**City of Culver City, California**

# Agenda Item Report

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| Meeting Date: 02/23/2015 | Item Number: J-1 |
| **JOINT CITY COUNCIL/CULVER CITY HOUSING AUTHORITY AGENDA ITEM: (1) Discussion of the Projected Funding Shortfall for Housing Programs Provided by the City and (2) Provide Direction to the City Manager/Executive Director as Deemed Appropriate.** | |
| Contact Person/Department<br>Tevis Barnes,<br>Sol Blumenfeld | Phone Number: 310-253-5700 |
| Fiscal Impact: Yes [X] No [] | General Fund: Yes [X] No [] |
| Public Hearing: [] Action Item: [X] | Attachments: [X] |
| Commission Action Required: Yes [] No [X] | Date: ________________ |
| Public Notification: | |
| Department Approval:<br>Sol Blumenfeld (03/19/15) | City/Authority Special Counsel Approval:<br>Deborah Rhodes (03/19/15) |
| Chief Financial Officer Approval:<br>Jeff Muir(03/19/15) | City Manager/Executive Director Approval:<br>John M. Nachbar (03/19/15) |

## RECOMMENDATION:

Staff recommends the City Council and Culver City Housing Authority Board (Housing Authority Board) consider additional information regarding the projected shortfall for housing programs provided by the City and direct the City Manager/Executive Director as deemed appropriate.

## BACKGROUND:

At the Regular Meetings of September 22, 2014, the City Council and Housing Authority Board discussed the projected funding shortfall for housing programs provided by the City and Housing Authority (in this report, unless the context provides for a different interpretation, the two will be referred to collectively as “City”). After considering a report from staff and receiving public comment, the City Council/Housing Authority Board provided general direction to the City Manager/Executive Director to review this issue in more detail and to return to the City Council/Housing Authority Board with other options and additional information. This staff report has been prepared in accordance with that direction of the City Council/Housing Authority Board.

## DISCUSSION:

Based upon the public comment received at the September 22, 2014 meetings, it is clear that certain housing related programs offered by the City provide basic support to a number of Culver City residents. In some cases, in lieu of support offered by the Federal or State governments, the City's housing programs provide a safety net to those of very low and low income. Without such support, those residents could face severe hardship, including the potential of becoming homeless. It is with this understanding that staff has further reviewed the City's housing programs.

*Brief History of Culver City's Local Housing Programs*

Culver City's Housing Programs have traditionally been funded from two major sources: The Federal Section 8 Housing Choice Voucher Program (commonly known as "Section 8") and the former Culver City Redevelopment Agency's (former CCRA) Low-Moderate Housing Fund (also known as the "Housing Set-Aside Fund"). The Federal Section 8 program was created pursuant to the Housing and Community Development Act of 1974. The former CCRA was formed in 1971.

Culver City has participated in the Federal Section 8 Program since 1975. In 1990, the former CCRA Board approved the first Agency-funded Supplemental Rental Assistance Program. The former CCRA program was a supplement to the Federal Section 8 Program. At the time of its creation, the former CCRA program was at a cost of $220,000 from the Low-Moderate Housing Fund and was to assist up to 40 households.

*Other Westside Cities' Practices*

To provide a general comparison with the practices of other cities, staff also reviewed the practices of other Westside cities and of the City's labor market comparable cities. Culver City is the only city (of the 15 labor market cities) to provide a locally funded Rental Assistance Program (and Homeless Rental Assistance Program). The City pursued implementing housing programs in lieu of constructing affordable housing units. In 2008, the City and former RDA approved a Comprehensive Housing Strategy to allocate Low Moderate Income Housing Funds to construct affordable housing on smaller, scatter site mixed income projects and commence implementing it. (See discussion below).

*Culver City's Housing Programs*

As referenced in the September 22, 2014 staff report, Culver City currently provides the following Housing Programs (in order of funding):

*Direct Assistance Programs – The following programs provide direct payments or other direct assistance to homeless and/or low income residents.*

- **Section 8 Program:** This Federally funded program provides rental assistance payments to qualified low-income residents. For Fiscal Year 2014/2015, the budgeted funding is $1.8 million and allows assistance for approximately 139 households.

- **Rental Assistance Program:** This locally funded program supplements the Federal Section 8 Program. For Fiscal Year 2014/2015, the budgeted funding is $648,290 and allows assistance for an additional 57 households.

