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June 23, 2023

Council File:	23-0321
Council Districts:	Citywide
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Honorable Members of the City Council
City of Los Angeles
c/o City Clerk, City Hall
200 N. Spring Street
Los Angeles, CA 90012

COUNCIL TRANSMITTAL: REPORT FROM THE LOS ANGELES HOUSING DEPARTMENT ON THE STATUS OF THE COURT-APPOINTED RECEIVER OF THE SKID ROW HOUSING TRUST AND REQUEST FOR AUTHORIZATION TO LEND \$10 MILLION TO THE RECEIVER.

SUMMARY

The General Manager of the Los Angeles Housing Department (LAHD), in collaboration with the City Attorney's Office, respectfully submits this report in response to the motion in Council File 23-0321, to provide information on the status of the Skid Row Housing Trust organization and its related portfolio of properties and residents, as well as the status of the Public Health & Safety Receivership established on April 7, 2023. The report requests authorization to lend up to \$10 million to support critical building repairs and the operations of the receivership, subject to conditions including the appointment of a new receiver, and it also provides LAHD's recommendations on reporting.

RECOMMENDATIONS:

- I. That the City Council, subject to the approval of the Mayor:
 - A. AUTHORIZE the General Manager of the LAHD, or designee, subject to review and approval of the City Attorney as to form, to negotiate and execute a loan agreement and related documents to lend up to \$10 million to Receivership Specialists, a California corporation, as nominee replacement receiver in the receivership matter of City of Los Angeles v. Crest Apartments LP, et al. Case No. 23STCP01011

pending in the Los Angeles County Superior Court (“Receivership”) for some or all of the Properties identified in Exhibit A and located at the addresses below, collectively referred to as “The Skid Row Housing Trust Properties,”

1. Crest Apartments: 13604 Sherman Way, Van Nuys, California 91405;
2. Flor 401 Lofts: 401 E. 7th Street, Los Angeles, California 90014;
3. Senator Hotel Apartments: 729 S. Main Street, Los Angeles, CA 90014;
4. San Pedro House Apartments: 647 S. San Pedro Street, Los Angeles, CA 90014;
5. SP7 Apartments: 519 E. 7th Street, Los Angeles, California 90014;
6. Rossmore Hotel Apartments: 905 E. 6th Street, Los Angeles, California, 90021;
7. Weldon Hotel Apartments: 507 Maple Avenue, Los Angeles, California 90013;
8. New Pershing Apartments: 108 E. 5th Street, Los Angeles, California 90013;
9. Simone Hotel Apartments: 520 San Julian Street, Los Angeles, California 90013;
10. The Six: 811 S. Carondelet Street, Los Angeles, California, 90057;
11. Star Apartments: 240 E. 6th Street, Los Angeles, California, 90013;
12. 649 Lofts: 649 Wall Street, Los Angeles, California, 90014;
13. Olympian Hotel Apartments: 1201 E. 7th Street, Los Angeles, California 90021;
14. Las Americas Hotel Apartments: 1205 E. 6th Street, Los Angeles California 90021;
15. Abbey Apartments: 625 San Pedro Street, Los Angeles California, 90014;
16. Charles Cobb Apartments: 521 San Pedro Street, Los Angeles, California 90013;
17. Boyd Hotel: 224 E. Boyd Street, Los Angeles, California 90013;
18. St. George Hotel: 115 E. 3rd Street, Los Angeles California 90013;
19. Dewey Hotel: 721 S. Main Street, Los Angeles, California 90014;
20. Edward Hotel: 713 E. 5th Street, Los Angeles California 90013;
21. Hart Hotel: 508 E. 4th Street, Los Angeles California 90013;
22. Lincoln Hotel: 549-551 Ceres Avenue, Los Angeles California 90021;
23. New Carver Apartments: 1624 S. Hope St. & 325 W. 17th St., Los Angeles California 90015;
24. Genesis Apartments: 452-458 S. Main Street, Los Angeles California 90013;
25. Produce Hotel Apartments: 676 S. Central Avenue, Los Angeles, California 90021;
26. Rainbow Apartments: 643 S. San Pedro Street, Los Angeles, California 90014;
27. Sanborn Hotel: 526 S. Main Street, Los Angeles, California 90013;
28. Crescent Hotel: 617 E. 5th Street, Los Angeles, California 90013; and
29. St. Mark's Hotel: 611 E. 5th Street, Los Angeles, California 90013.

