2021-22 Housing Successor Agency Annual Report

DUARTE HOUSING AUTHORITY

Housing Successor Agency to the Former Duarte Redevelopment Agency

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CITY OF DUARTE

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Section 1 Introduction

This Fiscal Year ("FY") 2021-22 Housing Successor Annual Report ("Report") has been prepared pursuant to the California Health and Safety Code ("HSC") Section 34176.1(f) and sets forth certain details of the Duarte Housing Authority ("Housing Authority" or "Housing Successor") as the Housing Successor of the Duarte Redevelopment Agency ("Agency"). The Duarte Housing Authority was activated by the City Council in March 2011 by Resolution 11-08 for the purpose of implementing the City of Duarte ("City") and former Agency's affordable housing efforts. The Housing Authority was designated as the Housing Successor in January 2012 by Resolution 12-04.

The purpose of this Report is to provide the governing body of the Housing Successor an annual report on the housing assets and activities of the Housing Successor under Part 1.85, Division 24 of the HSC – In particular, Sections 34176 and 34176.1 ("Dissolution Law"). The Report is due to the California Department of Housing and Community Development ("HCD") by December 31st each year.

1.1 Reporting Requirements

Senate Bill ("SB") 341 (2013-14) established that all former redevelopment agency housing assets must be maintained in a separate fund called the Low- and Moderate-Income Housing Asset Fund ("Housing Asset Fund"). HSC Section 34176.1(f) contains a series of annual reporting requirements for housing successor agencies regarding Housing Asset Funds. These requirements are presented below:

- **Revenues and Expenditures**
  - Total amount deposited for the fiscal year.
  - Statement of balance at the close of the fiscal year.
  - Description of expenditures for the fiscal year, broken out as follows:
    - Rapid rehousing for homelessness prevention;
    - Administrative expenses;
    - Monitoring expenses (included as an administrative expense);
    - All other expenditures must be reported as spent for each income group as defined by SB 341.
  - Description of any transfers to another housing successor agency for a joint project.

- **Other Assets and Active Projects**
  - Description of any housing project(s) still funded through the Recognized Obligation Payment Schedule ("ROPS").
  - Update on property disposition or development for any property owned by the housing successor.
  - Other "portfolio" balances, including the statutory value of any real property transferred from the former Agency or purchased by the Housing Asset Fund, and the value of loans and grants receivable.

- Inventory of homeownership units assisted by the former Agency or the Housing Authority, subject to covenants, restrictions, or an adopted program that protects the former Agency's investment of monies from the Low and Moderate-Income Housing Fund.

- **Obligations & Proportionality**
    - Description of any outstanding production obligations of the former Agency that are inherited by the Housing Authority.
    - Compliance with proportionality requirements (income group targets), which must be upheld on a five-year cycle.
    - 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 ten years compared to the total number of units assisted by any of those three agencies.

SB 341 also mandates that housing successor agencies conduct an independent financial audit of the Housing Asset Fund within six months of the end of each fiscal year. This financial audit may be included in the independent financial audit of the host jurisdiction. The City's audited financials for FY 2021-22, available on the City's website, will be completed in December 2022, and include an audit of the Housing Asset Fund. This Report presents the activities of the Housing Successor for FY 2021-22.

1.2 Expenditure Requirements

The HSC provides the following guidelines for expenditures from the Housing Asset Fund:

1. Administrative costs, including housing monitoring, are capped at the greater of $200,000 adjusted annually for inflation or 5% of the statutory value of any land owned by the housing successor agency and of loans and grants receivable.

    a. ***In the Housing Authority's case, the greater of 5% of $1,031,753 or $223,400.***

2. If the former Agency did not have outstanding housing production requirements, the housing successor agency is authorized to spend up to $250,000 per year on homeless prevention and rapid rehousing services to individuals and families who are homeless or would be homeless without this assistance.

    a. ***According to the FY 2009-14 Implementation Plan for the former Agency, no Section 33413(B) Inclusionary/Production Housing obligations were transferred to the Housing Successor. Therefore, the Housing Authority is allowed to 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 in the following income groups:

a. Extremely low income (households earning 30% or less of the Area Median Income ("AMI")) – ***Minimum of 30% spent on housing options must be spent in this category.***
b. Very low-income (households earning 31% to 60% of the AMI) – ***No requirements.***
c. Low-income (households earning 61% to 80% of the AMI) – ***Maximum of 20% spent on housing options may be spent in this category.***
d. No funding may be spent on moderate-income households (earning 81% to 120% of the AMI), as was previously authorized by redevelopment law.

