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Honorable Antonio R. Villaraigosa
Mayor, City of Los Angeles
Room 303, City Hall
200 S. Spring Street
Los Angeles, CA

Attention: June Lagmay, Legislative Coordinator

LOS ANGELES HOUSING DEPARTMENT REPORT ON THE AFFORDABLE HOUSING TRUST FUND AND REQUEST FOR AUTHORIZATION TO ISSUE A NOTICE OF FUNDING AVAILABILITY FOR THE AFFORDABLE HOUSING TRUST FUND FOR CALENDAR 2006

SUMMARY:

On April 8, 2005, Councilmember Bernard Parks introduced a motion (CF-05-0685) directing the Los Angeles Housing Department (LAHD) to report on the effectiveness of the Affordable Housing Trust Fund (AHTF or Trust Fund). In response to this request, LAHD has compiled and evaluated all available data and has identified changes that need to be made in the existing program. The key results of our inquiry and our recommendations are presented in this transmittal.

The timing of this report coincides with the need to release the Notice of Funding Availability for calendar 2006. We have, therefore, incorporated the recommendations that resulted from the Parks Motion inquiry into the attached NOFA and are seeking Mayor and Council authorization to issue it. Based on this authority, LAHD will solicit developers to submit applications for gap funding for multifamily housing developments. LAHD will review the applications submitted and prepare recommendations for Mayor and City Council approval.

RECOMMENDATIONS:

The General Manager, Los Angeles Housing Department, respectfully recommends:

1. That your office schedule this transmittal for consideration by the appropriate Committee(s) of the City Council at the next available meeting (s), and forward it to the City Council for review and approval immediately thereafter;

2. That the City Council:

a. Instruct the General Manager, LAHD, or designee, to issue the attached Notice of Funding Availability for the Affordable Housing Trust Fund for calendar 2006 and implement an allocation schedule that will include at least two and up to four funding rounds. AHTF funding rounds will fit within funding cycles for federal and state multifamily housing development programs.

b. Authorize the General Manager, LAHD, or designee, to solicit applications in the first funding round for 2006 in amounts not to exceed \$52,110,764 from the following sources:

HOME Funds	\$23,091,163
CDBG Funds	\$26,629,122
Workforce Housing Grant	<u>\$2,390,479</u>

Total Available for Round 1:	\$52,110,764
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c. Authorize up to an additional \$10 million in round one funding to the extent that applicant projects qualify for CRA and/or DWP program funds.

d. Authorize the General Manager, LAHD, or designee, to solicit applications for subsequent funding rounds based on approval of funds requested in the 2006-2007 Consolidated Plan and City Budget. Each of the projects in those funding rounds will be rated and ranked and LAHD will submit recommendations to the Mayor and City Council for approval.

e. Authorize City Controller to:

1) Decrease appropriations within Affordable Housing Trust Fund No. 44G/43 as follows:

<u>Account No.</u>	<u>Title</u>	<u>Amount</u>
T214	CRA Tax Increment	\$4,931,300

- 2) Establish and appropriate under the Affordable Housing Trust Fund No. 44G/43 as follows:

<u>Account No.</u>	<u>Account Title</u>	<u>Amount</u>
V214	CRA Tax Increment	\$3,734,526
W214	CRA Tax Increment	\$6,512,416
Y214	CRA Tax Increment	\$5,886,466

- f. Instruct the City Controller to expend funds not to exceed appropriated amounts listed below upon proper written demand of the General Manager of LAHD, or her designee, from the following Fund and Accounts:

<u>Fund</u>	<u>Account</u>	<u>Title</u>	<u>Amount</u>
44G	V214	CRA Tax Increment	\$3,734,526
44G	W214	CRA Tax Increment	\$6,512,416
44G	Y214	CRA Tax Increment	\$5,886,466

- g. Authorize the General Manager, LAHD, or her designee, to prepare Controller instructions and any necessary technical adjustments consistent with Mayor and Council actions on this matter, subject to approval of the City Administrative Officer, and instruct the Controller to implement those instructions.
- h. Instruct the CRA Board of Commissioners to clarify that that the CRA will not spend the 5 percent increment money outside the auspices of the Trust Fund and to make appropriate findings to adopt the cascading policy outlined as follows:

1st Year of Funding Availability: Only projects within the redevelopment project area may be considered.

2nd Year of Funding Availability: First priority would be given to projects within the redevelopment project area. If no projects were available within the project area, then the money could be used for a project within the same Council District.

