



KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

ADVISORS IN:
Real Estate
Redevelopment
Affordable Housing
Economic Development

To: Patrick Ure, Housing Development Officer
City of Long Beach

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Date: July 25, 2016

Subject: Immanuel Senior Housing: Revised Subsidy Layering Review

SAN DIEGO
Paul C. Marra

At your request, Keyser Marston Associates, Inc. (KMA) evaluated the 25-unit Immanuel Senior Housing Project (Project) proposed to be developed by Thomas Safran & Associates (Developer). The City of Long Beach (City) plans to provide financial assistance to the Project using HOME Program (HOME) funds that are allocated to the City by the United States Department of Housing and Urban Development (HUD). This analysis is prepared in compliance with the requirements imposed by HUD.

The KMA analysis includes the following components:

1. An underwriting review 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;
2. A review and summary of the market demand assessment of the Project that was prepared by Prior & Associates (Market Study);
3. An evaluation of the Developer's capacity to develop and operate the Project;

4. An assessment of the reasonableness of the Developer Fee, cash flow, equity appreciation and profit anticipated to be generated by the Project; and
5. A review of the financial commitment documentation submitted by the Developer.

EXECUTIVE SUMMARY

Proposed Scope of Development

The Developer acquired an existing church building, located at the northeast corner of East 3rd Street and North Obispo Avenue (Site), with the intention of adaptively reusing it as a 25-unit apartment building. The Project consists solely of one-bedroom units that will be restricted to very-low and low income senior citizen households.

Background

The Developer initially submitted an assistance proposal for the Project to the City in 2012. As proposed, the primary funding source was the competitively awarded 9% Low Income Housing Tax Credit (Tax Credit). In October 2012, the City committed \$850,000 in financial assistance to the Project.

In 2013, the Developer applied for, but did not receive, a 9% Tax Credit award. In the meantime, the financial gap increased as a result of construction cost increases. To fill the additional gap, and to make the Project more competitive in the 9% Tax Credit award process, the City increased its assistance amount to \$1.65 million and the Developer secured additional outside funding. The Project was ultimately awarded 9% Tax Credits in June 2014.

The Project is currently under construction, and is approximately 75% complete. Due to unforeseen circumstances related to the adaptive reuse of the structure, the Project has experienced additional cost increases. The Developer is currently requesting \$900,000 in additional assistance from the City. This request would bring the City's total financial assistance to \$2.55 million, which will consist solely of HOME funds.

Underwriting Analysis

Based on information provided by the Developer, KMA estimates the total development costs at \$13.18 million. Based on the available information, the funding sources received by the Project are as follows:

1. The Project received \$6.91 million in net Tax Credit proceeds that were awarded by the California Tax Credit Allocation Committee (TCAC);
2. The California Department of Housing and Community Development (HCD) awarded \$988,000 in Proposition 1C Infill Infrastructure Grant (Prop 1C) to the Project;
3. The Los Angeles County Community Development Commission (LACDC) provided a \$1.82 million loan to the Project using Affordable Housing Trust Funds (AHTF);
4. A \$360,000 Affordable Housing Program (AHP) loan was provided by the Federal Home Loan Bank of San Francisco; and
5. The Developer proposes to defer \$546,000, or approximately 48%, of the total Developer Fee that is included in the Project's budget.

The available funding sources total \$10.63 million, and the Project costs are estimated at \$13.18 million. This leaves a \$2.55 million unfunded financial gap, which is equal to the Developer's request of HOME funds from the City. Thus, the analysis demonstrates that the proposed \$2.55 million in HOME assistance is necessary to provide the proposed affordable housing units.

As proposed, the HOME assistance will be disbursed as follows:

1. The City provided \$1.65 million of HOME funds assistance when the construction loan closed; and
2. The additional \$900,000 in City assistance will be disbursed after City approval and execution of the HOME Loan Agreement Amendment.

In addition to the identified capital funding sources, the Project will receive an annual operating subsidy from the Los Angeles County Department of Health Services (DHS). The operating subsidy is anticipated to be awarded as a 15-year commitment, with an

administrative renewal every five years. However, there is no guarantee that the administrative renewal will be approved every five years, or that the initial commitment will be extended after 15 years.

