ATTACHMENT C

HOME UNDERWRITING & SUBSIDY LAYERING REVIEW

2024 Lemon Avenue

City of Long Beach

Keyser Marston Associates, Inc.

October 14, 2022

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At the City of Long Beach's (City) request, Keyser Marston Associates, Inc. (KMA) prepared a HOME Underwriting & Subsidy Layering Review for the proposed acquisition and rehabilitation of an existing six-unit apartment complex located at 2024 Lemon Avenue (Property). Home Ownership for Personal Empowerment (Developer) proposes to acquire and subsequently rehabilitate the existing units, which will be restricted to very-low income households (Project). The Developer proposes to lease the units to individuals with intellectual and/or developmental disabilities. The City has verified that the Developer is a Community Housing Development Organization (CHDO).

The City plans to provide financial assistance to the Project using HOME Program (HOME) funds that are allocated to the City by the United States Department of Housing and Urban Development (HUD). The HOME funds will be applied towards fulfillment of the HUD requirement that at least 15% of HOME funds must be allocated to approved CHDOs. This analysis is prepared in compliance with the requirements imposed by the HOME Program, and the City's HOME Project Underwriting and Subsidy Layering Review Guidelines.

The KMA analysis includes the following components:

1. An underwriting review to ensure that no more than the necessary amount of HOME funds is invested by the City in order to provide affordable housing. This section also provides an assessment of the reasonableness of the Developer Fee, and the profit anticipated to be generated by the Developer's investment in the Project.
2. An evaluation of the Developer's capacity to develop and operate the Project.
3. A review and summary of the current market demand for the Project.
4. An assessment of other HOME requirements and deadlines, including the financial commitment documentation submitted by the Developer.

I. EXECUTIVE SUMMARY

In addition to the HOME funds being requested from the City, the Developer proposes to utilize a combination of the following sources to complete the Project:

1. A $402,000 conventional mortgage;
2. A $50,000 grant from Granite;
3. A $25,000 grant from the Del Harbor Foundation;
4. $10,000 from fundraising efforts; and
5. A Deferred Developer Fee of $6,000.

The KMA analysis concluded the following:

1. Underwriting Analysis:

   a. The Project costs are estimated at $1.59 million. KMA estimates the available outside funding sources at $493,000, which results in a $1.10 million financial gap. The Developer is requesting that the City provide $1,098,792 in HOME funds to the Project, which is equal to the KMA financial gap estimate. As such, the analysis demonstrates that the proposed $1.10 million in HOME assistance is necessary to provide the proposed affordable housing units.

   b. The Developer has demonstrated the development capacity and fiscal soundness to undertake the Project.

   c. Given that the Project is intended to serve individuals with an Intellectual or Developmental Disability (I/DD), the Developer did not prepare a formal market study. Instead, the Developer will source qualifying resident referrals through the Harbor Regional Center. The Developer has a waitlist with approximately 85 qualified applicants in the Long Beach area. Thus, it can be concluded that there is sufficient demand for the proposed Project. The Developer anticipates completing the Project by May 2023 and leasing up the Project by June 2023. As such, the Project will comply with the HOME requirement to lease-up the Project within six months of completing construction.

2. Other HOME Requirements:

HOME Requirement	Conclusion
HOME Program Deadlines	The Project is estimated to meet the construction commencement, Project completion, and Project lease-up requirements imposed by HOME.
Written Agreement	To be reviewed prior to HOME commitment.
Layering Requirements	The assistance package complies with the HOME layering requirements.
HOME Unit Designation	The Project will comply with the HOME requirements for the number of HOME designated units as well as the number of units restricted to very-low income households. All six units will be HOME-designated units.
Affordability Period	The Project will comply with the affordability period requirements mandated by the HOME Program.
Cost Allocation	All six units in the Project will be designated as HOME units.

Property Standards	The Project will meet the HOME property standards requirements for rehabilitation and on-going property management.
HOME Rents / Utility Allowances	The HOME units will be restricted at the appropriate rents (Low HOME). The owner will pay for all utilities.
Financial Commitments	The funding sources discussed in this Report are sufficient, and timely in availability, to cover the Project costs.

II. PROJECT DESCRIPTION

The proposed scope of development can be described as follows:

1. The Developer proposes to purchase an existing apartment complex consisting of six one-bedroom units.

2. The Developer will restrict the units to very-low income households, and specifically, lease the units to individuals with developmental and/or intellectual disabilities.

3. The proposed scope of rehabilitation assumes a light renovation of the existing units including: replacing vent screens, ensuring egress in case of fire, and roof work. In addition, outdoor community space will be constructed, and a laundry room may be added.

4. Each of the six units in the Project will be restricted as HOME units. 100% of the HOME units, or six units, will be restricted as Low HOME units.

III. HOME INVESTMENT ASSESSMENT

KMA prepared a pro forma analysis of the Project to assist in evaluating the Developer's request for financial assistance from the City. The purpose of the financial gap analysis is to ensure that the level of HOME investment is necessary to provide quality affordable housing that is financially viable.

