

HOME UNDERWRITING & SUBSIDY LAYERING REVIEW

6127 Keynote Street

City of Long Beach

Keyser Marston Associates, Inc.
January 31, 2019

Table of Contents

I. EXECUTIVE SUMMARY	2
II. PROJECT DESCRIPTION	3
III. PROJECT UNDERWRITING ASSESSMENT	4
A. Estimated Project Costs.....	4
B. Income and Affordability Requirements	5
C. Stabilized Net Operating Income.....	5
D. Financial Gap Calculation	6
E. Profit and Returns.....	7
IV. DEVELOPER ASSESSMENT	7
A. Developer's Financial Capacity	7
B. Ability to Perform	8
C. Fiscal Soundness	9
D. Conclusion	9
V. MARKET ASSESSMENT	9
VI. HOME REQUIREMENTS.....	10
A. HOME Program Deadlines.....	10
B. Written Agreement.....	10
C. Layering Requirements	11
D. HOME Unit Designation (Appendix B)	12
E. Affordability Period.....	13
F. Cost Allocation (§92.205(d))	13
G. Property Standards (§92.251)	14
H. HOME Rents / Utility Allowances	14
I. Financial Commitments.....	14
VII. CERTIFICATIONS.....	14
VIII. COMMITMENT CHECKLIST (§92.2).....	16

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 acquisition of a single-family home located at 6127 Keynote Street (Property) that currently operates as a 24-hour licensed care facility (Project). Home Ownership for Personal Empowerment (Developer) will undertake the Project and will continue to operate a group home for individuals with severe developmental disabilities at the Property. 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 \$612,000 conventional mortgage;
2. The Developer will provide \$32,600 in equity.

The KMA analysis concluded the following:

1. Underwriting Analysis:
 - a. The Project costs are estimated at \$794,500. The Developer will obtain \$644,600 in outside funding sources, which results in a \$149,900 shortfall. The City is proposing to provide \$150,000 in HOME funds, which is approximately equal to the financial gap estimated by KMA. Thus, the analysis demonstrates that the proposed

\$150,000 in HOME assistance is necessary to provide the proposed affordable housing units.

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 states that they have a waiting list with 124 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 November 2019. The Property is currently fully occupied, and all tenants are expected to remain. 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. The Developer will operate the Project as a group home with shared occupancy for four individuals.
2. Each of the four bedrooms will be leased to one person with a developmental disability.
3. The residents will have on-site care and supervision at all times.
4. 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 January 30, 2019. 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 \$765,000. The Developer provided an appraisal prepared by AppraisalTEC on December 4, 2018. The appraisal estimates the As-Is Value of the Property at \$765,000, which is equal to the proposed purchase price.

Direct Costs

The Developer states that the Property is in good condition, and no rehabilitation will be necessary. As such, no direct costs are included in the analysis.

Indirect Costs

The indirect costs are estimated at \$29,500 as follows:

1. The predevelopment costs are estimated at 0.4% of total acquisition costs, or \$3,500. The predevelopment costs include Project transaction, legal and accounting costs.
2. The closing costs are estimated at \$15,300, or 2% of total acquisition costs.
3. The Developer Fee is set at \$7,700, which equates to approximately 1% of the total development costs.
4. The permanent loan origination fees are estimated at 0.5 loan points, or \$3,000.

Total Development Costs

KMA estimates the total development costs at \$794,500, 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 funds to the Project. As such, the Project will be subject to HOME Program household income limits and rent standards. The Developer is proposing to designate the four-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 four-bedroom units in the 90808 zip code at \$3,287 per month.

C. Stabilized Net Operating Income

Estimated Effective Gross Income

The Developer will enter into a lease agreement with Ambitions California, Inc. (Service Provider), a certified service provider of the Harbor Regional Center. The lease will have an initial 10-year term, and the Service Provider will be allowed one five-year option to extend.

The Service Provider will lease the Property from the Developer for a base annual rent amount of \$54,100. 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 \$39,400 per year. Thus, the Service Provider will guarantee to provide the Project at least \$14,700 in annual revenue in addition to the revenue generated from the maximum amount of the tenants' rent payments.¹

Given that the Service Provider will guarantee \$54,100 in annual revenue to the Project, KMA did not include a vacancy and collection allowance. Thus, the effective gross income is estimated at \$54,100.

Operating Expenses

The lease between the Developer and the Service provider is structured as a NNN lease. Thus, the Service Provider will be contractually obligated to cover the Project's general operating expenses such as property taxes, insurance, repairs, and maintenance expenses. As such, the operating expenses to be paid out of the Project's cash flow are estimated at \$4,400 per year based on the following assumptions:

¹ It is likely that the combined rental income from the tenants will be less than the allowable FMR. As such, the Service Provider will likely be required to pay more than \$14,700 per year to meet the annual lease payment amount.

