

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: September 28, 2022

CAO File No. 0220-00540-1626
Council File No. 21-0112
Council District: All

To: The Council
The Mayor

From: *for* Matthew W. Szabo, City Administrative Officer 

Reference: City Administrative Officer report dated June 17, 2022

Subject: **RECOMMENDATIONS RELATED TO PRIOR COUNCIL ACTIONS FOR THE STATE OF CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT HOMEKEY PROGRAM ROUND 2 AND HOMEKEY ROUND 3**

RECOMMENDATIONS

That the Council, subject to approval of the Mayor:

1. Rescind the Council action on July 7, 2022 for Recommendations 8 through 11, and 14 included in the City Administrative Officer report, dated June 17, 2022, attached to Council File No. 21-0112 related to the State of California Department of Housing and Community Development's Homekey Program, Round 2 (Homekey 2), inasmuch as the recommendations in this report will replace the previously approved action;
2. Approve the use of up to \$50,000,000 in Proposition HHH General Obligation (Proposition HHH) bond proceeds in the Proposition HHH Construction Fund No. 17E, to serve as a revolving loan for the HOME Investment Partnerships Program (HOME) – American Rescue Plan (ARP) Fund No. 65M, for a period from October 1, 2022 through December 31, 2022, to provide cash flow in order to close the acquisitions of approved Homekey 2 project sites. This loan will be repaid from the HOME-ARP Fund;
3. Direct the General Manager of the Los Angeles Housing Department (LAHD), or designee, to ensure the Proposition HHH revolving loan is fully repaid no later than January 13, 2023;
4. Approve the use of up to \$13,328,982 in uncommitted Proposition HHH bond proceeds for the acquisition of Homekey projects and to close the remaining gap for Homekey 2;
5. Approve the use of up to \$2,822,481 in HOME-ARP funds to close the remaining gap for Homekey 2;
6. Approve the Fiscal Year 2020-2021 HHH Project Expenditure Plan to be amended and increased by \$16,151,463, for a new total of \$20,132,519, for the 21121 Vanowen project;

7. Reserve \$79.8 million from the following sources for Homekey Round 3:

<i>Funding Source</i>	<i>Amount</i>
HOME-ARP	\$ 17,177,519
Homeless Housing, Assistance and Prevention Program (HHAP) 2, Youth Set-Aside	3,263,400
HHAP -3, Youth Set-Aside	14,364,000
HHAP-3, Permanent Supportive Housing Set-Aside	15,000,000
State SB 2 Permanent Local Housing Allocation Grant	20,000,000
HOME Program Income	10,000,000
Total*	\$ 79,804,919
<p>* Total reflects releasing the \$30 million from the Additional Homeless Services line item in the 2022-23 Adopted Budget General City Purposes Fund previously reserved for the Homekey Program on July 7, 2022 and other revisions discussed further in this report.</p>	

8. Authorize the Controller to:

- a. Establish a new appropriation Account No. 43WC48, Homekey 2.0 Reserve Fund Loan, within the HCID General Fund Program Fund No. 10A, and increase appropriations, on an as-needed basis utilizing Reserve Fund loan draw request amounts, as authorized under C.F. 21-0112, for a net total amount not to exceed \$48,532,773.75;
- b. Revise the depositing account of the September 23, 2022 Reserve Fund loan transfer in the amount of \$322,729 from the State Homekey Fund No. 65L, Account No. 43VC01, Homekey Capital to the HCID General Fund Program Fund No. 10A, Account No. 43WC48, Homekey 2.0 Reserve Fund Loan;
- c. Transfer the expenditure for the 20205 Ventura Woodland Hills acquisition in the amount of \$322,729 from the State Homekey Fund No. 65L, Account No. 43VC01, Homekey Capital to the HCID General Fund Program Fund No. 10A, Account No. 43WC48, Homekey 2.0 Reserve Fund Loan;
- d. Establish a new appropriation Account No. 43WC49, 21121 Vanowen within the Proposition HHH Construction Fund No. 17G and appropriate funding in the amount of \$20,132,519 for 21121 Vanowen;

9. Direct the General Manager of the LAHD, or designee, to:

- a. Work in consultation with owner/operator selected for each Homekey 2 site to develop an approved strategy for lease-up, affirmative marketing plan, and tenant selection criteria that prioritizes people experiencing homelessness with Emergency Housing

Vouchers, or other homeless program vouchers, and request that the LAHD report on the occupancy of units once the projects are 85 percent occupied, and again after the adaptability and accessibility units are rehabilitated and the projects are 100 percent occupied; and,

- b. Issue a Request for Qualifications (RFQ) that will select qualified developers and operators for potential Homekey 3 sites to serve as owner/operators, and/or joint applicants with the City to acquire potential Homekey sites, and/or developers of innovative housing modes, and report back to the Council on the recommended qualified list; and,
10. Authorize the CAO and/or the General Manager of the LAHD, or designees, to prepare Controller instructions and any technical corrections as necessary to the transactions included in this report to implement the intent of those transactions, subject to the approval of the CAO, and request the Controller to implement those instructions.

