SENATE BILL 341 ANNUAL REPORT

FY 2013-14

Orange County Housing Authority as Housing Successor

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PURPOSE OF THIS REPORT

Orange County Housing Authority as Housing Successor

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 all local, publicly generated dollars earmarked for affordable housing.

Under ABx1 26, the assets of a former redevelopment agency were divided into two categories. Non-housing assets were transferred to newly formed Successor Agencies for disposition, and housing assets were transferred to a selected housing successor entity. The County of Orange (County) elected to designate the Orange County Housing Authority (OCHA) as the housing successor to the former Orange County Development Agency (OCDA), as allowed by law. ABx1 26 and the subsequent "clean up" legislation of AB 1484 have defined the housing asset transfer to include "all rights, powers, assets, liabilities, duties, and obligations associated with the housing activities of the agency, excluding any amounts in the Low and Moderate Income Housing Fund (LMIHF)." All former OCDA housing assets and liabilities were transferred to OCHA through the Housing Asset Transfer Form and approved by the Department of Finance (DOF) in August 2012.

Additional provisions in ABx1 26 also allowed a local jurisdiction to select the local county housing authority as its housing successor, if that jurisdiction did not want to become the housing successor. As a result, the City of Seal Beach also named OCHA as its housing successor, and transferred assets and liabilities through the Housing Asset Transfer Form as well.

ASSET TRANSFERS TO THE HOUSING SUCCESSOR

According to California Health and Safety Code (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 grant receivable funded from the former Low and Moderate Income Housing Fund (LMIHF);
- Funds derived from rents or operation of properties acquired for low-and moderate-income housing purposes;

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- Rents or payments from housing tenants or operators of low-and moderate-income housing; and
- Repayment of Supplemental Educational Revenue Augmentation Fund loans.

The assets transferred to OCHA as Housing Successor were predominately funds derived from the operation of properties, loan receivables, and residual receipt payments. These loans are payable over time, and in some cases, forgivable, which will impact available cash as well as total portfolio balances over time.

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. SB 341 clarified that all former redevelopment agency housing assets except properties, regardless of their originating redevelopment agency, must be maintained in a separate fund, known as the Housing Asset Fund[1]. In accordance with H&SC Section 34176.1(f), the following data must now be reported annually for the Housing Asset Fund. Additional data for the Housing Asset Fund is reported in the County's Comprehensive Annual Financial Report, which is made available on the County's website. 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 OCDA or purchased by the Housing Asset Fund. Note that a housing successor may only hold property it has purchased with Housing Asset Fund monies 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).

[1] *This fund is identified by the County as Fund 170.*

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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 OCDA 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 OCDA, 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.

HOUSING SUCCESSOR ACTIVITIES

Accomplishments FY 2013-14 and Future Plans

ONGOING PROGRAMS

The Orange County Housing Authority (OCHA) is one of several divisions located in the OC Community Resources Department. OCHA is supported by staff from the OC Community Services (OCCS) Housing and Community Development/Homeless Prevention Division to administer Housing Successor Agency activities. Both Divisions are part of OC Community Services and the larger OC Community Resources Department within the County of Orange. Therefore, while in many instances, the different Divisions act in conjunction with one another, it is OCHA that was selected as the Housing Successor, pursuant to ABx1 26.

As the County housing authority, OCHA has an extensive list of program work including direct administration of Section 8 housing programs, in addition to OCCS Housing and Community Development/Homeless Prevention Division administration of Community Development Block Grant (CDBG) and HOME Investment Partnership Program (HOME), and a variety of other activities that build networks and resources to provide affordable housing options and end homelessness within Orange County. Where feasible and legally compliant, OCHA as Housing Successor may utilize the Housing Asset Fund to support these endeavors, particularly where it may be possible to leverage other funding sources such as HOME.

