ATTACHMENT D

HOME UNDERWRITING & SUBSIDY LAYERING REVIEW

Federation Tower Apartments

City of Long Beach

Keyser Marston Associates, Inc.
May 20, 2019

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At the City of Long Beach's (City) request, Keyser Marston Associates prepared a HOME Underwriting & Subsidy Layering Review for the acquisition and rehabilitation of a 50-unit apartment project reserved for senior citizen households (Project) located at 3799 East Willow Street (Site). The Project is proposed to be completed by MRK Partners (Developer).

The City intends 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 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 determine the feasibility and to ensure that no more than the necessary amount of HOME funds, in combination with other governmental assistance, is invested by the City in order to provide affordable housing. This section also provides an assessment of the reasonableness of the Developer Fee, cash flow, equity appreciation and profit anticipated to be generated by the Project.

2. An evaluation of the Developer's capacity to develop and operate the Project.

3. A review and summary of the residential rental market 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 complete the Project using the following funding sources:

Funding	Source
Conventional Loan	Provided by R4 Capital Funding LLC
4% Tax Credits	Allocated by TCAC, Equity provided by an affiliate of R4 Capital LLC
HOME Loan	Provided by the City for the Project
Net Operating Income	The project will continue operating during rehabilitation
Seller Credit	The Seller provided a credit to repay the existing HUD 202 Loan
Existing HUD 2020 Reserve	The Developer will utilize an existing reserve for rehabilitation costs
Deferred Developer Fee	Provided by Developer

The KMA analysis concluded the following:

1. Underwriting Analysis:

   a. KMA estimates the Project costs at $23.74 million and the available funding sources at $23.0 million, which results in a financial gap of approximately $736,000. The Developer is requesting $750,000 in HOME funds from the City, which equates to a less than 2% differential between the Developer's request and the financial gap estimated by KMA. Thus, the analysis demonstrates that the proposed $750,000 in HOME assistance is necessary to provide the proposed affordable housing units.

b. The cash flow analysis projects that the Project will have positive cash flow throughout the 55-year affordability and loan term.

c. The developer fee, cash flow projection, equity appreciation, and profit anticipated to be generated by the Project are appropriate.

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

3. The Developer provided a market study prepared by Colliers International Valuation & Advisory Services, which demonstrates that there will be sufficient demand in the market area to absorb the 50 affordable units within the HOME deadlines.

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 meet the HOME requirements for the number of HOME designated units as well as the number of units restricted to very-low income households. The HOME units will be fixed.
Affordability Period	The Project will meet the HOME requirement for the affordability period.
Cost Allocation	The standard cost allocation methodology was utilized.
Property Standards	The Project will meet the HOME property standard requirements for rehabilitation and on-going property management.
HOME Rents / Utility Allowances	The HOME units will be restricted at the appropriate rents and utility allowances.
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 Site is comprised of 0.93 acres, or 40,500 square feet of land area. The Site includes an existing apartment building, which the Developer will acquire and rehabilitate. The Project includes a total of 50 apartment units (inclusive of a manager's unit). The Project's gross building area (GBA) is estimated at 28,000 sf. The Project's density equates to approximately 54 units per acre.

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

	Number of Units	Avg Unit Size (Sf)
Studio Units	12	450
One-Bedroom Units	38	600
Total/Average	**50**	**564**

3. The Project includes 22 surface parking spaces. This equates to 0.44 parking spaces per unit.

4. The units will be restricted for affordability purposes by the City with the following affordability mix:

Affordability Mix	
Tax Credit Median @ 50%	19
Tax Credit Median @ 60%	30
Unrestricted Manager's Unit	1
Total Units	**50**

5. The Project will include 49 Section 8 Project-Based Vouchers (PBVs) provided by the Los Angeles LOMOD Corporation.

III. PROJECT UNDERWRITING ASSESSMENT

KMA prepared a pro forma analysis to assist in evaluating Developer's proposal. The analysis is located in Appendix A at the end of this report and is organized as follows:

Table 1:	Estimated Development Costs
Table 2:	Stabilized Net Operating Income
Table 3:	Financial Gap Calculation
Table 4:	Cash Flow Analysis
Table 5:	HOME Cost Allocation Analysis

A. Estimated Development Costs (Table 1)

KMA reviewed the Developer's cost estimate provided in May 2019. The Developer provided a general contractor scope of work and budget from MFRG-ICON Construction to support the construction cost estimates. After reviewing the proposed scope of work and the acquisition costs, KMA found the assumptions to be reasonable and necessary to complete the proposed Project. The resulting estimated development costs are as follows:

Property Assemblage Costs

The total property assemblage costs are estimated to total $14.67 million, or $293,300 per unit as follows:

Property Acquisition Costs

The Developer acquired the property for $14,565,000 in April 2019. According to an appraisal prepared by Colliers International Valuation & Advisory Services, dated October 10, 2018, the As-Is Market Value of the property is $14.30 million, which is $265,000 lower than the purchase price. However, the Developer stated that the Seller performed various property improvements during the escrow period. The Developer reimbursed the Seller for these improvements by increasing the purchase price.

Relocation Costs

The building is currently 100% occupied with senior citizen households. The Developer anticipates that only temporary relocation will be required. The Developer estimates the temporary relocation costs at $100,000. A formal relocation plan was not provided for review.

Direct Costs

The direct cost estimates assume that the Project will be not be subject to Federal or State prevailing wage requirements. The direct costs are estimated at $2,528,000, or $50,600 per unit.

1. The Developer did not provide an allowance for off-site improvements. City staff should verify the accuracy of this assumption.

2. The site improvement costs are estimated at $44,000, which equates to approximately $1 per square foot of land area.

3. The direct rehabilitation costs are estimated at $1.95 million, or $39,000 per unit.

4. A 14% allowance for contractor fees and general requirements is included, which is equal to the maximum 14% allowed by TCAC. The construction is being undertaken by a third-party general contractor.

5. A 1% allowance for construction insurance and bonds is included.

6. KMA included a 10% direct cost contingency allowance.

KMA concludes that the proposed direct costs are reasonable and necessary for the construction of the Project per the proposed scope of work. TCAC has also reviewed the Project budget and awarded Tax Credits to the Project.

Indirect Costs

KMA utilized the following assumptions for the indirect costs:

1. Architecture, engineering and consulting costs are estimated at 18% of direct costs, or \$456,000. This estimate appears reasonable for an acquisition and rehabilitation project.

2. The Developer estimated the public permits and fees costs at \$50,000, or \$1,000 per unit. City staff should verify the accuracy of this estimate.

3. The taxes, insurance, legal and accounting costs are estimated at 6% of direct costs, or \$154,000.

4. The Developer did not include an allowance for marketing and leasing since the Project is 100% occupied.

5. The Developer Fee is set at \$2.53 million, which is equal to the maximum amount allowed by TCAC.

6. A 5% indirect cost contingency allowance is provided.

KMA estimates the total indirect costs at \$3.35 million, which are reasonable and necessary for the development of the Project.

Financing Costs

The financing costs for the Project are estimated as follows:

1. The property was financed with a HUD Section 202 Loan (HUD 202 Loan) in 1987. The Developer assumed the HUD 202 Loan upon purchasing the property and proposes to pay off the remaining balance by the end of the rehabilitation period. The Developer estimates the outstanding balance at the time of repayment will be \$1.55 million.

2. The Developer will be required to make debt service payments on the HUD 202 Loan until repayment at the end of the rehabilitation period. The Developer included a \$270,000 debt service reserve in the development budget to cover these costs during the rehabilitation period.

3. The Developer proposes to finance the Project with Tax-Exempt Multifamily Bonds allocated by the California Debt Limit Allocation Committee (CDLAC). To comply with Internal Revenue Service (IRS) requirements, the Bonds must be equal to at least 50% of the land acquisition costs plus the eligible Tax Credit basis. In addition, the Bond funds must be sufficient to cover the development costs that do not have funding from other sources.

   a. The Project's net operating income (NOI) supports a $13.0 million Series A Bond. The Developer proposes to utilize the Project's NOI during rehabilitation to cover the debt service payments on the Series A Bond. As such, the Developer did not include any capitalized interest costs for the Series A Bond in the development budget.

   b. To fulfill the 50% Test and to provide bridge funding for costs that will be paid for by other sources upon the Project's completion, the Developer included a Series B Bond totaling $3.07 million. The capitalized interest costs for the Series B Bond are estimated at $173,000 based on the following:

      i. A 24-month rehabilitation period; and

      ii. A 60% average outstanding balance.

