
HOUSING SUCCESSOR AGENCY ANNUAL REPORT

City of San Carlos

Fiscal Year 2017-18



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INTRODUCTION

The City of San Carlos (“City”) is the housing successor agency to the former San Carlos Redevelopment Agency (“Agency”). The majority of the City’s housing assets were transferred from the former Agency when it dissolved pursuant to the Dissolution Act in 2012 (enacted by Assembly Bills x1 26 and subsequent legislation). With dissolution, the former Agency’s affordable housing rights, powers, assets, liabilities, duties, and obligations, excluding any amounts in the Agency’s Low and Moderate Income Housing Fund, were transferred to the City.

This document reports on Fiscal Year (“FY”) 2017-18 housing successor finances and activities as required by law.

REPORTING REQUIREMENTS FOR HOUSING SUCCESSOR AGENCIES

Health & Safety Code (“HSC”) Section 34176.1(f) requires housing successor agencies to prepare an annual report that details compliance with Senate Bill (“SB”) 341 (2013-14), Assembly Bill (“AB”) 1793 (2013-14), SB 107 (2015-16), and AB 346 (2017-18). These bills enacted requirements related to the expenditure of the Low and Moderate Income Housing Asset Funds (“Housing Asset Funds”) and development or disposition of properties transferred from former redevelopment agencies. Figure 1 summarizes the content required in the annual report. The report is due to the California Department of Housing and Community Development (“HCD”) by April 1st annually.

Housing successor agencies must also conduct an independent financial audit of the Housing Asset Fund within six months after the end of each fiscal year, which may be included in the independent financial audit of the host jurisdiction. The City’s Comprehensive Annual Financial Report for FY 2017-18 was completed in November 2018 and is available on the City’s website. It includes an audit of the Housing Asset Fund as part of the Housing Capital Projects Fund.

In accordance with HSC Section 34176.1(f), certain data must be reported annually for the Housing Asset Fund. These requirements are represented by the following table:

LMIHAF Revenues & Expenditures	Other Assets and Active Projects	Obligations & Proportionality
Total amount deposited in the Housing Asset Fund for the fiscal year	Description of any project(s) still funded through the Recognized Obligation Payment Schedule ("ROPS")	Description of any outstanding production obligations of the former Agency that are inherited by the City
Statement of balance at the close of the fiscal year	Update on property disposition for any property owned more than five years or plans for property owned less than five years	Compliance with proportionality requirements (income group targets), which must be upheld on a five-year cycle
Description of Expenditures for the fiscal year, broken out as follows: <ul style="list-style-type: none"> • Rapid rehousing for homelessness prevention (up to \$250,000 per year); • Administrative expenses (greater of \$200,000 adjusted annually for inflation or 5% of "portfolio" per year); • Monitoring expenses (included as an administrative expense); • All other expenditures must be reported as spent for each income group (extremely low-, very low-, and low-income) 	Other "portfolio" balances, including: <ul style="list-style-type: none"> • Statutory value of any real property either transferred from the former Agency or purchased by the Housing Asset Fund (note that the City may only hold property for five years); • Value of loans and grants receivable 	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
Description of any transfers to another housing successor for a joint project	Inventory of homeownership units assisted by the former Agency or the City 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	Amount of any excess surplus, and, if any, the plan for eliminating it

ASSETS TRANSFERRED TO THE HOUSING SUCCESSOR

The City prepared a Housing Asset Transfer Form in 2012 that provided an inventory of all assets transferred from the Agency to the City following the dissolution of redevelopment. This included the following assets as permitted by HSC Section 34176(e):

1. Real properties;
2. Personal Property;
3. Loans Receivables; and
4. Rents/Operations.

All items on the Housing Asset Transfer Form were approved by the California Department of Finance (“DOF”) on September 5, 2012.

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 that were transferred from the Agency to the City via the Housing Asset Transfer Form.

