

HOME UNDERWRITING & SUBSIDY LAYERING REVIEW

1402 East Washington Boulevard

City of Long Beach

Keyser Marston Associates, Inc.
April 3, 2018

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Appendix A Financial Gap Analysis

Appendix B HOME Unit Designation

At the City of Long Beach's (City) request, Keyser Marston Associates, Inc. (KMA) prepared a HOME Underwriting & Subsidy Layering Review for the proposed conversion and rehabilitation of a single-family home into a group home located at 1402 East Washington Boulevard (Project). The Project will be undertaken by Home Ownership for Personal Empowerment (Developer). 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

The Developer proposes to utilize a combination of the following sources to complete the Project:

1. A \$431,600 conventional mortgage;
2. The Developer will defer \$18,800, or 94% of the Developer Fee; and
3. The Harbor Regional Center will provide \$100,000 in Community Placement Plan (CPP) funds.

The KMA analysis concluded the following:

1. Underwriting Analysis:
 - a. The Project costs are estimated at \$803,200. The Developer will obtain \$554,000 in outside funding sources, which results in a \$252,800 shortfall. The Developer is requesting \$252,662 in HOME funds from the City, which is less than financial gap estimated by KMA. Thus, the analysis demonstrates that the proposed \$252,662 in HOME assistance is necessary to provide the proposed affordable housing units.

- b. The Developer will defer \$18,800, or 94% of the Developer Fee. The Developer Fee will be repaid from the Project's cash flow, which is typical of affordable housing projects. Thus, the profit anticipated to be generated by the Developer's investment in the Project is appropriate.
2. The Developer has demonstrated the development capacity and fiscal soundness to undertake the Project.
3. Given the small size of the Project, the Developer did not prepare a formal market study. However, the Developer provided a waiting list with 81 special needs applicants for housing located 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 August 2018, and leasing the Project by September 2018. Thus, the Project will comply with the HOME requirement to lease-up the Project within six months of completing construction.
4. 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.
Affordability Period	The Project will comply with the affordability period requirements mandated by the HOME Program.
Cost Allocation	There is only one unit in the Project, which will be designated as a HOME unit.
Property Standards	The Project will meet the HOME property standards requirements for rehabilitation and on-going property management.
HOME Rents / Utility Allowances	The HOME unit will be restricted at the appropriate rents. 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 a single-family house with four bedrooms. Subsequently, the Developer will rehabilitate the house into a three-bedroom unit which will be utilized for shared occupancy.
2. The Developer will lease each of the three bedrooms to one person with a developmental disability.
3. The residents will have on-site care and supervision at all times.
4. The Developer proposes to complete the following rehabilitation activities for the building:
 - a. Convert the home from four-bedrooms to three-bedrooms.
 - b. Incorporate accessibility features including:
 - i. Roll-in shower doors for wheelchairs;
 - ii. Larger bedrooms; and
 - iii. Widened doorways and halls.
 - c. The rehabilitation will also incorporate systems upgrades, and improvements to support the safety, comfort and independence of residents.
5. The Project will be restricted as one High HOME unit.

III. PROJECT UNDERWRITING ASSESSMENT

KMA analyzed the Developer's sources and uses of funds statement for the Project. In addition, KMA reviewed the affordability requirements which will be imposed by the HOME Loan Financing Agreement. The following summarizes the KMA analysis:

A. Estimated Project Costs

The Developer provided a pro forma on March 6, 2018. 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 Acquisition Costs

The Developer proposes to acquire the property for \$600,000. An appraisal prepared by Babros & Associates, LLC. estimates the fair market value of the property at \$575,000. Thus, the appraised value is \$25,000 or approximately 4% less than the proposed purchase price. This can be considered an acceptable differential given the competitive nature of the current housing market.

Direct Costs

The direct cost estimates assume that the Project will not be subject to Federal Davis Bacon or State of California prevailing wage requirements. The Developer estimated the direct costs as follows:

1. The building rehabilitation costs are estimated at \$141,000, or \$71 per square foot of gross building area (GBA). For the purposes of this analysis, KMA assumes that the scope of rehabilitation will comply with the property standards outlined in Section 92.251 of the HOME Program regulations. City staff should ensure the accuracy of this compliance. The KMA analysis may need to be updated if additional rehabilitation is required to comply with Section 92.251.
2. The City will require the Developer to obtain a performance bond for the Project. The cost for the performance bond is estimated at \$4,100.

The total direct costs are estimated at \$145,100.

