

# **A FAILURE OF OVERSIGHT**

## **Lompoc Housing and Community Development Corporation**

### **SUMMARY**

In January 2012, residents of Lompoc and indeed all of Santa Barbara County were shocked to learn that two homeless shelters in the city, Marks House and Bridgehouse, had closed with only five days' notice on a holiday weekend. Public officials should have anticipated the closing of the shelters, as it was clear that the Lompoc Housing and Community Development Corporation (LHCDC), the non-profit organization that owned and operated the shelters and many other affordable housing projects in the city, was failing.

Many of the government loans and grants LHCDC received over the years had monitoring requirements such as proof of income of renters and rents charged and upkeep of units. There were problems. The non-profit was regularly out of compliance with rent surveys. It had increasing numbers of complaints about property upkeep. It failed to provide financial records for many years. It began to miss loan payments.

To facilitate an understanding of the communication that took place between LHCDC and agencies in the County, the 2011-12 Santa Barbara County Grand Jury (Jury) compiled and attached a list of correspondence (see Appendix). It is an essential part of this report.

The most immediate victims of the fall of LHCDC are the homeless who were thrown out of the shelters, the low-income tenants whose homes are in disrepair, and the residents of Lompoc who have to suffer the resulting blight. Taxpayers are also victims. Many of the loans given to LHCDC will have to be repaid by the County of Santa Barbara or the City of Lompoc. The County, as the lead entity for the U.S. Department of Housing and Urban Development's (HUD) HOME<sup>1</sup> program, invested \$2.89 million in LHCDC properties. The estimated potential liability to the County under recallable loan provisions is \$1.4 million.<sup>2</sup> Lompoc, at this time, does not know for certain how much it and its Redevelopment Agency loaned LHCDC nor the extent of its losses. As of October 2009, the Redevelopment Agency expenditure was \$1.8 million.<sup>3</sup>

The Jury received several citizen complaints requesting an investigation into what went wrong. It should be noted at the outset that fund flows and property loans to LHCDC over the course of its history are beyond the scope of this report. It should also be noted

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<sup>1</sup> A HUD Office of Community Planning and Development Program – *Home Investment Partnerships* (HOME)

<sup>2</sup> S.B. County Board of Supervisors, Agenda Letter, dated 11/01/11

<sup>3</sup> Lompoc Redevelopment Agency, *Redevelopment Housing Loan Covenants as of October 15, 2009*

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that LHCDC did not cooperate with this investigation. As of this writing, the County of Santa Barbara has requested a forensic audit and the City of Lompoc is attempting to construct an accounting that will presumably shed light on how funds were used and whether LHCDC observed proper accounting procedures. By the beginning of 2012, 30 of LHCDC's 42 properties had been repossessed by lenders, placed in receivership, or foreclosed upon.

The purpose of this report is to consider the oversight that occurred and the steps the County and City of Lompoc should have taken to protect the public's investment in funds loaned to LHCDC. The focus is on the relationship between the County and the City of Lompoc as conduits of funds to LHCDC as a provider of affordable housing and the monitoring undertaken on behalf of the taxpayer.

### **METHODOLOGY**

The Jury obtained material for this analysis from a variety of sources:

- Interviews with current and former government staff members
- Minutes of Lompoc City Council and Santa Barbara County Board of Supervisors meetings
- Published government documents
- Complaints regarding LHCDC properties registered with the City of Lompoc
- Correspondence between government officials and LHCDC
- LHCDC federal tax returns

### **OBSERVATIONS AND ANALYSIS**

In 1990, LHCDC first incorporated as a California Public Benefit Corporation as Lompoc Housing Assistance Corporation (LHAC). Its sole purpose was to purchase and operate low-income housing in the community of Lompoc. In 2001, it changed its name to Lompoc Housing and Community Development Corporation, or LHCDC. Between 1992 and 2007, the organization purchased 40 properties in the City of Lompoc and two parcels outside the city limits. It also began purchasing commercial properties such as the Lompoc Theater.

#### **Major Sources of Funds**

LHCDC was Lompoc's primary agency for providing affordable housing. Although the city invested in affordable housing through other owners, none came close to the number of properties owned and managed by LHCDC. This non-profit agency held nearly two-thirds of the affordable units in the city. It received money from a myriad of sources. The Jury identified 12 sources of funds that were directed to LHCDC projects. Of these, virtually all were channeled through the City of Lompoc (or its Redevelopment Agency) or Santa Barbara County. Some money for the two homeless shelters, Bridgehouse and Marks House, came through the County's General Fund. These funds totaled

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approximately \$800,000 over 20 years.<sup>4</sup> This report primarily examines the three regulatory agencies that had a fiduciary duty to oversee taxpayer funds through the administration of programs, whether local, state or federal. These three agencies are the County of Santa Barbara through the Department of Housing and Community Development (HCD), the Lompoc Redevelopment Agency (RDA), and the City of Lompoc.

