RON GALPERIN
CONTROLLER

February 23, 2022

Honorable Eric Garcetti, Mayor
Honorable Michael Feuer, City Attorney
Honorable Members of the Los Angeles City Council

Re: The Problems and Progress of Prop. HHH

More than five years have passed since voters approved Proposition HHH in 2016, which authorized City officials to issue up to $1.2 billion in general obligation bonds to develop or acquire thousands of units of what is commonly known as “supportive” housing, along with additional affordable housing, interim housing, restrooms, showers, health clinics and storage facilities. The measure allowed for citizen oversight and a yearly financial audit by the City Controller. My office also examined the performance of HHH in 2019 and 2020, offering recommendations to help lower project costs, streamline permitting and create timely interim solutions. Our goal was — and remains — to better align the City’s chief homeless housing program with the urgency of the crisis at hand.

The 2020 Greater Los Angeles Homeless Count estimated that there are more than 41,000 unhoused residents in the City of Los Angeles alone — a 45 percent increase since HHH passed. According to the L.A. County Department of Public Health, thousands of unhoused residents died on the streets during this period, increasingly due to overdoses or violence. Over the last two years, the pandemic has exacerbated the situation, spurring new policy initiatives and greater desire to make HHH more impactful. Nevertheless, **HHH is still unable to meet the demands of the homelessness crisis**. The cost of each unit continues to rise and the pace of development remains sluggish. This report looks at the most recent year of HHH and recommends that the City closely review the program’s problems and progress to improve HHH right now and inform any future homeless housing endeavors.

Problems overshadow progress

As of December 2021, the City had designated more than $1.1 billion in HHH funding to housing and facilities projects. Ninety-five percent of those funds were set aside for development of supportive and affordable housing. The City has closed approximately $750 million in HHH-funded loans.

There are 8,091 total housing units — 6,578 supportive — spread across 125 projects in various stages of development: 14 percent of units are ready for occupancy; 54 percent are in construction and 32 percent are in pre-development. The vast majority, 110 projects, are part of the primary HHH pipeline led by the Los Angeles Housing Department (LAHD). These projects are taking between three to six years to complete, with the majority to open between 2023 and 2026. The remaining projects are being developed through the HHH Housing Challenge (Housing Challenge). Sixteen percent are in construction and the rest are in pre-development.

Overall HHH per-unit costs in the primary pipeline continue to climb to staggering heights. For projects in construction, the average per-unit cost increased from $531,000 in 2020 to $596,846 in 2021. **Fourteen percent of the units in construction exceed $700,000 per unit, and one project in pre-development is estimated to cost almost $837,000 per unit**, $100,000 more per unit than the most expensive project in 2020. Approximately 87 percent units are studios or one-bedroom apartments. Per-unit costs for Housing Challenge projects in construction are coming in cheaper so far — approximately $450,000.

As my office noted in each of our previous reports, Prop. HHH funds comprise only part of total development costs for each project. The average HHH City subsidy is $134,000 per unit and $111,000 for Housing Challenge projects. However, it is indisputable that higher overall per-unit costs have contributed to project delays, leaving fewer units available in a timely manner. The City must find a way to bring down the overall per-unit cost of developing homeless housing now and in the future.

Implementation needed

My current report found HHH has achieved mixed results. Although more projects have been completed and are in construction than when my office last looked at the program, there are opportunities to better use the remaining funding and any additional money that may become available if expensive or delayed projects cannot be completed. The City is in the process of implementing two of four major recommendations from our previous HHH reports, but additional steps should be taken right away to address the issues that persist. Here is a brief look at our recommendations:

Recommendation	Status	Comments
Speed up the City review processes for HHH-funded projects.	In progress	L.A. has made some progress on this, primarily by collaborating with developers and City departments to streamline processes and troubleshoot issues on a project-by-project basis.
Acquire and convert existing buildings for housing.	In progress	Our office recommended that the City focus on acquiring and converting existing properties without tenants to

		counter rising construction costs and land use issues. LAHD is now exploring using $80 million from HHH to acquire 868 existing units as part of the next phase of Project Homekey.
Build interim housing and facilities using HHH funds.	Not implemented	While HHH's primary goal was to develop supportive housing, interim housing, restrooms, showers and storage may also be built. The City has allocated just $58 million in HHH funds for interim housing and facilities — a mere five percent of the $1.1 billion awarded.
Reevaluate expensive or stalled projects before finalizing HHH loans.	Not implemented	The City should evaluate its ability to reallocate HHH funding commitments for costly projects. Twenty-seven projects in the primary pipeline do not have loans in place. In response, City officials have voiced worries about damaging relationships with developers and cited potential legal concerns.

While Los Angeles has made moderate progress with HHH, more is possible and badly needed. As an immediate step, my office's recommendations should be implemented. They will enhance the program today and can inform any future initiatives that will be needed to help the City achieve its long-term goals — adding as much housing as possible to aid the unsheltered population and reduce homelessness. If the City does not learn from its mistakes, it risks repeating them.

Respectfully submitted,

RON GALPERIN
L.A. Controller

THE PROBLEMS AND PROGRESS OF PROP. HHH

RON GALPERIN
LA CONTROLLER

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EXECUTIVE SUMMARY

More than five years have passed since Angelenos overwhelmingly approved Proposition HHH. The ballot measure authorized the City to issue up to $1.2 billion in general obligation bonds to develop or acquire supportive housing. Supportive housing combines subsidized housing with services (e.g., health services, mental health and substance abuse treatment, job training) to help improve the lives of chronically homeless people. Proposition HHH funds can also be used to develop affordable (i.e., income-restricted) housing for people at-risk of homelessness or facilities such as shelters, restrooms, showers, storage, health clinics, and navigation centers. The ballot measure requires at least 80% of HHH funds to be used for supportive housing and facilities, and up to 20% can be used to develop affordable housing.

Since Proposition HHH was approved, the homelessness crisis in Los Angeles has grown in magnitude and severity. The most recent point-in-time count—conducted before the pandemic—showed tens of thousands of unsheltered residents and a growing number of daily tragedies due to overdoses and violence. Recent policy decisions and shifts in public opinion suggest widespread dissatisfaction with the current situation. **While Proposition HHH was not designed to end homelessness in Los Angeles, it remains a centerpiece of the City's strategy.**

Proposition HHH requires the Controller's Office to perform annual financial audits for each year in which bonds are outstanding or bond proceeds remain unspent. **The audit for fiscal year 2020 (see Appendix) did not identify any significant irregularities or improprieties related to Proposition HHH.**

We also reviewed the performance of the program. Our 2019 and 2020 reviews of Proposition HHH found that project costs were high and estimated timelines were not aligned with the urgency of the homeless emergency in Los Angeles. This review was intended to provide a status update on Proposition HHH and assess the extent to which the City implemented our previous recommendations. Unless stated otherwise, the data and information contained in this report provides a snapshot of the program as of December 2021.

We found mixed results during this review of Proposition HHH.

- The number of completed housing projects and projects in construction increased since our last review. But per unit costs continue to climb to excessive levels**—over $800,000 in one instance—**and the total number of completed units **(1,142)** is wholly inadequate in the context of the ongoing homelessness emergency.

- The HHH Housing Challenge continues to show promise in terms of per unit costs, but most of the projects are significantly behind development timelines that were established when the program was launched in 2019.
- The City is in the process of implementing two recommendations from our previous reports. Specifically, the City has taken steps to improve case processing timelines in several departments and is planning to use Proposition HHH funds to acquire extended-stay hotels and newly-built apartment buildings without tenants.

Given the scale of the homelessness crisis in Los Angeles, the need to build supportive, affordable, and interim housing will remain long after funds from Proposition HHH are fully depleted. **It is critical that the City use lessons learned from the last several years to guide its future efforts.**

Most bond proceeds remain unspent, but nearly $750 million in loans have been closed

The City has designated more than $1.1 billion in Proposition HHH funds. **Approximately 95% of the designated funds have been set aside for development of supportive and affordable housing.** The conditional funding commitments are eligible for loan closing once developers successfully complete the financing process and obtain the necessary entitlements to build. The City has closed approximately $750 million in HHH-funded loans to date.

Proposition HHH bond proceeds are typically not disbursed to developers until loans close and construction begins. To ensure adequate funds are on hand for this process, the City periodically issues Proposition HHH general obligation bonds. The table below provides a snapshot of the bond issuances since the ballot measure was approved and Proposition HHH funds that have been disbursed.

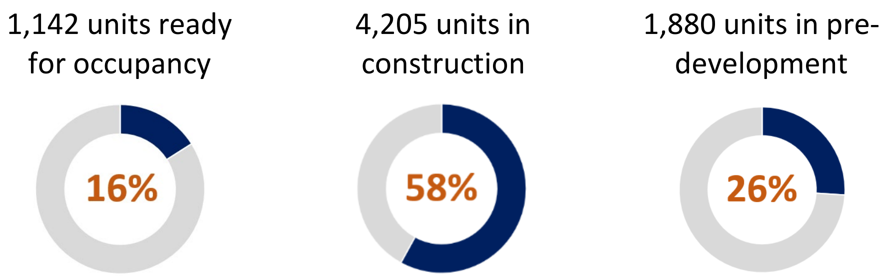
Total HHH authorized amount		HHH bonds issued		HHH bond proceeds disbursed
$1,200,000,000	➡	**$574,550,000**	➡	**$347,498,810**

As shown in the table, the City has issued bonds valued at almost half of the total amount authorized by voters. A significant portion of bond proceeds remain unspent—relative to the total bonds issued and to the maximum authorized amount—**but this process will likely accelerate in the coming months due to the number of projects that have recently moved into the construction phase.**

Less than 1,200 housing units have been completed, but there are almost 4,400 units in construction

The City set a goal of developing 10,000 housing units within a ten-year timeframe. According to the City, its plans to reach this goal consisted of housing units developed using HHH funds and supportive units developed using non-HHH funding sources. There are 8,091 total housing units (6,579 supportive) spread across 125 projects that have been designated funding through Proposition HHH. The non-HHH pipeline includes 2,369 supportive units.

The Los Angeles Housing Department (LAHD) is responsible for facilitating the development of most housing units funded through Proposition HHH. **More than five years after voters approved Proposition HHH, only 1,142 total units have been completed. However, the overall share of units in pre-development dropped considerably since our last report—from 71% to 26%. This represents important progress.** The following graphs provide an overview of all housing units being developed through the LAHD/HHH pipeline.



In addition to the LAHD/HHH pipeline, there are 864 units being developed through the HHH Housing Challenge, which was launched in 2019. The City set aside $120 million in funds with the intention of finding ways to lower costs and shorten timelines using strategies outside of the LAHD/HHH process. **Nearly all of these units (84%) remain in pre-development.**

Total development costs for Proposition HHH housing projects continued to grow

Los Angeles is an expensive place to build multifamily housing—that challenge is embedded into the cost of developing supportive housing through Proposition HHH. It is further complicated by a combination of cost factors including prevailing wage requirements, financing complexity, land use issues, project labor agreements, and building characteristics (e.g., enhanced accessibility standards). In addition, the pandemic has created a variety of labor and supply chain issues, further pushing costs upward.

Funds from Proposition HHH make up only a portion of total development costs. Across all projects in the LAHD/HHH pipeline, the HHH subsidy per unit is approximately $134,000, or 23% of the total development cost of a project. The remaining funds come from a combination of private and other government (i.e., taxpayer) sources. **The large amount of public subsidies—which are finite—underscores the importance of controlling project costs beyond the City's**

Proposition HHH contribution. The following snapshot shows estimated per unit development costs through the LAHD/HHH pipeline.

Ready for Occupancy	In Construction	Pre-development
$520,879	**$596,486**	**$579,634**

Based on our analysis, construction costs typically make up approximately 63% of total development costs for projects in the LAHD/HHH pipeline. Developers typically finalize construction contracts with general contractors as their projects move toward loan closing (i.e., the latter stages of the pre-development phase). **As a result, overall project costs reflect construction market conditions at the time contracts were signed.**

- Proposition HHH loans for all of the completed projects were closed in 2018 and 2019 (i.e., pre-pandemic). The significant increase in costs for projects in construction can be partly attributed to pandemic-driven spikes in the cost of lumber and other building materials. **Approximately 14% of units in construction exceed $700,000 per unit.**

- Budgets for projects currently in pre-development will be adjusted—potentially upward—once developers finalize construction contracts. **One project in this group is currently estimated to cost $837,000 per unit.** The HHH-funded project is part of a larger mixed-use development led by the Los Angeles County Development Authority. The City cited County Workforce Agreements, infrastructure upgrades, and parking costs as some of the contributing factors to the high per unit cost.

The per unit cost of the three HHH Housing Challenge projects in construction is approximately $450,000 and the estimated per unit cost for 12 projects in pre-development is $434,000. Overall, projects in the HHH Housing Innovation Challenge are on track to receive less HHH funds per unit ($111,000) compared to projects in the LAHD/HHH pipeline.

There are other ways to contextualize costs associated with housing projects being developed through Proposition HHH. Approximately 87% of the units being built through the LAHD/HHH pipeline are compact studios or one-bedroom apartments. The remaining units consist of multiple bedrooms and are intended to house families experiencing homelessness. The City estimates that between 9,000 and 14,000 people will be housed when all projects in the LAHD/HHH pipeline are completed. Using this methodology, the estimated cost per tenant or bedroom would be lower than the per unit costs described above.

