

TRANSMITTAL

To:

THE COUNCIL

Date: 06/14/2016

From:

THE MAYOR

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.



(Ana Guerrero)

ERIC GARCETTI
Mayor



Eric Garcetti, Mayor
Rushmore D. Cervantes, General Manager

Housing Development Bureau
1200 West 7th Street, Los Angeles, CA 90017
tel 213.808.8638 | fax 213.808.8610
hcidla.lacity.org

June 7, 2016

Council File: New
Council District: 1, 5, 8, 13
Contact Persons: Christine Wai (213) 808-8982
Vasken Djansezian (213) 808-8978
Helmi Hisserich (213) 808-8662

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

Attention: Mandy Morales, Legislative Coordinator

COUNCIL TRANSMITTAL: REQUEST APPROVAL FOR THE LOS ANGELES HOUSING AND COMMUNITY INVESTMENT DEPARTMENT (HCIDLA) TO CONVERT FOUR COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF LOS ANGELES (CRA/LA) RESIDUAL RECEIPTS LOANS INTO SERVICE REPAYMENT CONDITIONAL GRANTS IN ACCORDANCE WITH THE CITY APPROVED POLICY ON CONDITIONAL GRANTS

SUMMARY

The General Manager of the Los Angeles Housing and Community Investment Department (HCIDLA) respectfully submits this transmittal for Mayor and City Council review and consideration. Through this transmittal, HCIDLA seeks approval to convert four existing residual receipts loans into service repayment loans, also known as service repayment Conditional Grants. These loans were provided by the former Community Redevelopment Agency of the City of Los Angeles (CRA/LA) to three nonprofit organizations to provide shelter and transitional housing and supportive services for homeless individuals and families.

In 1986, the CRA/LA provided a \$245,000 loan for the acquisition and rehabilitation of the property at 1133 S. Lake Street (CD 1), now owned and operated by Project New Hope (PNH), to be used as transitional housing for homeless individuals with HIV/AIDS. In 1988, the CRA/LA provided a \$150,000 loan to the Center for the Pacific Asian Family (CPAF) to acquire the property in Council District 5 (address is confidential) to serve as transitional housing for victims of domestic violence. The CRA/LA provided two loans, a \$210,000 loan in 1988 for the acquisition and rehabilitation of a building at 3881 S. Western Avenue (CD 8) and a \$353,954 loan in 1990 for the rehabilitation of a property at 238 S. Rampart Boulevard (CD 13); both facilities are now

owned and operated by Pacific Clinics and serve as transitional housing for homeless persons with mental illness.

On January 24, 2007, the City Council adopted the former CRA/LA's Policy on Conditional Grants (C.F. 06-2578) that authorized the conversion of existing CRA/LA loans to service repayment Conditional Grants following a determination that the use of the property fulfills public benefit and will not generate rental income greater than the property's operating cost (inclusive of on-site service costs). The HCIDLA's proposed conversion of the four existing CRA/LA residual receipts loans to service repayment Conditional Grants is in accordance with the Council-approved CRA/LA Policy on Conditional Grants.

RECOMMENDATIONS

The General Manager of the HCIDLA respectfully requests that:

- I. Your office schedule this transmittal at the next available meeting(s) of the appropriate City Council committee(s) and forward it to the City Council for review and approval immediately thereafter;
- II. The City Council, subject to the approval of the Mayor, take the following actions:
 - A. Authorize the General Manager of HCIDLA, or designee, subject to the review of the City Attorney as to form and legality, to:
 - 1) Convert an existing residual receipts loan with Project New Hope (PNH) in the amount of \$460,566.54, for Our House located at 1133 S. Lake Street, into a service repayment Conditional Grant;
 - 2) Convert an existing residual receipts loan with the Center for the Pacific Asian Family, Inc. (CPAF) in the amount of \$337,137.47, for Every Woman's Shelter located in Council District 5, into a service repayment Conditional Grant;
 - 3) Convert two existing residual receipts loans with Pacific Clinics in the amounts of \$472,704.92 for Community Connections located at 3881 S. Western Avenue and \$618,196.27 for Rampart located at 238 S. Rampart Boulevard, into service repayment Conditional Grants;

