



KEYSER MARSTON ASSOCIATES  
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

## MEMORANDUM

ADVISORS IN:  
Real Estate  
Affordable Housing  
Economic Development

BERKELEY  
A. Jerry Keyser  
Timothy C. Kelly  
Debbie M. Kern  
David Doezenia  
Kevin Feeney

LOS ANGELES  
Kathleen H. Head  
James A. Rabe  
Gregory D. Soo-Hoo  
Kevin E. Engstrom  
Julie L. Romey  
Tim R. Bretz

SAN DIEGO  
Paul C. Marra

**To:** Meggan Sorensen, Housing Development Officer  
City of Long Beach

**From:** Tim Bretz

**Date:** May 22, 2019

**Subject:** Pacific Coast Highway and Magnolia Apartments: Financial Gap Analysis

At your request, Keyser Marston Associates, Inc. (KMA) prepared a financial analysis for the project proposed to be developed at 469 West Pacific Coast Highway (Site) by LINC Housing Corporation (Developer). As proposed, the project will include 40 units that will be restricted to extremely low income households (Project).

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

### EXECUTIVE SUMMARY

#### Estimated Financial Gap

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

	KMA	Developer	Difference
Total Development Costs	\$24,757,000	\$24,833,000	(\$76,000)
Outside Funding Sources	22,528,000	22,583,000	(55,000)
Financial Gap	\$2,229,000	\$2,250,000	(\$21,000)

As shown in the preceding table, KMA estimates the Project's financial gap at \$2,229,000. Comparatively, the Developer is requesting \$2,250,000 in financial assistance from the LBCIC. This equates to an approximately 1% differential, which can be considered inconsequential.

### **Proposed Funding Sources**

The following summarizes the proposed funding sources for the Project:

1. The Project's stabilized net operating income (NOI) supports \$3.65 million in Tax-Exempt Multifamily Bonds (Bonds), which are allocated by the California Debt Limit Allocation Committee (CDLAC).
2. It is anticipated that the Project will receive an operating subsidy for the 39 affordable units from the Los Angeles County Department of Health Services (DHS).
3. The Developer is proposing to utilize 4% Federal Low Income Housing Tax Credits (Tax Credits) that are automatically awarded to projects that receive a Bond allocation from CDLAC. The net Tax Credit proceeds are estimated at \$8.72 million.
4. The Developer received a \$1.54 million loan of Affordable Housing Trust Funds (AHTF) from the Los Angeles Community Development Commission (LACDC).
5. The Developer received a \$7.0 million loan of Mental Health Housing Funds (MHHF) from LACDC.
6. The Developer applied for \$429,000 in Affordable Housing Program (AHP) funds awarded by the Federal Home Loan Bank of San Francisco.

7. The Developer is proposing to defer \$516,000 of the Developer Fee that is included in the Project's development costs. The deferred amount will be repaid from the cash flow generated by the Project over time.
8. The Developer is proposing to contribute \$296,000, or 11% of the total Developer Fee to the Project as Developer Equity. The Developer Equity should have the following terms:
  - a. The Developer Equity will not be secured by a promissory note;
  - b. The Developer Equity may only be repaid from the Developer's share of the Project's residual receipts; and
  - c. Any portion of the Developer Equity that is not repaid from the Developer's share of the Project's residual receipts may only be repaid upon sale or transfer of the property after the LBCIC Loan is repaid in full.
9. Both the LBCIC and LACDC assistance will accrue 3% simple interest during the Project's construction period. The AHP assistance will accrue 1% simple interest during the construction period. These interest obligations will be deferred until after the completion of construction. The deferred amounts will then be included in the corresponding loans between LBCIC / LACDC / AHP and the Developer.

## **PROJECT DESCRIPTION**

The proposed scope of development can be described as follows:

1. The Site area totals 0.96 acres, or approximately 41,800 square feet of land area.
2. The 40-unit project represents a density of 42 units per acre.
3. The Project's units mix is as follows:

	Number of Units	Unit Size (SF)
One-Bedroom Units	39	660
Two-Bedroom Units	1	951
Total / Weighted Average	40	667

4. The Project’s gross building area (GBA) is estimated at 49,543 square feet, and is comprised of the following:
  - a. The residential GBA is estimated at 26,691 square feet;
  - b. The community room GBA is estimated at 5,796 square feet; and
  - c. The common area and circulation GBA is estimated at 17,056 square feet.
5. The Project will include 20 tuck-under parking stalls, which equates to 0.5 parking spaces per unit.
6. The Project’s affordability mix is as follows:

Extremely Low H&SC /Tax Credit @ 30% AMI <sup>1</sup>	39
Unrestricted Manager’s Unit	1
Total Units	40

## FINANCIAL GAP ANALYSIS

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

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

<sup>1</sup> H&SC refers to the California Health and Safety Code. AMI refers to the area median income.

## **Estimated Development Costs (Table 1)**

KMA reviewed the Developer's May 16, 2019 pro forma and then independently prepared a pro forma analysis of the Project. The resulting development costs are estimated as follows:

### ***Property Acquisition Costs***

The LBCIC currently owns the Site. The Developer intends to purchase the Site from the LBCIC for fair market value. An appraisal prepared by Buss-Shelger Associates on October 5, 2018 estimates the fair market value of the Site at \$2.53 million. As such, this property acquisition costs are set at \$2.53 million.

### ***Direct Costs***

The direct costs assume that the Project will not be subject to State of California and/or Federal Davis Bacon prevailing wage requirements. The direct costs applied in this analysis can be summarized as follows:

1. The Developer estimates off-site improvement costs at \$200,000. City staff should verify the scope and cost of the off-site improvements required to serve the Project.
2. The Developer estimates the on-site improvement costs at \$2.46 million, which equates to \$59 per square foot of land area. It is assumed that the on-site costs include a portion of the parking construction costs.
3. The residential building costs are estimated at \$180 per square foot of GBA, or \$8.92 million.
4. The Developer included a \$192,000 allowance for furnishings, fixtures and equipment.
5. A 14% allowance for contractors' fees and general requirements is provided.
6. An allowance for construction bonds / general liability insurance at 2% of construction costs is provided.
7. The third-party construction management costs are estimated at \$80,000.

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

The total direct costs are estimated at \$14.39 million. This equates to \$290 per square foot of GBA.

### ***Indirect Costs***

KMA utilized the following assumptions in estimating the indirect costs:

1. The architecture, engineering and consulting costs are estimated at 10% of direct costs.
2. The Developer estimated the public permits and fees costs at \$1.08 million, or approximately \$27,000 per unit. City staff should verify the accuracy of this estimate.
3. The taxes, insurance, legal and accounting costs are estimated at 3% of direct costs.
4. A \$1,500 per unit allowance for marketing and leasing costs is provided.
5. The Developer set the Developer Fee at \$2.76 million, which is the maximum amount allowed by TCAC for this Project.
6. An indirect cost contingency allowance equal to 5% of other indirect costs is provided.

KMA estimates the total indirect costs at \$6.06 million.