3rd Year of Funding Availability: First priority would be given to projects within the redevelopment project area. Second priority would be given to projects within the same Council District. If no projects were available in the project area or Council District, then the money could be used for affordable housing anywhere in the City.

3. That the Mayor concur with the actions of the City Council.

BACKGROUND:

On April 8, 2005, Councilmember Bernard Parks introduced a motion at City Council requesting that the Los Angeles Housing Department (LAHD) prepare and present a comprehensive analysis of the effectiveness of the Los Angeles Affordable Housing Trust Fund (AHTF) with respect to the production of affordable housing citywide ("Motion")(CF-05-0685). The Motion requested that the report specifically include but not be limited to the following:

- Total number of affordable housing projects produced by type, category and location including the number of units produced, number of bedrooms/unit and units by income level;
- Project development status;
- Identification of City resources leveraged against federal, state, other governmental sources and developer equity;
- A history of AHTF appropriations since inception by type and category of resources;
- An analysis that compares the effectiveness of current AHTF/HLP program with the LAHD's previous programs including its NOFA/HLP program; and,
- A discussion on potential funding sources or alternate programs should existing federal and State Housing bond programs be reduced or eliminated.

This report is written in response to the Motion. We are providing an assessment of the Affordable Housing Trust Fund, which includes LAHD's recommendations for changes to the AHTF NOFA guidelines, as further described below.

History of the Affordable Housing Trust Fund

The Affordable Housing Trust Fund was established by the Mayor and City Council in June 2000 through the City's 2000-2001 budget process with seed funding of \$5 million dollars. This action responded to a multi-year trust fund campaign by a coalition called Housing LA, as well as a City Council-initiated Housing Crisis Task Force (CF99-1733) led by the Housing Department, which produced a report entitled, "In Short Supply" with many recommendations for addressing the City's pressing housing needs.

The Trust Fund is administered by LAHD in accordance with administrative code (LAAC Section 5.1222 c(1)(2)). Trust Fund resources may be used for a variety of affordable housing development and preservation needs, including loans or grants for predevelopment, acquisition, new construction, development, rehabilitation or restoration of rental or ownership housing. In addition the Trust Fund is to be used for housing within the City of Los Angeles and will be administered by the Los Angeles Housing Department (LAAC Section 5.1222 c(1),(2)).

As the first commitment, the Mayor and the City Council provided \$42 million for the Trust Fund in the 2002-03 budget. This represented the largest commitment to a housing trust fund of any city in the United States. The Trust Fund received appropriations from the City's general fund, the Community Development Block Grant (CDBG), the Community Redevelopment Agency (CRA),

the Department of Water and Power's Economic Development Fund, and Municipal Housing Finance Funds.

Subsequently on January 8, 2003, LAHD developed a report, which set forth the methodology and distribution vehicle for the Trust Fund dollars, which is called the Notice of Funding Availability (NOFA). Upon Mayor and City Council approval, LAHD released its first Affordable Housing Trust Fund NOFA in January 2003.

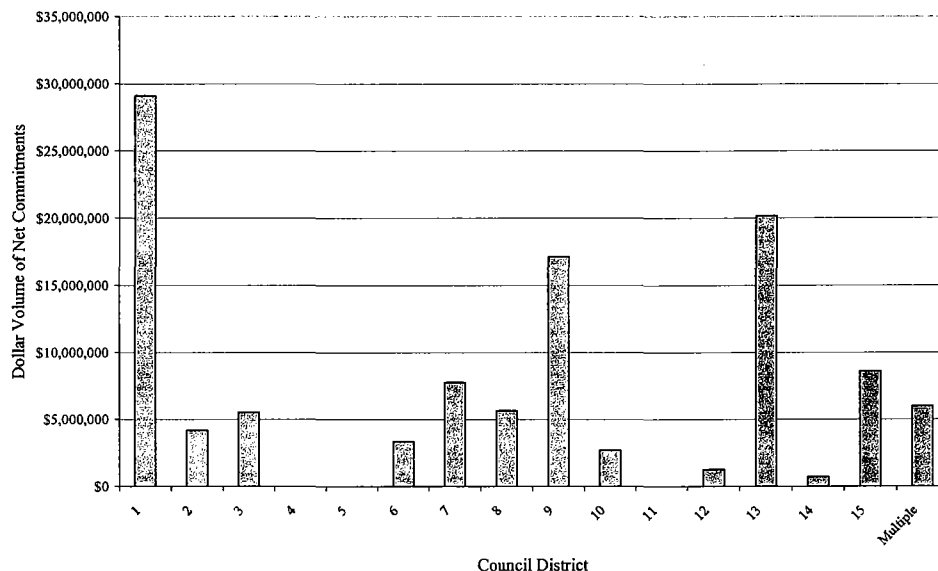
Affordable Housing Trust Fund Production Summary

(Please note that all of the numbers in this section were current as of September 15, 2005.)

