OPERATING ASSISTANCE ONE PAGER

Challenge

- Lack of operating assistance/rental subsidy to meet the needs of LA's lowest-income affordable housing residents creates a bottleneck in affordable housing production.
- All types of production and preservation approaches funded by Measure ULA may require some form of operating subsidy.
- If ULA raises $600 M annually, approximately $30M annually will go to operating assistance.

Solution: Measure ULA's Hybrid Operating Assistance Proposal

The UHLA Coalition's proposed guidelines on operating assistance involve three approaches. The funding amounts dedicated to each approach will be decided by the Citizens Oversight Committee at a later date.

- *Approach 1: Capitalized Operating Subsidy Reserve (COSR) for ULA Acq/Rehab Projects*
    - Existing tenants in buildings acquired through ULA's Acquisition and Rehabilitation of Affordable Housing Program may fall into ALI or ELI categories, but not have access to vouchers for rental subsidy.
    - A Capitalized Operating Subsidy Reserve (COSR) will be made available to Acquisition/Rehabilitation program funded projects serving households with an average AMI of 50% or less.
        - The program will be modeled after the COSR program within California Department of Housing and Community Development's Foreclosure Intervention Housing Preservation Program (FIHPP)
        - Up to $175,000 per unit may be provided for the subsidy to cover anticipated operating deficits over a 20-year period. The maximum per-unit subsidy amount will be adjusted annually based upon increases in the Consumer Price Index. The total amount of COSR each project receives will be determined by the Acq/Rehab Fund Manager and based upon individual project underwriting and the availability of assistance.

- *Approach 2: Conventional, Project-Based Rental Subsidy for ULA Alternative Models Projects*
    - Conventional project-based vouchers funded through Operating Assistance will be dedicated to Alternative Models projects, to help meet that program's 10% special needs set aside
    - Projects with a minimum of 25% of project units reserved for special needs, or 50 special needs units, will be prioritized.
    - 20 year vouchers, can be continued by LAHD thereafter, if necessary for project sustainability
    - LAHD can reallocate funds from units, if they move into tenant ownership and no longer require operating subsidy

- *Approach 3: Tenant-Based Voucher Backstop*
  - 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, the ULA operating subsidy dollars would act as an insurance pool, or "backstop," until the unit can be filled.
  - The backstop allows developers to utilize existing tenant-based vouchers (which are more plentiful than project-based vouchers) and make them more secure in the long-term, because it lessens the risk of disrupted cash flow in cases of vacancy.
    - This makes projects relying on tenant-based vouchers more viable for private loans, reduces reliance on public subsidy, and allows ULA's Operating Assistance Fund to sustain more units than it would through project-based subsidy.
  - Brilliant Corners administers an existing TBV Backstop program at LA County in collaboration with the Department of Health Services.
    - Program administrators use the backstop to cover rent shortfall during vacancies for 60 days while a replacement tenant is located – the Department of Health Services refers tenant-based voucher holders to the vacant units.
    - As of January 2024, the County backstop has $3 million supporting 102 PSH units
  - Advantages:
    - Stretches ULA operating subsidy dollars further
    - Reduces risk associated with tenant-based vouchers if a tenant moves
    - Decreases reliance on project-based vouchers, which are scarce
    - Increases housing placements for tenant-based voucher holders

Timeline, Funding Apportionment, & COC Re-Evaluation

- Operating Assistance fund would accrue for one year, untouched
- Annual reevaluations required by LAHD in collaboration w/ COC and Inspector General
  - During reevaluation, COC shall decide in collaboration with LAHD on:
    - Apportionment of Fund between project-based rental subsidy, COSRs, and the Backstop for the following year
    - Possibility of making any commitments of funds to either the Backstop, COSRs, or project-based rental subsidy
      - At outset, any units coming online through ULA programs in need of operating assistance should be prioritized – either through Accelerator or Acq/Rehab
  - COC can call for an audit of the Operating Assistance Fund at any time, beyond minimum required annual evaluation
- Annual reapportionment shall consider:
  - Revenues (previous year and projected)
  - Amount currently accrued in Operating Assistance Fund to date
  - ULA COC Housing Needs Assessment
  - Number of units the Backstop is supporting at that time
  - Number of existing conventional rental subsidy commitments at that time

- Regardless of unknown variables, the COC should seek to make the Backstop the primary use of this Fund in order to maximize the number of units it supports