COSTA MESA HOUSING AUTHORITY ANNUAL REPORT AS HOUSING AUTHORITY AND AS HOUSING SUCCESSOR FOR FISCAL YEAR 2017-2018 UNDER CALIFORNIA HEALTH & SAFETY CODE SECTIONS 34176.1 AND 34328

This annual report (Report) of the Costa Mesa Housing Authority (Housing Authority) is prepared under the California Health and Safety Code (HSC), Division 24, Parts 1.8 and 1.85 (Dissolution Law), in particular Section 34176.1 as the housing successor, and under the California Housing Authorities Law, HSC Section 34200, *et seq.* (HAL), in particular Section 34328 as a housing authority. The Dissolution Law and HAL 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) 2017-2018 and is intended to satisfy the requirements under both HSC Sections 34176.1 and 34328. More specifically, this Report includes information required about the Low and Moderate Income Housing Asset Fund (LMIHAF) and other information under Section 34176.1(f).

This Report is based on information prepared by City staff on behalf of the Housing Authority and data contained within the independent financial audit of the LMIHAF (Audit), which is prepared by Davis Farr LLP and accompanies this Report. The Audit is incorporated in the City of Costa Mesa's Comprehensive Annual Financial Report (CAFR) for FY 2017-2018. A copy of the Report in this draft form, has been provided to the City Council, as governing body, and to the Housing Authority by December 31, 2018 under 34176 (f). Upon their joint review and action to file the Report in an open meeting in February 2019, this Report will be posted on the City's website www.costamesaca.gov and thereafter appended to the City's annual update report prepared under Section 65400 of the Government Code.

This report conforms with and is organized into sections I through XIV, inclusive, under HSC Section 34176.1(f) of the Dissolution Law and Section 34328 of the HAL:

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.*

   The Department of Finance (DOF) approved a total of $1,202,953 attributable to the reinstated City/Agency loan under Section 34191.4 and $925,097 was remitted to the Successor Agency in June 2018. Of the $925,097, $740,078 (representing 80% of $925,097) was due to the City, and the remaining $185,019 was deposited into the LMIHAF upon receipt in June 2018 (representing 20% of $925,097).

II. **Amount Deposited into LMIHAF.** *This section provides the total amount of funds deposited into the LMIHAF in FY 2017-2018 and itemized by amounts listed on Recognized Obligation Payment Schedule (ROPS), amounts representing Section 34191.4 deposits, and other amounts deposited into the LMIHAF.*
   - In FY 2017-18, the amount of $185,019 (representing 20% of $925,097) was deposited into the LMIHAF;
   - $0 was held for items listed on the ROPS; and

- other deposits into the LMIHAF in FY 2017-2018 were: (1) $380,711 rental income, (2) $105,944 loan repayments, and (3) $15,618 investment income.

The cumulative total of all deposits into the LMIHAF is $687,292 during FY 2017-2018.

III. Ending Balance of LMIHAF. *This section provides a statement of the balance in the LMIHAF as of the close of FY 2017-2018. Any amounts deposited for items listed on the ROPS and amounts representing Section 34191.4 deposits, must be distinguished from the other amounts deposited.*

At the close of FY 2017-2018 on June 30, 2018, the ending balance in the LMIHAF was $3,193,653, of which $0 is held for items listed on the ROPS. The ending fund balance includes prior period adjustments of $1,906,531 which decreased LMIHAF beginning fund balance from $5,064,767 to $3,158,236. The prior period adjustments consisted of adjustments to record June 30, 2017 accrued payroll and an allowance for certain loans receivable.

IV. Description of Expenditures from LMIHAF. *This section provides a description of expenditures made from the LMIHAF during FY 2017-2018. 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.*

The table below lists and describes FY 2017-2018 LMIHAF expenditures by category:

Monitoring and Administration Expenditures	Costs for monitoring, enforcement, and preserving long-term affordable housing covenants imposed by the former Costa Mesa Redevelopment Agency (Former Agency) or the Housing Authority, as housing successor. The maximum expenditure for this category in FY 2017-2018 is the *greater* of (a) 5% of the statutory value of (i) real property owned by the housing successor *and* (ii) loans and grants receivable, or (b) $200,000 (plus allowed CPI adjustments). Based on the valuation listed in Section V, [lines 6+7 in that table=$6,475,692] for FY 2017-2018, the Housing Authority as housing successor was authorized to spend up to $323,785 (i.e., 5% of $6,475,692), but expended only $274,435.	$274,435
Homeless Prevention and Rapid Rehousing Services	Costs for homeless prevention and rapid rehousing supportive services for individuals and families who are homeless or would be homeless without this assistance.	175,996

Expenditures	The housing successor was authorized to spend up to $250,000 for this category in FY 2017-2018 and $175,996 was expended.	
Housing Development Expenditures	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. The 30 apartments within eight properties commonly referred to as James Street/W. 18th Street units, were acquired by the City 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 the City's investments in these properties. The eight 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 included 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. While the RFP was not issued during FY 2017-2018, the RFP was prepared and issued during FY 2018-2019.	201,444
Total FY 2017-2018 LMIHAF Expenditures		$651,875

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.*

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 Agency as listed on the housing asset transfer schedule approved by the DOF under Section 34176(a)(2), the value of the properties transferred to the housing successor under Section 34181(f), and the purchase price of properties 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 2017-2018:

As of June 30, 2018 End of FY 2017-2018	
1. Cash and Investments	$1,736,821
2. Cash and Investments with Fiscal Agent	25,605
3. Interest Receivable	4,092
4. Rent Receivable	12,369
5. Accounts Receivable	63,560
6. Statutory Value of Real Property Owned by the Housing Authority	5,030,085
7. Value of Loans and Grants Receivable	1,445,607
Total Statutory Asset Value	$8,318,139

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.*

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 2017-2018.