The analysis is located in Appendix A at the end of this report and is organized as follows:

Table 1:	Estimated Development Costs
Table 2:	Stabilized Net Operating Income
Table 3:	Financial Gap Calculation

A. Estimated Development Costs (Appendix A – Table 1)

The Developer provided a pro forma on September 22, 2022. KMA reviewed the Developer's development cost estimate, and found the assumptions to be reasonable and necessary to complete the proposed Project. The Project costs applied in the analysis are as follows:

Property Assemblage Costs

The total property assemblage costs are estimated at $1.38 million based on the following assumptions:

Property Acquisition Costs

The Developer proposes to acquire the Property for $1.28 million. The Developer provided an appraisal prepared by Real Property Appraisal on September 9, 2022. The appraisal estimates the As-Is Market Value of the Property at $1,290,000, which is approximately equal to the proposed purchase price.

Relocation Costs

Five of the units are currently occupied and the Developer anticipates that these tenants will require permanent relocation. The Developer estimates the relocation costs at $87,500, or $17,500 per occupied unit.[1] However, the Developer has not competed a relocation plan at the time of this analysis. The City should review and approve the proposed relocation plan prior to disbursing any HOME funds to the Project.

Closing Costs

The Developer estimates the closing costs at $13,000, or 1% of the property acquisitions costs.

Direct Costs

The direct cost estimates assume that the Project will not be subject to State of California and/or Federal Davis Bacon prevailing wage requirements. The Developer estimates the building rehabilitation costs at $75,000, or approximately $12,500 per unit.[2]

Developer Fee

The Developer Fee is set at $65,000, which equates to 4% of net development costs (development costs excluding the developer fee amount). This amount complies with the following developer fee guidelines:

[1] KMA assumes the total relocation budget also includes the costs to prepare the relocation plan.
[2] KMA assumes the building rehabilitation line item includes an allowance for contractors' fees and a contingency allowance. A general contractor's contract or 3rd party cost estimate was not provided for review.

1. The developer fee limits imposed by the California Tax Credit Allocation Committee (TCAC) for Tax Credit projects; and

2. The developer fee limits imposed by the Uniform Multifamily Regulations as published by the California Department of Housing and Community Development (HCD) for non-Tax Credit projects.

Financing Costs

The financing costs are estimated at $77,000 based on the following assumptions:

1. The permanent loan origination fees are estimated at 1.37 loan points, or $6,000.

2. The Developer proposes to fund the following capitalized reserves:

    a. The Developer proposes to fund a capitalized operating reserve equal to eight months of operating expenses and debt service payments. This equates to $46,000.

    b. The Project includes a $25,000 capitalized replacement reserve to cover replacement reserve deposits during the first seven years when the Project is anticipated to generate minimal cash flow.

Total Development Costs

KMA estimates the total development costs at $1.59 million, which is approximately equal to the Developer's estimate. As such, KMA concludes that the estimates appear reasonable and necessary to complete the Project. However, the City should review the final general contractor's contract prior to providing HOME funds to the Project.

B. Stabilized Net Operating Income (Appendix A – Table 2)

The City will provide HOME Program funds to the Project. As such, the Project will be subject to HOME Program household income limits and rent standards. All six units must be designated as HOME units. Furthermore, at least two of these units must be designated as Low HOME units; however, the City will designate all six units as Low HOME units.

Estimated Effective Gross Income

The Developer will enter into an operating agreement with the Harbor Regional Center to provide a rental subsidy to the Project. However, KMA was not provided with a copy of the operating agreement. City staff should review and confirm the terms of the operating agreement prior to disbursing HOME funds to the Developer.

Based on the information provided, the Harbor Regional Center will provide a rental subsidy equal to the 2022 Low HOME rent for the six units in the Project. This equates to a maximum rental subsidy of approximately $80,400 in Year 1. However, each tenant will only be required to pay 30% of their income for rent, up to a maximum rent amount that does not exceed the applicable Low HOME rent.

It is likely that each tenant-paid rent amount will be less than the Low HOME rent each year. As such, the Developer estimates the tenant-paid rent at $350 per unit per month, or $25,200 per year.

The Harbor Regional Center will provide a rental subsidy equal to the difference between the total tenant-paid rents and the total Harbor Regional Center operating subsidy amount. Based on tenant-paid rents of $350 per unit per month, the Harbor Regional Center rental subsidy is estimated at $766 per unit per month, or $55,200 per year. In Year 1, this guarantees that the Project will have at least $80,400 in annual gross revenues.[3]

Although the Harbor Regional Center will guarantee $80,400 in annual revenue to the Project, KMA and the Developer included a 15% vacancy and collection allowance for underwriting purposes. Thus, KMA estimates the effective gross income (EGI) at $68,300.

Operating Expenses

The Project's operating expenses are estimated at $41,500 based on the following:

1. The general operating expenses are estimated at $27,400, or $4,500 per unit per year.

2. The property tax payments are estimated at $1,800 per year. KMA assumes that the Developer will apply for the property tax welfare exemption accorded to non-profit housing organizations that own and operate apartment units restricted to households earning no more than 80% of the Area Median Income.

3. The Developer will provide case management and social services to the six tenants. The social service costs are estimated at $12,000 per year, or $2,000 per unit.

4. The Developer will capitalize an initial replacement reserve of $25,000 for potential capital repairs necessary during Years 1-6. Starting in Year 7, when the Project is anticipated to generate greater cash flow, the replacement reserve deposits are set at $2,200 per year, or approximately $367 per unit, for the remainder of the project.

