
ANNUAL REPORT
City of Avalon Housing Authority

FY 2014-15



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INTRODUCTION

By October 1 of each year, California Health and Safety Code (“HSC”) Section 34328 requires housing authorities to file an annual report of its activities for the preceding fiscal year (“Annual Report”). The Annual Report must be filed with the clerk of the respective city or county and with the Department of Housing and Community Development (“HCD”). This Annual Report details the Avalon Housing Authority’s (“Authority”) activities for the Fiscal Year (“FY”) 2014-15.

LEGAL AUTHORITY

Housing authorities are distinct, autonomous, legal entities that derive their powers from State statute. It is the intent of the State legislature that housing authorities function as local entities with the primary responsibility of providing housing for very low and low income households. California Housing Authorities Law (HSC Section 34200, et. seq.) provides for and details the requirements for local jurisdictions to create and operate a housing authority. To establish a housing authority, a local jurisdiction must adopt a resolution that includes findings that either of the following is true: (1) unsanitary or unsafe housing exists in the city or (2) there is a shortage of safe or sanitary housing available to persons of low income.

BENEFITS OF HOUSING AUTHORITIES:

- Housing Authorities can own and operate housing developments, alleviating the need to find owners or operators for units created.
- State law provides Housing Authorities the ability to acquire or lease land or improved property.
- A city housing authority’s area of operation includes the entire city and the area within 5 miles of its territorial boundaries.
- Local jurisdictions are afforded the opportunity to participate in one or more of the Public Housing Programs offered by HUD.

AVALON HOUSING AUTHORITY

The City Council of the City of Avalon (“City Council”) adopted a resolution establishing the Avalon Housing Authority on or about February 2, 1983. The City Council further affirmed the need for the Housing Authority and reauthorized its powers by adopting Resolution No. 12-02 on January 30, 2012.

The Housing Authority was largely inactive until 2012 when it inherited the housing assets and functions of the former Avalon Community Improvement Agency (“ACIA”). The ACIA dissolved on February 1, 2012 pursuant to the Dissolution Act enacted by Assembly Bills 26 and 1484 (Parts 1.8 and 1.85 of the Health and Safety Code or “HSC”). The City Council elected not to retain the housing assets and functions of the former ACIA, and designated the Avalon Housing Authority as the Housing Successor entity. The Housing Authority thereby inherited all rights, powers, assets, liabilities, duties, and obligations associated with the housing activities of the former ACIA, excluding any amounts in the Low and Moderate Income Housing Fund. It is important to note that although the Housing Authority inherited the ACIA’s assets and functions, it does not have an ongoing financing mechanism to maintain them like the ACIA. The former ACIA primarily funded projects with Low and Moderate Income Housing Funds generated by redevelopment tax increment; this tool was abolished with the dissolution of redevelopment.

The Successor Agency to the Avalon Community Improvement Agency (“Successor Agency”) effectuated the transfer of several assets held by the former ACIA to the Housing Authority. The asset transfers were listed on a “Housing Asset Transfer” form (“HAT”), which was approved by the California Department of Finance (“DOF”) in August 2012 and updated in September 2014 at DOF’s direction. A copy of the updated HAT is provided in Appendix 1.

Assets transferred from the ACIA to the Authority are subject to both California Community Redevelopment Law (“CRL”) codified in HSC Section 33000 *et. seq.* and Housing Authorities Law (“HAL”), codified in HSC Section 34200 *et. seq.* The CRL and HAL have different requirements relating to housing production, expenditure limitations, adjustments for family size, affordability restriction durations, and other regulatory requirements. Additionally, the State legislature adopted Senate Bill (“SB”) 341 on October 13, 2013 to clarify the functions of successor housing entities. SB 341 requires successor housing entities to prepare an annual report documenting compliance with certain requirements. Authority staff is in the process of auditing its financials and other information, and will prepare this report under a separate cover by the end of 2015. More information is contained in Appendix 2.

