Ron Galperin
Controller

September 9, 2020

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

Re: Meeting the Moment: An Action Plan to Advance Prop. HHH

By overwhelmingly approving Prop. HHH in 2016, Los Angeles' voters authorized City officials to issue up to $1.2 billion in general obligation bonds with the aim of reducing homelessness by acquiring, developing, or remodeling supportive housing and facilities, including interim housing, restrooms, showers, health clinics and storage. The measure provided for citizen oversight and a yearly financial audit by the City Controller. My office first examined HHH in October 2019 and recommended reallocating funds to lower-cost projects and streamlined permitting.

Over the last year, homelessness in the City of Los Angeles jumped to 41,290 according to the 2020 Greater Los Angeles Homeless Count, up 16 percent from 2019 and 45 percent since 2016. Deaths among the unhoused population climbed almost 100 percent over seven years, with 1,047 people dying on the streets in 2018 alone. And COVID-19 has caused outdoor health and safety conditions to deteriorate further. While these facts illustrate the depth of the humanitarian emergency, they also reveal how one of the City's primary tools to address it is coming up short. My latest audit reassesses the current HHH strategy and recommends a short-term action plan to utilize the remaining bond funds and provide more immediate relief to people experiencing homelessness.

Time, costs still rising

Today, more than three years after the first bond issuance and nearly four years since HHH's approval, only three bond-funded supportive housing projects are open. There are 5,522 supportive units and 1,557 additional units in the pipeline, but 73 percent are not yet in construction. An additional 975 supportive units are being developed through the HHH Housing Challenge. The City also funded 24 interim housing projects and facilities with $58 million from HHH — a deliberately limited amount to focus on supportive housing.

My office's 2019 audit uncovered that supportive housing projects typically take three to six years to complete from concept to occupancy. COVID-19's impact on these already lengthy timelines is not clear, but will almost certainly extend them, and it is possible that some projects in the pipeline today may never come to fruition. Before the pandemic hit, the City had already granted time extensions for 15 projects in pre-development, ranging from 42 days to more than one year, because of permitting problems, financing complexities and lawsuits. Not only do delays slow projects down, they also increase development costs.

Based on present estimates, 81 percent of units will not be completed until at least January 1, 2022, with 57 percent unavailable until 2023 or later — seven years after the bond's approval. Supportive housing is considered the best long-term strategy to help chronically homeless individuals get back on their feet, but HHH's lagging progress could leave that population without stable shelter options for years to come. Even when every HHH unit is completed, tens of thousands of Angelenos will still require housing — highlighting the need for a more strategic and flexible approach to utilizing remaining HHH funds.

Not only are HHH timelines out of step with the demand for housing, rising program costs are as well. For projects in construction, the average per-unit cost increased from $521,000 in 2019 to $531,000 this year, with the highest per-unit cost reaching $739,000. And the share of units costing more than $600,000 spiked from 10.8 percent in 2019 to 28.5 percent today. Similarly, one-third of the units in pre-development will exceed $600,000, and per-unit averages increased from $507,000 to $558,000 in the past year. The highest total development cost for a single project in pre-development now surpasses $76 million.

Short-term action plan needed

Our most vulnerable residents are suffering concurrent crises and deserve a housing strategy that addresses this reality. Although the City has a plan to use the remaining $30 million in HHH funds, along with any money returned due to unsuccessful supportive housing projects, it would simply replicate the status quo by starting the development process all over again. Instead, City leaders should pivot to a viable plan that would spend available HHH dollars in these ways:

- **Build more interim housing and facilities:** Stopgap measures will not end homelessness but will get thousands of people off the streets more rapidly while supportive units are built, and help meet health, hygiene, sanitation and storage needs.

- **Prioritize adaptive reuse:** The City should pursue alternative development strategies that could prove cheaper and faster to complete, including acquisition or adaptive reuse of existing buildings, like hotels/motels, and unused commercial and office space.

Adopting a short-term action plan will add flexibility to the HHH program, ease suffering for the unsheltered population and help the City achieve its long-term, voter-mandated goals — adding housing to improve people's lives while reducing homelessness in Los Angeles.

Respectfully submitted,

RON GALPERIN
L.A. Controller

Meeting the Moment

An Action Plan to Advance Prop. HHH

RON GALPERIN
LA CONTROLLER

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EXECUTIVE SUMMARY

In November 2016, more than **77 percent** of voters in the City of Los Angeles approved Proposition HHH. The ballot measure authorized the City to issue up to **$1.2 billion** in general obligation bonds to acquire or build supportive/affordable housing and facilities such as interim shelters, restrooms, showers, storage, and service centers.[1] The resounding approval of the ballot measure – and significant amount of funding – was an unequivocal commitment by Angelenos to tackle homelessness.

Proposition HHH requires the Controller's Office to perform audits for each year in which bonds are outstanding or bond proceeds remain unspent. **The financial audit for FY2019 did not identify any significant irregularities or improprieties related to Proposition HHH.**[2] We also continued to assess the City's progress.

Our previous review of Proposition HHH found that development costs for supportive housing were high (**median cost of $531,000 per unit**) and estimated project timelines (**three to six years**) were not aligned with the magnitude of the homeless crisis. Because most of the supportive housing projects funded through Proposition HHH were in the early planning stages, we recommended that the City should reallocate some funding commitments to projects with lower costs or to interim housing and other facilities.

This recommendation remains relevant. Nearly four years have passed since voters approved Proposition HHH and the need to pivot to a different direction continues to grow. **Despite the City's efforts to lower costs and shorten timelines, the current trajectory of the program falls significantly short of our increasing and immediate needs.**

- Only **three** projects have been completed with a total of **179** supportive units and **49** non-supportive units. There are still **5,522** supportive units and **1,557** non-supportive units in the development pipeline, but nearly **73 percent** of these have not yet begun construction. The City is also aiming to develop **975** supportive units through the Proposition HHH Housing Challenge, but the projects have not yet begun construction.[3]

[1] The ballot measure specified that at least **80 percent** of the funds must be used for supportive housing and facilities, and up to **20 percent** can be used to develop affordable (i.e., income-restricted) units. Affordable units are intended to provide subsidized housing for low-income residents. Affordable units and onsite building manager units are referred to as "non-supportive" throughout this report.
[2] See Appendix A for a copy of the FY2019 financial audit.
[3] These projects are discussed later in this report and are not included in analyses unless specifically noted.

- Based on the City's current projections – which may not fully reflect pandemic-related delays – only **19 percent** of remaining units in the HHH development pipeline will be completed before January 1, 2022. Approximately **43 percent** of total units are scheduled to be completed before January 1, 2023.

- More than **28 percent** of units in construction exceed **$600,000** per unit. Proposition HHH funds do not make up the entirety of costs and projects are financed by a variety of other sources, including the State and federal government.

Proposition HHH is a key component of the City's overall strategy to reduce homelessness, which consists of a broad range of policy reforms and programmatic responses by the City, County, and Los Angeles Homeless Services Authority (LAHSA). **Still, large numbers of Angelenos continue to fall into homelessness.**

- The point-in-time count conducted in January 2020 estimated that there were **41,290** people experiencing homelessness in the City of Los Angeles – an increase of **16 percent** from the previous year.

- Nearly **29,000** of these people were unsheltered and fighting to survive in tents, encampments, vehicles, and other locations.

- The impacts of longstanding systemic racism continue – Black residents represent less than **9 percent** of the City's overall population while making up nearly **38 percent** of the estimated homeless population from January 2020.

- Los Angeles County Department of Public Health data indicates that more than **1,000** unhoused people will likely die this year – **at least three lives lost each day.** Their study found that that the average age at death was **51** for individuals experiencing homelessness, compared to **73** for the general population between 2013 and 2018.

This grim reality is further compounded by the fact that the annual homeless count was performed before the devastation caused by COVID-19. Since then, hundreds of thousands of residents have lost their jobs and households that were already struggling to make ends meet have had their wages reduced. The ongoing uncertainty about the economic recovery, additional federal assistance, and eviction protections are a dangerous combination for these residents and others with precarious housing situations.

The pandemic has been especially difficult for Black and Latinx residents in Los Angeles County, many of whom have pre-existing health conditions or work in jobs that cannot be performed remotely. According to age-adjusted morality rates reported by the Los Angeles County Department of Public Health as of August 24, 2020:

- The mortality rate for Black residents was **two times higher** than white residents; and

- The mortality rate for Latinx residents was **2.7 times higher** than white residents.

The overlapping issues described above – income inequality, lost wages, housing insecurity, disparate health outcomes – mean increased risk of homelessness for many of our most vulnerable residents. The City and State have taken steps in recent months to strengthen the safety net, but the overall impact of those efforts remains to be seen. Barring an unforeseen intervention, the situation is likely to further deteriorate and put lives in jeopardy.

The convergence of these generational crises makes it even more critical to get HHH-funded supportive housing units, interim housing, and other facilities built as quickly and inexpensively possible. **But the current situation also raises larger questions about how to balance the City's long-term objectives and available resources with the growing humanitarian emergency that we are facing.**

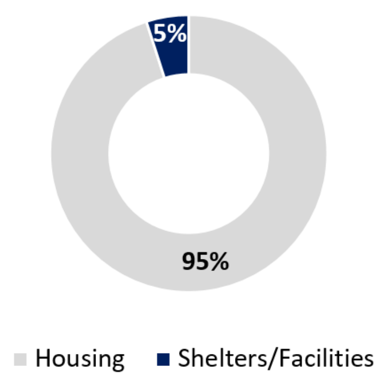
How much HHH funds have been committed and spent?

As of August 2020, the City has "committed" **$1.17 billion** in Proposition HHH funds, which leaves approximately **$30 million** in remaining funds based on the maximum amount authorized by the ballot measure. But the funding commitments do not become contractual obligations until the City and housing developers formally execute loan agreements.

To reach that stage, housing developers who receive HHH funding commitments – **which do not fully cover the cost of the project** – are provided up to **two years** to close the remaining funding gap and obtain the necessary approvals (e.g., land use entitlements and building permits) to move forward. Developers who successfully navigate this phase (referred to as "pre-development") close their loans with the City, complete tasks required by other funders, and begin construction. Actual spending of HHH bond proceeds does not occur until all of these steps have been completed and housing developers periodically submit requests for payment.

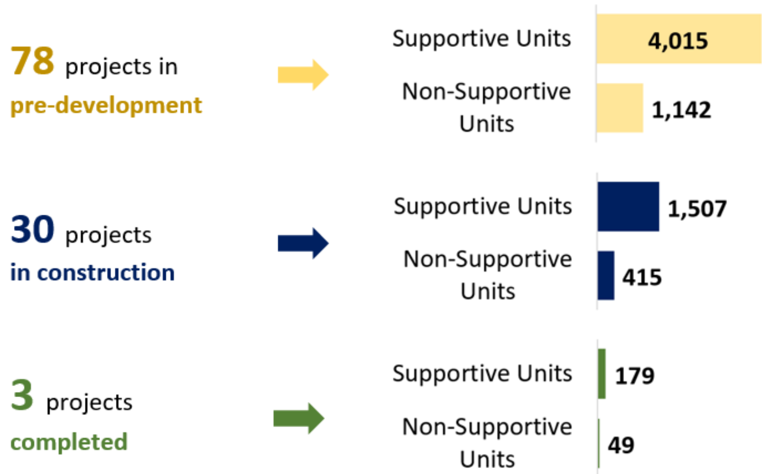
As of June 30, 2020, the City formally awarded **$330 million** in loans for supportive housing and spent approximately **$160 million** on both housing and shelters/facilities projects.

