



City of Huntington Beach

File #: 22-944

MEETING DATE: 11/15/2022

REQUEST FOR CITY COUNCIL ACTION

SUBMITTED TO: Honorable Mayor and City Council Members

SUBMITTED BY: Al Zelinka, City Manager

VIA: Ursula Luna-Reynosa, Director of Community Development

PREPARED BY: Steve Holtz, Deputy Director of Community Development

Subject:

Approval of a proposed extension of the City-owned Ocean View Estates Mobile Home Park and authorization to temporarily reduce rents for eligible senior mobile Home owners at Ocean View Estates

Statement of Issue:

On September 20, 2022, the City Council conducted a Study Session to review issues related to the City-owned Ocean View Estates (OVE) Mobile Home Park that is scheduled to close on September 30, 2024. At the Study Session, the City Council requested additional information to help with its future decision as to a possible extension of the closure date or to commence with a plan for cessation of the OVE Mobile Home Park use. If the City Council directs staff to begin the closure of OVE, there will be significant costs and requirements related to relocating existing residents and converting the property to a passive recreational park (or other park use) as further described in more detail within this report.

Also, as directed by the City Council at its meeting on November 1 when it approved a Mobile Home Tenant Based Rental Assistance Program (MHTBRA) for senior mobile home owners, this report asks the City Council to consider if residents at OVE should participate in this MHTBRA program or instead be offered temporary rent reductions consistent with the MHTBRA subsidy.

Financial Impact:

The City receives approximately \$686,000 annually in gross revenue from space rent at OVE, of which, \$80,000 is budgeted for annual maintenance costs and \$34,000 (5%) for vacancy. This rental revenue, less maintenance expenses and vacancy, is deposited to the General Fund.

This report provides options for the extension of OVE beyond its September 30, 2024 closure date to set aside the necessary funds to fully pay for costs associated with closing the mobile home park and creating a passive recreational park. As described in this report, the cost to close the mobile home park and remediate the site, factored for inflation, will be approximately \$6.9 million in 15 years and

\$9.4 million in 25 years. To close the mobile home park, remediate the site, and create a passive recreational park will be approximately \$16.1 million in 15 years and \$21.7 million in 25 years.

As discussed at the September 20, 2022 Study Session, the City Council could decide to direct a portion of OVE revenue for Central Park maintenance. Such reduction in OVE rental income would result in further extending the mobile home park closure date in order for the closure costs to be covered by the Special Reserve Fund. Should the City Council decide to offer temporary rent reductions for eligible senior mobile home owners at OVE, staff anticipates this could further reduce OVE rental income by as much as \$119,000. Any redirection of OVE revenue to a Special Reserve Fund will have a corresponding negative impact to the General Fund up to \$572,000 annually, per existing lease payments. Such redirection would be implemented in Fiscal Year 2024-25. The redirection of General Fund Revenue would be factored into the overall revenue projections which would dictate budget decisions related to expenditures.

Recommended Action:

A) Authorize an extension of the Rental Agreements and operations at Ocean View Estates Mobile Home Park for a period of 15 years through September 30, 2039, and direct 65 percent of net operating revenue to a Special Reserve Fund for Ocean View Estates Mobile Home Park closure. The Special Reserve Fund will provide for 1) replacement housing and relocation of park residents upon cessation of use as a mobile home park; and 2) remediation of the mobile home park. In the event of budgetary constraints due to escalating CalPERS costs, authorize the City Manager with consultation with the Chief Financial Officer to reallocate Special Reserve Fund as needed.

B) Direct staff to return five years prior to the planned closure date with an assessment of the capacity of the Special Reserve Fund to cover costs associated with closing the mobile home park and Park Development Impact Fees to cover the costs of converting the property to a passive recreational park.

C) Authorize the Office of the City Attorney to prepare revised Rental Agreements for Ocean View Estates Mobile Home Park residents and further authorize the City Manager or designee to execute such Rental Agreements.

