HOUSING SUCCESSOR ANNUAL REPORT
Merced Housing Successor Agency

Fiscal Year 2023-24

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INTRODUCTION

This Housing Successor Agency Annual Report ("Annual Report") presents information on Fiscal Year ("FY") 2023-24 activities as required by Health and Safety Code ("HSC") Section 34176.1(f), demonstrating compliance with various annual, five-year, and ten-year expenditure and housing production requirements. This Annual Report is required of any housing successor to a former redevelopment agency.

City as Housing Successor

California redevelopment agencies dissolved statewide in 2012. At the time of dissolution, a housing successor was to be selected to assume possession of and be responsible for the remaining housing assets and liabilities of a former redevelopment agency.

The City of Merced ("City") became the Housing Successor Agency ("Housing Successor") to the former Merced Redevelopment Agency ("Agency") by adoption of Resolution No. 2012-5 on January 12, 2012. The former Agency's affordable housing rights, powers, assets, liabilities, duties, and obligations, excluding any amounts in the former Agency's Low and Moderate Income Housing Fund, were transferred to the City. Housing Successor assets are maintained in a Low and Moderate Income Housing Asset Fund ("Housing Asset Fund").

The Merced Designated Local Authority to the former Merced Redevelopment Agency ("DLA") and the Oversight Board to the Merced Designated Local Authority ("Oversight Board") oversee the administration of non-housing obligations of the former Agency. Earlier on in the redevelopment dissolution process, the DLA and Oversight Board approved the transfer of certain properties to the Housing Successor, however they do not have ongoing oversight of Housing Successor assets and activities.

Scope of This Housing Successor Annual Report

This Annual Report is limited to the City's activities as it relates to its role as a housing successor. Activities include, but are not limited to, financial transactions, property disposition, loan administration, and maintaining affordability covenants. It reports compliance with annual, five-year, and ten-year limits on expenditures and housing production. FY 2023-24 represents the final year of the current five-year compliance period for income proportionality, which began in FY 2019-20 and ended FY 2023-24.

The Annual Report is due to the California Department of Housing and Community Development ("HCD") by April 1 annually as an addendum to the City's Housing Element Annual Progress Report. The City's audited financial statements for FY 2023-24, which includes an audit of Housing Successor funds, is available on the City website and incorporated herein by reference.

BACKGROUND

This section summarizes the process of transferring former redevelopment assets to a housing successor, as well as the legal requirements for use of these assets that are addressed in this Annual Report.

Assets Transferred to the Housing Successor

After the City elected to become the Housing Successor in 2012, it prepared a Housing Asset Transfer Form ("HAT") that provided an inventory of all housing assets transferred from the Agency to the City.[1] The HAT listed 90 housing assets to transfer from the former Agency to the City as permitted by HSC Section 34176(e):

- 21 Real Properties
- 4 Low-Mod Encumbrances
- 40 Loans Receivable
- 7 Rental Agreements
- 18 Deferrals

The California Department of Finance ("DOF") approved the transfer of all but four assets in a determination letter dated February 25, 2013. The four assets denied on the HAT were related to a Disposition and Development Agreement ("DDA") with Merced Pacific Associates to develop the Woodbridge Apartments. They included the following HAT items:

- Exhibit C, Item 2: $3 million Construction Loan low-mod encumbrance;
- Exhibit D, Item 3: $3 million Construction Loan receivable;
- Exhibit D, Item 4: $800,000 Participation Loan A; and
- Exhibit D, Item 5: $4,888,500 Participation Loan B

DOF denied the transfer of these assets to the Housing Successor because the former Agency was not party to the loan agreements. The loan documents are between Merced Pacific Associates and the City of Merced Public Financing and Economic Development Authority ("PFEDA"). However, the DDA and related PFEDA loan agreements pledged the former Agency's Low and Moderate Income Housing Funds to fund the loans. The City accounts for the Merced Pacific Associates loans as receivable to the Housing Asset Fund in good faith so any repayments are restricted for use on affordable housing activities as originally intended by the former Agency.[2]

[1] The HAT is attached as Appendix 3.

[2] It is possible these notes receivable could be transferred out of the Housing Asset Fund in the future if determined to be the appropriate based on ongoing discussions with DOF.

The remaining 86 items on the HAT were approved for transfer; however, the transfer of 21 properties were subject to the findings of a California State Controller's Office ("SCO") Asset Transfer Review. The SCO Asset Transfer Review ultimately resulted in the transfer of ten properties to the Housing Successor. Nine properties were transferred by the adoption of Oversight Board Resolution No. 2017-04 on January 26, 2017. DOF approved the action on May 15, 2017. A tenth property was approved for transfer by the adoption of Oversight Board Resolution 2019-013. DOF approved the action on September 9, 2019.

