

**MISSION VIEJO HOUSING AUTHORITY ANNUAL REPORT
AS HOUSING AUTHORITY AND AS HOUSING SUCCESSOR
FOR FISCAL YEAR 2019-2020 UNDER CALIFORNIA
HEALTH & SAFETY CODE SECTIONS 34176.1 AND 34328**

This Annual Report of the Mission Viejo Housing Authority (Housing Authority) is prepared under California Health and Safety Code¹ Section 34176.1 as the housing successor, and Section 34328 as a housing authority (Report). In particular, Division 24 of the HSC sets forth the Dissolution Law in Parts 1.8 and 1.85 and the Housing Authorities Law in Part 2, which respectively require preparation of an annual report on the housing successor and the housing authority's activities for the prior fiscal year (FY). This Report details the Housing Authority's activities during FY 2019-2020 and is intended to satisfy the requirements under both Sections 34176.1 and 34328, including the information required about the Low and Moderate Income Housing Asset Fund (LMIHAF) and other information required under Section 34176.1(f). The complete, final CAFR (term defined below) and this Report will be provided to the City Council and Housing Authority Board, the same governing bodies, at a public meeting on December 8, 2020 in compliance with Section 34176.1(f).

This Report includes information prepared by City staff on behalf of the Housing Authority and data from the independent financial audit of the LMIHAF Financial Report for FY 2019-2020 that is a part of the City of Mission Viejo's (City) Comprehensive Annual Financial Report (CAFR) audited by Davis Farr LLP, which is separate from this Report and attached as Exhibit B hereto; further, this Report conforms with and is organized into sections I. through XIV., inclusive, under Section 34176.1(f) of the Dissolution Law and Section 34328 of the HAL.

- I. **Amounts Received and Deposited Pursuant to 34191.4(b)(3)(A).** This section provides the total amount of funds paid to the City and the amount deposited into the LMIHAF allocable to 20% of the repayments on the reinstated City/Agency loan per Section 34191.4.
- II. **Amount Deposited into LMIHAF.** This section provides the total amount of funds deposited into the LMIHAF in FY 19/20 and itemized by amounts deposited in FY 19/20 for items listed on Recognized Obligation Payment Schedule (ROPS), amounts allocable to Section 34191.4 deposits, and other amounts deposited into the LMIHAF.
- III. **Ending Balance of LMIHAF.** This section provides a statement of the balance in the LMIHAF as of the close of FY 19/20. Any amounts deposited for items listed on the ROPS, and amounts allocable to Section 34191.4 deposits, must be distinguished from the other amounts deposited.
- IV. **Description of Expenditures from LMIHAF.** This section provides a description of expenditures made from the LMIHAF during FY 19/20. The expenditures are to be categorized, as and if applicable, among (A) administration for monitoring,

¹ All statutory references in this Report are to the California Health and Safety Code (HSC), unless otherwise stated.

preserving covenanted housing units, (B) homeless prevention and rapid rehousing services and (C) development of housing.

