

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: August 16, 2016

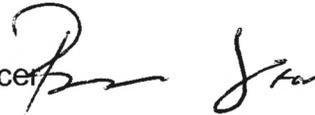
CAO File No. 0220-00540-1185

Council File No. 16-0714

Council Districts: 1, 5, 8, 13

To: The Council
The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: Transmittal from the Housing and Community Investment Department (HCID) dated June 7, 2016; received by the City Administrative Officer on June 8, 2016; Additional information received through August 11, 2016

Subject: **REQUEST AUTHORITY 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**

RECOMMENDATIONS

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

1. Adopt the Housing and Community Investment Department (HCID) August 11, 2016 proposed policy on the conversion of Residual Receipts Loans into Service Payback Loans attached to the City Administrative Officer (CAO) report.
2. Authorize the General Manager of the Housing and Community Investment Department (HCID), or designee, subject to the review of the City Attorney as to form and legality to:
 - A) Negotiate and execute amendments and take necessary actions to 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 payback loan;
 - B) Negotiate and execute amendments and take necessary actions to 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 payback loan; and,
 - C) Negotiate and execute amendments and take necessary actions to convert two existing residual receipts loan 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 payback loans.

This Office notes that the actual amount of each residual receipts loan to be converted will be greater than the totals above because final calculations will include accrued interest from July 1, 2016 through the date that the City Attorney approves the converted loan as to form and legality.

SUMMARY

The Housing and Community Investment Department (HCID) requests authority to convert four residual receipts loans, provided by the former Community Redevelopment Agency of the City of Los Angeles (CRA/LA), into service payback loans. The residual receipts loans were provided to three nonprofit entities to provide shelter and transitional housing and supportive services for homeless individuals and families. The annual repayment amounts were to be determined based upon the amount by which project income exceeded project expenses. Additional information on the nonprofit entities and the residual receipts loan terms is included in the HCID report dated June 7, 2016. The HCID reports that none of the nonprofit entities have made a payment on their residual receipts loan(s). It should be noted that the principal amount for PNH's loan for the Our House Project in Table 1 of the HCID report is less than the original loan amount of \$245,000. HCID staff report that there was an accounting adjustment to the loan at the time HCID inherited the CRA/LA loan.

After reviewing the loans and audited financial statements of the nonprofit entities, the HCID reports that the loans meet all of the requirements of the 2007, Council-approved CRA/LA policy on converting residual receipts loans to Conditional Grants (C.F. 06-2578), as outlined in Attachment A to the HCID report. Subsequent to their June 7, 2016 report, the HCID submitted a proposed policy for converting former CRA/LA residual receipts or deferred loans to Service Payback Loans, which is attached to the City Administrative Officer (CAO) report.

The HCID determined that providing transitional housing and supportive services to victims of domestic violence, individuals with HIV/AIDS, or individuals with mental illness fulfills a public benefit, and is not expected to generate any operating income to make payment on the residual receipts loans.

The HCID staff report that the nonprofit entities have provided beneficial services since the inception of their residual receipts loans, but will still need to provide proof of service for previous years in order to determine service credits that will serve as repayment of the converted loans. The remaining service payback loan balances will be repaid annually based on the provision of services for the remainder of the loan covenant terms, which will expire in 2016, 2019, and 2020.

This Office concurs with the proposed conversion of four residual receipts loans to service payback loans for three nonprofit entities, in accordance with the proposed HCID policy (attached). Since Council approved the CRA/LA Conditional Grants Policy in 2007 and the CRA/LA no longer exists, we recommend that the Council adopt the proposed August 11, 2016 HCID policy for converting former CRA/LA residual receipts or deferred loans into service

payback loans. The policy will provide guidance for HCID to convert existing former CRA/LA residual receipts or deferred loans, which have been integrated into HCID's portfolio, into service payback loans.

FISCAL IMPACT STATEMENT

There is no impact to the General Fund. The four loans were previously provided by the former Community Redevelopment Agency of the City of Los Angeles, and the recommendations in this report comply with City Financial Policies in that there is no additional cost to the City.

MAS:EIC:02170005C

Attachment

CAO ATTACHMENT TO HCID'S CONVERSION OF RESIDUAL RECEIPTS LOANS



Eric Garcetti, Mayor
Rushmore Cervantes, General Manager

POLICY ON CONVERSION OF 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 to update this section of the 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 area 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.
4. The amended Service Payback loans 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.