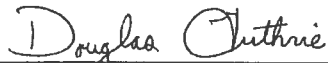


RESOLUTION AUTHORIZING VARIOUS ACTIONS TO SET ASIDE INTERNAL SOURCES OF FUNDS IN AN AMOUNT NOT TO EXCEED \$6,000,000; ENTER INTO NECESSARY CONTRACTS FOR BROKERAGE OR CONSULTANT SERVICES ON AN AS-NEEDED BASIS; AUTHORIZE CONSIDERATION OF THE USE OF EMINENT DOMAIN AS NECESSARY OR REQUIRED; AND ACCEPT GRANT OR EMERGENCY FUNDS FROM PRIVATE, LOCAL, STATE OR FEDERAL GOVERNMENT SOURCES UP TO \$100,000,000 TO FACILITATE IMPLEMENTATION OF AN ACQUISITION PROGRAM FOR THE HOUSING AUTHORITY OF THE CITY OF LOS ANGELES IN COMPLIANCE WITH THE ACQUISITION AND DISPOSITION OF REAL PROPERTY POLICY



Douglas Guthrie
President & Chief Executive Officer



Jenny Scanlin
Chief Development Officer

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- Purpose:** To allow the Housing Authority of the City of Los Angeles ("Authority") to establish the necessary contracts, authorities and startup funding to facilitate the initial implementation of the Acquisition and Disposition of Real Property Policy ("Policy") as well as prepare to access public grants which may be available on an emergency or competitive basis to fund acquisitions to further affordable housing options, including bridge and permanent housing in the City of Los Angeles. None of the authorities requested remove the requirement for all acquisitions, final resolutions to utilize eminent domain, or contracts exceeding the President and CEO's delegated authority to be brought before the Board of Commissioners for future consideration.
- Regarding:** Approval of this Resolution is contingent on a Resolution approving the Policy, expected to be adopted on April 23, 2020, revising HACLA's initial Policy Guidelines for the Acquisition of Real Property ("Prior Policy"), pursuant to Resolution No. 8582, adopted on February 20, 2008, and amended by Resolution No. 8628 on July 23, 2008, which provided guiding principles for an active acquisition program ("Acquisition Program") to provide more affordable housing in the City of Los Angeles.
- Issues:** In order to implement the proposed new Acquisition Program, initial funding is required to cover routine acquisition costs including due diligence reports, deposits, closing costs, equity investment, and immediate repair needs. Additionally, although HACLA does not intend to regularly employ brokerage firms, for particular property types, tight markets or for broad reach in a short period of time, staff anticipate the need to contract with brokers and/or real estate consultants to supplement HACLA's internal team. These third parties, along with appraisers, inspectors, escrow agents, environmental & geotechnical firms, engineers and legal counsel will make up the extensive team necessary to purposefully drive a meaningful Acquisition Program. Finally, the Authority is in a unique position, with the powers provided to HACLA under California Health and Safety Code Division 24, Part 2, Chapter 1 in its flexible ability to finance, acquire, develop, lease, manage and dispose of real property through a variety of means. As the Authority engages its acquisition authority, it is worth recognizing HACLA's ability to acquire property through eminent domain and to retain this tool in cases where considered necessary and appropriate. HACLA intends to cooperate and work collectively with the City of Los Angeles and other public entities to expand affordable housing in the City. In addition to requesting that the Board of Commissioners approve expending certain funds, staff request authority to

accept public or private grant funds to purchase, improve and lease property on behalf of itself or the City, County, State or Federal government as long as the acceptance of funds does not incur any additional liability or cost burdens to the Authority that cannot be covered with the funds received or within the President and Chief Executive Officer's authority.

Background Though the initial HACLA Acquisition Policy was adopted in 2008, the program has been generally inactive since that time. At the direction of the Board of Commissioners, HACLA seeks to implement a new policy for an updated Acquisition Program. The Acquisition Program will focus primarily on acquiring improved property with units that meet Section 8 size and habitability standards. These units will provide additional housing opportunities for low income households and Section 8 voucher holders and may include existing affordable units.

