

February 21, 2024

To: LACAHSAs Board of Directors

From: Budget and Administrative Executive Ad Hoc Committee

Report on LACAHSAs Budget Request and Federal Advocacy Strategy

Background on Budget Request:

At the January 24th, 2024 LACAHSAs board meeting, the Board of Directors approved LACAHSAs pursuing a California State budget request of no more than **~\$10 million to serve as 24-month bridge funding** for the agency to support program development (including staff funding) and critically build LACAHSAs capacity to develop and deliver services. The Board also authorized the Chair of the Board, with consultation from the Budget and Administrative Executive Ad-Hoc Committee, to take appropriate action to identify funding opportunities through state legislative efforts.

At the February 8th, 2024 Budget and Administrative Executive Ad-Hoc Committee, the committee members recommended that the Board of Directors **additionally authorize the pursuit of federal funding opportunities through legislative advocacy**. This will enable LACAHSAs to explore a broader range of funding avenues to successfully fulfill the agency's budget request.

Summary of proposed budget request – \$10M

Details on the proposed budget request follows the summary table. The program areas outlined in the budget request build on LACAHSAs proposal submitted for SCAG’s NOFA program in July 2023.

Program areas	Key deliverables	Budget	Budget notes
1. Development of innovative preservation and production solutions	<ul style="list-style-type: none"> 1.1: Menu of Preservation and Production Solutions 1.2: 1-2 Deeper Program Designs 1.3: 7 Pilot Projects 	\$7,500,000	<ul style="list-style-type: none"> \$500K – consultant or staff to implement scope \$7M – investment in seven pilot projects (~\$1M / project, one project per geographic area)
2. Analysis of affordable housing pipeline and development of resource prioritization framework	<ul style="list-style-type: none"> 2.1: Affordable Housing Pipeline Analysis 2.2: Resource Prioritization Framework 	\$500,000	<ul style="list-style-type: none"> \$200K – consultant to complete pipeline analysis \$300K – staff members or consultant to develop equity framework for resource allocation
3. Development of an Open Resolution Governmental Purpose Bond Program and a Housing Investment Guarantee Program	<ul style="list-style-type: none"> 3.1: Feasibility and Best Practices Reports 3.2: Actionable Implementation Plans for Open Resolution Governmental Purpose Bond Program and Housing Investment Guarantee Program 	\$1,500,000	<ul style="list-style-type: none"> \$250K – consultant to complete initial research & reports \$1.25M – staff members or consultant to develop actionable implementation plans for an Open Resolution Governmental Purpose Bond Program and a Housing Investment Guarantee Program
Overhead rate		\$500,000	<ul style="list-style-type: none"> 20% overhead rate – applied to all program staff and consultant costs. Overhead rate accounts for general shared costs such as senior leadership time (e.g., Interim CEO), admin, finance, & communications costs
Total		\$10,000,000	

Detail on proposed budget request

1. Development of innovative preservation and production solutions (\$7,500,000): Within the parameters of LCAHSA's statutory authority (SB679 – Gov't Code § 64700 et seq.), develop financing programs and/or tools to allow for increased affordable housing preservation and production, expanding choice of housing typologies in different cities and regions across the county based on unique needs of each area. Pilot leading preservation and production models, such as a Welfare Tax Exemption partnership, with 7 projects across the county.

- **Landscape need:** LA County has a dire affordable housing shortage of over 500,000 units. Additionally, the California Housing Partnership's 2023 Affordable Housing Outcomes [Report](#) found that the County has 7,700 existing affordable homes at risk of being converted to market rate due to expiring covenants or other changes to current rent restrictions. LCAHSA can launch and help scale innovative housing solutions that are required to address the production and preservation needs of the region.

- **Scope of work and key deliverables:**
 - **Phase 1.1:** Conduct research and analyze various preservation and production strategies to determine priority concepts to meet the unique needs and goals of LCAHSA's jurisdictions, achieving scalability and maximizing impact in the process. Conduct case study research on prioritized concepts. Support Agency member cities in conducting needs assessment research and potential site selection. Potential concepts include: financing strategies for LCAHSA's involvement in acquisition and preservation of currently unsubsidized but affordable housing (CUBAH) such as Welfare Tax Exemption (WTE, Revenue and Taxation Code Section 214); developing social housing models; financial repositioning / recapitalization of existing and/or at-risk deed-restricted affordable housing; leveraging of existing County rehab and health and safety programs (healthy homes, lead and asbestos removal, accessibility retrofits) to preserve units at different scales (building, unit-by-unit, block-by-block), single family rehabs and Accessory Dwelling Units (ADUs), and SB679 implementation; and designing finance products to enable affordable ADU production.
 - **Key deliverable: Menu of Preservation and Production Solutions** to include – case studies of successful financing strategies such as but not limited to CUBAH financing structures combining public and private investment capital, utilization of existing ADUs, production of new affordable ADUs, Community Land Trust ownership structures, zero- and limited-equity housing cooperatives, role of public housing authorities in supporting acquisition.

