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According to the April 2015 report by the California Housing Partnership Corporation, there is a 527,722 shortfall of affordable housing available to Los Angeles County’s very low-income and extremely low-income households, which is the largest shortfall of affordable housing in the state. Currently, the CDC has allocated county General Funds to support the production of 533 units of affordable housing; 319 of the 533 units will serve special-needs populations as shown in Table 5 (following).

Table 5: Affordable Housing Units in Pre-Development or Under Construction Funded in Part by Los Angeles County

Source	Special Needs	Affordable Non-Special Needs	Total Units
NOFA 18	134	157	291
NOFA 19*	185	57	242
Total Units Funded	319	214	533

Source: CDC Project Summary Report

* This does not include the special-needs units in Whittier Place, which received capital development funds from NOFA 18 and operating subsidy from NOFA 19. Whittier Place’s 24 special needs units are included in the NOFA 18 calculation.

Actual county allocation significantly lower than recommended amount

Although it specifically directed the CEO and the CDC to determine how much funding the county needed to contribute to support affordable housing development, the Board of Supervisors has in fact allocated significantly less resources than what was recommended by the CDC in the Framework. The actual allocations of county funds to the CDC are detailed on Table 1.

As previously noted, the total funding amount recommended by the CDC in the Framework requested by the BOS totaled \$199,247,500. Although there are many funding needs in the county, the county has underfunded the affordable housing development goals determined by the CDC in cooperation with the CEO by \$98,196,500. The Board of Supervisors appears to have used the Framework as a guide but did not adopt it in full.

Additional funding from Community Redevelopment Agency dissolution expected

In February 2015, the Board of Supervisors approved the transfer of \$9,979,000 for FY 2014–2015. This transfer was composed of \$7,262,706 from unencumbered low-to-moderate income housing funds that have been returned to the county from former redevelopment projects and \$2,717,000 from the sale of assets. The CEO estimates that additional revenues

may total another \$7 million. However, only a percentage of this would be returned to the county General Fund and therefore potentially available for allocation to the CDC for affordable housing development.

As of June 2014, Los Angeles County had a General Fund unassigned fund balance of \$232 million. The \$232 million currently constitutes the county’s Rainy Day Reserve, which the Board of Supervisors established in 2009 to protect essential county programs against unforeseen emergencies and economic downturns. BOS policy states that Rainy Day Reserve cap should be 10 percent of ongoing locally generated revenue, which was approximately \$478 million or \$256 million more than the \$232 million Rainy Day Reserve fund balance, as of June 30, 2014. It should be noted that these funds remain subject to BOS policy.

Administrative fees may not be sufficient to cover costs

Currently, the CDC takes a 20 percent administration fee out of the county funds transferred for affordable housing to cover the costs related to developing and administering the annual NOFA process, hiring consultants to evaluate the NOFA applications. The fee also covers county counsel and outside legal counsel, preparing loans for closing, monitoring the project through construction, and ongoing monitoring for the loan. The loan, which often extends to 55 years, typically coincides with the lifetime of the tax credit affordability period.

Of the \$26 million transferred to the CDC for NOFAs 18 and 19, 20 percent, or \$5,200,000, has been set aside for administrative costs. As of March 12, 2015, the CDC has expended \$907,885 or 41 percent of the administrative fees for NOFA 18 and \$359,658 or 12 percent of the administrative fees for NOFA 19, as shown in Table 6 below.

Table 6: Administrative Fee Set Aside and Expected Administrative Fee Expenditures, As of March 12, 2015

NOFA Round	County General Fund (CGF) Transfer	20% Administrative Fee Set Aside from CGF Transfer	Actual Administrative Fee Expenditures	Percent of Administrative Fees Expended
NOFA 18	\$11,000,000	\$2,200,000	\$907,885	41%
NOFA 19	\$15,000,000	\$3,000,000	\$359,658	12%
Total	\$26,000,000	\$5,200,000	\$1,267,543	24%

Source: CDC Affordable Housing Trust Fund Financial Overview

According to CDC employees, the 20 percent administration fee is sufficient to pay for the immediate administrative costs during the pre-development and construction phases of an

affordable housing project. The fee may not be sufficient to pay for the project's long-term monitoring costs, as the CDC continues to monitor the project over the life of the 55-year loan. As shown in Table 6 above, the administrative fee allocation for NOFA 18 projects is already almost half-expended and is still needed to cover the monitoring costs. The 20 percent administration fee is less than administrative fees associated with some similar programs, including the federal HOME loan program. The CDC will continue to closely monitor project delivery and monitoring costs associated with these projects to determine if administrative fees should be adjusted in the future.

