



City of Culver City

Staff Report Details (With Text)

File #: 25-859 **Version:** 1 **Name:**
Type: Minute Order **Status:** Action Item
File created: 2/26/2025 **In control:** City Council Meeting Agenda
On agenda: 3/10/2025 **Final action:**
Title: CC:HA - ACTION ITEM: (1) Consideration of a Request from Community Corporation of Santa Monica (CCSM) for a \$16 Million Residual Receipts Loan for the Jubilo Village Affordable Housing Project; (2) FOUR-FIFTHS VOTE REQUIREMENT: If CCSM's Request is Granted, Approval of a Related Budget Amendment; and (3) Direction to the City Manager as Deemed Appropriate.

Sponsors:

Indexes:

Code sections:

Attachments: 1. 2025-03-10 ATT Scenario 1, 2. 2025-03-10 ATT Scenario 2, 3. 2025-03-10 ATT Scenario 3, 4. 2025-03-10 ATT Scenario 4, 5. 2025-03-10 ATT Scenario 5, 6. 2025-03-10 ATT Scenario 6, 7. 2025-03-10 ATT February 24 Staff Report.pdf, 8. 25-03-10 ATT CCSM Provided Road Map.pdf, 9. 25-03-10 ATT CCHA Vouchers and Budget Utilization.pdf

Date	Ver.	Action By	Action	Result
3/10/2025	1	City Council Meeting Agenda		

CC:HA - ACTION ITEM: (1) Consideration of a Request from Community Corporation of Santa Monica (CCSM) for a \$16 Million Residual Receipts Loan for the Jubilo Village Affordable Housing Project; (2) FOUR-FIFTHS VOTE REQUIREMENT: If CCSM's Request is Granted, Approval of a Related Budget Amendment; and (3) Direction to the City Manager as Deemed Appropriate.

Meeting Date: March 10, 2025

Contact Person/Dept.: Jesse Mays, Assistant City Manager
Tevis Barnes, Housing and Human Services Director

Phone Number: City Manager's Office (310) 253-6000
Housing and Human Services (310) 253-5780

Fiscal Impact: Yes No **General Fund:** Yes No

Attachments: Yes No

Public Notification: (E-Mail) Meetings and Agendas - City Council (03/10/2025)

Department Approval: John Nachbar, (03/06/2025)

RECOMMENDATION

Staff recommends the City Council (1) consider a request from Community Corporation of Santa Monica (CCSM) for a \$16 million residual receipts loan from the City for the Jubilo Village affordable housing project; (2) if CCSM's requested is granted, approve a related budget amendment (**four-fifths vote required**); and (3) provide other direction to the City Manager as deemed appropriate.

BACKGROUND

Jubilo Village is a proposed 100% affordable housing development at 4464 Sepulveda Boulevard that will provide 93 affordable one, two and three-bedroom apartments to at-risk and low-income households ("Project"). The Project will be service-enriched and provide onsite supportive services through a partnership with Upward Bound House, a Culver City local emergency shelter for homeless children and their families. In addition to providing residents with access to resources, the Project will also include onsite property management services. The Project will be developed in partnership with the property owner, Culver Palms United Methodist Church ("the Church"). The Church will build a new sanctuary building on the portion of the site it retains, a project that is funded separately from Jubilo Village. Once completed, Jubilo Village will be the City's second 100% affordable mixed-used project, the first being Tilden Terrace on Washington Boulevard.

DISCUSSION

The City Council discussed this item at the February 24, 2025 City Council meeting. At the request of CCSM, the City Council deferred taking action on this item to the March 10, 2025 City Council Meeting. This report covers new information. The February 24, 2025 City Council Staff Report and its two attachments are included as attachments to this report.

Use of Funds by CCSM

CCSM has requested a residual receipts loan with \$4 million disbursed by March 15, 2025, and the remaining \$12 million due at the time of the permanent loan conversion. For the \$4 million due now, CCSM plans to use the funds as follows:

- \$1.3 million: Developer fee to CCSM
- \$2.7 million: CCSM's predevelopment costs to date, including:
 - \$890,985 in CCSM's unpaid predevelopment construction expenses
 - \$1.75 million repayment of construction loan used by CCSM to pay previous predevelopment construction expenses.

