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Antonio R. Villaraigosa, Mayor
Mercedes Márquez, General Manager

October 28, 2005

Council File: CF-04-2264
Council District: City Wide
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Honorable Antonio R. Villaraigosa
Mayor, City of Los Angeles
Room 303, City Hall

Attention: June Lagmay, Legislative Coordinator

City Council Transmittal: Los Angeles Housing Department (LAHD) Request for Authority to Establish a New Housing Trust Fund Construction Supplemental Program (CSP II) to Provide Additional Funding to Projects Meeting the Recommended Guidelines.

Summary:

In December 2004, the Mayor and City Council authorized the establishment of the Affordable Housing Trust Fund Construction Supplemental Program to provide additional funding to projects meeting recommended guidelines (C.F. 04-2264). At that time LAHD received approval for a CSP funding in the amount of \$5 million and it was expected that the request would be a one-time occurrence. However, construction costs continued to escalate more than anticipated so that even with contingency fund allowances built into LAHD's loans, a number of projects now have a gap in their financing structure.

The Los Angeles Housing Department (LAHD) therefore now requests authority to establish the Housing Trust Fund Construction Supplemental Program II (CSP II) to provide up to \$500,000 in additional funding to previously funded LAHD Affordable Housing Trust Fund (AHTF) projects with unforeseen cost increases. Approval of additional funding will be based on criteria included in this transmittal.

Recommendations:

The General Manager, Los Angeles Housing Department, respectfully requests that your office schedule this matter with the appropriate City Council Committee(s) for consideration at the next available meeting(s), and forward it to the Mayor and City Council for review and approval immediately thereafter.

The LAHD General Manager further recommends:

I. That the City Council:

A. Authorize the General Manager, LAHD, or her designee to:

1. Allocate HOME funding from fund 561 Account 211, in the amount of \$5,000,000 for the establishment of the Housing Trust Fund Construction Supplemental Program II (CSP II); and
2. Increase the City's funding commitment to affordable housing projects that meet the guidelines established under the CSP II, not to exceed \$500,000 per project; and
3. Negotiate and execute all necessary amendments and documents to increase the City's funding, subject to approval by the City Attorney as to form.

B. Authorize the City Controller to expend an amount of up to \$5,000,000 from Fund 561, Account 211, upon proper written demand by the General Manager, LAHD or her designee; and

C. Authorize the General Manager, LAHD, to prepare Controller instructions and make any necessary technical adjustments consistent with the Mayor and City Council actions on these and other approved projects, subject to the approval of the City Administrative Officer (CAO), and authorize the Controller to implement the instructions.

II. That the Mayor concur with the action of the City Council

A copy of this transmittal is being forwarded to the Office of the City Attorney for review as to form.

Background:

Since the inception of the Affordable Housing Trust Fund in 2002 and the adoption of regulations in February 2003 the Los Angeles Housing Department has administered 11 separate funding rounds, one of which was a CSP round in 2004. As part of those funding rounds, LAHD has reviewed numerous proposals and currently has 58 outstanding commitments, totaling in excess of \$119 million, with the potential construction of 3,651 units.

In 2004, LAHD received approval from the Mayor and Council for a construction supplemental program of \$5,000,000. At the time, it was expected that the request would be a one-time occurrence. However, as will be discussed below, construction costs have continued to escalate more than anticipated, so that even with contingency fund allowances built into LAHD's loans, a number of projects now have a gap in their financing structure.

Throughout the industry, construction costs have increased substantially. If one were to use the McGraw Hill "ENR-Construction Cost Index" for multifamily housing projects in the City of Los Angeles, a project submitted for funding in the year 2000 would have incurred a 20% increase in direct construction costs by 2005. LAHD also looked at eight projects containing 735 units submitted for funding in 2000 and compared the costs with 17 projects containing 1,012 units contracted in 2005. While land costs more than doubled during this time period, construction costs went from \$110.78 per square foot in 2000 to \$145.30 per square foot in 2005. The hard cost per unit increased from \$109,369 in 2000 to \$165,883 in 2005 (see attached exhibit). It is anticipated that this trend will now be exacerbated due to the unprecedented need for building materials created by the recent storms in the southern part of the country.

Although AHTF funded projects have been extremely successful in competing for Federal, State and County funding, the AHTF program does not allow for requests for additional funding for previously approved developments. Furthermore, due to timing and market constraints, it is not practical for a developer to seek additional funds from one of the project's leveraging sources, e.g. tax credits, and receive timely funding from that other source once construction has begun. Thus, it is difficult for projects that have experienced unforeseen and substantial cost increases to fill the gap. Therefore, in order to protect the City's investment and recognizing the developer's inability to fully fund the gap, staff is recommending that the CSP II be adopted to save those projects, which are in jeopardy due to increasing construction costs.

