
HOUSING SUCCESSOR AGENCY ANNUAL REPORT

City of San Carlos

Fiscal Year 2016-17



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INTRODUCTION

The City of San Carlos (“City”) is the successor housing 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 (enacted by Assembly Bills x1 26, 1484 and Senate Bill 107). All “rights, powers, assets, liabilities, duties, and obligations associated with the housing activities of the agency, excluding any amounts in the Low and Moderate Income Housing Fund” were transferred from the former Agency to the City. While the former Agency primarily funded projects with redevelopment tax increment, this tool was abolished with the dissolution of redevelopment.

This Housing Successor Agency Annual Report contains information on Fiscal Year (“FY”) 2016-17 finances and activities as required by Health and Safety Code (“HSC”) Section 34176.1(f).

REPORTING REQUIREMENTS FOR HOUSING SUCCESSOR AGENCIES

Senate Bill (“SB”) 341 (2013-14), Assembly Bill (“AB”) 1793 (2013-14), SB 107 (2015-16), and AB 346 (2017-18) amended sections of the HSC pertaining largely to redevelopment successor housing agencies. SB 341 clarified that all former redevelopment agency housing assets must be maintained in a separate fund called the Low and Moderate Income Housing Asset Fund (“Housing Asset Fund”). HSC Section 34176.1(f) contains a series of annual reporting requirements for housing successor agencies regarding Housing Asset Funds (deposits, expenditures, fund balance, property disposition, etc.). An annual report is due to the California Department of Housing and Community Development (“HCD”) by April 1st each year.

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 2016-17 was completed in November 2017 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 now 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

According to HSC Section 34176(e), housing assets may include the following:

- Real property;
- Restrictions on the use of property;
- Personal property in a residence;
- Housing-related files;
- Office supplies and software programs acquired for low-and moderate-income purposes;
- Funds encumbered by an enforceable obligation;
- Loan or grant receivables funded from the former Low and Moderate Income Housing Fund (“LMIHF”);
- Funds derived from rents or operation of properties acquired for low-and moderate-income housing purposes;
- Rents or payments from housing tenants or operators of low-and moderate-income housing; and
- Repayment of Supplemental Educational Revenue Augmentation Fund loans.

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:

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 of the 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 \$127,980 into the Housing Asset Fund during FY 2016-17, as shown in Table 1. Revenues were from investment income, interest, rents, and miscellaneous sources. There were no deposits into the Housing Asset Fund related to the Successor Agency's Recognized Obligation Payment Schedule.

Fiscal Year 2016-17 Housing Asset Fund Deposits		Table 1
City of San Carlos		
Revenue Source	Amount	
Investment Income	\$ 42,521	
Interest Income	22,851	
Rents	61,771	
Miscellaneous	838	
	\$ 127,980	

Source: City of San Carlos, Fund 31 accounting records

At the close of FY 2016-17, the Housing Asset Fund had a balance of \$7,053,202, as shown in Table 2.

Fiscal Year 2016-17 Housing Asset Fund Ending Balance**Table 2****City of San Carlos**

Balance Type	Amount
Cash	\$ 5,683,007
Notes Receivable	1,328,772
Accounts Receivable	729,800
Accounts Payable	(10,517)
Land Held for Resale ¹	732,986
Deferred Revenue	(1,406,916)
Deposits due to Tenants	(3,929)
	\$ 7,053,202

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 \$200,000 per year, adjusted annually for inflation, or 5% of the Housing Asset Fund's "portfolio" annually, whichever is greater. The portfolio includes cash, outstanding loans or other receivables, and the statutory value of any land owned.
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, 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 will be evaluated at the end of FY 2018-19.

Table 3 summarizes Housing Asset Fund expenditures by category. The City spent \$104,622 on administrative expenses, which are within the annual \$207,200 limit for FY 2016-17. Staff will ensure that future expenditures meet proportionality requirements by finding opportunities to assist development of extremely low income rental units.

Fiscal Year 2016-17 Housing Asset Fund Expenditures **Table 3**
City of San Carlos

	Admin/ Monitoring	Rapid Rehousing	Ext. Low Rental Units	Other Units	Ext. Low <30% AMI	Very Low 30-60% AMI	Low 60-80% AMI
FY 2016-17 Expenditures							
Administration	\$104,622						
Project Related		\$0	\$0	\$0	\$0	\$0	\$0
Annual Total ¹	\$104,622	\$0	\$0	\$0	\$0	\$0	\$0

