REDEVELOPMENT HOUSING SUCCESSOR ENTITY ANNUAL REPORT

Lake Forest Housing Authority

FY 2016-17

TABLE OF CONTENTS

INTRODUCTION

The dissolution of California redevelopment agencies in 2012 resulted in a dramatic change to property tax finance. It eliminated the major source of local publicly generated dollars earmarked for affordable housing. Housing authorities have thus been left in a challenging position – the need for them is greater than ever, yet a key funding source no longer exists.

The Lake Forest Housing Authority ("Authority") was established on February 1, 2011 by the adoption of Resolution No. 2011-05. The Authority is the successor housing entity ("Housing Successor") to the former Lake Forest Redevelopment Agency ("Agency"). Most of the Authority's assets were transferred from the former Agency when it dissolved pursuant to the Dissolution Act (enacted by Assembly Bills x1 26, 1484, and 346 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 Authority. Although the Authority inherited the Agency's assets and functions, it does not have an ongoing financing mechanism to maintain them. The former Agency primarily funded projects with redevelopment tax increment, which was abolished with the dissolution of redevelopment.

This annual report presents the Housing Successor's financial, property disposition, and other activities taken in FY 2016-17 as required by Health & Safety Code ("HSC") Section 34176.1(f). The financial information is based on unaudited figures available at the time this report was prepared in November 2017. Lake Forest's audited financial statements for FY 2016-17 will be available in late December 2017 and will be submitted with this report.

ASSETS TRANSFERED TO THE HOUSING SUCCESSOR

Per 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
- Repayment of Supplemental Educational Revenue Augmentation Fund loans

The assets transferred from the Agency to the Authority included real properties, loan receivables, and rental income.

ANNUAL REPORTING REQUIREMENTS

Senate Bill ("SB") 341, Assembly Bill ("AB") 1793, SB 107, and AB 346, amended certain sections of the HSC in 2014 and 2015 pertaining largely to entities that accepted the housing assets and liabilities of former redevelopment agencies. SB 341 clarified that all former redevelopment agency housing assets, regardless of their originating redevelopment agency, must be maintained in a separate fund called the Low and Moderate Income Housing Asset Fund ("Housing Asset Fund").

In accordance with HSC Section 34176.1(f), the following data must now be reported annually for the Housing Asset Fund. While annual reporting is required, compliance periods may be longer as described below. Not all items are applicable to all housing successors.

1. Total amount deposited in the Housing Asset Fund for the fiscal year.
2. Statement of balance at the close of the fiscal year.
3. Description of expenditures for the fiscal year broken out as follows:
    a. Homeless prevention and rapid rehousing solutions (maximum of $250,000 per year if eligible)
    b. Administrative expenses (greater of $200,000 adjusted annually for inflation or 5 percent of "portfolio" per year)
    c. Monitoring expenses (included as an administrative expense)
    d. All other expenditures must be reported as spent for each income group (extremely low-, very low-, and low-income)
4. Other "portfolio" balances
    a. Statutory value of any real property either transferred from the former Agency or purchased by the Housing Asset Fund. Note that the Housing Successor may only hold property for five years.
    b. Value of loans and grants receivable.
5. Description of any transfers to another housing successor for a joint project.
6. Description of any project still funded through the Recognized Obligation Payment Schedule ("ROPS").
7. Update on property disposition for any property owned more than five years or plans for property owned less than five years.
8. Description of any outstanding production obligations of the former redevelopment agency that are inherited by the Housing Successor.
9. Compliance with proportionality requirements (income group targets). Compliance must be upheld on a five-year cycle.
10. 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 10 years compared to the total number of units assisted by any of those three agencies.

11. Amount of excess surplus and, if any, the plan for eliminating it.
12. An inventory of homeownership units assisted by the former Agency or its housing successor subject to covenants or restrictions.

