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REPORT TO THE HOUSING SUCCESSOR TO THE REDEVELOPMENT AGENCY OF THE CITY OF FRESNO, AND THE FRESNO REVITALIZATION CORPORATION

June 25, 2016

FROM: MARLENE MURPHEY, Executive Director

BY: Debra Barletta, Chief Financial Officer

SUBJECT

Approve Fiscal Year 2016-2017 program income budget for the Housing Successor to the Redevelopment Agency of the City of Fresno (Council action only)

RECOMMENDATION:

Staff recommends that the Housing Successor to the Redevelopment Agency of the City of Fresno and the Fresno Revitalization Corporation approve the attached FY16-17 Housing Successor Budget to appropriate the Housing Successor's program income.

BACKGROUND:

On January 26, 2012, in accordance with Health & Safety Code Section 34176, the City Council elected to assume, as of February 1, 2012, the housing assets, duties, functions and obligations of

the former Redevelopment Agency of the City of Fresno (former Agency) and delegated all of those duties and responsibilities to the Fresno Revitalization Corporation. These actions occurred due to the dissolution of the former Agency under Assembly Bill x1 26, the California Supreme Court's decision in California Redevelopment Association, et al. v. Matosantos, and Assembly Bill 1484, and other subsequent dissolution legislation (together, "Dissolution Laws") which regulate the administration of successor agencies and housing successors.

Pursuant to Section 34176 HSC, added by AB x1 26 and amended by AB 1484, the State Department of Finance (DOF) issued a decision letter on August 31, 2012 and the Superior Court of California, County of Sacramento, issued a Ruling on February 11, 2014 confirming that the Housing Successor owns all affordable housing assets of the former Agency as listed in a housing asset transfer schedule prepared by the Housing Successor and submitted to the DOF on August 1, 2012. All housing assets are now held and administered by the Housing Successor in the Low to Moderate Income Housing Asset Fund (LMIHAF) pursuant to the Dissolution Law, in particular Sections 34176 and 34176.1, as amended by Senate Bill 341, effective on January 1, 2014 and Senate Bill 107 approved and filed September 22, 2015.

As discussed in detail below, Senate Bill 107 contains new rules applicable to the: expenditure of unencumbered moneys in the Housing Successor's LMIHAF; time limit for development of property acquired by the former agency for the development of affordable housing; and, preparation of an annual report.

SB107/PROGRAM INCOME BUDGET:

In accordance with Section 34176.1(f), incorporated into SB 107, an annual report must be prepared that contains the following elements: loan repayments; amount deposited into LMIHAF; ending balance of LMIHAF; description of expenditures from the LMIHAF; statutory value of assets owned by the housing successor; description of transfers; project descriptions; status of compliance with Section 33334.16; description of outstanding obligations under Section 33413; income test; senior housing test; excess surplus test; and homeownership units. The annual report is attached and is posted on the Agency's website.

The new SB107 expenditure requirements and property development time limits drive the Housing Successor program budget. Following the administrative and homeless allocation (if applicable) the remaining program income must be spent as follows: (i) at least 30% of the funds must be spent for the development of rental housing affordable to and occupied by extremely low income households earning 30% or less of the area median income; (ii) no more than 20% of the funds may be spent for the development of housing affordable to and occupied by households earning between 60% and 80% of the area median income; and, (iii) 50% of the funds may be spent for the development of housing affordable to and occupied by households earning 60% or less of the area median income; and, development activity must be initiated by August 31, 2017 for all of the Housing Successor's real property. Failure to comply with the 30% of net program income for the 30% of AMI requirement will result in an increase to 50% of net program income for the 30% AMI requirement until the extremely low income targeting requirement is met. Additionally, to the extent that the Housing Successor fails to comply with an excess surplus test (i.e. unencumbered funds that exceed the greater of \$1,000,000 or the total amount of net program income deposits over the previous four years), the excess surplus must be transferred to the Department of Housing and Community Development if not spent within a period of three years. The FY16-17 Housing Successor Budget has been prepared taking all of the requirements into consideration.

Relating to the Program Income Budget, From February 1, 2012 through May 31, 2016, the Housing Successor received program income in the amount of \$3,565,500.71 including \$2,033,593.31 from various loan repayments, rents, property sales, and single family rehabilitation loans and \$844,236.40 plus \$687,671 transferred by the Successor Agency. The \$844,236.40 deposit equals 20% of \$4,221,182 (\$3,376,945.60 to City General Fund) that was approved by the Department of Finance (DOF) through the 14-15B Recognized Obligation Payment Schedule and allocated from the Redevelopment Property Tax Trust Fund (RPTTF) for the first annual payment on the reinstated City/Agency loan under Section 34191.4. The \$687,671 deposit equals 20% of \$3,438,354 (\$2,750,683 to City General Fund) that was approved by the Department of Finance (DOF) through the 15-16A Recognized Obligation Payment Schedule and allocated from the Redevelopment Property Tax Trust Fund (RPTTF) for the second annual payment on the reinstated City/Agency loan under Section 34191.4. The Dissolution Law mandates that 20% of each annual payment on any reinstated city/agency loan be allocated to the LMIHAF, so, each year additional amounts equal to 20% of the DOF-authorized payment on the City/Agency loan will be deposited into the Housing Successor's LMIHAF. In FY16-17, the Housing Successor anticipates receiving the sum of \$992,234.80 from the Successor Agency for the 20% annual City/Agency loan payment and \$120,000 of single and multi-family loan repayments. When combined, the total net unencumbered program income (net of program income expenses and \$1,500,000 encumbered for the Blackstone and McKinley Development) available in FY16-17 is estimated at approximately \$2,800,000.

