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: October 3, 2017

Subject: The Spark at Midtown: Financial Gap Analysis

At your request, Keyser Marston Associates, Inc. (KMA) prepared a financial analysis for the mixed-use project proposed to be developed at 1900 Long Beach Boulevard (Site) by LINC Housing Corporation (Developer). As proposed, the project will include approximately 12,000 square feet of ground floor non-residential space, and 95 apartment units that will be restricted to extremely-low and low income households (Project).

The Developer is requesting financial assistance from the Long Beach Community Investment Company (LBCIC) to acquire the Site. The purpose of the KMA analysis is to evaluate the Developer's financial assistance request.

EXECUTIVE SUMMARY

Estimated Financial Gap

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

	KMA	Developer	Difference
Total Development Costs	$51,839,000	$51,857,000	($18,000)
Outside Funding Sources	48,861,000	48,857,000	4,000
Financial Gap	$2,978,000	$3,000,000	$22,000

As shown in the preceding table, KMA estimates the Project's financial gap at $2.98 million. Comparatively, the Developer is requesting $3.0 million in financial assistance from the LBCIC. This equates to a less than 1% differential, which can be considered inconsequential. However, it is important to note that the KMA and Developer estimates differ on a line item by line item basis.

Proposed Funding Sources

The following summarizes the proposed funding sources for the Project:

1. It is anticipated that the Project will receive operating subsidies from the following sources:

   a. The Los Angeles County Department of Health Services (DHS), which will support 47 one-bedroom units; and

   b. Forty (40) Section 8 Project-Based Vouchers (PBVs) that are allocated to the Housing Authority of the City of Long Beach (Housing Authority) by the United States Department of Housing and Urban Development (HUD).

2. The Project's stabilized net operating income supports $9.61 million in Tax-Exempt Multifamily Bonds (Bonds) that are allocated by the California Debt Limit Allocation Committee (CDLAC).

3. The Developer is proposing to utilize the 4% Low Income Housing Tax Credits (Tax Credits) that are automatically awarded to projects that receive a Bond allocation from CDLAC. The net Tax Credit proceeds are estimated at $16.08 million.

4. The Developer is proposing to apply for the following assistance amounts from the Affordable Housing and Sustainable Communities (AHSC) funds managed by the California Department of Housing and Community Development (HCD):

    a. A $5.43 million loan (AHSC Loan) which will be repaid through a portion of the Project's residual receipts; and

    b. A $5.57 million grant (AHSC Grant) which does not require repayment.

5. The Developer is proposing to apply for a $6.58 million loan from the Community Development Commission of the County of Los Angeles (LACDC).

6. The Developer is proposing to apply for $940,000 in Affordable Housing Program (AHP) funds awarded by the Federal Home Loan Bank of San Francisco.

7. The Developer is proposing to contribute $3.76 million, or 75%, of the total Developer Fee to the Project as Developer Equity. The Developer Equity will have the following terms:

    a. The Developer Equity will not be secured by a promissory note;

    b. The Developer Equity may only be repaid from the Developer's share of the Project's residual receipts; and

    c. Any portion of the Developer Equity that is not repaid from the Developer's share of the Project's residual receipts may only be repaid upon sale or transfer of the property after the LBCIC Loan is repaid in full.

8. The City of Long Beach (City) has a program that provides waivers of certain public permits and fee costs for affordable housing projects. The Developer estimates these fee waivers at $532,000.

9. Both the LBCIC and LACDC assistance will accrue 3% simple interest during the Project's construction period. The AHP Loan will accrue 1% simple interest during the construction period. These interest obligations will be deferred until after the completion of construction. The deferred amounts will then be included in the corresponding loans between LBCIC / LACDC / AHP and the Developer.