### ***Financing Costs***

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

In this case, the Project's estimated NOI can only support a \$3.65 million Bond; this will be called the Series A Bond. To fulfill the 50% Test, and to provide bridge funding for

costs that will be paid for by other sources upon the Project's completion, a Series B Bond totaling \$8.32 million must be obtained. The sum of the Series A and Series B Bonds totals \$11.97 million

The financing costs for the Project are estimated as follows:

1. KMA assumes that the LBCIC and LACDC assistance will accrue 3% simple interest during the development period. Additionally, the AHP Loan will accrue 1% simple interest during the construction period. The construction period is estimated at 26 months, and the total soft lender interest costs are estimated at \$376,000.
2. The construction period interest costs incurred on the Bonds are estimated at \$725,000 based on the following:
  - a. A 4.25% interest rate;
  - b. A 22-month construction period with a 60% average outstanding balance; and
  - c. A 4-month absorption period with a 100% average outstanding balance.
3. The financing fees are estimated at 4.0 points, or \$479,000.
4. The soft lender fees are estimated at \$21,000.
5. A \$152,000 capitalized operating reserve is provided. This equates to three months of operating expenses and debt service payments.
6. The Tax Credit fees are estimated at \$27,000 based on the following assumptions:
  - 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 \$1.78 million.

### **Total Development Costs**

As shown in Table 1, KMA estimates the total development costs at \$24.76 million, which equates to approximately \$618,900 per unit. In comparison, the Developer estimates the total development costs at \$24.83 million. This equates to a less than 1% differential, which can be considered an insignificant difference. The primary reason for the differential is the difference in estimates of the deferred soft loan interest during construction. However, given that the deferred interest is treated as both a source and a use, it does not have an impact on the Project's financial gap.

### **Stabilized Net Operating Income**

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

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

### **Tenant-Paid Rents**

The rents used in this analysis are based on 2018 income and rent information published by TCAC, and 2019 income and rent information published by the California Department of Housing and Community Development (HCD). The maximum allowable rent for a one-bedroom unit, net of the appropriate utility allowance is estimated as follows:<sup>2</sup>

Rent Restriction	1-Bdrm
<u>EL H&amp;SC / TC @ 30% AMI</u>	
EL H&SC	\$411
TCAC	\$517
Applicable Rents	\$411

<sup>2</sup> The Developer estimates the utility allowance at \$28 for a one-bedroom unit.

### ***Operating Subsidy***

The Developer anticipates that the Project will be awarded an operating subsidy for 39 units from DHS. The DHS operating subsidy is equal to the difference between the rent paid by the tenant and the DHS contract rent. The DHS contract rent is set at \$1,522 per unit month.

### ***Combined Effective Gross Income***

KMA estimates the Project's combined effective gross income at \$643,400 based on the following:

1. The effective gross tenant-paid rent income for the 39 one-bedroom units is estimated at \$175,500 based on the following assumptions:
  - a. The gross tenant-paid rents total \$192,300.
  - b. The laundry and miscellaneous income is estimated at \$5 per unit per month, or \$2,400 per year.
  - c. A 10% vacancy and collection allowance equates to \$19,200.
2. The effective gross operating subsidy income is estimated at \$467,900 based on the following assumptions:
  - a. The gross DHS operating subsidy is estimated at \$519,900.
  - b. A 10% vacancy and collection allowance equates to \$52,000.

### ***Estimated Operating Expenses***

The operating expenses are estimated at \$9,130 per unit per year based on the following:

1. The general operating expenses are estimated at \$5,930 per unit per year.
2. KMA assumes that the Developer will apply for the property tax abatement that is accorded to non-profit housing organizations that own and operate units restricted to households earning less than 80% of the area median income. The property tax assessment overrides are estimated at \$2,000 per year.

3. The social service expenses are estimated at \$100,000.
4. The City will charge a monitoring fee equal to \$150 per unit per year, or \$6,000.
5. The Developer estimates the annual issuer fee for the Bonds at \$8,000 per year.
6. The Developer provided an allowance for replacement reserve deposits at \$300 per unit per year.

### ***Estimated Stabilized Net Operating Income***

The combined effective gross income of the Project is estimated at \$643,400 and the operating expenses are estimated at \$365,200. This results in estimated NOI of \$278,200.

## **Financial Gap Calculation**

### ***Available Outside Funding Sources***

#### Tax-Exempt Multifamily Bonds

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

1. A 115% debt service coverage ratio;
2. A 5.25% interest rate; and
3. A 30-year amortization period.

KMA estimates that the Project's stabilized NOI can support \$3.65 million in Bonds.

#### Tax Credit Proceeds

KMA estimates the net Tax Credit proceeds at \$8.72 million. This estimate is calculated based on the following assumptions:

1. The Project's eligible Tax Credit basis is equal to the lesser of the depreciable costs for the 40 Tax Credit units, or the threshold basis limits established by

TCAC. In this case, the depreciable costs of \$21.17 million are less than the threshold basis limits.

2. The Project is located in a designated "Difficult to Develop" census tract. This allows the requested eligible basis to be increased by 30%.
3. The Developer set the annual Tax Credit rate at 3.30%. This rate is applied over the 10-year Tax Credit period.
4. 100% of the Project's residential building area is included in the eligible basis is located in units that qualify for Tax Credits.
5. The net syndication value supported by the Tax Credit is ultimately determined based on competitive market conditions, and on the timing of disbursements. Based on currently available information, the Developer estimates the proceeds at \$0.96 per gross Tax Credit dollar.

#### LACDC Assistance

The Developer received a \$1.54 million AHTF Loan and a \$7.0 million MHHF Loan from LACDC.

#### AHP Funds

The Developer anticipates receiving \$429,000 in AHP funds awarded by the Federal Home Loan Bank of San Francisco.

#### Soft Loan Deferred Interest

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

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

The total interest amount of the three soft loans is estimated at \$376,000

#### Developer Equity

TCAC regulations allow the Project to receive a \$2.76 million Developer Fee, and the Developer Fee can be included in the Project's eligible Tax Credit basis. Thus, a portion of the Developer Fee is funded by Tax Credit equity.

The Developer proposes to contribute \$296,000, or 11% of the Developer Fee back to the Project as Developer Equity. The Developer Equity will be repaid through the Developer's share of residual receipts or upon the sale/transfer of the Project after the LBCIC Loan is repaid in full. The Developer Equity will not be secured by a promissory note.

#### Deferred Developer Fee

The Developer is proposing to defer \$516,000 of the total Developer Fee, which equates to 19% of the total Developer Fee that is included in the Project's development costs. The deferred Developer Fee will be recouped from the cash flow generated by the Project over time.<sup>3</sup>

#### ***Total Available Outside Funding Sources***

As shown in Table 3, the outside funding sources available to the Project are estimated at \$22.53 million. In comparison, the Developer estimates the available outside funding sources at \$22.58 million. This equates to a \$55,000 differential, which is attributable to the difference in deferred soft loan interest calculations.

#### ***Financial Gap Calculation***

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

---

<sup>3</sup> No cash flow will be available for residual receipts payments until the entire deferred Developer Fee amount has been recouped by the Developer.

Total Development Costs	\$24,757,000
(Less) Total Available Funding Sources	(22,528,000)
Financial Gap	\$2,229,000
Per Unit	\$55,700

As shown in the preceding table, KMA estimates that the Project exhibits a \$2.23 million financial gap. In contrast, the Developer is requesting \$2.25 million in financial assistance from LBCIC. This represents a \$21,000 differential, which is an approximately 1% difference. It is the KMA opinion that a difference of this magnitude can be considered insignificant.

