FORM GEN. 160

CITY OF LOS ANGELES

INTER-DEPARTMENTAL CORRESPONDENCE

Date: December 13, 2018

To: Members of the Proposition HHH Citizens Oversight Committee

From: Richard H. Llewellyn, Jr., City Administrative Officer

Rushmore Cervantes, General Manager, Housing and Community Investment Department

Subject: **REPORT BACK ON INITIAL RECOMMENDATIONS FROM PROPOSITION HHH CITIZENS OVERSIGHT COMMITTEE TO IMPROVE PERMANENT SUPPORTIVE HOUSING PROCESS AND FUNDING STRUCTURE, DATED NOVEMBER 9, 2018**

The City Administrative Officer (CAO) and the Housing and Community Investment Department (HCID) as the Proposition HHH (Prop HHH) General Obligation Bond administrator and Housing Program departmental sponsor, respectively, thank the Prop HHH Citizens Oversight Committee (COC) for the thoughtful recommendations provided in its November 9th report to improve the Prop HHH housing financing program.

Pursuant to your request, we have reviewed your recommendations and have outlined our comments. We have also included recommendations for your consideration, which are summarized on Pages 12-13 of this report.

BACKGROUND ON PROP HHH

Prop HHH, which provides up to $1.2 billion for housing and homeless facilities, was approved by City voters in November 2016 (Attachment 1). The bond language restricts 80 percent of the housing bond proceeds for PSH units, which must include onsite services for extremely low income (up to 30 percent of Area Median Income (AMI)) and very low income (up to 50 percent of AMI) households; with only 20 percent of the housing bond proceeds available for affordable units for households at up to 80 percent of AMI (Attachment 2). The City executed a Memorandum of Understanding (MOU) with the County of Los Angeles (County), and the Housing Authority of the City of Los Angeles (HACLA), to provide funding for services and rental/operating subsidies, respectively, for these projects. These funding sources are necessary to develop successful PSH projects.

The Prop HHH Permanent Supportive Housing (PSH) Program was initiated at a time when there was limited funding available for affordable housing, especially permanent supportive housing. At the time, the City of Los Angeles (City) also experienced the largest increase in construction costs in the country (Attachment 3) and other new sources of funding like the No

Place Like Home Program, a major leveraging source for these units, was delayed due to a legal challenge. In spite of these challenges, the City has made great strides since voter approval in November 2016 in its implementation of Prop HHH.

The Prop HHH pipeline is currently at 55 projects with 3,711units; 2,809 of these are supportive units. The average Prop HHH per-unit subsidy for the projects included in the first two Project Expenditure Plans (PEP) is $148,188. The second Fiscal Year (FY) 2018-19 Call for Projects, which closed on November 20, 2018, resulted in 26 proposals requesting $264,768,000. If all 26 proposals are deemed eligible, the pipeline will increase by 1,693 units for a total pipeline of 5,404 units. This type of production pipeline is unprecedented for HCID. In the four (4) years prior to Prop HHH approval, on average HCID approved financing for 218 supportive units and 525 affordable units, or an average of 755 units annually.

One of the first projects funded by Prop HHH is set to be completed in August 2019 -- 24 months from the time the City issued the bonds. Of the 33 projects in the first two PEPs, five (5) or 15 percent of the total, have been impacted due to rising construction costs. These projects are currently awaiting funding determinations from other public entities. There are currently seven projects under construction for a total of 466 units. Three additional projects with 257 units closed their construction loans and will begin construction shortly for a total of 723 units in the construction phase of their development.

The table below summarizes the Prop HHH commitments as of November 2018.

Commitments	Amount of Prop HHH Committed	Total Number of Units	Prop HHH Average Per-Unit Subsidy
FY17-18 PEP	$73,157,162	615	$118,954
FY 18-19 PEP	$238,515,511	1517	$157,228
Additional Letters of Commitment Issued	$245,080,750	1579	$155,935
Funds Committed to Facilities (FY 17-18 and 18-19)	$48,934,788	N/A	N/A
Staffing	$1,545,399	N/A	N/A
Total Commitments	$607,233,610	3,711	N/A

CAO AND HCID COMMENTS ON COC RECOMMENDATIONS

Our comments and recommendations are set forth below.

COC Recommendation 1: Declare a State of Emergency and Create Pilot Program to Build 1,000 Units of PSH Housing Units within 24 months
COC Recommendation 2: As Part of the Pilot Program, Create a "Red Team" to Expedite Project Delivery and Help Solve Public Health Emergencies Caused by the Lack of Housing

The Mayor's Office separately will outline its recommendations for a Prop HHH Innovative Pilot Program to expedite the creation of PSH units while also reducing costs to address the COC's recommendations 1 and 2.

The City of Los Angeles previously enacted a homeless shelter crisis declaration. As stated during the COC's November meeting, the City Attorney's Office determined that, while the Mayor and City Council have the legal authority to formally declare and periodically renew a local State of Emergency under the California Government Code, the City Charter, and the City Administrative Code, making this additional emergency declaration is unlikely to provide additional benefits to the COC's goal of more quickly bringing Prop HHH PSH units into service. The only current City requirement that can be clearly waived under the City Charter through an emergency declaration is the City's requirement for competitive bidding of City contracts. We agree with the COC that we should work toward streamlining instead of eliminating our Calls for Projects. Other potential benefits of an emergency declaration (such as activation of the City's Emergency Operations Organization (EOO) to mobilize City staff), are either not relevant to the Prop HHH program or can be accomplished through other, more tailored means.