By a significant margin, the committed funds have been set aside for supportive housing rather than shelters and facilities for people experiencing homelessness. This approach is driven by the City's steadfast commitment to developing supportive housing, which is designed to provide a combination of housing and services to help people experiencing homelessness, especially those who have disabling conditions and have been unhoused for an extended period.



What is the status of HHH supportive housing?

Since our last report, **three** HHH-funded projects were completed and several projects moved into the construction phase. According to the City's Housing and Community Investment Department (HCIDLA), there are **14** projects which are scheduled to be completed by the end of 2020. **But a large share of projects are still in the process of securing additional funding and obtaining approvals (i.e., pre-development).**



Many projects were delayed before COVID-19, but the situation placed additional strain and uncertainty on the affordable housing framework held together by the City, County, State, federal government, developers, lenders, and private investors. Important project components such as funding, costs, and timelines are being affected.

On average, nearly **$9 million** has been set aside for each project in pre-development. The current economic volatility increases the likelihood that some projects do not proceed to the construction phase. **If this occurs, HCIDLA plans to solicit proposals for new supportive housing projects using funds that were intended for unsuccessful projects.**

The City also set aside **$120 million** in Proposition HHH funding with the aim of developing **975** supportive housing units through the HHH Housing Challenge. These efforts were intended to identify different housing typologies or innovative financial models to reduce project costs and development timelines.

The City is in the process of awarding **$78 million** in financial commitments for **652** units through the HHH Challenge. Preliminary estimates show lower costs (**$425,122** per unit) and shorter development timelines – **which are both encouraging compared to the non-Challenge projects**. However, several of the developers are now pursuing federal tax credits due to delays on State funding. **This shift is significant and may mean added time and costs as the projects move toward construction.**

How much do HHH supportive housing projects cost?

High costs associated with development of supportive housing are not unique to Los Angeles, and financing complexity and regulatory requirements make comparisons to market rate development difficult. Jurisdictions face challenges due to factors such as prevailing wage requirements, land use issues, policy priorities outlined by funders, and competition from private sector construction projects for labor and materials.

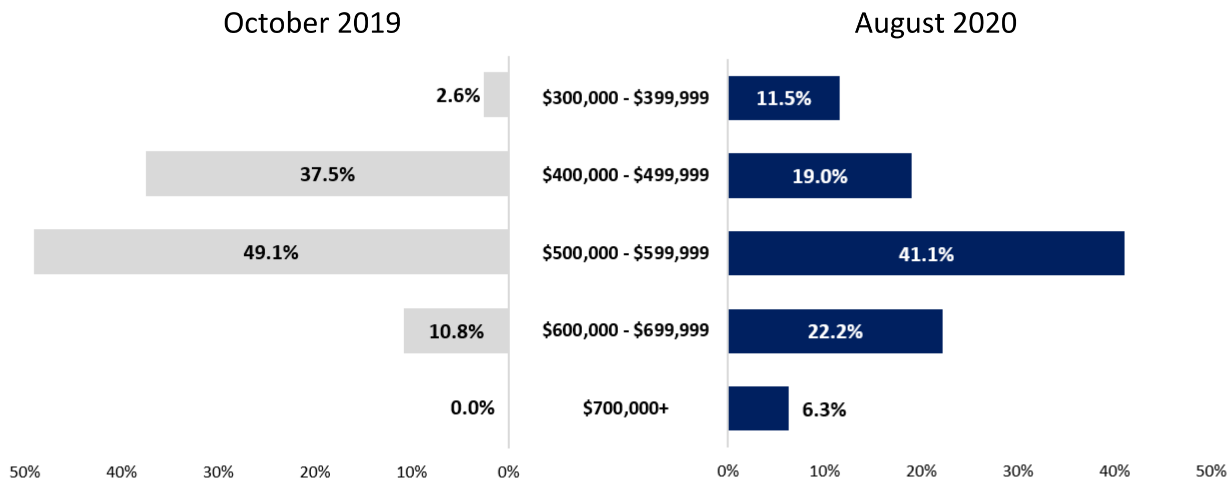
Across all projects, Proposition HHH funds make up around **25 percent** of total development costs. The maximum allowable Proposition HHH subsidy for supportive housing was **$140,000** per unit during the most recent funding cycle and **$220,000** per unit for previous funding cycles. The remaining funding comes from a combination of private sources and other public entities such as the federal government, State of California, and LA County. **Although the City does not bear the entire cost of these projects, it should seek to minimize the burden on the larger funding system for supportive and income-restricted housing projects.**

Status (# of projects)	Average HHH award	Average total development cost	Average cost per unit
Completed (3)	**$7,086,288**	**$37,353,171**	**$491,489**
In construction (30)	**$9,447,143**	**$34,065,006**	**$531,712**
Pre-development (78)	**$8,828,643**	**$36,948,439**	**$558,848**
All HHH projects (111)	**$8,948,714**	**$36,180,072**	**$549,608**

Construction costs typically represent more than half of each project's development cost and contracts are not executed until funds are assembled, land use issues are resolved, and Proposition HHH loans are closed. **As a result, the construction costs associated with each project largely reflect the demand for materials and labor when the contracts were finalized.** For example, the National Association of Homebuilders recently reported that lumber costs increased considerably since April 2020. The impact of this increase will likely be reflected in the cost of projects moving toward construction during this period.

A closer look at the distribution of per-unit costs for projects in construction shows that the overall share of units with costs above **$600,000** increased from **10.8** to **28 percent** since we issued our last report in October 2019.[4]

[4] This analysis is not a one-for-one comparison – the August 2020 data includes additional projects. Regardless, the snapshot provides an overview of the **30** projects currently in construction.



At the other end of the spectrum, the percentage of units below **$400,000** also increased**.** Notably, two projects in this lower cost range were conversions of existing motels. There are two additional projects in construction which take an adaptive reuse approach and the cost per unit is close to or less than the other projects in construction.

This limited sample size and number of potential factors make it difficult to draw larger conclusions about these projects. However, the United States Government Accountability Office (GAO) analyzed affordable housing projects completed between 2011 and 2015 which were funded with one of the federal tax credits available through the Low Income Housing Tax Credit Program (LIHTC) program. **The study found that median per unit development costs for affordable housing projects were lower in rehabilitation projects compared to new construction.** This gap appeared across a range of locations, including New York City, Chicago, and California.

Potential cost savings could be partially offset by the higher cost of maintaining an older building. But our dire need for faster solutions and the State's current efforts with Project Homekey (to be discussed later) are consistent with this approach. Currently, nearly **33 percent** of units in pre-development are estimated to exceed **$600,000**. It is unclear how much these projects will cost by the time they begin construction.

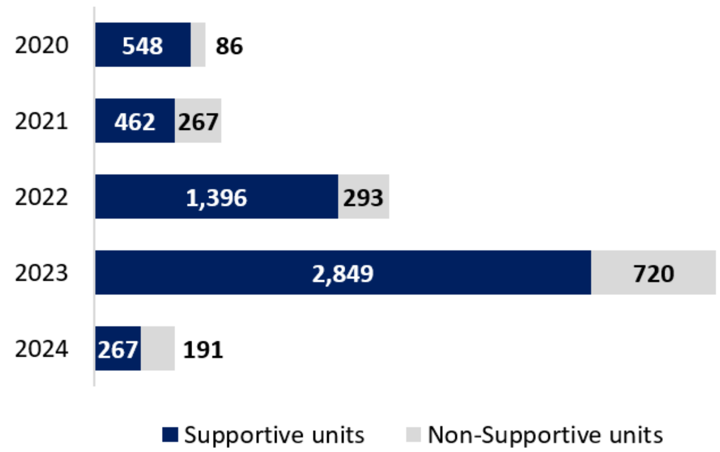
When will supportive housing developed through HHH be available?

An ongoing challenge for the City is the inherent complexity and length of time required to successfully finance projects. Proposition HHH funds (in the form of loans) are intended to help developers get projects off the ground and compete for other sources of funding, often federal LIHTC tax credits. The City provides developers with a two-year window to secure the funding necessary to make projects financially viable.

The upside of this partial-funding approach is that it helps the City spread HHH funding across a larger pool of projects. The downside is that each additional layer of funding comes with its own set of policy priorities, application process, award timeline, and costs.

During our last review, we learned that supportive housing projects typically take **three to six years** to complete (from conceptualization to occupancy). A significant portion of that timeline is consumed by the project financing process. **The City could increase its HHH subsidy and thereby reduce the amount of time/effort needed to close a smaller funding gap, but the tradeoff would likely result in less units being built.**

Beyond challenges related to project financing, developers successfully navigate projects through multiple City departments to obtain the necessary land use approvals and permits to begin construction. In 2019, the City established a position ("HHH Concierge") to increase the speed at which HHH and affordable housing projects move through the development pipeline. The City has not yet finalized performance metrics to measure the impact of these efforts.



The timeline for HHH projects is further challenged by the pandemic and will add to what is already a lengthy development process. Projects currently under construction must adjust to social distancing guidelines and projects in pre-development must navigate added uncertainty in terms of project funding. **According to the City's estimates, Angelenos in need of supportive housing will need to wait several years before the majority of units are completed.**[5]

What shelters and facilities projects have been funded through HHH?

The City has funded a total of **24** projects using approximately **$58 million** in Proposition HHH funds. The limited scope of this effort was driven by the City's decision to prioritize development of supportive housing. In 2018, the City Council voted to suspend a planned request for proposals (RFP) and another RFP has not been issued since then.

[5] Projects/units are categorized by the estimated date when they will be placed into service.

9 Projects in Pre-development

8 Projects in Construction

7 Completed Projects

Before the facilities program was suspended, the Office of the City Administrative Officer (CAO) solicited project proposals from outside entities and Councilmembers seeking to develop facilities on City-owned property. Eligible projects included rehabilitation/expansion of existing sites or acquisition/construction of new sites. In addition, projects that enhanced existing facilities to improve service delivery or continue operations – such as retrofits to make buildings compliant with the Americans with Disabilities Act (ADA) – were also eligible.

Projects funded by the City include a mix of shelters for survivors of domestic violence, transitional housing service centers, navigation centers, and health clinics. Most of the projects (**19 of 24**) were renovations to existing shelters and facilities rather than new construction. When completed, the projects will provide **196** new shelter beds.

What should the City do?