Overall Production Results: Since the first Notice of Funding Availability was issued in early 2003, LAHD has received and evaluated 126 applications for funding and has issued 72 commitments totaling \$139.3 million. Some of the projects for which commitments were issued were unable to obtain all of the necessary financing or otherwise became infeasible; some dropped out; others relinquished their initial commitments and others reapplied in subsequent rounds. To date, the number of net unduplicated Trust Fund commitments issued totals \$112.2 million for 55 developments encompassing 3,522 units. (Please see Attachment 1 for a breakout of net unduplicated commitments by funding round.) Of the units committed to date, 2,999 (85%) are in new construction projects; the remaining 523 units are in rehabilitation projects.

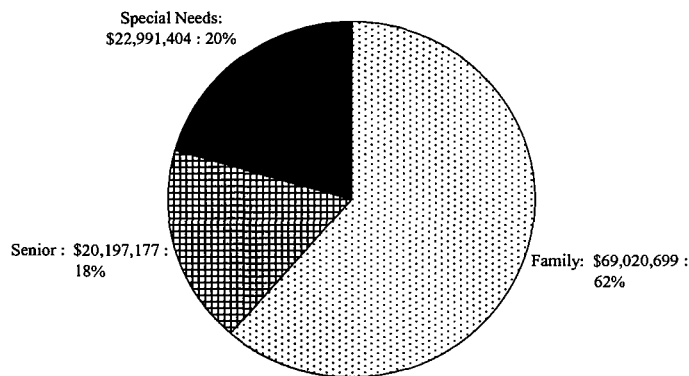
Location: To date, as shown in the diagram below, Affordable Housing Trust Fund commitments have been somewhat concentrated in Council Districts 1, 9, and 13: 26 percent of the total dollar volume has been committed to projects in Council District 1; 15 percent to projects in Council District 9; and 18 percent to projects in Council District 13. Each of the other council districts has received less than 10 percent of the total dollar volume of Trust Fund commitments. (Please see Attachment 2 for detailed data.)

Dollar Volume of Commitments by Council District



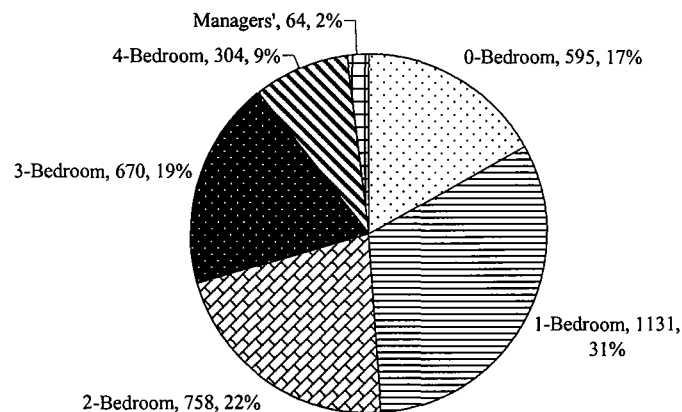
Project Type: The diagram below shows how Trust Fund commitments are spread across project type. (Additional detail is available in Attachment 3.) As would be expected, since the majority of low-income households need family housing, the majority of Trust Fund dollars have been allocated to family housing.

