




Eric Garcetti, Mayor
Rushmore D. Cervantes, General Manager

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TO: Proposition HHH Citizens Oversight Committee

FROM: Rushmore D. Cervantes, General Manager 
Los Angeles Housing + Community Investment Department

REGARDING: PROPOSED NEW LOAN PROGRAM FOR PROPOSITION HHH PERMANENT SUPPORTIVE HOUSING AND STAFFING PLAN

SUMMARY

On February 10, 2017 (C.F. 17-0090) the Los Angeles City Council and Mayor designated the Housing + Community Investment Department of Los Angeles (HCIDLA) as the departmental sponsor of the Proposition HHH (Prop HHH) Housing Program. As such, HCIDLA will be responsible for implementing a program to finance new Permanent Supportive Housing (PSH) projects for homeless individuals in the City of Los Angeles using Proposition HHH funds.

The production of Permanent Supportive Housing has been a mainstay of HCIDLA's affordable housing finance program for over a decade. During this period, HCIDLA has financed PSH units using available housing subsidies from the Housing Authority of the City of Los Angeles (HACLA) and several departments of the County of Los Angeles, including the Department of Health Services (DHS), the Department of Mental Health (DMH) and the Community Development Commission of LA County (CDC). Over time, interdepartmental collaboration on PSH finance has improved, as has our collective understanding of the best practices in Permanent Supportive Housing for homeless.

Now, with voter approval of \$1.2 Billion in funding from Prop HHH for Permanent Supportive Housing, HCIDLA has set a goal to rapidly accelerate the pace of PSH production. This report outlines the proposed new PSH Loan Program, in addition to staffing requirements and organizational changes that HCIDLA believes will be needed to successfully implement the program.

RECOMMENDATIONS

That the Citizens Oversight Committee review and propose the following recommendations to the Administrative Oversight Committee:

1. Approve the Proposed Prop HHH Permanent Supportive Program; and,
2. Approve the staffing plan.

PROPOSED PROP HHH PSH LOAN PROGRAM

The proposed Prop HHH PSH Loan Program will provide early funding commitments to new PSH projects that demonstrate the ability to provide well managed, service enriched housing for the homeless. The proposed program has been designed to leverage existing and future affordable housing funding streams at the City, County, State and Federal level, but it will be separate and distinct from HCIDLA's existing Affordable Housing Program (See attachment A: PSH Loan Program Overview). The PSH Loan Program differs from the City's existing financing program in in three key ways:

- **TRIENNIAL CALL FOR PROJECTS** – The PSH Loan Program proposes accepting applications for new PSH projects three times a year on a fixed schedule - July, October and February. This will enable developers to plan ahead for land acquisition and project financing.
- **THRESHOLD REVIEW** – The PSH Loan Program will not be based on a competitive scoring system; rather, it will be based on an established threshold for funding consideration. Projects that meet the threshold requirements of the PSH Loan Program will be recommended for a two-year conditional loan commitment.
- **CONDITIONAL COMMITMENT LETTER** – The PSH Loan Program proposes to make conditional funding commitments to qualified PSH projects early in the development process before other financing sources have been secured. By making funding commitments early in the development process, the City demonstrates a strong, early commitment to qualified PSH projects and puts qualified projects in a strong position to secure non-City funding.

To be considered for funding under the PSH Loan Program, developers must have successfully built and operated PSH projects. Projects must be able to demonstrate site control and the ability to obtain financing and entitlements within two years of the PSH loan commitment. PSH projects must commit 50% of the project units for homeless individuals and families, with half of the PSH units reserved for the chronically homeless. Applicants who meet the threshold requirements for a PSH Loan will be recommended to the Mayor and City Council for a conditional funding commitment letter which will remain in effect for two years (See Attachment B - DRAFT PSH Loan Program Term Sheet and Approval Process).

HHH SUBSIDY & CAPITAL FUNDING

The most common source of equity for Affordable Housing is Low Income Housing Tax Credits (LIHTC). The PSH Loan Program, loan limits, will be sized to complement the financing structures of both the 9% LIHTC program and the 4% LIHTC program. Projects seeking 9% LIHTC financing will have a loan limit of \$100,000 per unit, whereas projects seeking the 4% LIHTC financing will have a loan limit of \$140,000 per unit. Projects with private equity (non LIHTC) may seek loans up to the \$100,000 per unit maximum. It is expected the 4% LIHTC program will be the utilized most often.

