

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Council File No. 21-0112

Council District: All

To: City Council

From: Matthew W. Szabo, City Administrative Officer



Reference: Los Angeles Housing Department Report on State of California Department of Housing and Community Development Homekey Program, Notice of Funding Availability, Round 2

Subject: **REPORT BACK ON CITY MATCH FOR STATE HOMEKEY 2 PROGRAM**

SUMMARY

On November 5, 2021, the City Council adopted recommendations relative to the Los Angeles Housing Department (LAHD) report, dated October 25, 2021, (Report) on the State of California Department Housing and Community Development (HCD) Homekey Program Notice of Funding Availability (NOFA), Round 2. The HCD will issue up to \$2.75 billion over two years in matching and operations funding to local jurisdictions to acquire, rehabilitate, or create new interim or permanent housing units for households experiencing Homelessness or At-Risk of Homelessness. The HCD is allocating \$1.45 billion in the current fiscal year (FY) and \$1.3 billion in FY 2022-23. In the current Round, the HCD allocated up to \$358 million to the Los Angeles County geographic area for applications submitted by January 31, 2022; after this date, the remaining funds are competitive state-wide. The HCD will provide up to a \$300,000 match per unit. All funded projects must complete rehabilitation/construction within 12 months of the award date and be fully occupied 90 days later.

In its Report, the LAHD identified \$145.2 million to use for the City-match to acquire 750 units and estimated a funding gap of \$86.116 million. The City Administrative Officer (CAO) was instructed to identify available sources to fund the gap. As of January 31, 2022, the LAHD submitted applications for 10 projects with a total of 878 units to the HCD. The previously reported gap of \$86,110,000 has been reduced to \$34,239,080 due the following: 1) the actual cost of the 10 project applications submitted; and, 2) the LAHD identified an additional \$25 million in available Proposition HHH funds to help fund the gap.

This report identifies the proposed funds for the revised City-match gap for the 878 units of \$34,239,080, and amends a number of the recommendations in the LAHD Report based on updated funding information. Also, the LAHD Report only addressed the current FY NOFA, not the full HCD two-year program. We have confirmed that the City may be eligible for matching funds to acquire 700 more units in the next HCD Homekey NOFA. The LAHD's preliminary estimate for the

required City-match for the additional 700 units is \$238 million. This report also makes recommendations to identify the City-match required for an additional 700 units in the next HCD Homekey NOFA, if the Mayor and Council direct the LAHD to acquire additional units.

RECOMMENDATIONS

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

1. Amend the total amount of funds identified in the Los Angeles Housing Department (LAHD) report, dated October 25, 2021 (C.F. 21-0112) recommendation IA, from \$145,200,000 to \$163,462,486, for the Homekey local match requirements for property acquisitions, closing costs, due diligence, property management, rehabilitation, and operating subsidy costs incurred for successful Homekey applications and approve the revised funding resources below:
 - \$83 million of Proposition HHH funding;
 - \$10,488,548 of Community Development Block Grant CARES (CDBG-CV) Act Program;
 - \$58 million of HOME Investment Partnerships Program (HOME) – American Rescue Plan (ARP); and,
 - \$11,973,938 in Community Development Block Grant (CDBG) reprogrammed funds;
2. Direct the LAHD to request approval and report back on its plan to use \$2 million in HOME – ARP funds for staffing over three years to implement and manage the Homekey program;
3. Direct the LAHD to report back on the results of the 10 applications submitted by the January 31, 2022 deadline, including the total projects/units awarded State Homekey matching funds;
4. Approve the use of up to \$32,503,165 in Homeless Housing, Assistance, and Prevention Program (HHAP) funds, which will be reimbursed by the Federal Emergency Management Agency (FEMA), to fund the City-match gap of \$34,239,080;
5. Approve the use of up to \$17,143,938 in State COVID-19 Emergency Homelessness Grant funds, which will be reimbursed by the FEMA, to fund the City-match gap of \$34,239,080;
6. Reserve the remaining balance from both grant reimbursements in Recommendations 4 and 5 above, not used to fund the Homekey 2 City-match gap, to fund the City-match gap for the next State Homekey NOFA;
7. Authorize a Reserve Fund loan of up to \$49,647,103 to provide cash flow in order to close the sale of approved projects if FEMA reimbursements are delayed. The Reserve Fund loan transfer is on an as-needed basis, for which transfers to the LAHD will be processed upon submission of proper documentation from the City Administrative Officer (CAO). This loan will be repaid upon receipt of reimbursement from the FEMA;

8. Direct the LAHD to work with the CAO to identify the City-match gap for the next Homekey NOFA, including all State and Federal resources awarded and/or set to be awarded to the Department, if the Mayor and Council direct the Department to proceed with acquiring an additional 700 units;
9. Direct the CAO to identify potential available funding in future HHAP3 and HHAP4 grants while accounting for known funding obligations, if the Mayor and Council direct LHAD to proceed with acquiring an additional 700 units; and,
10. Authorize the General Manager of the LAHD, or designee, to prepare Controller instructions and any technical corrections as necessary to those transactions included in this report to implement the intent of those transactions, subject to the approval of the CAO.