### **HOME Consortium**

In 1994, the County and the Cities of Lompoc, Santa Maria, Guadalupe, and Carpinteria formed the Santa Barbara County HOME Consortium to distribute federal HOME Investment Partnership Act funds. HOME, a program of HUD, is the largest federal block grant program distributing money exclusively to create affordable housing. Under the HOME program, local governments join together to qualify for federal money to meet affordable housing needs. The proper roles and responsibilities for HOME consortia nationwide are outlined in Title 24, Part 92 in the *Code of Federal Regulations*.

The Santa Barbara County HOME Consortium's initial agreement, executed May 3, 1994, outlines the duties for each of the partners and references the terms and conditions of Title 24 as the controlling regulation. Since the formation of the HOME Consortium, Guadalupe has left the group, and Buellton, Solvang and Goleta have joined. Throughout this period, the County has served as the lead agency responsible for enforcing Title 24 requirements. The agreement has been renewed every three-years since 1994.

The HOME Agreement makes clear that the County has the responsibility to supervise the HOME Program. Even clearer are the responsibilities under Title 24:

- Properties given HOME loans must demonstrate affordability
- The participating organization must submit records to the lead entity
- The loan document must specify that termination is an option for a breach of the agreement

In the 1996 publication entitled *HOME Consortium Guidelines*, HUD addresses the need for enforcement. According to HUD, Santa Barbara County Housing and Community Development Department, as the lead entity for the HOME Consortium, thereby assumes responsibility for the performance of all the participants and must file an Annual Report with HUD.

The lead entity should specifically reserve the right to require a member jurisdiction or sub-recipient to repay HOME funds for noncompliance with HOME requirements, particularly those related to maintaining the affordability of HOME-assisted housing. This is only prudent, since *HUD holds the lead entity accountable for repayment of funds* in the event the activities it administers fail to meet HOME requirements, or in the event that housing that is assisted with HOME funds fails to meet the affordability requirements (italics added).<sup>5</sup>

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<sup>4</sup> Santa Barbara County Auditor-Controller

<sup>5</sup> *Establishing and Managing a Successful HOME Consortium*, U.S. Department of Housing and Urban Development Community Planning and Development, 2006

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### **Inconsistent Loan Agreements**

According to the Santa Barbara County Housing and Community Development Department, the loan contracts between the County and LHCDC are the only written agreements between the two parties. These documents were written over a period of many years, and the terms and conditions differ from agreement to agreement. All of the loan agreements specify the degree of rent restriction on each unit in the property. For example, the rent restrictions, or covenants, may stipulate that rents charged cannot exceed 30 percent of 50 percent of the County's median income. Some of the loan agreements call for an annual *Occupancy Summary*, a list of tenants and rents, to be filed with the County after initial rents are certified at the time the property is purchased. Some of the loan agreements are clear as to a required Annual Report, defined in the definitions section of the agreements as an independent audit.

LHCDC's Casa Con Tres loan agreement, for example, does not require an Annual Report to be filed but, instead, stipulates that the County must approve all rent increases. The Pine Avenue loan agreement requires annual recertification of rents but doesn't spell out the procedure. It does not require the submission of an annual audit but reserves the right to examine records upon request. In some loan documents an Annual Report refers to the submission of rents and, in others, it appears to refer to a financial report. The "K" Street loan makes annual financial statements a requirement. The loan required an annual payment and with that payment LHCDC was to submit its annual financial statement to the County HCD. It is less clear whether the financial statements required are for LHCDC as an organization or whether they are for individual properties. In any case, much of this information was not forthcoming.