While project costs and timelines are distinct lenses through which to evaluate projects, they are intrinsically linked. **Developers of projects with higher costs typically have a larger funding/financing gap to fill, which adds time and complexity to the process. Longer project timelines typically contribute to higher carrying costs and greater uncertainty for supportive housing developers and investors.**

Development timelines for Proposition HHH-funded housing projects continued to grow—more than half of total housing units will not be completed until January 2023 or later

The overall project lifecycle for projects developed through the LAHD/HHH pipeline is divided into four key phases: planning; pre-development; construction; and lease up. For purposes of this review, we focused on pre-development and construction phases.

A major factor in pre-pandemic timelines for projects in the LAHD/HHH pipeline has been the design of the program itself. **Proposition HHH funds are typically the first funding source for projects. Developers are provided up to two years in pre-development to secure adequate funding/financing from several different entities to make their project viable.** The pre-development process also consists of obtaining the necessary permits and approvals from City departments to begin construction.

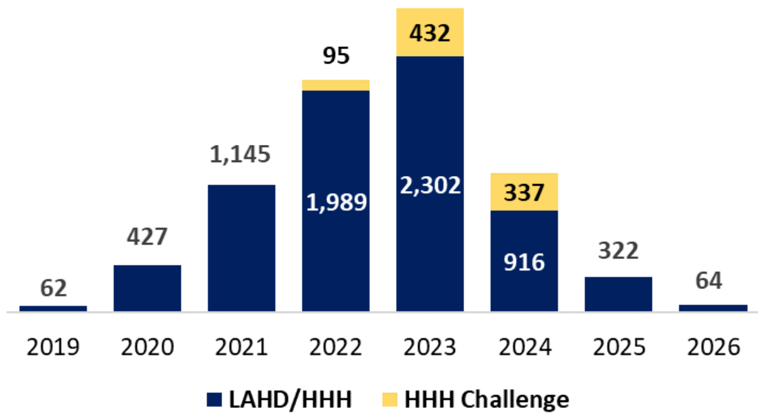
The onset of the pandemic disrupted several components of the pre-development and construction process. Government agencies faced staffing shortages, extended funding timelines/deadlines, and implemented social distancing requirements at worksites. The table below provides a snapshot of project timelines from the LAHD/HHH pipeline. It measures the length of time from funding commitment to occupancy stage for the 15 projects completed since our last report and remaining projects which are in progress.

Completed Projects (actual timeline)	Projects in Progress (estimated timeline)
3.4 years	**4.3 years**

The City established an aggressive two-year project completion timeline for developers that received funding approvals through the HHH Housing Challenge. The original goal was for these projects to complete construction by the end of 2022, but the pandemic and other factors affected the trajectory of the program. **Based on current estimates, the length of time to complete HHH Housing Challenge projects may not be significantly different than projects developed through the LAHD/HHH pipeline.**

The graph below provides a snapshot of actual and estimated completion dates for all housing units funded through Proposition HHH since the ballot measure was approved—**more than half of the total units are not scheduled to be completed until January 2023 or later.**

Actual/Estimated Availability of LAHD/HHH and HHH Housing Challenge Units



Even after Proposition HHH-funded housing projects are completed, much work remains. Many of the chronically homeless Angelenos residing in these apartments will need assistance in the form of wraparound services, which is the responsibility of Los Angeles County. It is also important that adequate resources and support are available to help people who wish to transition out of supportive housing because they no longer need or desire services.

Recommendation Follow Up

Our previous reviews of Proposition HHH concluded that project costs were high and estimated development timelines did not reflect the needs of unhoused residents living in dangerous conditions. Specific recommendations from our previous reviews are listed below, along with updates on the City's progress toward implementation.

Change course on expensive or stalled projects before finalizing HHH loans — Not Implemented

Several projects in the LAHD/HHH pipeline have been beset by significant cost increases and delays after receiving conditional funding commitments from the City. We recommended that the City evaluate its ability to reallocate Proposition HHH funding from outlier projects before loans close. At the time of this review, there were 27 projects in the LAHD/HHH pipeline without loans in place.

The City does not intend to implement this recommendation due to concerns that early cancellation of a funding commitment would compromise business relationships with supportive/affordable housing developers who have secured sites and worked in good faith to move projects forward. In addition, City officials cautioned that withdrawing a funding commitment could create legal issues for the City.

Speed up City review processes for HHH-funded projects. In progress

Our previous reviews of Proposition HHH highlighted the City's longstanding challenges with timely and efficient approvals for multifamily housing. We recommended that the City make improvements to its permitting processes, increase staffing, expand the scope of its existing streamlining policy, and implement public reporting requirements for relevant departments.

While the onset of the pandemic has created staffing challenges and the City needs to improve its overall digital services strategy, **the issuance of Executive Directive #30 (ED30) in April 2021 established case processing goals and increased the number of departments that must participate in streamlining efforts.** But the City has not yet developed a public-facing dashboard to increase transparency and accountability.

Build more interim housing and facilities using funds from Proposition HHH Not Implemented

One of our ongoing concerns about Proposition HHH has been the imbalance in how the funds have been distributed across project types. **Despite a mounting death toll of unsheltered residents, the City has focused almost exclusively on building supportive housing—typically from the ground up—which is expensive and takes several years to complete.** The City began building bridge shelters in 2018, but the overall number of beds fell significantly short of the tens of thousands of unsheltered Angelenos. Stopgap measures like interim housing and facilities will not end homelessness, but they will improve living conditions for unsheltered residents who are waiting for supportive housing that will not be built for several years.

To date, the City has set aside approximately $58 million in Proposition HHH funds for interim housing/facilities—**a mere 5% of the $1.1 billion that has been designated.** We recommended that the City reallocate Proposition HHH funds or use remaining funds to develop interim housing or facilities. This amount has remained unchanged, but the City has designated significant amounts of emergency federal funding to develop 6,700 homeless interventions (e.g., tiny home villages, hotel/motel rooms, safe parking) as part of an agreement with the County. The addition of these sites is important progress for both unsheltered residents and neighborhoods with large encampments.

Acquire and convert commercial properties or apartment buildings without tenants In progress

New construction of multifamily housing in Los Angeles is both expensive and time consuming. Given the magnitude and severity of the homelessness crisis, we recommended that the City prioritize strategies such as acquiring and converting buildings without tenants—like hotels and motels—because of the potential time and cost savings. While older buildings typically require renovations to make them compliant with accessibility and fire safety requirements, they are less likely to approach $600,000 per unit.

The State launched a program ("Project Homekey") using this approach as part of its emergency pandemic response in 2020. Local government entities were required to provide matching funds and the properties needed to be brought into service shortly after acquisition. The City acquired 15 properties using non-HHH funds and **most of the sites will function as interim housing for three to five years until they are converted to supportive housing. Altogether, these acquisitions included 891 units at a cost of approximately $223,000 per unit. The City cautions that the costs to convert several of the properties may be significant** given the overall site conditions and enhanced accessibility requirements.

Over the last several months, the City began planning for a second wave of Project Homekey acquisitions as a result of additional funds made available by the State. **Unlike the initial phase of Project Homekey, the City is planning to use $83 million in remaining Proposition HHH funds to fulfill a portion of the program's matching requirements.** At the time of this report, the City is seeking to acquire nine properties (a mix of extended-stay hotels and newly-built but never occupied apartment buildings) at a total cost of approximately $427 million. **If these acquisitions are successful, they will provide 868 units of supportive housing at an estimated cost of $492,000 per unit. In addition, they will likely be placed into service within the span of months—in sharp contrast to most housing projects funded through Proposition HHH.**

CONCLUSION

The passage of Proposition HHH remains a critical moment in the City's recent history. It facilitated the development of thousands of units of housing that will help unhoused residents and people at risk of homelessness. Our previous reviews of Proposition HHH highlighted gaps in the City's overall strategy and issues—some of which are outside the City's direct control—that contribute to expensive projects and lengthy development timelines. During this review, we found that less than 1,200 units have been produced in five years and estimated costs for several projects exceed $700,000 per unit.

Even after all HHH-funded housing projects are completed, it is likely that significantly more Angelenos will be experiencing homelessness compared to when the ballot measure was approved. Each day spent without housing or shelter puts those individuals at risk for tragic outcomes. While future plans have not been finalized, building tens of thousands of additional units using the same model will likely cost billions of dollars and will take far too long to match the urgency of the ongoing homeless emergency. Going forward, we continue to urge the City to pursue more balanced approaches and find ways to scale up faster and cheaper projects.

I. Background

In November 2016, more than 77% of voters in the City of Los Angeles (City) approved Proposition HHH. The ballot measure authorized the City to issue up to $1.2 billion in general obligation bonds to develop or acquire supportive housing. Proposition HHH funds can also be used to develop affordable (i.e., income-restricted) housing for people at-risk of homelessness or facilities such as shelters, restrooms, showers, storage, health clinics, and navigation centers. The ballot measure requires at least 80% of HHH funds to be used for supportive housing and facilities, and up to 20% can be used to develop affordable housing.

Proposition HHH requires the Controller's Office to perform annual audits for each year in which bonds are outstanding or bond proceeds remain unspent. **The financial audit for fiscal year 2020 (see Appendix) did not identify any significant irregularities or improprieties related to Proposition HHH.**

Consistent with the authority established in the City Charter, we also reviewed the performance of the program in 2019 and 2020. **We found that the total cost of developing housing projects using HHH funds was high (approximately $550,000 per unit in 2020) and estimated timelines (three to six years from concept to occupancy) were not aligned with the growing magnitude and severity of the homelessness crisis in Los Angeles.** Accordingly, we recommended that the City pursue the following strategies to help lower costs, shorten timelines, and maximize the overall impact of funds from Proposition HHH.

- **Change course on expensive, slow projects** – Despite years of data showing rising construction costs and project delays, the City's overall strategy has remained mostly unchanged. We recommended that the City evaluate its ability to reallocate funding from outlier projects before loans close and find ways to use any remaining Proposition HHH funds to deliver faster and less expensive projects.
- **Speed up City approval processes –** The City has longstanding challenges with permitting and interdepartmental coordination in the context of housing development. We recommended that the City boost staffing, expand its existing streamlining efforts, and increase transparency and accountability around these issues.
- **Build more interim housing and support facilities** – Stopgap measures will not end homelessness in Los Angeles. But using available Proposition HHH funds to increase the supply of interim housing and facilities will help unhoused residents meet their basic health, hygiene, sanitation, and storage needs.
- **Acquire and convert commercial properties or apartment buildings without tenants –** Nearly all Proposition HHH housing projects are new construction, which means that overall costs are directly tied to the rising cost of labor and materials. Different approaches—which require less construction—could prove cheaper and faster to

complete if adequate funding is available to purchase and repurpose hotels/motels, unused commercial/office space, and newly-built residential buildings that have not been leased up.

More than five years have passed since Angelenos overwhelmingly approved Proposition HHH. This milestone provides an opportunity to measure the City's progress to date, follow up on recommendations, and identify lessons learned that should inform future programmatic and policy decisions about homelessness. Unless stated otherwise, the data and information contained in this report provides a snapshot of the program as of December 2021.

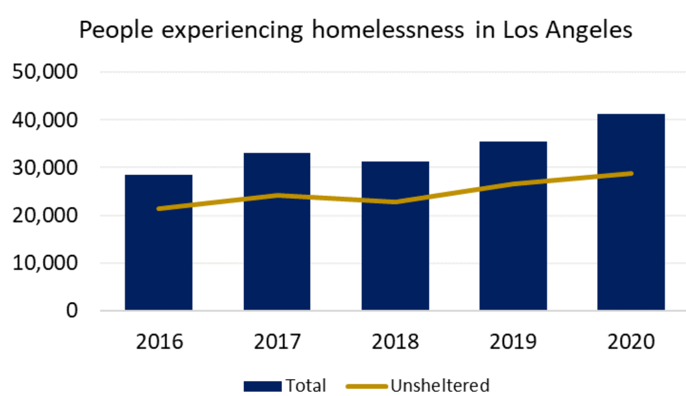
Homelessness in Los Angeles

There is an extensive body of research that explores the underlying causes of homelessness. Academics, subject matter experts, and people with lived experience have identified factors such as structural racism, stagnant wages, lack of affordable housing, and an overall weakening of the social safety net. **And while several of the causes identified by researchers are decades in the making and outside of the City's direct control, the overall effects of those societal challenges and policy decisions can be seen throughout Los Angeles.**

Housing and facilities developed using funds from Proposition HHH are part of a larger strategic framework designed to tackle homelessness. The City's Enhanced Comprehensive Homeless Strategy provides the roadmap and direction to departments to implement programs and projects. The County of Los Angeles (County) has a similar strategy roadmap and uses funds from Measure H (passed by voters in March 2017) to provide an ongoing revenue stream to fund services, rental subsidies, and housing. The Los Angeles Homeless Services Authority (LAHSA) has a central role in conducting outreach and administering programs that provide shelter, housing, and services to people experiencing homelessness.

Despite significant funding and attention over the last several years, the homelessness crisis continued to grow in Los Angeles—even before the onset of the COVID-19 pandemic.

- **More people are falling into homelessness** – The most recent point-in-time count (conducted in January 2020) estimated that there were more than 41,000 people experiencing homelessness in Los Angeles, a 45% increase since 2016. Similarly, the same point-in-time count estimated that there were nearly 29,000 unsheltered individuals—which represented a 35% increase since 2016.



