
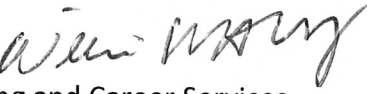




December 28, 2017

TO: Honorable Mayor and City Council

FROM: Matthew E. Hawkesworth 
Director of Finance

William K. Huang 
Director of Housing and Career Services

SUBJECT: Housing Successor Independent Financial Audit and Annual Report for Fiscal Year 2017

Subsequent to the dissolution of redevelopment agencies in February 2012 pursuant to state law, all former redevelopment agencies with housing successor agencies are required to prepare and submit independent financial audits and annual reports in connection with the housing successor's Low and Moderate Income Housing Asset Fund. By adoption of Resolution No. 9263 on February 11, 2013, the City Council confirmed the election of the City of Pasadena as Housing Successor to retain the housing assets and functions previously performed by the former Pasadena Community Development Commission.

State law requires that no later than six months after the end of the fiscal year reporting period: 1) the independent financial audit is submitted to the local governing body of the housing successor and posted on the local jurisdiction's website; and 2) the housing successor annual report is transmitted to the State Department of Housing and Community Development and posted on the local jurisdiction's website.

In compliance with state law, transmitted herewith are the following documents:

- Auditor Report on Compliance
- Housing Successor Annual Report for Fiscal Year 2017
- Comprehensive Annual Financial Report (CAFR)

The first two documents are also posted on the City of Pasadena, Housing and Career Services Department website in the "Special Reports" section.

The Housing Successor Independent Financial Audit is included in and accomplished by the audit of the City's CAFR for the year ended June 30, 2017. The CAFR was delivered to you on December 21, 2017 and is posted on the City Finance Department website in the "Financial Statements" section.

Attachments:

- Auditor Report on Compliance
- Housing Successor Annual Report for Fiscal Year 2017

cc: Steve Mermell, City Manager



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH APPLICABLE REQUIREMENT AND ON INTERNAL CONTROL OVER COMPLIANCE

To the Honorable Mayor and Members of the City Council
City of Pasadena, California

Report on Compliance for the Housing Successor

We have audited the City of Pasadena Housing Successor's (the Housing Successor) compliance with the type of compliance requirements described in the California Health and Safety Code sections applicable to California Housing Successor Agencies for the year ending June 30, 2017.

Management's Responsibility

Management is responsible for compliance with the California Health and Safety Code sections applicable to California Housing Successor Agencies.

Auditor's Responsibility

Our responsibility is to express an opinion on the Housing Successor's compliance with the California Health and Safety Code sections applicable to California Housing Successor Agencies. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred above that could have a direct and material effect on Housing Successor occurred. An audit includes examining, on a test basis, evidence about the Housing Successor's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Housing Successor. However, our audit does not provide a legal determination of the Housing Successor's compliance with those requirements.

Opinion

In our opinion, the Housing Successor complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its Housing Successor for the year ending June 30, 2017.

Report on Internal Control over Compliance

Management of the Housing Successor is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Housing Successor's internal control over compliance with the types of requirements that could have a direct and material effect on the Housing Successor to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal controls over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.





To the Honorable Mayor and Members of the City Council
City of Pasadena, California

Accordingly, we do not express an opinion on the effectiveness of the Housing Successor's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance of California Health and Safety Code sections applicable to California Housing Successor Agencies on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of California Health and Safety Code sections applicable to California Housing Successor Agencies will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Noncompliance

Per California Health and Safety Code section 34176.1, "If a housing successor has an excess surplus, the housing successor shall encumber the excess surplus for the purposes described in paragraph (3) of subdivision (a) or transfer the funds pursuant to paragraph (2) of subdivision (c) within three fiscal years. If the housing successor fails to comply with this subdivision, the housing successor, within 90 days of the end of the third fiscal year, shall transfer any excess surplus to the Department of Housing and Community Development for expenditure pursuant to the Multifamily Housing Program or the Joe Serna, Jr. Farmworker Housing Grant Program." We noted that the City has had an excess surplus since 2014 and has not yet encumbered or transferred the full amount of the funds.

