

A United Voice for Affordable Housing



California Housing
Consortium/CHC Institute
30141 Agoura Road, St. 205
Agoura Hills, CA 91301
Phone 818.735.9551
Fax 818.735.7348
WWW.CALHSNG.ORG
info@calhsng.org

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Affordable Housing in California Takes a Hit with \$2.05 Billion Redevelopment Taking By State



By John Shirey, Executive Director,
California Redevelopment Association

As part of the recently approved State budget package, redevelopment agencies have been dunned for \$2.05 billion for the next two years. The State Legislature passed and the Governor signed legislation that deals a devastating blow to redevelopment in California—the second largest funder of affordable housing. In response to this unconstitutional taking of redevelopment funds,

CRA plans to file another lawsuit to challenge the State's actions.

The State intends to take \$1.7 billion in FY 2009-10 and another \$350 million in FY 2010-11, which will be deposited in county "Supplemental" Educational Revenue Augmentation Funds (ERAF) to be distributed to schools in order to reduce the State's Prop 98 obligations to education. The agency can use any available funds to make the ERAF payment including their current year 20% housing set-aside moneys. However, if an agency uses housing funds for that purpose, it must repay its Housing Fund within five years. Failure to repay the Fund will result in a requirement to set aside 25% of their tax increment annually for housing for as long as the project area continues to receive tax increment.

Given the enormity of the required payment this year (more than 30% of total tax increment) and the fact that agencies have most of their funds obligated to debt service and pass-through payments, it is expected that many agencies will have to use their housing funds to make the ERAF payments. Since redevelopment funds are often an important part of the financing for projects also funded through State Prop 1C funds and/or housing tax credits, it could be that those projects are in jeopardy as well.

The ERAF payment obligation is subordinate to obligations to repay bonds and other indebtedness. However, the consequences for failing to make all or part of the ERAF payment are that the agency will, effectively, have to cease operations (what we call the "death penalty," described below) and increase its housing set aside to 25%. The "death penalty" occurs when an agency fails to make timely ERAF payments, even if it must do so to pay existing obligations. An agency subject to the death penalty may not adopt a new redevelopment plan, amend an existing plan to add territory, issue bonds, further encumber funds or expend any moneys derived from any source except to pay pre-existing indebtedness, contractual obligations, and 75% of the amount expended on agency administration for the preceding fiscal year. This penalty would stay in effect until the required payments have been made. Last year, when the State tried similarly to take \$350 million of redevelopment funds, CRA and the Madera and Moreno Valley agencies sued the State for violation of the Constitution and won a favorable decision in Sacramento Superior Court.

More information, including the projected loss of funds by agency, can be found at CRA's website, www.calredevelop.org.

Membership Renewal

Don't forget to renew your CHC membership for 2009!

Applications and information available online at: www.calhsng.org or

contact us at

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CHC Board Takes Policy Positions

At its recent Board of Directors meeting held in Sacramento, the CHC Board of Directors voted to take policy positions on potential federal legislative initiatives.

After reviewing the recommendations of the policy committee, the Board **supported** the following:

1. A one year extension of the 9% Tax Credit Exchange Program.
2. A one year Exchange Program for tax credits related to 4% tax-exempt bonds. This proposal, as currently written, would be crafted in a manner similar to the 9% Exchange Program. State credit agencies could exchange 4% credit that the state has reserved for 85 cents on the dollar. Those funds could then be used to help developments that do or do not ultimately find investors achieve feasibility. Additionally, the proposal would permit these

4% deals receiving Exchange funds not to ultimately be financed with tax-exempt bonds. However, whether or not tax-exempt bonds are used to finance these developments, the state's private activity bond cap would be reduced by the amount of tax-exempt funds contemplated. The Board voted to support this proposal, with a "fall back" suggestion that if the proposal may not pass in its entirety, it could be modified to require the use of tax-exempt bonds when utilizing these Exchange funds.

3. A two part Carry-back proposal. The first part would allow a 5 year carry-back for taxes paid in 2008-2010 to the extent that the amounts returned are reinvested in new affordable housing, while the second part would permit a 5 year carry-back for taxpayers in new credits that are claimed after 2008. The Board voted to support both parts of this proposal.

CHC Member Project Profile: San Diego Interfaith Housing's 525 Orange Avenue

San Diego Interfaith Housing's 525 Orange Avenue project was recently named San Diego Housing Federation's 2009 "Rehabilitation Project of the Year". The project was acquired by the City of Coronado Community Development Agency in 2006. The Art Deco project was constructed in the early 1940's and contains 16 apartment units representing a mix of studio, one and two-bedroom units each with significant deferred maintenance and in overall below average to poor condition.

The gut rehab required nearly \$120,000 per unit in direct hard costs allowing for new walls, doors, flooring, windows, paint, kitchens including cabinets, energy efficient appliances and countertops, bathrooms, window coverings, replacement of all electrical and plumbing, new HVAC system and individual tankless water heaters. In addition exterior rehab called for a new roof, stucco, new landscaping and hardscape, perimeter walls, benches, picnic tables, a fountain, bike rack, personal storage units and laundry facilities.

When acquired, 525 Orange Avenue was suffering from years of neglect and significant deferred maintenance. Through the redevelopment, San Diego Interfaith not only returned the property to its original luster, but also added design elements such as water features, outdoor landscape lighting and custom built in cabinets, items typically not seen in affordable housing developments. The nautical color scheme of the project blends seamlessly with the surrounding buildings on Orange Avenue and throughout Coronado. The quality of construction and attention to detail are second to none and at level consistent with the highest expectations of the community.



In one of California's most expensive housing markets, 525 Orange offers rents affordable to households at 50% of the Area Median Income, a 40-50% discount below market rents.

While the City acquired the property and was prepared to fund the rehabilitation on its own, the plan developed by San Diego Interfaith Housing (Sponsor), Red Capital Markets, Inc (Financing) and the City of Coronado (Agency) utilized bonds and 4% tax credits to provide much of the capital for the rehabilitation, while retaining the high degree of affordability. Legal representation provided by Bocarsly, Emden, Cowan, Esmail & Arndt. The architect was Studio E. Architects and Competitive Edge Construction Inc. was the general contractor.

Please submit recommendations for upcoming CHC Member Profiles to info@calhsng.com.