Proposed Housing Trust Fund Construction Supplemental Program Guidelines

To assist projects, which face unforeseen construction cost increases, LAHD is recommending that a funding pool be established to allow projects to move towards and through construction completion. LAHD is specifically recommending that the set of guidelines provided below be established to ensure that projects which merit increases receive them expeditiously. The guidelines identified below provide a framework on which to base decisions, yet allow for the flexibility necessary to best address individual project needs.

Under the Construction Supplemental Program, LAHD will work with developers to investigate and identify causes for cost increases and determine if the project is eligible to receive additional funding. Through the CSP, LAHD will commit to funding up to 80% of the projected gap, not to exceed \$500,000. However, the program will not provide developers an opportunity to recapture funds previously deferred or costs associated with inadequate due diligence on behalf of the development team or those contracted by the development team.

I Eligible Costs

- Increased lumber cost
- Increased steel cost
- Increased concrete cost
- Increased cost of other building materials
- Costs associated with value engineering
- Increased costs related to Insurance and Payment and Performance Bonds
- Other unforeseen costs deemed eligible by the LAHD loan committee

II Ineligible Increases/Costs/Project

- Previously deferred developer fees
- Increased developer fees
- Previously deferred construction overhead and profit
- Construction costs that were/should have been included in the initial scope of work but were not
- Costs exceeding 221 D(3) Limits
- Costs associated with changes in project configuration/unit mix
- Costs associated with inadequate or deficient professional services
- Projects that do not have an existing funding commitment from LAHD
- Any cost LAHD has determined to be in excess of industry averages/standards
- Projects whose construction has been completed for over 180 days

III Required Documentation for Eligible Projects

- Letter of Support from Council Office for additional funding
- Original proformas in LAHD format
- Revised proformas in LAHD format
- Sources and uses of funds expended to date
- Evidence of current funding commitments in place
- Detailed itemization of construction cost increases

IV Policy

- Maximum additional subsidy available \$500,000
- Development Team/Partners must participate in closing at least 20% of the gap
- All applicants must be in compliance with the City's New Business Policy
- CSP application fee of one basis point of loan amount requested will be assessed, not to exceed \$5,000

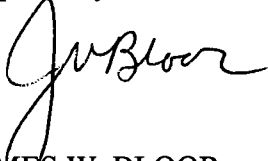
Request Summary:

LAHD requests authority to establish the Housing Trust Fund Construction Supplemental Program II to provide up to \$500,000 in additional funding to City projects with unforeseen cost increases. Approval of additional funding will be based on criteria included within this transmittal.

Fiscal Impact:


The program will be capitalized with \$5 million dollars in HOME Funds. There is no impact on the General Fund.

Prepared by:



JAMES W. BLOOR
Interim Manager, Housing Trust Fund

Reviewed by:



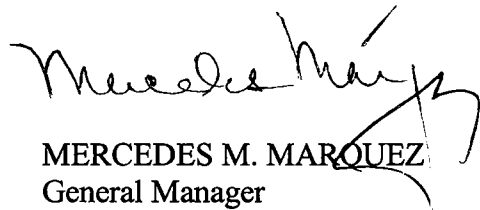
TIENA JOHNSON HALL
Director, Housing Development

Approved by:



for LYNN HANSEN
Assistant General Manager

Approved by:



MERCEDES M. MARQUEZ
General Manager

**ACTUAL PROJECT COST
2000 NOFA PROJECTS**

PROJECT NAME	No. of Units	NOFA	LAND COST	HARD COSTS	TDC	Gross Land Area	Cost/Land Sq. Ft.	Gross Bldg Area	Cost/Bldg Sq. Ft.	Hard cost/ units	Development Cost/Unit	Cost/Land Unit
Allesandro Apartments	18	2000	\$193,349.00	\$2,206,248.00	\$3,068,001.00	17,415	\$11.10	17,766	\$124.18	\$122,569.33	\$170,444.50	\$10,741.61
M. L. Shepard Manor	90	2000	\$1,206,500.00	\$6,680,896.00	\$10,975,537.00	81,021	\$14.89	76,366	\$87.49	\$74,232.18	\$121,950.41	\$13,405.56
Skyline Village	73	2000	\$1,613,000.00	\$10,972,929.00	\$12,145,035.00	72,900	\$22.13	78,835	\$139.19	\$150,314.10	\$166,370.34	\$22,095.89
Maple Tree	49	2000	\$630,000.00	\$5,761,071.00	\$8,265,596.00	36,155	\$17.42	55,265	\$104.24	\$117,572.88	\$168,685.63	\$12,857.14
Colonia Corona	100	2000	\$2,112,750.00	\$14,027,327.46	\$18,937,003.00	83,155	\$25.41	102,913	\$136.30	\$140,273.27	\$189,370.03	\$21,127.50
Santa Cruz Terrace	48	2000	\$970,240.00	\$5,579,500.00	\$8,604,953.00	49,500	\$19.60	57,107	\$97.70	\$116,239.58	\$179,269.85	\$20,213.33
Harvard Yard	207	2000	\$1,640,000.00	\$15,683,292.00	\$23,706,338.00	154,600	\$10.61	168,774	\$92.92	\$75,764.70	\$114,523.37	\$7,922.71
West Angeles Villas	150	2000	\$1,762,000.00	\$11,697,841.00	\$12,435,520.00	86,379	\$20.40	112,296	\$104.17	\$77,985.61	\$82,903.47	\$11,746.67
AVERAGE			\$1,265,979.88	\$9,076,138.06	\$12,267,247.88	72,641	\$17.69	83,665	\$110.78	\$109,368.96	\$149,189.70	\$15,013.80