4. The financing costs are estimated at $562,000 and are based on 3.50 points for the Series A and Series B Bonds.

5. The Project is required to provide $614,000 in capitalized reserves as follows:

   a. HUD requires a $50,000 replacement reserve;

   b. The Tax Credit Investor requires a $78,000 operating reserve and an $81,000 debt service reserve; and

   c. The permanent lender requires a $405,000 debt service reserve.

6. The Tax Credit fees are estimated at $28,000 based on the following:

   a. A $2,000 application fee;

   b. A $410 per unit monitoring fee; and

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

KMA estimates the total financing costs at $3.20 million, which are reasonable and necessary to complete the Project.

Total Development Costs

As shown in Table 1, KMA estimates the total development costs at $23.74 million, which equates to approximately $474,800 per unit. In comparison, the Developer estimates the total development costs at $23.75 million, or $475,100 per unit. This equates to a less than 1% differential, which can be considered inconsequential.

As such, KMA finds the Developer's cost estimates to be reasonable and necessary to acquire, rehabilitate, lease-up, and complete the Project. As the Project moves through the development process, the City must keep track of any changes to the Project's costs.

B. Stabilized Net Operating Income (Table 2)

The Project's funding sources include Bonds, 4% Tax Credits and HOME Program funds. In addition, the Project is subject to an existing regulatory agreement for the HUD 202 Loan. As such, the Project's income and affordability standards must comport with the most stringent of the following standards:

1. Income Restrictions: The tenants' household incomes cannot exceed the strictest of:

    a. HOME Program income restrictions as defined under United States Code, Title 26, Section 142(d)(2)(B).

    b. Federal Low Income Housing Tax Credits income restrictions defined under United States Code, Title 26, Section 142(d)(2)(B).

    c. The income restrictions imposed by the existing HUD 202 regulatory agreement.

2. Affordability Restrictions: Rents applied to all of the units must reflect the most stringent of:

    a. HOME Program rents published annually by HUD;

    b. Tax Credit rents published annually by the California Tax Credit Allocation Committee (TCAC); and

    c. The rents imposed by the existing HUD 202 regulatory agreement.

The HOME affordability requirements will remain in place for 15 years, which is the minimum period that the HOME Program requires.

Achievable Rental Income

The Project rents must adhere to the most restrictive of the requirements imposed by the proposed funding sources. The rents used in this analysis are based on 2018 income and rent information. The maximum allowable rents, net of the appropriate utility allowances, are estimated as follows:[5]

Rent Restrictions	Studio Units	One-Bedroom Units
Low HOME / 50% AMI TCAC		
# of Units	6	13
Low HOME Rent	$829	$882
TCAC Rent	$829	$882
Applicable Rent	$829	$882
High HOME / 60% AMI TCAC		
# of Units	6	24
High HOME Rent	$1,067	$1,136
TCAC Rent	$999	$1,064
Applicable Rent	$999	$1,064

Estimated Net Operating Income (NOI)

The Project's effective gross income (EGI) is estimated at approximately $1.12 million based on the following assumptions:

1. The gross potential affordable rental income is estimated at $575,600

2. The Developer received a contract for 49 PBVs from the Los Angeles LOMOD Corporation. The contract rents associated with the PBV contract are $1,800 per unit per month for the studio units and $2,000 per unit per month for the one-bedroom units. The total Section 8 Subsidy income is estimated at $571,600.

3. The laundry and miscellaneous income is estimated at $10,400 per year, or $17 per unit per month.

4. A vacancy and collection allowance equal to 3% of gross income is deducted.[6]

The residential operating expenses are estimated at $298,300 based on the following assumptions:

[5] The Developer estimates the monthly utility allowances at: $19 for studio units and $43 for one-bedroom units.

[6] A 5% vacancy and collection allowance is more typical for underwriting purposes. However, the Project is fully occupied and both the permanent lender and TCAC utilized a 3% vacancy and collection allowance for underwriting.

1. The general operating expenses are estimated at approximately $5,400 per unit per year.

2. It is assumed that the Developer will receive the property tax abatement accorded to non-profit housing organizations that own and operate apartments rented to households earning less than 80% of the area median income. The Developer estimates the property tax assessment overrides at $7,800 per year.

3. The Developer did not include an allowance for social services.

4. The city monitoring fee is estimated at $7,800, or $155 per unit.

5. The annual capital replacement reserve deposits are estimated at $270 per unit, which were approved by TCAC.

When the Project's $298,300 in operating expenses are deducted from the Project's $1.12 million EGI, KMA estimates the stabilized NOI at $824,200.

C. Financial Gap Analysis (Table 3)

Available Funding Sources:

The following summarizes the available funding sources:

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

R4 Capital Funding LLC provided the Developer with an executed Letter of Intent, dated September 28, 2018, for a permanent loan with an estimated principal amount of $12.91 million. The Developer estimates that the permanent loan amount will be increased to $13.0 million based on the following loan terms:

1. A 1.14 debt service coverage ratio;

2. A 4.71% interest rate;

3. A 40-year amortization period; and

4. 15 years after stabilization the Developer will have the option to prepay the bonds and the Bondholder will have the option to require a mandatory tender with six months' notice.

<u>Tax Credit Proceeds</u>

In December 2018, the Project was awarded gross Tax Credits with a value of $6.33 million paid out over a 10-year period. However, the Developer estimates that an increase in eligible costs will increase the gross Tax Credit amount to $6.52 million. These Tax Credits are sold on a secondary market, and the net syndication value is ultimately determined based on competitive market conditions and on the timing of disbursements. R4 Capital LLC (Tax Credit Investor) agreed to purchase the gross Tax Credits for a price of $0.99 per gross Tax Credit dollar. This equates to $6.46 million in Tax Credit equity for the Project.

Net Operating Income During Rehabilitation

The Project is 100% occupied and will generate NOI during the rehabilitation period. The majority of the NOI will be utilized to make debt service payments on the Series A Bond. However, the Developer anticipates there will be $132,000 in excess NOI (after debt service payments) that will be used as a funding source for the Project.

Seller Credit (HUD 202 Loan Pay-Off)

The Developer provided a Buyer's Final Settlement Statement prepared by First American Title Insurance Company dated April 29, 2019. This Settlement Statement includes a $1.67 million credit to the Developer for the purposes of assuming and then paying off the existing HUD 202 Loan.

Existing HUD 202 Reserves

The Project includes an existing HUD 202 Reserve. The Developer anticipates using the $365,000 in this reserve to fund a portion of the rehabilitation costs.

Deferred Developer Fee

The Developer is proposing to defer $1.37 million, or 54% of the $2.53 million developer fee. The deferred developer fee will be paid from cash flow, and is required by the Internal Revenue Service to be repaid within 15 years.

Total Available Funding Sources

As shown in Table 3, the total available funding sources are estimated at $23.0 million.

Financial Gap Calculation

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

Financial Gap Calculation	
Total Development Costs	$23,740,000
(Less) Available Funding Sources	(23,004,000)
Financial Gap	**$736,000**
Per Affordable Unit	**$14,700**

Based on the KMA analysis, the Project's financial gap is estimated at $736,000. In comparison, the Developer is requesting $750,000 in HOME funds from the City, which equates to a $14,000, or less than 2% differential between the Developer's request and the KMA estimate.

Thus, it can be concluded that the $750,000 in HOME assistance to the Project is warranted by the Project economics.

D. Cash Flow Over Affordability Term (Table 4)

KMA also conducted a cash flow analysis to estimate the present value of the debt service payments to the City. The following describes the basic cash flow assumptions:

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

2. Additional revenue and expense assumptions are as follows:

   a. The projected residential income and miscellaneous income are estimated to increase at 2.0% per year.

   b. A 3.0% vacancy and collection allowance.

   c. The general operating expenses, City monitoring fee, and replacement reserve deposits are increased at 3.0% per year.

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

   e. The priority distributions are categorized as follows:

      i. An annual debt service payment of $722,570;

      ii. An asset management fee to the limited partnership of $7,500 for 15 years escalated at 3% per year;

      iii. A general partnership fee of $15,000 and escalated at 3.0% per year; and

      iv. Repayment of the deferred Developer Fee, which will have a 2.74% interest rate.