## **CONCLUSIONS / RECOMMENDATIONS**

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

1. Based on the currently available information, it is KMA's conclusion that the Developer's request for \$2.25 million in LBCIC assistance is supported by the Project economics.
2. KMA utilized many of the Developer's direct construction cost assumptions in this analysis. These costs are at the high end of the range seen for recent similar projects reviewed by KMA. However, the following factors are increasing the costs associated with larger construction projects:
  - a. There is substantial amount of construction in Southern California, which has created overwhelming demand for qualified contractors and subcontractors.
  - b. Materials costs have increased due to tariffs, as well as the recent hurricanes in multiple United States locations.
3. KMA recommends the following:
  - a. The Developer should be required to obtain three general contractor bids prior to selecting a general contractor. The three bids should be provided to the LBCIC for review and approval.

- b. The LBCIC should include a cost savings provision in the legal agreements between the LBCIC and the Developer.
4. The Developer is proposing to contribute \$296,000, or 11% of the total Developer Fee to the Project as Developer Equity. The Developer Equity should have the following terms:
  - a. The Developer Equity will not be secured by a promissory note;
  - b. The Developer Equity may only be repaid from the Developer's share of the Project's residual receipts; and
  - c. Any portion of the Developer Equity that is not repaid from the Developer's share of the Project's residual receipts may only be repaid upon sale or transfer of the property after the LBCIC Loan is repaid in full.
5. It is important to note that 100% of the Project's units are restricted to Extremely Low Income households. The Project is operationally feasible due to the inclusion of a DHS operating subsidy for each of the affordable units. However, if the DHS operating subsidy is terminated, the Project's NOI will go negatively immediately. As such, there is a foreclosure risk if the DHS operating subsidy is terminated during the 30-year permanent loan term as there will be insufficient revenue to make the required debt service payments.

**TABLE 1**  
**ESTIMATED DEVELOPMENT COSTS**  
**PCH AND MAGNOLIA**  
**LONG BEACH, CALIFORNIA**

I.	<b>Property Acquisition Costs</b>	1	41,782	Sf Land	\$60 /Sf Land		<b>\$2,525,000</b>
II.	<b>Direct Costs</b>	2					
	Off-site Improvements	3				\$200,000	
	On-site Improvements	4	41,782	Sf Land	\$59 /Sf Land	2,462,000	
	Residential Building Costs		49,543	Sf Res GBA	\$180 /Sf Res GBA	8,918,000	
	Furnishings, Fixtures & Equipment					192,000	
	Contractor Fees / General Requirements			14% Construction Costs		1,621,000	
	General Liability Insurance / Const Bonds			2% Construction Costs		232,000	
	Construction Manager	4				80,000	
	Contingency Allowance			5% Other Direct Costs		685,000	
	<b>Total Direct Costs</b>		<b>49,543</b>	<b>Sf GBA</b>	<b>\$290 /Sf GBA</b>		<b>\$14,390,000</b>
III.	<b>Indirect Costs</b>						
	Architecture, Engineering & Consulting			10% Direct Costs		\$1,439,000	
	Permits & Fees	3	40	Units	\$27,000 /Unit	1,080,000	
	Taxes, Ins, Legal & Accounting			3% Direct Costs		432,000	
	Marketing & Leasing			40 Units	\$1,500 /Unit	60,000	
	Developer Fee	5		15% Eligible Costs		2,762,000	
	Contingency Allowance			5% Other Indirect Costs		289,000	
	<b>Total Indirect Costs</b>						<b>\$6,062,000</b>
IV.	<b>Financing Costs</b>						
	Accrued LB Land Loan Interest	6				\$145,000	
	Accrued Soft Loan Interest	6				231,000	
	Interest During Construction						
	Series A Bond	7	\$3,651,000	Loan Amount	4.25% Interest	221,000	
	Series B Bond	8	\$8,315,000	Loan Amount	4.25% Interest	504,000	
	Financing Fees						
	Series A Bond		\$3,651,000	Loan Amount	4.00 Points	146,000	
	Series B Bond		\$8,315,000	Loan Amount	4.00 Points	333,000	
	Soft Lender Fees					21,000	
	Operating Reserve			3 Months Op Exp and Debt Svc Pmts		152,000	
	TCAC Fees	9				27,000	
	<b>Total Financing Costs</b>						<b>\$1,780,000</b>
V.	<b>Total Construction Costs</b>		<b>40</b>	<b>Units</b>	<b>\$555,800 /Unit</b>		<b>\$22,232,000</b>
	<b>Total Development Costs</b>		<b>40</b>	<b>Units</b>	<b>\$618,900 /Unit</b>		<b>\$24,757,000</b>

- <sup>1</sup> Based on an appraisal prepared by Buss-Shelger Associates on October 5, 2018 that estimates the fair market value of the Site at \$2,525,000.
- <sup>2</sup> Estimates assume prevailing wage requirements will not be imposed on the Project.
- <sup>3</sup> Based on Developer estimate. The estimate should be verified by City staff.
- <sup>4</sup> Based on Developer estimate.
- <sup>5</sup> Based on Developer estimate. The maximum amount allowed by TCAC is equal to 15% of the Project's eligible Tax Credit basis.
- <sup>6</sup> Assumes that the LBCIC Loan and LACDC Loan will accrue 3% interest during the predevelopment and construction periods.
- <sup>7</sup> Includes debt on the 75% of the Tax Credit Equity that will not be funded during construction. Assumes an 22-month construction period with a 60% average outstanding balance and a 4-month absorption period with a 100% average outstanding balance.
- <sup>8</sup> Equal to the unfunded construction costs minus the Series A Bond amount; an 22-month construction period with a 60% average outstanding balance; and a 4-month absorption period with a 100% average outstanding balance.
- <sup>9</sup> Includes a \$2,000 application fee; \$410/unit monitoring fee; and 1% of the gross Tax Credit proceeds for one year.

**TABLE 2**  
**STABILIZED NET OPERATING INCOME & SECTION 8 PBV SUBSIDY**  
**PCH AND MAGNOLIA**  
**LONG BEACH, CALIFORNIA**

<b>I. <u>Base Income</u></b>				
	<sup>1</sup>			
Manager's Unit		1 Unit	\$0 /Unit/Month	\$0
<b><u>EL Inc H&amp;SC/Tax Credit @ 30% Median</u></b>				
1-Bedroom Units @ (660-Sf)		39 Units	\$411 /Unit/Month	192,300
Laundry/Miscellaneous Income		40 Units	\$5 /Unit/Month	2,400
Gross Base Income				\$194,700
Base Income Vacancy and Collection Allowance		10% Gross Income		(19,200)
<b>Effective Gross Base Income</b>				<b>\$175,500</b>
<b>II. <u>DHS Subsidy</u></b>				
<b><u>EL Inc H&amp;SC/Tax Credit @ 30% Median</u></b>				
1-Bedroom Units @ (660-Sf)		39 Units	\$1,111 /Unit/Month	\$519,900
(Less) Vacancy & Collection Allowance		10.0% Section 8 Income		(52,000)
<b>Effective Gross DHS Subsidy</b>				<b>\$467,900</b>
<b>III. <u>Operating Expenses</u></b>				
General Operating Expenses		40 Units	\$5,931 /Unit	\$237,200
Property Taxes	<sup>2</sup>	40 Units	\$50 /Unit	2,000
Social Services		40 Units	\$2,500 /Unit	100,000
City Monitoring Fee		40 Units	\$150 /Unit	6,000
Annual Issuer Fee	<sup>3</sup>			8,000
Replacement Reserve		40 Units	\$300 /Unit	12,000
<b>Total Operating Expenses</b>		40 Units	\$9,126 /Unit	<b>\$365,200</b>
<b>IV. <u>Stabilized Net Operating Income</u></b>				<b>\$278,200</b>

<sup>1</sup> Based on Los Angeles County 2019 Incomes distributed by HUD/HCD. As pertinent, the rents are based on rents published in 2018 by TCAC and in 2019 by the CA H&SC Section 50053 calculation methodology. Utility Allowances per the Developer: \$28 for 1-Bdrm units.