HOME Program Requirements

1. Based on the provision of \$2.55 million in HOME funds assistance, at least 16 units must be designated as HOME units. The HOME Program regulations require that at least 20% of the HOME designated units, or four units, must be affordable to very-low income households.
2. The HOME Program regulations impose Davis Bacon wage requirements on projects that include 12 or more designated HOME units. Given that 16 units must be designated as HOME units, Davis Bacon wage standards are triggered by the provision of HOME funds to the Project.
3. The Market Study indicates that there is sufficient demand to support the proposed Project.
4. The Developer has demonstrated the financial capacity and fiscal soundness to undertake the Project.
5. If the DHS operating subsidy is provided throughout the 20-year HOME compliance period, it is projected that sufficient cash flow will be available to support the operations of the Project.
6. The Developer is not receiving excess profit from the Project.
7. The Developer provided financial commitment documentation for the Project's funding sources.

PROJECT DESCRIPTION

The proposed scope of development can be described as follows:

1. The Site is comprised of approximately 21,000 square feet of land area.
2. The Project will adaptively reuse an existing church building by converting the space into apartments for senior citizen households.

3. The Project is proposed to include 25 one-bedroom apartment units. The average unit size is 648 square feet.
4. The 25-unit Project represents a density of 52 units per acre.
5. The gross building area (GBA) for the project is 31,682 square feet, which includes:
 - a. Gross residential area totaling 16,210 square feet;
 - b. Community room space totaling 5,000 square feet; and
 - c. Circulation and common area space totaling 10,472 square feet.
6. The Developer is proposing to provide the following social services for a minimum of 10 years:
 - a. Adult Education; and
 - b. Health & Wellness or Skill Building.
7. The Project's affordability mix is as follows:

DHS/Low HOME / Tax Credit @ 30% Median	4
DHS/Low HOME / Tax Credit @ 40% Median	5
DHS/Low HOME / Tax Credit @ 45% Median	6
LACDC/Low HOME / Tax Credit @ 50% Median	2
LACDC/Low HOME / Tax Credit @ 60% Median	2
LACDC/High HOME / Tax Credit @ 60% Median	5
Unrestricted Manager's Unit	1
Total Units	25

UNDERWRITING ANALYSIS

HOME funds can only be used to assist a project if a layering analysis validates that the assistance amount is required to make the project financially feasible. To that end, KMA prepared a pro forma analysis to assist in evaluating the Developer's proposal. The analysis is located at the end of this memorandum, and is organized as follows:

Table 1:	Estimated Development Costs
Table 2:	Stabilized Net Operating Income
Table 3:	Financial Gap Calculation

Estimated Development Costs (Table 1)

KMA reviewed the Developer's development cost estimates, and then independently prepared a pro forma analysis for the Project. The resulting development costs are estimated as follows:

Property Assemblage Costs

The Site consists of two adjacent parcels located at 3215 East 3rd Street (3rd Street Parcel) and 304 North Obispo Avenue (Obispo Parcel). As described below, the acquisition costs for the Site total \$1.77 million, or \$85 per square foot of land area.

3215 East 3rd Street

The Developer purchased the 3rd Street Parcel in June 2011. The parcel contains 15,052 square feet of land area, and it was improved with a church building that is being converted into apartment units. The Developer purchased the parcel for \$1.15 million. The purchase price was validated by an appraisal prepared by Stringer Appraisals on July 20, 2012.

304 North Obispo

In 2011, the Developer entered into an agreement to purchase the Obispo Parcel. The 5,937 square foot parcel was improved with a single-family home that has been relocated to allow for the Project to be developed.

The Developer purchased the Obispo Parcel for \$590,000. Comparatively, an appraisal prepared by Douglass & Associates on December 13, 2012 estimated the fair market value of the parcel at \$560,000. The \$30,000 difference between the purchase price and the appraised value represents a 5% differential, which can be considered a relatively insignificant difference.

The Developer did not close escrow on the Obispo Parcel until the construction loan closed for the Project's development. Given the length of the pre-development process, the Developer was required to extend the escrow period three times at a total cost of \$35,000. These extension costs increased the total acquisition costs for the Obispo Parcel to \$625,000.