The remaining 11 properties were either sold by the City or transferred as non-housing assets to the DLA or to the City. Table 1 summarizes the transfer status of the properties on the HAT.

Table 1: Status of HAT Properties

<table>
<tr><th>Count</th><th>HAT Item</th><th>Address</th><th>APN[3]</th><th>Type</th></tr>
<tr><td colspan="5">Transferred to Housing Successor</td></tr>
<tr><td>1</td><td>3</td><td>1823 I Street</td><td>031-074-009</td><td rowspan="5">Vacant Land – Linc DDA for affordable rental housing</td></tr>
<tr><td>2</td><td>5</td><td>1815 I Street</td><td>031-074-010</td></tr>
<tr><td>3</td><td>6</td><td>205 W. 18th Street</td><td>031-074-011</td></tr>
<tr><td>4</td><td>16</td><td>211 W. 18th Street</td><td>031-074-012</td></tr>
<tr><td>5</td><td>18</td><td>202 W. 19th Street</td><td>031-074-008</td></tr>
<tr><td colspan="5">Sold by Housing Successor[4]</td></tr>
<tr><td>1</td><td>20</td><td>454 W. 8th Street</td><td>032-161-002</td><td>Single-Family House</td></tr>
<tr><td>2</td><td>21</td><td>951 W. 7th Street</td><td>032-133-015</td><td>Single-Family House</td></tr>
<tr><td>3</td><td>7</td><td>1744 I Street</td><td>031-161-001</td><td rowspan="4">Vacant Land – Fuller Center affordable ownership housing</td></tr>
<tr><td>4</td><td>8</td><td>150 W. 19th Street</td><td>031-082-002</td></tr>
<tr><td>5</td><td>17</td><td>49 W. 18th Street</td><td>031-084-011</td></tr>
<tr><td>6</td><td>19</td><td>26 W. 18th Street</td><td>031-163-005</td></tr>
<tr><td>7</td><td>9</td><td>73 South R Street</td><td>059-256-004</td><td>Vacant Land – CC 915 affordable rental housing</td></tr>
</table>

[3] Some of properties on the HAT reference a different address or Assessor's Parcel Number ("APN") because they were revised since the HAT was prepared in 2012. The addresses and APNs in this report match those approved by the Oversight Board and DOF in 2017.

[4] These two properties were sold by the Housing Successor in FYs 2011-12 and 2014-15. DOF ratified their transfer and sale on September 9, 2019.

Count	HAT Item	Address	APN[3]	Type
Transferred to DLA				
1	1	376 S. West Avenue	059-240-018	Vacant Land
2	2	33 Parsons Avenue	035-140-018	Vacant Land
3	4 & 14	406 Childs Avenue / 112 Canal Street	059-240-081	Vacant Land
4	11	2490 & 2498 G Street	033-032-015	Vacant Land
5	12	1011 W. 14th Street	031-203-018 & -019	Vacant Land
6	13	843 & 849 W. 14th Street	031-213-015 & -016	Vacant Land
7	15	823 W. 14th Street	031-213-012	Vacant Land
Transferred to DLA then City				
1	10	25 E. Santa Fe Ave	033-032-013	Sidewalk

Legal Requirements Pertaining to Housing Successors

A year after dissolution of redevelopment began, the State Legislature recognized the need to regulate and provide transparency on the use of the housing activities transferred from a former redevelopment agency. Senate Bill 341 (DeSaulnier, 2013) and subsequent legislation enacted several requirements for housing successor agencies contained in HSC Sections 34176-34176.1.

In general, housing successors must comply with three major requirements pursuant to HSC 34176.1:

1. Expenditures and housing production are subject to income and age targets.

2. Housing successors may not accumulate an "excess surplus," or a high Housing Asset Fund unencumbered balance based on certain thresholds.

3. Properties must be developed with affordable housing within five to ten years of DOF's approval of the HAT.

Appendix 1 provides a detailed summary of the reporting requirements that are addressed in this Annual Report.

Permitted Uses of Housing Asset Funds

Pursuant to HSC Section 34176.1, Housing Asset Funds may be spent on:

- **Administrative costs** for operation of the housing successor agency. The law allows a housing successor to spend the greater of:
    - $200,000 per year adjusted for inflation, or
    - 5% of the statutory value of real property owned by the housing successor and the value of loans and grants receivable from the HAT ("Portfolio").
- **Homeless prevention and rapid rehousing services** up to $250,000 per year if the former redevelopment agency did not have any outstanding inclusionary housing or replacement housing production requirements as of 2012. Merced was eligible for this expense as of FY 2020-21 because the Childs and B Street Affordable Housing Project assisted that year fulfilled the former Agency's outstanding inclusionary housing obligation of an estimated 11 very low income units.
- **Affordable housing development** assisting households up to 80 percent of the Area Median Income ("AMI"), subject to specific income and age targets over a five-year period.

