

TRANSMITTAL

To: **THE COUNCIL**

Date: **03/12/2025**

From: **THE MAYOR**

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.



(Carolyn Webb de Macias for)

KAREN BASS

Mayor

Tiena Johnson Hall, General Manager
Tricia Keane, Executive Officer



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Karen Bass, Mayor

March 5, 2025

Council File: 23-0330
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 90012

Attention: Thomas Arechiga, Legislative Coordinator

COUNCIL TRANSMITTAL: *REVISED* LOS ANGELES HOUSING DEPARTMENT REQUEST FOR AUTHORITY TO ACCEPT THE PRO HOUSING INCENTIVE STATE GRANT AND DEPLOYMENT OF OTHER AVAILABLE FUNDS TO SUPPORT OPERATIONAL RESERVES FOR QUALIFYING PROJECTS IN THE LAHD LOAN PORTFOLIO

SUMMARY

The 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's Housing and Community Development Department's (HCD's) one-time Prohousing Incentive Program (PIP) Grant awarded to the Los Angeles Housing Department (LAHD). LAHD requests authority to utilize the grant funds to replenish operational reserves for projects within the Department's Loan Portfolio, as detailed below that qualify based on the terms of the Grant and 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's Housing and Community Development Department (HCD) 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 Pilot Program;

- C. AUTHORIZE the General Manager of LAHD, or designee, to obligate and expend the PIP Grant Funds for the purposes as indicated in this report;
- D. AUTHORIZE the General Manager of LAHD, or designee, subject to review and approval of the City Attorney as to form, to negotiate and execute the grant agreements with PATH Ventures for the purpose of paying the accrued property management and property operational expenses, as well as costs to get vacant units ready for occupancy, as detailed below. The grant agreement will include a 55-year regulatory agreement to memorialize the affordability covenants as required by HCD;
- E. AUTHORIZE the General Manager of LAHD, or designee, subject to review and approval of the City Attorney as to form, to negotiate and execute the grant agreements with the legal owners of the Projects deemed eligible for the PIP Grant Funds pursuant to the Micro Operational Replenishment Reserve Pilot Program. The grant agreement will include a 55-year regulatory agreement to memorialize the affordability covenants as required by HCD;
- F. INSTRUCT the General Manager of LAHD, or designee, to report back with the recommendations regarding the selection of qualified projects;
- G. 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 43AD42 entitled "PIP Grant – Skid Row" and appropriate \$3,427,552 within Fund No. 49N/43;
 - iii. Establish a new account 43AD43 entitled "PIP Grant – Micro Operational Replenishment Reserve Pilot Program" and appropriate \$1,472,448 within Fund No. 49N/43;
 - iv. Expend Funds from the above accounts upon proper written demand of the LAHD General Manager, or designee.
 - v. Obligate and disburse funding in the amount of \$3,427,552 from account 49N/43AD42 to Path Ventures upon proper written demand of the LAHD General Manager, or designee;
 - vi. Obligate and disburse funding in the amount of \$1,472,448 from account 49N/43AD43 for the internal Operational Replenishment Reserve Pilot Program to selected affordable housing project owners or its designees upon proper written demand of the LAHD General Manager, or designee;
 - vii. Establish a new account 43A49N-LAHD Small Grants & Awards, within Fund 59T-City of Los Angeles Housing Impact Trust Fund and transfer up to \$3,675,000 in cash to Fund 49N-LAHD Small Grants and Award Fund; and

- viii. Establish a new account 43A59T-City of Los Angeles Housing Impact Trust Fund within Fund 49N-LAHD Small Grants and Award Fund and transfer up to \$3,675,000 in cash to Fund 59T-City of Los Angeles Housing Impact Trust Fund upon receipt of the PIP Grant Funds reimbursement;
- H. 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; and,
- I. NOTE and FILE previous report from LAHD dated December 23, 2024.