Current Board of Supervisors' five-year directive

As discussed, the BOS passed three motions over the course of three years to allocate county General Funds to the CDC, for a total allocation of \$101,051,000. On June 23, 2014, the Board of Supervisors authorized the full transfer of the remaining allocated county funding to the CDC. However, the 2013 Board of Supervisors' resolution requires that the CDC "use the funding to continue to issue yearly affordable housing NOFAs over the next five years in order to expand the availability of affordable housing in Los Angeles County." The final NOFA scheduled for September 2017 release includes the last of this county allocation.

Given the critical need for additional affordable housing units in Los Angeles County, and the Board of Supervisors' stated commitment to supporting affordable housing development, the Board of Supervisors should amend the 2013 motion to allow the CDC to release the county General Funds more expediently. NOFAs of a higher value might require additional CDC staff capacity, particularly for the project review and pre-construction phase; therefore the CDC should evaluate personnel needs including whether consultants could be used for some of the required work, and corresponding costs, in order to release the county funds to expedite the production of affordable housing units.⁹

Permanent source for future affordable housing development is non-existent

Although it has committed funding for affordable housing in the immediate transition after the dissolution of the Redevelopment Agency, the county has not identified a permanent funding source for affordable housing. Table 7 (below) illustrates the number of project applications submitted for the limited pool of resources in each NOFA and the number of projects awarded.

⁹ CDC is in the process of hiring one additional staff member to fill a vacant position within the Economic and Housing Development Division. CDC staff note that the increased workload for the \$24,979,000 NOFA 21 composed of the \$15 million original General Fund transfer from the Board of Supervisors to the CDC plus the recent \$9.9 million transfer will be more manageable with the additional staff member. CDC staff does not foresee needing any additional staff members after filling the vacant position to manage a NOFA of this higher value.

Table 7: NOFA Applications and Awards¹⁰

	NOFA 18	NOFA 19	Total
Projects Applied	11	7	18
Projects Funded	9	6	14*
Units Applied	402	331	733
Units Approved	335	267	577*
Amount Applied	\$11,190,425	\$13,522,500	\$24,712,925
Amount Funded	\$8,115,425	\$12,352,500	\$20,467,925
Unfunded Demand**	\$3,075,000	\$1,170,000	\$4,245,000

Source: CDC NOFA Scoring Documents

* These totals do not add up because the Whittier Place project was awarded capital development funds in NOFA 18 and operating subsidy in NOFA 19. The Whittier Place project and units are accounted for in both the NOFA 18 and NOFA 19 columns but are only accounted for once in the Projects Funded Total column and Units Approved total column.

**One project in NOFA 18 did not receive funding because it did not meet the threshold criteria. All seven projects in NOFA 19 met the threshold criteria but there was only enough funding for six.

According to the CDC, a predictable funding source is critical to the consistent flow of affordable housing development. Developers must be incentivized to engage in pre-development activities, which require them to bear the risk and cost of securing a property and obtaining entitlements and permits. The pre-development phase of constructing an affordable housing project typically takes up to two-and-one-half years. It is necessary that developers continue to engage in pre-development activities so when funding becomes available, the project is almost ready for construction. If affordable housing developers cannot rely on county funding, they would be discouraged from partaking in pre-development activities—resulting in delays in affordable housing development until there is an established gap-financing source.

Other jurisdictions have created permanent funding sources through the introduction of housing impact fees. Impact fees are exactions imposed on developers by local governments as a precondition for the privilege of developing land. The fees lessen the impact of increased population or demand on services generated by that development.

