The Housing Authority of the City of Mission Viejo

Treasurer's Annual Report

Fiscal Year Ended

June 30, 2021

Treasurer's Annual Report

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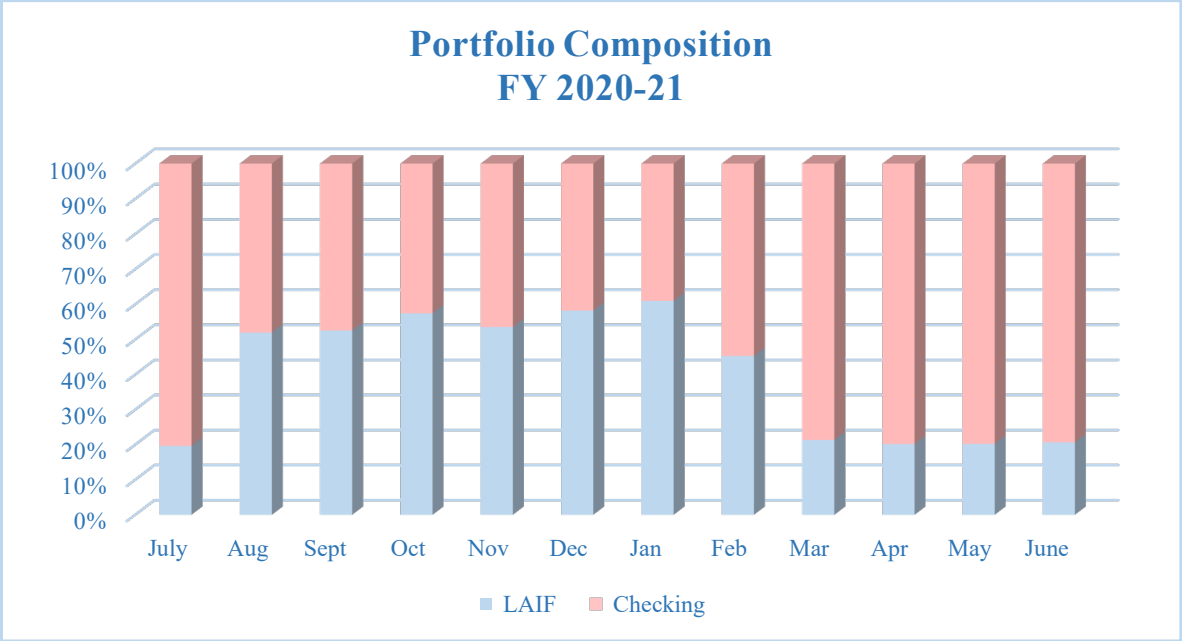
INTRODUCTION

The Mission Viejo Housing Authority (MVHA) was formed in February 2011 in anticipation of redevelopment dissolution. Upon dissolution of the City's former redevelopment agency on February 1, 2012, the MVHA became the "Housing Successor" of the former redevelopment agency's Low and Moderate-Income Housing Assets. The purpose of the MVHA is to facilitate development and rehabilitation of affordable housing and programs and services that support the city's affordable housing goals. After the formation of the MVHA and prior to the end of fiscal year June 30, 2011, $5.7 million in assets were transferred from the former redevelopment agency to MVHA in anticipation of subsidies for affordable housing as required by a Settlement Agreement and Judgement dated July 14, 2008. During fiscal year 2011/12 and at redevelopment dissolution, the balance of cash and investments held in the former redevelopment agency's Low and Moderate-Income Housing Fund, in the amount of $1.478, was transferred to MVHA as the Housing Successor.

PORTFOLIO COMPOSITION

The portfolio of the MVHA has consisted of funds on deposit at the State of California Local Agency Investment Fund (LAIF). The following chart illustrates the composition of the portfolio between LAIF and the MVHA's checking account during fiscal year 2020/21. At June 30, 2021, cash and investments totaled $335,046 and consisted of $69,244 invested in LAIF.



PERMITTED INVESTMENTS

The MVHA Investment Policy's three major objectives are, in order of priority:

1) Safety of principal, in compliance with applicable laws
2) Maintain sufficient liquidity to meet cash flow needs
3) Attain a market average rate of return consistent with the primary objectives of safety and liquidity

Fiscal year 2020/21 investment activity was continuously focused on these objectives, in that order.

