SENATE BILL 341 ANNUAL REPORT
City of Avalon Housing Authority

FY 2013-14

TABLE OF CONTENTS

INTRODUCTION

REDEVELOPMENT DISSOLUTION

As a result of Assembly Bill x1 26 (“ABx1 26”), all redevelopment agencies in the state were dissolved on February 1, 2012. This dramatic change to property tax finance has resulted in the complete elimination of the major source of local, publicly generated dollars earmarked for affordable housing. Thus housing authorities have been left in a challenging position – the need for them is greater than ever, but a key funding source has been eliminated.

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 experienced an increase in activity in 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 “H&SC”). 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. All former ACIA housing assets and liabilities were transferred to Housing Authority through the Housing Asset Transfer Form and approved by the Department of Finance (“DOF”) in August 2012 and updated in September 2014 at DOF’s direction.

ASSET TRANSFERS TO THE HOUSING SUCCESSOR

According to H&SC Section 34176(e), housing assets may include the following.

- Real property
- Restrictions on the use of property
- Personal property in a residence
- Housing-related files
- Office supplies and software programs acquired for low-and moderate-income purposes
- Funds encumbered by an enforceable obligation
- Loan or grand receivable funded from the former LMIHF
- Funds derived from rents or operation of properties acquired for low-and moderate-income housing purposes
- Rents or payments from housing tenants or operators of low-and moderate-income housing
- Repayment of Supplemental Educational Revenue Augmentation Fund loans

The vast majority of what transferred to the Housing Authority as the Housing Successor was real properties and affordable housing covenants.

REPORTING REQUIREMENTS OF SENATE BILL 341

On January 1, 2014, Senate Bill 341 ("SB 341") became effective and amended certain sections of the H&SC that pertain largely to the entities that accepted the housing assets and liabilities of former redevelopment agencies. AB 341 clarified that all former redevelopment agency housing assets, regardless of their originating redevelopment agency, must be maintained in a separate fund, known as the Low and Moderate Income Housing Asset Fund ("Housing Asset Fund"). In accordance with H&SC Section 34176.1(f), the following data must now be reported annually for the Housing Asset Fund. Please note, while annual reporting is required, compliance periods may be longer, as described below. Not all items are applicable to all housing successors.

1. Total amount deposited in the Housing Asset Fund for the Fiscal Year.

2. Statement of balance at the close of the Fiscal Year.

3. Description of expenditures for Fiscal Year broken out as follows:

    a. Rapid rehousing for homelessness prevention (maximum of $250,000 per year)

    b. Administrative expenses (greater of $200,000 or 2 percent of “portfolio”)

    c. Monitoring expenses (included as an administrative expense)

    d. All other expenditures must be reported as spent for each income group (extremely low-, very low-, and low income)

4. Other “Portfolio” balances

    a. Statutory value of any real property either transferred from the former ACIA or purchased by the Housing Asset Fund. Note that the Housing Successor may only hold property for five years.

    b. Value of loans and grants receivable.

5. Descriptions of any transfers to another housing successor for a joint project.

6. Description of any project still funded through the Recognized Obligation Payment Schedule (“ROPS”).

7. Update on property disposition for any property owned more than 5 years or plans for property owned less than 5 years.

8. Description of any outstanding production obligations of the former redevelopment agency that are inherited by the Housing Successor.

9. Compliance with proportionality requirements (income group targets). Compliance must be upheld on a five year cycle.

10. Percentage of deed-restricted rental housing restricted to seniors and assisted by the entity assuming housing functions, the former ACIA, or the County within the past 10 years compared to the total number of units assisted by any of those three agencies.

11. Amount of excess surplus, and if any, the plan for eliminating it.

LOW AND MODERATE INCOME HOUSING ASSET FUND

The Low and Moderate Income Housing Asset Fund replaces the former ACIA's Low and Moderate Income Housing Fund. The Housing Asset Fund includes all of the assets that were transferred from the ACIA to the Housing Authority via the Housing Asset Transfer Form which included:

1. Real properties,
2. Affordable housing covenants,
3. Loan receivables,
4. Income from ground leases and rental properties, and
5. Supplemental Educational Revenue Augmentation Fund Loan.

