



CITY HALL
LOS ANGELES, CALIFORNIA 90012

JAMES K. HAHN
MAYOR

February 3, 2003

The Honorable City Council
City of Los Angeles
Room 395, City Hall
Los Angeles, California 90012

Honorable Members:

It is not news that our City continues to face an extreme shortage of housing. This crisis has been quantified and examined over the years, but the statistics cannot tell the story of the day-to-day struggle of the families of Los Angeles. The reality of this crisis is overwhelming for Los Angeles residents:

- **Overpaying:** A single full-time worker needs to earn \$21.15/hour to afford the average apartment. This wage makes rental housing out of reach for security officers, nurse's aides, clerical staff, and auto mechanics.
- **Shut-out of Homeownership:** Los Angeles has the second lowest homeownership rate of any major city in the Country. Just 38.6% of Los Angeles residents are homeowners. This is no surprise given that the median cost of a home rose to \$328,000 in 2002.
- **Overcrowding.** The City has more than 372,000 overcrowded units. Families are forced to double up with relatives or friends in order to have a roof over their heads.

For the average family, these statistics confirm that many struggle to work two and three jobs to pay rent and buy food. For our neighborhoods, these statistics mean a widening gap across communities, which translate into concentrated blight and further neighborhood deterioration.



Last year, along with your assistance and leadership, we took a significant step toward addressing the housing crisis and provided \$42 million in funding for the Los Angeles Housing Trust Fund ("Trust Fund"). I immediately created the Housing Trust Fund Advisory Committee (Advisory Committee), comprised of experts across the housing development field, to provide advice on how to best allocate these funds. My Advisory Committee was chaired by former Council member Mike Feuer, and set about the task of answering three basic questions: (1) how the Trust Fund should be spent; (2) how the Trust Fund should be governed, and (3) how the Trust Fund should be sustained. A copy of the report is attached.

After the November release of the Advisory Committee report, the City Council's Housing and Community Development Committee held two public hearings. Based on the Advisory Committee report and input from the Community, I am proposing a plan for the initial implementation of the Trust Fund.

The Trust Fund should be guided by flexible and simple principles that allow the City to react to market forces and funding opportunities available through federal and state sources. In the initial implementation phase, "Phase 1," our policy priority should be to maximize the money available for affordable housing in Los Angeles. This approach is different from how we have historically allocated housing funds. However, at this moment our City has a unique opportunity to use the Trust Fund as a means to leverage Los Angeles' share of \$2.1 billion in State funding for housing development made available through Proposition 46, and millions more that are available through tax credits and HUD financing. It is incumbent upon all of us to use the City's resources to address the housing crisis, to get our fair share in Sacramento, and to be a catalyst to neighborhood revitalization.

On January 16 the State released its first Notice of Funding Availability (NOFA) for Proposition 46 funds. The application deadline is March 16. The NOFA includes an allocation of \$70 Million dollars for a Multi-Family Housing Program (MHP) and \$25 Million dollars for supportive housing. The State's MHP is targeting its funds toward developing housing for families with the greatest need - those with incomes below 60% of the area median income (AMI), with a priority for those with incomes below 35% AMI. In Los Angeles that represents over 33,000 families. Projects' competitiveness for MHP funds will be dependent upon local commitment. Phase 1 of the Trust Fund will ensure that the City provides local funding commitments to priority projects that are ready for development. In order to aggressively pursue these dollars, I recommend that we establish a High Leverage Program (HLP), to be administered through the Los Angeles Housing Department ("LAHD"), as Phase 1 of the Trust Fund.

The HLP is designed to maximize leverage of the Trust Fund, giving particular priority to projects that serve families making less than 60% of AMI. Leveraging means using the Trust Fund to secure other funds, in this case, using the Trust Fund to get our fair share of the Prop 46 allocation. Targeting housing projects with units set aside for families below 35% AMI ensures that we are committing Trust Fund dollars to the projects most likely to receive State funding.

The important policy discussions about long-term Trust Fund implementation and its inevitable impact on the development of a comprehensive housing policy should not preclude us from taking advantage of this critical opportunity for housing production. Therefore, I recommend that the Council adopt the Advisory Committee recommendations in concept, implement the HLP, and authorize the Housing Department to begin collecting the information that will guide the larger policy discussion.

Below are some specific recommendations, consistent with the priorities of the Advisory Committee report, to guide Phase 1 of the Trust Fund.

How the Trust Fund Should be Spent

The first priority of the Trust Fund is to create affordable housing for those with the greatest need at the lowest income ranges. The creation of affordable housing can be through acquisition, new construction, adaptive reuse, or substantial rehabilitation. Based on the priorities set by the Advisory Committee, the following percentages should guide the spending criteria for the HLP:

(1) Sixty percent (60%) for multifamily rental projects serving households at or below 60% AMI. This income priority should be a cap, not a target, to ensure that funding is directed at those with the greatest need. Households include families, individuals, seniors, and those with special needs. In addition to the income range, I recommend the following criteria:

- *Competitiveness for State Funding.* We should prioritize projects based on the criteria set forth by the State's MHP and the 4% and 9% tax credit programs. The state funding criteria in the MHP and tax credit allocation share the same principles articulated in the Advisory Committee Report.
- *Project Readiness.* We should focus on projects that are ready to begin construction, but for the financing.