- **Homeless Rental Assistance Program:** This locally funded program was created in Fiscal Year 2013/2014 to support families transitioning from Upward Bound House's Emergency Family Shelter Program. For Fiscal Year 2014/2015, the budgeted funding is $150,000 and allows assistance for formerly homeless families.

- **Homeless Outreach Program:** This locally funded program is administered via a contract with Saint Joseph's Center and assists homeless persons in Culver City through providing referrals to services provided by other governmental and non-governmental agencies, emergency hotel/motel vouchers, and bus tokens. For Fiscal Year 2014/2015, the budgeted funding is $128,191.

Note: On December 8, 2014, the Housing Authority Board approved a contract with Upward Bound House to "perform case management and homeless outreach to Culver City homeless families in an amount not-to-exceed $130,000 for Calendar Year (CY) 2015."

*Indirect Assistance Programs – The following programs provide support or monitoring of low income housing units and support to the City's Landlord/Tenant Mediation Board and Committee on Homelessness.*

- **Implementation of the Comprehensive Housing Strategy (Including Development of the Globe Site):** In 2008, the City Council and former CCRA Board approved a Comprehensive Housing Strategy (CHS) to expend Low-Moderate Income Housing Funds (both the existing balance and funds to be repaid in the future from the former CCRA's unrestricted tax increment funds). The CHS includes Tilden Terrace, Culver Villas and the development of 10 affordable ownership townhomes on Globe Avenue. With the dissolution of redevelopment agencies, those funds are no longer available, although the Housing Authority took title to the Globe Avenue property, which can be used for the project.

- **Covenant Monitoring:** Since 1990, 469 affordable housing units, 81 mobile home units, and 70 Mortgage Assistance Program units have been placed in the City's low/moderate income housing stock using funding from the former CCRA's Low-Moderate Income Housing Fund. The income and rent restrictive covenants are monitored throughout the fiscal year. The covenants run for up to 55 years and apply to all new affordable housing units sponsored directly by the Housing Authority or privately developed affordable housing supported by density bonus incentives.

- **Real Property Management:** The Housing Authority owns and manages (via a contract with Harris Property Management) 9 units of affordable housing on Jackson Avenue. Additionally, staff monitors the lease agreement with Homeownership Made Easy for Authority-owned property.

- **Staff Support to the Landlord/Tenant Mediation Board and Committee on Homelessness:** Housing Division provides staff support to these two City Council appointed bodies.

- **Fair Housing Referrals:** Provides referrals to the Housing Rights Center.

- **Annual Single Audit:** Housing Division staff works cooperatively with Finance Department staff to address the annual single audit of the Federal Funds administered by the Housing Authority.

*Current State of Available Funding*

The Housing Division of the Community Development Department is comprised of two distinct sources of funding. The Housing Division manages the Section 8 rental assistance program (federally funded and accounted for in a separate fund), and the Culver City Housing Authority which basically includes the activities of the former Low/Moderate Income Housing Fund (LMIHF) such as the locally-funded Rental Assistance Program, homeless services/homeless rental assistance, and a contract for administration of the mortgage assistance program. The Section 8 program does have ongoing revenue associated with it, although administration dollars are very limited. All other administrative expenses for the Housing Division are paid with the remaining balance from the housing assets that transferred from the former CCRA to the Housing Authority.

**Federal Funding:** In Fiscal Year 2014/2015, the Housing Authority has budgeted $1.8 million in revenues for the Section 8 Program. While the shift of the majority in the United States Senate would seem to decrease chances of any significant increase in funding received for this program, staff does not anticipate any significant reductions in funding for or an outright repeal of the Housing and Community Development Act of 1974.