LOW AND MODERATE INCOME HOUSING ASSET FUND

The Low and Moderate Income Housing Asset Fund replaced the former Agency's LMIHF. The Housing Asset Fund includes all the assets that were transferred from the Agency to the Authority via the Housing Asset Transfer Form. This included:

1. Real properties;
2. LMIHF encumbrances;
3. Loan receivables; and
4. Rental income and HOA dues.

All items on the Housing Asset Transfer Form were approved by the California Department of Finance ("DOF") on September 5, 2012. However, DOF disallowed LMIHF encumbrances totaling $607,317 as part of the LMIHF Due Diligence Review. This included costs for relocation that were subsequently funded through the ROPS process, condominium dues, loan and recording fees, maintenance costs, and loan monitoring costs.

HOUSING ASSET FUND DEPOSITS AND ENDING BALANCE

SB 341 requires that the Authority annually report the amount of funds that were deposited into the Housing Asset Fund during the fiscal year. The Authority deposited $32,671 into the Housing Asset Fund during Fiscal Year ("FY") 2016-17. As detailed in Table 1, this consisted of loan repayments, reimbursements, and interest income. There are no housing enforceable obligations on the ROPS, therefore there were no deposits into the Housing Asset Fund related to the ROPS, and none are anticipated in the future.

Fiscal Year 2016-17 Housing Asset Fund Deposits		Table 1
Lake Forest Housing Authority		
Revenue Source		**Amount**
Rehab Loan Repayments	$	23,321
Reimbursements (Madrid Rent, HOA Dues, and Fees)		6,648
Interest Income		2,702
Total[1]	**$**	**32,671**

[1] Based on preliminary unaudited figures available at the time this report was prepared

At the close of FY 2016-17, the ending cash balance in the Housing Asset Fund was $319,289 as shown in Table 2.

Housing Asset Fund Cash Balance			Table 2
Lake Forest Housing Authority			
	Projected 2016-17	**Actual 2016-17**	**Projected 2017-18**
REVENUE			
Beginning Balance	341,478	341,478	319,289
Other Revenues[1]	11,800	32,671	11,200
Total Revenues	**$ 353,278**	**$ 374,149**	**$ 330,489**
EXPENSES			
Professional Services			
Property Disposition	-	-	-
Consulting Services			
General	50,000	41,990	80,000
Contract Services:			
Real Property Maintenance	12,200	11,096	12,400
Auditing	5,000	-	5,000
Rehabilitation Loan Fees	1,500	754	1,500
Rehabilitation Loan Services	1,000	1,020	1,000
Legal Services	-	-	35,000
Total Expenses	**$ 77,500**	**$ 54,860**	**$ 134,900**
Ending Balance	**$ 275,778**	**$ 319,289**	**$ 195,589**

[1] See Table 1 for details regarding Other Revenue deposits.

Note: These are preliminary unaudited figures available at the time this report was prepared

EXPENDITURES

SB 341 provides the following guidelines for expenditures from the Housing Asset Fund:

1. Annual administrative costs, which include housing monitoring, are capped at $200,000 adjusted for inflation or 5% of the statutory value of any 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 in Fiscal Year 2016-2017 is $207,200.

2. A housing successor is authorized to spend up to $250,000 per year on homeless prevention and rapid rehousing solutions for homelessness 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 Authority can make this expenditure if it chooses and if funding is available.

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 Housing Asset Funds 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 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. The Authority complies through FY 2016-17 because all expenditures have been administrative and within the annual maximum limit.

Table 3 summarizes Housing Asset Fund expenditures by category. All expenditures in FY 2016-17 were administrative expenses within the annual limit.