    Five-Year Income Proportionality on Development Expenditures: Housing Asset Funds may be spent on development of affordable housing projects affordable to low, very low, and extremely low income households. "Development" is defined as "new construction, acquisition and rehabilitation, substantial rehabilitation as defined in HSC Section 33413, the acquisition of long-term affordability covenants on multifamily units as described in HSC Section 33413, or the preservation of an assisted housing development that is eligible for prepayment or termination or for which within the expiration of rental restrictions is scheduled to occur within five years."

    Over each five-year compliance period, the current one beginning July 1, 2019, at least 30 percent of such development expenditures must assist extremely low income households (30% AMI), while no more than 20 percent may assist low income households (between 60-80% AMI). The balance of the funds may be used on very low income households (defined as households earning between 30% and 60% of AMI).

    The first five-year compliance period was January 1, 2014 through June 30, 2019. The Housing Successor did not make any development-related expenditures during the first five-year compliance period. Thus, the Housing Successor was in compliance with Housing Asset Fund income proportionality expenditure requirements during the first five-year compliance period. The current (second) five-year compliance period is July 1, 2019 to June 30, 2024.

    Note that housing successors must report expenditures by category each year, but compliance with income proportionality limits is measured every five years. For example, a housing successor could spend all its funds in a single year on households earning between 60-80% AMI, as long as it was 20 percent or less of the total expenditures during the five-year compliance period.

Should a housing successor not spend at least 30% of its development expenditures for extremely low income households, or exceeds the amount spent on low income households, future expenditures are subject to greater restriction until these proportionality targets are met. Specifically, if a housing successor is unable to spend at least 30% of its development expenditures on extremely low units, it is required to increase this spending to 50% until compliant with the 30% threshold; a housing successor that spends more than 20% of its development expenditures on low income units cannot spend any further funds on low income developments until it is at or below the 20% threshold.

As such, tracking these expenditures and their progress over the corresponding five-year period is a valuable and necessary function of this Annual Report.

Ten-Year Age Proportionality on Units Assisted: If more than 50% of the total aggregate number of rental units produced by the city, housing authority, or former redevelopment agency during the past 10 years are restricted to seniors, the housing successor may not spend more Housing Asset Funds on senior rental housing.

Appendix 2 describes Housing Asset Fund expenditure requirements in more detail, including the types of costs eligible in each category.

Limits on the Accumulation of Housing Funds (Excess Surplus)

State law limits how much cash a housing successor may retain and, if it fails to commit and spend these dollars in a reasonable timeframe, ultimately penalizes the housing successor by requiring unspent funds to be transferred to HCD for use on State housing programs.

HSC Section 34176.1(d) establishes a limit, known as an “excess surplus” on the amount of unencumbered Housing Asset Funds based on the greater of the following:

- $1,000,000, or
- The total amount of deposits made into the Housing Asset Fund over the preceding four years.

Only amounts in excess of this threshold are considered an excess surplus. Once an excess surplus is determined, a housing successor must account for these funds separately and encumber said monies within three years. If after the third year the excess surplus has not been fully encumbered, the remaining balance of the excess surplus is to be transferred to HCD within 90 days. HCD is permitted to use these transferred excess surplus funds anywhere in the State under its Multifamily Housing Program or the Joe Serna, Jr. Farmworker Housing Grant Program.

The concept of excess surplus carries over from the era prior to dissolution of Redevelopment Law, when redevelopment agencies often were receiving substantial amounts of deposits from the mandatory housing set-aside of 20% of tax increment revenues. Today, excess surpluses are generally less common because housing successors no longer receive deposits comparable to the pre-dissolution period.

As part of the Annual Report, a housing successor must disclose any excess surplus and describe the housing successor's plan for eliminating this excess surplus.

HOUSING ASSET FUND ACTIVITY

Deposits and Fund Balance

The City deposited $318,118 into the Housing Asset Fund during FY 2023-24, as shown in Table 2.