BACKGROUND

Council-Approved Policy on Conditional Grants

On January 24, 2007, the City Council adopted the attached CRA/LA Policy on Conditional Grants (Policy) (see Attachment A). HCIDLA, as the successor agency to CRA/LA, is carrying out the Policy wherein Section IV, Conversion from Residual Receipts or Deferred Loans, describes loans to non-profit 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. The Policy identifies the following conditions in which residual receipts or deferred loans may be converted to Conditional Grants:

1. The Grant Agreement requires services to be provided for at least the term of the original loan, and the indebtedness (including accrued interest on the original loan calculated up to the date of loan conversion) is amortized over at least the same period.
2. The Agency must determine that the property has not generated, and is not expected to generate, rental income in excess of operating expenses (inclusive of on-site service costs).
3. The Agency must determine that the dollar amount of credit for annual services is commensurate with the value of services performed.

HCIDLA proposes to convert four residual receipts loans into service repayment Conditional Grants in accordance with the conditions stated above. The converted loans will require that supportive services be provided for 30 years, the original term of the loans. The loan conversion amounts equal the total indebtedness (principal plus accrued interest) and are amortized over 30 years. Upon review of audited financial statements, HCIDLA has determined that the projects have not generated and are not expected to generate any operating income to make payment on the loans. HCIDLA further determined that the value of services provided is at a minimum equivalent to the amount of annual service credits that will serve as repayment of the converted loans.

Project New Hope – *Our House*

PNH is a community-based nonprofit organization that provides permanent supportive housing, group residential facilities and transitional housing for persons who are homeless, or at risk of being homeless, and are afflicted with HIV/AIDS.

In 1986, CRA/LA provided a \$245,000 30-year residual receipts loan at 3% interest to AIDS Project Los Angeles, the original developer of the project, for the acquisition and rehabilitation of the site as a 10-bed transitional housing facility for very low-income, temporarily homeless individuals with HIV/AIDS. The facility provides transitional housing for up to 24 months and supportive services to prepare residents for self-sufficiency and relocation to permanent housing. In 1995, the loan was assumed by the nonprofit Homestead Hospice and Shelter, which merged with Project New Hope in 2000. The facility is staffed with social workers, care givers and residence managers to provide supportive services.

The loan is evidenced by a Residual Receipts Note secured by a First Deed of Trust; payment on the loan to be made from 100% of residual receipts, and the loan is due on December 8, 2016. A covenant was recorded in 1986 (Instrument 86-1799732) restricting the property to be used as a transitional housing facility for the homeless, with 100% of the beds occupied by persons or families of very low income, for a period of 30 years. In addition to converting the loan into a service repayment Conditional Grant, the loan will also be amended to reflect the site's accurate count of five bedrooms with ten beds.

The Center for the Pacific-Asian Family – *Every Woman's Shelter*

Established in 1978, CPAF is a nonprofit agency recognized nationally for its pioneering work in domestic violence, sexual assault and child abuse services in the Los Angeles Asian Pacific Islander (API) community. All services are provided free of charge, including emergency shelter bed facility, transitional shelter, employment and housing referrals, childcare and children's programs. CPAF was first in the nation to create a multilingual 24-hour hotline and open multilingual and multicultural Domestic Violence Emergency and Transitional Shelters assisting API survivors of domestic violence and sexual assault.

In 1988, CRA/LA provided a \$150,000 30-year residual receipts loan at 3% interest to CPAF to purchase a property in Council District 5 to be used as a 10-unit confidential shelter facility to house victims of domestic violence and their children who are fleeing a violent home. It also provides comprehensive services including safety planning, counseling, case management, education and supportive services, sexual abuse service, relocation and employment development services.

