

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



Eric Garcetti, Mayor

LOS ANGELES HOUSING DEPARTMENT

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

housing.lacity.org

February 23, 2022

Honorable Eric Garcetti, Mayor
Honorable Members of the City Council
City of Los Angeles
200 N. Main Street
Los Angeles, CA 90012

Re: 2021 City Controller's Audit of Proposition HHH

Dear Mayor Garcetti and Councilmembers:

Today the City Controller released the third annual audit of Proposition HHH, the \$1.2 billion measure approved by voters in 2016 to more than triple the City's production of supportive housing units from 300 to 1000 annually. As planned, Proposition HHH would enable the construction of 7,000 additional homes for people experiencing homelessness over ten years. As of the end of 2021 there are 8,000 HHH units in the pipeline, and the City continues to fund 300 non-HHH supportive housing units each year. In addition, HHH funds will be invested in nine Project HomeKey projects with 868 units, subject to Council and Mayor approval this month. All in, HHH will exceed the promised production by 26%.

Our department was pleased that once again the financial audit found no concerns or irregularities. We are grateful to the Controller's office for the generous guidance and assistance this year in working through roadblocks such as speeding up wage compliance approvals, and project funding at escrow closing. However, we strongly disagree with the audit headline that "problems overshadow progress" and will respond on statements concerning construction costs, streamlining, and repurposing of HHH commitments.

Construction Costs

The 2020 audit noted that the median total development cost per unit was \$549,608; this year the median rose 5.5% to \$580,155. In the same twelve months the national Producer Price Index for Residential Construction Costs rose 17.6%. Costs for HHH or any affordable housing development need to be put in the context of costs for equivalent market rate developments. Even a quick google search of "multifamily construction costs in California" produces reports from the Turner Center at UC Berkeley, the UC Riverside School of Business, and others showing that market rate construction in all of California, and particularly in Los Angeles and the Bay Area, has reached staggering heights. Failing to acknowledge the

market context makes it seem that it is impossible to identify a feasible plan to produce the housing we need.

It is possible to compare the costs of affordable housing and comparable market rate developments and identify the elements that increase costs in affordable units - prevailing wages, higher energy efficiency standards, operating and replacement reserves, furniture and developer fees - that aren't included in development budgets for market rate projects because they are paid upon sale when the project is completed, or covered by escalating rents over time. Affordable housing project budgets also include holding costs and legal fees involved in assembling "soft" financing from multiple sources. The reliance on layered financing adds time and money, but stretches HHH funding to meet production goals. Without leveraging, HHH would have produced only 3,900 permanent units.

When I joined the department I looked for ways we could reduce costs, while retaining the commitment to funding projects that would be physically and financially healthy for the decades covenanted. Realizing that some of the highest cost projects were those that had high public agency involvement, we divided the HHH portfolio into "basic" projects that include prevailing wages, higher energy efficiency standards, accessibility standards, and reserves and fees, and a "housing plus" category. The Housing Plus projects have been developed on Metro-owned or publicly-owned land and included requirements for community amenities such as neighborhood-serving commercial, child care centers or clinics, more parking spaces than required, or more open space. Others were funded with the Affordable Housing Sustainable Communities Program using the State's cap and trade program, and included additional greenhouse gas reduction features, support of infrastructure such as bus shelters, and water conservation features.

Of the 125 HHH projects in the pipeline, 84 are Basic and 25 are Housing Plus. The Basic projects cost \$557,492 per unit on average, with an HHH amount of \$133,000. The Plus projects cost \$659,600 per unit on average, with an HHH amount of \$140,833. The headlining "sound bite" project - the \$800,000 per unit one identified in the audit - is in the Housing Plus group. We could keep a tighter cap on costs by declining to use cap and trade funds, Metro joint development sites or City land. But participating in these partnerships and programs has significant benefits to the City, to our housing stock, and to our collective climate change and community development goals, and the benefits, borne by other agencies, may be worth the costs.

In addition to better understanding cost drivers, LAHD has been working with applicants to reduce costs by creating financing tools to support the use of modular development, using all entitlement benefits available such as parking reductions, and using standardized units that reduce costs while still complying with accessibility requirements.

Urgency and Streamlining

Despite a global pandemic and related challenges in virtual processing, the pace of development is anything but sluggish. In the past eleven months the HHH program has moved a project from planning to construction start every two weeks, closing construction loans on twenty-one projects and adding 1,304 units to the construction phase. Another 715 units in twelve projects have received occupancy approvals. The Mayor's Office Executive Directive 30 streamlining initiative has reduced the number of days for ready-to-issue permits for HHH projects by 154 days. Every month LAHD publishes the attached HHH Summary showing how projects are progressing from early entitlement planning, to construction loan closing, to completion.

Repurposing of HHH Commitments for Interim Housing or Facilities

Each HHH project that goes through the Citizen's Oversight Committee, the Administrative Oversight Committee, the Homelessness and Poverty Committee, and the City Council and Mayor's sign off has a conditional loan commitment that states the conditions that must be met for it to remain in effect. Developers, lenders and investors rely on those commitments in spending the millions it takes to prepare a project for construction closings. In the few cases where project commitments have been terminated LAHD has followed the guidance of the City Attorney's office to make sure there is sufficient evidence of cause for termination.

In addition, each HHH project undergoes a last financial review at construction loan closing to ensure that the full amount of the commitment is needed after the other leveraging sources are taken into account, and the final tax credit terms are considered. Frequently some funds are recaptured from earlier commitments at that stage. Last year staff recommended to the Council and Mayor that remaining HHH funds be used primarily for innovative programs such as Project HomeKey, and a recommendation to commit up to \$83 million as Project HomeKey match is going to Council this month.

Although the audit notes that the City has spent only \$58 million in HHH funds for interim housing and facilities, in the past two fiscal years the City has invested \$860,516,405 from other sources in producing and operating 10,000 interim housing beds, ranging from congregate shelters to Project RoomKey motels to Tiny Home Villages and others. Every year to keep these open the City would need to allocate funds for operations ranging from \$50 to \$267 per unit per night, with an average of \$65 per unit per night, or \$237 million annually for all 10,000. Permanent housing requires the initial capital investment, but operating costs are much lower and are covered by rental income from residents and federal or county rental vouchers.

Permanent housing is not only a better financial investment; it is what moves people from homelessness into being housed. These HHH units are needed to move people from interim beds into homes. HHH is one of the few sources the City has to provide capital funding for permanent housing for people experiencing homelessness.

Conclusion

Several of the proposals in the HHH audits reflect changes that the City and partners have undertaken: the streamlining and CEQA protections of the PSH Ordinance and AB1197, the funding innovations to support modular development; the purchase of ready-to-occupy buildings, and we appreciate the Controller's support of these efforts.

The HHH program is almost complete; within a few years all the homes will be built and occupied. HHH provided important resources to address homelessness, but it was always only a part of the solution. It is our hope that Angelenos, with the Mayor and Council's leadership, will view the results that overcame the challenges of program ramp-ups and market conditions, and be encouraged to continue this important work. Therefore, we believe that the best course of action is to stay the course, complete the program and

deliver more units, years ahead of schedule to fulfill the commitment that the City made as part of the HHH promise.

Respectfully,

A handwritten signature in black ink, appearing to read "Ann Sewill". The signature is fluid and cursive, with the first name "Ann" and last name "Sewill" clearly distinguishable.

Ann Sewill
General Manager

cc: Nick Halaris, Chair, and Members of the Proposition HHH Citizens Oversight Committee
Honorable Ron Galperin, City Controller
Honorable Mike Feuer, City Attorney