Table 2: Housing Asset Fund Deposits, FY 2023-24

Revenue Source	Amount
Loan Repayments	274,396
Interest Earned	4,802
Investment Earnings	38,920
Total[1]	**318,118**

[1]Excludes Change in Fair Value and notes receivable accruals ($55,210)

Source: City of Merced, Funds 2513 and 5009 Revenue Reports

Revenue sources consist of the following:

- Repayments on loans extended by the former Agency or Housing Successor to developers and homeowners;
- Interest accumulated from the outstanding balance on loans extended by the former Agency or Housing Successor; and
- Investment earnings accumulated from the Housing Successor cash balance.

Expenditures

The City expended $395,891 in Housing Asset Funds during FY 2023-24, all of which were administrative expenses and are within the annual maximum of $456,445. This includes a $269,650 loan transfer related to a project at 1820 I Street that was immediately repaid and did not result in any 55-year Housing Successor covenants.

Ending Cash and Fund Balance

The Housing Asset Fund balance as of June 30, 2024 was $11,199,209 as summarized in Table 3.

Table 3: Housing Asset Fund - Ending Balance as of June 30, 2024

Balance Type		Amount
Cash[1]	$	2,056,382
Real Property[2]		546,191
Notes Receivable		8,582,717
Interest Receivable		13,919
Ending Balance	**$**	**11,199,209**

[1] Excludes Fund 2513 Change in Fair Value accrual of $-50,205

Source: City of Merced, Funds 2513 and 5009 Balance Sheets

Housing Successor Portfolio

The Housing Successor Portfolio as of FY 2023-24 includes 5 real properties transferred from the former Agency and 19 loans receivable. The Portfolio had a value of $9,128,908 as of FY 2023-24, as detailed in Table 4.

Table 4: Housing Successor Real Property and Loans Receivables Portfolio

Asset		Amount
Real Properties		
205 W. 18th Street		85,370
211 W. 18th Street		241,380
202 W. 19th Street		115,132
1823 I Street		19,050
1815 I Street		85,259
Subtotal	*$*	*546,191*
Loans Receivable	$	8,582,717
Total Portfolio Value	**$**	**9,128,908**

Source: City of Merced

REAL PROPERTIES AND DISPOSITION STATUS

DOF approved the transfer of 21 real properties listed on the HAT, pending further review by the SCO Asset Transfer Review. The SCO Asset Transfer Review and subsequent DOF review ultimately resulted in:

- 10 properties transferred to the Housing Successor
- 2 properties sold by the Housing Successor
- 8 properties transferred to the DLA as non-housing assets
- 1 property transferred to the DLA then transferred back to the City as a governmental use (a sidewalk)

The status of the 12 properties that were transferred to or sold by the Housing Successor are described in this section.

HSC Section 34176.1 requires that all real properties acquired by the former Agency prior to February 1, 2012 and transferred to the Housing Successor be developed pursuant to the requirements detailed in HSC Section 33334.16. All property that falls within in these parameters must be developed for affordable housing purposes within five years from the date DOF approved the HAT, or February 25, 2018. The law permits a five-year extension by adoption of a resolution. The City extended the deadline for an additional five years to February 25, 2023 by adoption of Resolution No. 2018-67.

Seven properties on the HAT were sold by the Housing Successor prior to FY 2023-24:

- **454 W. 8th Street**: This single-family home was sold in FY 2014-15. Net sales proceeds totaling $139,030 were deposited into the Housing Asset Fund.
- **951 W. 7th Street**: This single-family home was sold in FY 2011-12. Net sales proceeds totaling $90,503 were deposited into the Housing Asset Fund.
- **26 W. 18th Street , 49 W. 18th Street, 150 W. 19th Street, and 1744 I Street**: These vacant lots were sold to the Fuller Center (formerly Habitat for Humanity) on April 14, 2023. The City Council approved a DDA with the Fuller Center in November 2022 to develop four properties with four to five units of ownership housing affordable to very low (50% AMI) households.
- **73 S. "R" Street**: This vacant lot was sold to CC 915 on October 28, 2022. The City has a DDA with CC 915 to develop 21 studio units at 73 South "R" Street, of which 20 are affordable to extremely low (30% AMI) households that are chronically homeless or experiencing homelessness. Escrow closed on October 28, 2022 and the construction is underway.

Five properties remain under Housing Successor ownership as listed in Table 5. The City Council approved an ENA with Linc Housing in January 2022 and a DDA was approved in January 2024 to develop five contiguous properties into a 54-unit rental housing development. The Housing Successor shall restrict 22 units affordable to extremely low (30% AMI) to low (80% AMI) households. The remaining units shall be affordable to moderate income (120% AMI) households and one manager unit.