While upfront funding needs will vary by transaction, the implementation of the proposed Acquisition Program will require an initial internal funding source to provide for costs such as good faith deposits, due diligence expenses, transaction closing costs, equity investment, if necessary, and any immediate health and safety repairs needed. The expected uses of the startup \$6,000,000 in funding requested will be allocated approximately as follows:

Cost Category	Funding
HACLA Equity Investment (Revolving Fund), of which \$250,000 can be used for Nonrefundable Deposits	\$ 5,000,000
Due Diligence/ Closing Costs	\$ 500,000
Property Improvement Fund	\$ 500,000
Total	\$ 6,000,000

Equity Investment

The initial HACLA equity investment will fund a portion of the purchase price for acquired properties when they are funneled into permanent financing facilities in order to off-set debt service requirements and loan to value ratios which may be a requirement of the bond documents or loan. HACLA will have the equity act as soft debt and develop terms of repayment from the property out of 100% of profit received on an annual basis after all operating, capital and reserve expenses are paid in full. The investment is limited to unrestricted, non-federal and legally available funds not to exceed a total of Five Million Dollars (\$5,000,000) and HACLA will limit its equity contribution to no more than twenty percent of the total value of the negotiated purchase price. The initial contribution of \$5 million was based on HACLA being able to obtain financing for at least \$25 million in acquisition capital to start the program. Staff expects all properties to be able to begin repaying the equity fund within the first two years of operation and expects the fund to act in a revolving manner to fund future purchases.

Deposits

Escrow or Purchase and Sale Agreement terms may require that HACLA pay refundable and non-refundable deposits. Refundable and non-refundable deposits are negotiated in purchase and sale agreements to manage risk expectations of the seller when the purchase includes a number of contingencies or a longer than normal escrow period. HACLA expects that most deposits will remain refundable or credited towards the purchase. However, some purchases may include some level of non-refundable deposit. Any non-refundable deposit over Two Hundred and Fifty Thousand Dollars (\$250,000) will require Board approval prior to advancing the funds into escrow and no more than

\$250,000 of the \$5,000,000 designated for Equity Investment can be used for non-refundable deposits overall.

Due Diligence/

Closing Costs Although general closing costs may be able to be financed as part of the acquisition transaction, some third party costs need to be paid upfront and may entail reports or services that go beyond traditional appraisals, recording or escrow fees. A fund of up to \$500,000 is requested to allow staff to pull title on properties as it undergoes property review efforts, pay counsel to assist with complex transactions, and pay for other due diligence efforts, including but not limited to, environmental Phase 1 reports, appraisals and Physical Needs Assessments. These funds are not recoverable or replenishable like the Revolving Equity Fund and the amount requested is set to fund at least ten to fifteen transactions. Replenishing these funds will be done as part of the Authority's annual budget process and most costs will be incorporated into the work of third party contractors.

*Property
Improvement
Fund*

A Property Improvement Fund will be established for the purpose of addressing minor rehabilitation or ADA compliance work required to meet health and safety requirements of the property or other critical needs at the time of initial purchase. Staff is requesting the allocation of up to Five Hundred Thousand Dollars (\$500,000) to pay for these costs. HACLA expects that properties purchased with rehabilitation needs will be discounted and priced accordingly at sale. Therefore the funds expended are expected to add value to the property after purchase. These funds will not be used to cover normalized capital expenses which should be separately accounted for and reserves set up as part of annual operation budgeting for the property. Amounts drawn under the Property Improvement Fund are expected to ensure the property can be properly leased upon purchase and key systems are intact. Staff has sized the Property Improvement Fund to last for the first three years of the Acquisition Program. Draws on the fund will be analyzed and balances carried over. Requests for replenishing the Fund will be done as part of the Authority's Annual Budget process.

*Eminent
Domain*

California Health and Safety Code Sections 34315(d) and 34325 state that a housing authority may acquire for eminent domain, any property which it deems necessary for its purpose with the exception of real property belonging to the city, county, state or any political subdivision. HACLA has not utilized this power in the past half century of its operation and does not anticipate the need to rely on eminent domain in the day-to-day operation of its Acquisition Program. However, if called upon to acquire property under emergency order or to acquire a site that is critical to a proposed public housing redevelopment plan and all other means have been exhausted, this is a tool that the Authority should reasonably consider. Staff is not currently requesting that the Board act on this authority but would like the Board's concurrence to retain the right to consider utilizing eminent domain, with all appropriate and required tenant safeguards, as a tool related to property acquisition and redevelopment.