### **Lompoc Redevelopment Agency Enforcement**

In 1984, Lompoc established a Redevelopment Agency to combat urban blight. California law stipulated that 20 percent of an RDA's expenditures must be spent on affordable housing. As noted, the RDA had loaned LHCDC \$1.8 million by October 2009.<sup>6</sup> Each loan required annual monitoring of deed-restricted affordability covenants to comply with California's Redevelopment Agency guidelines. These covenants were the same as those monitored under the HOME program. The RDA relied upon LHCDC's rent survey to certify compliance with rent levels whereas the HOME Consortium examined rent rolls itself. LHCDC was required to send survey results for each housing project to the RDA annually. This process insured that rents did not exceed the affordable levels established by the covenants. The surveys were to be submitted to the RDA each December. The RDA, in turn, was required to send along certifications to the California Department of Housing and Community Development by May 30 as required by California Redevelopment law. Judging by the correspondence to LHCDC, the Lompoc RDA reviewed rent surveys closely. For instance, on June 22, 2007, the RDA sent the following letter to LHCDC:

The 2006 Annual Report [from LHCDC] on Casa Con Tres Apartments reveals that rents being charged *all* tenants exceed maximum allowable rents for very low-income households as defined in the RDA's Affordability Covenant on the property.

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<sup>6</sup> Lompoc RDA, *Redevelopment Housing Loan Covenants as of October 15, 2009*

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The Lompoc RDA sent numerous letters to LHCDC stating the correct rent amounts and requesting tenant rent reductions. Casa Con Tres had an RDA loan of \$46,335 and a County HOME loan of \$157,300. Therefore, the County had deed-restricted covenants on the same property and these covenants were also noncompliant. Curiously, on July 27, 2007, a month after the RDA letter stated noncompliance, the County HCD conducted its annual inspection of all nine LHCDC HOME properties. In the HOME Consortium's 2006-07 Annual Report, the County concluded the following:

The Santa Barbara County HCD monitored a total of 17 HOME funded rental projects managed by four different agencies. *No non-compliance issues were identified in this year's monitoring.*<sup>7</sup>

### **Early Signs of Compliance Trouble**

In a 2011 memo, the Lompoc Community Development Department reported to the City Council that LHCDC already had a property out of compliance as early as 2003 for failing to file the Affordability Covenants Annual Report.<sup>8</sup> The summary of correspondence in the attached Appendix shows a clear pattern of repeated delays and missed deadlines as early as 2003. On May 13, 2003, Lompoc's RDA administrator had loan documents repeatedly re-issued to accommodate LHCDC's lack of preparation.

We have been unable to close escrow on Casa Con Tres Apartments for six months because of your failure to provide necessary documents including project cost estimates and a Board of Directors Resolution.<sup>9</sup>

A letter dated July 7, 2004 further illustrates LHCDC's unresponsiveness. On this date, the Lompoc RDA notified LHCDC that it was three months late with its reports. Technically, the agency is in default, the letter states, since compliance with covenants has to be certified and sent to the state. This is the first of many memos that warn the agency that it is late with reports and serious consequences will follow if the paperwork is not sent. Consequences did not follow.

In 2006, one of eight LHCDC properties with RDA loans was out of compliance with affordability covenants. In 2007, five of eight properties were noncompliant according to the Lompoc RDA. Beginning 2008, all LHCDC properties that had RDA affordability covenants were noncompliant. There is a time lag in some of the official notifications. The official notice for noncompliance of the 2006 Casa Con Tres Annual Report, for instance, did not occur until September 30, 2008, although a reminder letter had been sent in June 2007.

### **Audited Financial Statements**

As previously noted, not all of the loan agreements between the HOME Consortium and LHCDC require that the agency submit annual financial statements. Some agreements state only that LHCDC must permit the County to *examine* its financial records upon request. For example, the loan agreement for the Casa Con Tres property states only the

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<sup>7</sup> Santa Barbara County HOME Consortium 2006-07 Consolidated Annual Performance & Evaluation Report, July 06- June 07

<sup>8</sup> Lompoc Community Development Department Memo to City Council dated November 21, 2011

<sup>9</sup> Memo from Lompoc RDA to LHCDC, May 13, 2003

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following with regard to audits:

Borrower shall make available for examination at regular intervals and during normal business hours to Lender all books, accounts, reports, files, and other papers or property with respect to all matters covered by these Loan Documents, and shall permit Lender to audit, examine, and make excerpts or transcripts from such records.<sup>10</sup>

2006 was the last year that LHCDC submitted audited financial statements. There is no evidence that HCD requested audited financial statements from LHCDC until March 25, 2009 when HCD finally demanded “entity-wide” financial statements. In the letter, it quoted the loan agreements as requiring audits and inspections upon request. It also referred to Office of Management and Budget (*OMB Circular Number A-133*). OMB circulars are specifically mentioned in the loan documents as part of applicable HUD HOME regulations.<sup>11</sup> In April 2009, LHCDC responded to HCD’s request and said that the 2007 audit would be completed by the end of August 2009. The County never received the audit or any subsequent annual financial statements from LHCDC.