1. The property management, asset management, and office administration expenses are estimated at \$3,400 per year.
2. As noted above, the general operating expenses and property tax payments will be paid by the Service Provider. Thus, these operating expenses are set at \$0 per year.
3. The Developer assumed an annual replacement reserve deposit of \$1,000 per year. This equates to \$83 per month, which can be considered reasonable given that the Service Provider will be responsible for all maintenance and repairs during the lease term.

Stabilized Net Operating Income

The Project's effective gross income is estimated at \$54,100, and the operating expenses are estimated at \$4,400. This results in estimated stabilized net operating income of \$49,700.

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 the Service Provider. 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 letter of intent from Pacific Premier Bank, which states that the lender will provide up to 80% loan to value (LTV) of the Property, which equates to \$612,000. 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 15-year term with annual debt service payments based on a 30-year amortization.

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 \$682,100 loan. Given that this amount is more than the amount calculated based on 80% of the Project's appraised value (\$612,000), the 80% LTV amount is included in this analysis.

HOPE Contribution

The Developer will provide \$32,600 in equity to the Project.

Total Available Outside Funding Sources

As shown in Table 3, the outside funding sources available to the Project total \$644,600.

Financial Gap Calculation

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

Financial Gap Calculation	
Total Development Costs	\$794,500
(Less) Total Available Funding Sources	(\$644,600)
Financial Gap	\$149,900

The Developer is requesting \$150,000 in HOME Funds from the City, which is approximately equal to the KMA financial gap estimate. Thus, the Developer's financial assistance request is warranted by the Project's economics.

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 the total development costs, which is reasonable.
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	No other parties are expected to participate in the Project.

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

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 audited financial statements for 2016 and 2017 that comply with the generally accepted accounting principles in the United States. The 2016 and 2017 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 115 properties valued at over \$54 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 52 24-hour residential care 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.

Rosecrans Avenue

In March 2016, the Developer acquired a triplex located on Rosecrans Avenue in the City of Norwalk. The Developer rehabilitated the property into a permanent supportive housing project for adults with developmental disabilities. The project was completed in partnership with the City of Norwalk, the Harbor Regional Center, the Rose Hills Foundation, the Bank of the West Foundation, and numerous donors.

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 audited financial statements for 2016 and 2017 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 states that they have a waiting list with 124 applicants for housing within the Long Beach market. Thus, it can be concluded that there is sufficient demand for the proposed Project. The Property is fully occupied, and all tenants are expected to remain after the Developer acquires the Property. As such, 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 November 2019
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	Not Applicable
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 November 2019
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 \$150,000 will be disbursed to the Developer for eligible costs related to the acquisition and indirect costs associated with 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 \$150,000 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. \$150,000 in HOME Program assistance is assumed to be provided.
2. The Developer estimates the Project costs at \$794,376.
3. Based on the preceding assumptions, the HOME Program assistance is equal to 19% of the Project costs.

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) four-bedroom unit.
2. The 2018 HOME Subsidy Limit for a four-bedroom unit in Los Angeles County is \$291,136.
3. The City's HOME assistance amount of \$150,000 is below the 2018 HOME subsidy limit for a four-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	Not Applicable
Construction progress inspections	Not Applicable

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 2019 FMR is set at \$3,287 per month.

I. Financial Commitments

The City will enter into the HOME Loan Financing Agreement to provide \$150,000 to the Project by November 30, 2019. 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"/>
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 type="checkbox"/>	April 2019
Environmental Review Requirements have been met	<input type="checkbox"/>	Before March 31, 2019
Legally binding written agreement has been executed	<input type="checkbox"/>	Before April 15, 2019
All necessary financing is secured	<input checked="" type="checkbox"/>	January 31, 2019
Subsidy Layering & Underwriting Analysis Completed	<input checked="" type="checkbox"/>	January 31, 2019
Construction Expected to begin within 12 months	<input checked="" type="checkbox"/>	Not Applicable
Commitment Date	<input type="checkbox"/>	Before November 30, 2019

Appendix A

Financial Gap Analysis

ESTIMATED DEVELOPMENT COSTS
1 HIGH HOME UNIT
6127 KEYNOTE STREET
LONG BEACH, CALIFORNIA

¹ Based on an appraisal prepared on December 4, 2018 by AppraisalTEC, which estimates the As-Is value of the property at \$765,000.
² Based on Developer's estimates.

