

**COSTA MESA HOUSING AUTHORITY ANNUAL REPORT
AS HOUSING AUTHORITY AND AS HOUSING SUCCESSOR
FOR FISCAL YEAR 2015-2016 UNDER CALIFORNIA
HEALTH & SAFETY CODE SECTIONS 34176.1 AND 34328**

This Annual Report of the Costa Mesa Housing Authority (CMHA) is prepared under California Health and Safety Code (HSC), Section 34176.1 as the housing successor, and Section 34328 as a housing authority (together, Report). In particular, Division 24 of the HSC sets forth the Dissolution Law in Parts 1.8 and 1.85 and the Housing Authorities Law in Part 2, which respectively require preparation of an annual report on the housing successor and the housing authority's activities for the prior fiscal year. This Report details the CMHA's activities during Fiscal Year (FY) 2015-2016 and is intended to satisfy the requirements under both HSC Sections 34328 and 34176.1. In particular, this Report details the CMHA's activities for FY 2015-2016, including the information required about the Low and Moderate Income Housing Asset Fund (LMIHAF) and on other information under Section 34176.1(f). After receipt of the complete, final CAFR (term defined below) that is expected by the end of December 2016, then this Report will be finalized using data in the CAFR and will be provided to, and will be presented for joint consideration and action by the City Council and Housing Authority Board in January 2017.

This Report includes information prepared by City staff on behalf of the CMHA and data from the independent financial audit of the Low and Moderate Income Housing Asset Fund Financial Report for FY 2015-2016 (CAFR) as prepared by White Nelson Diehl Evans LLP, which audit is separate from this Report; further, this Report conforms with and is organized into sections I. through XIV., inclusive, under Section 34176.1(f) of the Dissolution Law:

- I. **Amounts Received and Deposited Under 34191.4(b)(3)(A).** This section provides the total amount of funds paid to the City and the amount deposited into the LMIHAF allocable to 20% of the repayments on the reinstated City/Agency loan per Section 34191.4.
- II. **Amount Deposited into LMIHAF.** This section provides the total amount of funds deposited into the LMIHAF in FY 15-16 and itemized by amounts deposited in FY 15-16 for items listed on Recognized Obligation Payment Schedule (ROPS), amounts allocable to Section 34191.4 deposits, and other amounts deposited into the LMIHAF.
- III. **Ending Balance of LMIHAF.** This section provides a statement of the balance in the LMIHAF as of the close of FY 15-16. Any amounts deposited for items listed on the ROPS, and amounts allocable to Section 34191.4 deposits, must be distinguished from the other amounts deposited.
- IV. **Description of Expenditures from LMIHAF.** This section provides a description of expenditures made from the LMIHAF during FY 15-16. The expenditures are to be categorized among (A) administration for monitoring, preserving covenanted housing units, (B) homeless prevention and rapid rehousing services and (C) development of housing.

- V. Statutory Value of Assets Owned by Housing Successor.** This section provides the statutory value of real property owned by the Housing Successor, the value of loans and grants receivables, and the sum of these two amounts.
- VI. Description of Transfers.** This section describes transfers, if any, to another housing successor made in previous fiscal year(s), including whether the funds are unencumbered and the status of projects, if any, for which the transferred LMIHAF will be used. The sole purpose of the transfers must be for development of transit priority projects, permanent supportive housing, housing for agricultural employees or special needs housing.
- VII. Project Descriptions.** This section describes any project for which the Housing Successor receives or holds property tax revenue under the ROPS and the status of that project.
- VIII. Status of Compliance with Section 33334.16.** As and if applicable, this section provides a status update on compliance with Section 33334.16 for interests in real property acquired by the former redevelopment agency prior to February 1, 2012. For interests in real property acquired on or after February 1, 2012, provide a status update on the project.
- IX. Description of Outstanding Obligations under Section 33413.** This section describes outstanding inclusionary and replacement housing obligations, if any, under Section 33413 that remained outstanding prior to dissolution of the former redevelopment agency as of February 1, 2012, along with the Housing Successor's progress in meeting those prior obligations, if any, of the former redevelopment agency and how the Housing Successor's plans to meet unmet obligations, if any.
- X. Income Test.** This section provides information required by Section 34176.1(a)(3)(B), or a description of expenditures by income category and restriction for the applicable five-year period, with the time period beginning January 1, 2014 and whether the statutory thresholds have been met. However, reporting of the Income Test is not required until 2019.
- XI. Senior Housing Test.** This section provides the percentage of deed-restricted rental housing units restricted to seniors and assisted individually or jointly by the Housing Successor, its former redevelopment agency, and its host jurisdiction within the previous 10 years in relation to the aggregate number of units of deed-restricted rental housing assisted individually or jointly by the Housing Successor, its former redevelopment agency and its host jurisdiction within the same 10-year time period.
- XII. Excess Surplus Test:** This section provides the amount of excess surplus in the LMIHAF, if any, and the length of time that the Housing Successor has had excess surplus, and the Housing Successor's plan for eliminating the excess surplus.
- XIII. Inventory of Homeownership Units:** This section provides a summary of covenanted homeownership units assisted by the former redevelopment agency

