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# **SENATE BILL 341 ANNUAL REPORT**

## South Gate Housing Authority

Fiscal Year 2015-16

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## **INTRODUCTION**

The dissolution of California redevelopment agencies in 2012 resulted in a dramatic change to property tax finance. It eliminated the major source of local publicly generated dollars earmarked for affordable housing. Housing authorities have thus been left in a challenging position – the need for them is greater than ever, yet a key funding source no longer exists.

The South Gate Housing Authority was established on June 27, 1977. Its primary purpose was to administer the Section 8 program's rental assistance certificates. The Authority's responsibilities were increased when it became the successor housing entity to the former Community Development Commission of the City of South Gate ("former Agency"). The former Agency dissolved on February 1, 2012 pursuant to the Dissolution Act enacted by Assembly Bills 26 and 1484. With dissolution, the former Agency's affordable housing rights, powers, assets, liabilities, duties, and obligations, excluding any amounts in the former Agency's Low and Moderate Income Housing Fund, were transferred to the Authority. Unlike the former Agency, the Authority does not collect a recurring stream of funds to fulfill affordable housing obligations and needs.

The Successor Agency to the Community Development Commission of the City of South Gate ("Successor Agency") effectuated the transfer of its housing assets held by the former Agency to the Authority, as housing successor. The asset transfers are documented on a Housing Asset Transfer list that was approved by the State of California, Department of Finance ("DOF") on April 1, 2013. A copy of the Housing Asset Transfer list is provided as Appendix 1.

## **ASSETS TRANSFERRED TO THE HOUSING SUCCESSOR**

According to Health & Safety Code ("HSC") 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 receivables 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
- Rents or payments from housing tenants or operators of low-and moderate-income housing
- Repayment of Supplemental Educational Revenue Augmentation Fund loans

The assets transferred from the Agency to the Authority included real properties, loan receivables, and rental income.

## **EXPENDITURE REQUIREMENTS OF SENATE BILL 341**

Since dissolution, a number of legislative bills have been passed to provide clarification and implementation parameters surrounding former redevelopment agency activities and assets, including Senate Bill 341 (“SB 341”). SB 341 reinstated a number of affordable housing regulations and reporting requirements formerly applied to redevelopment agencies. Specifically, SB 341 directs expenditures from the Successor’s Housing Asset Fund as follows.

- Administrative costs, which include housing monitoring, are capped at \$200,000 or 5% of the Housing Asset Fund’s “portfolio” annually, whichever is greater. The portfolio includes outstanding loans or other receivables and the statutory value of any land owned.
- A housing successor is authorized to spend up to \$250,000 per year on rapid rehousing solutions for homelessness prevention if the former CDC did not have any outstanding housing production requirements, which it did not.
- 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 with income proportionality limits is reported 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.

## **REPORTING REQUIREMENTS OF SENATE BILL 341**

On January 1, 2014, Senate Bill 341 (“SB 341”) became effective and amended certain sections of the HSC that pertain largely to entities that accepted the housing assets and liabilities of former redevelopment agencies. SB 341 clarified that all former redevelopment agency housing assets, regardless of their originating redevelopment agency, must be maintained in a separate fund called the Low and Moderate Income Housing Asset Fund (“Housing Asset Fund”). In accordance with HSC Section 34176.1(f), the following data must now be reported annually for the Housing Asset Fund. 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 the 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" per year)
  - 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 Agency 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. Description 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 five years or plans for property owned less than five 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 Agency, 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.
12. An inventory of homeownership units assisted by the former redevelopment agency or the housing successor.

## **LOW AND MODERATE INCOME HOUSING ASSET FUND**

The Housing Asset Fund contains all of the assets that were transferred from the CDC to the Successor via the Housing Asset Transfer Form. This included:

- Real properties;
- LMIHF encumbrances;
- Loan receivables; and
- Rental income and HOA dues.

All items on the Housing Asset Transfer Form were approved by the California Department of Finance (“DOF”) on September 5, 2012.

### **HOUSING ASSET FUND DEPOSITS**

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SB 341 requires housing successors to annually report the amount of funds that were deposited into the Housing Asset Fund during the fiscal year, distinguishing any amounts held for items listed on the Recognized Obligation Payment Schedule. A deposit of \$383,321 was made into the Housing Asset Fund during FY 2015-16.

### **HOUSING ASSET FUND ENDING BALANCE**

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SB 341 requires housing successors to submit a statement showing the fund balance at the close of the fiscal year, distinguishing any amounts held for items listed on the Recognized Obligation Payment Schedule. The available balance of the fund was \$781,688 on June 30, 2016.

### **HOUSING ASSET EXPENDITURES**

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SB 341 requires housing successors to provide a description of expenditures from the Housing Asset Fund by category, including expenditures for (A) monitoring and preserving the long-term affordability of unit’s subject to affordability restrictions or covenants entered into by the redevelopment agency or the housing successor, (B) administering such activities, (C) homeless prevention and rapid rehousing services and (D) the development of affordable housing units for various income groups.

