Attachment D

KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

To: Patrick Ure, Housing Development Officer
City of Long Beach

From: Kathleen Head
Tim Bretz

cc: Meggan Sorensen, Real Estate Project Coordinator

Date: August 28, 2017

Subject: Vistas Del Puerto Apartments: Preliminary Financial Gap Analysis

At your request, Keyser Marston Associates, Inc. (KMA) prepared a preliminary financial analysis for the project proposed to be developed at 1836-1852 Locust Avenue (Site) by Clifford Beers Housing (Developer). As proposed, the project will include 48 units that will be restricted to extremely-low, low, and lower income households (Project).

The Long Beach Community Investment Company (LBCIC) currently owns the Site. The Developer is requesting financial assistance from the LBCIC for the purposes of acquiring the Site and constructing the Project. The purpose of the KMA analysis is to evaluate the Developer's assistance request.

EXECUTIVE SUMMARY

Estimated Financial Gap

The results of the KMA financial gap analysis are compared to the Developer's financial proposal in the following table:

	KMA	Developer	Difference
Total Development Costs	$19,454,000	$22,790,000	$3,336,000
Outside Funding Sources	16,629,000	20,050,000	3,421,000
Financial Gap	$2,825,000	$2,740,000	$85,000

As shown in the preceding table, KMA estimates the Project's financial gap at $2.83 million. Comparatively, the Developer is requesting $2.74 million in financial assistance from the LBCIC. This $85,000 difference represents an approximately 3% differential, which can be considered inconsequential. However, it is important to note that there are substantial differences between the KMA and Developer development cost and funding source estimates, which will be discussed further in this memorandum.

Proposed Funding Sources

The following summarizes the proposed funding sources for the Project:

1. The Developer is proposing to utilize the 9% Federal Low Income Housing Tax Credits (Tax Credits) that are competitively awarded by the California Tax Credit Allocation Committee (TCAC). KMA estimates the net Tax Credit proceeds at $13.19 million.

2. The Developer is proposing to apply for a $3.0 million loan from the Community Development Commission of the County of Los Angeles (LACDC). The notice of funding availability (NOFA) had not been issued at the time of this analysis; however, it is anticipated to be released in Fall 2017.

3. It is anticipated the Project will receive an operating subsidy from the Los Angeles County Department of Health Services (DHS), which will support 20 one-bedroom units.

4. The City of Long Beach (City) has a program that provides waivers of certain public permits and fee costs for affordable housing project. The Developer estimates these fee waivers at $269,000.

5. The LBCIC assistance will accrue 3% interest during the Project's development period. This interest obligation will be deferred until after the completion of

construction. The deferred amount will then be included in the residual receipts loan between the LBCIC and the Developer.

PROJECT DESCRIPTION

The proposed scope of development can be described as follows:

1. The Site area totals 0.62 acres, or approximately 27,000 square feet of land area.

2. The 48-unit Project represents a density of 77 units per acre.

3. The Project's unit mix is as follows:

	Number of Units	Unit Size (SF)
One-Bedroom Units	22	450
Two-Bedroom Units	13	700
Three-Bedroom Units	13	1,000
Total / Weighted Average	48	667

4. The Project's gross building area (GBA) is estimated at 44,667 square feet, and is comprised of the following:

   a. The residential GBA is estimated at 32,000 square feet;

   b. The retail GBA is estimated at 3,674 square feet; and

   c. The circulation and common area GBA is estimated at 8,993 square feet.

5. The Project will include 40 at-grade podium parking spaces, which equates to 0.83 parking spaces per unit.

6. The Project's affordability mix is as follows:[1]

[1] H&SC refers to the California Health and Safety Code. Median refers to the Los Angeles County median income. If the Project receives Section 8 Project-Based Vouchers, the affordability mix may be revised to shift some of the Lower H&SC units to the 59% H&SC income category.

