City of Culver City, California

Agenda Item Report

Meeting Date: 07/26/10	Item Number: A-1
REDEVELOPMENT AGENCY BOARD AGENDA ITEM: (1) Approval of an Affordable Housing Agreement with 4043 Irving Place Investors, LLC. to Create Nine Moderate and Three Low Income Housing Units at 4043 Irving Place; (2) Approval and Adoption of the Mitigated Negative Declaration and Mitigation Monitoring Program; and (3) Approval of a Related Budget Amendment.	
Contact Person/Dept.: Todd Tipton, Redevelopment Administrator, Tevis Barnes, Housing Division Manager	Phone Number: (310) 253-5783 and 5782
Fiscal Impact: Yes [X] No []	General Fund: Yes [] No [X]
Public Hearing: [] Action Item: [X]	Attachments: [X]
Commission Action Required: Yes [] No [X]	Date: ________________
Public Notification: (USPS) All businesses, occupants and property owners within a 500 foot radius of the site (07/12/10); (E-Mail) Meetings and Agendas – Redevelopment Agency (07/21/10).	
Department Approval: Sol Blumenfeld: (07/14/10)	Agency General Counsel Approval: Murray Kane: (07/22/10)
Chief Financial Officer Approval: Jeff Muir (by N. Kimball) (07/22/10)	Executive Director Approval: P. Lamont Ewell (07/22/10)

RECOMMENDATION:

Staff recommends the Redevelopment Agency Board (Agency Board) approve an Affordable Housing Agreement with 4043 Irving Place Investors, LLC. (Developer) to provide approximately $6 million in funding for the creation of nine moderate and three low income housing units at 4043 Irving Place (Property).

BACKGROUND:

In 2008, the Agency Board adopted a Comprehensive Housing Strategy (CHS) that outlines the allocation of Housing Set Aside Funds to satisfy the requirements of the Regional Housing Needs Assessment (RHNA), State Housing Element Law and California's Community Redevelopment Law. The CHS is based on the concept of providing mixed-income, low-density, scattered site affordable housing developments.

On December 15, 2008, the City Council voted to allow construction of a mixed-use project with 28 residential units, one 1,403 square foot commercial unit and 66 subterranean parking spaces on the Property. The building height was limited to 45 feet. At that same meeting, the City Council, as lead agency, made certain findings and adopted a Mitigated Negative Declaration and Mitigation Monitoring program for the project. The proposed Agreement does not change the approved plans for the project (including, but not limited to, number of units, parking spaces, building height, building envelope, and setbacks).

In early 2010, the Developer requested that the Agency Board consider participating in the development by creating affordable housing units within the project. The Agency Board's participation would restrict 12 of the 28 housing units to income eligible tenants. The remaining 16 units would remain market rate units.

DISCUSSION:

If the Agency Board were to approve 12 affordable units, the units would be comprised of 9 moderate income units (e.g., $67,000 maximum annual income, based upon 2010 limits for a three-person household) and 3 low income units (e.g., $59,650 maximum annual income, based upon 2010 limits for a three-person household). The 9 moderate units would be comprised of 5 one bedroom and 4 two bedroom units and the 3 low income units would be comprised of 1 one bedroom and 2 two bedroom units. In consideration for Agency assistance, the affordable units would be subject to covenants restricting rents to the maximum allowable under Community Redevelopment Law for Los Angeles County based upon limits published by the California Department of Housing and Community Development (HCD).

The total amount of assistance required is approximately $6 million. Assistance is necessary due to the existence of both a Feasibility and Affordability gap. The Affordability Gap (approx. $2.6 million) results due to the property owner discounting the rents for the 12 affordable units and the Feasibility Gap (approx. $3.4 million) results from the property owner foregoing the potential to convert the units to condominiums during the 55-year covenant period. The Agency's financial analyst, Keyser Marston Associates ("KMA"), has reviewed the property owner's proposal and believes the amount of assistance to be accurate.