### **Postscript**

In August of 2009, LHCDC received a Notice of Default on its loan from the City of Lompoc for Marks House, the City’s shelter for homeless families. Additional notices of nonpayment from other lenders followed. In January 2011, LHCDC wrote to the County requesting technical assistance from HUD in creating a workout plan. In late 2011, two commercial lenders filed suit. Eight LHCDC properties were placed in receivership. Marks House closed briefly in January 2012 and reopened under new management. Bridgehouse closed for 52 days and reopened in March, also under new management.

Although LHCDC announced plans to dissolve by the end of 2011, it has not done so as of this writing.

## **CONCLUSION**

The U.S. Department of Housing and Urban Development, in setting up guidelines for the HOME program, required the County, as the lead entity, to establish controls for compliance with HUD regulations. HOME loan agreements allowed the County Department of Housing and Community Development to examine LHCDC’s books on all properties with 10 days’ notice and audited financial statements were required initially in order to approve a loan. Although there were some variations in the loan documents’ reporting requirements, it was the monitoring and enforcement of the loan requirements that ultimately fell short. It is also worth noting that audited financial statements would not necessarily affirm compliance with loan agreements and for that reason, the Jury concludes that HCD should have taken the initiative to conduct its own inspection of

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<sup>10</sup> Section 33; Loan Agreement between Santa Barbara County and Lompoc Housing Assistance Corporation dated November 23, 1999

<sup>11</sup> This directive requires entities that receive federal loans and grants to submit yearly audited financial statements.

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LHCDC's financial records, especially when there was an increasing pattern of noncompliance.

In summary, the loan agreements offered many opportunities to make demands of LHCDC that were reasonable and prudent. But the Department of Housing and Community Development simply didn't do its job in seizing the opportunities available in the agreements. Some of these opportunities were discretionary in that HCD had the option to request inspections and records. As the attached Appendix demonstrates, there were ample signs of trouble. Initiative was not exercised and too many opportunities were missed.

The Lompoc Redevelopment Agency loaned the Lompoc Housing and Community Development Corporation approximately, \$1.7 million while the agency was technically out of compliance.<sup>12</sup> It did not enforce its loan agreements and covenant restrictions when there was a clear pattern of failing to respond to the agency's requests. In addition, official Notices of Noncompliance, sent to LHCDC in 2007 and 2008, did not state the consequences of noncompliance. The notices stated only that the property's noncompliance will be noted in the RDA's Compliance Summary to the Redevelopment Board as well as the agency's Annual Report to the California Department of Housing and Community Development. The Redevelopment Board, and ultimately the Lompoc City Council, bear the responsibility for this inaction.

The 2011-12 Santa Barbara County Grand Jury concludes that the Summary of Notable Correspondence (see Appendix) demonstrates a pattern of missed opportunities by Santa Barbara County Housing and Community Development, the Lompoc RDA, and the Lompoc City Council to enforce their respective responsibilities for compliance with contractual obligations. In the end, neither the interests of the people in need of low-income housing nor the interests of the taxpayers were served by agencies exercising discretion in the enforcement of regulations. If attention had been paid and LHCDC had been forced to better manage its affairs in a timely fashion, low-income renters in Lompoc would have been much better served, and taxpayers would have been saved millions.

## **FINDINGS AND RECOMMENDATIONS**

### **Finding 1**

Lompoc Housing and Community Development Corporation loan agreements gave Santa Barbara County, as the lead entity in the HUD HOME Consortium, authority to require audits and inspect the organization's records.

### **Finding 2**

The Lompoc Redevelopment Agency did not enforce the restrictive covenants on Lompoc Housing and Community Development Corporation property. Official notices of

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<sup>12</sup> Lompoc Community Development Department Memorandum, dated 11/21/11

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noncompliance did not enunciate consequences nor did the Redevelopment Agency Board of Directors take action when it had the opportunity.

### **Recommendation 1a**

That the Santa Barbara County Board of Supervisors establish a policy that the Auditor-Controller conduct an annual audit, with time certain deadlines, of all organizations that receive County funds in excess of \$100,000.

### **Recommendation 1b**

That the Lompoc City Council establish a policy that the Management Services Director conduct an annual audit, with time certain deadlines, of all organizations that receive City funds in excess of \$50,000.

### **Recommendation 2a**

That the Santa Barbara County Auditor-Controller report the results of these audits annually to the Board of Supervisors prior to County budget approval.

### **Recommendation 2b**

That the City of Lompoc Management Services Director report the results of these audits annually to the City Council prior to budget approval.

