



THE IMPACT OF CDBG ON OUR COMMUNITIES

**Testimony of Clifford W. Graves
General Manager, Community Development Department
City of Los Angeles**

TO

**THE HOUSE SUBCOMMITTEE ON HOUSING AND
COMMUNITY OPPORTUNITY**

APRIL 12, 2006



Presentation for April 12 Hearing

Good morning Mr. Chairman and Members of the Subcommittee, and welcome to Los Angeles. I am Clifford Graves, General Manager of the Community Development Department, City of Los Angeles. Speaking for Mayor Antonio Villaraigosa and the entire city, we appreciate your time and interest to conduct the Field Hearing.

Your focus on the Community Development Block Grant (CDBG) is certainly appropriate. Like other communities around the county, Los Angeles is proud of its accomplishments under CDBG over the years; and deeply disturbed by the cutbacks in funding and proposed changes to the program.

Introduction and Summary

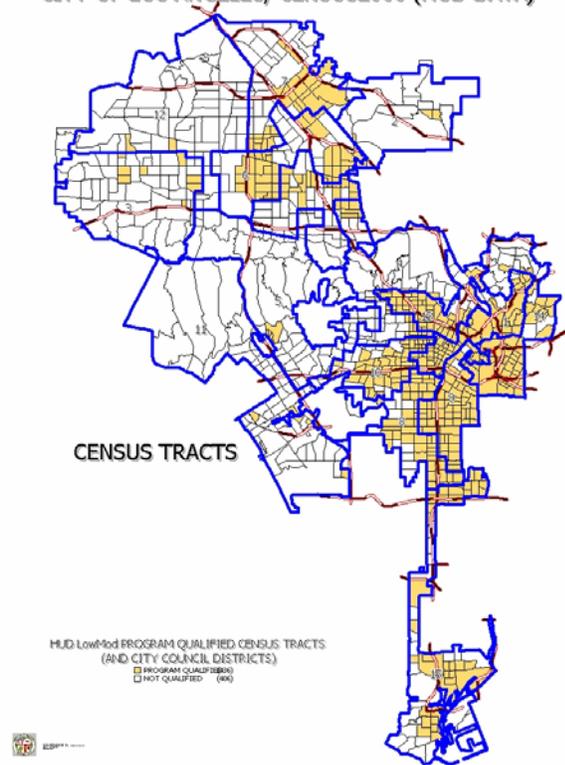
As the nation's second largest city, Los Angeles offers unique challenges and opportunities. Geographically the city covers 467 square miles, larger than the *combined* areas of Boston, Minneapolis, Milwaukee, Pittsburgh, San Francisco and St. Louis. The city is home to roughly 4.0 million people of which approximately 1,049,000, or 27 percent, are under 18 years of age. Los Angeles also is unique in its cultural heritage and diversity: more than 140 languages and dialects are spoken in its public schools and roughly 41 percent of its residents are foreign born (compared to the national average of 11 percent).

These facts challenge the City of Los Angeles not only because of its demographics, but also because of the sheer numbers of persons to be served. In 2000, the U.S. Census Bureau estimated that about 148,000 families and 294,000 children in Los Angeles live below the poverty level of \$17,463 per year for a family of four.

1) *In Los Angeles, Community Development Block Grant (CDBG) funds are intertwined with a broad range of federal, state, and City resources to address the City's most needy populations.*

- Federal grant funds, including CDBG and Community Services Block Grant monies, are targeted to support projects that serve individuals and families who traditionally lack access to or have been underserved by other programs, such as libraries. The Washington Irving Branch Library in mid-City Los Angeles utilized \$3.245 million in CDBG funds to acquire property and build a new 12,269 square foot public library and parking lot to serve the community. Library projects have also been completed in Pacoima, Baldwin Hills, and Cypress Park areas.

CITY OF LOS ANGELES; CENSUS2000 (HUD DATA)



Presentation for April 12 Hearing

- CDBG funds are allocated to twelve Family Development Network (FDN) consortiums of community-based organizations (CBO) and nearly 80 Neighborhood Action Program (NAP) contractors, the latter primarily single agencies. One such cooperative program involved the State of California, Office of Traffic Safety, to provide traffic safety education through community-based organizations to low-income persons in Los Angeles and distributed more than 6,000 child safety seats to targeted families and nearly 13,500 bicycle safety helmets to inner city children
 - Agencies certified as Community Based Development Organizations (CBDO), whose activities increase economic opportunities and stimulate or retain businesses and jobs, comprise 48% of HSDS contractors.
- 2) *As the need for CDBG resources has grown, the City's allocation is declining.*
- The CDBG and Workforce Investment Act (WIA) grant funds account for roughly 95 percent of all City of Los Angeles Community Development Department (CDD) financial resources.
 - However, total funding for CDBG has decreased by approximately \$23 million, or 31 percent, since 1996 and total funding for WIA has decreased by about \$43.4 million, or 43 percent, in the last five years alone.
 - Based on proposed federal funding for CDBG for FY06-07, total CDBG funds to the City of Los Angeles will decrease by \$8.9 million, or **-10.8 percent**. However, when these reductions are coupled with decreases in the City's purchasing power due to inflation, total federal funds for public services for the city of Los Angeles will decrease a total of \$11.9 millions, or roughly **-14.5 percent**.
 - Since FY1995-96, when adjusted for inflation, total CDBG funding to the City has decreased by \$42.4 million, or almost 44 percent.
- 3) *The flexibility of the CDBG program is the key to its effectiveness.*
- Over the years the Mayor and City Council have been able to adapt City and CDBG resources to changing needs and conditions, while maintaining focus on targeted neighborhoods and populations.
 - The CDBG provides gap financing for private sector projects to ensure that cash flow issues did not undermine the project's completion. The City makes highly selective public investments in catalytic commercial and industrial projects.
- 4) *One important benefit of CDBG is its ability to leverage other public and private investment in economic development and housing.*
- The City has underwritten eighteen Section 108 loans totaling \$132.7 million and the Los Angeles Community Development Bank (LACDB) has provided 241 loans and investments totaling \$126.6 million. These programs leveraged more than \$1.8 billion in private investment, and created more than 4,400 jobs, of which 879 are held by Empowerment Zone residents and 2,648 held by low- and moderate-income residents.
 - Los Angeles used \$2.1 million of CDBG funds to acquire an abandoned parcel of land, and leveraged City, State, and private funds to construct a youth soccer field and community center in an economically deprived area of Los Angeles. The project, Antes Columbus Youth Football Club, included various sources of private funding, including