BACKGROUND: PROHOUSING INCENTIVE PROGRAM

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 in their respective jurisdictions. LAHD applied for the PIP Grant and was notified of the award in January 2024, with a deadline to draw down funds by June 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.

Permanent Supportive Housing (PSH) Projects (Projects) built with funds from LAHD's Loan Portfolio use the tenant rental income to pay operational expenses like management and maintenance staff, utilities and insurance. Tenant rent also pays the monthly mortgage payment. Typically, any remaining funds are placed in an operational reserve account to cover any unforeseen expenses or deferred maintenance that arise over the life of the Project. Once reserve accounts are fully funded, some of the remaining cash flow may be used to repay loans provided by LAHD and other municipalities.

When Projects experience a rise in operational expenses, they have little or no opportunity to increase rents to pay for increased expenses. Instead, they will stave off funding their operating reserve accounts or worse, draw funds from the operational reserve accounts to pay expenses and cover their debt obligations to avoid foreclosure or bankruptcy.

One of the most impactful changes to operating costs has been the rise in insurance premiums. Insurance premiums have increased across the local development community and nationwide. 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.

The LAHD Loan Portfolio has recently seen a number of its Projects fail to fund reserve accounts and deplete their reserves to cover operational deficits. As a result of increased operational costs, maintenance is deferred and less money is available for resident services and care services. This negative operational impact reduces the opportunity to serve tenants and leaves Projects in a financially weak position should there be an increased or unforeseen expense to the project.

Within the LAHD Loan Portfolio, several Projects have depleted over 75% of their operational reserves. Stabilization of Projects 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 totaling \$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.

PATH VENTURES AND SKID ROW HOUSING TRUST

Council authorized (C.F. No. 23-0321) an initial \$10 million to be loaned to the Skid Row Housing Trust Receiver in June of 2023 for multiple buildings within the Skid Row Housing Trust portfolio so as to stabilize the units and maintain as much supportive housing as possible.

Effective June 20, 2023, PATH Ventures replaced Skid Row Housing Trust (SRHT) as the owner for a total of six properties, exiting those properties from the court-ordered receivership. PATH Ventures paid \$1,473,714.40 in receivership costs for the six SRHT Projects, largely attributed to security, insurance, utilities, and property management fees. However, four of those SRHT properties – New Pershing, The Six, Simone, and Central – require additional support currently due to immediate capital improvement needs and property management expenses.

Since that time, PATH Ventures has provided outsized third-party participation to address the volume of corrective action required for compliance and occupancy. PATH Ventures formulated a strategy to replace a non-performing property manager while providing additional staff support to tenants amid increased building operation expenses. When PATH Ventures boldly took over the operations and critical task of re-stabilizing these PSH Projects in great disrepair, they also contributed roughly \$3.04 million of their own funding, creating potential financial strain for the organization. This report recommends utilizing a portion of the PIP Grant Funds in the amount of \$ 3,427,552 for PATH Ventures to be made whole on these four SRHT Projects and to ensure compliance with other lenders by paying the accrued property management and property operational expenses, as well as costs to get vacant units ready for occupancy.

AT-RISK, AGING PSH IN LOS ANGELES

The challenges faced by PATH Ventures with these properties are not unique for aging PSH units in the City of Los Angeles. Preliminary research by Enterprise Community Partners (Enterprise) identified 2,463 PSH units across six different developers in the LAHD Loan Portfolio that have depleted reserve accounts and deferred maintenance with no capital source to complete the work. Enterprise provided this total number of at-risk PSH units by evaluating the following information:

- The Project must have been placed in service for at least 15 years and/or;
- The Project must face near-term affordability risk within the next 5 years; and/or;

- The Project requires physical or financial restructuring within the next 5 years to ensure project viability; and
- The Project must allocate at least one-third of their total units as PSH units.

Enterprise utilized these qualifiers to populate the list and worked with nonprofit owners/members of their LA-based PSH preservation workgroup. For comparison, Projects financed with Proposition HHH Funds created roughly 2,000 new units each year since its beginning in 2016. Authorization by Council to utilize the PIP Grant Funds to support PATH Venture's investment in these Projects helps support more than a year's worth of new production of PSH units.