Indirect Costs

The indirect costs are estimated at \$43,900 as follows:

1. The predevelopment costs are estimated at 15% of total direct costs, or \$21,800. The predevelopment costs include architecture, engineering, public permits and fees costs, taxes, insurance, legal and accounting costs.
2. The Developer included a \$20,204 Developer Fee in the Project budget. However, the City has decided to set the Developer Fee based on 1% of acquisition costs and 10% of rehabilitation costs, which equates in a \$20,141 Developer Fee. The Developer should adjust the Project budget accordingly.
3. The indirect cost contingency allowance is set at 5% of other indirect costs.

Total Development Costs

KMA estimates the total development costs at \$803,200, which is equal to the Developer's estimate. KMA concludes that the estimates appear reasonable and necessary to complete the Project.

B. Income and Affordability Requirements

The City will provide HOME Program funding assistance to the Project. As such, the unit will be subject to HOME Program household income limits and rent standards. The Developer is proposing to designate the three-bedroom unit for shared occupancy. For shared occupancy units, the HOME Program allows the maximum rent to be based on the applicable Fair Market Rent (FMR) that is set

by the Local Housing Authority. The Long Beach Housing Authority has set the current FMR for three-bedroom units in the 90805 zip code at \$2,376 per month.

C. Stabilized Net Operating Income

Estimated Effective Gross Income

The Developer will contract with California Provider for Enrichment Services (CPES) to act as the service provider. CPES is a contracted service provider of Harbor Regional Center, a nonprofit service organization operating under contract with the California Department of Development Services. The Developer has worked with CPES on previous projects.

The Developer's contract with CPES stipulates that CPES will provide \$57,600 in annual revenue to the Project. However, each tenant will pay 30% of their income for rent, up to a combined total that does not exceed the applicable FMR. The maximum amount of tenant-paid rent is estimated at \$28,500 per year. Thus, CPES will guarantee to provide the Project at least \$29,100 in annual revenue in addition to the revenue generated from the tenants' rent payments. The HOME Loan Financing Agreement will require the Harbor Regional Center and/or CPES to guarantee the rental subsidy to the Project for at least 15 years. City staff should review the terms of the executed Harbor Regional Center/CPES contract prior to execution of the HOME Loan Financing Agreement.

Given that CPES will guarantee \$57,600 in annual revenue to the Project, KMA did not include a vacancy and collection allowance. Thus, the effective gross income is estimated at \$57,600.

Operating Expenses

The Project's operating expenses are estimated at \$26,100 per year based on the following assumptions:

1. The general operating expenses are estimated at \$14,000 per year. Social services will be provided by the social service provider outside the Project's operating budget.
2. The service provider is a for-profit entity, and thus, the Project will not be eligible to receive property tax abatement. The Developer estimates the property taxes at \$6,200 per year, which equates to 1.03% of the purchase price.
3. The Developer assumed an annual replacement reserve deposit of \$5,900 per year. This equates to \$480 per month, which is within the typical range for affordable housing projects.

Stabilized Net Operating Income

The Project's effective gross income is estimated at \$57,600, and the operating expenses are estimated at \$26,100. This results in estimated stabilized net operating income of \$31,500.

It is important to note that the total ongoing expenses for the Project, as well as reserve set-asides and any rental subsidies, will be captured through a lease agreement between the Developer and

CPES. This lease arrangement will ensure that the Project generates positive cash flow as well as long term operating and capital reserves. The Harbor Regional Center will also ensure that there is a long-term agreement to provide supportive services to the Project's tenants.

D. 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 Developer provided a pre-approval letter from First Republic Bank, which states that the lender will provide up to 80% loan to value of the property, which equates to \$460,000. The Developer intends to obtain a loan based on the following underwriting terms: a 110% debt service coverage ratio, a 5.25% interest rate, and a 30-year amortization period. These are reasonable underwriting assumptions in the current financial marketplace, and as such, they are applied in the KMA analysis. Based on these assumptions, KMA and the Developer estimate that the Project's net operating income can support a \$431,600 loan. This is below the maximum amount allowed by the lender, and thus, is the amount included in this analysis.

Deferred Developer Fee

The Developer is proposing to defer \$18,800, or 94% of the total Developer Fee.

Harbor Regional Center Contribution

The Harbor Regional Center, through an agreement with CPES, will provide \$100,000 in Community Placement Program (CPP) funds to the Project.