Dollar Volume of Net Trust Fund Commitments by Project Type

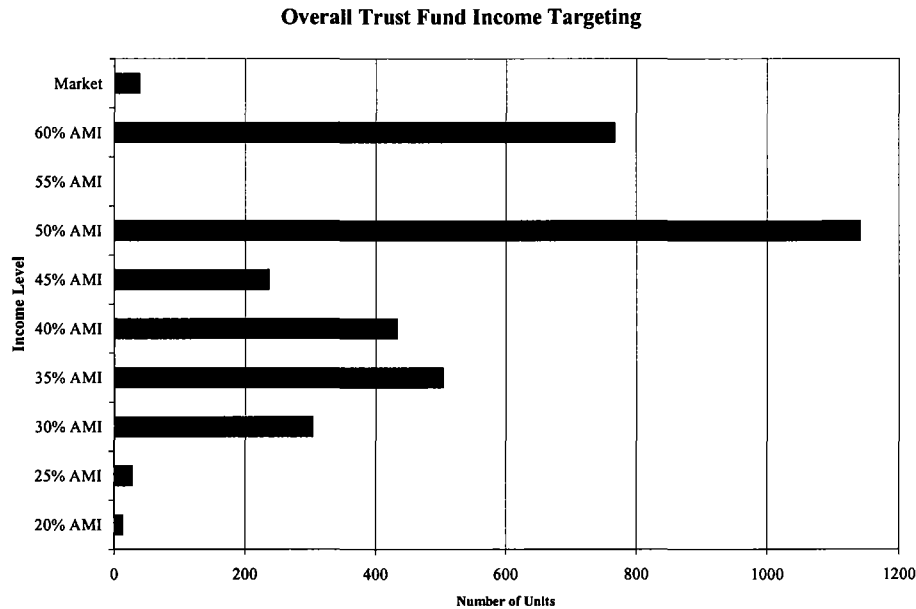


As shown in the pie chart below, the Trust Fund has produced a reasonably good variety of unit sizes, including 3- and 4-bedroom units. These larger family-oriented units are rarely included in new market-rate developments because they tend to reduce the profitability of developments. Attachments 4 and 5 contain more detail about the spread of unit mixes across City Council districts.

Overall Trust Fund Unit Mix



Income Targeting: As shown in the diagram below (and described in Attachment 6), 97 percent of units funded through the Trust Fund benefit low-income households below 60 percent of area median income (AMI). (For reference purposes, 60 percent of AMI for a family of four equates to an annual income of \$39,300; for a two-person household, 60 percent of AMI is \$31,440.) Of the units benefiting low-income households, just over 75 percent benefit very low-income households with incomes below 50 percent of AMI.



Project Status: Because affordable rental housing developments are very difficult to put together, with multiple layers of financing and time-consuming entitlement issues, they often have development timelines spanning three to five years. As a result, as shown below (please also refer to Attachment 3), only ten Trust Fund projects have been completed to date. The status of all Trust Fund projects can be summarized as follows:

	<u>Projects</u>	<u>Units</u>
Net Commitments Issued:	55	3,522
Projects in Predevelopment:	26	1,606
Total Trust Fund Loans Closed:	29	1,812
Of Trust Funds Loan Closed:		
Projects Currently Under Construction:	19	1,197
Projects Completed & Occupied:	10	615

Of the ten completed projects, seven were committed in fiscal 2003; the other three projects received funding commitments prior to the inception of the Trust Fund, but benefited from Trust Fund dollars through the Construction Supplemental Program. Four of the completed projects are

newly constructed; six involved rehabilitation of existing structures. (Please see Attachment 7 for photographs and descriptions of the completed projects.)

Of the 19 projects currently under construction, six were more than 75 percent complete as of September 1, 2005. The 316 units contained in those six projects are expected to be available for occupancy within the next three months.

Leveraging: One of the Trust Fund's most important features is its ability to leverage the investment of other public and private dollars into housing development in Los Angeles. To date, Trust Fund projects have leveraged \$535 million in other public and private funds. This represents a leverage ratio of nearly \$4.77 for every \$1.00 invested by the Trust Fund. Some of the funding sources, listed below, are other City entities. When those dollars are factored out, total leveraging equals \$505 million or \$4.50 for every \$1.00 invested by the Trust Fund.

Net Trust Fund Commitments: **\$112,209,280**

Funds Leveraged:

Multifamily Housing Program (Prop 46)	\$ 69,792,653
Low Income Housing Tax Credit Equity	241,390,102
County City of Industry Funding	14,413,824
HUD Section 811/202 Funding	54,600,227
Multifamily Mortgage Revenue Bond Financing	21,689,465
Other Conventional Financing (private sector)	58,721,994
Federal Home Loan Bank Affordable Housing Program	7,096,785
Housing Authority of the City of Los Angeles	8,269,833
Community Redevelopment Agency Funding	21,531,163
Developer Contributions (Deferred Fees)	18,181,355
Other (Grants, Specialized Sources, etc.)	<u>19,646,062</u>
Subtotal: Leveraged Sources:	\$535,333,463

Total Development Costs for Trust Fund Projects: **\$647,542,743**

(Please see Attachment 8 for more leverage detail at the project level.)

