

Ann Sewill, General Manager  
Tricia Keane, Executive Officer

Daniel Huynh, Assistant General Manager  
Anna E. Ortega, Assistant General Manager  
Luz C. Santiago, Assistant General Manager

City of Los Angeles



LOS ANGELES HOUSING DEPARTMENT

1200 West 7th Street, 9th Floor  
Los Angeles, CA 90017  
Tel: 213.808.8808

housing.lacity.org

Eric Garcetti, Mayor

April 13, 2022

Council File: 21-0981  
Council Districts: Citywide  
Contact Persons: Brittany Batong (213) 922-9627  
Daniel Huynh (213) 808-8901

Honorable Members of the City Council  
City of Los Angeles  
c/o City Clerk, City Hall  
200 N. Spring Street  
Los Angeles, CA 90012

**REPORT BACK FROM THE LOS ANGELES HOUSING DEPARTMENT REGARDING THE PAYMENT PROCESS FOR PROPOSITION HHH-FUNDED AFFORDABLE AND SUPPORTIVE HOUSING PROJECTS**

**SUMMARY**

The General Manager of the Los Angeles Housing Department (LAHD) respectfully submits this report back in response to a motion dated September 1, 2021 (C.F. No. 21-0981) regarding the City’s construction draw payment processes for Proposition HHH affordable and supportive housing projects. In particular, the motion requested that LAHD, in consultation with the City Administrative Officer (CAO) and other appropriate departments, report back on:

1. The standard timing for similar payments in other jurisdictions.
2. Recommendations on how to improve the payment request review process for Proposition HHH-funded affordable and permanent supportive housing projects.
3. The resources needed to process payments within 30 days.

**RECOMMENDATIONS**

In order to ensure efficient and timely distribution of payments, the report back identifies the following necessary resources and related recommendations:

- A. RESOLVE that the following five positions within LAHD’s Construction Services Unit are approved, subject to position allocation by the Personnel Department and pay grade determination by the CAO.

No. of Positions	Class Code	Classification Title
4	1569-1	Rehabilitation Construction Specialist I
1	9184	Management Analyst

B. RESOLVE that the following eleven positions within LAHD’s Prevailing Wage Compliance Unit are approved, subject to position allocation by the Personnel Department and pay grade determination by the CAO.

No. of Positions	Class Code	Classification Title
1	1568	Director of Housing
2	1569-1	Rehabilitation Construction Specialist I
6	9184	Management Analyst
1	1523-2	Senior Accountant II
1	1513	Accountant

C. AUTHORIZE the Controller to carry out the following instructions, to allocate \$30,000 from Fund 240-Housing Production Revolving Fund (HPRF) to the Department’s Overtime General Account within the Housing Production Revolving Fund to assist with processing payments for affordable and supportive housing projects and thereby reduce processing time; and to allocate funds within LAHD’s accounts for the current fiscal year:

1) Increase appropriation for the following accounts within the Los Angeles Housing Department Fund 100/43

Account #	Account Name	Amount
001010	Salaries General	\$280,301.52
006030	Lease	\$28,714.89
001090	Overtime	\$30,000.00
Total:		\$339,016.41

2) Increase/Decrease appropriation accounts for various funds within the Los Angeles Housing Department as follows:

Fund	Fund Name	Account	Account Name	Amount
561	Home Investment Partship Prog	43N628	Technical RFP Year 1	(13,000.00)
561	Home Investment Partship Prog	43N844	Technical Services	(2,092.34)
561	Home Investment Partship Prog	43V800	Affordable Housing Management Pipeline	(151,540.82)
561	Home Investment Partship Prog	43V143	LAHD	104,256.44
561	Home Investment Partship Prog	43V299	Reimbursement of GF	62,376.72
240	Hsg Production Revolving	43V143	LAHD	62,293.08
240	Hsg Production Revolving	43V299	Reimbursement of GF	19,320.97
59T	LA Housing Impact Trust Fund	43V143	LAHD	23,543.01
59T	LA Housing Impact Trust Fund	43V299	Reimbursement of GF	14,085.81
815	Municipal Housing Finance Fund	43V143	LAHD	21,855.22
815	Municipal Housing Finance Fund	43V299	Reimbursement of GF	13,076.00
55J	Low & Moderate Income Housing Fund	43V143	LAHD	6,875.18
55J	Low & Moderate Income Housing Fund	43V299	Reimbursement of GF	4,113.42
44G	LA affordable Housing Fund	43V143	LAHD	868.98
44G	LA affordable Housing Fund	43V299	Reimbursement of GF	519.91
Total:				166,551.58

