

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: August 9, 2019

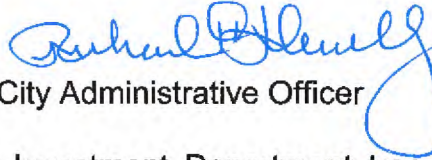
CAO File No. 0220-00540-1375

Council File No. 19-0826

Council District: Citywide

To: The Mayor
The Council

From: Richard H. Llewellyn, Jr., City Administrative Officer



Reference: Housing and Community Investment Department transmittal dated July 8, 2019; Received by the City Administrative Officer on July 22, 2019; Additional Information Received through August 7, 2019

Subject: **REQUEST TO UTILIZE \$150,000 OF LOW AND MODERATE INCOME HOUSING FUNDS FOR THE PLACEMENT OF AN EXECUTIVE ADVISOR IN THE HOUSING AND COMMUNITY INVESTMENT DEPARTMENT'S HOUSING DEVELOPMENT BUREAU**

RECOMMENDATION

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

1. Authorize the General Manager of Housing Community Investment Department (HCID), or designee, to:
 - a. Utilize \$150,000 of Low and Moderate Income Housing Fund program income to fund the placement of a FUSE Executive Advisor in HCID's Housing Development Bureau for a one-year term to further develop the proposal for a Local Housing Finance Agency (HFA) in the City of Los Angeles;
 - b. Prepare Controller instructions and any necessary technical adjustments consistent with Mayor and City Council actions, subject to the approval of the City Administrative Officer; and,
2. Authorize the Controller, or designee, to:
 - a. Establish a new account 43S616 - FUSE Program within the Low and Moderate Income Housing Fund No. 55J/43;
 - b. Increase appropriations in the amount of \$150,000 in the Low and Moderate Income Housing Fund No. 55J, Account 43S616, FUSE Program from revenue received within Fund No. 55J, from Revenue Source Code No. 4977, Program Income CRA for the FUSE Executive Advisor Agreement; and,

- c. Expend funds in an amount not to exceed \$150,000 from the Low and Moderate Income Housing Fund 55J, Account 43S616 FUSE Program upon proper written demand of the General Manager of HCID, or designee.

SUMMARY

The Housing and Community Investment Department (HCID) requests authority to utilize program income from the Low and Moderate Income Housing Fund (LMIHF) in an amount not to exceed \$150,000 to fund an Executive Advisor Task and Placement Agreement with FUSE Corps to extend the existing FUSE Fellowship in HCID's Housing Development Bureau and transition that FUSE Fellow to a FUSE Executive Advisor for a one-year term from September 24, 2019 through September 18, 2020. Subsequent to the release of HCID's transmittal dated July 8, 2019 (Report), the HCID provided a revised Executive Advisor Agreement, which is attached to this report. The HCID states that the FUSE Advisor will continue to develop the proposal for a Local Housing Finance Agency (HFA) in the City of Los Angeles and assist in implementing the HFA should HCID receive Mayor and Council approval for its establishment. If approved, the HFA would be a new entity, separate from the City, with the authority to issue tax exempt bonds to finance affordable housing in the City. This Office concurs with the recommendations of the Department, as amended to exclude Recommendation II. A of the HCID's Report, which would authorize the HCID to execute an Executive Advisor Task and Placement Agreement with FUSE Corps. The Master Agreement with FUSE Corps (C-125791) already provides authority for departments to execute Executive Advisor Task and Placement Agreements.

On August 3, 2018, the HCID received Mayor and Council approval to place a FUSE Fellow in the HCID's Housing Development Bureau for the purpose of developing a proposal to create a local HFA in the City. During the initial fellowship, the FUSE Fellow has worked with City Attorney staff, as well as outside counsel and City contracted financial advisors, to determine a structure for the proposed HFA. The HCID reports that the HFA proposal is being prepared and is anticipated to be submitted to the Mayor and Council for consideration in September of 2019. If approved, the HCID indicates that the FUSE Advisor will play a key role in establishing the HFA, including expanding business and financial models and preparing documents necessary for HFA implementation. Additional information regarding the Executive Advisor scope of services can be found in the HCID's Report and in the attached Executive Advisor Agreement. If the HFA proposal is not approved, the HCID reports that the FUSE Advisor will explore other capital finance initiatives to develop the City's ability to strategically manage its resources and promulgate its evolving housing policy.

