

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: February 16, 2022

CAO File No. 0220-00540-1582

Council File No. 21-1375

Council District: Citywide

To: The Mayor
The Council

From:  Matthew W. Szabo, City Administrative Officer

Reference: Los Angeles Housing Department (LAHD) transmittal dated November 16, 2021 and LAHD Addendum dated January 4, 2022; Received by the City Administrative Officer on January 4, 2022; Additional Information Received through February 16, 2022

Subject: **REQUEST FOR AUTHORITY FOR VARIOUS ACTIONS RELATIVE TO IMPLEMENTING THE PROPOSED LOS ANGELES ACCESSORY DWELLING UNIT ACCELERATOR PROGRAM**

RECOMMENDATIONS

That the Council, subject to the approval of the Mayor:

1. Approve the framework described in this report for the proposed Los Angeles Accessory Dwelling Unit Accelerator Program (ADU Program);
2. Instruct the Los Angeles Housing Department (LAHD), with assistance from the ADU Program service provider, ONEgeneration, to:
 - a. Work with the Los Angeles Homeless Services Authority (LAHSA) to ensure that any of the current 25 households (32 tenants) participating in the ADU Program that qualify for the Emergency Housing Voucher (EHV) Program are able to lease-in-place with an EHV;
 - b. Work with the Housing Authority of the City of Los Angeles (HACLA) to ensure future placements, if any, are with tenant-based rental assistance through a Section 8 Tenant-Based Rental Voucher; and,
 - c. Work with HACLA to enroll prospective ADU Program homeowners into the HACLA's landlord incentive program;
 - d. Develop a long-term housing plan for each household, or tenant, that does not qualify for an emergency or Section 8 housing Voucher to ensure that these households, or tenants, are placed in an affordable unit within the ADU Program's three-year pilot term; and,

3. Request that LAHSA, as the lead on the EHV Program, in coordination with HACLA, work with LAHD and ONEgeneration to ensure that the ADU Program-eligible tenants apply for the EHV;
4. Authorize the General Manager of the LAHD, or designee, to:
 - a. Negotiate and execute a contract with ONEgeneration to implement the ADU Program with a compensation amount of up to \$2,012,887, and a three-year contract term commencing on or about March 1, 2022, subject to funding availability, compliance with the City's contracting requirements, and review and approval of the City Attorney as to form;
 - b. Transfer up to \$200,000 from the Affordable Housing Trust Fund's ADU Accelerator Program account to Bloomberg Philanthropies through its fiscal agent, the Mayor's Fund for Los Angeles, to reimburse for ADU Program expenditures incurred from January through March 2022 while the ADU Program transitioned over to the LAHD; and,
 - c. Prepare Controller instructions and any technical corrections as necessary to those transactions included in this report to implement the intent of those transactions, subject to the approval of the City Administrative Officer (CAO);
5. Authorize by resolution one Senior Project Coordinator position, Classification Code 1350, to be employed in the LAHD to oversee the ADU Program, subject to allocation by the Board of Civil Service Commissioners, and exemption in accordance with Charter Section 1001(d)(4) based on the position being grant-funded for a term of no more than two years, which may be extended for one additional year, for a maximum exemption period of three years;
6. Authorize the Controller to:
 - a. Establish new accounts and appropriate \$2,600,000 within the Affordable Housing Trust Fund No. 44G/43 from the available cash balance as follows:

<u>Account No.</u>	<u>Account Name</u>	<u>Amount</u>
43V143	Los Angeles Housing Department	\$ 124,702.56
43V299	Reimbursement of General Fund Costs	65,224.23
43VB50	ADU Accelerator Program	<u>2,415,952.21</u>
	Total	\$ 2,600,000.00

- b. Increase appropriations in the amount of \$124,702.56 within the LAHD No. 100/43 as follows:

<u>Account No.</u>	<u>Account Name</u>	<u>Amount</u>
001010	Salaries, General	\$ 97,983.43
001070	Salaries, As-Needed	12,021.62
006030	Leasing	<u>14,697.51</u>
	Total	\$ 124,702.56

7. Direct the LAHD to work with the CAO to reassess the need for Permanent Local Housing Allocation Plan Program, also known as SB2 funding, for this Program, in the short term, given the gap the City needs to identify in other programs, such as the State Homekey match; and,
8. Instruct the LAHD to annually report back to the City Council beginning on June 2023 with program outcomes, the status of the existing ADU Program tenant households, and program savings if tenants are eligible for the Section 8 Program.