The loan is evidenced by a Residual Receipts Note secured by a Second Deed of Trust; payment on the loan to be made from 100% of residual receipts, and the loan is due on October 28, 2018. A covenant was recorded in 1989 (Instrument 89-578035), restricting the property to be used as very low income housing for 30 years.

Pacific Clinics – Community Connections and Rampart

The CRA/LA provided two loans to The Portals House, the original developer of the projects, a non-profit Mental Health Rehabilitation Services Agency. In 2007, Portals House merged with Pacific Clinics; CRA/LA approved the merger as a change in ownership, and the terms of Portals House's obligations were not modified. Pacific Clinics residential facilities serve homeless clients with mental illness, and provide vocational, case management, socialization, substance abuse services and employment services. Its programs provide transitional residential and mental health treatment to chronic and persistent mentally ill individuals who also have dual co-occurring substance abuse diagnosis. Pacific Clinics is recognized in the behavioral healthcare field for its role in offering culturally sensitive services to the region's ethnic populations, as well as age-appropriate services across the life span.

Community Connections

In 1988, CRA/LA provided a \$210,000 residual receipts loan at 3% interest, for the acquisition and rehabilitation of a four-unit building to be used as a 14-bed transitional housing facility for persons with mental illness. Community Connections provides housing services, case management, mental health and substance abuse services, and training on independent living skills to low-income, homeless mentally-ill individuals in South Los Angeles. In 2008, the facility was renovated and expanded to provide up to 30 transitional housing beds.

The loan is evidenced by a Residual Receipts Note secured by a Second Deed of Trust; payment on the loan to be made from 100% of residual receipts, and the loan is due upon sale, transfer, refinance, assignment, or syndication. A covenant was recorded in 1989 (Instrument 89-73710) restricting the occupancy of the property to very low-income persons for a period of 30 years.

Rampart

In 1990, CRA/LA provided a \$154,723 residual receipts loan, later amended and increased by \$199,231 for a total of \$353,954, at 3% interest, to expand a long term residential treatment facility and provide 14 bedrooms and 28 beds for homeless, mentally-ill adults. In 2010 the facility was converted into a transitional housing facility that can serve up to 24 low-income, homeless mentally-ill individuals and operates similarly to Community Connections, detailed above.

The loan is evidenced by a Residual Receipts note secured by a Third Deed of Trust; payment on the loan to be made from 100% residual receipts, and the 30-year loan is due on September 16, 2020. A covenant was recorded in 1990 (Instrument No. 90-1285556) restricting the occupancy of the property to very low income persons for a period of 30 years.

Conversion of Loans to Service Repayment Conditional Grants

Table 1 below summarizes the nonprofit agencies' original principal loan amounts, accrued interest through June 30, 2016, and the year in which the covenants expire.

Table 1
CRA/LA Residual Receipts Loans

Borrower	Project Name	Principal Balance	Accrued Interest (6/30/16)	Total Principal and Interest	Covenant Expiration
PNH	Our House	\$244,552.15	\$216,014.39	\$460,566.54	2016
CPAF	Every Woman's Shelter	\$150,000	\$187,137.47	\$337,137.47	2019
Pacific Clinics	Community Connections	\$210,000	\$262,704.92	\$472,704.92	2019
Pacific Clinics	Rampart	\$353,954	\$264,242.27	\$618,196.27	2020

The four loans are considered residual receipts type loans wherein the annual repayment amount is determined based upon the amount by which project income exceeds project expenses. Residual receipts loans are structured to allow for annual repayment to the extent that such repayment is feasible and does not jeopardize the long term affordability and operation of the project. To date, the projects have not generated sufficient rental income to make payments on the residual receipts loans, and with accrued interest, the loan balances continue to increase. HCIDLA staff has determined that the CPAF, PNH, and Pacific Clinics properties have not generated, and are not expected to generate sufficient income to repay the loans. Converting the residual receipts loans to service repayment Conditional Grants will improve the nonprofits' ability to secure additional resources for delivery of supportive housing and services to the homeless and special needs populations they serve.