APPENDIX A - TABLE 2

STABILIZED NET OPERATING INCOME
1 HIGH HOME UNIT
6127 KEYNOTE STREET
LONG BEACH, CALIFORNIA

I. <u>Effective Gross Income</u>				
Maximum Tenant-Paid Rental Income	1	1 Unit @	\$3,287 /Month	\$39,400
Service Provider Income	2			14,700
(Less) Vacancy and Collection	3	0.0% Gross Income		0
Total Effective Gross Income				\$54,100
II. <u>Operating Expenses</u>				
Property Mgt/Asset Mgt/Admin Expenses	4			\$3,400
General Operating Expenses	5			0
Property Taxes	5	0.00% Purchase Price		0
Replacement Reserve				1,000
Total Operating Expenses				(\$4,400)
III. <u>Stabilized Net Operating Income</u>				\$49,700

- 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 four-bedroom units at \$3,287 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 \$54,096 in Year 1. The tenant-paid portion of the rent (\$3,287 per month) will offset this contract amount.
- ³ No vacancy allowance is assumed since the service provider will guarantee annual income.
- ⁴ Based on Developer estimates.
- ⁵ The service provider will lease the property from the Developer via a NNN lease and thus, will pay for all general operating expenses including repairs, maintenance, insurance and property taxes.

APPENDIX A - TABLE 3

FINANCIAL GAP CALCULATION

1 HIGH HOME UNIT

6127 KEYNOTE STREET

LONG BEACH, CALIFORNIA

I. Available Funding Sources

Permanent Loan

Stabilized Net Operating Income

\$49,700 See APPENDIX A - TABLE 2

Income Available for Mortgage

1.10 DCR

\$45,200 Debt Service

Interest Rate / Mortgage Constant

5.25% Interest Rate

6.63% Mortgage Constant

Total Permanent Loan

\$612,000

HOPE Equity

\$32,600

Total Available Funding Sources

\$644,600

II. Financial Gap Calculation

Total Development Costs

See APPENDIX A - TABLE 1

\$794,500

(Less) Total Available Funding Sources

(644,600)

III. Total Financial Gap

1 Units

\$149,900 /Unit

\$149,900

¹ Assumes a 30-year amortization period with a 15-year term.

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 \$682,100 loan amount and 80% loan to value equates to \$612,000. Thus, the permanent loan amount is set at \$612,000.

³ Based on Developer estimate.

Appendix B

HOME Unit Designation

APPENDIX B - TABLE 1

HOME UNIT DESIGNATION CALCULATION

1 HIGH HOME UNIT

6127 KEYNOTE STREET

LONG BEACH, CALIFORNIA

I. <u>Development Costs Test</u>			
	1		
HOME Funds Requested		\$150,000	
Total Development Costs (See APPENDIX A - TABLE 1)		\$794,376	
HOME Funds as % of Total Development Costs		19%	
HOME Unit Requirement	2		1.0
II. <u>Subsidy Limit Test</u>			
HOME Funds Requested		\$150,000	
Four-Bedroom Unit Subsidy Limit		\$291,136	
HOME Unit Requirement	2		1.0
III. <u>Minimum Number of HOME Designated Units</u>		1 Units	

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.



HOME UNDERWRITING & SUBSIDY LAYERING REVIEW

6711 East 9th Street

City of Long Beach

Keyser Marston Associates, Inc.

January 31, 2019

Table of Contents

I. EXECUTIVE SUMMARY	2
II. PROJECT DESCRIPTION.....	3
III. PROJECT UNDERWRITING ASSESSMENT	4
A. Estimated Project Costs.....	4
B. Income and Affordability Requirements	5
C. Stabilized Net Operating Income.....	5
D. Financial Gap Calculation	6
E. Profit and Returns.....	7
IV. DEVELOPER ASSESSMENT	7
A. Developer's Financial Capacity	7
B. Ability to Perform	8
C. Fiscal Soundness	9
D. Conclusion	9
V. MARKET ASSESSMENT	9
VI. HOME REQUIREMENTS.....	10
A. HOME Program Deadlines.....	10
B. Written Agreement.....	10
C. Layering Requirements	11
D. HOME Unit Designation (Appendix B)	12
E. Affordability Period.....	13
F. Cost Allocation (§92.205(d))	13
G. Property Standards (§92.251)	14
H. HOME Rents / Utility Allowances	14
I. Financial Commitments.....	14
VII. CERTIFICATIONS.....	14
VIII. COMMITMENT CHECKLIST (§92.2).....	16

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 acquisition of a single-family home located at 6711 East 9th Street (Property) that currently operates as a 24-hour licensed care facility (Project). Home Ownership for Personal Empowerment (Developer) will undertake the Project and will continue to operate a group home for individuals with severe developmental disabilities at the Property. 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 \$684,000 conventional mortgage;
2. The Developer will provide \$52,300 in equity.