PROJECT DESCRIPTION

The proposed scope of development can be described as follows:

1. The Site area totals 0.93 acres, or approximately 40,500 square feet of land area.

2. The 95-unit Project represents a density of 102 units per acre.

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

	Number of Units	Unit Size (SF)
One-Bedroom Units	47	603
Two-Bedroom Units	24	803
Three-Bedroom Units	24	1,063
Total / Weighted Average	95	769

4. The Project's gross building area (GBA) is estimated at 110,089 square feet, and is comprised of the following:

   a. The residential GBA is estimated at 73,360 square feet;

   b. The community room GBA is estimated at 5,777 square feet;

   c. The ground floor GBA is estimated at 11,556 square feet; and

   d. The common area and circulation GBA is estimated at 19,396 square feet.

5. The Project will include 141 parking spaces, which equates to 1.48 spaces per unit. The parking will be comprised of the following:

   a. One-hundred (100) subterranean parking spaces; and

   b. Forty-one (41) at-grade podium parking spaces.

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

Unrestricted Manager's Unit	1
<u>Special Needs Units</u>	
30 % H&SC /Tax Credit @ 30% Median [1]	46
Tax Credit @ 30% Median	1
Tax Credit @ 60% Median – Non-Special Needs Units	47
Total Units	95

FINANCIAL GAP ANALYSIS

KMA prepared a pro forma analysis to estimate the Project's financial gap. The analysis is located 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 September 26, 2017 pro forma, 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 estimates the fair market value at $3.35 million, or $83 per square foot of land area. However, an appraisal was not provided for KMA to review.

[1] H&SC refers to the California Health and Safety Code.

Direct Costs

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

1. Sitework / Parking:

   a. The Developer estimated the off-site improvement costs at $475,000. City staff should verify the scope and accuracy of the off-site improvements required to serve the Project.

   b. The Developer estimated the on-site improvement costs at $3.89 million, or $96 per square foot of land area. The estimate includes the following:

      i. Grading and shoring;

      ii. Soil import and export;

      iii. Site utilities, paving and landscaping; and

      iv. Costs related to providing a parklet.

   c. The parking cost are estimated at $4.81 million based on the following assumptions:

      i. The subterranean parking costs are estimated at $37,000 per space; and

      ii. The at-grade podium parking costs are estimated at $27,000 per space.

   d. The Developer estimated the building costs as follows:

      i. The residential building costs are estimated at $16.12 million, or $164 per square foot of residential GBA.

      ii. The ground floor non-residential building costs are estimated at $2.74 million, or $237 per square foot of ground floor GBA.

e. The Developer included a $171,000 allowance for furnishings, fixtures and equipment.

f. Contractor Costs:

i. A 14% allowance for contractors' fees and general requirements is provided.

ii. An allowance for construction bonds / general liability insurance at 2% of construction costs is provided.

g. A direct cost contingency allowance equal to 5% of other direct costs is provided.

The total direct costs are estimated at $34.32 million. This equates to $312 per square feet of GBA.

Indirect Costs

KMA utilized the following assumptions in estimating the indirect costs:

1. The architecture, engineering and consulting costs are estimated at 4% of direct costs.

2. The Developer estimated the public permits and fees costs at $1.72 million, or $18,000 per unit. City staff should verify the accuracy of this estimate.

3. The taxes, insurance, legal and accounting costs are estimated at 1% of direct costs.

4. A $500 per unit allowance for marketing and leasing costs is provided.

5. The Developer set the Developer Fee at $5.01 million, which complies with the standards imposed by the Tax Credit Allocation Committee (TCAC).

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

KMA estimates the total indirect costs at $8.92 million.

Financing Costs

The Project is proposed to be developed with Tax-Exempt Multifamily Bonds allocated by CDLAC. To comply with Internal Revenue Service (IRS) requirements, the Bonds must be equal to at least 50% of the land acquisition costs plus the eligible Tax Credit basis. In addition, the Bond funds must be sufficient to cover the construction costs that do not have construction period funding from other sources.

In this case, the Project's estimated stabilized net operating income can only support an $9.61 million Bond; this will be called the Series A Bond. To fulfill the 50% Test, and to provide bridge funding for costs that will be paid for by other sources upon the Project's completion, a Series B Bond totaling $14.35 million must be obtained. The sum of the Series A Bond and Series B Bond totals $23.96 million.

