

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date: February 21, 2017

To: Proposition HHH Administrative Oversight Committee

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



Subject: **RECOMMENDATIONS FROM THE PROPOSITION HHH CITIZENS OVERSIGHT COMMITTEE TO THE PROPOSITION HHH ADMINISTRATIVE OVERSIGHT COMMITTEE**

RECOMMENDATION

That the Proposition HHH Administrative Oversight Committee:

1. Review and approve the recommendations by the Proposition HHH Citizens Oversight Committee; and
2. Approve and forward the amended reports to the City Council after the next scheduled meeting on March 23, 2017.


SUMMARY

The Proposition HHH (Prop HHH) Citizens Oversight Committee (COC) held its inaugural meeting on Friday, February 17, 2017. The two attached reports, one from the City Administrative Officer (CAO), and the other from the Housing and Community Investment Department (HCID) were considered, approved and amended as follows:

1. CAO Report relative to proposed Prop HHH Facilities Program, proposed Request for Proposals for FY 2018-19, and Proposed Expedited Request for Proposals for FY 2017-18 was amended to request that future reports and the Proposed Project Expenditure Plan (PEP) include data on how facilities will serve specific populations; and
2. HCID Report relative to proposed Prop HHH Housing Program (Permanent Supportive Housing Program) and Proposed Staffing Plan was amended to request that future reports and the PEP include data on the geographic distribution of projects, and the specific populations that will be served by the housing units funded by Prop HHH.

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: February 15, 2017
To: Proposition HHH Citizens Oversight Committee
From: Richard H. Llewellyn, Jr., Interim City Administrative Officer 
Subject: **PROPOSED PROPOSITION HHH FACILITIES PROGRAM FOR FISCAL YEARS 2017-18 AND 2018-19**

RECOMMENDATIONS

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

- a. APPROVE the proposed Proposition HHH Facilities Program Guidelines as described in this report;
- b. AUTHORIZE the City Administrative Officer to release a Request for Proposals (RFP) for Fiscal Year 2018-19 for the acquisition or improvement of facilities used to provide supportive services or goods to, or otherwise benefit, those who are homeless, chronically homeless, or at risk of homelessness as described in this report;
- c. AUTHORIZE the City Administrative Officer to release an expedited RFP for Fiscal Year 2017-18 for the acquisition or improvement of facilities used to provide supportive services or goods to, or otherwise benefit, those who are homeless, chronically homeless, or at risk of homelessness as described in this report; and
- d. INSTRUCT the City Administrative Officer to report to the Citizens Oversight Committee at the next scheduled meeting with the results of the expedited RFP, including a Project Expenditure Plan; and a staffing plan for the program.

SUMMARY

This report outlines the proposed Proposition HHH (Prop HHH) Facilities Program, the process for allocating funds under the Facilities Program through a Request for Proposals (RFP) for Fiscal Year 2018-19, and provides recommendations for an expedited RFP for Fiscal Year 2017-18.

BACKGROUND

On November 8, 2016, voters approved Prop HHH on the State's General Election ballot. Prop HHH provides the City with authority to issue up to \$1.2 billion in General Obligation (GO) bonds to finance the development of permanent supportive housing (PSH), affordable housing, and facilities that provide supportive services to the homeless, such as service centers, health centers, shelters, storage, and shower facilities. GO bonds are paid from an increase in property taxes. In summary, GO bond proceeds may only be used for "bricks and mortar" expenditures, not for operations or services. Pursuant to Council action on February 10, 2017, the Office of the City Administrative Officer (CAO) has been designated as the departmental sponsor for the Prop HHH Facilities Program (C.F. 17-0090). As such, the CAO is responsible for developing and implementing the Prop HHH Facilities Program. The CAO is also responsible for staffing the Citizens Oversight Committee (COC) and the Administrative Oversight Committee (AOC). Attachment 1 outlines the bond issuance schedule for Fiscal Year 2017-18, for both the housing and facilities programs. This schedule will be followed for every annual bond issuance under Prop HHH.