or the housing successor that include equity sharing and repayment provisions, including: (A) number of units; (B) number of units lost to the portfolio in the last fiscal year and the reason for those losses, and (C) any funds returned to the housing successor due to losses or repayments.

XIV. Additional Information: CMHA's Activities for the Preceding Year FY 15-16 under HSC Section 34328.

This Report is to be provided to CMHA and its governing body, the City Council, in accordance with the Dissolution Law and the HAL. In addition, this Report will be posted and made available to the public on the City's website (www.costamesaca.gov).

I. AMOUNTS RECEIVED AND DEPOSITED UNDER SECTION 34191.4(B)(3)(A)

In FY 15-16, a total of \$811,376 attributable to the reinstated City/Agency loan under Section 34191.4 was approved by DOF and remitted via the first annual ROPS 16-17 and; of that amount, \$649,101 (allocable to 80% of \$811,376) was remitted by the Successor Agency to the City, and \$162,275 was deposited into the LMIHAF upon receipt in June 2016 (allocable to 20% of \$811,376).

II. AMOUNTS DEPOSITED INTO LMIHAF

- The amount of \$162,275 was deposited into the LMIHAF allocable to FY15-16 equal to 20% of the monies received by the City in repayment of the reinstated City/Agency loan per Section 34191.4 for ROPS 16-17; plus
- \$0 was held for items listed on the ROPS; plus
- Other deposits into the LMIHAF in FY 15-16 of: (1) \$343,792 rental income, (2) \$405,714 loan repayments, and (3) \$10,479 investment income.

In sum, the cumulative total is \$922,260 of all deposits into the LMIHAF during FY 15-16.

III. ENDING BALANCE OF LMIHAF

At the close of FY 15-16, the ending balance in the LMIHAF was \$1,148,308, of which \$0 is held for items listed on the ROPS.

IV. DESCRIPTION OF EXPENDITURES FROM LMIHAF

The table on the next page lists and describes expenditures from LMIHAF by category for FY 15-16:

<p>Fiscal Year 15-16 Monitoring and Administration Expenditures</p>	<p>Costs for monitoring, enforcement and preserving the long-term affordable housing covenants imposed by the former redevelopment agency or CMHA as housing successor and costs to administer homeless prevention and rapid rehousing supportive services, and toward development and preservation of housing.</p> <p>The maximum expenditure for this category in FY 15-16 is the <i>greater</i> of (a) 5% of the statutory value of (i) real property owned by the housing successor <i>and</i> (ii) loans and grants receivable, or (b) \$200,000 (plus allowed CPI adjustments).</p> <p>Based on the valuation listed in Section V., [lines 4+5 in that table=\$8,824,257] for FY 15-16, so the CMHA as housing successor was authorized to spend up to \$441,121.85, but expended only \$139,009.</p>	<p>\$139,009</p>
<p>Homeless Prevention and Rapid Rehousing Services Expenditures</p>	<p>Costs for homeless prevention and rapid rehousing supportive services for individuals and families who are homeless or would be homeless but for this assistance.</p> <p>The housing successor was authorized to spend up to \$250,000 for this category in FY 15-16 \$64,558 was expended.</p>	<p>\$64,558</p>
<p>Housing Development Expenditures</p>	<p>Costs for housing “development”, which term is defined to include: (a) new construction, (b) acquisition and rehabilitation, (c) substantial rehabilitation, (d) long-term affordability covenants on multifamily units, and (e) preservation of assisted affordable housing that is eligible for (i) prepayment, (ii) termination, or (iii) for which the expiration of rental restrictions is scheduled to occur within five years.</p> <p>The 30 housing units in default by the former owner/operator (CCBHC) had been subject to termination from CCBHC defaults, therefore were preserved by the CMHA. All 30 units are now owned by the CMHA and operated through professional property management as Low and Very Low Income housing.</p>	<p>\$482,625</p>
<p>Total: FY 15-16 LMIHAF Expenditures</p>		<p><u>Total</u> <u>\$686,192</u></p>

V. STATUTORY VALUE OF ASSETS OWNED BY HOUSING SUCCESSOR IN LMIHAF

Under the Dissolution Law and for purposes of this Report, the “statutory value of real property” means the value of properties formerly held by the former redevelopment agency as listed on the housing asset transfer schedule approved by the Department of Finance as listed in such schedule under Section 34176(a)(2), the value of the properties transferred to the Housing Successor under Section 34181(f), and the purchase price of property(ies) purchased by the Housing Successor. Further, the value of loans and grants receivable is included in these reported assets held in the LMIHAF.

