

TRANSMITTAL

To: **THE COUNCIL**

Date: **02/23/23**

From: **THE MAYOR**

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.

A handwritten signature in black ink, appearing to read "Chris Thompson", with a long horizontal flourish extending to the right.

(Chris Thompson) for

KAREN BASS
Mayor

Ann Sewill, General Manager
Tricia Keane, Executive Officer

Daniel Huynh, Assistant General Manager
Anna E. Ortega, Assistant General Manager
Luz C. Santiago, Assistant General Manager

City of Los Angeles



LOS ANGELES HOUSING DEPARTMENT
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Tel: 213.808.8808
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Karen Bass, Mayor

February 22, 2023

Council File: New
Council Districts: Citywide
Contact Persons: Timothy Elliott: (213) 808-8596
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Honorable Karen Bass
Mayor, City of Los Angeles
Room 303, City Hall
200 N. Spring Street
Los Angeles, CA 90012

Attention: Heleen Ramirez, Legislative Coordinator

COUNCIL TRANSMITTAL: LOS ANGELES HOUSING DEPARTMENT REQUEST FOR AUTHORITY TO IMPLEMENT A FAST TRACK SOLUTIONS LOAN PROGRAM FOR APPROVED AFFORDABLE HOUSING PROJECTS

SUMMARY

The General Manager of the Los Angeles Housing Department (LAHD) respectfully requests that your office review and approve this transmittal and forward it to the City Council for further consideration. Through this transmittal, LAHD seeks approval, and requests authority to fund and implement a fast track loan program for endangered projects under, or about to start, construction. This action is recommended to prevent projects experiencing financial challenges, due to current conditions, from missing critical milestones that place them in jeopardy of losing leveraging resources or endangering their long-term project viability.

RECOMMENDATIONS

- I. That the Mayor review this transmittal and forward to the City Council for further action;
- II. That the City Council, subject to the approval of the Mayor:
 - A. AUTHORIZE the General Manager of LAHD, or designee, to establish a Fast Track Solutions Loan Program as described in this report;
 - B. AUTHORIZE the General Manager of LAHD, or designee, to review, approve, negotiate and execute new loan agreements or amendments to existing loan agreements for each project that receives a loan increase from this Program, subject to review and approval of the City Attorney as to form;

A. Obligate funding as follows for supplemental loan funding:

Program	Account	Account Name	Amount
561 – Home Investment Partnership Program	43V800	Affordable Housing Management Pipeline	\$17,065,432
59T – City of LA Housing Impact Trust Fund	43W723	Rental New Construction	\$7,853,538
64R – SB2 Permanent Local Housing Allocation	43V723	Rental New Construction	\$5,481,030
	43W723	Rental New Construction	\$5,000,000
		Total:	\$35,400,000

B. AUTHORIZE the General Manager of LAHD, or designee, to prepare Controller instructions and any necessary technical adjustments consistent with Mayor and City Council actions, subject to the approval of the City Administrative Officer (CAO), and instruct the Controller to implement the instructions.

BACKGROUND

In 2022, LAHD became aware that some of its projects in predevelopment or construction were experiencing financial challenges due to current market conditions. Reasons for financial overruns included rapid increases in interest rates, increased insurance premiums, and increased contingency and reserve requirements imposed by lenders and investors in response. In addition, some projects have experienced significant cost increases related to equipment installation by the Department of Water & Power. In addition, the California Construction Cost Index (“CCCI”) reported a 13.4% increase in specific construction trade labor and materials for San Francisco and Los Angeles between December 2021 and December 2022.

These conditions have created gaps in financing that prevent projects from completing construction, repaying construction loans, or starting construction when all expected financing is assembled. LAHD estimates that almost 1000 units in the existing pipeline are in jeopardy, which would reduce opportunities to provide homes for people needing housing.

The City has a history of responding in response to major market disruptions impacting the affordable housing industry. The most recent action was following construction cost increases and supply chain problems brought on by the COVID Pandemic (C.F. No. 21-0550-S1). In 2017, a previous action was taken following a sharp increase in lumber prices that was followed by a decrease in tax credit pricing due to anticipated tax reform (C.F. No. 13-0303-S9). Even earlier, in 2006 (C.F. No. 04-2264), the City took action following a shortage of building materials created by Hurricane Katrina. With each of these earlier efforts the department asked for authority to issue a Notice of Funding Availability, (“NOFA”) to review projects, prepare funding recommendations, and process transmittals for Council and Mayor approval before closing each loan. This process routinely took four months.