HOUSING ASSET FUND DEPOSITS AND ENDING BALANCE

The City deposited \$234,998 into the Housing Asset Fund during FY 2017-18, as shown in Table 1. Revenues were from investment income, interest, rents, and miscellaneous sources. The City also received \$100,000 from Charities Housing Corporate for the proposed rehabilitation of an affordable multifamily property at 817 Walnut Street.

Fiscal Year 2017-18 Housing Asset Fund Deposits **Table 1**
City of San Carlos

Revenue Source	Amount
Investment Income	\$ 66,561
Interest Income	7,974
Rents	59,978
Cost Reimbursement - 817 Walnut Street	100,000
Miscellaneous	486
	\$ 234,998

Source: City of San Carlos, Fund 31 accounting records

At the close of FY 2017-18, the Housing Asset Fund had an asset balance of \$7.2 million, as shown in Table 2. The majority of assets consist of cash (\$5.6 million) and notes receivable (\$1.4 million).

Fiscal Year 2017-18 Housing Asset Fund Ending Balance **Table 2**
City of San Carlos

Balance Type	Amount
Cash	\$ 5,622,064
Notes Receivable	1,394,208
Accounts Receivable	732,550
Accounts Payable	(3,718)
Land Held for Resale ¹	972,829
Deferred Revenue	(1,486,499)
Deposits due from Tenants	(2,629)
	\$ 7,228,805

¹Excludes the value of 817 Walnut reported in Table 4 that is accounted for outside of Fund 31.

Source: City of San Carlos, Fund 31 accounting records

EXPENDITURES

HSC Section 34176.1 provides the following guidelines for expenditures from the Housing Asset Fund:

1. Administrative costs, which include housing monitoring, are capped at the greater of \$200,000 annually adjusted for inflation or 5% of the statutory value of land owned by the housing successor and of loans and grants receivable (or the “portfolio balance”). HCD adjusts the \$200,000 cap for inflation based on the annual Consumer Price Index. The adjusted cap for Fiscal Year 2017-18 is \$211,500.
2. A housing successor is authorized to spend up to \$250,000 per year on rapid rehousing solutions for homelessness prevention if the former Agency did not have any outstanding housing production requirements. The former Agency had a surplus of affordable housing production units upon dissolution, and therefore the City as Housing Successor can 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 earning 80% or less of the area median income (“AMI”). This means that no funding may be spent on moderate-income households, as was previously authorized by redevelopment law. Of the money expended, a minimum of 30% must go towards households earning 30% or less of the AMI, and a maximum of 20% may go towards households earning between 60% and 80% of the AMI.

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 of its funds in a single year on households earning between 60% and 80% AMI, as long as it was 20% or less of the total expenditures during the five-year compliance period. The first five-year compliance period began on January 1, 2014 (when SB 341 became effective) and ends on June 30, 2019.

Table 3 summarizes Housing Asset Fund expenditures by category. The City spent \$59,396 on administrative expenses¹, which are within the annual \$211,500 limit for FY 2017-18. Staff will ensure that future expenditures meet proportionality requirements by finding opportunities to assist development of extremely low income rental units.

¹ Administrative expenses included \$2,877 on predevelopment costs related to the proposed rehabilitation of a multifamily property at 817 Walnut Street. These have been classified as administrative costs because the proposed project does not have a regulatory agreement at this early stage of the planning process.

City of San Carlos

	Annual Limits 2017-18		Five-Year Limits January 1, 2014 - June 30, 2019		
	Admin/ Monitoring	Homeless Prevention	< 30% AMI Rental	31-59% AMI	60-80% AMI
FY 2013-14			\$0	\$0	\$0
FY 2014-15			\$0	\$0	\$0
FY 2015-16			\$0	\$0	\$0
FY 2016-17			\$0	\$0	\$0
FY 2017-18	\$59,396	\$0	\$0	\$0	\$0
FY 2018-19	TBD		TBD		
Compliance Period Total Expenditures	\$59,396	\$0	\$0	\$0	\$0
SB 341 Limitation	\$211,500	\$250,000	>30%	N/A	<20%
Compliant (Yes/No)	Yes	Yes	Yes	N/A	Yes

¹Excludes the purchase of a Below Market Rate program unit (1001 Laurel #207) for \$239,843. The cash value used to purchase the property was converted to real property asset value. The acquisition cost might be applied as a project-related expenditure in the future when the unit is sold and an affordability covenant is created.