Presentation for April 12 Hearing

funds from Nike Corporation and U.S. Soccer Federation, to construct a modern soccer field with underground parking and a community center.

The Need in Los Angeles

The demand for services to lower-income households continues to increase in Los Angeles due to changes in demographics and the regional economy. Based on U. S. Census Bureau information:

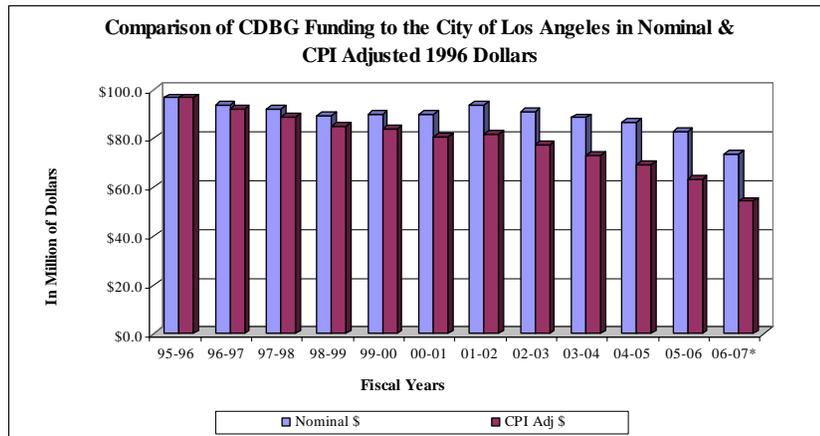
- In 1990 approximately 630,000, or 18 percent, of the residents of Los Angeles lived in low- or moderate-income households.
- By 2000, that number had increased by 29 percent to 814,000, or 22 percent, of all Angelinos.
- 2000, 436 of the city's 842 census tracts qualify for Community Development Block Grant (CDBG) funding.

The ramifications of poverty are further magnified when applied to children and youth:

- Citywide, one in five families are single-parent households. However, nearly one in two families in areas of Los Angeles characterized as low- or moderate-income are single-parent households.
- Citywide births to teenage mothers account for roughly 11 percent of all live births, whereas in low- and moderate-income areas, births to teenage mothers account for about 54 percent of all live births.
- One out of five 16 to 24 year olds in Los Angeles is out of work. This equates to 20 percent, or approximately 100,000 young adults are out of school and jobless.

As Need for CDBG Resources has Grown, the City's Allocation is Declining

There is ample experience and research confirming that sustained, long-term commitment is essential to achieve significant improvements in the quality of life in our cities. Education, public health, environmental quality, and economic growth cannot occur with short-term "fixes." The 32-year old CDBG is an example of such a sustained commitment, but its effectiveness is endangered by the funding reductions in recent years, and proposed again for FY 06-07. When the impact of inflation is added, the picture is



even more grim. For example, for the period 1996 to 2006, inflation reduced the City's purchasing power for goods and services by almost 31 percent, or \$42.4 million. Based on proposed federal funding for CDBG for FY06-07 (*), total CDBG funds to the City of Los Angeles will decrease by \$8.9 million, or -10.8 percent, from FY05-06. However, when this reduction is coupled with decreases in the City's purchasing power due to inflation, total federal funds for

Presentation for April 12 Hearing

public services for the city of Los Angeles will decreased from a total of \$11.9 millions, or roughly 14.5 percent.

CDBG's Flexibility and Adaptability Serves the City Well

One of the key attributes of the CDBG program is that it enables local officials to tailor projects and services in response to unique conditions challenging lower-income families and neighborhoods in their communities. What works in Los Angeles may not work in St. Louis.

In Los Angeles, the City must coordinate the efforts and resources of multiple partners. The CDBG's adaptability to local needs is very important in order to effect economic and neighborhood development.

It may seem counterintuitive, but CDBG's flexibility is a base that the City can use to plan for and adapt projects as needed in order to bring them to fruition. In recent years, the trend in donations and grant funds is towards more specific and limited activities. This increases the likelihood that there will be gaps in programs and project budgets. At the same time, local organizations are encouraged to be more comprehensive in their services. The City supports this model of seamless, "one-stop" access for consumers.

