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Title: SUBJECT: Report - Housing Successor Expenditure Report and Property Disposition Options for Nine Properties Owned by the Housing Successor Agency (HSA), Approximate Balance of the LMI Housing Account, Dedicating \$1.2 Million for Childs Court Apartments and the Submission of the Fiscal Year 2017/18 SB 341 Report to the California Department of Housing and Community Development (HCD)

REPORT IN BRIEF

Presentation from RSG, Inc. on recommended options to spend Low and Moderate Income (LMI) Housing Asset Funds and dispose of vacant properties held by the City of Merced as Housing Successor to the former Merced Redevelopment Agency based on available assets and activities to date.

RECOMMENDATION

City Council - Adopt a motion providing Housing Staff and RSG with input and direction on Housing Successor Expenditure and Disposition Options and receiving and submitting the Housing Successor Annual Report for Fiscal Year 2017-18 to the California Department of Housing and Community Development.

Sponsors: Development Services Department, Mark Hamilton

Indexes:

Code sections:

Attachments: 1. Housing Successor Property Maps, 2. Table Summarizing RSG Recommendations.pdf, 3. Merced Expenditure & Disposition Options 2019-03-27_Final.pdf, 4. Merced SB 341 Annual Report FY 2017-18_Final 3.27.19.pdf, 5. HSA Expenditure and Property Options Presentation_3_7_19.pdf

Date	Ver.	Action By	Action	Result
4/1/2019	1	City Council/Public Finance and Economic Development Authority/Parking Authority	approved	Pass

Report Prepared by: Mark Hamilton, Housing Program Supervisor, Housing Division, Development Services Department

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DISCUSSION

Background and Current Assets

Assembly Bill x1 26 dissolved all California redevelopment agencies in 2012. The City of Merced ("City") acts as the Housing Successor Agency ("Housing Successor") to the former Redevelopment Agency of the City of Merced ("Former Agency"). Several housing assets were transferred from the Former Agency to the Housing Successor as part of the redevelopment dissolution process.

Current Housing Successor assets include:

- \$1.4 million in Low and Moderate Income Housing Asset Funds ("Housing Asset Funds"):
 - \$1.2 Million is proposed to be reserved to Childs Court Apartments,
 - \$200,000 is proposed to be reserved for related administrative expenses;
- Over \$8 million in loans receivable; and,
- Nine vacant properties.

Staff anticipates one additional vacant property will be transferred to the Housing Successor pending approval by various agencies.

Health and Safety Code ("HSC") Section 34176.1 sets legal restrictions on Housing Successor expenditures and activities. The City hired RSG, Inc. ("RSG") in July 2018 to evaluate options for spending Housing Asset Funds and disposing of Housing Successor properties within these restrictions, while meeting City needs and priorities. RSG is presenting its recommendations, which are summarized in the following sections. The full report is provided as Attachment 3 ("RSG Report").

The Housing Successor is also required to prepare annual reports on Housing Asset Funds and activities. The Fiscal Year 2017-18 report, provided as Attachment 4 ("Annual Report"), is due to HCD by April 1, 2019. The report is being presented to Council to receive and file.

City Needs and Priorities

Like much of California, Merced is facing a housing shortage of affordable housing within our community. Affordable housing is a particular concern, as more than half of the City's households spend a large amount of their household income on housing costs. The City has a particular need for more affordable multifamily housing in our community.

The City's Housing Element identifies several goals that center around increasing affordable housing opportunities for Merced's residents through new construction, rehabilitation, financial assistance programs, and coordinating innovative efforts with public and private partners. Student and migrant farmworker housing are particular concerns. City staff would like to leverage the Housing Successor Agency's assets to address the community's housing needs, particularly for multifamily rental

housing.

Housing Asset Fund Restrictions

The City intends to dedicate \$1.2 million of Housing Asset Funds to the Childs Court Apartments, a 119-unit affordable housing development proposed on Childs Avenue and B Street. Remaining funds would become available for additional affordable housing efforts and program administration. Housing Asset Funds dedicated to the Childs Court Apartments as well as any other project must meet income proportionality requirements.

The following targets must be met every five years (currently 2014-2019):

- At least 30% spent on extremely low income (30% AMI) rental housing
- No more than 20% spent on low income (31-80% AMI) housing
- May not assist moderate income households (at or above 120% AMI)

“AMI” means the Area Median Income for Merced County as published annually by the California Department of Housing and Community Development (“HCD”).

In addition, no more than 50% of deed-restricted rental units assisted by the Former Agency, Housing Successor, or City in the prior ten years may be restricted for seniors. The RSG Report details additional expenditure requirements to consider.