Table 5: Real Properties Held by the Housing Successor

#	Address	Lot S.F.	Negotiating Party
1	1823 I Street	2,100	
2	1815 I Street	2,400	
3	205 W. 18th Street	3,000	Linc Housing
4	211 W. 18th Street	7,500	
5	202 W. 19th Street	7,500	

Source: City of Merced

The Housing Successor will ensure that development meets the requirements of HSC 34176.1 and the Surplus Lands Act.

LOANS RECEIVABLE

The HAT listed 40 loans receivable and 18 deferrals; several loans have been paid off since dissolution. This section describes the status of loans receivable as of FY 2023-24.

Homeowner Loans

As of June 30, 2024, the Housing Successor had 6 outstanding homeowner loans with an outstanding balance of $306,449[5]. The former Agency made the loans through low income first-time homebuyer and rehabilitation programs. Although most loans require monthly payments, some loan holders are unable to make regular payments. Over half of the remaining loans (four out of six) are forgivable at the Housing Successor's discretion or upon sale. The Housing Successor does not intend to forgive loans and collects payments based on loan holders' ability to pay.

Developer Loans

The Housing Successor oversees loans issued by the former Agency as detailed below:

[5] The homeowner and developer loans receivable balances are from a Housing Notes Receivable spreadsheet maintained by Finance Department. Values may not match the total notes receivable balance reported in Table 4 (from the Fund 2513 and 5009 Balance Sheets) due to allowances for uncollectibles or other accounting adjustments.

- **Merced Pacific Associates (Woodbridge Place Apartments):** This property has three outstanding loans issued by PFEDA to implement a DDA executed by the former Agency that pledged Low and Moderate Income Housing Funds. They are payable annually from residual receipts:

    - Participation Loan A;
    - Participation Loan B; and
    - Construction Loan (the principal balance rolled over into the Participation Loans and only interest remains).

  The outstanding balance on these three loans as of June 30, 2024 was approximately $9.0 million. There is no forgiveness clause in the DDA. As previously noted, these loans receivable were denied on the HAT but are accounted for in the Housing Asset Fund because the DDA and related PFEDA loan agreements pledged the former Agency's Low and Moderate Income Housing Funds to fund the loans. It is possible the loans will be transferred out of the Housing Asset Fund in the future based on ongoing discussions with DOF.

  The Housing Asset Fund includes a fourth loan receivable from Merced Pacific Associates with a remaining balance of $255,911 as of June 30, 2024. It is related to an Energy Efficiency Loan funded with Energy Efficiency and Conservation Block Grant Program Funds the City received from the United States Department of Energy ("DOE"). It is possible this loan will be transferred out of the Housing Asset Fund in the future to account for being funded with DOE funds.

- **Merced Lofts, LLC**: Merced Lofts, LLC: The former Agency issued a $1.3 million loan to Merced Lofts, LLC in 2004 in exchange for building a multi-use project, including 11 low and moderate income rental units. The property has since been sold, and pursuant to a negotiated settlement the property paid $75,301 in FY 2024-25. The loan repayment will be reflected in the deposits in the FY 2024-25 annual report. The loan is considered paid off.

- **Central Valley Coalition for Affordable Housing**: Two loans were issued to the Central Valley Coalition for Affordable Housing in exchange for constructing or rehabilitating two homes affordable to low and moderate income households. An $80,000 loan issued in 1998 was paid off in FY 2018-19 and a $65,000 loan issued in 2001 was paid off in FY 2019-20.

  The Housing Successor administered two additional loans issued to the Central Valley Coalition for Affordable Housing. The loans were related to an Owner Participation Agreement with The Grove, L.P. ("Grove OPA") dated October 21, 2002 to develop 204 affordable units. The former Agency issued a $1,000,000 loan from low and moderate income housing funds ("Housing Fund Loan"), with 3% annual interest over a 40-year term to be paid from residual receipts. A second $4,000,000 Section 108 loan was issued by the U.S. Department of Housing and Urban Development to the City ("HUD 108 Loan") to assist with development. The HUD 108 Loan was guaranteed with former Agency low and moderate income housing funds through a Debt Service Funding Agreement. The City issued a third $990,000 loan from HOME funds to The Grove, L.P., however that loan is not a housing successor asset.

The Grove, L.P. refinanced the project and paid off the loans in January 2021.

- **Merced Senior Investors (Sierra Meadows Apartments):** The former Agency issued a $1.3 million loan in 1994 to subsidize development of the Sierra Meadows Apartments, which has 100 senior units built by the Affordable Housing Development Corporation ("AHDC"). The loan was backed by the former Agency's purchase of Housing Authority of the City of Fresno Multifamily Housing Revenue Bonds ("Fresno Bonds"). The Housing Successor received a final loan payment of $212,925 in FY 2019-20. Pursuant to a second amendment to the Disposition and Development Agreement for the project, the remaining loan balance of $130,969 was forgiven and the loan has been paid off.