- V. **Statutory Value of Assets Owned by Housing Successor.** This section provides the statutory value of real property owned by the Housing Authority, as housing successor, the value of loans and grants receivables, and the sum of these two amounts.
- VI. **Description of Transfers.** This section describes transfers, if any, to another housing successor made in previous fiscal year(s), including whether the funds are unencumbered and the status of projects, if any, for which the transferred LMIHAF will be used. The sole purpose of the transfers must be for development of transit priority projects, permanent supportive housing, regional homeless shelter, housing for agricultural employees or special needs housing.
- VII. **Project Descriptions.** This section describes any project for which the Housing Authority, as housing successor, receives or holds property tax revenue under the ROPS and the status of that project.
- VIII. **Status of Compliance with Section 33334.16.** As and if applicable, this section provides a status update on compliance with Section 33334.16 for interests in real property acquired by the former redevelopment agency prior to February 1, 2012. For interests in real property acquired on or after February 1, 2012, provide a status update on the project.
- IX. **Description of Outstanding Obligations under Section 33413.** This section describes outstanding inclusionary and replacement housing obligations, if any, under Section 33413 that remained outstanding prior to dissolution of the former redevelopment agency as of February 1, 2012, along with the housing successor's progress in meeting those prior obligations, if any, of the former redevelopment agency and how the housing successor's plans to meet unmet obligations, if any.
- X. **Income Test.** This section provides information required by Section 34176.1(a)(3)(B), or a description of expenditures by income category and restriction for the applicable five-year period, with the time period beginning January 1, 2014 and whether the statutory thresholds have been met. The first five-year period for reporting this information is included in this Report.
- XI. **Senior Housing Test.** This section provides the percentage of deed-restricted rental housing units restricted to seniors and assisted individually or jointly by the Housing Successor, its former redevelopment agency, and its host jurisdiction within the previous 10 years in relation to the aggregate number of units of deed-restricted rental housing assisted individually or jointly by the housing successor, its former redevelopment agency and its host jurisdiction within the same 10-year time period.
- XII. **Excess Surplus Test:** This section provides the amount of excess surplus in the LMIHAF, if any, and the length of time that the Housing Successor has had excess surplus, and the housing successor's plan for eliminating the excess surplus.

XIII. Inventory of Homeownership Units: This section provides a summary of covenanted homeownership units assisted by the former redevelopment agency or the housing successor that include equity sharing and repayment provisions, including: (A) number of units; (B) number of units lost to the portfolio in the last fiscal year and the reason for those losses, (C) any funds returned to the housing successor pursuant to losses or repayments, and (D) identify contracts for the management of housing units.

XIV. Information about the housing activities of the Housing Authority under the Section 34328 of the HAL is discussed in section XIV of this Report.

This Report is to be provided to Housing Authority and its governing body, the City Council, in accordance with the Dissolution Law and the HAL. In addition, this Report will be posted and made available to the public on the City’s website at:

<http://cityofmissionviejo.org/departments/community-development/planning-division>,

and thereafter appended to the City’s annual update report prepared under Section 65400 of the Government Code.

I. LOAN REPAYMENT PER SECTION 34191.4(B)(3)(A)

There is no loan balance on the SERAF loan. The SERAF loan was paid in full in FY 2016/17.

II. AMOUNT DEPOSITED INTO LMIHAF

A total of \$303,089 was deposited into the LMIHAF during FY 19/20 *not* related to Section 34191.4(B)(3)(A) or items, if any, listed on the ROPS.

III. ENDING BALANCE OF LMIHAF

At the close of FY 19/20, the ending balance of housing assets in the LMIHAF was \$5,488,231.

IV. DESCRIPTION OF EXPENDITURES FROM LMIHAF

The following is a description of expenditures from the LMIHAF by category:

	Fiscal Year
Monitoring & Administration Expenditures	\$111,749
Homeless Prevention and Rapid Rehousing Services Expenditures	\$0
Housing Development Expenditures	
➤ Expenditures on Low Income Units	\$0
➤ Expenditures on Very-Low Income Units	\$0
➤ Expenditures on Extremely-Low Income Units	\$0
➤ Total Housing Development Expenditures	\$0
Total LMIHAF Expenditures in Fiscal Year	\$111,749

V. STATUTORY VALUE OF HOUSING ASSETS OWNED BY HOUSING SUCCESSOR IN LMIHAF

Under the Dissolution Law and for purposes of this Report, the “statutory value of real property” means the value of properties formerly held by the former redevelopment agency as listed on the housing asset transfer schedule (HATS) approved by the Department of Finance as listed in such schedule under Section 34176(a)(2), the value of the properties transferred to the Housing Authority, as housing successor, pursuant to Section 34181(f), and the purchase price of property(ies) purchased by the Housing Authority, as housing successor. Further, the value of loans and grants receivable is included in these reported assets held in the LMIHAF.