BACKGROUND

State NOFA

The State of California Department of Housing and Community Development (HCD) issued the Homekey Program Notice of Funding Availability (NOFA), Round 2 (Homekey 2), on September 9, 2021. The HCD intends to issue up to \$2.75 billion over two years to rapidly expand housing for persons experiencing Homelessness or At-Risk of Homelessness and impacted by the COVID-19 pandemic. This first NOFA is for \$1.45 billion. Eligible applicants include cities, counties, cities and counties, and all other state, regional, Local Public Entities, and tribal entities.

Eligible uses under Homekey 2 include: 1) acquisition and/or rehabilitation of motels, hotels, apartments, residential facilities, manufactured housing commercial properties, other properties that could be converted to permanent or interim housing; 2) master leasing of properties for non-congregate housing; 3) conversion of units from non-residential to residential; 4) new construction of dwelling units; 5) the purchase of affordability covenants and restrictions of units; 6) relocation; and, 7) capitalized operating subsidies of units purchased, converted, constructed, or altered.

The HCD will provide up to \$200,000 per door/unit based on the size of the unit (for units with 3-bedrooms or more) or based on the population target of the units (up to \$200,000 per unit reserved for Chronically Homeless households or up to \$175,000 for unit reserved for Homeless Youth or Youth At-Risk of Homelessness). In addition, the HCD will provide up to \$100,000 in additional funds per unit if the applicant provides up to \$100,000 in matching funds per unit. This would increase the State match to up to \$300,000 for 3+ bedroom units or units reserved for the Chronically Homeless, or up to \$275,000 per unit for Homeless or At-Risk Youth. Projects would also be eligible for an operating subsidy of up \$1,400/month/unit for up to three (3) years based on the applicant's matching fund or application score.

Timeframe for Project Completion

Although the eligible projects under the NOFA are broad, all construction or rehabilitation must be completed within 12 months of the award date and fully occupied within 90 days of construction/rehabilitation completion.

Geographic Set-Aside

The HCD has reserved a geographic set-aside for eight state regions based on the proportionate share of sheltered and unsheltered 2019 Homeless Point in Time (PIT) Count and for proportionate share of extremely low-income (ELI) renter households that are paying 50 percent of their income on rent for a four-month priority application period (September 2021- January 31, 2022). During this period, HCD grouped applications into these regions. Therefore, during this period, all applications submitted by the City were grouped in the Los Angeles County region, and funded by the region set-aside of \$358,681,953. Applications submitted after January 31, 2022, will compete for the remaining funds state-wide.

DISCUSSION

Filling the Gap for the first 868 units

The LAHD had initially identified \$145.2 million for the City-match funds and estimated a gap of \$86.116 in its Report. Since that time, the LAHD has identified an additional \$25 million in available Proposition HHH funds, for a new total of \$163,462,486 available for City-match funds. Based on the 10 properties/868 units LAHD has submitted for funding, the actual gap has been reduced to \$34,239,080. This report recommends \$49,647,103 to fund the remaining City-match gap for the 10 projects/868 units, and that the balance be reserved for the next Homekey NOFA. These funds include:

- a. \$32,503,165 in State Homeless Housing, Assistance, and Prevention Program (HHAP), Round 1, which were used to front-fund Project Roomkey in FY 2020-21. The City expects that 100 percent of these funds will be reimbursed by the Federal Emergency Management Agency (FEMA); and,
- b. \$17,143,937 in State COVID-19 Emergency Homelessness funds, which were also used to front-fund Project Roomkey. These funds are also expected to be reimbursed 100 percent by FEMA:

Given that the timing of the FEMA reimbursement is unknown at this time, this report requests the approval of a Reserve Fund loan, if the funds are needed to close the sale of the approved Homekey 2 projects prior to the receipt of FEMA reimbursement. The Reserve Fund loan transfer is on an as-needed basis, for which transfers to the LAHD will be processed upon submission of proper documentation from the City Administrative Officer.

Although the use of the above grant funds for Project Roomkey are fully eligible grant expenditures, it should be noted that there is a risk that FEMA may reimburse less than 100 percent of the

\$49,647,103 as grant eligible expenditures may not fully align with FEMA Public Assistance eligible expenditures. To the extent that FEMA reimbursements are less than the grant funds expended towards Project Roomkey, the above grant funds would not be available to reimburse the Reserve Fund.

The report also recommends that the LAHD work with the CAO to identify the City-match need for the next Homekey NOFA and directs the CAO to identify potential available funding in future HHAP3 and HHAP4 grants, while accounting for known funding obligations, to fund this gap if the Mayor and Council direct LHAD to proceed with acquiring an additional 700 units.

FISCAL IMPACT STATEMENT

There is no additional General Fund impact anticipated at this time. The Reserve Fund Loan is expected to be reimbursed by the Federal Emergency Management Agency.

FINANCIAL POLICIES STATEMENT

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