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

	Loan Amount	Nominal Value	Present Value
City HOME Loan	**$750,000**	**$1,139,000**	**$307,000**

3. The NOI is projected to be positive through Year 55. Thus, it is concluded that the Project will have a positive cash flow during the term of the HOME affordability and loan terms.

E. Profit and Returns

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

Developer Fees	$2,528,000, which is the maximum allowed per TCAC.
Cash Flow	The Developer will receive 50% of the annual residual receipts until the City Loan is repaid in full. Upon repayment, the Developer will receive 100% of the annual residual receipts. The Developer's residual receipts payments are estimated to total $38.40 million over 55 years, or a net present value of $1.28 million. This equates to an estimated 11% IRR based on the $1.37 million deferred Developer Fee provided by the Developer.
Tax Benefits	The Project will generate $6.53 million in Federal Tax Credits that will be sold to R4 Capital LLC and the cash will be used as equity in the Project.
Equity Appreciation	The equity appreciation is not expected to be significant until year 56 when the units are converted to market rate units.
Identity of Interest Roles	No related parties will be benefiting from the Project.

In conclusion, the developer fee, cash flow projection, equity appreciation, and profit anticipated to be generated by the Project are appropriate.

IV. DEVELOPER ASSESSMENT

Founded in 2015, MRK Partners is a privately held real estate investment and asset management company specializing in the acquisition, preservation and repositioning of affordable housing. The Developer develops and manages affordable communities throughout California, Florida, Michigan, Maryland, and Virginia. The Developer's portfolio includes 15 acquisition/rehabilitation projects with approximately 3,000 residential units.

The following provides an assessment of the experience and the capacity of the Developer to implement the Project, as well as the fiscal soundness of the Developer to meet its financial obligations and risks of the Project.

A. Development Team

The Developer's mission is to expand and preserve the affordable housing stock in targeted metropolitan areas.

The Development Team members involved in the Project will include the following:

1. Sydne Garchik, President – Sydne is the founder and president of MRK Partners, Inc. She has over 10 years of experience in the field. Prior to founding MRK, she acted as the

Director of Operations for Standard Property Management Company, Inc., a full-service, multifamily real estate investment and management firm. She was responsible for the day-to-day operations including multifamily real estate acquisitions, financing, agency relationships, and asset management.

2. Ben Kurzius, Project Associate – Ben is a Project Associate with MRK Partners. He provides assistance with projects from start to finish - from initial acquisitions analysis and determination of financing structures to construction and asset management. Prior to joining MRK, Ben was a Financial Analyst at CBRE Affordable Housing.

The development team will consist of the following entities:

Owner	Federation Venture LP
Developer	MRK Partners, Inc.
Non-Profit Partner	Pacific Southwest Community Development Corporation
Property Manager	WinnResidential California, LP
Architect	FORM Architectural, Inc.
Relocation Consultant	Not provided
Appraiser	Colliers International Valuation & Advisory Services
Energy Consultant	Partner Energy, Inc.
Attorney	Downs, Pham & Kuei, LLP
CPA	RubinBrown, LLP
General Contractor	MFRG ICON, Inc.

B. Ability to Perform

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

- Since 2015, the Developer has built an asset portfolio that includes the development of and/or ownership interest in more than 3,000 affordable housing developments.
- The Developer has 4 years of experience providing quality affordable housing.
- The Developer has affirmed that none of their projects have been placed into foreclosure or are at risk of foreclosure.

The Developer has successfully completed three similar projects in Southern California in the past 5 years.

Ethan Terrace Apartments

This project was an existing market rate apartment building that was converted to affordable housing utilizing Tax Credits and HOME Program funds. The property is located on a 2.5-acre site at 1820-1824 Ethan Way in Sacramento, CA and consists of 2 two-story wood framed buildings comprising 55,000 sq. ft. total. Each building has a ground floor cut-out where tuck-under parking stalls are provided. The buildings contain a total of 92 units consisting of 65 one-bedroom units and 27 two-bedroom units.

The project included the rehabilitation of interiors, exteriors, and energy-related improvements. All of the units are targeted to family tenants with affordability restrictions in place for 55 years. Twenty percent (20%) of each unit type are restricted to 50% AMI, and eighty percent (80%) of each unit type are restricted to 60% AMI.

The property was purchased for $6.70 million and capital upgrades were completed for an additional $5.60 million. The project was financed with 4% Tax Credits, Tax-Exempt Bonds, and HOME funds and Housing Trust Funds from the Sacramento Housing Redevelopment Agency.

Buckingham Apartments

This project consists of the acquisition and rehabilitation of an existing multi-site project covered under one Project-Based Section 8 Housing Assistance Payment (HAP) contract. The property consists of two-story wood framed buildings (five total) with stucco exteriors and an overall flat topography. The buildings are approximately one-fifth of a mile from each other on a 2.1-acre site. In total, there are 84 units including one manager's unit. The 83 income-restricted units are comprised of 40 one-bedroom units, 41 two-bedroom units, and 2 three-bedroom units.

The property was purchased for $15.50 million and capital upgrades were completed for $5.4 million. The project was financed through 4% Tax Credits and Tax-Exempt Bonds for long-term affordability. In addition, a new 20-year HAP Contract was signed at the time of resyndication. Per the HAP contract, 100% of the units are PBV units, and the affordability restrictions consist of 10% of the units at 50% AMI and 90% of the units at 60% AMI.

Cypress Pines Apartments

This project consists of the acquisition and rehabilitation of an existing affordable housing project covered under a Tax Credit program and a HUD PBV HAP contract for 100% of the units. The property consists of two non-contiguous, multifamily residential apartment properties consisting of 9 buildings and 82 units. The property is situated on 2.63 acres of land located at 4312 Potrero Avenue and 4600 Potrero Avenue in Richmond, California. The property was constructed in 1971 & 1974, and renovated in 2002.

The property was purchased for $22.25 million and capital upgrades were completed for $7.10 million. The project was financed with Freddie Mac's Bridge to Resyndication TEL program. Tax Credits for the property were resyndicated in 2017, and a new 20-year HAP contract was put into place at the time of resyndication. The Tax Credit program restricts tenant income and rent levels, specifically 50% of the units at 45% AMI and 50% of the units at 50% AMI.

C. Fiscal Soundness

The Developer has affordable housing development and asset management experience using HOME funds as well as a variety of other federal funding sources.

Financial Management

MRK Partners, Inc. runs all requests for information or transfer of records through its President, Sydne Garchik. Information is stored on a private server at company office located in El Segundo. The server is password protected along with all employee computers used to access it.

Cash management will minimize the time elapsed between agencies' advance payments of funds to MRK and the MRK's disbursement of funds for direct program or project costs. MRK will maintain advance Federal payments in interest-bearing accounts (with some exceptions). Interest amounts up to $500 per year may be retained by MRK for administrative expenses. Under §200.303(b)(9), interest earned in excess of $500 must be remitted annually to the Department of Health and Human Services' Payment Management System (either electronically through the system, or by check to the Department of Health and Human Services to the Treasury-approved lockbox: HHS Program Support Center, P.O. Box 530231, Atlanta, GA 30353-0231).

Therefore, it is determined that the Developer meets the financial management systems and practices required by the HOME Program.

Financial Capacity

Sydne Garchik, the president of MRK Partners, provided unaudited personal financial statements for 2016, 2017 and 2018. The financial statements demonstrate that the Developer has sufficient 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

The Developer provided KMA with a multifamily rental market study conducted by Colliers International Valuation & Advisory Services. KMA has reviewed the Market Study and prepared a summary of the findings.

A. Identification of Neighborhood Target Area

The market study identifies the primary market area to be the area bounded by the following:

Direction	Boundary
North:	Carson Street
South:	The Pacific Ocean
East:	Interstate 605
West:	Interstate 710

B. Pricing

The following compares the Project's highest proposed rents to the adjusted market rents of surveyed properties:

	Studio Units	One-Bedroom Units
Project's Highest Proposed Rents (2018)	$999	$1,064
Project's Unit Sizes	450	600
Comparable Properties' Adjusted Average Rent	$1,836	$1,971
Percentage Below Highest Rent	**46%**	**46%**

C. Absorption

The demand estimate indicates there are a sufficient number of income eligible households in the Primary Market Area to be absorbed by the Project. In addition, the overall vacancy rates among the comparable properties average 2.5%. Furthermore, the Project is currently 100% occupied, and thus, it is extremely likely the Project will be fully leased at the end of the rehabilitation period.

