

*All UHLA Coalition proposals can be found at <https://unitedtohousela.com/resources/>



Appendix F

Operating Assistance Full Program Guidelines

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. All monies allocated from House LA's Operating Assistance shall only be awarded to projects financed by other House LA dollars through the Multifamily Affordable Housing, Alternative Models of Permanent Affordable Housing, and Acquisition and Rehabilitation for Affordable Housing programs. Although the Operating Assistance program shares the same allocation as programs for Homeownership Opportunities and Capacity Building, in no case shall Operating Assistance funding fall below fifty percent (50%) of the Homeownership Opportunities, Capacity-Building, and Operating Assistance allocation, as per Measure ULA.

The Housing Department will make available a number of rental subsidies and operating subsidies, prioritizing housing that serves Acutely Low Income Households and/or Extremely Low Income Households, who earn 30% AMI and below. Operating Assistance eligibility and process will vary by the production program which creates the units in need of such subsidy.

These guidelines propose a combination of three approaches detailed below: a ULA-funded, Capitalized Operating Subsidy Reserves (COSR) program tailored to Acquisition and Rehabilitation projects (Section B); a ULA-funded, project-based voucher program 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 the Multifamily Affordable Housing, Alternative Models for Permanent Affordable Housing, and Acquisition and Rehabilitation of Affordable Housing programs. The timeline, percentage of the fund dedicated to each approach, and involvement of the ULA Citizen Oversight Committee is discussed in Section E.

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

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. Operating subsidies shall be awarded for a 20-year period if there is a demonstrated financial need. There is no minimum special needs set-aside for acq/rehab program funded projects, but to ensure consistency with the Measure's language, the COSR will be designed to support Projects that anticipate or discover operating deficits in serving ALI and ELI households.

Per Acquisition and Rehabilitation Program Guidelines, awarded Project Sponsors will be required to submit updated budget projections including unit mix and operating budgets to the Fund Manager post-closing. Up to \$175,000 per unit may be provided for the subsidy to cover anticipated operating deficits. 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. The award notification must be received within the time constraints of the underwriting process, which is in turn scheduled to meet escrow deadlines. Coordination between the Fund Manager and LAHD is critical during this period, to facilitate timely award decisions, which LAHD may defer to the Acq/Rehab Fund Manager.

LAHD, or if relevant, the Acq/Rehab Fund Manager, will make an annual COSR disbursement to the Project based on the actual operating budget for the prior operating year.

For projects that show a continued need for operating assistance after 20 years, LAHD or if relevant, the Acq/Rehab Fund Manager has the right to 1) provide continued assistance upon verification of need and availability of funds or 2) Approve an increase in income levels served by the Project upon natural unit turnover to the minimum extent required for fiscal integrity so as long the Project adheres to affordability requirements per Measure ULA Section 22.618.3(d)(1)(ii)(c)(4).

For projects that convert from affordable housing rentals to cooperative tenant ownership prior to 20-year period, LAHD or if relevant, the Acq/Rehab Fund Manager has the right to 1) reallocate remaining reserve funds from projects that no longer demonstrate a need for operating subsidy; 2) determine an annual disbursement schedule of remaining reserve to support the transition of projects from rentals to tenant ownership; and 3) in the case of conversion to a limited equity housing cooperative (LEHC), to earmark operating assistance toward interest payments in order to allow subsidized tenant-owners' carrying charges to pay down the co-op's principal, thereby enhancing wealth-building opportunities for those residents.

By directing these subsidies to House LA Acquisition and Rehabilitation funded projects, the Department will meet the Program's 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 or major adaptive reuse 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) serving special needs populations, including people experiencing homelessness, people with mental &/or physical disabilities, domestic violence survivors, transitional age youth, and reunification families. Vouchers shall be awarded for a 20-year period.

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 people experiencing homelessness, people with mental &/or physical disabilities, domestic violence survivors, transitional age youth, and reunification families), the Department will prioritize special needs projects with a minimum of 25% of total project units reserved for people with special needs or 50 special needs units, with the highest priority given to projects serving the greatest number of special needs households.

For projects that show a continued need for operating assistance after 20 years, LAHD has the right to 1) provide continued assistance upon verification of need and availability of funds or 2) Approve an increase in income levels served by the Project upon natural unit turnover to the minimum extent required for fiscal integrity and so as long the project meets the affordability requirements per Measure ULA Section 22.618.3(d)(1)(ii)(b).