The proposed deal points are as follows:

1. The units would be secured for 55 years via income and affordability covenants. The covenants will be superior to any third party financing including first trust deeds so that it will not be eliminated in the event of a default.
2. The property would not be transferrable without permission from the Agency Executive Director, based upon the proposed transferee's qualifications, financial capability and experience.
3. The Affordability Gap would be funded in the form of a $2,626,000 grant or forgivable loan and is conditioned on recordation of Affordable Covenants.
4. The Feasibility Gap would be funded in the form of a $3,366,000 loan with a 1.5% interest rate (payable from 25% of the net cash flow generated by the project each year). The Agency loan shall be subordinated to any construction and permanent loans.

5. The loan would be secured by a subordinate trust deed on the property, and other security documents.
6. Agency funds would be deposited in an escrow account and distributed proportionally with the construction loan in accordance with an Intercreditor Agreement.
7. Change orders that alter the predetermined size, layout, appliances, fixtures and finishes of the affordable units will not be permitted during the construction process without Agency approval. The Agency will receive 50 percent of any cost savings that occur during construction, to be applied toward repayment of the Agency Loan.
8. The Agency would receive 50 percent of any revenues generated through the sale or a cash-out refinancing of the Property. The maximum loan-to-value ratio at the time the property is refinanced and net revenues are generated is 75 percent, unless the Agency Executive Director agrees otherwise.
9. The Developer will be required to reimburse the Agency up to $75,000 (subject to cost verification) in the event of agreement termination prior to the closing of construction financing.
10. Construction is scheduled to begin in October 2011 and conclude in April 2013.
11. The Developer will be obligated to give priority in renting the affordable units to three groups, (i) first, persons who have been displaced by activities of the City or the Agency, (ii) second, employees of the City and the Culver City Unified School District, and (iii) third, persons on the Agency's Rental Assistance Program Waiting List. The priority to be given to employees of the City and the School District will promote the public welfare by helping to assure that City and School District employees have adequate opportunities to live in the community they serve.
12. The Agency will monitor the project to assure that the Developer is complying with the rent and income restrictions on the affordable units and with the approved Management Plan and Maintenance Program. The Developer will pay a $5,000 annual monitoring fee to the Agency to help offset the Agency's costs in this regard.

FISCAL ANALYSIS:

The approximate $6 million in proposed financial assistance equates to $499,000 per affordable unit. Assuming an average unit size of 1,200 square feet, this equates to a per square foot cost of $416. This amount is in an affordable unit cost range that is consistent with what Santa Monica ($460 per square foot) expends on affordable units and what the Agency Board will likely spend on the Globe Avenue project ($433 per square foot).

The financial assistance will be funded from the Low/Moderate Income Housing Fund (LMIHF), which has an available appropriable balance of approximately $16 million. The available appropriable balance is the amount available after making the $11 million loan to the Redevelopment Agency to pay their FY 2009-10 SERAF obligation. Should the Agency Board approve the requested financial assistance, the available appropriable balance would decrease to approximately $10 million, then increase incrementally over the next five years as the SERAF loan is repaid to the LMIHF.

ATTACHMENTS:

1. Draft Affordable Housing Agreement
2. Correspondence
3. Mitigated Negative Declaration and Mitigation Monitoring Program

MOTION:

That the Agency Board:

1. Approve and adopt the Mitigated Negative Declaration and Mitigation Monitoring Program for the project, in the form previously adopted by the City Council; and,

2. Approve a Budget Amendment appropriating $6 million from the Low/Moderate Income Housing Fund pursuant to the Affordable Housing Agreement; and,

3. Approve an Affordable Housing Agreement with 4043 Irving Place Investors, LLC. to create nine Moderate and three Low Income affordable housing units at 4043 Irving Place; and,

4. Authorize the Agency General Counsel to review/prepare the necessary documents; and,

5. Authorize the Executive Director to execute such documents on behalf of the Agency.