The loan is made on an emergency basis to fund the abatement of substandard conditions and Health & Safety violations and for the development and implementation of a remediation plan for each Property. Any funds lent for these purposes shall be secured by the Skid Row Housing Trust Properties, which will be encumbered by a lien with super-priority over any other encumbrances on the subject Properties except for taxes and affordability covenants as expressly stated in the Court’s Order Confirming the Appointment of a Receiver Pursuant to California Health & Safety Code Section

17980.7, dated May 25, 2023. The funding of this loan shall be contingent on the appointment of a new Receiver, Kevin Singer, principal and CEO of Receivership Specialists, as the Receiver requested by the City and appointed by the Court, or another receiver acceptable to the City and the Court.

Payments on the loan shall be deferred until the receivership work is ended, except that any Skid Row Housing Trust Property may be released from the receivership at the request of the City with the consent of the Court upon payment of their pro rata share of the receivership costs funded by the loan. LAHD may charge simple interest of up to 3% per year. The execution of loan documents and the funding of the loan is contingent upon approval by LAHD and the City Attorney's Office of the receivership budget.

B. AUTHORIZE the City Controller to establish a new appropriation Account No. 43YC87, Skid Row Housing Trust Receivership Properties within the Low and Moderate Income Housing Fund No. 55J/43, appropriate funding in the amount of \$10,000,000 from the Fund's available cash balance to fund this loan, and, and expend funds upon written demand of LAHD General Manager, or designee:

C. AUTHORIZE the General Manager of LAHD, or designee, to prepare the Controller instructions and any necessary technical adjustments consistent with Mayor and City Council actions, subject to the approval of the City Administrative Officer (CAO), and instruct the Controller to implement the instructions.

BACKGROUND:

The Skid Row Housing Trust was founded in 1989 by business, civic and religious leaders to respond to the loss of residential hotels as a resource for people at risk of homelessness in the Skid Row area. The Trust was one of the national pioneers of combining on-site social services with permanent housing, known as "permanent supportive housing." Between 1989 and 1999 the Trust purchased and rehabilitated seventeen properties that had originally been built in the 1910s and 1920s. From 2000 to 2019 the Trust began building new projects, and redeveloping some of the earlier projects. By 2020 the Trust owned and / or operated twenty-nine properties in 26 limited partnership structures. Fourteen of these partnerships are jointly held with third party investor partners. Five of these started construction between 2018 and 2021. Two more were in the Trust pipeline that were transferred to other general partners early in 2022.

Like most non-profit supportive housing owners, the Trust's operating income was substantially derived from developer fees earned at the completion of each project, rather than from cash flow. Rents subsidized by Section 8 rental vouchers from the Housing Authority were budgeted to be sufficient to cover operating expenses and fund required reserves for repairs, but not to produce substantial cash flow to fund the operations of the nonprofit owner. Between 2018 and 2022 several factors contributed to the demise of the

Trust. The retirement of the Trust's longtime CEO in 2018, and delays in finding an effective replacement, led to significant staff turnover and the departure of experienced housing development staff. This delayed progress at a time when the Trust had an unusually high number of projects in development. The inexperience and delays, complicated by the pandemic, resulted in the Trust losing money instead of earning fees on projects. At the same time, abatement orders on a number of the units and rising operating costs pushed expenses per unit per month to \$950, while the average rent was approximately \$750. The Trust was experiencing losses in all areas, and did not move to correct problems quickly enough.

By late 2022 the Trust had its fourth CEO in four years, and dilapidated conditions in the buildings were of great concern to various City, County and State housing agencies and health services partners. In April 2022 the California Department of Housing and Community Development filed Notices of Default on several properties and LAHD filed Notices on behalf of the City. Abatement notices from both LAHD and the Housing Authority to make repairs were issued and units began losing payments from Section 8 rental vouchers. The resulting income loss forced the Trust to reduce staff in the buildings, which led to even more damage in units and more vacancies. LAHD, the County and HCD were working with Trust leadership to develop a plan to transfer ownership of the properties to other supportive housing developers but those efforts were unsuccessful given the financial instability of the Trust and the changing conditions at the Skid Row Housing Trust Properties.

