

## TRANSMITTAL

To: **THE COUNCIL**

Date: **03/16/23**

From: **THE MAYOR**

**TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.**

A handwritten signature in black ink, appearing to read "Chris Thompson", with a long horizontal flourish extending to the right.

(Chris Thompson) for

**KAREN BASS**  
Mayor

Ann Sewill, General Manager  
Tricia Keane, Executive Officer

Daniel Huynh, Assistant General Manager  
Anna E. Ortega, Assistant General Manager  
Luz C. Santiago, Assistant General Manager

## City of Los Angeles



LOS ANGELES HOUSING DEPARTMENT  
1200 West 7th Street, 9th Floor  
Los Angeles, CA 90017  
Tel: 213.808.8808  
[housing.lacity.org](http://housing.lacity.org)

**Karen Bass, Mayor**

March 14, 2023

Council File: 19-0521; 21-1216  
Council Districts: Citywide  
Contact Persons: Timothy Elliott: (213) 808-8596  
Daniel Huynh: (213) 808-8901

Honorable Karen Bass  
Mayor, City of Los Angeles  
Room 303, City Hall  
200 N. Spring Street  
Los Angeles, CA 90012

Attention: Heleen Ramirez, Legislative Coordinator

**COUNCIL TRANSMITTAL: REPORT BACK FROM THE LOS ANGELES HOUSING DEPARTMENT REGARDING RECOMMENDATIONS FOR PRESERVING EXPIRING AFFORDABLE HOUSING COVENANTS, OUTREACH AND SUPPORT FOR RESIDENTS, IDENTIFYING RESOURCES, AND PRIORITIZING A PRESERVATION PROGRAM.**

### **SUMMARY**

In response to the affordable housing crisis in Los Angeles, Council District 1 and Council District 7 both put forth Motions requesting a report to analyze and identify strategies and potential funding sources for preserving affordable housing. The Los Angeles Housing Department (LAHD) respectfully submits a report back with a comprehensive set of recommendations that addresses both Motions (Council File Numbers 19-0521 and 21-1216).

The report back directed LAHD, to provide recommendations for preserving expiring affordable housing covenants, provide recommendations for outreach and support for residents that are at risk of displacement due to expiring covenants, identify resources needed to implement the above recommendations and prepare a plan for prioritizing a preservation program with an identified funding source.

This report also provides citywide data on affordable housing projects expiring through calendar year 2027.

### **RECOMMENDATIONS**

The General Manager of the Los Angeles Housing Department (LAHD) respectfully requests:

- I. That the Mayor review and approve this transmittal and forward it to the City Council for further consideration;
- II. That the City Council, subject to the approval of the Mayor:
  - A. APPROVE the Preservation Program recommendations summarized on the attached Term Sheet.
  - B. AUTHORIZE The General Manager of LAHD, or designee, to conduct stakeholder outreach and issue a Notice of Funding Availability (NOFA), based the proposed program terms.
  - C. AUTHORIZE The General Manager of LAHD, or designee to solicit applications based on funds that currently available as summarized in this report, review the applications and submit recommendations to the Mayor and City Council for consideration and approval.

## **BACKGROUND**

The preservation of affordable housing is a crucial strategy to prevent the displacement of low-income families throughout the City. Affordable housing projects with regulatory covenants and/or rental restrictions that are scheduled to expire within approximately the next five years are at risk of converting to market rate and having their affordability permanently lost.

Through its existing Affordable Housing Preservation initiatives, LAHD creates and implements financial and non-financial strategies to extend and preserve housing at-risk of losing its affordability restrictions, by assisting property owners, tenants, and developers in identifying options and resources to preserve or extend existing affordable housing stock, and leveraging resources to preserve affordable housing.

## **PRESERVING EXPIRING AFFORDABLE HOUSING COVENANTS**

LAHD estimates that the City currently has an inventory of approximately 193 properties totaling 5,929 units at risk of expiring within approximately the next five years from July 1, 2022 through December 31, 2027. The reduction in the number of at-risk units includes many Section 8 projects that renewed their subsidies for five or more years.