Comparison of the Affordable Housing Trust Fund with Predecessor Programs: Prior to the establishment of the Affordable Housing Trust Fund and its corresponding policies and practices, LAHD did not utilize any specific methodology to recapture funds from projects that did not receive funding from other sources. Often, once a project received funding from LAHD, it was either successful in obtaining funds from the identified leveraging source or it was re-underwritten and further subsidized to either compete for those funds again or seek a less competitive source. This resulted in a substantial number of projects with protracted predevelopment periods because the developers could not secure the funding needed to cover the cost to build the projects. Projects "sat" in the predevelopment stage, accruing holding costs and increased construction costs as

LAHD increased its funding to make the projects financially viable for each successive funding round.

As shown in the table below, in 2000, the average time to complete a project from the point of application to completion was 55 months (three years and seven months). The average subsidy per unit increased from approximately \$27,500 per unit at the time of application to \$52,600 at project completion.

In 2003, as part of the Affordable Housing Trust Fund Notice of Funding Availability, the City's commitment was tied to a specific funding round and leveraging source (tax credits, MHP financing, or HUD 811/202 financing). In doing so, LAHD increased production efficiency by decreasing the amount of time needed to carry out such projects by 24 months and reduced the required LAHD subsidy per unit.

Funding Cycle	Number of Projects	Projects Construction Completed***	Projects in Construction	Projects Spun Out**	Average Subsidy Per Unit	Average # Months to Complete*	Total Units
2000 NOFA	15	12	2	1	\$52,600	55	800
2003 AHTF	19	7	11	1	\$40,200	31	1,050

*Months to Complete is an average; for Projects in Construction an estimated date of completion was used.

**The term "spun out" or "spin out" refers to projects that received LAHD funding but were not able to obtain the other financing needed to build. The spinout for the 2000 NOFA was the Saenara project. The project has become financially infeasible and the developer has chosen to return the LAHD funding. The spinout for the 2003 AHTF was the Las Trojas project. The project received a LAHD funding commitment but did not receive the required additional public funding.

***Includes only the projects that were *started* using Trust Fund dollars. Statistics mentioned above and in Attachment 3 include three projects that were started before the Trust Fund was implemented, but later received Trust Fund dollars through the Construction Supplemental Program.

Sources of Funds: As shown in Attachment 9, since the first Trust Fund NOFA was issued in 2003, \$173.2 million has been appropriated to the Affordable Housing Trust Fund. Fifty-three percent of these funds, totaling \$92.8 million, came from Consolidated Plan revenues that had been dedicated to rental housing production through the Housing Department in the past. Just under 41 percent of all the revenues dedicated to the Trust Fund have come through special appropriations in the City budget, including nearly \$30.0 million of General Fund monies. The total amount of special City budget appropriations is \$70.9 million.

The Parks Motion directed the Housing Department to comment on potential funding sources that could be used to supplement the Trust Fund in the event that the federal government instituted significant cuts in the Community Development Block Grant program and taking into account that Proposition 46 Multifamily Housing Program funds are expected to be fully committed by the end of 2006.

To try to find new resources, staff reviewed the recommendations made in 2001-2002 by the Housing Trust Fund Advisory Committee. That group met multiple times over many months to review the funding options initially suggested by the Housing Crisis Task Force and the local business community and to identify alternative funding options. The universe of suggestions that they considered is attached to this report as Attachment 10. Three of the suggestions on that list have been implemented:

1. The Community Redevelopment Agency agreed to increase its set-aside for low- and moderate-income housing from 20 percent of its tax increment receipts to 25 percent and the extra five percent has been made available to the Trust Fund. (This funding source will be discussed in additional detail below.)
2. The City declared an amnesty for those businesses that had failed to pay past due Business License fees and directed a portion of those revenues to be deposited into the Trust Fund. The portion of revenues directed to the Trust Fund amounted to \$571,585.
3. It was also suggested that additional Community Development Block Grant (CDBG) revenues be directed to the Affordable Housing Trust Fund. This was done for the first time in fiscal 2003. To date, approximately \$7.5 million in additional CDBG funds have been appropriated to the Trust Fund.

Of the remaining suggestions, several would be very difficult to implement, based on the need for voter approval of additional taxes or fees.

The Housing Department continues to explore additional revenue options for the Affordable Housing Trust Fund.