 - **Phase 1.2:** Deeper program planning and development for 1-2 programs (amongst those explored in Phase 1.1), likely including the Welfare Tax Exemption model. This phase should include the development of a process for vetting and prioritizing projects and clarifying the role LCAHSA would play in supporting the preservation and production models with partners.

- **Key deliverable: 1-2 Deeper Program Designs** for launch to include – financial model and potential sources, staffing and jurisdictional capacity needs, and implementation process.
- **Phase 1.3:** Pilot leading preservation and production programs (from Phase 1.2) with 7 projects across the key geographic areas of the County (e.g., City of LA, unincorporated LA County, City of Long Beach, San Gabriel Valley sector, Southeast LA sector, South Bay sector, North County & San Fernando Valley Sector).
 - **Key deliverable: 7 Pilot Projects** using programs designed in Phase 1.2 – utilize LACAHSAs funding and program models to preserve and produce affordable housing and prevent displacement in high-need areas across the county.

2. Analysis of affordable housing pipeline and development of resource prioritization framework (\$500,000): Create a centralized database — an Affordable Housing Pipeline Analysis — to track the production and preservation of affordable housing through the various stages of development. Leveraging this analysis, develop a strategic investment framework to prepare LACAHSAs to equitably allocate resources across the projects in the Affordable Housing Pipeline.

- **Landscape need:** Affordable housing financing in California is a fragmented system and each stage in the development process is fraught with a lack of certainty and financial resources, thereby increasing costs and slowing the supply of much needed affordable housing. These system failures have created an environment in which there are thousands of urgently needed homes in LA County that are in various stages of pre-development awaiting critical funding to unlock projects. An Affordable Housing Pipeline Analysis can create efficiencies in the finance system for affordable homes and help developers and local jurisdictions manage their respective pipelines, bringing predictability and lowering overall project costs. Pipeline data also can be used to inform LACAHSAs funding decisions and build the case for new revenue at the regional, state, and federal levels.
- **Scope of work and key deliverables:**
 - **Phase 2.1:** Conduct a landscape analysis by cataloging, based on available information, affordable housing projects in LA County that is in the pre-development, planning, financing, and construction stages. Analysis will involve research on each of LA County’s 89 jurisdictions and outreach to relevant nonprofit and private developers.
 - **Key deliverable: Affordable Housing Pipeline Analysis** will quantify the number of affordable units in the various stages of development, estimate the gap funding needed, and analyze current regional production and preservation capacity. For example, in the Bay Area, a pipeline analysis found that there are ~19,000 affordable homes awaiting an estimated \$4B in critical gap funding.

- **Phase 2.2:** Create a strategic investment framework to direct LACAHSAs investments using the Affordable Housing Pipeline Analysis. The framework should align with **geographic allocations** mandated by SB679 and use an equity lens to prioritize projects.
 - **Key deliverable: Resource Prioritization Framework** to guide LACAHSAs in equitably allocating affordable housing production and preservation funding.

3. Development of an Open Resolution Governmental Purpose Bond Program and a Housing Investment Guarantee Program (\$1,500,000): Fill critical gaps in the housing finance ecosystem by exploring the concept and organizational capacity requirements for LACAHSAs to launch and implement an **Open Resolution Governmental Purpose Bond Program** and a **Housing Investment Guarantee Program**.

- **Landscape need:** Existing private and public financial products are insufficient to meeting the housing needs of the region. LACAHSAs can explore creating two innovative tools to create new, meaningful streams of funding for the construction and acquisition of affordable housing and unlock additional private and public capital: an Open Resolution Governmental Purpose Bond Program, used by other regional agencies such as the New York City Housing Development Corporation, and a Housing Investment Guarantee Program, piloted by foundations and mission-driven investors.
- **Scope of work and key deliverables:**
 - **Phase 3.1:** Research best practices for an open resolution/indenture bond financing program and a housing investment guarantee program. Examine existing successful models, like NYC HDCs program, for keys to success.
 - **Key deliverable: Feasibility and best practices report** to include – programmatic keys to success and recommendations for Agency implementation.
 - **Phase 3.2:** Create the framework, program model, and actionable implementation plan for an Open Resolution Bond Program and a Housing Investment Guarantee Program to be administered by LACAHSAs. Planning will require assessment of staffing needs, legal and compliance infrastructure designs, deal flow analyses, revenue projections, development of project intake, prioritization, and approval processes, and identification of potential partnerships with existing housing agencies and local trust funds to leverage programmatic impact. For the Open Resolution Bond Program, additional analyses will include: a study of bond rating determination metrics and how to maximize the rating through guaranteed cash flow; analysis of regional bond cap metrics (for open resolution bond program); and development of bond servicer requirements.
 - **Key deliverable: Actionable Implementation Plans** for an agency-administered Open Resolution Bond Program and an agency-administered Housing Investment Guarantee Program, including recommendations on staffing needs and expertise required.