

REPORT OF THE CHIEF LEGISLATIVE ANALYST

DATE: December 5, 2023

TO: Honorable Members of the City Council

FROM: Sharon M. Tso *SMT*
Chief Legislative Analyst

Assignment No: 23-10-0562
Council File No.: 23-0321-S1

SUBJECT: Skid Row Housing Trust Expenditure Summary

SUMMARY

On October 31, 2023, Council instructed our Office, with assistance from the City Administrative Officer (CAO), Los Angeles Housing Department (LAHD), Bureau of Contract Administration (BCA), and the City Attorney, to conduct an analysis and report on how funding for the Skid Row Housing Trust Fund (SRHT) properties (SRHT Properties) has been expended for conservation of these housing units. This information is to be provided prior to any additional funding request is submitted by the Housing Department to Council. Council seeks to verify that the allocated costs have been expended in a fiscally prudent and efficient matter.

Our Office has reviewed LAHD's reported expenditures and consulted with the CAO, BCA, and the City Attorney. This Office's review of the current receiver's expenditure reports covers the period from July 1, 2023, after the current receiver was appointed, through December 31, 2023. These numbers generally align with the figures provided in the LAHD report dated October 2023, with projections updated by the Receiver.

This report presents a summary of reported expenditures with an explanation of the major costs. Our Office notes that the costs provided to date indicate that the majority of the expenses are to maintain an adequate level of operations and security, with approximately 27 percent of the costs going to the physical improvement of the buildings.

To address the concern around cost containment, our Office consulted with LAHD on comparable City programs and the review of current SRHT costs. LAHD informs that there are no comparable City programs that can serve as a cost comparison for the scope of work carried out at the SRHT Properties. Further, the City's effort to preserve 29 comparable projects comprising 2,080 units at once is unprecedented.

Capital expenses during the period studied are an estimated \$6,213 to \$8,638 per unit, lower than the City's other programs to create new permanent supportive housing at a maximum City subsidy of \$140,000 per unit. In a recent report on affordable housing preservation, LAHD notes that the average subsidy of \$220,000 per unit is needed to extend the affordability of existing units at-risk of becoming market rate housing (C.F. 23-0311).

In terms of operating costs, the City has stepped in to fill the gap created by the low rental income being generated at the SRHT Properties, which occurs concurrently with increasing costs to maintain the properties. The majority of City funding is attributed to operating the buildings. LAHD reports that there are significant costs associated with security, staffing, and insurance, though the cost for security is expected to decrease as units are brought up to code and occupied. The Department anticipates an

increase in rent revenue as the Receiver addresses certain violations, which will also help offset the operations gap. LAHD notes that it has extensive experience reviewing the reasonableness of operating costs and the Receiver's costs are within the expected range for a building with the existing security, cleaning, and staffing needs.

Our Office notes that the current analysis is for a limited period of time and does not represent the total cost of preserving all of the SRHT Properties. A timeline of costs incurred, including those prior to this reporting period, is attached (Attachment A). LAHD is required to report on future spending on an ongoing basis.

RECOMMENDATION

Note and File inasmuch as this report is for informational purposes.

BACKGROUND

On March 17, 2023, LAHD engaged GSG Protective Services to address safety concerns at the SRHT Properties. On April 19, 2023, Council approved an allocation of \$700,000 in Affordable Housing Trust Funds- Asset Protection and Loss Mitigation as emergency funds to protect against property neglect, the non-payment of rents, and thefts of assets.

On March 30, 2023, the City successfully petitioned the Los Angeles Superior Court to establish a Public Health and Safety receivership of 29 SRHT Properties to address health and safety concerns. The original receiver, Mark Adams of the Receivership Group, was appointed on April 7, 2023 and was replaced with the current receiver, Receiver Specialists (Receiver), on June 29, 2023. Council authorized LAHD to lend \$10 million to the Receiver in June 2023, \$2 million in October 2023, and \$10 million in November 2023 for a total of \$22 million to support critical repairs, operations, and costs of the original receiver.