The proposed conversion of the loans is consistent with the conditions stipulated in the Council-approved CRA/LA Conditional Grants Policy. Outstanding loan balances, including accrued interest as of June 30, 2016, will be reduced based on the number of years and value of services that have been provided in compliance with the loan agreements. The converted service repayment Conditional Grant balances will be repaid annually based on the provision of services for the remainder of the loan covenant terms.

FISCAL IMPACT STATEMENT


There is no impact on the General Fund.

Prepared by:



CHRISTINE WAI
Finance Development Officer I

Reviewed by:



VASKEN DJANSEZIAN
Community Housing Programs Manager

Reviewed by:



DOUGLAS SWOGER
Director of Housing

Reviewed by:



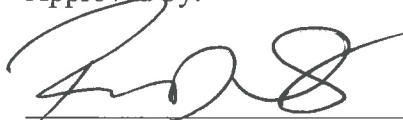
HELMY A. HISSERICH
Assistant General Manager

Reviewed by:



LAURA K. GUGLIELMO
Executive Officer

Approved by:



RUSHMORE D. CERVANTES
General Manager

Attachment A: CRA/LA Policy on Conditional Grants

DS:VD:ks:cw

ATTACHMENT A

CITY OF LOS ANGELES

CALIFORNIA



ANTONIO R. VILLARAIGOSA
MAYOR

FRANK T. MARTINEZ
City Clerk

KAREN E. KALFAYAN
Executive Officer

When making inquiries
relative to this matter
refer to File No.

Office of the
CITY CLERK
Council and Public Services
Room 395, City Hall
Los Angeles, CA 90012
Council File Information - (213) 978-1043
General Information - (213) 978-1133
Fax: (213) 978-1040

CLAUDIA M. DUNN
Chief, Council and Public Services Division
www.cityclerk.lacity.org

06-2578

January 25, 2007

Honorable Antonio Villaraigosa, Mayor
Chief Legislative Analyst
City Attorney
Community Redevelopment Agency

RE: ADOPTION OF THE COMMUNITY REDEVELOPMENT AGENCY'S PROPOSED POLICY ON
CONDITIONAL GRANTS

At the meeting of the Council held January 24, 2007, the following action was taken:

- Attached report adopted X .
- Attached motion adopted () _____ .
- Attached resolution adopted () _____ .
- Motion adopted to approve attached report _____ .
- Motion adopted to approve attached communication _____ .
- To the Mayor FORTHWITH _____ .
- Ordinance Number _____ .
- Publication date _____ .
- Effective date _____ .
- Mayor vetoed _____ .
- Mayor approved _____ .
- Mayor failed to act - deemed approved _____ .
- Findings adopted _____ .
- Negative Declaration adopted _____ .
- Categorically exempt _____ .
- Generally exempt _____ .
- EIR certified _____ .
- Tract map approved for filing with the County Recorder _____ .
- Parcel map approved for filing with the County Recorder _____ .
- Bond approved is No. _____ of Contract _____ .
- Agreement mentioned therein is/are No. _____ of contracts _____ .

Frank T. Martinez

City Clerk
dng



ATTACHMENT A

File No. 06-2578

TO THE COUNCIL OF THE
CITY OF LOS ANGELES

Your HOUSING, COMMUNITY, AND ECONOMIC DEVELOPMENT COMMITTEE

reports as follows:

	<u>Yes</u>	<u>No</u>
Public Comments	<u>XX</u>	<u>—</u>

HOUSING, COMMUNITY, AND ECONOMIC DEVELOPMENT COMMITTEE REPORT relative to adoption of the Community Redevelopment Agency's (CRA) proposed Policy on Conditional Grants.