Compliance should be evaluated before committing funds to any project, and on an annual basis when the City prepares a Housing Successor Annual Report. RSG will assist the City in reviewing agreements related to the Childs Court Apartments to ensure that assistance granted from Housing Asset Funds meets legal requirements. Development agreements can be drafted to commit Housing Asset Funds to subsidize units at specific income levels, if reasonable, based on the overall project cost and financing.

RSG also evaluated current compliance in the Housing Successor Agency’s Annual Report reviewing Fiscal Year 2017-18 activities, which is due to HCD by April 1, 2019. The Housing Successor has only spent Housing Asset Funds on administrative activities to date and is in compliance with all requirements through Fiscal Year 2017-18.

Future Revenues from Loan Repayments

The Housing Successor administers 18 loans receivable issued by the Former Agency, with a total outstanding balance of over \$8 million. They consist of 13 homeowner loans and 5 developer loans. The homeowner loans generally require a monthly payment and are repaid based on the homeowner’s ability to pay. The five developer loans each have different repayment terms. Revenues from loan repayments vary each year and are generally expected to be less than \$400,000 per year. Any loan repayments to the Housing Successor must be deposited into the Housing Asset Fund and are subject to the restrictions described earlier in this report.

Two loans issued to the developers of the Sierra Meadows Apartments and Woodbridge Place Apartments are repaid from residual receipts. Repayments vary each year based on available net operating income. RSG reviewed residual receipts calculations made by these loan holders from

2015 through 2017 and found differences in the residual receipt calculation methodology that impacts the payment amounts. City Staff and RSG met with Sierra Meadows on March 18, 2019, who agreed to pay a difference owed of \$9,462 for the prior three years. RSG will continue to coordinate with a representative for the Woodbridge Place Apartments to reconcile payments and ensure both parties agree with how future residual receipt payments will be calculated.

Since Merced has a limited amount of Housing Asset Funds, they will be best utilized when leveraged with other funding sources by developer partners to construct affordable multifamily rental housing on land owned by the Housing Successor.

Property Disposition & Development

The Housing Successor owns nine vacant properties, plus one property pending transfer displayed in the attached maps (Attachment 1) and referenced in the attached table (Attachment 2). All properties are zoned for residential uses. The Housing Successor must initiate development on or sell these properties by February 25, 2023. If properties are sold, sales proceeds must be deposited into the Housing Asset Fund. Housing Successor land is not subject to the Surplus Land Act.

Sites 1-8 have the greatest potential for development based on location and size. Sites 1-4 are adjacent to each other and Site 5 is directly across the street. These may be combined into one large site. Sites 6-8 and 10 are located within two blocks of Sites 1-5. RSG recommends approaching local affordable housing developers to gauge their interest in pursuing scattered site development on Sites 1-8 and 10. The land could be donated or sold for a low price in exchange for a lien on the property. Land donations may be combined with available Housing Asset Funds to subsidize affordability.

If developers are not interested in scattered site development, but interested in developing contiguous Sites 1-5, Sites 6-8 and 10 should be sold so the sales proceeds can assist other affordable housing activities. RSG recommends selling Site 9 due to its limited size, as well as increasing the amount of funding available to subsidize affordable housing development on Sites 1-8 and 10 or other Housing Successor projects (Attachment 2).

Summary of Recommended Actions

1. Ensure that the \$1.2 million in Housing Asset Funds are committed to the Childs Court Apartments and comply with legal restrictions.
2. Continue to track compliance on an annual basis to inform future investments.
3. Meet with Sierra Meadows Apartments and Woodbridge Place Apartments residual receipt loan holders to reconcile 2015 to 2017 payments.
4. Continue to monitor future loan repayments for compliance with repayment terms.
5. Approach developers about developing Sites 1-8 and 10. Sell Site 9 (and possibly Sites 6-8 and 10 based on developer interest in scattered site development) to apply sales proceeds to future affordable housing endeavors.
6. Leverage remaining Housing Asset Funds available by assisting efforts to develop Housing Successor land and utilizing other funding sources available to developer partners.
7. Receive and file the Housing Successor Annual Report for Fiscal Year 2017-18 that is due to HCD by April 1, 2019.

ATTACHMENTS

1. Housing Successor Property Maps
2. Table Summarizing RSG's Property Inventory and Disposition Recommendations
3. RSG report on Housing Successor Expenditure and Disposition Options
4. Housing Successor Annual Report for Fiscal Year 2017-18
5. Housing Successor Expenditure and Disposition Options Presentation