The following table provides the statutory value of assets owned by the Housing Successor as of the end of FY 15-16:

	As of June 30, 2016 end of FY 15-16
1. Cash and Investments	\$1,205,578
2. Interest Receivable	\$1,346
3. Rent Receivable	\$16,903
4. Statutory Value of Real Property Owned by Costa Mesa Housing Authority	\$5,359,665
5. Value of Loans and Grants Receivable	\$3,464,592
Total Value	\$10,048,084

VI. DESCRIPTION OF TRANSFERS

The Housing Successor did not make any LMIHAF transfers to other Housing Successor(s) under Section 34176.1(c)(2) during FY 15-16.

VII. APPROVED ROPS PROJECTS

The Housing Successor does not receive or hold property tax revenue under a ROPS.

VIII. STATUS OF COMPLIANCE WITH SECTION 33334.16

Section 34176.1 provides that Section 33334.16 does not apply to interests in real property acquired by the Housing Successor on or after February 1, 2012.

With respect to interests in real property acquired by the former Agency *prior* to February 1, 2012, the time periods described in Section 33334.16 shall be deemed to have commenced on the date that the Department of Finance approved the property as a housing asset in the LMIHAF; thus, as to real property acquired by the former

redevelopment agency now held by the Housing Successor in the LMIHAF, the Housing Successor must initiate activities consistent with development (as the term is explained in Section IV. and Section 34176.1(a)(3)(D)) of the real property for the purpose for which it was acquired within five years of the date the DOF approved such property as a housing asset.

In this regard, the CMHA, as housing successor, did not own any real property acquired for development (to be developed) as of dissolution on February 1, 2012 subject to this limitation so the five-year limitation of Section 33334.16 does not apply.

It is noted that the former redevelopment agency did hold at dissolution, now the CMHA holds as landlord/ground lessor, the underlying fee interests in the three Ground Leases with Costa Mesa Family Village, a California limited partnership, as tenant/ground lessee (affiliate of Shapell Properties) relating to the existing 72-unit multifamily affordable housing apartment development called Costa Mesa Family Village located at 1924 and 1981 Wallace Avenue and 2015 Pomona Avenue. The three ground leases end/expire in 2039. Section 33334.16 does not apply to such ground leases and this existing affordable housing development as the subject property was not held for development; it is developed property.

IX. DESCRIPTION OF OUTSTANDING OBLIGATIONS UNDER SECTION 33413

Replacement Housing: Under the former redevelopment agency's last Implementation Plan in effect prior to dissolution (the 2010-2014 plan) for the former redevelopment agency, the former agency's replacement housing obligations, if any, under Section 33413(a) were transferred to the CMHA as Housing Successor; however, the former redevelopment agency had *no* outstanding replacement housing obligations as of dissolution on February 1, 2012.

Inclusionary/Production Housing. Under the former redevelopment agency's last Implementation Plan in effect prior to dissolution (the 2010-2014 plan), the former agency's inclusionary/production housing obligations, if any, under Section 33413(b) were transferred to the CMHA as Housing Successor; however, the former redevelopment agency had *no* outstanding inclusionary/production housing obligations as of dissolution on February 1, 2012.

Under the former redevelopment agency's last Implementation Plan in effect prior to dissolution (the 2010-2014 plan), the former redevelopment agency's inclusionary/production housing obligations, if any, under Section 33413(b) were transferred to the CMHA as Housing Successor; however, the former redevelopment agency had *no* outstanding inclusionary/production housing obligations as of dissolution on February 1, 2012.

Therefore, the Housing Successor has no outstanding replacement or inclusionary/production housing obligations and thus no implementation obligation under Section 33413. For information, the former Agency's Implementation Plan is posted on the City's website at (www.costamesaca.gov).

X. EXTREMELY-LOW INCOME TEST

Section 34176.1(a)(3)(B) requires that the Housing Successor must require at least 30% of the LMIHAF to be expended for development of rental housing affordable to and occupied by households earning 30% or less of the AMI. If the Housing Successor were to fail to comply with the Extremely-Low Income requirement in any five-year report, then the Housing Successor must ensure that at least 50% of the funds remaining in the LMIHAF be expended in each fiscal year following the latest fiscal year following the report on households earning 30% or less of the AMI until the Housing Successor demonstrates compliance with the Extremely-Low Income requirement. This information is not required to be reported until 2019 for the 2014-2019 period.