To provide an update on the typhus issue from information from the County's Department of Public Health (DPH), DPH annually reports flea-borne typhus cases in the County. This year there were 70 cases reported. Of the 70 cases, 31 were reported in the City. 12 of these cases were reported in Downtown Los Angeles; seven (7) of these were people experiencing homelessness. The Mayor's Unified Homelessness Response Center (UHRC) has been coordinating closely with the County DPH and City departments to conduct aggressive cleaning efforts in the area to prevent the spread of the disease. There have been no new cases reported since September. In addition, we expect to expand the hygiene services in the area through the State of California Homeless Emergency Assistance Program (HEAP) grant. The cold weather is the biggest deterrent to typhus given that the disease-spreading fleas promulgate in hot weather. We will continue to monitor the situation and update the COC as needed.

COC Recommendation 3: As Part of the Pilot Program, Temporarily Eliminate Limits on the Maximum Per-Project and Per-Unit HHH Contributions and Modify Limits on the Number of Projects Allowed per Developer

As you know, the total allowable per-unit subsidy is currently $220,000. Still, the average Prop HHH per-unit subsidy for the first two bond issuances is $146,188. With voter approval of Proposition 1 (Housing Programs and Veterans' Loans Bond) and Proposition 2 (No Place Like Home) in November, Prop HHH now has the leveraging sources necessary to reduce its per-unit subsidy. No Place Like Home, which will be administered directly by the County, will provide up $700 million for PSH projects over the next five (5) years. Projects in the City could receive up to fifty percent of the awards, or $350 million. City projects could also receive a substantial share of the funds from programs to be reactivated by the California Department Housing and Community Department (HCD) under Proposition 1, including the Multifamily Housing Program (MHP), Transit Oriented Development program (TOD), and the ongoing Veterans Homeless Housing Program (VHHP). Because we are able to commit Prop HHH funds first, the City should have substantial success in leveraging these additional sources.

While we share the COC's goal to reduce housing prices while increasing speed of production, the current average per-unit cost is $447,165, or $447 million for 1,000 units. The City's goal is to finance 10,000 units to house the homeless, through Prop HHH and HCID's additional funding programs made available through the City's affordable housing pipeline, by using every available leveraging dollar available. If the City chooses to eliminate the per-unit/per-project maximum subsidy and fund the entire project, we are concerned that fewer units would be developed. As an alternative solution, we agree with the COC that we should challenge developers to be more innovative and reduce the need for public sources.

Recommendations:

- In both its Regular Call for Projects and the proposed Prop HHH Pilot Programs, HCID will continue to encourage proposals that make the most efficient use of the Prop HHH funds, but also support projects requesting maximum Prop HHH funding with no additional public sources if it measurably reduces the time between commitment and completion of the project.
- HCID will report at least annually to COC (and ultimately Council) with its recommendations on appropriate funding caps as dictated by funding availability, constructions costs, the necessity for urgency in delivery and other relevant factors.
- For the Prop HHH Pilot Program, remove the "50 percent of Total Development Cost" funding cap. HCID will also examine the possibility of increasing the per-unit and per-project funding caps if developers can demonstrate that other non-public financing sources can fully repay the predevelopment and construction period Prop HHH investment upon project completion.

The limits on the number of projects allowed per developer were designed to limit the concentration of risk for developers and ensure projects continue to move forward and not stay in the predevelopment stage. Only two developers have hit the maximum number of projects in predevelopment. One of these has two projects that are about to start construction and would be eligible to submit more applications as soon as the construction starts. The current limits do not seem to be an impediment for participation in the program, nevertheless HCID concurs with the removal of this particular cap.

Recommendation:

- HCID will remove the limit on the number of projects allowed per developer for both the Prop HHH Pilot and traditional Prop HHH Call for Projects programs.

COC Recommendation 4: As Part of the Pilot Program, Create an Interest Rate Incentive Program that Aligns with the Goals of the Pilot Program and Program Priorities in the HHH regulations

If loan payments were mandatory immediately after construction completion, decreasing the current interest rate of three percent (3%), which is well below market, could incentivize additional developers to participate in the Prop HHH program. As you know, however, the type of loan provided to Prop HHH projects, as well as all HCID affordable project loans, are residual receipt loans. A residual receipt loan requires a single annual payment only after the project has paid its annual operating costs and it has been determined that the project has enough cash left over to make a payment. Supportive housing projects in general have very limited cash flow and we would not expect payments from these projects until deferred developer fees are paid off over 10 years. The priority for these projects is to ensure they can pay their operating costs and keep a service reserve for emergencies. Needless to say, this structure is already extremely beneficial to the developer and ensures the success of these projects.

The City will, however, entertain innovative financing mechanisms submitted through the proposed Prop HHH Pilot Program.

Recommendation:

- HCID will ensure that the Residual Receipt Loan benefit is clearly highlighted in both the proposed Prop HHH Pilot Program and its regular Call for Projects program.
- HCID will develop an interest rate incentive program in the proposed Prop HHH Pilot Program, which will benefit projects that use alternative financing structures outside of the traditional Low Income Housing Tax Credit Program.

