HOUSING SUCCESSOR AGENCY ANNUAL REPORT

City of Avalon Housing Authority

FY 2015-16

TABLE OF CONTENTS

INTRODUCTION

AVALON HOUSING SUCCESSOR AGENCY

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

The Authority serves as the housing successor entity to the former Avalon Community Improvement Agency ("ACIA"). All California redevelopment agencies were dissolved effective February 1, 2012 by Assembly Bills x1 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 Authority as the housing successor entity. The 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 ("LMIHF"). All former ACIA housing assets and liabilities were transferred to Authority through the Housing Asset Transfer Form ("HAT") and approved by the Department of Finance ("DOF") in August 2012 and updated in September 2014.

It is important to note that although the 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 LMIHF generated by redevelopment tax increment; this tool was abolished with the dissolution of redevelopment.

ASSET TRANSFERS TO THE HOUSING SUCCESSOR

Per 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 grants 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; and
- Repayment of Supplemental Educational Revenue Augmentation Fund loans.

The vast majority of assets transferred to the Authority were real properties and affordable housing covenants.

REPORTING REQUIREMENTS OF HOUSING SUCCESSORS

Senate Bill ("SB") 341, Assembly Bill ("AB") 1793, and SB 107 amended certain sections of the HSC 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, 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 HSC Section 34176.1(f), the following data must 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 5 percent of "portfolio"),
    c. Monitoring expenses (included as an administrative expense), and
    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.

12. An inventory of homeownership units assisted by the former ACIA or its housing successor subject to covenants or restrictions.

LOW AND MODERATE INCOME HOUSING ASSET FUND

The Housing Asset Fund[1] replaced the former ACIA’s LMIHF. The Housing Asset Fund includes all the assets that were transferred from the ACIA to the Authority via the HAT which included:

1. Real properties,

2. Affordable housing covenants,

3. Loan receivables,

4. Income from ground leases and rental properties, and

[1] City of Avalon Fund 153

5. Supplemental Educational Revenue Augmentation Fund Loan (“SERAF”).

HOUSING ASSET FUND DEPOSITS AND ENDING BALANCE

SB 341 requires that the Authority annually report the amount of funds that were deposited into the Housing Asset Fund during the fiscal year. The Authority deposited $15,950 into the Housing Asset Fund during fiscal year 2015-16. The sources of the deposits are detailed below in Table 1. There were no deposits into the Housing Asset Fund related to the Recognized Obligation Payment Schedule.

Fiscal Year 2015-16 Housing Asset Fund Deposits — **Table 1**
Avalon Housing Authority

Revenue Source	Amount
Rental Income - 206 E. Whittley	$15,650
Ground Leases - 238 & 311 Descanso	$300
Total Revenues	**$15,950**

At the close of fiscal year 2015-16, the ending balance in the Housing Asset Fund was $5,405,797 as shown in Table 2.

Fiscal Year 2015-16 Housing Asset Fund Ending Balance — **Table 2**
Avalon Housing Authority

Balance Type		Amount
Cash	$	454,222
Due From		248,627
Accounts Receivable		150
Accounts Payable		(1)
Land Held For Resale[1]		3,951,426
Homebuyer Downpayment Assistance Loans Receivable[2]		-
SERAF Loan Receivable		751,373
FUND BALANCE	**$**	**5,405,797**

[1] The land value of two properties transferred on the HAT (238 & 311 Descanso) are not recorded in the Housing Asset Fund balance because the land is only held as security in the event of default on first-time homebuyer loans.

[2] A loan receivable for 336 Triana Lane was transferred on the HAT but is not recorded in the Housing Asset Fund balance it is not repaid unless the property is sold.

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 5% of the Housing Asset Fund's "portfolio", whichever is greater. The portfolio includes 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 Authority as Housing Successor can 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.

Table 3 summarizes the Housing Asset Fund expenditures by category. All expenditures in FY 2015-16 were administrative expenses.