D. Market Study Conclusions

Based on the market assessment results, KMA concludes that there is adequate demand for affordable housing to support the Project. In addition, TCAC reviewed and approved the market study prepared for the Project. Therefore, it is anticipated that the Project will be leased up well before the six-month HOME 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 6 months of contract date.	The property has already been acquired.
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.	The Project is expected to begin rehabilitation within six months.
Project Completion	§92.205(e)(2), 92.2 state that the project must be completed within 4 years of the date the funds are committed to the project.	The Project is expected to be completed by the end of 2020.
Lease-up	§92.252 states that HOME assisted units must be occupied by an eligible tenant within six months following project completion.	To be completed within 6 months of completion.

B. Cost Reasonableness

The Developer provided a budget and scope of work from MFRG-ICON Construction, the general contractor for the Project. The contract describes the costs associated with the scope of work for the Project. In addition, the Developer provided a Property Condition Report prepared by Partner Engineering and Science, Inc. The costs included in the Project budget appear reasonable for the scope of work proposed for the Project. Furthermore, TCAC also reviewed the Project's budget and awarded Tax Credits to the Project.

C. 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 must be at least fifteen years.

2. A total of 5 units in the Project are restricted as fixed HOME units as follows:

    a. One (1) studio unit will be restricted as a Low HOME unit;

    b. One (1) one-bedroom will be restricted as a Low HOME unit;

   c. One (1) studio unit will be restricted as a High HOME unit; and

   d. Two (2) one-bedroom units will be restricted as High HOME units.

3. The HOME Loan terms are as follows:

   a. A total of $750,000 will be disbursed to the Developer after the HUD 202 Loan is repaid in full for eligible costs related to the five HOME assisted units

   b. A 3.0% simple interest rate.

   c. The outstanding loan balance will be due and payable at the end of the 55-year term.

   d. The loan is secured by a subordinated deed of trust.

   e. Annual payments will be made to the City based on 50% of total annual residual receipts.

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

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

D. 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 $750,000 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.

E. Cost Allocation (§92.205(d)) and HOME Unit Designation (Table 5)

HOME funds may only be used to pay eligible costs for HOME assisted units. When the City designates fewer than 100% of the units as HOME assisted, the City must calculate the eligible costs that are allocable to the assisted units and may only pay the actual costs related to those HOME assisted units, capped by the maximum subsidy limits previously described. The financial gap analysis concludes that the $750,000 in HOME assistance is warranted by the Project economics.

KMA used the Standard Method to determine the cost allocation. As detailed in Table 5, KMA estimated that eligible project costs equate to $756 per square foot of gross residential area. Therefore, a total of $2.04 million can be allocated to the five HOME-designated units as specified in Appendix A – Table 5.

However, there is also a maximum HOME subsidy requirement that must be met. In order to commit $750,000 to this Project, based on the 2018 maximum subsidy limits, two studio units and three one-bedroom units need to be restricted as HOME units.

The following summarizes the maximum HOME subsidy that can be made to the Project based on 49 HOME units:

	Maximum HOME Assistance	Minimum HOME Designated Units
Proposed HOME Assistance	$750,000	N/A
Cost Allocation Test	$2,041,056	5 units
Maximum Subsidy Test	$799,948	5 units
Maximum Allowable HOME Subsidy	**$750,000**	**5 units**

F. Affordability Period

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

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

The HOME Program affordability requirements must:

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

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

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

The HOME Agreement will require the five HOME units to be restricted as affordable for 15 years. Therefore, the Project will meet the HOME requirement for rehabilitation projects. The affordability restrictions will be detailed in the HOME Loan Agreement that will be recorded on the property.

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	☒
Accessibility: ▪ Accessibility requirements of 24 CFR part 8 ▪ Design and construction requirements at 24 CFR 100.205	☒
Disaster Mitigation	Not Applicable
Written cost estimates, construction contracts and construction documents	☒
Construction progress inspections	☒

H. HOME Rents / Utility Allowances

The tenants will be responsible for paying utilities. The following provides the current HOME rents as of April 2019 for Long Beach as published by HUD less the estimated utility allowances:

Restriction Type	Unit Type	Gross Rent	Utility Allowance	Net Rent
Low HOME	Studio	$848	$19	$829
Low HOME	1-Bedroom	$909	$27	$882
High HOME	Studio	$1,067	$19	$1,048
High HOME	1-Bedroom	$1,163	$27	$1,136

The HOME Regulatory Agreement will require that at least two units are restricted as Low HOME units

I. Financial Commitments

The Developer provided financial commitment documentation for the following sources:

1. An executed Letter of Intent from R4 Capital LLC dated September 28, 2018 to provide an approximately $16.22 million construction loan and an approximately $12.91 million permanent loan.

2. A Tax Credit Allocation Reservation Letter from TCAC dated December 12, 2018 to provide $633,327 in annual federal Tax Credits to the Project.

3. An executed Letter of Intent from R4 Capital LLC dated September 28, 2018 to provide Tax Credit equity at $0.99 per gross Tax Credit dollar.

4. A Buyer's Final Settlement Statement demonstrating the Seller Credit provided for assuming the HUD 202 Loan.

5. A cash flow analysis estimating the net operating income available during the rehabilitation period.

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.	☒

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

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	☐	
Environmental Review Requirements have been met	☐	
Legally binding written agreement has been executed	☐	
All necessary financing is secured	☐	
Subsidy Layering & Underwriting Analysis Completed	☒	May 20, 2019
Construction Expected to begin within 12 months	☐	April 2019
Commitment Date	Not Applicable	

Appendix A

TABLE 1
ESTIMATED DEVELOPMENT COSTS
FEDERATION TOWER APARTMENTS
LONG BEACH, CALIFORNIA

I.	**Property Assemblage Costs**							
	Property Acquisition Costs	1	50	Units	$291,300	/Unit	$14,565,000	
	Relocation Costs	2					$100,000	
	Total Property Assemblage Costs							**$14,665,000**
II.	**Direct Costs**	3						
	Off-site Improvements						$0	
	On-site Improvements		40,600	Sf Land	$1	/Sf Land	44,000	
	Residential Building Costs		50	Units	$39,083	/Unit	1,954,000	
	Contractor Fees / General Requirements		14%	Construction Costs			280,000	
	General Liability Insurance / Const Bonds		1%	Construction Costs			20,000	
	Contingency Allowance		10%	Other Direct Costs			230,000	
	Total Direct Costs		**50**	**Units**	**$50,600**	**/Unit**		**$2,528,000**
III.	**Indirect Costs**							
	Architecture, Engineering & Consulting		18%	Direct Costs			$456,000	
	Permits & Fees	4	50	Units	$1,000	/Unit	50,000	
	Taxes, Ins, Legal & Accounting		6%	Direct Costs			154,000	
	Marketing & Leasing		50	Units	$0	/Unit	0	
	Developer Fee	5	15%	Eligible Costs			2,528,000	
	Contingency Allowance		5%	Other Indirect Costs			159,000	
	Total Indirect Costs							**$3,347,000**
IV.	**Financing Costs**							
	HUD 202 Loan Payoff	6					$1,553,000	
	HUD 202 Debt Service Reserve						270,000	
	Interest During Construction							
	Series A Bond	7	$13,001,000	Loan Amount	4.71%	Interest	$0	
	Series B Bond	8	$3,069,000	Loan Amount	4.71%	Interest	173,000	
	Financing Fees							
	Series A Bond		$13,001,000	Loan Amount	3.50	Points	455,000	
	Series B Bond		$3,069,000	Loan Amount	3.50	Points	107,000	
	Capitalized Reserves	9					614,000	
	TCAC Fees	10					28,000	
	Total Financing Costs							**$3,200,000**
V.	**Total Construction Costs**		**50**	**Units**	**$181,500**	**/Unit**		**$9,075,000**
	Total Development Costs		**50**	**Units**	**$474,800**	**/Unit**		**$23,740,000**

1 An appraisal prepared by Colliers International on September 7, 2018 estimates the As-Is Market Value of the Site at $14,300,000. However, the Seller performed $265,000 in repairs prior to the sales transaction closing. The Developer will reimburse the Seller for these repairs as part of the

2 The Developer anticipates that only temporary relocation will be required. The Developer provided a description of this relocation, but did not prepare a formal relocation plan.