[3] The actual tenant-paid rents will vary from tenant-to-tenant.

Stabilized Net Operating Income

KMA estimates the Project's EGI at $68,300, and the operating expenses are estimated at $41,500. This results in estimated stabilized net operating income (NOI) of $26,800, which is equal to the Developer's estimates.

C. Financial Gap Calculation (Appendix A – Table 3)

The financial gap is estimated by deducting the available outside funding sources from the Project's total development costs. The outside funding sources anticipated to be received by the Project are described in the following sections of this analysis:

Available Outside Funding Sources

<u>Permanent Loan</u>

The Developer intends to obtain a conventional permanent loan based on the following underwriting terms:

1. A 100% debt service coverage ratio;
2. A 4.50% interest rate; and
3. A 25-year amortization period.

The Developer did not provide commitment documentation; however, these are favorable underwriting terms in the current financial marketplace, and as such, they are applied in the KMA analysis. Based on these assumptions, KMA estimates that the Project's NOI can support a $402,000 loan, which is equal to the Developer's estimate.

<u>Granite Grant</u>

The Developer anticipates that Granite will provide a $50,000 grant to the Project. The Developer did not provide any commitment documentation.

<u>Del Harbor Foundation Grant</u>

The Developer anticipates that the Del Harbor Foundation will provide a $25,000 grant to the Project. The Developer did not provide any commitment documentation.

<u>Fundraising</u>

The Developer anticipates providing $10,000 in fundraising dollars to the Project.

<u>Deferred Developer Fee</u>

The Developer proposes to permanently defer $6,000, or approximately 10%, of the Developer Fee.

Total Available Outside Funding Sources

As shown in Table 3, the outside funding sources available to the Project are estimated at $493,000.

Financial Gap Calculation

Based on the assumptions outlined in this analysis, the financial gap is calculated as follows:

Financial Gap Calculation	
Total Development Costs	$1,592,500
(Less) Total Available Funding Sources	(493,000)
Financial Gap	**$1,099,500**

The Developer is requesting approximately $1.10 million in HOME Funds from the City, which is approximately equal to the KMA financial gap estimate. Thus, it can be concluded that the Developer's financial assistance request is warranted by the Project's economics.

IV. CASH FLOW ANALYSIS (APPENDIX B)

KMA conducted a cash flow analysis of the Project to ensure long-term feasibility and to estimate the net present value of the debt service payments to the City.

The following describes the cash flow assumptions:

1. Year 1 is based on the rent and expense assumptions presented on a stabilized analysis (Table 2).

2. Additional revenue and expense assumptions are as follows:

    a. The tenant-paid rents are escalated at 1.5% per year;

    b. Per discussions with the Developer, the Harbor Regional Center rental subsidy is escalated at 3.0% per year per. City staff should verify that these escalations are included in the Harbor Regional Center operating agreement.

    c. The general operating expenses and social service expenses are escalated at 4.0% per year.

    d. The property taxes are estimated at 2.0% per year.

    e. KMA assumes that the Deferred Developer Fee will be repaid in a priority position prior to residual receipts payments.

    f. The annual residual receipts payments will be set as follows:

i. The City HOME Loan will be repaid with 50% of residual receipts; and

ii. The Developer will receive 50% of residual receipts.

g. The City HOME Loan is estimated to generate the following in nominal terms and present value terms, assuming a 6.0% discount rate, as follows:

	Original Loan Amount	Nominal Value of Payments	Present Value of Payments
City HOME Loan	**$1,099,000**	**$110,000**	**$26,000**

3. The cash flow is anticipated to remain positive throughout the term of the HOME Loan.

Therefore, it is concluded that the Project will have a positive cash flow during the HOME affordability period.

V. PROFIT AND RETURNS

The following analyzes the anticipated profit to the Developer/Owner.

Developer Fees	The Developer will receive a reasonable Developer Fee that complies with the developer fee requirements imposed by both TCAC and HCD.
Cash Flow	As proposed, the Project's net cash flow will be split 50%/50% between the City and the Developer.
Equity Appreciation	The equity appreciation is not expected to be significant until the units can be converted to market rate units after the affordability covenant expires.
Identity of Interest Roles	No other related parties are expected to participate in the Project.

In conclusion, the Developer Fee and profit anticipated to be generated by the Developer's investment in the Project are appropriate.

VI. DEVELOPER ASSESSMENT

The following provides an assessment of the experience and the capacity of the Developer to implement the Project. This section also addresses the fiscal soundness of the Developer to meet its financial obligations and risks of the Project.

A. Developer's Financial Capacity

The HOME Program regulations require Participating Jurisdictions to assess the development capacity and fiscal soundness of developers requesting HOME Program assistance. HUD guidance related to this evaluation indicates that a developer's recent, similar, successful experience developing and operating comparable projects may be used to assist in establishing a developer's capacity to undertake a project that is requesting HOME Program assistance.

1. The financial capacity of the Developer is summarized as follows:

    a. The Developer submitted audited financial statements for 2020, which includes information from 2019, that comply with the generally accepted accounting principles in the United States. The Developer also provided unaudited 2021 year-end financial statements.

    b. Together, the audited and unaudited financial statements show that the Developer has sufficient cash-on-hand and financial strength to complete the Project.