LAHD maintains an internal At-Risk Affordable Housing Database (AHD) that tracks expiring federal, state, and local covenant, as well as rental subsidy contracts in the City (see Attachment A for 2022-2027 Citywide At-Risk Affordable Housing report).

Of the total at-risk inventory, approximately 61% receive assistance from the federal government in the form of Project-Based Section 8 Rental Assistance (PBRA) and Project Rental Assistance Contract (PRAC), HUD Section 202 and Section 811 (serving elderly and/or disabled), and other rental or loan subsidy programs. The balance of these units are restricted by various City covenants (24%) and State regulatory agreements and bond-financed units (15%).

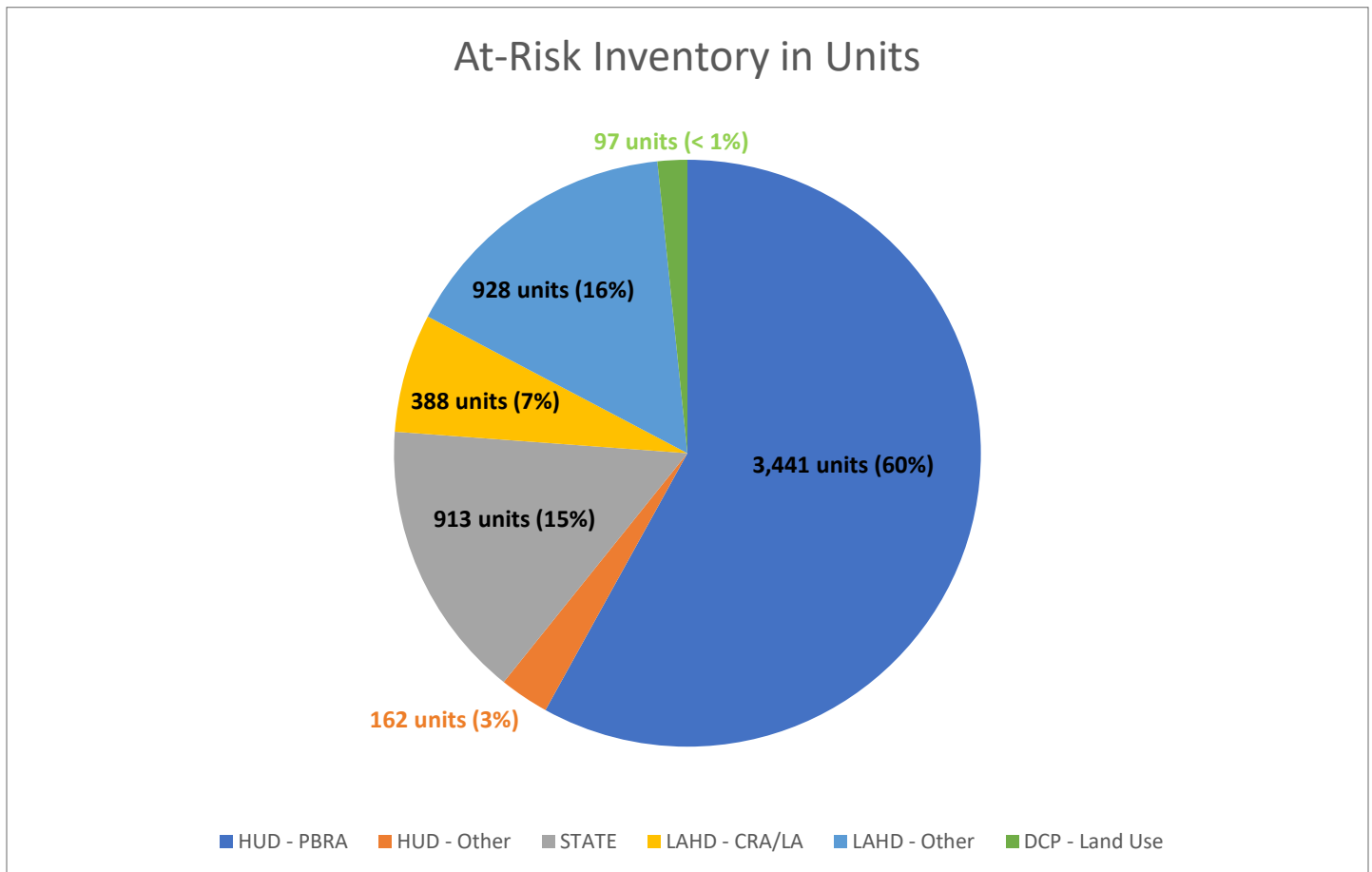
A combined total of 3,603 units, or 61% of at-risk units, are PBRA, PRAC, and Section 202/811. Currently, there are 3,441 PBRA units and 162 PRAC and Section 202/811 units (see chart below). These properties have