To address these criteria, I am asking the Housing Department to create an immediate inventory of all housing developments ready for production, with an assessment of financing gaps. This inventory will include projects that have previously come to the City for funding, CRA projects, and any other

affordable housing projects that are ready to start but are looking for gap financing. In the first round, all projects will be ranked according to their competitiveness based on the criteria set forth by the State's MHP and the 4% and 9% tax credit programs.

- (2) **Twenty percent (20%) for projects that create homeownership opportunities for households at or below 120 AMI%.** LAHD currently has homeownership programs that target households with incomes up to 80% AMI, however, there are many families who are unable to take advantage of these programs. By increasing the target household to a moderate income families of up to 120% AMI, we will provide much needed assistance to working families comprised of nurses, police officers, firefighters, and teachers who cannot afford to own a home in the City. The homeownership portion of the Trust Fund will be allocated in the most effective way to reach these families. I recommend that LAHD work with the Mayor's Office and the Council to develop proposals and report back within 90 days with specific recommendations.
- (3) **Five percent (5%) for emergency rental assistance.** If we can keep individuals and families off the streets with a small, one-time grant, then that money has saved the City hundreds of thousands in future costs, and has saved that family from unnecessary hardship. This priority allocates a small portion of the Trust Fund to provide financial assistance for residents who are at risk of a no-fault eviction when there are no other sources of assistance available to them. I recommend that LAHD work with the community-based organizations and report back to the Mayor and Council in the next 60 days with recommendations.
- (4) **Ten percent (10%) to remain flexible.** A portion of the Trust Fund should remain flexible to maximize leveraging of Trust Fund dollars and to stimulate housing production. A potential use would include taking advantage of low mortgage rates for homeownership programs. In addition, I recommend that we utilize a portion of these funds to preserve at-risk units. There are over 10,000 units of affordable housing in the City of Los Angeles that are at-risk of converting to market rate. Through regulations and appropriate financing packages, we must be proactive in maintaining affordability and rehabilitating affordable units whose loss would dramatically increase the already severe housing crisis.
- (5) **Five percent (5%) for administrative costs.** Without swift and efficient implementation of the Housing Trust Fund, the City of Los Angeles will continue in a pattern that has plagued us – we will not get our fair share of housing dollars from Sacramento. The leveraging capacity of the Trust Fund

is significant, and we need dedicated staff to coordinate our efforts at bringing needed investment in our affordable housing stock.

How the Trust Fund Should be Governed

I agree with the Advisory Committee recommendation that the Housing Department administer the Trust Fund. At this juncture, we will also begin a search for a new General Manager who will be accountable for the long-term implementation and success of the Trust Fund. However, I believe that the dedicated staff of the Housing Department will be able to undertake Phase 1 of the Trust Fund, under the leadership of Rita Robinson, the interim General Manager, Ralph Esparza, Ruperto Albelda, and Sergio Barajas. In addition, with respect to administering the HLP, I recommend that:

- LAHD be given authorization to hire a Director, or other appropriate level of seniority, whose immediate focus will be to implement Phase 1 of the Trust Fund. Although the City is now in the midst of a hard hiring freeze, this position is critical, and in the end will provide significant benefits.
- The Advisory Committee stressed the importance of having a high-level professional oversee the Housing Trust Fund, however the goals of the Trust Fund – multi-family affordable housing, homeownership and relocation assistance – are all programs that exist in some form within the Housing Department. We need to fully evaluate the impact of the Trust Fund on the management structure of LAHD in order to avoid duplication and maximize efficiency while increasing the overall performance of the Trust Fund. Therefore, I recommend that the Council immediately grant LAHD authority to issue an RFP to competitively select a management consultant to assist in the long-term implementation of the Trust Fund and its impact on the structure and management at LAHD.

I also recommend exploring an enhanced role for the Affordable Housing Commission in the long-term implementation and monitoring of the Trust Fund.

How the Trust Fund Should be Sustained

We must continue the policy discussion of how to ensure that the Trust Fund is sustained over time. This initial implementation will act swiftly to ensure that the 2.1 billion dollars available from the state has a maximum impact in Los Angeles. Through this, the City will demonstrate the long-term importance of the Trust Fund and ensure that it remains a budget priority over time.

With this letter, I am proposing that we work together to move quickly and efficiently to continue the demonstration of an historic commitment to housing.

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The creation of the Trust Fund was a critical step toward addressing the housing crisis; making the Trust Fund dollars stretch to maximize our share of over \$2.1 billion in State Funds is the next step.

Very truly yours,

A handwritten signature in cursive script, appearing to read "James K. Hahn".

JAMES K. HAHN
Mayor

JKH:nr