2. The Developer's development capacity is demonstrated by the following:

    a. Since 1994, the Developer has established a development/ownership portfolio that includes 98 properties.

    b. The audited financial statements denote that the Developer expended approximately $6 million in Federal funds in 2020.

    c. The audited financial statements include a section related to the Developer's "Internal Control Over Financial Reporting and Other Matters," which denotes that no issues need to be corrected.

    d. The Developer has affirmed that none of their projects have been placed into foreclosure or are at risk of foreclosure.

B. Ability to Perform

HUD guidance related to this evaluation indicates that a developer's recent, similar, successful experience developing and operating comparable projects may be used to assist in establishing a developer's capacity to undertake a project that is requesting HOME Program assistance.

The Developer has developed or rehabilitated numerous similar projects throughout Southern California. The Developer currently operates 98 locations, which contain 150 units of housing and serve 358 people in 13 different cities. The following describes three similar projects that were completed by the Developer in Long Beach:

Clark Avenue

In 2019, the Developer acquired an existing seven-unit apartment complex on Clark Avenue in Long Beach. The Developer rehabilitated the units, which were then rented to special needs households. The Developer utilized City of Long Beach HOME funds, a permanent loan, and grant funds to complete the project.

Curry Street

In 2017, the Developer acquired an existing single family home on Curry Street in Long Beach. The Developer rehabilitated and converted the single family residence into a group home for individuals with developmental disabilities. The Developer utilized City of Long Beach HOME funds, a permanent loan, Harbor Regional Center funds, and Developer equity to complete the project.

Keynote Street

In 2019, the Developer acquired a single-family home that was operating as a 24-hour licensed care facility on Keynote Street in Long Beach. Upon acquisition, the Developer operated the project as a group home for individuals with severe developmental disabilities. The Developer utilized City of Long Beach HOME funds, a permanent loan and Developer equity to complete the project.

C. Fiscal Soundness

The Developer has received substantial support from the Harbor Regional Center and local governments. The ability to obtain this funding requires extensive general partner management experience. Therefore, it is determined that the Developer meets the financial management systems and practices requirement imposed by the HOME Program.

As noted above, the Developer submitted audited financial statements for 2020, inclusive of 2019 operating information, that comply with the generally accepted accounting principles in the United States. The financial statements show that the Developer has significant cash-on-hand and financial strength to complete the Project.

D. Conclusion

The Developer has demonstrated the development capacity and fiscal soundness to undertake the Project.

VII. MARKET ASSESSMENT

Given the small size of the Project, the Developer did not prepare a formal market study. However, the Developer states that they have a waiting list with approximately 85 qualified applicants for supportive housing within the Long Beach market. Thus, it can be concluded that there is sufficient demand for the proposed Project. As such, the Project will meet six-month HOME lease-up requirement.

VIII. HOME REQUIREMENTS

The following summarizes additional HOME requirements.

A. HOME Program Deadlines

Deadline	Regulations	Projections
Acquisition	§92.2 states that acquisition of housing will occur within 6 months of contract date	Fall 2022
Demolition/Construction	§92.2 states that construction/demolition of property is scheduled or reasonably can be expected to start within 12 months of the agreement date.	January 2023
Project Completion	§92.205(e)(2), 92.2 state that the project must be completed within 4 years of the date the funds are committed to the project.	April 2023
Lease-up	§92.252 states that HOME assisted units must be occupied by an eligible tenant within six months following project completion	June 2023

B. Cost Reasonableness

KMA reviewed the Developer's pro forma and supporting documentation provided in September 2022. KMA found the assumptions to be reasonable and necessary to complete the Project. However, the Developer did not provide a general contractor's contract or 3rd party cost estimate to verify the proposed rehabilitation costs. The City should review this information prior to providing HOME funds to the Project.

In addition, KMA recommends that the City continue to review the development budget and contractors' draw requests throughout the construction period. If there are any changes to the scope of development or cost increases experienced by the Project during this timeframe, a third party will be required to review the revised estimates.

C. Property Standards (§92.251)

The Project will be subject to the following property standards, which must be included in the HOME Loan Financing Agreement:

Property Standard	Included in HOME Agreements
State and local codes, ordinances and zoning requirements	☒
Accessibility: ▪ Accessibility requirements of 24 CFR part 8 ▪ Design and construction requirements at 24 CFR 100.205	☒
Disaster Mitigation	Not Applicable
Written cost estimates, construction contracts and construction documents	☒
Construction progress inspections	☒

D. HOME Rents / Utility Allowances

The owner will pay for all utility costs. The tenants' rent payments cannot exceed the applicable 2022 HOME rents for one-bedroom units as follows:

1. Low HOME Rent - $1,116 per unit per month.

2. High HOME Rent - $1,432 per unit per month

E. Financial Commitments

The City will enter into the HOME Loan Financing Agreement to provide $1.10 million in HOME funds to the Project. The Developer did not provide any financial commitment documentation. The City should review the financial commitment documentation prior to committing HOME funds to the Project.