Direct Costs

The direct costs are based on the assumption that the Project will be subject to federal Davis Bacon and State of California prevailing wage requirements. The direct costs applied in the analysis can be summarized as follows:

1. The costs for relocating the 304 Obispo house are set at \$109,000.
2. The Developer provided a \$381,000 allowance for demolition activities on the Site, and internal demolition work to allow for the adaptive reuse.
3. The site improvement costs are estimated at \$19 per square foot of land area, or \$392,000.
4. The Developer estimates the residential building costs at approximately \$193 per square foot of GBA, or \$6.11 million.
5. The Developer included a \$170,000 allowance for furnishings, fixtures and equipment.
6. A 7% allowance for contractor fees and general requirements is provided.
7. An allowance for general liability insurance and construction bonds at 2% of construction costs is provided.
8. The Developer direct cost contingency allowance that was included in the original development cost estimate has been spent to cover cost overruns.

The total direct costs are estimated at \$7.76 million. This equates to \$310,200 per unit.

Indirect Costs

KMA utilized the following assumptions for estimating the indirect costs:

1. The architecture, engineering and consulting costs are estimated at 9% of direct costs.
2. The Developer estimated the public permits and fees costs at \$354,000, or \$14,170 per unit.
3. The taxes, legal and accounting costs are estimated at 3% of direct costs, or \$233,000.
4. The insurance costs are estimated at \$111,000, or \$4,400 per unit.
5. A \$38,000 allowance for marketing and leasing costs is provided.
6. The Developer included a \$1.15 million Developer Fee, which was the maximum amount allowed by TCAC when the Tax Credit application was submitted.
7. An indirect cost contingency allowance equal to 3% of other indirect costs is available.

The total indirect costs are estimated at \$2.64 million.

Financing Costs

The financing costs for the Project are estimated as follows:

1. Based on the following assumptions, KMA included a \$404,000 allowance for acquisition and predevelopment loan interest:
 - a. KMA assumes that the acquisition and predevelopment loan was obtained in May 2011;
 - b. The Developer stated that the principal balance of the acquisition and predevelopment loan was \$1,862,500;

- c. The loan carries a 6.5% interest rate, which is to be paid monthly; and
 - d. KMA estimates the term at 40 months.
2. The construction and absorption period interest costs are estimated at \$231,000 based on the following assumptions:
 - a. The construction loan totals \$5.97 million;
 - b. The interest rate is set at 4%;
 - c. The construction period is estimated at 16 months, and the absorption period is set at two months; and
 - d. The average outstanding loan balance is estimated at 60% during the construction period and 100% during the absorption period.
3. The financing fees are set at 1.25 points for the both loans. This equates to \$98,000.
4. The deposits into capitalized reserve accounts are estimated as follows:
 - a. The operating reserve deposit is estimated at \$92,000, which is equal to six months of operating expenses; and
 - b. The City is requiring a \$150,000 deposit to an additional reserve account that will be City controlled.
5. The Tax Credit fees are estimated at \$36,000 based on the following assumptions:
 - a. A \$2,000 application fee;
 - b. A \$410 per unit monitoring fee; and
 - c. Four percent (4%) of gross Tax Credit proceeds for one year.

The total financing costs are estimated at \$1.01 million.

Total Development Costs

As shown in Table 1, the total construction costs are estimated at \$11.41 million and the property acquisition costs are estimated at \$1.77 million. The resulting total development costs are estimated at \$13.18 million.

Stabilized Net Operating Income (Table 2)

The Project's funding sources include Tax Credits, Prop 1C funds, LACDC AHTF funds, AHP funds, HOME funds, and a DHS operating subsidy. The rents applied to the units must reflect the most restrictive requirements imposed by the proposed funding sources. Based on 2016 income information distributed by HUD; rents standards imposed by DHS; rents published by the HOME Program and TCAC; and a utility allowance set at \$58 per month, the currently allowable rents are as follows:

Income Restriction	DHS / LACDC Rents	HOME Rents	TCAC Rents	Applicable Rents
DHS/Low HOME/TCAC @ 30% AMI	\$204	\$758	\$432	\$204
DHS/Low HOME/TCAC @ 40% AMI	\$204	\$758	\$595	\$204
DHS/Low HOME/TCAC @ 45% AMI	\$204	\$758	\$676	\$204
LACDC/Low HOME/TCAC @ 50% AMI	\$758	\$758	\$758	\$758
LACDC/Low HOME/TCAC @ 60% AMI	\$921	\$758	\$921	\$758
LACDC/High HOME/TCAC @ 60% AMI	\$921	\$1,030	\$921	\$921

KMA estimates the Project's effective gross income at \$227,000, which includes the following:

1. Gross rent income of \$128,400;
2. A DHS operating subsidy estimated at \$116,300 in Year 1;
3. Laundry and miscellaneous income averaging \$7 per unit per month; and
4. An 8% vacancy and collection allowance.

The operating expenses are estimated as follows:

1. The Developer estimates the general operating expenses at \$161,900 per year, which equates to \$6,476 per unit. The Developer stated that the general operating expenses are higher than typical due to operating expense requirements imposed by LACDC and the DHS operating subsidy.
2. KMA assumes the Developer will apply for the property tax abatement that is accorded to non-profit housing organizations that own and operate apartment units that are restricted to households earning less than 80% of the area median income. As such, the property tax liability is limited to assessment overrides, which are estimated by the Developer at \$2,500 per year.
3. The City will impose a \$125 per unit annual affordable housing monitoring fee on the Project.
4. The Developer estimates the social services costs at \$10,000 per year.
5. The annual capital replacement reserve deposit is estimated at \$350 per unit per year.

As shown in Table 2, the operating expenses are estimated at \$186,300, or approximately \$7,450 per unit. When the Project's effective gross income is reduced by the operating expenses, the stabilized net operating income is estimated at \$40,700.

Financial Gap Calculation (Table 3)

The financial gap is estimated by deducting the available outside funding sources from the Project's total development costs. The outside funding sources received by the Project are described in the following sections of this analysis:

Total Available Funding Sources

Outside Funding Sources

The Project received funding from the following outside sources:

1. Net Tax Credit equity of \$6.92 million;

2. A \$988,000 Prop 1C grant;
3. A \$1.82 million loan from LACDC using AHTF funds; and
4. A \$360,000 loan of AHP funds.

Deferred Developer Fee

The Developer proposes to defer \$546,000, or approximately 48%, of the Developer Fee that is included in the Project's budget. The deferred Developer Fee will be repaid from the cash flow generated by the Project over time.

Total Available Funding Sources

As shown in Table 3, the total available funding sources are estimated at \$10.63 million.

Financial Gap Calculation

Based on the assumptions outlined in this analysis, KMA calculates the financial gap as follows:

Total Development Costs	\$13,181,000
(Less) Total Available Funding Sources	(10,627,000)
Financial Gap	\$2,554,000
Per Unit	\$102,200

Based on the results of the preceding financial analysis, it is the KMA conclusion that the Project exhibits a \$2.55 million financial gap, which is equal to the Developer's total financial assistance request. However, it is important to note that the City previously approved \$1.65 million in HOME funds for the Project. As such, the Developer is requesting \$900,000 in additional HOME funds from the City.

HOME PROGRAM REQUIREMENTS

The City must comply with the following HOME Program requirements.

Subsidy Layering Requirements

HOME Program 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 analysis, it is the KMA conclusion that the Developer's request for \$2.55 million in HOME funds is warranted by the Project economics. Thus, it can be concluded that the assistance package complies with the HOME layering requirement.

HOME Unit Designation (Table 4)

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

Development Cost Test

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

1. \$2.55 million in HOME Program assistance is assumed to be provided.
2. The Project costs total \$13.18 million.
3. Based on the preceding assumptions, the HOME Program assistance is equal to 19% of the Project costs.
4. Under the Development Cost Test, 19% of the 25 units must be designated as HOME units. This equates to 4.8 units, which is rounded up to five units.

Subsidy Limit Test

HUD establishes subsidy limit tests based on the number of bedrooms included in the HOME-assisted units. The 2016 subsidy limit for one-bedroom units in Los Angeles County is \$160,615.