Source: LAHSA

Although the 2021 point-in-time count was suspended due to public health concerns about COVID-19, data from the upcoming point-in-time count (scheduled for February 2022) will provide valuable insight into how the homeless population in Los Angeles has changed—and whether the City's approach should change.

- **Unhoused residents continue to suffer tragic outcomes** – An upcoming report from the Los Angeles County Department of Public Health (DPH) will provide greater insight into how many people experiencing homelessness have died since 2019 and the underlying causes of those tragedies.

  DPH's last report included a preliminary analysis of the impact of COVID-19 on the unhoused population during the seven-month period (January to July 2020) which represented the onset of the pandemic. DPH estimated that 929 unhoused residents died during this period—approximately five people each day—and noted that the total number of deaths represented a 26% increase compared to the same seven-month period in 2019. But DPH found that COVID-19 was the fifth leading cause of death for unhoused residents—drug/alcohol overdoses ranked first. The research also showed a spike in deaths across racial/ethnic groups resulting from fentanyl-related overdoses.

The lack of progress—real, perceived, or some combination thereof—around the issue of homelessness is fueling policy changes and reshaping public opinion. For example, the City made significant changes to its camping laws throughout 2021 and a large number of geographic zones are now off limits to unhoused residents. In addition, the Los Angeles Business Council, in coordination with the Los Angeles Times, recently conducted a poll of 906 voters in LA County which highlighted growing dissatisfaction with the current situation.

- When asked about the issue of homelessness in LA County, 79% of respondents stated that the situation has gotten worse in the last several years. In addition, 89% of respondents stated that homelessness has either gotten worse or stayed the same in their own neighborhood.
- By nearly a 2-to-1 margin, respondents preferred using existing funding to build short-term shelter sites which can be built quickly/cheaply for most of the homeless population (57%) rather than building long-term housing which costs more/takes longer and may serve a smaller segment of the homeless population (30%). A similar question from the 2019 version of the survey showed strong support for long-term policies (59%) over short-term policies (23%).

These shifts in public opinion are noteworthy given the possibility that Angelenos will be voting on a ballot measure in November 2022 that is projected to generate hundreds of millions of dollars in annual revenue for a variety of initiatives to tackle homelessness–including development of supportive housing. Given that possibility, it is critical that the City use insights from its experience with Proposition HHH as a guide for its future efforts.

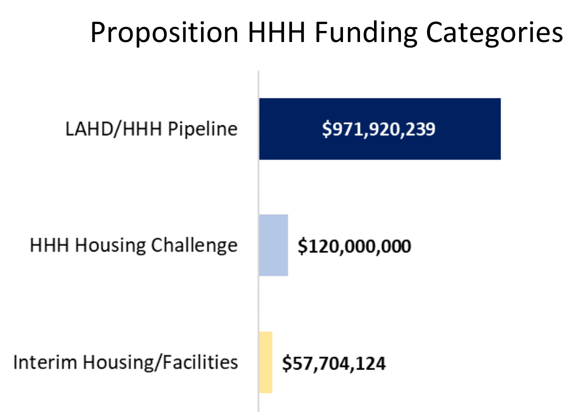
II. Proposition HHH Status

The City set a goal of developing 10,000 housing units within a ten-year timeframe. According to the City, its plans to reach this goal consist of housing units developed using HHH funds and supportive units developed using non-HHH funding sources. Based on the current trajectory of the program, there are 8,091 total housing units across 125 projects that have received or will likely receive funds from Proposition HHH. The total units include 6,578 units of supportive housing and 1,513 units of non-supportive housing (i.e., income-restricted affordable housing and building manager units). The non-HHH pipeline includes 2,369 supportive units.

The distribution of Proposition HHH funds across program categories remain mostly unchanged since our last report. The City did not initiate a formal call for projects and allocate any remaining funds, although potential uses for remaining and reprogrammed funds have been discussed with the Council and Proposition HHH Citizens Oversight Committee.

The City set aside nearly all Proposition HHH funds for development of supportive and affordable housing

Data reported by the City shows that approximately $1.1 billion—nearly the entire amount authorized by the ballot measure—has been designated as of December 2021. Nearly all (95%) of the designated funds have been set aside for development of supportive and affordable housing.



Although Proposition HHH was presented to voters primarily as a strategy to increase production of supportive housing, it also authorized the City to use HHH funds to develop interim shelter and facilities. But the ballot measure did not specify the funding distribution across these categories and key funding and programmatic decisions were left to the Los Angeles Housing Department (LAHD), the Office of the City Administrative Officer (CAO), and City Policymakers.

The City's decision to primarily focus on permanent housing was guided by the Housing First approach to homelessness, which has been supported by the United States Department of Housing and Urban Development (HUD), State of California, and LAHSA. Housing First approaches seek to quickly house people experiencing homelessness without preconditions such as sobriety or treatment/service participation requirements.

Supportive housing is typically intended to provide chronically homeless residents with access to services such as mental health and health services, drug and alcohol treatment, education, and job training so that they can achieve housing stability and improve their quality of life. In the context of Proposition HHH, the City funds development of supportive housing and the County funds or directly provides onsite services through its various departments.

Even after all of the housing units built using Proposition HHH funds are filled with tenants, more work is needed to promote equitable and successful outcomes. The California Policy Lab recently found that 22% of enrollees in supportive housing in Los Angeles County fell back into homelessness or interim housing between January 2010 and June 2019. Of particular concern is that Black residents of supportive housing appear to be experiencing this outcome at a greater rate than other racial/ethnic groups in the study. The study also raised important questions about the consistency of services being provided, lack of opportunities for personal growth and independence, and lack of institutional support for residents who aim to move beyond supportive housing.

LAHD/HHH Development Pipeline

Development of most Proposition HHH-funded housing projects is led by LAHD. Rather than providing developers with funds to cover the full cost of a project, **the City designed the program to provide partial funding in the form of loans.** Proposition HHH funds are then leveraged to secure other sources of funding, often federal tax credits that developers must compete for through the Low Income Housing Tax Credit (LIHTC) program. This approach is widely used to develop government-funded housing with income restrictions.

The leveraging process comes with tradeoffs. On one hand, Proposition HHH funds can be stretched across a greater number of projects/units. Indeed, Proposition HHH funds are being leveraged at a 4-to-1 rate. On the other hand, the process of securing multiple sources of funding to make a project viable typically adds time and costs to each project.

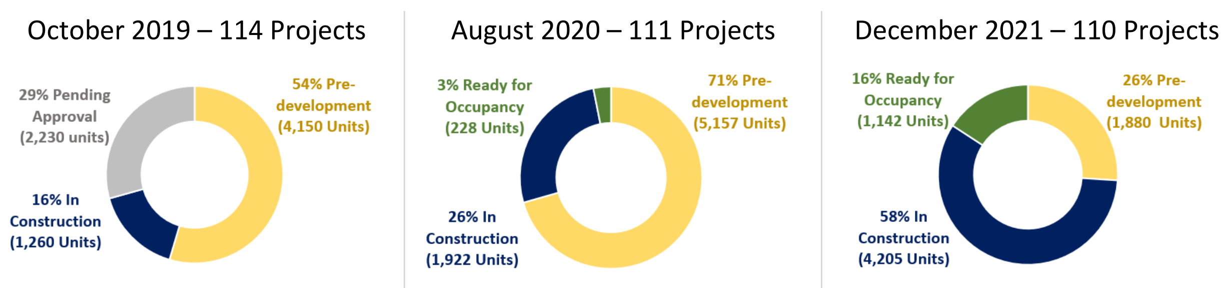
Although a formal call for projects has not been issued since February 2019, LAHD has typically solicited proposals from private housing developers seeking to build supportive housing with Proposition HHH funds. Applications submitted by developers are screened by LAHD to determine whether they meet specific baseline criteria, including:

- verification that the developer secured a property on which a Proposition HHH project could be built;
- a determination that the project is financially feasible and demonstrates long-term viability as an affordable housing project; and
- confirmation that the developer and service provider successfully managed similar supportive housing projects in the past.

At the conclusion of this process, LAHD staff develop funding recommendations that are submitted to multiple oversight committees, the City Council, and Mayor. Proposition HHH funding commitments for housing are conditional for up to two years and are typically made early in the development process. Developers spend this initial phase assembling funding to make their projects viable and obtaining necessary permits/approvals from City departments required for building multifamily housing (i.e., pre-development).

Approximately $970 million has been designated through the LAHD/HHH pipeline. **The funds are spread across 110 housing projects and December 2021 estimates show that they will provide 7,227 total housing units—5,730 of which will be supportive units.** The graphs below provide a snapshot of LAHD's portfolio of Proposition HHH projects at the time we completed each performance review of the program.

LAHD/HHH Development Pipeline



There are two key points that emerge from the graphs.

- Only 1,142 total units—831 of which are supportive—are ready for occupancy more than five years after voters approved Proposition HHH.
- Since our last report, LAHD has made progress in moving projects in the pipeline from the pre-development phase into construction.

In addition, the total number of projects in the LAHD/HHH pipeline has remained stable. At the time of our last report, uncertainties related to the pandemic increased the risk that multiple projects would be cancelled. The lone project that was discontinued returned its Proposition HHH loan (approximately $3.1 million), but is moving forward using other funding sources.

HHH Housing Challenge

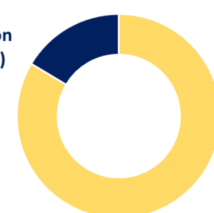
In response to concerns about project costs and timelines, the City set aside $120 million in Proposition HHH funds and initiated the HHH Housing Challenge in January 2019. The primary goal was to identify innovative construction and financing models to produce approximately 1,000 new supportive housing units within two years after receiving funding approval.

The City issued a request for proposals in May 2019 and allowed respondents to submit project applications before having a legal possession of a site on which to build housing (i.e., site control). In order to be considered for funding, applicants needed to demonstrate that their proposed approach was not eligible or feasible under current existing Proposition HHH program regulations. Development strategies submitted by applicants were evaluated by a multidisciplinary team of subject matter experts for a variety of factors, including financial feasibility, creativity, achievability, and scalability.

The selection committee recommended six developers for funding approval. Combined, their proposed projects aimed to provide 975 supportive housing units. Each developer was required to execute a memorandum of understanding (MOU) with the City within two months of being selected through the RFP process. The MOUs outlined each developer's general plan and established milestones for each phase in the development process.

Multiple projects in the HHH Housing Challenge were recently cancelled due to issues with site control and other projects are returning a portion of their funding commitment because they secured other sources of funding. **The City is considering re-programming approximately $23 million previously designed for the HHH Housing Challenge.**

HHH Housing Challenge Projects



CAO/HHH Facilities Program

The Office of the City Administrative Officer (CAO) oversees the development of facilities and interim housing using Proposition HHH funds. **The City funded 24 of these projects using approximately $58 million.** The relatively limited scope of this effort was driven by the City's decision to prioritize development of supportive housing. In 2018, the Council voted to suspend a planned request for proposals (RFP) and the CAO has not issued another solicitation for HHH-funded interim housing or facilities.

Eligible projects included rehabilitation or expansion of existing sites and acquisition or construction of new sites. In addition, projects that enhanced existing facilities to improve service delivery—such as retrofits to make buildings compliant with the Americans with Disabilities Act (ADA)—were also eligible. The overall list of completed and ongoing projects is shown below, most of which are renovations of existing facilities.

Facility Type	HHH Award	Total Cost	Completed	In process
Center	$27,484,949	$31,750,275	5	2
Shelter	$12,013,398	$12,615,578	2	3
Clinic	$7,200,000	$26,738,840	2	0
Transitional Housing	$7,114,439	$7,214,439	3	1
DV Shelter	$3,891,338	$6,100,108	3	3
Totals	**$57,704,124**	**$84,419,240**	**15**	**9**

As described later in this report, the City has significantly increased its production of interim housing through an agreement with the County, which was partly driven by a federal lawsuit. Proposition HHH funds were not used for those projects.

Most funds remained unspent, but the City has formally closed approximately $750 million in Proposition HHH housing loans

The conditional funding commitments for Proposition HHH housing projects described above are a part of a larger process. **Actual disbursement of bond proceeds from Proposition HHH does not occur until loans are executed and housing projects are ready to begin construction.** The City has closed approximately $750 million in HHH-funded loans to date. LAHD is tasked with reviewing invoices submitted by developers and approving payments based on actual work performed.

The CAO oversees the development of facilities and interim housing using Proposition HHH funds, which are made available as loans repayable through a service repayment agreement with a term corresponding to the useful life of the funded facility. Developers of facilities must periodically submit requests for reimbursement payments that are subject to review and approval by CAO staff.

To date, the City has issued three Proposition HHH bonds with a combined value of almost $575 million and spent approximately $347 million of total bond proceeds on hand. **The amount of funds spent—which is tied to construction progress—represents a relatively small share of the City's $1.2 billion bonding authority approved by voters in November 2016.** But the large number of projects that recently began construction will accelerate the rate at which Proposition HHH funds are spent.

III. PROPOSITION HHH HOUSING PROJECT COSTS

Development costs are typically divided into three basic categories:

- acquisition of **land** where the project will be built;
- labor and materials for **construction** ("hard costs"); and
- all costs other than land or construction to complete the project, including fees, financing, professional services (**"soft costs"**).

Even before the pandemic, a study by the Terner Center for Housing Innovation found that construction costs for multifamily buildings across the State were rising due to factors such as gaps in the construction workforce and higher materials costs. The unprecedented disruption brought on by the pandemic and other factors accelerated these trends. **Existing labor shortages in the construction industry became more pronounced and the cost of some**

construction materials—such as lumber—skyrocketed. While these costs have somewhat stabilized from their record highs, they remain markedly higher than their pre-pandemic levels.