Extremely Low H&SC /Tax Credit @ 30% Median	11
59% H&SC / Tax Credit @ 40% Median	13
Lower H&SC / Tax Credit @ 50% Median	23
Unrestricted Manager's Unit	1
Total Units	48

FINANCIAL GAP ANALYSIS

KMA prepared a pro forma analysis to estimate the Project's financial gap. The pro forma analysis is provided at the end of this memorandum, and is organized as follows:

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

Estimated Development Costs (Table 1)

KMA reviewed the Developer's August 2017 pro forma submittals, and then independently prepared a pro forma analysis of the Project. The resulting development costs are estimated as follows:

Property Acquisition Costs

The LBCIC currently owns the Site. The Developer intends to purchase the Site from the LBCIC for fair market value. The Developer provided an appraisal prepared by Stringer Appraisers (Appraiser) on June 3, 2016 that sets the fee simple market value of the Site at $1.48 million. As such, the proposed purchase price for the Site is $1.48 million, or $55 per square foot of land area.

Direct Costs

The direct costs assume that that the Project will be subject to State of California and/or Federal Davis Bacon prevailing wage requirements.[2] The direct costs applied in this analysis can be summarized as follows:

1. Sitework / Parking:
    a. The Developer did not include any off-site improvement costs in their development cost estimate. City staff should verify the accuracy of this assumption.
    b. The on-site improvement costs are estimated at $15 per square foot of land area, or $405,000.
    c. The at-grade podium parking costs are estimated at $30,000 per space, or $1.20 million.
2. The building costs are estimated at $175 per square foot of GBA. This equates to $7.17 million for the residential component and $643,000 for the retail component.
3. The Developer included a $120,000 allowance for furnishings, fixtures and equipment.
4. Contractor costs:
    a. A 14% allowance for contractors' fees and general requirements is provided.
    b. An allowance for construction bonds / general liability insurance at 2% of construction costs is provided.
5. A direct cost contingency allowance equal to 5% of other direct costs is provided.

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[2] The funding sources included in this analysis do not trigger California prevailing wage or Federal Davis Bacon wage requirements. However, it is anticipated that the Project will ultimately receive more than nine Section 8 Project-Based Vouchers, which will trigger Davis Bacon wage requirements. As such, LBCIC staff and KMA agreed to include this assumption in the analysis.

KMA estimates the total direct costs at $11.60 million. This equates to $260 per square foot of GBA.

Indirect Costs

KMA utilized the following assumptions in estimating the indirect costs:

1. The architecture, engineering and consulting costs are estimated at 10% of direct costs.

2. The public permits and fees costs are estimated at $864,000, or $18,000 per unit. City staff should verify the accuracy of this estimate.[3]

3. The taxes, insurance, legal and accounting costs are estimated at 2% of direct costs.

4. A $1,600 per unit allowance for marketing and leasing costs is provided.

5. The Developer Fee is estimated at $2.24 million, which is the maximum amount allowed by TCAC.

6. An indirect cost contingency allowance equal to 5% of other indirect costs is provided.

KMA estimates the total indirect costs at approximately $4.75 million.

Financing Costs

The financing costs for the Project are estimated as follows:

1. The Developer estimates the predevelopment loan interest and holding costs at $152,000.

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[3] The Developer estimates the public permits and fees costs at $8,400 per unit, which is substantially lower than any recent LBCIC projects reviewed by KMA. KMA set the public permits and fees cost estimate at the lowest per unit estimate of recent LBCIC projects.

2. KMA assumes that the LBCIC assistance will accrue 3% simple interest during the development period, which is estimated at 24 months. This equates to approximately $168,000 in interest costs.

3. The construction period and absorption period interest costs are estimated at $516,000. These costs are based on the following assumptions:

   a. The construction period interest costs are based on a 3.66% interest rate, an 18-month construction period, and a 60% average outstanding balance.

   b. The absorption period interest costs are based on a six-month absorption period with a 100% average outstanding balance.

4. The financing fees are estimated as follows:

   a. The Developer estimates the financing fees for the predevelopment loan at $61,000; and

   b. The financing fees for the construction loan are estimated at 2.0 points, or $201,000.