The \$1.3 million is the first installment of CCSM's \$3.5 million development fee. The City's financial consultant, Keyser Marston and Associates (KMA), a real estate advisory firm with over 50 years of experience in public private partnership and affordable housing policy, has advised that the first installment of a developer fee is not typically paid during the predevelopment process. CCSM is still in the predevelopment process and will remain so until after it has secured complete financing for the project, including closing on its construction loan. CCSM cannot close on its construction loan until it receives its final construction cost bid from its builder. If the City gives CCSM a developer fee of \$1.3 million now, and CCSM cannot close its construction loan (for example, if the construction bid is too

high), the City has no guarantee it will get back the developer fee from CCSM. In addition, the City would likely not get back any of its \$4 million loan to CCSM. As such, if City Council would like to provide funding, staff recommends not doing so until after CCSM has secured complete financing for the project and closed on its construction loan.

Tenant Selection

There is no guarantee that the project's tenants will be Culver City residents or come from Upward Bound House or Project Homekey. In 2022, CCSM requested that the City remove a requirement for preference for Culver City residents from the City's loan commitment letter. The City Council approved removal of this requirement, which means that CCSM does not need to give preference to Culver City residents. The reason for the removal was that CCSM was applying for funding (NOFA 28 funding) from the Los Angeles County Development Authority (LACDA). The County's program requirements stated: "Projects that propose or implement a local preference will not be eligible for funding." Ultimately, CCSM was not awarded funding through this opportunity. The City is currently in the process of working with CCSM to apply for a subsequent round of LACDA funding (NOFA 31). NOFA 31 guidelines state that: "projects that propose or implement local preferences will not be eligible for funding." The City may choose to require that CCSM prioritize Culver City residents in order to receive the new loan, but that will limit potential funding sources, which may threaten the project's viability.

Tenants of the federally funded PBV units must be selected using the methodology required by HUD. CCSM must have an affirmative marketing plan for outreach to inform the public about the application and tenant selection process. The marketing plan must cast a very wide net to inform the public of the availability of these units. CCSM will not be able to "cherry pick" applicants in the tenant selection process. Applicants already on CCHA's tenant-based voucher waiting list (which includes persons who do not live in Culver City, and even people who live out of state) must be permitted to place their name on the Jubilo Village waiting list.

Financial Risks

KMA performed an analysis of CCSM's Jubilo Village financial plan. KMA's report concluded the following, which is consistent with staff's findings presented in the February 24 staff report:

"Based on this analysis, the \$20 million City Loan will not be fully repaid within the 55-year loan term. The cash flow analysis is based on the following assumptions:

- The revenues are escalated at 2.0% per year and the expenses are escalated at 3.0% per year. These escalation factors are typical for affordable housing projects and are required to be used by TCAC/HUD.
- The Developer is proposing to finance the project with a permanent loan that has an 18-year repayment term and a 35-year amortization period. Since this loan is not fully amortizing, it will require a balloon payment or refinancing in Year 19. It is unlikely that the project's financials will support a balloon payment. As such, KMA assumes that the loan will continue to be refinanced throughout the City's 55-year loan term, which is typical for affordable housing projects. For illustrative purposes, KMA kept the annual permanent loan debt service payments at a constant amount for the full 55-year term.

- Based on the City's Commitment Letter, the repayments on the City Loan are set at 50% of residual receipts payments. It's important to note the following:
 - If the Developer secures other soft funding sources they will likely require a share of the City's 50% of residual receipts.
 - If the City provides a \$20 million loan to the Project, KMA recommends that the City re-negotiate its residual receipts share. An amount up to 85% of residual receipts would be reasonable. However, an 85% share of residual receipts would still not result in the City Loan being repaid within the 55-year loan term.
- The Project must comply with the "True Debt Test." This requires the Developer to prove that the City Loan can be repaid within the 55-year loan term. Based on this analysis, it may be difficult for the Developer to comply with the True Debt Test.