The City is in the midst of overlapping crises that disproportionately impact our most vulnerable residents. The situation is likely to further deteriorate without significant federal assistance. These dire circumstances provide an opportunity to reflect on decisions that were made years ago and evaluate alternate paths that may still be viable.

Many of the underlying issues contributing to the slow progress and high costs associated with supportive housing developed through Proposition HHH are inherently difficult to undo overnight. **At the current trajectory, less than half of the 7,079 housing units still being developed using HHH funds will be completed by January 1, 2023 – at the earliest.** Supportive housing is also being developed through the HHH Housing Challenge, but the timing of those projects is difficult to predict given their evolving status.

There are several non-HHH efforts that have been initiated in recent months to tackle homelessness and the pandemic. The City and County recently reached a multi-year agreement to fund **6,700** housing interventions. Key elements of the City's plan are outlined below.

- **Project Homekey** - The State is making **$600 million** in grant funding available to local public entities so they can purchase and rehabilitate housing, including hotels, motels, vacant apartment buildings, and other buildings and convert them into interim or permanent, long-term housing. Nearly all of the funding (**$550 million**) is emergency assistance from the federal government and **must be spent by the end of 2020.**

If local jurisdictions provide **$150,000** in matching funds per door, the State is willing to provide up to **$200,000** in acquisition funding per door.[6] The City recently approved a plan to apply for **$250 million** in capital funding from the State and has set aside up to **$150 million** in federal COVID-19 relief funds to meet the match requirement. The City aims to use the funds for up to **1,250 units** and may need to allocate additional funding for rehabilitation/repair of the acquired properties. On a per-unit basis, the City's estimated budget for this effort is **$320,000** – **which may represent a faster solution at a lower cost than most units developed through Proposition HHH.**

- **LAHSA COVID-19 Recovery Program** – In June 2020, LAHSA presented a three-year plan which seeks **$610 million** in new funding to find housing solutions for the **4,000** high-risk homeless individuals who received temporary hotel/motel placements through Project Roomkey and the **11,000** individuals who were targeted for assistance but not placed. LAHSA is seeking to use multiple sources of funding (including the State funding described above) to acquire hotels/motels, lease market-rate units, and utilize shared housing units.

  The City recently approved a plan to provide LAHSA with more than **$97 million** in federal COVID-19 relief funds over the course of four years. LAHSA is aiming to place **3,000** people in privately-owned rental units by providing rental assistance and case management services.

- **Interim housing sites** – The City's recent plan includes funding estimates to acquire and deploy **740** interim beds, at least partially through the use of pop-up tiny homes (i.e., Pallet Shelters). The City's current estimated capital cost per unit for the interim housing sites, which will be adjusted once contractors are selected, is approximately **$46,000**.

Even if these initiatives meet their goals in a timely manner, there will still be thousands of unsheltered Angelenos. Each day they spend without housing or shelter puts them at greater risk of illness or death.

Given the overall timeline and costs for completing HHH-funded supportive housing projects, the question remains about how best to move forward. The City's current plan is to use the remaining HHH funds (approximately **$30 million**) and any potential funds (**$9 million** per project) returned from unsuccessful projects to start the process anew and solicit proposals for new supportive housing projects – **which are unlikely to be completed until 2025 or later.**

The City should reconsider this plan. The issue is not whether the City should invest in supportive housing using HHH funds – the issue is whether the City should almost exclusively

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[6] In a shared living environment, the "door" corresponds to the number of rooms that will be occupied by different individuals/households.

pursue an approach that frequently costs more than **$600,000** per unit and takes up to **six** years to complete when there are **29,000** people suffering in the streets. Instead, the City should find other ways to use any remaining/returned HHH funds to deliver faster and less expensive projects that better balance our long-term goals with our short-term needs.

- **Focus on interim housing and facilities** – Interim housing is critical to helping get vulnerable people off the streets. Available and accessible facilities are also essential to helping people meet their basic health, hygiene, sanitation, and storage needs. Unfortunately, neither of these have been prioritized or funded at a scale that matches the needs of people experiencing homelessness in Los Angeles.

  According to the City, State law prohibits using Proposition HHH bond proceeds on items such as equipment, tents or other non-permanent structures, or mobile hygiene facilities. But the City has full authority to fully fund the construction of interim housing and facilities on City-owned property, or acquire property and initiate projects. **The City should consider using HHH funds to supplement its emerging effort to increase the supply of interim housing solutions.**

- **Prioritize acquisition, rehabilitation, and adaptive reuse opportunities –** Another approach would be to pursue strategies that minimize the impact of issues such as land use challenges, the cost of new construction, and systemic issues related to complex project financing. Different approaches – such as acquisition, rehabilitation, or adaptive reuse of existing buildings funded by Proposition HHH bond proceeds – may help reduce costs and timelines, and add units at a far faster rate than the current pace (**228 units in nearly four years**).

  Funding currently available through Project Homekey is an opportunity for the City to acquire hotels/motels and other existing buildings that can be converted into interim shelters or supportive housing. Although the retrofits needed to make these buildings suitable for supportive housing will add time and money, the locations can be temporarily used as interim housing. In addition, this approach may help mitigate concerns about increased risk of COVID-19 transmission within congregate shelter settings. **A potential option for the City would be to contribute available Proposition HHH funding to expand these efforts.**

  Social distancing has also raised larger questions about the future of commercial space such as office space and big-box retail stores. Although it is too early to determine whether any downward market trends – and the costs associated with potential renovations – make these projects financially viable, the City should work with subject matter experts to identify opportunities.

Shifting course through these strategies may increase the City's ability to deliver supportive housing, interim housing, and facilities at a lower cost and faster rate. More broadly, it would help re-align a generational voter investment with our emerging and urgent needs.

BACKGROUND

In November 2016, more than **77 percent** of voters in the City of Los Angeles approved Proposition HHH. The ballot measure authorized the City to issue up to **$1.2 billion** in general obligation bonds to acquire or build supportive/affordable housing and facilities such as interim shelters, restrooms, showers, storage, and service centers.[7] The primary focus of the ballot measure was to use bond proceeds from Proposition HHH to augment the City's non-HHH efforts and facilitate the development of up to **10,000** supportive housing units over the course of **ten years**. The effort was widely embraced by voters as a way to provide permanent housing solutions to people experiencing homelessness in Los Angeles.

Proposition HHH requires the Controller's Office to perform audits for each year in which bonds are outstanding or bond proceeds remain unspent. **The financial audit for FY2019 did not identify any significant irregularities or improprieties related to Proposition HHH.**[8] We also continued to assess the City's progress.

Our previous review of Proposition HHH found that development costs for supportive housing were high (**median cost of $531,000 per unit**) and estimated project timelines (**three to six years**) were not aligned with the growing magnitude of the homeless crisis. The underlying causes for these outcomes were a mix of issues specific to building supportive/affordable housing, as well as frequent obstacles to building multifamily housing in Los Angeles. The City took a number of steps to address these challenges, but a significant amount of Proposition HHH funds were already conditionally awarded to project proposals submitted by developers.

Because many projects were in the early planning stages of development at the time of our last report, we sought to identify opportunities for the City to change course before it was too late. We recommended that City policymakers consider the following actions to reduce costs and shorten timelines.

- Evaluate the feasibility of reallocating some Proposition HHH funds that have been conditionally awarded – especially funds committed to expensive projects with outlier development costs. This may free up funding for projects with lower per-unit costs or for interim shelters and facilities.

[7] The ballot measure specified that at least **80 percent** of the funds must be used for supportive housing and facilities, and up to **20 percent** can be used to develop affordable (i.e., income-restricted) units. Affordable units are intended to provide subsidized housing for low-income residents. Affordable units and onsite building manager units are referred to as "non-supportive" throughout this report.

[8] See Appendix A for a copy of the FY2019 financial audit.

- Support the Proposition HHH Concierge's efforts to streamline permitting and other processes to ensure that projects currently in the development pipeline are completed as quickly as possible.

Since we issued those recommendations, the number of unhoused Angelenos grew significantly. The annual point-in-time count led by the Los Angeles Homeless Services Authority (LAHSA) estimated that **41,290** individuals were experiencing homelessness in January 2020, **an increase of 16 percent from the previous year.** A closer look at the data shows the continued impacts of systemic racism in Los Angeles – Black residents represent less than **9 percent** of the overall population while making up nearly **38 percent** of the homeless population.

Nearly **29,000** of the City's overall homeless population were unsheltered and fighting to survive in tents, encampments, vehicles, and other locations. Data from the Los Angeles County Department of Public Health shows that more than **1,000** unhoused people will likely die this year – **at least three lives lost each day**.[9] Between 2013 and 2018, the leading causes of death for individuals experiencing homelessness were coronary heart disease, accidental drug/alcohol overdoses, transportation-related injuries, and homicide. The County estimated that the average age at death was **51** for individuals experiencing homelessness, compared to **73** for the general population.

Proposition HHH is a significant component of the City's Enhanced Comprehensive Homeless Strategy, which is a collaborative effort between the City, LA County, and LAHSA. The strategy includes a broad range of policy reforms and programmatic efforts to tackle homelessness. While strategies invariably take time to implement and evaluate, the data indicates that the crisis is further deteriorating and raises questions about the overall direction and impact of Proposition HHH.

The tragic picture outlined above is likely going to grow – **the annual count was performed before the public health and economic devastation caused by COVID-19.** From a public health standpoint, the pandemic has taken a serious toll – more than **225,000** cases reported and nearly **5,500** deaths in LA County at the time of this report. The pandemic has been especially deadly for Black and Latinx residents, many of whom have pre-existing health conditions and work in jobs that cannot be performed remotely. According to age-adjusted morality rates reported by the Los Angeles County Department of Public Health as of August 24, 2020, the mortality rate for Black residents is **two times higher** than white residents. The mortality rate for Latinx residents is **2.7 times higher** than white residents.

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[9] Steve Chiotakis, "More than 600 people have died of homelessness this year. Andrew Kettle was number 566," *KCRW*, July 28, 2020, https://www.kcrw.com/news/shows/greater-la/unhoused-deaths-coronavirus-la-oc/andrew-kettle-homeless.

The economic fallout from the pandemic is also devastating. Entire sectors of the economy have come to a virtual standstill, and some will likely be transformed in the aftermath of COVID-19. For example, social distancing requirements are causing employers to rethink telework as a viable long-term option for some professions. A shift away from traditional office settings would mean less demand for workers who help support and maintain those buildings. Research shows that the City is down more than **200,000** jobs and these figures do not account for residents who remained employed but had their wages reduced. The disruption places added burden on individuals who can least afford it and those who are already struggling with high housing costs.

The City implemented measures such as a rent lottery for **50,000** low-income households, rent freezes for units covered by the Rent Stabilization Ordinance (RSO), and a moratorium on evictions for renters who can demonstrate that they are unable to pay rent as a direct result of COVID-19. **But these protections are limited and temporary – the threat of widespread homelessness remains.** Researchers at UCLA estimate that, without additional action, tens of thousands of households in LA County are at risk of falling into homelessness as a result of post-pandemic evictions.[10] The State recently approved legislation to extend protection from evictions through January 31, 2021.