Management's Response: The Excess/Surplus amount required to be encumbered by 6/30/17 was \$644,915. Of this total, \$451,440 was expensed and encumbered for eligible activities. The balance, \$193,475, is required to be expended on projects serving Extremely Low Income (30% Area Median Income) households. Such projects include permanent supportive housing of which there were none available to commit the funds. On 12/18/17, the City submitted a request to the State to transfer the remaining balance and add it to the \$929,745 FY 2018 Excess/Surplus encumbrance obligation. City staff plans to bring recommendations to City Council to encumber the Housing Successor Excess/Surplus obligation by the end of FY 2018.

Housing Successor's Response to Findings

The Housing Successor's response to the findings identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.



CPAs AND ADVISORS

To the Honorable Mayor and Members of the City Council
City of Pasadena, California

Report on Excess/Surplus Calculation

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pasadena as of and for the year ended June 30, 2017, and have issued our report thereon dated December 15, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying report on excess/surplus calculation is presented for purposes of additional analysis only and is not a required part of the financial statements. Such information is the responsibility of management and was derived from the financial statements. The report on excess/surplus calculation has not been subjected to the auditing procedures applied in the audit of the basic financial statements,

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of California Health and Safety Code sections applicable to California Housing Successor Agencies. Accordingly, this communication is not suitable for any other purpose.

Lance, Solt & Lughard, LLP

Brea, California
December 15, 2017

CITY OF PASADENA HOUSING SUCCESSOR

COMPUTATION OF HOUSING SUCCESSOR
EXCESS/SURPLUS (HSC 34176.1)

	(Projected) Low and Moderate Housing Funds All Project Area July 1, 2016	(Projected) Low and Moderate Housing Funds All Project Area July 1, 2017
Opening Fund Balance	\$ 5,416,341	\$ 5,362,379
Less Unavailable Amounts:		
Land held for resale	<u>\$ (1,400,000)</u>	<u>\$ -</u>
	(1,400,000)	-
Available Housing Successor Funds	4,016,341	5,362,379
Limitation (greater of \$1,000,000 or four years deposits)		
Aggregate amount deposited for last four years:		
2016 - 2017	N/A	1,400,438
2015 - 2016	521,033	521,033
2014 - 2015	667,293	667,293
2013 - 2014	234,172	234,172
2012 - 2013	<u>1,282,996</u>	<u>N/A</u>
Total	<u>\$ 2,705,494</u>	<u>\$ 2,822,936</u>
Base Limitation	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Greater amount	<u>\$ 2,705,494</u>	<u>\$ 2,822,936</u>
Computed Excess/Surplus	<u>\$ 1,310,847</u>	<u>\$ 2,539,443</u> *

* This is the estimated future excess/surplus in 2016/2017. Please note: If a housing successor has an excess surplus, the housing successor shall encumber the excess surplus for the purposes described in paragraph (3) of subdivision (a) of Health and Safety Code 34176.1 or transfer the funds pursuant to paragraph (2) of subdivision (c) of 34176.1 within three fiscal years. If the housing successor fails to comply with this subdivision, the housing successor, within 90 days of the end of the third fiscal year, shall transfer any excess surplus to the Department of Housing and Community Development for expenditure pursuant to the Multifamily Housing Program or the Joe Serna, Jr. Farmworker Housing Grant Program.

**HOUSING SUCCESSOR ANNUAL REPORT
REGARDING THE
LOW AND MODERATE INCOME HOUSING ASSET FUND
FOR FISCAL YEAR 2016-17
PURSUANT TO
CALIFORNIA HEALTH AND SAFETY CODE SECTION 34176.1(f)
FOR THE CITY OF PASADENA**

This Housing Successor Annual Report (Report) regarding the Low and Moderate Income Housing Asset Fund (LMIHAF) has been prepared pursuant to Section 34176.1(f) of the California Health and Safety Code and is dated December 21, 2017. This Report sets forth certain details of the City of Pasadena's (Housing Successor) activities during Fiscal Year 2016-17 (Fiscal Year). 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 California Health and Safety Code, in particular Sections 34176 and 34176.1 (Dissolution Law).

The following Report is based upon information prepared by Housing Successor staff and information contained within the independent financial audit of the Low and Moderate Income Housing Asset Fund for Fiscal Year 2016-17 (Fiscal Year) as prepared by Lance, Soll & Lunghard, LLP (Audit), which Audit is separate from this annual summary Report; further, this Report conforms with and is organized into sections I. through XI., inclusive, pursuant to Section 34176.1(f) of the Dissolution Law:

- I. Amount Deposited into LMIHAF:** This section provides the total amount of funds deposited into the LMIHAF during the Fiscal Year. Any amounts deposited for items listed on the Recognized Obligation Payment Schedule (ROPS) must be distinguished from the other amounts deposited.