The following provides the statutory value of assets owned by the Housing Authority, as housing successor.

	As of End of Fiscal Year
Statutory Value of Real Property Owned by Housing Authority	\$6,900,000
Value of Loans and Grants Receivable	\$3,067,747
Total Value of Housing Successor Assets	\$9,967,747

VI. DESCRIPTION OF TRANSFERS

The Housing Authority, as housing successor, did not make any LMIHAF transfers to other housing successor(s) under Section 34176.1(c)(2) during the fiscal year.

VII. PROJECT DESCRIPTIONS

The following is a description of project(s) for which the Housing Authority, as housing successor, receives or holds property tax revenue pursuant to the ROPS as well as the status of the project(s):

The Housing Authority, as housing successor, is not owed nor holds property tax revenue pursuant to the ROPS for any project during the fiscal year or at June 30, 2020.

VIII. STATUS OF COMPLIANCE WITH SECTION 33334.16

Section 34176.1 provides that Section 33334.16 does not apply to interests in real property acquired by the Housing Authority, as housing successor, on or after February 1, 2012; however, this Report presents a status update on the project related to such real property.

With respect to interests in real property acquired by the former redevelopment agency *prior* to February 1, 2012, the time periods described in Section 33334.16 shall be deemed to have commenced on the date that the Department of Finance approved the property as a housing asset in the LMIHAF; thus, as to real property acquired by the former redevelopment agency now held by the Housing Authority, as housing successor, in the LMIHAF, the Housing Authority, as housing successor, must initiate activities consistent with the development of the real property for

the purpose for which it was acquired within five (5) years of the date the DOF approved such property as a housing asset.

At the time of dissolution, February 1, 2012, the former Mission Viejo Community Development Agency (Former Agency) did not own any real property. In FY 2014/15, the Housing Authority acquired an unimproved parcel of land, approximately eight (8) acres in size (commonly referred to as Site C), for which the purchase price was \$6,900,000 (valuation by an independent appraisal). A down payment of \$2,600,000 was paid from the LMIHAF toward the total purchase price and a promissory note was executed by the Housing Authority for the balance of the purchase price for Site C. No payments were made on the note during FY 2019/20. The outstanding balance of the note is \$2,125,000. The zoning for Site C is RPD-30A (30 DUA) that must include certain percentages of very low and low income covenanted units; this property also is listed in the housing site inventory in the City's Housing Element of the General Plan so its intended land use is for affordable housing development and operation.

During the FY 19/20 reporting period, the Housing Authority and Brinshore Development LLC (Brinshore) were parties to and implementing a Negotiation Agreement toward development of an affordable housing project on Site C. The parties' objective was to reach agreement on the terms for sale or ground lease of Site C and Brinshore's construction and operation of about 75 (minimum) up to 109 (maximum) multifamily rental units for occupancy by extremely low, very low, and low income tenants at an affordable rent in compliance with the income targeting requirements of Section 34176.1(a)(3)(B). The parties focused on including two or more target populations in the project of: (1) single parents who are enrolled students at nearby Saddleback Community College or other college that serves the community *and* who are participants in one or more social and supportive services program(s) such as Project Self-Sufficiency, (2) senior citizens as to certain units, (3) military veterans, (4) teachers and other employees of local schools, (5) employees of local hospital(s) or other essential health care workers, and/or (6) permanent supportive housing for persons and families who are at risk of homelessness or homeless.

