

**COSTA MESA HOUSING AUTHORITY ANNUAL REPORT
AS HOUSING AUTHORITY AND AS HOUSING SUCCESSOR
FOR FISCAL YEAR 2016-2017 UNDER CALIFORNIA
HEALTH & SAFETY CODE SECTIONS 34176.1 AND 34328**

This Annual Report of the Costa Mesa Housing Authority (Housing Authority) 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 Housing Authority's activities during Fiscal Year (FY) 2016-2017 and is intended to satisfy the requirements under both HSC Sections 34328 and 34176.1. In particular, this Report details the Housing Authority's activities for FY 2016-2017, 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 2017, 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 2018.

This Report includes information prepared by City staff on behalf of the Housing Authority and data from the independent financial audit of the Low and Moderate Income Housing Asset Fund Financial Report for FY 2016-2017 (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 representing 20% of 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 2016-2017 and itemized by amounts deposited in FY 2016-2017 for items listed on Recognized Obligation Payment Schedule (ROPS), amounts representing 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 2016-2017. Any amounts deposited for items listed on the ROPS, and amounts representing 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 2016-2017. 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 Authority, as 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, regional homeless shelters, housing for agricultural employees, or special needs housing.
- VII. **Project Descriptions.** This section describes any project for which the Housing Authority, as 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 Authority's progress, as housing successor, in meeting those prior obligations, if any, of the former redevelopment agency and how the Housing Authority, as housing successor, 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: Housing Authority's Activities for the Preceding Year FY 2016-2017 under HSC Section 34328.

This Report is to be provided to Housing Authority and its governing body, the City Council, in accordance with the Dissolution Law and the Housing Authorities Law. 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 2016-2017, a total of \$696,062 attributable to the reinstated City/Agency loan under Section 34191.4 was approved by DOF and remitted via the first annual ROPS 2016-2017 and; of that amount, \$556,850 (representing 80% of \$696,062) was remitted by the Successor Agency to the City, and \$139,212 was deposited into the LMIHAF upon receipt in June 2017 (representing 20% of \$696,062).

II. AMOUNTS DEPOSITED INTO LMIHAF

- The amount of \$139,212 was deposited into the LMIHAF allocable to FY 2016-2017 equal to 20% of the monies received by the City in repayment of the reinstated City/Agency loan per Section 34191.4 for ROPS 2016-2017; plus
- \$0 was held for items listed on the ROPS; plus
- Other deposits into the LMIHAF in FY 2016-2017 of: (1) \$400,671 rental income, (2) \$352,076 loan repayments, and (3) \$31,035 investment income.

In sum, the cumulative total is \$922,994 of all deposits into the LMIHAF during FY 2016-2017.

III. ENDING BALANCE OF LMIHAF

At the close of FY 2016-2017 on June 30, 2017, the ending balance in the LMIHAF was \$5,064,767, of which \$0 is held for items listed on the ROPS. Ending fund balance includes a prior period adjustment of \$3,464,592 which increased LMIHAF beginning fund balance from \$1,148,308 to \$4,612,900. This prior period adjustment consisted of the June 30, 2016 loan receivable balance that was removed from unavailable revenues.

IV. DESCRIPTION OF EXPENDITURES FROM LMIHAF

The table below lists and describes expenditures from LMIHAF by category for FY 2016-2017:

<p>FY 2016-2017 Monitoring and Administration Expenditures</p>	<p>Costs for monitoring, enforcement, and preserving long-term affordable housing covenants imposed by the former redevelopment agency or the Housing Authority, 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 2016-2017 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 5+6 in that table=\$8,529,617] for FY 2016-2017, the Housing Authority as housing successor was authorized to spend up to \$426,480.85, but expended only \$154,163.</p>	<p>\$154,162</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. The housing successor was authorized to spend up to \$250,000 for this category in FY 2016-2017 \$133,089 was expended.</p>	<p>\$133,089</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 apartments within 8 properties commonly referred to as James Street/W. 18th Street units, were acquired by Costa Mesa through non-judicial foreclosure proceedings in FY 2015-2016. This acquisition was made in order to preserve this long-term affordable housing which covenants were at risk of termination and thus conversion to market housing and to protect Costa Mesa’s investments in these properties.</p>	<p>\$183,876</p>

	The 8 properties are now owned by the Housing Authority and continue to be operated as affordable housing units for low and very low income households/tenants by a professional property management company. The FY 2017-2018 Adopted Budget includes an allocation of funds toward preparation of a request for proposals (RFP) to be issued to experienced affordable housing developers for development of continued affordable housing at these properties, such as disposition or ground lease for substantial rehabilitation or new construction and covenanted housing for extremely low, very low, and low income persons and households.	
Total: FY 2016-2017 LMIHAF Expenditures		\$471,127

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

Under 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 Authority. 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 Authority as of the end of FY 2016-2017:

As of June 30, 2017 End of FY 2016-2017	
1. Cash and Investments	\$1,733,902
2. Interest Receivable	\$4,652
3. Rent Receivable	\$19,335
4. Account Receivable	\$28,654
5. Statutory Value of Real Property Owned by Costa Mesa Housing Authority	\$5,194,875
6. Value of Loans and Grants Receivable	\$3,334,742
Total Value	\$10,316,160

VI. DESCRIPTION OF TRANSFERS

The Housing Authority, as housing successor, did not make any LMIHAF transfers to other housing successor(s) under Section 34176.1(c)(2) during FY 2016-2017.