Two categories of local impact fees can be used to support affordable housing development:

- (1) commercial development
- (2) market-rate residential development

¹⁰ Table 7 reflects the number of projects and units approved for funding by the Board of Supervisors in the original Board Letter and does not include adjustments that were made later.

Both fees must be based on an assessment of the extent to which the development generates additional demand for affordable housing.

In California, several jurisdictions have introduced impact fees on market-rate residential development—including Napa and Marin counties, and the cities of Berkeley, San Jose, Pasadena, Fremont, San Carlos, Santa Rosa, Walnut Creek, and Mountain View.

The county Department of Regional Planning recommended that the county “consider the feasibility of establishing residential and non-residential impact fees.” The BOS in its Inclusionary Housing Report states, “[T]o address the need for affordable housing and economic development in a post-redevelopment California, local governments have to develop new, more efficient mechanisms for providing resources for these purposes.... As one key source of funding for affordable housing and economic development, the county should consider setting aside a portion of the tax revenues that will no longer be captured by the redevelopment agencies.”¹¹

Oversight of Projects

CDC housing development project management

Affordable housing projects funded with county General Funds are managed by the CDC’s Housing Development Unit. This unit oversees all county affordable housing projects utilizing financing through the CDC from federal (HOME and CDBG) and/or county sources.

The project manager maintains responsibility for monitoring the progress of each project as well as the project budget. Project status includes pending actions, forecast, and expected construction start and end dates. This information must be updated each month in Tracker, one of two information systems used by CDC project managers. Tracker allows project managers to monitor a project’s progress while PeopleSoft, the CDC’s system of records, allows project managers to monitor project expenditures to date. Together, these systems enable project managers to determine how well the expenditure goal for each project has been met.

Project tracking and reporting

The CDC has created standardized checklists for project managers to document various management activities. The due diligence checklist tracks the receipt and review of all

¹¹ Los Angeles County, Department of Regional Planning, General Plan Development/Housing Section, July 2, 2012.

documents related to construction loan closing and post-closing. The development of such document templates and record-keeping policies allows for increased transparency and accountability related to affordable housing project management.

In addition, CDC management has established standards for reporting on project status to supervisors within the department, as well as the BOS. This reporting includes weekly progress reports to the manager of the Housing Development Unit, and monthly reports to CDC management, which are then provided to the BOS (discussed in more detail below).

Internal weekly project updates

Weekly Tracker project updates of May 2014 and January 2015 reveal that staff regularly complies with the reporting requirement and consistently provides CDC management with detailed updates on project status.

Monthly project updates

Based on a review of the January 2015 Tracker project updates for each supervisorial district, it appears additional information could be included to provide members of the Board of Supervisors with a more comprehensive understanding of the status of affordable housing developments.

The monthly reports that Project Managers present to CDC management and the BOS for review comes from the Tracker system and show the following information by project:

- Project history
- Date of loan agreement
- Pending actions
- Forecast
- Construction start/end dates
- Date of occupancy
- Total costs, sources, and units by Area Median Income type
- Percentage of current project phase completed

Although these data points help CDC management and the BOS understand where problems or delays have arisen, they fail to reflect critical information, such as:

- Original planned dates of construction start/end
- Total amount or percentage of county funds expended
- Number of affordable and special needs units

Understanding where projects are in development—relative to the original planned construction timeline, as well as budgeted and actual expenditures—provides a critical measure for managers to hold employees and developers accountable for project delays.

The CDC currently operates and maintains the Tracker system; however, it was developed by a third-party vendor approximately 15 years ago. CDC staff report that the monthly reports are created using a fixed template that was created by the vendor. CDC staff note that in the past they tried to add data fields to the monthly report but were unsuccessful as the system change was too complex for CDC staff and the vendor was not accessible.