COC Recommendation 5: Encourage Innovative Development Such as Modular, Prefabricated, or Manufactured Housing and the Construction of Accessory Dwelling Units

We agree that we must encourage innovative and cost efficient development. Modular, prefabricated, and/or manufactured housing are all eligible under the current Prop HHH guidelines. There is at least one project in the Prop HHH pipeline that is a modular, container-based project.

The City has also streamlined the Accessory Dwelling Units (ADUs) process and between 2015 and September of 2018, received 8,279 permit applications. The City Planning Department expects a record 5,000 permit applications this FY. The Mayor's Office recently received a $1 million grant from the Bloomberg Foundation for ADU development and HCID has proposed to set-aside $1 million from the Linkage Fee Program for an ADU pilot program.

ADUs are critical to increasing housing inventory, housing lower-acuity homeless households, and preventing more people from falling into homelessness. So long as the ADU is subject to the 55 year affordability covenant required by Prop HHH, ADUs may be a good use for the less restricted 20% portion of the housing funds. ADUs may not be the best fit the portion of Prop HHH requiring on site supportive services.

Other recent housing initiatives have removed regulatory barriers and created new pathways for the private sector to permit innovative designs, like the new Transit Oriented Communities Program which allows for more density and less parking near key transit stations. The Mayor's Office has also convened a Housing Innovation Working Group, which created a new pathways permitting container-based, prefabricated and shared housing typologies.

Recommendations:

- The CAO and HCID will work with the Mayor's Office and the Economic and Workforce Development Department to develop new programs and initiatives that help build the capacity of the prefabricated, modular construction industry in the region.
- HCID will clearly highlight in the proposed Prop HHH Pilot Program the ability for developers to submit smaller-scale scattered site supportive housing developments.

COC Recommendation 6: Make Housing Easier to Finance and Build by Addressing Mandatory Federal, State, and City Requirements in the HHH Regulations That Slow Down the Development Process

In response to the first comment in this recommendation, the City Attorney outlined the primary laws and ordinances governing the Prop HHH program and City contracts below. HCID cannot unilaterally waive any of these requirements. Local ordinances can only be amended through the City's legislative process with Mayor and Council approval, which would require a longer timeframe than the rollout of the proposed Prop HHH Pilot Program. Voter-approved ordinances, such as Measure JJJ, require additional voter approval to be amended. The CAO and HCID, however, will continue to work with the City Attorney's Office to identify any flexibility as it relates to these applicable laws and regulations before the roll out of the proposed Prop HHH Pilot Program.

1. Federal Laws
    a. Americans with Disabilities Act, Section 504 of the Rehabilitation Act, Fair Housing Act, and related regulations
        i. Apply regardless of whether there is federal funding (Any "program, service or activity" of the City, as a Title II entity)
    b. Use of federal funds in conjunction with HHH (HOME, HOPWA, etc.) may trigger compliance with other federal laws and regulations, including but not limited to Davis Bacon (federal prevailing wage).
2. State Laws
    a. California Constitution (GO Bonds)
        i. HHH funds must be used for "acquisition or improvement of real property." Art. 13A, § 1(b)(2)
    b. Fair Employment and Housing Act (overlap with federal accessibility laws, but some variations)
    c. Prevailing Wage, Labor Code § 1720, et seq. (public works projects)
        i. For "construction, alteration, demolition, installation, or repair work done under contract and paid for in whole or in part out of public funds."
        ii. Possible project-specific exemptions
        iii. City waived any "Charter City" Constitutional exemption and makes State prevailing wage laws applicable to City (City Admin Code, Section 10.7; City Charter, Section 377)

3. Local Ordinances
    a. Measure JJJ, Affordable Housing and Good Jobs (Trust Fund Projects/Zoning Variance). Codified in (Voter approved initiative):
        i. Section 11.5.11 of the Muni Code
        ii. Section 5.522 of the Admin Code
    b. PSH Project Labor Agreement
        i. Section 10.51 of the Admin Code 10.51 (PSH projects with 65 or more units)
    c. Living Wage Ordinance (LWO) (including for City financial assistance, with some exceptions)
        i. Section 10.37 et. seq. of the Admin Code
        ii. City Charter, Section 378

d. Equal Benefits Ordinance (EBO) (City financial assistance, some exceptions)
    i. Section 10.8.2.1 of the Admin Code
e. Contractor Responsibility Ordinance (City financial assistance, some exceptions)
    i. Section 10.40 et seq. of the Admin Code
f. First Source Hiring Ordinance (FSHO) (City financial assistance, exemptions determined by BCA)
    i. Section 10.44 et seq. of the Admin Code
g. Affirmative Action Program (Contracts by or on behalf of City)
    i. Section 10.8.4 of the Admin Code
h. Various other disclosure, non-discrimination provisions applying to entities with City contracts.