### **Recommendation 3a**

That the Santa Barbara County Board of Supervisors appropriate the necessary funds to allow the Auditor-Controller to conduct annual audits per Recommendation 1a or, where permissible, require that organizations receiving county-controlled funds in excess of \$100,000 bear the cost of an annual audit.

### **Recommendation 3b**

That the City of Lompoc appropriate the necessary funds to allow the Management Services Director to conduct annual audits per Recommendation 1b or, where permissible, require that organizations requesting grants or loans in excess of \$50,000 bear the cost of an annual audit.

### **Recommendation 4a**

That the County of Santa Barbara withhold all funding from any organization that fails to supply complete records for annual audits or has failed to meet requirements of existing contracts.

### **Recommendation 4b**

That the City of Lompoc withhold all funding from any organization that fails to supply complete records for annual audits or has failed to meet requirements of existing contracts.



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### **REQUEST FOR RESPONSE**

In accordance with *California Penal Code* Section 933.05 each agency and government body affected by or named in this report is requested to respond in writing to the findings and recommendations in a timely manner. The following are the affected agencies for this report, with the mandated response period for each:

#### **Santa Barbara County Board Of Supervisors – 90 days**

Finding 1

Recommendations 1a, 3a, 4a

#### **City of Lompoc – 90 days**

Finding 1, 2

Recommendations 1b, 2b, 3b, 4b

#### **Santa Barbara County Auditor-Controller – 90 days**

Finding 1

Recommendation 2a

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### APPENDIX

#### Summary of Notable Correspondence with Lompoc Housing and Community Development Corporation (LHCDC)

[All correspondence is paraphrased unless it appears in quotation marks]

**May 23, 1994:** Santa Barbara County executes initial contract with HOME Consortium including Lompoc.

**May 13, 2003: Lompoc RDA, to Executive Director, LHCDC.** “We have been unable to close escrow on Casa Con Tres Apartments for six months because of your failure to provide necessary documents including project cost estimates and a Board of Directors Resolution.

**September 10, 2003: Lompoc RDA, to Executive Director, LHCDC.** Second request for Jay Apartments Annual Report due April 14, 2003.

**November 14, 2003: Lompoc RDA, to Executive Director, LHCDC.** Third request for Jay Apartments Annual Report due April 14, 2003. Also fifth request for “K” Street Cottage Annual Report due December 29, 1999.

**February 2, 2004: Lompoc RDA, to Executive Director, LHCDC.** Results of 2003 annual compliance on six properties. Five are compliant. At Courtyard Apartments, one tenant’s rent continues to exceed affordability covenants.

**July 7, 2004: Lompoc RDA, to Executive Director, LHCDC.** LHCDC has not filed an annual report for Jay Apartments due March 31, 2003. If the 2002 and 2003 reports are not received by July 30, 2004, the RDA will be forced to issue a Notice of Default.

**November 16, 2004: Lompoc RDA, to Executive Director, LHCDC.** Very little progress” has been made in four years on the rehabilitation of Portabello Apartments. The loan agreement states the work will be completed “within 365 days.” If a request to extend is not received by December 15, 2004, “you will be considered in default of the loan agreement and the appropriate actions will be taken.”

**November 1, 2005: Lompoc City Council meeting.** Staff requests to subordinate a Community Development Block Grant (CDBG) loan on a LHCDC multi-family Jay Apartments for an additional loan. A councilmember objects to subordinating the city’s debt position. Cites “the lack of an audit...”

**November 3, 2005: Lompoc RDA, to Executive Director, LHCDC.** Eighth request for “Notice to Proceed and Scope of Work” for Portabello Apartments.

**November 14, 2005: County HCD, to Executive Director, LHCDC.** Deficiencies discovered in annual monitoring visit for six properties. Sixty days to remedy.

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Violations were tenant file documentation, torn screens, and landscaping.

**April 14, 2006: Lompoc RDA, to Executive Director, LHCDC.** Annual Rent Report for 2005 at Casa Con Tres Apartments exceeds covenant restrictions.

**June 19, 2007: County HCD, and Community Development Department, City of Lompoc, to Executive Director, LHCDC.** Scheduling required to inspect nine LHCDC properties as required under HOME regulations.

**June 22, 2007: Lompoc RDA, to Executive Director, LHCDC.** The 2006 Annual Report on Casa Con Tres Apartments reveals that rents being charged *all* tenants exceed maximum allowable rents for very low-income households as defined in the RDA's Affordability Covenant on the property.

**July 5, 2007: County HCD, and Community Development Department, City of Lompoc to Executive Director, LHCDC.** Second request (see June 19, 2007).