By March 2023 it was clear that the Trust could not preserve the health and safety of the buildings long enough to allow for an orderly transfer to new ownership entities, and for the safety of the residents LAHD, the Mayor's office and the City Attorney decided that a public health and safety receivership was the most viable alternative to stabilize the properties and enforce the abatement orders. On March 30, 2023 the City successfully petitioned the Los Angeles County Superior Court to establish a Public Health & Safety Receivership (the "Receivership") pursuant to Health & Safety Code Section 17980.7(c) for all 29 properties previously co-owned and operated by the Trust. All involved lenders and agencies supported this action. The City asked the Court to appoint Mark Adams of California Receivership Group (the "Current Receiver") to serve as a Public Health & Safety Receiver for the Properties.

The City nominated the Current Receiver based on his unique experience handling nearly 300 Public Health & Safety Receiverships for more than 200 municipalities, and in reliance on his representation that he would be able to bring his own lines of credit and funding resources sufficient to begin quickly repairing and remediating the very serious code enforcement violations and other hazardous conditions at the Properties. The Current Receiver in fact mobilized some resources to provide security, to repair inoperable elevators and make other repairs, and he has hired a property manager.

However, the Current Receiver has not been able to secure the amount of funding required at a reasonable rate of interest, has not hired sufficient staff to secure and operate the Properties and make the necessary

repairs and, perhaps more importantly, has not provided the Court-ordered reporting and accounting the City and other agencies require. In addition, the Current Receiver's progress toward resolving serious code enforcement violations such as repairing the fire/life safety systems, fixing plumbing problems in common area restrooms and restoring units that have been cited for abatement by HACLA for minor code violations has been disappointing, the number of Properties on fire watch has doubled since the appointment of the Receiver, and most of the fire/life systems have not been repaired. In addition, just a couple of weeks ago, the property management company hired by the current Receiver sent out 3-day eviction notices to hundreds of tenants which were then rescinded but which should never have been sent.

The City has been considering alternatives available to resolve what has become an unfortunately disappointing performance by the current Receiver. The City has been unable to locate a receivership candidate with the ability and willingness to finance the receivership operations on any terms. The City has interviewed and conducted diligence several receivership candidates and as the result of that process has identified Mr. Kevin Singer as the most qualified individual to serve as receiver for these properties. Mr. Singer has provided a budget to the City of approximately \$10 million for the receivership and to abate the Skid Row Housing Trust Properties over the next six months. LAHD is requesting a total of up to \$10 million in order to ensure that the funding is sufficient for the budget for at least four to five months, as well as to repay the amounts accrued by the current Receiver, once invoices and an accounting are received, filed with the Court and approved.

When it became apparent that the Receivership would be better served with a different receiver, the City began searching for and conducting due diligence on potential replacement receiver candidates. The pool of prospective replacements for a Public Health & Safety Receiver is very small due to the limited number of professionals with the requisite expertise, and the additional challenges of the Trust's large portfolio, the specific needs of this very vulnerable tenant population, adverse media coverage, the long standing dilapidated conditions of many of the Properties, and funding challenges due to lack of significant equity in the Properties and the amount of financing (\$1.8 million) already attached to the Properties on a super-priority lien basis by Mr. Adams' Receivership Certificate.

Ultimately, Receivership Specialists, led by Mr. Kevin Singer has emerged as the leading choice. He has worked as a receiver for 23 years, and is a licensed contractor familiar with the City's Rent Escrow Account Program. He used to own a property management company that oversaw 75 buildings and 1200 apartment units, many of which were in the Koreatown area of Los Angeles. His company has served as a Court-appointed receiver in over 498 cases, including a very challenging receivership matter in the Tenderloin District of San Francisco. He has two CPAs on staff ready to assist with timely and accurate accounting reports.

Mr. Singer's references, including the San Francisco City Attorney's Office and the San Francisco Mayor's Office, spoke highly of his work and professionalism. Mr. Singer is enthusiastic for the opportunity to serve the residents of the Properties and complete the requisite repairs in a timely manner. Mr. Singer and his staff have

established a very methodical, straightforward, and realistic numbers-based approach to the Receivership, and they have prepared and submitted a six month look ahead budget for the City's consideration.