HOUSING ASSET FUND DEPOSITS AND ENDING BALANCE

SB 341 requires that the Housing Authority annually report the amount of funds that were deposited into the Housing Asset Fund during the fiscal year. The Housing Authority deposited $397,371 into the Housing Asset Fund during fiscal year 2013-14. The source of the deposits was from rental income generated at 206 East Whittley Avenue and two property sales. There were no deposits into the Housing Asset Fund related to the Recognized Obligation Payment Schedule.

At the close of fiscal year 2013-14, the ending balance in the Housing Asset Fund was. $5,286,142.

Fiscal Year 2013-14 Housing Asset Fund Ending Balance **Table 1**

Avalon Housing Authority

Balance Type		Amount
Cash	$	380,729
Due From		44,882
Due To		(67,245)
Accounts Payable		(23,651)
Land Held For Resale		3,951,426
SERAF Loan Advance		1,000,000
	$	5,286,142

EXPENDITURES

SB 341 provides the following guidelines for expenditures from the Housing Asset Fund:

1. Administrative costs, which include housing monitoring, are capped at $200,000 or 2% of the Housing Asset Fund's "portfolio", whichever is greater. The portfolio includes cash, outstanding loans or other receivables, and the statutory value of any land owned.

2. A housing successor is authorized to spend up to $250,000 per year on rapid rehousing solutions for homelessness prevention if the former ACIA did not have any outstanding housing production requirements. The former ACIA had a surplus of affordable housing production units, and therefore the Housing Authority as Housing Successor is allowed to make this expenditure if it chooses and funding is available for such expenditures.

3. Remaining allowable expenditures must be spent to improve housing options affordable to households earning 80% or less of the area median income ("AMI"). This means that no funding may be spent on moderate-income households, as was previously authorized by redevelopment law. Of the money expended, a minimum of 30% must go towards households earning 30% or less of the AMI, and a maximum of 20% may go towards households earning between 60% and 80% of the AMI.

Note that housing successors must report expenditures by category each year, but compliance is measured every five years. For example, a housing successor could spend all of its funds in a single year on households earning between 60% and 80% AMI, as long as it was 20% or less of the total expenditures during the five-year compliance period. The first five-year compliance period will be evaluated at the end of Fiscal Year 2018-19.

Fiscal Year 2013-14 Housing Asset Fund Expenditures **Table 2**

Avalon Housing Authority

Expenditure	Admin/ Monitoring	Rapid Rehousing	Ext. Low Rental Units	Other Units	Ext. Low <30% AMI	Very Low 30-60% AMI	Low 60-80% AMI
Administration	$53,282	$0	$0	$0	$0	$0	$0
Annual Total	$53,282	$0	$0	$0	$0	$0	$0
Compliance Period Expenditures (2013-14 through 2018-19)							
Total Expenditures	$53,282	$0	$0	$0	$0	$0	$0
SB 341 Limitation	$200,000	$250,000	>30%	<70%	>30%	N/A	<20%
Compliant (Yes/No)	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**N/A**	**Yes**

STATUTORY VALUE OF REAL PROPERTIES AND LOAN RECEIVABLES

The Housing Authority must report on the statutory value of real properties formerly owned by the ACIA and loans and/or grant receivables listed on the Housing Asset Transfer Form, shown in Table 3 on the following page.

The ACIA sold two properties in January 2014 that are not shown in Table 3. 206 Descanso Avenue & 320 Sumner Avenue were sold for $176,000 and $198,131, respectively.

The ACIA transferred two loan agreements issued as part of its First-Time Homebuyer Down Payment Assistance Program. One loan was issued to the owner of 336 Triana Lane in the amount of $120,000. The second loan was issued to the owner of 338 Triana Lane for $95,000. Both loans are forgivable, therefore they are not included as receivables in the Housing Asset Fund balance reported in Table 1.