Total Available Outside Funding Sources

As shown in Table 3, the outside funding sources available to the Project total \$550,400.

Financial Gap Calculation

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

Financial Gap Calculation	
Total Development Costs	\$803,200
(Less) Total Available Funding Sources	(\$550,400)
Financial Gap	\$252,800

The City proposes to fund the financial gap with \$252,700 in HOME Program funds.

E. Profit and Returns

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

Developer Fees	The Developer will receive a Developer Fee equal to 1% of acquisition costs and 10% of rehabilitation costs, which is reasonable.
Developer Profit	Not applicable.
Cash Flow	As proposed, excess cash flow will be deposited into an operating reserve.
Equity Appreciation	The equity appreciation is not expected to be significant until the unit can be converted to a market rate unit after the HOME affordability period.
Identity of Interest Roles	The Developer may act in a general contractor capacity to contract with subcontractors.

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

IV. 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.

The financial capacity of the Developer is summarized as follows:

1. The Developer submitted unaudited financial statements for 2017, and audited financial statements for 2015 and 2016 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.
2. The Developer's development capacity is demonstrated by the following:
 - a. Since 1994, the Developer has established a development/ownership portfolio that includes 58 properties valued at over \$38 million.

- b. 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 owns 58 projects. The following describes two rehabilitation projects that were completed in Los Angeles County:

Banner Drive

In February 2016, the Developer acquired an existing apartment complex on Banner Drive in the Bixby Knolls neighborhood of Long Beach. The Developer rehabilitated the property into seven one-bedroom units which were rented to special needs households. The Developer utilized City of Long Beach HOME funds, a permanent loan, and developer equity to complete the project.

Clark Avenue

In 2016, the Developer acquired an existing apartment building located off Clark Avenue in the City of Long Beach. The Developer rehabilitated the property into seven units of special needs housing for students with developmental disabilities enrolled in the College to Career program attending Long Beach City College. The property also includes one efficiency unit to be utilized for a service provider. The project was completed in partnership with California Mentor, the Harbor Regional Center, the Lennar Charitable Housing Foundation, and the US Bank Foundation.

C. Fiscal Soundness

The Developer has received numerous 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 unaudited financial statements for 2017, and audited financial statements for 2015 and 2016 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.

V. MARKET ASSESSMENT

Given the small size of the Project, the Developer did not prepare a formal market study. However, the Developer provided a waiting list with 81 special needs applicants for housing within the Long Beach market. Thus, it can be concluded that there is sufficient demand for the proposed Project. It is anticipated that the Project will meet six-month HOME lease-up requirement.

VI. 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 six months of contract date	To be completed by May 2018
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	To commence by June 2018
Project Completion	§92.205(e)(2) states that the project must be completed within four years of the date the funds are committed to the project.	To be completed by September 2018
Lease-up	§92.252 states that HOME assisted units must be occupied by an eligible tenant within six months following project completion	Sufficient demand to meet this requirement

B. Written Agreement

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. The one unit will be designated as High HOME unit.
3. The HOME Loan terms are as follows:

- a. A total of \$252,700 will be disbursed to the Developer for eligible costs related to the construction the HOME-assisted unit.
- b. 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.
- c. The HOME Loan will be due and payable at the earliest of:
 - i. At the end of 30 years;
 - ii. Upon sale of the property; or
 - iii. In the event of a default.
- d. The HOME Loan is secured by a subordinated deed of trust.
- e. The Developer is not required to make annual payments on the HOME Loan.

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	<input type="checkbox"/>	
Affordability	<input type="checkbox"/>	
Project is identified by Address or Legal Description	<input type="checkbox"/>	
Project Requirements	<input type="checkbox"/>	
Property Standards	<input type="checkbox"/>	
Other Federal Requirements	<input type="checkbox"/>	
Affirmative Marketing	<input type="checkbox"/>	
Requests for Disbursement of Funds	<input type="checkbox"/>	
Records & Reports	<input type="checkbox"/>	
Enforcement of the Agreement	<input type="checkbox"/>	
Duration of the Agreement	<input type="checkbox"/>	
Conditions for Religious Organizations	<input type="checkbox"/>	
CHDO Provisions	<input type="checkbox"/>	
Identifies all Parties to the Agreement	<input type="checkbox"/>	
Provides dated signatures for each Party	<input type="checkbox"/>	
Recommended Additional Provisions:	<input type="checkbox"/>	
▪ Description of Project	<input type="checkbox"/>	
▪ Conflict of Interest	<input type="checkbox"/>	
▪ Monitoring	<input type="checkbox"/>	

C. 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 \$252,700 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.

