

City of Culver City, California
Culver City Redevelopment Agency Agenda Item Report

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AGENDA ITEM: Discussion of Comprehensive Housing Strategy			
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Fiscal Impact: Yes ☒ No ☐		General Fund: Yes ☐ No ☒	
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Department Approval: Sol Blumenfeld (03/11/08)		Executive Director Approval: Jerry B. Fulwood by Marlee Chang (03/13/08)	
Fiscal Impact Approval: Jeff Muir (03/13/08)			

RECOMMENDATION

Staff recommends the Culver City redevelopment Agency (the "Agency") discuss and provide input regarding the Comprehensive Housing Strategy and direct staff to proceed with the first year program implementation.

BACKGROUND

This report analyzes the Agency's use of redevelopment set aside funds in addressing City affordable housing needs. It contains an assessment of affordable housing production to date and provides recommendations on allocating funding and developing new housing programs with available resources. Using current housing needs projections provided by the State and the Regional Housing Needs Assessments (RHNA), the report identifies potential housing development sites, related development costs, funding sources, funding allocation and project implementation over a 7.5 year planning period.

DISCUSSION

Culver City is known as one of the best cities in the region in which to live and work. It is a leader in attracting entertainment, multimedia, and a variety of creative firms as well as a new venue for theatre and restaurants. Because of responsive government, safe neighborhoods, job opportunities and excellent schools it is also a sought after location for housing. Top executives, clerical staff, seniors, families with children and persons with disabilities all want to live in

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and be a part of the tapestry that is Culver City. Unfortunately, the demand for good affordable housing in the city far exceeds the supply.

The problems of affordable housing impact local land use and regional air quality and mobility. As people seek less expensive housing in distant suburban locations, they are compelled to travel huge distances on daily commutes to urban centers. The lack of good affordable housing is reflected in diminished air quality and a reduced quality of life affecting the entire region. The City has expressed its desire to meet the challenge of housing affordability in its General Plan.¹ Unfortunately, as the median price of housing continually increases, the problem of affordability gets worse each year. The cost of housing is determined by many factors including the economy, land availability, demographics, construction costs and land use regulations. Thus the lack of affordable housing is a national, state and regional problem that is manifested locally.

The Housing Division has implemented various programs to increase the supply of good affordable housing for all income levels, recognizing that safe, clean and sanitary housing is critical to quality of life. These programs include:

- Section 8 rental assistance
- Roommate matching for seniors
- Financial assistance to developers for the production of affordable housing
- Rehabilitation funds for homes and rental property

Since 1992, the Housing Division has provided over \$22.5 million in Section 8 Rental Assistance to 384 extremely-low and low-income families, rehabilitated 784 single family homes, and 771 multifamily housing units and provided financial assistance to 243 units of affordable housing under new construction. Even with these efforts, the City must do more to meet affordable housing needs. The Comprehensive Housing Strategy (CHS) is designed to provide a comprehensive approach for allocating city housing resources to meet identified housing needs established by State Housing law. In addition, this effort will help inform the Housing Element that is currently being produced by Planning the Division..

What is Affordable Housing?

Affordable housing is the best housing on the block that is well maintained and well managed, specially financed to be affordable to a range of income levels. Under Federal guidelines, housing is “affordable” when residents spend less than thirty percent (30%) of their income on rent or mortgage payments. The amount is based on each county’s median income. In 2007 in Los Angeles County the

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annual median income for a family of four (4) is \$56,500.² Please see Attachment No.1 (LA County Income Chart).

Who needs Affordable Housing?

According to the Housing Profile conducted by the Culver City Housing Agency in 2003, Culver City has the highest rents on the Westside outside of Beverly Hills. The median rent for a two (2) bedroom apartment is \$1,600, the median house price in Culver City is \$630,000, and the median household income in Culver City is \$59,973. According to 2007 Median Household Incomes for the Los Angeles County/Culver City area this is considered low income at eighty percent (80%). Thus, the above family of four (4) cannot afford to live in Culver City.

RHNA 1998-2005 Comparison of Neighboring Cities

	<u>RHNA Need</u>	<u>New Housing Built</u>	<u>% of RHNA Built</u>
Beverly Hills	255	648	253%
Culver City	650	189	29%
Santa Monica	2,208	2920	132%
West Hollywood	410	379	92%
Subregional Total	3,524	4,136	117%

The Housing Division also conducted an analysis of the salaries of Culver City employees to measure income compatibility with housing costs. From this survey, it was noted that fifty percent (50%) of City employees cannot afford to live where they work. This analysis was also conducted using the Culver City United School District employees and it was found that fifty percent (50%) of school district employees cannot afford to live where they work.

An "Affordability Chart" was developed depicting the salaries of common job categories found in the region. The Affordability Chart is located in the appendix of this document. It must be noted that the only job category listed that can afford both to rent or purchase a home in Culver City is a General Practice Doctor with an annual income of just below \$140,000 a year, which is 180 percent above the Culver City median income. Please see Attachment No. 2 (Affordability Chart).

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Regional Housing Needs Assessment

The City is obligated to address the housing shortage as a statutory requirement under the Regional Housing Needs Assessment. It also has obligations under Redevelopment Law to utilize excess surplus Housing Set Aside Funds. The proposed Comprehensive Housing Strategy provides a plan for allocating the use of Set Aside Funds to meet the requirements of RHNA.