5. A $199,000 capitalized operating reserve is provided. This equates to six months of operating expenses and debt service payments.

6. The Developer included a $249,000 capitalized transition reserve.

7. The Tax Credit fees are estimated at $80,000 based on the following assumptions:

   a. A $2,000 application fee;

   b. A $410 per unit monitoring fee; and

   c. Four percent (4%) of gross Tax Credits proceeds for one year.

KMA estimates the total financing costs at approximately $1.63 million.

Total Development Costs

As shown in Table 1, KMA estimates the total development costs at $19.45 million, which equates to approximately $405,300 per unit. In contrast, the Developer estimates the total development costs at $22.79 million. This represents a $3.34 million, or approximately 15% differential.

The differences in the KMA and Developer are effectively all found in the direct construction cost estimates. In preparing our analysis, we reviewed direct cost assumptions included in recent Tax Credit projects analyzed by KMA in the Los Angeles region. Based on that review, KMA applied direct costs at the high end of those estimates. However, even after using the higher than average cost estimates, KMA's cost estimates are still 15% lower than the Developer's.

To resolve this issue, KMA recommends that the LBCIC require the following:

1. The Developer should retain an independent cost estimator approved by the LBCIC prior to the submittal of the Tax Credit application: [4]
    a. The results of this independent cost estimate should be the basis for the costs included in the Tax Credit application.
    b. The Developer's financial assistance request and/or this analysis may need to be revised after the completion of the independent cost estimate.
2. The Developer should obtain three general contractor bids. The LBCIC should review these bids prior to the selection of a general contractor for the Project.

Stabilized Net Operating Income (Table 2)

The Project's funding sources include Tax Credits, LACDC funds, and Low and Moderate Income Housing Asset Funds (LMIHAF) held by the Housing Successor to the former

[4] The Project's architectural plans are too preliminary at this juncture to provide an effective basis for an independent cost estimate. As such, KMA recommends this action be postponed until closer to the Tax Credit application date.

Long Beach Redevelopment Agency. These programs all publish the applicable income limits for households that are qualified to reside in the development.

The affordable rents are based on the most stringent of the requirements imposed by the funding sources proposed to be obtained. The requirements can be summarized as follows:

1. TCAC publishes rent standards for projects that receive Tax Credits.

2. California Health and Safety Code (H&SC) Section 50053 defines the methodology that must be used to calculate the affordable housing costs for projects that are receiving LMIHAF assistance.

3. The LACDC NOFA will instruct the Developer as to the appropriate rent standards to utilize for those funds.

4. The Project will also include a DHS operating subsidy. For underwriting purposes, the rents for the units that are receiving a DHS operating subsidy are set based on 30% of the published supplemental security income (SSI) standards.

Tenant-Paid Rents

The rents used in this analysis are based on 2017 income and rent information published by TCAC and HCD. The maximum allowable rents, net of the appropriate utility allowances, are estimated as follows: [5]

[5] The utility allowances are set at: $39 for one-bedroom units; $50 for two-bedroom units; and $66 for three-bedroom units.

Rent Restriction	1-Bedroom	2-Bedrooms	3-Bedrooms
EL H&SC / TC @ 30% Median			
EL H&SC	$350	$387	$420
TCAC	$468	$558	$637
DHS	$230	$219	$203
Applicable Rents	$230	$219	$203
59% H&SC / TC @ 40% Median			
59% H&SC	$726	NA	NA
TCAC	$637	NA	NA
DHS	$230	NA	NA
Applicable Rents	$230	NA	NA
Lower H&SC / TC @ 50% Median			
Lower H&SC	$998	$1,116	$1,230
TCAC	$806	$963	$1,105
Applicable Rents	$806	$963	$1,105

Other revenues anticipated to be generated by the Project are as follows:

1. The Developer anticipates that the Project will receive a DHS annual operating subsidy for 20 one-bedroom units:

   a. The contract rent, net of a utility allowance, for the DHS operating subsidy is estimated at $1,156 per one bedroom unit per month.

   b. The tenant paid rent for the units is $230 per month.

   c. The resulting DHS operating subsidy is estimated at $926 per month, or $222,300 per year.