Fiscal Year 2016-17 Housing Asset Fund Expenditures — **Table 3**

Lake Forest Housing Authority

Annual Expenditures	Admin./ Monitoring	Rapid Rehousing	Ext. Low Rental Units	Other Units	Ext. Low <30% AMI	Very Low 30-60% AMI	Low 60-80% AMI
Administration	54,860	-	-	-	-	-	-
Annual Total	**$ 54,860**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

Compliance Period Expenditures

	Annual Limits		Five-Year Period (2013-14 through 2018-19)				
Total Expenditures	$ 54,860	$ -	$ -	$ -	$ -	$ -	$ -
SB 341 Limitation[1]	$ 207,200	$ 250,000	>30%	<70%	>30%	N/A	<20%
Compliant (Yes/No)	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**N/A**	**Yes**

[1] The Admin/Monitoring and Rapid Rehousing amounts are annual limits. Expenditures by income level are five-year limits.
Note: These are preliminary unaudited figures available at the time this report was prepared

STATUTORY VALUE OF REAL PROPERTIES AND LOAN RECEIVABLES

Table 4 reports the statutory value of real properties formerly owned by the Agency and loans and/or grant receivables listed on the Housing Asset Transfer Form. The Authority owned five properties that had a statutory value of $1.7 million as listed on the Housing Asset Transfer form.[1] However, the Authority has subsequently sold the Saguaro property and only owns four properties at this time.

The Agency transferred 33 loan agreements to the Authority that were issued as part of a Housing Rehabilitation Loan Program. They consisted of 30 loans to rehabilitate mobile homes and 3 loans to rehabilitate single-family homes. All the loans were issued to low- or moderate-income homeowners. Twelve loans have

[1] Reflects statutory values at the time the Housing Asset Transfer form was prepared pursuant to HSC 34176.1(a)(1).

been paid off since they were transferred to the Authority, of which two loans were paid off during FY 2016-17. As indicated in Table 1, the Authority received $23,321 in payments toward loan pay-offs. As of June 30, 2017, the receivables due from the remaining 21 loans amount to $289,068. The Authority also issued a $100,000 loan to Families Forward that is secured by a Promissory Note. The total balance of loan receivables is $389,068.

Fiscal Year 2016-17 Real Properties and Receivables — **Table 4**

Lake Forest Housing Authority

Asset		**Amount**
Real Properties[1]		
22702 Madrid Drive	$	178,303
22706 Madrid Drive		188,364
Authority Parcel		326,000
Mamie Thomas Parcel		7,168
Subtotal	*$*	*699,835*
Loan Receivables[2]		
Families Forward Promissory Note		100,000
Housing Rehabilitation Loans (21 total)		289,068
Subtotal	*$*	*389,068*
Total	**$**	**1,088,903**

[1] Reflects the statutory value of real properties as listed on the housing asset transfer form pursuant to HSC 34176.1(a)(1)

[2] These are preliminary unaudited figures available at the time this report was prepared

PROPERTY AND PROJECT DESCRIPTIONS

The Agency previously transferred five affordable housing real estate property interests to the Authority including: two condominiums on Madrid Street (“Madrid Condos”), a 1.67-acre vacant parcel purchased from the Orange County Transportation Authority (“Authority Parcel”), a tax-defaulted vacant parcel purchased from the County of Orange (“Mamie Thomas Parcel”), and a four-unit apartment complex in the Saguaro Neighborhood (“Saguaro Property”) that was sold in FY 2015-16. A description of these properties and their disposition or development status is below.

In addition, Authority staff conducted a workshop in the Spring of 2016 to discuss options for disposing of sites and expending funds, and posted a Notice of Funding Availability ("NOFA") in the Spring of 2017. Proposals from six qualified, affordable housing developers were received for the NOFA in July 2017 and the Authority approved to enter into an Exclusive Negotiation Agreement with National CORE in December 2017.

MADRID CONDOS

In 2009, the Agency acquired two condominium units purchased from its LMIHF. 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 the 20-year lease of the two units with Families Forward consistent with the Housing Agreement.

In this reporting period, Families Forward operated the units in full compliance with the lease and successfully provided housing to families threatened with homelessness. Families Forward also presented the Authority with a request to transfer the deeded rights to them for an unknown compensation. The Authority requested that they provide a formal offer to consider. At the time of this report, the Authority is still awaiting a response from Families Forward.

AUTHORITY PARCEL

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 costs of creating public access to the landlocked parcel and other factors, 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 land owners in FY 2013-14 and on May 2, 2017, the City Council entered into an agreement with JW Congregation to purchase the property for expansion of their adjacent facility. The Agreement specifies that escrow will not close until required entitlements are received by the Buyer. It is anticipated that the required entitlements will be on future Planning and Traffic Commission and City Council agendas in the summer of 2018.