Every five (5) to seven (7) years, State law requires cities in California to update the Housing Element of their General Plan. The Housing Element is designed to outline the strategies and policies to ensure the production, improvement, and conservation of housing. The Southern California Association of Governments (SCAG) issues RHNA goals for each city in the region (Government Code, Section 66584). With respect to new housing production, each city must facilitate and encourage the production of new housing commensurate with its share of the region's need for new housing.³ This share includes four affordability levels. In the current RHNA cycle, Culver City's allocation of 504 units (see "note" number 5) includes the following affordability breakdown:

- 129 units affordable to Very Low Income households
- 80 units affordable to Low Income households
- 85 units affordable to Moderate Income households
- 211 units affordable to Above Moderate income households

In evaluating housing production progress during the last RHNA cycle (2000-2005), Culver City's allocation of 650 units was broken down into the following affordability levels:

- 71 units affordable to Very Low Income households
- 136 units affordable to Low Income households
- 134 units affordable to Moderate Income households
- 309 units affordable to Above Moderate Income households

Though 927 affordable housing units were created in the last RHNA cycle, no new construction qualified as affordable housing. The City did provide affordable housing through a combination of rehabilitation, preservation, and mortgage assistance for first-time homebuyers and by securing affordability covenants through financial assistance. Only 23 new units (totaling 14% of the RHNA

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obligation) were recently constructed in the City that meet the affordable criteria and these would only apply to the current planning period since they were constructed in 2006.⁴

Despite efforts to try to create affordable housing, the City has failed to meet its housing obligations under RHNA for a variety of reasons. They include a lack of land available at prices that support affordable housing development, regional market forces that do not support creating affordable units, neighborhood resistance to development at densities that support affordable housing, and lengthy development processes with associated project overhead and carrying costs that preclude affordable housing developments. The State does not automatically penalize local jurisdictions that do not achieve their RHNA goals. However, if a locality does not meet its RHNA requirements because of governmental constraints (i.e. zoning laws that limit density to below the State's default density, construction moratoriums, or policies that do not allow affordable housing) or non-governmental constraints that the City does not address, it may be subject to certain "penalties". These penalties may include withholding of State funds such as the City's local share of "gas tax" funds, civil suits by housing advocates, and the potential disruption of City operations if it is deemed to be out of compliance with its General Plan, Redevelopment Plan or State Housing Law.⁵ Since the City has redevelopment resources that can be used to achieve its RHNA allocation, non-utilization of these resources for affordable housing development could be construed by the State as a constraint and is inconsistent with Redevelopment Law.

Excess Surplus

Under Redevelopment Law, a Redevelopment Agency is prohibited from generating an excess surplus of its Housing Set Aside Fund. The most important provision of Redevelopment Law relating to housing was imposed by the legislature in 1976. This requirement stipulates that in redevelopment project areas adopted after 1976, a minimum of twenty percent (20%) of the tax increment generated from the project area must be used by the Agency to "increase, improve and preserve" the community's supply of affordable housing for persons and families of low and moderate income (Health and Safety Code Section 33334.2). "Excess surplus" means an unexpended and unencumbered amount in the housing fund that exceeds the greater of \$1 million or the total amount deposited in the housing fund during the preceding four years. Agencies are required to either:

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- Spend or encumber the excess surplus funds or transfer the funds to a housing authority within one year from the date the funds become excess surplus, or
- Spend or encumber the excess surplus funds within two additional years.

If the Agency does not spend or encumber the excess surplus funds within three (3) years from the date the funds become excess surplus, the Agency is prohibited from encumbering any additional funds or spending any monies from any source – except that it may pay certain specified obligations.⁶

The use of Housing Set Aside funding is tied to the Housing Element of the General Plan. An Agency may only exempt itself from the 20% set aside requirements if it makes two findings: 1) That no need exists in the community to improve, increase or preserve the supply of low and moderate income housing; and 2) That a stated percentage less than 20% is sufficient to meet the community's housing needs. Clearly neither of these requirements for exemption applies to Culver City.

Keyser Marston and Associates (KMA) conducted a cash flow analysis to determine whether the City is at risk of accumulating an "excess surplus" of Housing Set Aside Funds and determined there was not an excess surplus in FY 2005/6 or 2006/7. However, KMA determined that the Agency will experience excess surplus any time the amount of funds remaining at the end of the Fiscal Year ("Ending Balance") is greater than the sum of the preceding four (4) years of Set Aside funds.

This means that with the Ending Balance of \$16.3 million in 2006/7 and \$17.8 million in 2007/8, the Agency may maintain an Ending Balance of up to \$20.5 million 2008/9 without violating the excess surplus requirements. However, due to on-going affordable housing need, the extensive amount of time it takes to bring projects on line, and the continuing accumulation of funds, it is important that the Agency to start to allocate Set Aside funds now.

Thus, the City must work to satisfy RHNA requirements and comply with requirements for use of Housing Set Aside Funds or face the untenable prospect of severe restrictions on exercising its normal authority. The restrictions would prohibit the Agency from encumbering any additional funds or spending any monies from any source – except that it may pay certain specified obligations, if any, that were incurred prior to three years from the date the monies became excess surplus and an amount for Agency operations and administration that

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may not exceed 75 percent of the amount spent for these purposes the preceding year. This prohibition continues until the Agency has spent or encumbered the excess surplus plus an amount equal to 50 percent of the excess surplus that remains at the end of the three-year period.⁶

ANALYSIS

Comprehensive Housing Strategy (CHS)

The Comprehensive Housing Strategy (CHS) is proposed to allocate Housing Set Aside Funds to meet the requirements of RHNA and Redevelopment Law. The strategy is based upon the concept of providing low density, smaller, scattered sites, and mixed income housing developments, rather than concentrating affordable units in fewer high density projects which are likely to be resisted by adjacent residents. With RHNA providing a target number for Agency assisted and non-assisted units, staff identified sites of affordable for sale and rental housing over the 7 ½ year planning cycle. Prototypical affordable projects were identified and in some cases preliminary site plans were prepared. These prototypical projects were then priced using industry standard construction cost estimating techniques⁷. The projected cost for meeting the total required housing production program was calculated and a funding strategy was developed to accommodate the housing demand utilizing Agency Set Aside Housing Funds and/or lending from private institutions, and also non-profit sector, County, State and Federal funding sources. An implementation program was then developed for each program year. The Strategy utilizes all Housing Set Aside Funds by the end of the fourth program year. The funding allocations are described on Attachment Nos. 3, (Program Funding Part I and Part II) and 4, (Housing Production Projections). Since the City's housing needs far exceed the Agency's resources, it would be necessary to leverage Agency funds with bond financing in order to cover the program gap for affordable housing development to accommodate the entire RHNA. This alternate strategy is described in the Funding section below.

The strategy also relies on State Density Bonus law (SB1818) to meet RHNA targets using the low density, scattered site, mixed income housing approach. The law states that governmental entities shall grant a density bonus of 25% when the applicant for housing development agrees to construct twenty percent (20%) of the total units of a housing development for lower income households or ten percent (10%) of the total units for very low income households. Additionally, condominium (for sale) units are also subject to the twenty percent (20%) density bonus above the total dwelling units permitted in a project made affordable for

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persons and families of moderate income (Section 65915 – Government Code, Planning and Land Use⁸).