D. AUTHORIZE LAHD to prepare Controller Instruction and/or make any necessary technical corrections that may be required and are consistent with the intent of this action with the approval of the City Administrative Office, and authorize the Controller to implement these instructions.

## **BACKGROUND**

At the September 14, 2021 City Council meeting, the City Council adopted a motion (C.F. No. 21-0981) relative to the payment process for HHH-funded affordable and supportive housing projects.

The Proposition HHH Program has facilitated the financing and construction of a significant amount of affordable and supportive housing since it was adopted by voters in 2016. In the past two years, the number of projects going through the LAHD construction pipeline has doubled as HHH projects started construction. As part of project development, LAHD is responsible for processing payment requests for the distribution of City-allocated funding at various points in the construction of a project. As the pipeline of HHH projects in construction has grown, LAHD faces challenges in ensuring efficient processing and timely payment of construction draws. The payment process had extended from an average of eight weeks to more than 16 weeks, and contractors were financially stressed. Therefore, the motion sought information on the City's payment processes for HHH projects, as well as payment processing timelines for similar departments, recommendations for improvements, and the resources necessary to implement timely and efficient payments.

## **Existing LAHD Payment Review and Draw Approval Process**

The LAHD payment review and draw approval process is intended to ensure that development projects receive disbursements in a timely manner when certain construction milestones are met. Draws occur on a monthly basis once a project begins construction, and are submitted through to construction completion and retention release. For hard cost draws, there are three stages in the process: (1) Construction Services Unit (CSU) staff review draw packages to verify that the physical construction work reported is accurate and compliant with City standards; (2) Prevailing Wage Compliance (PWCU) Unit staff review to verify that those employed on the project were paid in accordance with federal, state, and local laws and regulations; and (3) Bond Unit staff review the draw requisition form and submit it to the LAHD Accounting team, who review of the packages to process final payment. These stages are described in more detail below.

Stage 1 - Construction Services Review. The CSU is responsible for monitoring the construction progress of projects that are currently in construction. Each project submits monthly drawdown request packages, which detail the work that was completed during that month. The CSU staff are responsible for verifying that the work reported in the drawdown request packages was actually completed and that the work verified at the site aligns with the costs reported.

Currently, projects submit drawdown packages electronically to the CSU. CSU staff review the initial submittal to determine if it is complete, requesting missing information as necessary. It sometimes takes several iterations to ensure all necessary information has been provided. Once CSU staff determine the application is complete for their processing, and visits the site to ensure that the work reported has been completed, the package is forwarded to the Prevailing Wage unit.

This stage currently takes 4-6 weeks to complete due to the backlog, but the timing can be reduced to five days to one week with appropriate staffing.

Stage 2 - Prevailing Wage Review. The PWCU monitors projects for compliance with prevailing wage laws and

regulations. These provisions require that all employees on a job site be paid the appropriate prevailing wage on a weekly basis while working on government-funded projects. Upon receipt, PWCUC staff reviews the drawdown application for completeness as it relates to PWCUC requirements, and if necessary, works with the project developer and subcontractors to provide any missing information.