2. Laundry and miscellaneous income is estimated to average $8 per unit per month. This equates to $4,700 per year.

Estimated Effective Gross Income

KMA estimates the Project's effective gross (EGI) income at $530,200 based on the following:

1. The gross tenant paid rents are estimated to total $346,200.

2. The DHS operating subsidy income is estimated at $222,300.

3. A vacancy and collection allowance equal to 7.5% of gross income is provided. This equates to $43,000.

Estimated Operating Expenses

The operating expenses are estimated at $398,300 based on the following:

1. The general operating expenses are estimated at $6,800 per unit per year.

2. KMA assumes that the Developer will apply for the property tax abatement that is accorded to non-profit housing organizations that own and operate apartment units restricted to households earning less than 80% of the area median income. The Developer did not include any property tax assessment overrides in the operating expense estimates.

3. The social services expenses are estimated at $48,000.

4. The City will charge a monitoring fee equal to $147 per unit per year, or $7,100.

5. The Developer provided an allowance for replacement reserve deposits at $350 per unit per year. This is higher than the $250 per unit per year minimum required by TCAC.

Estimated Stabilized Net Operating Income

The Project's EGI is estimated at $530,200, and the operating expenses are estimated at $398,300. This results in estimated stabilized net operating income of $131,900.

Financial Gap Calculation

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

Permanent Loan

The cash flow projected to be generated by the Project during a typical 15-year or 30-year amortization period is not sufficient to warrant obtaining a permanent loan. However, if the Project is ultimately awarded United States Department of Housing and Urban Development (HUD) Project Based Section 8 rental assistance vouchers, the LBCIC should require the Developer to analyze a financing scenario that incorporates a permanent loan. This financing scenario may reduce the amount of LBCIC financial assistance warranted by the Project's economics.

Tax Credit Proceeds

KMA Estimate

KMA estimates the net Tax Credit proceeds at $13.19 million. This estimate is calculated based on the following assumptions:

1. The Project's eligible Tax Credit basis is equal to the lesser of the depreciable costs for the 48 Tax Credit units, or the threshold basis limits established by TCAC. In this case, the depreciable costs of $15.17 million are less than the threshold basis limits.

2. To increase the competitiveness of the Project's Tax Credit application in the TCAC tiebreaker process, KMA excluded a portion of the eligible Tax Credit basis.

3. The Project is located in a designated "Difficult to Develop" census tract. This allows the requested eligible basis to be increased by 30%.

4. The annual Tax Credit rate is set at 9.0%. This rate is applied over the 10-year Tax Credit period.

5. 100% of the Project's building area that is included in the eligible basis is located in units that qualify for Tax Credits.

6. The net syndication value supported by the Tax Credit is ultimately determined based on competitive market conditions and on the timing of disbursements:

    a. The Developer estimates the proceeds at $0.91 per gross Tax Credit dollar, which is at the low end of the range recently being seen by KMA.

    b. KMA utilized this conservative estimate in our analysis as a reflection of the current fluctuations in the Tax Credit equity markets caused by the potential for federal income tax reform.

Tax Credit Tiebreaker Issues

In California, the 9% Tax Credits are awarded through a highly competitive process. To obtain 9% Tax Credit award, a project must score the maximum number of achievable evaluation points and have a competitive tiebreaker score. The tiebreaker score is largely a function of reducing the dollar amount of Tax Credits requested from TCAC. The reduction in the Tax Credit award results in the need for a higher amount of outside financial assistance. This is typically achieved through additional local assistance.

KMA reviewed the tiebreaker scores from the previous three Tax Credit allocation rounds for the Los Angeles County region, and then applied a score that was at the low end of the range of the projects that received a Tax Credit award during these rounds. In order to achieve this tiebreaker score, KMA had to set the net Tax Credit award at $3.59 million less than the amount that was applied in the Developer's pro forma ($13.19 million versus $16.78 million).