VII. APPROVED ROPS PROJECTS

The Housing Authority, as 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 Authority, as 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 Authority, as housing successor, in the LMIHAF, the Housing Authority, as 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 Housing Authority, 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 Housing Authority 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 Housing Authority, 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 Housing Authority, 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 Housing Authority, 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 Authority, as 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 Authority, as 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 Authority, as housing successor, were to fail to comply with the Extremely-Low Income requirement in any five-year report, then the Housing Authority, as 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 Authority, as 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 Authority, as 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 2015-2016 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 in 2006).

For the current 10-year period of January 1, 2014 to January 1, 2024 that includes the subject FY 2016-2017, the Housing Authority 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 4 fiscal years, whichever is greater.” The housing successor existed as of February 1, 2012. For this report, aggregate deposits for the 4 preceding fiscal years of 2012-2013, 2013-2014, 2014-2015 and 2015-2016 totaled \$2,333,801. The unencumbered account balance as of the end of FY 2016-2017 (June 30, 2017) was \$1,715,038. 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 Housing Authority, 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).

Total homeownership inventory as of dissolution on February 1, 2012 (subparagraph (A) below) and inventory, losses, and repayments for the period from 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 was 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) Neighborhood Stabilization Program.

(B) The total number of homeownership units lost to the Housing Authority’s (as housing successor) portfolio between February 1, 2012 through June 30, 2016, along with the reason or reasons for those losses.

Total losses between February 1, 2012 to June 30, 2016: 27 units

Reason for loss from homeownership portfolio of each such unit:

Principal Repayments:	<u>\$464,449.72</u>
Loan Impairment:	<u>\$1,095,000.00</u>
Foreclosure:	<u>\$436,000.00</u>

Funds returned to the Housing Authority, as 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 and June 30, 2016: \$707,298.08 (principal, interest, and fees).

- (C) The number of homeownership units lost to the Housing Authority's portfolio (as housing successor) in FY 2016-2017 and the reason for those losses.

Total losses to portfolio in FY 2016-2017 is: 3 units

Reason for loss from homeownership portfolio in FY 2016-2017 of each such unit:

Principal Repayments:

Three (3) homeownership loans were fully paid-off, thus 3 units were lost from homeownership inventory during FY 2016-2017; the total received from the full homeownership loan repayments was \$138,085.97 and these funds were deposited into the LMIHAF.

In addition, in FY 2016-2017, 6 owners made monthly amortized payments on homeownership loans. Total payments received amounted to \$7,895.08 and these payments were deposited into the LMIHAF.

Therefore, the funds returned to the Housing Authority, as 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 Single Family Rehabilitation and First Time Homebuyer program loans including principal, interest, and equity sharing payments during FY 2016-17 were \$352,076.

- (D) The Housing Authority, as 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 (SF Rehab) and First Time Homebuyer (FTHB) programs 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 Housing Authority retains the services of Keyser Marston Associates, a professional housing economic consultant, and the Housing Authority legal counsel, Celeste Brady of Stradling Yocca Carlson & Rauth (SYCR). SYCR assists staff in review of legal issues related to outstanding SF Rehab and FTHB program loans, such as the refinancing of first lien mortgages consistent with 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 THE HOUSING AUTHORITY'S ACTIVITIES FOR THE PRECEDING YEAR FY 16-17 PER HSC SECTION 34328

Without repeating the information presented above in this report, the Housing Authority:

(1) continued to monitor and enforce housing assets transferred from the former redevelopment agency to the Housing Authority, as housing successor, as well as other Housing Authority (non-housing successor) assets;

(2) continued property management and operation of the James Street/W.18th Street properties for very low and low income housing, including:

(a) 707, 711 W. 18th Street, 8 units in two 4-plexes; 8 Low Income units;

(b) 734, 740, 744 James Street, 11 units in one 3-plex and two 4-plexes; 9 Low and 2 Very Low Income units;

(c) 745 W. 18th Street, 3 units in one 3-plex, 3 Very Low Income units; and

(d) 717, 721 James Street, 8 Very Low Income units.

(3) 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 2016-2017 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.