Once the package is complete, PWCUC reviews the work each construction subcontractor is charging for during the monthly draw period and analyzes whether those employed on the project received the wages required in accordance with applicable State and Federal prevailing wage determinations. PWCUC is also responsible for verifying that contractors are informed about how to comply with prevailing wage requirements, that apprentice ratios are complied with, that skilled and trained workforce requirements from the Public Contracting Code (Section 2600, et seq.) are complied with, and that restitution is collected for underpaid employees. In order to do so, PWCUC must conduct site inspections, review and respond to complaints received, and levy fines for violations of applicable provisions. PWCUC staff also regularly responds to requests under the California Public Records Act from stakeholders interested in the accurate payment of employees.

Given the current workload and staffing resources, this process currently takes 4-5 weeks to complete the prevailing wage clearance but, if the new positions are added, processing time can be reduced to two weeks.

### Stage 3 - Bond Unit and Accounting Review.

The Bond Unit reviews the processed draw package and submits it to Accounting. The accounting staff is responsible for processing all acquisition, pre-development, soft cost, and construction payment requests.

This typically takes three weeks to complete currently, but can be reduced to 10 days.

### **Challenges with the Existing Process and Staffing and Opportunities for Improvement**

Quality control and enforcement through site inspections and worker interviews is key to maintaining compliance with prevailing wage requirements. The Prevailing Wage unit has conducted random spot-checking of draw packages in the past, rather than 100% package review, whenever there is a significant draw processing backlog and short staffing. However, spot-checking is only effective when the general contractors and their respective labor consultant's previous performance has been in compliance with state and federal requirements. Since there has been an increase in new projects with new contractors and new labor consultants with little familiarity on the requirements and procedures, systematic, regular inspections are needed

### **Standard Timing for Processing Payments**

Currently, LAHD has 7 construction inspectors assigned to a portfolio of 110 active projects (a ratio of 1:15). In addition, a prevailing wage staff of 4 to review draw packages for compliance (a ratio of 1:28).

With the assistance of the Controller's Office, LAHD reviewed similar departments and lenders involved in our projects that carry out similar work. Based on LAHD's research and the information that we were able to obtain, the Los Angeles County Development Authority (LACDA) provides the most relevant examples of other organizations or departments processing similar payments.

### ***LACDA***

Currently, LACDA has 6 construction inspectors assigned to a portfolio of 40 active projects (a ratio of 1:7). In addition, a wage compliance staff of 4 labor compliance inspectors oversees a workload of only those projects

that are not funded by the City of Los Angeles. At most, this is a ratio of 1:10 - but if a project is funded by the City of Los Angeles, LACDA does not monitor them and defers to the City's labor compliance approvals.

Once LACDA has the scope of work and the contractual agreement finalized for each draw, it typically takes less than a month to process and issue payment.

### ***Construction Lenders Working on HHH Loans***

Staff researched several banks. JP Morgan Chase, which makes tax exempt or conventional loans on many HHH projects, reports that they currently have 3 Construction Administrators that process draws for 25 projects per month. In addition, External Inspectors not on staff conduct 18 to 20 site visits per month; however, Chase depends on public agencies for prevailing wage compliance.

Construction Administrators, who have a construction background, review, make decisions and escalate issues, and approve all draws. If inspectors have a concern that would have an effect on payment processing, the percentage of completion confirmed and their perspective on the schedule have an effect on the payment. As such, inspectors provide a review, but not an "approval".

### **Needed Resources**

#### ***Technical Services Staffing***

LAHD is proposing additional staffing to bring the ratio of construction inspector staff down to a 1:10 ratio and prevailing wage inspector staff down to a 1:9 ratio.

The Technical Services Section encompasses Construction Services, Prevailing Wage, and other specialized technical units. The Construction Services Unit is requesting four (4) new Rehabilitation Construction Specialist I (RCS I) positions and one (1) Management Analyst position; and the Prevailing Wage unit is requesting six (6) additional Management Analysts and two (2) RCS I. Fulfilling this request will allow us to reduce processing time for this portion of the review process from 11 to 4 weeks.