PROPOSED PROP HHH FACILITIES PROGRAM FOR FISCAL YEAR 2018-19

The Prop HHH ballot language outlined that no more than twenty percent (20%) of the bond proceeds were to be used for affordable housing for extremely low-income, very low-income, or low-income individuals and families (including veterans) who are at risk of homelessness. Accordingly, Prop HHH ballot language provided that at least eighty percent (80%) of the GO bond proceeds would be used for other types of authorized projects (including permanent supportive housing for the homeless and facilities to be used to provide supportive services and goods to otherwise benefit the homeless). The Prop HHH ballot language also provides that the Project Expenditure Plan (PEP) prioritize funding for permanent supportive housing. However, the ballot language did not specify a percentage for facilities, nor does it mandate that bond funds be used for facilities.

As outlined in the ballot language, the CAO recommends that the majority of the GO Bond proceeds be used for permanent supportive and affordable housing units. However, as there is a need to finance homeless-related facilities, which is also provided for in the ballot language, the CAO as the departmental sponsor for the Facilities Program, proposes the following program guidelines for Fiscal Year 2018-19:

- Application process: Request for Proposals (RFP):
 - Open application process: from July 1 through December 31, 2017
 - Applications received by December 31, 2017 will be eligible for consideration for bond proceeds issued on or after July 1, 2018.
 - The CAO will recommend conditional commitments for projects at least once a year to the City Council, prior to the Project Expenditure Plan being submitted to the COC and AOC for review and approval.
- Eligible Applicants:
 - Nonprofit entities, private entities, City departments, or other public entities that are providing services on behalf of the City and within the City boundaries.
 - City departments are eligible to apply for Prop HHH funds for City-owned facilities, provided that the operating funds for the facility are or will be included in the City's budget, or provided for in some other manner.
 - Applicants (other than City departments) must have a minimum of two years of experience operating facilities similar to the one for which they are applying.
 - Applicants must be qualified to conduct business in California and in good standing with applicable regulatory oversight agencies.
- Eligible Uses of Funds:
 - Funds may be requested to rehabilitate and/or expand existing sites, or for the acquisition of real property and the construction of new sites.
 - All facilities must be in compliance with all building and accessibility codes.
- Ineligible uses of funds:
 - Funds may not be used for program and operational expenses. Potential service providers must secure funding for program and operations from other sources.
 - Funds may not be used to pay for expenditures that are not "bricks and mortar" type expenditures. For example, expenditures for equipment, clothing, toiletry and other consumable goods are ineligible.
- Applications will be required to include supporting documentation, including, but not limited to:
 - An operating pro forma demonstrating financial capacity to provide services in facilities for which funds are requested.
 - Evidence that construction will start within twelve (12) months
 - Evidence that all funds will be expended within twenty-four (24) months.
- Repayment Requirements:
 - All Prop HHH Facilities funding will be made available as loans repayable through a service repayment agreement with a minimum term corresponding to the useful life of the funded improvement.

City departments will not be required to submit a RFP, but will have to meet the threshold

requirements outlined below.

RFP PROCESS

The Prop HHH Facilities Program RFP will be released through the Los Angeles Business Assistance Virtual Network (LABAVN) to ensure that the opportunity to participate in this RFP is made available to a wide a pool of applicants. The RFP will remain open for submissions from July 1 through December 31, 2017, for the Fiscal Year 2018-19 bond issuance.

The Facilities Program applications will be evaluated based on an established threshold for funding consideration, as well as any established policies and priorities for the Prop HHH program. Projects that meet threshold requirements in the following categories will be recommended for funding:

- Project description meets Prop HHH eligibility requirements;
- Capacity and operational stability of proposer;
- Fiscal and budgetary documents support continued operation of facility; and
- Project demonstrates ability to begin construction within twelve (12) months from the date the bond proceeds are received, and expend the funds within twenty-four (24) months.

Following Council review of proposed projects, the CAO will prepare and present a Project Expenditure Plan (PEP) to the Citizens Oversight Committee for review. The PEP will set forth the list of qualified projects, including a description of each project and how bond proceeds are anticipated to be spent over a 24-month period. The PEP will describe project costs proposed for GO bond financing including loan amounts, underwriting fees, and eligible City staff costs directly tied to project construction. Further, in order to ensure that the projects adhere to applicable City, State, and Federal guidelines, project descriptions will detail how non-eligible costs will be financed. Following COC review, the PEP will be submitted to the AOC and lastly to the City Council and Mayor for final PEP approval and for bond issuance approval, as outlined below.