Failure to comply with the extremely low-income requirement in any five-year compliance period will result in the Housing 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 lower-income households in any five-year reporting period will result in the Housing Authority not being able to expend any funds on that income category until in compliance.

Housing successor agencies must report expenditures by category each year, but compliance with expenditure limitations is reported at the end of each five-year compliance period. For instance, a housing successor agency could spend all of its funds in a single year on lower-income households, as long as it was 20% or less of the total expenditures during the five-year compliance period.

The first five-year compliance period ended on June 30, 2019 and the Housing Successor complied with all of the requirements. Currently, the Housing Successor is on its second five-year compliance period (July 1, 2019 through June 30, 2024) and will continue to ensure it complies with the expenditure requirements.

1.3 Assets Transferred to the Housing Successor Agency

The City prepared the required Housing Asset Transfer Form ("HAT") in 2012 that provided an inventory of all housing-related assets transferred from the former Agency to the Housing Authority following the dissolution of redevelopment. The HAT was approved by the California Department of Finance ("DOF) on August 1, 2013 and included:

- Real properties;
- Low-Mod Encumbrances; and
- Loans/Grants Receivables;

Section 2 Low- and Moderate-Income Housing Asset Fund

The Housing Asset Fund replaced the former Agency's Low- and Moderate-Income Housing Fund. It includes all assets transferred from the Agency to the Housing Authority via the HAT.

2.1 Housing Asset Fund Deposits and Ending Balance

As shown on Table 1 below, the Housing Authority deposited $5,355 into the Housing Asset Fund during FY 2021-22. Revenues were generated from interest earnings.

Table 1. Fiscal Year 2021-22 Housing Asset Fund Deposits

Revenue Source	Amount
Interest Earnings	$ 5,355
Total	**$ 5,355**

Source: City of Duarte, Fund 681 Trial Balance

As shown on Table 2 below, the Housing Asset Fund closed FY 2021-22 with $4 million in assets[1] - None of which is held to pay for enforceable obligations on the ROPS.

Table 2. Fiscal Year 2021-22 Housing Asset Fund Ending Balance

Balance Type [1]	Amount
Cash	$ 3,170,079
Land Held for Resale	881,753
Total	**$ 4,051,831**

[1] Excludes balance of Silent Second loans receivable, as it is not a part of the audited financials Asset Balance.

Source: City of Duarte, Fund 681 Trial Balance

[1] Excludes the balance of Silent Second loans receivable, as it is not part of the audited financial Asset Balance. The balance of the loans receivable was recorded as an allowance for doubtful accounts, as they are all forgivable and it is unknown if they will be paid.

2.2 Expenditure Limitations

Table 3 summarizes Housing Asset fund expenditures on administrative costs and homeless prevention in FY 2021-22, and affordable housing activities by income level from July 1, 2019 through June 30, 2024.

Table 3. Fiscal Year 2021-22 Housing Asset Fund Expenditures

	Annual Limits 2021-22		**Five-Year Limits** July 1, 2019 - June 30, 2024		
	Admin/ Monitoring	*Rapid Rehousing*	*Ext. Low <30% AMI*	*Very Low 31-60% AMI*	*Low 61-80% AMI*
FY 2019-20	$0	$0	$0	$0	$0
FY 2020-21	$0	$0	$0	$0	$0
FY 2021-22	$8,578	$0	$0	$0	$0
FY 2022-23					
FY 2023-24					
Total Expenditures	**$0**	**$0**	**$0**	**$0**	**$0**
SB 341 Limitation	*$223,400*	*$250,000*	*>30%*	*N/A*	*<20%*
Compliant (Yes/No)	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**

Source: City of Duarte, Fund 681 Trial Balance

There were $8,577.50 in Housing Asset Fund expenditures during FY 2021-22. The Housing Authority expenditures meet proportionality requirements for the July 1, 2019 through June 30, 2024 five-year period.

2.3 Statutory Value of Real Properties and Loan Receivables

The Housing Authority inherited 7 properties, 1 loan, and 1 low-mod encumbrance from the former Agency when it dissolved on February 1, 2012. Table 4 below shows the total value of real properties and loans receivable. The Housing Asset Transfer Form in Appendix A shows more detailed information about each property and loan receivable.

Table 4. Fiscal Year 2021-22 Real Properties & Receivables

Asset		**Amount**
Real Properties		
2400 Huntington Drive (Royal Mkt. Liquor)	$	875,687
Parking Lot Area (Rite-Aid)		6,065
Subtotal	**$**	**881,753**
Loan Receivables		
Silent Second Notes Receivable (5 loans)		75,000
Subtotal	**$**	**75,000**
Total	**$**	**956,753**

Source: City of Duarte, Duarte Housing Asset Transfer Form

The total statutory value of real properties is $881,753 and outstanding loan receivables[2] total is $75,000, for a combined value of $956,753.

