

TRANSMITTAL

To: **THE COUNCIL**

Date: **01/09/25**

From: **THE MAYOR**

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.



(Carolyn Webb de Macias for)

KAREN BASS

Mayor

City of Los Angeles

Tricia Keane, Interim General Manager

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



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Karen Bass, Mayor

December 23, 2024

Council File: NEW
Council Districts: Citywide
Contact Persons: Hannah Levien: (213) 458-6068

Honorable Karen Bass
Mayor, City of Los Angeles
Room 303, City Hall
200 N. Spring Street
Los Angeles, CA 900122

Attention: Thomas Arechiga, Legislative Coordinator

COUNCIL TRANSMITTAL: LOS ANGELES HOUSING DEPARTMENT REQUEST FOR AUTHORITY TO ACCEPT THE PRO HOUSING INCENTIVE STATE GRANT TO FUND AN OPERATIONAL RESERVE REPLENISHMENT PROGRAM FOR QUALIFYING PROJECTS

SUMMARY

The Interim General Manager of the Los Angeles Housing Department (LAHD or Department) respectfully requests that your office review and approve this transmittal and forward it to the City Council for further consideration. Through this transmittal, LAHD requests authority to accept the State of California Department of Housing and Community Development's (HCD's) one-time Prohousing Incentive Program (PIP) Grant that LAHD applied for and received. LAHD also requests authority to utilize the grant funds to replenish operational reserves of affordable housing projects within the Department's portfolio that qualify based on the criteria outlined in this transmittal.

RECOMMENDATIONS

- I. That the Mayor review this transmittal and forward to the City Council for further action;
- II. That the City Council, subject to the approval of the Mayor:
 - A. AUTHORIZE the General Manager of the Los Angeles Housing Department (LAHD), or designee, to accept the State of California Department of Housing and Community Development's 2023 Prohousing Incentive Program Grant;
 - B. AUTHORIZE the General Manager of LAHD, or designee, to approve the grant criteria outlined in this transmittal for the City's Micro Operational Reserve Replenishment Program;

- C. AUTHORIZE the General Manager of LAHD, or designee, to release a Micro Operational Reserve Replenishment Program Notice of Funding Availability (NOFA) to select qualified projects in accordance with PIP Grant Project Selection requirements, as described in this transmittal;
- D. INSTRUCT the General Manager of LAHD, or designee, to report back with the recommendations regarding the selection of qualified projects;
- E. AUTHORIZE the Controller to:
 - i. Record a grant receivable in the amount of \$4,900,000 within the LAHD Small Grants and Awards Fund No. 49N;
 - ii. Establish a new account 43AD38 Entitled "PIP-Prohousing Incentive Program Grant" and appropriate \$4,900,000 in Fund No. 49N/43;
 - iii. Expend Funds from the above account upon proper written demand of the LAHD Interim General Manager, or designee; and
 - iv. Transfer expenditures up to \$4,900,000 from City of Los Angeles Housing Impact Trust Fund (59T) to 49N/43AD38 upon receipt of grant reimbursements.
- F. AUTHORIZE the General Manager of LAHD, or designee, to prepare Controller instructions and any necessary technical adjustments consistent with Mayor and City Council actions, subject to the approval of the City Administrative Officer (CAO), and instruct the Controller to implement the instructions.

BACKGROUND

The State of California Department of Housing and Community Development's (HCD's) Prohousing Incentive Program released a competitive grant opportunity in late 2023 titled the Prohousing Incentive Program (PIP). HCD designed the program to reward local governments with a Prohousing Designation additional funding to accelerate affordable housing production and preservation. LAHD applied for the PIP Grant and was notified of the award in January 2024, with a deadline to draw down funds by March 2025. The PIP Grant supports redevelopment, development, acquisition, rehabilitation, and preservation of multifamily, residential live-work, and rental housing that is affordable to extremely low-, very low-, low-, and moderate-income households, including necessary operating subsidies.

The LAHD portfolio has recently seen a number of its projects deplete their operational reserves to cover operational deficits. Maintenance is deferred, and resident services and care services are reduced, resulting in an unstable building. This negative operational impact leaves projects in a financially weak position should there be an immediate expense for the project. These projects have all had to utilize their operational reserves for several reasons, and such expenditures have often been in significant amounts.