MAMIE THOMAS PARCEL

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. If the property is sold, sales proceeds will be deposited into the Low and Moderate Income Housing Asset Fund.

SAGUARO PROPERTY

The Agency purchased a four-unit apartment complex in 2011. Previously, the units were rented at market rates and did not have affordability restrictions. However, the apartment complex was occupied by very low income households. In April 2015, the Authority sold the property to Families Forward, an affordable housing nonprofit, who completed a comprehensive rehabilitation and operates an affordable housing project with a social services component. The property has a 55-year affordability covenant. The sale proceeds amounting to $100,000 in cash at the close of escrow, and $100,000 in form of a promissory note (payable over 50 years commencing on the 5th year anniversary of the sale) were deposited into the Low and Moderate Income Housing Asset Fund.

PROPERTY DISPOSITION COMPLIANCE

HSC Code Section 34176(e) requires all real properties acquired by the Agency prior to February 1, 2012 and transferred to the Authority to be developed pursuant to the requirements detailed in HSC Section 33334.16. All property that falls within in these parameters must have activities initiated to be developed for affordable housing purposes within 5 years from the date DOF approved the Housing Asset Transfer Form, or September 5, 2017. If the Authority is unable to initiate activities to develop these properties within the five-year period, the law does allow for a five-year extension via adoption of a resolution. All Authority properties transferred on the Housing Asset Transfer Form are subject to this provision except the Madrid Condos and Saguaro Property. Authority staff complies with this provision by way of an extension for the disposition of the Mamie Thomas and Authority Parcels that was approved on August 15, 2017. As described above, all properties are either being operated as affordable housing, in negotiations to be sold, or have been sold. The Authority anticipates it will meet the extended deadline.

PROJECTS FUNDED BY ROPS

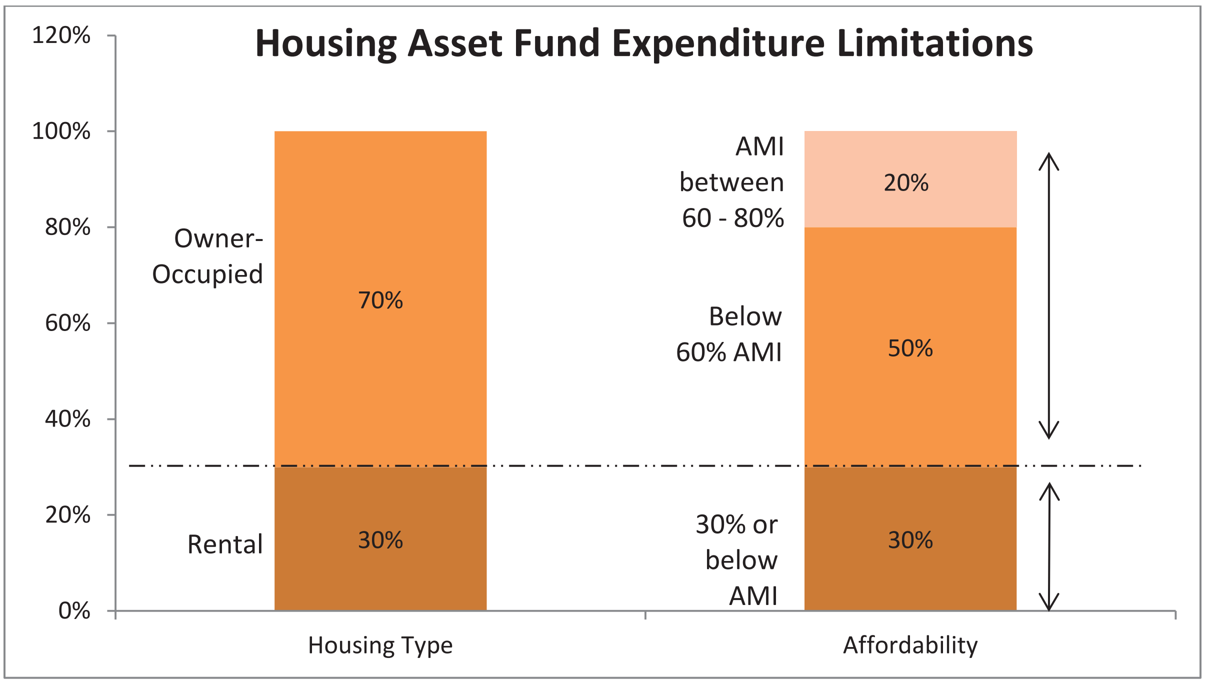
No projects were funded by the Successor Agency's ROPS in FY 2016-17.