The KMA analysis concluded the following:

1. Underwriting Analysis:
 - a. The Project costs are estimated at \$887,800. The Developer will obtain \$736,300 in outside funding sources, which results in a \$151,500 shortfall. The City is proposing to provide \$151,700 in HOME funds, which is approximately equal to the financial gap estimated by KMA. Thus, the analysis demonstrates that the proposed

\$151,700 in HOME assistance is necessary to provide the proposed affordable housing units.

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 states that they have a waiting list with 124 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 November 2019. The Property is currently fully occupied, and all tenants are expected to remain. 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. The Developer will operate the Project as a group home with shared occupancy for four individuals.
2. Each of the four bedrooms will be leased to one person with a developmental disability.
3. The residents will have on-site care and supervision at all times.
4. 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 January 30, 2019. 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 \$855,000. The Developer provided an appraisal prepared by AppraisalTEC on December 4, 2018. The appraisal estimates the As-Is Value of the Property at \$855,000, which is equal to the proposed purchase price.

Direct Costs

The Developer states that the Property is in good condition, and no rehabilitation will be necessary. As such, no direct costs are included in the analysis.

Indirect Costs

The indirect costs are estimated at \$32,800 as follows:

1. The predevelopment costs are estimated at 0.4% of total acquisition costs, or \$3,800. The predevelopment costs include Project transaction, legal and accounting costs.
2. The closing costs are estimated at \$17,100, or 2% of total acquisition costs.
3. The Developer Fee is set at \$8,600, which equates to approximately 1% of the total development costs.
4. The permanent loan origination fees are estimated at 0.5 loan points, or \$3,300.

Total Development Costs

KMA estimates the total development costs at \$887,800, 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 funds to the Project. As such, the Project will be subject to HOME Program household income limits and rent standards. The Developer is proposing to designate the four-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 four-bedroom units in the 90815 zip code at \$3,413 per month.

C. Stabilized Net Operating Income

Estimated Effective Gross Income

The Developer will enter into a lease agreement with Ambitions California, Inc. (Service Provider), a certified service provider of the Harbor Regional Center. The lease will have an initial 10-year term, and the Service Provider will be allowed one five-year option to extend.

The Service Provider will lease the Property from the Developer for a base annual rent amount of \$60,500. 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 \$41,000 per year. Thus, the Service Provider will guarantee to provide the Project at least \$19,500 in annual revenue in addition to the revenue generated from the maximum amount of the tenants' rent payments.¹

Given that the Service Provider will guarantee \$60,500 in annual revenue to the Project, KMA did not include a vacancy and collection allowance. Thus, the effective gross income is estimated at \$60,500.

Operating Expenses

The lease between the Developer and the Service provider is structured as a NNN lease. Thus, the Service Provider will be contractually obligated to cover the Project's general operating expenses such as property taxes, insurance, repairs, and maintenance expenses. As such, the operating expenses to be paid out of the Project's cash flow are estimated at \$4,500 per year based on the following assumptions:

¹ It is likely that the combined rental income from the tenants will be less than the allowable FMR. As such, the Service Provider will likely be required to pay more than \$19,500 per year to meet the annual lease payment amount.

1. The property management, asset management, and office administration expenses are estimated at \$3,500 per year.
2. As noted above, the general operating expenses and property tax payments will be paid by the Service Provider. Thus, these operating expenses are set at \$0 per year.
3. The Developer assumed an annual replacement reserve deposit of \$1,000 per year. This equates to \$83 per month, which can be considered reasonable given that the Service Provider will be responsible for all maintenance and repairs during the lease term.

Stabilized Net Operating Income

The Project's effective gross income is estimated at \$60,500, and the operating expenses are estimated at \$4,500. This results in estimated stabilized net operating income of \$56,000.

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 the Service Provider. 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 letter of intent from Pacific Premier Bank, which states that the lender will provide up to 80% loan to value (LTV) of the Property, which equates to \$684,000. 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 15-year term with annual debt service payments based on a 30-year amortization.

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 \$768,100 loan. Given that this amount is more than the amount calculated based on 80% of the Project's appraised value (\$684,000), the 80% LTV amount is included in this analysis.

HOPE Contribution

The Developer will provide \$52,300 in equity to the Project.

Total Available Outside Funding Sources

As shown in Table 3, the outside funding sources available to the Project total \$736,300.

Financial Gap Calculation

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

Financial Gap Calculation	
Total Development Costs	\$887,800
(Less) Total Available Funding Sources	(\$736,300)
Financial Gap	\$151,500

The Developer is requesting \$151,700 in HOME Funds from the City, which is approximately equal to the KMA financial gap estimate. Thus, the Developer's financial assistance request is warranted by the Project's economics.

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 the total development costs, which is reasonable.
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	No other parties are expected to participate in the Project.

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

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 audited financial statements for 2016 and 2017 that comply with the generally accepted accounting principles in the United States. The 2016 and 2017 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 115 properties valued at over \$54 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 52 24-hour residential care 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.