HOUSING AUTHORITY OBJECTIVES

The Housing Authority is able to undertake certain functions that can only be exercised by a legally created housing authority. For example, it may own and operate housing developments, alleviating the need to find prospective owners or operators of affordable housing units. In addition, the Authority may acquire land and buildings for affordable housing.

The Authority's main objective is to increase, improve, and preserve existing housing stock available to low and very low income residents while advancing the goals of the City's Housing Element and former ACIA.

ANNUAL REPORT CONTENTS

This Annual Report includes the following information:

- A complete report of activities during FY 2014-15, including any bond issuances, and loans or finance agreements that the Authority has entered into;
- Compliance with requirements of HSC Section 34312.3 such as the minimum amount of housing units affordable to lower income households in projects assisted by the Authority with bonds and documenting established base rents and/or maximum rental payments for lower income households; and
- Information on any tenancy or Section 8 voucher terminations of domestic violence victims as required by HSC Section 34328.1.

A report detailing compliance with SB 341 will be prepared under a separate cover by the end of 2015. More information is contained in Appendix 2.

HOUSING AUTHORITY DEBT OBLIGATIONS

Pursuant to HSC Section 34312.3, the Authority must provide a complete report of its activities during the prior fiscal year, including bonds, loans, and financing agreements for multi-family rental housing projects. The Authority did not issue any bonds related to multi-family rental housing projects in Fiscal Year 2014-15. The Authority did authorize two down payment assistance loans in Fiscal Year 2014-15 as follows:

- \$100,000 down payment assistance loan which assisted a 3-person household and established a moderate income affordability covenant with a 45-year term.

- \$192,000 down payment assistance loan with assisted a 3-person household and established a moderate income affordability covenant with a 45-year term.

Any future financing for the acquisition, construction, rehabilitation, or development of multi-family housing through the issuance of bonds, construction loans, mortgage loans, and/or financing agreements will be documented in future Annual Reports.

LAND TRANSACTIONS AND DEVELOPMENT

HSC Section 34312.3 requires the Annual Report to include a discussion of all prior year activities of the Authority related to the development or transaction of land for the purposes of increasing the supply of affordable housing for lower income households. The ACIA transferred seven properties to the Authority in 2012, which are listed in the HAT contained in Appendix 1 and described below. The Authority sold two of the properties in Fiscal Year 2013-14, and updated its records to accurately reflect prior transactions. The Authority did not sell any properties in Fiscal Year 2014-15.

- 206 Descanso Avenue & 320 Sumner Avenue: The Authority owned the land under these properties and maintained Ground Leases issued by the former ACIA to secure affordability covenants for low and moderate income residents. The covenants expired due to foreclosure and the Ground Leases were therefore terminated. The Authority sold the land under both properties in January 2014. The proceeds of the sale amounted to \$374,131 (\$176,000 and \$198,131 per property). The Authority applied the sales proceeds to assist housing for low income persons pursuant to HSC Section 34312.3.
- 238 & 311 Descanso Avenue: These properties contain two single-family residences. The ACIA owned the land under the homes regulated by Ground Leases, which were transferred to the Authority. The homeowners received assistance from the former ACIA through a first-time homebuyer program.
- 309 & 313 Beacon Street: These properties contain a 13-unit senior housing complex. The ACIA transferred ownership of the land under the property to the Authority.
- 206 E. Whittley Avenue: This property contains a five-unit apartment complex, of which two units are currently occupied. It is not income-restricted. The ACIA purchased the property in 2008 and had planned to build new affordable housing units, however was unable to pursue development due to the dissolution of redevelopment. The Authority will either develop or dispose of this property within five years as required by SB 341.

OTHER ASSETS AND AGREEMENTS

Other assets transferred from the ACIA to the Authority include affordability covenants, loan agreements and ground leases. Some of the agreements are related to the seven properties described in the previous section. A brief description of each type of asset is provided below. A detailed list is included in Appendix 1.

