ANNUAL REPORT
Lake Forest Housing Authority

Fiscal Year 2019-20

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INTRODUCTION

By October 1 of each year, California Health and Safety Code ("HSC") Section 34328 requires housing authorities to file an annual report of its activities for the preceding fiscal year ("Annual Report"). The Annual Report must be filed with the clerk of the respective city or county and with the Department of Housing and Community Development ("HCD"). This Annual Report details the Lake Forest Housing Authority's ("Authority") activities for the Fiscal Year ("FY") 2019-2020.

LEGAL AUTHORITY

Housing authorities are distinct, autonomous, legal entities that derive their powers from State statute. It is the intent of the State legislature that housing authorities function as local entities with the primary responsibility of providing housing for very low and low income households.[1] California Housing Authorities Law (HSC Section 34200, et. seq.) provides for and details the requirements for local jurisdictions to create and operate a housing authority. To establish a housing authority, a local jurisdiction must adopt a resolution that includes findings that either of the following is true: (1) unsanitary or unsafe housing exists in the city or (2) there is a shortage of safe or sanitary housing available to persons of low income.

BENEFITS OF HOUSING AUTHORITIES:

- Housing Authorities can own and operate housing developments, alleviating the need to find owners or operators for units created.
- State law provides Housing Authorities the ability to acquire or lease land or improved property.
- A city housing authority's area of operation includes the entire city and the area within 5 miles of its territorial boundaries.
- Local jurisdictions are afforded the opportunity to participate in one or more of the Public Housing Programs offered by the United States Department of Housing and Urban Development ("HUD").

[1] Very low income is at or below 50% of the Area Median Income and low income is at or below 80% of the Area Median Income.

AUTHORITY BACKGROUND

On February 1, 2011, the City Council ("City Council") of the City of Lake Forest ("City") adopted Resolution No. 2011-05 establishing the Authority. The majority of the Authority's assets were transferred from the former Lake Forest Redevelopment Agency ("Agency") when it dissolved on February 1, 2012 pursuant to the Dissolution Act (enacted by Assembly Bill x1 26 as amended, Parts 1.8 and 1.85 of the HSC). The City Council elected to designate the Authority as the Housing Successor to the Agency.

The Successor Agency to the Lake Forest Redevelopment Agency ("Successor Agency") effectuated the transfer of several assets held by the former Agency to the Authority. The asset transfers are documented on a Housing Asset List that was approved by the California Department of Finance ("DOF") on September 5, 2012. A copy of the Housing Asset List is provided as Appendix 1 located at the end of the report.

Assets transferred from the Agency to the Authority are subject to both California Community Redevelopment Law ("CRL") codified in HSC Section 33000 *et. seq.* and Housing Authorities Law ("HAL"), codified in HSC Section 34200 *et. seq*. The CRL and HAL have different requirements relating to housing production, expenditure limitations, and adjustments for family size, affordability restriction durations, and other regulatory requirements. Additionally, the State legislature adopted Senate Bill ("SB") 341 on October 13, 2013 to clarify the functions and requirements of successor housing entities. Assembly Bill ("AB") 1793 (adopted on September 27, 2014), SB 107 (adopted on September 22, 2015), and AB 346 (adopted on June 28, 2017) added and amended requirements related to SB 341.

Successor housing entities are required to prepare an annual report documenting compliance with SB 341 and related legislation. Authority staff is in the process of auditing its financials, other information, and will submit this report under a separate cover by December 31, 2020. More information on its contents is contained in Appendix 2 located at the end of the report.

OBJECTIVES OF THE HOUSING AUTHORITY

The Authority undertakes certain functions that can only be exercised by a legally created housing authority. For example, the Authority may own and operate housing developments, which alleviate the need to find prospective owners or operators of affordable housing units. In addition, the Authority may acquire land and buildings for affordable housing. For many housing authorities, one of their primary roles is to interact with HUD on behalf of their communities, and to function as the administrator of Housing Choice Voucher Program (formerly Section 8) funds. However, the Authority does not intend to administer Housing Choice Voucher Program funding and will continue to refer interested parties to the Orange County Housing Authority.

The Authority's future goals and objectives are to:

- Advance the goals and objectives of the City's Housing Element and the former Agency.
- Increase, improve, and preserve existing housing stock available to low- and very low-income residents;
- Rehabilitate multi-family properties that exhibit unsafe or unhealthy characteristics;
- Preserve the affordability of housing for very low and low income residents;
- Reduce overcrowding conditions in multi-family units; and
- Continue to refer persons interested in the Housing Choice Voucher Program to the Orange County Housing Authority pursuant to a cooperation agreement with the Lake Forest Housing Authority.