Rosecrans Avenue

In March 2016, the Developer acquired a triplex located on Rosecrans Avenue in the City of Norwalk. The Developer rehabilitated the property into a permanent supportive housing project for adults with developmental disabilities. The project was completed in partnership with the City of Norwalk, the Harbor Regional Center, the Rose Hills Foundation, the Bank of the West Foundation, and numerous donors.

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 audited financial statements for 2016 and 2017 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 states that they have a waiting list with 124 applicants for housing within the Long Beach market. Thus, it can be concluded that there is sufficient demand for the proposed Project. The Property is fully occupied, and all tenants are expected to remain after the Developer acquires the Property. As such, 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 November 2019
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	Not Applicable
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 November 2019
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 \$151,700 will be disbursed to the Developer for eligible costs related to the acquisition and indirect costs associated with 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 \$151,700 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. \$151,700 in HOME Program assistance is assumed to be provided.
2. The Developer estimates the Project costs at \$887,681.
3. Based on the preceding assumptions, the HOME Program assistance is equal to 17% of the Project costs.

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) four-bedroom unit.
2. The 2018 HOME Subsidy Limit for a four-bedroom unit in Los Angeles County is \$291,136.
3. The City's HOME assistance amount of \$151,700 is below the 2018 HOME subsidy limit for a four-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	Not Applicable
Construction progress inspections	Not Applicable

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 2019 FMR is set at \$3,413 per month.

I. Financial Commitments

The City will enter into the HOME Loan Financing Agreement to provide \$151,700 to the Project by November 30, 2019. 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"/>
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 type="checkbox"/>	April 2019
Environmental Review Requirements have been met	<input type="checkbox"/>	Before March 31, 2019
Legally binding written agreement has been executed	<input type="checkbox"/>	Before April 15, 2019
All necessary financing is secured	<input checked="" type="checkbox"/>	January 31, 2019
Subsidy Layering & Underwriting Analysis Completed	<input checked="" type="checkbox"/>	January 31, 2019
Construction Expected to begin within 12 months	<input checked="" type="checkbox"/>	Not Applicable
Commitment Date	<input type="checkbox"/>	Before November 30, 2019

Appendix A

Financial Gap Analysis

APPENDIX A - TABLE 1

ESTIMATED DEVELOPMENT COSTS
1 HIGH HOME UNIT
6711 EAST 9TH STREET
LONG BEACH, CALIFORNIA

I.	Property Acquisition Costs	1							\$855,000
II.	<u>Indirect & Financing Costs</u>								
	Predevelopment Expenses	3	0.4% Acquisition Costs					\$3,800	
	Closing Costs		2.0% Acquisition Costs					17,100	
	Developer Fee		1.0% Total Development Costs					8,600	
	Loan Origination Fees		\$684,000 Permanent Loan	0.5	Points			3,300	
	Total Indirect & Financing Costs								\$32,800
III.	Total Development Costs								\$887,800

¹ Based on an appraisal prepared by AppraisalTEC on December 4, 2018, which estimates the As-Is Value of the property at \$855,000.

² Based on Developer's estimates.

APPENDIX A - TABLE 2

STABILIZED NET OPERATING INCOME

1 HIGH HOME UNIT

6711 EAST 9TH STREET

LONG BEACH, CALIFORNIA

I. <u>Effective Gross Income</u>					
Maximum Tenant-Paid Rental Income	1	1 Unit @	\$3,413 /Month	\$41,000	
Service Provider Income	2			19,500	
(Less) Vacancy and Collection	3	0.0% Gross Income		0	
Total Effective Gross Income					\$60,500
 II. <u>Operating Expenses</u>					
Property Mgt/Asset Mgt/Admin Expenses	4			\$3,500	
General Operating Expenses	5			0	
Property Taxes	5	0.00% Purchase Price		0	
Replacement Reserve				1,000	
Total Operating Expenses					(\$4,500)
III. <u>Stabilized Net Operating Income</u>					\$56,000

- 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 four-bedroom units at \$3,413 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 \$60,456 in Year 1. The tenant-paid portion of the rent (\$3,413 per month) will offset this contract amount.
- ³ No vacancy allowance is assumed since the service provider will guarantee annual income. Based on Developer estimates.
- ⁴ The service provider will lease the property from the Developer via a NNN lease and thus, will pay for all general operating expenses including repairs, maintenance, insurance and property taxes.