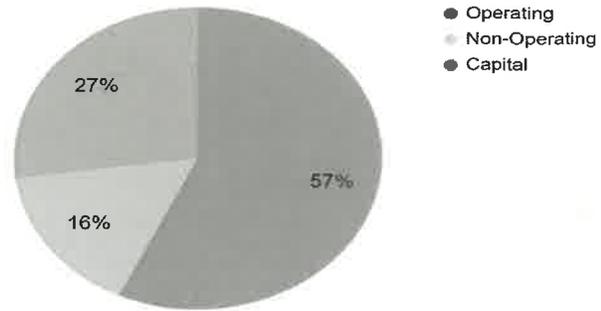
LAHD notes that of the 29 SRHT properties, seven (7) have exited the receivership, leaving 22 properties under receivership. There are plans to transfer all but 12 properties. A recent LAHD report dated November 22, 2023 indicates that the Receiver intends to conduct a receiver sale and proposes that any of the 12 properties not purchased by outside entities be acquired by the City. The City's potential acquisition of any SRHT Properties and related costs beyond December 2023 are to be determined.

The information herein describes how the City sources of funding support the stabilization of the SRHT Properties from July 1, 2023 with a look-ahead through December 2023.

Analysis

LAHD reports that there is an anticipated \$19,853,752 operating deficit, represented in the pie chart below. The chart demonstrates that a majority of the City funding already approved, 73 percent, has been allocated for Operating Expenses and Non-operating expenses (Receiver costs and other). Capital improvements represent 27 percent of the costs (\$5,265,819).

July 1 - Dec 31, 2023	\$	%
Operating Deficit	\$11,405,922	57%
Non-Operating Costs	\$3,182,011	16%
Capital Costs	\$5,265,819	27%
Total	\$19,853,752	100%



The table below summarizes the revenue received and costs to be paid through the current Receiver, as presented in the LAHD report dated October 10, 2023 and updated in the attached updated information from the Receiver (Attachment B). These costs represent actual costs incurred from July to September and estimated costs projected from October to December 2023.

Reported by the current Receiver	Actual July - Sept. 2023	Projected Oct. - Dec. 2023	Total Estimated July - Dec. 2023
Cash Receipts	\$2,833,782	\$2,124,861	\$4,958,643
Operating Expenses	-\$8,503,858	-\$7,860,707	-\$16,364,565
Net Operating Income	-\$5,670,076	-\$5,735,846	-\$11,405,922
Non-Operating Expenses (repayment of original Receiver note, Current Receiver Fees/Legal)	-\$2,402,011	-\$780,000	-\$3,182,011
Capital Expenses	-\$1,115,025	-\$4,150,794	-\$5,265,819
Net Cash Deficit	-\$9,187,112	-\$10,666,640	-\$19,853,752

As noted in the table above, the net deficit of SRHT Properties totals \$19,853,752. In addition, a \$1,918,065 payment has been made by the City to the former receiver. LAHD informs that payments to the original receiver are being reconciled by the City Attorney's forensic accounting team. This brings the total SRHT Properties need to \$21,771,817. The tables below highlight how City sources offset the deficit.

City Approval	\$
June	\$10,000,000
October/November	\$12,000,000
Total	\$22,000,000

July -Dec. 2023	\$
Total Need	-\$21,771,817
Total City Funding	\$22,000,000
Difference (Contingency)	\$228,183

Cost Containment

Council requested information on the costs to improve the SRHT Properties. From October through December, 2023, the Receiver plans to expend \$4,150,794 on nine (9) buildings comprising 668 units. The Receiver informed that based on estimates received from contractors, the following are the anticipated per unit costs:

- Average costs to make a vacant unit rent-ready, including furniture: \$8,638 / unit
- Average cost of all repairs over all units: \$6,213 / unit

Our Office sought to find comparable construction and rehabilitation programs funded by the City. LAHD informs that the SRHT Properties are under a very unique situation that the City has not recently encountered. As such, there are no comparable City-funded programs or projects. The City operates programs that fund small repairs to address specific life safety issues and larger funding programs that support new permanent supportive housing units, but nothing at the scale or of the type of work needed by the SRHT Properties. For example, through the City's Handyworker Program, the City partners with licensed general contractors on minor repairs and accessibility improvements that "help seniors and those living with disabilities live independently for longer and age-in-place." Eligible owners can receive a grant of up to \$5,000 for home modifications and renters up to \$600 for safety devices. Repairs include wheelchair ramps, handrails, quick releases for widow bars, water heaters, and flooring, among others. City subsidies to construct a new permanent supportive housing through programs such as its Affordable Housing Managed Pipeline and Proposition HHH Program include loan maximums that have ranged from \$140,000 to \$220,000 per unit.