The financing costs for the Project are estimated as follows:

1. The Developer assumes that both the LBCIC and LACDC Loans will accrue 3% simple interest during the construction period. Additionally, the AHP loan will accrue 1% simple interest during the construction period. The Developer estimates the total amount of accrued interest on the LBCIC, LACDC and AHP Loans at $364,000.

2. The Developer estimates the soft loan financing costs at $60,000.

3. The construction period interest costs incurred on the Bonds are estimated at $1.39 million based on the following:

    a. A 4.05% interest rate;

    b. A 22-month construction period with a 60% average outstanding balance; and

    c. A 4-month absorption period with a 100% average outstanding balance.

4. The financing fees for the Bonds are estimated at 2.50 points, or $599,000.

5. The following capitalized reserve deposits are included in the Project costs:

a. A $350,000 capitalized operating reserve is provided. This equates to three months of operating expenses and debt service payments.

b. A $1.93 million capitalized transition reserve is provided. This is set equal to the estimated DHS and PBV operating subsidies in Years 16 and 17 of the Project.

c. A $500,000 capitalized park maintenance reserve is provided. City staff should verify the accuracy of this assumption.

6. The Tax Credit fees are estimated at $57,000 based on the following:

a. A $2,000 application fee;

b. A $410 per unit monitoring fee; and

c. One percent (1%) of gross Tax Credit proceeds for one year.

KMA estimates the total financing costs at $5.25 million.

Total Development Costs

As shown in Table 1, KMA estimates the total development costs at $51.84 million, which equates to approximately $471 per square foot of GBA. In comparison, the Developer estimates the total development costs at $51.86 million. This $18,000 differential can be considered inconsequential.

Stabilized Net Operating Income

The Project's funding sources include Bonds, Tax Credits, AHSC funds, LACDC funds, and Low and Moderate Income Housing Asset Funds (LMIHAF) held by the Housing Successor to the former Long Beach Redevelopment Agency. These programs all publish income limits for the households that are qualified to reside in the development.

TCAC publishes rent standards for projects that receive Tax Credits. Comparatively, California Health and Safety Code (H&SC) Section 34176.1 defines the methodology that must be used to calculate the affordable housing costs for projects that are receiving LMIHAF assistance. The Developer will be required to adhere to the strictest of the standards imposed by the funding sources contributed to the Project.

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 as follows:[2]

Rent Restriction	1-Bedroom	2-Bedrooms	3-Bedrooms
30% H&SC / TC @ 30% Median			
30% H&SC	$353	NA	NA
TCAC	$471	NA	NA
Applicable Rents	$353	NA	NA
TC @ 30% Median	$471	NA	NA
TC @ 60%	NA	$1,169	$1,352

Operating Subsidy

The Developer is anticipating that the Project will be awarded the following operating subsidies:

1. A DHS operating subsidy is assumed to be provided for the 47 one-bedroom Special Needs units. The DHS operating subsidy is equal to the difference between the rent paid by the tenant and the DHS contract rent. The DHS contract rent is set at $1,284 per unit per month.

2. The Developer is requesting 40 PBVs for two- and three-bedroom Non-Special Needs units. The PBV payments are based on the difference between the rent paid by the tenant and the fair market rent (FMR) approved by HUD. The 2017 FMRs for the PBV units are as follows:

Two-Bedroom Units	$1,441
Three-Bedroom Units	$1,947

[2] Based on the Developer's estimates, the utility allowances are set at: $36 for one-bedroom units; $47 for two-bedroom units; and $54 for three-bedroom units.