For projects that establish, or convert from affordable housing rentals to, tenant ownership prior to 20-year period, LAHD has the right to 1) reallocate remaining subsidy funds from projects that no longer demonstrate a need for operating subsidy; 2) determine an annual disbursement schedule of remaining funds to transition projects from rentals to tenant ownership; and 3) in the case of conversion to, or initial establishment of, a limited equity housing cooperative (LEHC), to earmark operating assistance toward interest payments in order to allow subsidized tenant-owners' carrying charges to pay down the co-op's principal, thereby enhancing wealth-building opportunities for those residents.

By directing these subsidies to House LA Alternative Models for Permanent Affordable Housing funded projects, the Department will become better situated to meet the Program's 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 shall be dedicated 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,” while the unit is 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 demonstrate to 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 rent shortfalls caused by vacancies for 60 days while a property manager finds a replacement tenant-based voucher holder. The County system also covers security deposit costs through the backstop to facilitate rapid move ins. 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 shall develop a similar system, or subcontract with a third party to administer it, to ensure the City’s ability to locate tenant-based voucher holders to fill vacancies, and the long-term viability of the Backstop.

Section E. Timeline, Funding Apportionment, & Citizens Oversight Committee Re-Evaluation

To ensure a financially healthy ratio between the fund and the units it supports, the Operating Assistance fund shall accrue for one fiscal year before any commitments are made. Following the first year, the Los Angeles Housing Department shall confer with the Citizens Oversight Committee and House LA Inspector General on the status of the fund through a formal presentation at a Citizens Oversight Committee meeting. At this time, informed by the status of the fund, the Citizens Oversight Committee shall use its authority to consider apportioning a percentage of the funds to a ULA-funded project-based operating assistance program with a first priority placed on ULA projects coming online through the ULA Accelerator Plus Program and the House LA Acquisition and Rehabilitation program. House LA Acquisition and Rehabilitation projects must be part of this first prioritization due to the fact that they require operating assistance on a faster timeline than other projects because they are not built from the ground up, and extremely- and acutely- low income rent-burdened residents may already occupy units in the acquired buildings. Also during this initial review, the Citizens Oversight Committee shall consider creating Tenant-Based Voucher Backstop commitments, if accrued funding allows. This apportionment shall stand for one year, unless revised by another ULA Citizens Oversight Committee meeting with the Los Angeles Housing Department and another formal vote from the ULA Citizens Oversight Committee.

In the first and each subsequent year when Alternative Models of Permanent Affordable Housing projects are in predevelopment, and in light of any portfolio-wide and/or building-specific dedication of

units for Special Needs and/or ALI households, the Citizens Oversight Committee will also prioritize rental assistance for those projects, where necessary to meet program goals.

The apportionment of the operating assistance funding between the Acq/Rehab Capital Operating Subsidy Reserve, project-based rental assistance program and the Tenant Based Voucher Backstop approach shall be reevaluated by the Citizens Oversight Committee and Inspector General in collaboration with the Los Angeles Housing Department at least once per fiscal year. To whatever degree possible, the Citizens Oversight Committee shall seek to maximize the number of units supported by the Operating Assistance Fund by relying on the Backstop as much as funds will permit. At least annually, the Los Angeles Housing Department will be required to confer with the Citizens Oversight Committee and Inspector General on the status of ULA's Operating Assistance funding and collaborate with the Citizens Oversight Committee to make fiscally sound adjustments to the programs. These decisions shall consider: the goals of House LA as written in Measure ULA, the COC Housing Needs Assessment, ULA revenues for the previous year, projected revenues, the amount accrued in the fund to date, the number of units the Backstop is supporting at that time, and any existing commitments made to the Acq/Rehab COSR and project-based rental assistance program to date. During this review, the Citizens Oversight Committee shall have the power to reevaluate and adjust the ratio of funding dedicated to the Acq/Rehab Capital Operating Subsidy Reserve, the project-based rental assistance program and the Tenant Based Voucher Backstop program for the following year. Beyond this review, The Citizens Oversight Committee shall also have the authority to call for an audit of the Operating Assistance fund by the Los Angeles Housing Department at any time.

The allocation of funds to the Acq/Rehab Capital Operating Subsidy Reserve and project-based rental assistance program should directly correlate with how many units ULA revenues produce under the Acquisition and Rehabilitation, Alternative Models, and Multifamily Affordable Housing Programs. Similarly, the Backstop allocation will have to be informed by production rates and continually expand as it supports more units to ensure that it remains a solvent and viable financing option to attract private investment into the affordable housing projects it supports. The Backstop's funds shall remain dedicated to and reserved for this use, and shall not be repurposed once committed, or it will disrupt legal contracts between developers and investors, and put all units supported by the Operating Assistance Fund at risk of insolvency.