[2] The City of Duarte also has a $1,200,000 loan that does not affect their balance. This agreement was established on December 4, 2013 between the City, Southern California Presbyterian Homes (SCP), and Andres Duarte Terrace II, L.P. for the development of 43 units of senior affordable housing. The loan was established to be repaid in 57 years, or 2070.

Section 3 Property Development & Disposition

HSC Section 33334.16 requires that all real properties acquired by the Agency prior to February 1, 2012 and transferred to the Housing Authority be developed for affordable housing purposes or disposed of within five years from the date DOF approved the HAT, or August 1, 2018. However, the law allows for a five-year extension via adoption of a resolution - The Housing Authority adopted a resolution allowing for a five-year extension. With the extension, the Housing Authority would have to sell or develop the remaining properties by August 1, 2023.

Of the 7 real properties transferred from the Agency to the Housing Authority (pursuant to the HAT), 2 have been sold and developed into affordable housing, 3 were sold and are in the process of being developed, and 2 are in the process of being sold. The properties are described below.

- **1660 & 1700 Huntington Drive**

  Both properties were sold in 2013 to Southern California Presbyterian Homes ("SCPH"), an experienced non-profit housing developer that has been providing housing and healthcare services to seniors for over 50 years. The property was developed as the Andres Duarte Terrace II, a 42-unit affordable senior housing development for very low-income seniors.

- **2400 Huntington Drive**

  This 20,345 square foot property was acquired with the intent of to assemble a group of properties to the east for a comprehensive residential development between the Elks Club and Las Brisas homes. The site was recently included in the 2021-2029 Housing Element as part of a new Affordable Housing Overlay (AHO) zone and will provide an incentive for higher densities for affordable housing. According to the Housing Element, the AHO will be complete by 2023, indicating that the property may not develop by August 1, 2023. Pursuant to HSC Section 33334.16, if the development of the property has not begun by August 1, 2023, the property will be made available for sale and the moneys shall be deposited into the Housing Successor's Low- and Moderate-Income Housing Fund.

- **1305, 1423, & 1437 Huntington Drive & Rite Aid Parking Lot Area**

  These four properties were acquired over time with the goal of creating a larger mixed-use town center area. The Successor Agency to the former Agency also owns a property in this area (1415 Huntington) and maintains the same goal. The general idea is to develop the eastern portion of the site with approximately 100-140 residential units (35-50 units/acre) and redevelop the existing commercial center by removal of some buildings and façade enhancement of others and focusing on tying the entire project together. 1423 and 1437 Huntington Drive were sold on October 15, 2018 and the proceeds of the sale were transferred to the Housing Asset Fund. 1305 Huntington Drive was sold in 2017, but the journal entry was completed and the proceeds transferred to the Housing Asset Fund in April of 2020. The Rite Aid Parking Lot Area remains to be sold. Pursuant to HSC Section 33334.16, if the development of the property has not begun by August 1, 2023, the property will be made available for sale and the moneys shall be deposited into the Housing Successor's Low- and Moderate-Income Housing Fund.

Section 4 Outstanding Inclusionary & Replacement Housing

According to the FY 2009-2014 Implementation Plan for the former Agency, no Section 33413(b) replacement or inclusionary/production housing obligations were transferred to the Housing Successor. Therefore, there are no outstanding inclusionary or replacement housing obligations of the former Agency to be fulfilled by the Housing Authority.

Section 5 Senior Housing Expenditure Proportionality

This Report must include an accounting of deed-restricted senior rental units that were produced over the last 10 years. The Housing Authority may use Housing Asset Funds to assist no more than 50% of the aggregate total number of senior housing units produced by either the Housing Authority or former Agency during the past 10 years. Exceeding this limitation will prohibit the use of Housing Asset Funds to subsidize any senior rental units in the future.

As shown in Table 5 below, the Housing Authority and former Agency assisted 1 property in the last ten years where 100% of the units are restricted to seniors. The Housing Authority may not spend any additional funds to subsidize senior rental units in the future until it can ensure that no more than 50% of the total aggregate number of rental units at all affordability levels produced within the preceding 10 years are restricted to seniors. The Housing Authority would have to subsidize at least 42 non-senior, affordable units to meet the required limitations to have the ability to subsidize additional senior units in the future. When the Housing Authority is back in compliance, it will need to consider these proportionality requirements and subsidize units in a way that keeps the proportions in compliance.