This requires the City and its partner organizations, particularly community-based nonprofits, piece together multiple streams of restricted monies to achieve the needed service or outcome.

For example, CDBG provided the matching contribution to \$500,000 in other federal funds for a five-year Individual Development Account (IDA) demonstration "savings" program. Key was being able to allocate these funds over a relatively long-term. The result was that fifteen persons were able to buy a home, 86 were able to start a business, and 42 were able to further their education.

The CDBG provides gap financing for private sector projects to ensure that cash flow issues did not undermine the project's completion. The City makes highly selective public investments in catalytic commercial and industrial projects.

Some examples of innovative programs designed by the City of Los Angeles to address the impact of social and economic deprivation within at-risk communities are:

Family Development Networks. The Family Development Networks (FDN) delivers supportive services to at-risk individuals and families. Using a model of a lead and partnering agencies, each FDN examines client's needs to determine and coordinate the level and delivery of needed services. Family Development Networks case managers link participants to services provided directly or through community-based partners.

- Twelve FDN located throughout the City and serve roughly 10,500 families, or about 7 percent of all low- or moderate-income families in Los Angeles.
- Each family, on average, receives about 4.5 different services, such as, pre-employment support, household budgeting, health, legal, childcare, and counseling.
- An estimated 975 families annually are moved to self-sufficiency, breaking the cycle of generational poverty.

LA Bridges Program. The City of Los Angeles Bridges program seeks to prevent youth from joining gangs, and also to intervene with young people to reverse their choice to be gang members. Both prevention and intervention efforts guide youth toward opportunities and lifestyles conducive to being productive and solid members of society.

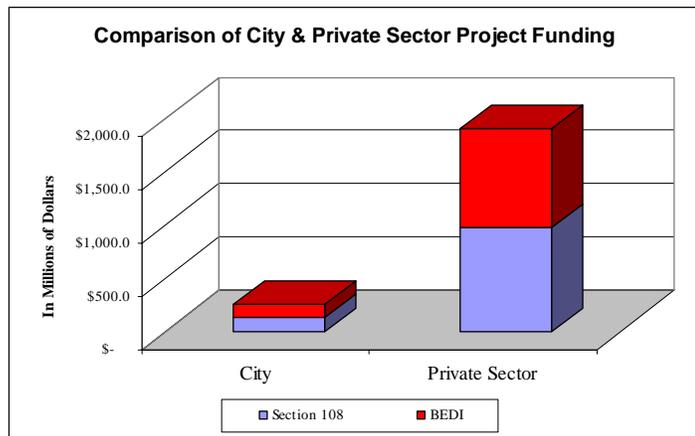
Rita D. Walters Learning Complex/Youth Opportunities Unlimited. The Youth Opportunity Unlimited (YOU) was created by the City of Los Angeles to develop a self-sustaining infrastructure of integrated services addressing the needs of youth in a target community, including job training, education, support services, child care and recreation.

- The CDBG funds were used in the design and construction of the 67,300 square foot facility that includes a 48,300 square foot alternative high school/community center and a 19,000 square foot childcare center.
- The program provides high school diploma services, job training, childcare, entrepreneur training through the University of Southern California (USC), and community-based training through the University of California, Los Angeles (UCLA).
- The program provides school to career program, English as a Second Language, special education, independent study and cultural activities. The alternative high school also offers childcare service to teen parents in order to allow them to continue their education.
- Operating funds come from CDBG, LAUSD, State Department of Education, and U.S. Department of Agriculture and other sources.

Economic Development Results

The City of Los Angeles uses Section 108 Loans and Economic Development Initiatives (EDI) and Brownfields Economic Development Initiatives (BEDI) grants to address the city’s most challenged neighborhoods. Through December 31, 2005, these programs by the City and the Los Angeles Community Development Bank (LACDB) has produced the following results:

The City has underwritten 18 loans totaling roughly \$132.7 million and through LACDB has provided an additional 241 loans and investments totaling \$126.6 million. Combined, these programs have leveraged more than \$1.8 billion in private investment. More than 4,400 jobs were created of which 879 are held by Empowerment Zone residents and 2,648 held by low-moderate income residents.



Examples include:

Chesterfield Square – mixed-use shopping center development in South Los Angeles leveraged a \$2.9 million Section 108 loan and \$840,000 for a \$29.9 million project that created 400 jobs and brought much-needed goods and services to the community.

Old Bank District – mixed-use project in historic downtown core in 2002 initiated the adaptive reuse of obsolescent buildings that have kicked off a \$12 billion construction boom in downtown. Leveraged \$5.1 million Section 108 to develop \$37 million project that eliminated slum and blight and led to the renaissance of the historic core.

Sheraton Town House – retail associated with low- and moderate-income housing project that leverage \$1.4 million Section 108 loan for a \$6.1 million project that created 73 jobs in the mid-Wilshire Corridor.

With HUD’s approval to reallocate \$198 million in Section 108 loan authority to the City from the former Los Angeles Community Development Bank (LACDB), the City is mounting an aggressive campaign to help finance the revitalization of neighborhoods in and around the Federal Empowerment Zone.

The City’s LA Business Assistance Program (LABAP) utilizes non-profit development corporations to assist new and growing businesses and target areas with planning, marketing, hiring, site selection and financing. This CDBG-funded program assists 1,500 businesses each year.