mechanisms in place, such as rental assistance contract renewal and tenant protections, that assist and support low-income tenants. Contracts that are renewed annually are deemed high-risk because a property owner could exercise the right to terminate a rental assistance contract although termination is unlikely. This opportunity presents a strategic window for future preservation efforts in working with property owners, HUD, and HACLA.

City restrictions are a result of local funding awards from programs such as the HOME Investment Partnerships Program (HOME), Community Development Block Grant (CDBG), issuance of tax-exempt and taxable multifamily housing bonds, the now-defunct CRA/LA housing loan programs, and City land use entitlement concessions. There is a combined total of 1,413 restricted units, or 24% of at-risk units: 388 CRA/LA units, 97 Department of City Planning (DCP) - Land Use restricted units, and 928 other LAHD program units. These properties have restriction terms that allow for expiration with no renewal mechanisms or tenant protections in place. Of these projects.

The remaining 913 units (15% of total at-risk units), are primarily subsidized or restricted by State loan programs such as the California Finance Agency (CalHFA) and California Department of Housing and Community Development (HCD). These properties carry similar affordability requirements to the City restricted properties.

See Attachment B for various tables that break down the properties represented in the AHD including a map of expiring covenants.



## **OUTREACH AND EDUCATION**

LAHD has an agreement with the Coalition for Economic Survival to provide service Outreach and Education Services for tenants in At-Risk buildings where there is a potential threat of displacement. Due to the COVID-19 pandemic, in-person tenant outreach has been suspended to prevent the spread of the virus, and to ensure the safety of tenants in at-risk buildings. Contact to tenants is currently conducted via telephone and email.

## **PRESERVATION PROGRAM GUIDELINES**

In order to maintain the supply and quality of the affordable rental housing the Department is providing financial incentives to:

- Prevent potential conversion of affordable housing to market rate housing,
- Extend the affordability periods of projects that are nearing the end of their Regulatory Agreement terms.
- Rehabilitate projects such as Residential Hotels and Single Room Occupancy (SRO) projects occupied by tenants with very low incomes, paying very low rents.

In devising a preservation strategy, to meet the needs identified above, LAHD employed consultants and relied on research teams from both UCLA and USC to examine best practices from cities across the country, including the cities of San Francisco, Chicago and Seattle. In addition, staff regularly participated in a stakeholder's working group convened by Enterprise Community Partners. A proposed Term Sheet for the program, is included as Attachment C of this report.

The resulting recommendations focus on affordable housing projects which:

- Have regulatory agreements that are scheduled to expire within five years, or
- Residential Hotels and Single Room Occupancy (SRO) projects with units that lack complete private baths and kitchens, and are at risk due to physical condition or financial infeasibility.