Combined Effective Gross Income

KMA estimates the Project's combined effective gross income at $1.52 million based on the following:

1. The effective gross tenant paid rent income for the 47 one-bedroom Special Needs units is estimated at $180,500 based on the following assumptions:
   a. The gross tenant-paid rents total $200,600; and
   b. A 10% vacancy and collection allowance equates to $20,100.
2. The effective gross tenant paid income for the 47 two- and three-bedroom Non-Special Needs units at 60% of the Median is estimated at $676,400 based on the following assumptions:
   a. The gross tenant-paid rents are estimated at $712,000; and
   b. A 5% vacancy and collection allowance equates to $35,600 per year.
3. The effective gross operating subsidy income is estimated as follows:
   a. The gross DHS operating subsidy is estimated at $523,700.
   b. The gross PBV income is estimated at $208,100.
   c. The vacancy and collection allowance is estimated at $73,200 per year.
4. The effective gross laundry and miscellaneous income is estimated at $8,600 per year.

Estimated Operating Expenses

The operating expenses are estimated at $762,900 based on the following:

1. The general operating expenses are estimated at $6,056 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 property tax assessment overrides are estimated at $2,000 per year.

3. The social services expenses are estimated at $100,000.

4. The City will charge a monitoring fee equal to $140 per unit per year, or $13,300.

5. The annual issuer fee for the Bonds is set at $15,300 per year.

6. The Developer provided an allowance for replacement reserve deposits at $600 per unit per year. This represents the minimum requirement imposed by the AHSC Program.

Estimated Stabilized Net Operating Income

The combined effective gross income derived from the Project is estimated at $1.52 million and the operating expenses are estimated at $762,900. This results in estimated stabilized net operating income of $761,200

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

<u>Tax-Exempt Multifamily Bonds</u>

To estimate the maximum Bond amount that can be supported by the Project's stabilized net operating income, KMA assumed that the Bonds would be underwritten based on the following requirements:

1. A 120% debt service coverage ratio;

2. A 5.25% interest rate; and

3. A 30-year amortization period.

KMA estimates that the Project's stabilized net operating income can support $9.61 million in Bonds.

Tax Credit Proceeds

KMA estimates the net Tax Credit proceeds at $16.08 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 95 Tax Credit units, or the threshold basis limits established by TCAC. In this case, the depreciable costs of $38.05 million are less than the threshold basis limits.

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

3. The Developer set the annual Tax Credit rate at 3.25%. This rate is applied over the 10-year Tax Credit period.

4. 100% of the Project's residential building area that is included in the eligible basis is located in units that qualify for Tax Credits.

5. The net syndication value supported by the Tax Credit is ultimately determined based on competitive market conditions, and on the timing of disbursements. Based on currently available information, the Developer estimates the proceeds at $1.00 per gross Tax Credit dollar.

AHSC Loan

The Developer anticipates receiving a $5.43 million AHSC Loan. The AHSC Loan will require a mandatory annual debt service payment equal to .42% of the initial principal loan balance, or $22,800.

AHSC Grant

The Developer anticipates receiving a $5.57 million AHSC Grant.

AHP Funds

The Developer anticipates receiving $940,000 in AHP funds awarded by the Federal Home Loan Bank of San Francisco.

LACDC Loan

The Developer anticipates receiving a $6.58 million LACDC Loan.

Developer Equity

TCAC regulations allow the Project to receive a $5.01 million Developer Fee, and the Developer Fee can be included in the Project's eligible Tax Credit basis. Thus, a portion of the Developer Fee is funded by Tax Credit equity.

The Developer proposes to contribute $3.76 million, or 75%, of the Developer Fee back to the Project as Developer Equity. The Developer Equity will be repaid through the Developer's share of residual receipts or upon sale/transfer of the Project after the LBCIC Loan is repaid in full. The Developer Equity will not be secured by a promissory note.

City of Long Beach Fee Waivers

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 $532,000.

Soft Loan Deferred Interest

The LBCIC and LACDC Loans will accrue 3% simple interest during the Project's construction period. This accrued interest will be converted to a permanent funding source for the Project. The LBCIC and LACDC interest amounts will be repaid through the residual receipts generated by the Project over time.

The AHP Loan will accrue 1% simple interest during the construction period. This accrued interest will also be converted to a permanent funding source for the Project. However, the AHP interest amount will only be required to be repaid if the Project does not comply with the AHP operating requirements.