- **9% LIHTC** – 9% Tax Credits are limited and are awarded by the state housing agency through a competitive application process. The City of Los Angeles has an allocation of 9% LIHTC valued at close to \$90 million per year. Projects in Los Angeles may also compete in statewide set asides for nonprofit developers and special needs projects. Projects with a PSH Loan Commitment may apply for 9% LIHTC funding through the Affordable Housing Trust Fund Managed Pipeline process.
- **4% LIHTC** – There is no cap on the pool of 4% Tax Credits, but these credits must be combined with federally subsidized tax exempt debt (affordable housing bonds), which does limit the total amount of 4% LIHTC equity in each project. In general, the 4% LIHTC program provides less equity per project than the 9% tax credit, but has fewer constraints on the number of projects that can be financed each year (but will add additional financing processes). Projects with a PSH Loan Commitment may apply for 4% LIHTC funding as soon as they are ready. It is anticipated the volume of 4% LIHTC and bond transactions will grow from the current average of 12 projects per year to 25 projects per year as a result of new PSH Loan Program.

SUPPLEMENTAL FUNDING FOR EARLY PROJECTS

The HCIDLA proposed subsidy per door is up to \$140,000 (4% LIHTC). However, due to issues such as the unavailability of a number of resources, including key PSH funding streams (e.g. LA County Mental Health Funds, “No Place Like Home” Program) until 2018 and the dramatic decrease of tax credit equity pricing and rise in construction costs, substantial project gaps have and will occur.

To address the above funding concerns, HCIDLA is recommending short-term supplemental funding for early PSH projects in the amount of an additional \$80,000, for a combined total of up to \$220,000 per unit for the first program year (July 2017 and October 2017 PSH Loan Application Rounds). The \$80,000 in supplemental funding will follow the same requirements as HHH PSH funding. This supplemental funding will be made available to projects that are in HCIDLA’s existing pipeline or apply in the 2017 application rounds. The supplemental commitment will have the same two-year conditional term. At the beginning of 2018, HCIDLA will re-evaluate the economic conditions and provide recommendations on any supplemental funding for future application rounds.

PROJECT EXPENDITURE PLAN

In 2017, HCIDLA will propose projects for the first Project Expenditure Plan (PEP), based on projects advancing through the City’s current funding pipeline that have gone through existing HCIDLA PSH review. The FY 2017-18 PEP will be presented for approval at the March 17, 2017 meeting. In upcoming years, HCIDLA will propose projects per the HHH PSH Loan Program that will receive conditional funding commitments from the City. Threshold requirements for admitting projects into the annual PEP include projects that have HHH PSH commitment letters, secured financing, and obtained entitlements [or soon will] and be ready to move into construction within 12 months. Such projects meeting the threshold will be submitted for review and approval by Citizen’s Oversight Committee (COC) and Administrative Oversight Committee (AOC) for inclusion into PEP. Projects not ready to move forward will remain on the conditional commitment list and any conditional commitments that have not advanced to the PEP review within two years will be de-obligated.

Upon approval by the COC, AOC, Mayor and City Council, the City will issue general obligation (GO) bonds for PSH projects that are ready to be funded. Once funding is received, HCIDLA will execute subordinate loans at a 3% interest rate and payable on a residual receipt basis. In addition, all PSH housing projects funded with HHH bond funds will have a 55-year regulatory agreement to ensure the project remains dedicated to serving homeless individuals.

SITE CONTROL & LAND ACQUISITION

In order to apply for a PSH loan, the applicant must demonstrate site control. HCIDLA is advancing a number of initiatives to speed up site control for PSH developments, such as expanding the availability of acquisition capital and making public land available for development. Two Community Development Financial Institutions have been instrumental in creating land acquisition funds that work in tandem with the City's PSH financing programs.

- **Supportive Housing Loan Fund (SHLF)** - The SHLF Program, established in 2007, is a \$30 million fund managed by the Corporation for Supportive Housing and targeted for land acquisition of PSH projects. In 2017, SHLF will grow to \$60 million in acquisition funds through the addition of program related investments and a restructuring of the City's participation.
- **New Generation Funds (NGF)** – The NGF Program is a \$60 million loan fund designed to provide acquisition capital for affordable housing. Although it is not specifically set up for PSH projects, due to NGF's higher loan limits, they are able to provide acquisition capital for larger PSH projects.
- **Affordable Housing Opportunity Sites** – In 2016, HCIDLA initiated a program to develop affordable housing on land purchased by the former Community Redevelopment Agency of Los Angeles. Working closely with the Office of the City Administrative Officer (CAO), this program has evolved a process to identify publicly owned land which may be used for affordable housing development.

FUNDING PARTNERSHIPS

The success of the PSH Loan Program largely will depend on the PSH projects' ability to secure three types of financing:

- Capital funds - To build, rehabilitate, and/or acquire housing;
- Operating funds - To operate and maintain the building, over and above rent received from tenants with "very low" and "extremely low" incomes; and
- Services funds - To pay for services offered to the tenants.