The investment policy list of permitted investments includes U.S. Treasury securities, securities issued by U.S. Government agencies, banker's acceptances, federally insured and collateralized time deposits, negotiable certificates of deposit, repurchase agreements, state and local government investment pools, and government money market funds. Generally, the investment policy would restrict the maximum investment in a specific investment pool; however, due to the low cash and investment balance, the MVHA investment policy allows that 100% of the MVHA cash and investment balance may be invested in LAIF while the total portfolio balance is smaller than $5 million. The advantages offered by LAIF include its safety, liquidity, favorable short-term interest rates, and a streamlined administrative process. Funds on deposit at LAIF also have same day availability. The MVHA portfolio only included those investments allowed in the Investment Policy during the fiscal year 2020/21.

The Investment Policy requires annual disclosure to the Board of investment practices of investment pools and government money market funds in which the MVHA participates, which differ from the MVHA's own policies.

LAIF

The MVHA may not invest directly in reverse repurchase agreements, however it should be noted that the State Treasurer's Statement on Portfolio Management Goals, Objectives and Policies allows reverse repurchase agreements up to ten percent of the State's total portfolio of approximately $193.3 billion. The Local Agency Investment Fund (LAIF) program constitutes approximately 23.9% of that portfolio. All reverses in the State's portfolio are cash matched either to the maturity of the re-investment or an adequately positive cash flow date which is approximate to the maturity of the reinvestment. In addition, only securities already held in the portfolio and unencumbered may be reversed. No item purchased against a reverse will be used as a reversible security while the original reverse is outstanding. As of June 30, 2021, the State's total portfolio did not include any reverse repurchase agreements.

The State pool also allows investment in Bank Notes, Corporate Bonds, Structured Notes, Pooled Loans and Strips, investment vehicles not permitted in the City's 2020/21 investment policy. Bank Notes are senior, unsecured promissory notes issued in the United States on either an underwritten or continuously-offered basis by domestic commercial banks. The Notes represent senior debt of the bank and have a maximum maturity of one year. Bank Notes are not deposits and are not

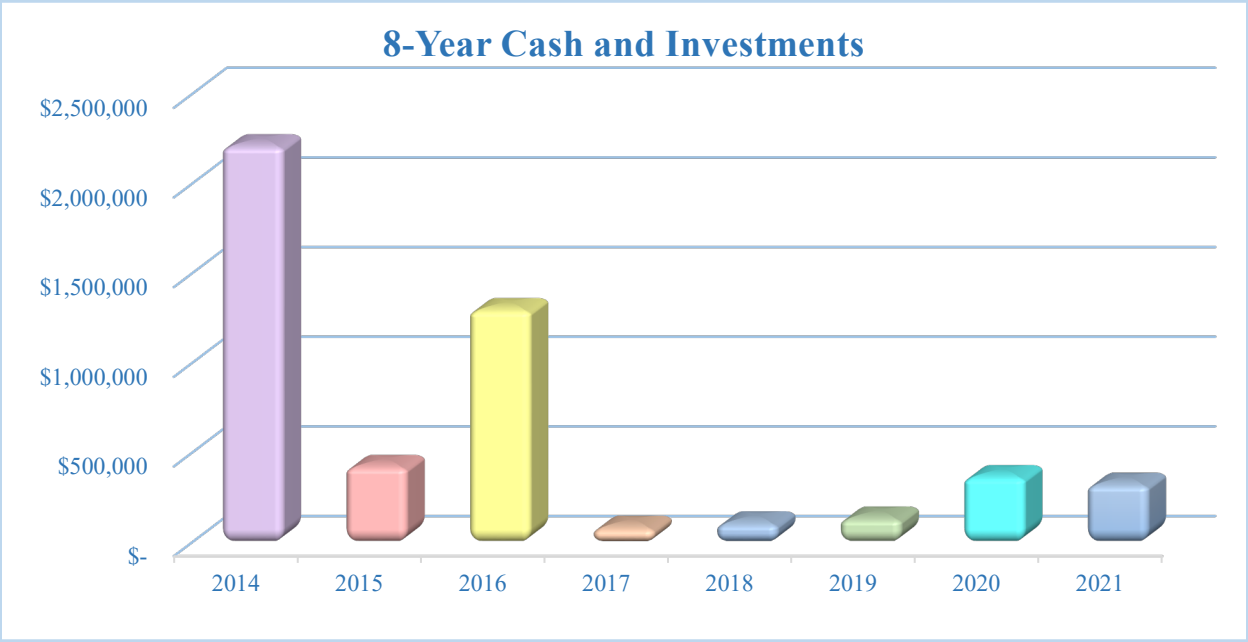
insured by the Federal Deposit Insurance Corporation (FDIC) or any other insurer. The State had $50 million in Bank Notes in their portfolio, 0.03% of total portfolio holdings. The State's investment in Corporate Bonds is limited to "blue chip" companies with credit ratings within the top three ratings of a nationally recognized rating service, nothing lower than an "A" rated company. There is no limit on what percent of its portfolio may be invested in these instruments. There is no maximum maturity either; however, the State's practice is to keep the maturities at five years or less. As of June 30, 2021, the State had $113 million in Corporate Bonds, 0.06% of total portfolio holdings. Structured notes are debt securities whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options. They are issued by corporations and by government-sponsored enterprises or an international agency such as the World Bank. As of June 30, 2021, the State held $1.7 billion in structured notes, 0.88% of total portfolio. Asset-backed securities entitle the purchaser to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages, small business loans, or credit card receivables. As of June 30, 2021, the State held $2.8 billion (1.43% of portfolio) of asset-backed securities. Pooled Loans represent interim financing to State agencies with pending, publicly approved bond issues. These loans have a maximum maturity of one year. As of June 30, 2021, the State had $725.2 million, or 0.38% of portfolio, outstanding in Pooled Loans. U.S. Treasury STRIPS (Separate Trading of Registered Interest and Principal of Securities) are issued by the Treasury as zero-coupon bonds and represent the principal or interest coupon payments from selected Treasury notes and bonds. The value of STRIPs is based on the interest rate market and is not based on the value of the underlying securities. As of June 30, 2021, the State did not own any STRIPs.