Recommendations for Council action:

1. APPROVE the CRA's new Policy on Conditional Grants (Attachment A to the accompanying Chief Legislative Analyst (CLA) report dated January 8, 2007).
2. INSTRUCT the CRA to report on the process in which staff monitors each project with a conditional grant and/or service repayment agreement.
3. INSTRUCT the CRA to provide annual status reports for each project with a conditional grant and/or service repayment agreement, including those projects in default of the terms of the grant.
4. INSTRUCT the CRA to provide information relative to the developmental cost of converting loans to service repayment agreements.
5. INSTRUCT the CRA to obtain the approval of Council for any project that deviates from a Council-approved Conditional Grant Program.

Fiscal Impact Statement: The CLA reports that this action will have no fiscal impact on the City's General Fund.

Summary:

In its report dated January 8, 2007, the CLA reports that the CRA is requesting the approval of a new Policy on Conditional Grants. The CRA defines a Conditional Grant as a financial assistance for redevelopment objectives that are repaid with specific obligations and services in lieu of cash payments. With conditional grants, the CRA has does not anticipate monetary repayments except in the event of a default.

The CLA reports that in 1992, the CRA adopted Policy Guidelines on Conditional Grants and Service Provider Operating Contracts which was not applied in many years. That policy did not address the conversion of loans to conditional grants and lacked the flexibility to include new programs or circumstances arising in various Redevelopment Project Areas.

The CLA further reports that on April 4, 2005, the City Council approved the conversion of a CRA loan to the Mexican American Legal Defense and Education Fund (MALDEF) to a conditional grant

ATTACHMENT A

(C.F. 02-0595). Although the conversion was approved, the City Council directed the CRA to report back in 45 days relative to:

1. An updated policy on conditional grants and service provider operating contracts;
2. The status of all the CRA loans that have been converted into service repayment agreements including organization compliance status, services credited thus far, and remaining balances;
3. The process in which the CRA staff monitors and evaluates the organizations when granting service credits; and
4. The developmental cost of converting loans to service repayment grant agreements (conditional grants).

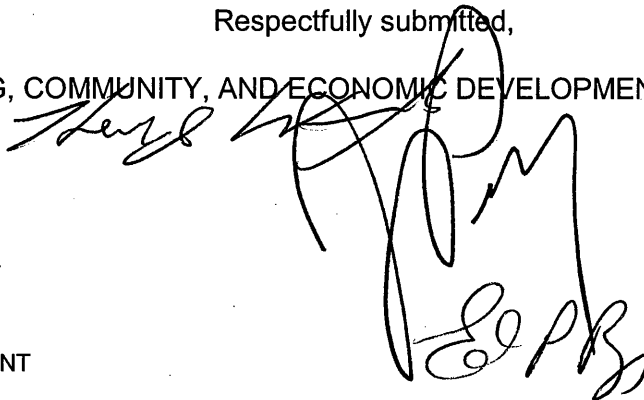
The CLA reports that, to-date, the CRA has converted \$14,599,348 in loans to service repayment grants, however, the CRA has not yet fully completed the report back as instructed by the City Council. The CLA recommends that the Council:

1. APPROVE the CRA's new Policy on Conditional Grants (Attachment A to the accompanying Chief Legislative Analyst (CLA) report dated January 8, 2007).
2. INSTRUCT the CRA to report on the process in which staff monitors each project with a conditional grant and/or service repayment agreement.
3. INSTRUCT the CRA to provide annual status reports for each project with a conditional grant and/or service repayment agreement, including those projects in default of the terms of the grant.
4. INSTRUCT the CRA to provide information relative to the developmental cost of converting loans to service repayment agreements.
5. INSTRUCT the CRA to obtain the approval of Council for any project that deviates from a Council-approved Conditional Grant Program.

At its regular meeting held January 9, 2007, the Housing, Community, and Economic Development Committee considered this matter and recommended that Council approve the recommendations of the CLA, as submitted in its report dated January 8, 2007. This matter is now submitted to Council for its consideration.