Challenges and Opportunities for the Affordable Housing Trust Fund

1. Rising Development Costs: The discussion of sources for the Affordable Housing Trust Fund is as important today as it was when the Trust Fund was first established. That is because a number of forces are combining in the marketplace to make the development of affordable rental housing more difficult. The first and perhaps most readily apparent force in the marketplace is real estate appreciation. Between 2000 and 2005, the value of the median-priced home in Los Angeles County increased from \$198,000 in 2000 to \$494,000 in 2005. That represents a 149 percent increase over the five-year period. This increase in housing values has driven up the cost of residential land across the board. Indeed, a review of Housing Department-funded rental projects committed in 2000 showed a median land cost per unit of \$13,131; for rental projects committed in 2005, the median land cost per unit was \$32,408. The increase over the five-year period is just under 147 percent. Clearly, this factor alone is making it more difficult to develop new housing in Los Angeles.

At the same time, global trade forces, such as the increasing demand for construction materials in China, have had a significant impact on the costs of construction. Developers estimate that the

price of concrete, for example, has increased as much as 40 percent in the past three years; the price of steel has increased 45 percent in the past three years. These facts are also borne out by Housing Department experience: for projects committed in 2000, the median hard cost per unit was just under \$117 thousand; for projects committed in 2005, the median hard cost per unit was just over \$157 thousand. The increase over the five-year period is just under 35 percent. Moreover, the situation does not appear likely to get better any time soon: recent hurricane-related devastation in the Gulf Coast is likely to tighten materials supplies further based on demand for rebuilding materials and temporary interruption of oil supplies.

The combined impacts of increasing land costs and increasing construction material costs mean that the total development cost per unit has risen 59.6 percent since the year 2000. For example, the total developments cost for the recently approved Hart Village project is \$341 thousand per unit.

Unfortunately, incomes in Los Angeles have not been rising nearly as fast. Between 2000 and 2005, median family income, as reported by the U.S. Department of Housing and Urban Development (HUD), for Los Angeles County grew from \$52,100 to \$54,450—an increase of only 4.5 percent. Fortunately for developers and apartment owners—perhaps unfortunately for the families themselves—HUD has allowed the rents that can be charged to very low-income families to increase by 25.7 percent over that same period.

As a result, there is a growing differential between the cost of building affordable housing and the conventional debt that that housing can support: costs have increased by nearly 60 percent, but supportable debt has increased only about 26 percent. This 34 percent disparity has increased the financing gap for rental housing in Los Angeles. LAHD is, therefore, recommending a 34 percent increase the amount of subsidy available through the Affordable Housing Trust Fund as follows:

Unit Type	Current Per Unit Subsidy Limits	Proposed Per Unit Subsidy Limits*
HUD 202/811 & 0 Bedroom	\$49,000	\$65,660
1-Bedroom	\$54,000	\$72,360
2-Bedroom	\$54,000	\$72,360
3-Bedroom	\$54,000	\$72,360
4-Bedroom	\$54,000	\$72,360
Special Needs Units	\$59,000	\$79,060

** For properties inside City of Industry boundaries. See discussion below.*

Housing Department staff made an informal survey of other large California jurisdictions to determine how much subsidy they are providing to affordable rental housing. The results were somewhat surprising: we learned that the City of San Francisco, for example, on average provides \$141,593 of subsidy per unit, with the highest subsidy provided to date of \$284,934 per unit. Similarly, the average subsidy per unit reported by the City of Santa Monica is \$150,000, with a

maximum limit of \$156,000 per unit for smaller units and \$180,000 per unit for larger units. The survey also indicated that local governmental subsidies ranged from 20 to 57 percent of total development costs. The proposed LAHD subsidy limits shown above would equate to just over 20 percent of development costs of approximately \$350,000 per unit expected in Los Angeles in 2006.

In order to encourage efficiencies and economies of scale through the development of larger projects, we also propose to increase the per project subsidy limit from \$3.5 million to \$7.0 million. This change will allow, for example, developments of up to 96 family units as contrasted with the previous limit of 64 family units.

2. **City of Industry Concentration:** The combination of high and rising development costs, coupled with low area median incomes, make it especially difficult for even the most experienced developers to pull together adequate resources to develop new affordable housing in Los Angeles. In order to obtain sufficient sources, virtually all of the developers that use the Trust Fund are currently also forced to obtain funding from the City of Industry fund (operated by the Los Angeles County Community Development Commission) to make their projects feasible. Indeed, nearly all of the tax credit or bond projects that obtained Trust Fund commitments in the past two rounds had City of Industry Fund commitments. (The few exceptions to this rule are projects that have special funding from the Housing Authority.)