Table 1 summarizes Housing Asset Fund expenditures by category. The Successor had \$10,195 expenditures in FY 2015-16.

**Table 1. FY 2015-16 Housing Asset Fund Expenditures**

**South Gate Housing Successor**

<b>Category</b>	<b>Total Expenditures</b>
Monitoring and Preserving Affordability Covenants	\$0
Administrative Costs	\$10,195
Rapid Rehousing/Homelessness Prevention	\$0
Affordable Housing for Low, Very Low, and Extremely Low Income Households	\$0

**OTHER ASSET BALANCES**

SB 341 requires housing successors to report on the statutory value of real properties formerly owned by the former redevelopment agency, and loans and grant receivables listed on the Housing Asset Transfer Form. The statutory values of real property, loans and grants receivable belonging to the Successor on June 30, 2016 are shown in Table 2.

The Authority owns 5 properties transferred from the former Agency that had a statutory value of \$2,190,000 as of June 30, 2016. The former Agency transferred 44 loan agreements that are discussed in the "Loan Agreements" section of the report. The total value of loans receivable at the end of Fiscal Year 2015-16 was \$780,310.

**Table 2. FY 2015-16 Real Properties and Loan/Grant Receivables**

**South Gate Housing Successor**

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<b>Real Properties</b>	<b>Statutory Value</b>
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1. 9001 Long Beach Blvd. }	\$1,650,000
2. 9015 Long Beach Blvd }	
3. 3600-3016 Tweedy Blvd.	\$140,000
4. 3626 Tweedy Blvd.	\$140,000
5. 2703 Tweedy Blvd./2704 Nebraska	<u>\$260,000</u>
Subtotal	\$2,190,000

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<b>Loans and Grants Receivables</b>	<b>Statutory Value</b>
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Loans and Other Receivables	\$780,310
Subtotal	\$780,310

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<b>Total</b>	<b>\$2,970,310</b>
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## **MONEY TRANSFERS**

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SB 341 requires housing successors to provide (A) a description of any transfers made in the previous fiscal year and in earlier fiscal years and (B) a description of and status update on any project for which transferred funds have been or will be expended if that project has not yet been placed in service.

No transfers of monies have been made by the Successor from the time the dissolution act was implemented (February 1, 2012) through June 30, 2016.

## **PROPERTY AND PROJECT DESCRIPTIONS**

The former Agency transferred six properties to the Authority on February 1, 2012; the transfer of these properties to the Authority as listed on the Housing Asset Transfer list, as housing successor, was approved by the DOF on April 1, 2013. A description of each property is below.



## **9711 SAN GABRIEL BLVD (APN 6203-017-903)**

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The Housing Authority sold its only rental housing project on October 15, 2015. The two-unit property had been vacant since the fall of 2013. The property is located at 9711 San Gabriel Avenue. The property was sold through a 30 year note with an interest rate of 3% to the Old-timer's Housing Development Corp IV for the appraised value of \$150,000 and a principal interest payment of \$632.41. The property is currently being rehabilitated and will be offered to eligible low-income tenants for a duration of at least 15 years.

## **9001 LONG BEACH BLVD (APN 6204-025-900)**

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This vacant parcel is 10,564 square feet. The Authority plans on selling this property.

## **9015 LONG BEACH BLVD (APN 6204-025-901)**

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This vacant parcel is 5,553 square feet and adjacent to 9001 Long Beach Blvd. The Authority plans on selling this property.

## **3600-3016 TWEEDY BLVD (APN 6223-006-901)**

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This is a parking lot for the South Gate Senior Plaza, which is an affordable housing project.

## **3626 TWEEDY BLVD (APN 6223-006-910)**

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The Authority demolished a building located on this property in 2013, leaving the property vacant. The property is now a small park.

## **2703 TWEEDY BLVD/2704 NEBRASKA AVE (APN 6205-015-906)**

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The Authority rents this property to a mini-market. The Authority plans on selling this property.

## **PROPERTY DISPOSITION COMPLIANCE**

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HSC Section 34176.1(e) requires all real properties acquired by the former Agency prior to February 1, 2012 and transferred to the Authority to be developed pursuant to the requirements of the CRL. All property that falls within in these parameters must be developed for affordable housing purposes or sold within five years from the date DOF approved the Housing Asset Transfer Form, or April 1, 2018. All Authority properties acquired by the former Agency and transferred to the Authority as of February 1, 2012 and as listed on the Housing Asset Transfer list are subject to this provision. The Authority will ensure compliance with this provision by April 1, 2018.

## **PROJECTS FUNDED BY ROPS**

No Housing Authority obligations have been funded through the ROPS.