D. HOME Unit Designation (Appendix B)

HUD establishes two tests for quantifying the number of units in the Project that must be designated as HOME units for at least fifteen years. One test is referred to as the Development Cost Test, and the other test is called the Subsidy Limit Test. These tests can be described as follows:

Development Cost Test

The Development Cost Test calculates the minimum number of HOME units based on the percentage of the Project's total costs that are funded with the HOME Program assistance. The calculation for the Project is:

1. \$252,700 in HOME Program assistance is assumed to be provided.
2. The Developer estimates the Project costs at \$802,700.
3. Based on the preceding assumptions, the HOME Program assistance is equal to 31% of the Project costs.

Given that there is only one unit in the project, this unit must be designated as a HOME unit.

Subsidy Limit Test

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 one (1) three-bedroom unit.
2. The 2018 HOME Subsidy Limit for a three-bedroom unit in Los Angeles County is \$259,774.
3. The City's HOME assistance amount of \$252,700 is below the 2018 HOME subsidy limit for a three-bedroom unit.

The HOME Program allows projects with fewer than five designated HOME units to designate all the HOME units as High HOME units. As such, KMA recommends that the one unit in the Project be designated as a High HOME unit.

E. 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 Over \$15,000 up to \$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
3. Must be recorded in accordance with State recordation laws.

The HOME Loan Financing Agreement will require the HOME unit 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.

F. Cost Allocation (§92.205(d))

HOME funds may only be used to pay eligible costs for HOME assisted units. The one unit in the Project will be designated as a HOME unit. As such, the cost allocation requirement does not apply to this Project.

G. Property Standards (§92.251)

The Project will be subject to the following property standards:

Property Standard	Included in HOME Agreement
State and local codes, ordinances and zoning requirements	<input checked="" type="checkbox"/>
Accessibility: <ul style="list-style-type: none"> ▪ Accessibility requirements of 24 CFR part 8 ▪ Design and construction requirements at 24 CFR 100.205 	<input checked="" type="checkbox"/>
Disaster Mitigation	Not Applicable
Written cost estimates, construction contracts and construction documents	<input checked="" type="checkbox"/>
Construction progress inspections	<input checked="" type="checkbox"/>

H. HOME Rents / Utility Allowances

The owner will pay for all utility costs. The sum of the tenants' rent payments cannot exceed the FMR established by the Long Beach Housing Authority. The 2018 FMR is set at \$2,376 per month.

I. Financial Commitments

The City will enter into the HOME Loan Financing Agreement to provide \$252,700 to the Project by April 30, 2017. The Developer provided financial commitments for the outside funding sources.

VII. 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.	<input checked="" type="checkbox"/>
The estimated costs for the Project are necessary, reasonable, and in compliance with the cost principles described in 2 CFR part 200.	<input checked="" type="checkbox"/>
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 Loan Financing Agreement.	<input checked="" type="checkbox"/>
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.	<input checked="" type="checkbox"/>
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.	<input checked="" type="checkbox"/>
The Developer's experience and financial capacity are adequate to implement the Project, and meet the financial obligations and risks related to the Project.	<input checked="" type="checkbox"/>

Certifications	Requirement Met
The Developer Fee, and profit anticipated to be generated by the Developer's investment in the Project are appropriate.	<input checked="" type="checkbox"/>
The Project meets the minimum HOME investment requirement of \$1,000 per HOME designated unit.	<input checked="" type="checkbox"/>
The Project will provide the minimum number of HOME-Assisted Units as required under the cost allocation rule at 24 CFR 92.504.	<input checked="" type="checkbox"/>
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.	<input checked="" type="checkbox"/>
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.	<input checked="" type="checkbox"/>
The Project will comply with the property standards and affordability requirements imposed by CFR 92.252(e).	<input checked="" type="checkbox"/>

VIII. COMMITMENT CHECKLIST (§92.2)

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

Requirements	Requirement Met	Completion Dates
Project is associated with approved Consolidated Plan / Annual Action Plan projects	<input checked="" type="checkbox"/>	April 2018
Environmental Review Requirements have been met	<input type="checkbox"/>	Before April 30, 2018
Legally binding written agreement has been executed	<input type="checkbox"/>	Before April 30, 2018
All necessary financing is secured	<input checked="" type="checkbox"/>	April 30, 2018
Subsidy Layering & Underwriting Analysis Completed	<input checked="" type="checkbox"/>	April 2, 2018
Construction Expected to begin within 12 months	<input checked="" type="checkbox"/>	Not Applicable
Commitment Date		Before April 30, 2018