3 Estimates assume prevailing wage requirements will not be imposed on the Project.

4 Based on Developer estimate. The estimate should be verified by City staff.

5 Based on Developer estimate. The maximum amount allowed by TCAC is equal to 15% of the Project's eligible Tax Credit basis.

6 The Developer will assume the existing HUD 202 Loan and pay off the remaining balance by the end of the rehabilitation period. The Developer

7 The Developer will utilize the Project's net operating income during construction to pay the permanent loan debt service payments. As such, there are no capitalized interest costs for the Series A Bond.

8 Per Developer. Equal to the unfunded construction costs minus the Series A Bond amount; a 24-month construction period with a 60% average outstanding balance.

9 Based on Developer estimates. Required by HUD, Tax Credit investor and permanent lender.

10 Includes a $2,000 application fee; $410/unit monitoring fee; and 1% of the gross Tax Credit proceeds for one year.

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File name: Federation Tower Apts_5 20 19; Pro Forma; trb

TABLE 2
STABILIZED NET OPERATING INCOME & SECTION 8 PBV SUBSIDY
FEDERATION TOWER APARTMENTS
LONG BEACH, CALIFORNIA

I.	**Project Income** [1]						
	Manager's Unit	1	Unit	$0	/Unit/Month	$0	
	Low HOME/Tax Credit @ 50% Median						
	Studio Units @ (450-Sf)	6	Units	$829	/Unit/Month	59,700	
	1-Bedroom Units @ (600-Sf)	13	Units	$882	/Unit/Month	137,600	
	High HOME/Tax Credit @ 60% Median						
	Studio Units @ (450-Sf)	6	Units	$999	/Unit/Month	71,900	
	1-Bedroom Units @ (600-Sf)	24	Units	$1,064	/Unit/Month	306,400	
	Section 8 Subsidy						
	Low HOME/Tax Credit @ 50% Median						
	Studio Units @ (450-Sf)	6	Units	$971	/Unit/Month	69,900	
	1-Bedroom Units @ (600-Sf)	13	Units	$1,118	/Unit/Month	174,400	
	High HOME/Tax Credit @ 60% Median						
	Studio Units @ (450-Sf)	6	Units	$801	/Unit/Month	57,700	
	1-Bedroom Units @ (600-Sf) [2]	24	Units	$936	/Unit/Month	269,600	
	Laundry/Miscellaneous Income	50	Units	$17	/Unit/Month	10,400	
	Gross Income					$1,157,600	
	Vacancy and Collection Allowance	3%	Gross Income			(35,100)	
	Effective Gross Project Income						**$1,122,500**
II.	**Operating Expenses**						
	General Operating Expenses	50	Units	$5,384	/Unit	$269,200	
	Property Taxes [2]	50	Units	$156	/Unit	7,800	
	Social Services	50	Units	$0	/Unit	0	
	City Monitoring Fee	50	Units	$155	/Unit	7,800	
	Replacement Reserve	50	Units	$270	/Unit	13,500	
	Total Operating Expenses	50	Units	$7,456	/Unit		**$298,300**
III.	**Stabilized Net Operating Income**						**$824,200**

1 Based on Los Angeles County 2018 Incomes distributed by HUD. As pertinent, the rents are based on rents published in 2018 by TCAC and the HOME Program. Utility Allowances per the Developer: $19 for studio units and $27 for 1-Bdrm units.

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

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File name: Federation Tower Apts_5 20 19; Pro Forma; trb

TABLE 3

FINANCIAL GAP CALCULATION
FEDERATION TOWER APARTMENTS
LONG BEACH, CALIFORNIA

I.	**Available Funding Sources**					
	Tax-Exempt Multifamily Bond Financing (Series A Bond)					
	Stabilized Net Operating Income		$824,200 (See TABLE 2)			
	Income Available for Mortgage	[1]	1.14 DSCR	$722,563 Debt Service		
	Interest Rate		4.71% Interest Rate	5.56% Mortgage Constant		
	Tax-Exempt Multifamily Bond Financing (Series A Bond)				**$13,001,000**	
	Tax Credit Equity	[2]				
	Gross Tax Credit Value		$6,527,273			
	Syndication Rate		99.00% /Tax Credit Dollar			
	Net Tax Credit Equity				**$6,462,000**	
	Seller Credit (HUD 202 Loan Pay-Off)	[3]			**$1,673,000**	
	Net Operating Income after Debt Service	[4]			**$132,000**	
	Existing HUD 202 Reserve	[4]			**$365,000**	
	Deferred Developer Fee	[4]	54% Developer Fee		**$1,371,000**	
	Total Available Funding Sources					**$23,004,000**
II.	**Financial Gap Calculation**					
	Total Development Costs				$23,740,000	
	(Less) Total Available Funding Sources				(23,004,000)	
III.	**Financial Gap**		**50 Units**	**$14,700 /Unit**		**$736,000**

1 Assumes a 40-year amortization term.
2 The Developer received a $6.33 million Tax Credit reservation on December 12, 2018. However, the Develoepr anticipates receiving additional Tax
3 Per Developer estimate. Assumes the Developer will utilize the first two years of net operating income to fund Project costs.
4 Per Developer.

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File name: Federation Tower Apts_5 20 19; Pro Forma; trb

TABLE 4

CASH FLOW ANALYSIS
FEDERATION TOWER APARTMENTS
LONG BEACH, CALIFORNIA

			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
I.	**Gross Residential Income** [1]								
	Project Income		$575,600	$587,112	$598,854	$610,831	$623,048	$635,509	$648,219
	Section 8 Subsidy		571,600	583,032	594,693	606,586	618,718	631,093	643,714
	Laundry/Miscellaneous Income		10,400	10,608	10,820	11,037	11,257	11,482	11,712
	Vacancy and Collection Allowance		(35,100)	(35,839)	(36,556)	(37,287)	(38,033)	(38,794)	(39,570)
	Effective Gross Base Income		**$1,122,500**	**$1,144,913**	**$1,167,811**	**$1,191,167**	**$1,214,990**	**$1,239,290**	**$1,264,076**
II.	**Operating Expenses** [2]								
	General Operating Expenses		$269,200	$277,276	$285,594	$294,162	$302,987	$312,077	$321,439
	Property Taxes		7,800	7,956	8,115	8,277	8,443	8,612	8,784
	Social Services		0	0	0	0	0	0	0
	City Monitoring Fee		7,800	8,034	8,275	8,523	8,779	9,042	9,314
	Replacement Reserve		13,500	13,905	14,322	14,752	15,194	15,650	16,120
	Total Operating Expenses		**$298,300**	**$307,171**	**$316,307**	**$325,715**	**$335,403**	**$345,381**	**$355,656**
III.	**Net Operating Income**		**$824,200**	**$837,742**	**$851,504**	**$865,452**	**$879,587**	**$893,909**	**$908,420**
	(Less) Tranche A Debt Service		(722,570)	(722,570)	(722,570)	(722,570)	(722,570)	(722,570)	(722,570)
	Net Income After Debt Service		**$101,630**	**$115,172**	**$128,935**	**$142,883**	**$157,018**	**$171,340**	**$185,850**
IV.	**Cash Flow Available for Contingent Payments**		**$101,630**	**$115,172**	**$128,935**	**$142,883**	**$157,018**	**$171,340**	**$185,850**
	(Less) Limited Partnership Fee		0	0	(23,407)	(8,195)	(8,441)	(8,695)	(8,955)
	(Less) General Partnership Fees		0	0	(46,814)	(16,391)	(16,883)	(17,389)	(17,911)
	(Less) Deferred Developer Fee		0	0	(58,714)	(118,296)	(131,694)	(145,256)	(158,984)
V.	**Cash Flow after Contingent Payments**		**$101,630**	**$115,172**	**$0**	**$0**	**$0**	**$0**	**$0**
	Nominal Dollars	**$40,442,484**		**$1,626,000**	NPV @ 10% Discount Rate				
VI.	**Residual Receipt Payments to LBCIC @ 50% CF**		**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
	Nominal Dollars	**$1,158,041**		**$235,000**	NPV @ 10% Discount Rate				
VII.	**Net Cash Flow to Developer @ 50% CF**		**$101,630**	**$115,172**	**$0**	**$0**	**$0**	**$0**	**$0**
	Nominal Dollars	**$39,284,443**		**$1,390,000**	NPV @ 10% Discount Rate				

1 See TABLE 2 for Base Year. The affordable rents and miscellaneous income are assumed to increase by 102.0%/year.

2 See TABLE 2 for Base Year. General operating expenses are assumed to increase by 103.0%/year, property taxes at 102.0%/year and replacement reserves escalated at 103.0%/year.