AFFORDABILITY AGREEMENTS

The ACIA transferred eight affordability agreements to the Authority that are still active:

- 309 Beacon Street: This 13-unit senior housing complex is affordable to very low income residents. Income restrictions are held in place by a Ground Lease and related Regulatory Agreement. The project was constructed in 2002 with a combination of USDA Section 515 funds, Low Income Housing Tax Credit (“LIHTC”) financing, HOME funds, ACIA funds (for land purchase) and Federal Home Loan Bank funds. The affordability covenant runs for 55 years and expires in 2047.
- Bird Park: This 24-unit multi-family property is affordable to very low income residents. It was constructed in 2002 with a combination of USDA Section 515 funds, LIHTC financing, HOME funds, and ACIA financing. The ACIA funded roads and infrastructure for the project. Income restrictions are held in place by a Ground Lease and related Regulatory Agreement. The affordability covenant has a 55-year term expiring in 2047.
- Eucalyptus Hill Gardens: This 80-unit complex is subsidized by HUD and has 40 units restricted to very low income households (24 extremely low and 16 low income). The remaining 40 units are market-rate. The project was constructed in 1992 with LIHTC funds, ACIA funds, and Rental Housing Construction Program loans. It has a 55-year affordability covenant that expires in 2047.
- Tremont Street Apartments: This 63-unit property has 50 units affordable to very low and low income households and 13 market rate units. It is owned and was funded by the California Housing Financing Agency (“CalHFA”) with a project-based Section 8 Rental assistance contract. The Section 8 contract expires on August 18, 2016.
- 238 & 311 Descanso Avenue: These two single-family homes have 55-year restrictive covenants that expire in 2051. They are both affordable to moderate income households that received assistance from ACIA through its First-Time Homebuyer Down Payment Assistance Program.

- 336, 338 & 342 Triana Lane: These three single-family homes have 45-year restrictive covenants that expire in 2055, 2059, and 2060, respectively. They are all affordable to moderate income households that received assistance through the First-Time Homebuyer Down Payment Assistance Program. The Authority continues to monitor the affordability of these properties.

LOAN AGREEMENTS

The Authority issued two new loans in FY 2014-15. A \$100,000 loan was issued to a borrower at 342 Triana Lane in August 2014. A \$192,000 loan was issued to a new borrower at 338 Triana Lane in January 2015. Both loans have a 45-year term with zero percent interest. The interest rate increases to five percent in the event of default. There is no monthly payment unless a mutually agreed upon payment schedule is made. It is anticipated that the loans will be refinanced at the end of the 45-year term, or re-issued to new borrowers upon sale of the properties.

RENTS & OPERATIONS

The Authority collects rents from tenants that occupy two one-bedroom units at 206 E. Whittley for a total of \$23,336 in FY 2014-15. The units are not income-restricted and therefore do not have maximum rents. This property was transferred to the Authority from the former ACIA, whose plans to develop affordable housing on the property were halted by the dissolution of redevelopment. The Authority plans to develop affordable housing on this site in the future if funds permit. If the Authority ever disposes of the site, it will apply the proceeds of the sale to assist housing for low income persons.

The Authority does not receive rents directly from tenants from any other property. However, it does collect rents from ground leases at 238 Descanso and 311 Descanso and received \$150 for each property in FY 2014-15.

All rents received by the Authority will be spent as required by the CRL and HAL.

CONTRACTS & FEES

The Authority has a consultant services contract necessary to administer Homebuyer Down Payment Assistance Program. The Authority contributes to City contracts for legal and financial services to cover portions serving the Housing Authority. It also pays contractors to maintain Authority properties for landscaping, repairs, and any other needs as they arise.

HOUSING UNIT COMPLIANCE

As set forth by HSC Sections 34328 and 34328.1, housing authorities are required to:

- Show compliance with requirements of HSC Section 34312.3, such as the minimum amount of housing units affordable to lower income projects assisted by the Authority, and document established base rents and/or maximum rental payments for lower income households; and
- Document any domestic violence tenancy or Section 8 voucher termination as required by HSC Section 34328.1.