LAIF reports a factor representing the Agency's participation in market value changes in the LAIF pool. The reporting of balances on deposit with LAIF reflects this factor. On June 30, 2021 LAIF market value was 100.0% of the amortized cost. As previously stated, LAIF funds now represent 23.9% of the State's portfolio. During this fiscal year, the State portfolio has increased in size from $101.0 billion at June 30, 2020 to $193.3 billion at June 30,2021. LAIF membership has increased from 2,362 participants at July 2020 to 2,387 participants at June 2021. LAIF balances have increased from $32.1 billion to $37.1 billion during that time frame.

PORTFOLIO SIZE AND TRENDS

The size of the portfolio averaged about $216,197 during the fiscal year. There is minimal activity in the portfolio. Increases and decreases are typically due to quarterly expense reimbursements or loan repayments. There was a decrease in the portfolio in August due to a Site C loan repayment. There was an increase to the portfolio from February to March due to a Lennar loan repayment. Additionally, there were two reimbursements for legal fees from the Community Development Block Grant fund in February and March contributing to the increase to the portfolio. In April, there is a slight increase due to a housing rehabilitation loan repayment.

The cash and investment balance have declined significantly since MVHA formation as shown in the following graph.



Significant transactions causing this decline include:

The graph shows a significant decrease in cash and investment balance from 2014 to 2015 as a result of the acquisition of land, commonly referred to as Site C, by the MVHA for future affordable housing development. At the time of acquisition in May 2015, the MVHA made an initial down payment on the property of $2.6 million, with the balance owed under an executed promissory note between the MVHA and the City. Additional information regarding the promissory note is discussed further in this report.

The increase reflected in 2016 is due to the repayment of the Heritage Villas affordable housing agreement loan. Total loan repayment in September 2015 was $1.8 million, of which $1.14 million was due to the MVHA.

The decline that occurred in 2017 is a result of Site C loan payments to the City in the amount of $1,780,000. Additional resources available to make this payment were the receipt of the balance of a loan between the MVHA and the Successor Agency, under Dissolution Law, in the amount of $454,920 in July 2016. The portfolio slightly increased between 2017 to 2019 because of housing rehabilitations loan repayments.

The increase in 2020 is due to a Lennar loan repayment of $272,098 as a result of the resale of a low-income unit in The Ridge housing development to an unqualified buyer.

The slight decrease from 2020 to 2021 is a result of a $200,000 Site C loan repayment to the City.

SIGNIFICANT HOUSING AUTHORITY ASSETS

ARROYO VISTA AFFORDABLE HOUSING LOAN AGREEMENT

In October 1994, the Mission Viejo Community Development Agency (now the Successor Agency) loaned $401,000 to a developer in accordance with an affordable housing agreement executed by the Agency and the Developer on July 1, 1994. The note bore no interest during the first two years after the date of the note, and bears simple interest at the rate of 3% per annum thereafter until the note is paid in full. No payments were required to be made on the note during the first five years. Thereafter, annual payments of principal and interest amortized over a thirty-year period are due. Loan repayments have been used to fund annual operating expenses of the MVHA. As of June 30, 2021, the outstanding balance is $174,065. The outstanding principal in addition to $4,049 of accrued interest was paid in full on July 31, 2021.

HOUSING REHABILITATION LOAN PROGRAM

The objective of the housing rehabilitation program is to maintain the quality of housing in neighborhoods for low and very low-income households by providing deferred loans to owner occupants who meet low and very low-income thresholds. There are 9 outstanding loans totaling $180,654 with an average loan balance of $20,073. Loan repayments have been used to fund annual operating expenses and payments on the Site C loan balance.