Respectfully submitted,

HOUSING, COMMUNITY, AND ECONOMIC DEVELOPMENT COMMITTEE



<u>MEMBER</u>	<u>VOTE</u>
WESSON	YES
REYES	YES
CARDENAS	YES
GARCETTI	ABSENT
PERRY	YES

RPT
ADOPTED

JAN 24 2007

LOS ANGELES CITY COUNCIL

ATTACHMENT A

REPORT OF THE CHIEF LEGISLATIVE ANALYST

January 8, 2007

TO: Honorable Members of the Housing, Community
and Economic Development Committee

FROM: Gerry F. Miller *G. F. Miller* Assignment No. 06-10-1772
Chief Legislative Analyst C.F. 06-2578

Adoption of a New Policy on Conditional Grants

SUMMARY

The Community Redevelopment Agency (Agency) requests the approval of a new Policy on Conditional Grants (Proposed Policy). The Agency defines a conditional grant as financial assistance for redevelopment objectives, which is repaid with specific obligations and services in lieu of cash payments, set forth in a Grant Agreement. With conditional grants, the Agency has no anticipation of monetary repayment except in the event of a default.

According to the Proposed Policy, the Agency will only award a conditional grant in cases where:

1. The recipient is unable or unwilling to accrue additional debt in order to achieve a desired Agency redevelopment goal;
2. The recipient is a non-profit organization providing beneficial services to the Redevelopment Project Area; or
3. The grant converts an existing Agency loan if it is determined that the use of the property fulfills public benefit and redevelopment goals, and the use of the property will not generate rental income greater than the property's operating costs.

Conditional grant funds may only be used for acquisition, predevelopment and/or construction-related activities, and housing trust funds may only be used for residential purposes with assisted unit restriction for the period provided by law. Typical uses include: rehabilitation (including tenant improvements); historic preservation; improvements located on public property for public use; and facade renovation.

Conversion from Residual Receipts or Deferred Loans

In the case of a default on a loan by an entity providing a needed or highly desired service, the Agency will explore alternatives to terminating the services being offered by restructuring the loan to: (1) extend its term; (2) reduce its payment requirements; or (3) convert the loan to a grant. The Agency may convert residual receipts or deferred loans to conditional grants, also known as service repayment grants, with Council's approval, under the following conditions:

- Grant Agreement requires services to be provided for at least the term of the original loan, and the debt is amortized over at least the same period;

ATTACHMENT A

- Agency has determined that property has not, and is not expected to, generate rental income in excess of operating expenses; and
- Agency has determined that the dollar amount of credit for annual services is commensurate with the value of the services performed.

Agency staff will monitor compliance of the obligations set forth in the Agreement between the Agency and the conditional grant recipients. If the recipient does not fulfill the terms of the Agreement, funds must be repaid to the Agency either monetarily, or, at the Agency's discretion, the length of the term of repayment service may be extended.

Additional Requirements

Additional requirements for an unable or unwilling recipient, non-profit organizations and loan-to-grant conversion recipients, including the matching of funds and forms of security, depend on the grant amount according to the following three tiers:

1. Grants of less than \$100,000 require no match of funds and are secured with a Promissory Note and a maintenance or grant agreement.
2. Grants from \$100,001 to \$500,000 require a 10% match from non-profit organizations and a 100% match from private entities. These grants must be secured by a Promissory Note and a UCC-1 Financing Statement or a subordinated lien on real property.
3. Grants over \$500,000 are only available to non-profit organizations and require a minimum 25% match with security by a Promissory Note and a UCC-1 Financing Statement or a subordinated lien on real property.

Future Conditional Grant Programs

The Agency intends to create conditional grant programs, such as childcare center or business facade improvement programs, which may request the delegation of authority to the Agency's Chief Executive Officer, or designee, with Council approval. These programs and their specific parameters will be individually reviewed and approved through a separate action by Council as they are transmitted by the Agency.

Any project that deviates from a Council-approved Conditional Grant Program must be reviewed by City Council.

Event of Default

Each recipient of a conditional grant is expected to perform specific obligations, and such performance will be credited toward repayment of the grant. Depending on the specific circumstances of the grant, if the terms of the agreement are not fulfilled, funds must either be repaid to the Agency or the Agency can lengthen the amount of time that services are to be provided to fulfill the terms of the grant.