<sup>2</sup> 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.

<sup>3</sup> Per Developer.

TABLE 3

FINANCIAL GAP CALCULATION  
PCH AND MAGNOLIA  
LONG BEACH, CALIFORNIA

I. Available Funding Sources

Tax-Exempt Multifamily Bond Financing

Stabilized Net Operating Income		\$278,200	(See TABLE 2)		
Income Available for Mortgage	1	1.15	DSCR	\$241,913	Debt Service
Interest Rate		5.25%	Interest Rate	6.63%	Mortgage Constant

**Tax-Exempt Multifamily Bond Financing** **\$3,651,000**

Tax Credit Equity

Gross Tax Credit Value	2	\$9,084,000			
Syndication Rate		96.00%	/Tax Credit Dollar		

**Net Tax Credit Equity** **\$8,720,000**

**LACDC General Funds** **\$1,540,000**

**LACDC MHHF** **\$7,000,000**

**AHP** **\$429,000**

**Accrued and Deferred Soft Loan Interest** **\$376,000**

**Impact Fee Exemption** **\$0**

**Developer Equity** **\$296,000**

**Deferred Developer Fee** **\$516,000**

**Total Available Funding Sources** **\$22,528,000**

II. Financial Gap Calculation

Total Development Costs				\$24,757,000	
(Less) Total Available Funding Sources				(22,528,000)	

III. **Financial Gap** **40 Units** **\$55,700 /Unit** **\$2,229,000**

<sup>1</sup> Assumes a 30-year amortization term.

<sup>2</sup> Assumes a \$21.2 million eligible basis, plus a 130% difficult-to-develop premium, a 3.3% Tax Credit rate and an applicable fraction of 100%.

<sup>3</sup> Based on Developer estimate.

<sup>4</sup> The LBCIC and LACDC Loans will accrue simple interest at 3% during the development period, and the AHP Loan will accrue simple interest at 1% during the development period. This interest will be deferred as a permanent source. KMA estimates the development period at 26 months.

**TABLE 4**  
**CASH FLOW ANALYSIS**  
**PCH AND MAGNOLIA**  
**LONG BEACH, CALIFORNIA**

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Year 9</u>	<u>Year 10</u>
<b>I. <u>Gross Residential Income</u><sup>1</sup></b>										
Gross Base Income	\$194,700	\$199,568	\$204,557	\$209,671	\$214,912	\$220,285	\$225,792	\$231,437	\$237,223	\$243,154
DHS Subsidy	519,900	532,898	546,220	559,875	573,872	588,219	602,925	617,998	633,448	649,284
(Less) Base Income Vacancy and Collection Allowance	(19,198)	(19,677)	(20,169)	(20,674)	(21,190)	(21,720)	(22,263)	(22,820)	(23,390)	(23,975)
(Less) Vacancy & Collection Allowance	<u>(51,990)</u>	<u>(53,290)</u>	<u>(54,622)</u>	<u>(55,988)</u>	<u>(57,387)</u>	<u>(58,822)</u>	<u>(60,293)</u>	<u>(61,800)</u>	<u>(63,345)</u>	<u>(64,929)</u>
<b>Combined Effective Gross Income</b>	<b>\$643,412</b>	<b>\$659,498</b>	<b>\$675,985</b>	<b>\$692,885</b>	<b>\$710,207</b>	<b>\$727,962</b>	<b>\$746,161</b>	<b>\$764,815</b>	<b>\$783,935</b>	<b>\$803,534</b>
<b>II. <u>Operating Expenses</u><sup>2</sup></b>										
General Operating Expenses	\$237,200	\$245,502	\$254,095	\$262,988	\$272,192	\$281,719	\$291,579	\$301,785	\$312,347	\$323,279
Property Taxes	2,000	2,040	2,081	2,122	2,165	2,208	2,252	2,297	2,343	2,390
Social Services	100,000	103,500	107,123	110,872	114,752	118,769	122,926	127,228	131,681	136,290
City Monitoring Fee	6,000	6,210	6,427	6,652	6,885	7,126	7,376	7,634	7,901	8,177
Annual Issuer Fee	8,000	8,280	8,570	8,870	9,180	9,501	9,834	10,178	10,534	10,903
Replacement Reserve	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>
<b>Total Operating Expenses</b>	<b>\$365,200</b>	<b>\$377,532</b>	<b>\$390,295</b>	<b>\$403,504</b>	<b>\$417,175</b>	<b>\$431,324</b>	<b>\$445,967</b>	<b>\$461,122</b>	<b>\$476,807</b>	<b>\$493,040</b>
<b>III. <u>Net Operating Income</u></b>	<b>\$278,212</b>	<b>\$281,966</b>	<b>\$285,690</b>	<b>\$289,381</b>	<b>\$293,032</b>	<b>\$296,638</b>	<b>\$300,194</b>	<b>\$303,693</b>	<b>\$307,129</b>	<b>\$310,494</b>
(Less) Perm Loan Debt Service <sup>3</sup>	<u>(241,931)</u>	<u>(241,931)</u>	<u>(241,931)</u>	<u>(241,931)</u>	<u>(241,931)</u>	<u>(241,931)</u>	<u>(241,931)</u>	<u>(241,931)</u>	<u>(241,931)</u>	<u>(241,931)</u>
<b>Net Income After Debt Service</b>	<b>\$36,281</b>	<b>\$40,034</b>	<b>\$43,759</b>	<b>\$47,449</b>	<b>\$51,100</b>	<b>\$54,707</b>	<b>\$58,263</b>	<b>\$61,762</b>	<b>\$65,197</b>	<b>\$68,563</b>
<b>IV. <u>Cash Flow Available for Contingent Payments</u></b>	<b>\$36,281</b>	<b>\$40,034</b>	<b>\$43,759</b>	<b>\$47,449</b>	<b>\$51,100</b>	<b>\$54,707</b>	<b>\$58,263</b>	<b>\$61,762</b>	<b>\$65,197</b>	<b>\$68,563</b>
(Less) Asset and Partnership Fees <sup>4</sup>	(15,000)	(15,450)	(15,914)	(16,391)	(16,883)	(17,389)	(17,911)	(18,448)	(19,002)	(19,572)
(Less) Deferred Developer Fee	<u>(21,281)</u>	<u>(24,584)</u>	<u>(27,845)</u>	<u>(31,058)</u>	<u>(34,218)</u>	<u>(37,318)</u>	<u>(40,352)</u>	<u>(43,314)</u>	<u>(46,196)</u>	<u>(48,991)</u>
<b>V. <u>Cash Flow after Contingent Payments</u></b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
Nominal Dollars	<b>\$8,024,737</b>	<b>\$316,000</b>	NPV @ 10% Discount Rate							
<b>VI. <u>Residual Receipt Payments to LBCIC</u></b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
Nominal Dollars	<b>\$855,065</b>	<b>\$34,000</b>	NPV @ 10% Discount Rate							
<b>VII. <u>Residual Receipt Payments to County</u></b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
Nominal Dollars	<b>\$3,157,303</b>	<b>\$124,000</b>	NPV @ 10% Discount Rate							
<b>VIII. <u>Net Cash Flow to Developer</u></b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
Nominal Dollars	<b>\$4,012,368</b>	<b>\$158,000</b>	NPV @ 10% Discount Rate							

<sup>1</sup> The affordable rents and miscellaneous income are assumed to increase by 102.5%/year. Assumes Year 1 is at stabilization.

