



*CITY COUNCIL AND **HOUSING*** *AUTHORITY AGENDA REPORT*

MEETING DATE: JANUARY 19, 2016

ITEM No. **CC-4**

SUBJECT: FISCAL YEAR 2014-2015 INDEPENDENT FINANCIAL AUDIT OF THE COSTA MESA HOUSING AUTHORITY, AS HOUSING SUCCESSOR; AND, HOUSING SUCCESSOR ANNUAL REPORT OF THE LOW AND MODERATE INCOME HOUSING ASSET FUND PURSUANT TO SECTION 34176.1 OF THE DISSOLUTION LAW AND SECTION 34328 OF THE CALIFORNIA HOUSING AUTHORITIES LAW

DATE: JANUARY 7, 2016

FROM: COLLEEN O'DONOGHUE, CPA, ASSISTANT FINANCE DIRECTOR

PRESENTATION BY: COLLEEN O'DONOGHUE, CPA, ASSISTANT FINANCE DIRECTOR

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RECOMMENDATION:

Staff recommends that the City Council and Housing Authority receive and file the Fiscal Year 2014-2015 Independent Financial Audit of the Low and Moderate Income Housing Asset Fund and the Fiscal Year 2014-2015 Housing Successor Annual Report prepared pursuant to the California Health and Safety Code (HSC), Section 34176.1 as the housing successor, and Section 34328 as a housing authority.

BACKGROUND AND DISCUSSION:

On January 17, 2012, pursuant to the California Housing Authorities Law, Health and Safety Code Section 34200, *et seq.*, the City Council established the Costa Mesa Housing Authority (Housing Authority). Also on that date, the City Council selected the Housing Authority to be the housing successor and, as of February 1, 2012, to assume the housing assets, duties, functions and obligations of the former Costa Mesa Redevelopment Agency (former Agency). These actions occurred as a result of 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*, Assembly Bill 1484, and other subsequent dissolution legislation including Senate Bill 107 (together, "Dissolution Law"), which laws regulate the administration of successor agencies and housing successors due to the dissolution of all California

redevelopment agencies. Further, pursuant to Section 34328 of the California Housing Authorities Law, Health and Safety Code Section 34200, *et seq.* (HAL), the Housing Authority also prepares and presents an annual report on its activities for the preceding year.

Pursuant to Section 34176, added by AB x1 26 and amended by AB 1484, the State Department of Finance (DOF) issued a decision letter in January 2013 that confirms the Housing Authority holds all affordable housing assets of the former Agency as listed in a housing asset transfer schedule prepared by Costa Mesa and submitted to the DOF prior to August 1, 2012. All housing assets are now held and administered by the Housing Authority 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 and Senate Bill 107.

All housing successors are required to follow certain expenditure and accounting rules. Section 34176.1(f) requires the housing successor to conduct an independent financial audit of the LMIHAF (Audit) and prepare an annual report (Report) for each fiscal year of the housing successor, and provide such reports to the governing body, within six months after the end of each fiscal year. By statute, this Audit may be included in the City's independent financial audit and comprehensive audit financial report (CAFR), which has been prepared by White Nelson Diehl Evans LLP. The section in the City's audit/CAFR relating to this Audit is entitled: "*Costa Mesa Housing Authority (A Component Unit of the City of Costa Mesa) Financial Report for the Year Ended June 30, 2015*". The Audit and Report are attached to this agenda report for the City Council and Housing Authority's review and to take minute action to receive and file both reports. Further, as required by Section 34176.1, the Report and the former Agency's pre-dissolution Implementation Plan are available to the public on the City's website (www.costamesaca.gov).

Based upon information prepared by staff and data contained in the Audit, the Report presents information organized into the following, sections I. to XI., inclusive, pursuant to Section 34176.1(f) of the Dissolution Law:

- 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 14-15 and itemized by amounts deposited in FY 14-15 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 14-15. 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 14-15. The expenditures are

to be categorized among (A) administration for monitoring, 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 Successor, the value of loans and grant receivables, and the sum of these two amounts.
- VI. **Description of Transfers.** This section describes transfers, if any, to another housing successor agency 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, housing for agricultural employees or special needs housing.
- VII. **Project Descriptions.** This section describes any project for which the Housing Successor receives or holds property tax revenue pursuant to 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 restriction for five year period, with the time period beginning January 1, 2014 and whether the statutory thresholds have been met. However, reporting of the Income Test is not required until 2019.
- XI. **Senior Housing Test.** This section provides the percentage of units of deed-restricted rental housing 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 time period. For this Report the ten-year period reviewed is January 1, 2004 to January 1, 2014, and for the first six months of the next ten-year period of January 1, 2014 to January 1, 2024.

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 an 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, and (C) any funds returned to the housing successor pursuant to losses or repayments.

XIV. Additional Information about CMHA's Activities for the Preceding Fiscal Year 14-15 per HSC Section 34328. This section relates to the HAL and presents other information about the Housing Authority not otherwise described in the preceding sections of the Report.

ALTERNATIVES CONSIDERED:

As this is a receive and file action, there are no options presented.

FISCAL REVIEW:

There is no fiscal impact associated with receiving and filing the Audit and Report.

LEGAL REVIEW:

Special Counsel Celeste Brady of Stradling Yocca Carlson & Rauth assisted staff with preparation of the Report and this agenda report.

CONCLUSION:

Staff recommends that the City Council and Housing Authority receive and file the Audit and Report as presented.

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STEPHEN G. DUNIVENT
Interim Finance Director

Attachment 1. [Housing Successor Annual Report for FY 14-15](#)

Attachment 2. [Costa Mesa Housing Authority \(A Component Unit of the City of Costa Mesa\) Financial Report for the Year Ended June 30, 2015](#)