Recognizing a growing gap between the workforce needs of LA’s changing economy and the skills of the local labor force, the Mayor and Council are increasing CDBG and other resources for workforce development.

Funds Integral to Public Services

Community Development Block Grant funds have long been an integral part of the City of Los Angeles’ ability to provide a wide array of services to at-risk populations. The City uses CDBG monies to fund projects that address four core priorities: (1) *Affordable and Workforce Housing*, (2) *Youth Development and Education*, (3) *Job Creation and Economic Development*, and (4) *Public Safety*. The City targets project activities that provide appropriate and needed services to

- individuals who may not be eligible for assistance from other funding sources
- persons that are geographically isolated by lack of transportation
- communities that lack basic amenities in their neighborhoods.

These projects provide complementary or supplementary services to low and moderate-income residents that traditionally have been served poorly by existing programs either because of eligibility constraints or because of conflicting performance measures.

To address these priorities, the City combines various federal, state, and local revenue streams to fund comprehensive programs that provide critical services for low and moderate-income residents. Interweaving these funding sources allows the City to bridge service gaps that might otherwise result from limited local resources and from grant restrictions. Through this blending of resources, the City is able to expand and enhance the delivery of services to its targeted residents. The following summaries illustrate specific examples of core priorities.

Affordable and Workforce Housing. The City’s Housing Department partners with the Housing Authority of the City of Los Angeles (HACLA) and with the Los Angeles Homeless Services Agency (LAHSA) to address housing affordability and availability issues. The City also promotes active collaboration around public housing goals and initiatives, through the ROSS program (formerly Economic Development and Supportive Services), its Community Service Centers, and funds from Public Housing Drug Elimination Grants. The City also links with HACLA and LAHSA to manage the Shelter Plus Care and Section 8, Single Room Occupancy housing programs and to provide housing and ancillary services through HOPWA. Funding through the Workforce Investment Act and the Jobs PLUS program provides public housing development residents with employment, job training, and educational services.

Presentation for April 12 Hearing

Youth Development and Education. A critical new study shows that the significant number Los Angeles teens, ages 16 through 19, lack early work experience. The study, "The Teen Disconnection in Los Angeles", paints a dramatic picture of Los Angeles youth, particularly from South and East Los Angeles, having less exposure to jobs and lack early work experience. Early work experience is considered necessary to gain early development of workplace "soft skills" needed to compete and succeed in the workplace. This disconnection from work compounds the problem of low high school completion rates documented recently by this study and others on Los Angeles area youth and education. According to the report, "Over 25,000 Los Angeles teens are not enrolled in school programs and are not in the workforce."

The City's Community Development Department, Department of Public Works, and Department of Recreation and Parks coordinate efforts and resources to provide work experience, youth development, and educational services to low-income youth and their families. The Youth Opportunity Movement focus on development, employment, and educational services to youth at risk of disengaging from school, to youth who have dropped out of secondary school, and to young adults with basic skills deficiencies.

The Workforce Development and Bridges programs combine funds from the City General Fund, CDBG, Juvenile Justice, WIA and other resources to provide gang prevention and intervention services as well as educational services to at risk youth and gang-involved youth. In addition to critical job development and training services, these services provide fundamental life skills training normally not available to individuals through the workforce system such as, financial literacy, English as a Second Language, and information about financial assistance for post-secondary education.

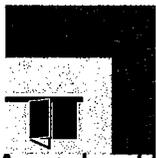
The City's Workforce Development and One-Stop System links with the CDBG-funded Human Services Delivery System and Family Development division that manages the Family Development Networks (FDN) and the Neighborhood Action Programs (NAP). By coordinating funding of these program services, the City ensures expanded services, including efficient intake, referral and case management support for youth and their families, electronic linkages to City and other government services, and capacity-building for staff of community-based nonprofits. These programs also provide complementary workforce development services, such as, counseling, parenting skills, childcare access, and alternative educational programs.

Job Creation and Economic Development. The City closely links its Workforce Development system with its economic development efforts. Projects focusing on micro enterprises and entrepreneurial training, on Brownfield remediation, and on business and retail development are connected with employment and training programs for targeted residents. Additional coordination with local government agencies (Los Angeles County Department of Public and Social Services, the Los Angeles County Office of Education, and the Los Angeles Unified School District), with the State of California Employment Development Department, with the U.S. Department of Labor, and with both private and nonprofit providers of employment and training programs ensures that economic development and business services generate jobs in both the short term and long term for low and moderate income residents, for at risk youth, and for victims of domestic violence.

Thank you, Mr. Chairman and Members. Two documents are attached to this testimony, requested by Congresswoman Waters:

Presentation for April 12 Hearing

- Letter dated April 4, 2006 to Rep. Waters from Mercedes Marquez, General Manager, City of Los Angeles Housing Department regarding the City's housing programs and CDBG.
- A brief summary of the history and status of the Los Angeles Community Development Bank (LACBD).