F. Written Agreements

The City must execute a written agreement before committing HOME funds to the Project. The written agreement must capture the Project and financing terms that result from the underwriting process. The following summarizes the proposed financial deal points to be memorialized in the written agreement:

1. The term of the HOME compliance period must be at least fifteen years.

2. All six units will be designated as HOME units. At least two of these units must be designated as Low HOME units.

The HOME Loan terms are as follows:

1. A total of $1.10 million will be disbursed to the Developer for eligible costs related to the acquisition and rehabilitation costs associated with the HOME-assisted units.

2. No interest rate will be applied to the HOME Loan unless the Developer is required to repay all or any portion of the Home Loan amount prior to the end of the loan term. In that case, a 6% simple interest rate will be imposed.

3. The HOME Loan will be due and payable at the earliest of:

    a. At the end of 30 years;

    b. Upon sale of the property; or

    c. In the event of a default.

4. The HOME Loan is secured by a subordinated deed of trust.

5. Net cash flow after operating expenses, deferred developer fee repayment, and debt service payments (Residual Receipts) will be split equally (50% / 50%) between the City and the Developer. The City’s share of Residual Receipts payments will be applied to the outstanding HOME Loan balance.

The written agreement should include the following provisions required by Section 92.504:

Required Provisions	Included in Written Agreement	Section of Written Agreement
Use of HOME Funds	☐	
Affordability	☐	
Project is identified by Address or Legal Description	☐	
Project Requirements	☐	
Property Standards	☐	
Other Federal Requirements	☐	
Affirmative Marketing	☐	
Requests for Disbursement of Funds	☐	
Records & Reports	☐	
Enforcement of the Agreement	☐	
Duration of the Agreement	☐	
Conditions for Religious Organizations	☐	
CHDO Provisions	☐	
Identifies all Parties to the Agreement	☐	
Provides dated signatures for each Party	☐	
Recommended Additional Provisions:		
▪ Description of Project	☐	
▪ Roles & Responsibilities	☐	
▪ Conflict of Interest	☐	
▪ Monitoring	☐	

G. Layering Requirements

HOME regulations require projects to provide a layering analysis demonstrating that the HOME assistance is required to provide affordable housing. Based on the results of the preceding underwriting analysis, KMA concludes that the Developer's request for $1,098,792 in HOME assistance from the City is warranted by the Project economics. As such, it can be concluded that the assistance package complies with the HOME layering requirement.

H. HOME Subsidy Limits (Appendix C)

HUD establishes the subsidy limits for the HOME Program based on the number of bedrooms included in the HOME-assisted units. The Subsidy Limit Test for the Project can be described as follows:

1. The Project consists of six (6) one-bedroom units.

2. The 2022 HOME Subsidy Limit for a one-bedroom unit in Los Angeles County is $183,132.

3. The maximum amount of HOME assistance that can be contributed to the six-unit Project is $1,098,792.

The City's HOME assistance amount of $1,098,792 is equal to the maximum HOME assistance amount per the 2022 HOME Subsidy Limits.

The HOME Program requires that at least 20% of HOME designated units be restricted as Low HOME units, while the remaining HOME designated units may be restricted to High HOME units. As such, at least two units in the Project must be designated as Low HOME units. However, the City will designate all units as Low HOME units.

I. Cost Allocation (§92.205(d))

HOME funds may only be used to pay eligible costs for HOME assisted units. When the City designates fewer than 100% of the units as HOME assisted, the City must calculate the eligible costs that are allocable to the assisted units and may only pay the actual costs related to those HOME assisted units, capped by the maximum subsidy limits described above.

The six HOME units are determined to be the entire Project. As such, the cost allocation requirement does not apply to this Project.[4]

J. Affordability Period

The HOME assisted units must meet the affordability requirements for not less than the applicable period specified in the following table, beginning after project completion:

Rental Projects	Minimum Affordability Period
Acquisition / Rehabilitation Projects:	
HOME Funds Under $15,000 per Unit	5 Years
HOME Funds Under $15,000 - $40,000 per Unit	10 Years
HOME Funds Over $40,000 per Unit	15 Years
Rehabilitation Projects Involving Refinancing	15 Years
New Construction Projects	20 Years

The HOME Program affordability requirements must:

1. Apply without regard to the term of any loan or mortgage, repayment of the HOME investment, or the transfer of ownership;

2. Be imposed by a deed restriction, a covenant running with the land, an agreement restricting the use of the property, or other mechanisms approved by HUD and must give the City the right to require specific performance; and

[4] KMA included the cost allocation methodology in Appendix C for illustration purposes. However, cost allocation is not required when 100% of the units are designated as HOME units.

3. Must be recorded in accordance with State recordation laws.

The HOME Loan Financing Agreement will require the HOME units to be subject to income and affordability restrictions for at least fifteen years. Therefore, the Project will comply with the HOME covenant period requirement. The affordability restrictions are detailed in the HOME Regulatory Agreement that will be recorded on the property.