A total of \$1,400,437, including \$789,775 for items list on ROPS, was deposited into the LMIHAF during the Fiscal Year.

- II. Ending Balance of LMIHAF:** This section provides a statement of the balance in the LMIHAF as of the close of the Fiscal Year. Any amounts deposited for items listed on the ROPS must be distinguished from the other amounts deposited.

At the close of the Fiscal Year, the ending balance in the LMIHAF was \$5,362,379.

III. **Description of Expenditures from LMIHAF:** This section provides a description of the expenditures made from the LMIHAF during the Fiscal Year. The expenditures are to be categorized.

The following is a description of expenditures from the LMIHAF by category:

	Fiscal Year
Monitoring & Administration Expenditures	\$ 54,398
Homeless Prevention and Rapid Rehousing Services Expenditures	\$ 0
Housing Development Expenditures	
➤ Expenditures on Low Income Units (<i>Summit Grove</i>)	\$ 0
➤ Expenditures on Very-Low Income Units	\$ 0
➤ Expenditures on Extremely-Low Income Units	\$ 0
➤ Total Housing Development Expenditures	\$ 0
Total LMIHAF Expenditures in Fiscal Year	\$ 54,398

IV. **Statutory Value of LMIHAF Assets Owned by Housing Successor:** This section provides the statutory value of LMIHAF real property owned by the Housing Successor, the value of loans and grants receivables, and the sum of these two amounts.

Under the Dissolution Law and for purposes of this Report, “statutory value of real property” means the value of properties formerly held by the former redevelopment agency as listed on the housing asset transfer form approved by the Department of Finance by the housing asset transfer schedule under Section 34176(a)(2), the value of the properties transferred to the Housing Successor pursuant to Section 34181(f), and the purchase price of properties purchased by the Housing Successor. Further, the value of loans and grants receivable is included in these reported assets held in the LMIHAF.

The following provides the statutory value of assets owned by the Housing Successor.

	As of End of Fiscal Year
Statutory Value of LMIHAF Real Property Owned by Housing	\$ 0
Value of LMIHAF Loans and Grants Receivable (*)	\$ -
Total Value of Authority LMIHAF Assets	\$ 0

* The net value of LMIHAF loans and grants receivable was zero as of June 30, 2017.

V. **Transfers Made to Another Housing Successor in the Previous Fiscal Year:** No Low and Moderate Income Housing Asset Funds were transferred to any other housing successors in Fiscal Year 2017.

VI. **Project Descriptions:** This section describes any project for which the Housing Successor receives or holds property tax revenue pursuant to the ROPS and the status of that project.

The Housing Successor received property tax revenue pursuant to the ROPS in the amount of \$789,775.

VII. **Status of Compliance with Section 33334.16:** This section provides a status update on compliance with Section 33334.16 for interests in LMIHAF real property acquired by the former redevelopment agency prior to February 1, 2012, and a status update for interests in real property acquired on or after February 1, 2012.

Section 33334.16 requires that real property acquired using the LMIHAF must initiate activities consistent with the development of the property for the purpose for which it was acquired within five years from the date it first acquired the property.

The properties described in the table below were originally acquired by the former Redevelopment Agency, transferred to the Housing Successor on February 1, 2012, and confirmed by the State Department of Finance on 2/26/13 as Housing Assets.

Property	Property Address	Development Description	Status
Heritage Square "A"	750-790 N. Fair Oaks Ave.	Construction of 70-unit affordable rental apartments for Very Low Income seniors.	Confirmed as Housing Asset by State DoF on 2/26/13. Project construction began in March 2015 and was completed in the Fiscal Year (November 2016).
Heritage Square "B"	19-25 E. Orange Grove Blvd, 710-738 N. Fair Oaks Ave	Potentially will include a housing component of affordable rental or homeowner units.	Confirmed as Housing Asset by State DoF on 2/26/13. Housing Successor is evaluating affordable housing options for this property.
Howard at Navarro	136-138 W. Howard St.	Potentially developed with two (2) affordable homeownership units.	Confirmed as Housing Asset by State DoF on 2/26/13. Housing Successor plans to select a developer by end of FY 2018.

The Housing Successor does not have interests in any real property acquired with funds from the LMIHAF on or after February 1, 2012.

