



Eric Garcetti, Mayor
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April 23, 2018

Honorable Members of the City Council Budget and Finance Committee
C/o Holly L. Wolcott, City Clerk
200 N. Spring Street, Room 395
Los Angeles, CA 90012

SUBJECT: HOUSING + COMMUNITY INVESTMENT DEPARTMENT – COMMENTS RELATIVE TO THE PROPOSED 2018-19 BUDGET

The Housing + Community Investment Department (HCIDLA) appreciates the opportunity to comment on the Mayor's proposed budget and its impact on the critical services provided by the department. Most importantly, the proposed financial resources will assist the department in continuing our work related to reducing homelessness through the financing and construction of supportive housing, implementing homelessness prevention strategies and the creation of affordable housing across the City of Los Angeles.

The Mayor's Budget provides support through the increased funding for the expansion of the Domestic Violence Shelter Operations Program, continued funding for the FamilySource Centers, approved cloud-based Disaster Recovery Infrastructure, continued funding for the Seismic Retrofit Program, and for the partial funding to address the structural deficit within the Affordable Housing Program.

In order to meet our most pressing programmatic demands, we are respectfully submitting for your consideration the following financial requests not included in the Mayor's proposed budget:

PROPOSITION HHH

*General Funds for the creation of Proposition HHH Permanent Supportive Housing Loan Program (Prop HHH)
- \$8.3 million*

As the Mayor indicated in his State of the City address, homelessness is THE issue facing our City. While solving this crisis will take a multi-pronged approach, the permanent solution is the creation of new supportive housing through the voter-passed Prop HHH. During Fiscal Year 2017-18, HCIDLA received resolution authority for seven positions to perform the financial analysis and underwriting for Prop HHH developments, which was continued in the Mayor's Proposed Budget for 2018-19. For the 2018-19 Budget, HCIDLA did not request additional HHH staffing or funding because at the time department proposed budgets were due, HCIDLA did have sufficient data on the demand and therefore could not provide concrete justification for any adjustments. To date, HCIDLA has issued two calls for projects over a four-month period and has accepted forty (40) new supportive housing project proposals. HCIDLA recently submitted a Project Expenditure Plan (PEP) for 24 projects, totaling 1,518 units for the 2018-19 Prop HHH bond issuance (based on the first two rounds). Combined with the 2017-18 PEP, that's a total of 33 Supportive Housing projects with 2,133 units. This is a more than 100 percent workload increase over the number of affordable housing and bond projects that HCIDLA has historically financed and constructed each year through the Affordable Housing Managed Pipeline (AHMP), specifically a three-fold increase in workload with only seven additional staff. The demand for Prop HHH greatly exceeds what anyone anticipated and is far beyond what current staffing is able to support.

At the request of the Mayor's Office, HCIDLA completed a detailed analysis of staffing needed from proposal received date, to funding commitment, underwriting, construction, lease-up, permanent financing and occupancy monitoring. This analysis included metrics regarding workload capacity and appropriate supervision, which can also be applied once the department receives Linkage Fee revenue for the new affordable housing projects. Based on a conservative estimate of 27 HHH projects per year (three funding rounds with nine viable projects per round), HCIDLA has determined that a total of 58 positions are required (51 more than originally included in the budget authority). Of these 51 new positions, 48 would be for HCIDLA and three positions would be for the City Attorney.

HCIDLA recognizes that the impact of this late request is significant and poses a challenge for the City to address. To help mitigate the immediate impact, we propose that resolution authority be granted for all 58 positions along with six months' of funding, which will more realistically reflect the time it will take to ramp up staffing. This funding level represents only 4.15% of the project cost.

To mitigate the impact on the General Fund, we also recommend that, where eligible, the Prop HHH funding be used to support these costs. Staff costs incurred before a funding commitment is finalized and after construction is completed would not be eligible for HHH funding and would need to be supported via the General Fund. Finally, the Department has committed to completing a fee analysis, for covenant processing, occupancy monitoring, and loan servicing, required administrative activities that are also not eligible for bond funding and will minimize the impact to the General Fund starting in FY 2019-20.