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.*
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. *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, if any, acquired on or after February 1, 2012, provide a status update on the project.*

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 DOF approved the property as a housing asset in the LMIHAF; thus, as to real property acquired by the Former 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 Agency held at dissolution, now the Housing Authority holds as landlord/ground lessor, the underlying fee interests in 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. *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.*

Replacement Housing: Under the Former Agency's last Implementation Plan in effect prior to dissolution (the 2010-2014 plan), 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 Agency had *no* outstanding replacement housing obligations as of dissolution on February 1, 2012.

Inclusionary/Production Housing. Under the Former Agency's last Implementation Plan in effect prior to dissolution (the 2010-2014 plan), its inclusionary/production housing obligations, if any, under Section 33413(b) were transferred to the Housing Authority as housing successor; however, the Former 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. 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, the income test is not required until year 2019.*

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 Area Median Income (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 after 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. *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.*

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 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 Agency, and/or City within the same time period. If this percentage exceeds 50%, then the housing successor cannot expend future LMIHAF funds 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 2016-2017 annual report, for the 10-year period of January 1, 2004 to January 1, 2014, 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 2017-2018, the Housing Authority expended no funds ($0) for senior housing thus far; therefore 0% of funds were expended on development or assistance to develop senior housing units.

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.*

The term excess surplus is defined in Section 34176.1(d) 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 table below provides the Excess Surplus test for the preceding four years. The LMIHAF does not have an excess surplus.

	LMIHAF July 1, 2017	LMIHAF July 1, 2018
Opening Fund Balance as Restated	$ 3,158,236	$ 3,193,653
Less Unavailable Amounts:		
Loans Receivable Net as Restated	(1,432,454)	(1,445,607)
Encumbrances	(14,987)	(46,976)
Available Housing Successor Funds (A)	**$ 1,710,795**	**$ 1,701,070**
Limitation (Greater of $1,000,000 or four years deposits):		
Aggregate Amount Deposited for last four years:		
2017-2018	$ N/A	$ 687,292
2016-2017	922,994	922,994
2015-2016	922,260	922,260
2014-2015	723,592	723,592
2013-2014	423,361	N/A
Total	**$ 2,992,207**	**$ 3,256,138**
Base Limitation	**$ 1,000,000**	**$ 1,000,000**
Greater Amount (B)	**$ 2,992,207**	**$ 3,256,138**
Excess/Surplus [(A)-(B)]	**$ 0**	**$ 0**

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.*

This section provides an inventory of homeownership units assisted by the Former 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 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, 2018 (subparagraph (B) below) include:

(A) As of dissolution on February 1, 2012, the total number of homeownership units assisted by the Former Agency and had covenants and restrictions of record was 41 units, which included loans and restricted single-family homes assisted by the Former Agency through its (1) First Time Homebuyer (FTHB) Program, (2) Single-Family Rehabilitation (SF Rehab) 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 portfolio as housing successor between February 1, 2012 through June 30, 2018, along with the reasons for those losses.

Total losses between February 1, 2012 and June 30, 2018: 27 units

Reasons for the units' losses from the homeownership portfolio:

Principal Repayments:	$710,215
Loan Impairment:	$1,095,000
Foreclosure:	$436,000

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, including loan principal, interest, and equity sharing payments between February 1, 2012 and June 30, 2018: $1,132,140.

(C) The number of homeownership units lost to the Housing Authority's portfolio as housing successor in FY 2017-2018 and the reason for those losses.

Total losses to portfolio in FY 2017-2018: 4 units

Reasons for losses from the homeownership portfolio in FY 2017-2018:

Four homeownership loans were fully paid-off. Therefore, four units were lost from homeownership inventory during FY 2017-2018. The total amount received from the full homeownership loan repayments was $96,591 and these funds were deposited into the LMIHAF.

In addition, two owners made monthly amortized payments on homeownership loans. Payments received totaled $3,193 and were deposited into the LMIHAF.

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 Low and Moderate Income Housing Fund, included repayments of SF Rehab and FTHB program loans. Total principal, interest, and equity sharing payments during FY 2017-18 was $105,944**.**

(D) The Housing Authority as housing successor, has existing consulting agreements with: Amerinational Community Services, Inc., a Minnesota Corporation (dba AmeriNat) and Farmers State Bank of Hartland, a Minnesota corporation. The agreements are related to certain, but not all, aspects of administration of the Former Agency's SF Rehab and FTHB programs that provided second lien mortgages for homeownership units. The 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 reviewing 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: *Housing Authority's Activities for the preceding year (FY 2017-2018) under HSC Section 34328.*

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

(A) continued to monitor and enforce housing assets transferred from the Former Agency to the Housing Authority as housing successor, as well as other Housing Authority (non-housing successor) assets;

(B) continued property management and operation of the James Street/W.18th Street properties for very low and low income housing. The eight properties are now the subject of a RFP seeking proposals from experienced affordable housing developers and operators to acquire or ground lease the properties for continued operation as affordable housing available to extremely low, very low and low income tenants/households for an additional 55-year term. The eight properties include:

- 707, 711 W. 18th Street, 8 units in two 4-plexes; 8 Low Income units;
- 734, 740, 744 James Street, 11 units in one 3-plex and two 4-plexes; 9 Low and 2 Very Low Income units;
- 745 W. 18th Street, 3 units in one 3-plex, 3 Very Low Income units; and

- 717, 721 James Street, 8 Very Low Income units.

(C) 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 2017-2018 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.