SUMMARY

In its transmittal, dated November 16, 2021 (Report), the Los Angeles Housing Department (LAHD) requests authority for various items related to implementing the proposed Los Angeles Accessory Dwelling Unit Accelerator Program (ADU Program) to serve up to 57 senior tenants over a pilot period of five years. This includes the authority to: 1) negotiate and execute a contract with the ADU Program's proposed service provider, ONEgeneration, with a compensation amount of \$5,716,904 and a contract term of five-years commencing on or about November 1, 2021; 2) establish a new special purpose fund appropriation account and increase appropriations for the ADU Program; and, 3) reimburse Bloomberg Philanthropies through its fiscal agent, the Mayor's Fund for Los Angeles, for ADU Program expenditures incurred during the months of January and February 2022. The LAHD also requests that the Mayor and Council approve one new exempt Senior Project Coordinator position to be employed in the LAHD to oversee the ADU Program.

In 2019, the Mayor Office's Innovation Team (I-team) launched the LA ADU Program Pilot after receiving a \$1 million grant from Bloomberg Philanthropies (Bloomberg). The ADU Program pairs extremely low-income seniors with homeowners willing to rent their ADUs for five years or more. To date, the ADU Program has placed 32 seniors in 25 ADUs. Under the current structure of the ADU Program, ONEgeneration implements the day-to-day operations of the ADU Program and provides the following services through its contract with the Mayor's Office: 1) outreach, enrollment, and screening for prospective tenants; 2) tenant matching; 3) disbursement of rental subsidies to participating homeowners; and, 4) tenant supportive services. Based on the LAHD's Report Addendum, released on January 4, 2022, ONEgeneration will also help tenants apply to a minimum of three permanent housing opportunities with project-based vouchers, which will potentially replace the rental subsidy currently paid by the City. The Bloomberg funds were expected to be exhausted by December 2021, but the I-team was able to reserve Bloomberg funding to continue providing ADU Program services through February 2022 while the Mayor and Council consider the LAHD request. Subsequent to the release of the LAHD Report, the I-team confirmed that additional funding was identified to cover ADU Program services through March 2022. If the Mayor and Council approve this report, the funding will be reimbursed to Bloomberg through its fiscal agent, the Mayor's Fund for Los Angeles.

The proposed ADU Program administered by the LAHD will be partially funded by the \$2.6 million General City Purposes Fund allocation set aside for this purpose in the 2021-22 Adopted Budget and the City's annual Permanent Local Housing Allocation Plan Program allocation, also known as SB2 funding. The LAHD indicates that \$2,678,916 in SB2 funding is currently earmarked for the

proposed ADU Program from the City's Fiscal Year 2021 and 2022 SB2 allocations, and an additional \$3 million in SB2 funds may be available over the next three years since the LAHD plans to allocate up to \$1 million from the City's annual SB2 allocation for this Program. The LAHD will submit a report to the City Council under a separate cover related to the acceptance of the SB2 funds, which will include an allocation for the proposed ADU Program. While the LAHD has identified up to \$5.68 million in SB2 funding for this program, the CAO recommends that LAHD work with the CAO to reassess the need for SB2 funding for this Program, in the short term, given the gap the City needs to identify in other programs, such as the State Homekey match.