<sup>2</sup> General operating expenses are assumed to increase by 103.5%/year, property taxes at 102.0%/year and replacement and operating reserves remain constant.

<sup>3</sup> SEE TABLE 2

<sup>4</sup> Assumes fees increase at 103.0%/year.

**TABLE 4**  
**CASH FLOW ANALYSIS**  
**PCH AND MAGNOLIA**  
**LONG BEACH, CALIFORNIA**

	<u>Year 11</u>	<u>Year 12</u>	<u>Year 13</u>	<u>Year 14</u>	<u>Year 15</u>	<u>Year 16</u>	<u>Year 17</u>	<u>Year 18</u>	<u>Year 19</u>	<u>Year 20</u>	<u>Year 21</u>
<b>I. <u>Gross Residential Income</u><sup>1</sup></b>											
Gross Base Income	\$249,232	\$255,463	\$261,850	\$268,396	\$275,106	\$281,984	\$289,033	\$296,259	\$303,666	\$311,257	\$319,039
DHS Subsidy	665,516	682,154	699,208	716,688	734,605	752,970	771,794	791,089	810,867	831,138	851,917
(Less) Base Income Vacancy and Collection Allowance	(24,574)	(25,189)	(25,819)	(26,464)	(27,126)	(27,804)	(28,499)	(29,211)	(29,942)	(30,690)	(31,457)
(Less) Vacancy & Collection Allowance	<u>(66,552)</u>	<u>(68,216)</u>	<u>(69,921)</u>	<u>(71,669)</u>	<u>(73,461)</u>	<u>(75,297)</u>	<u>(77,180)</u>	<u>(79,109)</u>	<u>(81,087)</u>	<u>(83,114)</u>	<u>(85,192)</u>
<b>Combined Effective Gross Income</b>	<b>\$823,622</b>	<b>\$844,213</b>	<b>\$865,318</b>	<b>\$886,951</b>	<b>\$909,125</b>	<b>\$931,853</b>	<b>\$955,149</b>	<b>\$979,028</b>	<b>\$1,003,504</b>	<b>\$1,028,591</b>	<b>\$1,054,306</b>
<b>II. <u>Operating Expenses</u><sup>2</sup></b>											
General Operating Expenses	\$334,594	\$346,305	\$358,425	\$370,970	\$383,954	\$397,393	\$411,301	\$425,697	\$440,596	\$456,017	\$471,978
Property Taxes	2,438	2,487	2,536	2,587	2,639	2,692	2,746	2,800	2,856	2,914	2,972
Social Services	141,060	145,997	151,107	156,396	161,869	167,535	173,399	179,468	185,749	192,250	198,979
City Monitoring Fee	8,464	8,760	9,066	9,384	9,712	10,052	10,404	10,768	11,145	11,535	11,939
Annual Issuer Fee	11,285	11,680	12,089	12,512	12,950	13,403	13,872	14,357	14,860	15,380	15,918
Replacement Reserve	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>								
<b>Total Operating Expenses</b>	<b>\$509,840</b>	<b>\$527,228</b>	<b>\$545,224</b>	<b>\$563,849</b>	<b>\$583,124</b>	<b>\$603,074</b>	<b>\$623,721</b>	<b>\$645,091</b>	<b>\$667,207</b>	<b>\$690,096</b>	<b>\$713,786</b>
<b>III. <u>Net Operating Income</u></b>	<b>\$313,782</b>	<b>\$316,985</b>	<b>\$320,094</b>	<b>\$323,102</b>	<b>\$326,000</b>	<b>\$328,779</b>	<b>\$331,428</b>	<b>\$333,937</b>	<b>\$336,297</b>	<b>\$338,495</b>	<b>\$340,520</b>
(Less) Perm Loan Debt Service <sup>3</sup>	<u>(241,931)</u>	<u>(241,931)</u>	<u>(241,931)</u>								
<b>Net Income After Debt Service</b>	<b>\$71,850</b>	<b>\$75,053</b>	<b>\$78,163</b>	<b>\$81,171</b>	<b>\$84,069</b>	<b>\$86,847</b>	<b>\$89,496</b>	<b>\$92,006</b>	<b>\$94,365</b>	<b>\$96,564</b>	<b>\$98,589</b>
<b>IV. <u>Cash Flow Available for Contingent Payments</u></b>	<b>\$71,850</b>	<b>\$75,053</b>	<b>\$78,163</b>	<b>\$81,171</b>	<b>\$84,069</b>	<b>\$86,847</b>	<b>\$89,496</b>	<b>\$92,006</b>	<b>\$94,365</b>	<b>\$96,564</b>	<b>\$98,589</b>
(Less) Asset and Partnership Fees <sup>4</sup>	(20,159)	(20,764)	(21,386)	(22,028)	(22,689)	(23,370)	(24,071)	(24,793)	(25,536)	(26,303)	(27,092)
(Less) Deferred Developer Fee	<u>(51,692)</u>	<u>(54,290)</u>	<u>(54,863)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>V. <u>Cash Flow after Contingent Payments</u></b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,913</b>	<b>\$59,143</b>	<b>\$61,380</b>	<b>\$63,478</b>	<b>\$65,426</b>	<b>\$67,213</b>	<b>\$68,829</b>	<b>\$70,261</b>	<b>\$71,497</b>
Nominal Dollars											
<b>VI. <u>Residual Receipt Payments to LBCIC</u></b>	<b>\$0</b>	<b>\$0</b>	<b>\$204</b>	<b>\$6,302</b>	<b>\$6,540</b>	<b>\$6,764</b>	<b>\$6,971</b>	<b>\$7,162</b>	<b>\$7,334</b>	<b>\$7,487</b>	<b>\$7,618</b>
Nominal Dollars											
<b>VII. <u>Residual Receipt Payments to County</u></b>	<b>\$0</b>	<b>\$0</b>	<b>\$753</b>	<b>\$23,270</b>	<b>\$24,150</b>	<b>\$24,975</b>	<b>\$25,741</b>	<b>\$26,445</b>	<b>\$27,080</b>	<b>\$27,644</b>	<b>\$28,130</b>
Nominal Dollars											
<b>VIII. <u>Net Cash Flow to Developer</u></b>	<b>\$0</b>	<b>\$0</b>	<b>\$957</b>	<b>\$29,571</b>	<b>\$30,690</b>	<b>\$31,739</b>	<b>\$32,713</b>	<b>\$33,607</b>	<b>\$34,414</b>	<b>\$35,131</b>	<b>\$35,749</b>
Nominal Dollars											

<sup>1</sup> The affordable rents and miscellaneous income are assumed to increase by 102.5%/year. Assumes Year 1 is at stabilization.

<sup>2</sup> General operating expenses are assumed to increase by 103.5%/year, property taxes at 102.0%/year and replacement and operating reserves remain constant.

<sup>3</sup> SEE TABLE 2

<sup>4</sup> Assumes fees increase at 103.0%/year.