NEXT STEPS

The City's goal is to stabilize the Trust properties as safe places to live until each property can be transferred to a replacement General Partner or owner. The Court recently authorized seven of the properties to exit the receivership this week based on the City's stipulation to certain conditions. The National Equity Fund, the limited partner in seven of the properties, has brought in PATH Ventures as the new General Partner on six, and LA Family Housing on one, with assurances of sufficient financial backing to cover any repairs, to repay the pro rata share of the Receiver's fees and costs, and to replenish property reserves. NEF and PATH have also engaged a new property management firms, Levine and Associates and Barker Management, both with extensive experience with supportive housing and with LAHD. NEF and the City will execute an Abatement Agreement detailing the work to be done as a condition of the exit from receivership.

There are seven other partnerships that own nine properties with limited partners that are working on similar exit plans from the Receivership with new General Partners and the City. LAHD expects that in the coming months only twelve properties solely owned by the Trust remaining in the Receivership, representing some of the oldest and most needy properties. Throughout the next several months LAHD, with the assistance of several experienced consultants donating time paid for by philanthropy as well as external and internal stakeholders, will determine the exit strategy for those twelve buildings. We know that to attract responsible experienced supportive housing owners the City and other government partners will need to increase loan amounts to pay for repairs, replenish reserves, and payoff all Receivership notes. It may be that some of the properties are damaged beyond repair and will need to be demolished; others can be rehabilitated with significant investment. As part of the financial analysis we will work with HACLA on rent increases, and with the County and HCD on new loan investments. Our goal is to get the properties in shape to exit receivership within six to eight months.

LAHD and the City Attorney will also work with the new Receiver to make monthly reports on the physical and financial status of the buildings, and on the occupancy. Since the appointment of the Receiver on April 7th the City Attorney, Mayor's office, LAHD, CAO's office, the Receiver, HACLA, Department of Mental Health and Department of Health Services have met on a bi-weekly basis to review the progress on abatement and discuss building issues. Each week LAHD's Code Enforcement division prepares a report describing the conditions in each building, with input from DHS and DMH on-site staff as well as LAHD inspection staff. HACLA provides monthly reports on rent paid, and on units under abatement. The City Attorney and LAHD have struggled to obtain adequate financial reports from the Receiver, but with a new Receiver and a relationship as a lender those reports will be readily available. These reports will be consolidated and shared with the Council and Mayor each month.

FISCAL IMPACT OF RECOMMENDED ACTIONS

As noted above, LAHD, with the City Attorney's office, is asking for authorization to make a \$10 million loan from the Low and Moderate Income Housing Trust, a fund within the Department that holds loan repayments from former Community Redevelopment Agency housing loans to be used on projects that meet the redevelopment requirements. The loan will be repaid when the properties exit the Receivership, either by the limited partners or by other housing funds from LAHD and possibly from other government partners.

The requested loan amount is expected to be sufficient to cover Receivership costs and repayment of the original Receiver expenses, for up to six months. There will be additional costs for repairs that have not been identified yet, and for repayment of original Receiver expenses that are not yet known. LAHD will return to the City Council and Mayor with recommendations to cover these costs as needed.

There is no impact on the General Fund.

Approved By:



ANN SEWILL
General Manager
Los Angeles Housing Department

ATTACHMENTS:

Skid Row Housing Trust Properties

Skid Row Housing Trust Initial Budget Receivership

Attachment A: The Skid Row Housing Trust Properties					
		Project Name	Property Address	Equity Investor	Units
1	Stabilized	The Six (Formerly Carondelet Apartments)	811 S Carondelet St., Los Angeles, CA 90057	NEF	52
2		Star Apartments	240 E 6th St., Los Angeles, CA 90014	NEF	102
3		Simone Hotel	90013	NEF	114
4		New Pershing Apartments	500 S Main St., Los Angeles, CA 90013	NEF	69
5		Weldon Hotel & Rossmore Hotel*	507 E. Maple Avenue Los Angeles, CA / 905 E 6TH ST Los Angeles, CA 90021	NEF	113
6		Crest Apartments	13604 W Sherman Way, Van Nuys, CA 91405	NEF	64
7		Abbey Apartments	90014	Enterprise	115
8		Charles Cobb Apartments	90013	Enterprise	76
9		New Genesis	90014	Phinda LLC	106
10	Pre-Conversion	Flor 401 Lofts	401 E 7th St., Los Angeles, CA 90014	NEF	99
11		SP7 Apartments (includes San Pedro Hou	519 E 7th St., Los Angeles, CA 90014 / 647 S San Pedro Street, Los Angeles, CA 90014	NEF	100
12		Senator	729 S Main St., Los Angeles, CA 90014	NEF	98
13		649 Lofts	317 E 7th St., Los Angeles, CA 90014	U.S. Bank	55
14		Skid Row Southeast 1 recap (Las Americas / Olympia Hotel)*	1205 E 6TH ST Los Angeles, CA 90021/ 1201 E 7TH ST Los Angeles, CA 90021	U.S. Bank	108
15	SRHT Wholly Owned	Edward Hotel	713 E. 5th St, Los Angeles, CA 90013	SRHT	47
16		Dewey Hotel	721 S. Main St, Los Angeles, CA 90014	SRHT	43
17		Lincoln Hotel	549-551 Ceres Ave, Los Angeles, CA 90021	SRHT	41
18		Crescent Hotel	617 E. 5th St, Los Angeles, CA 90013	SRHT	56
19		Hart Hotel	508 E 4th St, Los Angeles, CA 90013	SRHT	41
20		Boyd Hotel	224 E. Boyd St, Los Angeles, CA 90013	SRHT	61
21		St Mark's Hotel	611 E. 5th St, Los Angeles, CA 90013	SRHT	91
22		St. George Hotel	115 E. 3rd St, Los Angeles, CA 90013	SRHT	87
23		Sanborn Hotel	526 S. Main St, Los Angeles, CA 90013	SRHT	46
24		Rainbow Apartments	90014	SRHT	89
25		Produce Hotel	676 S. Central Ave, Los Angeles, CA 90021	SRHT	110
26		New Carver	1624 S. Hope St, Los Angeles, CA 90015	SRHT	97
		Totals			2,080
		* Weldon Hotel & Rossmore Hotel were combined after a recapitalization.			

Skid Row Housing Trust
Forecast of Cash Receipts & Cash Disbursements

	Jul-23	Aug-23	Sep-23	3 Month Total	Oct-23	Nov-23	Dec-23	3 Month Total	6 Month Total
Cash Receipts									
Net Rent from Existing Units (1)	\$ 582,647	\$ 582,647	\$ 582,647	\$ 1,747,941	\$ 438,717	\$ 438,717	\$ 438,717	\$ 1,316,151	\$ 3,064,092
Rent from Restored Abatement Units (2)	-	63,000	126,000	189,000	191,800	191,800	191,800	575,400	\$ 764,400
Rent from Newly Restored Units (3)	-	-	-	-	-	70,000	140,000	210,000	\$ 210,000
Laundry Room Receipts	1,392	1,392	1,392	4,177	1,183	1,183	1,183	3,550	\$ 7,727
Lost Key Charges	114	114	114	342	114	114	114	342	\$ 684
									\$ -
Net Cash Receipts	\$ 584,153	\$ 647,153	\$ 710,153	\$ 1,941,460	\$ 631,814	\$ 701,814	\$ 771,814	\$ 2,105,443	\$ 4,046,903
Cash Disbursements									
Staffing Costs - 24 hour coverage per property (4)	\$ 342,000	\$ 342,000	\$ 342,000	\$ 1,026,000	\$ 288,000	\$ 288,000	\$ 288,000	\$ 864,000	\$ 1,890,000
Property Management Costs - \$6,735/property (5)	134,700	134,700	134,700	404,100	114,495	114,495	114,495	343,485	\$ 747,585
Security Guard Svcs - 2 guards/property for 24 hrs	864,000	650,000	432,000	1,946,000	367,200	367,200	367,200	1,101,600	\$ 3,047,600
Utility Expenses	104,370	104,370	104,370	313,110	88,715	88,715	88,715	266,144	\$ 579,254
Maintenance & Repairs - Equal to \$100/unit	153,000	153,000	153,000	459,000	123,300	123,300	123,300	369,900	\$ 828,900
Janitorial Expenses - 1 person per property for 8 hrs	91,200	91,200	91,200	273,600	76,800	76,800	76,800	230,400	\$ 504,000
Insurance	265,142	265,142	265,142	795,425	225,370	225,370	225,370	676,111	\$ 1,471,536
Daily Operating Expenses	4,097	4,097	4,097	12,291	3,482	3,482	3,482	10,447	\$ 22,738
IT Support (6)	53,600	53,600	53,600	160,800	50,000	50,000	50,000	150,000	\$ 310,800
Other Admin Expenses	5,000	5,000	5,000	15,000	5,000	5,000	5,000	15,000	\$ 30,000
Receiver's Fees	76,923	76,923	76,923	230,769	65,385	65,385	65,385	196,154	\$ 426,923
Receiver's Legal Fees (UD & Outside Counsel)	35,000	35,000	35,000	105,000	40,000	40,000	40,000	120,000	\$ 225,000
Miscellaneous	15,000	15,000	15,000	45,000	15,000	15,000	15,000	45,000	90,000
Total Operating Expenses	\$ 2,144,032	\$ 1,930,032	\$ 1,712,032	\$ 5,786,095	\$ 1,462,747	\$ 1,462,747	\$ 1,462,747	\$ 4,388,240	\$ 10,174,335
Total Operating Expenses per unit (Excl Receiver Fees)	\$ 1,314	\$ 1,178	\$ 1,039		\$ 1,095	\$ 1,095	\$ 1,095		