The LAHD also requests one Senior Project Coordinator to serve as the Program Administrator for the proposed ADU Program. The proposed position will oversee the ONEgeneration contract as well as collaborate and build successful relationships with stakeholders and permanent housing organizations to ensure that the ADU Program tenants successfully transition into affordable permanent housing. The LAHD is requesting that the position be exempted from Civil Service provisions since it will be funded by the SB2 grant funds. This Office is supportive of this request because the CAO is proposing additional recommendations, described later in this report, that will require LAHD staff, including the proposed Senior Project Coordinator, to facilitate communications between the Los Angeles Homeless Services Authority (LAHSA) and/or the Housing Authority of the City of Los Angeles (HACLA) and ONEgeneration in order to help transition ADU Program tenants into permanent housing.

This Office's amendments to the LAHD's recommendations prioritize mitigating the City's on-going financial liability and leveraging existing rental assistance resources. These recommendations are needed in order to meet the City's obligation to the existing tenants, while also ensuring the financial sustainability of the ADU Program since it is unclear if, or when, the existing tenants will be able to transition out of the ADU Program and secure permanent housing.

This Office concurs with the Department's recommendations, as amended, to: 1) instruct the LAHD to continue serving the existing 25 tenant households (32 seniors) over a revised pilot term period of three years; and, 2) recommend a revised compensation amount of \$2,012,887 for the proposed contract with ONEgeneration, with a three-year term commencing on or about March 1, 2022 based on revised three-year pilot term and the recommendation to only serve the existing 25 households. This report also includes revised Controller instructions to reflect the following corrections: 1) the correct source of funds for the ADU Program appropriations since the GCP funds were already transferred to the Affordable Housing Trust Fund; and, 2) to revise the ADU Accelerator Program, LAHD, and Reimbursement of General Fund Costs appropriation amounts based on information provided by the Department.

This Office also recommends additional actions not included in the LAHD Report. These recommendations request that the Council approve the framework, as amended by the CAO, for the proposed ADU Program and to instruct LAHD, with assistance from ONEgeneration, to: 1) work with LAHSA to ensure that any of the current 25 households (32 tenants) participating in the ADU Program that qualify for the Emergency Housing Voucher (EHV) Program are able to lease-in-place with an EHV; 2) work with HACLA to ensure future placements, if any, are with tenant-based rental assistance through Section 8 Tenant-Based Rental Vouchers; 3) work with HACLA to

enroll prospective ADU Program homeowners into the HACLA's landlord incentive program; and, 4) develop a long-term housing plan for each household, or tenant, that does not qualify for an emergency or Section 8 Housing Voucher to ensure that these households, or tenants, are placed in an affordable unit within the ADU Program's three-year pilot term. The CAO also recommends that LAHSA, as the lead on the EHV Program, in coordination with HACLA, work with LAHD and ONEgeneration to ensure that the ADU Program-eligible tenants apply for the EHV. In addition, the CAO includes a recommendation related to reassessing the need for SB2 funding for this Program. Lastly, the CAO recommends that the LAHD annually report back to the City Council beginning on June 2023 with program outcomes, the status of the existing ADU Program tenant households, and program savings from eligible tenants that transitioned to the Section 8 Program.

This Office notes that the City may be responsible for providing a rental subsidy beyond the three-year pilot term for those participants that are ineligible for a voucher in order to prevent tenant displacements. The recommendation to instruct the LAHD, beginning on June 2023, to annually report back to the City Council with program outcomes and the status of the existing ADU Program tenant households will provide the City Council the opportunity to assess whether additional funding will be needed for this program.

FINDINGS

1. Approval of the Proposed Los Angeles Accessory Dwelling Unit Accelerator Program

The Mayor and City Council's approval of the City's annual Permanent Local Housing Allocation Plan Program allocation, also known as SB2 funding, for the proposed Los Angeles Accessory Dwelling Unit Accelerator Program (ADU Program) was contingent on a Los Angeles Housing Department (LAHD) report on the program framework for Council's consideration and an assessment of risks or liabilities associated with the Program. The LAHD transmittal, dated November 16, 2021 (Report), describes the proposed framework, but the LAHD notes that the risks and liabilities associated with the Program will be discussed in its report back for the acceptance of SB2 funds.