Grant Funds

In order to increase the Authority's ability to act on opportunities and demonstrate its ability to execute on grant-funded activities, the request before the Board is to authorize the power of the President and CEO and/or his designee to accept and administer public or private grants or donations of funds intended for acquisition-related activities or programs up to \$100,000,000 as long as the terms of the funding acceptance aligns with

the Board's approved Acquisition Policy and the costs associated with expending the funds are covered by the grant itself or are cost neutral to the Authority.

In this affordable housing crisis, HACLA can be an effective tool preserving and expanding the City's affordable housing footprint at a per-unit cost that is less than the average cost of new construction. HACLA wants to be able to work in an efficient manner to meet immediate opportunities as they present themselves in this crisis, including the ability to accept and utilize public and private grants and implement the acquisition and property management activities specified in the grant or donation agreement through sub-contracts, as necessary. Unless the grant requires a match or obligation of additional resources from HACLA outside of the approved Annual Budget, this report recommends delegating authority to the President and CEO or his designee to apply for and/or accept grants or donations in individual amounts not to exceed one hundred million dollars (\$100,000,000) and to pass through funds from these grants and donations to sub-contractors or consultants for the strict purpose of fulfilling the contractual obligations of these grants. All sub-contract and consulting contracts will meet HACLA and the grantor's procurement requirements and contracting authorities.

Vision Plan: Place Strategy 2.3 – Increase Functionality and effectiveness of Asset Management Portfolio.

This strategy focusses on the strategic directive of the Housing Authority of the City of Los Angeles to acquire real property to (i) diversify the housing portfolio and increase the supply of affordable housing within the City of Los Angeles, (ii) diversify funding/revenue sources for HACLA through positive cashflow; and provide a methodology for the disposition, transfer or sale of HACLA-owned real property.

Vision Plan: Place Strategy 3 - Improve and expand Section 8 program, policies, and efficiencies

This strategy involves the acquisition of property for the purpose of a larger variety of readily available housing units for Section 8 Housing Choice Voucher participants to improve Housing Choice Voucher utilization and meet Fair Housing standards by giving voucher holders options throughout the City of Los Angeles.

Vision Plan: Place Strategy 1 – Stabilize the physical and financial viability of the conventional public housing portfolio.

In addition to adding improved property to the Asset Management portfolio, this strategy also focuses on expanding the footprint of a public housing redevelopment sites in order to meet Build First goals; purchase property off-site for temporary or permanent relocation; or to increase the total number of affordable units associated with a public housing site.

Funding: The Chief Administrative Officer confirms the following:

Source of Funds: Proceeds from the Non-Public Housing Portfolio:

Cost Category	Funding
HACLA Equity Investment (Revolving Fund), of which \$250,000 can be used for Nonrefundable Deposits	\$ 5,000,000

Due Diligence/ Closing Costs	\$ 500,000
Property Improvement Fund	\$ 500,000
Total	\$ 6,000,000

Budget and Program Impact: Staff expect the funds for Due Diligence and Property Improvement will need to be replenished in future years but expect that cash flow from all properties in the portfolio will be strong enough to support contributions to these funds in future years. Ongoing operations and capital costs will increase for Asset Management as a result of the acquisition of new properties to manage but the cost is expected to be wholly off-set by rents collected from all new properties purchased.

Environmental

Review: Minor rehabilitation of existing buildings and the acquisition of property are all exempt activities under CEQA. Because no federal funds are involved in these actions no NEPA review is required.

Section 3: Not Applicable

Attachments:

1. Resolution

RESOLUTION NO. _____

RESOLUTION AUTHORIZING VARIOUS ACTIONS TO SET ASIDE INTERNAL SOURCES OF FUNDS IN AN AMOUNT NOT TO EXCEED \$6,000,000; ENTER INTO NECESSARY CONTRACTS FOR BROKERAGE OR CONSULTANT SERVICES ON AN AS NEEDED BASIS; AUTHORIZE CONSIDERATION OF THE USE OF EMINENT DOMAIN AS NECESSARY OR REQUIRED; AND ACCEPT GRANT OR EMERGENCY FUNDS FROM PRIVATE, LOCAL, STATE OR FEDERAL GOVERNMENT SOURCES UP TO \$100,000,000 TO FACILITATE IMPLEMENTATION OF AN ACQUISITION PROGRAM FOR THE HOUSING AUTHORITY OF THE CITY OF LOS ANGELES IN COMPLIANCE WITH THE ACQUISITION AND DISPOSITION OF REAL PROPERTY POLICY