**Fund Balance of Remaining Former CCRA Housing Funds:** The City Council Adopted Budget for Fiscal Year 2014/2015 includes the following forecasts for housing program related funds:

| | Section 8 Housing Fund | Housing Authority (Former LMIHF) |
|---|---|---|
| Beginning Cash Balance | 1,580,697 | 1,770,466 |
| Revenues | 1,827,220 | 56,900 |
| Expenditures | 1,987,423 | 1,483,659 |
| Ending Cash Balance | 1,420,494 | 343,707* |
| *This estimated Ending Cash Balance represents approximately 3 months of operating expenditures. | | |

Historically, the management and operation of the Section 8 Program (Org 42650510) has been significantly subsidized by the LMIHF, to the extent there was overlap with former CCRA housing programs. The amount available for administration from the Section 8 Program would fund 1.5 FTE staff members to handle all Section 8 activities (please see the City Council Adopted Budget for Fiscal Year 2014/2015 - Page 309). Currently, one Housing Assistant and 0.5 of the Administrative Secretary positions are paid from the Section 8 Fund. All other staffing costs are paid through a reimbursement of the General Fund from the Housing Authority. The City does not allocate overhead costs to the Housing Programs, which means the General Fund also subsidizes the Housing Programs indirectly).

As referenced at the September 22, 2014 meetings, barring a major change in Federal policy, Federal funding for the Section 8 Program is forecast to remain stable in future fiscal years. With respect to State policy, with few exceptions (as discussed later in this report), despite the City Council's efforts to inform the City's elected representatives in the State Assembly and State Senate, currently there seems little interest in Sacramento to provide a replacement for the local funding lost when the State dissolved redevelopment agencies statewide in February, 2012.

*Repayment of Loans from the LMIHF*

Pursuant to various pieces of State Legislation, the former CCRA deferred deposits into the LMIHF in certain years and borrowed funds from the LMIHF to pay the State millions of dollars in Educational Revenue Augmentation Funds (ERAF) – in essence, a State grab of money from former redevelopment agencies used to balance the State of California's budget in prior years). Such State Legislation included the provision for repayment of such deferrals and loans over time from former Tax Increment funds and the potential for repayment survived the dissolution of redevelopment agencies, but with severe limits on annual payments. It should be noted that the Governor's Budget Proposals recently released in Sacramento include provisions that, if enacted, would further severely limit and/or eliminate the repayment requirements for housing deferrals (ERAF/SERAF).

Because of these loans, the Culver City Housing Authority is owed a significant sum from the Successor Agency. However, the formula imposed by the Redevelopment Agency Dissolution Act makes it unlikely the Housing Authority will see any of that money for many years, if ever. Additionally, as referenced above, the Governor has proposed further clean-up language to the Dissolution Act for the upcoming budget that would significantly limit/eliminate repayment of these loans and deferrals. Due to the unlikely prospect of receiving these repayments, staff does not recommend using the anticipation of receipt as a reliable basis for funding current Housing Programs.

*New Sources of Funding*

There are few sources of reliable, ongoing funding for administrative costs, including costs for staff support. The great majority of the few new funding sources are for the creation of affordable housing. While an important goal, it is difficult to create new affordable housing if there are insufficient staff resources to manage the funding programs made available through new legislation.

*Assembly Bill 471*

As mentioned in the September 22, 2014 staff report, Assembly Bill 471 (AB 471) was signed by the Governor on February 14, 2014. AB 471 made changes to existing provisions of the California Government Code and California Health and Safety Code. One of the changes made to the Health and Safety Code provides that, beginning on July 1, 2014, housing entities (including, in staff's opinion, the Culver City Housing Authority) be allocated an amount of up to 1 percent of the property tax allocated to the Redevelopment Obligation Retirement Fund on behalf of the successor agency for each applicable fiscal year, but not less than one hundred fifty thousand dollars ($150,000) per fiscal year as the "housing entity administrative cost allowance." While this would not provide direct new dollars for housing programs, it could offset General Fund dollars currently used for this purpose (making those dollars available for other purposes, including affordable housing).

The State Department of Finance has been disallowing payment of the housing entity administrative cost allowance, arguing such funds were intended for distribution to county housing authorities only. The Culver City Housing Authority has joined other Housing Authorities in preparing a challenge to the State DOF in state court. To date, none of this funding has been received by the Housing Authority.

*Greenhouse Gas Emissions Cap and Trade Program Funding*

The California Global Warming Solutions Act of 2006 (AB 32) established certain goals to reduce greenhouse gas emissions. As part of the efforts to reduce such emissions, the State has implemented a Cap and Trade Program which provides for an auction based mechanism for the buying/selling of greenhouse gas credits. The State Budget for Fiscal Year 2014/2015 provides $130 million statewide for implementation strategies for sustainable communities required by SB 375 of 2008 and provides an ongoing commitment of 20 percent of future auction proceeds for this program and requires that at least half of the expenditures be allocated for affordable housing projects.