Based on the assumptions outlined above, KMA estimates the outstanding balance of the City Loan at approximately \$45 million in Year 55."

Construction Cost Risk

The construction costs in CCSM's project proforma have not been updated to reflect two recent events that may significantly increase construction costs: new federal tariffs and the Los Angeles wildfires. On March 4, 2024, President Trump imposed a 25% tariff on imports from Mexico and Canada, and a 20% tariff on imports from China. The tariffs, plus the unpredictable economic climate, could increase building costs. The Los Angeles wildfires in January 2025 destroyed 16,240 homes and commercial properties. The demand for materials and skilled workers is expected to drive up the cost of construction materials and labor. CCSM does not currently have a plan in place for how to fund the increase in costs. The project finances produced to date are just an estimation. Actual project expenses can vary greatly from early estimations. For example, if CCSM's costs increase by 10%, the project's total cost would increase by \$7.8 million. It is likely the City will be asked to cover this cost.

Operational Cost Risk

Operating expenses Jubilo Village are expected to be approximately \$970,698 per year in the first year and are expected to escalate by 3% annually, but this is just an estimate. Should revenues not cover operating expenses, it is likely that the City will be asked to fill the funding gap.

Future of the Housing Choice Voucher Program Risk

There is uncertainty about the future of the Housing and Urban Development Department's (HUD's) Housing Choice Voucher program, through which Jubilo Village may receive 42 project-based vouchers (PBVs), providing rental subsidies to the project worth \$824,976 per year. According to a recent article in Bloomberg CityLab, "voucher users and their housing providers are facing fresh challenges, in the form of proposed workforce cuts at HUD and important discussions on Capitol Hill that stand to slash the number of people who can receive Section 8 assistance." The article goes on to quote the Center on Budget and Policy Priorities, a progressive think tank, calling it the "Most severe funding shortfall in the history of the voucher program." (<https://www.bloomberg.com/news/articles/2025-02-27/us-housing-voucher-program-faces-funding-crunch-as-chaos-engulfs-hud>) Should the HUD PBVs for Jubilo Village not be funded by the federal

government, the project might face an annual revenue shortfall. It is likely that the City would be asked to replace that funding, which would cost the City a minimum of \$824,976 per year.

“Sunk Cost” Risk

The City Council should also carefully consider this project’s major financial risks because they could result in the City making additional payments, potentially for the long-term.

If the City makes an additional \$16 million financial investment in this development, increasing its commitment to \$36 million total, the City may face pressure to remain the financial backstop for this project throughout its lifespan. Should the project’s costs exceed projections, or its revenues fall short of projections, the City may be asked to fund the shortfall in capital costs or ongoing operations. If the City does not provide the funding to fill a shortfall, the City’s \$36 million investment in the project (the City’s “sunk cost”) may evaporate if the project fails. If the project faces financial difficulty in the future, the City Council may find it politically difficult to avoid contributing additional City funding, since the alternative at that point might be the failure of the project.

Tilden Terrace Residual Receipts

In 2011, the Culver City Redevelopment Agency issued the Los Angeles Housing Partnership, an affordable developer, a \$11,805,000 million residential loan for Tilden Terrace, an affordable housing project with 32 affordable units and 10,700 square feet of ground floor retail, office, and community space. The total project cost was \$23,985,000. To date, the project has not generated sufficient residual receipts to generate any loan repayment to the City. Staff’s analysis is that the City will never see a payment on this loan.

Analysis of Suggested Funding Sources

CCSM is applying for funding for Jubilo Village from the following sources:

- California’s Section 811 Project Rental Assistance Program
- Los Angeles County Development Authority NOFA31
- Project Homekey+ Funding

CCSM has suggested that funding received from these grants could replace all or part of the City’s loan. KMA has advised that these programs are all very competitive and the City should not assume that CCSM will be awarded funding through these programs.