Negotiations with Brinshore continued during the FY 19/20 reporting period; however, significant issues of financial feasibility slowed progress. Despite the Housing Authority's willingness to subsidize the land cost through a subordinate residual receipts loan (\$6.9M valuation), the multiple proformas that Brinshore prepared for alternative development options continued to show large funding gaps to make development of an affordable housing project financially feasible. Issues impacting effective development of Site C center on practical and cost-effective methods to expand the usable pad area, i.e., create optimal pad configuration and pad elevation, for development and operation of multifamily housing. The parties' evaluations of the land show multiple and various issues that impact planning, design and operation of residential development with adequate amenities and parking that, in turn, result in significant increases in hard and soft costs to complete development on Site C. The issues include without limitation: (a) the lower levels of the eight-acre parcel (approx.) present riparian habitat and environmental issues; (b) there is some sensitive habitat, including coastal sage and mixed scrub, that requires environmental management; (c) design and build feasible ingress and egress points;

(d) design for adequate utilities connections, and functions, esp. as to sewer, water, drainage to service residential land use, and (e) site preparation and stabilization will require (i) mechanically stabilized earth (MSE) retaining walls, which are composite structures consisting of alternating layers of compacted backfill and soil reinforcement elements, fixed to a wall facing that create coherent gravity structures that are capable of carrying a variety of heavy loads, (ii) slope correction, (iii) cut/fill of soil and thereby import and export of soil; (ii) certification of soil compaction; (iii) geofabric installation to establish the MSEs, all of which will require geotechnical, engineering, design and habitat management services and site work at significant cost.

While during the pandemic progress stalled with Brinshore, the City at its cost (not expending Housing Authority funds) continued work on how to make Site C a more development-ready building site, including how to cause natural grading (2:1 slopes) within the constraints of the property boundary on the west and the riparian boundary on the east, which showed the net soils import to be about 200,000 cubic yards of good, compactable soil. The MSEs would not only expand the buildable pad area, but would allow for more import of clean soils to allow for greater pad expansion, if needed. The MSE retaining walls could be used on the cut-slope side of the pad that could be constructed as part of the future housing development.

The Housing Authority will continue work toward development of Site C for an affordable housing development that is financially feasible and achieves multiple goals of the housing successor and the City. While no covenanted housing units were established during the reporting period, the foregoing explains Mission Viejo's significant, ongoing efforts to achieve affordable housing development on Site C.

IX. DESCRIPTION OF OUTSTANDING OBLIGATIONS PURSUANT TO SECTION 33413

Replacement Housing: Under the Former Agency's last Implementation Plan in effect prior to dissolution (the 2010-2014 plan), the replacement housing obligations, if any, under Section 33413(a) were transferred to the Housing Authority as housing successor; however, the Former Agency had no replacement housing obligations, outstanding or otherwise, as of dissolution on February 1, 2012.

Inclusionary/Production Housing: Under the Former Agency's last Implementation Plan in effect prior to dissolution (the 2010-2014 plan), the Former Agency's inclusionary/production housing obligations, if any, under Section 33413(b) were transferred to the Housing Authority as housing successor; however, the Former Agency had no outstanding inclusionary/production housing obligations as of dissolution on February 1, 2012.

Therefore, the Housing Authority, as housing successor has no replacement or inclusionary/production housing obligations, outstanding or otherwise, and thus no inclusionary/production obligation under Section 33413(b). The Former Agency's 2010-2014 Implementation Plan is posted on the City's website at <http://cityofmissionviejo.org/departments/community-development/planning-division>.

X. EXTREMELY-LOW INCOME TEST

Section 34176.1(a)(3)(B) requires that the Housing Authority, as housing successor, post-dissolution to ensure that at least 30% of the funds in the LMIHAF are expended for development of rental housing affordable to and occupied by households earning 30% or less of the AMI. The term “development” under this section is defined as: “new construction, acquisition and rehabilitation, substantial rehabilitation as defined in Section 33413, the acquisition of long term affordability covenants on multifamily units as described in Section 33413, or the preservation of an assisted housing development that is eligible for prepayment or termination or for which within the expiration of rental restrictions is scheduled to occur within five years as those terms are defined in Section 65863.10 of the Government Code.” If a housing successor fails to comply with the extremely low Income requirement in its five-year report, then it must ensure that at least 50% of the funds remaining in the LMIHAF be expended in each fiscal year following the latest fiscal year following the report on households earning 30% or less of the AMI until the housing successor shows compliance with the extremely low income requirement.