CONTENTS OF THE AUTHORITY'S ANNUAL REPORT

This Annual Report includes the following information:

- A complete report of activities during FY 2019-20, including any bond issuances, and loans or finance agreements that the Authority has entered into;
- Compliance with requirements of HSC Section 34312.3 such as the minimum amount of housing units affordable to lower income households in projects assisted by the Authority with bonds and document established base rents and/or maximum rental payments for lower income households; and
- Information on any tenancy or Housing Choice Voucher terminations of domestic violence victims as required by HSC Section 34328.1.

HOUSING AUTHORITY DEBT OBLIGATIONS

Pursuant to HSC Section 34312.3, the Authority must provide a complete report of its activities during the prior FY, including bonds, loans, and financing agreements for multi-family rental housing projects. The Authority did not issue any bonds or enter into any loans or financing agreements related to multi-family rental housing projects in FY 2019-20.

The Authority oversees loan receivables from outstanding Housing Rehabilitation Loans that were issued by the Agency prior to its dissolution. These are further described in the "Loan Agreements" section of this report.

Any new financing for the acquisition, construction, rehabilitation, or development of multi-family housing through the issuance of bonds, construction loans, mortgage loans, and/or financing agreements will be documented in future Annual Reports.

LAND TRANSACTIONS AND DEVELOPMENT

HSC Section 34312.3 requires the Annual Report to include a discussion of all prior year activities of the Authority related to the development or transaction of land for the purposes of increasing the supply of affordable housing for lower income households. The Authority's real estate property interests include:

1) Two condominiums on Madrid Street ("Madrid Condos"),
2) A 1.67-acre vacant parcel purchased from the Orange County Transportation Authority ("Authority Parcel"), and
3) A 7,000 sq.-ft. tax-defaulted vacant parcel purchased from the County of Orange ("Mamie Thomas Parcel")

A description of FY 2019-20 activities related to these properties is below.

NATIONAL CORE/"MOUNTAIN VIEW"

In December 2017 the Authority and the City entered into an Exclusive Negotiation Agreement ("ENA") with National CORE, a non-profit developer of affordable housing, to locate a site and develop an affordable housing project. Subsequently, National CORE met with the City Council at two meetings held in the fall of 2019. At these meetings, the City Council approved a funding commitment of $3.7 million of affordable housing in-lieu fees to National CORE for site acquisition for the development of an affordable housing project, subject to execution of an Affordable Housing Agreement. The City's Planning Commission recommended approval of a Mitigated Negative Declaration ("MND"), General Plan Amendment ("GPA"), Zone Change ("ZC"), Tentative Parcel Map ("TPM"), Site Development Permit ("SDP") and Affordable Housing Agreement ("AHA") to the City Council in June 2020. In August, the City Council voted to approve MND, GPA, ZC, TPM, SDP and AHA for the "Mountain View" affordable housing project. The project consists of 71 housing units, including 70 affordable units for households earning less than 60% of the Area Median Income ("AMI"), with 12 of the units set-aside for Permanent

Supportive Housing ("PSH") and one market rate manager's unit. No Authority funds were committed to the project.

MADRID CONDOS – 22702, 22706 MADRID DRIVE

In 2009, the Agency acquired two condominium units purchased from its Low and Moderate Income Housing Fund (“Housing Fund”). The Agency subsequently entered into an Affordable Housing Agreement (“Housing Agreement”) with Families Forward, a nonprofit organization, to implement a transitional housing program. Families Forward rents the units to families in transition and offers a range of program services to help families find permanent housing. The Agency transferred title of the property to the Authority and the Authority is responsible for overseeing a 20-year lease of the two units with Families Forward, consistent with the Housing Agreement, which expires in February 2030. In this reporting period, Families Forward reported no significant changes to the units. The units are in full compliance with the Housing Agreement and successfully provide housing to families threatened with homelessness.

AUTHORITY PARCEL – EL TORO ROAD, NORTH OF RAILROAD TRACKS (APN 614-024-01)

The Agency used Housing Funds to purchase a 1.67-acre vacant parcel formerly owned by the Orange County Transportation Authority (“OCTA”). Due to the exorbitant costs of creating public access to the landlocked parcel, the Agency Board directed Agency staff to solicit purchase offers from the two adjacent property owners (Kingdom Hall and Forest Glen Apartments). Agency staff subsequently submitted two conceptual development proposals to the Agency Board for review. This project was halted during DOF’s review of asset transfers.