Source: City of San Carlos, Fund 31 accounting records

STATUTORY VALUE OF REAL PROPERTIES AND LOAN RECEIVABLES

The City must report the statutory value of real properties formerly owned by the Agency, as well as any loans and grant receivables listed, on the Housing Asset Transfer Form. This is summarized in Table 4.

Fiscal Year 2017-18 Real Properties and Receivables
City of San Carlos

Table 4

Asset	Amount
Real Properties	
817 Walnut St	1,019,565
633 Elm Street Unit 305	354,999
633 Elm Street Unit 405	377,987
1001 Laurel Street #207	239,843
<i>Subtotal</i>	\$ 1,992,394
Loan Receivables	
Laureola Oaks	1,000,246
1244 Cherry St	100,000
717 Cedar	293,962
<i>Subtotal</i>	\$ 1,394,208
Total	\$ 3,386,602

Source: City of San Carlos, Fund 31 and Fund 90 accounting records

The City, as housing successor, owns four properties that had a statutory value of \$1,992,394 as of June 30, 2018. Two of the properties, 817 Walnut Street and 633 Elm Street Unit 305, were transferred from the former Agency. The other two properties, 633 Elm Street Unit 405 and 1001 Laurel Street Unit 207, are Below Market Rate units purchased by the housing successor in fiscal years 2016-17 and 2017-18. The property purchases are not reported as expenditures in Table 3 because the City owns the units, and the cash value was converted to real property value in the Housing Asset Fund. It is possible that the purchases will be converted to expenditures in the future if the Below Market Rate units are sold to low income buyers and affordability restrictions are recorded.

PROPERTY DEVELOPMENT & DISPOSITION

HSC Section 34176(e) requires that all real properties acquired by the Agency prior to February 1, 2012 and transferred to the City be developed for affordable housing purposes or disposed of within five years from the date DOF approved the Housing Asset Transfer Form, or September 5, 2017. The City has met this requirement.

The Agency transferred four real properties to the City on the Housing Asset Transfer Form. Each property and their current status is described below.

- 633 Elm Street, Unit 305: This condominium unit continues to be operated as affordable housing and is leased to a low income tenant.
- 657 Walnut Street: This 7-unit multi-family apartment complex was transferred to a developer in January 2017 for the Wheeler Plaza development project. The sales proceeds were deposited to the Housing Asset Fund.
- 817 Walnut Street: This multi-family apartment complex continues to be operated as affordable housing. The property was formally transferred to the City via a grant deed dated January 5, 2015. The City has received a proposal from a not-for-profit affordable housing developer to redevelop this site. The City intends to enter into a development agreement with the developer within the next two years, with the goal of redeveloping the site from a 6-unit to a 24-units 100% affordable housing project.
- 1245-1265 San Carlos Avenue: This is a commercial property that was included on the Housing Asset Transfer Form in error. It was subsequently included in the Successor Agency's Long Range Property Management Plan and sold pursuant to a compensation agreement approved by DOF and affected taxing entities.

PROJECTS FUNDED BY ROPS

No housing successor obligations are funded through the Successor Agency's Recognized Obligation Payment Schedule ("ROPS").