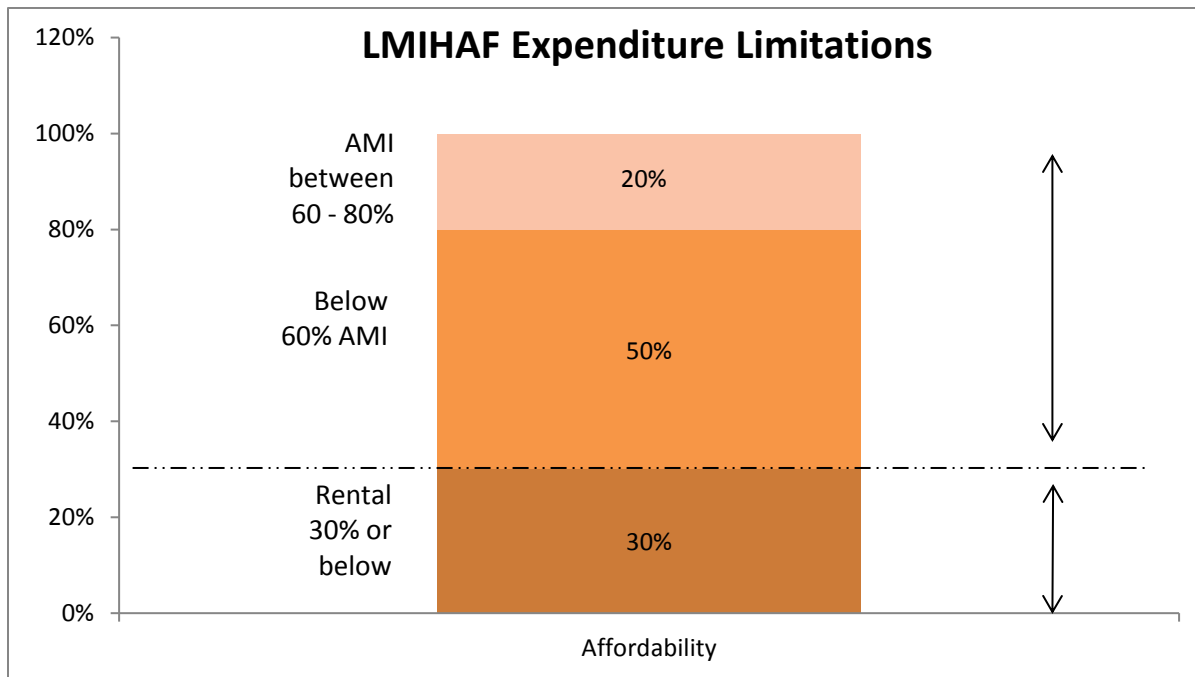
## **OUTSTANDING INCLUSIONARY AND REPLACEMENT HOUSING OBLIGATIONS**

At the time of dissolution, the former Agency did not have any inclusionary housing production or replacement housing obligations. The Original Project Area (Redevelopment Location Nos. 1 through 5,

7 and 8) were adopted prior to January 1, 1976 and not subject to inclusionary housing production requirements. Redevelopment Location No. 9 was subject to inclusionary requirements; however, it is not designated for residential use and did not generate production obligations. Redevelopment Location No. 13 was also subject to inclusionary requirements; however, the former Agency produced enough affordable units to far exceed any inclusionary requirements. There are no statutory production or replacement housing requirements for housing successors.

**EXTREMELY LOW INCOME EXPENDITURE PROPORTIONALITY**

Expenditures from the LMIHARF shall be limited to lower income households earning 80% of less of the AMI, with not less that 30% of expenditures on rental housing for households earning 30% or less of the AMI and not more than 20% of the expenditures on households earning between 60% and 80% of the AMI, and the balance expended on households earning 59% or less of the AMI. No monies in the LMIHAF can be expended on moderate income housing.



These requirements are measured every five years, with the first five-year reporting period being January 1, 2014 through June 30, 2019. Failure to comply with the extremely low income requirement in any five-year reporting period will result in the 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 Authority not being able to expend any funds on these income categories until in compliance.

Since January 1, 2015, all the expenditures have been on administrative expenses.

## SENIOR HOUSING EXPENDITURE PROPORTIONALITY

SB 341 requires housing successors to report the percentage of affordable housing units for seniors developed by the housing successor, its former redevelopment agency, and its local municipality within the previous 10 years. Affordable housing for seniors should not exceed 50% of the total number of affordable housing units built in the last 10 years.

Over the last 10 years, 179 affordable units were created, 70 of which were senior housing units. Therefore, the percentage of affordable units developed for seniors was 60%. The Authority will not spend more money subsidizing senior rental units until no more than 50% of the total aggregate number of rental units produced within the preceding 10 years are restricted to seniors.

## EXCESS SURPLUS

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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 HSC 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.