Beyond requirements under federal and state law and local ordinance, any further requirements for HHH applications are set forth in the Proposition HHH Program Regulations, which regulations for Fiscal Year 2018/19 were last adopted through an HCID report forwarded by the COC to the Administrative Oversight Committee (AOC), the Mayor, and City Council in the summer of 2018. Generally, except for sections of the regulations that address the legal requirements outlined above, the Proposition HHH Program Regulations can be amended by City Council action and Mayor concurrence. HCID will recommend to City Council and the Mayor that some of the COC's 11 recommendations be implemented through this process in time for incorporation into the proposed Prop HHH Pilot Program in early 2019. HCID can also incorporate input it receives in its next stakeholder meeting with respect to any specific, future regulation changes that may help to speed up the development process.

In response to the second comment in this recommendation, HCID will include the ability for applicants to seek a waiver for program requirements specified in the proposed Prop HHH Pilot Program, subject to Mayor and Council approval.

In response to the third comment in this recommendation, the Letter of Acknowledgement required from Council Offices has already been eliminated from Prop HHH regulations.

In response to the fourth comment in this recommendation, this month, HCID is planning to partner with the Mayor's Office to solicit feedback from the broader development community on the City Prop HHH Program and permitting process. HCID will also solicit feedback on draft regulations for the proposed Prop HHH Pilot Program, in addition to the Department's regular stakeholder meetings that will be held in the spring.

Recommendations:

- The CAO and HCID will continue to work with the City Attorney to identify any flexibility in the laws and regulations outlined above.
- HCID will work with the Mayor's Office to solicit open-ended feedback from the development community on the Prop HHH program, permitting process, and the proposed Prop HHH Pilot Program regulations. These comments will directly inform the development of the proposed Prop HHH Pilot Program and the traditional Prop HHH Call for Projects.

COC Recommendation 7: Make Housing Easier to Finance and Build by Having the City Take a More Active Role in Assisting with Property Acquisition

As reported previously to the COC, the City has been a national leader in the use of any available city property for housing development. The City assesses its City-owned sites and if appropriate, designates them as housing sites for HCID to put out to bid to affordable housing developers under its Asset Management Evaluation Framework (Attachment 4). For the most part, these sites are not being sold, but leased through long-term ground leases.

As part of the City's Comprehensive Homeless Strategy (CHS) approved in early 2016, the CAO is the lead on Strategy 7D, "Using Public Land for Affordable and Homeless Housing." The CAO has completed the review of the 428 City-owned sites that had been noted as "surplus" and issued a report on this review in August 2018 (CF# 16-0600-S145). Unfortunately, this list only yielded three (3) sites for permanent housing and one (1) site for a homeless navigation center.

To date, the CAO has identified 18 City-owned sites for permanent affordable housing, fifteen of the sites are in the development pipeline and three of the sites were deemed infeasible. An additional seven sites are in the due diligence phase prior to being added to the development pipeline. A number of these are Los Angeles Department of Transportation (LADOT) parking lots.

The CAO continues to work with LADOT on the review of additional City-owned parking lots and with other City departments to identify appropriate and available sites for housing use. We will also be reviewing City-owned sites that may be underutilized.

Beyond City property, we are working with our other governmental partners on any other available non-City governmental land. The State of California Surplus Property law outlines the process by which public agencies can dispose of surplus properties. These properties must first be offered to other public agencies before the sites can be offered to the general market and sold to the highest bidder. As such, property lists are not available on a regular basis.

The City assesses its City-owned sites and if appropriate, designates them as housing sites for HCID to put out to bid to affordable housing developers under its Asset Management Evaluation Framework (Attachment 4). For the most part, these sites are not being sold, but leased through long-term ground leases.

HCID has partnered with the Los Angeles Unified School District (LAUSD) on four LAUSD sites. These housing projects have been completed and are occupied. HCID will continue to work with LAUSD on any of its available parking lots and/or surplus property that may yield additional affordable housing opportunities.

The County is following a similar process as the City's and recently completed a review of all County-owned sites. To date, two (2) sites have been identified as potential affordable housing sites. METRO is also offering its suitable sites for affordable and market rate housing to developers through a competitive process.

The CAO also has been working with the State and the Federal governments on housing production on State and Federal property including the West Los Angeles Veterans Affairs (VA) Campus of which the COC is aware. The VA sites are part of the Prop HHH pipeline. The City is also building A Bridge Home facility, which will provide interim housing for homeless veterans, on the VA campus in partnership with the County. We are also working with the State on a potential Bridge Home site. The CAO will continue to work with these entities to ensure that any available site for affordable housing development is made available through a Request for Proposals.

The New Generation Fund and Supportive Housing Loan Fund, both established by the City, provide predevelopment and acquisition financing to developers for affordable housing. Therefore, acquisition financing should not be an impediment for developers.

Recommendation:

- The CAO will report on the status of available state and federal sites for affordable housing development.

COC Recommendation 8: Make HHH More Accessible by Revising Applicant Eligibility Requirements

The current regulations require the development team to have a certain amount of experience with multiple projects to apply for HHH supportive housing program dollars. The intent of the regulations is to ensure the team has the necessary experience to develop and operate a successful project and to give the team member with special needs housing experience adequate control over the operations of the housing development. These requirements also greatly enhance the developer's ability to obtain tax credit financing if such financing is part of the developer's funding stack. We believe the current regulations make send for tax credit projects, but we concur with the COC that HCID must be flexible in determining capacity for high quality development in projects funded through other sources.