Recognizing the importance of the above financing structure, HCIDLA will work directly with key funding partners to develop the new PSH Loan Program, coordinate funding and improve the joint decision making process. It is worth noting that the strong commitment by leadership in the City and County of Los Angeles to end homelessness has clearly strengthened the partnerships and provided clear direction for collaboration on financing PSH projects.

CAPITAL FUNDS

The PSH Loan Program will provide a significant amount of soft debt for PSH projects; however, HCIDLA expects most PSH projects will also secure additional debt financing through banks, community development financial institutions and other private lenders. HCIDLA anticipates that most PSH projects will secure loans from public lenders such as the Department of Mental Health, the Community Development Commission of LA County, and the State Housing Community Development Department.

- **Department of Mental Health (DMH)** – The successful Mental Health Service Act (MHSA) has provided capital and operating funds for projects that serve mentally disabled homeless clients. It is estimated that of the \$2 billion statewide, the LA County Department of Mental Health will receive an estimated \$600 million in new capital available in Los Angeles County beginning in 2018 through the new program, “No Place Like Home”, which will be made available for PSH projects serving homeless/at risk of homelessness with a mental disability.
- **Los Angeles County Community Development Commission (LACDC)** – The LACDC provides capital to Permanent Supportive Housing Projects throughout the County. The funds allocated by the LACDC come out of the County’s general fund sources.
- **The California Department of Housing and Community Development (HCD)** - The HCD provides loans to projects serving the homeless veteran population through a program called the Veterans Homeless Housing Program (VHHP). The VHHP Program has \$65 million statewide for multifamily veteran’s projects in 2017.

OPERATING FUNDS

Operating funds in the form of rent subsidies provide an important funding stream for projects serving extremely low income clients. The two most common rent subsidies are provided by the following funding partners:

- **Housing Authority of the City of Los Angeles (HACLA)** – HACLA provides Project Based Vouchers to PSH projects serving extremely low income homeless individuals. HACLA administers both Veterans Affairs Supportive Housing (VASH) Vouchers, which are targeted to veterans, and traditional Section 8 Project Based Vouchers, which are targeted toward chronically homeless individuals.
- **Department of Health Services (DHS) Flexible Housing Subsidy Pool** – Through the implementation of the Flexible Housing Subsidy Pool, DHS provides lease and service funding commitments to new PSH projects serving homeless clients who are frequent users of health care service programs.

SERVICE FUNDS

Although service funds are not a part of the capital stack and are not required for the brick and mortar development of housing, on-site services are an important element of successful Permanent Supportive Housing. Through the provision of healthcare services, mental health programs, job training and the like, clients move from homelessness to housing stability. LA County currently provides service funding for PSH projects through contracts with service providers who work in partnership with housing developers. The proposed PSH loan program requires developers to work with service providers approved by LA County. The services funding provided by the County has been augmented with funding from philanthropic organizations such as the United Way and the Hilton Foundation. This March, LA County ballot includes Measure H, a proposal to raise the sales tax by one-quarter (1/4) of a cent. If passed, the revenue generated would go toward the provision of services for the homeless, which includes on site services for permanent supportive housing.

INNOVATIVE IDEAS

HCIDLA welcomes the development of new approaches to affordable housing; with the passage of Prop HHH, various new ideas for PSH housing production are anticipated. Recently, HCIDLA has been drawn into discussion of new models of affordable housing such as hotel/motel conversion, housing built from shipping containers and the tiny homes and micro [home] unit movements. HCIDLA's new PSH Loan Program will be designed to address and allow developers of non-traditional models of housing to apply for conditional funding commitments. Furthermore, HCIDLA fully intends to honor and monitor the City's established policies for affordable housing construction, including prevailing wage construction, relocation of tenants, environmental review, fair housing, and Federal ADA requirements, which may place some constraints on the implementation of new ideas.