XI. SENIOR HOUSING TEST

The Housing Successor is to calculate the percentage of units of deed-restricted rental housing restricted to seniors and assisted by the Housing Successor, the former redevelopment agency and/or the City within the previous 10 years in relation to the aggregate number of units of deed-restricted rental housing assisted by the Housing Successor, the former redevelopment agency and/or City within the same time period. If this percentage exceeds 50%, then the Housing Successor cannot expend future funds in the LMIHAF to assist additional senior housing units until the Housing Successor or City assists and construction has commenced on a number of restricted rental units that is equal to 50% of the total amount of deed-restricted rental units.

As reported in the prior FY 14-15 annual report, for the 10-year period of January 1, 2004 to January 1, 2014 evidences that 9.8% of the funds were expended on assistance to provide senior affordable housing units and 90.2% of the funds were expended on assistance to provide non-senior/family affordable housing units. In particular, 36 senior units with long-term 55-year affordability covenants were established during the previous 10-year period (specifically, the St. John's Manor Project).

For the current 10-year period of January 1, 2014 to January 1, 2024 that includes the subject FY 15-16, the CMHA expended no funds(\$0) for senior housing; therefore 0% of funds were expended on development or assistance to develop senior housing units.

XII. EXCESS SURPLUS TEST

The term excess surplus is defined as: "an unencumbered amount in the [LMIHAF] account that exceeds the greater of one million dollars (\$1,000,000) or the aggregate amount deposited into the account during the housing successor's preceding four fiscal years, whichever is greater." The housing successor existed as of February 1, 2012, so the four preceding fiscal years were the first four of the Housing Successor's existence. For this Report the aggregate deposits for the four preceding fiscal years of FY 11-12, FY 12-13, FY 13-14 and FY 14-15 totaled \$1,531,978. The unencumbered account balance as of the end of FY 15-16 (June 30, 2016) was \$1,088,503. The LMIHAF does not have an Excess Surplus.

XIII. INVENTORY OF HOMEOWNERSHIP UNITS.

This section provides an inventory of homeownership units assisted by the former redevelopment agency and assumed by the CMHA, as housing successor, that are subject

to covenants or restrictions or to an adopted program that protects the former redevelopment agency's investment of moneys from the Low and Moderate Income Housing Fund per Section 33334.3(f).

The total homeownership inventory as of dissolution on February 1, 2012 (subparagraph (A) below) and the inventory, and losses and repayments for the period February 1, 2012 through June 30, 2015 (subparagraph (B) below) include:

- (A) As of dissolution on February 1, 2012, the total number of homeownership units assisted by the former redevelopment agency and that have covenants and restrictions of record is 41 units, which includes loans and restricted single-family homes assisted by the former redevelopment agency through its (1) First Time Homebuyer Program, (2) Single-Family Rehabilitation Program, (3) affordable housing projects with Habitat for Humanity of Orange County, and (4) the Neighborhood Stabilization Program.
- (B) The total number of homeownership units lost to the CMHA/Housing Successor's portfolio between February 1, 2012 up to June 30, 2015, along with the reason or reasons for those losses.

Total losses between February 1, 2012 to June 30, 2015: 27 units

Reason for loss from homeownership portfolio of each such unit:

Principal Repayments:	<u>\$285,816.11</u>
Loan Impairment:	<u>\$1,095,000.00</u>
Foreclosure:	<u>\$436,000.00</u>

Funds returned to the CMHA/Housing Successor as part of an adopted program that protects the former Agency's investment of moneys from the Low and Moderate Income Housing Fund. This includes repayments of all such loans including principal, interest, and equity sharing payments between February 1, 2012 to June 30, 2015: **\$301,584.00** (principal, interest and fees).

- (C) The number of homeownership units lost to the CMHA/Housing Successor's portfolio in FY 15-16 and the reason for those losses.

Total losses to portfolio in FY 15-16 is: 3 units

Reason for loss from homeownership portfolio in FY 15-16 of each such unit:

Principal Repayments:

Three (3) homeownership loans were fully paid-off, so 3 units were lost on the homeownership inventory during FY 15-16; the total from the 3 full homeownership loan repayments, which was deposited into the LMIHAF is \$169,829.12.

In addition in FY 15-16, for seven (7) homeownership loans the owners made monthly amortized payments, which total payments amount to \$8,804.46, which loan payments were deposited into the LMIHAF.