Recommendation:

- HCID recommends keeping the regulations the same (i.e. amount of experience measured by projects) for projects that will be financed with Low Income Housing Tax Credit program to ensure appropriate experience. However, for both the Prop HHH Pilot Program and the regular Call for Projects Program, HCID recommends in non-tax credit financed transactions, where a certain amount of experience is not required to apply for tax credits, that an alternate ownership structure can be proposed by the borrower thus ensuring flexibility for varying scenarios.

COC Recommendation 9: Make HHH More Accessible by Permitting the Submission and Review of unsolicited Applications, and Revise Project Eligibility Requirements

HCID issues three funding rounds each FY. The need to submit applications outside of the Call for Projects schedule has not been raised by developers. Given the review and approval process to obtain a Letter of Commitment (Prop COC, Prop AOC, Council Committees, City Council and

Mayor), creating additional rounds or over-the-counter applications would create overlap. An additional timing issue is that HCID must coordinate on the application review with the County and HACLA; to ensure the project meets the services and rental voucher requirements. Starting in July 2019, the City, County and HACLA will release an on-line application that will provide a one-stop funding and approval process for Prop HHH, County capital funds, County service funds, and HACLA rental vouchers. This will not only align the City's key leveraging sources, but also expedite the process for developers.

Recommendation:
- HCID will market the one-stop application and approval process with the County and HACLA to the developer community.

COC Recommendation 10: Make HHH more Accessible by Encouraging More Non-Tax-Credit-Finance Projects

Projects not soliciting federal low income housing tax credits are already eligible to apply for Prop HHH under the current regulations. This year's Call for Projects has generated two such proposals that are currently under review.

Notwithstanding the foregoing, one possible way to encourage more non-tax-credit-finance projects may be to offer an option for Prop HHH funding using HCID's residual receipt loan program, where the residual receipt loan from HCID is the only public funding source for a Prop HHH project, with all other funding coming from private sources (that is, a project could not also use city-owned land, nor receive bond funding, tax credit funding, or other loans from any other public source). This type of optional funding structure may allow a project to fit within a statutory exception to state law prevailing wage requirements, which in turn may be a possible method to help reduce construction costs in response to COC Recommendation 11. This possible funding option is discussed in more detail immediately below.

Recommendation:
- HCID will continue to encourage non-tax credit financed projects to apply for Prop HHH.

COC Recommendation 11: Reduce Construction Costs and Delays

There are many factors that affect the construction costs and timelines for affordable housing projects. These include, materials and labor, timing of other funding sources, and location and typography of site. In addition, each funding source has its requirements for construction as well as construction regulation by various jurisdictions. Most rules ensure fraud and abuse do not occur and ensure the workers are paid the appropriate wages. Other rules work to limit risk of the overall development. HCID relies on other sources for their review and regulatory requirements. Changes to Prop HHH may not be helpful since the projects would still be required to comply with those same rules under the other County, State and Federal Programs.

Nine percent (9%) low income housing tax credit projects are required to close their construction loans within 180 days of receiving a tax credit allocation and place projects into service (complete construction) by the end of the following year. For Four percent (4%) low income housing tax credit projects must also start construction within 180 days from allocation, but does not provide a completion deadline.

HCID adopted the Guaranteed Maximum contract (GMAX) several years ago as a method of containing cost. It is not entirely clear if this requirement has had the desired effect. GMAX forces contractors to share savings with developers, which may result in higher bids.

These challenges and others are why HCID meets regularly with contractors, and developers to discuss the issues affecting affordable housing development. A final recommendation on this issue would require more time.

Paying contractors for early delivery of units could speed production if it was balanced with liquidated damages for delays. The developer is already paid a fee for their efforts. The faster they move and are right in their assumptions, the more of their fee they keep.

One of the requirements that generally applies for HCID-financed affordable housing projects is that a developer pay a prevailing wage to the construction workers, which comes from a state law requiring prevailing wages on any "public works" project, generally defined as a project "paid in whole or in part out of public funds . . ." Cal. Labor Code section 1720(a)(1). However, there is an exception to the prevailing wage requirement (outlined both in Section 1720 of the Labor Code and in case law interpreting this section) where the only source of public funding is "in the form of below-market interest rate loans for a project in which occupancy of at least 40 percent of the units is restricted for at least 20 years, by deed or by regulatory agreement, to individuals or families earning no more than 80 percent of the area median income." Cal. Labor Code Section 1720(c)(5)(E). So long as HCID's standard Prop HHH residual receipt loan is the <u>only</u> public funding source for a project (and so long as other requirements to obtain this type of loan under the Proposition HHH regulations are observed, including use of a regulatory agreement to restrict unit affordability long-term), applicants might qualify for the Section 1720(c)(5)(E) exception to the prevailing wage requirement. This would be subject to Los Angeles Proposition JJJ and the accompanying enabling City ordinance.

However, the COC should keep in mind that limiting a Prop HHH residual receipt loan as the only public funding source limits leveraging opportunities for Prop HHH funds. This also likely means that substantial private funding, which may come with higher interest rates or other requirements not present with public funding sources, may still increase overall financing costs for a project, which could actually outweigh the benefits of a prevailing wage exception. While HCID believes that the likelihood of a project being able to use the abovementioned exception is slim, there may be innovative funding structures that could still take advantage of this legal option under state law.