**TABLE 4**  
**CASH FLOW ANALYSIS**  
**PCH AND MAGNOLIA**  
**LONG BEACH, CALIFORNIA**

	<u>Year 22</u>	<u>Year 23</u>	<u>Year 24</u>	<u>Year 25</u>	<u>Year 26</u>	<u>Year 27</u>	<u>Year 28</u>	<u>Year 29</u>	<u>Year 30</u>	<u>Year 31</u>	<u>Year 32</u>
<b>I. <u>Gross Residential Income</u><sup>1</sup></b>											
Gross Base Income	\$327,015	\$335,190	\$343,570	\$352,159	\$360,963	\$369,987	\$379,237	\$388,718	\$398,436	\$408,396	\$418,606
DHS Subsidy	873,215	895,045	917,421	940,357	963,866	987,962	1,012,661	1,037,978	1,063,927	1,090,525	1,117,789
(Less) Base Income Vacancy and Collection Allowance	(32,244)	(33,050)	(33,876)	(34,723)	(35,591)	(36,481)	(37,393)	(38,328)	(39,286)	(40,268)	(41,275)
(Less) Vacancy & Collection Allowance	<u>(87,322)</u>	<u>(89,505)</u>	<u>(91,742)</u>	<u>(94,036)</u>	<u>(96,387)</u>	<u>(98,797)</u>	<u>(101,266)</u>	<u>(103,798)</u>	<u>(106,393)</u>	<u>(109,053)</u>	<u>(111,779)</u>
<b>Combined Effective Gross Income</b>	<b>\$1,080,664</b>	<b>\$1,107,680</b>	<b>\$1,135,372</b>	<b>\$1,163,757</b>	<b>\$1,192,850</b>	<b>\$1,222,672</b>	<b>\$1,253,238</b>	<b>\$1,284,569</b>	<b>\$1,316,684</b>	<b>\$1,349,601</b>	<b>\$1,383,341</b>
<b>II. <u>Operating Expenses</u><sup>2</sup></b>											
General Operating Expenses	\$488,497	\$505,595	\$523,290	\$541,606	\$560,562	\$580,181	\$600,488	\$621,505	\$643,257	\$665,771	\$689,073
Property Taxes	3,031	3,092	3,154	3,217	3,281	3,347	3,414	3,482	3,552	3,623	3,695
Social Services	205,943	213,151	220,611	228,333	236,324	244,596	253,157	262,017	271,188	280,679	290,503
City Monitoring Fee	12,357	12,789	13,237	13,700	14,179	14,676	15,189	15,721	16,271	16,841	17,430
Annual Issuer Fee	16,475	17,052	17,649	18,267	18,906	19,568	20,253	20,961	21,695		
Replacement Reserve	<u>12,000</u>										
<b>Total Operating Expenses</b>	<b>\$738,304</b>	<b>\$763,679</b>	<b>\$789,941</b>	<b>\$817,122</b>	<b>\$845,253</b>	<b>\$874,367</b>	<b>\$904,500</b>	<b>\$935,686</b>	<b>\$967,963</b>	<b>\$978,914</b>	<b>\$1,012,702</b>
<b>III. <u>Net Operating Income</u></b>	<b>\$342,360</b>	<b>\$344,001</b>	<b>\$345,431</b>	<b>\$346,635</b>	<b>\$347,598</b>	<b>\$348,304</b>	<b>\$348,738</b>	<b>\$348,883</b>	<b>\$348,720</b>	<b>\$370,686</b>	<b>\$370,639</b>
(Less) Perm Loan Debt Service <sup>3</sup>	<u>(241,931)</u>	<u>0</u>	<u>0</u>								
<b>Net Income After Debt Service</b>	<b>\$100,428</b>	<b>\$102,070</b>	<b>\$103,500</b>	<b>\$104,703</b>	<b>\$105,666</b>	<b>\$106,373</b>	<b>\$106,807</b>	<b>\$106,952</b>	<b>\$106,789</b>	<b>\$370,686</b>	<b>\$370,639</b>
<b>IV. <u>Cash Flow Available for Contingent Payments</u></b>	<b>\$100,428</b>	<b>\$102,070</b>	<b>\$103,500</b>	<b>\$104,703</b>	<b>\$105,666</b>	<b>\$106,373</b>	<b>\$106,807</b>	<b>\$106,952</b>	<b>\$106,789</b>	<b>\$370,686</b>	<b>\$370,639</b>
(Less) Asset and Partnership Fees <sup>4</sup>	(27,904)	(28,742)	(29,604)	(30,492)	(31,407)	(32,349)	(33,319)	(34,319)	(35,348)	(36,409)	(37,501)
(Less) Deferred Developer Fee	<u>0</u>										
<b>V. <u>Cash Flow after Contingent Payments</u></b>	<b>\$72,524</b>	<b>\$73,328</b>	<b>\$73,896</b>	<b>\$74,211</b>	<b>\$74,259</b>	<b>\$74,024</b>	<b>\$73,488</b>	<b>\$72,633</b>	<b>\$71,440</b>	<b>\$334,277</b>	<b>\$333,138</b>
Nominal Dollars											
<b>VI. <u>Residual Receipt Payments to LBCIC</u></b>	<b>\$7,728</b>	<b>\$7,813</b>	<b>\$7,874</b>	<b>\$7,907</b>	<b>\$7,913</b>	<b>\$7,888</b>	<b>\$7,830</b>	<b>\$7,739</b>	<b>\$7,612</b>	<b>\$35,619</b>	<b>\$35,497</b>
Nominal Dollars											
<b>VII. <u>Residual Receipt Payments to County</u></b>	<b>\$28,534</b>	<b>\$28,851</b>	<b>\$29,074</b>	<b>\$29,198</b>	<b>\$29,217</b>	<b>\$29,124</b>	<b>\$28,913</b>	<b>\$28,577</b>	<b>\$28,108</b>	<b>\$131,520</b>	<b>\$131,072</b>
Nominal Dollars											
<b>VIII. <u>Net Cash Flow to Developer</u></b>	<b>\$36,262</b>	<b>\$36,664</b>	<b>\$36,948</b>	<b>\$37,106</b>	<b>\$37,130</b>	<b>\$37,012</b>	<b>\$36,744</b>	<b>\$36,316</b>	<b>\$35,720</b>	<b>\$167,139</b>	<b>\$166,569</b>
Nominal Dollars											

<sup>1</sup> The affordable rents and miscellaneous income are assumed to increase by 102.5%/year. Assumes Year 1 is at stabilization.

<sup>2</sup> General operating expenses are assumed to increase by 103.5%/year, property taxes at 102.0%/year and replacement and operating reserves remain constant.

<sup>3</sup> SEE TABLE 2

<sup>4</sup> Assumes fees increase at 103.0%/year.