To contain costs of the SRHT Properties, the Receiver reviewed several proposals to gauge whether the costs were reasonable. LAHD informs that to confirm the accuracy and reasonableness of each bid, the Receiver's team walked each job site with the assigned contractor to confirm that the scope of work in their bid was sufficient to remedy the existing violations and make vacant units rent-ready. The Department notes that since many of the buildings and units in the portfolio have similarities, the Receiver's team was able to compare bids across the portfolio to confirm reasonableness and consistency of pricing amongst the contractors. Contracts were awarded to each of the four contractors selected based on the size and scope of repairs required for each building. LAHD informs that the Department also reviews payment requests from the Receiver to ensure that costs are reasonable.

Prevailing Wages

As directed by Council, our Office met with LAHD, BCA, and the Office of the City Attorney to discuss prevailing wage compliance relative to the urgent repairs being made to the SRHT Properties. LAHD reports that the Superior Court receivers are neutral third parties whose duties are specifically ordered by the judge who appoints them. One of the primary duties of the Receiver is to correct the existing health and safety code violations at the properties and to use best efforts to ensure that the violations do not reoccur. City Charter Section 377 specifies that the provisions of the California Labor Code regarding prevailing wages on public works are applicable to the City, its departments, boards, officers, agents and employees. The City Attorney's Office, LAHD, and BCA will be consulting further on this matter to ensure that the City's efforts comply with State law.

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Dora Huerta
Analyst

Timeline of City Funding for SRHT Properties

SRHT Ownership / Before Receivership**March 2023**

- On March 17, 2023, LAHD enters into a short-term three-month contract with GSG Protective Services. Motion (Raman – Soto-Martinez, C.F. 23-0321), introduced on March 17, 2023, states: “LAHD, as the awarding authority, will award the contract pursuant to the City Council’s recent resolution suspending standard procurement requirements for contracts needed to address the City’s homelessness emergency.”
- On May 5, 2023, Council authorizes LAHD to enter into a contract with GSG Protective Services and the allocation of **\$700,000** (Affordable Housing Trust Fund – Asset Protection and Loss Mitigation), based on Motion (Raman – Soto-Martinez)

Original Receiver Tenure**April 7 – June 30, 2023**

- Original receiver has been paid **\$1,918,065** (Low and Moderate Income Housing Fund) for this period.

Current Receiver Tenure**June 30, 2023 - Present**

- CLA’s summary includes costs incurred (actual July - September and estimated October – December 2023) for operating, non-operating, and current receiver costs.
- The deficit that the City is anticipating paying for during this period be **\$19,853,752**.

Period	Use	Amount	City Funding Source	Units under Receivership
March 2023	Security	\$700,000	AHTH	2,080
April – June 2023	Original Receiver Note	\$1,918,065	LMIHF	2,080
July – December 2023	Operating, Non-Operating and Capital	\$22,000,000 (\$19,853,752 costs + \$228,183 contingency)	LMIHF	2080 to 1,566 units (514 units exited during this period)
TOTAL		\$22,700,000	AHTF \$700,000 LMIHF <u>\$22,000,000</u> \$22,700,000	1,556

Skid Row Housing Trust
Actual Vs. Budget Analysis
July 2023 through September 2023