Because RHNA emphasizes addressing the special housing needs of a community such as needs of the elderly and disabled, the strategy incorporates these populations in the prototypical affordable housing projects.

The Housing Division has surveyed the city to identify blighted, nuisance and underutilized sites for affordable housing development. From this investigation, over eighty (80) sites have been identified. These sites were organized into four (4) tiers for new construction which included:

- 1.) Agency owned sites suitable for residential and mixed used development;
- 2.) Small lot development;
- 3.) Medium lot development; and
- 4.) Transit oriented development (TOD).

Included with the four (4) tiers were also sites designated for preservation or rehabilitation projects. Thus through the redevelopment of Agency owned sites, small to medium sized new construction projects, TOD, preservation and rehabilitation, the requirements under RHNA and State Housing and Redevelopment Law will be addressed.

Based upon RHNA requirements, the City must annually develop approximately 17 units of very low income housing, 10 units of low income housing and 11 units of moderate income housing.⁹ Attachment No. 4 (Housing Production Projections) indicates how the City achieves this target.

These affordable housing goals are proposed to be met through the following four broad objectives:

- To assess the key housing needs and funding requirements facing Culver City over the 7 ½ year planning cycle.
- To identify three (3) priority potential affordable housing sites that can be developed over the first year of the planning cycle, that addresses affordable housing needs, eliminating blight and nuisance, protecting stable single-family residential neighborhoods and maintaining Culver City's "small-town feel".
- To provide realistic housing initiatives that best address the City's unmet housing needs consistent with the goals and objectives of the Housing

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Element over the 7 ½ year planning cycle with Agency owned, small/medium lot development, TOD developments, building preservation and rehabilitation.

- To effectively allocate the Agency's Housing Set Aside Funds consistent with State law to meet the City's housing needs.

Site Evaluation Process

The Housing Division undertook a detailed site evaluation of properties for affordable housing development and over eighty (80) locations were identified. Community Development Department staff from Building Safety, Housing, Planning and Redevelopment Divisions then collaborated in evaluating the sites using six (6) criteria: *Feasibility, Implementation, Timing, Neighborhood Impact, Economic Benefit and Community Impact*.

Each factor was weighted on a scale of one (1) to five (5) with a score of five representing the best housing opportunities. Thus, for example, if a site is near transit and open space, eliminates nuisance and blight, can be implemented quickly and promotes economic improvements while providing affordable housing it was scored more highly than a project that satisfied fewer of these criteria. Please see Attachment No. 5 (Housing Priority Projects).

The list of eighty (80) sites was narrowed to ten (10) potential sites based upon the consideration of the criteria. The selection process was further refined to identify three (3) sites for first and second years of the CHS program. Detailed below are the site selection criteria:

- *Financial Feasibility* – The project is cost effective and meets financial model criteria.
- *Implementation* – The project is suitable for the area without rezoning and may more quickly move through the entitlement process with fewer construction constraints.
- *Timing* – The project can be accomplished in an approximate 2 year timeframe.
- *Neighborhood Impact* – The project makes sense for the neighborhood because it is compatible in terms of density, housing type, parking, mix of incomes, and impact on traffic.
- *Economic Benefit* – The project increases the tax base and solves other fiscal needs of the City.

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- Community Impact – The project site is near transit, creates open space, promotes sustainability goals, removes blight and nuisance and substantially improves the appearance of the community.

The Top Three

Based on the above criteria, the following three sites were selected as the top priority for the first year of programming:

<i>Priority</i>	<i>Location</i>	<i>Initiative</i>	<i>Disposition</i>	<i>Affordability</i>
1	Globe	Agency Owned Medium	12 Town Homes Ownership	8-Mod 4-Market
2	Lafayette	Agency Owned Small	6 Town Homes Ownership	2-Very Low 2-Low 2-Mod
2	West Washington Blvd.	Agency Owned Medium	25 Multi-Family Rental Mixed Use	5-Low 10-Mod 10-Market

Since the Agency may at some time become involved in real property negotiations related to the priority sites, the addresses have been redacted from the priority housing site list. These priority sites will be reviewed by the Agency in closed session and upon completion of real property negotiations will be presented during the Agency's open session hearing on the Housing Strategy.

This system for selecting sites can be updated as necessary for each year of programming, allowing the substitution of new sites in the event that any become unavailable for development.

The Housing Initiatives are guided by the following criteria:

Agency Owned - Housing Division staff first looked at land owned by the Agency that was suitable for residential or mixed use development with an affordability component. Utilizing Agency owned sites helps ensure project feasibility because there is no risk related to property acquisition and because it helps expedite the development process.

Small Lot Development – The general approach will be to first consider small projects in RMD zoned areas on lots of approximately 5,000 square feet. Lots of this size and zoned RMD can develop with up to four (4) units and possibly six (6) units if a Density Bonus is proposed as part of the project. The type of product that will be created through Small Lot Development is four-six (4-6) unit

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condominiums, or four-plexes. Such development addresses the goal of supporting a socially and economically diverse community with mixed-income, workforce housing. Thus, in a six (6) unit development, two (2) units would assist very low or low income households and the remaining units would be either moderate income or market-rate. These types of projects are most feasible when they are adjacent in order to increase construction efficiencies.

Medium and Larger Site Development – Of the eighty (80) potential sites for affordable housing development, several can accommodate from twenty (20) to thirty (30) affordable units. Staff will review the feasibility of these larger projects based on the following criteria:

- 1.) The project is not adjacent to single family neighborhoods (in an effort to protect R-1 neighborhoods);
- 2.) The development is located near transit;
- 3.) The project is located near amenities such as shopping and employment centers;
- 4.) The development is buffered from Culver City neighborhoods and thus presents limited impact upon Culver City; and
- 5.) The project is adjacent to high density development where it will fit with the character of the surrounding housing density. Additionally, such projects must promote the goals of sustainability, incorporating LEED Certification and green building practices.