APPENDIX A - TABLE 3

FINANCIAL GAP CALCULATION

1 HIGH HOME UNIT

6711 EAST 9TH STREET

LONG BEACH, CALIFORNIA

I. Available Funding Sources

Permanent Loan

Stabilized Net Operating Income

Income Available for Mortgage

Interest Rate / Mortgage Constant

1

\$56,000 See APPENDIX A - TABLE 2

1.10 DCR

5.25% Interest Rate

\$50,900 Debt Service

6.63% Mortgage Constant

Total Permanent Loan

2

\$684,000

HOPE Equity

3

\$52,300

Total Available Funding Sources

\$736,300

II. Financial Gap Calculation

Total Development Costs

See APPENDIX A - TABLE 1

\$887,800

(Less) Total Available Funding Sources

(736,300)

Total Financial Gap

1 Units

\$151,500 /Unit

\$151,500

¹ Assumes a 30-year amortization period with a 15-year term.

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 \$768,100 loan amount and 80% loan to value equates to \$684,000. Thus, the permanent loan amount is set at \$684,000.

³ Based on Developer estimate.

Appendix B

HOME Unit Designation

APPENDIX B - TABLE 1

HOME UNIT DESIGNATION CALCULATION

1 HIGH HOME UNIT

6711 EAST 9TH STREET

LONG BEACH, CALIFORNIA

I. <u>Development Costs Test</u>			
	1		
HOME Funds Requested		\$151,676	
Total Development Costs (See APPENDIX A - TABLE 1)		\$887,681	
HOME Funds as % of Total Development Costs		17%	
HOME Unit Requirement	2		1.0
II. <u>Subsidy Limit Test</u>			
HOME Funds Requested		\$151,676	
Four-Bedroom Subsidy Limit		\$291,136	
HOME Unit Requirement	2		1.0
III. <u>Minimum Number of HOME Designated Units</u>		1 Units	

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.



HOME UNDERWRITING & SUBSIDY LAYERING REVIEW

4734 Sunfield Ave

City of Long Beach

Keyser Marston Associates, Inc.

January 31, 2019

Table of Contents

I. EXECUTIVE SUMMARY	2
II. PROJECT DESCRIPTION.....	3
III. PROJECT UNDERWRITING ASSESSMENT	4
A. Estimated Project Costs.....	4
B. Income and Affordability Requirements	5
C. Stabilized Net Operating Income.....	5
D. Financial Gap Calculation	6
E. Profit and Returns.....	7
IV. DEVELOPER ASSESSMENT	7
A. Developer's Financial Capacity	7
B. Ability to Perform	8
C. Fiscal Soundness	9
D. Conclusion	9
V. MARKET ASSESSMENT	9
VI. HOME REQUIREMENTS	10
A. HOME Program Deadlines.....	10
B. Written Agreement	10
C. Layering Requirements	11
D. HOME Unit Designation (Appendix B)	12
E. Affordability Period.....	13
F. Cost Allocation (§92.205(d))	13
G. Property Standards (§92.251)	14
H. HOME Rents / Utility Allowances	14
I. Financial Commitments.....	14
VII. CERTIFICATIONS.....	14
VIII. COMMITMENT CHECKLIST (§92.2).....	16

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 acquisition of a single-family home located at 4734 Sunfield Avenue (Property) that currently operates as a 24-hour licensed care facility (Project). Home Ownership for Personal Empowerment (Developer) will undertake the Project and will continue to operate a group home for individuals with severe developmental disabilities at the Property. 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 \$576,000 conventional mortgage;
2. The Developer will provide \$21,900 in equity.

The KMA analysis concluded the following:

1. Underwriting Analysis:
 - a. The Project costs are estimated at \$747,500. The Developer will obtain \$597,900 in outside funding sources, which results in a \$149,600 shortfall. The City is proposing to provide \$150,000 in HOME funds, which is approximately equal to the financial gap estimated by KMA. Thus, the analysis demonstrates that the proposed

\$150,000 in HOME assistance is necessary to provide the proposed affordable housing units.

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 states that they have a waiting list with 124 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 November 2019. The Property is currently fully occupied, and all tenants are expected to remain. 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 five bedrooms. The Developer will operate the Project as a group home with shared occupancy for four

individuals. One bedroom will be used as a staff office and storage area, and the remaining four bedrooms will be utilized for the residents. As such, the Property is considered a four-bedroom unit for HOME-designation purposes.

2. Each of the four bedrooms will be leased to one person with a developmental disability.
3. The residents will have on-site care and supervision at all times.
4. 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 January 30, 2019. 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 \$720,000. The Developer provided an appraisal prepared by AppraisalTEC on December 4, 2018. The appraisal estimates the As-Is Value of the Property at \$720,000, which is equal to the proposed purchase price.

Direct Costs

The Developer states that the Property is in good condition, and no rehabilitation will be necessary. As such, no direct costs are included in the analysis.