<u>City Fee Waivers</u>

The City has a program that waives certain public permits and fees costs for affordable housing projects. The Developer estimates the fee waiver amount at $269,000.

<u>LBCIC Deferred Interest</u>

The LBCIC Loan will accrue 3% simple interest during the Project's development period. This accrued interest will be converted to a permanent funding source for the Project, and it will be repaid through the residual receipts generated by the Project over time. KMA estimates this interest amount at $168,000. Comparatively, the Developer did not include deferred LBCIC interest in their pro forma analysis.

Total Available Outside Funding Sources

As shown in Table 3, KMA estimated the available outside funding sources at $16.63 million. In comparison, the Developer estimates the available outside funding sources at $20.05 million. This equates to a $3.42 million differential, which is due to the following:

1. The KMA analysis targets a higher tiebreaker score than is achieved under the Developer's assumptions. This results in less Tax Credit equity included in the KMA analysis than in the Developer's pro forma.

2. The Developer did not include deferred interest on the LBCIC Loan in their analysis. This creates a $168,000 difference from the KMA analysis.

Financial Gap Calculation

Based on the preceding analysis, KMA estimates the Project's financial gap as follows:

	KMA	Developer	Difference
Outside Funding Sources	$16,629,000	$20,050,000	$3,421,000
Total Development Cost	19,454,000	22,790,000	3,336,000
Financial Gap	$2,825,000	$2,740,000	$85,000
Per Unit	$59,000	$57,000	$2,000

As shown in the preceding table, KMA estimates that the Project exhibits a $2.83 million financial gap. In contrast, the Developer is requesting $2.74 million in financial assistance from the LBCIC. This represents a $85,000 differential. However, it is important to note that there are significant differences between the KMA and Developer estimates of development costs and net Tax Credit proceeds. These differences offset each other and result in similar financial gap estimates.

CONCLUSIONS/RECOMMENDATIONS

The following summarizes the conclusions of the KMA analysis:

1. Based on the currently available information, it is KMA's conclusion that the Project exhibits a $2.83 million financial gap. In comparison, the Developer is requesting $2.74 million in financial assistance from the LBCIC, which is less than the KMA estimate.

2. The Developer's direct cost estimates are significantly higher than the direct cost estimates of similar projects being reviewed by KMA. However, there is substantial volatility in the construction industry due to rising materials costs and a shortage of labor. As such, KMA recommends the following:

   a. A cost estimate of the Project should be conducted by an independent cost estimator approved by the LBCIC prior to the submittal of a Tax Credit application. The Project's economics may need to be revised after the cost estimate is completed.

   b. The Developer should be required to obtain three general contractor bids prior to selecting a general contractor. The three bids should be provided to the LBCIC for review and approval.

3. If the Project receives Project Based Section 8 rental assistance vouchers, KMA recommends the following:

   a. The LBCIC should require the Developer to provide a financing scenario that incorporates a conventional permanent loan; and

   b. The LBCIC should require the Developer to shift a portion of the Lower H&SC units to the 59% H&SC income category.

4. Tax Credit issues:

   a. Federal income tax reform is currently impacting the equity rates being paid by Tax Credit investors. Tax Credit investment rates will continue to fluctuate while this issue is being dealt with by Congress. This analysis may need to be revised if the Tax Credit equity rate achieved by the Developer differs from the amount assumed in this analysis.

b. The LBCIC should work with the Developer to ensure that the Project is targeting a competitive tiebreaker score.

5. The Developer should assume that the LBCIC's financial assistance will begin accruing 3% simple interest upon disbursement of the funds. This accrued interest should be included in the principal balance of the LBCIC loan, which will be repaid from the Project's residual receipts.

6. The Developer proposes to utilize $100,000 of the Project's net cash flow during each of the first three years of operations to fund a transition reserve. This would be $300,000 added to the $249,000 capitalized transition reserve, for a total transition reserve of $549,000. The LBCIC should discuss the funding and structure of this transition reserve in more detail with the Developer.