Transit Oriented Development (TOD) – Only seventeen percent of Culver City residents work within the city and in general, an average household spends nineteen percent of its income on transportation costs. In auto-dependent neighborhoods, households spend twenty-five percent, and households with good access to transit spend just nine percent.¹⁰ While investigating potential housing sites, the Housing Division identified sites that provide the opportunity to provide housing closer to retail and commercial centers and to public transit. These sites include locations adjacent to the Culver City Metropolitan Transit Authority (MTA) Bus Lines and the Expo Light Rail.

Preservation – Preservation is defined as “paint-up/fix-up” of existing single- and multiple-family units to address blight and deferred maintenance. According to data collected from the 2000 Census, sixty-eight percent of the owner-occupied housing units and 66 percent of the rental units in Culver City were constructed prior to 1970. From this data, there may be a greater need for preservation of housing units within the city. Preservation of the existing housing stock is a good method to avoid the displacement of residents and maintain economic and social diversity of the community. Preservation is also a more cost-effective way to

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provide affordable housing than building new residential units, given the cost of land, construction costs and the difficulties of securing financing.

Since 1992, the Housing Division has successfully implemented a Neighborhood Preservation Program (NPP) assisting approximately one hundred units per year. Through this program, 784 single family homes and 771 multiple-family units have been preserved. The Housing Division will continue to provide this assistance and is currently working with a cost estimator to refine costs of new construction and building rehabilitation. This information will be used to update the grant amounts offered under NPP.

Additionally, with recent approval of the Solar Photovoltaic Ordinance, the Housing and Building Divisions will work to provide grants for projects that have a low/moderate income component and include other sustainable features such as higher efficiency windows and insulation. This grant is proposed to be offered as a rebate where property owners/developers will be reimbursed for the cost of “greening” their affordable units and will be presented to the Agency as a separate program for consideration over the next fiscal year.

Rehabilitation – Under Redevelopment Law (Health and Safety Code Section 33413(b)(2)(A)(iv)) “rehabilitation” is defined as rehabilitation, the value of which constitutes twenty-five percent of the after rehabilitation value of the dwelling, inclusive of the land value. To count these units toward the jurisdiction’s affordable housing requirement the Agency must record a covenant or restriction, which runs with the land, for each parcel or housing unit subject to these restrictions. For rental units, the covenant is fifty-five years and for owner-occupied units the covenant is forty-five years. These income and affordability restrictions were increased as part of the 2001 Legislative session. Prior to this change, covenants were ten years for owner occupied units and fifteen for renter occupied units.

In a strong real estate market where property owners are seeing significant appreciation and low interest rates are available for major rehabilitation, property owners are not likely to accept funds from the Housing Division to undertake rehabilitation because of the current covenant restrictions. Based on these realities and the need to encourage greater property owner participation, the Housing Division will seek ten (10) to fifteen (15) year restrictive covenants. However, the requirement for covenants stipulating the continued long-term maintenance of the affordable units means that most will not qualify under Redevelopment Law as “affordable units” because they will not meet the aforementioned income and affordability restrictions as prescribed by Redevelopments Law of fifty-five (55) years for rental units and forty-five (45) for ownership units.

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Other Cities Use of Housing Set Aside Funds

The Housing Division examined several cities on the Westside and in Los Angeles County to determine their approach to affordable housing production. The cities examined are: Torrance, Pasadena, Monrovia, West Hollywood Santa Monica, Beverly Hills, El Segundo, Compton and Inglewood. Of these cities, two do not have redevelopment agencies (Beverly Hill and El Segundo). Three have enacted Inclusionary Housing Ordinances (Pasadena, Santa Monica and West Hollywood) that require a specified percentage of all new residential construction to provide an affordable housing component. Five of these cities are Entitlement Cities and receive Federal HOME, CDBG, Housing for Persons with AIDS (HOPWA), and Shelter Plus Care (homeless) dollars. In surveying these cities, it was noted that the general approach for affordable housing production is to use a financial layering mechanism with various funding sources such as inclusionary ordinances, HOME, and CDBG in concert with Housing Set Aside Funds.

- **Torrance** - Mixed use/mixed income ownership condominium developments that are funded through General Fund and conventional bank financing
- **Pasadena** – Utilizes Housing Set Aside Funds, Inclusionary Housing Ordinance, HOME, CDBG, and New Market Tax Credits to facilitate the production of very low to low rental housing and moderate ownership projects. Housing Set Aside also used for historic homes acquisition and rehabilitation, first time home buyer program and owner-occupied and rental rehabilitation programs.
- **Monrovia** – Mixed use/mixed income ownership condominium developments that are entirely funded with Housing Set Aside Funds
- **El Segundo** – Does not have a Redevelopment Agency
- **Beverly Hills** - Does not have a Redevelopment Agency, but has provided funding to West Hollywood for the production of affordable housing
- **West Hollywood** – Through a combination of Housing Set Aside Funds, HOME, CDBG, MHP, HOPWA and Inclusionary Housing Ordinance, they created affordable rental housing units for seniors, disabled, families, and HIV/AIDS
- **Santa Monica** – New construction of low to moderate affordable units for seniors, disabled and families through Santa Monica Proposition R for affordable housing (Inclusionary Ordinance), Housing Set Aside, Shelter Plus Care, HOME, and CDBG. With Housing Set Aside Funds, developers are also provided with loans for production.

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- **Compton** – First time home buyer, and single family rehabilitation and ownership through a combination of HOME and Housing Set Aside Fund
- **Inglewood**- New Construction single family and condominiums for up to moderate income, first time home buyer program and senior housing through the use Housing Set Aside Funds and Tax Credits

Culver City differs from the above cities in that it is not an Entitlement City and does not receive Federal HOME, CDBG, HOPWA, and Shelter Plus Care dollars. Culver City does receive a small amount of CDBG funds that are used for human services and infrastructure. In order for Culver City to receive HOME Funds an application would have to be made to the County of Los Angeles through their project specific competitive HOME request for proposal (RFP) process. Culver City relies exclusively on Housing Set Aside for not only housing production but also programs such as single and multi family rehabilitation, fair housing, senior roommate matching, the installation of safety and security devices and rental assistance for up to moderate income households.

The above cities also use tax credit for the production of affordable housing. Tax Credits are discussed in more detail later in this report. Tax credit project require higher density and deeper levels of affordability. Thus Culver City may not want to take this approach since the Council objective is to create mixed income projects with lower density to fit within the character of the City.