Authority staff resumed negotiations with the adjacent landowners in FY 2013-14. The Authority Board approved the Purchase and Sale Agreements with Kingdom Hall (JW Congregation Support Inc.) in May of 2017 and Southern California Gas Company (“SCG”) in September of 2018. The Authority received $99,104 in revenues in FY 2018-19 from the purchase of an exclusive easement by SCG. In

April of 2019, the City Council approved a General Plan Amendment, Zone Change, Site Development Permit, and Tentative Parcel Map for the development of the site with two buildings proposed to be used as religious institutions. The sale of the property to Kingdom Hall closed on September 16, 2020. Proceeds from the sale will be deposited in the Housing Asset Fund designated for affordable housing.

MAMIE THOMAS PARCEL – EL TORO ROAD, SOUTHWEST OF JERONIMO (APN 614-021-31)

The Agency purchased a tax defaulted vacant property from the County of Orange using non-housing funds and conveyed title of the property to the Authority. The Authority Board is evaluating disposition options. SB 341 requires the Authority to initiate development or dispose of the property by September 5, 2022. If the property is sold, sales proceeds will be deposited into the Housing Asset Fund. No changes for this reporting period.

OTHER ASSETS AND AGREEMENTS

The Authority's assets include loan agreements, covenants, purchase and sale agreements, and other documentation related to interests in real property. Some of the agreements are related to the three properties described in the previous section. A brief description of each type of asset is provided below. A detailed list is included in Appendix 1 located at the end of the report.

AFFORDABILITY AGREEMENTS

The Authority monitors affordability at the Madrid Condos (described in the previous section). A Purchase and Sale Agreement and Affordable Housing Agreement restricts two units to low income households. They are currently occupied by extremely low income households.

The Authority also has a Regulatory Agreement with Families Forward for 23201 Saguaro Street. The Saguaro Property has three units restricted to low income households qualified at or below 80% AMI and one unit restricted to extremely low income households qualified at or below 30% AMI. The units are restricted for 55 years until July 2071. The extremely low income unit is currently exempt from the affordability requirement due to a household that was grandfathered in as part of the relocation process when the property was being rehabilitated. The current household qualifies as low income at or below 80% AMI and is charged rent below the low income limit.

LOAN AGREEMENTS

The Authority inherited 33 loan agreements issued as part of a Housing Rehabilitation Loan Program by the former Agency. They consist of 30 loans to rehabilitate mobile homes and 3 loans to rehabilitate single-family homes. All of the loans were issued to low or moderate income homeowners. Fifteen loans were paid off after being transferred to the Authority, all prior to FY 2018-19. In FY 2019-20, 2 loans were paid off with the total repaid amount of $29,923. As of June 30, 2020, the receivables due from the remaining 16 loans amount to $214,145.

All of the loans have a zero percent interest rate and are deferred until one of the following occurs:

1. sale or transfer of title of any or all interest in the property;
2. refinance of any lien to which the loan is subordinate;
3. the applicant no longer resides in the property; or
4. default by property owner of the terms and conditions of the loan agreement, deed of trust, or security agreement.

The loan recipients may choose to make occasional payments on their loan at their discretion.

The Authority also has a $100,000 Promissory Note with Families Forward, an affordable housing nonprofit. Families Forward purchased 23201 Saguaro Street, a four-unit apartment complex, from the Authority in April 2015 to operate the property as affordable housing. The Promissory Note was issued as part of the sale and is payable over 50 years commencing on the 5-year anniversary of the sale. Payments will be deposited into the Housing Asset Fund.

RENTS & OPERATIONS

The Authority receives $1 per unit per year for the Madrid Condos from its non-profit operator, Families Forward. Families Forward also remits $330 per month per unit as reimbursement of HOA dues. The Authority does not receive rents directly from tenants at the Madrid Condos.

CONTRACTS & FEES

The Authority continues its consultant services contract with Theresa Dobbs Housing Rehabilitation Consulting Services for administration of the Housing Rehabilitation Loans. It also has a contract with AmeriNational and Farmers State Bank for housing fees related to servicing the Housing Rehabilitation Loans and disbursing loan payments. Lastly, it has a contract with RSG, Inc. for general Authority consulting services. Contracts are itemized in the budget provided in the last section of this Annual Report.

HOUSING UNIT COMPLIANCE

As set forth by HSC Sections 34328 and 34328.1, housing authorities are required to:

- Show compliance with requirements of HSC Section 34312.3, such as the minimum amount of housing units affordable to lower income projects assisted by the Authority, and document established base rents and/or maximum rental payments for lower income households; and
- Document any domestic violence tenancy or Housing Choice Voucher Program termination as required by HSC Section 34328.1.