**January 15, 2008: Lompoc City Council Agenda.** Staff recommends approval of \$262,934 City HOME Program income funds for inclusion in a loan agreement between Santa Barbara County HOME Consortium and LHCDC for College Park Apartments. Further recommends a loan of \$159,000 in City's State HOME Program income funds to LHCDC for same.

**March 10, 2008: Lompoc RDA, to Executive Director, LHCDC.** No response to findings in report of June 2007 for the compliance year of 2006.

**June 26, 2008: County HCD, to Executive Director, LHCDC.** As lead agency in the HOME consortium, HCD must monitor all projects funded solely by Lompoc HOME funds. Request contact with HDC within 14 days of this letter to schedule visits for the nine properties listed. HCD will also conduct the initial monitoring for the newly constructed College Park.

**September 30, 2008: Lompoc RDA, to Executive Director, LHCDC.** Official notice of noncompliance for Casa Con Tres Apartments 2006 Annual Report. No answer was ever received to the RDA's June 6, 2007 notice. A second notice was sent March 10, 2008 requesting a reply. No answer was received.

**October 17, 2008: City of Lompoc, to Executive Director, LHCDC.** \$140,000 CDBG [Community Development Block Grant] loan for "T" St. and College Ave. parcel. The loan was due to be repaid on May 15, 2007. It is now in default.

**October 23, 2008: County HCD, to Executive Director, LHCDC.** No response to the letter of June 26, 2008 informing LHCDC of the intent to monitor HOME projects. CC: County HCD Director, Lompoc.

**November 24, 2008: LHCDC** submits 2007 Compliance Report to Lompoc RDA for

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Casa Con Tres Apartments.

**December 8, 2008:** The RDA informs LHCDC nine units are still noncompliant with Covenant restrictions.

**January 20, 2009: Director, County HCD, to Executive Director, LHCDC.** Project Monitoring Follow-up on ten LHCDC projects. “Note that many items will require immediate follow-up and three units will need to be re-inspected.” Numerous concerns with conditions of properties were noted; tenant lease omissions, violations of affordability covenants, inadequate income certification documentation, blight, lack of smoke detectors, lack of maintenance of buildings and lack of “staff to adequately manage projects funded through programs that are extremely complex in nature.” It was also noted that the agency failed to file its Annual Report in 2008 as required in its regulatory agreement.

**January 26, 2009: Lompoc RDA, to Executive Director, LHCDC.** Request for final initial rent rolls and tenant certification. Submit all resident surveys, applications and income verification for each unit. Due date no later than February 13, 2009.

**March 23, 2009: Lompoc RDA, to Executive Director, LHCDC.** Notice of noncompliance – Casa Con Tres Apartments. Nine tenant rents too high.

**March 25, 2009: County HCD, to Executive Director, LHCDC.** Need entity-wide financial statements for 2006, ,07, and ,08. The most recent audited statements are from 2005. Please provide name and contact for the person/company that is engaged in the organization’s audits. Provide these no later than April 15, 2009.

**April 6, 2009: City of Lompoc, to Executive Director, LHCDC.** Annual report for city’s CDBG program is late per contractual agreement. Loan is technically in default.

**April 13, 2009: Executive Director, LHCDC, to County HCD.** The 2006 audited financial statements have been delayed, “for a variety of reasons,” but will be completed by the end of April, 2009. In addition, the 2007 audit will be completed by the end of August, 2009 and 2008 will be completed by the end of September, 2009.

**April 15, 2009: City of Lompoc, to Executive Director, LHCDC.** Subordination of city’s \$243,950 loan to new first trust deed on Jay Apartments. Additional information is requested – 12 items including cash flow analysis of the property.

**April 16, 2009: County HCD, to Executive Director, LHCDC.** Despite verbal assurance that all needed documentation will be submitted, it has not happened. Lists documents needed and sets date of receipt at *no later than April 30, 2009*. A response is critical to continued funding. CC: City of Lompoc, LHCDC Board, County Auditor-Controller’s Office.

**April 17, 2009: Executive Director, LHCDC, to County HCD.** A request to reschedule

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the upcoming 2009 monitoring LHCDC HOME units from September to October – Reason: conflicts due to conferences, training and personal time.

**April 20, 2009: Lompoc RDA, to RDA Board of Directors.** The annual certification has been delayed due to some property owners either delaying submitting their records or submitting incomplete reports. Five LHCDC properties are listed as noncompliant.