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TABLE 4

CASH FLOW ANALYSIS
FEDERATION TOWER APARTMENTS
LONG BEACH, CALIFORNIA

		Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
I.	Gross Residential Income [1]								
	Project Income	$661,183	$674,407	$687,895	$701,653	$715,686	$730,000	$744,600	$759,492
	Section 8 Subsidy	656,589	669,721	683,115	696,777	710,713	724,927	739,426	754,214
	Laundry/Miscellaneous Income	11,946	12,185	12,429	12,678	12,931	13,190	13,454	13,723
	Vacancy and Collection Allowance	(40,361)	(41,168)	(41,992)	(42,831)	(43,688)	(44,562)	(45,453)	(46,362)
	Effective Gross Base Income	**$1,289,358**	**$1,315,145**	**$1,341,448**	**$1,368,277**	**$1,395,642**	**$1,423,555**	**$1,452,026**	**$1,481,067**
II.	Operating Expenses [2]								
	General Operating Expenses	$331,082	$341,015	$351,245	$361,782	$372,636	$383,815	$395,329	$407,189
	Property Taxes	8,960	9,139	9,322	9,508	9,698	9,892	10,090	10,292
	Social Services	0	0	0	0	0	0	0	0
	City Monitoring Fee	9,593	9,881	10,177	10,483	10,797	11,121	11,455	11,798
	Replacement Reserve	16,603	17,101	17,614	18,143	18,687	19,248	19,825	20,420
	Total Operating Expenses	**$366,238**	**$377,136**	**$388,358**	**$399,916**	**$411,818**	**$424,076**	**$436,699**	**$449,699**
III.	**Net Operating Income**	**$923,119**	**$938,009**	**$953,089**	**$968,361**	**$983,824**	**$999,479**	**$1,015,327**	**$1,031,367**
	(Less) Tranche A Debt Service	(722,570)	(722,570)	(722,570)	(722,570)	(722,570)	(722,570)	(722,570)	(722,570)
	Net Income After Debt Service	**$200,550**	**$215,439**	**$230,520**	**$245,791**	**$261,254**	**$276,909**	**$292,757**	**$308,798**
IV.	**Cash Flow Available for Contingent Payments**	**$200,550**	**$215,439**	**$230,520**	**$245,791**	**$261,254**	**$276,909**	**$292,757**	**$308,798**
	(Less) Limited Partnership Fee	(9,224)	(9,501)	(9,786)	(10,079)	(10,382)	(10,693)	(11,014)	(11,344)
	(Less) General Partnership Fees	(18,448)	(19,002)	(19,572)	(20,159)	(20,764)	(21,386)	(22,028)	(22,689)
	(Less) Deferred Developer Fee	(172,878)	(186,937)	(201,162)	(215,553)	(230,109)	(106,212)	0	0
V.	**Cash Flow after Contingent Payments**	**$0**	**$0**	**$0**	**$0**	**$0**	**$138,617**	**$259,715**	**$274,764**
	Nominal Dollars								
VI.	**Residual Receipt Payments to LBCIC @ 50% CF**	**$0**	**$0**	**$0**	**$0**	**$0**	**$69,309**	**$129,858**	**$137,382**
	Nominal Dollars								
VII.	**Net Cash Flow to Developer @ 50% CF**	**$0**	**$0**	**$0**	**$0**	**$0**	**$69,309**	**$129,858**	**$137,382**
	Nominal Dollars								

[1] See TABLE 2 for Base Year. The affordable rents and miscellaneous income are assumed to increase by 102.0%/year.

[2] See TABLE 2 for Base Year. General operating expenses are assumed to increase by 103.0%/year, property taxes at 102.0%/year and replacement reserves escalated at 103.0%/year.

Prepared by: Keyser Marston Associates, Inc.
File name: Federation Tower Apts_5 20 19; CF; trb

TABLE 4

CASH FLOW ANALYSIS
FEDERATION TOWER APARTMENTS
LONG BEACH, CALIFORNIA

		Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23
I.	Gross Residential Income [1]								
	Project Income	$774,682	$790,175	$805,979	$822,099	$838,541	$855,311	$872,418	$889,866
	Section 8 Subsidy	769,298	784,684	800,378	816,386	832,713	849,368	866,355	883,682
	Laundry/Miscellaneous Income	13,997	14,277	14,563	14,854	15,151	15,454	15,763	16,078
	Vacancy and Collection Allowance	(47,289)	(48,235)	(49,200)	(50,184)	(51,187)	(52,211)	(53,255)	(54,321)
	Effective Gross Base Income	**$1,510,688**	**$1,540,902**	**$1,571,720**	**$1,603,154**	**$1,635,217**	**$1,667,922**	**$1,701,280**	**$1,735,306**
II.	Operating Expenses [2]								
	General Operating Expenses	$419,405	$431,987	$444,947	$458,295	$472,044	$486,205	$500,791	$515,815
	Property Taxes	10,498	10,708	10,922	11,140	11,363	11,590	11,822	12,059
	Social Services	0	0	0	0	0	0	0	0
	City Monitoring Fee	12,152	12,517	12,892	13,279	13,677	14,088	14,510	14,946
	Replacement Reserve	21,033	21,664	22,313	22,983	23,672	24,383	25,114	25,867
	Total Operating Expenses	**$463,087**	**$476,875**	**$491,074**	**$505,697**	**$520,757**	**$536,266**	**$552,238**	**$568,687**
III.	**Net Operating Income**	**$1,047,601**	**$1,064,027**	**$1,080,646**	**$1,097,457**	**$1,114,461**	**$1,131,656**	**$1,149,042**	**$1,166,619**
	(Less) Tranche A Debt Service	(722,570)	(722,570)	(722,570)	(722,570)	(722,570)	(722,570)	(722,570)	(722,570)
	Net Income After Debt Service	**$325,031**	**$341,457**	**$358,076**	**$374,887**	**$391,891**	**$409,086**	**$426,473**	**$444,049**
IV.	**Cash Flow Available for Contingent Payments**	**$325,031**	**$341,457**	**$358,076**	**$374,887**	**$391,891**	**$409,086**	**$426,473**	**$444,049**
	(Less) Limited Partnership Fee	0	0	0	0	0	0	0	0
	(Less) General Partnership Fees	(23,370)	(24,071)	(24,793)	(25,536)	(26,303)	(27,092)	(27,904)	(28,742)
	(Less) Deferred Developer Fee	0	0	0	0	0	0	0	0
V.	**Cash Flow after Contingent Payments** Nominal Dollars	**$301,661**	**$317,386**	**$333,283**	**$349,351**	**$365,588**	**$381,994**	**$398,568**	**$415,308**
VI.	**Residual Receipt Payments to LBCIC @ 50% CF** Nominal Dollars	**$150,831**	**$158,693**	**$166,642**	**$174,675**	**$170,651**	**$0**	**$0**	**$0**
VII.	**Net Cash Flow to Developer @ 50% CF** Nominal Dollars	**$150,831**	**$158,693**	**$166,642**	**$174,675**	**$194,937**	**$381,994**	**$398,568**	**$415,308**

1 See TABLE 2 for Base Year. The affordable rents and miscellaneous income are assumed to increase by 102.0%/year.

2 See TABLE 2 for Base Year. General operating expenses are assumed to increase by 103.0%/year, property taxes at 102.0%/year and replacement reserves escalated at 103.0%/year.