LAHD is recommending a streamlined approach for this response because many of the projects have urgent deadlines to keep approved funding. Rather than issuing a NOFA, evaluating proposals and returning to Council and Mayor, LAHD is requesting that the Council and Mayor delegate authority to the General Manager

of LAHD, to review and approve requests to increase loan commitments for projects that have previously been approved by the Council and Mayor, up to certain limits if the projects meet the criteria outlined below.

Projects may apply on an open window basis over the next six weeks for a loan increase that would be no more than the difference between the current loan commitment and the 2022 per unit loan limits used under the most recent Affordable Housing Managed Pipeline Notice of Funding Availability (“NOFA”, C.F. No. 22-0876). Those loan limits, based on the unit size and population served, increased by an average of 16% under the most recent 2022 NOFA.

The maximum loan increase per project would be \$7 million. Projects that have non-HHH or AHMP subsidy commitments, such as the AHSC loan program or a tax exempt bond commitment, could apply for up to 50% of the per unit loan limits.

To limit the need for new funds, the amount of LAHD accrued construction period interest payable at permanent loan conversion would be deferred and added to the loan balance. Loan terms, including interest rates, would be the same as the previously approved loan if the previous loan was HHH or the Affordable Housing Managed Pipeline (“AHMP”), or would be the same as the AHMP if the previously approved loan was from the Affordable Housing & Sustainable Communities program.

Eligibility Criteria

To be eligible, projects must have:

1. City Council approved LAHD funding commitments from programs including HHH, Affordable Housing Managed Pipeline, Affordable Housing & Sustainable Communities Loans, Tax Exempt Bonds; as well as all required leveraging sources, including but not limited to allocations from the California Tax Credit Allocation Committee, California Debt Limit Allocation Committee, California Department of Housing & Community Development (HCD) such as Affordable Housing and Sustainable Communities (AHSC), Los Angeles County Development Authority, or Federal Home Loan Bank;
2. Loans may not have converted to permanent financing;
3. Exhausted all reasonable funding options, including a 50% developer fee deferral;
4. Demonstrate that construction loans can be closed or construction completed by applicable readiness or placed-in-service deadlines.

See Attachment A for a list of projects that fall within the Eligibility Criteria.

LAHD loan limit increases will only be considered for amounts above the first \$500,000 of funding gap. The proposed total amount available under this program will be limited to \$35,400,000. Funding sources for the Fast Track Loan Program will be Federal HOME Investment Partnership program, State Permanent Loan Housing Allocation (“SB2” funds), and local Linkage Fee funds.

Minimum required application documentation:

- Narrative explanation of the increase and description of attempts to cover the overall gap, and possible impacts of losing funding
- Full financial proforma (LAHD format) showing original application and revised with requested increase
- Detailed construction cost increase documentation showing original and revised costs.

Selection Process

Immediately upon approval by the Council and Mayor, LAHD will notify all eligible projects of the availability of this funding source. Applications will be acted upon immediately and will be reviewed and approved on a rolling basis.

When forty percent of the fund has been allocated on an open window basis, if the number of requests exceed the balance available the selection criteria will be first based upon the amount of committed outside resources per unit at risk of recapture. If funds remain, projects will be considered for funding based on their ability to meet the full funding gap needs for the lowest amount of overall LAHD funding per unit.

FISCAL IMPACT

The funds requested to be obligated for this funding opportunity are from HOME, City Linkage Fee, and State SB2 funds that would have been used as part of the Affordable Housing Managed Pipeline Notice of Funding Availability next year. If the availability of Linkage Fee or SB2 does not increase in the coming year, or if HOME Program Income does not increase, the AHMP NOFA may support fewer projects next year.

There is no impact to the General Fund.

Attachments:

A. List of Eligible Council and Mayor-Approved Projects

B. 2022 Loan Limits