**April 27, 2009: SB Housing Specialist, to Executive Director, LHCDC.** In response to an unsolicited comment from a College Park tenant, County HCD will conduct an immediate brief monitoring that includes tenant surveys, documentation of rent receipts, minimum of two units inspection. The tenant surveys will be distributed by mail on May 4. The site visit and staff conference has been scheduled for June 9 at 1:30 p.m.

**April 29, 2009: Executive Director, LHCDC, to County HCD.** “I request that County HCD place on hold the distribution of a tenant survey to College Park households... LHCDC has serious concerns about such a survey, including whether HUD recommends such a practice.” The e-mail questions the “nature of the survey” and the “methodology to analyze survey responses” among other things.

**May 19, 2009: Lompoc RDA, to Executive Director, LHCDC.** Second request for 2008 Annual Compliance report.

**June 19, 2009: Lompoc RDA, to Executive Director, LHCDC.** Second notice of noncompliance.

**June 22, 2009: City of Lompoc, to Executive Director, LHCDC.** Response to a request from LHCDC to defer CDBG rehab loan and state HOME acquisition loan payments. “Your agency stopped making payments on both loans in July, 2008 without prior notice to the city.”

**August 6, 2009: City of Lompoc, to Executive Director, LHCDC.** Formal notice of default for Marks House. In order to process loan deferment for Marks House, audited financial statements for 2007 and 2008 are required (among other items).

**August 24, 2009: Lompoc RDA staff to RDA Director & RDA Board of Directors.** Eleven LHCDC properties are listed as noncompliant for 2008. Please note that being noncompliant will jeopardize future funding through this agency as well as other public organizations.

**September 25, 2009: County HCD, to President, LHCDC.** County is commencing monitoring of LHCDC projects that have received County funds. Per LHCDC request, this monitoring was postponed until October. Lists documents that are needed to County by October 14, 2009. Visitation will happen on October 27 and 28 beginning at 9:30 a.m. at the Marks House.

**October 19, 2009: LHCDC President, to County HCD.** A request to delay HOME

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Monitoring inspections to late November or early December. Further requested to hold a pre-monitoring meeting at least two weeks prior to monitoring to review the scope of the monitoring and the goals and objectives.

**October 20, 2009: Lompoc City Council Meeting (RDA session).** In a report on City loans, staff reported that all 13 loans from CDBG funds to LHCDC were noncompliant. Staff also noted that the Redevelopment Agency had 11 loans to LHCDC, all of which were noncompliant. Staff further stated that some loan applicants “have been cited for not being compliant due to lack of responsiveness.”

**October 20, 2009: Lompoc City Council meeting.** Council votes 5-0 to approve a loan from the Lompoc Affordable Housing Trust Fund to LHCDC for construction of five new rental units at 518 N. “T” Street. “Public comment [at meeting]: None.”

**October 22, 2009: County HCD, to LHCDC President.** Unable to grant the request for a one-month delay in property monitoring. Must adhere to requirements of HOME program. Will not be harsh on the newly hired staff, but focus will be on past concerns, property standards and general program compliance.

**December 9, 2009: Lompoc RDA, to LHCDC.** Due to discrepancies in the rental agreements on some units--overcharges, etc. and lack of documentation, a Notice of Noncompliance was issued on June 16, 2009 for the 2008 period. Please submit info. ASAP.

**January 26, 2010: City of Lompoc, to LHCDC.** Re: College Park Apartments. Annual financial statement was due April 1, 2009. Event of default has occurred and \$11,130.00 is now due. City Council has expressed a willingness to review the terms, but the federal and state monitoring requirements are regulatory and non-negotiable.

**February 12, 2010: Lompoc RDA to Executive Director, LHCDC.** Please submit the 2009 annual compliance report by March 15, 2010 along with the resident surveys completed by each tenant.

**March 2, 2010: City of Lompoc, to LHCDC.** Re: College Park Housing. Payment and late charges of \$16,488.08 have not been received. Please pay within ten days or contact this office with your workout plan.

**April 1, 2010: City of Lompoc to Executive Director, LHCDC.** “LHCDC remains out of compliance with City and Redevelopment Agency contracts and in arrears on several loans. It will not receive Human Service funding for Bridgehouse and Marks House.

**April 19, 2010: City of Lompoc HDC to LHCDC.** Re: College Park Housing. Have not been contacted for a workout plan. If \$19,210.68 is not received within ten days, department will be forced to initiate default procedure. Staff is willing to consider revisions to loan agreements to facilitate loan compliance.