	Actual	Actual/Unit/ Mo.	Original Budget		
	July-Sept 2023	July-Sept 2023	July-Sept	\$ Variance	% Variance
Income					
Subsidized Rent for Existing Units	\$ 1,915,503		\$ 1,747,941	\$ 167,562	
Rent paid directly by tenants for Existing Units	451,087		-	451,087	
Rent collected in month of August from prior Receivership	269,460		-	269,460	
July rent from NEF Transferred Properties	190,190		-	190,190	
Subsidized Rent collected from Restored Abated Units	-		189,000	(189,000)	
Other Income	7,542		4,519	3,023	
Net Cash Receipts	\$ 2,833,782	\$ 621	\$ 1,941,460	\$ 892,322	46%
Expenses					
Staffing Costs	\$ 978,490		\$ 1,026,000	47,510	
Property Management Fees	502,893		404,100	(98,793)	
Security Guard Services	3,756,211		1,946,000	(1,810,211)	
Utility Expenses	485,894		313,110	(172,784)	
Maintenance & Repairs	337,693		459,000	121,307	
Janitorial Expenses	663,102		273,600	(389,502)	
First Insurance (Property & Liability)	1,026,428		795,425	(231,004)	
IT Support - Baygrape, TrackTik, MAP Communications, Zay	227,039		160,800	(66,239)	
Operations/ Communications	51,879		-	(51,879)	
Fire Life Safety	183,308		-	(183,308)	
Permits and Licenses	149,513		-	(149,513)	
Other	141,406		72,291	(69,115)	
Total Operating Expenses	\$ 8,503,858	\$ 1,864	\$ 5,450,326	\$ (3,053,532)	-56%
Net Operating Income	\$ (5,670,076)	\$ (1,243)	\$(3,508,866)	\$ (2,161,210)	62%
Non-Operating Expenses					
Mark Adams Payables paid during current Receivership	\$ 1,673,937		\$ -	\$ (1,673,937)	
Receivership Fees	\$ 691,483		\$ 230,769	\$ (460,714)	
Receiver Legal Fees	\$ 36,591		\$ 105,000	\$ 68,409	
Total Non-Operating Expenses	\$ 2,402,011	\$ 526	\$ 335,769	\$ (2,066,242)	-615%
Cap Exp					
LAHD, HACLA, and Vacant unit repairs	928,821		822,000	(106,821)	
Technology Structure Transition Costs	-		75,000	75,000	
FF&E for Vacant Units	186,205		-	(186,205)	
Security Cameras	-		60,900	60,900	
Total Cap Exp	\$ 1,115,025	\$ 244	\$ 957,900	\$ (157,125)	-16%
Net Cash Deficit	\$ (9,187,112)	\$ (2,013)	\$(4,802,535)	\$ (4,384,577)	-91%

VARIANCE EXPLANATIONS (>\$100,000)**Income**

Subsidized Rent for Existing Tenants - Actual subsidized rent collections were higher than Initial Budget

Rent Paid Directly by Tenants for Existing Units - Initial Budget assumed no collection of rents directly from tenants given uncertainty associated with change in Receivers and various violations on units.

Rent collected in month of August for prior Receivership period - Initial Budget did not include expected collection of rent for periods prior to 6/30/23.

July Rent from NEF Transferred Properties - The Initial Budget did not include rental income for the 7 NEF properties transferred out of the Receivership.

Subsidized Rent Collected from Restored Abated Units - Although 47 HACLA violations have been cleared to date and 27 more are nearing completion, we have not collected any rent to date from HACLA for these abated units.

Expenses

Security Guard Services - Initial Budget assumed 2 guards per property for 24/7 and assumed that number of guards would be reduced to 1 guard per property 24/7 by month 3. Actual expense has been higher than budget since reductions in staff did not occur through September, but are now starting in October subject to properties coming off fire watch

Utility Expenses - Actual utility expenses are coming in higher than Initial Budget.

Maintenance & Repair - Actual maintenance and repair expenses have been lower than expected as some repairs have been included in CAP Exp under LAHD and HACLA repairs.

Janitorial - Initial Budget assumed 1 janitor per property on M-F for 8 hours. However, various properties have required more than 1 janitor per building and Chrysalis also bills for supervisory staff and supplies

Property and Liability Insurance - Initial Budget assumed that annual premium of \$344,684 would be promptly reduced with the removal of 7 NEF properties from the Receivership, resulting in a reduced premium of approximately \$265,000. To date, the insurance company has not revised the premium, but we would anticipate a refund of such overpaid premium.