RFP Implementation Calendar, Fiscal Year 2018-19	
Action	Date
Proposition HHH RFP Released	July 1, 2017
Applications Received and Reviewed	July 1-December 31, 2017
Final day to submit proposals for FY 2018-19 Bond Issuance	December 31, 2017
CAO transmits projects for review to City Council	January 2018
CAO submits PEP to COC	March 2018
COC forwards PEP to AOC	March 2018
AOC approves PEP and submits to City Council for review	By April 1, 2018
City Council and Mayor approve PEP and bond issuance	By June 15, 2018

EXPEDITED RFP PROCESS FOR FISCAL YEAR 2017-18

Unlike the Housing and Community Investment Department (HCIDLA), which has a housing pipeline, the CAO does not have a pipeline of potential homeless facilities. Therefore, the Council has instructed the CAO to prepare an expedited RFP for Fiscal Year 2017-18 to identify homeless facilities that will be ready to start construction in Fiscal Year 2017-18 and that demonstrate full funding commitments from other sources, except for a funding gap that may be filled by Prop HHH. This expedited process will allow the City to be in position to consider that any eligible facilities that could make immediate use of Prop HHH facilities funds in Fiscal Year 2017-18 will not be delayed until the Fiscal Year 2018-19 bond issuance.

Following the review and approval by the COC and the AOC, the CAO proposes that the expedited RFP be released by February 24, 2017, and remain open until Thursday, March 9, 2017, at 5 p.m. The CAO will hold a proposer's conference on Wednesday, March 1, 2017, from 2:30-3:30 p.m. The results of the RFP will be reported at the next COC meeting scheduled for March 17, 2017.

The expedited RFP will follow the same guidelines as outlined in this report for projects that can begin construction in Fiscal Year 2017-18 and that can demonstrate full funding from other sources outside of a funding gap that can be filled by Prop HHH. City departments applying for City-owned facilities must demonstrate that the operating funds have been or will be committed in the City's budget or will be provided for in some other manner.

REPORTING

The Prop HHH process will include a robust reporting process for every bond issuance and project funded. All Prop HHH COC and AOC meetings are open meetings subject to the Ralph M. Brown Act, California's open meetings law, and will be conducted accordingly. The City Controller will conduct an annual financial audit for each fiscal year bonds are outstanding or any bond proceeds that 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 on eligible costs as permitted under State and Federal regulations.

Additionally City debt policy requires that, as a departmental sponsor, the CAO 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. The CAO will also provide these updates to the COC and AOC.

Attachment 1 – Proposition HHH Bond Annual Issuance Requirements Fiscal Year 2017-18

Attachment 1 – Proposition HHH Bond Annual Issuance Requirements Fiscal Year 2017-18


Due Date	Activity
Before April 1	Project Expenditure Plan submitted to COC and AOC for Approval
April 1	<p>Submit Preliminary Project Expenditure Plan to the appropriate Committees and Council for approval.</p> <p>Simultaneously, submit Project Expenditure Plan to CAO Debt Group for bond review. Plan should include the following:</p> <ul style="list-style-type: none"> - Demonstrate bond proceeds are expected to be expended over a 24-month period - List and Description of qualified projects - Breakdown of Costs <ul style="list-style-type: none"> o Loan Amount o Underwriting Fees (if any) o Staffing Costs - Explain how non-eligible costs will be funded
April 15	Kick-Off Bond Financing
Mid-May	<p>Release CAO Bond Report</p> <ul style="list-style-type: none"> - Authorizing Resolution - Fund Ordinance - Form of Bond Documents
May - June	Appropriate Council Committee Approvals
June (before 15 th)	City Council Approval
June 15	Post the Preliminary Official Statement (Advertise Bond Sale)
July 1	Competitive Bond Sale
July 1	<p>City Council Approval – Award of Sale</p> <ul style="list-style-type: none"> - Award Resolution
July 15	Bond Closing and City receives bond proceeds
August 10 (or date designated by County Assessor)	Provide debt service for tax bill to County Assessor



Eric Garcetti, Mayor
Rushmore D. Cervantes, General Manager

DATE: February 15, 2017

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



		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.
FEES	<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

SUBORDINATE FINANCING	<ul style="list-style-type: none"> Loans and grants are encouraged from local government and third parties to leverage funds and achieve project feasibility
OCCUPANCY REQUIREMENTS	<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
TENANT SELECTION	<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
HCIDLA PRIORITIES	<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
DEFINITIONS	<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