Funding Strategy - Housing Set Aside Funds

The City cannot construct 504 affordable units with Agency Set Aside funds alone. Consequently the Strategy provides the option to leverage Agency dollars through bond finance. Attachment No. 6 (Total Estimated Project Costs) details priority affordable housing development costs by project. The total cost of these projects is summarized on Attachment No. 7 (Project Summary Table). This table also identifies the number of affordable units by income category and the total cost by program year. Finally, the funds available by year are shown on Attachment No. 3 (Program Funding Part I and Part II). Comparing the available funds and the project programming by year, there is \$38.5 million that can be contributed by the Agency using Housing Set Aside Funds over the next seven years and approximately \$87.5 million that must be provided by secondary sources. Additionally, \$1.8 million is needed to preserve 350 units, \$1.9 million is needed to rehabilitate forty units, and the remaining funds will be utilized to support the inventory of on-going programs.

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The \$35.8 million in Housing Set Aside Funds will be accumulated over seven (7) fiscal years. From fiscal years (FY) 2008-2011, approximately two million dollars will be available annually for the construction of new affordable housing units. From FY 2011-2015, approximately three million dollars will be earmarked annually to address affordable housing production. Additionally, \$17.8 million in Housing Set Aside Funds have been accumulated in unencumbered funds. These monies will be equally divided over the next seven fiscal years at \$2.2 million a year. Thus, a total of \$35.8 million will be generated that can be used for affordable housing production. Please see attachment No. 3 (Program Funding Part I and Part II)

.The Agency may elect to spread funding and expenditures over seven years through bond finance and other secondary sources or it can utilize the current \$17.8 million available in the Set Aside fund to produce three affordable housing projects, leaving the market and the programs enumerated in the Housing Element to address housing need.

Supplemental Funding Sources

As stated above, the required funding far exceeds the funds available through Housing Set Aside for the production of new affordable units. The funding gap is \$87.5 million. Staff has identified alternative funding sources to supplement the Housing Set Aside Funds. Please see Attachment No. 8. These sources range from HOME Partnership Act (HOME) funds provided through the County of Los Angeles to Proposition IC funds through the State of California Housing Community Development Department (HCD) to Tax Exempt Bonds and Low Income Housing Tax Credits (LIHTC).

The funding gap of \$87.5 million requires private lending market resources. Staff met with representatives from Government Banking and the Community Development Banking Divisions of Bank of America (BofA).¹¹ From these meetings three methods of leveraged financing were identified to supplement Housing Set Aside funds were highlighted. They include:

- Tax Exempt Bond
- Low Income Housing Tax Credits (LIHTC)
- Loan Packages

Bonds - The representatives from BofA suggested that a taxable bond could help the Agency secure monies to address the funding gap. Governmental

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entities issue bonds to raise funds through receiving a cash payment at the time of issuance in exchange for the promise to repay the investors who provide the cash over time. Repayment periods range from twenty (20) to forty (40) years or longer. The bond funds would be secured by the annual Housing Set Aside Fund allotment.

According to KMA, based on the Agency's receipt of \$5 million annually in Housing Set Aside, a bond could be secured in the range of \$40 million.

If a bond was secured and combined with the \$17.8 million currently available in Housing Set Aside Funds, there would still be a gap of \$64.8 million to produce all the projects required to meet RHNA.

Furthermore, it is suggested that issuing such a large debt without specific projects would not be in the best interest of the Agency at this time.

Low Income Housing Tax Credits (LIHTC) - LIHTC are allocated by the State on a competitive basis. Federal law requires that the priority be given to projects that serve the lowest income families and restricted to remain affordable for the longest period of time. LIHTC Program (Section 42 of the Internal Revenue Code) was enacted by Congress in 1986 to provide the private market with an incentive to invest in affordable rental housing. Tax credits are awarded to developers of qualified projects and these developers then sell these credits to investors to raise capital (or equity) for the project. This reduces the debt that the developer would otherwise have to borrow. Because the debt is lower, a tax credit project can in turn offer lower, more affordable rents. To be eligible for LIHTC, a project must have occupancy of twenty percent (20%) of the units reserved for households with incomes at or below fifty percent (50%) of area median income (AMI). Or have occupancy of forty percent (40%) of all units reserved for households at or below sixty percent (60%) of AMI. Thus, under the LIHTC Program, the more affordable units in a project, the more tax credits that will be awarded. Additionally, to make a tax credit project "pencil", most developers require that a minimum of fifty units be produced. Thus LIHTC requires higher density to achieve more affordability in a project. Given the City's objectives related to the scale and density of new development it was determined that obtaining LIHTC to defray the cost of development is impractical.

Loan Packages – A potentially feasible method of leveraging funds to alleviate the gap is through loan packages for developers for the production of housing projects. Through the meeting with BofA three (3) types of packages were identified: The first is **Loans to Developers**. This is the most common form of local assistance for rental housing. The developer, either a nonprofit or for-profit company or partnership, obtains tax credit financing for the construction of

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affordable housing. In high-cost areas, it is generally necessary to supplement this financing with a “gap” loan. This loan would be provided by the Agency through the use of Housing Set Aside Funds. This usually takes the form of a subordinate low-interest rate, long-term loan (3% for 55 years is a common structure) payable from excess cash flow of the project. These so-called “cash flow loans” are typically very “soft” because the lender on the first mortgage requires the subordinate lender to “sit still” in the event that the loan is not paid. These loans can range from a few thousand dollars per unit to as much as 10 – 15% of the overall development costs. Especially in the case of new construction, these loans have the additional benefit of generally adding to the supply of housing and improving the neighborhood with new construction. In exchange for these loans, the Agency can require much longer income and affordability restrictions, keeping the affordable units in these projects for the original term of its loan (even if it is repaid).

The second type of loan is **Participating Loans**. In the case where the subordinate loan is substantial, the Agency could negotiate a participating loan, in which it can participate in cash flow and proceeds of sale.