Other Funding Suggestions Raised on February 24

Several ideas were proposed at the February 24 City Council meeting for ways the City could fund the \$16 million residual receipts loan to CCSM.

LAHSA Operation of Project Homekey

One suggestion was to turn over operation of the City’s Project Homekey interim and permanent supportive housing site to LAHSA. LAHSA is not a service provider. LAHSA does contract with private and non-profit entities in service of its mission. Because the City was the applicant for Project Homekey Funds for acquisition and construction, the City is responsible for the operations of its facilities. Before beginning construction on Project Homekey, the City sought funding from the County and LAHSA. At that time, the Mayor led a group of city officials to meet with LAHSA. The City

delegation asked if LAHSA would operate Project Homekey. LAHSA declined. The City received limited funding for operation and capital at Project Homekey. In the end, the City selected Exodus, which is also contracted with LAHSA to service other County homeless housing facilities, due to its expertise and experience with similar programs. Now that Culver City is already paying the cost to operate the facility, there is no reason to believe that LAHSA would now want to assume the ongoing financial burden of operating the facility which Culver City is already covering, when they didn't want to pay the cost in the first place.

Measure A Funding

Under Measure H, the City received almost no local return except for funding for the City's original five-year homeless plan and motel vouchers, which are provided on a reimbursement basis. Under the recently approved Measure A, the County is still determining the formula allocation methodology. However, all indications are that the City will only receive approximately \$300,000 - \$400,000 annually in financial support for operating costs related to homeless programs.

Potential Sale of 11029 Washington Property

It has been proposed that the City sell its property at 11029 Washington Boulevard, the former Martin B. Retting gun store, to generate funding. The City Council had previously directed staff to solicit community input to assist the City Council determine the future use of the property. The community input process took place during Fall 2024, and a report on the community's input will return to the City Council at a meeting later this year. The City's purchase price included the value of the site as a legal, non-conforming site for gun sales. Now that its legal non-conforming status has expired, the City could expect to receive less than the \$6.5 million it paid for the store. Based on recent comparable sales, staff estimates that the property could be sold for \$4 million. Of that sales price, \$3 million would need to be refunded to the Successor Agency to the former Culver City Redevelopment Agency, because \$3 million in Successor Agency funds was used to purchase the property. This would leave a net of \$1 million to the City's General Fund.

The City Council may also wish to consider the relative value of 11029 Washington Boulevard as a site for future affordable housing, which could potentially come at no cost to the City depending on the agreement with a developer. This strategy would allow the City to produce up to 20 units at no additional cost to the City.

FISCAL ANALYSIS

The fiscal impact of this agenda item depends on City Council's direction and ranges between zero and \$16 million. As stated earlier, it is likely that cost increases will result in the City being asked for additional funding in the future.

At this time, there are insufficient funds in the City's unassigned General Fund balance (from which any potential loan to CCSM would be paid). There is approximately \$2.3 million remaining in the unassigned balance per the City Council-approved midyear amendments to the Adopted Budget for Fiscal Year 2024-2025. To appropriate \$16 million for a loan to CCSM, Council would have to use funds from one of the General Fund Committed Reserves. Per City Council Policy 5002, in order to move funds into the unassigned reserve balance, the City Council would need to authorize the City Manager to move funds from specific assigned reserves (e.g., Contingency Reserve, Facilities

Planning Reserve, Public Safety Equipment Replacement Reserve), which also requires a budget amendment. Note: funds may not be moved from the Recreational Facilities Reserve without an amendment to City Council Policy 5003.

Any budget amendment requires a **four-fifths vote** of the City Council.