Los Angeles Housing Department
LAHD

1200 W. 7th Street, 9th Fl., Los Angeles, CA 90017
tel 213.808.8808 | fax 213.808.8616
www.lacity.org/lahd



Antonio R. Villaraigosa, Mayor
Mercedes Márquez, General Manager

April 10, 2006
Via Facsimile and Electronic Mail

The Honorable Maxine Waters
Member of Congress, 35th District
10024 South Broadway, Suite 1
Los Angeles, CA 90003

Attn: Michael Murase, District Director
Mike.murase@mail.house.gov

Re: Congressional Hearing regarding CDBG

Dear Representative Waters,

In response to your request for information on the City of Los Angeles Housing Department's programs funded with Community Development Block Grant (CDBG) funds:

1. Main office location

The Los Angeles Housing Department's (LAHD) main office is located at 1200 W. 7th Street, Los Angeles CA, 90012. We are just west of downtown Los Angeles, and are easily accessible by freeway and mass transit. Public counter services are available to the City's residents and businesses during normal business hours.

LAHD provides three types of housing programs with CDBG funding. These include:

- A. Affordable Housing Construction and Rehabilitation
- B. Homeownership Assistance
- C. Housing Rehabilitation

A. Affordable Housing Construction and Rehabilitation

2. Number of people employed under the program

LAHD employs thirty-nine finance officers, construction specialists, administrative and clerical staff to provide services under our Major Projects division, which administers all our affordable housing development programs.

3. Specific services provided

The Affordable Housing Trust Fund (AHTF) provides a local source of funds to leverage with other public and private funds for development of new affordable housing.

CDBG and Home Investment Partnership Grant (HOME) are used for the development of new affordable housing and are leveraged with state tax credits and tax-exempt resources, state grants and local revenue sources. All funds are provided via competitive processes to qualified developers who must show they have other resources to leverage with the AHTF subsidies.

4. Program beneficiaries

The units to be developed represent future housing opportunities for large families as well as for seniors and persons with special needs. They must have annual incomes at or below 80% of median income adjusted for household size, as established by HUD, to benefit from new housing constructed or substantially rehabilitated with CDBG and the other resources in the Affordable Housing Trust Fund.

5. Service delivery

Several Notices of Funding Availability (NOFA) are issued each year by LAHD. Experienced affordable housing developers submit proposals to build housing throughout the city, which are thoroughly reviewed by LAHD staff. Recommendations are made to the Mayor and City Council for approval.

6. Project goals and objectives

In Program Year 2006-07, LAHD anticipates assisting the development of approximately 480 new units of affordable rental housing for large families and persons with special needs, using either CDBG or HOME program funds. Dramatic price increases of lumber, steel and insurance have forced the City to provide higher per-unit subsidy amounts compared to previous years, resulting in a lower total number of units financed, even as the City has expanded its commitment to its Affordable Housing Trust Fund.

Since the first NOFA in early 2003, LAHD has reviewed 126 rental housing developments under nine separate competitive funding rounds and has made commitments to 72 projects. Commitments now total \$112.2 million as of October 2005, supporting 55 developments with 3,522 units of affordable housing.

B. Homeownership Assistance Programs

2. Number of people employed under the program

A total of eleven finance, administrative and clerical staff support all our homeownership programs. Moreover, a community-based agency chosen via a competitive process provides technical and construction services to the programs.

3. Specific services provided

- **Low-Income First-time Homebuyer Purchase Assistance (PA):** A deferred payment second mortgage loan of up to \$90,000 to low-income buyers who need assistance in purchasing a home in the City of Los Angeles that is free of lead-based paint hazards and building code violations.
- **Low-Income First-time Homebuyer Purchase Assistance with Rehabilitation (PAR):** A deferred payment second mortgage loan of up to \$115,000 to low-income buyers to purchase and rehabilitate a home, to address lead-based paint hazards, code violations and deferred maintenance.
- **Asset Control Area (EHOP) Program:** In cooperation with HUD and the Enterprise Foundation, this program helps rehabilitate HUD-foreclosed homes for sale to low-income first-time homebuyers. LAHD has set-aside funds to provide Purchase Assistance deferred loans of up to \$90,000 for these homes.

4. Program beneficiaries

First time homebuyers, with annual incomes at or below 80% of median income adjusted for household size, as established by HUD, are eligible to benefit from CDBG or HOME-funded programs. Funds can be used to purchase single family homes, townhomes or condominiums.

All applicant borrowers are required to complete eight (8) hours of homebuyer education from one of LAHD's approved providers to obtain this type of loan. Because the current real estate market in Los Angeles is prohibitively high for low-income purchasers, even with the generous support offered by LAHD's programs, many are unable to find affordable homes to buy.

5. Service delivery

All of LAHD's homeownership programs are operated in partnership with City-approved lenders. Detailed information about the programs and the lenders is provided to the public at homebuyer fair, seminars, and on LAHD's website. The applications are taken by the participating lenders in a variety of offices throughout the City.

6. Project goals and objectives

In Program Year 2006-07, LAHD anticipates providing soft second mortgage assistance to nearly 60 first time low-income homebuyers in Los Angeles, using either CDBG or HOME program funds. Earlier in the decade, and in the 1990s, many more buyers could be assisted, but the price of for-sale housing in Los Angeles is now prohibitive. Approximately 700 first time homebuyer households have been provided soft-second mortgages by LAHD to achieve the American Dream

C. Housing Rehabilitation Programs

2. Number of people employed under the program

Nineteen finance officers, construction specialists, administrative and clerical staff operate the various rehabilitation programs described below. Moreover, community-based agencies chosen via a competitive process provides technical and construction services to the programs.