The following provides a summary of the Authority's progress toward the requirements listed above.

HOUSING AFFORDABILITY REQUIREMENT

All housing units under the Authority's jurisdiction were transferred from the ACIA to the Authority. Therefore, the Authority's housing units are subject to requirements in both the CRL and HAL.

Pursuant to the CRL, at least 15% of all units newly constructed or substantially rehabilitated *prior to February 1, 2012* must be affordable to very low to moderate income households (HSC Section 33413). SB 341 amended the CRL so there is no inclusionary or replacement housing obligation for units built or destroyed after February 1, 2012. The CRL was amended by SB 341 to limit expenditures to lower income households earning 80% or less of the Area Median Income ("AMI"). Additionally, at least 30% of expenditures for rental housing must be for households earning 30% or less of the AMI and 20% for households earning between 60% and 80% of the AMI. The Authority will adhere to the amended requirements for future expenditures.

Pursuant to the HAL, at least 20% of the units in housing projects assisted by the Authority, or 15 % in targeted areas¹, must be affordable to persons of low income (HSC Section 34312.3(c)). If housing projects are financed by bonds issued by the Authority, at least 10% of the units must be available to persons of very low income. These requirements may be applied to the aggregate number of units assisted by the Authority. Furthermore, the HAL requires that development projects financed with bonds must also be approved by the local governing body and the local school district prior to construction or ownership. Nevertheless,

¹ Targeted areas as defined by Section 103(b)(12)(A) of Title 26 of the United States Code

the power to finance, own, build, and/or operate a housing development allows the Authority to take a more active role in the creation and maintenance of housing for low income families.

Table 1 summarizes each property subject to these requirements and their required affordability levels.

Affordability Levels

Table 1

Avalon Housing Authority

Property	Units by Income Level									
	Very Low		Low		Moderate		Unrestricted		Total	
	#	%	#	%	#	%	#	%	#	%
Bird Park (234 Bird Park Rd)	24	100%							24	100%
Beacon Hill (309 & 313 Beacon St)	13								13	
Eucalyptus Hill Gardens (1 Banning Dr)	40	50%					40	50%	80	100%
Tremont St Apts (343 Tremont St)			50	79%			13	21%	63	100%
238 Descanso Ave					1	100%			1	100%
311 Descanso Ave					1	100%			1	100%
336 Triana Lane					1	100%			1	100%
338 Triana Lane					1	100%			1	100%
342 Triana Lane					1	100%			1	100%
Total	77	42%	50	27%	5	3%	53	29%	185	100%

Total Low Income or Below 69%

Total Moderate Income or Below 71%

The affordability levels of these properties are in compliance with the CRL. The Authority acquired most properties after affordability covenants were in place pursuant to the CRL. However, they still meet the HAL's requirement that 20% of units assisted by the Authority are affordable to low income persons. Any future development will satisfy both CRL (as amended by SB 341) and HAL requirements as necessary.

None of the units in Table 1 were financed with bond proceeds, therefore the Authority is not subject to the additional requirement for very low income households pursuant to HSC Section 34312.3(c)(2)(A).

BASE & MAXIMUM RENTS

HSC Section 34312 states that a housing authority may “prepare, carry out, acquire, lease, and operate housing projects for persons of low income.” As part of this authority, HSC Section 34312.3 establishes a set of guidelines to determine base and maximum rents that a housing authority can charge for units reserved for lower income households. According to HSC Section 34312.3, rental payments for very low and low income households shall not exceed the amounts calculated pursuant to Section 8 of the United States Housing Act of 1937 (42 U.S.C. Sec. 1437f).

The Authority collects rents from two tenants at 206 E. Whittley, however this project is not income restricted and therefore not subject to maximum rents set by HSC 34312.3.