OUTSTANDING INCLUSIONARY AND REPLACEMENT HOUSING OBLIGATIONS

The Agency did not have any inclusionary or replacement housing obligations prior to its dissolution. There was no housing construction or rehabilitation that triggered an inclusionary production requirement in the Project Area and the Agency did not displace any households. The Agency assisted in the production of six units outside the Project Area in FY 2001-02, resulting in a surplus of three inclusionary housing units as of February 1, 2012.

EXTREMELY LOW-INCOME EXPENDITURE PROPORTIONALITY

Expenditures from the Housing Asset Fund shall be limited to lower income households earning 80% or less of the AMI, with at least (not less than) 30% of expenditures for rental housing for households earning 30% or less of the AMI and not more than 20% of the expenditures for household earning between 60% and 80% of the AMI.



Failure to comply with the extremely low-income requirement in any 5-year reporting period will result in the Authority having to ensure that 50% of remaining funds will be spent on extremely low-income rental units until in compliance. Exceeding the expenditure limit for households earning between 60% and 80% of the AMI in any 5-year reporting period will result in the Authority not being allowed to expend any funds on these income categories until in compliance.

As depicted in Table 3, the Authority only had administrative expenditures of $54,860 in FY 2016-17. It will ensure that it adheres to extremely low-income expenditure limitations by the end of the five-year compliance period.

SENIOR HOUSING EXPENDITURE PROPORTIONALITY

This report must include an accounting of deed-restricted senior rental units that were produced over the last ten years. The Authority must expend no more than 50% of the aggregate total number of senior housing units produced by the City, Authority or former Agency during the past ten years. Exceeding this limitation will prohibit the use of Housing Asset Funds to subsidize any senior rental units.

There have been no senior rental affordable units developed in the past ten years.

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."

Now that four years of deposits have been established, the first meaningful calculation of this total can be performed. The Authority's unencumbered fund balance for FY 2016-17 is $328,608 while the prior four years of deposits totals $576,917, which is much less than $1 million. Based on these numbers, the Authority does not have an excess surplus after FY 2016-17 as shown in Table 5.

Fiscal Year 2016-17 Excess Surplus Calculation					Table 5
Lake Forest Housing Authority					
Fiscal Year	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**Calculation**
Deposits	150,600	150,080	142,591	133,646	
FY 2016-17 Beginning Balance					341,478
Plus: Committed Funds					12,870
Real Property Maintenance					*11,096*
Auditing					-
Rehabilitation Loan Fees					*754*
Rehabilitation Loan Services					*1,020*
Unencumbered Amount					328,608
Step 1					
$1 Million, or					1,000,000
Last 4 Deposits					576,917
Result: Larger Number					1,000,000
Step 2					
Unencumbered Amount					328,608
Less: Larger Number From Step 1					1,000,000
Excess Surplus					**-**

As the general purpose of the excess surplus calculation is to ensure that money is expended for affordable housing purposes, the best action for the Authority is encumber or expend money currently on deposit.

INVENTORY OF HOMEOWNERSHIP UNITS

AB 1793 requires this report to include an 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 moneys from the LMIHF. There are no homeownership units assisted by the former Agency or Authority subject to affordable housing covenants or restrictions to report.