The convergence of these generational crises further emphasizes the importance of getting supportive housing units, interim shelters, and support facilities built as quickly and inexpensively possible. The full impact of COVID-19 on Proposition HHH-funded projects remains unclear, but each of the following components is being affected.

- **Project funding –** Assembling funding from multiple sources to make projects financially viable is an inherently challenging task. The ongoing economic volatility creates uncertainty for private lenders/investors, thereby increasing the risk that projects do not move forward.

  A critical part of making projects viable are federal rental subsidies in the form of Section 8 housing vouchers. In 2017, the Housing Authority of the City of Los Angeles (HACLA) committed to providing vouchers for up to **5,000** units developed through Proposition HHH and recently committed an additional **1,000** vouchers. But there are currently not enough vouchers to fund all of the units in the development pipeline.

  Proposition HHH supportive housing projects also require operating subsidies so that service providers can provide tenants with resources such as case management services and medical, mental health, and substance use treatment services. The County committed to funding these services – primarily through sales tax revenue generated

[10] Blasi, G. (2020). UD Day: Impending Evictions and Homelessness in Los Angeles. *UCLA: Institute on Inequality and Democracy*. Retrieved from https://escholarship.org/uc/item/2gz6c8cv.

from Measure H – but revenue projections remain uncertain due to the economic downturn.

- **Construction costs** – A regional slowdown in market-rate multifamily housing construction may drive down labor costs for Proposition HHH-funded projects due to increased competition among general contractors and subcontractors. However, potential cost savings may be offset by increased costs for materials due to disruptions to international supply chains.

- **Development timelines – T**he Mayor issued an emergency order ("Tolling Order") which temporarily suspended deadlines related to the financing and pre-development activities necessary to develop or rehabilitate affordable and supportive housing.

  Construction of multifamily buildings requires large numbers of workers in tight spaces. Shortly after the public health emergency was declared, the Department of Building and Safety (LADBS) issued social distancing requirements at construction sites. These changes are essential to protecting worker safety, but will likely slow down construction.

As of August 2020, no Proposition HHH projects have been cancelled as a direct result of COVID-19. But the uncertainty likely means additional delays, higher costs, and greater risk of unsuccessful projects. **The City's Housing and Community Investment Department (HCIDLA) plans to reallocate funds from unsuccessful projects by initiating a call for developers to submit proposals for development of new supportive housing.**

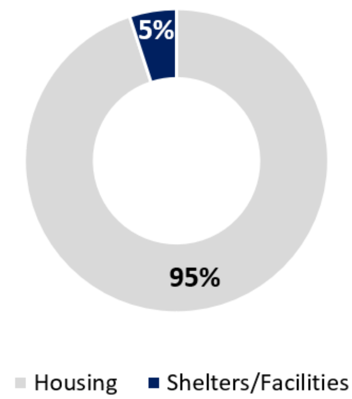
This report provides a status update on progress made on Proposition HHH-funded projects and explores ways to use Proposition HHH funds to deliver assistance to the **tens of thousands** of homeless Angelenos suffering through these unprecedented crises. It is important to place the City's efforts with Proposition HHH into broader context – other ongoing initiatives are discussed throughout the report.

PROPOSITION HHH STATUS

The City reports that approximately **$1.17 billion** in Proposition HHH funds – nearly the maximum amount approved by voters – has been allocated as of August 2020[11]:

- **$993 million** for supportive/affordable housing developed through the traditional HCIDLA development pipeline;
- **$120 million** for supportive housing developed through the HHH Housing Challenge; and
- **$58 million** for interim shelter and facilities projects.

There is more than **$30 million** in remaining Proposition HHH funds that have not yet been allocated by the City.



By a significant margin, the City is directing funding to the development of supportive/affordable housing rather than interim shelters or facilities such as restrooms, showers, storage, clinics, or service centers. The City made this policy decision because it was consistent with the intent of the ballot measure and presented a permanent housing solution for people experiencing homelessness rather than temporary relief. But the ballot measure did not include any language that specified how much should be used for interim shelter/facilities versus housing.

Proposition HHH funding commitments for housing are conditional and are typically made early in the development process. Actual disbursement of bond proceeds does not occur formal loan agreements (i.e., contracts) are executed and housing projects are ready to begin construction. HCIDLA is tasked with reviewing invoices submitted by developers and approving payments.

The Office of the City Administrative Officer (CAO) oversees the development of shelters and facilities 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 are facilities must periodically submit requests for reimbursement payments that are subject to review and approval by CAO staff.

As of June 30, 2020, the City issued two Proposition HHH bonds with a combined value of almost **$363 million,** formally awarded **$330 million** in loans for supportive housing projects, and spent approximately **$160 million** for housing and facilities projects. The City has not issued

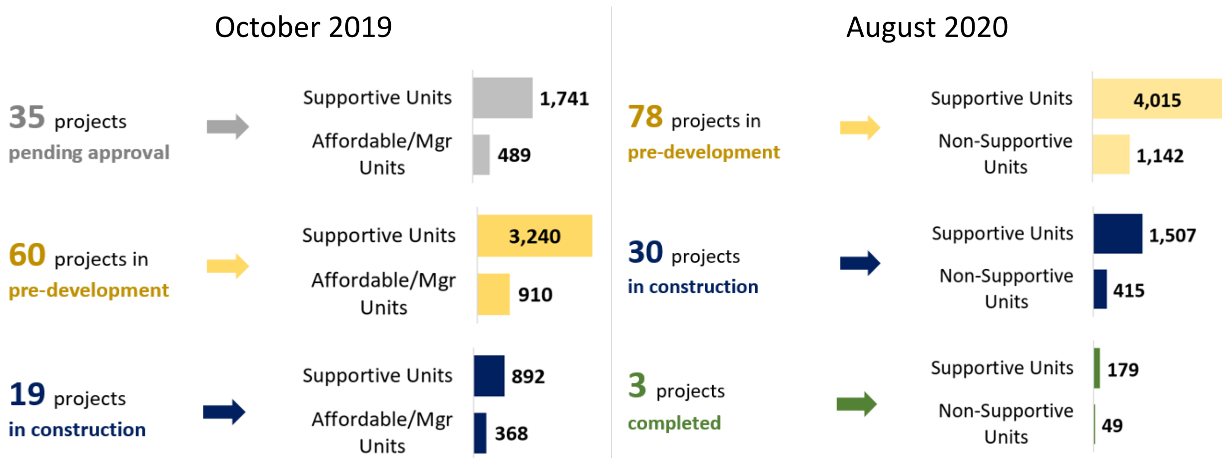
[11] Proposition HHH-related data for this report was obtained directly from HCIDLA, the City's Proposition HHH dashboard (https://hcidla2.lacity.org/hhh-progress), City Council Files, and recurring reports submitted to the Proposition HHH Citizens and Administrative Oversight Committees.

any Proposition HHH bonds since July 2018 but has tentative plans to issue a new bond sometime in 2021 (assuming the bond proceeds on hand continue to be spent at a similar pace).

I. HHH Supportive Housing Development Pipeline

By any measure, development of multifamily housing in Los Angeles takes lots of time and money. Building supportive/affordable housing presents its own set of challenges. **Since our last report, the first three HHH-funded projects were completed and several projects moved into the construction phase.** Three projects did not move forward due to a range of issues: one did not receive Council approval; a developer with an HHH funding commitment elected to discontinue the project; and another project became ineligible for HHH funding because the developer no longer had legal authority to build in the proposed location.

Excluding completed units and potential units from the Proposition HHH Housing Challenge (discussed below), there are currently **5,522** supportive units and **1,557** non-supportive units in the development pipeline. **However, nearly 73 percent of the units have not begun construction and are still in various stages of the pre-development (i.e., planning) process.**



HCIDLA estimates that **three** projects will begin construction in the near future and **14** projects will be ready for occupancy by the end of the calendar year. **Should this occur, it would represent important progress and would expand the City's overall supply of supportive housing.** But the magnitude of our homeless crisis far exceeds the average number of housing units **(66)** being added with each project. Finding ways to quickly build at a significantly greater scale/lower cost is essential.

Proposition HHH Housing Challenge Program

The City set aside **$120 million** in HHH funds with the goal of identifying innovative housing typologies or non-traditional financial models (e.g., alternatives to federal tax credits) that can be used to reduce development costs and complete projects within two years of executing a funding contract. Developers did not have to demonstrate site control before applying for funds through the HHH Housing Challenge. The City aims to facilitate the development of **975** supportive housing units through this process.

The City is in the process of awarding **$78 million** in HHH financial commitments for **652** total units through the HHH Challenge. The projects include promising approaches such as a financing plan tailored for modular construction and use of alternate structural materials. Preliminary estimates show lower costs (**$425,122** per unit), lower HHH subsidies for most projects, and shorter development timelines – **which are encouraging compared to the non-Challenge projects**.

However, several of the developers are now pursuing federal tax credits due to delays on State funding. **This shift is significant and may mean added time and costs as the projects move toward construction.** Due to the evolving nature of these projects, they are not incorporated into the analyses throughout this report.

II. Cost of Proposition HHH Supportive Housing

Responding to homelessness requires developing policy and program responses tailored around the needs of people experiencing homelessness. Some individuals need sustained rental assistance, while others have greater need for services. Supportive housing is intended to provide with subsidized housing combined with on-site services such as mental and physical health services, education and job training, and drug and alcohol treatment. Buildings developed through Proposition HHH have dedicated space for these services, such as offices and meeting rooms that contribute to overall project costs.

The Terner Center for Housing Innovation recently analyzed quantitative and qualitative data to identify cost drivers associated with hundreds of affordable and supportive housing projects throughout California.[12] Their analysis focused on housing developments funded with a specific type of federal tax credit (9%) between 2008 and 2019. Although many of the City's HHH projects are funded with a different type of tax credit (4%), the findings provide valuable insight about development costs.

- Projects built in Los Angeles had total development costs (i.e., land, construction, and soft costs) of approximately **$600** per square foot. The cost of projects in San Francisco

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[12] Reid, C., Napolitano, A., Stambuk-Torres, B. (2020). "The Costs of Affordable Housing Production: Insights from California's 9% Low-Income Housing Tax Credit Program." Terner Center for Housing Innovation at UC Berkeley. Retrieved from: http://ternercenter.berkeley.edu/development-costs-LIHTC-9-percent-california.

was significantly higher during the same period, and projects built in the inland areas of the State had lower costs compared to Los Angeles.

- Supportive housing is typically more expensive to build compared to housing for seniors and families. One of the contributing factors is that the units are usually smaller in size and each have their own kitchen and bathroom, which both add costs.