**TABLE 4**  
**CASH FLOW ANALYSIS**  
**PCH AND MAGNOLIA**  
**LONG BEACH, CALIFORNIA**

	<u>Year 33</u>	<u>Year 34</u>	<u>Year 35</u>	<u>Year 36</u>	<u>Year 37</u>	<u>Year 38</u>	<u>Year 39</u>	<u>Year 40</u>	<u>Year 41</u>	<u>Year 42</u>	<u>Year 43</u>
<b>I. <u>Gross Residential Income</u><sup>1</sup></b>											
Gross Base Income	\$429,071	\$439,798	\$450,793	\$462,063	\$473,615	\$485,455	\$497,591	\$510,031	\$522,782	\$535,851	\$549,248
DHS Subsidy	1,145,733	1,174,377	1,203,736	1,233,829	1,264,675	1,296,292	1,328,699	1,361,917	1,395,965	1,430,864	1,466,635
(Less) Base Income Vacancy and Collection Allowance	(42,307)	(43,364)	(44,448)	(45,560)	(46,699)	(47,866)	(49,063)	(50,289)	(51,547)	(52,835)	(54,156)
(Less) Vacancy & Collection Allowance	<u>(114,574)</u>	<u>(117,438)</u>	<u>(120,374)</u>	<u>(123,383)</u>	<u>(126,468)</u>	<u>(129,630)</u>	<u>(132,870)</u>	<u>(136,192)</u>	<u>(139,597)</u>	<u>(143,087)</u>	<u>(146,664)</u>
<b>Combined Effective Gross Income</b>	<b>\$1,417,924</b>	<b>\$1,453,372</b>	<b>\$1,489,707</b>	<b>\$1,526,949</b>	<b>\$1,565,123</b>	<b>\$1,604,251</b>	<b>\$1,644,357</b>	<b>\$1,685,466</b>	<b>\$1,727,603</b>	<b>\$1,770,793</b>	<b>\$1,815,063</b>
<b>II. <u>Operating Expenses</u><sup>2</sup></b>											
General Operating Expenses	\$713,191	\$738,153	\$763,988	\$790,728	\$818,403	\$847,047	\$876,694	\$907,378	\$939,136	\$972,006	\$1,006,026
Property Taxes	3,769	3,844	3,921	4,000	4,080	4,161	4,245	4,329	4,416	4,504	4,594
Social Services	300,671	311,194	322,086	333,359	345,027	357,103	369,601	382,537	395,926	409,783	424,126
City Monitoring Fee	18,040	18,672	19,325	20,002	20,702	21,426	22,176	22,952	23,756	24,587	25,448
Annual Issuer Fee											
Replacement Reserve	<u>12,000</u>										
<b>Total Operating Expenses</b>	<b>\$1,047,671</b>	<b>\$1,083,863</b>	<b>\$1,121,321</b>	<b>\$1,160,088</b>	<b>\$1,200,211</b>	<b>\$1,241,737</b>	<b>\$1,284,716</b>	<b>\$1,329,197</b>	<b>\$1,375,234</b>	<b>\$1,422,881</b>	<b>\$1,472,194</b>
<b>III. <u>Net Operating Income</u></b>	<b>\$370,253</b>	<b>\$369,509</b>	<b>\$368,386</b>	<b>\$366,861</b>	<b>\$364,912</b>	<b>\$362,514</b>	<b>\$359,642</b>	<b>\$356,269</b>	<b>\$352,369</b>	<b>\$347,912</b>	<b>\$342,869</b>
(Less) Perm Loan Debt Service <sup>3</sup>	<u>0</u>										
<b>Net Income After Debt Service</b>	<b>\$370,253</b>	<b>\$369,509</b>	<b>\$368,386</b>	<b>\$366,861</b>	<b>\$364,912</b>	<b>\$362,514</b>	<b>\$359,642</b>	<b>\$356,269</b>	<b>\$352,369</b>	<b>\$347,912</b>	<b>\$342,869</b>
<b>IV. <u>Cash Flow Available for Contingent Payments</u></b>	<b>\$370,253</b>	<b>\$369,509</b>	<b>\$368,386</b>	<b>\$366,861</b>	<b>\$364,912</b>	<b>\$362,514</b>	<b>\$359,642</b>	<b>\$356,269</b>	<b>\$352,369</b>	<b>\$347,912</b>	<b>\$342,869</b>
(Less) Asset and Partnership Fees <sup>4</sup>	(38,626)	(39,785)	(40,979)	(42,208)	(43,474)	(44,778)	(46,122)	(47,505)	(48,931)	(50,398)	(51,910)
(Less) Deferred Developer Fee	<u>0</u>										
<b>V. <u>Cash Flow after Contingent Payments</u></b>	<b>\$331,627</b>	<b>\$329,724</b>	<b>\$327,408</b>	<b>\$324,653</b>	<b>\$321,438</b>	<b>\$317,735</b>	<b>\$313,520</b>	<b>\$308,764</b>	<b>\$303,438</b>	<b>\$297,514</b>	<b>\$290,958</b>
Nominal Dollars											
<b>VI. <u>Residual Receipt Payments to LBCIC</u></b>	<b>\$35,336</b>	<b>\$35,133</b>	<b>\$34,886</b>	<b>\$34,593</b>	<b>\$34,250</b>	<b>\$33,856</b>	<b>\$33,407</b>	<b>\$32,900</b>	<b>\$32,332</b>	<b>\$31,701</b>	<b>\$31,003</b>
Nominal Dollars											
<b>VII. <u>Residual Receipt Payments to County</u></b>	<b>\$130,477</b>	<b>\$129,729</b>	<b>\$128,817</b>	<b>\$127,734</b>	<b>\$126,469</b>	<b>\$125,012</b>	<b>\$123,353</b>	<b>\$121,482</b>	<b>\$119,387</b>	<b>\$117,056</b>	<b>\$114,476</b>
Nominal Dollars											
<b>VIII. <u>Net Cash Flow to Developer</u></b>	<b>\$165,813</b>	<b>\$164,862</b>	<b>\$163,704</b>	<b>\$162,327</b>	<b>\$160,719</b>	<b>\$158,868</b>	<b>\$156,760</b>	<b>\$154,382</b>	<b>\$151,719</b>	<b>\$148,757</b>	<b>\$145,479</b>
Nominal Dollars											

<sup>1</sup> The affordable rents and miscellaneous income are assumed to increase by 102.5%/year. Assumes Year 1 is at stabilization.

<sup>2</sup> General operating expenses are assumed to increase by 103.5%/year, property taxes at 102.0%/year and replacement and operating reserves remain constant.

<sup>3</sup> SEE TABLE 2

<sup>4</sup> Assumes fees increase at 103.0%/year.