Prepared by: Keyser Marston Associates, Inc.
File name: Federation Tower Apts_5 20 19; CF; trb

TABLE 4

CASH FLOW ANALYSIS
FEDERATION TOWER APARTMENTS
LONG BEACH, CALIFORNIA

		Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30	Year 31
I.	Gross Residential Income [1]								
	Project Income	$907,663	$925,816	$944,333	$963,219	$982,484	$1,002,134	$1,022,176	$1,042,620
	Section 8 Subsidy	901,356	919,383	937,770	956,526	975,656	995,169	1,015,073	1,035,374
	Laundry/Miscellaneous Income	16,400	16,728	17,062	17,404	17,752	18,107	18,469	18,838
	Vacancy and Collection Allowance	(55,407)	(56,515)	(57,645)	(58,798)	(59,974)	(61,174)	(62,397)	(63,645)
	Effective Gross Base Income	**$1,770,012**	**$1,805,412**	**$1,841,520**	**$1,878,351**	**$1,915,918**	**$1,954,236**	**$1,993,321**	**$2,033,187**
II.	Operating Expenses [2]								
	General Operating Expenses	$531,289	$547,228	$563,645	$580,554	$597,971	$615,910	$634,387	$653,419
	Property Taxes	12,300	12,546	12,797	13,053	13,314	13,580	13,852	14,129
	Social Services	0	0	0	0	0	0	0	0
	City Monitoring Fee	15,394	15,856	16,331	16,821	17,326	17,846	18,381	18,933
	Replacement Reserve	26,643	27,443	28,266	29,114	29,987	30,887	31,814	32,768
	Total Operating Expenses	**$585,627**	**$603,072**	**$621,039**	**$639,542**	**$658,598**	**$678,223**	**$698,434**	**$719,248**
III.	**Net Operating Income**	**$1,184,385**	**$1,202,339**	**$1,220,481**	**$1,238,808**	**$1,257,319**	**$1,276,013**	**$1,294,887**	**$1,313,939**
	(Less) Tranche A Debt Service	(722,570)	(722,570)	(722,570)	(722,570)	(722,570)	(722,570)	(722,570)	(722,570)
	Net Income After Debt Service	**$461,815**	**$479,770**	**$497,911**	**$516,238**	**$534,750**	**$553,443**	**$572,317**	**$591,369**
IV.	**Cash Flow Available for Contingent Payments**	**$461,815**	**$479,770**	**$497,911**	**$516,238**	**$534,750**	**$553,443**	**$572,317**	**$591,369**
	(Less) Limited Partnership Fee	0	0	0	0	0	0	0	0
	(Less) General Partnership Fees	(29,604)	(30,492)	(31,407)	(32,349)	(33,319)	(34,319)	(35,348)	(36,409)
	(Less) Deferred Developer Fee	0	0	0	0	0	0	0	0
V.	**Cash Flow after Contingent Payments**	**$432,212**	**$449,278**	**$466,505**	**$483,890**	**$501,430**	**$519,124**	**$536,969**	**$554,960**
	Nominal Dollars								
VI.	**Residual Receipt Payments to LBCIC @ 50% CF**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
	Nominal Dollars								
VII.	**Net Cash Flow to Developer @ 50% CF**	**$432,212**	**$449,278**	**$466,505**	**$483,890**	**$501,430**	**$519,124**	**$536,969**	**$554,960**
	Nominal Dollars								

[1] See TABLE 2 for Base Year. The affordable rents and miscellaneous income are assumed to increase by 102.0%/year.

[2] See TABLE 2 for Base Year. General operating expenses are assumed to increase by 103.0%/year, property taxes at 102.0%/year and replacement reserves escalated at 103.0%/year.

Prepared by: Keyser Marston Associates, Inc.
File name: Federation Tower Apts_5 20 19; CF; trb

TABLE 4

CASH FLOW ANALYSIS
FEDERATION TOWER APARTMENTS
LONG BEACH, CALIFORNIA

		Year 32	Year 33	Year 34	Year 35	Year 36	Year 37	Year 38	Year 39
I.	Gross Residential Income[1]								
	Project Income	$1,063,472	$1,084,742	$1,106,436	$1,128,565	$1,151,136	$1,174,159	$1,197,642	$1,221,595
	Section 8 Subsidy	1,056,082	1,077,203	1,098,747	1,120,722	1,143,137	1,166,000	1,189,320	1,213,106
	Laundry/Miscellaneous Income	19,215	19,599	19,991	20,391	20,799	21,215	21,639	22,072
	Vacancy and Collection Allowance	(64,918)	(66,216)	(67,541)	(68,892)	(70,269)	(71,675)	(73,108)	(74,570)
	Effective Gross Base Income	**$2,073,851**	**$2,115,328**	**$2,157,634**	**$2,200,787**	**$2,244,803**	**$2,289,699**	**$2,335,493**	**$2,382,203**
II.	Operating Expenses[2]								
	General Operating Expenses	$673,022	$693,212	$714,009	$735,429	$757,492	$780,217	$803,623	$827,732
	Property Taxes	14,411	14,699	14,993	15,293	15,599	15,911	16,229	16,554
	Social Services	0	0	0	0	0	0	0	0
	City Monitoring Fee	19,501	20,086	20,688	21,309	21,948	22,607	23,285	23,983
	Replacement Reserve	33,751	34,764	35,807	36,881	37,987	39,127	40,301	41,510
	Total Operating Expenses	**$740,685**	**$762,761**	**$785,497**	**$808,912**	**$833,026**	**$857,861**	**$883,438**	**$909,779**
III.	**Net Operating Income**	**$1,333,166**	**$1,352,567**	**$1,372,138**	**$1,391,875**	**$1,411,777**	**$1,431,838**	**$1,452,055**	**$1,472,424**
	(Less) Tranche A Debt Service	(722,570)	(722,570)	(722,570)	(722,570)	(722,570)	0	0	0
	Net Income After Debt Service	**$610,597**	**$629,997**	**$649,568**	**$669,306**	**$689,207**	**$1,431,838**	**$1,452,055**	**$1,472,424**
IV.	**Cash Flow Available for Contingent Payments**	**$610,597**	**$629,997**	**$649,568**	**$669,306**	**$689,207**	**$1,431,838**	**$1,452,055**	**$1,472,424**
	(Less) Limited Partnership Fee	0	0	0	0	0	0	0	0
	(Less) General Partnership Fees	(37,501)	(38,626)	(39,785)	(40,979)	(42,208)	(43,474)	(44,778)	(46,122)
	(Less) Deferred Developer Fee	0	0	0	0	0	0	0	0
V.	**Cash Flow after Contingent Payments**	**$573,095**	**$591,371**	**$609,783**	**$628,327**	**$646,999**	**$1,388,364**	**$1,407,277**	**$1,426,302**
	Nominal Dollars								
VI.	**Residual Receipt Payments to LBCIC @ 50% CF**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
	Nominal Dollars								
VII.	**Net Cash Flow to Developer @ 50% CF**	**$573,095**	**$591,371**	**$609,783**	**$628,327**	**$646,999**	**$1,388,364**	**$1,407,277**	**$1,426,302**
	Nominal Dollars								

1 See TABLE 2 for Base Year. The affordable rents and miscellaneous income are assumed to increase by 102.0%/year.

2 See TABLE 2 for Base Year. General operating expenses are assumed to increase by 103.0%/year, property taxes at 102.0%/year and replacement reserves escalated at 103.0%/year.

Prepared by: Keyser Marston Associates, Inc.
File name: Federation Tower Apts_5 20 19; CF; trb