OCHA/OCCS has historically leveraged funding and relationships in order to:

- Rehabilitate deteriorated units and encourage the maintenance and repair of units to prevent deterioration;
- Enhance the quality of existing residential neighborhoods by maintaining public facilities and requiring residents and landlords to maintain their properties in good condition;
- Support first-time home buyers through the Tax-Exempt Single-Family Mortgage Revenue Bond Program and Mortgage Assistance Program; and
- To support projects applying for Multifamily Revenue Bond financing through the California Debt Limit Allocation Committee (CDLAC).

OCHA as Housing Successor will continue to look for opportunities to partner funding sources and entities such that the Housing Asset Fund revenues may be used to their fullest potential to supply affordable housing opportunities within the legal parameters set by SB 341 and other applicable laws.

THE RANCH

In addition to OCHA's ongoing activities in the county, OCHA as Housing Successor may focus some of the resources on the development of low- and very low-income units at "the Ranch." Adopted in 2004, the Ranch Development Plan calls for the development of about 14,000 homes and millions of square feet in commercial development as part of a planned community in southern Orange County. A portion of the new units are to be developed for very low- and low-income individuals and families.

The original plan called for the dedication of 60 acres to the County to develop the units, but the loss of redevelopment funding and cuts to the federal HOME program caused the County to reevaluate options for unit production. In December 2013, the Board of Supervisors approved a program change that allows for private development of affordable units to occur in portions of the Ranch and in exchange, the County would receive an irrevocable offer of dedication for land developed with affordable housing. At this time, OCHA/OCCS is anticipating that some units would be privately developed while others may be developed by OCHA/OCCS, requiring direct or indirect funding (e.g. infrastructure improvements) to create new units. Exact funding levels necessary are unknown at this time. Over the next few years, OCHA as Housing Successor will review the feasibility of investing money from the Housing Asset Fund in affordable housing opportunities at the Ranch.

ADDRESSING HOMELESSNESS

The County has been working as part of a county-wide collaborative to address and effectively eliminate homelessness in Orange County by creating housing options from emergency shelters to transitional housing to permanent housing. OCHA as Housing Successor will continue to seek new opportunities to meet the critical shelter and housing needs among the county's most vulnerable residents. SB 341 authorizes a maximum of $250,000 to be spent on rapid rehousing for homelessness, which may be utilized by OCHA as Housing Successor in the future in addition to funding for permanent housing solutions.

FUND BALANCE, REVENUES, AND EXPENDITURES

Financial Summary

Both OCHA/OCCS and the former OCDA proactively sought to provide investment in affordable housing that would sustain operations to some degree. Funds have been leveraged with different partners and sources over time, and often by means of loans, which, when repaid, can then provide investment in other projects. While the 20 percent low- and moderate-income housing set aside was the single most important ongoing revenue source for affordable housing in the County, OCHA/OCDA's good investment choices have left OCHA as Housing Successor with some limited ongoing working capital. OCHA as Housing Successor will receive the majority of its operational funding through residual receipt payments and loan repayments, which will help to fund some of OCHA/OCCS's affordable housing endeavors over the next few years. It is important to note though that despite all efforts, a new and ongoing source of funding is critical to ongoing affordable housing operations in the county.

DEPOSITS FOR FISCAL YEAR 2013-14

The following components make up the Housing Asset Fund deposits for the fiscal year. Please note that the largest source of revenue is loan repayment.

Figure 1 - FY 2013-14 Deposits

Deposits	
Loan Repayments	336,000
Cash for B-13 Claimants (Bankruptcy Repayments)	47,000
Net Cash from Co-mingled Interest and Expense	31,000
Total	**$414,000**

Source: Draft Comprehensive Annual Financial Report (CAFR)
Note: Standard accounting practices record loan repayments as a reduction in liability. However, loans repayments are deposits nevertheless, and therefore included in this table for reporting pursuant to SB 341.

EXPENDITURES

SB 341 provides the following guidelines for expenditures.

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

FUND BALANCE, REVENUES, AND EXPENDITURES

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

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

   Note that housing successors must report expenditures by category each year, but compliance is only 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 percent AMI, as long as it was 20 percent 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 2017-18.