Based on \$2.55 million in HOME Program assistance and the identified subsidy limits, the Project must include at least 15.9 units, which is rounded up to 16 HOME-designated units.

Designated HOME Units

The HOME units allocation tests generate an obligation to provide five units and 16 units, respectively. To adhere to both HOME unit designation requirements, it will be necessary to designate 16 units as HOME units.

The HOME Program also requires that at least 20% of the units assisted with HOME funds be affordable to very-low income households, and the balance of the units be reserved for low income households. Thus, at least four of the 16 HOME-designated units must be restricted as Low HOME units, with the remaining 12 units restricted as High HOME units.

Analysis of Market Conditions

The HOME Program regulations require Participating Jurisdictions (PJs) to assess the current market demand in the neighborhood in which the project will be located. The Developer provided KMA with the Market Study that was completed by Prior & Associates (Market Study) in support of the Project's Tax Credit application. The Market Study scope complies with the requirements TCAC imposes as part of the Tax Credit application process. In turn, the HOME Program accepts Tax Credit market studies as validation that the neighborhood market conditions ensure adequate need for proposed affordable housing projects.

The following provides a summary of pertinent points from the Market Study:

Market Area Dynamics

The Project will provide affordable housing units to very-low and low income senior citizen households. The Market Study determined that the Primary Market Area (PMA) consists of portions of central and southern Long Beach.

The following summarizes the demographic, economic, and housing conditions in the PMA per the Market Study:

1. The PMA includes 163,434 inhabitants.
2. The PMA is projected to gain 445 senior households, including 316 senior renters, annually through 2019. This equates to a 3.8% annual growth rate, which is significantly higher than the overall population growth of 0.6% annually.
3. The existing Tax Credit projects in the PMA are 96% to 100% occupied, and one property maintains a 173-applicant waitlist.
4. The PMA has an overall vacancy rate of 2.05%, and is expected to gain 638 renters over the next two years.
5. The Project is projected to capture 2.5% of the annual renter household demand within the PMA, which is below average and attainable. Thus, the Project should not have difficulty attracting tenants over the long-term.
6. The Project can expect to operate at a stabilized occupancy rate of at least 95%.

Based on the information described above, it can be concluded that the market area conditions support the proposed Project.

Developer's Financial Capacity

The HOME Program regulations require PJs to assess the development capacity and fiscal soundness of developer's requesting HOME Program assistance. 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.

The Developer's financial capacity can be summarized as follows:

Organization and Staff Experience

Thomas Safran & Associates is an affordable housing developer and manager with more than 5,000 units of affordable and mixed-use rental housing, as well as 52,250 square feet of commercial space in Southern California.

The Development team will consist of the following persons:

1. Andrew Gross – President: Mr. Gross has been with the firm for 14 years, and is responsible for all new developments. He is experienced in all aspects of affordable housing development, including site acquisition, finance, government agency negotiations, planning, design, and construction.
2. Tyler Monroe – Vice President: Mr. Monroe joined the firm in 2008, and manages project acquisition, design, entitlement, finance, and construction. Prior to joining the firm, he was a project manager for a regional general contractor.

Previous Project Experience

The following summarizes three completed development projects:

Veteran’s Village of Glendale - Glendale, California

Veteran’s Village of Glendale is a 44-unit apartment building restricted to veterans and their families. Financing for the project came from 9% Tax Credits, City funds, and VASH vouchers. The project was completed in December 2015 with total development costs of \$20.6 million.

Del Rey Square – Los Angeles, California

Del Rey Square is a 124-unit apartment project, which includes 31 units for formerly homeless and veterans residents, and 20 units for the chronically homeless. Financing for the project came from 4% Tax Credits, Tax-Exempt Multifamily Bonds, Replacement Housing Factor Funds, Project-Based Section 8 Vouchers, City of Los Angeles Housing Trust Funds, and AHP. The project was completed in January 2013 with total development costs of \$36.0 million.

Canby Woods – Reseda, California

Canby Woods is a 98-unit affordable senior housing community in the Reseda neighborhood of Los Angeles. The project serves people over the age of 55, at 50% and 60% of the area median income. Financing for the project came from 4% Tax Credits, Tax-Exempt Multifamily Bonds, City of Los Angeles Housing Trust Funds, and AHP. The project was completed in April 2013 with total development costs of \$24.0 million.