STAFFING FOR INCREASED PRODUCTION

Although many existing variables may impact production, HCIDLA estimates the HHH bond will result in more than doubling the current level of housing production for a period of ten years. To meet this demand, HCIDLA is analyzing the impact on staffing. To implement the HHH program's operational, legal and regulatory monitoring requirements, HCIDLA's initial staffing plan is to hire three (3) full time staff - one (1) Financial Development Officer I, one (1) Management Analyst and one (1) City Attorney. These first three positions were approved by Mayor and Council on February 10, 2017; however, with an ever increasing workload, HCIDLA anticipates the staffing needs to increase immediately. In light of the need to jump start operations, HCIDLA will be requesting approval by Mayor and City Council to hire an additional five more staff positions, for a total of eight (8) new staff positions to be approved and in place by July 1, 2017. The requested positions are:

- One (1) Community Housing Program Manager
- Two (2) Financial Development Officer I
- Two (2) Management Analysts

The new staff will be responsible for running the PSH program, underwriting projects, structuring deals, obtaining loan commitments and reporting. As PSH deals progress, eventual loan closings will

add to the staff's workload. During the time when projects begin the construction loan closing process, additional staff will be needed for architectural review and to monitor construction and wage compliance. The process of loan closing will also require additional legal support. Depending on workload and technical issues, consultant contracts may be utilized to facilitate the program as necessary.

In addition, the PSH program is expected to greatly impact the Conduit Bond Unit workload. HCIDLA will report back, in detail, regarding all future staffing impacts. It is important to note that all of the new production staff can be paid from the HHH bond proceeds. However, bond proceeds are prohibited from paying for the cost of monitoring projects for the 55 year compliance period. Such ongoing monitoring costs will need to be addressed.

GEOGRAPHIC DISTRIBUTION

City Council has often expressed concern on how HCIDLA can ensure a broad geographic distribution of PSH projects throughout the City. In the past, the majority of PSH projects have competed for funding in the City's managed pipeline process, which takes into consideration proximity to transit in the scoring process. However, with the new PSH Loan Program, HCIDLA has proposed no set geographic preferences, but continues to examine what kind of geographic distribution makes sense for the City and how HCIDLA can balance the concern of geographic distribution without limiting the developer's ability to find viable sites.

GENERAL OBLIGATION BOND REPORTING

In accordance with Prop HHH, the City Controller will conduct an annual financial audit for each fiscal year's bonds that are outstanding, including any bond proceeds which remain unspent. These audits will commence one year after the first issuance of GO bonds and will be made available to the public. Audits will monitor the use of proceeds to ensure that funds are spent in a timely manner and costs are eligible as permitted under City, State and Federal regulations.

Additionally, City debt policy requires that as a departmental sponsor, HCIDLA submit bi-annual compliance reports to the CAO Debt Group beginning six months after the first bond issuance. These reports will provide status updates on bond-funded projects, explanations of any unforeseen delays, use of bond proceeds, and any eligible revisions to PEPs. HCIDLA will also provide these updates to the COC and AOC.

AGENDA ITEMS FOR NEXT MEETING

For the upcoming March 17, 2017 COC meeting, HCIDLA will coordinate with the CAO's Office and report back with recommendations regarding:

- Recommended Project Expenditure Plan (PEP) for the FY 2017-18 issuance

ATTACHMENT A: PSH FINANCING OVERVIEW

PSH Land Acquisition			
City Owned Land	New Generation Fund	Supportive Housing Loan Fund	CDFI Loans & Other Private Sources

PSH LOAN PROGRAM
Early Commitments for PSH Units

		PERMANENT FINANCING		
		MANAGED PIPELINE	BOND PROGRAM	PRIVATE MARKET
CAPITAL FUNDS	Equity	9% LIHTC	4% LIHTC	PRIVATE EQUITY
	Soft Debt	Up to \$100,000 / Unit	Up to \$140,000 / Unit	Up to \$100,000 / Unit
	Other Govt debt	No Place Like Home (MHSA) LA County General Fund Prop 41 – VHHP Affordable Housing Trust Fund	No Place Like Home (MHSA) LA County General Fund Prop 41 – VHHP Affordable Housing Trust Fund	TBD
	Hard Debt	Bank Loan	Tax Exempt Bond	Bank Loan
OPERATING FUNDS		Section 8 PBV Flexible Housing Subsidy Pool	Section 8 PBV Flexible Housing Subsidy Pool	Section 8 PBV Flexible Housing Subsidy Pool
SERVICES FUNDING		LA County Service Partnership	LA County Service Partnership	LA County Service Partnership

