


REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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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**

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### 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.

<b>RFP Implementation Calendar, Fiscal Year 2018-19</b>	
<b>Action</b>	<b>Date</b>
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

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<b>Due Date</b>	<b>Activity</b>
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"> <li>- Demonstrate bond proceeds are expected to be expended over a 24-month period</li> <li>- List and Description of qualified projects</li> <li>- Breakdown of Costs                             <ul style="list-style-type: none"> <li>o Loan Amount</li> <li>o Underwriting Fees (if any)</li> <li>o Staffing Costs</li> </ul> </li> <li>- Explain how non-eligible costs will be funded</li> </ul>
April 15	Kick-Off Bond Financing
Mid-May	<p>Release CAO Bond Report</p> <ul style="list-style-type: none"> <li>- Authorizing Resolution</li> <li>- Fund Ordinance</li> <li>- Form of Bond Documents</li> </ul>
May - June	Appropriate Council Committee Approvals
June (before 15 <sup>th</sup> )	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"> <li>- Award Resolution</li> </ul>
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