D) Authorize the City Manager or designee to approve temporary rent reduction for eligible seniors at Ocean View Estates consistent with the Mobile Home Tenant Based Rental Assistance Program.

Alternative Action(s):

Do not approve the recommended actions, and consider the following options, which the City Council may modify as necessary:

A) Authorize the extension of the Rental Agreements and operations at Ocean View Estates Mobile Home Park for a period of ten years. Return to City Council prior to September 30, 2034 for direction as to a subsequent extension or closure of the mobile home park. (100 percent of net revenue contributed to the General Fund.)

B) Authorize an extension of the Rental Agreements and operations at Ocean View Estates Mobile Home Park for a period of 20 years, through September 30, 2044 and direct 100 percent of net

operating revenue to a Special Reserve Fund for Ocean View Estates Mobile Home Park closure. The Special Reserve Fund will provide for 1) replacement housing and relocation of park residents upon cessation of use as a mobile home park; 2) remediation of the mobile home park use; and 3) creation of a passive recreational park. (No rental revenue contributed to the General Fund.) In the event of budgetary constraints due to escalating CalPERS costs, authorize the City Manager with consultation with the Chief Financial Officer to reallocate Special Reserve Fund as needed.

C) Authorize an extension of the Rental Agreements and operations at Ocean View Estates Mobile Home Park for a period of 25 years through September 30, 2049, and direct 100 percent of net operating revenue to a Special Reserve Fund for Ocean View Estates Mobile Home Park closure. The Special Reserve Fund will provide for 1) replacement housing and relocation of park residents upon cessation of use as a mobile home park; 2) remediation of the mobile home park use and creation of a passive recreational park; and 3) an annual contribution of 15 percent of the net operating revenue to the ongoing maintenance of Huntington Central Park (approximately \$100,000). (No rental revenue contributed to the General Fund.) In the event of budgetary constraints due to escalating CalPERS costs, authorize the City Manager with consultation with the Chief Financial Officer to reallocate Special Reserve Fund as needed.

D) Do not authorize an extension of the Rental Agreements and operations at Ocean View Estates Mobile Home Park beyond September 30, 2024. Authorize a Request for Proposal for a consulting relocation specialist to implement a plan for cessation of mobile home park use.

Analysis:

Background

Ocean View Estates is a 44-space mobile home park created as an interim relocation site for mobile home owners displaced by redevelopment projects that took place in Huntington Beach during the 1980s and 1990s. Situated on approximately 9.3 acres near the northeast corner of Goldenwest Street and Ellis Avenue, OVE is intended to become a functioning part of Huntington Central Park upon closure of the mobile home park and relocation of the existing tenants.

Rental Agreements for most of the spaces at the City-owned Ocean View Estates Mobile Home Park contain a termination of tenancy and park closure date of September 30, 2024. At present, there are no funds encumbered to facilitate closure of OVE in 2024. Options to extend mobile home park operations and create a Special Reserve Fund to pay for costs associated with the closure of OVE and the creation of a passive recreational park are proposed in this report.

A determination to proceed with cessation/closure of use as a mobile home park will require the City to follow a process prescribed by California law to develop a Replacement Housing and Relocation Plan that mitigates the impact upon residents to relocate to adequate housing. In order to execute the legal obligations for mobile home park closure by September 30, 2024, it will be necessary to initiate procurement of a consulting relocation specialist in December 2022. Once all tenants are relocated, costs associated with the remediation of the land from a mobile home park use to a passive recreational park use, or other park use as directed by the City Council, will need to be incurred.

During the September 20 Study Session, the City Council requested additional information on the following topics for consideration:

OVE Mobile Home Park Revenue / City-wide Rent Survey

At this time, there are 43 households with lease terms ending September 30, 2024 and one household with a Life-Estate Rental Agreement that does not expire. Space rent from OVE currently generates \$686,000 in gross revenue annually. Adjusted for a 5 percent vacancy rate and basic operating cost of \$80,000 to maintain landscaping and the clubhouse, the net revenue to the City's Fiscal Year 2022-23 General Fund will be approximately \$572,000.