Unfortunately, 20% of $130 million (or $26 million) statewide is a very limited amount of funding. Additionally, to meet statutory deadlines for distribution of the funds, early awards are being allocated on a competitive basis for the creation of new affordable housing as part of a "shovel-ready" project.

***Other Potential Affordable Housing Programs and Funding Sources***

*Local Housing Impact Fee (Linkage Fee)*

As directed by the City Council at the September 22, 2014 meeting, the City Manager has received additional information from qualified consultants related to the Housing Impact Fee/Linkage Fee referenced in the September 22, 2014 staff report.

While the advice provided included significant details, in summary, any proposed Housing Impact Fee would likely operate in a manner similar to the City's Art in Public Places Fee (APPF). The fee could be applied as a per square foot cost on commercial development. As a fee imposed to mitigate the impacts of commercial development on the demand for affordable housing in the City, the funds would need to be applied toward the creation of new affordable housing units. It is also possible that the funds could be used to pay the administrative costs of other programs in the City which create new affordable housing. However, as a development-related fee, this revenue source would be subject to unpredictable fluctuations, and therefore, it would be imprudent to rely on this source of revenue for any ongoing operating expenditures. For these reasons, in case the City Council were to direct the further consideration of a Housing Impact Fee, staff does not recommend applying the revenue generated by this Fee directly to the funding or administration of current programs (other than those which create new affordable housing).

*Mixed Used Development Affordable Housing Incentive Areas (AHIA).*

During the City Council's initial discussion of this subject on September 22, 2014, one Council Member raised the subject of offering some type of density bonus. Following are two concepts related to increased density for the City Council's consideration:

1. Implement incentive zoning that combines the Community Benefit provisions of the Mixed Use Ordinance with the Density Bonus Law (DBL) under SB 1818. Allow base density at 50 units per acre with a Community Benefit to be combined with DBL (up to 35% density bonus) for maximum density threshold of 68 units per acre within designate areas. The density bonus will allow up to 4 additional affordable units on ½ acre sites and up to 8 additional affordable units on 1 acre sites. The added density provides an incentive for affordable housing development that is funded by the housing market.

2. Establish a funding source for administration of the AHIA covenants and analysis of proposed affordable housing projects with a surcharge applied to Real Building Reports (RBR) on sales transactions. The funding nexus is that residential sales at today's higher prices raise the values of surrounding properties and produce higher sales prices overall, which makes housing less affordable, and commercial property sales generate intensified commercial development with a related need for additional property services that are provided by lower income workers who need affordable housing. Additional investigation is needed to determine whether this type of fee would be subject to voter approval. Potential surcharge scenarios for residential property transactions:

| | | |
|---|---|---|
| Assume: | 2,000 | Average home size sq. ft. |
| Assume: | x $0.80 | Surcharge /sq. ft. |
| Subtotal | $ 1,600 | Per sales transaction |
| | x 319 | 2014-2015 Sales transactions |
| Total | $510,400 | Administrative costs from residential RBR |

For commercial property transactions:

| | | |
|---|---|---|
| Assume: | 18,000 | Average floor area commercial property |
| Assume: | x $0.80 | Surcharge /sq. ft. |
| Subtotal | $ 14,400 | Per sales transaction |
| | x 7 | 2014-2015 Sales transactions |
| Total | $100,800 | Administrative costs from commercial RBR’s |

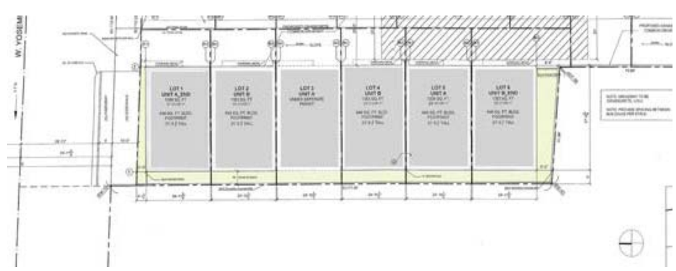
Total Surcharge funding:

$510,400+ $100,800 = $611,200 Affordable housing administration funding.