There are also specific factors associated with building supportive housing—both generally and in Los Angeles—that contribute to high project costs. Our previous reviews of Proposition HHH highlighted several key factors such as the overall high cost of construction in Los Angeles, prevailing wage requirements, funding complexity, regulatory issues, land use challenges, and supportive housing characteristics (e.g., enhanced accessibility standards). In addition, research by the RAND Corporation recently highlighted that project labor agreements—which are required for all HHH projects at least 65 units—can increase construction costs by approximately 15%.

Some stakeholders have downplayed concerns about high total development costs because Proposition HHH funds are not being used to fully fund housing projects. Across all projects in the LAHD/HHH Development Pipeline, **Proposition HHH funds comprise approximately 23% of total development costs.** According to LAHD, costs not covered by HHH are typically funded by:

- a loan from a bank or bond lender;
- equity investors seeking federal tax credits (typically LIHTC); and
- other governmental programs.

While federal tax credits and funding from State/County programs are not funded by the City, they are still taxpayer dollars and must be carefully spent.

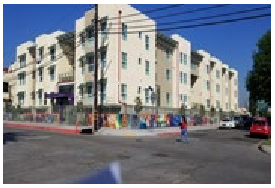
The overall cost of Proposition HHH-funded housing projects continued to grow

Because construction contracts are finalized as the project approaches loan closing, original cost estimates—which are typically developed up to two years in advance—are subject to revision as the projects move from the pre-development phase into construction. **This key point—HHH project development costs reflect market conditions at the time construction contracts are signed—is essential to understanding the program.** Proposition HHH loan amounts to developers cannot be increased to account for construction budget cost overruns without the approval of the Council.

Cost of Proposition HHH Supportive Housing Projects Ready for Occupancy

There are 18 LAHD/HHH pipeline projects that have been completed and are ready for occupancy. In total, the projects include 1,142 housing units, 831 of which are supportive. The City awarded approximately $154 million in Proposition HHH loans for these projects—an average of approximately $135,000 per unit.

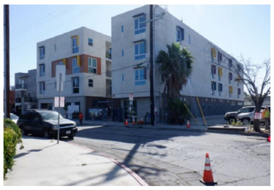
LAHD/HHH Development Pipeline Projects Ready for Occupancy


88th and Vermont


PATH Metro Villas II


649 Lofts

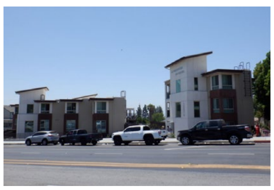
Aria Apartments


Casa del Sol

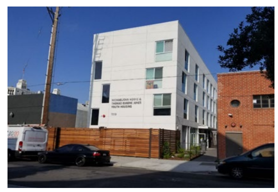

Residences on Main


Flor 401 Lofts


RISE Apartments

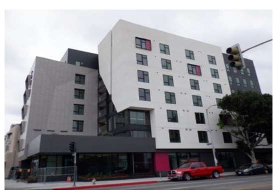

Metamorphasis on Foothill


Western Avenue Apartments

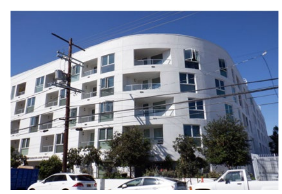

McCadden Plaza Youth Housing

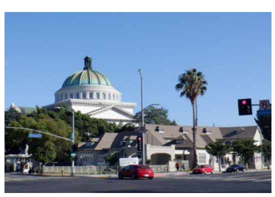

The Pointe on Vermont


Gramercy Place Apartments


SP7 Apartments


Hartford Villa Apartments


McCadden Campus Senior


Casa de Rosas

Emerson Apartments

The table below provides a summary of total development costs for projects ready for occupancy. **It should be noted that this group of projects closed their loans between December 2017 and November 2019—before the tumult of the pandemic began affecting project costs and timelines.**

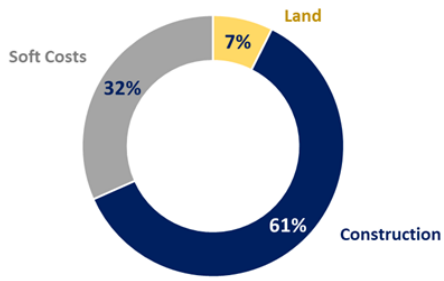
Cost Per Unit of 18 HHH Supportive Housing Projects Ready for Occupancy

Lowest	Average	Highest
$346,678	**$520,879**	**$667,138**

In addition, LAHD notes that projects are still under construction when they reach the "Ready for Occupancy" stage. **Construction doesn't end—and the final costs are not officially tabulated—until all punch list items are completed, and when the Final Certificate of Occupancy is obtained. As a result, the costs listed above may be further revised until projects are officially complete.** Proposition HHH program regulations require a third-party cost certification audit to be completed within 60 days of the issuance of the Certificate of Occupancy.

To determine how development costs are distributed across projects, we analyzed data from LAHD and found they were consistent with a 2020 study by the Joint Center for Housing Studies at Harvard University.

Cost Distribution of 18 Projects Ready for Occupancy



Average Cost of 18 Projects Ready for Occupancy

Avg. units	63
Construction	**$20,134,902**
Soft Costs	**$10,460,645**
Land	**$2,451,340**
Total	**$33,046,887**

The relatively small share of costs attributed to land acquisition may be attributed to the fact that four of the projects were built on City-owned land.

Cost of Proposition HHH Supportive Housing Projects in Construction

There are 65 projects in construction through the LAHD/HHH pipeline that will provide 4,205 housing units, 3,478 of which will be supportive. The City awarded approximately $578 million in Proposition HHH loans for these projects—an average of approximately $137,000 per unit.

The table below provides an overview of projects in construction. **Nearly all of these projects closed their loans in 2020 or 2021, suggesting that the disruption of the pandemic likely affected project budgets and timelines.**

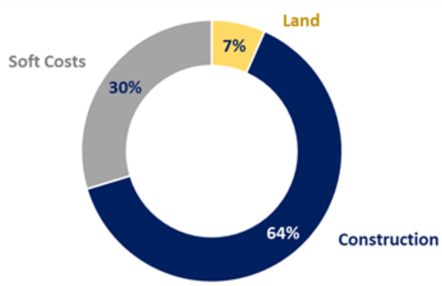
Cost Per Unit of 65 HHH Supportive Housing Projects in Construction

Lowest	Average	Highest
$309,413	**$596,486**	**$765,118**

As shown in the table, the per unit cost of these projects is on the verge of exceeding $600,000 per unit. In addition, approximately 14% of the units in construction are estimated to cost more than $700,000 per unit. LAHD provided additional information about the individual projects that have crossed the $700,000 per unit threshold. Beyond across-the-board increases in construction costs that apply to all projects, LAHD provided site-specific issues such as parking requirements, units with multiple bedrooms, commercial space, and small/unique lot configurations.

As expected, construction costs saw an overall increase and as a ratio of total project costs.

Cost Distribution of 65 Projects in Construction



Average Cost of 65 Projects in Construction

Avg. units	65
Construction	**$24,575,847**
Soft Costs	**$11,444,572**
Land	**$2,567,643**
Total	**$38,588,063**

According to the data, 16 of these projects are being built on City-owned land.

Cost of Proposition HHH Supportive Housing Projects in Pre-development

There are 27 projects in pre-development in the LAHD/HHH Development Pipeline that are expected to provide 1,880 housing units, 1,421 of which are projected to be supportive. The City awarded approximately $240 million in Proposition HHH loans for these projects—an average of approximately $128,000 per unit.

The table below provides a summary of projects in pre-development. **These projects have not finalized their loans or signed construction contracts, so their overall project costs will likely trend upward given the sustained disruption in labor and materials markets.**

Cost Per Unit of 27 HHH Supportive Housing Projects in Pre-development

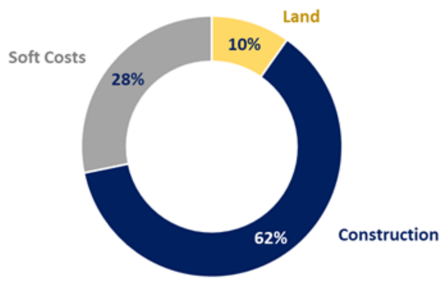
Lowest	Average	Highest
$371,589	**$579,634**	**$836,895**

As shown in the table, this group includes a project with an estimated cost over $800,000. The project is a 62-unit senior supportive housing project component of a larger 4.2-acre mixed-use development being led by the County. The City's HHH contribution is $200,000 per unit of senior housing. The development also includes affordable housing, retail spaces including a grocery store, and Metro training facility. **According to LAHD, there are several cost**

drivers affecting the project including: extensive site preparation costs; development of a parking structure for the senior housing; a County Community Workforce Agreement.

The estimated costs and cost distribution of projects in pre-development are outlined below.

Cost Distribution of 27 Projects in Pre-Development



Average Cost of 27 Projects in Pre-Development

Avg. units	70
Construction	**$25,019,251**
Soft Costs	**$11,392,415**
Land	**$3,948,054**
Total	**$40,359,720**

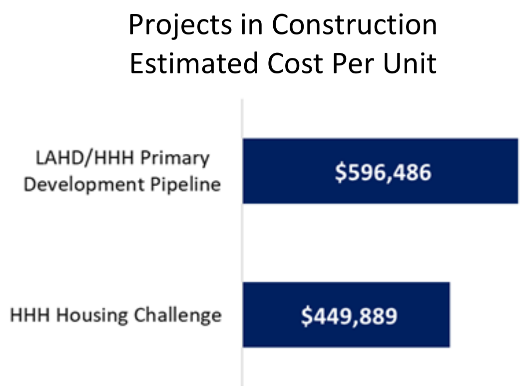
Projects in pre-development show higher estimated land costs compared to projects in construction or ready for occupancy. The increase is driven by six projects which report land acquisition costs above $5 million each.

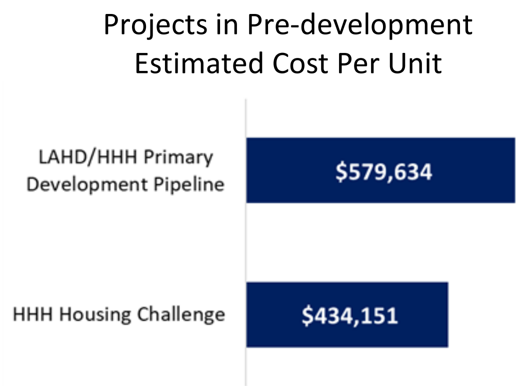
There are other ways to contextualize costs associated with housing projects being developed through Proposition HHH. Approximately 87% of the residential (i.e, non-building manager) units being built through the LAHD/HHH pipeline are compact studios or one-bedroom apartments. The remaining units consist of multiple bedrooms and are intended to house families experiencing homelessness. The City estimates that between 9,000 and 14,000 people will be housed when all projects in the LAHD/HHH pipeline are completed. Using this methodology, the estimated per tenant or bed cost would be lower than the per unit costs described above.

Cost of HHH Housing Challenge Projects

There are currently three projects from the HHH Housing Challenge in construction with an average HHH contribution of approximately $124,000 per unit. A single developer is responsible for all three projects, which include modular construction on smaller parcels. When completed, the projects will provide 142 total housing units, of which 139 will be supportive. **The current estimated cost per unit for these projects is approximately $449,889. While the sample size is insufficient to draw larger conclusions, these projects have lower cost estimates than typical projects from the LAHD/HHH pipeline that are currently in construction.**

There are 15 additional HHH Housing Challenge projects currently in pre-development with an average HHH contribution of approximately $109,000 per unit. When completed, these projects will provide 722 total housing units, of which 709 will be supportive. **The current estimated cost per unit for these projects is $434,151.**





While the estimated cost of the HHH Housing Challenge projects is promising, questions remain about whether the approach can be successfully scaled and replicated. In addition, the current cost projections are markedly higher than the per unit estimates ($352,000) provided during the 2019 RFP process.

IV. Proposition HHH Housing Project Timelines

The typical development process for government-funded supportive or affordable housing is a complex, multiyear endeavor—even under the best of circumstances. During our initial review of Proposition HHH, LAHD estimated that projects would take between three and six years from conceptualization to occupancy. **While several of the factors that contribute to the timeline are outside of the City's direct control, the timeline is not reflective of the ongoing homeless emergency in Los Angeles. At the current trajectory, several thousand unhoused residents will die before HHH-funded housing projects are completed.**

At a high level, the process for projects in the LAHD/HHH pipeline is comprised of four phases.

The City is typically not involved in the initial planning phase and LAHSA is responsible for the lease up process through its Coordinated Entry System (CES). For purposes of this review, we focused on measuring the length of time projects spend in pre-development and construction. While each project is different, there are some common factors that drive overall timelines during these phases.

- **Project funding/financing** – Because Proposition HHH funds make up only a portion of total costs and are awarded at the early stages of the development process, the City provides developers with conditional funding commitments which are good for up to two years. Developers spend that time assembling the remaining funding/financing to make their projects viable and compliant with established loan requirements.