The resources and time required to stabilize the Skid Row Housing Trust portfolio were immense. The Department does not have the staff or resources available to support another portfolio demise under similar circumstances. Furthermore, maintaining the PSH assets that have already been built and are operational should not be an afterthought or peripheral consideration in the homelessness response system or the affordable and supportive housing ecosystem. These programs and communities are proven and effective tools to address housing security and supportive services needs for the most vulnerable. To that end, there are efficiencies in adopting a long-term asset management and preservation approach so that these communities can continue to meet the needs of those exiting homelessness and other various systems of care that serve them.

In order to continue to provide resources and support for PSH Project stabilization and preservation, in general, and to create a blueprint for an Operational Assistance Program within the funding parameters established by the Measure United to House LA (ULA) programs, the remainder of the PIP Grant Funds shall be dedicated to a Micro Operational Reserve Replenishment Pilot Program for aging PSH units, many of which are included in that sum of 2,463 units stated above.

MICRO OPERATIONAL RESERVE REPLENISHMENT PROGRAM

Eligibility Criteria

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

1. The Project must demonstrate a hardship; negative cash flow for two of the last three years; that operational reserves are insufficient; that the partnership ownership has exhausted efforts to raise funds through other partnerships and lending facilities;
2. The Project must have competitively won previous LAHD financing;
3. The Project must have at least 20 units;
4. The Project has been active for more than 15 years;
5. The Project must have a Capital Needs Assessment from 2024;

6. The Project must appear on the Enterprise aging PSH units at-risk list (aforementioned in the previous section).

Selection Process

The State requires that the use of these PIP Grant Funds fall within an eligible use category as described in their NOFA and as stated in the statutory language of the PIP 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.

Staff will only review Projects in the LAHD Loan Portfolio that have Capital Needs Assessments (CNA) from 2024 indicating an immediate capital improvement need and those that are currently on the Department’s “watch list.” This list indicates Projects that have demonstrated at least five years of financial instability. The Department will return to Council with Projects that will be awarded a PIP Funds Grant award based on the eligibility criteria along with the aforementioned selection process.

Subsidy Amounts

The subsidy amounts will be \$15,000 per unit for capital repairs and up to a year’s worth of operating deposits in the amount of \$560 unit, with a total amount of up to \$15,560 per unit. However, the Project may choose to allocate the entire amount to any of the PIP Grant categories. For example, it would be allowable for a qualifying Project to utilize the entire award amount to replenish operating reserves for a single or multiple units.

The subsidy amounts reflect findings by a draft report researched and written by Enterprise. For their PSH Project Need Assessment (PNA) Study, staff reviewed a sample of 20 PNAs from 15+ year old PSH projects in Los Angeles, and from that review, Enterprise generated immediate and near-term (1-3 years) estimates on a per unit basis for repair and replacement needs of physical items identified in the assessments.

Impact

Depending on the project mix outlined in this transmittal, this PIP Grant Micro Operational Reserve Replenishment Pilot Program has the potential to support capital and operational needs for up to 95 total units. The Department will report back to the Council with the funding amounts per Project.

Grant Impact After Skid Row Housing Trust Contribution

Total Available Grant Funding	Likely Number of Units Benefitting from Award	Maximum Award Per Unit
\$1,472,448.00	95	\$15,560

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 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 funding in the Affordable Housing Linkage Fee account 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 by HCD 6-8 weeks after the final expenditure date.

FISCAL IMPACT

There is no impact to the General Fund. On the other hand, a denial by Council to allocate a portion of the PIP Grant for the four troubled former SRHT assets currently held by PATH Ventures could result in property foreclosure and the establishment of a new receivership at a substantial cost to the City.

Approved By:



TIENA JOHNSON HALL
General Manager
Los Angeles Housing Department