

City of Woodland: A Real Estate Lender

SUMMARY

The Grand Jury investigated a complaint that the City of Woodland (City) was not properly executing its duties on a loan it made in 1995 to Leisureville Community Association (LCA). The Grand Jury learned:

- The City manages and administers a portfolio of affordable housing loans in excess of \$24 million.
- The City has not established a viable system for tracking or reporting on these loans.
- Between 1995 and 2013, the City neglected to manage the LCA loan which requires the City to review and approve annual budgets and semi-annual performance reports, to participate in the selection of the management firm responsible for managing the complex, and to receive residual receipts of operations to offset the interest of the loan.
- The City was made aware of the deficiencies in managing the LCA loan in July 2013 and responded by initiating actions to remedy the situation.
- The City is in the process of determining the full extent of its responsibilities and establishing protocol for managing its portfolio of affordable housing loans.

While the City is taking positive steps to ensure the LCA loan is managed as specified in the loan documentation, the Grand Jury recommends that the City create a database of its real estate loans, develop policies and procedures for managing the loans and report annually to the City Council on the status of its loan portfolio. These additional steps would help to ensure that similar problems would not occur with other loans in its portfolio now or in the future.

REASON FOR INVESTIGATION

A complaint was made to the Grand Jury regarding the operation and management of Leisureville, a co-operatively owned mobile home park in the City of Woodland. The complaint raised several issues that fall outside of the jurisdiction of the Grand Jury; however, the complaint also alleged the City of Woodland had neglected to provide required oversight of a loan made by the City to the Leisureville Community Association. As a result the Grand Jury investigated how the City of Woodland monitors loans in their real estate portfolio, with specific emphasis on whether the City had properly monitored the LCA loan.

California Penal Code Sections 925 provides, “The Grand Jury shall investigate and report on the operations, accounts, and records of the officers, departments, or functions of the county including those operations, accounts, and records of any special legislative district or other district in the county created pursuant of state law for which the officers of the county are serving in their ex officio capacity as officers of the districts.”

METHODOLOGY

The Grand Jury interviewed residents of Leisureville and managers from the City of Woodland. It also reviewed the following documents:

- Correspondence between the City of Woodland and LCA.
- Promissory Note dated April 7, 1995 between the City of Woodland and LCA.
- Portions of the loan agreement between the City of Woodland and LCA.
- Correspondence, both printed and electronic, between residents, the LCA, and the City of Woodland.
- Summaries of the City of Woodland Real Estate Portfolio, 2013.

DISCUSSION

The City of Woodland manages a real estate loan portfolio that includes large loans to non-profit organizations as well as loans to individual homeowners through programs like the First Time Homebuyer program.

The total real estate loan portfolio includes 172 loans and an initial loan value of over \$24 million. Originally, 169 of the loans were the responsibility of the Community Development Department and a portion of the portfolio was managed by the Woodland Redevelopment Agency.

The Woodland Redevelopment Agency, along with hundreds of others across California, was eliminated in the 2012 state budget. The Successor Agency to the Woodland Redevelopment Agency was established to wind down the functions of the former Woodland Redevelopment Agency. The Successor Agency has its own board (Oversight Board) that includes representatives from the City Council, Yolo County Board of Supervisors, Woodland Joint Unified School District, and other entities. Until recently, the Woodland Community Development Department managed all the loans that are held by the Successor Agency and by the City of Woodland.

City of Woodland Real Estate Loan Portfolio Summary 2013		
Loan Type	Number of Loans	Initial Loan Amount
Multifamily	12	12,965,344
Inclusionary Units	133	6,953,793
Owner Occupied Rehab	10	355,348
Greenwood RDA Units	6	333,500
Home FTHB Units	8	265,634
	169	20,873,619
Successor Agency Loans	3	3,876,000
Grand Total	172	24,749,619
Key: FTHB: First Time Home Buyers; RDA: Redevelopment Agency; Inclusionary Units: Requires developers to set aside a portion of redeveloped or new housing for affordable units. Note: for two of the loans, information is not complete. Current loan value is not available for any of the loans.		

City of Woodland and Leisureville Community Association Loan Agreement

Leisureville Community Association (LCA) is a cooperative formed in 1995 to purchase the Leisureville Mobile Home Park, with a requirement that:

- all residents purchase a share of the cooperative;
- 51% or more of the residents meet low income requirements; and
- subsidies are available for low-income residents.

A board of directors, elected by the residents, governs the LCA. The LCA, through the Board of Directors, hires a management company that does the day to day work of managing the community. The management company prepares the budget to be approved by the LCA Board, prepares the semi-annual reports, and hires all maintenance and support staff.

In 1995, with the assistance of the City of Woodland and the Yolo County Housing Authority, Leisureville Community Association (LCA) purchased the Leisureville Mobile Home Park. The purchase was made with a combination of commercial and federally supported loans. The federally supported loans were specifically from the “HOME”¹ program and the Community Development Block Grant (CDBG). The total loan amount from the City of Woodland was \$1.2 million. Payment on the principal of the loan is delayed and interest continues to accrue, until 2025 when the original loan, plus accrued interest, is due.