3. Specific services provided

- **Handyworker:** Free minor home repairs to low-income elderly or disabled homeowners or homeowners with disabled relatives residing with them. Emergency repairs that directly affect the health and safety of occupants can be provided to other income-eligible homeowners. Eligible repairs are limited to work that does not require a City building permit or formal inspection, up to a value of \$5,000. This program is funded by CDBG.
- **Home Secure:** Similar to Handyworker but provides more limited assistance for accessibility, safety and security, such as bathtub grab bars and new door locks. This program is funded by CDBG.
- **Comprehensive Single Family Rehabilitation Loan Program:** Deferred payment loans with 3% interest rate for low-income, owner-occupied, single-family homeowners. Loans of up to \$125,000 plus a grant of up to \$10,000 for lead paint hazard removal and/or exterior improvements for eligible owners. Eligible improvements are focused on making plumbing, roofing, heating, electrical and other repairs that extend the life of the structure. This program is funded by CDBG and HOME dollars.
- **2-4 Unit "Mom & Pop" Rehab Loan Program:** Deferred payment loans with 3% interest rate for small rental properties (2-4 units) in which a low-income owner also resides. Loans of up to \$55,000 per unit, plus a grant of up to \$10,000 per unit is available for lead paint hazard removal and/or exterior improvements. The goal of this program is to provide funds to low-income owner occupants, who are often elderly, to maintain and preserve their property, correct code violations, and make other habitability improvements. This program is funded by CDBG.
- **Small Property Rental Rehabilitation Program:** This program provides 3%, amortizing loans to owners of rental properties up to 28 units primarily occupied by low-income renters, correct code violations and make other habitability improvements. Loans of up to \$35,000 per unit, plus a grant of up to \$5,000 per unit for lead paint hazard removal and/or visible exterior improvements are also available. This program is funded by CDBG.
- **Urgent Repair Program:** Enables LAHD to arrange for emergency repairs of life-threatening code violations, to prevent displacement of residents, often low-income, who would have difficulty finding new homes. If an owner does not respond to a 72-hour notice to correct dangerous conditions, a contractor selected through a competitive process is authorized by LAHD to make the repairs. An invoice for the cost of the repairs is sent to the owner; if there is no response, it is then recorded as a lien against the property. This program is funded by CDBG.

4. Program beneficiaries

Low-income elderly or disabled homeowners, with annual incomes at or below 80% of median income adjusted for household size, as established by HUD, are eligible to benefit from CDBG or HOME-funded programs.

Low-income renters with annual incomes at or below 80% of median income adjusted for household size, as established by HUD, living in small properties benefit from the rehabilitation loan programs and the Urgent Repair Program, as do the owners of the properties.

5. Service delivery

LAHD staff, and contract agencies (both non-profit and for-profit firms) chosen via competitive processes, implement the various grant and loan programs. Detailed information about the programs is provided at public meetings and on LAHD's website. Applications can be taken at LAHD's six different regional and satellite offices located throughout the City. The Urgent Repair Program responds to dangerous conditions at specific buildings, throughout the City. All of these programs operate citywide.

6. Project goals and objectives

In Fiscal Year 2006-07, LAHD anticipates achieving the following objectives:

- Handyworker: providing services to 1,480 low-income elderly or disabled homeowners
- Home Secure: providing services to 2,000 low-income elderly homeowners
- Comprehensive Single Family Rehabilitation Loan Program: making loans to 80 low-income homeowners
- 2-4 Unit "Mom & Pop" Rehab Loan Program: making loans to repair 29 units
- Small Property Rental Rehabilitation Program: making loans to repair 80 units

The first three programs have been in operation for many years; the objectives for next year are based on prior year performance. The rental rehabilitation loan programs were newly established in late 2005 and thus do not yet have representative outcomes that can be reported.

Conclusion

As you can see, LAHD relies heavily on CDBG funds for our programs, which makes CDBG a critical source for addressing the housing crisis in our City. The CDBG administrative funds from HUD provide leverage for other, non-entitlement housing grant resources that may not provide adequate, or any, administrative funds. The Housing Department has received over \$40 million from competitive grants in the past six years from HUD and the State of California. If CDBG administrative funds had not been available to supplement those competitive grant funds by paying for program, accounting and other administrative staff at LAHD, those grants would not have been received, because we could not show the funding agency our ability to implement the programs.

Similarly, because CDBG funds are used to supplement HOPWA administrative dollars, Housing Department staff is paid partially with CDBG. This frees up 7% of the 10% of HOPWA

Honorable Maxine Waters
April 10, 2006
Page 6

administration dollars for HOPWA-funded contract agencies, some of which are small, grassroots, faith-based organizations.

The Consolidated Plan funds from HUD leverage many other public or private financial or in-kind resources. For example, Los Angeles' Affordable Housing Trust fund, which incorporates CDBG and HOME funds as well as other, local dollars, is currently generating approximately four additional dollars to every one Trust Fund dollar.

Thank you so much for your interest in and support of programs such as CDBG. If you have any questions, please contact me or Marlene Garza of my staff at 213-808-8479.