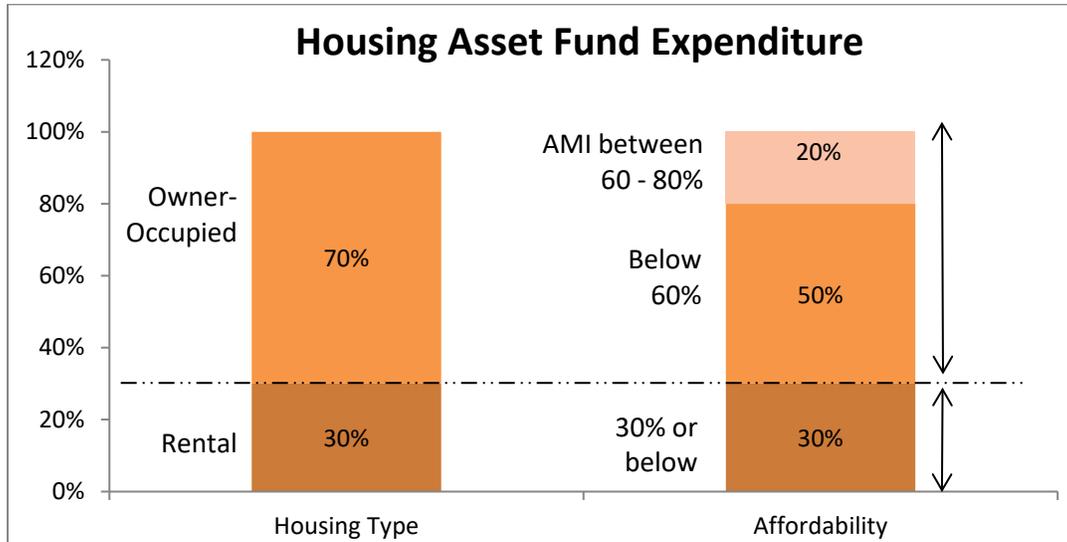
INCLUSIONARY & REPLACEMENT HOUSING OBLIGATIONS

At the time of its dissolution, the former Agency did not have any remaining inclusionary housing or replacement housing obligations that the City must fulfill.

INCOME EXPENDITURE PROPORTIONALITY

Expenditures from the Housing Asset Fund shall be limited to lower income households earning 80% or less of the AMI. In each five-year compliance period, not less than 30% of expenditures must be on development of rental housing affordable to households earning 30% or less of the AMI and not more than 20% of the expenditures must be on development of housing for households earning between 60% and 80% of the AMI. This is illustrated in the following chart. "Development" means new construction, acquisition and rehabilitation, substantial rehabilitation, the acquisition of long-term affordability covenants on multifamily units, 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.



Failure to comply with the extremely low income requirement in any five-year compliance period will result in the City having to ensure that 50% of remaining funds be spent on development extremely low income rental units until in compliance. If the City exceeds the expenditure limit for households earning between 60% and 80% of the AMI in any five-year reporting period, it will not be allowed to expend any funds on these income categories until in compliance.

The City has spent Housing Asset Funds solely on administrative costs through FY 2017-18. The City will ensure that it adheres to all expenditure limitations by the end of the five-year compliance period.

SENIOR HOUSING DEVELOPMENT PROPORTIONALITY

This report must include an accounting of deed-restricted senior rental units that were assisted by the Agency or City over the last ten years. If more than 50% of the total aggregate number of rental units assisted by the City or former Agency during the past 10 years are restricted to seniors, the City may not spend more Housing Asset Funds on senior rental housing.

There were no deed-restricted rental units assisted since FY 2006-07. All affordable rental units maintained by the City have affordability covenants that were enacted over ten years ago.

TRANSFERS TO OTHER HOUSING SUCCESSORS

The city has not transferred any assets to another housing successor entity for a joint project.

EXCESS SURPLUS

Excess surplus calculations were once performed by redevelopment agencies on an annual basis. They are intended to ensure that funds are expended to benefit low income households in an expeditious manner. Generally speaking, funds should be encumbered (formally dedicated to a project through an executed agreement) within four years of receipt. SB 341 reinstated this calculation for housing successors. Excess surplus is defined by HSC Section 34176.1(d) 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’s preceding four fiscal years, whichever is greater.”

As shown in Table 5, San Carlos had an excess surplus of \$515,831 for FY 2017-18. The cash balance of \$5,622,064 is more than the sum of deposits made in the previous four fiscal years totaling \$5,106,233.