Recommendations:

- HCID will ensure that the prevailing wage exception option is clearly highlighted in the proposed Prop HHH Pilot Program.
- HCID will report back with a recommendation related to reducing construction costs and delays after its stakeholder meetings are held in the spring.

RECOMMENDATIONS

That the Prop HHH COC forward the following recommendations to the Prop HHH AOC for consideration:

1. Authorize HCID, the CAO, and the City Attorney to work with the Mayor's Office to develop the detailed program regulations for the Competitive Pilot Prop HHH Program to ensure:
   i. Innovative production and/or financial models that will produce up to 1,000 units, and completed within two (2) years of funding approval;
   ii. Produce high-quality products that can demonstrate long-term financial and physical stability;
   iii. Encourage long-term, permanent supportive environments for persons formerly experiencing homelessness; and
   iv. Comply with all Federal, State and local laws that cannot be amended within a three month period.
2. Reserve $120,000,000 of Prop HHH bond proceeds for the Competitive Pilot Prop HHH Program;
3. Authorize HCID to submit the draft Competitive Pilot Prop HHH Program Request for Proposals (RFP) to Mayor and Council for consideration by March 2019;
4. Authorize HCID to release the final Competitive Pilot Prop HHH Program RFP, immediately following Mayor and Council approval; and
5. Request that HCID report back, with the assistance of the CAO, City Attorney and Mayor's Office, to the Prop COC, AOC and Mayor and Council on proposals received and funding recommendations.

6. HCID will:

   A. Continue to encourage proposals that make the most efficient use of the Prop HHH funds, but also support projects requesting maximum Prop HHH funding with no additional public sources if it measurably reduces the time between commitment and completion of the project;
   B. Report at least annually to COC (and ultimately Council) with its recommendations on appropriate funding caps as dictated by funding availability, constructions costs, the necessity for urgency in delivery and other relevant factors;
   C. Remove the limit on the number of projects allowed per developer;
   D. Ensure that the Residual Receipt Loan benefit and the prevailing wage exception option are clearly highlighted to the developer community;
   E. Report to the COC on the input received from the affordable housing and developer community;
   F. Maintain the regulations on developer experience based on number of projects; but allow borrowers to propose alternative ownership structure for non-tax credit financed transactions, to ensure flexibility for varying scenarios;
   G. Market the one-stop application and approval process with the County and HACLA to the developer community; and

   H. Report back with recommendations related to reducing construction costs and delays after its stakeholder meetings are held in the spring.

7. For the Prop HHH Pilot Program, HCID will also:
   A. Remove the 50 percent of total development cost funding cap;
   B. Examine the possibility of increasing the per-unit and per-project funding caps if developers can demonstrate that other non-public financing sources can fully repay the predevelopment and construction period Prop HHH investment upon completion;
   C. Remove the limit on the number of projects allowed per developer;
   D. Develop an interest rate incentive program for projects that use alternative financing structures outside the traditional Low Income Housing Tax Credit Program;
   E. Include opportunities to propose smaller scale scattered site projects;
   F. Allow for alternative ownership structures to be proposed by borrowers for non-tax credit financed transactions; and
   G. Highlight the prevailing wage exception.

8. The CAO and HCID will:
   A. Work with the Mayor's Office and the Economic and Workforce Development Department to build the capacity of the prefab construction industry in the region; and.
   B. Continue to work with the City Attorney to identify any flexibility in the regulations that govern Prop HHH.

9. The CAO will report on the status of available state and federal sites for affordable housing development.

Attachments:

1. Prop HHH Bond Language
2. Los Angeles County Area Median Income (AMI) for 2018
3. *Los Angeles had the Nation's Largest Increase in Construction Costs in 2017*, Joseph Pimentel, Bisnow Los Angeles, April 17, 2018.
4. City of Los Angeles Asset Management Evaluation Framework

Exhibit 1

HOMELESSNESS REDUCTION AND PREVENTION, HOUSING AND FACILITIES GENERAL OBLIGATION BOND PROGRAM

Proceeds of the general obligation bonds, to be issued in one or more series on a tax-exempt or taxable basis as determined to be necessary or appropriate, in an aggregate principal amount up to One Billion Two Hundred Million Dollars ($1,200,000,000), shall be used only for the purposes of acquisition or improvement of real property to provide:

(A) Supportive housing or supportive housing units for individuals and families who are homeless or chronically homeless and (1) "extremely low income," as established and revised from time to time by the U.S. Department of Housing and Urban Development (HUD) for the County of Los Angeles (which currently includes income up to 30% of Area Median Income (AMI)) (referred to herein as Extremely Low Income), or (2) "very low income," as established and revised from time to time by HUD for the County of Los Angeles (which currently includes income up to 50% of AMI) (referred to herein as Very Low Income), which housing includes facilities from which assistance and services, such as mental health treatment, health care, drug and alcohol treatment, education and job training, may be provided by the City, other public entities, nonprofit entities and/or private entities;

(B) Temporary shelter facilities, storage facilities, shower facilities and other facilities to be used by the City, other public entities, nonprofit entities and/or private entities to provide supportive services or goods to, or otherwise benefit, those who are homeless, chronically homeless or at risk of homelessness;

(C) Affordable housing or affordable housing units, including veterans housing, for individuals and families who are (1) Extremely Low Income, (2) Very Low Income and/or (3) "low income," as established and revised from time to time by HUD for the County of Los Angeles (which currently includes income up to 80% of AMI) (referred to herein as Low Income), including individuals and families who are not currently homeless but are at risk of homelessness; provided, however, that not more than 20% of general obligation bond proceeds shall be used for such purposes; and/or

(D) Associated infrastructure and landscaping, including utilities, sidewalks and streets to be used in connection with the housing units and other facilities described in clauses (A) through (C) above.

