2022-23 Housing Successor Agency Annual Report

CITY OF HAWTHORNE

Housing Successor Agency to the Former Hawthorne Redevelopment Agency

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CITY OF HAWTHORNE

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Section 1 Introduction

This Housing Successor Annual Report ("Report") has been prepared pursuant to the California Health and Safety Code ("HSC") Section 34176.1(f) and sets forth certain details of the City of Hawthorne ("City" or "Housing Successor") as the Housing Successor of the Hawthorne Redevelopment Agency ("Agency").

The purpose of this Report is to provide the governing body of the Housing Successor an annual report on the housing assets and activities of the Housing Successor under Part 1.85, Division 24 of the HSC – In particular, Sections 34176 and 34176.1 ("Dissolution Law"). The Report is due to the California Department of Housing and Community Development ("HCD") by April 1st each year.

1.1 Reporting Requirements

Senate Bill ("SB") 341 (2013-14) established 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. These requirements are presented below:

- **Revenues and Expenditures**
  - Total amount deposited for the fiscal year.
  - Statement of balance at the close of the fiscal year.
  - Description of expenditures for the fiscal year, broken out as follows:
    - Rapid rehousing for homelessness prevention;
    - Administrative expenses;
    - Monitoring expenses (included as an administrative expense);
    - All other expenditures must be reported as spent for each income group as defined by SB 341.
  - Description of any transfers to another housing successor agency for a joint project.
- **Other Assets and Active Projects**
  - Description of any housing project(s) still funded through the Recognized Obligation Payment Schedule ("ROPS").
  - Update on property disposition or development for any property owned by the housing successor.
  - Other "portfolio" balances, including the statutory value of any real property transferred from the former Agency or purchased by the Housing Asset Fund, and the value of loans and grants receivable.

- Inventory of homeownership units assisted by the former Agency or the City, subject to covenants, restrictions, or an adopted program that protects the former Agency's investment of monies from the Low- and Moderate-Income Housing Fund.

- **Obligations & Proportionality**
    - Description of any outstanding production obligations of the former Agency that are inherited by the City.
    - Compliance with proportionality requirements (income group targets), which must be upheld on a five-year cycle.
    - 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.

SB 341 also mandates that housing successor agencies conduct an independent financial audit of the Housing Asset Fund within six months of the end of each fiscal year - This financial audit may be included in the independent financial audit of the host jurisdiction. The City's Annual Comprehensive Financial Report ("ACFR") for Fiscal Year ("FY") 2022-23 was completed in December 2022, includes an audit of the Housing Asset Fund[1], and is available on the City's website.

This Report presents the activities of the Housing Successor for FY 2022-23.

1.2 Expenditure Requirements

The law provides the following guidelines for expenditures from the Housing Asset Fund:

1. Administrative costs, including housing monitoring, are capped at $200,000 adjusted annually for inflation or 5% of the statutory value of any land owned by the housing successor agency and of loans and grants receivable.

    a. ***In the City's case, 5% of $4,910,822, or $254,500.***

2. If the former Agency did not have outstanding housing production requirements, the housing successor agency is authorized to spend up to $250,000 per year on homeless prevention and rapid rehousing services to individuals and families who are homeless or would be homeless without this assistance.

    a. ***In the City's case, the former Agency had a surplus of affordable housing production units. Therefore, the City is allowed to make this expenditure if it chooses, and funding is available for such expenditures.***

[1] Housing Asset Fund balances, revenues, and expenditures in this report differ slightly from the ACFR because the ACFR includes activity from Fund 463.

3. Remaining allowable expenditures must be spent to improve housing options affordable to households in the following income groups:

    a. Extremely low income (households earning 30% or less of the Area Median Income ("AMI")) – ***Minimum of 30% spent on housing options must be spent in this category.***

    b. Very low income (households earning 31% to 60% of the AMI) – ***No requirements.***

    c. Low income (households earning 61% to 80% of the AMI) – ***Maximum of 20% spent on housing options may be spent in this category.***

    d. No funding may be spent on moderate income households (earning 81% to 120% of the AMI), as was previously authorized by redevelopment law.

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 extremely low-income rental units until in compliance. Exceeding the expenditure limit for lower income households in any five-year reporting period will result in the City not being able to expend any funds on that income category until in compliance.