- **Merced CA Apartments LP (Childs & B):** The Housing Successor provided a $1,200,000 loan in FY 2020-21 to assist with the development of 30 rental units affordable to extremely low (30% AMI) households in a 119-unit rental development. The remaining 89 units are affordable to very low (50% AMI) households and were assisted by other funding sources. No units are age-restricted. The units will remain affordable for 55 years from project completion. The loan is payable from residual receipts with 3% annual interest, with the loan balance due at the end of a 55-year term.

COMPLIANCE WITH EXPENDITURE & PRODUCTION LIMITS

During FY 2023-24, the Housing Successor complied with all annual, five-year, and ten- year expenditure and proportionality requirements as described in this section.

Proportionality Requirements

The Housing Successor fully complied with all Housing Asset Fund spending restrictions in FY 2023-24 and the five-year compliance period of July 1, 2019 through June 30, 2024 as follows:

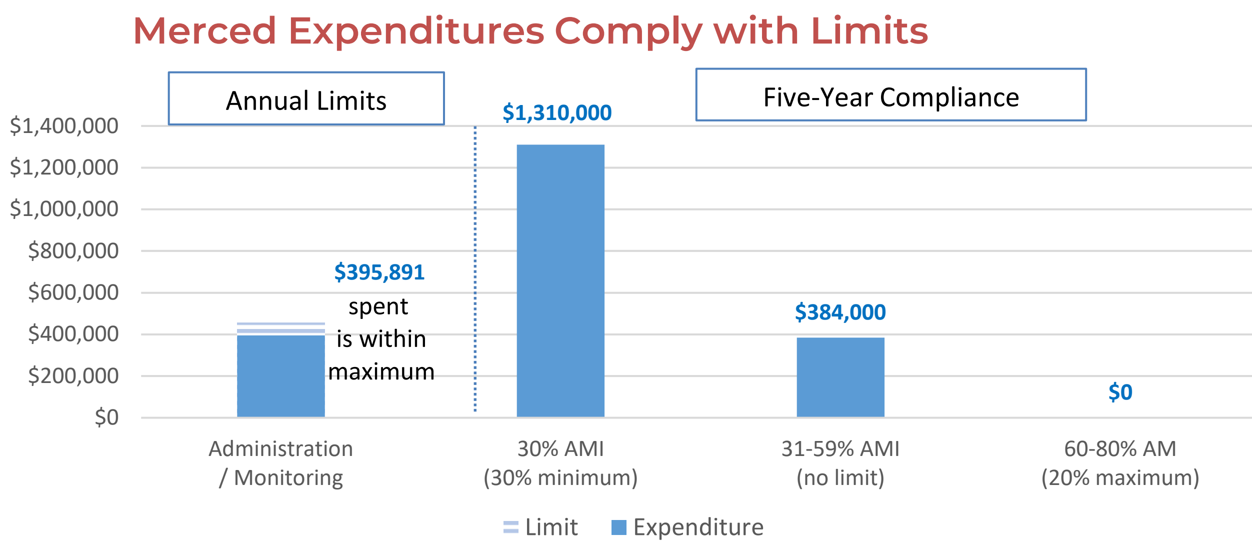
- The Housing Successor expended $395,891 on allowable administrative expenses, which is well under the maximum limit of $$456,445. The annual limit on administrative expenses is the greater of $200,000 (plus inflation), or 5% of the Housing Successor Portfolio balance. As shown in Table 4, the Portfolio balance is $9,128,908 , of which 5% is $456,445.

- The Housing Successor did not use any Housing Asset Funds for homeless prevention or rapid rehousing expenses.

- The Housing Successor met all Housing Asset Fund expenditure requirements throughout the five-year compliance period of July 1, 2019 through June 30, 2024. The Housing Successor was required to spend at least 30% of its affordable housing expenditures assisting households with incomes up to 30% AMI and at most 20% assisting households with incomes between 60-80%

AMI. The Housing Successor contributed $1,694,000 in funding and property values; $1,310,000 (77%) assisted 30% AMI households and $384,000 (23%) assisted 50% AMI households as shown in Figure 1.

Figure 1: 2023-24 Housing Asset Fund Expenditure Compliance



- The Housing Successor contributed $1,200,000 assisting 30 rental units at the Childs Court Apartments (Childs & B) affordable to extremely low income units.
- 73 S. "R" Street, with an appraised value of $110,000, was contributed to CC915 to assist 20 extremely low income units.
- Four properties with an appraised value of $377,000 plus $7,000 in soft costs (for a total of $384,000) were contributed to the Fuller Center to assist four to five very low income units.