A survey of move-in space rent for Huntington Beach mobile home parks (excluding the resident owned park, Huntington Harbor Village) updated in October 2022 (Attachment 1) demonstrates OVE space rent, while not the lowest, is slightly below the average space rent as compared to local mobile home parks with similar amenities (i.e., clubhouse, no pool). As shown in Attachment 1, the move-in space rent at OVE is currently \$1,358, which is lower than the move-in space rent of \$1,499 at Sea Aira Mobile Home Estates and \$1,595 at Mariners Pointe Mobile Home Park, which have similar amenities to OVE. When considering all 17 mobile home parks included in this survey, OVE is 29 percent below the City-wide rent average of \$1,913. Existing Rental Agreements provide for an annual increase of three to seven percent based upon cost of living increases published per the Consumer Price Index (CPI). The survey revealed that most Huntington Beach mobile home parks adjust the space lease rents annually. The amount of the increases vary from flat rate increases of \$50 - \$75 per month, to percentage increases, and increases tied to the CPI.

Capital Improvement Costs of Extending Mobile Home Park Operation

Extending operation of OVE beyond five years will require capital improvement investments, such as resurfacing the roadway and driveways (\$254,365), replacing the shade structure for the picnic area (\$56,275), and replacing the aging landscape irrigation pump (\$39,393). Operation of 10 years or greater will require additional investments, such as updating the clubhouse paint and interior and replacing the roof (\$117,430), and providing an asphalt overlay to the park roadway (\$163,097). Attachment 2 provides the cost estimates for capital improvements and maintenance costs if OVE remains operational for the next 25 years. Sewer maintenance is provided through OVE homeowners' contribution to the City's Enterprise Fund through their water billing; therefore, this cost is not factored into any future costs to maintain OVE.

The City Council may determine to extend the current Rental Agreements ten years before considering a long-term plan. A shorter-term extension of five or less years would defer capital improvement investments for maintenance of OVE roadways, driveways, and the clubhouse. Similarly, a shorter-term extension will likely not encourage residents to invest in maintenance and upgrades to their homes.

Sale of OVE Park - Measure C and Surplus Land Act

The land on which OVE is located is considered public parkland as the property was acquired for park purposes upon the closure of OVE. For this reason, the land is zoned OS-PR, Parks and Recreation Subdistrict. Once the mobile home use terminates, the land automatically becomes park property pursuant to the various relocation and purchase agreement documents. Accordingly, if cessation of mobile home park use proceeds and the site reverts to parkland, the site would be subject to Measure C.

Measure C was adopted by the voters on November 6, 1990, resulting in City Charter Amendment Section 612. Subject to certain exceptions, the Charter amendment requires both consent of the City Council and a majority of the electorate prior to the lease or construction of significant structures in City parks or beaches.

The California Surplus Land Act (SLA) (Government Code 54220 et seq.) governs the sale of surplus land and requires local agencies to prioritize opportunities for certain uses, particularly affordable housing development for any land the entity may sell or lease. Surplus land may be declared either "surplus" or "exempt surplus" by the legislative body of the local agency as supported by written findings. The SLA requires local agencies to report on any properties that have been declared "surplus" or "exempt surplus" lands in the Annual Housing Element Report due in April of each year. Effective January 1, 2020 Assembly Bill (AB) No. 1486 and AB No. 1255 amended the SLA requiring local agencies to formally declare publicly owned property not necessary for the local agency's use as "surplus land" or "exempt surplus land" before beginning the disposition process. Surplus land must follow a statutory noticing and negotiation period with certain designated entities, including eligible housing sponsors defined by the California Department of Housing and Community Development (HCD).