Housing successor agencies must report expenditures by category each year, but compliance with expenditure limitations is reported at the end of each five-year compliance period. For instance, a housing successor agency could spend all its funds in a single year on lower-income households, as long as it was 20% or less of the total expenditures during the five-year compliance period. The second five-year compliance period began on July 1, 2019, and ends on June 30, 2024.

1.3 Assets Transferred to the Housing Successor Agency

The City prepared a Housing Asset Transfer Form ("HAT") in 2012 that provided an inventory of all housing-related assets transferred from the former Agency to the City following the dissolution of redevelopment. The HAT was approved to the California Department of Finance ("DOF) on August 30, 2012, and included:

- Real properties;
- Loans/Grants Receivables;
- Rents; and
- Deferrals.

Section 2 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 transferred from the Agency to the City via the HAT.

2.1 Housing Asset Fund Deposits and Ending Balance

The City deposited $480,171 into the Housing Asset Fund during FY 2022-23. Revenues were generated from investment earnings and rental property income (security deposits and rents).

Table 1. Fiscal Year 2022-23 Housing Asset Fund Deposits

Revenue Source		Amount
Investment Earnings	$	125,555
Rents & Security Deposits		354,616
Total	**$**	**480,171**

Source: City of Hawthorne, Funds 462 & 464-468 Trial Balance Detail Reports

As shown on Table 2 below, the Housing Asset Fund closed FY 2022-23 with $7.6 million in assets[2], none of which is held to pay for enforceable obligations on the ROPS.

Table 2. Fiscal Year 2022-23 Housing Asset Fund Ending Balance

Balance Type [1]		Amount
Cash	$	7,297,254
Interest Receivable		8,400
Accounts Receivable		-
Loans Receivable		328,743
Total	**$**	**7,634,397**

[1] Excludes statutory value of Land Held for Resale, as it is not a part of the ACFR Asset Balance

Source: City of Hawthorne, Funds 462 & 464-468 Trial Balance Detail Reports

2.2 Expenditure Limitations

Table 3 summarizes Housing Asset fund expenditures on administrative costs and homeless prevention in FY 2022-23, and affordable housing activities by income level from July 1, 2019 through June 30, 2024.

[2] Excludes the statutory value of real properties held by the Successor Agency in Fund 463.

Table 3. Fiscal Year 2022-23 Housing Asset fund Expenditures

	Annual Limits 2022 - 23		Five-Year Limits July 1, 2019 - June 30, 2024		
	Admin/ Monitoring	*Rapid Rehousing*	*Ext. Low <30% AMI*	*Very Low 31-60% AMI*	*Low 61-80% AMI*
FY 2019-20	$647,358	$0	$0	$0	$0
FY 2020-21	374,058	0	0	0	0
FY 2021-22	237,137	0	0	0	0
FY 2022-23	304,542	0	0	0	0
FY 2023-24			0	0	0
Total Expenditures	**$304,542**	**$0**	**$0**	**$0**	**$0**
SB 341 Limitation	*$254,500*	*$250,000*	*>30%*	*N/A*	*<20%*
Compliant (Yes/No)	**No**	**Yes**	**Yes**	**Yes**	**Yes**

Source: City of Hawthorne, Funds 462 & 464-468 Trial Balance Detail Report

All Housing Asset Fund expenditures have been administrative for the second five-year compliance period that started on July 1, 2019. In Fiscal Year 2022-23, the City expended $304,542 in administrative expenditures which is over the limit for the year. The City will continue its efforts to decrease administrative expenditures and ensure that future expenditures meet proportionality requirements.

2.3 Statutory Value of Real Properties and Loan Receivables

The City inherited six (6) properties, one (1) loan, and two (2) deferrals from the former Agency when it dissolved on February 1, 2012. Table 4 below shows the total value of real properties and loans receivable. The Housing Asset Transfer Form in Appendix A shows more detailed information about each property and loan receivable.