Affordable Housing Production and ConPlan Administration Resources

General Funds for Structural Deficit - \$1.4 million (9-Month Funding for Structural Deficit)

SG: \$763,017 EX: \$198,622 Related Costs: \$474,292

HCIDLA is tasked with managing the City's four federal block grants known as the Consolidated Plan (ConPlan). Due to the decrease in ConPlan entitlements and administrative funds, the HCIDLA underwent a funding realignment to match the original intent of each grant and found that the deficit exists within the Affordable Housing Production unit. After extensive analysis and accounting for the General Fund relief in the Mayor's Budget of \$2.3 million, HCIDLA has a structural deficit of \$1.4 million to properly support crucial salaries, lease, and related costs. HCIDLA is requesting \$1.4 million from the General Fund and the flexibility to fill positions as allowed by the funding allocated in the budget to meet the short- and long-term affordable housing goals.

Currently, 50 positions in the Affordable Housing Production team are partially or fully supported by the HOME Admin funds. The \$1.4 million is necessary for proper funding and adequate staffing, without which the City will continue to experience delays in the affordable housing construction and compliance monitoring, and challenges in managing the extensive administrative requirements mandated by the United States Department of Housing and Urban Development (HUD), putting the grant funds at risk. In the recent past, in an attempt to be fiscally responsible, 17 positions were transferred to other programs and 10 positions have been kept vacant to reduce the structural deficit. Currently, 19 separate positions do not have approval to fill. In addition, while conducting the analysis the Department had limited authorization to backfill critical positions, which resulted in seriously reduced staffing levels, further exacerbated by natural attrition. HCIDLA can no longer sustain this approach. Improper or inadequate monitoring may lead to sanctions, including the return of expended funds from non-federal sources, as evidenced by the inclusion of \$2 million in the Unappropriated Balance (UB) to address the first installment of three needed to resolve prior ConPlan audit findings. The partial funding provided in the Mayor's Budget will support existing filled positions. However, the department needs the funding and staffing authority required to properly manage the Affordable Housing production and the Administration of the ConPlan, and to reduce the substantial backlog of work and the associated liabilities that have increased in severity over the past few years.

NATURALLY OCCURRING AFFORDABLE HOUSING PROGRAM (NOAH)

Add 1 Management Analyst - fully funded with NOAH funds

HCIDLA's Naturally Occurring Affordable Housing (NOAH) program is a new, innovative and collaborative program designed to preserve and stabilize existing non-covenanted affordable housing in gentrifying neighborhoods. HCIDLA has identified \$2 million in preservation funds for this project, which is leveraged by an additional \$2 million from the New Generation Fund (NGF) and California Housing Finance Agency (CalHFA). Under the NOAH program, mission-driven affordable housing providers would acquire and rehabilitate eligible properties, utilizing these specialized loan funds while adding covenants to restrict use to low and moderate-income households. The NOAH program cannot begin without a dedicated staff person to provide housing providers the financing tools to acquire, rehabilitate and maintain properties as affordable housing for the long term. HCIDLA is, therefore, requesting the position authority for one Management Analyst position, which will be completely paid for through NOAH program funds. As the only program dedicated staff, the requested Management Analyst is responsible for ensuring the NOAH program runs effectively so that the City's preservation goals and priorities remain the focus of the associated partnerships. The Mayor's Budget proposes to delete a few positions that have been marked as unfunded. An alternative to deleting the positions, HCIDLA recommends that one Management Analyst position authority be transferred to the NOAH program.