The following provides a summary of the Authority's progress toward the requirements listed above.

HOUSING AFFORDABILITY REQUIREMENT

The Authority's housing units are subject to requirements in both the CRL and HAL.

Pursuant to the CRL, at least 15% of all units newly constructed or substantially rehabilitated *prior to February 1, 2012* must be affordable to very low to moderate income households (HSC Section 33413). SB 341 amended the CRL so there is no inclusionary or replacement housing obligation for units built or destroyed after February 1, 2012.

Pursuant to the HAL, at least 20% of the units in housing projects assisted by the Authority, or 15% in targeted areas[2] must be affordable to persons of low income (HSC Section 34312.3(c)). If housing projects are financed by bonds issued by the Authority, at least 10% of the units must be available to persons of very low income. These requirements may be applied to the aggregate number of units assisted by the Authority. Furthermore, the HAL requires that development projects financed with bonds must also be approved by the local governing body and the local school district prior to construction or ownership. Nevertheless, the power to finance, own, build, and/or operate a housing development allows the Authority to take a more active role in the creation and maintenance of housing for low income families.

The Authority oversees two properties subject to these requirements: the Madrid Condos and the Saguaro Property (see the "Affordability Agreements" section for more detail). The affordability levels of these properties are in compliance with the CRL based on requirements prior to the dissolution of redevelopment.

The Authority inherited the properties after affordability covenants were in place pursuant to the CRL prior to the dissolution of redevelopment. These properties still meet the HAL's requirement that 20% of units assisted by the Authority are affordable to low income persons.

[2] Targeted areas as defined by Section 103(b)(12)(A) of Title 26 of the United States Code

The affordability levels at each property are summarized in Table 1. Although the HAL discourages housing authorities from assisting moderate income households, Authority properties with moderate income units fulfill the requirements of the CRL prior to dissolution. Any future development will satisfy both CRL (as amended by SB 341) and HAL requirements as necessary.

Affordability Levels **Table 1**

Lake Forest Housing Authority

Property	Units by Income Level									
	Ext. Low		Very Low		Low		Moderate		Total	
	#	%	#	%	#	%	#	%	#	%
Madrid Condos[1]	2	100%	0	0%					2	100%
Saguaro Property[2]	1	25%			3	75%			4	100%
Total	**3**	**50%**	**0**	**0%**	**3**	**50%**	**0**	**0%**	**6**	**100%**

Total Low Income or Below	*100%*
Total Moderate Income or Below	*100%*

[1] The Madrid Condos are generally restricted to low income households, however since the property currently operates transitional housing units, the units are occupied by extremely low income households and the tenants are charged extremely low income rents.

[2] The Saguaro Property's extremely low income unit is currently occupied by a low income household who is exempt from the extremely low income requirement because they were grandfathered into the unit as part of the rehabilitation relocation process.

These units were not financed with Authority bond proceeds. Therefore, the Authority is not subject to the additional requirement for very low income households pursuant to HSC Section 34312.3(c)(2)(A). The Authority will ensure that income and rent levels in any future housing units will meet established requirements detailed in HSC Section 34312.3.

BASE & MAXIMUM RENTS

HSC Section 34312 states that a housing authority may “prepare, carry out, acquire, lease, and operate housing projects for persons of low income.” As part of this authority, HSC Section 34312.3 establishes a set of guidelines to determine base (minimum) and maximum rents that a housing authority can charge for units reserved for lower income households. According to HSC Section 34312.3, rental payments for very low and low income households shall not exceed the amounts calculated pursuant to Section 8 of the United States Housing Act of 1937 (42 U.S.C. Sec. 1437f).

The rents charged at the properties overseen by the Authority are summarized in Table 2.

Rental Rates **Table 2**
Lake Forest Housing Authority

Property	Income Level	Unit Size	Household Size	Monthly Rent[1]	Co. Max. Rent[2]
Madrid Condos[3]	Ext. Low	2-bed	4	$200	$1,159
	Ext. Low	3-bed	4	$400	$1,288
Saguaro Property	Low	2-bed	3	$1,100	$1,391
	Low	2-bed	2	$1,075	$1,391
	Low	2-bed	4	$1,075	$1,391
	Ext. Low / Exempt[4]	3-bed	7	$1,170	$1,288

[1] Monthly rent does not include the utility allowance.