Based on the current structure, the City will provide rental assistance (rental subsidy) to offset the difference in price between, a) the current Fair Market Rents for the dwelling unit, established annually by the U.S. Department of Housing and Urban Development (HUD); and, b) the tenant's share of the rent (30 percent of the tenant's annual income). The proposed ADU Program service provider, ONEgeneration, will disburse the monthly rental subsidies to participating homeowners. Based on the LAHD's Report Addendum, released on January 4, 2022, ONEgeneration will also help tenants apply to a minimum of three permanent housing opportunities with project-based vouchers, which will potentially replace the rental subsidy currently paid by the City. This Office proposed revisions to the framework described in the LAHD Report and recommends that the City Council adopt the CAO-recommended framework.

2. Leveraging Existing Rental Resources in the City of Los Angeles

Subsequent to the release of the LAHD Report, the CAO held discussions with the LAHD, the

Mayor's Office Innovation Team, the Housing Authority of the City of Los Angeles (HACLA), and the Los Angeles Homeless Services Authority (LAHSA) in order to: 1) leverage existing rental assistance resources in the City; and 2) explore whether the existing ADU Program tenants would be eligible to immediately receive rental assistance from either of the following sources: a) Emergency Housing Voucher (EHV) Program, being led by LAHSA as the Continuum of Care, in coordination with HACLA; or, b) HACLA's Section 8 Tenant Based Rental Voucher Program.

The Department of Housing and Urban Development (HUD) provided approximately 70,000 EHV's for eligible public housing agencies around the United States through the American Rescue Plan. Of that amount, 3,365 EHV's were provided to HACLA, where tenants must be placed by September 2023. The EHV Program's goal was to assist individuals and families who are homeless, at-risk of homelessness, fleeing, or attempting to flee, domestic violence, dating violence, sexual assault, stalking, or human trafficking, or were recently homeless, or have a high risk of housing instability. LAHSA's current focus for the EHV's are individuals who are currently homeless or previously homeless. The existing ADU Program tenants may be eligible for an EHV if they were previously homeless and "are enrolled in time-limited subsidy programs...who need a permanent housing resource in order to achieve or maintain housing stability." In the event that the tenants are not eligible for the EHV program, the LAHD and ONEgeneration should develop a long-term housing plan to ensure that ineligible households are placed in an affordable unit within three years. These proposed changes are reflected in Recommendation 2 of this report.

If the Mayor and Council direct the LAHD to serve additional tenants through the ADU Program, the CAO recommends that the LAHD work with ONEgeneration to ensure that any future placements are for tenants that are approved for tenant-based rental assistance through the Section 8 Program.

This report also includes a recommendation instructing the LAHD and ONEgeneration to work with HACLA in order to potentially enroll prospective ADU Program homeowners into the HACLA's landlord incentive program. HACLA provides incentive payments to landlords to secure units for Section 8 applicants during the HACLA-landlord Section 8 application process.

3. Contract Request

The LAHD requests authority to execute its own contract with the ADU Program service provider, ONEgeneration, for the continued operation of the ADU Program. ONEgeneration was selected from a Request for Proposals released by the LAHD on January 26, 2021, as described in the LAHD Report. The proposed contract would have a compensation amount of \$5,716,904 and a contract term of five-years commencing on or about November 1, 2021. Subsequent to the release of its Report, the LAHD confirmed that it did not require a retroactive start date and, therefore, the CAO recommends a start date commencing on or about March 1, 2022. The amount of funding allocated to the contractor is based on the LAHD's plan to enroll and provide rental subsidies to up to 57 senior tenants during the ADU Program's five-year pilot term. The compensation amount of \$5.7 million will fund the following categories: ONEgeneration costs (\$875,000); Tenant Rental Subsidies (\$4,471,704); Tenant Utilities (\$295,200); and a reserve for Tenant Emergencies (\$75,000). The LAHD indicated that it proposes to budget a contingency allowance of \$15,000 per

year to cover emergency repairs, temporary tenant relocation, and other miscellaneous unforeseen expenses since homeowners do not require and/or receive a security deposit from ADU Program tenants.