Skid Row Housing Trust
Forecast of Cash Receipts & Cash Disbursements

	Jul-23	Aug-23	Sep-23	3 Month Total	Oct-23	Nov-23	Dec-23	3 Month Total	6 Month Total
One-Time Costs									
Abatement Unit Repairs - 274 Units X \$3,000 (7)	\$ 822,000	\$ -	\$ -	\$ 822,000	\$ -	\$ -	\$ -	\$ -	\$ 822,000
Technology Structure Transition Costs	75,000	-	-	75,000	-	-	-	-	75,000
Security Cameras	60,900	-	-	60,900	-	-	-	-	60,900
Fire life safety repairs - \$130K initial funding	-	-	-	-	-	-	-	-	-
Vacant unit renovations - 100 Units/mo. @ \$10,000	-	-	-	-	1,000,000	1,000,000	1,000,000	3,000,000	\$ 3,000,000
Total One-Time Costs	\$ 957,900	\$ -	\$ -	\$ 957,900	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 3,000,000	\$ 3,957,900
Total Cash Disbursements	\$ 3,101,932	\$ 1,930,032	\$ 1,712,032	\$ 6,743,995	\$ 2,462,747	\$ 2,462,747	\$ 2,462,747	\$ 7,388,240	\$ 14,132,235
Net Cash Deficit - 90 days	\$ (2,517,778)	\$ (1,282,878)	\$ (1,001,878)	\$ (4,802,535)	\$ (1,830,932)	\$ (1,760,932)	\$ (1,690,932)	\$ (5,282,797)	\$ (10,085,332)
Accounts Payable + 10% Reserve - Current Receiver				TBD				\$ -	\$ -
TOTAL CASH NEEDS				\$ (4,802,535)				\$ (5,282,797)	\$ (10,085,332)

Notes

1. In-place rent based on: (1) Actual HAP payments received in April 2023, (2) \$29,729 paid by Inner City for office rent at Produce Hotel Apts and (3) \$75,761 paid by FHSP for SRHT buildings.
2. Assumes 90 of 274 abated units are completed & collecting rent in Month # 2, an additional 90 units in Month # 3, and 4 units in Month # 4. Monthly rent projected at \$700/unit.
3. Assumes no Vacant units are renovated in first 90 days so focus can be on completing Abated units.
4. Staffing costs are based on hiring to keep all properties staffed with one person 24/7 by 7/1/23.
5. Fixed property management fee to be revisited upon stabilization of properties.
6. Monthly IT Support cost is comprised of based fee of \$25,000 +\$1,200 per property + \$5,800 for add'l work station and site fees
7. Excludes 78 Abated units to be removed from Receivership prior to 7/1/23