TABLE 4

CASH FLOW ANALYSIS
FEDERATION TOWER APARTMENTS
LONG BEACH, CALIFORNIA

		Year 40	Year 41	Year 42	Year 43	Year 44	Year 45	Year 46	Year 47
I.	Gross Residential Income [1]								
	Project Income	$1,246,027	$1,270,948	$1,296,367	$1,322,294	$1,348,740	$1,375,715	$1,403,229	$1,431,293
	Section 8 Subsidy	1,237,368	1,262,115	1,287,358	1,313,105	1,339,367	1,366,154	1,393,477	1,421,347
	Laundry/Miscellaneous Income	22,513	22,964	23,423	23,891	24,369	24,857	25,354	25,861
	Vacancy and Collection Allowance	(76,062)	(77,583)	(79,135)	(80,717)	(82,332)	(83,978)	(85,658)	(87,371)
	Effective Gross Base Income	**$2,429,847**	**$2,478,444**	**$2,528,012**	**$2,578,573**	**$2,630,144**	**$2,682,747**	**$2,736,402**	**$2,791,130**
II.	Operating Expenses [2]								
	General Operating Expenses	$852,564	$878,141	$904,485	$931,619	$959,568	$988,355	$1,018,006	$1,048,546
	Property Taxes	16,885	17,223	17,567	17,919	18,277	18,642	19,015	19,396
	Social Services	0	0	0	0	0	0	0	0
	City Monitoring Fee	24,703	25,444	26,207	26,993	27,803	28,637	29,496	30,381
	Replacement Reserve	42,755	44,038	45,359	46,719	48,121	49,565	51,052	52,583
	Total Operating Expenses	**$936,906**	**$964,845**	**$993,618**	**$1,023,251**	**$1,053,769**	**$1,085,199**	**$1,117,569**	**$1,150,906**
III.	**Net Operating Income**	**$1,492,940**	**$1,513,599**	**$1,534,395**	**$1,555,322**	**$1,576,375**	**$1,597,548**	**$1,618,833**	**$1,640,224**
	(Less) Tranche A Debt Service	0	0	0	0	0	0	0	0
	Net Income After Debt Service	**$1,492,940**	**$1,513,599**	**$1,534,395**	**$1,555,322**	**$1,576,375**	**$1,597,548**	**$1,618,833**	**$1,640,224**
IV.	**Cash Flow Available for Contingent Payments**	**$1,492,940**	**$1,513,599**	**$1,534,395**	**$1,555,322**	**$1,576,375**	**$1,597,548**	**$1,618,833**	**$1,640,224**
	(Less) Limited Partnership Fee	0	0	0	0	0	0	0	0
	(Less) General Partnership Fees	(47,505)	(48,931)	(50,398)	(51,910)	(53,468)	(55,072)	(56,724)	(58,426)
	(Less) Deferred Developer Fee	0	0	0	0	0	0	0	0
V.	**Cash Flow after Contingent Payments**	**$1,445,435**	**$1,464,668**	**$1,483,996**	**$1,503,412**	**$1,522,907**	**$1,542,476**	**$1,562,109**	**$1,581,799**
	Nominal Dollars								
VI.	**Residual Receipt Payments to LBCIC @ 50% CF**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
	Nominal Dollars								
VII.	**Net Cash Flow to Developer @ 50% CF**	**$1,445,435**	**$1,464,668**	**$1,483,996**	**$1,503,412**	**$1,522,907**	**$1,542,476**	**$1,562,109**	**$1,581,799**
	Nominal Dollars								

1 See TABLE 2 for Base Year. The affordable rents and miscellaneous income are assumed to increase by 102.0%/year.

2 See TABLE 2 for Base Year. General operating expenses are assumed to increase by 103.0%/year, property taxes at 102.0%/year and replacement reserves escalated at 103.0%/year.

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TABLE 4

CASH FLOW ANALYSIS
FEDERATION TOWER APARTMENTS
LONG BEACH, CALIFORNIA

		Year 48	Year 49	Year 50	Year 51	Year 52	Year 53	Year 54	Year 55
I.	Gross Residential Income [1]								
	Project Income	$1,459,919	$1,489,118	$1,518,900	$1,549,278	$1,580,264	$1,611,869	$1,644,106	$1,676,988
	Section 8 Subsidy	1,449,774	1,478,769	1,508,345	1,538,512	1,569,282	1,600,668	1,632,681	1,665,335
	Laundry/Miscellaneous Income	26,378	26,906	27,444	27,993	28,552	29,123	29,706	30,300
	Vacancy and Collection Allowance	(89,119)	(90,901)	(92,719)	(94,573)	(96,465)	(98,394)	(100,362)	(102,369)
	Effective Gross Base Income	**$2,846,953**	**$2,903,892**	**$2,961,970**	**$3,021,209**	**$3,081,633**	**$3,143,266**	**$3,206,131**	**$3,270,254**
II.	Operating Expenses [2]								
	General Operating Expenses	$1,080,002	$1,112,402	$1,145,774	$1,180,148	$1,215,552	$1,252,018	$1,289,579	$1,328,266
	Property Taxes	19,783	20,179	20,583	20,994	21,414	21,843	22,279	22,725
	Social Services	0	0	0	0	0	0	0	0
	City Monitoring Fee	31,293	32,232	33,199	34,194	35,220	36,277	37,365	38,486
	Replacement Reserve	54,161	55,785	57,459	59,183	60,958	62,787	64,671	66,611
	Total Operating Expenses	**$1,185,239**	**$1,220,598**	**$1,257,014**	**$1,294,519**	**$1,333,145**	**$1,372,925**	**$1,413,894**	**$1,456,088**
III.	**Net Operating Income**	**$1,661,714**	**$1,683,293**	**$1,704,955**	**$1,726,690**	**$1,748,488**	**$1,770,341**	**$1,792,237**	**$1,814,165**
	(Less) Tranche A Debt Service	0	0	0	0	0	0	0	0
	Net Income After Debt Service	**$1,661,714**	**$1,683,293**	**$1,704,955**	**$1,726,690**	**$1,748,488**	**$1,770,341**	**$1,792,237**	**$1,814,165**
IV.	**Cash Flow Available for Contingent Payments**	**$1,661,714**	**$1,683,293**	**$1,704,955**	**$1,726,690**	**$1,748,488**	**$1,770,341**	**$1,792,237**	**$1,814,165**
	(Less) Limited Partnership Fee	0	0	0	0	0	0	0	0
	(Less) General Partnership Fees	(60,178)	(61,984)	(63,843)	(65,759)	(67,731)	(69,763)	(71,856)	(74,012)
	(Less) Deferred Developer Fee	0	0	0	0	0	0	0	0
V.	**Cash Flow after Contingent Payments**	**$1,601,535**	**$1,621,310**	**$1,641,112**	**$1,660,931**	**$1,680,757**	**$1,700,578**	**$1,720,381**	**$1,740,154**
	Nominal Dollars								
VI.	**Residual Receipt Payments to LBCIC @ 50% CF**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
	Nominal Dollars								
VII.	**Net Cash Flow to Developer @ 50% CF**	**$1,601,535**	**$1,621,310**	**$1,641,112**	**$1,660,931**	**$1,680,757**	**$1,700,578**	**$1,720,381**	**$1,740,154**
	Nominal Dollars								

1 See TABLE 2 for Base Year. The affordable rents and miscellaneous income are assumed to increase by 102.0%/year.

2 See TABLE 2 for Base Year. General operating expenses are assumed to increase by 103.0%/year, property taxes at 102.0%/year and replacement reserves escalated at 103.0%/year.

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File name: Federation Tower Apts_5 20 19; CF; trb

TABLE 5
HOME COST ALLOCATION WORKSHEET - STANDARD MODEL
FEDERATION TOWER APARTMENTS
LONG BEACH, CALIFORNIA

Step 1: Determine Comparability, Select Method of Cost Allocation		Net Residential SF	**28,200**
Step 2: Proposed HOME Investment			**$750,000**
Step 3: Calculate Actual Cost of HOME Units			
Total Development Costs [1]			$23,754,037
Ineligible Development Costs [2]			(2,436,343)
Unit-Specific Upgrades			0
Relocation Costs			0
Assign Relocation Exclusively to HOME Units?			NA
Base Project Cost		**$756 /Sf Gross Residential SF**	**$21,317,694**

Assign Units	# of Bdrms	Unit Size	Cost/Unit
1	Studio	450	$340,176
2	Studio	450	$340,176
3	1	600	$453,568
4	1	600	$453,568
5	1	600	$453,568

Subtotal HOME Unit Costs	**$2,041,056**
Add: Relocation Costs Allocated Exclusively to HOME Units (if applicable)	$0
Actual Cost of HOME Units	**$2,041,056**

Step 4: Calculate Maximum Project Subsidy

Unit Size	# of Units	Max Subsidy/Unit	Maximum Subsidy
0 Bedroom	2	$147,074	$294,148
1 Bedroom	3	$168,600	505,800
2 Bedroom	0	$205,017	0
3 Bedroom	0	$265,228	0
Maximum Project Subsidy	**5**		**$799,948**

Step 5: Maximum HOME Investment, Lesser of

Proposed Investment (Step 2)		$750,000
Actual Cost of HOME Units (Step 3)		$2,041,056
Maximum Project Subsidy (Step 4)		$799,948
Maximum HOME Investment	**5 HOME Units**	**$750,000**

1 KMA excluded the capitalized reserve costs and the costs associated with repaying the HUD 202 Loan.

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File name: Federation Tower Apts_5 20 19; HOME Units; trb