Fiscal Year 2013-14 Real Properties and Receivables **Table 3**

Avalon Housing Authority

Asset	Amount
Real Properties	
309 Beacon Street	$862,511
313 Beacon Street	$236,315
238 Descanso Avenue[1]	$150,000
311 Descanso Avenue[1]	$150,000
206 East Whittley Avenue	$2,852,600
Subtotal	*$4,251,426*
Loan Receiveables	
Homebuyer Downpayment Assistance Loans[2]	$215,000
SERAF Loan Advance	$1,000,000
Subtotal	*$1,215,000*
Total	**$5,466,426**

[1] The Authority issued first-time homebuyer loans with these property owners and holds interest in the land underneath the homes as security in the event of default. The value of these properties are not included in the Housing Asset Fund balance in Table 1.

[2] These loan receivables are not included in the Housing Asset Fund balance in Table 1 because they are forgiveable loans.

PROPERTY AND PROJECT DESCRIPTIONS

The ACIA transferred seven real properties to the Housing Authority that were approved by DOF on the Housing Asset Transfer Form. The following is a description of each of the properties:

- 309 & 313 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. The ACIA transferred ownership of the land under the property to the Authority.

- 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 will apply the sales proceeds to assist housing for low income persons.

- 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.

- 238 & 311 Descanso Avenue: These two single-family homes have 55-year restrictive covenants that expire in 2051. The ACIA owned the land under the homes regulated by Ground Leases, which were transferred to the Authority. They are both affordable to moderate income households that received assistance from ACIA through its First-Time Homebuyer Down Payment Assistance Program.

PROPERTY DISPOSITION COMPLIANCE

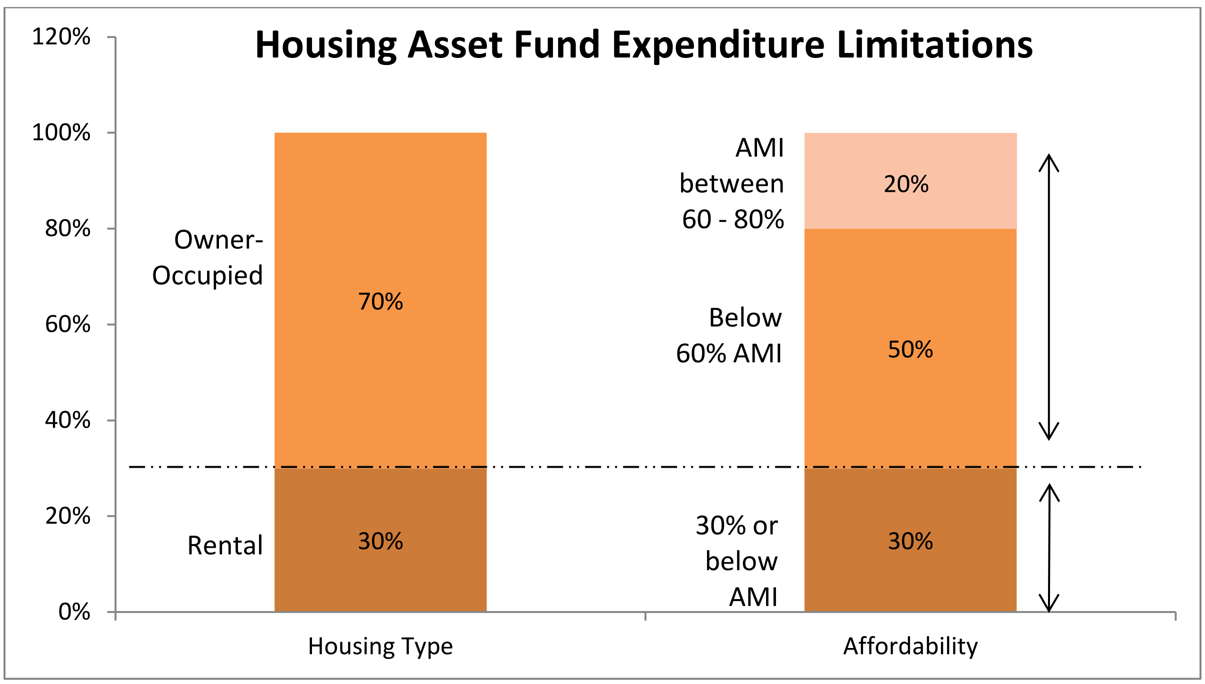
H&SC Code Section 34176(e) requires that all real properties acquired by the ACIA prior to February 1, 2012 and transferred to the Housing Authority be developed pursuant to the requirements detailed in H&SC Section 33334.16. Thus, all property that falls within in these parameters must be developed for affordable housing purposes within 5 years from the date DOF approved the Housing Asset Transfer Form. Avalon's original Housing Asset Transfer Form was approved by DOF on August 30, 2012, however DOF later asked the Successor Agency to revise the form to make a correction. The revised Housing Asset Transfer Form was being reviewed by DOF when this report was prepared. The 5 year deadline will start when the revised Housing Asset Transfer Form is adopted. If the Housing Authority is unable to develop these properties within the 5 year period, the law does allow for a 5 year extension via adoption of a resolution. The only Housing Authority property subject to this provision is 206 E. Whittley Avenue.