Unfortunately, projects are only eligible for City of Industry funding if they fall within the 15-mile radius from boundaries of the City of Industry. That means that projects located in the San Fernando Valley, parts of Hollywood, West Los Angeles, and the South Bay generally do not qualify. (Please see the City of Industry Program map for the qualifying boundary in Attachment 11.) As a result, as shown in Attachment 12, the Trust Fund projects have tended to be concentrated in Council districts that have access to City of Industry funding.

In order to reduce this disparity, LAHD proposes that the Trust Fund NOFA be revised to make up most of the difference in subsidy for those projects that are located outside of the City of Industry boundaries. Currently, the City of Industry Fund will provide up to \$2.0 million per project. Therefore, we propose that, for those projects outside the City of Industry boundaries, Trust Fund limits be increased up to \$9.0 million per project with per unit limits as follows:

Unit Type	Current Per Unit Subsidy Limits	Proposed Per Unit Subsidy Inside of City of Industry Boundaries	Proposed Per Unit Subsidy Outside of City of Industry Boundaries
HUD 202/811 & 0 Bedroom	\$49,000	\$65,660	\$83,660
1-Bedroom	\$54,000	\$72,360	\$92,360
2-Bedroom	\$54,000	\$72,360	\$97,360
3-Bedroom	\$54,000	\$72,360	\$102,360
4-Bedroom	\$54,000	\$72,360	\$107,360
Special Needs Units	\$59,000	\$79,060	\$114,060

Staff believes that this proposal makes sense from a public policy perspective because it is important to have affordable rental housing spread throughout the City rather than concentrated in a few areas. Moreover, we would like to see affordable housing in areas that are not “neighborhood revitalization” areas because we believe a mix of incomes and a mix of tenures is beneficial for communities.

3. **CRA Tax Increment Funds:** In January 2002, based on recommendations from community and business leaders, Mayor James Hahn requested that the Community Redevelopment Agency (CRA) increase the portion of tax increment funds dedicated to housing from 20 to 25 percent and contribute the additional five percent to the Affordable Housing Trust Fund. In the 2002-2003 City budget, \$4.8 million of tax increment funds were appropriated for use in the Trust Fund.

Although additional five percent increment funds were identified by the Agency in subsequent years, those funds have not yet been appropriated. As detailed in Attachment 13, approximately \$16.1 million is available in total as follows:

FY 2003	\$ 3,734,526
FY 2004	6,512,416
FY 2005	<u>5,886,466</u>
Total:	\$16,133,408

This transmittal seeks approval for appropriation of those funds such that they can be committed and spent through the Trust Fund. In addition, it should be noted that, although \$4.9 million was eventually appropriated for fiscal year 2003, the Agency spent a portion of those funds directly (so the corrected appropriation should be the \$3.7 million listed above). It had been the understanding of the Housing Department, however, that these extra tax increment funds were to be dedicated exclusively to the Affordable Housing Trust Fund. The CRA clearly differs on this point. The intent of the Mayor and City Council on this question is unclear.

To date, the bulk of these tax increment funds have not been used through the Affordable Housing Trust Fund. As of September 25, 2005, the Trust Fund has requested encumbrances totaling \$7.7 million. (CRA has encumbered or spent just under \$3.9 million.) Because of the requirement that these funds be used only in redevelopment project areas, these dollars are divided—often in very small increments—among 23 redevelopment project areas. That division means that the resources available to any one project area may be quite limited. As a result, some of the funds that were made available as far back as fiscal 2003 have not been encumbered or spent and are languishing unused.

If it was the intent of the City Council that the five percent tax increment actually be used by the Affordable Housing Trust Fund, some adjustment may be necessary. The Council may wish to consider putting some limits on the amount of time that funds allocated to a particular project area must wait before an affordable housing development is able to use funds from that area. If no projects are proposed for a particular project area for one year, then in the following year any projects in that area would still get priority, but if there were still no projects proposed in that area,

then the redevelopment funds could be used outside the project area, but within the same Council District that includes that project area. If the funds are still not used in that second year, in the third year, the project area would have priority, then the Council District. If there were still no developments proposed, then the funds could be used citywide. Essentially, there would be a cascade of priority as follows:

1st Year of Funding Availability: Only projects within the redevelopment project area may be considered.