The third is **Loan Guarantees**. Rather than making actual loans, the Agency can pledge payments or create a reserve against a larger loan amount than the loan amount that a lender would agree to based on project revenues. Then as the project generated sufficient revenue, the guarantee could be released over time. This is a particularly cost effective technique for projects that use variable rate debt. Typically, lenders underwrite these projects at interest rates much higher than the actual interest rate because of the variable rate risk. So the project has the cash flow to pay a higher amount of debt, but the owner cannot get the lender to provide a higher loan amount. By guaranteeing the debt, the Agency facilitates the financing of the project, but may never have to actually make a payment. CalPERS uses a similar program to invest in affordable housing, and takes both fees for its guarantee and an equity position in the project

If the above types of loans are utilized to leverage additional funding, they require that each project be analyzed individually on a case by case basis by the City’s financial consultant. The above Loan Packages give the Agency more flexibility and control in determining what types of projects are built in the City. There is less restrictions in terms of project density and the mix of affordability levels.

Additional Supplemental Funding Sources

In addition to the funding methods listed above, staff also investigated the various affordable housing funds available at the County, State and Federal

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levels. In Attachment Eight (Potential Funding Sources), a detailed matrix provides information on the funding sources, total funds available, eligible activity and application process. Where appropriate, staff will pursue these funding sources on a project by project basis. The grant programs listed are competitive. Potential housing projects for seniors and persons with disabilities are included as part of the affordable housing prototypes profiled in the strategy. For the senior housing project, there are funds available from the Department of Housing and Urban Development (HUD) under the HUD 202 Program. The HUD 202 is designed to provide interest-free capital advances to finance the construction of housing projects for persons sixty-two (62) and older and provides rent subsidies for the project to help make them affordable. The capital advance does not have to be repaid as long as the project serves very low income elderly persons for forty (40) years.

Similar to HUD 202, is the HUD 811 Program, which also provides interest-free capital advances to help finance the development of rental housing with supportive services for very low income persons with disabilities. HUD 811 also provides rental subsidy for the projects to help make the rent affordable.

If the affordable housing prototypes which assist the elderly and the disabled are approved to move forward and deemed feasible, staff will pursue the HUD 202 or 811 funds to help assist in supplementing the Housing Set Aside Funds.

It is important to note that the Agency's outstanding repayment obligation to Housing, for the two years of set-aside deferment in 1988 and 1992, is slated to be repaid, by Agency action, after the Agency's existing bonded indebtedness has been repaid in 2025 and not earlier. The obligation will be repaid in current dollars, based on the amount in the deficit increasing annually at a rate equal to the City's annual investment rate. The current balance owed is approximately thirty million dollars.

Implementation

The same collaborative effort used in the production of the Strategy will be applied to project implementation. In the first program year, the Housing and Redevelopment Divisions will work together on property assembly, proposal requests, disposition agreements and project management. During the first year while Housing and Redevelopment are working to implement the first three priority projects, a project manager with background in construction management and affordable housing implementation- will be hired now to manage the three construction projects. Planning and Building Safety Divisions will continue to provide support related to entitlements and construction. The Housing Division will work in several areas to promote other project programs. This work includes:

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- *Outreach/Public Relations*- At its February 2, 2007 meeting, the Agency approved entering into a contract with BIG Imagination, a local public relations firm to help “put a new face” on affordable housing and help the CCHA “tell our story” in terms of our efforts to address the affordable housing needs of our residents. This shall include the development of property owner outreach tool, an outreach tool to the development community informing them of the benefits of developing affordable housing and how we can provide financial assistance, and a one (1) page fact sheet providing an overview of our programs/project.
- *Identifying Stakeholders*- An essential component of Outreach and Public Relations to educate the community about the affordable housing needs of our community, who lives in affordable housing and its impact on the community. Building Safety, Housing, Planning and Redevelopment will begin the process of identifying stakeholders in our community and the region, such as architects, developers, builders, banking institutions, non-profits, housing advocates, community leaders, and other governmental entities so we may dialogue with them on meeting affordable housing needs in our community and soliciting their input to help strengthen the CHS.
- *Conducting Workshops/Roundtable Discussion* on the need for affordable housing and to promote affordable housing projects. After the stakeholders are identified, the CCHA will host a series of workshops and roundtable discussions with our Stakeholders to gather information and support for the CHS. This will involve a series of three (3) meetings. One (1) meeting will be held with the residents to understand their needs and desires regarding housing. The second meeting will be held with local government officials to examine their “best practices” and how they may be suitable for our community. The third meeting will be with the development and architectural community and housing advocates to better understand the housing environment, and what type of product works best in our community.
- *The Art of Housing* – Education plays a key role in the production of affordable housing. The Housing and Redevelopment Divisions will work with Cultural Affairs to produce an installment as part of the “Art of” Series to include “**The Art of Housing**”. Housing developers will be invited to discuss housing development, needs and strategies within the community.
- *Identifying Other Funding Sources* - To meet the demand of addressing the affordable housing needs of the City, funding sources must be diversified. The Housing Set Aside Fund and Section 8 cannot meet the need alone. The Housing Division will continue to investigate other sources of funding to supplement the Housing Set Aside Funds such as, but not limited to, private

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lending institutions, HOME, Proposition 1C, HUD 202, HUD 811 and Multifamily Housing Program (MHP) when it is appropriate and feasible in seeking and leveraging these funds for the various housing projects and programs mentioned above Please see No. 8 Attachment (Potential Funding Sources).

Timeline

The attached timeline for each proposed priority projects is shown on Attachment No. 9. The Timeline indicates that from initiation to completion the three priority project will take approximately two (2) years to complete if they are processed concurrently. Please see Attachment 9 (Project Timeline).

Other Programs

Since 1992, the Housing Division has created 2,539 units of affordable housing and assisted 5,446 persons in accommodating their housing needs. While the CHS is a central part of the City's housing solution, it is also essential to maintain the Division's core programs which include:

- Neighborhood Preservation Program (NPP) provides financial and technical assistance to up-to-moderate income Culver City homeowners to rehabilitate their homes. Through this program, 784 single family homes have been preserved.
- Neighborhood Preservation Rental Rehabilitation Program helps rental property owners maintain the integrity and appearance of their buildings in order to provide affordable rental housing. The multiple-family housing component of NPP has preserved 771 units of housing.
- Section 8 Housing Choice Voucher Rental Assistance Program helps subsidize the rent for very-low income families, the elderly and disabled in Culver City. The CCHA has administered the Section 8 program since 1976. With our current funding of \$2.4 millions we are allotted to assist 384 households.
- Rental Assistance Program (RAP) helps subsidize the rent for low-income working families in Culver City who have difficulty meeting housing costs. The RAP program is budgeted to assist 100 households a year. RAP also has an emergency component where we assist the homeless, persons involuntarily displaced due to government action, and victims of domestic violence.