## **A FAILURE OF OVERSIGHT**

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**May 24, 2010: City of Lompoc, to Executive Director, LHCDC.** Re: College Park – Notice Default. No Annual Reports, which were due April 2009 and April 2010, have been received. Failure to report resulted in default interest of \$16,901.28. If reports and interest payment are not received within 30 days of this notice, City will “exercise its rights pursuant to the above referenced agreement and the Note and related Deed of Trust.” CC: Lompoc Mayor and Council members

**June 30, 2010: Lompoc RDA, to LHCDC.** Re: 2009 Annual Reports – Notice of Noncompliance. No reports on ten properties. Two requests for these reports have not been acknowledged. Due to lack of response, these properties are considered noncompliant for 2009. This will be noted in the report to state HCD as required by California law.

**July 12, 2010: Director, County HDC to Executive Director, LHCDC.** Audited financial statements for 2007 and 2008 must be received by August 1, 2010. The 2009 statements must be received 45 days later. Until submission of these audits, HDC will be unable to reimburse LHCDC for current contractual obligations or move forward with the execution of new commitments.

**July 23, 2010: County HDC, to President, LHCDC.** Notification that monitoring, in addition to yearly HOME monitoring for six properties, will also consist of a review of LHCDC’s organizational structure, capacity and accounting and payroll systems.

**September 27, 2010: Lompoc RDA, to RDA Board and City manager, Lompoc Ten LHCDC properties are noncompliant for 2009.** “In some cases liquid damages may also be imposed as a penalty of noncompliance with Agency Affordability Covenants.”

**January 19, 2011: President, LHCDC, to Lompoc Mayor and City Manager.** Board of LHCDC will meet to discuss “options to try to navigate a way to bring [LHCDC] back to a place where it can continue to provide needed services in Lompoc.” Request to use RDA funds to hire a full-charge bookkeeper and to renovate approximately ten units.

The LHCDC President says LHCDC “is forced to take cash flow from rental properties to backfill the huge deficit in the Shelter budgets.” She also states that LHCDC’s troubles can be traced back to the closing of College Park Apartments. “The entire \$14 million could have been lost if LHCDC did not utilize all available resources to close. If the closing had not happened, the City of Lompoc would have lost \$159,000 of their (HUD) State HOME money. The County would have lost \$2.2 Million of (HUD) HOME funds. This would have been a very serious outcome for both governments in that they would have had to repay HUD and Citibank would have foreclosed on the project, removing the affordable housing asset from the city inventory.”

**January 25, 2011: President, LHCDC, to County HDC.** A formal request for HUD support and technical assistance.

**February 16, 2011: County Auditor-Controller, to Executive Director, LHCDC.**



## **A FAILURE OF OVERSIGHT**

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County needs to perform preliminary review of LHCDC financial records from 2008, 2009, and 2010. Attached are two pages of outstanding issues. Need to meet next week to review these.

**February 18, 2011: County CEO, to County Board of Supervisors.** “LHCDC is facing significant financial systems and management oversight deficiencies... Total County investment in these properties is \$3.7 million.”

**March 9, 2011: County Auditor-Controller, to LHCDC Board of Directors.** LHCDC is in significant financial distress. County Board of Supervisors has a fiduciary duty to make corrections. 2010-11 had agreement for \$40,413 County support for shelter services at Bridgehouse. Need proper documentation to release the remaining \$20,206. LHCDC required to provide County with annual financial statement within six months. Agency is at least four years in arrears on accounting records/financial statements. “Your request for additional funds in 2011-12 for Marks House and Bridgehouse cannot be granted until you become compliant.”

**November 1, 2011: County HCD, to County Board of Supervisors.** County has a potential repayment liability to HUD of \$1.4 million. “County and [Lompoc] City staff have engaged LHCDC staff in discussions regarding the possibility of transferring the [homeless] shelters to other appropriate parties...”

**November 21, 2011: Lompoc Community Development Department memo to City Manager.** Memo notes that six loans made after 2003 to LHCDC were technically out of compliance. Out of compliance, in most cases, refers to a lack of reports filed by LHCDC on Affordability Covenant restrictions. One of the loans (\$150,000) became noncompliant in 2003 because no Annual Report on Affordability Restrictions was submitted.

**December 6, 2011: Lompoc City Council report.** Staff to prepare a report on outstanding loans made to LHCDC and potential liability for repayment of the loans.

**December 20, 2011: Lompoc City Council report.** In order to provide the information to Council in a timely manner, it will be necessary to contract with an outside consultant.

**January 13, 2012: LHCDC announces** to Marks House and Bridgehouse residents that the Lompoc homeless shelters will close Tuesday morning, January 17 at 9 o'clock.

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