



Revised Attachment to Item #2 (C.F. 16-0714)

Date: 8/17/16
Submitted in NOB/NB Committee
Council File No: 16-0714
Item No: 2
Deputy: Adam R. Lid



Eric Garcetti, Mayor
Rushmore D. Cervantes, General Manager

POLICY ON CONVERSION OF FORMER CRA/LA LOANS INTO SERVICE PAYBACK LOANS

BACKGROUND

In April 2013, the Los Angeles Housing and Community Investment Department (HCIDLA) became the successor agency to the former Community Redevelopment Agency of the City of Los Angeles (CRA/LA) with respect to housing assets and housing functions. As part of the transfer of CRA/LA housing assets, HCIDLA assumed nearly 700 active loans, including amortized, deferred, homeownership, residual receipt, and conditional grant (also known as service payback) loan types. The former CRA/LA had a Policy on Conditional Grants that was approved by the City Council on January 24, 2007 (C.F. 06-2578), which included Section IV Conversion from Residual Receipts or Deferred Loans into Conditional Grants. HCIDLA is proposing the following Policy in order to provide guidance for HCIDLA to convert existing former CRA/LA residual receipts or deferred loans, which have been integrated into HCIDLA's portfolio, into Service Payback loans. There are former CRA/LA residual receipts or deferred loans made to nonprofit service providers for facilities that are not, by the nature of their use, income producing. These loans accrue interest and the amount of indebtedness increases over time, with no foreseeable means of repayment.

PROPOSED POLICY

DEFINITIONS

- Service Provider – A nonprofit organization whose primary mission is to provide direct social services, including, but not limited to, domestic violence shelters, transitional housing, substance abuse rehabilitation, and mental health services. These social services are to be of benefit to the applicable redevelopment project areas and the Service Payback loan would expand the nonprofit organization's ability to deliver services.
- Service Payback Loan – Financial assistance evidenced by a loan agreement, a Promissory Note when appropriate, and a recorded instrument. The recipient is required to perform specific services and obligations, and such performance will be credited toward repayment of the Note. A Service Payback loan is reduced when it is confirmed the agreed upon services are provided as stipulated in the loan agreement.

POLICY ON CONVERSION FROM CRA/LA RESIDUAL RECEIPTS OR DEFERRED LOANS

HCIDLA may convert former CRA/LA residual receipts or deferred loans to Service Payback Loans, under the following conditions:

1. The borrower is a Service Provider that has continually provided beneficial services to the community since the inception of the original loan in accordance with the project description, scope of development or use of site as described in the original loan agreement.
2. HCIDLA determines that the facility has not generated, and is not expected to generate, rental income in excess of operating expenses (inclusive of onsite service costs).

3. The Service Payback loan requires annual services to be provided for at least the term of the original loan, and that the amount of indebtedness (including accrued interest calculated up to the “loan conversion date”) is amortized over the same period.
4. HCIDLA determines that any dollar amount reduced or credited for services toward repayment of the loan is commensurate with the value of services performed or is equivalent to the time period during which services were performed annually in accordance with specific loan conditions. If not, an extension beyond the original loan maturity date may be necessary.
5. The amended Service Payback loans, which include the principal balance and accrued interest, in the amount of Two Hundred Fifty Thousand Dollars (\$250,000) or more, and any amendments thereto in excess of ten percent (10%) of the amount last approved by City Council, must be approved by the City Council. The amended Service Payback loans in the amount of less than Two Hundred Fifty Thousand Dollars (\$250,000), and any amendments thereto of less than ten percent (10%) of the amount last approved by City Council, can be approved by the HCIDLA without requiring City Council’s action.

The conversion of the loans are to be effected through the execution of loan amendments, in accordance with existing HCIDLA loan amendment policy and procedures, and subject to the review of the City Attorney as to form and legality. Upon conversion, the Service Payback loans would adhere to HCIDLA’s Service Payback Loan Adjustment Policy, which includes monitoring procedures to ensure that the agreed upon social services are being provided and the process by which the loan balance is reduced.

EFFECTIVE DATE

HCIDLA requests that this policy becomes effective immediately.