As described above, the pipeline has increased significantly due to HHH, while staffing for both units has been reduced or unchanged. Positions were lost due to the Separation Incentive Program and budget freeze and a focus on enforcement and fine collection revenue took a backseat to processing the subsequent doubling in monthly drawdown requests. The resulting delays in funding projects are risking liens on projects. Contractors and subcontractors are charging a premium to work on the projects, resulting in increased development costs. Many contractors cannot take on LAHD funded projects because of the need to front-fund the draw payments when payments are delayed. The delays are also causing some developers to threaten the Department with litigation; and are causing subcontractors to threaten to walk out on the projects and fewer contractors are bidding on projects, another factor contributing to the increasing cost of construction.

Technical Services staff provide construction and compliance oversight for all affordable housing projects that use multiple funding sources, including HOME, HOPWA, HHH, Low & Moderate Housing Fund; and are trained in maintaining compliance with the regulations that are imposed by HOME, HOPWA, LMHIF, and HHH bond funds. RCS I staff conduct fieldwork and other construction and prevailing monitoring responsibilities; process draws, visit sites, research permits and approvals, perform estimates, and do other project-related duties. Management Analyst responsibilities include inputting, analyzing, and interpreting data (including verification of certified payrolls), communicating directly with development partners, document management, digital file organization, responding to records requests, coordinating approvals with other departments as needed,

coordinating the delivery and obtaining signatures for legal documents; and other administrative duties. In addition, when adequately staffed for field monitoring, RCS and MA teams on the PWCUC side visit worksites unannounced, at approximately 25%, 50%, and 75% stages of completion, to investigate and verify that all federal requirements are implemented, a function that includes interviews with employees in real time. The RCS's deep knowledge of construction stages and different trades and crafts facilitates the identification of employees working out of classification.

The department has utilized existing technology to facilitate electronic submission of documents, collect signatures to speed routing of documents, and facilitate virtual meetings; and has reorganized the distribution of the workload for the short term. In addition, contractors have been accessed to greater degrees. However, the effects of these work-arounds are minimal, and when compared to other agencies doing similar work, it is clear that additional staffing is needed to process funding drawdowns in a comparable amount of time, while also allowing for consistent and systematic inspections.

### ***Accounting Resources - Staffing***

The Accounting Division is requesting one (1) Senior Accountant II and one (1) Accountant.

The last stage in this work is the processing of payment disbursement requests by the LAHD accounting division. HHH has increased the regular workload, adding 68 projects in construction at one time that each need monthly draws processed for twelve to twenty months totaling a range of 816 to 1,360 project draws. Currently there are 1.5 Accountants available to staff this effort. The requested positions will allow the unit to keep up with the increased demand for making timely payments for affordable housing projects to various developers and vendors. The Accountant will process affordable housing-related projects in FMS including vendor set-up, encumbrances, payments and other FMS transactions. The additional staff will allow for a turnaround time of under 8-10 days after receiving the invoices from the CSU and PWCUC teams.

The new Senior Accountant II position is needed to oversee, review, and approve all affordable housing-related transactions. This position will provide financial oversight for all affordable housing projects that use multiple funding sources, including HOME, HOPWA, HHH, Low & Moderate Housing Fund, and various other sources. The Senior Accountant II position will provide dependable accounting analysis of the various and complicated regulations that are imposed by these funding sources. This position will be responsible for reconciliation of all the cash accounts for HHH permanent housing project funds and all subsequent new funds corresponding to future bond issuances; and will manage and coordinate with the Controller's Office on expediting payments and provide various reports to LAHD management and the CAO's office.

### ***Formation of a New Technical Services Division***

In order to efficiently and effectively manage construction work across the various construction and technical units of the bureau, and meet all local, state, and federal laws and regulations related to these programs - LAHD is requesting a new Director of Housing position to oversee a newly formed Technical Services Division within the Housing Development Bureau. The new division will include Construction Services, Prevailing Wage Compliance monitoring and enforcement, Relocation compliance, and Architectural Services; and would add the other technical teams, including the Environmental Services Unit, the Lead Remediation unit, and the Handyworker Unit. Having technical teams combined under a single Technical Services umbrella would allow the division to share in efficiencies and reallocate resources as necessary to address ebbs and flows in the workload.