FISCAL IMPACT STATEMENT

There is no impact to the General Fund. The recommendations in this report are in compliance with the City's Financial Policies in that funding for the FUSE Executive Advisor will be provided by the Low and Moderate Income Housing Fund No. 55J.

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CITY OF LOS ANGELES
FUSE CORPS
EXECUTIVE ADVISOR TASK AND PLACEMENT AGREEMENT

Executive Advisor Project Extension: City of Los Angeles, Housing and Community Investment Department (HCIDLA)

Executive Advisor Reports to: Sean Spear, Assistant General Manager, Housing and Community Investment Department

Location of Extension: Los Angeles, California

Advisor time base: Full-Time

General Terms and Conditions between the City and FUSE Corps.

The City department executing this Executive Advisor Task and Placement Agreement and FUSE Corps (FUSE) acknowledge that the terms and conditions of the Master Placement Agreement, City Contract No. C-125791, apply to the City department and FUSE as it relates to the performance of this Executive Advisor Task and Placement Agreement. FUSE and department shall notify the Office of the City Administrative Officer upon execution of this placement agreement.

Project Description:

Fellowship with HCIDLA Housing Development Bureau

In September 2018, HCIDLA contracted with Fuse for a fellowship within the Housing Development Bureau. The scope of the fellowship included clearing legislative hurdles, devising a business plan, securing first-stage funding, and launching the Los Angeles Housing Finance Agency. The Fuse Fellow was charged with ensuring that any proposed program meets applicable legislative requirements; and with assisting in coalescing momentum to obtain the required legislative authorization.

Once authorization for the HFA was obtained, the fellow was to take the lead in program design and implementation, including business plan and funding identification. However, although substantial progress has been made in this work, authorization for the HFA has not yet been obtained by the Mayor and City Council. Therefore, implementation is not complete.

To this end, the Fuse Fellow has worked with the Mayor's office on a strategy for passage of necessary legislation at both City and state levels, and has coached various elected officials and other constituents on the advantages of establishing a local HFA to gain their support for the legislation. Presentations have been



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drafted for politicians and other constituents to explain the benefits of establishing the HFA.

In addition, the Fuse Fellow has researched various possible legal structures for creation of an HFA and worked with attorneys and financial advisors to come up with the best form for the City. An organizational structure and hiring sequence for the new entity has been laid out. Various legal documents, such as Articles of Incorporation and By-Laws, have been drafted with the assistance of bond counsel; and five-year projections and a business plan have been developed with the assistance of the City's contracted financial advisor. Finally, the Fellow has started interviewing investment bankers. As such, a path has been identified towards the formation of the HFA and a transmittal is being prepared to obtain Mayor and City Council approval. The new HFA will be called The Los Angeles Housing Finance Corporation (LAHFC).

Fuse Executive Advisor with HCIDLA Housing Development Bureau

HCIDLA desires to transition the Fuse Fellow to a Fuse Executive Advisor and extend the term by one year in accordance with the Fuse Master Agreement. The expected outcome is the successful implementation of the HFA. A financial plan will be executed, and the build-out of the independent agency will begin by hiring two to seven key personnel. Over the next year, the first issuance of mortgage revenue bonds will occur, resulting in the development of affordable housing project(s) within the City.

During the new term of his agreement, the Fuse Advisor will perform services as part of HCIDLA's ongoing effort to establish the HFA, moving the drafted implementation plan into action. This work will include expanding the business and financial models for LAHFC with the goal of achieving a minimum of an "A" rating from bond rating agencies. The Fuse Advisor will meet Moody's and Standard & Poor's to discuss predicates that will ensure the success of this effort.