The Developer estimates the total interest amount of the three soft loans at $364,000.

Total Available Outside Funding Sources

As shown in Table 3, the outside funding sources available to the Project are estimated at $48.86 million, which is equal to the Developer's estimate.

Financial Gap Calculation

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

Total Development Costs	$51,839,000
(Less) Total Available Funding	(48,861,000)
Financial Gap	$2,978,000
Per Unit	$31,300

As shown in the preceding table, KMA estimates that the Project exhibits a $2.98 million financial gap. In contrast, the Developer is requesting $3.0 million in financial assistance from the LBCIC. This represents a $22,000 differential, which is less than a 1% difference. It is the KMA opinion that a difference of this magnitude can be considered insignificant.

CONCLUSIONS / RECOMMENDATIONS

The following summarizes the conclusions and recommendations of the KMA analysis:

1. Based on the currently available information, it is KMA's conclusion that the Developer's request for $3.0 million in LBCIC assistance is supported by the Project economics.

2. Volatility in the financial markets makes it difficult to accurately predict the amount of outside funding that will ultimately be available to the Project. The following issues should be considered:

    a. Fluctuations in the financing market will influence the underwriting standards and interest rates applied to the Bonds.

b. The potential for federal income tax reform is currently impacting 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.

c. AHSC funds are awarded in an extremely competitive process. Furthermore, the Program is funded through California's Cap and Trade Auctions, which have not generated as much revenue as had been anticipated. Thus, there is considerable risk that the Project may not receive funding, or that the award may be less than the amount included in this analysis.

3. KMA utilized many of the Developer's direct construction cost assumptions in this analysis. These cost estimates are moderately higher than recent similar projects reviewed by KMA. However, the following factors are increasing the costs associated with larger construction projects:

a. There is a substantial amount of construction in Southern California, which has created overwhelming demand for qualified contractors and subcontractors.

b. Materials costs have increased due to tariffs, as well as the recent hurricanes in multiple United States locations.

4. KMA recommends the following:

a. Prior to the submittal of an application for a Bond allocation, a cost estimate of the proposed scope of development should be conducted by an independent cost estimator approved by the LBCIC. The Project's economics may need to be re-evaluated 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.

c. The LBCIC should include a cost savings provision in the legal agreements between the LBCIC and the Developer.

TABLE 1
ESTIMATED DEVELOPMENT COSTS
THE SPARK AT MIDTOWN
LONG BEACH, CALIFORNIA

I.	**Property Acquisition Costs**	1	**40,500**	**Sf Land**	**$83**	**/Sf Land**		**$3,352,000**
II.	**Direct Costs**	2						
	Off-site Improvements	3					$475,000	
	On-site Improvements	4	40,500	Sf Land	$96	/Sf Land	3,886,000	
	Parking Costs							
	Subterranean Parking Costs		100	Spaces	$37,000	/Space	3,700,000	
	Podium Parking Costs		41	Spaces	$27,000	/Space	1,107,000	
	Building Costs							
	Residential Building Area	4	98,533	Sf Res GBA	$164	/Sf Res GBA	16,121,000	
	Ground Floor Non-Residential Area	4	11,556	Sf GF GBA	$237	/Sf GF GBA	2,736,000	
	Furnishings, Fixtures & Equipment						171,000	
	Contractor Fees / General Requirements		14%	Construction Costs			3,924,000	
	General Liability Insurance / Const Bonds		2%	Construction Costs			561,000	
	Contingency Allowance		5%	Other Direct Costs			1,634,000	
	Total Direct Costs		**110,089**	**Sf GBA**	**$312**	**/Sf GBA**		**$34,315,000**
III.	**Indirect Costs**							
	Architecture, Engineering & Consulting		4%	Direct Costs			$1,373,000	
	Public Permits & Fees	5	95	Units	$18,060	/Unit	1,716,000	
	Taxes, Insurance, Legal & Accounting		1%	Direct Costs			343,000	
	Marketing & Leasing		95	Units	$500	/Unit	48,000	
	Developer Fee	6	15%	Eligible Costs			5,014,000	
	Contingency Allowance		5%	Other Indirect Costs			425,000	
	Total Indirect Costs							**$8,919,000**
IV.	**Financing Costs**							
	Soft Lender Accrued Interest	4					$364,000	
	Acquisition & Soft Loan Costs	4					60,000	
	Interest During Construction							
	Series A Bond	7	$9,606,000	Loan Amount	4.05%	Interest	558,000	
	Series B Bond	8	$14,350,000	Loan Amount	4.05%	Interest	833,000	
	Financing Fees							
	Series A Bond		$9,606,000	Loan Amount	2.50	Points	240,000	
	Series B Bond		$14,350,000	Loan Amount	2.50	Points	359,000	
	Capitalized Reserves							
	Operating		3	Months Op Exp and Debt Svc Pmts			350,000	
	Transition						1,932,000	
	Park Maintenance						500,000	
	TCAC Fees	9					57,000	
	Total Financing Costs							**$5,253,000**
V.	**Total Construction Costs**		**110,089**	**Sf GBA**	**$440**	**/Sf GBA**		**$48,487,000**
	Total Development Costs		**110,089**	**Sf GBA**	**$471**	**/Sf GBA**		**$51,839,000**