The current monthly per unit cost is \$2,192 with a breakdown as follows: ONEgeneration cost (\$583); Tenant Rental Subsidy (\$1,459); Tenant Utilities (\$100); and a reserve for Tenant Emergencies (\$50). The annual per unit cost is \$26,304 with a breakdown as follows: ONEgeneration cost (\$6,996); Tenant Rental Subsidy (\$17,508); Tenant Utilities (\$1,200); and a reserve for Tenant Emergencies (\$600). Based on the existing 25 tenant households enrolled in the ADU Program, this translates to a total monthly liability of \$54,800, or an annual liability of \$657,600 for the 25 units.

Based on the revised three-year pilot term and the recommendation to only serve the existing 25 households, the CAO recommends a revised compensation amount of \$2,012,887 for the proposed contract with ONEgeneration with a three-year term commencing on or about March 1, 2022. The compensation amount of \$2.0 million will fund the following categories: ONEgeneration costs (\$525,000); Tenant Rental Subsidies (\$1,352,887); Tenant Utilities (\$90,000); and a reserve for Tenant Emergencies (\$45,000). The CAO also recommends an additional instruction related to the scope of work, as described in the *Leveraging Existing Rental Resources* section above.

Pursuant to Charter Section 1022, the Personnel Department determined that existing City classifications have the necessary qualifications to perform the work. This Office, however, determined that it is more feasible to contract because the services required exceed staffing availability, are of limited duration, and additional staff cannot be deployed or trained in a timely manner.

4. Obligation to Participating Tenant Households

In the event that the tenants are not eligible for the EHV program described in the *Leveraging Existing Rental Resources* section above, the LAHD and ONEgeneration should develop a long-term housing plan to ensure that ineligible households are placed in an affordable unit within three years. This Office notes that the City may be responsible for providing a rental subsidy for ineligible participants beyond the three-year pilot term in order to prevent tenant displacements. The recommendation to instruct the LAHD, beginning on June 2023, to annually report back to the City Council with program outcomes and the status of the existing ADU Program tenant households will provide the City Council the opportunity to assess whether additional funding will be needed for this program.

5. Proposed Funding

The proposed ADU Program administered by the LAHD will be partially funded by the \$2.6 million General City Purposes Fund allocation set aside for this purpose in the 2021-22 Adopted Budget and the City's annual allocation of SB2 funding. The LAHD indicates that \$2,678,916 in SB2 funding is currently earmarked for the proposed ADU Program from the City's Fiscal Year 2021 and 2022 SB2 allocations, and an additional \$3 million in SB2 funds may be available over the next three

years, since the LAHD plans to allocate up to \$1 million from the City's annual SB2 allocation for this Program. The LAHD will submit a report to the City Council under a separate cover related to the acceptance of the SB2 funds, which will include an allocation for the proposed ADU Program. While the LAHD has identified up to \$5.68 million in SB2 funding for this program, the CAO recommends that LAHD work with the CAO to reassess the need for SB2 funding for this Program, in the short term, given the gap the City must identify in other programs, such as the State Homekey match.

FISCAL IMPACT STATEMENT

There is no additional impact to the General Fund at this time. The proposed Los Angeles Accessory Dwelling Unit Accelerator Program will be partially funded by the \$2.6 million General City Purposes Fund allocation for this purpose in the 2021-22 Adopted Budget and the City's annual Permanent Local Housing Allocation Plan Program allocation.

FINANCIAL POLICIES STATEMENT

The recommendations in this report comply with the City's Financial Policies.

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