



City of Culver City

Mike Balkman
Council Chambers
9770 Culver Blvd.
Culver City, CA 90232
(310) 253-5851

Staff Report Details (With Text)

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Title: CC - Approval of a Second Implementation Agreement to the Disposition and Development Agreement and a Subordination Agreement for the Tilden Terrace Project Located at 11042 Washington Boulevard.

Sponsors:

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Attachments:

Date	Ver.	Action By	Action	Result
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CC - Approval of a Second Implementation Agreement to the Disposition and Development Agreement and a Subordination Agreement for the Tilden Terrace Project Located at 11042 Washington Boulevard.

Meeting Date: August 28, 2017

Contact Person/Dept: Todd Tipton/CDD

Phone Number: (310) 253-5783

Fiscal Impact: Yes No

General Fund: Yes No

Public Hearing:

Action Item:

Attachments: Yes No

Commission Action Required: Yes No

Public Notification: (E-Mail) Meetings and Agendas - City Council (08/23/17);

Department Approval: Sol Blumenfeld, Community Development Director (08/22/17)

RECOMMENDATION

Staff recommends the City Council approve a Second Implementation Agreement to the Disposition and Development Agreement (DDA) and a Subordination Agreement for the Tilden Terrace project located at 11042 Washington Boulevard (Property).

BACKGROUND

In 2011, the City and former Culver City Redevelopment Agency (CCRA) entered into a DDA with Tilden Terrace, L.P. (Developer), to construct a mixed use affordable housing project comprised of 33 affordable units and approximately 10,800 square feet of commercial space on the ground floor.

The cost of the project was approximately \$24 million, which included a \$15.2 million contribution from the former CCRA. The \$15.2 million CCRA contribution represented the financial gap between the project costs, and the amount of conventional financing and low income housing tax credits that could be obtained by the Developer. Because the future of the CCRA was unclear at the time, the City was added as a party to the DDA and was made responsible for implementing it.

The CCRA's \$15.2 million contribution was comprised of two loans, one in the amount of \$11.8 million of Housing Set Aside Funds for the housing component of the project and one in the amount of \$3.4 million of other tax increment for the commercial component. The loans each have a 55 year term, are at three percent (3%) simple interest and are to be repaid from residual receipts generated by the housing component and the commercial component, respectively. Residual receipts are revenues that remain after all other operating and fixed debt expenses on approved debt have been paid. At the conclusion of the term, the outstanding principal and interest on each promissory note are due.

At completion of construction, the project was divided into separate air space parcels for the housing component and the commercial component. The housing loan is secured by a deed of trust on the housing parcel and the commercial loan is secured by a separate deed of trust on the commercial parcels.

DISCUSSION

Second Implementation Agreement

The housing component is owned by the Developer. The First Implementation Agreement to the DDA required the commercial component, and related DDA obligations and agreements to be transferred from the Developer to LAHP.

Following the First Implementation Agreement to the DDA, Tilden Terrace, LLC (TTC) was established to be the legal entity to own and operate the commercial component. A Second Implementation Agreement to the DDA is necessary in order to transfer ownership of the commercial component, and related DDA obligations and agreements from LAHP to TTC. LAHP is the sole member of TTC.

Subordination Agreement

It has taken a protracted period to lease up the commercial space. At this time, the tenants include Uzumaki Sushi restaurant, Dr. McComb (orthodontist), IPT Physical Therapy, Zooga Yoga and First Entertainment Credit Union. Staff is currently reviewing a proposal by MillCross Coffee to complete the lease up of the ground level commercial space.

To date, LAHP has spent \$319,822 in tenanting costs and operating expenses for the commercial component. To complete the process it is estimated that an additional \$506,075 in additional costs will be incurred. This brings the total costs to \$825,897. The costs are as follows:

	<u>Costs Incurred Through 12/16/16</u>	<u>Costs Remaining to be Incurred</u>	<u>Total Cost</u>
Tenant Improvements	\$24,000	\$148,170	\$172,170
Owner Improvements	91,162	128,293	219,455
Brokerage Fees	48,700	88,100	136,800
Professional Services	400	76,744	77,144
Property Taxes	155,560	64,768	220,328
Totals	\$319,822	\$506,075	\$825,897

LAHP would like to obtain a loan from the Local Initiatives Support Corporation (LISC) to finance \$500,000 of the costs remaining to be incurred to complete the commercial component. LISC has underwritten the project and determined that sufficient cash flow will be generated to repay the loan over the proposed seven-year amortization period.

The City's commercial loan of \$3.4 million was originally provided because the venture was considered too risky to attract conventional debt financing. Now that the project is nearly fully tenanted, it can support \$500,000 in conventional debt. However, this can only be achieved if the LISC loan is placed in a senior position to the City's commercial loan. The loan subordination will be memorialized in the Second Implementation Agreement and the Subordination Agreement, and will only apply to the commercial component of the project.

Because the use restrictions in the DDA and the City's recorded covenants primarily address the rental and reporting requirements that apply to the affordable housing units, the lender is also requesting subordination of those documents. Staff proposes to release the DDA and Covenants from the commercial component and record a new Agreement Containing Covenants on the commercial component, which would only include those provisions of the DDA and the existing Covenants that apply to the commercial use. The existing Covenants would remain on title for the housing component.

In response to the City approving the Second Implementation Agreement and Subordination Agreement, LAHP has agreed to implement maintenance plans for the commercial and residential components and create a reserve fund for the commercial component in order to ensure the Property is maintained into the future.

Maintenance Plans

When the DDA was approved it included a general maintenance plan for the residential component, but not the commercial component.

LAHP has agreed to implement a detailed maintenance plan for the housing component and a similar plan for the commercial component. Both plans will be memorialized in the Second Implementation Agreement. The plans address the timing for routine maintenance including exterior paint, signage refurbishments, and repair of the roof, building systems, lighting, and parking area among other things.

Reserve Funds

To fund ongoing commercial maintenance efforts, Section 509 of the DDA requires LAHP to deposit funds in an agreed amount into an account to fund ongoing improvements and maintenance. However, the amount of the required deposit was not identified in the DDA. The Second Implementation Agreement will identify the amount and timing of the required deposits.

FISCAL ANALYSIS

The financial analysis prepared for the DDA concluded that the commercial component was unlikely to generate a significant amount of residual receipts. The resulting expectation was that there would not be revenue to support loan payments on the commercial loan. Rather, it was anticipated that the commercial loan will not be fully repaid until the loan reaches maturity at the end of 55 years. It should be noted that even if the loans are prepaid, the use restrictions would remain in place for the full 55-year term. Therefore subordinating the loan as proposed to LISC would have no material impact.

ATTACHMENTS

None.

RECOMMENDED MOTIONS

That the City Council:

1. Approve a Second Implementation Agreement to the DDA and Subordination Agreement for the Tilden Terrace project located at 11042 Washington Boulevard;
2. Authorize the City Attorney to review/prepare the necessary documents;
3. Authorize the City Manager to execute such documents on behalf of the City.