Appendix A

Financial Gap Analysis

APPENDIX A - TABLE 1

ESTIMATED DEVELOPMENT COSTS
ACQUISITION & REHABILITATION PROJECT
1 HIGH HOME UNIT
1402 EAST WASHINGTON BOULEVARD
LONG BEACH, CALIFORNIA

I.	Property Acquisition Costs	1					\$600,000
II.	<u>Direct Costs</u>	2					
	Building Rehabilitation		1,983	Sf GBA	\$71 /Sf GBA	\$141,000	
	Performance Bond			3% Bldg Rehabilitation Costs		4,100	
	Total Direct Costs		1,983	Sf GBA	\$73 /Sf GBA		\$145,100
III.	<u>Indirect Costs</u>						
	Predevelopment Expenses	3	15%	Direct Costs		\$21,800	
	Developer Fee	4				20,100	
	Indirect Cost Contingency Allowance		5%	Other Indirect Costs		2,000	
	Total Indirect Costs						\$43,900
IV.	<u>Financing Costs</u>						
	Letter of Credit Interest	5	\$178,750	Financed	5% Interest	\$2,200	
	Closing Costs			2% Acquisition Costs		12,000	
	Total Financing Costs						\$14,200
V.	Total Rehabilitation Costs						\$203,200
	Total Development Costs						\$803,200

¹ The Developer provided an appraisal prepared by Babros & Associates, LLC. on February 13, 2018 that estimates the fair market value of the property at \$575,000, which is approximately 4% below the proposed purchase price.

² Based on Developer's estimates. The estimates assume that prevailing wage requirements will not be imposed on the Project.

³ Includes architecture, engineering, and public permits and fees costs.

⁴ Equates to 1.0% of acquisition costs and 10.0% of rehabilitation costs.

⁵ Based on a 90-day period to draw on letter of credit funds.

APPENDIX A - TABLE 2

STABILIZED NET OPERATING INCOME
ACQUISITION & REHABILITATION PROJECT
1 HIGH HOME UNIT
1402 EAST WASHINGTON BOULEVARD
LONG BEACH, CALIFORNIA

I. <u>Effective Gross Income</u>				
Maximum Tenant-Paid Rental Income	¹	1 Unit @	\$2,376 /Month	\$28,500
Service Provider Income	²			29,100
(Less) Vacancy and Collection	³	0.0% Gross Income		0
Total Effective Gross Income				\$57,600
II. <u>Operating Expenses</u>				
General Operating Expenses				\$14,000
Property Taxes	⁴	1.03% Purchase Price		6,200
Replacement Reserve				5,900
Total Operating Expenses				(\$26,100)
III. <u>Stabilized Net Operating Income</u>				\$31,500

- ¹ The HOME Program sets the maximum rent for a shared occupancy unit at the applicable Section 8 Fair Market Rent (FMR) established by the Local Housing Authority. The Long Beach Housing Authority has set the current FMR for three-bedroom units at \$2,376 per month. It is assumed that the Owner will pay for all utility costs.
- ² Per the Developer, the service provider will guarantee revenue up to \$57,605 in Year 1. The tenant-paid portion of the rent (\$2,376 per month) will offset this contract amount.
- ³ No vacancy allowance is assumed since the service provider will guarantee annual income.
- ⁴ The Project is not eligible for the property tax abatement since the service provider is not a non-profit organization.

APPENDIX A - TABLE 3

FINANCIAL GAP CALCULATION
ACQUISITION & REHABILITATION PROJECT
1 HIGH HOME UNIT
1402 EAST WASHINGTON BOULEVARD
LONG BEACH, CALIFORNIA

I. Available Funding Sources

Permanent Loan

Stabilized Net Operating Income	1	\$31,500	See APPENDIX A - TABLE 2	
Income Available for Mortgage		1.10 DCR	\$28,600	Debt Service
Interest Rate / Mortgage Constant		5.25% Interest Rate	6.63%	Mortgage Constant
Total Permanent Loan	2			\$431,600

Deferred Developer Fee	3	94% Total Developer Fee		\$18,800
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Harbor Regional Center CPP Funds	3			\$100,000
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Total Available Funding Sources				\$550,400
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II. Financial Gap Calculation

Total Development Costs		See APPENDIX A - TABLE 1		\$803,200
(Less) Total Available Funding Sources				(550,400)

Total Financial Gap	1 Units	\$252,800 /Unit	\$252,800
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¹ Assumes a 30-year amortization period.