Figure 2 - FY 2013-14 Housing Asset Fund Expenditures (Fund 1700)

Expenditure	Admin/ Monitor	Rapid Rehousing	Below 30% AMI	30-60% AMI	60-80% AMI	Other
Administrative [1,2]	$545,000					
Comingled Interest	$9,000					
Mercy House Rental Assistance [3]			$50,000	$50,000		
OCHA – TBRA [3,4]			$7,000	$7,000		
The Ranch EIR [3]			$250,000	$250,000		
Total	**$568,000**		**$307,000**	**$307,000**		

Source: Draft CAFR, County Staff

[1] Inclusive of internal administration as well as professional services, administrative fees, taxes and assessments, and internal County charges (CWCAP).
[2]Administrative activity includes the monitoring of over 2,600 affordable housing units annually. In addition, OCHA as the Housing Successor Agency has maximized leveraging of the Housing Successor Agency administration and program funds by coordinating the planning and development of 558 units financed with MHSA and HOME funds.
[3]AMI proportionality split to be confirmed. For The Ranch, the expenditure category will ultimately depend upon units produced, which have yet to be finalized but are anticipated to be below 60% AMI.
[4] Program expense extracted from administrative charges

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[2] *2009 Adopted OCDA Five Year Implementation Plan*

FUND BALANCE, REVENUES, AND EXPENDITURES

FUND BALANCE

The end of year fund balance is reflected below. In accordance with SB 341, this balance dictates the amount of allowable administrative expenditures the following fiscal year. Two percent of the starting fund balance for FY 2014-15 is $651,420.

Figure 3 - End of FY 2013-14 Fund Balance

Balance Type	Fund Amount
Pooled Cash / Investments	$14,092,000
Interest / Dividends Receivable	$12,000
Allowance for Uncollectible Receivables	($219,000)
Notes Receivable	$18,754,000
Accounts Payable	($20,000)
Due to Other Funds	($48,000)
Total Fund Balance	**$32,571,000**

Source: Draft CAFR

RESTRICTED SENIOR HOUSING UNIT COMPLIANCE

Senior Units Produced

This report must include an accounting of units that were produced over the last ten years and are deed-restricted to seniors. The County, OCHA/OCCS, and the former OCDA assisted in the development of a number of affordable housing units including senior units with deed-restricted covenants as shown in the following table.

Development	Assisted By	Funding Source	Year Restricted	Covenanted Units
Solara Court	OCHA	HOME	2004-05	132
Coventry Heights	County	15U	2004-05	76
Jasmine at Founders	County	15U	2005-06	42
Dorado Senior Apts.	OCHA/OCDA	HOME/OCDA	2007-08	114
San Clemente Senior Apts	OCHA	HOME	2012-13	75
Total Units				439

A total of 439 units have been restricted for seniors, which is less than 50 percent of the total units restricted (1,316) for affordable housing purposes over the last ten years.

EXCESS SURPLUS COMPLIANCE

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 re-instates 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. The table as follows shows the progress in the calculation to date.

Figure 4 - Deposit Data for Excess Surplus Calculation

FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
$11,973,123	$414,000	N/A	N/A

Once four years of deposits have been established, at the close of the fifth year, (FY 2016-17) OCHA as Housing Successor will have to perform a true excess surplus calculation, comparing unencumbered fund balance to prior four year 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 OCHA as Housing Successor is to use the next three years to encumber or expend money currently on deposit. It is anticipated OCHA/OCCS will be able to facilitate this through development of a housing strategic plan.

OTHER REPORTING REQUIREMENTS

Additional SB 341 Requirements

The remaining compliance reporting requirements of SB 341 do not apply to OCHA as Housing Successor.

TRANSFERS TO OTHER HOUSING SUCCESSORS

None at this time.

RECOGNIZED OBLIGATION PAYMENT SCHEDULE PROJECTS

None.

INTERESTS IN REAL PROPERTY

None. The Housing Asset Fund does not include any property at this time.

OUTSTANDING PRODUCTION REQUIREMENTS

None. The former OCDA had a surplus of unit production.