Table 5. Deed-Restricted Rental Units Assisted Since Fiscal Year 2012-13

Property Address	# Restricted Units	# Senior Restricted Units	Acquired/ Assisted	Covenant Expires
1700 Huntington Dr.	42	42	2015	2060
Total	**42**	**42**		
% Senior Units		**100%**		

Source: City of Duarte

Section 6 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 - funds should be encumbered within four years of receipt. SB 341 reinstates this calculation for housing successor agencies. HSC Section 34176.1(d) defines excess surplus 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 agency’s preceding four fiscal years, whichever is greater.”

As shown in Table 6 below, the Housing Asset Fund has an excess surplus of $933,829 in the Housing Asset Fund for FY 2021-22. The Housing Authority must encumber any excess surplus amount within three fiscal years, or the funds must be transferred to HCD for its Multifamily Housing Program or Joe Serna Jr. Farmworkers Housing Grant Program. The Housing Authority will be working to encumber the funds for affordable housing before the end of the three-year period in FY 2022-23. Although the Housing Successor has not chosen a housing project to encumber the existing excess surplus to, it has identified several possibilities and plans to encumber the funds by the end of FY 2022-23. The funds shall be encumbered in a manner that complies with the expenditure requirements shown in Section 1.2 of this Report.

Table 6. Excess Surplus Projections

FY	Deposits	Unencumbered Cash Balance[1]	Greater of 4 Yrs of Deposits or $1M[2]	Projected Excess Surplus[3]
FY 2017-18	-	933,829	1,000,000	-
FY 2018-19	1,895,539	933,829	1,000,000	-
FY 2019-20	332,713	2,829,368	1,966,471	862,897
FY 2020-21	11,221	3,162,081	2,299,184	862,897
FY 2021-22	5,355	3,173,302	2,239,473	933,829

[1] Represents the ending balance of the prior fiscal year or the beginning balance of the current fiscal year.

[2] Excess surplus is an unencumbered amount that exceeds the greater of $1 million or the aggregate amount deposited during the preceding four years. Assumes the first year of Housing Asset Fund deposits is FY 2012-13, when redevelopment agencies dissolved effective 2/1/2012.

[3] Projected excess surplus based on most current interpretation of the excess surplus calculation methodology. The Agency must encumber any excess surplus amount within three fiscal years, or the funds must be transferred to HCD for its Multifamily Housing Program or Joe Serna, Jr. Farmworker Housing Grant Program. Projected excess surplus is subject to change, as deposits for past reports are to be reviewed.

Source: City of Duarte, Fund 681 Trial Balance

Section 7 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 Agency that are subject to covenants or restrictions or to an adopted program that protects the former Agency's investment of moneys from the Low- and Moderate-Income Housing Fund. As shown in Table 7 below, there are 10 homeownership properties assisted by the former Agency that are still subject to homeownership affordability covenants. It is important to note that all but one unit will have affordability covenants that expire by 2023.

Table 7. Homeownership Units Assisted by Former RDA

Address	Assisted Units	Covenant Recorded	Covenant Expires
1517 Las Posadas Drive	1	12/16/1997	12/16/2022
1218 Monterey Court	**1**	**4/18/1997**	**4/18/2022**
1226 Monterey Court	**1**	**4/15/1997**	**4/15/2022**
1231 Monterey Court	**1**	**4/25/1997**	**4/25/2022**
1232 Carmel Court	**1**	**5/16/1997**	**5/16/2022**
1236 Carmel Court	1	5/1/2000	5/1/2025
1240 Carmel Court	**1**	**5/23/1997**	**5/23/2022**
1237 Carmel Court	1	9/19/1997	9/19/2022
1220 Laguna Court	1	4/10/1998	4/10/2023
1246 Cotter Avenue	1	6/2/1998	6/2/2023
Total	**10**		

Note: Bolded rows include covenants that expired during the current fiscal year.

Source: City of Duarte

Section 8 Deposits from City to Agency Loan Repayments

HSC Section 34191.4(b)(3)(C) requires that 20% of any loan repayment made from a redevelopment successor agency to a city, for a loan that a city made to a former redevelopment agency, be deducted from the loan repayment amount and transferred to the Housing Asset Fund.

The Housing Authority does not have any loans made from the former Agency to the City or Housing Authority that require a 20% set aside. However, the Housing Asset Fund was receiving payments for a Supplemental Education Revenue Augmentation Fund ("SERAF"). The SERAF loan was repaid and is no longer receivable.

APPENDIX A – Housing Asset Transfer Form

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