2nd Year of Funding Availability: First priority would be given to projects within the redevelopment project area. If no projects were available within the project area, then the money could be used for a project within the same Council District.

3rd Year of Funding Availability: First priority would be given to projects within the redevelopment project area. Second priority would be given to projects within the same Council District. If no projects were available in the project area or Council District, then the money could be used for affordable housing anywhere in the City.

Under such a proposal, each project area would have multiple opportunities to have the funds spent within the project area itself. Indeed, since there are generally two to three funding rounds per year, the project areas would have anywhere from six to nine funding rounds in which a project would have priority. Similarly, each Council District would have multiple “bites at the apple” for funding. If these multiple opportunities still yielded no projects, these scarce resources would still eventually be used for affordable housing and would not continue to go to waste.

In order to implement these changes, LAHD is asking the City Council to instruct the CRA Board of Commissioners to make appropriate findings to adopt the cascading policy outlined above and to clarify that that the CRA will not spend the 5 percent increment money outside the auspices of the Trust Fund.

2006 Affordable Housing Trust Fund NOFA

The implementation of City’s Affordable Housing Trust Fund has been largely successful in stimulating the development of decent, high-quality, affordable housing in Los Angeles. Improvements in the methodology for processing loan requests have resulted in a more predictable, more timely, and more cost effective process. The Housing Department, nevertheless, strives for continuous improvement.

Based on the issues identified above, LAHD has modified the Notice of Funding Availability for calendar 2006. (Please see Attachment 14 for a full copy of the NOFA.) The primary changes are: (1) an increase in the overall subsidy limits in order to make projects financially feasible; (2)

implementation of a subsidy boost outside of City of Industry boundaries to stimulate additional investment in those areas; and (3) inclusion of the Smoke-Free Housing Pilot Program as requested by City Council in April 2005 (CF 03-1524). LAHD is now requesting Mayor and City Council authorization to solicit applications in accordance with the attached Notice of Funding Availability.

Unfortunately, the Tax Credit Allocation Committee recently decided to move up the deadlines for their first funding round in 2006 by approximately one month. Their decision has compressed the approval and recommendations process for the Trust Fund. Applications for Tax Credit allocations are due no later than February 22, 2006. Therefore, in order for Los Angeles projects to compete for Tax Credits, they must have a Trust Fund commitment in hand no later than February 17th.

In order to allow project sponsors sufficient time to prepare their applications, LAHD has released the NOFA in draft form, contingent upon Mayor and City Council approval. Applications will be due on December 23, 2005. (A complete schedule can be found in the attached NOFA.)

Approximately \$52 million is available for the first round of funding. This is substantially more than was provided in previous years. LAHD is proposing this substantial increase because the State's Multifamily Housing Program is quickly running out of money. The Housing Department is making these funds available in order for Los Angeles projects to capture as much MHP money as possible before it runs out. \$23.1 million in HOME funds; \$26.6 million CDBG funds; and \$2.4 Workforce Housing Grant funds will be available for the first funding round. In addition, up to an additional \$10.0 million is available from CRA Tax Increment and DWP Economic Development Program funds to the extent that applicant projects qualify.

In calendar 2006, the Housing Department expects to hold at least two and no more than four funding rounds. The timing of those rounds will depend on State agency schedules for Tax Credit allocations and the Multifamily Housing Program. The amount of funding made available for those rounds will be based on approval of the 2006-2007 Consolidated Plan and City Budget. Those projects will subsequently be rated and ranked and recommendations will be submitted to Mayor and City Council for approval.


Conclusion:

In response to the Parks Motion, LAHD staff have analyzed the effectiveness of the Affordable Housing Trust Fund. This report has identified key elements of its success and made recommendations for improvements. As appropriate, those recommendations have been reflected in the proposed 2006 Notice of Funding Availability


It is clear that in order to ensure the continued success of the Affordable Housing Trust Fund, we must identify additional resources, match market conditions, continue to streamline processes and procedures, and fund and monitor loans in a manner that is fiscally responsible, legally compliant, and timely.

The Los Angeles Housing Department appreciates the continued support of affordable housing by the Mayor and City Council.

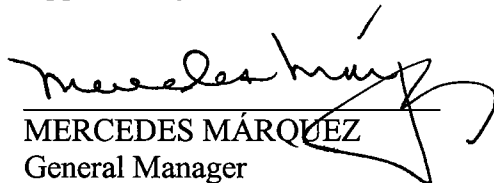
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