The Housing Successor will ensure continued compliance in future periods. Failure to comply with the extremely low income requirement in any five-year compliance period will result in the Housing Successor having to ensure that 50 percent of remaining funds be spent on extremely low income rental units until in compliance. Exceeding the expenditure limit for low income households earning between 60-80% AMI in any five-year reporting period will result in the Housing Successor not being able to expend any funds on these income categories until in compliance.

Senior Rental Housing Limit Compliance

Pursuant to HSC Section 34176 (b), a maximum of 50% of deed-restricted rental housing units assisted by the former Agency, Housing Successor, or City in the previous 10 years may be restricted to seniors. The Agency, Housing Successor, and City have not produced any senior-restricted rental housing in the last ten years. Therefore, the Housing Successor complies with the limit of allowing no more than 50 percent of the total aggregate number of rental units produced within the preceding ten years to be restricted to seniors.

The City and Housing Successor have assisted 516 deed-restricted rental units in the prior ten years (since 2014-15) as shown in Table 6. No units were restricted to seniors. Therefore, the Housing Successor may assist up to 516 senior units and remain in compliance with this requirement. There may be other projects assisted by the City in the last ten years that would permit the Housing Successor to assist more than 516 senior units.

Table 6: Deed-Restricted Senior Rental Units

Property	# Restricted Units	# Senior Restricted Units	Year Assisted	Covenant Expires
Childs & B	119	0	2020-21	55 years from occupancy
Fuller Center	5	0	2022-23	45 years from occupancy
CC 915	20	0	2022-23	55 years from occupancy
TwelveThirteen	96	0	2022-23	55 years from occupancy
Linc Housing (5 properties)	54	0	2023-24	55 years from occupancy
Devonwood	156	0	2023-24	55 years from occupancy
Mercy Village	66	0	2023-24	55 years from occupancy
Total	**516**	**0**		
% Senior Units		***0%***		

Source: City of Merced

Excess Surplus

The Housing Successor did not accumulate an excess surplus in FY 2023-24, as illustrated in Table 7. The unencumbered beginning cash balance of $2,136,864 is less than the sum of deposits in the prior four years of $3,095,792. There is no excess surplus as of FY 2023-24.

Table 7: FY 2023-24 Excess Surplus Calculation

Step 1: Determine Unencumbered Cash Balance From Financials					
FY 23-24 Beginning Cash Balance		$	2,136,864		
Less: Encumbered Funds					
Unencumbered Amount				$	2,136,864
Step 2: Determine Greater of $1M or Last 4 Deposits					
$1 Million, or				$	1,000,000
Last 4 years' deposits				$	3,095,792
	2022-23	*$*	*50,274*		
	2021-22	*$*	*129,988*		
	2020-21	*$*	*1,989,336*		
	2019-20	*$*	*926,194*		
Result: Larger Number				$	3,095,792
Step 3: Excess Surplus is Amount Step 1 Exceeds Step 2, if Any					
(1) Unencumbered Amount		$	2,136,864		
(2) Less: Larger Number From Step 2		$	3,095,792		
Excess Surplus					None

Source: City of Merced

OTHER INFORMATION

Homeownership Unit Inventory

Table 8 presents an inventory of homeownership units assisted by the former Agency or Housing Successor that require restrictions, covenants, or an adopted program that protects Housing Asset Fund monies.

Table 8: Homeownership Unit Inventory in Housing Asset Fund

Property Address[1]	# Units	Covenant Recorded	Covenant Expiration[2]	Covenant Term (Yrs)
50 W. 19th Street	1	3/30/11	3/30/66	55
925 & 927 W. 10th St.	1	8/14/00	1/1/34	20
1545 W. 10th St.	1	9/13/00	1/1/26	20

[1] Covenants expired for the properties 507 Sonora Ave., 3197 Shamrock Ave, and 959 W. 10th St., 919 W. 10th St., respectively, on 5/21/2018, 1/26/2019, 2/1/2023, 2/1/2024.

[2] In some cases the affordability restriction began after the covenant was recorded.

Note: This inventory contains homeowner units with active loans issued by the former Agency through affordable housing programs. Housing Successor staff are researching the terms of affordable housing covenants and may refine the inventory in future annual reports.

In FY 2023-24, covenants expired at one property located at 919 W. 10th Street on February 1, 2024.

Transfers to Other Housing Successors

There were no transfers to another housing successor entity for a joint project pursuant to HSC Section 34176.1(c)(2).