IX. CERTIFICATIONS

Based on the results of the analysis, the following certifications are provided:

Certifications	Requirement Met
The funding sources discussed in this Report are sufficient, and timely in availability, to cover the Project costs.	☐
The estimated costs for the Project are necessary, reasonable, and in compliance with the cost principles described in 2 CFR part 200.	☒
The scope and budget for the Project are sufficient to meet the HOME property standards set forth at 24 CFR 92.251 over the life of the affordability covenants imposed by the HOME Agreement.	☒
The Developer's operating pro forma includes realistic assumptions regarding the base year revenues and expenses, and reasonable escalation factors for the revenues and expenses.	☒
The market assessment confirms the demand for the Project, and the Project can be expected to be leased up within the 18-month period mandated by HUD.	☒
The Developer's experience and financial capacity are adequate to implement the Project, and meet the financial obligations and risks related to the Project.	☒
The developer fee, cash flow projection, equity appreciation, and profit anticipated to be generated by the Project are appropriate.	☒
The Project meets the minimum HOME investment requirement of $1,000 per HOME designated unit.	☒
The Project will provide the minimum number of HOME-Assisted Units as required under the cost allocation rule at 24 CFR 92.504.	☒
The HOME Program assistance provided to the Project does not exceed the subsidy limits, and the appropriate number of units have been designated as HOME units as established by 24 CFR 92.504.	☒
In accordance with 24 CFR 92.205(e)(2), the Project will be completed within four years of the date the HOME funds are committed.	☒
The Project will comply with the property standards and affordability requirements imposed by CFR 92.252(e).	☒

X. COMMITMENT CHECKLIST (§92.2)

HOME funds are not committed to an identifiable project in IDIS until the parties have provided the following:

HOME Requirements	Requirement Met	City Completion Dates
Project is associated with approved Consolidated Plan / Annual Action Plan projects	☐	
Environmental Review Requirements have been met	☐	
Legally binding written agreement has been executed	☐	
All necessary financing is secured	☐	
Subsidy Layering & Underwriting Analysis Completed	☐	
Construction Expected to begin within 12 months	☐	January 2023
Commitment Date	☐	

Appendix A
Pro Forma Analysis

APPENDIX A - TABLE 1

ESTIMATED DEVELOPMENT COSTS
ACQUISITION & REHABILITATION PROJECT
6 HOME UNITS
2024 LEMON AVENUE
LONG BEACH, CALIFORNIA

I.	**<u>Property Assemblage Costs</u>**							
	Property Acquisition Costs	[1]	6	Units			$1,275,000	
	Tenant Relocation	[2]	5	Occupied Units	$17,500	/Occupied Unit	87,500	
	Closing Costs		1%	Property Acquisition Costs			13,000	
	Total Property Assemblage Costs							**$1,375,500**
II.	**Direct Costs - Building Rehabilitation**	[3]	**6**	**Units**	**$12,500**	**/Unit**		**$75,000**
III.	**Developer Fee**	[4]	**4%**	**Net Development Costs (Exc. Dev. Fee)**				**$65,000**
IV.	**<u>Financing Costs</u>**							
	Loan Origination Fees		$402,000	Loan	1.37	Points	$6,000	
	Capitalized Reserves							
	Operating and Debt Service Reserve		8	Months Oper. Exp / Debt Svc Pmts			46,000	
	Replacement Reserve						25,000	
	Total Financing Costs							**$77,000**
V.	**Total Rehabilitation Costs**		**6**	**Units**	**$36,200**	**/Unit**		**$217,000**
	Total Development Costs		**6**	**Units**	**$265,400**	**/Unit**		**$1,592,500**

[1] An appraisal prepared by Real Property Appraisal on September 9, 2022 estimates the As-Is Market Value of the property at $1,290,000, which is approximately equal to the purchase price.

[2] Based on Developer estimate. There are currently five occupied units. A relocation plan was not available for review. City staff should review the relocation plan and confirm the relocation costs included in this analysis are appropriate before executing the HOME Loan Agreement.

[3] Based on Developer's estimates. The estimates assume that no prevailing wage requirements will be imposed on the Project.

[4] Based on Developer's request, which complies with both TCAC and HCD developer fee guidelines.

APPENDIX A - TABLE 2

STABILIZED NET OPERATING INCOME
ACQUISITION & REHABILITATION PROJECT
6 HOME UNITS
2024 LEMON AVENUE
LONG BEACH, CALIFORNIA

I.	**Gross Income**						
	Affordable Rental Income [1]						
	One-Bedroom - Low HOME	6	Units @	$350	/Month	$25,200	
	HRC - Rental Subsidy Income [2]						
	One-Bedroom - Low HOME	6	Units @	$766	/Month	55,200	
	Gross Income					$80,400	
	(Less) Vacancy and Collection	15.0%	Gross Income			(12,100)	
	Effective Gross Income						**$68,300**
II.	**Operating Expenses**						
	General Operating Expenses	6	Units @	$4,560	/Unit	$27,400	
	Property Taxes [3]					1,800	
	Service Provider	6	Units @	$2,050	/Unit	12,300	
	Total Operating Expenses	**6**	**Units @**	**$6,900**	**/Unit**		**($41,500)**
III.	**Stabilized Net Operating Income**						**$26,800**

[1] Assumes the Owner will pay for all utility costs. Tenant-paid rents are based on information provided by the Developer. The maximum tenant-paid rent is set at the LA County income and rent information published by HUD for the HOME Program, which is $1,116 in 2022.

[2] The HRC rental subsidy is set at the Low HOME rent for each unit. Thus, the combination of the tenant-paid rent and the HRC rental subsidy will total the Low HOME rent. The actual allocation between tenant-paid rent and rent subsidy revenue will vary from tenant-to-tenant.