1 Based on Developer estimate. An appraisal was not propvided for review.
2 Estimates assume prevailing wage requirements will be imposed on the Project.
3 Based on Developer estimate. City staff should verify the scope and cost of the required off-site improvements.
4 Based on Developer estimate.
5 Based on Developer estimate. The estimate should be verified by City staff.
6 Based on Developer estimate. The maximum amount allowed by TCAC is equal to 15% of the Project's eligible Tax Credit basis.
7 Includes debt on the 75% of the Tax Credit Equity that will not be funded during construction. Assumes a 22-month construction period with a 60% average outstanding balance and a 4-month absorption period with a 100% average outstanding balance.
8 Equal to the unfunded construction costs minus the Series A Bond amount; a 22-month construction period with a 60% average outstanding balance; and a 4-month absorption period with a 100% average outstanding balance.
9 Includes a $2,000 application fee; $410/unit monitoring fee; and 1% of the gross Tax Credit proceeds for one year.

Prepared by: Keyser Marston Associates, Inc.
File name: The Spark_4% TC_10 3 17; Pro Forma; trb

TABLE 2
STABILIZED NET OPERATING INCOME
THE SPARK AT MIDTOWN
LONG BEACH, CALIFORNIA

I. Income [1]				
A. Manager's Unit	1 Unit	$0 /Unit/Month	$0	
B. Tenant Paid Rent - Special Needs Units [2]				
30% H&SC/Tax Credit @ 30% Median	46 Units	$353 /Unit/Month	194,900	
Tax Credit @ 30% Median	1 Unit	$471 /Unit/Month	5,700	
Special Needs Gross Rent Income	47		$200,600	
(Less) Vacancy & Collection Allowance	10.0% Special Needs Gross Rent Income		(20,100)	
Effective Gross Special Needs Rent Income			**$180,500**	
C. Tenant Paid Rent - Tax Credit @ 60% Median (Non-Special Needs Units)				
2-Bedroom Units @ (803-Sf)	23 Units	$1,169 /Unit/Month	322,600	
3-Bedroom Units @ (1,063-Sf)	24 Units	$1,352 /Unit/Month	389,400	
Non-Special Needs Gross Rent Income	47 Units		$712,000	
(Less) Vacancy & Collection Allowance	5.0% Non-Special Needs Gross Rent Income		(35,600)	
Effective Gross Non-Special Needs Rent Income			**$676,400**	
D. Operating Subsidies				
DHS Subsidy				
30% H&SC/Tax Credit @ 30% Median [2]	46 Units	$931 /Unit/Month	$513,900	
Tax Credit @ 30% Median [2]	1 Unit	$813 /Unit/Month	9,800	
PBV Subsidy - 60% of Median Units				
2-Bedroom Units @ (803-Sf)	20 Units	$272 /Unit/Month	65,300	
3-Bedroom Units @ (1,063-Sf)	20 Units	$595 /Unit/Month	142,800	
Gross Operating Subsidy Income			$731,800	
(Less) Vacancy & Collection Allowance	10.0% Gross Operating Subsidy Income		(73,200)	
Effective Gross Operating Subsidy Income			**$658,600**	
E. Laundry/Miscellaneous Income	95 Units	$8 /Unit/Month	$9,100	
(Less) Vacancy Allowance	5.0% Laundry/Miscellaneous Income		(500)	
Effective Gross Laundry/Miscellaneous Income			**$8,600**	
Combined Effective Gross Income				**$1,524,100**
II. Operating Expenses				
General Operating Expenses	95 Units	$6,056 /Unit	$575,300	
Property Taxes [3]	95 Units	$21 /Unit	2,000	
Social Services	95 Units	$1,053 /Unit	100,000	
City Monitoring Fee	95 Units	$140 /Unit	13,300	
Annual Issuer Fee	95 Units	$161 /Unit	15,300	
Replacement Reserve [4]	95 Units	$600 /Unit	57,000	
Total Operating Expenses	95 Units	$8,031 /Unit		**$762,900**
III. Stabilized Net Operating Income				**$761,200**