Compliance Period Expenditures

	<i>Annual Limit</i>		<i>Five-Year Limit (1/1/14 through 2018-19)</i>				
FY 2013-14	\$93,989	\$0	\$0	\$0	\$0	\$0	\$0
FY 2014-15	\$43,596	\$0	\$0	\$0	\$0	\$0	\$0
FY 2015-16	\$80,290	\$0	\$0	\$0	\$0	\$0	\$0
FY 2016-17	\$104,622	\$0	\$0	\$0	\$0	\$0	\$0
FY 2017-18	TBD		TBD			TBD	
FY 2018-19	TBD		TBD			TBD	
Compliance Period Total Expenditures	N/A	N/A	\$0	\$0	\$0	\$0	\$0
SB 341 Limitation	\$207,200	\$250,000	>30%	<70%	>30%	N/A	<20%
Compliant (Yes/No)	Yes	Yes	Yes	Yes	Yes	N/A	Yes

¹Excludes the purchase of a Below Market Rate program unit for \$387,500. The cash is considered converted to a 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 2016-17 Real Properties and Receivables		Table 4
City of San Carlos		
Asset	Amount	
<i>Real Properties</i>		
817 Walnut St	1,041,938	
633 Elm Street Unit 305	354,999	
633 Elm Street Unit 405	377,987	
<i>Subtotal</i>	\$ 1,774,925	
<i>Loan Receivables</i>		
Laureola Oaks	934,810	
1244 Cherry St	100,000	
717 Cedar	293,962	
<i>Subtotal</i>	\$ 1,328,772	
Total	\$ 3,103,696	

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

The City, as housing successor, owns three properties transferred from the former Agency that had a statutory value of \$1,774,925 as of June 30, 2017.

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. If the City is unable to meet this deadline, the law allows for a five-year extension via adoption of a resolution. 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 St, Unit 305: This condominium unit continues to be operated as affordable housing and is leased to a low income tenant.
- 657 Walnut St: 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 St: 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 Ave: 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

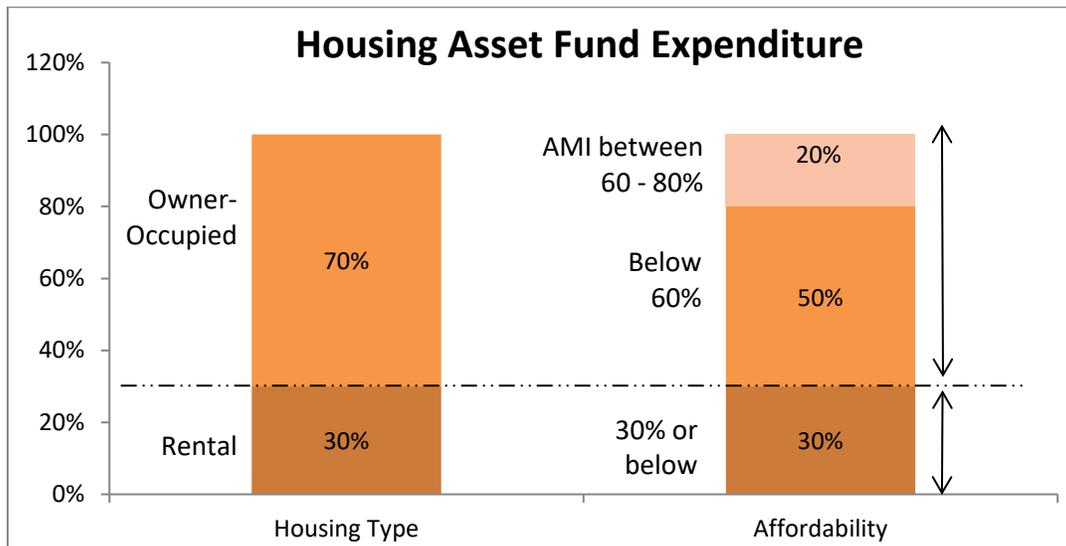
No housing successor obligations are funded through the Successor Agency's Recognized Obligation Payment Schedule ("ROPS").

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 2016-17. 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 2005-06. 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, and are intended to ensure that funds are expended to benefit low-income households in an expeditious manner. Generally speaking, funds should be encumbered within four years of receipt. SB 341 reinstates 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 does not have an excess surplus as of FY 2016-17. The cash balance of \$5,683,007 is less than the sum of deposits made in the previous four fiscal years (FY 2012-13 through 2015-16).

Housing Asset Fund Excess Surplus Analysis
City of San Carlos

Table 5

FYE	Deposits ¹	Expenditures			Cash Balance	Greater of 4 Yrs of Deposits or \$1M ⁵	Excess Surplus ⁶
		Admin/ Monitoring ²	Rapid Rehousing 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	-

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 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

INVENTORY OF HOMEOWNERSHIP UNITS

Assembly Bill 1793 (“AB 1793”) requires the annual reporting 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 were no loan repayments made to the City in FY 2016-17, so no monies were deposited in to the Housing Asset Fund based on this provision of the law.