APPENDIX 1 - HOUSING SUCCESSOR ANNUAL REPORT REQUIREMENTS

<table>
<tr><th colspan="2">Health and Safety Code Section 34176.1(f)</th></tr>
<tr><td>Housing Asset Fund Revenues & Expenditures</td><td>Total amount deposited in the Housing Asset Fund for the fiscal year.

Amount of deposits funded by a Recognized Obligation Payment Schedule (“ROPS”).

Statement of balance at the close of the fiscal year.

Description of Expenditures for the fiscal year, broken out as follows:
Homeless prevention and rapid rehousing
Administrative and monitoring
Housing development expenses by income level assisted
Description of any transfers to another housing successor for a joint project.</td></tr>
<tr><td>Other Assets and Active Projects</td><td>Description of any project(s) funded through the ROPS.

Update on property disposition efforts (note that housing successors may only hold property for up to five years, unless it is already developed with affordable housing).

Other “portfolio” balances, including:
Statutory value of any real property either transferred from the former Agency or purchased by the Housing Asset Fund
Value of loans and grants receivable
Inventory of homeownership units assisted by the former Agency or the housing successor that are subject to covenants or restrictions or to an adopted program that protects the former Agency’s investment of monies from the Low and Moderate Income Housing Fund.</td></tr>
</table>

Obligations & Proportionality	Description of any outstanding production obligations of the former Agency that were inherited by the Housing Successor. 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 former Agency, the Housing Successor, or the City within the past ten years compared to the total number of units assisted by any of those three agencies. Amount of any excess surplus, and, if any, the plan for eliminating it.

APPENDIX 2 – HOUSING ASSET FUND EXPENDITURE REQUIREMENTS

Health and Safety Code Section 34176.1		
Expense Category	Limits	Allowable Uses
Administration and Compliance Monitoring	**$456,445 maximum** for FY 2023-24 (limit varies each year)	Administrative activities such as: • Professional services (consultant fees, auditor fees, etc.) • Staff salaries, benefits, and overhead for time spent on Housing Successor administration • Compliance monitoring to ensure compliance with affordable housing and loan agreements • Property maintenance at Housing Successor-owned properties Capped at $200,000 adjusted annually for inflation or 5% of the statutory value of real property owned by the housing successor and the value of loans and grants receivable from the HAT ("Portfolio"), whichever is greater.
Homeless Prevention and Rapid Rehousing Solutions	**$250,000 maximum** per fiscal year	Services for individuals and families who are homeless or would be homeless but for this assistance, including: • Contributions toward the construction of local or regional homeless shelters • Housing relocation and stabilization services including housing search, mediation, or outreach to property owners • Short-term or medium-term rental assistance • Security or utility deposits • Utility payments • Moving cost assistance • Credit repair • Case management • Other appropriate activities for homelessness prevention and rapid rehousing of persons who have become homeless.

<table>
<tr><th colspan="3">Health and Safety Code Section 34176.1</th></tr>
<tr><th>Expense Category</th><th>Limits</th><th>Allowable Uses</th></tr>
<tr><td rowspan="3">Affordable Housing Development</td><td>No spending limit, but must comply with income and age targets</td><td>“Development” includes:
• New construction
• Acquisition and rehabilitation
• Substantial rehabilitation
• Acquisition of long-term affordability covenants on multifamily units
• Preservation of at-risk units whose affordable rent restrictions would otherwise expire over the next five years</td></tr>
<tr><td>Income Targets</td><td>Every five years (currently FYs 2020-2024), Housing Asset Funds must meet income targets:
• At least 30% on extremely low income rental households (up to 30% AMI or “Area Median Income”)
• No more than 20% on low income households (60-80% AMI)

Moderate and above moderate income households may not be assisted (above 80% AMI).

Failure to comply with the extremely low income requirement in any five-year compliance period will result in having to ensure that 50 percent of remaining funds be spent on extremely low income rental units until in compliance.

Exceeding the expenditure limit for low households earning between 60-80% AMI in any five-year reporting period will result in not being able to expend any funds on these income categories until in compliance.</td></tr>
<tr><td>Age Targets</td><td>For the prior ten years (resets every year), a maximum of 50% of deed-restricted rental housing units assisted by the Housing Successor or its host jurisdiction may be restricted to seniors.

If a housing successor fails to comply, Housing Asset Funds may not be spent on deed-restricted rental housing restricted to seniors until in compliance.</td></tr>
</table>

APPENDIX 3 – HOUSING ASSET TRANSFER FORM

The Housing Asset Transfer Form is attached as a separate document.