- **Permitting and entitlements** – Proposition HHH developers must obtain the necessary land use approvals and permits to build their project. This requires navigating their project through several City departments and bureaus, such as Planning, Building and Safety, Public Works, Fire, Water and Power, and Transportation. This process also includes community outreach and addressing any lawsuits or design changes resulting from stakeholder input.
- **Construction –** The construction process for Proposition HHH-funded housing projects is similar to other types of multifamily infill construction. Unexpected issues may emerge which require further coordination with City departments or other governmental entities.

The early stages of the pandemic further complicated most aspects of Proposition HHH housing development. Staffing challenges in the City and other entities impacted workflows, funders revised application deadlines, and social distancing requirements affected construction worksites. The overall volatility and uncertainty contributed to the Mayor's decision to suspend all deadlines related to financing and pre-development activities necessary to develop or rehabilitate affordable and supportive housing (known as a "tolling order"). As a result, developers approaching the expiration of their two-year window to assemble financing and obtain permits could continue the process without obtaining a formal extension or losing their conditional funding commitment.

Development timelines for Proposition HHH housing projects continue to grow—more than half of all units have estimated completion dates of January 2023 or later

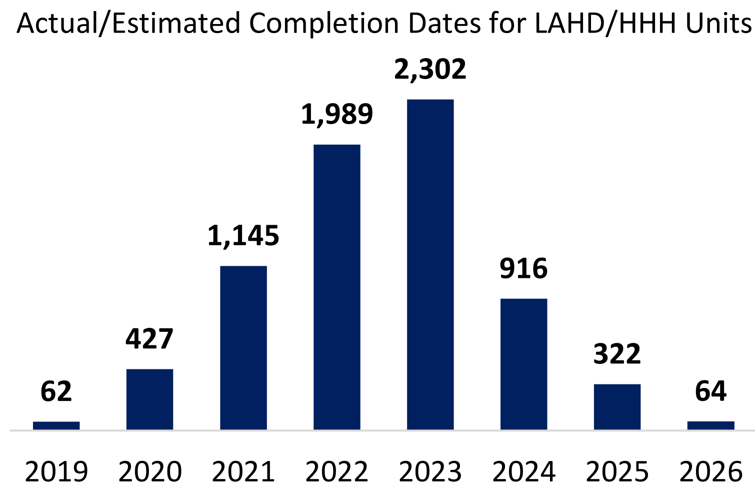
Our previous review of Proposition HHH included an analysis of the average number of years required to complete a project, from issuance of the letter of commitment to the ready for occupancy date. **Three projects had been completed until that point and they took an average of 2.8 years.** It is important to note that funding commitments for those projects were not "first-in", and therefore may not be fully representative of typical LAHD/HHH projects. **The remaining 108 projects had an estimated timeline of 3.9 years.**

We used a similar process to develop estimated timelines during this review. The table below shows estimated timelines for 15 projects completed since August 2020 and the remaining projects that are currently in construction or pre-development.

Completed (actual timeline)	In Progress (estimated timeline)
3.4 years	**4.3 years**

The estimated increase for projects in progress is being driven by additional time spent in the pre-development phase. **Completed projects began construction approximately 435 days after receiving a letter of commitment from the City. Estimates for projects in progress are almost 900 days to reach the same milestone.**

The following graph provides a snapshot of all 7,227 housing units currently in the LAHD/HHH pipeline and their actual/estimated dates of completion. **Half of the total units have estimated completion dates of January 2023 or later.**

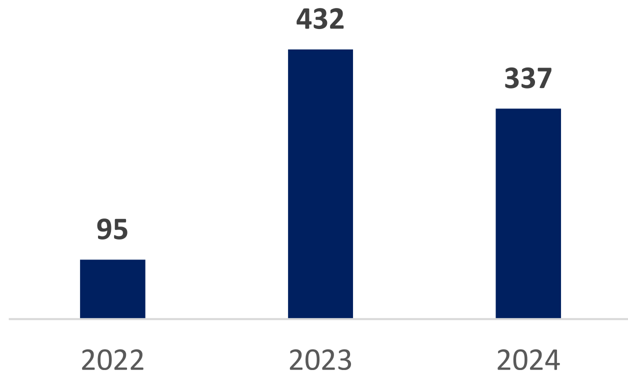


Timelines for Proposition HHH Housing Challenge Projects

The HHH Housing Challenge established an aggressive two-year project completion timeline once developers received funding approvals from the City. The original goal—based on MOUs signed in January 2020—was for these projects to complete construction by the end of 2022.

The onset of the pandemic brought on several challenges. The Mayor's emergency tolling order suspended deadlines to establish site control within four months of executing the MOU and the site selection process from some projects extended into 2021. Because HHH Housing Challenge projects are not eligible for conditional funding commitments until developers establish site control, these delays have had a significant impact on overall project timelines.

Estimated Completion Dates for HHH Housing Challenge Units



V. Recommendation Follow-Up

Our previous reviews of Proposition HHH concluded that project costs were high and estimated timelines were not aligned with the urgency of the crisis. Although most Proposition HHH housing projects are currently in the construction phase, there are still opportunities to use remaining funding and any additional funding that may become available. Specific recommendations from our previous reviews are listed below, along with updates on the City's progress toward implementation.

The City should evaluate the feasibility of reallocating some Proposition HHH funds that have been conditionally funded, especially funds committed to housing projects with outlier development costs.	**Status: Not implemented**

The City's primary screening approach when funding projects through the LAHD/HHH pipeline is to consider whether the: developer has legal control of a site where a project can be built; project is financially feasible; and developer and service provider have successfully managed supportive housing projects. **For the most part, actual project costs—merely an estimate at that stage—have not been an explicit part of the evaluation criteria.**

Even before the onset of the pandemic, project costs associated with several Proposition HHH supportive housing projects exceeded reasonable expectations. **This trend has continued and projects exceeding $600,000 per unit are no longer outliers.** We recommended that the City explore the feasibility of reallocating funding commitments from some projects in the pre-development phase.

The City does not intend to implement this recommendation due to concerns that early cancellation of a funding commitment would compromise business relationships with supportive/affordable housing developers who have secured sites and worked in good faith to move projects forward. In addition, City officials expressed concern that withdrawing a funding commitment could create legal issues for the City.

The City should support efforts to streamline permitting and other processes to ensure that projects that are currently–or will soon be–in the development pipeline are completed as quickly as possible.	Status: In progress

Our 2019 review of Proposition HHH highlighted some of the City's longstanding challenges with timely and efficient permitting processes for developing multifamily housing projects. The Mayor issued Executive Directive #13 (ED13) in October 2015 to facilitate streamlined and prioritized case processing for all affordable housing developments. Although it was issued before Proposition HHH, the strategies outlined in ED13 apply to supportive housing developments.

Despite ED13 and other efforts to expedite projects, respondents to a 2019 survey on Proposition HHH provided critical feedback that indicated much more needed to be done. A 2020 survey of developers by LAHD identified multiple issues, including accessibility reviews and a lack of prioritization in multiple City departments despite existing policy requirements.

We recommended that the City take the following steps.

- Expand the scope of authority of Executive Directive 13 by establishing priority case processing in other City departments such as Engineering, Department of Water and Power, and Fire Department.
- Require departments to provide recurring public updates regarding their progress on moving Proposition HHH housing developments to completion.
- Increase the number of dedicated staff across multiple departments to shepherd supportive housing projects through the approvals process.

The Mayor issued Executive Directive #30 (ED30) in April 2021. ED30 was developed with the underlying premise that ED13 was insufficient to meet the City's housing challenges. The directive included a larger number of participating departments and expanded the Mayor's Affordable Housing Cabinet which consists of assigned liaisons and senior personnel tasked with troubleshooting and promoting interdepartmental coordination.

ED30 also outlines a process where developers of multifamily housing projects that have ten or more units and at least 20% of total units designated as affordable (i.e., income-restricted) are eligible for prioritized case processing. **But it does not provide an additional tier and further prioritization for 100% affordable projects developed through Proposition HHH.**

For example, the directive states that the Department of Building & Safety shall reduce processing times for building, electrical, plumbing, mechanical, and grading permits by 25%, relative to other applications in the department. General Managers are expected to report their progress on a quarterly basis. Data recently presented by the Mayor's Office to the Proposition HHH Citizens Oversight Committee indicated that multiple departments met or exceeded their target thresholds.

The City should do more to improve transparency around these issues. ED30 states that processing times provided in quarterly reports from assigned departments will be used to develop a Housing Scorecard on the Mayor's website. **This dashboard has not yet been completed or made publicly available.**

The City should use remaining HHH funds—or any HHH funds that become available—to prioritize the development of facilities such as interim housing, clinics, storage, and showers to help better manage the immediate needs of Angelenos experiencing homelessness.	**Status: Not Implemented**

One of our primary concerns about Proposition HHH and the City's approach to the homelessness crisis has been the strategic disconnect between the decision to focus almost exclusively on building housing—which takes several years—and the mounting death toll in the streets.

- More than 95% of funds allocated through Proposition HHH have been set aside for supportive/affordable housing rather than interim housing or facilities such as restrooms, showers, and storage. Because building housing has been the clear priority, the City suspended its Proposition HHH facilities program in 2018.
- While more HHH-funded housing projects will be placed into service in the coming months, only 1,142 units have been completed since the ballot measure was approved. Meanwhile, thousands of unhoused residents have died in Los Angeles County during that same period.

Even after housing being built through Proposition HHH is completed, it is likely that tens of thousands of people will remain unsheltered. **A critical question has been—and continues to be—what should the City do to help people while they wait for housing to be built?**

We recommended that the City take a more balanced approach and use additional Proposition HHH funding to develop interim housing and other facilities. While stopgap measures will not end homelessness in Los Angeles, providing short-term help would allow unhoused residents to meet their basic sanitation needs and obtain onsite access to services. For several years, the City's production of interim housing consisted of congregate shelter beds developed through the A Bridge Home program. Developing these facilities was helpful, but the effort fell far short of accommodating tens of thousands of unsheltered Angelenos.

In March 2020, a coalition of Los Angeles stakeholders filed a lawsuit (*LA Alliance for Human Rights, et. al. v. City of Los Angeles, et. al.*) that accused the City and County of violating State and federal laws in their response to the homelessness crisis. While the legal proceedings continue to unfold, the City and County reached an agreement to provide 6,700 beds and services for people experiencing homelessness in the City of Los Angeles within 18 months. The agreement allows for a variety of housing interventions including hotel/motel rooms, tiny home villages, sprung structures/tents, and safe parking. **The City has spent the last several months bringing these facilities into service, but funds from Proposition HHH have not been used.**

The City should prioritize acquisition, rehabilitation, or adaptive reuse opportunities with remaining HHH funds or HHH funds that become available.	**Status: In progress**

At the time of our last report (September 2020), the City had tentative plans to allocate approximately $30 million in uncommitted HHH funds to solicit proposals for new projects using the same process which had been used during previous funding cycles for the LAHD/HHH pipeline. **We argued that the public health emergency and economic shock of the COVID-19 pandemic called for a different strategy**, especially since the status quo was resulting in high project costs and lengthy development timelines.

We recommended that the City focus on acquiring and converting existing properties—such as hotels and motels—because it would likely mitigate the impact of rising construction costs and land use issues that add time and money to projects. Most importantly, it would help move unsheltered residents into housing faster. But this alternate approach presented its own set of potential issues. Some hotels and motels function as housing of last resort for vulnerable residents, so steps would need to be taken to prevent displacing those individuals. In addition, the City would incur costs to retrofit older buildings to meet modern accessibility and fire safety requirements. **Despite these challenges, the practicality of this approach has been reinforced since we issued our last report.**

Project Homekey Phase 1

As part of its pandemic response, the State launched a program ("Project Homekey") which made funding available to local governmental entities to acquire properties and quickly house people experiencing homelessness or at risk of homelessness. Entities participating in the program were typically required to provide local matching funds and eligible projects included properties that could immediately be used as supportive housing or temporarily used as interim housing and later converted to permanent.

According to data provided by the City, ten hotels/motels were acquired using a combination of State/City emergency pandemic funding during the first phase of Project Homekey. An additional five properties were acquired without State funding. **Altogether, these properties will provide 891 units at a total cost approximately $198 million—or approximately $223,000 per unit.**

These per unit costs are significantly lower than LAHD/HHH Primary Development Pipeline projects that are currently in construction (approximately $596,000/unit). In addition, the 891 units acquired in the span of six months is nearly 80% of what the LAHD/HHH Primary Development Pipeline has produced (1,142 units) in more than five years. But there are key distinctions that need to be considered to better contextualize any project cost and timeline comparisons.

- **Most of the hotels/motels acquired through this program will be used as interim housing for between three and five years and then converted to supportive housing.** The projects being built through the LAHD/HHH pipeline are typically new construction and will function as supportive housing immediately after they are placed into service.
- The acquisition costs listed above included approximately $22 million in facility rehabilitation costs (approximately $25,000 per unit) in order to meet basic ADA and fire safety requirements. **According to the City, the additional costs to fully convert these facilities to supportive housing may be significant** and are difficult to estimate because the conversions for most of the projects will not take place for several years.
- The economic shock of the pandemic led to a large influx of federal funding to State and local governments, a portion of which was made available as grants to acquire these properties. **This process is significantly faster than conventional project financing models that rely on federal tax credits and several different funding sources. The future success of this model is largely contingent on the availability of funding.** In addition, the tourism industry experienced a significant downturn throughout 2020 and

the uncertainty likely contributed to an unusually favorable market to acquire hotels/motels.