The ability to recover funds is not feasible in the case of a conditional grant since, more often than

ATTACHMENT A

not, funds have been spent on capital improvements. If it becomes apparent that the terms of service performance are not being met, the Agency can take back the property in order to: (1) find another service provider; or (2) use it for a different redevelopment goal.

On April 4, 2005, Council instructed the Agency to create a new policy on conditional grants and provide information regarding the processes and costs related to conditional grants. Because the following instructions have not been completed, we ask the Agency to report back relative to:

1. The process in which Agency staff monitors and evaluates the recipient organizations when granting service credits and the determination of default due to lack of efficient service; and
2. The developmental cost of converting loans to conditional grants/service repayment agreements.

RECOMMENDATIONS

That the City Council:

1. Approve the Community Redevelopment Agency's new Policy on Conditional Grants (Attachment A);
2. Instruct the Agency to report on the process in which staff monitors each project with a conditional grant and/or service repayment agreement;
3. Instruct the Agency to provide annual status reports for each project with a conditional grant and/or service repayment agreement, including those projects in default of the terms of the grant;
4. Instruct the Agency to provide information relative to the developmental cost of converting loans to service repayment agreements; and
5. Instruct the Agency to obtain the approval of Council for any project that deviates from a Council-approved Conditional Grant Program.

FISCAL IMPACT

There is no impact to the General Fund as a result of this action.

ENVIRONMENTAL REVIEW

The recommended action does not constitute a Project under the California Environmental Quality Act.

BACKGROUND

In 1992, the Agency adopted Policy Guidelines on Conditional Grants and Service Provider Operating Contracts which did not address the conversion of loans to conditional grants, lacked the flexibility to include new programs or circumstances arising in various Redevelopment Project

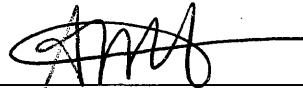
ATTACHMENT A

Areas, and had not been applied in many years.

On April 4, 2005, City Council approved the conversion of an Agency loan to the Mexican American Legal Defense and Education Fund (MALDEF) to a conditional grant (C.F. 02-0595). Although the conversion was approved, City Council directed the Agency to report back in 45 days relative to:

1. An updated policy on conditional grants and service provider operating contracts;
2. The status of all Agency loans that have been converted into service repayment agreements including organization compliance status, services credited thus far, and remaining balances;
3. The process in which Agency staff monitors and evaluates the organizations when granting service credits; and
4. The developmental cost of converting loans to service repayment grant agreements (conditional grants).

To date, the Agency has converted \$14, 599,348 in loans to service repayment grants.



Andrea M. Galvin
Analyst

GFM:LMO:IS:amg
Attachment A: Conditional Grant Policy
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ATTACHMENT A

ATTACHMENT A

PROPOSED REVISED POLICY ON CONDITIONAL GRANTS

I. Policy

It is the policy of the Agency, under certain circumstances described herein, to provide financial assistance in the form of Conditional Grants to eligible recipients in order to further redevelopment activities.

Conditional Grants must meet one of the following criteria:

- The recipient is unable or unwilling to take on additional debt in order to achieve a desired redevelopment purpose; OR
- The recipient is a not-for-profit organization providing services that are of benefit to the redevelopment project area, and the use of the funds expands the organization's ability to deliver services; OR
- The grant converts an existing Agency loan following a determination that the use of the property fulfills public benefit which meets specified redevelopment goals, and the use of the property will not generate rental income greater than the property's operating costs.

II. Definitions.

Conditional Grant. Agency financial assistance for redevelopment objectives, evidenced by a Grant Agreement, a Promissory Note when appropriate, and a recorded instrument. The recipient is expected to perform specific obligations, and such performance will be credited toward repayment of the Note. If the recipient does not fulfill the terms of the Agreement, funds must be repaid to the Agency or, at the Agency's discretion, the term of the Agreement may be extended. While a Conditional Grant has certain characteristics that are similar to a loan, it is distinguished by the fact that the Agency has no anticipation of monetary repayment except in the event of a default.