Therefore, the funds returned to the CMHA/Housing Successor as part of an adopted program that protects the former Agency's investment of moneys from the former redevelopment agency's Low and Moderate Income Housing Fund, including repayments of all SF Rehab and FTHB loans including principal, interest, and equity sharing payments during FY 2015-16: **\$178,633.61**.

- (D) The CMHA/Housing Successor does have existing consulting agreements with: Amerinational Community Services, Inc., a Minnesota Corporation and Farmers State Bank of Hartland, a Minnesota corporation relating to certain, but not all, aspects of administration of the former Agency's Single Family Rehabilitation Program and First Time Homebuyer program (FTHB) that provided second lien mortgages for homeownership units. These consulting services include assistance with oversight and administration of amortized loan payments, if any, due; with tracking and calculation of loan balances in the event of payoff; and, other administrative activities for these outstanding SF Rehab and FTHB loans. In addition, the CMHA retains the services of Keyser Marston Associates, a professional housing economic consultant, and the CMHA legal counsel, Celeste Brady of Stradling Yocca Carlson & Rauth, assists staff in review of legal issues related to the outstanding SF Rehab and FTHB loans, such as and including relating to refinancing of first lien mortgages so long as consistent with the SF Rehab and FTHB program refinancing criteria, repayments, impairment analyses, defaults, foreclosures, bankruptcies, renting out part of the home, short sale requests, and other issues that arise in the administration of the former Agency's loan programs for ownership housing.

XIV. ADDITIONAL INFORMATION ABOUT CMHA'S ACTIVITIES FOR THE PRECEDING YEAR FY 15-16 PER HSC SECTION 34328

Without repeating the information presented above in this report, the CMHA:

(1) continued to monitor and enforce the housing assets transferred from the former redevelopment agency to the CMHA as housing successor;

(2) proceeded with and completed non-judicial foreclosure proceedings initiated by the City of Costa Mesa and the Housing Authority that were pending during FY 15-16. Trustee sales by auction were held (after June 30, 2015 but within the 60-day reporting in the CAFR) on August 28, 2015 at the Santa Ana Superior Court for three (of the four) affordable housing projects that had been owned and operated by Civic Center Barrio Housing Corporation ("CCBHC"), including:

(a) 707, 711 W. 18th St., 8 units in two 4-plexes; 8 Low Income units; former redevelopment agency, now a Housing Authority loan, with successful credit bid of \$753,471.87.

(b) 734, 740, 744 James St., 11 units in one 3-plex and two 4-plexes; 9 Low and 2 Very Low Income units; City loan with successful credit bid of \$1,180,026.24;

(c) 745 W. 18th St., 3 units in one 3-plex; 3 Very Low Income units; City loan with successful credit bid of \$450,563.65; and

(3) proceeded with and completed non-judicial foreclosure proceedings initiated by the City of Costa Mesa in FY 14-15 and completed in FY 15-16. The Trustee sale by auction was held on February 1, 2016 at the Santa Ana Superior Court for one affordable housing project (the fourth of four) that had been owned and operated by Civic Center Barrio Housing Corporation (“CCBHC”):

(a) 8 Very Low Income affordable rental units located at 717, 721 James Street, Costa Mesa, adjacent to the above-listed units. At the Trustee sale, the City’s credit bid of \$2,150,607.48 was the successful and only bid to acquire the Property.

(4) All 30 of the affordable rental units acquired through the foreclosure proceedings are now vested with the Costa Mesa Housing Authority. During FY 15-16, the CMHA retained the professional property management services of Pro Active Property Management to operate these 30 Very Low and Low Income units.

(5) As housing successor under Section 34176.1(a)(2), the Housing Authority may expend up to \$250,000 per fiscal year “for homeless prevention and rapid rehousing services for individuals and families who are homeless or would be homeless but for this assistance, including the provision of short-term or medium-term rental assistance, housing relocation and stabilization services including housing search, mediation, or outreach to property owners, credit repair, security or utility deposits, utility payments, rental assistance for a final month at a location, moving cost assistance, and case management, or other appropriate activities for homelessness prevention and rapid rehousing of persons who have become homeless.” In this regard in FY 15-16 and as detailed in this Report, the Housing Authority provided partial funding for Community Outreach Workers who assertively work toward placing homeless individuals and families into temporary or permanent housing as it becomes available. The part-time staff addresses the various needs represented by our homeless population on a daily basis. Further, a part-time Management Analyst maintains the database that Community Outreach Workers and volunteers from varied community groups utilize to streamline their reporting and recordkeeping processes relative to placement of homeless individuals and families into housing.