Given these factors, comparing Homekey Phase 1 projects to projects in the LAHD/HHH pipeline is not an apples-to-apples exercise. But the concept of quickly acquiring properties at lower costs and temporarily using them as interim housing before converting to supportive housing continues to show promise.

Project Homekey Phase 2

The State allocated an additional $2.75 billion for a second phase of Project Homekey based on the results from the initial phase of the program. The State allocated funds to local jurisdictions based on criteria that included the number of unhoused residents—approximately $358 million was set aside for Los Angeles County.

In October 2021, LAHD obtained authorization to apply for funding and submitted a preliminary plan to acquire 750 units of supportive housing. Based on the information reported by LAHD, there were two key distinctions from the initial phase of Project Homekey.

- Proposition HHH funds were included, along with other sources, to meet the matching requirements.
- LAHD prioritized newly-built apartment buildings without tenants and extended stay hotels because both types of properties would likely require less rehabilitation work and could function as supportive housing faster than sites acquired during the first phase of Project Homekey. Potential properties were identified by Council Offices or real estate brokers.

In February 2022, LAHD reported back to the Council and identified specific properties to acquire using funds from Project Homekey, Proposition HHH, and other sources. The proposed acquisition plan includes nine properties at a total cost of approximately $427 million. **There are 868 units spread across these sites and the estimated cost per unit is $492,000.** Consistent with the strategy outlined in October 2021, the properties include a mix of newly-built apartment buildings and extended stay hotels. The table below provides basic details about these potential acquisitions.

Property type	Total Units	Estimated Rehab Cost Per Unit	Estimated Total Cost Per Unit
Extended stay hotels	594	$49,242	$470,389
Multifamily buildings	274	$47,263	$538,188

The City's proposed plan is to use the remaining uncommitted Proposition HHH funds (approximately $80 million) to acquire these properties. **Beyond the lower cost per unit, these**

projects will likely be placed into service within the span of months—in sharp contrast to most housing projects funded through Proposition HHH.

CONCLUSION

The passage of Proposition HHH remains a critical moment in the City's recent history. It facilitated the development of thousands of units of housing that will help unhoused residents and people at risk of homelessness. Our previous reviews of Proposition HHH highlighted gaps in the City's overall strategy and issues—some of which are outside the City's direct control—that contribute to expensive projects and lengthy development timelines. During this review, we found that less than 1,200 units have been produced in five years and estimated costs for several projects exceed $700,000 per unit.

Even after all HHH-funded housing projects are completed, it is likely that significantly more Angelenos will be experiencing homelessness compared to when the ballot measure was approved. Each day spent without housing or shelter puts those individuals at risk for tragic outcomes. While future plans have not been finalized, building tens of thousands of additional units using the same model will likely cost billions of dollars and will take far too long to match the urgency of the ongoing homeless emergency. Going forward, we continue to urge the City to pursue more balanced approaches and find ways to scale up faster and cheaper projects.

CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH FUNDS
(Special Revenue Fund, Capital Projects Fund and Debt Service Fund of the City of Los Angeles)

Independent Auditor's Reports and Financial Statements

For the Year Ended June 30, 2020

Certified Public Accountants

CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH FUNDS
For the Year Ended June 30, 2020

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Certified
Public
Accountants

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council
City of Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Proposition HHH Special Revenue Fund, Capital Projects Fund and Debt Service Fund (collectively the "Funds") of the City of Los Angeles, California (City), as of and for the year ended June 30, 2020, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Macias Gini & O'Connell LLP
700 South Flower St., Suite 800
Los Angeles, CA 90017

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Proposition HHH Special Revenue Fund, Capital Projects Fund and Debt Service Fund as of June 30, 2020, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2, the accompanying financial statements present only the Funds and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 8, while the COVID-19 pandemic has had a negative impact on the City's revenues, there is no anticipated impact on the City's ability to meet the Funds' debt service requirements. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2021 on our consideration of the City's internal control over financial reporting as it relates to the Funds and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance related to the Funds. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance related to the Funds.

Macias Gini É O'Connell LLP

Los Angeles, California
June 11, 2021

CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH FUNDS
Balance Sheet
June 30, 2020

	GOVERNMENTAL FUNDS			
	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTAL
ASSETS				
Cash and Pooled Investments	$ 195,427,411	$ 24,613,610	$ 29,342,040	$ 249,383,061
Loans Receivable				
(Net of Allowance for Uncollectibles of $49,969,716)	94,853,420	-	-	94,853,420
Accrued Interest on Loans Receivable				
(Net of Allowance for Uncollectibles of $1,229,751)	2,006,435	-	-	2,006,435
Taxes Receivable				
(Net of Allowance for Uncollectibles of $76,278)	-	-	3,697,866	3,697,866
Investment Income Receivable	493,969	93,398	70,220	657,587
Due from City Funds	-	156,182	-	156,182
TOTAL ASSETS	$ 292,781,235	$ 24,863,190	$ 33,110,126	$ 350,754,551
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	$ -	$ 64,119	$ -	$ 64,119
Obligations Under Securities Lending Transactions	1,169,455	221,363	185,463	1,576,281
Due to City Funds	170,825	676,107	-	846,932
Other Liabilities	420,699	79,633	66,718	567,050
TOTAL LIABILITIES	1,760,979	1,041,222	252,181	3,054,382
DEFERRED INFLOWS OF RESOURCES				
Property Taxes	-	-	2,961,623	2,961,623
Investment Interest	2,068,364	11,718	10,524	2,090,606
TOTAL DEFERRED INFLOWS OF RESOURCES	2,068,364	11,718	2,972,147	5,052,229
FUND BALANCES				
Restricted	288,951,892	23,810,250	29,885,798	342,647,940
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 292,781,235	$ 24,863,190	$ 33,110,126	$ 350,754,551

See accompanying notes to the financial statements.

CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH FUNDS
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2020

	GOVERNMENTAL FUNDS			
	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTAL
REVENUES				
Property Taxes	$ -	$ -	$ 27,613,101	$ 27,613,101
Investment Earnings	4,548,911	877,229	403,048	5,829,188
Change in Fair Value of Investments	3,405,414	699,171	619,125	4,723,710
Other	-	-	30,443	30,443
TOTAL REVENUES	7,954,325	1,576,400	28,665,717	38,196,442
EXPENDITURES				
Community Development	31,986,574	-	-	31,986,574
Capital Outlay	-	12,324,656	-	12,324,656
Debt Service:				
Principal	-	-	18,135,000	18,135,000
Interest	-	-	12,283,727	12,283,727
TOTAL EXPENDITURES	31,986,574	12,324,656	30,418,727	74,729,957
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	(24,032,249)	(10,748,256)	(1,753,010)	(36,533,515)
OTHER FINANCING SOURCES (USES)				
Transfers In	7,215,168	-	-	7,215,168
Transfers Out	-	(7,215,168)	-	(7,215,168)
TOTAL OTHER FINANCING SOURCES	7,215,168	(7,215,168)	-	-
NET CHANGE IN FUND BALANCE	(16,817,081)	(17,963,424)	(1,753,010)	(36,533,515)
FUND BALANCES, JULY 1, 2019	305,768,973	41,773,674	31,638,808	379,181,455
FUND BALANCES, JUNE 30, 2020	$ 288,951,892	$ 23,810,250	$ 29,885,798	$ 342,647,940

See accompanying notes to the financial statements.

CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH FUNDS
Notes to the Financial Statements
For the Year Ended June 30, 2020

NOTE 1 – BACKGROUND

In November 2016, registered voters of the City of Los Angeles, California (City) approved Proposition HHH, Homelessness Reduction and Prevention, Housing and Facilities Bond (Bond) authorizing the issuance and sale of taxable general obligation bonds not to exceed $1,200,000,000 to be used to finance the acquisition or improvement of real property to provide: (a) supportive housing for extremely low income or very low income individuals and families who are homeless or chronically homeless, which includes facilities from which assistance and services, such as mental health treatment, health care, drug and alcohol treatment, education and job training, may be provided; (b) temporary shelter facilities, storage facilities, shower facilities and other facilities to be used to provide supportive services or goods to, or otherwise benefit, those who are homeless, chronically homeless or at risk of homelessness; (c) affordable housing, including veterans housing, for extremely low income, very low income and/or low income individuals and families, including those who are at risk of homelessness; and (d) associated infrastructure and landscaping, including utilities, sidewalks and streets to be used in connection with the aforementioned housing units and other facilities; any of which may be operated, managed, owned or used by the City, other public entities, nonprofit entities or private entities, as permitted by law.

The table below sets forth the amount of Bonds authorized and issued pursuant to Proposition HHH (Prop HHH) as of June 30, 2020:

	Amount	Date
Voter authorization	$ 1,200,000,000	November 8, 2016
Bonds issued:		
Series 2017-A Bond	86,370,000	July 13, 2017
Series 2018-A Bond	276,240,000	July 12, 2018
Authorized but unissued	$ 837,390,000	

The following projects were included in the Series 2017-A Bond: 88th & Vermont, PATH Metro Villas Phase 2, Six Four Nine Lofts, McCadden Plaza Youth Housing, Casa Del Sol, Flor 401 Lofts, Rise Apartments, SP 7 Apartments the Pointe on Vermont, South Campus, CD 8 Navigation Center, 88th & Vermont Youth and Community Center, Joshua House Health Center, Sherman Way Navigation Center, Women's Bridge Housing and Navigation Center at San Pedro Harbor. The City may substitute other authorized projects eligible for funding.

The following projects were included in the Series 2018-A Bond: Depot at Hyde Park, Adams Terrace, McCadden Campus Senior Housing, PATH Villas Hollywood, Gramercy Place Apartments, Casa de Rosa Campus, Cambria Apartments, Missouri & Bundy Housing, Isla de Los Angeles, Firmin Court, Hartford Villa Apartments, PATH Villas Montclair, 433 Vermont Apartments, Residences on Main, Summit View Apartments, West Third Apartments Preservation, Western Avenue Apartments, Building 205, Building 208, Broadway Apartments, Marcella Gardens, Metamorphosis on Foothill, Emerson Apartments, Rosa De Castilla Apartments, St. Barnabas Senior Center of Los Angeles, La Posada, Senior Center Minor Rehabilitation Project, Crisis Shelter ADA Accessibility Compliance Project, Seismic Retrofit & ADA Accessibility Project, Beverly Health Center Renovation Project, Wraparound Recuperative Care Center, Primary Care Wellness Project, Ruth's Place, Fannie Lou Hammer Emergency Shelter, The Good Seed, Veteran Opportunity Center, PATH's Interim Facility, Viki's House, Kosumosu Transitional Facility, The Midnight Mission Center, Village Renovation and WLCAC Homeless and Housing Access Center. The City may substitute other authorized projects eligible for funding.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements present only the financial position and the changes in financial position of the Proposition HHH Funds (Funds) and do not purport to, and do not, present fairly the City's financial position as of June 30, 2020 and the changes in its financial position of the City for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The Funds are comprised of the following governmental funds:

- The Special Revenue fund is used to account for financial resources for loans to developers for financing of permanent supportive housing, affordable housing and supportive facilities for the homeless.

- The Capital Projects fund is used to account for financial resources for capital outlays for the City's homeless navigation centers and interim housing facilities.

- The Debt Service fund is used to account for the payment of the maturing principal and interest from property tax collections.

The Funds' activities are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if collected within 60 days of the end of the current fiscal period. Revenue from property taxes are recognized in the fiscal year for which the taxes are levied. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures are recorded only when payment is due.

Cash and Pooled Investments

Cash and pooled investments represent the Funds' allocated portion of the City's pooled cash and investments. Cash and pooled investments are stated at fair value based on quoted market prices or values of comparable investments, except for money market investments that have remaining maturities of one year or less at the time of purchase, which are reported at amortized cost. Interest earned on such pooled investments is allocated to the City funds based on each fund's average daily cash balance during the allocation period.

As permitted by the California Government Code (Code), the City engages in securities lending activities. The Funds' share of assets and liabilities arising from the reinvested cash collateral has been recognized in the financial statements.

Loans Receivable

Loans Receivable includes two types of loan programs; the housing loan program, which is used for the acquisition, construction and permanent housing loans and the facilities loan program. The housing loans are recorded when a warrant is issued for an approved expenditure of the project. Interest at rates ranging from one (1%) to three percent (3%) per annum accrues on the principal amount outstanding from the date of the warrant, until the loan is repaid. Facility loans are recorded when a warrant is issued for an approved expenditure of the project. No interest is recorded for facility loans. Facility loans are in the form of service payback loans, whereby borrowers repay the loan by providing specified services in accordance with the loan agreement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans receivable are reported net of the allowance for uncollectible loans. In estimating the allowance, similar type loans in the City's portfolio were considered such as: the composition of the loan portfolio, past write-off experience, past market valuation and the average year-end allowance balance as a percentage of the total portfolio. No allowance is recorded for facility loans as management expects that services will be rendered as stated in the loan agreement.

Taxes Receivable
Taxes Receivable records the property taxes that are levied but not received as of June 30, 2020 and is reported net of allowance for uncollectible accounts. The allowance represents the delinquent unsecured property taxes that may not be collected in subsequent periods due to business closures.

Deferred Inflows of Resources
A deferred inflow of resources is defined as an acquisition of fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time. Revenues and other governmental fund financial resources are recognized in the accounting period in which they become both measurable and available. Deferred inflows of resources reported on the balance sheet represent revenues that were not received within the City's 60-day availability period.

Other Liabilities
Other liabilities represent the Funds' share of the Pool's pending investments trade at year-end.