Indirect Costs

The indirect costs are estimated at \$27,500 as follows:

1. The predevelopment costs are estimated at 0.4% of total acquisition costs, or \$3,200. The predevelopment costs include Project transaction, legal and accounting costs.
2. The closing costs are estimated at \$14,400, or 2% of total acquisition costs.
3. The Developer Fee is set at \$7,200, which equates to approximately 1% of the total development costs.
4. The permanent loan origination fees are estimated at 0.5 loan points, or \$2,700.

Total Development Costs

KMA estimates the total development costs at \$747,500, 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 funds to the Project. As such, the Project will be subject to HOME Program household income limits and rent standards. The Developer is proposing to designate the four-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 four-bedroom units in the 90808 zip code at \$3,287 per month.

C. Stabilized Net Operating Income

Estimated Effective Gross Income

The Developer will enter into a lease agreement with Ambitions California, Inc. (Service Provider), a certified service provider of the Harbor Regional Center. The lease will have an initial 10-year term, and the Service Provider will be allowed one five-year option to extend.

The Service Provider will lease the Property from the Developer for a base annual rent amount of \$50,900. 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 \$45,300 per year. Thus, the Service Provider will guarantee to provide the Project at least \$5,600 in annual revenue in addition to the revenue generated from the maximum amount of the tenants' rent payments.¹

Given that the Service Provider will guarantee \$50,900 in annual revenue to the Project, KMA did not include a vacancy and collection allowance. Thus, the effective gross income is estimated at \$50,900.

Operating Expenses

The lease between the Developer and the Service provider is structured as a NNN lease. Thus, the Service Provider will be contractually obligated to cover the Project's general operating expenses such as property taxes, insurance, repairs, and maintenance expenses. As such, the operating expenses to be paid out of the Project's cash flow are estimated at \$4,300 per year based on the following assumptions:

¹ It is likely that the combined rental income from the tenants will be less than the allowable FMR. As such, the Service Provider will likely be required to pay more than \$5,600 per year to meet the annual lease payment amount.

1. The property management, asset management, and office administration expenses are estimated at \$3,300 per year.
2. As noted above, the general operating expenses and property tax payments will be paid by the Service Provider. Thus, these operating expenses are set at \$0 per year.
3. The Developer assumed an annual replacement reserve deposit of \$1,000 per year. This equates to \$83 per month, which can be considered reasonable given that the Service Provider will be responsible for all maintenance and repairs during the lease term.

Stabilized Net Operating Income

The Project's effective gross income is estimated at \$50,900, and the operating expenses are estimated at \$4,300. This results in estimated stabilized net operating income of \$46,600.

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 the Service Provider. 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 letter of intent from Pacific Premier Bank, which states that the lender will provide up to 80% loan to value (LTV) of the Property, which equates to \$576,000. 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 15-year term with annual debt service payments based on a 30-year amortization.

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 \$639,900 loan. Given that this amount is more than the amount calculated based on 80% of the Project's appraised value (\$576,000), the 80% LTV amount is included in this analysis.

HOPE Contribution

The Developer will provide \$21,900 in equity to the Project.

Total Available Outside Funding Sources

As shown in Table 3, the outside funding sources available to the Project total \$597,900.

Financial Gap Calculation

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

Financial Gap Calculation	
Total Development Costs	\$747,500
(Less) Total Available Funding Sources	(\$597,900)
Financial Gap	\$149,600

The Developer is requesting \$150,000 in HOME Funds from the City, which is approximately equal to the KMA financial gap estimate. Thus, the Developer's financial assistance request is warranted by the Project's economics.

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 the total development costs, which is reasonable.
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	No other parties are expected to participate in the Project.

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

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 audited financial statements for 2016 and 2017 that comply with the generally accepted accounting principles in the United States. The 2016 and 2017 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 115 properties valued at over \$54 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 52 24-hour residential care 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.

Rosecrans Avenue

In March 2016, the Developer acquired a triplex located on Rosecrans Avenue in the City of Norwalk. The Developer rehabilitated the property into a permanent supportive housing project for adults with developmental disabilities. The project was completed in partnership with the City of Norwalk, the Harbor Regional Center, the Rose Hills Foundation, the Bank of the West Foundation, and numerous donors.

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 audited financial statements for 2016 and 2017 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 states that they have a waiting list with 124 applicants for housing within the Long Beach market. Thus, it can be concluded that there is sufficient demand for the proposed Project. The Property is fully occupied, and all tenants are expected to remain after the Developer acquires the Property. As such, 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 November 2019
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	Not Applicable
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 November 2019
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 \$150,000 will be disbursed to the Developer for eligible costs related to the acquisition and indirect costs associated with 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 \$150,000 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. \$150,000 in HOME Program assistance is assumed to be provided.
2. The Developer estimates the Project costs at \$747,541.
3. Based on the preceding assumptions, the HOME Program assistance is equal to 20% of the Project costs.

