Los Angeles
HOUSING+COMMUNITY
Investment Department

Eric Garcetti, Mayor
Ann Sewill, General Manager

Office of the General Manager
1200 West 7th Street, 9th Floor, Los Angeles, CA 90017
tel 213.808.8808 | fax 213.808.8616
hcidla.lacity.org

MEMORANDUM

TO: **PROPOSITION HHH CITIZENS OVERSIGHT COMMITTEE**

FROM: **ANN SEWILL, GENERAL MANAGER** Ann Sewill
LOS ANGELES HOUSING + COMMUNITY INVESTMENT DEPARTMENT

DATE: **MARCH 15, 2021**

REGARDING: **ALLOCATION GUIDELINES FOR REMAINING HHH FUNDS**

SUMMARY

Since the adoption of the HHH Permanent Supportive Housing ("PSH") program and funding guidelines in early 2017, three funding rounds have established a pipeline of 124 approved projects, committing a total of $1,073,862,697 to support the development of 7,961 units. Thirteen of these pipeline projects are part of the HHH Housing Innovation Challenge. As of February 2021 $34.5 million is available to be allocated. This transmittal recommends three options for allocating the currently available funds.

RECOMMENDATIONS

REVIEW the recommended allocation guidelines for remaining HHH funds, which includes the:

i. Allocation of up to $7.5 million to a construction completion Notice of Funding Availability for current HHH projects experiencing significant unforeseen cost increases;
ii. Allocation of up to $2 million for loans of up to $200,000 per project to PSH projects in the Managed Pipeline;
iii. Allocation of the $25 million balance for innovation programs and projects including a match for Project HomeKey Round 2 if state funding is available, and / or acquisition, rehabilitation, re-use or new construction of innovative projects such as motel conversions or turnkey developments that will deliver interim or permanent housing within twelve to eighteen months at a lower per unit cost.

BACKGROUND

At the December 11, 2020 meeting of the Citizens Oversight Committee ("COC"), members of the COC and City staff discussed possible options for use of the remaining HHH funds including:

Office of the General Manager
1200 West 7th Street, 9th Floor, Los Angeles, CA 90017
tel 213.808.8808 | fax 213.808.8616
hcidla.lacity.org

1. Allocation of up to $8 million to a construction cost Notice of Funding Availability for projects that are experiencing significant unforeseen cost increases and are contributing at least 30 percent of developer fees to cover increases.
2. Allocation of $2 million for loans of up to $200,000 per project to PSH projects in the Managed Pipeline not currently using HHH funding, that are in predevelopment reviews, are willing to provide the additional depth of client targeting required by HHH, and that desire to take advantage of the streamlining provisions applicable to HHH funded projects.
3. Allocation of the balance for a competitive round of innovation projects that would include lower cost PSH projects using modular developments or adaptive reuse of motels or other buildings, and also alternative facilities models such as expansion of board and care homes serving people experiencing mental illnesses who need more support than offered in PSH.

DISCUSSION

Staff recommends using $7.5 million in a construction completion Notice of Funding Availability (NOFA) for projects that are experiencing significant unforeseen cost increases, and that agree to contribute at least 30 percent of developer fees to cover increases. There are a number of projects that need additional funds to proceed due to unplanned code issues on motel conversions, or unexpected utility connection requirements that came up after initial plan sign off. This funding will allow those projects to proceed.

The recommended allocation of $2 million for small loans to Permanent Supportive Housing projects in the Managed Pipeline that are in predevelopment will allow all of the City's PSH projects to take advantage of CEQA and planning streamlining provisions available to HHH-funded projects.

The recommendation that the balance of available funds, currently at $25 million with possible growth to $50 million in six months due to recaptures of commitments freed up by changes in other funding sources, be allocated to a Project HomeKey match and if sufficient additional funds are available to other innovative projects invited through a NOFA, is based on a consideration of the best approach to balance the goals of (1) unit production, (2) serving high-acuity people experiencing homelessness, (3) 55-year affordability and viability of the housing produced, that were embedded in the voter-approved HHH program and the goal of developing housing alternatives quickly and efficiently.

The Project HomeKey model of purchasing underutilized motels, hotels, or turnkey apartment buildings was funded by the State of California in 2020 using coronavirus relief funds, with local matching funds. This model was fast because the funding came from only two sources – State of California Coronavirus Relief Funds and City of Los Angeles Coronavirus Relief Funds. The Project HomeKey buildings in Los Angeles ranged from newly completed apartments sold before occupancy for $430,000 per unit, to hotels in excellent shape, to less well-maintained motels. Eighteen motels were purchased using the Housing

Authority of the City of Los Angeles as the acquisition entity. Three that were in excellent shape were held by HACLA and immediately placed in service as permanent housing using Section 8 vouchers for rental subsidies. The remaining fifteen were sold to housing providers for use as interim housing and eventual re-use as permanent supportive housing. The costs of bringing those fifteen older motels up to standards for interim housing includes fire and life safety, accessibility, and immediate building system needs such as plumbing and roof repairs. The lessons learned about the scope of repairs and total costs from the first round of Project HomeKey will be used in planning and budgeting for the second round.

