Oakland	25%	FY 2015-2016
Santa Clara County	20%	FY 2013-2014
San Mateo	20%	FY 2013-2014
Fremont	20%	FY 2013-2014
Emeryville	20%	FY 2013-2014
Redwood City	$200,000	FY 2013-2014
San Leandro	$380,000	FY 2013-2014
Los Angeles County	$15M per year	FY 2013-2014 *(*sunsets in 5 years)*
San Francisco	$15M first year, increasing by $2.8M every year until capped at $50.8M	FY 2013-2014 *(*sunsets in 30 years)*

The surveyed localities report that dedicated affordable housing funds will be spent on a full range of housing programs, including new multifamily rental, preservation of existing affordable housing, foreclosure prevention, homeless shelter construction, permanent supportive housing, down-payment assistance and owner rehabilitation, among others.

LIMITED FUNDS AND HIGH BUILDING COSTS NECESSITATE LARGER SUBSIDIES

Cost of Financing the RHNA projections in the City of Los Angeles
The City's recently adopted Housing Element includes the RHNA, which quantifies the housing need in Los Angeles at 82,002 additional units beginning in January 1, 2013 through October 1, 2021. The total subsidy and building costs associated with attempting to meet the RHNA are immense. To finance the construction of low- and very low-income units needed in the City during an 8-year period, the HCIDLA subsidy would amount to a total of $3.2 billion (see the following table). Based on the fiscal year 2014-2015 federal entitlement dollars, including program income, the City of Los Angeles is projected to receive a total of $208 million during this same 8-year period. This represents approximately 7 percent of the total funding needed to meet the low- and very low-income RHNA need.

RHNA 2013-2021				
	Very Low Income (≤ 50% AMI)	**Low Income** (51-80% AMI)	**Moderate Income** (81-120% AMI)	**Above Moderate Income** (> 120% AMI)
RHNA - Units Needed	20,427	12,435	13,728	35,412
Cost to Build All Units*	$7.5 Billion	$4.6 Billion	Limited Resources (primarily for homeownership)	Financed by the Market
HCIDLA Total Subsidy Needed*	$2.0 Billion	$1.2 Billion	Limited Resources (primarily for homeownership)	Financed by the Market
Projected 8-Year HUD Entitlement for the City of Los Angeles**	$208 Million			

**The figures are based on the average AHTF new construction costs ($371,814/unit) and a $100,000 AHTF subsidy per unit.*
***This figure is a projection based on the current program year 2014-2015 entitlement of $26 million.*

The funding challenges inherent in building very low- and low-income housing make it very difficult for jurisdictions to build the number and type of units to address the need. It is important to note that while jurisdictions are not required to build the units, they must, nevertheless, demonstrate enough sites or land zoned for the calculated number of housing units needed.

Average Affordable Housing Trust Fund Cost/Subsidy Per Unit Type

Today, the average AHTF subsidy ranges from $52,000 to $56,000 per unit of affordable housing. This subsidy represents the HCIDLA average contribution for new construction and rehabilitation for new affordable housing or Permanent Supportive Housing Program units. In the recent past, projects that came to the City for funding have been highly-leveraged with low-income housing tax-credits, tax-exempt bonds, and other sources of public financing. These multiple funding resources kept the HCIDLA contribution to a relatively low level. However, with the dissolution of redevelopment agencies and other public and private funds depleted, the HCIDLA per-unit contribution will increase significantly, nearly doubling to $100,000 and causing a decrease in the City's leveraging capacity. In this new climate, with an anticipated approximately $100,000 per unit AHTF subsidy, HCIDLA will have to make hard decisions and ultimately provide gap financing for fewer units Citywide.

RECOMMENDED TAX INCREMENT SET ASIDE

One of the original purposes for the former tax increment funds (by state law), within redevelopment areas, was to encourage the creation of low- and moderate-income housing as well as to assist local governments in creating and rehabilitating housing within redevelopment areas. In keeping with this

intended purpose, HCIDLA recommends that a portion of the tax increment coming to the City of Los Angeles' General Fund be dedicated to the AHTF beginning in fiscal year 2014-2015.
By June 2014, the total tax increment dollars coming to the City of Los Angeles is expected to total $148 million. The proposed affordable housing set asides presented below would come from distributions of the City's portion of former property tax increment, which are residual amounts distributed to the City after all other CRA/LA obligations are fulfilled. These are ongoing property tax distributions to the City from the Redevelopment Property Tax Trust Fund (RPTTF).