The LCA loan is unique for the City of Woodland as it calls for the City’s involvement in Leisureville’s budget and operations. According to the loan documents, the City is required to:

- receive and approve Leisureville’s annual operating budget prior to adoption by the Leisureville Board of Directors;
- review and approve management contracts;
- receive and review semi-annual progress reports from Leisureville; and
- accept annual payments for residual receipts to pay toward accrued interest.

In turn, the LCA has five primary areas of responsibility to the City. The LCA is required to:

- submit budgets for review prior to their adoption;
- submit semi-annual financial reports;
- obtain approval from the City for management contracts;
- remit residual receipts each year to offset accrued interest; and
- repay the entire loan plus accrued interest to the City of Woodland in 2025.

¹ HOME is the largest Federal block grant to state and local governments designed exclusively to create affordable housing for low-income households.

The interest on the loan is accruing and increases the amount owed. To date, that unpaid interest has *increased* the loan amount, due in 2025, by over \$900,000.

The Grand Jury found that beginning shortly after initiation of the loan in 1995 until July 2013, the City of Woodland had not received and was inconsistent in requesting budgets, semi-annual reports, or residual receipts payments. To date, the City has not been involved in the extension of management contracts.

The Grand Jury inquired as to how the City had neglected its required oversight of the LCA loan for almost 20 years. The Grand Jury learned that the City does not maintain a single repository of information on its real estate loan portfolio. For example, records on the LCA loan were stored in several boxes without internal organization. Further, the City does not have policies and procedures outlining responsibilities and duties or levels of authority for dealing with real estate loans.

The City excuses its negligence by saying that typically, real estate loans have a term much longer than the typical City employee stays in a position. Nonetheless, the City has a responsibility for developing systems and processes that extend beyond the employment of any given individual.

Recent Actions by City of Woodland on Loan Management

The same complaints about lack of loan oversight had been made directly to the City and the City responded. Beginning July 2013, prior to Grand Jury involvement, the City submitted a claim for residual receipts for 2012-2013 and began insisting on annual budgets and mid-year reports from Leisureville.

The City has taken steps to stabilize the management of the Community Development Department (CDD). For instance, CDD has transferred the affordable housing duties including management of the real estate loan portfolio to the Community Services Department which had been previously known as Parks and Recreation.

After reviewing the LCA financials, the Community Development Department staff recognized that the LCA may not be able to make a “balloon” payment of approximately \$3.0 million (principal plus accrued interest) in 2025. The City Manager and the Mayor, in a letter dated September 5, 2013 to LCA’s Board of Directors, informed LCA that the City may reconsider refinancing the loan subject to approval by the Woodland City Council in 2025.

The Grand Jury has seen no guidance in the rules or regulations, or in the contract, that suggests the Mayor or City staff have the authority to make these adjustments and promises.

In 2025, the LCA will have completed payment on its principal commercial loan and should be able to afford to pay back the City loan if it is approved for refinance. Any refinance of the current City loan will need to be approved by the City of Woodland’s City Council in 2025.

FINDINGS

- F1. The City of Woodland has not met its required responsibilities in managing the LCA loan.
- F2. The data and paperwork needed to effectively manage the City's affordable housing loan portfolio are not organized so that information is easily accessible.
- F3. The City has no policies and procedures in place regarding the administration of the affordable housing loan portfolio.
- F4. Periodic reports to the City Council on the affordable housing loan portfolio would ensure that decisions were being made at the proper level, and that the staff would maintain the portfolio in a manner that provides transparency.
- F5. The City holds a large portfolio of affordable housing loans from multiple funding sources with varied administration and accountability responsibilities that the City must fulfill.

RECOMMENDATIONS

- R1. The Grand Jury recommends that by September 1, 2014, the City of Woodland create a database of its portfolio of affordable housing loans to ensure that the provisions of the loans are met. The database should include information such as: the identification of the entity receiving the loan, location, source of funds, loan amount, loan date, loan term, interest rate and the City's responsibilities as outlined in the loan agreements.
- R2. The Grand Jury recommends that the City of Woodland direct the Community Services Department, the current agency administering the City's loan portfolio, to develop a policy and procedure manual for real estate loans, identifying who is required to manage loans and how, and on whose authority, a loan can be modified. This policy and procedure manual should be completed by January 31, 2015.
- R3. The Grand Jury recommends that the City of Woodland develop an annual report to the Woodland City Council regarding the real estate loan portfolio. It should include an updated database (see R1), the value and status of each loan and important outstanding issues. The first report should be presented by September 1, 2014.
- R4. The Grand Jury recommends that the City of Woodland make it a priority to maintain trained administrative services necessary to effectively manage its affordable housing loan portfolio over time.

REQUEST FOR RESPONSES

Pursuant to Penal Code section 933.05, the grand jury requests responses as follows:

From the following individuals:

- The City Manager, City of Woodland: Recommendations R1– R4

INVITED RESPONSES

- City Council, City of Woodland: Recommendations R3, R4

Reports issued by the Grand Jury do not identify individuals interviewed. Penal Code section 929 requires that reports of the Grand Jury not contain the name of any person or facts leading to the identity of any person who provides information to the Grand Jury.