



**CITY COUNCIL AND HOUSING
AUTHORITY**

ITEM NO. IV. 1

AGENDA REPORT

**MEETING DATE:
01.17.12**

SUBJECT: FORMATION OF COSTA MESA HOUSING AUTHORITY

DATE: JANUARY 12, 2012

**FROM: THOMAS R. HATCH, CHIEF EXECUTIVE OFFICER / AGENCY EXECUTIVE
DIRECTOR**

**CONTACT: ALMA PENALOSA, MANAGEMENT ANALYST / 714-754-5692
MURIEL ULLMAN, NEIGHBORHOOD IMPROVEMENT MANAGER /
714-754-5167**

RECOMMENDED ACTIONS:

CITY COUNCIL:

1. A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF COSTA MESA, CALIFORNIA, DECLARING THAT THERE IS A NEED FOR A HOUSING AUTHORITY TO FUNCTION IN THE CITY, DECLARING THAT THE MEMBERS OF THE CITY COUNCIL SHALL BE THE COMMISSIONERS OF THE HOUSING AUTHORITY AND DESIGNATING THE FIRST INTERIM CHAIRMAN OF THE HOUSING AUTHORITY (***Attachment 1***)

HOUSING AUTHORITY:

2. A RESOLUTION OF THE COSTA MESA HOUSING AUTHORITY DESIGNATING OFFICERS OF THE HOUSING AUTHORITY, ADOPTING PERSONNEL RULES AND REGULATIONS AND A CONFLICT OF INTEREST CODE AND PROVIDING FOR THE TIME AND PLACE OF HOLDING REGULAR MEETING OF THE HOUSING AUTHORITY (***Attachment 2***)
3. A RESOLUTION OF THE COSTA MESA HOUSING AUTHORITY (***Attachment 3***) ADOPTING BYLAWS OF THE AUTHORITY (***Attachment 4***)

CITY COUNCIL:

4. A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF COSTA MESA DECLINING TO ASSUME THE HOUSING ASSETS AND FUNCTIONS OF THE COSTA MESA REDEVELOPMENT AGENCY AND CONFIRMING THAT THE COSTA MESA HOUSING AUTHORITY WILL ASSUME THE HOUSING ASSETS AND HOUSING FUNCTIONS PREVIOUSLY PERFORMED BY THE AGENCY PURSUANT TO HEALTH & SAFETY CODE SECTION 34176 (***Attachment 5***)

HOUSING AUTHORITY:

5. A RESOLUTION OF THE COSTA MESA HOUSING AUTHORITY ACCEPTING THE HOUSING ASSETS AND FUNCTIONS OF THE COSTA MESA REDEVELOPMENT AGENCY (***Attachment 6***)

BACKGROUND:

As presented at your January 10, 2012 Joint Agency/City Council meeting, the California Supreme Court's decision in *California Redevelopment Association, et al., v. Matosantos* ("Matosantos") upholds AB X1 26 and causes the dissolution of all California redevelopment agencies as of February 1, 2012, and invalidates AB X1 27 that would have allowed redevelopment agencies to remain in existence if the agency opted in to the "Voluntary Alternative Redevelopment

Program” (“Program”). All projects (both commercial, infrastructure and affordable housing) which were not considered “enforceable obligations” were immediately invalidated as of the date of the Court’s decision.

Prior to February 1, 2012 City Council must make another election pursuant to AB X1 26, specifically regarding the housing assets and functions of to be dissolved Costa Mesa Redevelopment Agency, City of Costa Mesa, California (“Agency”). Pursuant to new Health & Safety Code Section 34176, the City may elect to retain the “housing assets and functions previously performed by the redevelopment agency.” If the City elects to retain the responsibility, then “all rights, powers, duties, and obligations, [but] excluding any amounts on deposit in the Low and Moderate Income Housing Fund, shall be transferred to the [C]ity ...”.

If the City does not elect to retain the responsibility for performing housing functions then all such rights, powers, assets, liabilities, duties, and obligations associated with the housing activities of the former agency, again excluding the existing balances in the Housing Fund, must be transferred to: (1) the local housing authority, or (2) if there is more than one local housing authority in jurisdiction, then to the housing authority selected by the City, or (3) if there is no local housing authority then to State Department of Housing and Community Development (HCD).

As explained at the Joint Council/Agency meeting on January 10, 2012, the Dissolution Act is not clear about the scope of the housing responsibilities, if assumed by the City of Costa Mesa; thus, the alternative of forming a local housing authority in Costa Mesa was discussed and the City Council directed staff and legal counsel to prepare this agenda report and related action items for the City Council to consider and take action whether, or not, to form the “Costa Mesa Housing Authority” pursuant to the California Housing Authorities Law, Health & Safety Code Section 34200, *et seq.* (“HAL”).