At the request of the City Council, Finance staff has developed six scenarios of the 10-year General Fund Financial Forecast (Attachments 1-6). They are detailed below:

Scenario 1 (Attachment 1): This scenario modifies the forecast document showing the elimination of Wellness Village in Fiscal Year 2028 that was provided with the midyear budget. It includes a \$4 million loan payment to CCSM in the current fiscal year (2025) and a subsequent \$12 million loan payment in Fiscal Year 2027. As is mentioned above, no loan repayments are anticipated for the 55-year term, so none are included in the forecast. The result of this scenario is an additional \$16 million dollar decrease to General Fund reserves and in 2027, the City would no longer be able to maintain a 30% Contingency Reserve.

Scenario 2 (Attachment 2): This scenario has the same inputs at Scenario 1 with the addition of a sale of 11029 Washington Boulevard in Fiscal Year 2028. As mentioned above, the City paid a premium for the property to retire the legal, non-conforming use of the property as a gun store. Based on real estate comps, staff estimates the property could be sold for \$4 million dollars. Of that sale price, \$3 million would need to be refunded to the Successor Agency. Accordingly, Scenario 2 assumes one-time revenue of \$1 million in Fiscal Year 2028. Staff does not project any meaningful impact to the City's General Fund reserves from the sale.

Scenario 3 (Attachment 3): This scenario has the same inputs at Scenario 2 and includes the transfer of responsibility for the Exodus contract for Project Homekey to Los Angeles County in Fiscal Year 2028. This reduction would be approximately \$4.1 million dollars annually. To date, there is no indication that the County would be willing to take on this burden. By removing this ongoing expenditure, this scenario predicts a slight surplus starting in Fiscal Year 2030. Reserves build up enough to fund the 30% Contingency Reserve in Fiscal Year 2032. The deficit returns and reserves cannot fund the 30% Contingency in Fiscal Year 2024 due to the sunset of Measure CC Sales Tax in 2033.

Scenario 4 (Attachment 4): This scenario has the same inputs as Scenario 1 (the \$4 million loan to CCSM in 2025 and \$12 million in 2027) with the addition of a new quarter cent sales tax in Fiscal Year 2026. A sales tax measure would require approval by the City Council to place it on the ballot and subsequent approval by Culver City voters. If a sales tax measure were to pass, it is projected to begin to yield a surplus in Fiscal Year 2028. It should also be noted that the removal of costs for Wellness Village in Fiscal Year 2028 contribute to the shift from deficit to surplus.

Scenario 5 (Attachment 5): This scenario has the same inputs as Scenario 2 with the addition of a new quarter cent sales tax in Fiscal Year 2026. The only real change is the projected \$1 million yielded from the sale of 11029 Washington Boulevard in Fiscal Year 2028.

Scenario 6 (Attachment 6): This scenario has the same inputs as Scenario 3 with the addition of a new quarter cent sales tax in Fiscal Year 2026. The combined impact of new sales tax and the removal of the costs for Exodus at Project Homekey yields a larger surplus starting in Fiscal Year 2028.

While these forecast scenarios are helpful to analyze different actions the City Council may want to pursue, most of the fiscal impacts rely on conjecture. When considered along with the uncertainty about the project's construction and operational costs, and other risks described earlier in this report, which will likely result in CCSM making additional funding requests of the City in the future, none of these scenarios suggests that the City can provide the \$16 million from the General Fund without a significant negative impact to the City's fiscal position.

ATTACHMENTS

1. 2025-03-10 ATT Scenario 1
2. 2025-03-10 ATT Scenario 2
3. 2025-03-10 ATT Scenario 3
4. 2025-03-10 ATT Scenario 4
5. 2025-03-10 ATT Scenario 5
6. 2025-03-10 ATT Scenario 6
7. 2025-03-10 ATT February 24 Staff Report
8. 2025-02-24 ATT CCSM Provided "Road Map"
9. 2025-02-24 ATT CCHA Vouchers and Budget Utilization

MOTION(S)

That the City Council:

1. Consider a request from Community Corporation of Santa Monica (CCSM) for \$16 million residual receipts loan from the City for the Jubilo Village affordable housing project; and
2. If CCSM's request is granted, approve a related budget amendment (**requires a four-fifths vote**); and
3. Provide other direction to the City Manager as deemed appropriate.