

## Appendix F

### Operating Assistance

#### Article IV. Operating Assistance

##### Section A. Overview

House LA will provide long-term Operating Assistance that supports new construction, acquisition, and/or rehabilitation of existing housing in the form of project-based, multi-year rental subsidies, operating subsidies, or service subsidies. Operating Assistance will prioritize projects housing Acutely Low Income Households and/or Extremely Low Income Households; and projects that will maintain non-profit ownership, Community Land Trust stewardship, and/or shared-equity tenant ownership. In no case shall project-based Operating Assistance funding fall below fifty percent (50%) of the Homeownership Opportunities, Capacity-Building and Operating Assistance allocation, nor shall Capacity-Building funding fall below ten percent (10%) of the Homeownership Opportunities, Capacity Building and Operating Assistance allocation.

The Department will make available a number of rental subsidies and operating subsidies to support housing that serves Acutely Low Income Households and/or Extremely Low Income Households, who earn no more than 30% AMI and below. Operating Assistance eligibility and process will vary by program.

These guidelines propose three approaches detailed below: one tailored to Acquisition and Rehabilitation projects (Section B); one specifically for Alternative Models projects (Section C); and a “Backstop,” or insurance pool approach (Section D), which could be used by any of the production programs under ULA’s funding, including traditional multi-family affordable housing. The percentage dedicated to each approach is discussed in Section E.

##### Section B. Operating Assistance for House LA Acquisition and Rehabilitation for Affordable Housing Program

A number of project based vouchers, or similar assistance, will be made available to Acquisition/Rehabilitation program funded projects with units that serve households earning 30% AMI or less. There is no minimum special needs set-aside for acq/rehab program funded projects.

Awarded Project Sponsors will be required to submit updated budget projections including unit mix and operating budgets to the Fund Manager post-closing. The total amount of Operating Assistance each project receives will be determined based upon the individual project underwriting and the availability of assistance. The award notification must be received within the time constraints of the underwriting process, which is in turn scheduled to meet escrow deadlines.

By directing these subsidies to House LA Acquisition and Rehabilitation funded projects, the Department will meet the Capacity-Building Program priority of funding housing for ALI and/or ELI households; as

well as the second priority of funding projects that will maintain non-profit ownership, Community Land Trust stewardship, and/or shared-equity tenant ownership.

### **Section C. Operating Assistance for House LA Alternative Models for Permanent Affordable Housing Program**

A number of project based vouchers, or similar assistance, will be made available to new construction and rehabilitation projects funded by the Alternative Models for Permanent Affordable Housing Program, to assist in meeting the new construction portfolio level goal of at least 10% of the program units (on a two-year period basis) will serve special needs populations, including the homeless, mental & physical disabled, domestic violence survivors, transitional age youth, and reunification families.

Operating assistance will support units that are leased to ELI and ALI households earning 30% AMI or less.

For projects proposing to serve special needs populations (including the homeless, mental & physical disabled, domestic violence survivors, transitional age youth, and reunification families), the Department will prioritize special needs projects with a minimum of 25% mix or 50 special needs units.

By directing these subsidies to House LA Alternative Models for Permanent Affordable Housing funded projects, the Department will meet the Capacity-Building Program priority of funding housing for ALI and/or ELI households; as well as the second priority of funding projects that will maintain non-profit ownership, Community Land Trust stewardship, and/or shared-equity tenant ownership.

### **Section D. Tenant-Based Voucher Backstop**

To stretch the operating subsidies dollars further, a portion of this funding program should go to a gap-financing tool that would guarantee the coverage of operating costs in the event that a unit dependent on tenant-based rental subsidy becomes vacant. Under this model, operating subsidy dollars would act as an insurance pool, or “backstop,” until the unit can be filled. This serves as a guarantee to investors that housing operation costs and rents will be covered if a unit dependent on a federal tenant-based voucher becomes vacant and there is no immediate replacement.

Backstops enable a developer to reassure lenders that a project relying on tenant-based vouchers, instead of project-based vouchers which may not be available in various situations, is economically viable over the long-term. In this way, the ‘backstop’ model works in conjunction with federal rental assistance to open and maintain more housing opportunities, especially for permanent supportive housing (PSH) participants who use federal tenant-based vouchers. PSH participants experience significant challenges in finding housing in the current rental market, and the ‘backstop’ provides developers with the long-term investment certainty they need to build and maintain economically viable PSH projects.

This program will borrow its structure from a tenant-based voucher backstop program at LA County which is administered by Brilliant Corners in collaboration with the County Department of Health Services. The program began in 2018 and supports seven permanent supportive housing projects. The ULA program should be



structured in a basically similar manner, covering costs when a vacancy lasts more than 60 days. Under the LA County model, the Department of Health Services refers tenant-based voucher holders to any units that become vacant. The City of Los Angeles would have to develop a similar system, or subcontract with a party to administer it, to ensure the long-term viability of the Backstop.

### **Section E. Operating Assistance Funding Apportionment**

The apportionment of the operating assistance funding between conventional rental subsidy and the Backstop approach will depend on ULA revenues for a given year. At least annually, the Los Angeles Housing Department will be required to confer with the Citizens Oversight Committee on the status of ULA's Operating Assistance funding and make fiscally sound adjustments to the programs accordingly.

The allocation of funds to the conventional rental subsidy program should directly correlate with how many units ULA revenues produce under the Alternative Models and Acquisition and Rehabilitation Programs. Similarly, the Backstop will have to be informed by production rates and continually expand as it supports more units to ensure that it remains solvent and a viable financing option to attract private investment into the affordable housing projects it supports. The Backstop's funds must remain dedicated to and reserved for this use, and cannot be repurposed, or it will disrupt legal contracts between developers and investors.