City of Culver City, California

Agenda Item Report

Meeting Date: 03/08/2010	Item Number: D-2
REDEVELOPMENT AGENCY AGENDA ITEM: Review and Discussion of the Equity Sharing Policy.	
Contact Person/Dept.: Tevis Barnes/Lillian Ikeda/CDD	Phone Number: 310-253-5780
Fiscal Impact: Yes [ ] No [X]	General Fund: Yes [ ] No [X]
Public Hearing: [ ] Action Item: [X]	Attachments: [X]
Commission Action Required: Yes [] No [X]	Date: ________________
Public Notification: Meetings and Agendas – Redevelopment Agency (03/03/2010)	
Department Approval: Sol Blumenfeld (2/12/10)	Agency General Counsel Approval: Murray Kane (2/17/10)
Chief Financial Officer Approval: Mark Scott (by N. Kimball) (03/03/10)	Executive Director Approval: Mark Scott (03/03/10)

RECOMMENDATION:

Staff recommends that the Culver City Redevelopment Agency Board (Board) review and discuss the Equity Sharing Policy pertaining to the removal of long-term affordability covenants for homes purchased utilizing the Mortgage Assistance Program (MAP).

INTRODUCTION:

In 2003, the Board approved an equity sharing option for homes purchased with financial assistance in the form of a 2nd trust deed through the MAP Program. To date, twenty-one (21) MAP participants have exercised the equity sharing option and removed the affordability covenant. As a result, the Agency can no longer count these units as part of the City's affordable housing stock.

BACKGROUND:

The premise of the Agency's Housing Set Aside Fund is to create, preserve and improve the community's supply of affordable housing opportunities for persons/ families of low and moderate income {Health and Safety Section 33334.2 (a)}. Various activities are allowed under Redevelopment Law to fulfill this premise. Providing financial assistance to assist first time homebuyers to purchase a home is an allowed expenditure.

In 1993, the Board created the MAP. The MAP was designed to lend up to twenty percent (20%) of the purchase price or $60,000, whichever was less, in the form of a

2nd trust deed. No payments or interest was required until the property sold or transferred title. In exchange for the financial assistance, a ten (10) year affordability covenant was recorded against the property requiring the property be resold to an up-to-moderate income household.

From 1993 through 2005, the Housing Division assisted 124 first time homebuyers through MAP.

On June 2, 2003, the Board voted to allow an equity sharing option for homes purchased with the assistance of the MAP. This would allow sales of owner-occupied units prior to the expiration of the covenanted period to someone beyond the moderate income limits and would remove the covenant recorded against the property. Proceeds from equity sharing must be deposited back into the Housing Set Aside Fund {Health and Safety Code Section 33413 (c)(1)}.

It should be noted that the written documents entered into between the Agency and the MAP participants do not commit the Agency to an equity sharing program. The equity sharing program was implemented as a policy of the Agency per the 2003 action of the Board mentioned above.

Due to escalating home prices, in December 2005, the MAP was eliminated. After consultation with the Agency's financial analyst, Keyser Marston and Associates, it was determined that the MAP 2nd trust deed would need to be in excess of $200,000 per household to fill the affordability gap.

DISCUSSION:

Redevelopment agencies have the responsibility to assure that when agency monies are spent to make the cost of housing affordable to low-and-moderate income persons/families, the Agency's objectives are met and the public funds are not a "gift". A covenant or restriction must be recorded which runs with the land for each housing unit subject to these restrictions {Health and Safety Code Section 33334.3 (e)}.

Affordable housing units assisted with Housing Set Aside Funds must remain available at an affordable housing cost and are occupied by persons/families of low or moderate income for the longest feasible time. From 1987 to 2000, the covenant restriction for owner-occupied units was fifteen (15) years. The length of affordability was revised from October 2000 to June 2002 and the covenant requirement for ownership occupied housing was ten (10) years. This requirement was revised again in 2001 and the covenant restriction was increased for owner occupied units to fortyfive (45) years subject to being a shorter time period if permitted by a redevelopment agency's equity sharing program.

Since the Agency allowed the equity sharing option, twenty-one (21) MAP units have been lost through equity sharing. The Housing Set Aside Fund realized $772,193 of equity share funds.

There are approximately ninety-three (93) homes eligible for equity sharing. Additionally, five (5) MAP units have foreclosed (covenant restrictions are null and void upon foreclosure) and five (5) MAP units were resold to income eligible households.

Equity sharing is based on the percentage borrowed from the Agency at the time of purchase. An example of equity sharing is depicted below.

$300,000	Original Cost of Property
$ 15,000	Down Payment by Purchaser (5%)
$ 60,000	Assistance from Agency – Second Trust Deed (20%)
$225,000	First Trust Deed Loan
$450,000	Price of Property Sold Now
$225,000	Original First Trust Deed Loan
$ 15,000	Down Payment Contributed by Homeowner
$ 60,000	Assistance from the Agency (20% to be Repaid)
$ 3,000	Escrow Closing Costs (No commissions allowed)
$147,000	Profit
$117,600	80% of the Profit for the Homeowner
$ 29,400	20% of the Profit for the Agency (or percentage borrowed From the Agency)

FISCAL ANALYSIS:

Since 1993, the Agency expended $3.4 million to create 124 units of affordable ownership housing. To date, $772,192 of equity sharing proceeds have been deposited into the Housing Set Aside Fund. A total of twenty-one (21) affordable ownership units have been lost through equity sharing. The estimated average market values of these units is approximately $400,000 per unit. Housing staff estimates the Agency has lost $8.4 million in real property as a result of equity sharing.

CONCLUSION:

Currently, the remaining ninety-three (93) MAP covenanted units can exercise the equity sharing option. This has the potential to result in the Agency losing ninety-two (92) affordable homeownership units valued at today's housing value of $27.9 million ($300,000 per unit).

ATTACHMENTS:

1. MAP Unit Data Sheet
2. Equity Shared Unit Data Sheet
3. Equity Sharing Staff Report (2005)

MOTION:

That the Redevelopment Agency Board:

(1) Discuss the Equity Sharing Policy and direct the Executive Director as deemed appropriate.