Yours sincerely,


for MERCEDES MÁRQUEZ
General Manager

LACDB Summary

Recognizing the need and opportunity for economic development in Los Angeles, the Clinton Administration, in coordination with the Mayor in Los Angeles, expanded its original Empowerment Zone and Enterprise Community Programs in 1995 to include a new Supplemental Empowerment Zone designation for a portion of Los Angeles, which was the impetus for the LACDB's creation. The LACDB's primary source of funds is a \$435 million grant and loan package from HUD. The Bank began operations in mid-July 1996 as a non-profit 501(c)(3) corporation to provide greater access to capital for businesses that can positively impact the Empowerment Zone (EZ) and its residents.

The primary goal of the LACDB was economic development within 19 square miles of neglected, low-income communities, including Pacoima, Boyle Heights, the East Downtown Corridor, the historic Central Corridor, Central Avenue, the Slauson Industrial Corridor, the Broadway District, Watts, Firestone, and Willowbrook. These 19 square miles were designated as an Empowerment Zone.

The LACDB is not a commercial bank. While it held a Finance Lender's license under California law, it is a California public benefit corporation, and a certified non-profit corporation. LACDB was designed to stimulate economic development within the Empowerment Zone by providing loans to new businesses that could not qualify for conventional loans.

The LACDB was created by the City, the County and The Department of Housing and Urban Development (HUD). The City and County obtained Economic Development Initiative (EDI) grants and loan guarantees from HUD. These economic development tools were then passed on to the LACDB, which was governed by a fifteen-member board of directors. Professional management ran the day-to-day activities of LACDB.

Through the City, LACDB obtained \$79,000,000 in grant funds, and over \$100,000,000 in loan guarantees. Because these funds were used to make loans to borrowers who could not qualify for conventional loans, a significant number of these loans failed. LACDB currently owes the City approximately \$45,395,000.

On March 17, 2004, the Board of Directors authorized the dissolution and liquidation of the LACDB. Jeffrey Golden was appointed as Receiver, and on April 8, 2004, he filed a voluntary petition under Chapter 11 of the Bankruptcy Code.

1. How did the LACDB obtain and disburse its funds?

Funding of the Los Angeles Community Development Bank (LACDB) has primarily been provided by the U.S. Department of Housing and Urban Development (HUD) with Section 108 Loan Guarantees, Economic Development Initiative (EDI) Grants, and Community Development Block Grant (CDBG) entitlement funds.

Pursuant to the December 1994 Notice of Fund Availability (NOFA), HUD approved \$250 million in EDI and Section 108 funds for the Los Angeles "Supplemental Empowerment Zone" target area, with \$200 million for City portions and \$50 million for County portions of the Empowerment Zone. The City received an additional \$200 million in Section 108 Loan Guarantees to be used by LACDB in eligible areas described in the application, and appropriated \$5 million of its CDBG entitlement for administrative costs and reserves.

The procedures for LACDB obtaining and disbursing funding are specified in the Comprehensive CDB Agreement between the County of Los Angeles, the City of Los Angeles and the LACDB; as well as applicable HUD instructions and guidelines, and City and County accounting policies and procedures.

In accordance with the Comprehensive Agreement, the LACDB was required to submit an Annual Business Plan to the City and County for review and approval with a copy to HUD. Among other things, the Plan must contain a CDB Budget, performance criteria data, reconciliation of actual financial results, and any other amendments, supplements, or modifications to the previous CDB Business Plan. The Annual Business Plan is to be approved by LACDB's Board of Directors on behalf of LACDB, the Los Angeles County Board of Supervisors on behalf of the County, and the Los Angeles City Council, with the concurrence of the Mayor, on behalf of the City.

The Comprehensive Agreement also specified fund distribution procedures. With respect to CDBG and EDI Grant funds, LACDB submits a Notice of Grant Distribution Request to the Authorized Representative of the City or County, as applicable. Upon determination that the Notice of Grant Distribution Request is within budget and applicable requirements, the Authorized Representative requests withdrawal of federal funds from the City or County federal line of credit established by HUD for the EDI Grant, and utilizes appropriated funds for the CDBG funding. HUD distributes the funds to a City or County custodial account in accordance with respective Grant Agreements, and from these accounts, funds are disbursed to the LACDB.

The Comprehensive Agreement, as well as HUD's Contract for Loan Guarantee Assistance and Promissory Notes, described requirements associated with Section 108 loan funds. These funds are drawn directly by the LACDB from HUD, with funds disbursed to the Collateral Agent in accordance with HUD's Section 108 loan requirements.

2. As an independent Organization, to whom is/was it accountable?

The LACDB, although not a commercial bank, was originally proposed as an innovative project to bring private banking experience and funding to areas traditionally underserved by conventional banking institutions. Therefore, rather than the usual process of the City and/or County making federal funding available and directing nonprofit service providers, the LACDB was intended by both HUD and others to be a nontraditional

approach to serving low income communities through the creation of an independent lending institution with access to both federal and local, public and private resources.

More specifically, as documents concerning LACDB operations were being developed, the City was in communication with HUD, the federal funding entity, and was informed that "we understand the City's concern regarding its responsibilities; however, we also caution that every effort be made to assure that the independence of CDB is not compromised." Accordingly, the LACDB was granted unprecedented autonomy to make loans and investments in underserved communities.