Primarily, insurance premiums have increased across the local development community and nationwide. For example, based on a survey from the Southern California Association of Nonprofit Housing, a new permanent supportive housing building built in 2021 that serves over 100 households experiencing homelessness in Los

Angeles County witnessed a staggering 450% premium increase, reaching over \$519,000 annually, despite no claims to date.

Additionally, many projects in LAHD portfolio have depleted over 75% of their operational reserves. Stabilization of projects by ensuring sufficient financial reserves ensures that units remain for those in need, avoiding eviction or displacement due to an inoperable building. Cash infusions into building operations for projects may be the difference between continued operations and foreclosure.

LAHD has over 1,100 multifamily housing projects with loan balances over \$3.1 billion and over 120 supportive housing projects in the portfolio. Several of the major supportive housing providers have recently contacted LAHD expressing concerns about operational needs and asking for support. This grant could directly serve those needs.

MICRO OPERATIONAL RESERVE REPLENISHMENT PROGRAM NOTICE OF FUNDING AVAILABILITY (NOFA)

Eligibility Criteria

In order to execute the replenishment of operational reserves with the PIP Grant funds, LAHD created a competitive eligibility criteria targeting projects experiencing negative cash flows. Based on the limited availability of funds and the ability to scale impact, LAHD determined eligibility criteria for projects within its own portfolio that would qualify for PIP Grant funds:

1. Owner/Applicant must be “compliant” with LAHD background check protocol;
2. The project must demonstrate a hardship, negative cash flow for two of the last three years, the operational reserves are insufficient, the partnership has exhausted efforts to raise funds through partnerships and lending facilities;
3. Project must have competitively won LAHD financing;
4. Project must have at least 20 units;
5. Project has been active for more than 15 years;
6. Up to four PIP applications per developer/applicant;
7. TIE BREAKER: The percentage of PSH units in the project

Selection Process

The state requires that the use of these funds fall within an eligible use category as described in their NOFA and as stated in the statutory language of the grant. The proposed program falls under the eligible use category number 1, which includes: “The predevelopment, development, acquisition, rehabilitation, and preservation of multifamily, residential live-work, rental housing that is affordable to extremely low-, very low-, low-, and moderate-income households, including necessary operating subsidies” for properties at 80% Area Median Income and below.

When forty percent (40%) of the PIP Grant funds have been allocated on an open window basis, if the number of requests exceed the balance available, the selection criteria will be utilized as outlined above and will heavily consider the tie-breaker.

Projects that apply for these funds must submit a narrative document along with an updated operating proforma for the next 10 years to demonstrate a clear pathway to operational stability. The Department will return to Council with projects who have won a grant award.

Subsidy Amounts

The subsidy amounts will be limited to \$5,000 per unit with a maximum award of \$500,000 per award. The subsidy would address operational deficits projected for 1 year. The intent is to provide a short term cash infusion until a sustainable solution can be implemented because these are one-time funds.

Impact

Depending on the project mix outlined in this transmittal, this PIP Grant has the potential to replenish operational needs for up to 980 total units. The Department will report back to the Council with the funding amounts per project.

PIP Grant Impact

<i>Amount Per Unit Limit (Annual)</i>	<i>Award Amount</i>	<i>Potential Units</i>
<i>\$5,000 (\$416.67 monthly)</i>	<i>\$4,900,000</i>	<i>980</i>

The PIP Grant funds will be distributed as grants to the project owners, so that 100% percent of the PIP Grant funds can be utilized to cover operational costs.

Funding

Like most HCD funding, the PIP Grant only allows a 25% advance prior to the expenditure of the funds. Therefore, the Department will need to advance \$3,675,000, which will then be reimbursed by HCD for the expenditures in arrears. The Department recommends that Linkage Fee funding be used to support this advance.

Table 1, below, shows the funding needed to front the cost of the PIP grant.

TABLE 1, PIP GRANT ADVANCE		
Funding Source	Account Number	Amount
Linkage Fee 59T	43W723	\$3,675,000

This money will be reimbursed 6-8 weeks after the final expenditure date.

FISCAL IMPACT

There is no impact to the General Fund.

Approved By:

A handwritten signature in black ink, appearing to read "Keane", is written over a horizontal line.

TRICIA KEANE
Interim General Manager
Los Angeles Housing Department