*Small Lot Zoning Areas*

Establish new small lot zoning for workforce housing in designated areas and require an affordable component for up to 25% of the new units. Encourage medium density incentives on small lots with innovate site planning standards. Under current zoning of one unit per 1,500 square feet of land area, a quarter-acre site produces up to seven units. Amending the Zoning Code to allow smaller infill site development produces up to six, three level units per 1,800 square feet of land area. (See attached diagram). This equates to 24 units per acre which is almost four times the density of single family lot development. The increased density provides a market incentive to create affordable units and the required affordable component can include a fee for administrative costs to cover annual affordable covenant monitoring. If the City Council wishes to pursue this type of program, it would need to be implemented in a way that is consistent with State Density Bonus Law.

Small Lot Development



Site Plan

It should be noted that while increased density provides an incentive for the creation of affordable housing, the City Council has heard increasing concerns from the Community on the subject of “mansionization” and the neighborhood character impacts increased density can have.

*State and Federal Funding Sources*

Staff has also reviewed other potential sources of funding. From time to time, the Federal (and sometimes the State) government provides funding targeted for assistance to veterans. Also, grants may become available from time to time related to homeless and affordable housing services. Often, such sources of funding require the recipient meet certain qualifications, such as being a disadvantaged community or meeting low-moderate income thresholds. With very few exceptions, Culver City does not meet these needs based criteria. Even if it did, such funding is almost always provided on a one-time basis. And, such one-time sources (if available and awarded) would not provide an ongoing, reliable source for administration of housing programs.

*Cost Sharing with RAP Recipients*

Should the City Council determine to fund the RAP with General Funds, the City can determine to change the current subsidy percentage (under the Community Redevelopment Law which governs former CCRA LMIHF dollars, the maximum percentage participants could be asked to provide for their share of rent was 30% of their income). Therefore, the City could determine to reduce costs of the RAP by increasing the share of rental costs paid by program participants.

*Potential RAP Phase-Out Scenarios*

As of today's date, there are 48 participants in the RAP. In the case the City Council wishes to consider a phase-out of the RAP, staff provides the following scenarios:

- One Year Phase-Out: Under a one year phase-out, all participants in the RAP would be provided 12 months' notice (to June 30, 2016) of the discontinuation of the RAP. During this 12 month period, by the end of December 2015, the number of participants in the RAP will decline by 12 non-elderly/non-disabled persons (to a total of 36 participants) as they will have reached their 5 year program participation limit. At that point, the annualized direct costs for the RAP would be $372,000. Also, Upward Bound House (UBH) continues to assist families to transition off of the RAP. If UBH is successful in transitioning all families currently in the UBH Program by the end of December 2015, the number of RAP participants will drop to 32 and the annualized direct costs for the RAP would be $336,000.

- Three Year Phase-Out: Under a three year phase-out, all participants on the RAP would be provided 36 months' notice (to June 30, 2018) of the discontinuation of the RAP. During this 36 month period, it is assumed 2 remaining persons per year will reach their 5 year program participation limit or otherwise become ineligible for the RAP. At the end of the three year period, if all remaining RAP participants continued on the program until its expiration, 28 RAP participants would need to find alternative housing. Estimated Direct General Fund Support Required: $336,000 declining by $20,000 per year until June 30, 2018.

- Indefinite Phase-Out (until all remaining participants are no longer eligible for RAP): This scenario would continue for an indefinite period of time. Continuing the assumption that 2 RAP participants per year would become ineligible for RAP, this scenario would last 16 years. Estimated Direct General Fund Support Required: $336,000 per year declining by $20,000 per year until June 30, 2032. Based upon life expectancy, an indefinite phase-out period could last longer (and require more General Fund resources) than assumed.

Should the City Council determine to implement a phase-out, staff would recommend contracting for the services of a relocation specialist to assist those remaining RAP participants to find alternate housing. Costs associated with such assistance are $60,000 (and would vary depending on the length of the phase-out period).

The City Council could also impact program costs by changing the percentage of rent paid by a RAP participant. For example, if there were 32 RAP participants and program participants paid 50% of their income towards rent, annual costs would be $257,064.

*Recommendation from the Finance Advisory Committee*

As included in the September 22, 2014 report, the Finance Advisory Committee (FAC) recommended the City continue its contract with St. Joseph Center for services to homeless persons. The FAC also recommended that the RAP should not be paid for by the General Fund. If the RAP were phased out, the staffing needs of the Housing Division would be significantly reduced.