Board of Supervisors oversight of county-funded affordable housing projects

The Board of Supervisors, serving as the CDC's governing body, is required to: (1) provide formal authorization of the gross amount of funds that are transferred to the CDC, (2) set the general expectation of how CDC staff should spend the transferred funds, which is approved through a board motion, and (3) provide formal authorization of the final NOFA allocation to affordable housing projects that have been selected.

According to the Housing Development Division's Operations Manual, the authorization for the NOFA allocation is obtained via approval of a Board Letter, with a defined format and process that spells out the specific actions needed. In such instances, the Board of Supervisors reviews and approves the Board Letter.

Notably, these Board Letters are submitted after the Notice of Funding Availability process has been completed and projects have been scored. The Board of Supervisors does not currently have an opportunity to review the NOFA criteria nor total funding amounts in advance of this process to ensure that the board's priorities are accurately reflected. CDC staff note that the Board of Supervisors has never requested to review a NOFA prior to its release.

CDC employees have monthly meetings with the deputies from each supervisory district to discuss and inquire about ongoing projects based on the Tracker reports. The Tracker reports in their current format do not provide the BOS with sufficient information needed to perform oversight by project, particularly original budget vs. actual expenditures and original vs. revised timelines. Although supervisors receive information about projects in their districts, the Board of Supervisors sitting as the Community Development Commission has not taken an active role in providing comprehensive oversight of all projects after funding allocations are made.

Without sufficient and comprehensive information regarding the status of funding and development for all affordable housing projects countywide, the Board of Supervisors is not sufficiently informed to make the best decisions regarding funding. Table 8 shows variances between original and current revised completion dates for projects funded with county General Funds, information that is not provided in a comprehensive format to the Board of Supervisors sitting as the Community Development Commission.

Table 8: Summary of Original and Current Project Timelines

NOFA ROUND	PROJECT NAME	Original Completion Date	Current Estimated Completion Date	Variance (in months): Delayed	Variance (in months): Early
18	Whittier Place*	9/1/2015	7/1/2015		-2
18	Harding	3/23/2015	3/1/2015		-1
18	Vermont Manzanita	7/1/2015	7/1/2015	0	0
18	Path Villas at Del Rey	12/1/2014	5/1/2015	+5	
18	Mar Vista Union	2/1/2016	3/1/2016	+1	
18	Step Up	2/1/2016	3/1/2016	+1	
18	The Paseo	11/1/2015	5/1/2016	+6	
18	LDK Senior	3/1/2016	3/1/2016	0	0
19	Gateway	3/1/2016	5/1/2016	+2	
19	Winnetka Senior	1/1/2016	9/1/2016	+8	
19	Crest	2/1/2016	4/1/2016	+2	
19	Immanuel Senior	5/1/2016	7/1/2016	+2	
19	Cedar Springs	3/1/2016	3/1/2016	0	0
19	Whittier Place*	9/1/2015	7/1/2015		-2

Source: CDC Project Files

* Whittier Place received capital development funds through NOFA 18 and operating subsidies through NOFA 19.

SUMMARY

Los Angeles County is at the forefront of other counties in Southern California by actively using its own money to build affordable housing, even in light of declining revenues from state and federal sources (see Table 9 below). The Board of Supervisors has taken the initiative to fund the release of NOFAs 18 to 23, filling the gap after the dissolution of the Redevelopment Agency by continuing on with the agency's mission.

Table 9: Affordable Housing Funding Sources FY 2008-2014

FUNDING SOURCE	FY 2008-2009	FY 2013-2014	% CHANGE
Redevelopment	\$1,142,555,324	\$0	-100%
HCD	\$680,429,821	\$245,937,092	-64%
HUD	\$778,782,375	\$561,051,019	-28%
Total	\$2,601,767,520	\$806,988,111	-69%

Source: CHPC analysis of 2000-2010 annual HCD Redevelopment Housing Activities Reports 2010-2011, 2011-2012 are estimated; 2002-2014 annual HCD Financial Assistance Programs Reports; and 2001-2015 annual HUD CPD Appropriations Budget data.