As an update regarding State Senator Steinberg’s Senate Bill 654 (“SB 654”) that was discussed at the January 10 meeting, before the Senate Transportation and Housing Committee, SB 654 was recommended for approval and to become an urgency bill. SB 654 would allow the existing fund balances on deposit in each dissolved redevelopment agency’s low to moderate income “Housing Fund” to be transferred to the entity that assumes the housing assets and functions of the former redevelopment agency. If SB 654 passes, then monies in the Agency’s Housing Fund could be expended in the Costa Mesa community with decisions made by the City Council and newly formed Costa Mesa Housing Authority. The formation of the Costa Mesa Housing Authority could facilitate in carrying out affordable housing obligations of the City’s Housing Element, as well as other goals established by the City Council/Housing Authority Board. If created, a housing authority could be used both to assume the Agency’s housing assets and functions pursuant to Section 34176 and on an “as needed” basis without creating new State or Federally-imposed affordable housing obligations.

ANALYSIS

FISCAL REVIEW

At its meeting of January 10, 2012, the Costa Mesa Redevelopment Agency asked staff to present a fiscal overview outlining the impact of the elimination of future tax increment financing as well as the benefits of retaining vs. transferring its housing assets to the Orange County Housing Authority.

- Downtown and Low and Moderate Income Administration

Total tax increment flowing to the Redevelopment Agency is \$4.1 Million annually. Total salaries and benefits budgeted for FY 11-12 were \$ 652,620. In preparation for FY12-13, Staff is estimating \$428, 865 in budgeted salaries and benefits. With the anticipated administrative fund to the Successor Agency, the total impact to the General Fund could be \$300,000. However, this could be further offset by other possible revenue streams received by the Costa Mesa Housing Authority, assuming one is created. Additionally, 12% of the low mod fund is currently spent on administration and the balance is used for housing projects and programs. It is anticipated administration costs would also diminish given the reduction in available funds and the reality that it will take considerably longer to accrue funds for an affordable housing project. However, staff time will still need to be utilized for monitoring of existing projects with the amount dependent upon whether the RDA transfers the housing assets to the Orange County Housing Authority or creates its own Authority as described below. Additionally, even if some of the housing assets are transferred, there are several projects which have multiple funding sources which will require continual compliance monitoring by the City.

Staff has begun looking at different options for funding future housing projects as well as programmatic and staffing

reductions based on future available funds to avoid any impact to the General Fund. Staff will return to the City Council at a later date with financial and service delivery options, as well as a funding strategy for housing projects.

- Outstanding Housing Projects/Receivables

Attachment 7 displays the RDA's housing assets as well as the potential receivable value. The vast majority are long term commitments which are not scheduled to be paid back for several years. However, there are a few projects that are currently making payments that could possibly be utilized to offset the cost of a Housing Authority. For example, Costa Mesa Family Village currently has an annual payment requirement of \$108,000. If a local Housing Authority were created and retained the RDA's housing functions, these funds would be available for the Housing Authority to use for future projects and/or housing administration costs.

If the RDA's housing assets are transferred to the Orange County Housing Authority (OCHA), the revenue streams associated with them would also go to the Authority, as would the monitoring requirements. However, as stated above, because three of the projects were funded with multiple funding sources, HCD will be required to retain the monitoring responsibilities, even though the asset and any revenue stream will be transferred.

- Future Downtown Projects in Planning

\$4.6 Million in projects that were slated for future RDA funding will now have to compete for funding through the General Fund Capital Improvement Program and will not be affected by the creation of a Housing Authority. They are as follows:

1. Monument Sign at the Costa Mesa Senior Center	\$ 36,000
2. Historical Society Fencing Improvements	\$ 80,000
3. Harbor Blvd. Street Improvements	\$1.1 Million
4. Lions Park Improvements	\$1.3 Million
5. Cabrillo St. Street Improvements	\$ 300,000
6. West 19 th St. Street Improvements	\$ 110,000
7. Terminal Way Improvements	\$ 200,000
8. Placentia Ave. Median Improvements	\$1.5 Million

Creation of A Housing Authority and Preservation of Costa Mesa Redevelopment Agency Housing Assets

As required by and pursuant to State laws and regulations, the City and the Agency previously have carried out the community's affordable housing obligations. The Housing Element provides for how the City will carry out its Regional Housing Needs Assessment (RHNA), a State-imposed housing obligation designed to ensure the City accommodates its proportionate share of the regional housing needs as determined by the State.