***Recommendations from the City Manager***

In summary, based upon the State's dissolution of redevelopment agencies statewide, former CCRA tax increment funds available for the following existing City/Housing Authority Housing programs will soon be completely exhausted:

| **PROGRAM** | **ANNUAL BUDGETED EXPENDITURES** |
|---|---|
| Supplemental Rental Assistance Program | $684,290 |
| Homeless Rental Assistance Program | $150,000 |
| Homeless Outreach Program | $128,191 |
| City Staff | 3.0 FTE |

Staff requests policy guidance from the City Council as to whether any of the expenditures outlined above should now become an obligation of the City's General Fund and/or the degree to which there is City Council interest in establishing any new source(s) of revenue to offset these costs (see additional discussion below).

Absent the establishment of new source(s) of revenue, should the City Council determine to continue the operation of some/all of the current Housing Programs locally, then some type of subsidy from the General Fund would be necessary. Any such subsidy has not been factored-in to the financial forecasts presented to the City Council earlier this year.

Alternatives to local administration of the Housing Programs include: outsourcing administration of some programs on a contract basis or not operating the program locally and having the County administer the City's Section 8 Program.

Given the City Council's recent discussions, it seems the City Council is desirous of holding a separate discussion on the creation of new affordable units. While preparations for a separate discussion on this subject are being made, staff has presented some concepts this evening which, if ultimately enacted, would provide incentives for creation of new affordable units and provide a new revenue stream for related administrative costs. Such options are somewhat of an original concept, and staff is not aware of their existence in any other communities in California (and perhaps the country). If the City Council wishes to pursue any of these options, or other options raised this evening, it may wish to direct staff to examine such options in greater detail to confirm that they can be implemented consistent with state and federal law, and to obtain a more accurate estimate of how much each option would contribute to addressing the City's affordable housing funding needs.

Should the City's Housing programs be reduced as a result of any City Council direction, it would be the intent of the City Manager to adjust staff to match the resultant workload.

**FISCAL ANALYSIS:**

In March of 2011, the former CCRA transferred its assets to the City. This included the Low/Mod Income Housing Fund. Subsequent to that, for tax increment received until RDA dissolution in Feb 2012, 20% continued to be deposited into the Low/Mod fund. Upon dissolution, $1,240,000 of 20% money was deposited into the Housing Authority. Later in the fiscal year, the transfer of remaining Low/Mod assets was approved from the City over to the Housing Authority. An additional $3.403 million was transferred to the Housing Authority. This cash has been paying for all operations since the activation of the Housing Authority in 2012. As of June 30, 2014, there was approximately $1.770 million in remaining cash. This is just slightly more than the budgeted expenditures. Therefore, it is estimated that current resources (other than the Federal Section 8 Program) will be depleted in the summer of 2015.

The Housing Services Division (Org 10150500, Pages 338-339 of Adopted Budget) includes funding for 3 full-time equivalent staff (Page 309 of Adopted Budget). The Housing Program Administrator, 1 Housing Specialist, 0.5 of the Admin Secretary and 0.5 of the Structural Rehab Specialist.

Specific Expenditure Amounts (Based on FY15 Budget):

Section 8 Program

| | |
|---|---|
| Staff: | $ 140,561 |
| Rent Subsidy Payments: | $1,645,620 |
| Housing Services*: | $ 108,163 |
| Other: | $ 93,079 |

Housing Services:

| | |
|---|---|
| Org 10150500/47616100 – Housing Services Staff: | $ 490,390 |
| Org 47650710 – Housing Admin Supply/Services: | $ 95,769 |
| Org 47650720 – Rental Assistance Payments: | $ 650,000 |
| Org 47650725 – Homeless Rental Assistance Program: | $ 130,000 |
| Org 47650730 – Mortgage Assistance Program: | $ 2,500 |
| Org 47650910 – Homeless Services: | $ 115,000 |
| | |
| Total for Housing Authority: | $1,483,659 |

**ATTACHMENTS:**

1. Affordable Housing Incentive Area (AFIA) Map 1
2. Tabulation of Affordable Housing Units in AFIA 2 - 3

**MOTION:**

That the City Council and Housing Authority Board:

Discuss the projected funding shortfall for Housing Programs provided by the City/Housing Authority and provide direction to the City Manager/Executive Director as deemed appropriate.