The Terner study also cited the impacts of factors such as prevailing wage requirements, rising construction costs, funding complexity, and land use issues. The report presented a number of issues for further exploration, many of which were related to State policies (e.g., streamlined funding and building/environmental code regulations) and others that will take time to implement (e.g., promoting innovation in the construction industry and growing the construction labor force). Progress in these areas is essential and will require a sustained effort given the lack of affordable and supportive housing throughout the State.

But in this current moment, the City is left to make funding decisions about Proposition HHH before these important reforms can be carried out. Proposition HHH loans typically make up approximately **25 percent** of each project's total budget. The maximum allowable Proposition HHH subsidy for supportive housing was **$140,000** per unit during the most recent funding cycle and **$220,000** per unit for previous funding cycles. The remaining funding comes from a combination of private sources and other sources of taxpayer funds such as federal government, State of California, and LA County. **Although the City does not bear the entire cost of these projects, it should seek to further minimize development costs and – to the greatest extent possible – avoid draining the overall pool of funds available for supportive and income-restricted housing projects.**

All supportive and affordable units funded through Proposition HHH are subject to a **55-year** affordability covenant to ensure that they are restricted to the target population. More than **51 percent** of the units being developed using HHH funds are compact studios (typically < 500 sq. feet) and **33 percent** are 1-bedroom apartments – all units must have a kitchen and full bathroom to function as supportive housing. Larger apartments being built are set aside for families experiencing homelessness.

Cost of completed HHH supportive housing projects

Since we issued our last report, the first **three** HHH-funded projects were completed and will provide homes and supportive services to a mix of formerly homeless individuals, seniors, families, transition age youth, and individuals with mental health conditions. The average HHH subsidy for these projects was approximately **$7 million.**

88th and Vermont


Photo Credit: HCIDLA

HHH funds	**$9,680,000**
Total development cost	**$34,069,046**
Cost per unit	**$549,801**
Total units	**62**
Supportive units	**46**
Unit mix	**12 studios, 20 1BR, 24 2BR, 6 3BR**

Casa del Sol


Photo Credit: HCIDLA

HHH funds	**$8,065,143**
Total development cost	**$21,925,608**
Cost per unit	**$498,309**
Total units	**44**
Supportive units	**43**
Unit mix	**17** studios, **26** 1BR, **1** 2BR

PATH Metro Villas II

Photo Credit: HCIDLA

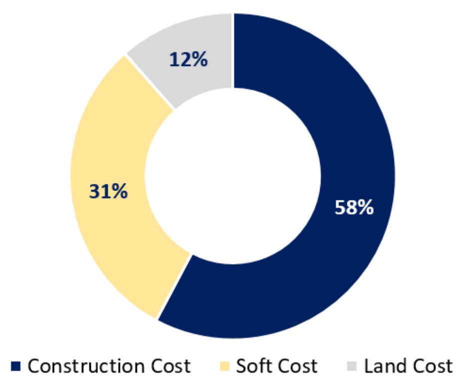
HHH funds	**$3,513,721**
Total development cost	**$56,064,860**
Cost per unit	**$498,309**
Total units	**122**
Supportive units	**90**
Unit mix	**60** studios, **60** 1BR, **2** 2BR

It is important to note that these projects (and **six** others) were not initiated after the passage of Proposition HHH in November 2016. Instead, they were already in HCIDLA's development pipeline and HHH funding was used at the latter stages of pre-development – rather than the first-in approach – to close funding gaps and move the projects toward construction. **As a**

result, the costs and timelines associated with these projects may not be representative of other projects in the development pipeline.

To better understand how costs were distributed for the completed projects, we analyzed project budgets submitted to HCIDLA during the pre-development phase and organized the data into the categories outlined below. These budgets are a snapshot of total development costs (TDC) estimates at the time of application and evolve over time, but they provide general context about the various cost drivers. As shown in the chart, construction costs accounted for nearly **58 percent** of total development costs.

Budget Breakdown for 3 Completed HHH Housing Projects[13]



Category	% of TDC
New Construction / Rehab	57.8%
Land Cost / Acquisition	11.5%
Developer Fee	8.7%
Other Costs	5.2%
Construction Interest and Fees	6.3%
Contingency Costs	4.8%
Architectural Costs	2.7%
Reserve Costs	1.3%
Survey and Engineering	1.0%
Legal Fees	0.7%
Permanent Financing Costs	0.1%
	100%

As shown here, construction costs typically represent more than half of each project's development cost and contracts are not executed until funds are assembled, land use issues are resolved, and Proposition HHH loans are closed. **As a result, the construction costs associated with each project largely reflect the demand for materials and labor when the contracts were finalized.**

In our previous report, we found that projects were incurring soft costs of approximately **35 percent** for non-construction activities such as fees, insurance, and financing costs. HCIDLA explained that the difficult and lengthy process of assembling funding from multiple sources contributes to these costs, and that the soft cost ratio was consistent with research published by the United States Governmental Accountability Office (GAO) in 2018. The soft cost ratio for the **three** completed projects listed above (**31 percent**) was consistent with this level.

Cost of HHH supportive housing projects in construction

The average HHH contribution for projects in construction is nearly **$9.4 million**. The aggregate data reported by HCIDLA shows that average per-unit development costs for projects in

[13] The project budgets submitted by developers to HCIDLA frequently bundle a number of items such as permit processing fees, local development impact fees, furnishings, and soft cost contingency under the category "other costs."

construction increased slightly, and outliers at both ends of the spectrum continued to separate themselves.

Cost of HHH Supportive Housing Projects in Construction

October 2019

TOTAL DEVELOPMENT COST (TDC)

Lowest	Average	Highest
$11,440,379	**$34,607,610**	**$55,050,829**

PER-UNIT COST

Lowest	Average	Highest
$346,678	**$521,861**	**$690,692**

August 2020

TOTAL DEVELOPMENT COST

Lowest	Average	Highest
$13,036,552	**$34,065,006**	**$55,658,910**

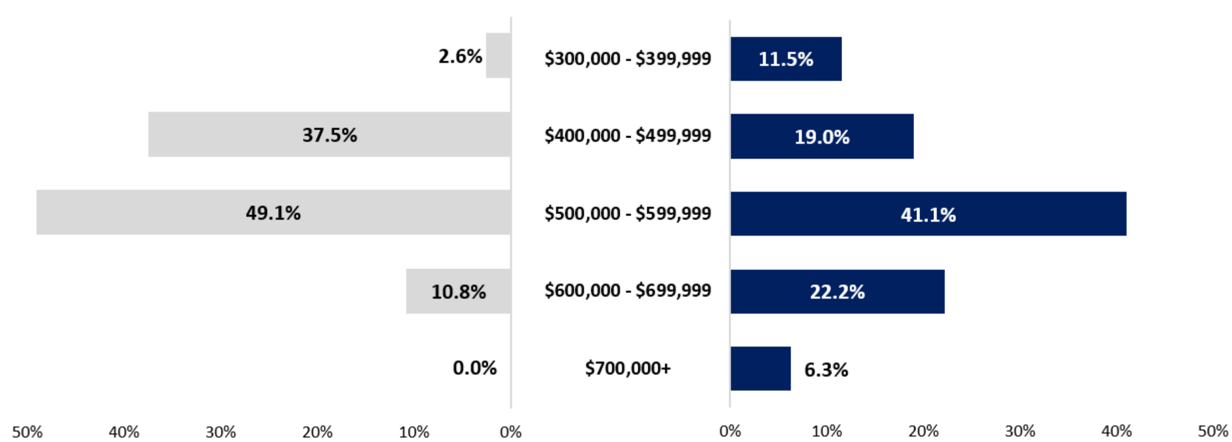
PER-UNIT COST

Lowest	Average	Highest
$309,901	**$531,711**	**$739,377**

A closer look at the distribution of per-unit costs shows that the overall share of units with development costs above **$600,000** increased from **10.8** to more than **28 percent**.

Cost Distribution of HHH Units in Construction

October 2019 August 2020



At the other end of the spectrum, the percentage of units below **$400,000** also increased**.** Notably, two projects in this lower cost range were conversions of existing motels. There are two additional projects in construction which take an adaptive reuse approach and the cost per unit is close to or less than the other projects in construction.

This limited sample size and number of potential factors make it difficult to draw larger conclusions about these projects. However, the GAO analyzed affordable housing projects completed between 2011 and 2015 which were funded with one type of tax credit (9%) available through the Low Income Housing Tax Credit Program (LIHTC) program. **The study**

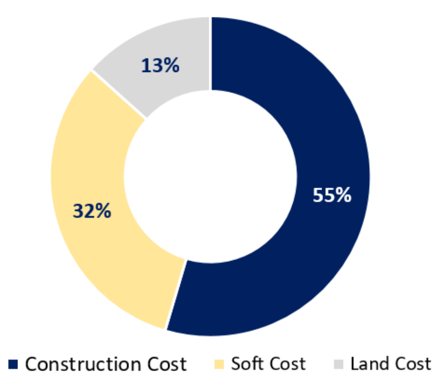
found that median per unit development costs for affordable housing projects were lower in rehabilitation projects compared to new construction.[14] This gap appeared across a range of locations, including New York City, Chicago, and California. Potential cost savings could be partially offset by the higher cost of maintaining an older building. But our dire need for faster solutions and the State's current efforts with Project Homekey (to be discussed later) are consistent with this approach.

In addition, HHH projects in construction with development costs below **$500,000** have an average of **73** units, whereas projects with development costs above **$600,000** have an average of **58** units. **While the limited sample size and number of variables makes it difficult to draw larger conclusions, the difference in costs – and need for additional units – suggests the City should prioritize funding larger projects.**

It should be noted that the analysis is not a one-for-one comparison – the August 2020 data includes additional projects and the outlier costs may simply reflect construction market dynamics at the time those contracts were signed. **Regardless, the data snapshot provides additional context about the current project portfolio.**

The cost breakdown of projects in construction was consistent with the completed projects, with slightly higher costs associated with land acquisition.

Budget Breakdown for 30 HHH Supportive Housing Projects in Construction



Category	% of TDC
New Construction / Rehab	54.5%
Land Cost / Acquisition	13.4%
Developer Fees	8.9%
Construction Interest and Fees	6.2%
Other Costs	5.6%
Contingency Costs	4.9%
Architectural Costs	2.5%
Reserve Costs	1.7%
Survey and Engineering	0.8%
Legal Fees	0.6%
Permanent Financing Costs	0.4%
Relocation Costs	0.3%
Pre-development Interest Costs	0.2%
	100%

Cost of HHH supportive housing projects in pre-development

The average HHH contribution for projects in pre-development is nearly **$8.9 million**. **The cost of projects in pre-development represent an estimate at the time project proposals are submitted to HCIDLA – typically years before they begin construction.** After receiving a

[14] U.S. Government Accountability Office. (2018). "Low-Income Housing Tax Credit: Improved Data and Oversight Would Strengthen Cost Assessment and Fraud Risk Management." Report GAO-18-627. Retrieved from: https://www.gao.gov/products/gao-18-637.

conditional letter of commitment, developers have two years to assemble funding, obtain land use approval, and navigate the City's permitting processes. As a result, the estimates below are preliminary and will be subject to market forces when construction contracts are finalized.