The housing units and other facilities described above may be operated, managed, owned or used by the City, other public entities, nonprofit entities or private entities, as permitted by law.

All housing developments and facilities described above shall comply with applicable City, State and Federal accessibility laws and agreements, including Section 504 of The Rehabilitation Act of 1973 and the Americans with Disabilities Act.

Proceeds of the general obligation bonds would also be used to pay for costs directly connected to the acquisition or improvement of real property described above, as well as costs incidental to issuing the general obligation bonds.

Proceeds of the general obligation bonds will not be used to finance any services or operations.

Additional Provisions:

(1) A seven-member Citizens Oversight Committee shall be established prior to the issuance of any bonds, and shall be comprised of four members appointed by the Mayor and three members appointed by the City Council. Except as otherwise provided herein, the members' terms and qualifications, and any other duties and scope of the Citizens Oversight Committee, shall be established by ordinance.

(2) A three-member Administrative Oversight Committee shall be established prior to the issuance of any bonds, and shall be comprised of the Mayor, the City Administrative Officer and the Chief Legislative Analyst, or their respective designees. Except as otherwise provided herein, any other duties and scope of the Administrative Oversight Committee shall be established by ordinance.

(3) On or before April 1 of each year beginning on April 1, 2018, the Citizens Oversight Committee shall prepare or cause to be prepared, and submit, an annual allocation plan for the upcoming fiscal year (beginning on the immediately following July 1) to the Administrative Oversight Committee for review and approval, which annual allocation plan shall then be submitted by the Administrative Oversight Committee to the City Council for review and approval. The annual allocation plan shall be adopted and approved by the City Council and the Mayor prior to the beginning of such upcoming fiscal year.

(4) The annual allocation plan shall prioritize funding for supportive housing or supportive housing units that provide for the expansion and improved access for those who are homeless or chronically homeless to assistance

and services, such as mental health treatment, health care, drug and alcohol treatment, education and job training.

(5) A financial audit shall be conducted for each fiscal year bonds are outstanding or any bond proceeds remain unspent by the City Controller and shall be made available to the public.

(6) Bonds shall be issued from time to time, and expended, based on an allocation process that includes the then current annual allocation plan to determine funding priorities and awards, as well as the most recent annual financial audit conducted by the City Controller.

(7) Bonds shall be issued and administered by the City Administrative Officer, and bond financed projects under the Program shall be administered by the Los Angeles Housing and Community Investment Department or such other department or entity as designated by the City Council and Mayor, each with oversight by the Citizens Oversight Committee and the Administrative Oversight Committee. The City Administrative Officer shall annually report on the status of the Program, funds collected and expended and projects approved for funding.

(8) Bond proceeds shall not be used to supplant funding from existing sources currently allocated by the City and dedicated to the development or financing of (a) affordable housing or (b) supportive housing, temporary shelter facilities, storage facilities, shower facilities and other facilities used to provide supportive services to those who are homeless, chronically homeless or at risk of homelessness; provided, that, such funding from existing sources are from established ongoing sources of funding, including grant and special funds, and subject to the continued availability of such funds. This Maintenance of Effort requirement shall not apply to any source of one-time or limited-duration funding, including General Fund, Special Fund or Grant Funds.

(9) All bond proceeds shall be deposited into a special fund and shall only be used for the purposes of the Program as described herein.

(10) If any section, clause, sentence, phrase, or portion of this proposition is held unconstitutional or invalid by any court or tribunal of competent jurisdiction, the remaining sections, clauses, sentences, phrases, or portions of this proposition shall remain in full force and effect, and to this end the provisions of this proposition are severable. In addition, the voters declare that they would have passed all sections, clauses, sentences, phrases, or portions of this proposition without the section, clause, sentence, phrase or portion held unconstitutional or invalid.

Attachment 2

Los Angeles County Area Median Income (AMI) for 2018
Adjusted by Household Size

Income Category	Number of Persons in Household							
	1	2	3	4	5	6	7	8
Extremely Low Income (0-30% of AMI)	20,350	23,250	26,150	29,050	31,400	33,740	38,060	42,380
Very Low Income (31-50% of AMI)	33,950	38,800	43,650	48,450	52,350	56,250	60,100	64,000
Low Income (51-80% of AMI)	54,250	62,000	69,750	77,500	83,700	89,900	96,100	102,300

Attachment 3

Los Angeles Had Nation's Largest Increase In Construction Costs In 2017

April 17, 2018 | Joseph Pimentel, Bisnow Los Angeles

Construction costs in Los Angeles rose 7.59% year over year, the largest increase among the nation's major markets, according to a report by property and construction consultancy firm Rider Levett Bucknall.