TABLE 1

ESTIMATED DEVELOPMENT COSTS
VISTAS DEL PUERTO
LONG BEACH, CALIFORNIA

I.	**Property Acquisition Costs**	1	27,000	Sf Land	$55	/Sf Land		**$1,480,000**
II.	**Direct Costs**	2						
	Off-site Improvements						$0	
	On-site Improvements		27,000	Sf Land	$15	/Sf Land	405,000	
	Podium Parking Costs		40	Spaces	$30,000	/Space	1,200,000	
	Residential Shell Costs		40,993	Sf GBA	$175	/Sf GBA	7,174,000	
	Retail Costs		3,674	Sf GBA	$175	/Sf GBA	643,000	
	Furnishings, Fixtures & Equipment						120,000	
	Contractor Fees / General Requirements		14%	Construction Costs			1,319,000	
	Construction Bonds		2%	Construction Costs			188,000	
	Contingency Allowance		5%	Other Direct Costs			552,000	
	Total Direct Costs		**44,667**	**Sf GBA**	**$260**	**/Sf GBA**		**$11,601,000**
III.	**Indirect Costs**							
	Arch, Eng, Consulting & Construction Mgt		10%	Direct Costs			$1,148,000	
	Public Permits & Fees	3	48	Units	$18,000	/Unit	864,000	
	Taxes, Insurance, Legal & Accounting		2%	Direct Costs			197,000	
	Marketing & Leasing		48	Units	$1,563	/Unit	75,000	
	Developer Fee	4	16%	Eligible Basis			2,237,000	
	Contingency Allowance		5%	Other Indirect Costs			226,000	
	Total Indirect Costs							**$4,747,000**
IV.	**Financing Costs**							
	Predevelopment Interest/Holding Costs	5					$152,000	
	LBCIC Interest	6					168,000	
	Interest During Construction	7	$10,067,000	Loan Amount	3.66%	Interest	516,000	
	Financing Fees							
	Predevelopment Loan	5					61,000	
	Construction Loan		$10,067,000	Loan Amount	2.00	Points	201,000	
	Capitalized Reserves							
	Operating Reserve		6	Months Operating Expenses / Debt Service			199,000	
	Transition Reserve	5					249,000	
	TCAC Fees	8					80,000	
	Total Financing Costs							**$1,626,000**
V.	**Total Construction Costs**		**48**	**Units**	**$374,500**	**/Unit**		**$17,974,000**
	Total Development Costs		**48**	**Units**	**$405,300**	**/Unit**		**$19,454,000**

1 Based on an appraisal prepared on June 3, 2016 by Stringer Appraisals that estimates the as-is market value of the site at $1.48 million.
2 Estimates assume Davis Bacon prevailing wage requirements will be imposed on the Project.
3 Based on KMA estimate per recent LBCIC projects reviewed by KMA. The estimate should be verified by City staff.
4 This is the maximum amount allowed to be included in the Project per TCAC.
5 Based on Developer estimate.
6 Assumes the LBCIC Loan will accrue 3% interest during the construction and lease-up period.
7 Includes debt on the 85% of the Tax Credit Equity which will not be funded during construction. Assumes an 18-month construction period with a 60% average outstanding balance and a 6-month absorption period with a 100% average outstanding balance.
8 Includes a $2,000 application fee; $410/unit monitoring fee; and 4% of the gross Tax Credit proceeds for one year.