SUMMARY

On July 7, 2022 and July 29, 2022, the Mayor and Council approved various actions related to the Los Angeles Housing Department's (LAHD) implementation of the State of California Department of Housing and Community Development's (HCD) Homekey Program, Round 2 (Homekey 2). The Mayor and Council also approved the reservation of up to \$130.48 million from various funding sources to address the potential City match for a third round of Homekey (Homekey 3). Subsequent to the Mayor and Council's approval, this Office was alerted of the need for additional or clarifying instructions related to both the Reserve Fund loan and revolving loan approved for the Homekey 2 Program in order to implement those approvals, which are outlined in this report. In addition, this report includes recommendations relative to the funding authority for a Homekey 2 project that is scheduled to close by mid-October 2022, the lease-up plan for Homekey 2 projects, and a Request for Qualifications (RFQ) process for Homekey 3. Lastly, this report provides an update on the funding sources previously identified for Homekey 2 and the potential Homekey 3 programs.

Reserve Fund Loan for Homekey 2

On July 29, 2022, the Mayor and Council re-authorized a Reserve Fund loan in the amount of \$48,532,773.75 for Homekey 2 to enable the LAHD to acquire the remaining seven Homekey 2 projects in Fiscal Year (FY) 2022-23. The Reserve Fund loan is expected to be repaid by the Federal Emergency Management Agency (FEMA) reimbursement for costs incurred by the City for Project Roomkey in FY 2020-21. Based on the advice of the Controller, additional Controller instructions are required in order to appropriate and disburse the Reserve Fund loan funding that will be used for property acquisitions. This report includes a recommendation that the Controller appropriate the Reserve Fund cash to the HCID General Fund Program Fund on an as-needed basis utilizing reserve fund draw requests approved the City Administrative Officer (CAO). This report also includes additional recommendations to correct the source of funds of a Reserve Fund loan and expenditure for a Homekey 2 acquisition that was processed in September 2022.

Revolving Loan for Homekey 2

On July 7, 2022, the Mayor and Council approved various actions related to a revolving loan for Homekey 2, as follows: 1) approving the use of \$50 million in Proposition HHH (Prop HHH) General Obligation (GO) bond proceeds as the source of funds to serve as a 90-day revolving loan fund to assist the LAHD in expediting seven Homekey 2 property acquisitions; 2) establishing and appropriating the \$50 million within the Prop HHH fund; and, 3) directing the LAHD to repay the loan by October 14, 2022. The revolving loan fund would enable the LAHD to provide a cash flow mechanism for the property acquisitions due to the limitations on the amount of daily drawdowns for federal funds from the U.S. Department of Housing and Urban Development system.

Subsequent to the Mayor and Council's approval, the CAO was advised by the Controller to clarify the intent of the Prop HHH revolving loan. The revised recommendations of this report clarify that the Prop HHH GO bond proceeds will loan, or advance, funds to the HOME Investment Partnerships Program (HOME) – American Rescue Plan (ARP) Fund to facilitate the site acquisitions, and will be repaid from the HOME-ARP Fund. In addition, this Office is requesting an extension to the term and repayment date of the revolving loan. It was originally anticipated that the Homekey 2 acquisitions would be completed by September 2022 and that the revolving loan would be repaid by October 14, 2022. The LAHD indicates that the acquisitions are now anticipated to close by October 31, 2022. As such, the CAO is recommending a revolving loan period from October 1, 2022 through December 31, 2022 and recommend that the revolving loan be repaid by January 13, 2023.

Funding for 21121 Vanowen

On July 7, 2022, the Mayor and Council also approved an amendment to the FY 2020-2021 HHH Project Expenditure Plan (PEP) in order to increase and commit funding for Homekey sites. The 2020-21 HHH PEP amendment included \$3,981,056 in Prop HHH funding for the 21121 Vanowen project. Subsequent to the Mayor and Council approval, the LAHD indicated that additional HHH funding authority is needed to acquire the Vanowen site. The CAO recommends that Council approve an additional 2020-2021 HHH PEP amendment to increase the funding allocated to 21121 Vanowen by \$16,151,463, for a revised total of \$20,132,519, for 21121 Vanowen. The increased allocation to Vanowen is not increasing the amount of HHH funding committed to the Homekey Program.