Multiple categories qualify land as "exempt surplus land" that does not have to follow the procedural requirements of the SLA. However, this property would qualify as "surplus land" because it is greater than 5,000 square feet and more than the minimum legal residential building lot size required under the Huntington Beach Zoning and Subdivision Ordinance (HBZSO). Therefore, prior to selling or leasing this property, the City would be required to declare it "surplus land" and follow the property disposition requirements of the SLA.

Park Conversion to Resident Ownership

State law requires that prior to any mobile home conversion, the entity proposing the change in use must prepare a report on the impact of the conversion, closure, or cessation of the use of the mobile home park. Significantly, recent amendments to Government Code Section 65863.7 provide that the report "shall include a replacement and relocation plan that adequately mitigates the impact upon the ability of the displaced residents of the mobile home park to be converted or closed to find adequate housing in a mobile home park."

Since 2014, California state law has supported the conversion of mobile home parks to resident ownership. The Subdivision Map Act requires a subdivider, at the time of filing a tentative or parcel map for a subdivision to be created from the conversion of a rental mobile home park to resident ownership, to avoid the economic displacement of all non-purchasing residents by following specified

requirements relating to the conversion. A subdivider is also required to obtain a survey of support from the residents of the mobile home park for the proposed conversion, and that the results of the survey be submitted to the local agency for consideration. The local agency is then required to consider the results of the survey in making its decision to approve, conditionally approve, or disapprove the map.

Subject to satisfaction of Measure C, General Plan and Zoning Map Amendments, and California Surplus Land Act (SLA) provisions, which would be challenging to overcome, OVE homeowners could be allowed to establish a Home Owner's Association, which could purchase the mobile home park and assume park operations. The average purchase price for a mobile home and space is \$326,454 based on mobile home park sales records in the surrounding areas of Orange County from the past seven years. In researching State sponsored programs to assist mobile home park residents with low-cost financing for the acquisition of their mobile home parks, these programs are currently only available for low-income residents, mobile home parks located in rural communities, or mobile home parks in smaller cities with population less than 40,000.

Right of First Refusal

When a mobile home park owner decides to put their park up for sale, he or she is not legally required to offer the residents the right-of-first refusal to buy the park. The California Mobilehome Residency Law provides that the park management must give the governing board of the park homeowners association a 30-day written notice of the park owner's intention to offer or list the park for sale, and is only applicable if certain conditions are met (Civil Code 798.80). In order to receive the notice, residents must form a homeowners association for the purpose of buying the park and register with the Secretary of State. The homeowners association must notify the park each year of the residents' interest in buying the park. The notice requirement does not apply to the sale or transfer of the park to corporate affiliates, partners, or relatives, or transfers triggered by gift, devise, or operation of law, eminent domain, foreclosure, or transfers between joint tenants or tenants in common.

Cessation of Mobile Park Use

California Government Code and Huntington Beach Zoning Code provisions establish minimum standards for determining approval of a mobile home park closure and prescribe that the property owner (for OVE, this is the City) will be responsible to provide replacement housing and relocation costs to the residents. This includes acquisition of replacement housing, moving costs, and the differential in monthly rent for a period up to 42 months for each tenant. If a displaced resident cannot obtain adequate housing, state law requires payment of in-place market value of the mobile home. Based upon analysis of recent mobile home park closures undertaken in the Southern California marketplace, the acquisition and relocation cost is estimated at approximately \$77,272 per OVE household. Additional consideration is anticipated in order to mitigate adverse impact upon the one household with a Life-Estate Rental Agreement.

Because the OVE site is located on parkland, upon cessation of mobile home park use the land must revert to park use. Current cost to create a passive park is estimated at \$662,051 per acre.