**ESTIMATED PROJECT COST
2005 NOFA PROJECTS**

PROJECT NAME	No. of Units	NOFA	LAND COST	HARD COSTS	TDC	Gross Land Area	Cost / Sq. Ft.	Gross Bldg Area	Cost/Bldg Sq. Ft.	Hard cost/ units	Development Cost/Unit	Cost / Land Unit
Laguna Senior Apts	64	Round 1 2005	\$928,100.00	\$9,934,405.00	\$15,111,074.00	20,561	\$45.14	62,172	\$159.79	\$155,225.08	\$236,110.53	\$14,501.56
Magnolia On Lake	46	2005	\$1,598,499.00	\$8,274,624.00	\$13,253,853.00	27,800	\$57.50	67,273	\$123.00	\$179,883.13	\$288,127.24	\$34,749.98
New Dana Senior Apts	100	2005	\$1,140,075.00	\$12,793,338.00	\$17,856,729.00	94,453	\$12.07	61,600	\$207.68	\$127,933.38	\$178,567.29	\$11,400.75
New Dana Townhomes	116	2005	\$0.00	\$27,646,520.00	\$36,780,312.00	363,474	\$0.00	190,645	\$145.02	\$238,332.07	\$317,071.66	\$0.00
Palm Village	60	2005	\$1,152,000.00	\$6,926,470.00	\$10,090,023.00	54,886	\$20.99	44,825	\$154.52	\$115,441.17	\$168,167.05	\$19,200.00
Sherwood	52	2005	\$1,818,300.00	\$7,339,373.00	\$12,042,241.00	49,300	\$36.88	73,000	\$100.54	\$141,141.79	\$231,581.56	\$34,967.31
Yale Terrace	55	2005	\$1,432,500.00	\$12,273,309.00	\$17,325,500.00	40,728	\$35.17	127,856	\$95.99	\$223,151.07	\$315,009.09	\$26,045.45
Abbey Apts	115	Round 2 2005	\$3,217,500.00	\$12,049,333.00	\$22,145,990.00	52,967	\$60.75	50,425	\$238.96	\$104,776.81	\$192,573.83	\$27,978.26
Hart Village	47	2005	\$1,571,211.00	\$10,193,218.00	\$16,066,075.00	56,052	\$28.03	80,357	\$126.85	\$216,876.98	\$341,831.38	\$33,430.02
Mariposa Place	58	2005	\$1,509,001.00	\$12,530,274.00	\$19,118,240.00	36,432	\$41.42	81,347	\$154.03	\$216,039.21	\$329,624.83	\$26,017.26
Morgan Place	55	2005	\$880,000.00	\$7,263,694.00	\$12,486,299.00	41,608	\$21.15	44,446	\$163.43	\$132,067.18	\$227,023.62	\$16,000.00
Osborne Family	51	2005	\$2,025,000.00	\$9,544,376.00	\$16,042,455.00	58,914	\$34.37	53,407	\$178.71	\$187,144.63	\$314,557.94	\$39,705.88
Rayen Apartments	49	2005	\$1,588,022.00	\$7,708,998.00	\$11,976,710.00	49,299	\$32.21	42,473	\$181.50	\$157,326.49	\$244,422.65	\$32,408.61
Union Point	21	2005	\$901,600.00	\$3,109,765.00	\$5,615,699.00	15,000	\$60.11	32,540	\$95.57	\$148,084.05	\$267,414.24	\$42,933.33
Witmer Height	49	2005	\$2,140,000.00	\$8,334,899.00	\$13,511,989.00	20,391	\$104.95	67,645	\$123.22	\$170,099.98	\$275,754.88	\$43,673.47
HFL Vanowen Apts	25	Round 3 2005	\$1,319,176.00	\$3,235,452.00	\$6,038,162.00	25,550	\$51.63	29,197	\$110.81	\$129,418.08	\$241,526.48	\$52,767.04
Hobart Heights Apts	49	2005	\$2,642,875.00	\$8,676,505.00	\$14,478,240.00	17,990	\$146.91	68,070	\$127.46	\$177,071.53	\$295,474.29	\$53,936.22
AVERAGE			\$1,616,491.19	\$9,872,620.76	\$15,290,564.18	60,318	\$47.08	69,252	\$146.30	\$165,883.09	\$262,637.56	\$29,983.24
Percentage Increase			21.68%	8.07%	19.77%	-20.43%	62.41%	-20.81%	24.28%	34.07%	43.20%	49.93%