[3] Assumes the Project will be awarded the property tax abatement accorded to non-profit housing organizations that own and operate apartment units restricted to households earning 80% AMI and below. The property tax expense for these units is limited to assessment overrides, which is based on Developer estimate.

[4] The Project will not have an on-site service provider. The Developer, through their supportive services program, will provide social services to the tenants.

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APPENDIX A - TABLE 3

FINANCIAL GAP CALCULATION
ACQUISITION & REHABILITATION PROJECT
6 HOME UNITS
2024 LEMON AVENUE
LONG BEACH, CALIFORNIA

I.	**Available Funding Sources**					
	Permanent Loan [1]					
	Stabilized Net Operating Income	See APPENDIX A - TABLE 2		$26,800		
	Income Available for Mortgage	1.00	DCR	$26,800	Debt Service	
	Interest Rate / Mortgage Constant	4.50%	Interest Rate	6.67%	Mortgage Constant	
	Total Permanent Loan				$402,000	
	Granite Grant [2]				$50,000	
	Del Harbor Foundation Grant [2]				$25,000	
	Developer Fundraising [2]				$10,000	
	Deferred Developer Fee [2]	9%	Total Developer Fee		$6,000	
	Total Available Funding Sources					**$493,000**
II.	**Financial Gap Calculation**					
	Total Development Costs	See APPENDIX A - TABLE 1			$1,592,500	
	(Less) Total Available Funding Sources				(493,000)	
	Total Financial Gap	**6**	**Units**	**$183,300**	**/Unit**	**$1,099,500**

[1] Assumes a 25-year amortization period.
[2] Based on Developer estimate.

Appendix B
Cash Flow Analysis

APPENDIX B

ACQUISITION & REHABILITATION PROJECT
6 HOME UNITS
2024 LEMON AVENUE
LONG BEACH, CALIFORNIA

			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
I.	**Gross Residential Income**																
	Affordable Rental Income [1]		$25,200	$25,578	$25,962	$26,351	$26,746	$27,148	$27,555	$27,968	$28,388	$28,813	$29,246	$29,684	$30,130	$30,582	$31,040
	HRC - Rental Subsidy Income [2]		55,200	57,185	59,284	61,452	63,691	66,002	68,390	70,855	73,400	76,028	78,741	81,542	84,433	87,418	90,499
	(Less) Vacancy and Collection		(12,060)	(12,414)	(12,787)	(13,170)	(13,566)	(13,972)	(14,392)	(14,823)	(15,268)	(15,726)	(16,198)	(16,684)	(17,184)	(17,700)	(18,231)
	Effective Gross Income		$68,340	$70,348	$72,459	$74,632	$76,871	$79,177	$81,553	$83,999	$86,519	$89,115	$91,788	$94,542	$97,378	$100,300	$103,309
II.	**Operating Expenses**																
	General Operating Expenses [3]		$27,400	$28,496	$29,636	$30,821	$32,054	$33,336	$34,670	$36,057	$37,499	$38,999	$40,559	$42,181	$43,868	$45,623	$47,448
	Property Taxes [4]		1,800	1,836	1,873	1,910	1,948	1,987	2,027	2,068	2,109	2,151	2,194	2,238	2,283	2,328	2,375
	Service Provider [3]		12,300	12,792	13,304	13,836	14,389	14,965	15,563	16,186	16,833	17,507	18,207	18,935	19,693	20,480	21,300
	Replacement Reserve Deposits								2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200
	Total Operating Expenses		$41,500	$43,124	$44,812	$46,567	$48,392	$50,288	$54,460	$56,510	$58,641	$60,857	$63,160	$65,554	$68,044	$70,632	$73,323
III.	**Net Operating Income**		$26,840	$27,224	$27,646	$28,065	$28,480	$28,889	$27,093	$27,489	$27,878	$28,258	$28,629	$28,988	$29,335	$29,668	$29,986
	(Less) Debt Service [5]		(26,813)	(26,813)	(26,813)	(26,813)	(26,813)	(26,813)	(26,813)	(26,813)	(26,813)	(26,813)	(26,813)	(26,813)	(26,813)	(26,813)	(26,813)
	(Less) Deferred Developer Fee		(27)	(411)	(833)	(1,252)	(1,666)	(1,643)	0	0	0	0	0	0	0	0	0
IV.	**Net Income After Debt Service**		$0	$0	$0	$0	$0	$433	$279	$676	$1,065	$1,445	$1,815	$2,174	$2,521	$2,854	$3,173
V.	**Residual Receipts Payments**																
	City Share	50%	$0	$0	$0	$0	$0	$217	$140	$338	$532	$722	$908	$1,087	$1,261	$1,427	$1,586
	Total City RRs		**$110,422**	**Nominal Dollars**		**$26,485**	**Net Present Value @ 6% Discount Rate**										
	Developer Share	50%	$0	$0	$0	$0	$0	$217	$140	$338	$532	$722	$908	$1,087	$1,261	$1,427	$1,586
	Total Developer RRs		**$110,422**	**Nominal Dollars**		**$26,485**	**Net Present Value @ 6% Discount Rate**										