OVE Mobile Home Park Rental Agreement Extension/Cost Scenarios

Attachments 3-5 provide various OVE cessation/closure scenarios based upon costs to 1) close OVE; 2) provide replacement housing and relocation benefits to mobile home park residents; 3) remediate the mobile home park use; 4) create a passive recreational park; and 5) provide an annual contribution of 15 percent of the net operating revenue to the ongoing maintenance of Huntington Central Park. Each of the scenarios shown in Attachments 3-5 provide options for 10, 15, 20, and 25 years of extension of the Rental Agreements at OVE and the costs associated with those activities, including maintenance and long-term capital improvements. The scenarios shown in Attachments 3-5 compare the total revenues to be generated by extending the current use of OVE by 10, 15, 20 or 25 years and the development of a passive recreational park upon OVE closure so that the lease revenue generated over time will pay for the cessation-related costs, yearly maintenance costs, and long-term capital improvement costs without impacting the General Fund beyond the loss of future rent revenue.

The revenues shown in Attachments 3-5 are based upon the current rental rates at OVE with an annual inflationary increase of five percent, which is the median of the allowable rent increase of three to seven percent annually (based upon CPI). The costs associated with the park closure (relocation and remediation), ongoing maintenance at OVE, and capital improvements are adjusted annually over the 25-year period based upon a three percent annual increase. The following describes each of the scenarios and options shown in Attachments 3-5:

Attachment 3: OVE Mobile Home Park Closure Only

Attachment 3 contemplates only the cessation of OVE and the relocation of residents and remediation of the infrastructure at OVE, including the potential removal of any abandoned mobile home units/slabs and existing hardscape such as roads and driveways. This scenario assumes that 65 percent of the OVE lease revenues will be directed to a Special Reserve Fund to fund the future OVE cessation costs (relocation and remediation) with the balance of 35 percent of the revenues continuing to be deposited into the City's General Fund. In this scenario, staff has provided four options at 10, 15, 20, and 25 years to consider. As shown in Attachment 3, the 10-year extension of OVE Rental Agreements does not provide sufficient time to accumulate revenue to be generated to cover the costs associated with relocation of residents and remediation of OVE. At 15, 20 and 25 years, revenue exceeds OVE closure costs and this scenario could be implemented. While this option would not provide funding to create a passive recreational park, it is anticipated that within 15 years sufficient Park Development Impact Fees would be accumulated to cover the development cost of this new park. Additionally, this option preserves a portion of lease revenue for the General Fund and provides existing residents at OVE security for their future. For this reason, staff recommends this 15-year extension option.

Attachment 4: OVE Mobile Home Park Closure and Create Passive Recreational Park

Attachment 4 contemplates the 1) cessation of OVE and the relocation of residents and remediation of the infrastructure at OVE, and 2) the development of a passive recreational park to replace OVE.

This scenario assumes that 100 percent of the OVE lease revenues will be directed to a Special Reserve Fund to pay the future OVE cessation costs (relocation and remediation) and the creation of a passive recreational park. Under this scenario, no OVE lease revenues would be deposited into the City's General Fund going forward. Again, staff has provided four options in this scenario at 10, 15, 20, and 25 years for City Council consideration. As shown in Attachment 4, the 10 and 15-year extension of the OVE Rental Agreements does not provide sufficient time to accumulate revenue to be generated to cover the costs associated with OVE cessation and creation of a passive recreational park. At 20 and 25-year extensions, accumulated space rental revenue exceeds or is within one percent of the OVE closure costs and development of a passive recreational park; therefore, this scenario at 20 or 25 years could be implemented without impacting the General Fund beyond the loss of future rent revenue.