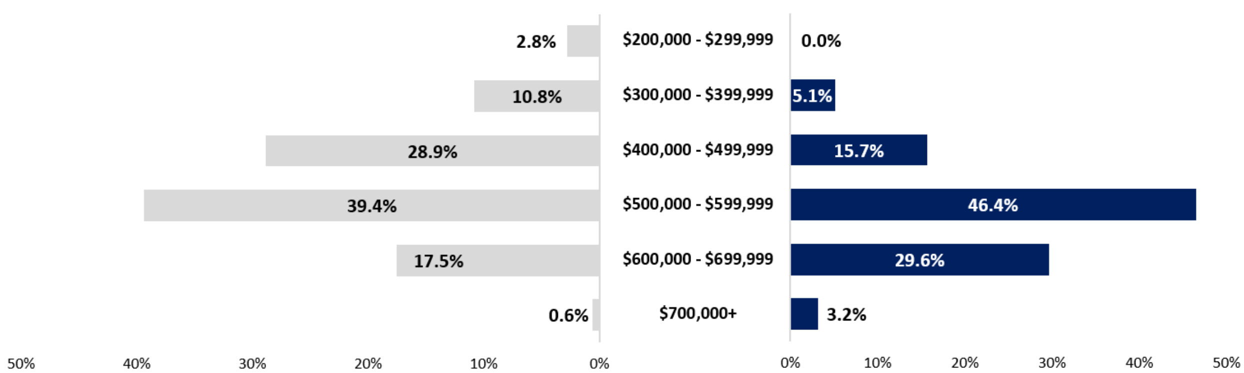
Cost of HHH Supportive Housing Projects in Pre-Development

	October 2019			August 2020		
	TOTAL DEVELOPMENT COST (TDC)			TOTAL DEVELOPMENT COST		
	Lowest	Average	Highest	Lowest	Average	Highest
Total development cost	$9,340,379	$34,069,389	$72,022,642	$9,403,369	$36,948,439	$76,496,899
	PER-UNIT COST			PER-UNIT COST		
	Lowest	Average	Highest	Lowest	Average	Highest
Per-unit cost	$228,908	$507,302	$701,072	$324,771	$558,847	$746,797

The estimated cost per unit increased by more than **ten** percent for projects in pre-development. The lowest cost project reported in October 2019 (Vermont and Manchester) has been corrected due changes in how the project is tracked by HCIDLA and the State. The project is a multiphase family and senior development, and the second phase (**62 units**) is funded by Proposition HHH. Both phases of the project were previously tracked together because they shared other funding sources, but that approach unintentionally made the HHH-funded units appear to be less expensive.

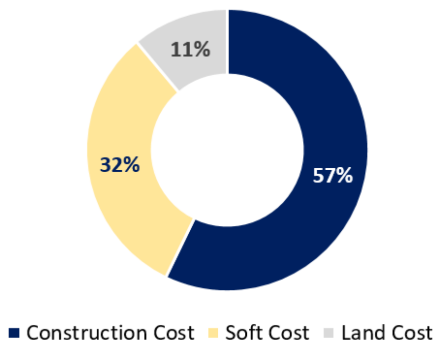
Cost Distribution of HHH Units in Pre-Development

October 2019 August 2020



Currently, nearly **33 percent** of units in pre-development are estimated to exceed **$600,000**. The National Association of Homebuilders recently reported that lumber costs increased considerably since April 2020 – it is unclear how much these projects will cost by the time they begin construction.

Budget Breakdown for 78 HHH Supportive Housing Projects in Pre-Development



Category	% of TDC
New Construction / Rehab	57.1%
Land Cost / Acquisition	11.1%
Developer Fees	9.2%
Construction Interest and Fees	5.9%
Other Costs	5.3%
Contingency Costs	4.4%
Architectural Costs	2.5%
Reserve Costs	1.7%
Survey and Engineering	0.9%
Predevelopment Interest / Holding Cost	0.8%
Legal Fees	0.5%
Permanent Financing Costs	0.5%
	100%

III. Estimated Project Completion Timelines

Recent events and continued uncertainty will almost certainly add to what is already a lengthy development process. Projects currently in construction must adjust to social distancing guidelines and projects in pre-development must navigate added uncertainty with their financing arrangements.

Even before the pandemic, the City granted extensions for **15** projects beyond the two-year window provided by the conditional funding commitment. The extensions ranged from **42** to **397** days and were requested due to challenges such as City permitting processes, tax credit application timelines, and a CEQA lawsuit. **Beyond taking longer to complete projects, delays will likely result in higher development costs in the form of interest on loans and holding costs on land.**

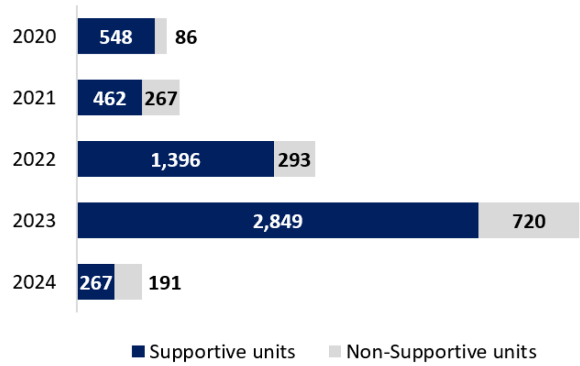
During our last review, we learned that supportive housing projects typically take **three to six years** to complete (from conceptualization to occupancy). We previously calculated the timeline by measuring the number of years from the date of the City's funding commitment to the estimated completion of construction. For this report we measured the length of time from the City's funding commitment to the estimated occupancy date. This methodology does not capture time spent acquiring land to build a project.

Using this approach, the **three** completed projects took approximately **2.8** years to complete. But these projects – and **six** others currently in construction – were already in HCIDLA's development pipeline before Proposition HHH was approved in November 2016. Whereas Proposition HHH funds are typically "first-in" and developers have two years to secure additional financing, HHH funds helped developers of the initial group of projects close a financing gap and move toward construction.

Projects in construction	Projects in pre-development

Years from funding to occupancy				Years from funding to occupancy		
Fastest	Average	Slowest		Fastest	Average	Slowest
2.5	**3.3**	**4.3**		**2.9**	**4.2**	**5.4**

Based on the City's current projections – which may not fully reflect pandemic-related delays – only **19 percent** of remaining units in the HHH development pipeline will be completed before January 1, 2022. Approximately **43 percent** of total units are scheduled to be completed before January 1, 2023.



Proposition HHH Concierge

The City received grant funding in 2019 from United Way of Greater Los Angeles to create and fund the Housing Crisis Response Team within the Mayor's Office of Citywide Homeless Initiatives. The grant also provided funding for the establishment of an Affordable Housing Production Manager (also referred to as the "HHH Concierge"). The primary goal of the HHH Concierge is to increase the speed at which HHH and affordable housing projects move through the development pipeline.[15]

The HHH Concierge has been collaborating with developers and City departments to streamline processes in accordance with established legal requirements and troubleshoot issues on a project-by-project basis. These efforts have led to the City's Department of Building Services (LADBS) establishing a dedicated case processing team focused exclusively on HHH/affordable housing projects.

The City has not yet finalized performance metrics to measure the impact of these efforts. They are in the process of establishing baselines for each permitting process and plans to launch quarterly reports and a public-facing dashboard.

[15] 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 within ED13 apply to supportive housing developments.

IV. Interim Shelter and Facilities Development

The January 2020 point-in-time count found that approximately **29,000** – **or 70 percent** – of the City's overall homeless population was unsheltered. **This data was compiled before the onset of the pandemic and likely understates the actual number of unsheltered residents.** Uncertainty about continued federal assistance, additional job losses, and temporary renter protections mean that hundreds of thousands of additional households are at risk of falling into homelessness in the coming months.

There are several non-HHH efforts that have been initiated in recent months to tackle homelessness and the pandemic. The City and County recently reached a multi-year agreement to fund **6,700** housing interventions. Key elements of the City's plan are outlined below.

- **A Bridge Home (ABH) program** – Launched in 2018, the City's primary strategy for emergency housing solutions has been through ABH. As of June 2020, **13** ABH projects with **933** beds were completed and in service. The City recently reported that it expects approximately **840** beds to open by the end of the 2020.

- **Homeless, Housing, Assistance, and Prevent Program (HHAP)** – The City received a one-time grant of approximately **$117.6 million** from the State in June 2020. The funds have been committed across several categories including operating costs for ABH locations, ABH construction costs, rental assistance and rapid re-housing, and public health and hygiene.

- **Project Homekey** - The State is making **$600 million** in grant funding available to local public entities so they can purchase and rehabilitate housing, including hotels, motels, vacant apartment buildings, and other buildings and convert them into interim or permanent, long-term housing. Nearly all of the funding (**$550 million**) is emergency assistance from the federal government and **must be spent by the end of 2020.**

  If local jurisdictions provide **$150,000** in matching funds per door, the State is willing to provide up to **$200,000** in acquisition funding per door.[16] The City recently approved a plan to apply for **$250 million** in capital funding from the State and has set aside up to **$150 million** in federal COVID-19 relief funds to meet the match requirement. The City aims to use the funds for up to **1,250 units** and may need to allocate additional funding for rehabilitation/repair of the acquired properties. On a per-unit basis, the City's estimated budget for this effort is approximately **$320,000** – **which may represent a faster solution at a lower cost than most units developed through Proposition HHH.**

[16] In a shared living environment, the "door" corresponds to the number of rooms that will be occupied by different individuals/households.

- **LAHSA COVID-19 Recovery Plan** – In June 2020, LAHSA presented a three-year plan which seeks **$610 million** in new funding to find housing solutions for the **4,000** high-risk homeless individuals who received assistance through Project Roomkey and the **11,000** individuals who were targeted but not placed in hotels/motels. LAHSA is seeking to use multiple sources of funding (including the State funding described above) to acquire hotels/motels, lease market-rate units, and utilize shared housing units.

  The City recently approved a plan to provide LAHSA with more than **$97 million** in federal COVID-19 relief funds over the course of four years. LAHSA is aiming to place **3,000** people in privately-owned rental units by providing rental assistance and case management services.

- **Interim housing sites** – The City's recent plan includes funding estimates to acquire and deploy **740** interim beds, at least partially through the use of pop-up tiny homes (i.e., Pallet Shelters). The City's current estimated capital cost per unit for interim housing sites, which will be adjusted once contractors are selected, is approximately **$46,000**.

Even if these initiatives meet their goals in a timely manner, there will still be thousands of unsheltered Angelenos. Each day they spend without housing or shelter puts them at greater risk of illness or death.