Fire Life Safety - Initial Budget did not include reserves for fire life safety expenses as Mark Adams budgeted in \$180,000 in one-time expenses.

Permits and Licenses - Initial Budget did not include LAHD admin fees, City of LA monthly REAP admin fees, and City of LA Inspection fees

Receiver Fees - Receiver fees of \$76,923 were budgeted monthly in months 1-3. However, actual fees were substantially higher given higher than expected conference calls, emails, and correspondence with all City officials, investment partners, contractors, and various vendors.

Mark Adam's Payables - Initial Budget did not include payment of any expenses incurred during period of Mark Adams oversight. Various expenses were incurred to avoid vendors canceling services and to facilitate the transfer of NEF properties out of the Receivership.

Cap Exp

LAHD HACLA and Vacant Unit Repairs - Initial Budget included estimates to address the 274 HACLA abated units over months 1-3, but it did not include reserves to address the 616 LAHD violations the Receiver discovered after being appointed as Receiver. Repairs for such violations were also not budgeted in Mark Adam's budgets. Such LAHD repairs contributed to actual expenses being over the Initial Budget.

FF&E for Vacant Units - Initial Budget assumed that expenses to address vacant units would not be incurred during the first 3 months of the Receivership. However, the Receiver was able to commence vacant unit repairs earlier than planned. These FF&E expenses were for the purchase of furniture and appliances, which will be included moving forward in vacant unit expenses.

Skid Row Housing Trust
Forecast of Cash Receipts & Cash Disbursements

	2023				Forecast/ Unit/mo.
	Oct-23	Nov-23	Dec-23	3 Month Total	
Cash Receipts					
Subsidized Rent from Existing Units (1)	\$ 575,239	\$ 575,239	\$ 575,239	\$ 1,725,717	
Rent paid directly by tenants for existing units	100,000	100,000	100,000	300,000	
Inner City Rent at Produce Hotel	29,729	29,729	29,729	89,187	
Laundry Room Receipts	1,836	1,836	1,836	5,508	
Miscellaneous Income	1,483	1,483	1,483	4,449	
Net Cash Receipts	708,287	708,287	708,287	2,124,861	\$ 466
Expenses					
Staffing Costs	419,690	419,690	419,690	1,259,070	
Property Management Fees (3)	141,435	141,435	141,435	424,305	
Security Guard Svcs - (4)	1,098,500	829,600	975,500	2,903,600	
Utility Expenses (2)	241,666	241,666	241,666	724,998	
Maintenance & Repairs (2)	100,000	100,000	100,000	300,000	
Janitorial Expenses (2)	210,000	210,000	210,000	630,000	
First Insurance (Property & Liability) (5)	343,820	343,820	343,820	1,031,460	
Other Expenses	195,758	195,758	195,758	587,274	
Total Operating Expenses	2,750,869	2,481,969	2,627,869	7,860,707	\$ 1,723
Net Operating Income	(2,042,582)	(1,773,682)	(1,919,582)	(5,735,846)	\$ (1,257)
Non-Operating Expenses					
Receiver Fees	250,000	250,000	250,000	750,000	
Receiver Legal Fees (UD & Outside Counsel)	10,000	10,000	10,000	30,000	
Total Non-Operating Expenses	260,000	260,000	260,000	780,000	\$ 1,538
Capex					
LAHD Repairs		114,390		114,390	
HACLA Repairs		64,165		64,165	
Repairs estimated		740,671		740,671	
Vacant Units		1,210,482		1,210,482	
Occupied Repairs		275,000		275,000	
FF&E		413,506		413,506	
Heating & Cooling		400,175		400,175	
Electrical		87,430		87,430	
Plumbing		113,152		113,152	
Roof and Flooring		492,469		492,469	
Other (Broken Glass, Locksmith and Contingency)		239,355		239,355	
Total Cap Exp	-	4,150,794	-	4,150,794	\$ 910
Net Cash Deficit	\$ (2,302,582)	\$ (6,184,476)	\$ (2,179,582)	\$ (10,666,640)	\$ (2,338)