² The permanent loan amount is set at the lesser of that calculated based on the underwriting assumptions and 80% loan to value. In this instance, the underwriting assumptions generate a \$431,600 loan amount and 80% loan to value equates to \$480,000. Thus, the permanent loan amount is set at \$431,600.

³ Based on Developer estimate.

APPENDIX A - TABLE 4

ACQUISITION & REHABILITATION PROJECT
1 HIGH HOME UNIT
1402 EAST WASHINGTON BOULEVARD
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															
Maximum Tenant-Paid Rental Income ¹	\$28,500	\$29,213	\$29,943	\$30,691	\$31,459	\$32,245	\$33,051	\$33,878	\$34,724	\$35,593	\$36,482	\$37,394	\$38,329	\$39,288	\$40,270
Service Provider Income ²	29,100	29,100	29,100	29,100	29,100	30,410	30,410	30,410	30,410	30,410	31,778	31,778	31,778	31,778	31,778
(Less) Vacancy and Collection	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Effective Gross Income	\$57,600	\$58,313	\$59,043	\$59,791	\$60,559	\$62,655	\$63,461	\$64,287	\$65,134	\$66,002	\$68,260	\$69,172	\$70,107	\$71,065	\$72,048
II. Operating Expenses															
General Operating Expenses ³	\$14,000	\$14,420	\$14,853	\$15,298	\$15,757	\$16,230	\$16,717	\$17,218	\$17,735	\$18,267	\$18,815	\$19,379	\$19,961	\$20,559	\$21,176
Property Taxes ⁴	6,200	6,324	6,450	6,579	6,711	6,845	6,982	7,122	7,264	7,410	7,558	7,709	7,863	8,020	8,181
Replacement Reserve	5,900	5,900	5,900	5,900	5,900	5,900	5,900	5,900	5,900	5,900	5,900	5,900	5,900	5,900	5,900
Total Operating Expenses	\$26,100	\$26,644	\$27,203	\$27,778	\$28,368	\$28,975	\$29,599	\$30,240	\$30,899	\$31,576	\$32,273	\$32,988	\$33,724	\$34,480	\$35,257
III. Net Operating Income	\$31,500	\$31,669	\$31,840	\$32,014	\$32,190	\$33,679	\$33,862	\$34,047	\$34,235	\$34,426	\$35,988	\$36,184	\$36,384	\$36,586	\$36,791
(Less) Debt Service ⁵	(28,600)	(28,600)	(28,600)	(28,600)	(28,600)	(28,600)	(28,600)	(28,600)	(28,600)	(28,600)	(28,600)	(28,600)	(28,600)	(28,600)	(28,600)
IV. Net Income After Debt Service	\$2,900	\$3,069	\$3,240	\$3,414	\$3,591	\$5,080	\$5,262	\$5,447	\$5,635	\$5,826	\$7,388	\$7,584	\$7,784	\$7,986	\$8,191

¹ Escalated at 102.5% annually.

² Escalated at 104.5% every five years.

³ Escalated at 103.0% annually.

⁴ Escalated at 102.0% annually.

⁵ See APPENDIX A - TABLE 3

Appendix B

HOME Unit Designation

APPENDIX B

HOME UNIT DESIGNATION CALCULATION ACQUISITION & REHABILITATION PROJECT 1 HIGH HOME UNIT 1402 EAST WASHINGTON BOULEVARD LONG BEACH, CALIFORNIA

I. <u>Development Costs Test</u>			
	¹		
HOME Funds Requested		\$252,700	
Total Development Costs (See APPENDIX A - TABLE 1)		\$802,700	
HOME Funds as % of Total Development Costs		31%	
HOME Unit Requirement	²		1.0
II. <u>Subsidy Limit Test</u>			
HOME Funds Requested		\$252,700	
Three-Bedroom Unit Subsidy Limit		\$259,774	
HOME Unit Requirement	²		1.0
III.	Minimum Number of HOME Designated Units		1 Unit

¹ The total HOME funds request must be divided by the Project's Total Development Costs. This percentage is then multiplied times the total number of units in the Project. The result is the minimum number of HOME designated units required under the Development Cost calculation methodology.

² The obligation is rounded up to the next whole number.