Housing Asset Fund Excess Surplus Analysis

Table 5

City of San Carlos

FYE	Deposits ¹	Expenditures			Cash Balance	Greater of 4 Yrs of Deposits or \$1M ⁵	Excess Surplus ⁶
		Admin/ Monitoring ²	Homeless Prevention ³	Project Encumbrances ⁴			
2013	705,259	45,519	-	-	832,528		
2014	595,615	93,989	-	-	1,482,419		
2015	4,251,564	43,596	-	-	5,687,291		
2016	131,074	80,290	-	-	5,909,641		
2017	127,980	104,622	-	-	5,683,007	5,683,512	-
2018	234,998	59,396	-	-	5,622,064	5,106,233	515,831

¹ Deposits were higher in 2015 due to a \$3.8 million Elms Note repayment. Deposits are lower in 2016 onward because the Agency no longer receives residual receipts.

² The City may spend up to \$200,000 per year on administration and monitoring, adjusted annually for inflation.

³ The City may spend up to \$250,000 annually on homeless prevention and repaid rehousing solutions for homelessness.

⁴ Housing Asset Funds spent on projects or encumbered for planned projects.

⁵ 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 FYE 2013, when redevelopment agencies dissolved effective 2-1-2012.

⁶ 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.

Source: City of San Carlos, Fund 31 accounting records

The City must expend or encumber its excess surplus within three fiscal years, or June 30, 2021. If the City fails to comply, the City must transfer excess surplus to HCD by September 28, 2021 (90 days after the end of the fiscal year). The City plans on encumbering funds within the next three years to fund the rehabilitation of affordable rental housing at 817 Walnut Street.

INVENTORY OF HOMEOWNERSHIP UNITS

The City must provide an inventory of any homeownership units assisted by the former Agency or City (as housing successor) that require restrictions, covenants, or an adopted program that protects Housing Asset Fund monies. An inventory of these properties is included as Table 6.

Homeownership Unit Inventory
City of San Carlos

Table 6

Address	# Units	Covenant Recorded	Covenant Expires
3327 Brittan #7	1	1/13/2007	1/13/2052
641 Cedar Street #101	1	8/5/2006	8/5/2051
641 Cedar Street #202	1	6/14/2006	6/14/2051
<i>Pacific Hacienda</i>			
633 Elm #106	1	3/20/2002	
633 Elm #107	1	2/12/2000	
633 Elm #206	1	???	
633 Elm #207	1	1/21/2000	
633 Elm #215	1	4/27/2000	
633 Elm #216	1	1/14/2000	In perpetuity w/ Resale
633 Elm #305	1		Purchase
633 Elm #306	1	1/21/2000	Option
633 Elm #307	1	4/2/2005	
633 Elm #316	1	1/28/2000	
633 Elm #405	1	12/21/2002	
618 Walnut #303	1	11/18/2004	
618 Walnut #305	1	8/17/2001	
<i>1001 Laurel Street</i>			
#102	1	5/27/2006	6/10/2051
#105	1	6/16/2006	6/29/2051
#106	1	8/18/2006	8/30/2051
#107	1	9/21/2006	9/29/2051
#109	1	1/2/2007	1/12/2052
#203	1	6/20/2006	6/29/2051
#204	1	6/20/2006	6/29/2051
#205	1	6/20/2006	6/29/2051
#207	1	11/16/2005	12/3/2050
#209	1	8/2/2006	8/22/2051
#213	1	11/27/2007	1/12/2053
#218	1	11/27/2007	12/12/2052
#222	1	3/29/2007	4/13/2052
#225	1	1/8/2008	1/22/2053
#322	1	6/20/2006	6/28/2051
#325	1	6/20/2006	6/29/2051
Total Restricted Units	32		

Source: City of San Carlos

DEPOSITS FROM CITY LOAN REPAYMENTS

HSC Section 34191.4(b)(3)(C) requires that twenty percent of any loan repayment made from a successor agency to a City for a loan to the former redevelopment agency be deducted from the loan repayment amount and transferred to the Housing Asset Fund. There are no outstanding loans between the City and the former Agency, so no monies were deposited in to the Housing Asset Fund based on this provision of the law.