Recorded Instrument: A document recorded with the County Recorder or Secretary of State, evidencing a financial or performance obligation. Examples of a Recorded Instrument are: Deed of Trust; Agreement Containing Covenants; Maintenance Agreement; UCC-1 Financing Statement; Non-Monetary (Performance) Deed of Trust.

III. General Conditions

1. The funds must be used for acquisition, predevelopment and or construction-related activities. They may not be used for operating expenses, except in the case of City Council approved AB1290 funds for a limited period of time until alternative funding becomes available. Typical uses include, without limitation, rehabilitation (including tenant improvements), historic

ATTACHMENT A

CONDITIONAL GRANT POLICY

preservation, improvements located on public property for public use, and facade renovation.

2. Housing Trust Funds may only be used for residential purposes, and the assisted units must be restricted for the period provided by law. If the grant is repaid, the affordability restrictions may not be removed before the termination date.
3. Conditional Grants of less than \$100,000 do not require a match of funds from the recipient, or security in the form of a Note. The only required recorded instrument is a maintenance or grant agreement.
4. Conditional Grants greater than \$100,000 and not exceeding \$500,000 require a matching expenditure by the recipient. Grants to non-profit entities should have a matching expenditure of at least 10%; matches to private entities should have a dollar-for-dollar match. Unless made pursuant to an Council-adopted program with different requirements, Conditional Grants between \$100,000 and \$500,000 must be evidenced by a Promissory Note and should be secured by a UCC-1 Financing Statement or a lien (subordinated) on real property.
5. Conditional Grants in excess of \$500,000 are only available to nonprofit entities, and require a minimum 25% match. Such grants must be evidenced by a Promissory Note and should be secured by a UCC-1 Financing Statement or a lien (subordinated) on real property. A Leasehold Deed of Trust is not usually appropriate security.

IV. Conversion from Residual Receipts or Deferred Loans

The Agency has made numerous loans to non-profit service providers for facilities 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. The Agency may, at its sole discretion, convert such loans to Conditional Grants under the following conditions.

1. The Grant Agreement requires services to be provided for at least the term of the original loan, and the indebtedness (including accrued interest on the original loan calculated up to the date of loan conversion) is amortized over at least the same period.
2. The Agency must determine that the property has not generated, and is not expected to generate, rental income in excess of operating expenses (inclusive of on-site service costs).
3. The Agency must determine that the dollar amount of credit for annual services is commensurate with the value of services performed. If not, an extension of the contract period beyond the original loan maturity date may be necessary.

ATTACHMENT A

CONDITIONAL GRANT POLICY

V Adopted Programs

The Agency, subject to City Council approval, may adopt Conditional Grant Programs under which approval of individual grants may be delegated to the CEO or designee. Such programs must conform to the requirements of this Policy; have specific monetary limits, eligibility requirements and a plan for information dissemination. Grant Programs must have an authorized life of not more than 3 years, but may be re-established by Agency and City Council action. All Conditional Grants not conforming to adopted programs must be individually reviewed and approved by the Agency and City Council.

VI Grant Servicing

Conditional Grants that are not evidenced by a Note are tracked and serviced by the Contracts Department. Conditional Grants evidenced by a Note are tracked and serviced by the Asset Management Department.

VII Past Actions of Commission and Council

Conditional Grant Programs previously authorized by the Agency and City Council will expire 12 months from the approval of this Policy by City Council. During that period they may be renewed by appropriate actions. The currently authorized Conditional Grant programs are:

Business Incentive, Commercial Façade, and Signage Improvement Program within the Pacific Corridor Project Area; approved by City Council on 9/27/06.

Little Tokyo Commercial Façade and Business Incentive Program. Approved by City Council 5/18/04

Pico Union I and Pico Union II Residential Façade Program approved by City Council 1/13/2004

CD9 Façade Improvement Program, approved by City Council 6/07/2005.