Fiscal Year 2015-16 Housing Asset Fund Expenditures **Table 3**

Avalon Housing Authority

Annual Expenditures	Admin/ Monitoring	Rapid Rehousing	Ext. Low Rental Units	Other Units	Ext. Low <30% AMI	Very Low 30-60% AMI	Low 60-80% AMI
Administration	$4,190	$0	$0	$0	$0	$0	$0
Annual Total	$4,190	$0	$0	$0	$0	$0	$0

Compliance Period Expenditures

	Annual Limits[1]		Five-Year Limits (2013-14 through 2018-19)				
Total Expenditures	$4,190	$0	$0	$0	$0	$0	$0
SB 341 Limitation	$256,140	$250,000	>30%	<70%	>30%	<70%	<20%
Compliant (Yes/No)	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**

[1] Admin/monitoring and rapid rehousing expenditures have been within their maximum annual limits since FY 2013-14

STATUTORY VALUE OF REAL PROPERTIES AND LOAN RECEIVABLES

The Authority must report on the statutory value of real properties formerly owned by the ACIA and loans and/or grant receivables listed on the HAT, shown in Table 4. Seven real properties were transferred on the HAT, however two were sold in FY 2013-14. Two loan receivables were transferred on the HAT, however one loan issued as part of a First-Time Homebuyer Downpayment Assistance Program was removed after a property was sold.

Fiscal Year 2015-16 Real Properties and Receivables **Table 4**

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 Receivables	
Homebuyer Downpayment Assistance Loans[2]	120,000
SERAF Loan Advance	751,373
Subtotal	*$871,373*
Total	**$5,122,799**

[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 2.

[2] Loan receivable for 336 Triana Lane was transferred on the HAT. It is not recorded in the Housing Asset Fund balance in Table 2 because the loan is not repaid unless the property is sold.

PROPERTY AND PROJECT DESCRIPTIONS

The ACIA previously transferred seven real properties to the Authority that were approved by DOF on the HAT in 2012. The Authority sold two of the properties in FY 2013-14. The following is a description of each of the remaining 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 E. Whittley Avenue: This property contains a five-unit apartment complex, of which one unit currently pays rent. 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 City recently selected a workforce housing developer to develop workforce and affordable housing options for Avalon. The Authority will ensure this site is developed or disposed of as required by law.

- 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

HSC Code Section 34176(e) requires that all real properties acquired by the ACIA prior to February 1, 2012 and transferred to the Authority be developed pursuant to the requirements detailed in HSC Section 33334.16. Thus, all property that falls within these parameters must be developed for affordable housing purposes within 5 years from the date DOF approved the HAT. Avalon's original HAT was approved by DOF on August 30, 2012. DOF later asked the Successor Agency to revise the form to reflect ownership of 309 Beacon Street. The revised HAT was approved by DOF on December 15, 2014. Therefore, the 5-year deadline will end on August 30, 2017 for most properties, and December 15, 2019 for 309 Beacon Street, which is already developed as affordable housing.