Key to the successful implementation of the HFA is the passage of necessary legislation by the California State Legislature and City Council approval of the legal establishment of LAHFC, providing the new entity with authority to issue bonds that are exempt from Federal and California State income tax. The Fuse Advisor will assist in this effort.

Section 542(c) of the Housing and Community Development Act of 1992 (12 U.S.C. 1707) enables the U.S. Department of Housing and Urban Development (HUD) and state and local housing finance agencies to provide new risk-sharing arrangements to help those agencies provide more insurance and credit for multifamily loans. An LAHFC Risk-Sharing Program, including regulations and qualification procedures, will be developed. The Fuse Advisor will assist HCIDLA in the assembly and development of application material for submission to HUD,



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consulting with rating agencies, HUD, and others to identify and execute a strategy that will allow LAHFC to qualify for risk-sharing.

The Fuse Advisor will assist in the preparation of a Bond Portfolio Analysis, reviewing the characteristics of outstanding bond issues within HCIDLA's portfolio to determine which, if any, of the outstanding bonds should be assigned to LAHFC.

Finally, the Fuse Advisor will continue to assist in efforts that will support the implementation of the HFA. New financial products, including draft term sheets for financial products offered through LAHFC, will be developed. Presentation materials will be prepared, as needed, for various constituencies. A Request for Proposals (RFP) process for an investment banker and bond underwriter for LAHFC's inaugural issue will be conducted. And the Fuse Advisor will play a key role in assessing the staffing needs and sequencing of recruitment for the new agency.

Advisor Support provided by the Placement:

Rushmore Cervantes, General Manager of the Housing and Community Investment Department and his/her staff will facilitate project completion and meetings with key staff within the City as well as elected officials as appropriate. The Housing and Community Investment Department will provide basic office infrastructure (workspace, email, phone, etc). The fellow will be supervised by Sean Spear, Assistant General Manager of Housing Development at HCIDLA.

Financial Considerations Between the City and FUSE regarding the Fellow:

The Housing and Community Investment Department will provide no stipend to the Advisor in addition to that provided by FUSE.

The Housing and Community Investment Department will directly reimburse the Advisor for expenses the Advisor incurs to execute duties required by this role such as travel expenses, consistent with the City Controller's Travel Policy. All such travel expenses require written pre-approval of the Department. The Housing and Community Investment Department will have no financial obligation for expenses related to duties required by FUSE, such as travel by the Advisor to FUSE trainings or events.

Financial Commitment Between the City and FUSE Corps as it Relates to the Placement for FUSE Advisor.

By executing this Executive Advisor Task and Placement Agreement, the Housing and Community Investment Department notifies FUSE that the Housing and Community Investment Department has appropriated sufficient funds and taken all necessary steps to commit to the Placement and Funding Structure below. FUSE will submit invoices directly to the Housing and Community Investment Department



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for the amount(s) listed below, the amount and timing of which are set forth for all departments in the City's Master Contract with FUSE.

The Housing and Community Investment Department, FUSE, and the Executive Advisor agree that the term of placement is 12 months. City will pay \$150,000 to FUSE in support for the Executive Advisor program and in return for placement of the Executive Advisor with the City.

Placement and Funding Timeline	Placement and Funding Structure
September 3, 2019	Agreement between FUSE and City Department to continue work of Advisor for up to 12 months.
September 13, 2019	Payment of initial fee is due. Fee to cover Advisor term of up to six months.
September 24, 2019	Advisor work starts.
January 15, 2019	Payment of remaining fee is due. Fee to cover remaining Advisor term up to six additional months.
September 18, 2020	Final day of work for Advisor.

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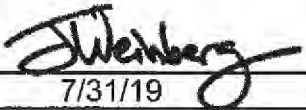


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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective duly authorized officers as of the Effective Date.

FUSE CORPS

CITY OF LOS ANGELES

By: 
Date: 7/31/19
Name: James Weinberg
Title: Chief Executive Officer

By: _____
Date: _____
Name: Rushmore Cervantes
Title: General Manager of the
Housing and Community
Investment Department