HCD—California Department of Housing and Community Development

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The federal measure of poverty levels shows that 16.2 percent of Californians live below the poverty level. This figure does not take into consideration housing costs. But those costs are factored into the California Housing Partnership Corporation report, which documents that 22 percent of Californians live below the poverty level.¹²

The Community Development Commission has shown itself to be up to the task of continuing the NOFA process, helping those in need. The future of affordable housing development in Los Angeles County by Los Angeles County is in danger of extinction in 2017 unless a permanent funding source is found.

¹² Update on California's Affordable Housing Crisis: the critical Role of Housing Access and Affordability in Reducing Poverty, April 2015, California Housing Partnership Corporation.

FINDINGS

1. Los Angeles County funding for affordable housing expires in 2017.
2. The Community Development Commission's 20 percent administration fee for affordable housing projects may not be sufficient to cover long-term monitoring costs of those projects.
3. A Los Angeles County Board of Supervisors 2013 resolution releases county general funds, to the Community Development Commission for affordable housing, over five years.
4. The Community Development Commission Tracker project management reports in their current format do not provide the Board of Supervisors with sufficient information needed to perform ongoing oversight, particularly original budget vs. actual expenditures and original vs. revised timelines by project.
5. The Board of Supervisors, sitting as the commissioners of the Community Development Commission, has not taken a sufficiently active role in providing comprehensive oversight of all projects after funding allocations are made.
6. The Board of Supervisors has not fully adopted the 2012 Affordable Housing and Economic Development Framework and Implementation Strategy and has underfunded the affordable housing development goals by \$98,196,500.
7. Staffing levels may be insufficient if Notices of Funding Availability of a higher value are released.

RECOMMENDATIONS

- 1.1. The Los Angeles County Community Development Commission should review the recommendations made in the 2012 Affordable Housing and Economic Development Framework and Implementation Strategy regarding affordable housing funding and goals and revise accordingly, in collaboration with the Chief Executive Office, to **determine current** and future funding needs.
- 1.2. The Community Development Commission should continue to analyze project delivery costs associated with county-funded affordable housing developments to ensure that the 20 percent administration fee is appropriate.

1.3. The Community Development Commission should determine how staffing levels would need to be adjusted, including whether consultants may be needed, to release Notices of Funding Availability of a higher value, should the Board of Supervisors decide to request that county funds be allocated to projects more expeditiously.

1.4. The Community Development Commission should revise the project summary reports produced in Tracker to show additional data fields, including original and actual completion dates, budgeted and actual county and other funding-source expenditures to date, and number of affordable and special-needs units in each project.

1.5. The Community Development Commission should submit Notices of Funding Availability that include county funds to the Board of Supervisors for review prior to release.

1.6. The Community Development Commission should present to the Board of Supervisors more-comprehensive monthly reports of all county funded affordable housing projects.

1.7. The Los Angeles County Board of Supervisors should review current funding levels to the Community Development Commission for affordable housing development to ensure that the levels are sufficient to reach county goals in light of the Affordable Housing and Economic Development Framework and Implementation Strategy.

1.8. The Board of Supervisors should amend its 2013 motion and allow the Community Development Commission to release the county General Funds more expeditiously.

1.9. The Board of Supervisors should consider permanent funding sources for affordable housing development, including a housing impact fee.

REQUEST FOR RESPONSE

Recommendation Number	Responding Agency
1.1–1.6	Los Angeles County Community Development Commission
1.7–1.9	Los Angeles County Board of Supervisors

ACRONYMS

AMI—Area Median Income

BOS—Los Angeles County Board of Supervisors

CDBG—Community Development Block Grants

CDC—Los Angeles County Community Development Commission

CEO—Los Angeles County Chief Executive Office

CHPC—California Housing Partnership Corporation

ELI—Extremely Low Income

Framework—Affordable Housing and Economic Development Framework and Implementation Strategy

HACoLA—Housing Authority of the County of Los Angeles

HUD—U.S. Department of Housing and Urban Development

LIHTC—Low-Income Housing Tax Credits

NOFA—Notice of Funding Availability

TCAC—Tax Credit Allocation Committee

VLI—Very Low Income

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