The current Technical Services unit is overseen by a Community Housing Programs Manager, vacant due to a SIP retirement. The size and complexity of the expanded unit will require oversight by a Director of Housing.

These positions must have technical, financial, and operational expertise in areas such as state and federal laws, regulations and codes relating to housing development and housing rehabilitation, administrative procedures, and rules and regulations affecting housing needs, resources, and programs.

**Expected Results**

The staffing and contractor resources requested above will allow each unit of LAHD to process monthly draw requests for the full workload of 90-100 projects per month, within a 30-day time period.

**FISCAL IMPACT**

There will be an impact to the General Fund of \$1.36 million.

In FY 2022, the total cost for the requested 16 full-time positions will be \$581,459.94, which will require an allocation \$190,716.45 in general funds, assuming the positions are approved and filled by May 1, 2022. This general fund allocation will be addressed in a Financial Status Report. The balance of the cost (\$390,743.49) will be allocated across state Permanent Local Housing Allocation (SB2), local Linkage Fee revenue, Housing Production Revolving Fund (HPRF, a source from local fee and fine revenue), federal HOME and Community Development Block Grant (CDBG) funds, Multi-Housing Finance Funds (MHFF), Low and Moderate Income Housing Funds (LMIHF), and the local Affordable Housing Trust Fund.

In FY 2023, the total cost for the requested 16 full-time positions will be \$3.4 million for salaries, related costs, and leasing, with approximately 35% (\$1,177,493.76) paid for through general funds. The balance of the cost (\$2,225,041.76) will be allocated across SB2, Linkage Fee, HPRF, HOME, CDBG, MHFF, LMIHF, and AHTF.

It is important to note that additional staffing will result in added compliance and an increase in revenue from fines for non-compliance, which will be deposited into HPRF. In the years preceding the ramp up of HHH, the Prevailing Wage unit was able to increase annual revenue from prevailing wage fees and fines from \$317,400 in FY2013 to an average of \$1.1 million per fiscal year over the following three fiscal years ending in FY2016 (Attachment A). This revenue flow was subsequently compromised by the concurrent influx of HHH projects going into construction coupled with loss of staff, which necessitated the remaining managers and staff to focus on draw processing over enforcement and fine collection. Once the staffing levels are corrected to meet staff-to-workload ratios more in line with other similar jurisdictions, enforcement operations can return to the forefront of the unit's functions, and the fees and fines collected can move the department away from using general fund money to fund the new positions, to a greater level of fiscal self-sufficiency.

Approved By:



ANN SEWILL  
General Manager  
Los Angeles Housing Department

ATTACHMENT:

Attachment A Prevailing Wage Fee and Fine Revenue

## Attachment A

Prevailing Wage Receipt Summary  
As of 04/01/2022

Sum of YTDAmount Receipts	Fiscal Year											Grand Total
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022		
LCP TRACKER FEE - DAVIS BACON			12,918.67	58,554.09	45,609.08	46,989.92	48,652.64	31,259.30	35,729.05	26,912.61		306,625.36
OTHER FINES	374,800.00											374,800.00
PREVAILING WAGE COMPLIANCE FINES	317,400.00	1,298,260.00	906,759.59	1,056,541.65	397,500.00	186,380.59	113,679.59	232,721.75	43,842.70	11,689.93		4,564,775.80
<b>Grand Total</b>	<b>692,200.00</b>	<b>1,298,260.00</b>	<b>919,678.26</b>	<b>1,115,095.74</b>	<b>443,109.08</b>	<b>233,370.51</b>	<b>162,332.23</b>	<b>263,981.05</b>	<b>79,571.75</b>	<b>38,602.54</b>		<b>5,246,201.16</b>