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) four-bedroom unit.
2. The 2018 HOME Subsidy Limit for a four-bedroom unit in Los Angeles County is \$291,136.
3. The City's HOME assistance amount of \$150,000 is below the 2018 HOME subsidy limit for a four-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	Not Applicable
Construction progress inspections	Not Applicable

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 2019 FMR is set at \$3,287 per month.

I. Financial Commitments

The City will enter into the HOME Loan Financing Agreement to provide \$150,000 to the Project by November 30, 2019. 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"/>
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 type="checkbox"/>	April 2019
Environmental Review Requirements have been met	<input type="checkbox"/>	Before March 31, 2019
Legally binding written agreement has been executed	<input type="checkbox"/>	Before April 15, 2019
All necessary financing is secured	<input checked="" type="checkbox"/>	January 31, 2019
Subsidy Layering & Underwriting Analysis Completed	<input checked="" type="checkbox"/>	January 31, 2019
Construction Expected to begin within 12 months	<input checked="" type="checkbox"/>	Not Applicable
Commitment Date	<input type="checkbox"/>	Before November 30, 2019

Appendix A

Financial Gap Analysis

ESTIMATED DEVELOPMENT COSTS
1 HIGH HOME UNIT
4734 SUNFIELD AVENUE
LONG BEACH, CALIFORNIA

¹ Based on an appraisal prepared by AppraisalTEC on December 4, 2018, which estimates the As-Is Value of the property at \$720,000.
² Based on Developer's estimates.

APPENDIX A - TABLE 2

STABILIZED NET OPERATING INCOME
1 HIGH HOME UNIT
4734 SUNFIELD AVENUE
LONG BEACH, CALIFORNIA

I. <u>Effective Gross Income</u>					
Maximum Tenant-Paid Rental Income	1	1 Unit @	\$3,287 /Month	\$39,400	
Service Provider Income	2			11,500	
(Less) Vacancy and Collection	3	0.0% Gross Income		0	
Total Effective Gross Income					\$50,900
II. <u>Operating Expenses</u>					
Property Mgt/Asset Mgt/Admin Expenses	4			\$3,300	
General Operating Expenses	5			0	
Property Taxes	5	0.00% Purchase Price		0	
Replacement Reserve				1,000	
Total Operating Expenses					(\$4,300)
III. <u>Stabilized Net Operating Income</u>					\$46,600

- 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 four-bedroom units at \$3,287 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 \$50,916 in Year 1. The tenant-paid portion of the rent (\$3,287 per month) will offset this contract amount.
- ³ No vacancy allowance is assumed since the service provider will guarantee annual income.
- ⁴ Based on Developer estimates.
- ⁵ The service provider will lease the property from the Developer via a NNN lease and thus, will pay for all general operating expenses including repairs, maintenance, insurance and property taxes.

APPENDIX A - TABLE 3

FINANCIAL GAP CALCULATION
1 HIGH HOME UNIT
4734 SUNFIELD AVENUE
LONG BEACH, CALIFORNIA

I. Available Funding Sources

Permanent Loan

Stabilized Net Operating Income	1	\$46,600	See APPENDIX A - TABLE 2	
Income Available for Mortgage		1.10 DCR	\$42,400 Debt Service	
Interest Rate / Mortgage Constant		5.25% Interest Rate	6.63% Mortgage Constant	

Total Permanent Loan	2			\$576,000
-----------------------------	---	--	--	-----------

HOPE Equity	3			\$21,900
--------------------	---	--	--	----------

Total Available Funding Sources				\$597,900
--	--	--	--	------------------

II. Financial Gap Calculation

Total Development Costs	See APPENDIX A - TABLE 1	\$747,500
(Less) Total Available Funding Sources		(597,900)

III. Total Financial Gap	1 Units	\$149,600 /Unit	\$149,600
---------------------------------	----------------	------------------------	------------------

¹ Assumes a 30-year amortization period with a 15-year term.

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 \$639,900 loan amount and 80% loan to value equates to \$576,000. Thus, the permanent loan amount is set at \$576,000.

³ Based on Developer estimate.

Appendix B

HOME Unit Designation

APPENDIX B - TABLE 1

HOME UNIT DESIGNATION CALCULATION

1 HIGH HOME UNIT

4734 SUNFIELD AVENUE

LONG BEACH, CALIFORNIA

I. <u>Development Costs Test</u>			
	1		
HOME Funds Requested		\$150,000	
Total Development Costs (See APPENDIX A - TABLE 1)		\$747,541	
HOME Funds as % of Total Development Costs		20%	
HOME Unit Requirement	2		1.0
II. <u>Subsidy Limit Test</u>			
HOME Funds Requested		\$150,000	
Four-Bedroom Unit		\$291,136	
HOME Unit Requirement	2		1.0
III. <u>Minimum Number of HOME Designated Units</u>			1 Units

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.