As discussed in detail in Section VIII above relating to development of Site C for an affordable housing project, Mission Viejo continues work toward a financially feasible affordable housing project that will include extremely low, very low, and low income units. The Housing Authority reports for the initial five-year reporting period \$0 from the LMIHAF on development of extremely low, very low or low income housing.

XI. SENIOR HOUSING TEST

The Housing Authority, as housing successor, is to calculate the percentage of units of deed-restricted rental housing restricted to seniors and assisted by the housing successor, the former redevelopment agency and/or the City within the previous 10 years in relation to the aggregate number of units of deed-restricted rental housing assisted by the housing successor, the former redevelopment agency and/or City within the same time period. If this percentage were to exceed 50%, then as the housing successor it cannot expend future funds in the LMIHAF to assist additional senior housing units until the Housing Authority, as housing successor, or the City assists and construction has commenced on a number of restricted rental units that is equal to 50% of the total amount of deed-restricted rental units.

No activity to report; neither the former redevelopment agency nor the Housing Authority, as housing successor, provided financial assistance for development of senior housing within the past ten-year period of January 1, 2004 to January 1, 2014. Further, as to the next succeeding ten-year period of January 1, 2014 to January 2024 no such activity has occurred through FY 2019/20.

XII. EXCESS SURPLUS TEST

Excess Surplus is defined in Section 34176.1(d) as an unencumbered amount in the account that exceeds the greater of one million dollars (\$1,000,000) or the aggregate amount deposited

into the account during the housing successor's preceding four fiscal years, whichever is greater.

Calculation of Unencumbered Amounts:

Total Liabilities and Fund Balance June 30, 2020: \$10,348,946

Less *Unavailable* Amounts:

Loans receivable	\$ 200,654
Interest receivable	4,232
Developer loans	2,867,093
Land held for resale	<u>6,900,000</u>
	\$9,971,979

Unencumbered Low to Moderate Income Housing Asset Funds: \$376,968

Greater of:

Base Amount	\$1,000,000
Calculation of Aggregate Deposits	
FY 2019/20	\$ 303,089
FY 2018/19	77,044
FY 2017/18	211,954
FY 2016/17	<u>1,556,545</u>
	\$2,148,632

A total of \$2,148,632 has been deposited into the account during the previous four fiscal years while the unencumbered balance for FY 2019/20 is \$376,968. Based on these numbers, the Housing Authority, as housing successor, does not have an excess surplus.

XIII. INVENTORY OF HOMEOWNERSHIP UNITS

This section provides an inventory of homeownership units assisted by the Former Agency and that are administered by the Housing Authority, as housing successor, which units are subject to covenants or restrictions or to an adopted program that protects the former redevelopment agency's investment of moneys from the Low and Moderate Income Housing Fund per Section 33334.3(f).

The total homeownership inventory as of dissolution on February 1, 2012 (subparagraph (A) below) and the inventory, and losses and repayments for the period February 1, 2012 through June 30, 2019 (subparagraph (B) below) include:

(A) As of dissolution on February 1, 2012, the total number of homeownership units assisted by the Former Agency and that have covenants and restrictions of record is 34 units, which includes loans and restricted single-family homes assisted by the Former Agency through its

(1) Single-Family Rehabilitation Program, and (2) Lennar's The Ridge Affordable Units for Very Low and Low Income homebuyers.

(B) The total number of homeownership units lost to the Housing Authority's (including as housing successor) portfolio between February 1, 2012 up to June 30, 2019, along with the reason or reasons for those losses: There was a net increase of two (2) Affordable Units; 22 units have been added under the Lennar Owner Participation Agreement, a DOF-approved enforceable obligation and housing asset; 2 units have been lost due to the re-sale of a Lennar unit, with repayment proceeds deposited into the LMIHAF; 20 units have been lost due to repayment of loans under the rehabilitation program; and 2 units have been added under a Cooperation Agreement for Transfer of CDBG funds to implement Subrecipient Loan and Affordable Housing Agreement with Families Forward to support the acquisition and long-term operation of two single-family homes for tenancy and occupancy by qualified very low income households. The net funds returned to the Housing Authority as housing successor as part of an adopted program that protects the Former Agency's investment of moneys from the Low and Moderate Income Housing Fund (LMIHF), which repayment funds were sourced directly from the LMIHF were deposited into the LMIHAF: \$776,527.