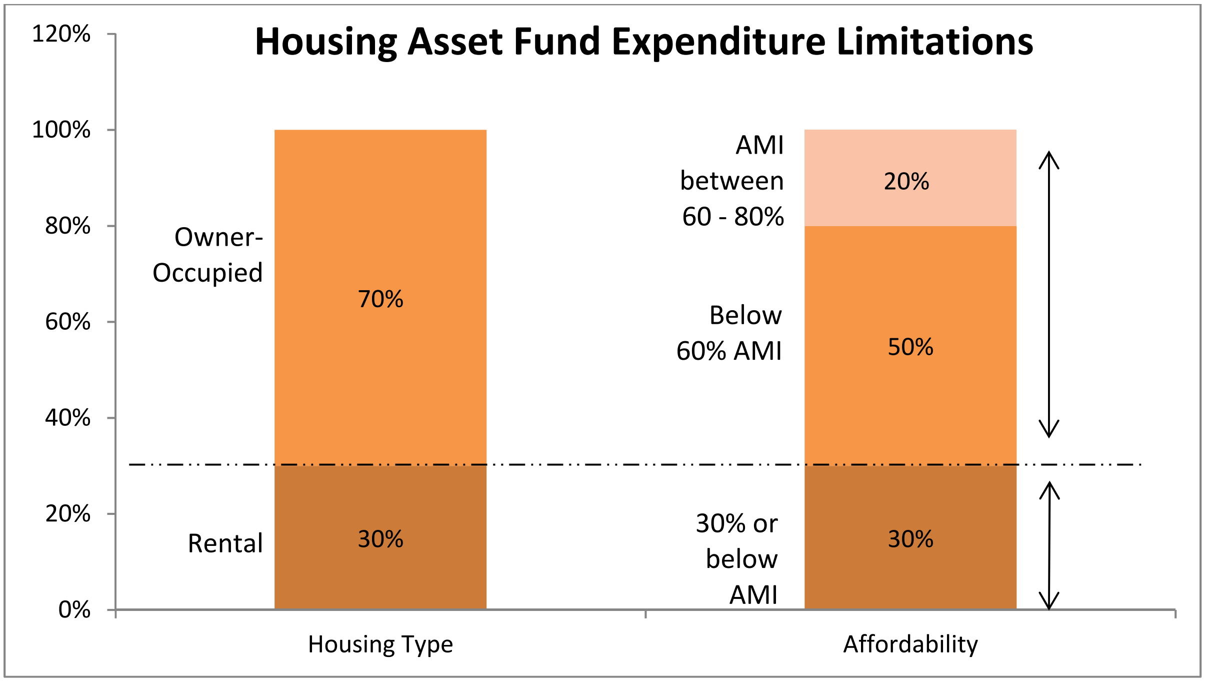
The only Authority property that still needs to be developed or disposed of pursuant to this provision is 206 E. Whittley Avenue, which is currently being marketed for sale. If the Authority is unable to develop or dispose of this property by August 30, 2017, the law allows for a 5-year extension via adoption of a resolution.

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 Authority.

EXTREMELY 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 five-year report 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 five-year reporting period will result in the Authority not being to expend any funds on these income categories until in compliance.

As depicted in Table 3, the Authority only had administrative expenditures in FY 2015-16 and is therefore in compliance with extremely low income 30% expenditure requirement. The Authority will ensure that it adheres to extremely low income expenditure limitations by the end of the five-year compliance period.

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 Authority must expend no more than 50% of the aggregate total number of senior housing units produced by the City, 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 deed-restricted affordable rental 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 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 Authority can perform a true excess surplus calculation, comparing the unencumbered fund balance to the prior four years of deposits. It is anticipated that the Authority will not have an excess surplus at the end of FY 2016-17 because the cash balance at the end of FY 2015-16 ($454,222) was well under $1 million.

As the general purpose of the excess surplus calculation is to ensure that money is expended for affordable housing purposes, the best action for the Authority is to encumber or expend money currently on deposit to ensure it does not accumulate over $1 million of unencumbered funds. This will be especially important if the Authority sells property in FY 2016-17 and deposits enough money to bring the cash balance over $1 million.

INVENTORY OF HOMEOWNERSHIP UNITS

AB 1793 requires this report to include an inventory of homeownership units assisted by the former Agency or the housing successor that are subject to covenants or restrictions or to an adopted program that protects the former Agency's investment of monies from the LMIHF. The inventory is shown in Table 5.

Homeownership Units with Affordability Restrictions **Table 5**

Avalon Housing Authority

Address	Income Level	Restriction Start Date	Restriction End Date	Program	Funding Source
238 Descanso Ave	Moderate	5/17/1996	5/17/2051	FTHB	LMIHF
311 Descanso Ave	Moderate	5/23/1995	5/23/2951	FTHB	LMIHF
336 Triana Lane	Moderate	9/21/2010	9/21/2055	FTHB	LMIHF
342 Triana Lane	Moderate	12/23/2014	12/23/2059	FTHB	Housing Bonds
338 Triana Lane	Moderate	6/23/2014	6/23/2059	FTHB	Housing Bonds

There are two additional units that were assisted by the former ACIA, located at 206 Descanso Avenue and 320 Sumner Avenue, that were lost to the portfolio due to foreclosure after the ACIA dissolved on February 1, 2012. The Ground Leases restricting the affordability of these properties were terminated and the Authority sold the land underneath the properties in January 2014. The proceeds of the sale amounted to $374,131 ($176,000 and $198,131 per property). The sales proceeds will be spent as required by SB 341.

The Authority has a contract with RSG, Inc. to help manage homebuyer loans if the properties are sold.