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- The elderly and disabled are assisted with living in a safe home environment through the Home Secure Program. This program provides for the free installation of safety and security devices. Through the Home Secure Program, since 1998, 424 households have been assisted.
- Through Alternative Living for the Aging, a nonprofit organization, the Housing Division assists with matching senior citizens who wish to share their homes with live-in students, middle aged individuals, or other elderly. With the help of this program 333 roommate matches have been made since 1998.
- The Acquisition and Rehabilitation program eliminates blight and nuisance through the acquisition and/or rehabilitation and installation of professional management of multifamily housing units in an effort to enhance and enrich neighborhoods. The Agency has purchased and is currently rehabilitating a nine (9) unit apartment located on Jackson Avenue.
- The Housing Division has contracted with the Housing Rights Center (HRC) to handle housing discrimination complaints and questions regarding tenant-landlord rights. Since 1998, the HRC has had 2,817 contacts from the residents of Culver City.
- The City encourages tenants and owners of rental property to solve rent increase problems without expensive litigation by requesting mediation services from the Landlord-Tenant Mediation Board.
- Rental Assistance - Recipients can become economically self-sufficient through job training, transportation, life skills training and the use of child-care services provided by the Family Self Sufficiency (FSS) program. This program increases the skills and earning power of Culver City's workforce, contributing to the City's economic foundation. The FSS has graduated thirteen (13) households that are now self sufficient and no longer require welfare assistance.
- Mortgage Assistance – Expanding homeownership to residents of Culver City is an important goal. While homeownership has always been difficult for lower income residents, recent price escalation has also pushed moderate income buyers out of the market. Homeownership still remains a priority as a means to encourage long-term residence, address the needs of Culver City's workforce, and stabilize neighborhoods.

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- Though the provision of New Construction, CCHA assisted with Grandview Palms which is a seventy-five unit assisted living facility for seniors and the disable. The project has twenty-three (23) units restricted for low and moderate income residents. The Agency also purchased six (6) homes situated on seven (7) parcels of land from Caltrans as part of their widening of the 405 freeway. This site is currently being reviewed to determine the best type of development for the site.
- Rehabilitation is a major part of creating affordable units while also revitalizing blighted and nuisance properties. The CCHA is currently assisting with the rehabilitation of the Barman housing to install wheelchair ramps and to upgrade the site to make it more accessible. Additionally, Culver Terrace Mobile Home Park has recently completed extensive rehabilitation of the site for repair and improvements to the site's infrastructure. The CCHA assisted this project with \$1.1 million.
- Affordable and Green – Through, the Solar Initiative, the CCHA will be working with Building Safety to provide grants through our NPP program to projects that have a low/moderate income component to include sustainable features. Having green elements that can be incorporated into affordable housing projects not only shows conscientiousness towards the environment but also cuts energy cost. For the interior, some of the sustainable features will include: low flow toilets, tankless water heaters, FSC certified wood/wood alternatives (cabinets and flooring), natural linoleum (kitchen countertop and flooring), low VOC paint, energy efficient appliances (Energy Star), and CFL Light Bulbs. For the exterior, the sustainable features will include: solar panels (including hot water), double pane windows, cellulous insulation (recycled jeans), native/drought tolerate plants and landscaping, trees (for shading) and placement of windows (for more natural light).
- Mortgage Assistance/Employer Assisted Mortgage Assistance – Expanding homeownership to residents of Culver City is an important goal. While homeownership has always been difficult for lower income residents, recent price escalation has also pushed moderate income buyers out of the market. Homeownership still remains a priority as a means to encourage long-term residence, address the needs of Culver City's workforce, and stabilize neighborhoods. The Housing Division will work with KMA is reevaluate the prior mortgage assistance program to determine if it is feasible in today's market.

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Additionally, the Housing Division is gathering information from cities through the region to evaluate employer assisted mortgage assistance program that assist employees of major companies become homeowners. It may be possible to develop a similar program in Culver City working with local companies such as Sony and Culver Studios to provide the benefit of living near work.

- Code Enforcement – The new Enforcement Services Division of the Community Development Department will work as needed to help preserve affordable housing units through current inspection efforts. The new Division will work with the Housing Division on identifying unsafe housing and developing “work-out” programs with owners on code compliance.

FISCAL ANALYSIS

The beginning available balance in the Low/Moderate Income Housing fund for 2007-08 was approximately \$15.1 million. The projected ending balance for 2007-08 is approximately \$17.8 million. As is mention in this report, if the Low/Moderate Income Housing fund continues to accumulate funds, the fund will eventually reach an excess surplus situation and be forced to either spend or encumber the excess surplus, or risk losing the funds.

This report outlines a number of projects that the Agency may wish to consider over the next ten years. For reference, a preliminary cash flow projection has been included as Attachment 3, Part 1. The cash flow spreads the total remaining projected cost (excluding costs that have already been incurred, such as land purchases) of each project over two years. If the Agency implements the proposed projects that are included in the cash flow, the Low/Moderate Income Housing fund could absorb the cost of the first two tiers of projects (those projects estimated to take place in years 1 through 4). Based on the projected cash flow analysis, the fund would end fiscal year 2012-13 with a negative fund balance. Of the two projects listed for fiscal years 2012-13 and 2013-14, it appears only one or the other could be completed.

Another option, which is also outlined in the body of this report, is to issue bonds to maximize the amount of capital available in the Housing fund. Issuing bonds would provide the Housing fund with a significant amount of capital up front by pledging future Housing tax increment revenues. This approach is typically used to fund the construction of a very large project. Since there is currently no project of that scope being proposed, staff does not recommend this option. However, staff can gather more information if the Agency is interested in issuing bonds for Low/Moderate Income Housing purposes.