## **Minimum Requirements**

- All projects must address all critical and immediate repairs, and replacements, listed as required within 5 years of the date on the third party Property Condition Assessment (PCA);
- Projects must meet the requirements of LAHD's Accessible Housing Program.
- Upon construction completion, projects must demonstrate Fiscal Integrity - that the total operating income will be sufficient to:
  - pay all current operating expenses;
  - pay all current debt service (excluding deferred interest);
  - fully fund all reserve accounts (other than the operating reserve account);

## **Financing**

Under the new program, the Department will provide loans to reposition, rehabilitate and recapitalize properties as necessary to extend the long-term affordability restrictions for projects in its portfolio. As part of

the transaction, the Department will amend and reinstate unpaid matured loans, if applicable, to assure financial feasibility. To facilitate the needed rehabilitation, the Department may allow the subordination of the Department loan(s) to new indebtedness.

### Relocation Assistance

Section 165.09 Article 5, Chapter XVI of the Los Angeles Municipal Code requires landlord payment of specified relocation assistance to certain tenants when the tenant elects to relinquish their rental unit due to inability to pay rent increases by more than 10%, or the Consumer Price Index plus 5%.

Where a government-imposed regulatory agreement for affordable housing is being extended or modified, LAHD may provide additional assistance based on the applicable provisions of the Uniform Relocation Act, California Relocation Assistance Act, whichever is less.

### Project Selection

Priority will be given to projects where tenants have received a state mandated notice that affordability restrictions will no longer apply in three years, Government Code Section 65963.10 subdivision (e) (2)).

Scoring criteria will include:

- The average restricted affordability levels relative to market rents,
- The ratio of requested subsidy to maximum funding award,
- The remaining term of the longest regulatory agreement on the property,
- Proposed extended term of affordability beyond the minimum of 20 years  
(Projects without a three-year notice, the minimum extended term of affordability shall be 55 years)

### Funding Sources

Currently, there is approximately \$27.7 million in available funds through fiscal year 2022-2023. \$14.5 million per year (without ULA) is expected to be available over the next three years. Upon approval of these recommendations, LAHD would issue a Notice of Funding Availability (NOFA) for projects to be funded in the next fiscal year.

- 85% will be set aside for At-Risk projects  
Maximum Loan Amount of \$14 million and \$140,000 per unit
- 15% will be set aside for projects that are at risk due to physical condition or financial infeasibility  
Maximum loan amount of \$4.1 million per project and \$100,000 per unit

Approximately \$27.7 million in current fiscal year funds will be allocated by direct request to the City Council for preservation of at risk projects, including the Skid Row Housing Trust portfolio and one or more other high risk covenant expiration projects, to be reported separately.

<b>Source of Funds</b>	<b>Available through FY 2022-23 (including previous Fiscal Years)</b>
Affordable Housing Linkage Fee	\$12,919,801
Permanent Local Housing Allocation (SB-2)	14,734,040
<b>Total Available Funding</b>	<b>\$27,653,841</b>

Implementation Timeline

The preservation program assistance will first be offered to owners of buildings where tenants have received notice that affordability restrictions will expire in three years. Special focus will be given to those least likely apply for such assistance, with a low barrier to entry application system. LAHD will report back to Council with funding recommendations for any covenant extension opportunities identified.

This process will then be expanded to address projects that are nearing the end of their Regulatory Agreement and SRO projects that can made financially feasible.

<b>Description</b>	<b>Tentative Date</b>
Approval and Release of Term Sheet	April 29, 2023
Ongoing Outreach to Owners of At-Risk Projects	June 23, 2023
Priority Recommendations to the City Council and Mayor	July 28, 2023

FISCAL IMPACT

There is no impact to the General Fund. All funds will be derived from the Housing Impact Trust Fund derived from Linkage Fees; and Permanent Local Housing Allocation (SB2) funds.

ATTACHMENTS

- 2022-2027 Citywide At-Risk Affordable Housing Report
- Break down the properties in Citywide At-Risk Affordable Housing Report including a Map of Expiring Covenants
- Proposed Preservation Program Term Sheet