In accordance with the Comprehensive Agreement and as a result of subsequent experiences and audits, steps were taken by the City and County to apply reasonable oversight to LACDB activities in the following ways:

- Reviewed, recommended changes, and approved or disapproved of the LACDB Annual Business Plans;
- Reviewed, recommended changes, and approved or disapproved of LACDB requests for funding in accordance with the Comprehensive Agreement, federal guidelines and instructions, and the City policies and procedures;
- Contracted with an independent auditor for quarterly financial and program compliance reviews of LACDB;
- Worked with LACDB and HUD to address operational questions and audit findings;
- Organized quarterly City/County LACDB Oversight Committee meetings, including discussion of LACDB management and outside auditor reports;
- Reviewed and discussed annual financial and compliance reports, and attended annual public meetings; and,
- Organized discussions between LACDB, the Empowerment Zone Oversight Committee, City Workforce Development staff and community-based Work Source Centers to facilitate program success.

3. The LACDB is no longer operational. What happened to the projects that it was funding? What will happen to any unobligated funds that remain?

Current Operating Conditions

The City Council and the Mayor disapproved of LACDB's 2002 Business Plan due to issues including:

- LACDB compliance with the required use of funds for loans and investments to business located in the Empowerment Zone;
- LACDB compliance with required hiring of Empowerment Zone residents; and,
- Insufficient funds from the City's EDI Grant or other sources for: 1) administrative needs; 2) adequate security for high-risk loans in the existing portfolio; and 3) adequate security for the remaining supplemental Section 108 authority.

Consequently, the City Council and Mayor directed City staff to work with the LACDB on an approach to LACDB plans and operations through calendar year 2003 that would allow the LACDB to:

- Pursue improvement of LACDB's financial condition;
- Help meet job creation and other regulatory, legal, and contractual responsibilities; and,
- Transition to sustainable self-sufficiency or the winding up of LACDB operations of functions by another entity.

The LACDB developed a transition plan that contained several actions, including:

- Solicit and evaluate proposals for outside parties to acquire LACDB's venture capital portfolio;
- Request and evaluate proposals for outside parties to perform any or all of the following: 1) service loan portfolio; 2) monitor job compliance; and 3) purchase loan portfolio;
- Assess debt obligations to HUD with respect to borrower repayments, and propose means to best meet financial obligations;
- Develop processes and procedures for addressing accounting, asset, and records management issues;
- Adjust staffing levels according to operational needs; and,
- Work with the City, County and HUD on legal and operational documents and processes for the transition.

The Bank held two assets, a loan portfolio, and an investment in a venture capital fund. The loan portfolio was recently sold to a private investor (F.H. Partners L.P.) for \$4,520,000. Part of these funds will be used to conclude the bankruptcy action, and to pay off the costs associated with dissolving the corporate entity in State Court. The remainder will then be paid to the City as the largest secured creditor. The investment in the venture capital fund was transferred to the City. LACDB invested \$35,000,000 into this venture capital fund, and it currently is worth approximately \$4,000,000.

The City's repayment to HUD is currently on an interest only basis, and the loan repayments have been sufficient to cover the amounts due to HUD. Principal will be due in the middle of next year.

Funded Loans/Investments

There are approximately 60 LACDB loans with balances of over \$16 million for which payments are still being collected. There are also approximately 30 loans that have been

written-off, but for which the Trustee is still seeking recovery of over \$5 million. Additionally, there are 7 open venture capital companies, with LACDB investments valued at over \$7 million. Servicing and monitoring these funded loans and investments to ensure that they meet financial and other legal obligations remains a priority.

Unobligated Funds

There remained over \$198 million in Supplemental Section 108 loan guarantee authority allocated to LACDB. In 2004, the City requested HUD to reallocate that loan authority as follows:

- Up to \$50 million to be used in accordance with the original HUD Section 108 Loan Guarantee Program Application; and,
- The full amount of remaining Section 108 loan authority (approximately \$146 million, including the aforementioned \$50 million) would be used in the geographic areas described in the original Section 108 application, but could be used for broader CDBG national objectives and eligible purposes (e.g., elimination of slum and blight; provision of goods and services; creation of mixed-use or housing projects that help address community needs and development).

The second action required an amendment to the original Section 108 application. The City proceeded with the \$50 million reallocation as described above in order to move this matter forward in a timely manner, and then include this amount and the additional \$148 million in the amendment. HUD required that the uses of funding be consistent with original Section 108 application or amended appropriately, and that the Los Angeles Empowerment Zone Strategic Plan application and the City Consolidated Plan be modified in order to reallocate these funds to the City of Los Angeles. HUD approved the reallocation to the City in 2005.

It is important to note that although the LACDB was created as a unique experiment in economic development, the City remains committed to the mission of providing capital and improving conditions in the affected communities in need. The attached map indicates areas that qualify for the aforementioned remaining Supplemental Section 108 loan authority. These areas include the City Empowerment Zone and the areas of the City meeting poverty qualifications delineated in 24 CFR 570.208 (a) (4) (iv-v).

Clearly, this geographic area is large and the need for community development great. However, we believe that affordable and effective loan programs can help the City meet this challenge. There have been lessons learned from the LACDB experience, including the need for:

- Practical program requirements;
- Adequate financial/compliance controls;
- Reliable private sector involvement; and,
- Strategic utilization of resources.

This lending authority can be used effectively in concert with other City programs such as federal, state, and local tax incentives; business assistance and Work Source job placement centers; and Industrial Development/Empowerment Zone bond financing. The City is undertaking a number of economic develop initiatives that will further guide these investments. The area and population to be served are essentially the same that LACDB was chartered to serve.