Financial Capacity

Financial Management Systems and Practices

The Developer has received multiple Tax Credit awards from TCAC, which requires extensive general partner management experience. The Developer obtains audited financial statements that are prepared in accordance with generally accepted accounting principles (GAAP).

Financial Resources

The Developer provided audited financial statements for the Years 2014 and 2015. The financial statements demonstrate that the Developer has significant cash-on-hand to cover any Project shortfalls.

Affordability Period (§92.252(e))

HOME regulations require that the new construction of housing be restricted for a minimum of 20 years. The HOME Loan Agreement should set the HOME compliance period at 20 years.

HOME Rents / Utility Allowances (§92.252(a))

The following table presents the gross HOME rents, published by HUD, for Los Angeles County as of July 22, 2016:

Low HOME Units	\$814
High HOME Units	\$1,086

The tenants will be required to pay for the following utilities, which are estimated at \$56 per month:

- Electric Heating
- Electric Cooking
- Basic Electric

- Air Conditioning
- Monthly Electric Fee

Cash Flow Analysis (Table 5)

Cash Flow Projection

KMA prepared a 20-year cash flow analysis for the Project, which is presented in Table 5. The major assumptions are as follows:

1. The first year income and expenses are based on the assumptions applied in the stabilized net operating income analysis (Table 2).
2. Income is escalated at 2.5% per year;
3. General expenses are escalated at 3.5% per year, assessment overrides are escalated at 2% per year; and the reserve deposits were held constant.
4. Based on the Developer's assumption, the cash flow projections include the DHS operating subsidy throughout the 20-year projection period.

Based on the preceding assumptions, the Project generates sufficient NOI to maintain operations of the Project throughout the 20-year HOME compliance period.

Cash Flow Issues

The inclusion of the LACDC AHTF funds, and the corresponding DHS operating subsidy, require the rents for 15 of the units to set at approximately 30% of the Supplemental Security Income (SSI) payment amounts published by the Social Security Administration. Furthermore, the DHS operating subsidy is approved as a 15-year commitment that is administratively renewed every five years. However, there is no guarantee that DHS will have sufficient funds to renew the operating subsidy every five years.

If the DHS operating subsidy is not renewed, the Project's cash flow will trend negative immediately, which will jeopardize the Project's viability. To maintain a viable Project under these circumstances, the Developer stated that TCAC will allow the incomes and corresponding rents to increase to 60% of the Tax Credit median income. This will increase the Project's available cash flow, but decrease the affordability of the units.

Given the strong likelihood of this situation, KMA recommends that the City structure the Project's affordability standards to allow for the majority of the income levels to increase to 60% of the Tax Credit median income. However, it is important to note that 20% of the HOME-designated units must continue to be restricted as Low HOME units. Low HOME units typically correspond to 50% of the TCAC median income.

Developer Profit

The Developer is proposing to receive a \$1.15 million Developer Fee for the Project, which was the maximum amount allowed by TCAC when the Tax Credit application was submitted. This is deemed to be an acceptable standard for the calculation of a Developer Fee. Moreover, the Developer is proposing to defer \$546,000, or 48% of the total Developer Fee. The deferred Developer Fee will be repaid from the cash flow generated by the Project over time.

Following repayment of the deferred Developer Fee, the available cash flow will be allocated as follows:

1. The Developer will receive 38.1% ;
2. The City will receive 35.7%; and
3. LACDC will receive 26.2%.

It is common for developers to receive 50% of the residual receipts for affordable housing projects. Thus, it can be concluded that the Developer is not receiving excess profit from the Project.

Financial Commitments

The Developer provided financial commitment documentation for the following funding sources:

- The partnership agreement between the development entity and MUFG Union Bank, N.A., which outlines the terms of the Tax Credit equity as well as the amount of the construction loan.
- The Tax Credit reservation letter that was received from TCAC on June 11, 2014 awarding Tax Credits to the Project.

- An executed award letter from the California Department of Housing and Community Development for the Prop 1C funds.
- An executed award loan commitment letter for the LACDC AHTF funds.
- An executed award letter from the Federal Home Loan Bank of San Francisco for the AHP funds.