Construction workers work on a project in Hollywood, Los Angeles.

The increase in cost reflects the concerns of many local developers that high costs are the new norm as Los Angeles, from downtown to parts of greater Los Angeles, Orange County and Riverside are undergoing a building boom.

And with President Donald Trump's plan to impose a steel and aluminum tariff, many developers are bracing for construction costs to continue to increase in the coming year.

"Our first quarter cost report is an empirical snapshot of the construction industry during a year when it was confronted by turbulence from proposed infrastructure programs, building-material tariffs, and immigration policies that impact labor pools," Rider Levett Bucknall Global Board Chairman Julian Anderson said in a news release.

The Rider Levett Bucknall study released Monday found between Jan. 1 and Dec. 31, 2017, construction costs across the nation rose by 4.2%.

Los Angeles saw a rise in construction activity and had the highest increase at 7.59% from the previous year, followed by Portland with 6.05% and San Francisco at 6.23%, the study reports.

Boston, New York, Washington, D.C., Las Vegas and Denver experienced a little over 3% jump from the previous year. Phoenix's construction costs rose 4.31%, Seattle, 5.1% and Chicago's increased by 5.35%.

Meanwhile, Honolulu saw a decrease in year-over-year construction costs of 1.74%.

See Also: First The Candys Got Burned, Then Wanda. Now Cain International Takes On Huge Beverly Hills Development Project

Related Topics: Rider Levett Bucknall, steel tariffs, Construction Los Angeles

Attachment 4

Asset Management Strategic Planning
Asset Evaluation Framework

1. REQUEST
Motions regarding potential re-use of City properties are transmitted to AMSP

2. EVALUATION
AMSP, in consultation with City stakeholders, assesses municipal needs and evaluates properties for economic potential

3. MUNICIPAL FACILITIES COMMITTEE
MFC reviews AMSP recommendations, makes determinations on the use of City properties, for Council consideration

FACTORS TO CONSIDER

- Municipal uses currently operating on site
- Whether uses are necessary at this location, or can be relocated
- Viable opportunities for relocation or co-location with other City uses
- Whether the existing facility is of sufficient size or amenities for existing or desired uses
- Condition of existing facility
- Opportunities to co-locate municipal uses with private uses
- Marketability of property for private development
- Comparable land values and likely development product types for private development
- Utilization of property
- Adjacent properties with development potential or plans
- Availability of other funding sources for improvements
- Potential for re-use to support City sector-based or community-based economic development goals
- Opportunity for transit-oriented developments (TODs)
- CAO and CLA, with input from the affected Council office, should be provided with an opportunity to review and approve any request for proposals that will be issued for the sale

Key:
AMSP – Asset Management Strategic Planning unit in CAO's Office
BOE – Public Works Bureau of Engineering
CLA – Chief Legislative Analyst
EWDD – Economic and Workforce Development Department
GSD – General Services Department
MFC – Municipal Facilities Committee, composed of CLA, Mayor, and CAO
HCID – Housing and Community Investment Development
LAHSA – Los Angeles Homeless Services Authority

4a. MUNICIPAL USE
Continued City use. MFC sets priorities, scopes for investment

Characteristics:
Municipal uses remain necessary, and are not suitable for co-location with private uses. Facility is in good condition or is appropriate for improvements.

5a. IMPLEMENTATION: AMSP with BOE, GSD

4b. NON-PROFIT or SURPLUS
No further city use; surplus for sale or convey to qualified non-profit

Characteristics:
Vacant facility or remnant unimproved land with limited economic value.

5b. IMPLEMENTATION: GSD

4c. ECON DEV – JOINT USE
Properties for Joint Use or Public Private Partnership

Characteristics:
Municipal uses could be co-located with private uses. Existing facility is in poor condition, is inadequate or underutilized. Property is attractive for private development.

5c. IMPLEMENTATION: AMSP, EWDD, and appropriate depts.

4d. ECON DEVELOPMENT
Properties for disposition and development

Characteristics:
Property is vacant or facility is inadequate or near end of life-cycle. Any existing municipal uses could be relocated. Property is attractive for private development.

5d. IMPLEMENTATION: EWDD

4e. CRA/LA FUTURE DEVELOPMENT
Option Agreement to market for disposition and development

Characteristics:
CRA/LA properties for which City has Option Agreements to market for disposition and development

5e. IMPLEMENTATION: EWDD/HCID

4f. HOUSING-AFFORDABLE/ HOMELESS

Characteristics:
City-owned sites/properties, unused or underutilized that are ideal for homeless or affordable housing and deemed feasible for inclusion in an RFP/Q

5f. IMPLEMENTATION: CAO/CLA/HCID/EWDD

4g. HOMELESS-NAVIGATION/ STORAGE
Properties for development of new homeless facilities

Characteristics:
City-owned assets fit for homeless storage/sanitation/Homeless Navigation Centers as homeless await available housing units

5g. IMPLEMENTATION: LAHSA/HCID

*The Asset Management Strategic Plan framework for the evaluation of properties approved by Council in May 2016 (C.F. #12-1549-S3) has been modified to include the Property Evaluation Process (C.F. #16-0600-S145)