[2] County-wide maximum allowable rent before deducting the utility allowance pursuant to HSC Section 50053.

[3] The Madrid Condos are generally restricted to low income households, however since they currently operate as transitional housing units they are occupied by very low income households and are charged extremely low income rents.

[4] This unit is restricted as extremely low income by the Regulatory Agreement, however is currently occupied by a very low income household who is exempt from the requirement because they were grandfathered in by the relocation process. The rent charged is below the very low income rent limit.

Note: The Authority does not collect rents from tenants at any property. The Authority receives $1 in annual rent plus HOA dues from Families Forward for each Madrid Condo.

When compared to the maximum rental payments, the rent charged for the units in Table 2 are in compliance with HSC 34312.3.

DOMESTIC VIOLENCE

The Authority must annually disclose data related to domestic violence incidents in units owned or operated by the Authority. Specifically, the data must include:

- Data on termination of tenancies and/or Housing Choice Vouchers Program victims of domestic violence in housing authority units.
- Summary of steps taken by the housing authority to address any termination of tenancies and/or Housing Choice Vouchers Program of victims of domestic violence.

During FY 2019-20, the Authority or its lessees did not terminate tenancies for any reason. In the future, information on any terminations of this kind will be presented under separate cover to protect the privacy of the parties involved.

FINANCIAL STATEMENT/BUDGET

Table 3 presents a summary of the Authority's projected versus actual revenues and expenditures by category in FY 2019-20. The beginning balance was $439,330. Revenues of $48,185 were significantly lower than the budgeted $892,600 due to lower property sales revenues than expected. The Authority had budgeted $880,000 in revenues from the sale of the Authority Parcel. However, the sale is currently pending in escrow and the proceeds are expected to be received in FY 2020-21. Expenditures of $84,000 were less than budgeted at $105,100. Expenditures were lower due to reductions in administrative costs and professional services. The ending balance as of June 30, 2020 was $403,515.

Table 3 also presents the projected revenues and expenditures for FY 2019-20.

Statement of Expenditures and Reserves — Table 3

Lake Forest Housing Authority

	Projected 2019-20	Actual 2019-20	Projected 2020-21
REVENUE			
Beginning Balance	**$439,330**	**$439,330**	**$403,515**
Sale of Property[1]	880,000	-	-
Other Revenues[2]	12,600	48,185	12,600
Total Revenues	**$892,600**	**$48,185**	**$12,600**
EXPENSES			
Professional Services			
Property Disposition		$4,897	
Consulting Services			
General	90,000	10,920	50,000
OC Housing Trust			9,300
Contract Services:			
Real Property Maintenance	7,600	8,500	7,600
Auditing	5,000	3,135	5,000
Rehabilitation Loan Fees	1,500	592	1,500
Rehabilitation Loan Services	1,000	913	1,000
Legal Services	-	55,043	25,300
Total Expenses	**$105,100**	**$84,000**	**$99,700**
Ending Balance	**$1,226,830**	**$403,515**	**$316,415**

[1]The Adopted Budget assumed $0 property sales proceeds in FY 2019-20, however $880,000 is expected from the sale of the Authority Parcel.

[2] FY 19-20 Other Revenues consisted of prior year interest income subsequently received of $9,760, loan payoffs $29,923 and reimbursements of $8,502.

APPENDIX 1 - HOUSING ASSET LIST

The Housing Asset List, attached as a separate document, shows assets transferred from the former Agency to the Authority in FY 2011-12. All transfers were approved by the DOF on September 5, 2012 pursuant to HSC Section 34176.

APPENDIX 2 – HOUSING SUCCESSOR ENTITY ANNUAL REPORT

Health and Safety Code Section 34176.1 requires successor housing entities to prepare an annual report detailing compliance with new expenditure limitations and other information, including:

- Amounts deposited into the Low and Moderate Income Housing Asset Fund ("Housing Asset Fund");
- Statement of the balance of the Housing Asset Fund;
- Description of expenditures by category;
- Statutory Value of real property;
- Description of transfers;
- Description of projects that receive funding through the Successor Agency's Recognized Obligation Payment Schedule;
- Status of properties pursuant to a 5-year disposition period;
- Update on inclusionary and replacement housing obligations;
- Compliance with 5-year expenditure obligations;
- Percentage of senior deed-restricted units;
- Amount of excess surplus; and
- And inventory of homeownership units restricted by affordability covenants and assisted by the former Agency or Authority

Authority staff is in the process of auditing its financials and other information. The Redevelopment Housing Successor Entity Annual Report for FY 2019-20 will be prepared by the end of 2020.