Despite the state's budget surplus there are no new affordable housing funds on the horizon while the federal government continues to make cuts. If a permanent affordable housing finance program is to exist in Los Angeles, it will require multiple sources of funding, including a commitment of local resources. Localities throughout California are actively implementing local taxes and fees to replenish lost funding sources, thereby addressing their respective affordable housing needs through local solutions. As illustrated previously, a number of localities have already dedicated former tax increment to affordable housing. In comparison to these other localities, Los Angeles' need is significantly greater with a larger population and larger need for affordable housing units due to sharp rent increases and stagnant household incomes. For these reasons, it is imperative for the City Council to consider and adopt one of the recommended options presented below. Both options would begin to address the acute affordable housing need.

Option 1: Set aside, by way of ordinance, 25 percent of the former CRA tax increment revenues to the AHTF beginning in fiscal year 2014-2015. This option preserves Los Angeles' historic proportional share of former tax increment housing funds for the intended purpose and presents an opportunity to create a long-term and local solution.

Option 2: Establish a 3-year phased-in set aside beginning in fiscal year 2014-2015, by way of ordinance, to the AHTF to achieve a maximum dedication of 35 percent of the former tax increment dollars in the following manner:

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3-Year Phased-In Approach

Fiscal Year	2014-2015	2015-2016	2016-2017
Percent Proposed	10%	25%	35%
Total City of Los Angeles' Tax Increment	$49,000,000*	$49,000,000*	$49,000,000*
Percent Tax Increment Contribution to AHTF	$4,900,000	$12,250,000	$17,150,000
Leveraged Dollars	$14,700,000	$36,750,000	$51,450,000
Housing Units Produced Per Year *($100,000 AHTF Subsidy Per Unit)*	49	123	172
Total Jobs	208	519	727
Meeting the RHNA			
Total RHNA Units Produced (8-Years)	392	984	1,376
Percent of RHNA Achieved (8-Years)	.4%	1.2%	1.7%

**This represents an average of $49 million over the next 3 fiscal years. Source: General Fund Revenue Outlook. The actual redirected ex-CRA Tax increment Monies are as follows: $48.0 million in FY14-15; $49.7 million in FY15-16; $51.4 million in FY 16-17*

Discussion of Option 2

Recognizing the housing funding crisis and the City's current budget challenges, an incremental affordable housing set aside over three fiscal years would allow the City to address both. In the next 3 years, the unrestricted tax increment will average $49 million annually. This set aside dedicates only a portion of the total tax increment. In the past, the 25 percent of the CRA/LA allocation amounted to approximately $50 million. The proposed 35 percent maximum translates to approximately $17 million, which is a fraction of what the former CRA/LA dedicated toward affordable housing. The diminished tax increment revenue warrants dedicating a higher amount of 35 percent to affordable housing. With a 35 percent set aside for the AHTF, the total local contribution to affordable housing, given the projected future tax increment revenues, would be $17 million plus $51 million in leveraged funds for a total of $68 million. As explained earlier, in light of the new funding constraints, HCIDLA will provide a $100,000 per unit subsidy, effectively lowering the City's leveraging ratio to $3 for every $1 of HOME investment. A $68 million level of investment would fund 172 in one year and 1,376 units over an 8-year period, representing 1.7 percent of the City's total RHNA (82,002 units) allocation.

CONCLUSION

Making a long-term permanent commitment to affordable housing today is critical to begin to backfill the gaping funding losses and to signal to the to the City's overburdened renters and employers that the City is committed to finding and implementing local solutions to increase the supply of affordable housing in the City

FISCAL IMPACT STATEMENT

HCIDLA's proposed actions reflect a set aside of former CRA tax increment funds consistent with the original intent.

Prepared by:

Marisol Romero

MARISOL ROMERO
Housing, Planning and Economic Analyst

Reviewed by:

CLAUDIA MONTERROSA
Director, Public Policy and Research Unit

Reviewed by:

for EDWIN GIPSON
Director, Strategic Planning and Policy Division

Approved by:

RUSHMORE D. CERVANTES
Interim General Manager

cc:
Honorable Gilbert A. Cedillo
Chair, Housing Committee
c/o Richard Williams, Legislative Assistant