Lease-Up of Homekey 2 Projects

In its transmittal, dated September 15, 2022 (C.F. 21-0112-S1), the LAHD indicated that approximately 35 percent of the new Homekey 2 units are required to use the Coordinated Entry System (CES) for placement of clients who will receive a Project-Based Voucher. The rest of the units, approximately 65 percent, will not require usage of the CES network for placement, but will still be reserved for currently or formerly unhoused individuals and families. The LAHD discussed a potential strategy of prioritizing Emergency Housing Voucher (EHV) holders, and other households with vouchers, who currently reside in one of the many interim interventions paid for by the City, as potential Homekey 2 unit residents but did not include a recommendation regarding

this strategy in its report. The CAO recommends that the LAHD work with the owner/operator selected for each Homekey 2 site to develop an approved strategy for lease-up, an affirmative marketing plan, and tenant selection criteria in order to effectuate this strategy, and that the Department report back on the number of units occupied with EHV holders, or other homeless program voucher holders, once the projects are 85 percent occupied, given that 15 percent of the units will be undergoing adaptability and accessibility rehabilitation, and again once the projects are 100 percent occupied.

Request for Qualifications Process for Homekey 3

The CAO recommends that Council direct the LAHD to issue a Request for Qualifications (RFQ) for Homekey 3. Although the Homekey 3 Notice of Funding Availability (NOFA) will not be issued until Spring of 2023, the CAO recommends that Council direct the LAHD to issue a RFQ to seek and select qualified developers and operators to ensure the owners/operators are ready to take over and administer the acquired Homekey 3 sites at closing and avoid costly property management fees and/or liability to the City. The RFQ process will allow for the acquisition and/or development options that may allowed in the Homekey 3 NOFA. This would include:

1. Owners/operators for either permanent housing and/or interim sites;
2. Joint-applicants with LAHD on potential Homekey permanent housing/or interim sites acquisitions; and,
3. Developers of innovative housing modes.

The report also directs the LAHD to report back to Council on the results of the RFQ process and the recommended qualified list of owner/operators/developers.

Update on the Homekey 2 Gap and Funding Need for Homekey 3

In the CAO report dated, June 17, 2022 (Report), this Office identified \$147.9 million from various funding sources to address the Homekey 2 funding gap and potential Homekey 3 match amount. Since the Mayor and Council approval, the CAO received updated information regarding the following: 1) the amount of uncommitted Prop HHH funds, one of the funding sources previously identified in the CAO Report, and 2) the potential Homekey 3 funding need.

The \$147.9 million previously identified in the CAO Report included \$34 million in uncommitted Prop HHH funds to address the Homekey funding needs. Of that amount, \$16.15 million was approved to close a portion of the remaining gap for Homekey 2 and the remaining \$17.85 million was reserved for Homekey 3. The LAHD subsequently amended the amount of uncommitted Prop HHH funds available to \$13.33 million. Based on this revised information, this Office recommends that the Council approve a combination of Prop HHH (\$13.33 million) and HOME-ARP funds (\$2.82 million) to close the \$16.15 million portion of the Homekey 2 gap that was previously going to be covered by Prop HHH funding.

In the previous CAO Report, it was also expected that HCD would issue a \$1.3 billion Homekey Round 3 NOFA and that the City would plan to acquire up to 700 units. Based on the 700 units,

LAHD estimated that the City match amount and funding need would be \$190 million. The HCD is now anticipating to release a Homekey 3 NOFA of \$750 million. In light of the reduced NOFA amount, the City may be able to acquire up to 300 units instead of 700 units. Based on an estimated average cost of \$250,000 per unit, plus a five-percent contingency, this Office estimates a potential City match amount of \$79 million, instead of the previously reported amount of \$190 million, for Homekey 3. As such, this Office requests that Council rescind its prior action of reserving \$130.48 million for Homekey 3 and reserve a revised amount of \$79.8 million, as summarized in the table below:

<i>Funding Source</i>	<i>Amount</i>
HOME-ARP	\$ 17,177,519
Homeless Housing, Assistance and Prevention Program (HHAP)-2 Youth Set-Aside	3,263,400
HHAP-3 Youth Set-Aside	14,364,000
HHAP-3 Permanent Supportive Housing Set-Aside	15,000,000
State SB 2	20,000,000
HOME Program Income	10,000,000
Total	\$ 79,804,919

The revised amount of \$79.8 million reflects the following revisions to the prior Council action: 1) releasing the reserved \$30 million from the Additional Homeless Services line item in the 2022-23 Adopted Budget General City Purposes Fund; 2) not including the \$17.85 million in Prop HHH funds since that funding is not available; and, 3) a reduced amount of HOME-ARP funding since a portion of the \$20 million previously identified for Homekey 3 will now be used to cover the Homekey 2 gap instead. This Office will report back to the Council under a separate report on the final City match required, and any remaining gap, once the HCD has determined the allocation for the Homekey 3 NOFA.

FISCAL IMPACT STATEMENT

There is no additional impact to the General Fund. The additional funding sources identified for the Homekey Program are either Proposition HHH General Obligation bond proceeds, or state or federal grants.

FINANCIAL POLICIES STATEMENT

The recommendations in this report comply with the City’s Financial Policies.