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CONCLUSION

The Comprehensive Housing Strategy provides a detailed plan for allocating the City's housing resources to meet housing needs. With Agency approval of the Strategy, staff will prepare a detailed work program for the first program year. The program will be coordinated with the City's Housing Element and the goals of redevelopment. Over the next several months implementation of the first five priority projects should commence in order to address RHNA requirements and ensure compliance with the Agencies Set Aside obligations. Staff recognizes that this is an ambitious program that will continue to evolve as opportunity and market conditions shift.

MOTION

That the Culver Redevelopment Agency discuss and provide input regarding the Comprehensive Housing Strategy and direct staff to proceed with the first year program implementation.

ATTACHMENTS

1. LA County Income Chart
2. Affordability Chart
3. Program Funding Part I and Part II
4. Housing Production Projections
5. Housing Priority Projects
6. Estimated Project Cost
7. Project Summary Chart
8. Potential Funding Sources
9. Project Timeline

NOTES:

1. As expressed in the City's Housing Element Vision:

To maintain and develop quality housing for all income levels.

To support this vision, the Housing Element is built around the following goals:

- *To provide residential neighborhoods that offer current and future residents the qualities of a peaceful, small-town environment.*
- *Provide a variety of housing opportunities that complement and enhance the City's goals for continued economic vitality and prosperity.*

The first goal will be achieved through the following objectives:

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- **Housing Maintenance** - Attain a high-level of housing maintenance to assure the availability of decent housing and to protect the quality neighborhood environment.
- **Housing Coordination** - Balance the provision of housing with the demand for transit, school, parks, and community services

The second goal will be achieved through the following objectives:

- **Housing Supply** – Provide opportunities for developing a variety of new housing types while protecting the character and stability of existing Culver City neighborhoods.
- **Housing Affordability** - Provide a variety of rental and homeownership housing opportunities that are compatible with the incomes of Culver City residents.

Housing Access - Improve access to quality housing for all members of the community by eliminating discrimination, reducing physical constraints, increasing affordability, and supporting access to emergency shelter.

2. Affordable housing historically has been viewed as an issue for the poor, but there is also a shortage of housing that is affordable for firefighters, secretaries, teachers, hospital workers, and other household earning up to moderate income. Currently, at least 4 million U.S. household working full time jobs pay more than half their income for housing, rather than the one-third (1/3) that most financial advisors and the Federal Government recommend allotting for shelter. Or, families find they must move farther away from job centers and endure long commutes in exchange for less expensive housing with greater square footage (source ULI).

In the past 30 years, California's housing prices have steadily outpaced residents' incomes. Housing production hasn't kept up with job and household growth within the State. The location and type of new housing does not meet the needs of the majority of California households. As a result, only one in five households can afford a typical home, overcrowding doubled in the 1990's, and more than three (3) million California households pay more than they can afford for their housing (source - HCD).

3. The Southern California Association of Governments (SCAG) projects considerable population, household and employment growth, which will fuel a demand for new housing. Over the next thirty (30) years, Culver City is projected to grow by less than 0.5 percent annually, increasing by more than 2,650 new residents, 13,000 jobs and 160,000 households. This will create a demand for more than 1,800 new homes, or about 60 new homes each year in Culver City through 2035.
4. Grandview Palms Assisted Living Facility:
 - **Project** – Grandview Palms Assisted Living Facility
 - **Developer** – Grandview Palms, LLC (Jerry Katz)
 - **Project Location** – 4061 Grandview
 - **Total number of affordable units** – Twenty Three (23) (of this number 18 were through density bonus and the remaining 4 were assisted through the use of Housing Set Aside Funds)
 - **Affordability Levels** – Nine (9) Low Income and Fourteen (14) Moderate Income
 - **Agency Assistance** - \$748,283.
5. Under the most onerous case, a judge could order a moratorium on all permits, except permits for affordable housing. This moratorium could last until housing constraints are removed by the City. In essence, the court takes over the operations of the City's Building and Planning Division to ensure that affordable housing can be quickly constructed. These extreme sanctions by the Court or the State have rarely been used.

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6. Section 33334.12 provides that if the Agency does not spend or encumbered the excess surplus funds within three years from the date the funds become excess surplus, the Agency is prohibited from encumbering any additional funds or spending any monies from any source – except that it may pay certain specified obligations, if any, that were incurred prior to three years from the date the monies became excess surplus and an amount for Agency operations and administration that may not exceed 75 percent of the amount spent for these purposes the preceding year. This prohibition continues until the Agency has spent or encumbered the excess surplus that remains at the end of the three-year period.

In other words, agencies can either transfer excess surplus funds within one year of their becoming excess surplus or make a commitment to spend or encumber the funds within an additional two years. If it makes this commitment but does not spend or encumber the funds within the two-year period, the Agency is then prohibited from continuing to exercise its normal authority. If this occurs, it is referred to as the “death penalty” provision.

The “Death Penalty” provision (Health and Safety Code Section 33334.12) prohibits communities to which an Agency has transferred excess surplus funds from disapproving a low- or moderate-income housing project funded by excess surplus funds if the project is consistent with applicable building codes and the land use designation specified in any element of the general plan as it existed on the date the application was deemed complete. A local agency may, however, require compliance with local development standards and policies appropriate to and consistent with meeting the qualified objectives relative to the development of housing, as required in the community’s housing element.

7. A cost estimator was retained to furnish realistic costs for five prototypical housing developments for programming purposes.
8. 25% density bonus is mandated unless a less percentage is elected by the applicant over the otherwise maximum allowable residential density under the applicable zoning ordinance and land use element of the general plan as of the date of application by the applicant (Section 65915 Government Code 2 g (1)).
Affordable housing is developed by both profit and non-profit private developers sometimes in collaboration with local government using a combination of rental income, private funding and government subsidies (Southern California Association of Non-Profit Housing).
9. When the four housing income categories are added together the sum is actually 505 units and not 504 units. SCAG staff has state that the 504 units is the City’s allocation. The discrepancy is attributed to the rounding up or down issues.
10. Source, Center for TOD and Transportation Affordability Index
11. These meetings included the City’s Chief Financial Officer (CFO) and City Controller.
In an attempt to ensure that agencies will spend the monies placed in the housing fund, and not accumulate large surpluses in their housing funds, the legislature enacted a statute that attempts to balance the agency’s need to accumulate funds in order to develop or assist a housing project with the state’s interest to assure that agencies with a properly established housing fund make efforts to develop affordable housing as required by the law.