[1] Escalated at 101.5% annually.
[2] The total service provider contract is set at $80,400 in Year 1. This amount is equal to the sum of the affordable rents and the subsidy income. Per Developer, this amount is escalated annually at 103.0%.
[3] Escalated at 104.0% annually.
[4] Escalated at 102.0% annually.
[5] See APPENDIX A - TABLE 3

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APPENDIX B

ACQUISITION & REHABILITATION PROJECT
6 HOME UNITS
2024 LEMON AVENUE
LONG BEACH, CALIFORNIA

		Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30
I.	**Gross Residential Income**															
	Affordable Rental Income	$31,506	$31,978	$32,458	$32,945	$33,439	$33,941	$34,450	$34,967	$35,491	$36,023	$36,564	$37,112	$37,669	$38,234	$38,808
	HRC - Rental Subsidy Income	93,680	96,963	100,352	103,849	107,459	111,184	115,029	118,996	123,091	127,316	131,675	136,174	140,816	145,606	150,547
	(Less) Vacancy and Collection	(18,778)	(19,341)	(19,921)	(20,519)	(21,135)	(21,769)	(22,422)	(23,094)	(23,787)	(24,501)	(25,236)	(25,993)	(26,773)	(27,576)	(28,403)
	Effective Gross Income	$106,408	$109,600	$112,888	$116,275	$119,763	$123,356	$127,057	$130,868	$134,794	$138,838	$143,003	$147,293	$151,712	$156,264	$160,952
II.	**Operating Expenses**															
	General Operating Expenses	$49,346	$51,320	$53,372	$55,507	$57,728	$60,037	$62,438	$64,936	$67,533	$70,235	$73,044	$75,966	$79,004	$82,164	$85,451
	Property Taxes	2,423	2,471	2,520	2,571	2,622	2,675	2,728	2,783	2,838	2,895	2,953	3,012	3,072	3,134	3,197
	Service Provider	22,152	23,038	23,959	24,918	25,914	26,951	28,029	29,150	30,316	31,529	32,790	34,101	35,465	36,884	38,359
	Replacement Reserve Deposits	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200
	Total Operating Expenses	$76,120	$79,028	$82,052	$85,196	$88,464	$91,862	$95,395	$99,069	$102,888	$106,858	$110,987	$115,279	$119,742	$124,382	$129,207
III.	**Net Operating Income**	$30,288	$30,572	$30,836	$31,079	$31,299	$31,494	$31,661	$31,800	$31,907	$31,980	$32,017	$32,014	$31,970	$31,881	$31,745
	(Less) Debt Service	(26,813)	(26,813)	(26,813)	(26,813)	(26,813)	(26,813)	(26,813)	(26,813)	(26,813)	(26,813)	0	0	0	0	0
	(Less) Deferred Developer Fee	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
IV.	**Net Income After Debt Service**	$3,475	$3,758	$4,023	$4,266	$4,486	$4,680	$4,848	$4,986	$5,093	$5,166	$32,017	$32,014	$31,970	$31,881	$31,745
V.	**Residual Receipts Payments**															
	City Share	$1,737	$1,879	$2,011	$2,133	$2,243	$2,340	$2,424	$2,493	$2,547	$2,583	$16,008	$16,007	$15,985	$15,941	$15,872
	Total City RRs															
	Developer Share	$1,737	$1,879	$2,011	$2,133	$2,243	$2,340	$2,424	$2,493	$2,547	$2,583	$16,008	$16,007	$15,985	$15,941	$15,872
	Total Developer RRs															

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Appendix C
HOME Cost Allocation

APPENDIX C
HOME COST ALLOCATION WORKSHEET - STANDARD MODEL
2024 LEMON AVENUE
LONG BEACH, CALIFORNIA

Step 1: Determine Comparability, Select Method of Cost Allocation			**Standard Method**
		Net Residential SF	**2,016**
Step 2: Proposed HOME Investment			**$1,098,792**
Step 3: Calculate Actual Cost of HOME Units			
Total Development Costs			$1,591,022
Ineligible Development Costs	See Below		(70,522)
Unit-Specific Upgrades			0
Relocation Costs			0
Assign Relocation Exclusively to HOME Units?			NO
Base Project Cost		**$754 /Sf Gross Residential SF**	**$1,520,500**

Assign Units	# of Bdrms	Unit Size	Cost/Unit
1	1	336	$253,417
2	1	336	$253,417
3	1	336	$253,417
4	1	336	$253,417
5	1	336	$253,417
6	1	336	$253,417

Subtotal HOME Unit Costs	**$1,520,500**
Add: Relocation Costs Allocated Exclusively to HOME Units (if applicable)	$0
Actual Cost of HOME Units	**$1,520,500**

Step 4: Calculate Maximum Project Subsidy

Unit Size	# of Units	Max Subsidy/Unit	Maximum Subsidy
1 Bedroom	6	$183,132	$1,098,792
Maximum Project Subsidy	**6**		**$1,098,792**

Step 5: Maximum HOME Investment, Lesser of	
Proposed Investment (Step 2)	$1,098,792
Actual Cost of HOME Units (Step 3)	$1,520,500
Maximum Project Subsidy (Step 4)	$1,098,792

Maximum HOME Investment	**6 HOME Units**	**$1,098,792**

Ineligible HOME Development Costs

Replacement Reserve	$25,000	
Operating Reserve	45,522	
Total Ineligible HOME Development Costs		**$70,522**

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