Based on the documents provided, it is concluded that the funding sources necessary for the Project have been fully committed. Furthermore, much of the funding has already been disbursed given that the Project is under construction and approximately 75% complete.

Project Completion Deadline

Acquisition of existing housing must occur within six months of the contract date (§92.2). Thus, escrow must close no later than six months after the commitment of HOME funds. In addition, construction of the Project must begin within 12 months. Both of these deadlines have been met.

Summary of Written Agreement

The City must execute a written agreement before disbursing HOME funds to the Project. The written agreement must capture the Project and financing terms that result from the underwriting process. KMA reviewed a previous version of the HOME Loan Agreement.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

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

1. It is the KMA conclusion that the proposed \$2.55 million in HOME Program assistance is necessary to provide the proposed affordable housing units. This request assumes that the City assistance will be structured as a residual receipts loan with a 1% simple interest rate.
2. To comply with the subsidy limits imposed by HUD, the City must designate at least 16 units as HOME units. At least 4 of those units must be designated as Low HOME units.

3. The Market Study that was prepared for the Project concluded that there is sufficient demand for affordable housing to support the proposed Project.
4. The Developer has demonstrated the development capacity and fiscal soundness to undertake the Project.
5. Cash Flow:
 - a. The Project's cash flow includes an operating subsidy provided by DHS.
 - b. If the DHS operating subsidy continues to be provided, it is projected that sufficient cash flow will be available to support the Project operations throughout the 20-year affordability period.
 - c. If that operating subsidy were to end, the Project's cash flow would trend negative. As such, KMA recommends the following:
 - i. The City should require a \$150,000 capitalized operating reserve to be funded at the completion of construction. The use of funds should be under the sole control of the City.
 - ii. The Project's affordability standards should be set up to provide the flexibility to allow for the majority of the income levels to increase to 60% of the Tax Credit median income. However, at least 20% of the HOME-designated units must continue to be restricted as Low HOME units.
6. The Developer is not receiving excess profit from the Project
7. The Developer provided financial commitment documentation for the Project's funding sources.

This subsidy layering review was completed based on information provided at the time of its writing. The City should ensure that all necessary documentation has been reviewed and placed in the Project file prior to formally committing and disbursing any HOME Program assistance. However, it is important to note that information, including development costs and financing amounts, may change throughout the development period. Any changes should be documented and placed in the Project file.

TABLE 1

**ESTIMATED DEVELOPMENT COSTS
IMMANUEL SENIOR HOUSING
LONG BEACH, CALIFORNIA**

I. Property Acquisition Costs	¹	20,989	Sf Land	\$85	/Sf Land	\$1,775,000
II. Direct Costs	²					
304 Obispo House Relocation						\$109,000
Demolition						381,000
On-site Improvements		20,989	Sf Land	\$19	/Sf Land	392,000
Residential Building Costs		31,682	Sf GBA	\$193	/Sf GBA	6,106,000
Furnishings, Fixtures & Equipment						170,000
Contractor Fees / General Requirements			7% Construction Costs			482,000
Construction Bonds			2% Construction Costs			116,000
Contingency Allowance			0% Other Direct Costs			-
Total Direct Costs		25	Units	\$310,200	/Unit	\$7,756,000
III. Indirect Costs						
Architecture, Engineering & Consulting			9% Direct Costs			\$668,000
Public Permits & Fees	³	25	Units	\$14,170	/Unit	354,000
Taxes, Legal & Acctg			3.0% Direct Costs			233,000
Insurance		25	Units	\$4,440	/Unit	111,000
Marketing & Leasing		25	Units	\$1,500	/Unit	38,000
Developer Fee	⁴		13% of Eligible Basis			1,146,000
Contingency Allowance			3% Other Indirects			89,000
Total Indirect Costs						\$2,639,000
IV. Financing Costs						
Acquisition & Predevelopment Loan	⁵	\$1,862,500	Loan Amount	6.50%	Interest	\$404,000
Interest During Construction	⁶	\$5,969,000	Loan Amount	4.00%	Interest	231,000
Financing Fees						
Acquisition & Predevelopment Loan		\$1,862,500	Loan Amount	1.25	Points	23,000
Construction Loan		\$5,969,000	Loan Amount	1.25	Points	75,000
Operating Reserve			6 Months Operating Expenses			92,000
City-Controlled Reserve						150,000
TCAC Fees	⁷					36,000
Total Financing Costs						\$1,011,000
V. Total Construction Costs		25	Units	\$456,240	/Unit	\$11,406,000
Total Development Costs		25	Units	\$527,240	/Unit	\$13,181,000