Administration and Operations & Maintenance Expenses:

Under Section 34176.1(a)(1), as amended by SB 107, the Housing Successor, may spend up to 2% of the statutory value of real property and loans and grants receivables or \$514,833.90 ($\$25,741,695.23 \times .02 = \$514,833.90$) for the purpose of monitoring and preserving the long term affordability of units subject to affordability restrictions or covenants entered into by the former redevelopment agency or the housing successor and for the purpose of administering the housing successor's activities.

Homeless Prevention Expenditure:

Under Section 34176.1(a)(2) if the Housing Successor has fulfilled certain obligations (pursuant to 33413 and 33418) it may expend up to two hundred fifty thousand dollars \$250,000 per fiscal year for homeless prevention and rapid rehousing. The Housing Successor has complied with the requirements and has allocated \$250,000 for the purpose of homeless prevention.

Development Activities on Real Property Owned by the Housing Successor:

Under Health & Safety Code Section 33334.16, as to all real property acquired by the Housing Successor from the former redevelopment agency, the Housing Successor must initiate activities for the development of affordable housing within five (5) years of the date the Department of Finance ("DOF") approved such property as a housing asset. For the City of Fresno, the date of DOF's approval was August 31, 2012; consequently, the deadline to initiate development activity is August 31, 2017. As shown on the attached Housing Successor to the Redevelopment Agency Annual Report for the Fiscal Year 2014-15, the Housing Successor currently owns 18 uncommitted parcels (mostly single family lots) where development activity for affordable housing must be initiated. The parcels may be eligible for a 5 year extension of time.

Furthermore, SB 107 provides that Section 33334.4(a) will not apply and imposes new targeting requirements that prohibit funding for moderate income households and require the Housing Successor to spend its unencumbered funds as described above and repeated here for emphasis: (i) at least 30% of the funds must be spent for the development of rental housing affordable to and occupied by extremely low income households earning 30% or less of the area median income; (ii) no more than 20% of the funds may be spent for the development of housing affordable to and occupied by households earning between 60% and 80% of the area median income; and, (iii) 50% of the funds may be spent for the development of housing affordable to and occupied by households earning 60% or less of the area median income. The Housing Successor must demonstrate in the annual report for the year 2019 and every five years thereafter that the Housing Successor's expenditures from January 1, 2014 through the end of the latest fiscal year covered in the report, comply with these new income targeting requirements. Additionally, in the event the Housing Successor fails to spend 30% of its unencumbered funds to develop rental housing for extremely low income households, then 50% of the Housing Successor's unencumbered funds must be spent for this purpose until the extremely low income targeting requirement is met. Additionally, to the extent that the Housing Successor fails to comply with an excess surplus test (i.e. unencumbered funds that exceed the greater of \$1,000,000 or the total amount of net program income deposits over the previous four years), the excess surplus must be transferred to the Department of Housing and Community Development if not spent within a period of three years.

In order to comply with the income targeting; affordability levels and development activity requirements for affordable housing as described above Staff recommends appropriating: \$607,821 for 30% AMI (30% of net program income); \$1,013,035 for 30-60% of AMI (50% net program income); and, \$405,214 for 60-80% of AMI (20% of net program income). The specific projects to be funded from program income funds would be considered for approval by Council. Criteria for selection would include among other factors: property ownership by Housing Successor; property ownership/control by developer; financial feasibility; potential to meet required income targets; potential to secure project funding; potential to meet timetables and project milestones; and, the project's value in meeting housing affordability goals and the overall requirements of SB 107.

HOUSING ASSET FUND TRANSFER:

On February 11, 2014 the Superior Court of California, County of Sacramento, ruled that certain enforceable obligations and the funds encumbered to carry out the enforceable obligations to provide affordable housing are under the jurisdiction of the Housing Successor of the City of Fresno. The enforceable obligations are pursuant to owner participation agreements and disposition and development agreements. The budget for those court approved obligations and expenditures are included in Attachment 3 for your information.

CONCLUSION:

Staff recommends that the Housing Successor to the Redevelopment Agency of the City of Fresno and the Fresno Revitalization Corporation approve the FY16-17 Housing Successor Budget.

Attachment:

1. Housing Successor to the Redevelopment Agency of the City of Fresno Annual Report for the Fiscal Year 2014-15
2. Housing Successor to the Redevelopment Agency of the City of Fresno FY16-17 Program Income

Budget

3. Housing Asset Fund Transfer Budget FY16-17