DOMESTIC VIOLENCE

The Authority must annually disclose data related to domestic violence incidents in units owned or operated by the Authority. Specifically, the data must include:

- Data on termination of tenancies and/or Section 8 vouchers of victims of domestic violence in housing authority units.
- Summary of steps taken by the housing authority to address any termination of tenancies and/or Section 8 vouchers of victims of domestic violence.

During Fiscal Year 2014-15, the Authority or its lessees did not terminate tenancies for any reason. In the future, information on any terminations of this kind will be presented under separate cover to protect the privacy of the parties involved.

FINANCIALS

The Authority’s expenditures in FY 2014-15 consist mainly of administrative costs to process loans and maintain properties owned by the Authority (landscaping, repairs, etc.), as shown on the following page.

The Authority has funded activities primarily through the Low and Moderate Income Housing Asset Fund created after the ACIA’s dissolution, and housing bonds issued by the former ACIA that were refunded in 2015. The Authority is in the process of auditing its financials and will include more detailed information on Fiscal year 2014-15 revenues and expenditures in a separate report by the end of 2015. This report will include all of the information required by Senate Bill (“SB”) 341. Appendix 2 details what the report will include.

Fiscal Year 2014-15 Budget¹

Table 2

Avalon Housing Authority

Category	Budgeted	Actual
Revenues		
Housing Successor Administrative Cost Allowance ²	\$ 150,000	\$ -
Interest (on bond proceeds)	-	1,933
Rents	23,636	23,636
Loan Repayments	-	95,000
Miscellaneous	-	414
Bond Drawdown ⁴	292,000	292,000
Transfers In ³	-	4,070,240
City Transfers In ⁵	-	-
<i>Subtotal Revenues</i>	\$ 465,636	\$ 4,483,223
Expenditures⁵		
Low-Mod Down Payment Assistance Loans ⁴	\$ 292,000	\$ 292,000
Personnel	68,719	-
Supplies & Travel	5,286	-
Noticing	1,000	-
Professional Services	33,500	12,196
Legal Services	20,000	22,434
Financial Services	6,500	-
Overhead	14,995	11,152
<i>Subtotal Expenditures</i>	\$ 442,000	\$ 337,782

¹ This is a preliminary budget that was not formally adopted.

² DOF denied this item requested on the Recognized Obligation Payment Schedule pursuant to Health and Safety Code 34171(p).

³ Represents cash held with fiscal agent for the 2015 Tax Allocation Refunding Bonds, Series B. This represents a transfer of the unspent bond proceeds that had previously been held by the Successor Agency and were transferred to the Housing Authority. They pertain to bonds originally issued by the former ACIA and not the Housing Authority.

⁴ The down payment assistance loans were funded by housing bond proceeds.

⁵ The City Transfer In and corresponding actual Expenditures were not posted for various expense categories.

APPENDIX 1- HOUSING ASSET TRANSFER LIST

The Housing Asset List, attached as a separate document, shows assets transferred from the former ACIA to the Authority in 2012. The transfers were approved by the California Department of Finance pursuant to HSC Section 34176.

APPENDIX 2 - SENATE BILL 341 REPORT

Senate Bill 341 and Assembly Bill 1793 require successor housing entities to prepare an annual report detailing compliance with new expenditure limitations and other information, including:

- Amounts deposited into the Low and Moderate Income Housing Asset Fund (“LMIHAF”);
- Statement of the balance of the LMIHAF;
- Description of expenditures by category;
- Statutory Value of real property;
- Description of transfers;
- Description of projects that receive funding through the Successor Agency’s Recognized Obligation Payment Schedule;
- Status of properties pursuant to a 5-year disposition period;
- Update on inclusionary and replacement housing obligations;
- Compliance with 5-year expenditure obligations;
- Percentage of senior deed-restricted units;
- Amount of excess surplus; and
- And inventory of homeownership units restricted by affordability covenants and assisted by the former Agency or Authority

Authority staff is in the process of auditing its financials and other information. The Housing Successor Entity Annual Report for FY 2014-15 will be prepared by the end of 2015.