TABLE 4  
CASH FLOW ANALYSIS  
PCH AND MAGNOLIA  
LONG BEACH, CALIFORNIA

	Year 44	Year 45	Year 46	Year 47	Year 48	Year 49	Year 50	Year 51	Year 52	Year 53	Year 54
<b>I. Gross Residential Income</b> <sup>1</sup>											
Gross Base Income	\$562,979	\$577,053	\$591,480	\$606,267	\$621,423	\$636,959	\$652,883	\$669,205	\$685,935	\$703,084	\$720,661
DHS Subsidy	1,503,301	1,540,884	1,579,406	1,618,891	1,659,363	1,700,847	1,743,369	1,786,953	1,831,627	1,877,417	1,924,353
(Less) Base Income Vacancy and Collection Allowance	(55,510)	(56,898)	(58,320)	(59,778)	(61,273)	(62,804)	(64,375)	(65,984)	(67,634)	(69,324)	(71,058)
(Less) Vacancy & Collection Allowance	<u>(150,331)</u>	<u>(154,089)</u>	<u>(157,941)</u>	<u>(161,890)</u>	<u>(165,937)</u>	<u>(170,085)</u>	<u>(174,338)</u>	<u>(178,696)</u>	<u>(183,163)</u>	<u>(187,742)</u>	<u>(192,436)</u>
<b>Combined Effective Gross Income</b>	<b>\$1,860,440</b>	<b>\$1,906,951</b>	<b>\$1,954,624</b>	<b>\$2,003,490</b>	<b>\$2,053,577</b>	<b>\$2,104,917</b>	<b>\$2,157,540</b>	<b>\$2,211,478</b>	<b>\$2,266,765</b>	<b>\$2,323,434</b>	<b>\$2,381,520</b>
<b>II. Operating Expenses</b> <sup>2</sup>											
General Operating Expenses	\$1,041,237	\$1,077,681	\$1,115,399	\$1,154,438	\$1,194,844	\$1,236,663	\$1,279,947	\$1,324,745	\$1,371,111	\$1,419,100	\$1,468,768
Property Taxes	4,686	4,780	4,876	4,973	5,073	5,174	5,278	5,383	5,491	5,601	5,713
Social Services	438,970	454,334	470,236	486,694	503,728	521,359	539,606	558,493	578,040	598,271	619,211
City Monitoring Fee	26,338	27,260	28,214	29,202	30,224	31,282	32,376	33,510	34,682	35,896	37,153
Annual Issuer Fee											
Replacement Reserve	<u>12,000</u>										
<b>Total Operating Expenses</b>	<b>\$1,523,232</b>	<b>\$1,576,055</b>	<b>\$1,630,725</b>	<b>\$1,687,307</b>	<b>\$1,745,869</b>	<b>\$1,806,478</b>	<b>\$1,869,207</b>	<b>\$1,934,130</b>	<b>\$2,001,324</b>	<b>\$2,070,868</b>	<b>\$2,142,844</b>
<b>III. Net Operating Income</b>	<b>\$337,207</b>	<b>\$330,896</b>	<b>\$323,899</b>	<b>\$316,183</b>	<b>\$307,709</b>	<b>\$298,439</b>	<b>\$288,333</b>	<b>\$277,348</b>	<b>\$265,441</b>	<b>\$252,566</b>	<b>\$238,676</b>
(Less) Perm Loan Debt Service <sup>3</sup>	<u>0</u>										
<b>Net Income After Debt Service</b>	<b>\$337,207</b>	<b>\$330,896</b>	<b>\$323,899</b>	<b>\$316,183</b>	<b>\$307,709</b>	<b>\$298,439</b>	<b>\$288,333</b>	<b>\$277,348</b>	<b>\$265,441</b>	<b>\$252,566</b>	<b>\$238,676</b>
<b>IV. Cash Flow Available for Contingent Payments</b>	<b>\$337,207</b>	<b>\$330,896</b>	<b>\$323,899</b>	<b>\$316,183</b>	<b>\$307,709</b>	<b>\$298,439</b>	<b>\$288,333</b>	<b>\$277,348</b>	<b>\$265,441</b>	<b>\$252,566</b>	<b>\$238,676</b>
(Less) Asset and Partnership Fees <sup>4</sup>	(53,468)	(55,072)	(56,724)	(58,426)	(60,178)	(61,984)	(63,843)	(65,759)	(67,731)	(69,763)	(71,856)
(Less) Deferred Developer Fee	<u>0</u>										
<b>V. Cash Flow after Contingent Payments</b>	<b>\$283,740</b>	<b>\$275,824</b>	<b>\$267,175</b>	<b>\$257,757</b>	<b>\$247,530</b>	<b>\$236,455</b>	<b>\$224,489</b>	<b>\$211,589</b>	<b>\$197,710</b>	<b>\$182,803</b>	<b>\$166,820</b>
Nominal Dollars											
<b>VI. Residual Receipt Payments to LBCIC</b>	<b>\$30,234</b>	<b>\$29,390</b>	<b>\$28,469</b>	<b>\$27,465</b>	<b>\$26,375</b>	<b>\$25,195</b>	<b>\$23,920</b>	<b>\$22,546</b>	<b>\$21,067</b>	<b>\$19,478</b>	<b>\$17,775</b>
Nominal Dollars											
<b>VII. Residual Receipt Payments to County</b>	<b>\$111,636</b>	<b>\$108,522</b>	<b>\$105,119</b>	<b>\$101,413</b>	<b>\$97,390</b>	<b>\$93,032</b>	<b>\$88,324</b>	<b>\$83,249</b>	<b>\$77,788</b>	<b>\$71,923</b>	<b>\$65,635</b>
Nominal Dollars											
<b>VIII. Net Cash Flow to Developer</b>	<b>\$141,870</b>	<b>\$137,912</b>	<b>\$133,588</b>	<b>\$128,878</b>	<b>\$123,765</b>	<b>\$118,227</b>	<b>\$112,245</b>	<b>\$105,795</b>	<b>\$98,855</b>	<b>\$91,401</b>	<b>\$83,410</b>
Nominal Dollars											

<sup>1</sup> The affordable rents and miscellaneous income are assumed to increase by 102.5%/year. Assumes Year 1 is at stabilization.

<sup>2</sup> General operating expenses are assumed to increase by 103.5%/year, property taxes at 102.0%/year and replacement and operating reserves remain constant.

<sup>3</sup> SEE TABLE 2

<sup>4</sup> Assumes fees increase at 103.0%/year.

**TABLE 4  
CASH FLOW ANALYSIS  
PCH AND MAGNOLIA  
LONG BEACH, CALIFORNIA**

	<u>Year 55</u>
<b>I. <u>Gross Residential Income</u><sup>1</sup></b>	
Gross Base Income	\$738,677
DHS Subsidy	1,972,462
(Less) Base Income Vacancy and Collection Allowance	(72,834)
(Less) Vacancy & Collection Allowance	<u>(197,247)</u>
<b>Combined Effective Gross Income</b>	<b>\$2,441,058</b>
<b>II. <u>Operating Expenses</u><sup>2</sup></b>	
General Operating Expenses	\$1,520,175
Property Taxes	5,827
Social Services	640,883
City Monitoring Fee	38,453
Annual Issuer Fee	
Replacement Reserve	<u>12,000</u>
<b>Total Operating Expenses</b>	<b>\$2,217,338</b>
<b>III. <u>Net Operating Income</u></b>	<b>\$223,720</b>
(Less) Perm Loan Debt Service <sup>3</sup>	<u>0</u>
<b>Net Income After Debt Service</b>	<b>\$223,720</b>
<b>IV. <u>Cash Flow Available for Contingent Payments</u></b>	<b>\$223,720</b>
(Less) Asset and Partnership Fees <sup>4</sup>	(74,012)
(Less) Deferred Developer Fee	<u>0</u>
<b>V. <u>Cash Flow after Contingent Payments</u></b>	<b>\$149,708</b>
Nominal Dollars	
<b>VI. <u>Residual Receipt Payments to LBCIC</u></b>	<b>\$15,952</b>
Nominal Dollars	
<b>VII. <u>Residual Receipt Payments to County</u></b>	<b>\$58,902</b>
Nominal Dollars	
<b>VIII. <u>Net Cash Flow to Developer</u></b>	<b>\$74,854</b>
Nominal Dollars	

<sup>1</sup> The affordable rents and miscellaneous income are assumed to increase by 102.5%/year. Assumes Year 1 is at stabilization.

<sup>2</sup> General operating expenses are assumed to increase by 103.5%/year, property taxes at 102.0%/year and replacement and operating reserves remain constant.

<sup>3</sup> SEE TABLE 2

<sup>4</sup> Assumes fees increase at 103.0%/year.