ATTACHMENT B: PSH LOAN PROGRAM TERM SHEET & APPROVAL PROCESS

OVERVIEW	<p>The Prop HHH Permanent Supportive Housing Program (Prop HHH) is designed to develop permanent supportive housing for homeless individuals and those at risk of homelessness throughout the City. Currently there are over 25,000 homeless individuals in the City of Los Angeles; citywide there is a shortage of affordable housing units. The program emphasis is on reducing homelessness by creating safe and affordable housing units; and increasing accessibility to a variety of necessary services and treatment programs.</p>
THRESHOLD REQUIREMENTS	<ul style="list-style-type: none"> • Demonstrated Site Control • Project must commit the greater of 25 PSH units or 50% of the units within the project for PSH for homeless individuals and families • 50% of the PSH Units, must be designated for chronically homeless • Acknowledgement from the Council Office
DEVELOPER REQUIREMENTS	<ul style="list-style-type: none"> • Developers who have successfully built and operated Permanent Supportive Housing with Supportive Services. (Development partnerships where at least one developer has met the above requirement) • Commitment to providing services necessary for the successful treatment and long term stability of tenants • Lead developer and managing general partner must clear HCIDLA's background check
PSH SERVICE REQUIREMENTS	<ul style="list-style-type: none"> • Project team must include a service provider with at least 24 months of experience providing services to the proposed target populations(s) in permanent supportive housing • Service Provider must be in good standing with LA County Department of Health Services
QUALIFICATIONS	<ul style="list-style-type: none"> • New Construction or Rehabilitation projects • Available to non-profit, and for profit sponsors • PSH Loan Program may be used with or without Low Income Housing Tax Credits (LIHTC) • 4% LIHTC projects shall use HCIDLA as the bond issuer • 9% LIHTC projects shall apply to the HCIDLA Affordable Housing Pipeline for an allocation of tax credits from the City.
LOAN AMOUNT	<ul style="list-style-type: none"> • Maximum Loan Amount \$12,000,000 (Minimum Loan Amount \$500,000) • Up to \$140,000 per PSH unit for 4% tax credit transactions • Up to \$100,000 per PSH unit for 9% tax credit projects • Up to \$100,000 per PSH unit for non-tax credit projects • Up to \$80,000 in Supplemental funding per unit for 2017 4% funding rounds (July 2017 & October 2017) to enable quick start production, despite lack available PSH funding.
FEEES	<ul style="list-style-type: none"> • Loan Fee: None. (Bond conduit issuer fees are separate)
RATES & TERMS	<ul style="list-style-type: none"> • 3% interest rate, residual receipts, 55 year term/covenant • If amortizing debt on project, minimum 1.15 debt service coverage ratio (additional reserves may be required) • 2 year conditional commitment

<p>SUBORDINATE FINANCING</p>	<ul style="list-style-type: none"> Loans and grants are encouraged from local government and third parties to leverage funds and achieve project feasibility
<p>OCCUPANCY REQUIREMENTS</p>	<ul style="list-style-type: none"> Permanent Supportive housing units for individuals and families who are homeless or chronically homeless, and either <ul style="list-style-type: none"> (1) "extremely low income" up to 30% of the Area Median Income (2) "very low income" up to 50% of the Area Median Income as established and revised from time to time by HUD Affordable Housing units for individuals and families who are <ul style="list-style-type: none"> (1) "extremely low income" up to 30% of the Area Median Income, or (2) "very low income," and/or; (3) "low income" which includes income up to 80% Area Median Income; however, no more than 20% of funds shall be used for such purposes
<p>TENANT SELECTION</p>	<ul style="list-style-type: none"> Use of the LA County Coordinated Entry System (CES) or similar system to preference vulnerable populations Comply with all applicable tenant guidelines and regulations
<p>HCIDLA PRIORITIES</p>	<ul style="list-style-type: none"> Projects with more than 50% Permanent Supportive Housing units; 1/2 of which designated for Chronically Homeless Projects containing 50+ total units preferred Projects located near Transit Oriented Development (TOD) areas Prioritize projects requesting less than 75% of maximum funding allowed; followed by 85% and 95% respectively (thus maximizing leveraging of funds) Access to services Geographic distribution throughout the City of Los Angeles
<p>DEFINITIONS</p>	<ul style="list-style-type: none"> Affordable Housing Development: A structure or set of structures with rental housing units restricted by department regulations and operated under landlord-tenant law, with common financing, ownership and management Permanent Supportive Housing Projects (PSHP): A development that provides permanent housing and supportive services to extremely low income, and very low income, homeless special needs individuals and veterans, homeless families, homeless transition-aged youth (TAY), homeless seniors, homeless disabled and homeless frequent users of Los Angeles County services. Homeless: An individual who lacks a fixed, regular, and adequate nighttime residence Chronically Homeless: An individual with a disability who has been homeless for at least 1 year, or on 4 separate occasions in the last 3 years Homeless at risk: An individual or family who has income below 60% of the AMI and has insufficient resources immediately available to maintain housing stability Assisted Unit: A housing unit that is subject to specific rent, occupancy and other restrictions per the funding program regulations MHSA eligible tenants: A homeless or at risk of homeless individual who has a mental illness Veterans: Any person who actively served in any US military branch and who has been released regardless of discharge status