Attachment 5: OVE Mobile Home Park Closure, Create Passive Recreational Park, and Contribute to Huntington Central Park Maintenance

Attachment 5 contemplates the 1) cessation of OVE and the relocation of residents and remediation of the infrastructure at OVE, 2) the development of a passive recreational park to replace OVE, and 3) the diversion of 15 percent of the net revenues generated by OVE space rent (approximately \$100,000) to be used for maintenance costs at Huntington Central Park (this represents approximately one-third of the current Huntington Central Park landscaping annual budget). This scenario assumes that 85 percent of the OVE lease revenues will be deposited into a Special Reserve Fund to fund the future OVE cessation costs (relocation and remediation) and the creation of a passive recreational park with the balance of 15 percent of revenues for Huntington Central Park maintenance. None of the OVE rental revenue would be deposited into the City's General Fund. As shown in Attachment 5, based upon the four options in this scenario at 10, 15, 20, and 25 years, only the 25-year extension would provide sufficient time to accumulate revenue to be generated to cover the costs associated with OVE cessation, creation of a passive recreational park, and provide maintenance funding to Huntington Central Park. The 25-year option would provide excess revenue in the amount of \$849,787 to cover all costs associated with the proposed activities in this scenario.

Although there are many scenarios and options the City Council can consider, some of which better maximize General Fund flexibility, there are certain limitations that will require a longer period of time to achieve the preferred objective. For example, if the City Council chooses to fund 1) cessation of OVE and the relocation of residents and remediation of the infrastructure at OVE, 2) the development of a passive recreational park to replace OVE, and 3) a portion of rental revenue continuing to be deposited into the General Fund, the minimum amount to be diverted to a Special Reserve Fund for this scenario to be feasible within 25 years is 85 percent with 15 percent contributed to the General Fund. If less than 85 percent, OVE must be extended longer than 25 years for the revenues generated to cover the costs incurred to close OVE, remediate the site, and develop a passive recreational park.

In considering alternatives for continuing OVE beyond five years, staff recommends that City Council direct staff to return five years prior to the planned closure date with an assessment of the capacity of the Special Reserve Fund and Park Development Impact Fees to meet the planned objectives.

Ocean View Estates Temporary Rent Reduction for Eligible Seniors

On November 1, the City Council approved the MHTBRA Program to temporarily assist very low-income senior mobile home owners to pay their space rent. At that meeting, staff recommended eligible residents at OVE would not participate in that program and instead would be eligible for temporary rent reductions consistent with the MHTBRA subsidy. City Council directed that the question of whether OVE residents should participate in the MHTBRA program or receive temporary rent reductions be considered as part of this broader OVE matter as it would impact park revenue and potentially influence the City Council's decision regarding the park extension timeframe. During City Council discussion, additional information was requested to help with this decision and is provided below.

Staff is aware of six (of 44 total) OVE residents who would potentially qualify for MHTBRA. While staff does not know household income for these residents, assuming income for all six of these residents is solely derived from Social Security benefits, and the benefit level is the standard amount based on age, the anticipated financial impact if all six residents received temporary rent reductions would be \$119,000 over a two-year period. While not insignificant, this short-term revenue reduction would not impede the scenarios proposed in this report that develop a Special Reserve Fund.

Staff recommends, if City Council directs that OVE residents should receive temporary rent reductions and not participate in the MHTBRA program, eligible residents must apply for assistance within the one-month MHTBRA application period anticipated to open in January 2023. Because federal funds would not be utilized to provide the rental assistance to OVE residents, the City Council may adopt different subsidy parameters than MHTBRA including the amount of assistance and duration of assistance. Alternatively, City Council may direct that eligible OVE residents should participate in the MHTBRA program in lieu of temporary rent reductions.

Environmental Status:

Pursuant to CEQA Guidelines Section 15378(b)(4), government fiscal activities that do not result in a physical change in the environment and do not commit the lead agency to any specific project, do not constitute a project. Therefore, these activities are exempt in accordance with CEQA Guidelines Section 15060(c)(3).

Strategic Plan Goal:

Economic Development & Housing

Attachment(s):

1. Rent Survey
2. Capital Improvement Costs
3. Scenario 1 - Fund OVE Mobile Home Park Closure Only
4. Scenario 2 - Fund OVE Mobile Home Park Closure, Create Passive Park
5. Scenario 3 - Fund OVE Mobile Home Park Closure, Create Passive Park, and Fund Central Park Maintenance
6. PowerPoint Presentation