Fund Balances
The balance sheets of governmental funds classify fund balances based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which those funds can be spent. The Funds only have restricted fund balances at June 30, 2020. Restricted fund balance represents amounts when constraints placed on use of resources are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributions, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 3 – CASH AND POOLED INVESTMENTS

The Funds maintain their cash in the City's cash and pooled investments (the Pool). The City categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2020, the Funds' share of the Pool was $249,383,061, which represents approximately 4.07% of the Pool. There are no specific investments belonging to the Funds. The Pool is not rated as of June 30, 2020. The City issues a publicly available financial report that includes complete disclosures related to the entire cash and investment pool. The report may be obtained by writing to the City of Los Angeles, Office of the Controller, 200 North Main Street, City Hall East Suite 300, Los Angeles, CA 90012, or at www.lacontroller.org.

NOTE 3 – CASH AND POOLED INVESTMENTS (CONTINUED)

City of Los Angeles Securities Lending Program

The Securities Lending Program (SLP) is permitted and limited under provisions of California Government Code Section 53601. The City Council approved the SLP on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP in priority order are

the safety of loaned securities and prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines, with oversight responsibility by the Investment Advisory Committee of the City Council.

The City's custodial bank acts as the securities lending agent. In the event a counterparty defaults by reason of an act of insolvency, the bank shall take all actions which it deems necessary or appropriate to liquidate permitted investments and collateral in connection with such transaction and shall make a reasonable effort for two business days (Replacement Period) to apply the proceeds thereof to the purchase of securities identical to the loaned securities not returned. If during the Replacement Period the collateral liquidation proceeds are insufficient to replace any of the loaned securities not returned, the bank shall, subject to payment by the City of the amount of any losses on any permitted investments, pay such additional amounts as necessary to make such replacement.

Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the Pool is available for lending. The City receives cash, U.S. government securities, and federal agency issued securities as collateral on loaned securities. The cash collateral is reinvested in securities permitted under the investment policy. In accordance with the Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans where either party can terminate a lending contract on demand, term loans have a maximum life of 92 days.

Earnings from securities lending accrue to the Pool and are allocated on a pro-rata basis to all Pool participants. The Funds participate in the City's securities lending program through the pooled investment fund. The Funds recognize their proportionate share of the cash collateral received for securities loaned and the related obligation for the general investment pool. At June 30, 2020, the Funds' portion of the cash collateral and the related securities lending obligation was $1,576,281. The Funds' portion of the securities purchased from the reinvested cash collateral at June 30, 2020 was $1,576,281. Such securities are reported at fair value. The Funds' portion of the noncash collateral at June 30, 2020 was $18,083,110.

During the fiscal year, collateralization on all loaned securities were within the required 102% of market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the year. There was no credit risk exposure to the City at June 30, 2020 because the amounts owed to the borrowers exceeded the amounts borrowed.

Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

NOTE 4 – LOANS AND INTEREST RECEIVABLE

Loans receivable consists of two types of loan programs as follows:

NOTE 4 – LOANS AND INTEREST RECEIVABLE (CONTINUED)

The Housing Loan Program provides funding commitments to project sponsors who meet specific criteria. This program is designed to leverage existing and future City, County, State and Federal funding streams to construct permanent supportive housing and affordable housing units. The principal and accrued interest is due and payable on the earliest of (a) fifty-five (55) or fifty-seven (57) year covenant from the date of the execution of the loan, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by Borrower. Interest at the rate of one percent (1%) to three percent (3%) per annum accrues on the principal amount outstanding from the date of the warrant, until paid.

The Facilities Loan Program provides funding for the development, acquisition or improvement of facilities used to provide supportive services or goods to or otherwise benefit those who are homeless, chronically homeless or at risk of homelessness. These loans are in the form of a service payback agreement with a term corresponding to the useful life of the facility. The provider is required to provide supportive services, goods, or other benefits to persons who are homeless for the periods ranging from 16 (sixteen) to 50 (fifty) years from the completion of the projects as specified in the agreement. Loans receivable consists of the following:

Project		Amount
Housing Loan Program:		
88th & Vermont	$	10,105,608
PATH Metro Villas Phase 2		3,362,155
Six Four Nine Lofts		5,180,579
McCadden Plaza Youth Housing		2,633,462
Casa del Sol		3,228,702
Flor 401 Lofts		10,854,321
RISE Apartments		8,758,040
SP7 Apartments		6,628,692
The Pointe on Vermont		3,204,372
McCadden Campus Senior Housing		5,046,203
Gramercy Place Apartments		3,988,646
Casa de Rosas Campus		1,755,091
Cambria Apartments (Aria Apartments)		9,670,251
Missouri & Bundy Housing (Missouri Place Apartments)		1,871,180
Hartford Villa Apartments		11,818,899
PATH Villas Montclair		230,875
433 Vermont Apartments		1,209,784
Residences on Main		3,979,881
Summit View Apartments		971,671
West Third Apts Preservation		10,763,174
Western Ave Apts		4,873,373
Broadway Apartments		4,591,393
Metamorphosis on Foothill		5,020,302
Melrose Apartments (Emerson Apartments)		5,162,788
Rosa de Castilla Apartments		8,143,841
Florence Towne		1,600,450
Subtotal	$	134,653,731
Facilities Loan Program:		
South Campus	$	1,302,500
88th & Vermont Youth and Community Center		3,245,154
Joshua House Health Center		3,312,725
Fannie Lou Hammer Emergwency Shelter (Jenessee Center)		463,770
Viki's House (House of Ruth)		764,000
New Economics for Women		2,420,972
Haven Hills Crisis Shelter		7,695
Haven Hills Seismic Retrofit		89,411
Volunteers America Los Angeles		5,081
St. John's Well Child and Family Center		136,487
Coalition for Responsible Community Development		125,987
Little Tokyo Service Center Community Development Corp		27,921
Midnight Mission		136,738
The People Concern		1,367,150
Subtotal		13,405,591
Total Loans Receivable Before Allowance		148,059,322
Less Allowance		(51,199,467)
Total Loans Receivable	$	96,859,855

NOTE 4 – LOANS AND INTEREST RECEIVABLE (CONTINUED)

Housing Loan Program

In March 2018, the City entered into a loan agreement with 88th & Vermont, LP for an amount not to exceed $9,680,000 and secured initially by a Fee and Leasehold Deed of Trust recorded against certain fee and leasehold parcels of the property, and further secured by the Deed of Trust recorded against the remaining fee parcels of the property. The Loan is for the construction of a 62-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-five (55) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $10,105,608 includes interest of $425,608 at June 30, 2020.

In December 2017, the City entered into a loan agreement with Metro Villas Phase 2 Los Angeles, LP for the PATH Metro Villas Phase 2 project for an amount not to exceed $3,513,721 and secured by a City Deed of Trust recorded against the property to construct a 122-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 360-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-five (55) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $3,362,155 includes interest of $199,806 at June 30, 2020.

In December 2017, the City entered into a loan agreement with Six Four Nine Lofts, LP for an amount not to exceed $5,500,000 and secured by a City Deed of Trust recorded against the property to construct a 55-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 360-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $5,180,579 includes interest of $190,435 at June 30, 2020.

In September 2018, the City entered into a loan agreement with McCadden Plaza TAY Housing, LP for an amount not to exceed $5,018,298 and secured by a City Deed of Trust recorded against the property to construct a 26-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $2,633,462 includes interest of $47,292 at June 30, 2020.

In September 2018, the City entered into a loan agreement with Sun Valley Housing, LP (Casa Del Sol project) for an amount not to exceed $8,065,143 and secured by a Deed of Trust recorded against the property to construct a 44-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-five (55) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $3,228,702 includes interest of $96,900 at June 30, 2020.

NOTE 4 – LOANS AND INTEREST RECEIVABLE (CONTINUED)

In December 2018, the City entered into a loan agreement with FLOR 401 Lofts, LP for an amount not to exceed $11,980,000 and secured by a City Deed of Trust recorded against the property to construct a 99-unit apartment building. The loan bears interest at the rate of one percent (1%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $10,854,321 includes interest of $75,882 at June 30, 2020.

In October 2018, the City entered into a loan agreement with RISE Housing, LP (RISE Apartments) for an amount not to exceed $9,500,000 and secured by a Deed of Trust recorded against the property to construct a 57-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $8,758,040 includes interest of $176,978 at June 30, 2020.

In September 2018, the City entered into a loan agreement with SP7 Apartments, LP for an amount not to exceed $12,000,000 and secured by a Deed of Trust recorded against the property to construct an 80-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $6,628,692 includes interest of $42,355 at June 30, 2020.

In June 2019, the City entered into a loan agreement with Pointe on Vermont, LP for an amount not to exceed $10,400,000 and secured by a Deed of Trust recorded against the property to construct a 50-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $3,204,372 includes interest of $40,395 at June 30, 2020.

In December 2018, the City entered into a loan agreement with McCadden Plaza, LP (McCadden Campus Senior Housing Project) for an amount not to exceed $5,500,000 and secured by a Deed of Trust recorded against the property to construct a 97-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $5,046,203 includes interest of $96,203 at June 30, 2020.

NOTE 4 – LOANS AND INTEREST RECEIVABLE (CONTINUED)

In April 2019, the City entered into a loan agreement with Hollywood Community Housing Corporation (Gramercy Place Apartments) for an amount not to exceed $13,920,000 and secured by a Deed of Trust recorded against the property to construct a 64-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $3,988,646 includes interest of $20,037 at June 30, 2020.

In March 2019, the City entered into a loan agreement with Casa de Rosa Campus, LP for an amount not to exceed $7,920,000 and secured by a Deed of Trust recorded against the property to construct a 37-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $1,755,091includes interest of $31,938 at June 30, 2020.

In December 2018, the City entered into a loan agreement with Cambria PSH, LP (Aria Apartments) for an amount not to exceed $12,000,000 and secured by a Deed of Trust recorded against the property to construct a 56-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $9,670,251 includes interest of $240,251 at June 30, 2020.

In October 2019, the City entered into a loan agreement with Missouri and Bundy Housing, LP (Missouri Place Apartments) for an amount not to exceed $11,520,000 and secured by a Deed of Trust recorded against the property to construct a 74-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $1,871,180 includes interest of $12,954 at June 30, 2020.

In November 2018, the City entered into a loan agreement with Hartford Villa Apartments, LP for an amount not to exceed $12,000,000 and secured by a Deed of Trust recorded against the property to construct a 100-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $11,818,899 includes interest of $400,416 at June 30, 2020.

NOTE 4 – LOANS AND INTEREST RECEIVABLE (CONTINUED)

In December 2019, the City entered into a loan agreement with Montclair LA, LP (PATH Villas Montclair project) for an amount not to exceed $9,900,000 and secured by a Deed of Trust recorded against the property to construct a 46-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $230,875 includes interest of $197 at June 30, 2020.

In March 2019, the City entered into a loan agreement with 433 Vermont, LP for an amount not to exceed $8,700,000 and secured by a Deed of Trust recorded against the property to construct a 72-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $1,209,784 includes interest of $11,924 at June 30, 2020.

In April 2019, the City entered into a loan agreement with Residence on Main, LP for an amount not to exceed $10,780,000 and secured by a Deed of Trust recorded against the property to construct a 50-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $3,979,881 includes interest of $76,966 at June 30, 2020.

In December 2019, the City entered into a loan agreement with 11681 Foothill, LP (Summit View Apartments) for an amount not to exceed $10,560,000 and secured by a Deed of Trust recorded against the property to construct a 49-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $971,671 includes interest of $546 at June 30, 2020.

In November 2018, the City entered into a loan agreement with West Third Apartments Preservation, LP for an amount not to exceed $10,291,998 and secured by a Deed of Trust recorded against the property to construct a 136-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $10,763,174 includes interest of $471,176 at June 30, 2020.

NOTE 4 – LOANS AND INTEREST RECEIVABLE (CONTINUED)

In November 2018, the City entered into a loan agreement with Western Avenue Apartments Preservation, LLC for an amount not to exceed $4,660,033 and secured by a Deed of Trust recorded against the property to construct a 32-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $4,873,373 includes interest of $213,340 at June 30, 2020.

In March 2019, the City entered into a loan agreement with Broadway Apartments Preservation, LP for an amount not to exceed $4,443,480 and secured by a Deed of Trust recorded against the property to construct a 35-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $4,591,393 includes interest of $147,913 at June 30, 2020.

In February 2019, the City entered into a loan agreement with Metamorphosis on Foothill, LP for an amount not to exceed $10,340,000 and secured by a Deed of Trust recorded against the property to construct a 47-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $5,020,302 includes interest of $36,120 at June 30, 2020.

In November 2019, the City entered into a loan agreement with Melrose PSH, LP (Emerson Apartments) for an amount not to exceed $8,360,000 and secured by a Deed of Trust recorded against the property to construct a 39-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $5,162,788 includes interest of $41,015 at June 30, 2020.

In April 2019, the City entered into a loan agreement with Rosa de Castilla, LP for an amount not to exceed $12,000,000 and secured by a Deed of Trust recorded against the property to construct an 85-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $8,143,841 includes interest of $129,262 at June 30, 2020.