Table 4. Fiscal Year 2022-23 Real Properties & Receivables

Asset		Amount
Real Properties		
12726 Grevillea Avenue	$	332,928
11529 Gale Avenue		1,575,064
11537 Gale Avenue		828,169
11605 Gale Avenue		883,585
12529 Truro Avenue		729,873
14115 Cordary Avenue		232,460
Subtotal	**$**	**4,582,079**
Loan Receivables		
Southern California Housing Development Corp (Hawthorne Terrace)	$	328,743
Subtotal	**$**	**328,743**
Total	**$**	**4,910,822**

Source: City of Hawthorne, Hawthorne Housing Asset Transfer Form

The total statutory value of real properties is $4,582,079 and outstanding loan receivables total is $328,743, for a combined value of $4,910,822.

Section 3 Property Development & Disposition

HSC Section 34176.1(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 HAT, or September 30, 2017. However, the law allows for a five-year extension via adoption of a resolution – The City adopted Resolution No. 7915 on July 25, 2017, allowing for a five-year extension. The City is compliant under the law due to continued efforts to dispose and develop the properties within the five-year deadline.

The Agency transferred six (6) real properties to the City on the HAT, five (5) of which are developed and operating as affordable housing and one (1) of which is in the process of being sold/developed. The Agency also transferred affordability covenants with three (3) properties that are overseen by the City. The properties are described below.

- **12726 Grevillea Avenue**

  This multifamily rental property has eight (8) moderate income units. The former Agency acquired the property in 1991 and recorded a 55-year affordability covenant that expires in 2064.

- **11529 Gale Avenue**

  This multifamily rental property has twelve (12) moderate income units. The former Agency acquired the property in 2008 and recorded a 55-year affordability covenant that expires in 2064.

- **11537 Gale Avenue**

  This multifamily rental property has five (5) very low-income units. The former Agency acquired the property in 2009 and recorded a 55-year affordability covenant that expires in 2064.

- **11605 Gale Avenue**

  This multifamily rental property has ten (10) very low-income units restricted to seniors. The former Agency acquired the property in 2008 and recorded a 55-year affordability covenant that expires in 2064.

- **12529 Truro Avenue**

  This multifamily rental property has three (3) very low-income units. The former Agency acquired the property in 2009 and recorded a 55-year affordability covenant that expires in 2064.

- **14115 Cordary Avenue**

  This property was acquired in 2011. The City previously issued a Request for Proposals (RFP) in 2019 for the development of a permanent supportive housing project for veterans experiencing homelessness. A developer was chosen in December 2019, but the City and developer were unable to come to an agreement on the number of units. In 2020, the City issued another RFP for the property's purchase and development but the development project with the selected developer failed to move forward in 2023. As of the date of this report, the City is in the process of issuing another RFP/Notice of Funding Availability ("NOFA") in 2024.

- **Hawthorne Terrace – 12923 & 12938 Kornblum Avenue**

  The City monitors an affordability restriction at this 100-unit multifamily rental property with 54 very low-income units and 46 low-income units. The 55-year covenant expires in 2059.

- **TELACU Gardens – 13000 Doty Avenue**

  The City monitors an affordability restriction at this multifamily rental property. Completed in September 1988, this senior housing development project was completed as a partnership between TELACU, the United States Department of Housing and Urban Development ("HUD"), and the former Agency. Known as Hawthorne Senior Gardens, this property is a 75-unit low- and moderate-income facility located on Doty Avenue. The Agency provided funding for an additional elevator and other capital improvements.

- **TELACU Terrace – 4536 W. 118th Street**

  The City monitors an affordability restriction at this multifamily rental property. Dedicated in October 1992, TELACU Terrace provides affordable housing to low-income seniors. The 75-unit complex includes eight (8) units designated for special-needs seniors. Situated at the corner of 118th Street and Grevillea Avenue, this residential complex is centrally located to amenities including shopping areas, and community facilities and services. Agency assistance included funding for the acquisition of land, relocation, and clearance of the property.

Section 4 Outstanding Inclusionary & Replacement Housing

The former Agency had a surplus of over 100 affordable housing units when it dissolved in February 2012. There are no outstanding inclusionary or replacement housing obligations of the former Agency to be fulfilled by the City.

Section 5 Senior Housing Expenditure Proportionality

This report must include an accounting of deed-restricted senior rental units that were produced over the last 10 years. The City may use Housing Asset Funds to assist no more than 50% of the aggregate total number of senior housing units produced by either the City or former Agency during the past 10 years. Exceeding this limitation will prohibit the use of Housing Asset Funds to subsidize any senior rental units in the future.