TABLE 2

STABILIZED NET OPERATING INCOME
VISTAS DEL PUERTO
LONG BEACH, CALIFORNIA

I.	**Gross Residential Income** [1]						
	Manager's Unit	1	Unit	$0	/Unit/Month	$0	
	EL H&SC/TC @ 30% Median						
	1-Bedroom Units @ (450-Sf)	7	Units	$230	/Unit/Month	19,300	
	2-Bedroom Units @ (700-Sf)	2	Units	$219	/Unit/Month	5,300	
	3-Bedroom Units @ (1,000-Sf)	2	Units	$203	/Unit/Month	4,900	
	59%H&SC/TC @ 40% Median						
	1-Bedroom Units @ (450-Sf)	13	Units	$230	/Unit/Month	35,900	
	Lower H&SC/TC @ 50% Median						
	1-Bedroom Units @ (450-Sf)	2	Units	$806	/Unit/Month	19,300	
	2-Bedroom Units @ (700-Sf)	10	Units	$963	/Unit/Month	115,600	
	3-Bedroom Units @ (1,000-Sf)	11	Units	$1,105	/Unit/Month	145,900	
	DHS Subsidy						
	EL H&SC/TC @ 30% Median						
	1-Bedroom Units @ (450-Sf)	7	Units	$926	/Unit/Month	$77,800	
	59%H&SC/TC @ 40% Median						
	1-Bedroom Units @ (450-Sf)	13	Units	$926	/Unit/Month	144,500	
	Laundry/Miscellaneous Income	48	Units	$8	/Unit/Month	4,700	
	Gross Rental Income					$573,200	
	(Less) Vacancy & Collection Allowance	7.5%	Gross Base Income			(43,000)	
	Effective Gross Income						**$530,200**
II.	**Operating Expenses**						
	General Operating Expenses	48	Units	$6,800	/Unit	$326,400	
	Property Taxes [2]	48	Units	$0	/Unit	0	
	Services	48	Units	$1,000	/Unit	48,000	
	LBCIC Monitoring Fee	48	Units	$147	/Unit	7,100	
	Replacement Reserve	48	Units	$350	/Unit	16,800	
	Total Operating Expenses						**$398,300**
III.	**Net Operating Income**						**$131,900**

[1] Based on 2017 LA County Incomes distributed by HUD/HCD. As pertinent, based on rents published in 2017 by TCAC, and the incomes published by HCD in 2017 for use in the California H&SC Section 50053 calculations. Utility Allowances per the Developer: $39 for 1-Bdrm units; $50 for 2-Bdrm units; and $66 for 3-Bdrm units.

[2] Based on Developer estimate. Assumes that the Developer will receive the property tax abatement accorded to non-profit housing organizations that own and operate apartment units that are restricted to households earning less than 80% of the County median income.

Prepared by: Keyser Marston Associates, Inc.
Filename: Vista del Puerto_8 28 17; PF_9%_DHS; trb

TABLE 3

FINANCIAL GAP CALCULATION
VISTAS DEL PUERTO
LONG BEACH, CALIFORNIA

I. Available Funding Sources

Permanent Loan - Base Income [1]							
Net Operating Income	$0	NOI (See Table 2)					
Income Available for Mortgage	1.20	DCR	$0	Debt Service			
Interest Rate	6.25%	Interest Rate	10.29%	Mortgage Constant			
Permanent Loan - Base Income						**$0**	
Tax Credit Equity [2]							
Gross Tax Credit Value	$14,496,000						
Syndication Rate	$0.91	/Tax Credit Dollar					
Net Tax Credit Equity						**$13,192,000**	
LACDC [3]						**$3,000,000**	
City Impact Fee Waiver [3]						**$269,000**	
LBCIC Interest [4]						**$168,000**	
Total Available Funding Sources							**$16,629,000**

II. Unfunded Financial Gap Calculation

Total Available Funding Sources	$16,629,000	
(Less) Total Development Costs	(19,454,000)	
Unfunded Financial Gap		**$2,825,000**

[1] The Project does not generate sufficient cash flow to warrant obtaining a conventional loan.
[2] Assumes an $12.4 million requested unadjusted eligible basis, which includes a $2.78 million voluntary basis reduction, a 130% difficult-to-develop premium, a 9.0% Tax Credit rate and an applicable fraction of 100%.
[3] Based on Developer estimate.
[4] The LBCIC Loan will accrue simple interest at 3% during the construction and lease-up period. KMA estimates this at 24 months.

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Filename: Vista del Puerto_8 28 17; PF_9%_DHS; trb