Proposition HHH Shelter/Facilities Program

Proposition HHH authorized the City to use up to **$1.2 billion** in bond proceeds to develop supportive and affordable housing, as well as facilities such as shelters, showers, restrooms, storage, clinics, and navigation centers. **The ballot measure required at least 80 percent of HHH funds to be used on supportive housing and shelters/facilities and prioritized supportive housing, but it did not specify how to distribute funds between those categories.**

Although the supportive housing model (i.e., housing combined with services) is considered a best practice for addressing chronic homelessness, shelter beds and facilities fulfill a critical role in helping unsheltered individuals until housing becomes available. Decisions about how to balance these approaches depend on a range of factors such as available funding, existing housing and shelter inventories, project costs, public health conditions, the number of unsheltered residents and their service needs.

The City has funded a total of **24** projects using approximately **$58 million** in Proposition HHH funds. [17] The relatively limited scope of this effort was driven by the City's decision to prioritize development of supportive housing. In 2018, the City Council voted to suspend a planned request for proposals (RFP) and another RFP has not been issued since then.

9 Projects in Pre-development

8 Projects in Construction

7 Completed Projects

Eligible projects included rehabilitation/expansion of existing sites or acquisition/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 shelter/facilities projects that were funded by the City fall into two broad categories based on the entity that proposed (i.e., sponsored) them, HHH award process, and funding model.

- **Non-City-sponsored projects** – The City solicited proposals from non-profit or private entities for shelters/facilities projects in two phases: (1) an expedited request for proposals (RFP) in February 2017 seeking shovel-ready projects ready to begin construction within a year; and (2) a conventional RFP in August 2017. Applicants needed to meet a series of criteria to be considered, including whether they had funding in place to operate the proposed shelter/facility.

  Funding for non-City sponsored projects was made available as loans repayable through service repayment with a term corresponding to the useful life of the project. The initial RFP did not establish a minimum or maximum funding amount, but the second RFP set thresholds at **$100,000** and **$3.5 million**, respectively. In total, the City funded **20** non-City sponsored projects with approximately **$33 million** in HHH funds.

- **City-sponsored projects** – The City also funded projects through processes outlined in its matrix for re-purposing City-owned properties (i.e., Asset Evaluation Framework). To initiate this process, Councilmembers identified specific City-owned properties they sought to re-purpose and requested that the CAO, Office of the Chief Legislative Office (CLA), Board of Public Works Bureau of Engineering (BOE), and LAHSA evaluate the construction costs and service funding needed to establish the proposed shelter/facility.

[17] Two additional projects received funding commitments but did not proceed due to unanticipated costs. Another project did not move forward because the developer ran into issues converting single room occupancy (SRO) units to transitional housing.

Unlike the non-City-sponsored projects described above, the minimum/maximum funding thresholds did not apply. In total, the City funded **four** City-sponsored projects with approximately **$24 million** in HHH funds.

The table below provides an overview about the types of facilities funded with Proposition HHH funds. It is important to note many of these facilities have multiple functions. For purposes of this summary, we primarily used the same main categories listed by the City.

Shelter/ facility type	# of projects funded	HHH funding	Total Cost	Project Notes
Domestic violence (DV) shelters	6	**$3,891,388**	**$6,100,158**	Five of the projects are primarily site rehabilitations that will allow service providers to enhance services, improve accessibility and safety, and add/continue operating shelter beds. One project included acquiring a 4-unit building and converting it into a 36-bed shelter.
Service centers	5	**$15,648,535**	**$19,913,861**	Three projects are structural enhancements to existing facilities that will provide additional capacity to serve homeless individuals and families. Two projects are new construction that will provide storage, showers, restrooms, and space for case management, counseling, and other services.
Transitional housing/shelters	4	**$7,114,439**	**$7,214,439**	The projects are primarily site rehabilitations that will make existing facilities safer, more welcoming, and more accessible. Multiple projects will add rooms and shelter beds as a direct result of the HHH-funded site reconfigurations.
Health clinics	2	**$7,200,000**	**$26,738,840**	One clinic is being built in conjunction with Permanent Supportive Housing project and seeks to provide medical, dental, mental, and substance abuse services, to serve at least 2,200 additional individuals each year. The second project involves addition of facilities enhancements such as exam rooms, showers, and restrooms.
Navigation centers	2	**$11,836,414**	**$11,836,414**	Both facilities provide a combination of storage, hygiene facilities, and case management space.

General shelters	2	**$5,242,000**	**$5,844,380**	Both projects will create additional space for shelter beds and program space. One of the projects includes significant reconfiguration of existing space
Multi-function facilities	2	**$3,272,500**	**$3,272,500**	The projects include a series of upgrades at existing facilities. Specific renovations include additional program space, hygiene facilities, an additional bedroom for emergency supportive housing, and renovations to increase accessibility.
Bridge housing	1	**$3,498,698**	**$3,498,698**	Provides 30 new beds of temporary/interim housing at a vacant former City library for homeless women who have been matched to permanent housing.

Most of the projects (**19 of 24**) funded by the City are renovations of shelters/facilities already embedded in their respective communities. A total of **196** new shelter beds will be provided when these projects are completed.

CONCLUSION AND RECOMMENDATIONS

The primary recommendation in our previous report called on the City to consider reallocating previously-committed HHH funds from expensive or stalled projects to projects with lower costs or development of shelters and facilities. These are inherently difficult decisions – but the results since Proposition HHH was passed in November 2016 need to be considered before electing to stay the course.

- Only **three projects** have been completed (**228 units**) nearly **four years** after voters approved Proposition HHH. Approximately **73 percent** of total units are still in pre-development and have not yet begun construction.
- Based on the City's current projections, only **19 percent** of remaining units in the HHH development pipeline will be completed before January 1, 2022. Approximately **43 percent** of total units are scheduled to be completed before January 1, 2023.
- More than **28 percent** of units in construction exceed **$600,000** per unit. Nearly **33 percent** of units in pre-development are projected to exceed the same cost threshold, and will be subject to market forces when developers solicit bids for construction contracts.

Given the overall timeline and costs for completing HHH-funded supportive housing projects – **and the magnitude of our overlapping crises** – the question remains about how best to move forward. The City's current plan is to use the remaining HHH funds (approximately **$30 million**) and any potential funds (**$9 million** per project) returned from unsuccessful projects to start the process anew and solicit proposals for new supportive housing projects – **which are unlikely to be completed until 2025 or later.**

The City should reconsider this plan. The issue is not whether the City should invest in supportive housing using HHH funds – the issue is whether the City should almost exclusively pursue an approach that frequently costs more than **$600,000** per unit and takes up to **six** years to complete when there are **29,000** unsheltered Angelenos and an average of **three** lives lost every day in LA County. Instead, the City should find other ways to use any remaining/returned HHH funds to deliver faster and less expensive projects that better balance our long-term goals with our short-term needs.

- **Focus on interim housing and facilities** – Interim housing is critical to helping get vulnerable people off the streets. Available and accessible facilities are also essential to helping people living on the streets meet their basic health, hygiene, sanitation, and storage needs. Unfortunately, neither of these have been prioritized or funded at a scale that matches the needs of people experiencing homelessness in Los Angeles.

According to the City, State law prevents the City from using Proposition HHH bond proceeds on items such as equipment, tents or other non-permanent structures, or mobile hygiene facilities. But the City has full authority to fully fund the construction of interim housing and facilities on City-owned property, or acquire property and initiate projects. **The City should consider using HHH funds to supplement its emerging effort to increase the supply of interim housing solutions.**

- **Prioritize acquisition, rehabilitation, and adaptive reuse opportunities –** Another approach would be to pursue strategies that minimize the impact of issues such as land use challenges, the cost of new construction, and systemic issues related to project financing. Different approaches – such as acquisition, rehabilitation, or adaptive reuse of existing buildings funded by Proposition HHH bond proceeds – may help reduce costs and timelines, potentially adding units at faster rate than the current pace (**228 units in nearly four years**).

  CalMatters obtained data from the California Hotel & Lodging Association that showed smaller hotel/motel properties in Los Angeles County may cost approximately **$100,000** per unit to acquire, but would likely require additional time and money before they could be converted into supportive housing.[18] The City has explored the purchase or long-term leases of hotel/motel properties but encountered regulatory hurdles due to the need for zoning changes and a lack of interest from small business owners. However, those efforts mainly took place before the onset of the pandemic – the City may encounter a vastly different marketplace for these opportunities.

  Funding currently available through Project Homekey is an opportunity for the City to acquire hotels/motels and other existing buildings that can be converted into interim shelters or supportive housing. Although the retrofits needed to make these buildings suitable for supportive housing will add time and money, the locations can be temporarily used as interim housing and mitigate risks associated with COVID-19 transmission in congregate shelter settings. On a per-unit basis, the City's estimated per unit budget in its application for Project Homekey funding is **$320,000. A potential option for the City would be to contribute available Proposition HHH funding to expand these efforts.**

  Social distancing requirements have also raised larger questions about the future of commercial space such as office space and big-box retail stores. Although it is too early to determine whether any downward market trends – and the costs associated with

[18] Matt Levin, "Converting a motel to homeless housing, step by step," *CalMatters*, June 9, 2020, https://calmatters.org/housing/2020/06/motel-conversion-homeless-housing-california/.

potential renovations – make these projects financially viable, the City should work with subject matter experts to identify opportunities.

Shifting course through these strategies may increase the City's ability to deliver supportive housing, interim shelter, and facilities at a lower cost and faster rate. More broadly, it would help re-align a generational voter investment with our emerging and urgent needs.

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,
Financial Statements

For the Year Ended June 30, 2019

MGO Certified Public Accountants

CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH FUNDS
For the Year Ended June 30, 2019

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Independent Auditor's Report

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, 2019, 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 an opinion 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.