The Governor's budget for the coming fiscal year includes $750 million for Project HomeKey. If Los Angeles were to receive 10% of the total, and if a 50% match were required, we would need to identify $37,500,000 for matching funds. Staff is working with the City Council and Mayor to identify additional sources from Community Development Block Grant or other funding to match the $25 million recommended here.

If there are additional funds available for innovative projects beyond Project HomeKey, staff recommends issuing a new Innovation NOFA that provides significantly higher per unit loan amounts to projects that meet the following criteria:

a. Development team – owner, property manager and service provider - has strong history of successfully operating supportive housing for the proposed population over more than five years and five projects.
b. Proposed project will use acquisition and / or construction methodology that will produce ready-to-occupy units within 12 to 18 months.
c. Proposed project presents a realistic budget – both development and operating - that will deliver housing at less than $450,000 per unit inclusive of all costs and fees needed to ensure long term viability, and to operate successfully for fifty-five years.

The key to making it possible for high quality realistic projects to be developed quickly and within cost guidelines is to reduce the number of funding sources that a development has to secure. The average HHH subsidy per unit on the first 124 projects is $130,000, and the median total development cost per the City Controller's last audit is $535,000. The total costs not covered by HHH are most often funded by three general categories of sources: (1) a loan from a bank or bond lender repaid by project cash flow; (2) equity investments, typically from Low Income Housing Tax Credit investors; and (3) other government funding such as No Place Like Home, Affordable Housing & Sustainable Communities, County Housing Trust fund, or the Affordable Housing Program (AHP). With the exception of the bank loan, every other source is now competitive. Securing these additional sources requires time and adds to project costs, but the <u>net</u> gain from using tax credits and other government funding is about $210,000 per unit. Over the entire portfolio of HHH projects this leveraging has allowed the City to produce 7,900 units with the available

Office of the General Manager
1200 West 7th Street, 9th Floor, Los Angeles, CA 90017
tel 213.808.8808 | fax 213.808.8616
hcidla.lacity.org

HHH funds instead of only 2,725 if the City had opted to use HHH funding to cover 100 percent of a project's subsidy per unit.

In short, leveraging allows the City to maximize HHH production but adds to production time because of the need for an applicant to seek additional funding sources.

Comparing across project types can be challenging so staff prepared cost summaries – included as Attachment "A"- of representative buildings based on real examples. Reviewing these summaries makes clear the tradeoffs that exist between leveraging dollars to get more units, achieving speed in acquisition and development, and providing full funding of all costs needed for future operations. However, because HCIDLA has now exceeded the 7,000-unit goal for HHH production, staff recommends that the loan limit per unit be increased from $140,000 to $230,000 per unit so that projects could be feasible with only a conventionally available or tax-exempt loan, an equity investment based on Low Income Housing Tax Credits, and the HHH commitment.

.

Supportive Housing Projects Los Angeles
Project Prototypes

	Market Rate	HHH Modular Innovation	HHH Standard	Project HomeKey (Permanent)	Project HomeKey (Interim Phase)
Costs Per Unit					
Land or Property Acquisition	$72,500	$50,500	$50,000	$400,000	$271,000
Hard Costs	$276,750	$294,110	$358,500	$25,000	$10,000
Financing Costs	$6,800	$30,570	$20,000	$0	$0
Legal Costs	$1,500	$1,800	$1,800	$1,500	$0
Related Development Costs	$104,250	$63,000	$54,700	$0	$0
Operating Reserves	$0	$15,400	$15,400	$15,400	$0
Developer Fee	$0	$33,000	$33,000	$10,000	$0
Total Development Costs	$461,800	$488,380	$533,400	$451,900	$281,000
Funding Sources Per Unit					
Conventional Bank Mortgage	$346,350	$51,730	$125,500	$75,000	$0
Equity	$115,450	$159,000	$184,000	$0	$0
HHH	$0	$130,000	$130,000	$0	$0
Other City Funding including CRF	$0	$0	$0	$176,900	$100,000
Other Government Funding	$0	$147,650	$96,000	$200,000	$181,000
Total Sources	$461,800	$488,380	$535,500	$451,900	$281,000
Faster Future Alternative Funding Options:					
Conventional Bank Mortgage		$51,730	$125,500	$75,000	
Equity		$159,000	$184,000	$0	
HHH Funding		**$277,650**	**$226,000**	**$376,900**	
Other Government Funding		$0	$0	$0	
Total		$488,380	$535,500	$451,900	

Notes

1. Developer return on market rate project usually realized upon sale of project within a few years of stabilized occupancy, not capitalized in development budget.
2. Because cash flow is permanently limited on affordable deals, developer fee and capitalized reserves often included in development budget.
3. Estimate is that prevailing wages adds 22% to total construction costs.
4. Project HomeKey Permanent units included kitchenettes and were in good condition. Residents will prepare meals in units. Operating / staffing cost $20/night.
5. Project HomeKey Interim units in varying conditions. Meals catered in, more on site staffing and services. Operating costs $85/night.
6. Project HomeKey interim conversion costs to permanent to be determined at time of conversion in three to five years.