BOND TEAM

Add 1 Management Analyst & 1 Finance Development Officer I

SG: \$134,634 EX: \$27,795 Related Costs: \$65,723

Over the next year, the Affordable Housing Bond Program (AHBP) unit will see a substantial growth in work assignments due to the increase in the recapitalization of current projects, resulting in a need to bring on at least two more staff members, one Management Analyst and one Finance Development Officer I. Tax credit investors typically exit a project after the tax credit compliance period in the 15th year following project completion. At this time, the project is eligible for recapitalization to rehabilitate and preserve the City's affordable housing stock, ensure the prudent use of public funds, and improve and extend the useful life of the project. HCIDLA's existing asset portfolio currently has multiple projects that have reached the 15th year of the compliance period. Already, project owners have begun reaching out to HCIDLA with proposals to re-capitalize and rehabilitate these projects. The review process for these proposals requires intensive, detailed underwriting and a wide range of project analyses including, but not limited to, financial structure review (sources, rents, cash flows, etc.), assessments of physical needs, and extensive reviews of compliance with both federal and state requirements (ADA, prevailing wage, etc.). Without additional staff, the department cannot keep up with the high volume of work that has resulted from the mix of new bond issuances and the influx of recapitalization requests. Failure to complete these reviews in a timely manner jeopardizes the preservation and extended affordability of housing as well as the sustainable and improved living environment for low-income residents.

AFFORDABLE HOUSING AND SUSTAINABLE COMMUNITY PROGRAM (AHSC)

Add 1 Housing Planning & Economic Analyst - fully funded with AHSC funds

The Affordable Housing and Sustainable Community (AHSC) program is in critical need of one Housing Planning & Economic Analyst (HPEA) position to coordinate the implementation of past awarded funds (\$94.6 million) and arrange for the application of new and future funding. Currently, eight applications are under review for the upcoming year and could result in a total of \$108.4 million being awarded, allowing for the creation of up to 638 affordable housing units and over 24 miles of pedestrian and cycling improvements throughout the City of Los Angeles. Based on past experience and projected outcomes, HCIDLA expects to be awarded most, if not all of the eight awards applied for. The HPEA position itself will be paid for through AHSC grant funds. However,

since AHSC grant awarded funds are paid on a reimbursement basis, the City would first need to upfront the funds to pay for this position.

DOMESTIC VIOLENCE SHELTER OPERATIONS PROGRAM

Add 1 Management Analyst

SG: \$66,017 EX: \$13,703 Related Costs: \$32,488

HCIDLA will be expanding the Domestic Violence Shelter Operations Program (DVSO) to the Domestic Violence/Human Trafficking Shelter Operations Program (DVHTSO) in FY Year 2018-19, increasing the number of existing Domestic Violence shelters from eight to ten along with a pilot program for two new human trafficking shelters. In consideration of the increased workload and assistance needed in the program's transition from DVSO to DVHTSO, the department is requesting the addition of one new Management Analyst. The requested position will assist with crucial program monitoring, organization of trainings, and serve as a point person for all Human Trafficking-related issues. In addition, the new Management Analyst position will take the lead in analyzing contractor performance data to determine trends and program needs, thus allowing for the continued improvement of the DVHTSO delivery system, identification of gaps in service, and the accurate calculations of funding required for current and potential new shelter agencies.

VARIOUS OPERATIONAL REQUESTS

- 1. Restore Environmental Specialist II positions - No General Fund Impact**
Restore the two deleted Environmental Specialist II positions instead of moving them as in-lieu authorities for the Planning Department.
- 2. Paygrade two Principal Accountant I to II - No General Fund Impact**
To administer the City's Consolidated Plan grants and manage the various associated administrative processes and evolving compliance requirements.
- 3. Replace Systems Programmer II with III - No General Fund Impact**
To design, implement and manage the new cloud-based disaster recovery system designed to restore critical business systems in the event of a major catastrophe.
- 4. Increase Training and Conference Budget - No General Fund Impact**
Increase training and conference budget by \$25,000 to provide appropriate technical training, keep up with changing regulations and supplement in-house training.

We look forward to discussing these essential items with the Committee. Should you have any questions or need additional information, I can be reached at (213) 808-8808.

Sincerely,



Rushmore D. Cervantes
General Manager

C: Councilmember Gilbert A. Cedillo, Chair of the Housing Committee

Matt Szabo, Deputy Chief of Staff
Brenda Shockley, Deputy Mayor for Economic Opportunity
Richard Llewellyn, City Administrative Officer