Opinion

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, 2019, 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 Matter

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, 2019, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2020 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 & O'Connell LLP

Los Angeles, California
March 31, 2020

CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH FUNDS
Balance Sheet
June 30, 2019

	GOVERNMENTAL FUNDS			
	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTAL
ASSETS				
Cash and Pooled Investments	$ 269,117,983	$ 42,910,665	$ 31,057,516	$ 343,086,164
Loans Receivable				
(Net of Allowance for Uncollectibles of $19,906,991)	38,588,543	-	-	38,588,543
Accrued Interest on Loans Receivable				
(Net of Allowance for Uncollectibles of $274,357)	447,635	-	-	447,635
Taxes Receivable				
(Net of Allowance for Uncollectibles of $36,973)	-	-	3,518,620	3,518,620
Investment Income Receivable	1,236,544	197,225	122,522	1,556,291
TOTAL ASSETS	$ 309,390,705	$ 43,107,890	$ 34,698,658	$ 387,197,253
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	$ -	$ 59,720	$ -	$ 59,720
Obligations Under Securities Lending Transactions	2,770,150	441,797	319,699	3,531,646
Due to City Funds	-	768,274	-	768,274
Other Liabilities	20,340	3,244	2,347	25,931
TOTAL LIABILITIES	2,790,490	1,273,035	322,046	4,385,571
DEFERRED INFLOWS OF RESOURCES				
Property Taxes	-	-	2,692,156	2,692,156
Investment Interest	383,607	61,181	45,648	490,436
Loan Interest	447,635	-	-	447,635
TOTAL DEFERRED INFLOWS OF RESOURCES	831,242	61,181	2,737,804	3,630,227
FUND BALANCES				
Restricted	305,768,973	41,773,674	31,638,808	379,181,455
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 309,390,705	$ 43,107,890	$ 34,698,658	$ 387,197,253

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, 2019

	GOVERNMENTAL FUNDS			
	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTAL
REVENUES				
Property Taxes	$ -	$ -	$ 36,913,621	$ 36,913,621
Investment Earnings	4,819,435	769,599	230,703	5,819,737
Change in Fair Value of Investments	2,987,009	481,116	321,432	3,789,557
TOTAL REVENUES	7,806,444	1,250,715	37,465,756	46,522,915
EXPENDITURES				
Community Development	19,981,991	-	-	19,981,991
Capital Outlay	-	3,101,559	-	3,101,559
Cost of Issuance	625,724	98,967	-	724,691
Debt Service:				
Principal	-	-	4,320,000	4,320,000
Interest	-	-	8,921,098	8,921,098
TOTAL EXPENDITURES	20,607,715	3,200,526	13,241,098	37,049,339
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	(12,801,271)	(1,949,811)	24,224,658	9,473,576
OTHER FINANCING SOURCES (USES)				
Transfers In	6,108,716	-	392,276	6,500,992
Transfers Out	(338,705)	(6,162,287)	-	(6,500,992)
Issuance of Long-term Debt	238,519,229	37,720,771	-	276,240,000
Premium on Issuance of Long-term Debt	960,711	151,950	-	1,112,661
TOTAL OTHER FINANCING SOURCES	245,249,951	31,710,434	392,276	277,352,661
NET CHANGE IN FUND BALANCE	232,448,680	29,760,623	24,616,934	286,826,237
FUND BALANCES, JULY 1, 2018	73,320,293	12,013,051	7,021,874	92,355,218
FUND BALANCES, JUNE 30, 2019	$ 305,768,973	$ 41,773,674	$ 31,638,808	$ 379,181,455

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, 2019

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, 2019:

	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 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.

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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, 2019 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 supportive housing facilities for homeless activities

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 represents 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.

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 represents 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, 2019. 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 generally accepted accounting principles 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 generally accepted accounting principles. 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, 2019, the Funds' share of the Pool was $343,086,164, which represents approximately 3.14% of the Pool. There are no specific investments belonging to the Funds. The Pool is not rated as of June 30, 2019. 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 by calling (213) 978-7200 or at www.lacontroller.org.

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

NOTE 3 – CASH AND POOLED INVESTMENTS (CONTINUED)

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.

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 60 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, 2019, the Funds' portion of the cash collateral and the related securities lending obligation was $3,531,646. The Funds' portion of the securities purchased from the reinvested cash collateral at June 30, 2019 was $3,531,646. Such securities are reported at fair value. The Funds' portion of the noncash collateral at June 30, 2019 was $15,011,805.

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, 2019.

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 RECEIVABLE

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

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.

NOTE 4 – LOANS RECEIVABLE (CONTINUED)

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 at the completion of the project for periods ranging from sixteen (16) to fifty (50) years as specified in the agreement.

Loans receivable consists of the following:

Project	Amount
Housing Loan Program:	
PATH Metro Villas Phase 2	$ 3,267,284
88th & Vermont	8,872,906
Six Four Nine Lofts	5,030,874
McCadden Campus	223,323
Casa del Sol	1,110,109
Flor 401 Lofts	434,269
RISE Apartments	1,037,608
SP7 Apartments	256,767
McCadden Campus Senior Housing	93,716
Cambria Apartments	4,448,062
Hartford Villa Apartments	7,354,651
West Third Apartments	10,454,414
Western Ave Apartments	4,733,572
Broadway Apartments	4,458,089
Rosa de Castilla Apartments	1,333,165
Subtotal	53,108,809
Facilities Loan Program:	
South Campus	232,713
88th and Vermont Youth and Community Center	1,736,279
Joshua House Health Center	3,312,725
Fannie Lou Hammer Emergency Shelter	63,000
Viki's House	764,000
Subtotal	6,108,717
Total Loans Receivable Before Allowance	59,217,526
Less Allowance	(20,181,348)
Total Loans Receivable	$ 39,036,178

Housing Loan Program

In December 2017, the City entered into a loan agreement with Metro Villas Phase 2 Los Angeles, LP for an amount not to exceed $3,513,721 and secured by a City Deed of Trust recorded against the property. 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

NOTE 4 – LOANS RECEIVABLE (CONTINUED)

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 $3,267,284 includes interest of $104,935 at June 30, 2019.

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 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 $8,872,906 includes interest of $160,906 at June 30, 2019.

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. 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 $5,030,874 includes interest of $40,731 at June 30, 2019.

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. 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 $222,323 includes interest of $916 at June 30, 2019.

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. 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 $1,110,109 includes interest of $11,619 at June 30, 2019.

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. 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 $434,269 includes interest of $630 at June 30, 2019.

NOTE 4 – LOANS RECEIVABLE (CONTINUED)

In October 2018, the City entered into a loan agreement with RISE Housing, LP for an amount not to exceed $9,500,000 and secured by a Deed of Trust recorded against the property. 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 $1,037,608 includes interest of $6,780 at June 30, 2019.

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. 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 $256,767 includes interest of $611 at June 30, 2019.

In December 2018, the City entered into a loan agreement with MaCadden Plaza, LP for an amount not to exceed $5,500,000 and secured by a Deed of Trust recorded against the property. 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 $93,716 includes interest of $254 at June 30, 2019.

In December 2018, the City entered into a loan agreement with Cambria PSH, LP for an amount not to exceed $12,000,000 and secured by a Deed of Trust recorded against the property. 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 $4,448,062 includes interest of $37,248 at June 30, 2019.

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. 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 $7,354,651 includes interest of $105,410 at June 30, 2019.

In November 2018, the City entered into a loan agreement with West Third Apartments Preservation, LP for an amount not to exceed $10,291,988 and secured by a Deed of Trust recorded against the property. 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 $10,454,414 includes interest of $162,416 at June 30, 2019.

NOTE 4 – LOANS 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. 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 $4,733,572 includes interest of $73,539 at June 30, 2019.

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. 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 $4,458,089 includes interest of $14,609 at June 30, 2019.

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. 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 $1,333,165 includes interest of $1,388 at June 30, 2019.

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, 2019 is $232,713.

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, 2019 is $1,736,279.

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 leasee'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

NOTE 4 – LOANS RECEIVABLE (CONTINUED)

service payback period will begin upon completion of the construction. The loan receivable balance at June 30, 2019 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 leasee'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, 2019 is $63,000.

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 leasee'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, 2019 is $764,000.

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. Interest payments are due semiannually on March 1 and September 1 of each year until maturity. The outstanding balance at June 30, 2019 is $82,050,000.

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 $1,112,661 and interest rates ranging from 2.90% to 4.0%. The GOB is secured by and payable with property taxes. The first interest payment was due and paid on March 1, 2019 in the amount of $6,477,854 and semiannually thereafter on September 1 and March 1 of each year until maturity. The outstanding balance at June 30, 2019 is $276,240,000.

The bond activity for the year ended June 30, 2019, is a follows:

Balance at July 1, 2018	Additions	Reductions	Balance at June 30, 2019
$ 86,370,000	$ 276,240,000	$ 4,320,000	$ 358,290,000

NOTE 6 – TRANSFERS IN/OUT

Transfers of $6,162,287 were made from the capital projects fund to the special revenue to fund facilities loans in the amount of $6,108,716, and $53,571 was transferred to the debt service fund in accordance with the bond document to reflect a portion of the premium to pay for interest on the bond.

NOTE 6 – TRANSFERS IN/OUT (CONTINUED)

In addition, a transfer of $338,705 was made from the special revenue fund to the debt service fund in accordance with the bond document to reflect a portion of the premium to pay for interest on the bond.

NOTE 7 – ENCUMBRANCES AND COMMITMENTS

At June 30, 2019, the following outstanding project loan encumbrances, which represents the remaining available loan balance, are as follows:

Project	Amount
Housing Loan Program:	
88th & Vermont	$ 968,000
PATH Metro Villas Phase 2	351,372
Six Four Nine Lofts	509,857
McCadden Campus	4,795,891
Casa del Sol	6,966,653
FLOR 401 Lofts	11,546,361
RISE Apartments	8,469,172
SP7 Apartments	11,743,843
McCadden Campus Senior Housing	5,406,537
Cambria Apartments	7,589,186
Hartford Villa Apartments	4,750,760
Rosa de Castilla Apartments	10,668,224
Subtotal housing loan encumbrances	73,765,856
Facilities Loan Program:	
88th & Vermont Youth and Community Center	1,508,875
South Campus	1,069,787
Joshua House Health Center	387,275
Fannie Lou Hammer Emergency Shelter	687,800
Viki's House	455,185
Subtotal facilities loan encumbrances	4,108,922
Total loan encumbrances	$ 77,874,778

At June 30, 2019, the CD 8 Navigation Center, Navigation Center at San Pedro Harbor Center, Sherman Way Navigation Center and the Women's Bridge Housing, all City projects, had outstanding encumbrances totaling $12,838,406.

Total project commitments as of June 30, 2019, for permanent supportive housing projects are approximately $773,669,941 for 5,397 units. Total project commitments for facilities projects totaled $49,724,402.

NOTE 8 – SUBSEQUENT EVENTS

Bond Repayments for the GOB Series 2017-A

On September 1, 2019, principal and interest were paid in the amount of $4,320,000 and $1,205,746, respectively. On March 1, 2020 interest was paid in the amount of $1,170,754.

Bond Repayments for the GOB Series 2018-A

On September 1, 2019, principal and interest were paid in the amount of $13,815,000 and $5,091,764, respectively. On March 1, 2020 interest was paid in the amount of $4,815,464.

Proposition HHH Commitments

Total project commitments as of March 1, 2020, for permanent supportive housing projects are approximately $1,113,476,507 for 8,463 units. Of this amount, $339,806,566 for 3,066 units was committed subsequent to June 30, 2019 and includes the Mayor's Innovation Challenge projects totaling $120,000,000 for 1,001 units. Total project commitments for facilities projects totaled $57,328,238, of which $7,603,836 was committed subsequent to June 30, 2019.

COVID-19 Crisis

In March 2020 the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. As a result, economic uncertainties have arisen which are likely to negatively impact entities that conduct business with the City, revenue collected from constituents, and funds remitted from the state and federal government. The potential financial impact of these economic uncertainties on the City are unknown at this time.

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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*

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, 2019, and the related notes to the financial statements, and have issued our report thereon dated March 31, 2020. Our report includes an emphasis of matter paragraph indicating that the financial statements presents only the Funds' financial statements.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 determination of financial statement amounts. 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
March 31, 2020