1 Based on Los Angeles County 2017 Incomes distributed by HUD/HCD. As pertinent, the rents are based on rents published in 2017 by TCAC and the CA H&SC Section 50053 calculation methodology. Utility Allowances per the Developer: $36 for 1-Bdrm units; $47 for 2-Bdrm units; and $54 for 3-Bdrm units.

2 The units are all 1-Bedroom Units @ (603-Sf).

3 Based on Developer estimate. Assumes that the Developer will receive the property tax abatement accorded to non-profit housing organizations that own and operate apartments rented to households earning less than 80% of the area median income.

4 Based on the requirements of the Affordable Housing and Sustainable Communities (AHSC) Program.

Prepared by: Keyser Marston Associates, Inc.
File name: The Spark_4% TC_10 3 17; Pro Forma; trb

TABLE 3

FINANCIAL GAP CALCULATION
THE SPARK AT MIDTOWN
LONG BEACH, CALIFORNIA

		Note				
I.	**Available Funding Sources**					
	Tax-Exempt Multifamily Bond Financing					
	Stabilized Net Operating Income		$761,200 (See TABLE 2)			
	Income Available for Mortgage	1	1.20 DSCR	$636,555 Debt Service		
	Interest Rate		5.25% Interest Rate	6.63% Mortgage Constant		
	Tax-Exempt Multifamily Bond Financing				**$9,606,000**	
	Tax Credit Equity	2				
	Gross Tax Credit Value		$16,076,000			
	Syndication Rate		$1.00 /Tax Credit Dollar			
	Net Tax Credit Equity				**$16,076,000**	
	AHSC Loan	3			**$5,426,000**	
	AHSC Grant	3			**$5,573,000**	
	AHP	3			**$940,000**	
	LACDC	3			**$6,580,000**	
	Developer Equity	3	75% Developer Fee		**$3,764,000**	
	City of Long Beach Fee Waivers	3			**$532,000**	
	Soft Loan Deferred Interest	4			**$364,000**	
	Total Available Funding Sources					**$48,861,000**
II.	**Financial Gap Calculation**					
	Total Development Costs				$51,839,000	
	(Less) Total Available Funding Sources				(48,861,000)	
III.	**Financial Gap**		**95 Units**	**$31,300 /Unit**		**$2,978,000**

1 Assumes a 30-year amortization term.
2 Assumes a $38.0 million eligible basis, plus a 130% difficult-to-develop premium, a 3.3% Tax Credit rate and an applicable fraction of 100%.
3 Based on Developer estimate.
4 Based on Developer estimate. The LBCIC and LACDC Loans will accrue simple interest at 3% during the construction period. The AHP Loan will accrue simple interest at 1% during the construction period. This interest will be deferred as a permanent source.

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