NOTE 4 – LOANS AND INTEREST RECEIVABLE (CONTINUED)

In February 2020, the City entered into a loan agreement with Florence Towne, LP for an amount not to exceed $7,000,000 and secured by a Deed of Trust recorded against the property to construct a 51-unit apartment building. The loan bears interest at the rate of three percent (3%) per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day year, and a 30-day month. The principal and accrued interest is due and payable on the earliest of (a) fifty-seven (57) years from the date of occupancy, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower. The loan receivable balance of $1,600,450 includes interest of $10,271 at June 30, 2020.

Facilities Loan Program

In March 2018, the City entered into a sixteen (16) year service payback loan agreement with L.A. Family Housing Corporation for an amount not to exceed $1,302,500 and secured by a leasehold deed of trust, to perform construction rehabilitation to the Los Angeles Family Housing South Campus property. The 16-year service payback period will begin upon completion of the construction. The loan receivable balance at June 30, 2020 is $1,302,500.

In March 2018, the City entered into a thirty-nine (39) year service payback loan agreement with Community Build, Inc. for an amount not to exceed $3,245,154 and secured by a limited partner deed of trust assigned to the City, to perform construction on the 88th and Vermont Youth and Community Center. Community Build, Inc. passed the loan funds from the City to 88th and Vermont, LP for the construction. The 39-year service payback period will begin upon completion of the construction. The loan receivable balance at June 30, 2020 is $3,245,154.

In December 2017, the City entered into a thirty-nine (39) year service payback loan agreement with Los Angeles Christian Health Centers for an amount not to exceed $3,700,000 and secured by, as applicable, (a) a deed of trust with the power to sell the property in favor of the City; or (b) a collateral assignment of lessee's interest in lease, with the power to assign borrower's interest in the lease of the real property to the City; or (c) any other instrument that the City deems appropriate in order to secure the obligation to repay the City. The loan funds are to construct a 37,500 sq. ft. health clinic called the Joshua House Health Center. The 39-year service payback period will begin upon completion of the construction. The loan receivable balance at June 30, 2020 is $3,312,725.

In January 2019, the City entered into a fifty (50) year service payback loan agreement with the Jenessee Center. for an amount not to exceed $750,800 and secured by, as applicable, (a) a deed of trust with the power to sell the property in favor of the City; or (b) a collateral assignment of lessee's interest in lease, with the power to assign borrower's interest in the lease of the real property to the City; or (c) any other instrument that the City deems appropriate in order to secure the obligation to repay the City. The loan funds are to perform construction rehabilitation to the Fannie Lou Hammer Emergency Shelter. The loan receivable balance at June 30, 2020 is $463,770.

In April 2019, the City entered into a twenty-seven year and 6 months (27.5) service payback loan agreement with the House of Ruth, for an amount not to exceed $1,219,185 and secured by, as applicable, (a) a deed of trust with the power to sell the property in favor of the City; or (b) a collateral assignment of lessee's interest in lease, with the power to assign borrower's interest in the lease of the real property to the City; or (c) any other instrument that the City deems appropriate in order to secure the obligation to repay the City. The loan funds are to perform building improvements to Viki's House. The loan receivable balance at June 30, 2020 is $764,000.

NOTE 4 – LOANS AND INTEREST RECEIVABLE (CONTINUED)

In December 2018, the City entered into a twenty (20) year service payback loan agreement with the New Economics for Women for an amount not to exceed $2,974,841 and secured by, as applicable, (a) a deed of trust with the power to sell the property in favor of the City; or (b) a collateral assignment of lessee's interest in lease, with the power to assign borrower's interest in the lease of the real property to the City; or (c) any other instrument that the City deems appropriate in order to secure the obligation to repay the City. The loan funds are to perform construction rehabilitation to the New Economics for Women. The loan receivable balance at June 30, 2020 is $2,420,972.

In March 2019, the City entered into a fifteen (15) year service payback loan agreement with Haven Hills for an amount not to exceed $278,338 and secured by, as applicable, (a) a deed of trust with the power to sell the property in favor of the City; or (b) a collateral assignment of lessee's interest in lease, with the power to assign borrower's interest in the lease of the real property to the City; or (c) any other instrument that the City deems appropriate in order to secure the obligation to repay the City. The loan funds are to perform construction rehabilitation to the Haven Hills Crisis Shelter. The loan receivable balance at June 30, 2020 is $7,695.

In March 2019, the City entered into a fifteen (15) year service payback loan agreement with Haven Hills for an amount not to exceed $599,824 and secured by, as applicable, (a) a deed of trust with the power to sell the property in favor of the City; or (b) a collateral assignment of lessee's interest in lease, with the power to assign borrower's interest in the lease of the real property to the City; or (c) any other instrument that the City deems appropriate in order to secure the obligation to repay the City. The loan funds are to perform construction rehabilitation to the Haven Hills Seismic Retrofit. The loan receivable balance at June 30, 2020 is $89,411.

In October 2019, the City entered into a ten (10) year service payback loan agreement with the Volunteers of America Los Angeles for an amount not to exceed $1,742,200 and secured by, as applicable, (a) a deed of trust with the power to sell the property in favor of the City; or (b) a collateral assignment of lessee's interest in lease, with the power to assign borrower's interest in the lease of the real property to the City; or (c) any other instrument that the City deems appropriate in order to secure the obligation to repay the City. The loan funds are to perform construction rehabilitation to the Volunteers of America Los Angeles. The loan receivable balance at June 30, 2020 is $5,081.

In January 2019, the City entered into a fifty (50) year service payback loan agreement with the St. John's Well Child and Family Center for an amount not to exceed $3,500,000 and secured by, as applicable, (a) a deed of trust with the power to sell the property in favor of the City; or (b) a collateral assignment of lessee's interest in lease, with the power to assign borrower's interest in the lease of the real property to the City; or (c) any other instrument that the City deems appropriate in order to secure the obligation to repay the City. The loan funds are to perform construction rehabilitation to the St. John's Well Child and Family Center. The loan receivable balance at June 30, 2020 is $136,487.

In April 2019, the City entered into a fifty (50) year service payback loan agreement with the Coalition for Responsible Community Development for an amount not to exceed $3,500,000 and secured by, as applicable, (a) a deed of trust with the power to sell the property in favor of the City; or (b) a collateral assignment of lessee's interest in lease, with the power to assign borrower's interest in the lease of the real property to the City; or (c) any other instrument that the City deems appropriate in order to secure the obligation to repay the City. The loan funds are to perform construction rehabilitation to Ruth's Place. The loan receivable balance at June 30, 2020 is $125,987.

NOTE 4 – LOANS AND INTEREST RECEIVABLE (CONTINUED)

In April 2019, the City entered into a twenty-seven year and 6 months (27.5) service payback loan agreement with the Little Tokyo Service Center, for an amount not to exceed $943,191 and secured by, as applicable, (a) a deed of trust with the power to sell the property in favor of the City; or (b) a collateral assignment of lessee's interest in lease, with the power to assign borrower's interest in the lease of the real property to the City; or (c) any other instrument that the City deems appropriate in order to secure the obligation to repay the City. The loan funds are to perform building improvements to Little Tokyo Service Center. The loan receivable balance at June 30, 2020 is $27,921.

In January 2019, the City entered into a fifteen (15) year service payback loan agreement with Midnight Mission, for an amount not to exceed $3,100,000 and secured by, as applicable, (a) a deed of trust with the power to sell the property in favor of the City; or (b) a collateral assignment of lessee's interest in lease, with the power to assign borrower's interest in the lease of the real property to the City; or (c) any other instrument that the City deems appropriate in order to secure the obligation to repay the City. The loan funds are to perform building improvements to Midnight Mission. The loan receivable balance at June 30, 2020 is $136,738.

In February 2019, the City entered into a fifteen (15) year service payback loan agreement with the People Concern, for an amount not to exceed $1,367,150 and secured by, as applicable, (a) a deed of trust with the power to sell the property in favor of the City; or (b) a collateral assignment of lessee's interest in lease, with the power to assign borrower's interest in the lease of the real property to the City; or (c) any other instrument that the City deems appropriate in order to secure the obligation to repay the City. The loan funds are to perform building improvements to the People Concern interim housing facility. The loan receivable balance at June 30, 2020 is $1,367,150.

NOTE 5 – PROPOSITION HHH BOND

On July 13, 2017, the City issued taxable General Obligation Bonds (GOB) Series 2017-A in the principal amount of $86,370,000 payable through September 1, 2037, with a premium of $582,034 and interest rates ranging from 1.47% to 3.5%. The GOB is secured by and payable with property taxes. Principal payments are due annually on September 1 of each year and Interest payments are due semiannually on March 1 and September 1 of each year until maturity. The outstanding balance at June 30, 2020 is $77,730,000.

On July 12, 2018, the City issued taxable General Obligation Bonds (GOB) Series 2018-A Proposition HHH in the principal amount of $276,240,000 payable through September 1, 2038 with a premium of $1,112,660 and interest rates ranging from 2.90% to 4.0%. The GOB is secured by and payable with property taxes. Interest payments are due semiannually on March 1 and September 1 of each year until maturity. The outstanding balance at June 30, 2020 is $262,425,000.

The bond activity for the year ended June 30, 2020, is as follows:

Balance at June 30, 2019	Additions	Reductions	Balance at June 30, 2020
$ 358,290,000	$ -	$ 18,135,000	$ 340,155,000

NOTE 6 – TRANSFERS IN/OUT

Transfers of $7,215,168 were made from the capital projects fund to the special revenue to fund facilities loans.

NOTE 7 – ENCUMBRANCES AND COMMITMENTS

At June 30, 2020, the following outstanding project loan encumbrances, which represents the remaining available loan balance, are as follows:

Project	Amount
Housing Loan Program:	
PATH Metro Villas Phase 2	$ 351,372
Six Four Nine Lofts	509,857
AMRC McCadden Campus - TAY Hsng	2,432,128
Casa del Sol	4,933,341
Flor 401 Lofts	1,201,561
RISE Apartments	918,938
SP7 Apartments	5,413,662
McCadden Campus Senior Housing	550,000
Cambria Apartments	2,570,000
Hartford Villa Apartments	581,517
Rosa de Castilla Apartments	3,985,427
Gramercy Place Apartments	5,951,391
Casa De Rosa Campus	6,196,847
Missouri & Bundy Housing	9,661,774
PATH Villas Montclair	9,669,322
433 Vermont Apartments	6,002,140
Residences on Main	6,877,085
Summit View Apartments	9,578,874
Metamorphosis on Foothill	5,355,818
Emerson Apartments	4,118,227
410 E Florence Apartments	5,328,116
The Pointe on Vermont	4,736,023
Subtotal housing loan encumbrances	$ 96,923,420
Facilities Loan Program:	
Joshua House Health Center	$ 387,275
Fannie Lou Hammer Emergency Shelter (Jenessee Center)	287,030
Viki's House (House of Ruth)	455,185
New Economics for Women	553,869
Haven Hills Crisis Shelter	270,643
Haven Hills Seismic Retrofit	510,413
Volunteers America Los Angeles	1,736,920
St. John's Well Child and Family Center	3,363,513
Coalition for Responsible Community Development	3,374,013
Little Tokyo Service Center Community Development Corp	915,270
Midnight Mission	2,963,262
Subtotal facilities loan encumbrances	14,817,393
Total loan encumbrances	$ 111,740,813

NOTE 7 – ENCUMBRANCES AND COMMITMENTS (CONTINUED)

In addition to the table above, the City-owned projects consisting of 1) the CD 8 Navigation Center, 2) Navigation Center at San Pedro Harbor Center, 3) Sherman Way Navigation Center and 4) the Women's Bridge Housing, had outstanding encumbrances totaling $11,695,077 at June 30, 2020.

Total project commitments as of June 30, 2020, for permanent supportive housing projects are approximately $1,054,536,000 for 8,031 units. Total project commitments for facilities projects totaled $57,704,124. The Proposition HHH funds are fully committed as of June 30, 2020.

NOTE 8 – IMPACT OF COVID-19 PANDEMIC

In March 2020 the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak has adversely affected workforces, customers, and economies, and increased volatility in financial markets globally. The pandemic has negatively impacted entities that conduct business with the City and revenue collected from constituents, and increased public health expenditures at all levels of government. While the spread of the virus in the United States has slowed significantly due to public health policies and widespread vaccinations, the full impact of the pandemic is not yet over. While the overall risk is unknown, the only known risk to the Proposition HHH program is the risk that Property Tax remittances could decrease, though unlikely, to a level which would not cover the program's debt service obligations.

NOTE 9 – SUBSEQUENT EVENTS

Debt Service Payments for the GOB Series 2017-A
On September 1, 2020, principal and interest were paid in the amount of $4,320,000 and $1,170,754, respectively. On March 1, 2021 interest was paid in the amount of $1,116,754.

Debt Service Payments for the GOB Series 2018-A
On September 1, 2020, principal and interest were paid in the amount of $13,815,000 and $4,815,464, respectively. On March 1, 2021 interest was paid in the amount of $4,539,164.

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Certified Public Accountants

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and Members of the City Council
City of Los Angeles, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Proposition HHH Special Revenue Fund, Capital Projects Fund and Debt Service Fund (collectively the "Funds") of the City of Los Angeles, California (City), as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated June 11, 2021. Our report includes an emphasis of matters paragraph indicating that the financial statements presents only the Funds' financial statements and the impact of the COVID-19 pandemic to the funds' financial condition.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over the Funds' financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Funds' financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control related to the Funds. Accordingly, we do not express an opinion on the effectiveness of the City's internal control related to the Funds.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Funds' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance related to the Funds. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance related to the Funds. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Los Angeles, California
June 11, 2021