VIII. Description of Outstanding Obligations Pursuant to Section 33413: This section provides a description of any outstanding inclusionary and replacement housing obligations pursuant to Section 33413 that remained to transfer to the Housing Successor on February 1, 2012; the Housing Successor's progress in meeting those obligations; and of the Housing Successor's plans to meet unmet obligations.

According to the fiscal year 2009-2010 to fiscal year 2013-2014 Implementation Plan for the former redevelopment agency, no replacement housing obligations were transferred to the Housing Successor. The former redevelopment agency's Implementation Plans are posted on the City's website at <http://ww5.cityofpasadena.net/housing/plans-and-reports/>

IX. Extremely Low Income Test: This section provides the information required by Section 34176.1(a)(3)(B), or a description of expenditures by income restriction for five-year period, with the time period beginning January 1, 2014 and whether the statutory thresholds have been met. Reporting of the Income Test is not required until 2019.

Section 34176.1(a)(3)(A) requires that the Housing Successor must require at least 30% of the LMIHAF to be expended for development of rental housing affordable to and occupied by households earning 30% or less of the AMI. Per Section 34176.1(a)(3)(B), if the Housing Successor fails to comply with the Extremely-Low Income requirement in any five year report, then the Housing Successor must ensure that at least 50% of the remaining LMIHAF be expended in each fiscal year following the latest fiscal year following the report on households earning 30% or less of the AMI until the Housing Successor demonstrates compliance with the Extremely-Low Income requirement.

This information is not required to be reported until 2019 for 2014 – 2019 period.

X. Senior Housing Test: This section provides the percentage of units of deed-restricted rental housing restricted to seniors and assisted individually or jointly by the Housing Successor, its former Redevelopment Agency, and its host jurisdiction within the previous 10 years in relation to the aggregate number of units of deed-restricted rental housing assisted individually or jointly by the Housing Successor, its former Redevelopment Agency and its host jurisdiction within the same time period.

The Housing Successor is to calculate the percentage of units of deed-restricted rental housing restricted to seniors and assisted by the Housing Successor, the former redevelopment agency and/or the City within the previous 10 years in relation to the aggregate number of units of deed- restricted rental housing assisted by the Housing Successor, the former redevelopment agency and/or City within the same time period. If this percentage exceeds 50%, then the Housing Successor cannot expend future funds to assist additional senior housing units until the Housing Successor or City assists and construction has commenced a number of restricted rental units that is equal to 50% of the total amount of deed-restricted rental units.

The following provides the Housing Successor's Senior Housing Test for the 10-year period of Fiscal Year 2006-7 through Fiscal Year 2016-17:

Senior Housing Test	FY 2007 through FY2017
# of Assisted Senior Rental Units	251
# of Total Assisted Rental Units	970
Senior Housing Percentage	26%

- XI. Excess Surplus Test:** This section provides the amount of any excess surplus in the LMIHAF, the length of time that the Housing Successor has had excess surplus, and the Housing Successor's plan for eliminating the excess surplus.

Excess Surplus is defined in Section 34176.1(d) as an unencumbered amount in the account that exceeds the greater of one million dollars (\$1,000,000) or the aggregate amount deposited into the account during the Housing Successor's preceding four Fiscal Years, whichever is greater.

The following provides the Excess Surplus test for the preceding four Fiscal Years:

Excess Surplus test for FY 2016-17:

Fund Balance - as of 6-30-2017	\$ 5,362,379
Less unavailable funds - as of 6-30-2017	
Land held for resale	0
	<hr/>
Total unavailable funds	0
	<hr/>
Unencumbered fund balance - as of 6-30-2017	5,362,379
Deposits for the preceding four years:	
Fiscal year 2016-17	\$ 1,400,437
Fiscal year 2015-16	521,031
Fiscal year 2014-15	667,293
Fiscal year 2013-14	234,172
Total deposits	<hr/> \$ 2,822,933
Base limitation	<hr/> \$ 1,000,000
Greater amount	<hr/> 2,822,933
Computed Excess/Surplus	<hr/> \$ 2,539,446

Test Result: The LMIHAF have an Excess Surplus in the amount of \$2,539,446

XII. Inventory of Assisted Homeownership Units: This reporting requirement will be submitted as an addendum in conjunction with the City's 2017 Housing Element Progress Report which will be submitted to the State Housing and Community Development Department in April 2018.