OUTSTANDING INCLUSIONARY AND REPLACEMENT HOUSING OBLIGATIONS

The former ACIA had a surplus of 52 affordable housing units as of February 1, 2012. There are no outstanding inclusionary or replacement housing obligations to be fulfilled by the Housing Authority.

EXTEMELY LOW INCOME EXPENDITURE PROPORTIONALITY

Expenditures from the Housing Asset Fund shall be limited to lower income households earning 80% or less of the AMI, with at least (not less than) 30% of expenditures for rental housing for households earning 30% or less of the AMI and not more than 20% of the expenditures for household earning between 60% and 80% of the AMI.



Failure to comply with the extremely low income requirement in any 5-year report will result in the Housing Authority having to ensure that 50% of remaining funds be spent on extremely low income rental units until in compliance. Exceeding the expenditure limit for households earning between 60% and 80% of the AMI in any 5-year reporting period will result in the Housing Authority not being to expend any funds on these income categories until in compliance.

As depicted in Table 2, the Housing Authority has not expended any funds and is therefore in compliance with extremely low income 30% expenditure requirement.

SENIOR HOUSING EXPENDITURE PROPORTIONALITY

This report must include an accounting of deed-restricted senior rental units that were produced over the last ten years. The Housing Authority must expend no more than 50% of the aggregate total number of senior housing units produced by either the City, Housing Authority or former ACIA during the past 10 years. Exceeding this limitation will prohibit the use of Housing Asset Funds to subsidize any senior rental units.

There have been no affordable units developed in the past 10-years.

EXCESS SURPLUS

Excess surplus calculations were once performed by redevelopment agencies on an annual basis, and are intended to ensure that funds are expended to benefit low-income households in an expeditious manner. Generally speaking, funds should be encumbered within four years of receipt. SB 341 reinstates this calculation for housing successors. Excess surplus is defined by H&SC Section 34176.1(d) as “an unencumbered amount in the account that exceeds the greater of one million dollars, or the aggregate amount deposited into the account during the housing successor’s preceding four fiscal years, whichever is greater.”

The first meaningful calculation of this total cannot be performed until the close of the fifth fiscal year. Once four years of deposits have been established, at the close of the fifth year, (FY 2016-17) the Housing Authority will have to perform a true excess surplus calculation, comparing the unencumbered fund balance to the prior four years of deposits. As the general purpose of the excess surplus calculation is to ensure that money is expended for low-income purposes, the best action for the Housing Authority is to use the next three years to encumber or expend money currently on deposit.