As shown in Table 5 below, the City and former Agency assisted four (4) properties in the last ten years, of which 0% are restricted to seniors. The City may spend more money subsidizing senior rental units in the future; however, it must ensure that no more than 50% of the total aggregate number of rental units at all affordability levels produced within the preceding ten (10) years are restricted to seniors.

Table 5. Deed-Restricted Rental Units Assisted Since Fiscal Year 2011-12

Property Address	# Restricted Units	# Senior Restricted Units	Acquired/ Assisted	Covenant Recorded	Covenant Expires
11519 Cedar Avenue	5	0	6/16/2015	6/16/2015	15 years
14135 Cerise	127	0	6/21/2015	1/21/2015	55 years after first occupancy
14105-14137 Chadron Avenue	28	0	9/15/2014	11/21/2012	30 years after first occupancy
14004 Doty Avenue	7	0	8/4/2014	11/12/2013	30 years after first occupancy
Total	**167**	**0**			
% Senior Units		**0%**			

Source: City of Hawthorne

Section 6 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. Funds should be encumbered within four years of receipt. SB 341 reinstates this calculation for housing successor agencies. 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 agency's preceding four fiscal years, whichever is greater."

Pursuant to State law, the City must encumber any excess surplus amount within three fiscal years, or the funds must be transferred to HCD. As shown in Table 6 below, the Housing Asset Fund has no excess surplus in the Housing Asset Fund for FY 2022-23. Although the City encumbered $1,500,000 for the development of the 14115 Cordary Avenue property in FY 2021-22, the project was terminated in FY 2022-23 as previously mentioned. The City is issuing a 2024 RFP/ NOFA, will evaluate the proposals received in response, and will encumber at least the $4.1 million in Excess Surplus for a qualifying affordable housing development(s).

Table 6. Excess Surplus Projections

FY	Deposits	Cash Balance[1]	Encumbered Funds	Unencumbered Cash Balance	Greater of 4 Yrs of Deposits or $1M[2]	Projected Excess Surplus[3]
FY 2016-17	1,109,338	2,179,661		2,179,661	2,751,101	-
FY 2017-18	3,003,359	2,964,106		2,964,106	3,860,416	-
FY 2018-19	1,779,519	5,677,348		5,677,348	6,556,596	-
FY 2019-20	475,859	7,102,055		7,102,055	6,856,964	245,091
FY 2020-21	370,869	6,930,556		6,930,556	6,368,075	562,481
FY 2021-22	376,403	6,930,556	1,500,000	5,430,556	5,629,606	-
FY 2022-23	480,171	7,118,441		7,118,441	3,002,650	4,115,791

[1] Represents the ending balance of the prior fiscal year or the beginning balance of the current fiscal year.

[2] 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 FY 2012-13, when redevelopment agencies dissolved effective 2/1/2012.

[3] Projected excess surplus based on most current interpretation of the excess surplus calculation methodology. 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. Projected excess surplus is subject to change, as deposits for past reports are to be reviewed.

Note: 2021-22 Encumbered Funds were allocated to assist in the development of the Encore Apartments project for a 19-unit, low-income veterans housing project. Because the project was terminated in 2023, the funds are still outstanding as excess surplus.

Source: City of Hawthorne, Funds 462 & 464-468 Trial Balance Detail Report

Section 7 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 Agency that are subject to covenants or restrictions or to an adopted program that protects the former Agency's investment of moneys from the Low- and Moderate-Income Housing Fund. No homeownership properties were assisted by the former Agency that are subject to homeownership affordability covenants.

Section 8 Deposits from City to Agency Loan Repayments

HSC Section 34191.4(b)(3)(C) requires that 20 percent of any loan repayment made from a redevelopment successor agency to a city, for a loan that a city made to a former redevelopment agency, be deducted from the loan repayment amount and transferred to the Housing Asset Fund.

The repayment of loans made from low- and moderate-income housing set aside funds are payable 100 percent to the Housing Asset Fund. The remaining balance was paid to the Housing Asset Fund in FY 2017-18. This loan is no longer a loan receivable.

APPENDIX A – Housing Asset Transfer Form

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