Unlike community redevelopment project areas that encompass portion(s) of a city or county, the HAL provides that a housing authority is authorized to engage in activities related to development and maintenance of affordable housing "within its area of operation." The HAL defines "area of operation" as the entire city. The HAL empowers the Authority to carry out a broad range of activities, such as acquiring and leasing land, acquiring and rehabilitating existing units, clearing sites for development, financing construction of new or rehabilitated units, constructing public improvements to facilitate housing, owning and operating units, and operating programs and services that promote home ownership and responsible tenancy for persons of low income. Housing authorities are distinguished from former community redevelopment agencies, such as the HAL authorizes housing authorities to provide housing counseling, referrals, and advisory services in conjunction with new or rehabilitated housing projects. The HAL provides flexibility to housing authorities in directly constructing and owning new or rehabilitated housing units (versus former redevelopment agencies that generally did not own or operate affordable housing

The Agency's housing assets mentioned above could be transferred under the jurisdiction of the Housing Authority. However, unlike former community redevelopment agencies, there is no designated funding source for housing authorities. Housing authorities generally fund their activities with federal grants and entitlements. There are a number of federal housing and service programs for which an authority may apply; but, creation of an authority does not obligate the authority to apply for any federal or state programs if not well-suited to the City (and Agency's) affordable housing goals. A housing authority can be created and fund its activities with existing funding sources, such as from the Housing Fund (if SB 654 passes) and/or the City's CDBG or HOME Program monies, and be used to further a City's affordable

housing goals.

The Costa Mesa Housing Authority would be a distinct legal entity from the City (comparable to the soon to be dissolved Agency) with a separate governing board. The most common governing structure is that the city council serves as the governing board for the housing authority. Typically and as provided in the attached resolutions, the Mayor would serve as Chair and the Mayor Pro Tem as Vice Chair. In addition, the HAL requires that two “resident” board members be appointed by the governing board within two years of formation. A “resident” member is a person who resides in housing owned or controlled by the housing authority.

Reporting obligations of housing authorities are generally tied to specific funding sources. Unlike former community redevelopment agencies, there is no blanket obligation to create statements of indebtedness or five-year implementation plans. The goals and objectives of the Costa Mesa Housing Authority could be included in the City’s Consolidated Plan that is prepared every five years by the City. Operating expenses are anticipated to be minimal and staffing for the Costa Mesa Housing Authority would be provided with existing staff resources. A cooperation agreement between the City and Authority could be prepared to commit to pay for City staff and facilities used by the Costa Mesa Housing Authority.

Based on the assets identified in Attachment 7 as well as the potential to utilize existing housing fund monies, should SB 654 pass, staff is recommending that the City declare the need for and activate the Costa Mesa Housing Authority.

ALTERNATIVES CONSIDERED

If the City declines the assumption of housing assets and functions and does not initiate the proceedings to form a local housing authority, then the Orange County Housing Authority, as the only the “local housing authority” in the jurisdiction, would assume the duties and as of February 1, 2012, OCHA may enforce affordability covenants and perform related activities pursuant to applicable provisions of the Community Redevelopment Law (Part 1, commencing with Section 33000), including, but not limited to, Section 33418 as provided in Section 34176. The City would remain responsible for monitoring its multi-funded housing projects.

CONCLUSION:

Staff recommends the City Council declare the need for and activate the Costa Mesa Housing Authority, which would occur with the adoption of the attached City Council resolution making statutory findings, declaring the City Council as commissioners of the Costa Mesa Housing Authority, and appointing the Mayor as interim Chair pursuant to the HAL. If the City Council adopts this first resolution, then staff recommends adoption of the Housing Authority resolutions that would be the first and second resolutions of the newly formed Costa Mesa Housing Authority, which will carry out the initial formation and governance activities including appointing officers, adopting personnel rules, setting annual meeting date, adopting a conflict of interest code, and adopt bylaws. Lastly, the City Council will take action to decline the housing assets and functions of the former Agency and select the Costa Mesa Housing Authority to assume the housing assets and functions of the Agency as of February 1, 2012.

Thomas R. Hatch
Chief Executive Officer

Muriel Ullman
Neighborhood Improvement Manager

Bobby Young
Finance and I.T. Director

Alma Penalosa
Management Analyst

[Attachment 1: City Council Resolution -formation](#)

[Attachment 2: Housing Authority Resolution- formation](#)

[Attachment 3: Housing Authority Resolution Approving Bylaws](#)

[Attachment 4: Proposed Costa Mesa Housing Authority Bylaws](#)

[Attachment 5: City Council Resolution – declining Agency’s housing assets and functions](#)

[Attachment 6: Housing Authority Resolution – accepting Agency’s housing assets and functions](#)

[Attachment 7: Housing Asset Receivables](#)