(C) The number of homeownership unit losses to the Housing Authority's (as housing successor) portfolio in FY 19/20 and the reason for those losses:

- 2 units lost; 1 unit has been lost due to the repayment of a loan under the single-family rehabilitation program; 1 unit has been lost due to the re-sale of a Lennar unit.
- The net funds returned to the Housing Authority, as housing successor, as part of an adopted program that protects the Former Agency's investment of moneys that were sourced directly from the LMIHF were deposited into the LMIHAF: \$279,155.

(D) The Housing Authority, as housing successor, does have existing consulting agreements with Keyser Marston Associates relating to certain, but not all, aspects of administration of the former redevelopment agency's Owner Participation Agreement for affordable housing with Lennar Homes of California, and implementation of homebuyer loan documents with each buyer/owner of an Affordable Unit or the Single-Family Rehabilitation Program. These consulting services include assistance with oversight and administration of amortized loan payments, if any, due, with tracking and calculation of loan balances in the event of payoff; and other administrative activities. In addition, Housing Authority legal counsel, Celeste Brady of Stradling Yocca Carlson & Rauth, assists staff in review of legal issues related to these affordable housing programs.

XIV. ADDITIONAL INFORMATION ABOUT THE HOUSING AUTHORITY'S ACTIVITIES FOR THE PRECEDING YEAR FY 19/20 PER SECTION 34328

Without repeating the information presented above in this Report, during the 19/20 reporting period the Housing Authority:

- (1) continued to monitor and enforce the housing assets transferred from the Former Agency to the Housing Authority, as housing successor;
- (2) continued work toward development of Site C with an affordable housing project covenanted for occupancy by extremely low, very low, and low income units at an affordable housing cost;
- (3) began negotiations about the terms and conditions of a second contract with Families Forward, a nonprofit public benefit corporation, to provide a CDBG Loan to fund Families Forward's acquisition of one or two condominiums, townhomes, or other single-family homes in the community that will be managed, maintained and operated as permanent, affordable rental housing for qualified Very Low Income Households with a preference to families who are homeless or at risk of becoming homeless, which is part of and a primary objective in Families Forward's mission statement. As of the date of preparation of this Report, the Housing Authority and Families Forward did reach agreement on an *Affordable Housing and CDBG Loan Agreement* ("CDBG Loan Agreement") that was approved by the Authority on July 14, 2020 that provides a CDBG Loan of up to \$524,690. In October 2020, the Housing Authority, fully funded Families Forward's purchase of an existing two-bedroom condominium located in the community. The home is covenanted for 55-years to be operated as affordable rental housing for qualified Very Low Income families. Subject to state and federal Fair Housing laws, the CDBG Loan Agreement establishes reasonable preferences to for tenancy by persons and families who at the time of application live or work in Mission Viejo. In the next annual report (FY 20/21), the Housing Authority will provide an update about completion of the limited repairs necessary before occupancy of the home, family selection to lease and occupy the home at an affordable rent, supportive services provided through Families Forward, and other updated information about this affordable housing project.
- (4) continued implementation of the first CDBG Loan Agreement between the Housing Authority and Families Forward, the Housing Authority reports that two qualified Very Low Income families occupy condominiums owned and managed by Families Forward. Each tenant family pays an affordable rent and receives social services through Families Forward. The first project has been a success for the Mission Viejo community, which was a primary reason for the Housing Authority to begin negotiating with Families Forward on the second affordable housing project described in (3) above.