WHEREAS, the Housing Authority is authorized to acquire and dispose of real property and enter into contracts and agreements related thereto pursuant to the California Health and Safety Code Section 34200 *et seq.* and particularly with respect to Section 34315 ("Law"); and

WHEREAS, the Housing Authority Board of Commissioners ("Board") adopted the Policy Guidelines for the Acquisition of Real Property by Resolution No. 8582 on February 20, 2008, as amended by Resolution No. 8628, on July 23, 2008, (the "Prior Policy") which set forth the policy and guidelines for the acquisition of real property for the Housing Authority; and

WHEREAS, the Housing Authority has adopted, on April 23, 2020, an Acquisition and Disposition of Real Property Policy (the "Policy") to institute a revised and updated real property acquisition program ("Acquisition Program") and to revise and restate its Prior Policy to reflect the Housing Authority's Build HOPE Vision Plan goals and to provide for the disposition of real property; and

WHEREAS, in order to implement the new Acquisition Program as contemplated by the Policy, the Housing Authority will need to establish a startup fund to facilitate the payment of acquisition good-faith deposits, equity investments, due diligence costs, closing costs and necessary property improvement costs related to health and safety in order to close acquisition transactions; and

WHEREAS, staff has determined that the initial startup funding required is \$6,000,000 to be funded from nonfederal, unrestricted and legally available reserve funds as approved by the Chief Administrative Officer; and

WHEREAS, the equity portion of the startup funding will be repaid through permanent financing and/or by the operational cash flow of the acquired properties resulting in a revolving loan fund for future acquisitions and other funds for Property Improvements and Due Diligence will be replenished on an as needed basis as part of the Authority's annual budget process; and

WHEREAS, the Authority has been provided the authority under the Law to acquire property through eminent domain and desires to retain its option to utilize this power as required or necessary to fulfill its mission of preserving and expanding affordable housing in the jurisdiction in which the Authority operates; and

WHEREAS, the Authority is uniquely positioned with over eighty years of experience in the acquisition, development and management of property in the City of Los Angeles and desires to meet its acquisition goals in a manner that is fiscally sound; and

WHEREAS, during this long-standing affordable housing crisis, new sources of grant funding may be available through both public and private sources and staff will return to the Board for approval of all property acquisitions before the close of escrow on any property; and

WHEREAS, the Board desires to expedite and facilitate the administration of certain activities, programs and affairs of HACLA through this authorization and delegation; and

WHEREAS, the President and CEO shall ensure compliance with any requirements, provisions and restrictions set forth in the grant documents and to ensure such programs, grants or donations are aligned with the mission of HACLA.

NOW, THEREFORE, BE IT RESOLVED that the Board of Commissioners hereby approves startup funding in the amount of \$6,000,000 for transaction costs of the new property Acquisition Program contemplated by the Policy; accepts and expressly agrees to consider utilization of its eminent domain power as part of the implementation of its Acquisition Program; authorizes the President and CEO, or his or her designee, to accept public or private grants or donations in amounts not to exceed \$100,000,000 to purchase, improve and lease property as long as the acceptance of funds does not incur any additional liability or cost burdens to the Authority that cannot be covered with the funds received or within the President and Chief Executive Officer's authority as long as all contracts and agreements have been approved by legal counsel; authorizes the President and CEO, or his or her designee, to enter into sub-contracts for the direct implementation of activities or services funded by the aforementioned grants and donations to purchase, improve and lease property as long as all contracts and agreements have been approved by legal counsel; and authorizes the President and CEO, or his or her delegate, to take any actions and execute any documents, agreements or contracts as authorized by and consistent with this resolution and the Policy and as approved by legal counsel.

BE IT FURTHER RESOLVED that this Resolution shall take effect immediately.

HOUSING AUTHORITY OF THE
CITY OF LOS ANGELES

By: _____
Chairperson

APPROVED AS TO FORM:
JAMES JOHNSON

BY: _____
General Counsel

DATE ADOPTED: _____