LENNAR HOMEBUYER LOAN AGREEMENTS

The former redevelopment agency entered into an agreement with Lennar Homes to provide housing subsidies for 22 low and moderate-income housing units in The Ridge housing development. Upon dissolution, the MVHA became the successor to this agreement under redevelopment Dissolution Law. At the time of purchase of each unit by a qualified buyer, a homebuyer loan agreement was executed between MVHA and the homebuyer. If one of these 22 units is sold to an unqualified buyer, some balance of the housing loan is required to be paid back to the MVHA. To date, there have been 4 units sold to unqualified buyers (one each during fiscal years 2014/15, 2016/17, 2019/20, and 2020/21), resulting in repayments to MVHA in the amount of $849,701. It is not the expectation of the MVHA that these loans be paid off, but forgiven over a forty-year covenant period. However, as was the case with 4 units previously noted, future repayments may occur. Any future repayments are expected to be used toward Site C loan payments.

SIGNIFICANT HOUSING AUTHORITY LIABILITIES

SITE C PROMISSORY NOTE

In May 2015, the MVHA acquired City of Mission Viejo owned property for the purpose of facilitating the development of affordable housing on a site referred to as Site C. The initial purchase price of $6.9 million was based on appraised value at that time. At the time of acquisition, the MVHA paid $2.6 million from available MVHA funds as a down payment. A promissory note between the MVHA and the City of Mission Viejo was executed for the balance of $4.3 million. Loan payments are scheduled as resources become available. Resources include loan repayments from the Arroyo Vista loan, housing rehabilitation loan repayments, and Lennar homebuyer loan repayments. The table below shows historical Site C promissory note activity.

Based on the cash and investment balance at June 30, 2021 of $335,046 and projected activity for the next fiscal year as presented under Anticipated Cash and Investment Activity later in this report, it is anticipated that the Arroyo Vista loan repayment proceeds will be used for a payment against the Site C promissory note. The remaining promissory note balance as of June 30, 2021 is $1,925,000.

Site C Loan Repayment Schedule

Date	Payments	Balance
6/26/15		$4,300,000
8/3/15	272,000	4,028,000
8/2/16	1,600,000	2,428,000
6/14/17	180,000	2,248,000
7/31/17	123,000	2,125,000
8/20/20	200,000	1,925,000

RETURN ON INVESTMENT

Close of the accounting records for FY 2020/21 is in progress. The estimated interest earnings for FY 2020/21 is projected to be $7,144 compared to $8,656 in FY 2019/20, a projected decrease of $1,512. Interest earned from LAIF for the fiscal year totaled $388 compared to $1,401 last fiscal year. Earnings also include interest received pursuant to the existing Arroyo Vista affordable housing loan agreement. The Arroyo Vista loan to the developer is discussed on page 8 of the report.

ANTICIPATED CASH AND INVESTMENT ACTIVITY

The cash flow projection for FY 2021/22 is based on the adopted budget, anticipated activity, and prior year historical cash flows. The projection shows that the portfolio balance will decrease by $143,651 during FY 2021/22. The decrease is due to CIP 21248 - Site C Grading. There is one projected housing rehab loan repayment of $20,000 and general interest earnings are projected to be $400. Budgeted expenditures for the fiscal year include administrative costs, and legal, professional, and auditing services. Staff anticipates available resources will remain well below $5 million in the coming fiscal year; therefore 100% of excess funds not needed for operating expenditures will remain on deposit at LAIF.

Cash Flow Forecast

Fiscal Year 2021-22

	Inflows	Outlflows	Change to Portfolio	
		Cash & Investments @ 6/30/21		$ 335,046
July	$ 178,126	$ 5,862	$ 172,264	507,310
August	-	49,091	(49,091)	458,220
September	-	175,338	(175,338)	282,881
October	18,811	81,687	(62,876)	220,005
November	1,193	3,062	(1,870)	218,136
December	9,186	41,020	(31,834)	186,302
January	6	1,184	(1,178)	185,123
February	2,126	142	1,984	187,107
March	10,351	5,033	5,319	192,426
April	1,071	178	893	193,319
May	-	250	(250)	193,069
June	-	1,675	(1,675)	191,395
Total	**220,869**	**364,520**	**(143,651)**	

INVESTMENT POLICY COMPLIANCE

As the Finance Officer of the Housing Authority of the City of Mission Viejo, I certify that I have complied with the annual Investment Policy adopted by the City Council effective September 9, 2020.

August 13, 2021

Cheryl Dyas
Director of Administrative Services/
City Treasurer

Date