¹ Based on Developer estimate. An appraisal for the 3rd Street Parcel prepared by Stringer Appraisals on July 20, 2012 was provided for review. An appraisal for the Obispo Parcel prepared by Douglass & Associates on December 13, 2012 was provided for review.

² Based on Developer's estimate. Estimates assume prevailing wage requirements will be imposed on the Project. KMA assumes the development costs have been reviewed and approved by TCAC.

³ Based on Developer's estimate. The estimate should be verified by the City staff.

⁴ Based on the maximum amount allowed by TCAC.

⁵ Based on the loan terms provided by the Developer.

⁶ Based on Developer's construction loan amount. Assumes a 16-month construction period with a 60% average outstanding balance; and a 2-month absorption period with a 100% average outstanding balance.

⁷ Includes \$2,000 application fee; \$410/unit monitoring fee; and 4% of the gross Tax Credit proceeds for one year.

TABLE 2

STABILIZED NET OPERATING INCOME
IMMANUEL SENIOR HOUSING
LONG BEACH, CALIFORNIA

I. **Gross Income**

Rent Income					
Manager's Unit	1	1 Unit	\$0 /Unit/Month		\$0
DHS/Low HOME/TC @ 30% Median	2	4 Units	\$204 /Unit/Month		9,800
DHS/Low HOME/TC @ 40% Median	2	5 Units	\$204 /Unit/Month		12,200
DHS/Low HOME/TC @ 45% Median	2	6 Units	\$204 /Unit/Month		14,700
LACDC/Low HOME/TC @ 50% Median	3	2 Units	\$758 /Unit/Month		18,200
LACDC/Low HOME/TC @ 60% Median	3	2 Units	\$758 /Unit/Month		18,200
LACDC/High HOME/TC @ 60% Median	3	5 Units	\$921 /Unit/Month		55,300
Gross Rent Income		25 Units			128,400
DHS Operating Subsidy					116,300
Laundry/Miscellaneous Income		25 Units	\$7 /Unit/Month		2,100
Gross Income					\$246,800
(Less) Vacancy & Collection Allowance		8.0% Gross Income			(19,800)
Effective Gross Income					\$227,000

II. **Operating Expenses**

General Operating Expenses		25 Units	\$6,476 /Unit		\$161,900
Property Taxes	4	25 Units	\$100 /Unit		2,500
Affordable Housing Monitoring Fee		25 Units	\$125 /Unit		3,100
Services		25 Units	\$400 /Unit		10,000
Replacement Reserve		25 Units	\$350 /Unit		8,800
Total Operating Expenses		25 Units	\$7,450 /Unit		\$186,300

III. Stabilized Net Operating Income					\$40,700
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¹ The manager's unit is an unrestricted unit.

² The units are all 1-Bedroom Units @ (648-Sf). Based on Los Angeles County 2016 incomes distributed by HUD. The gross rents are based on the lesser of 30% of SSI or the rents published in 2016 by the HOME Program and TCAC. The gross rents are reduced by a utility allowance estimated at \$56/month.

³ The units are all 1-Bedroom Units @ (648-Sf). Based on Los Angeles County 2016 incomes distributed by HUD. The rents are based on the lesser of the rents published in 2016 by the HOME Program and TCAC. The utility allowance is estimated at \$56/month.

⁴ Based on Developer estimate. Assumes that the Developer will receive the property tax abatement accorded to non-profit housing organizations that own and operate apartment units that are restricted to households earning less than 80% of the County median income.

TABLE 3

**FINANCIAL GAP CALCULATION
IMMANUEL SENIOR HOUSING
LONG BEACH, CALIFORNIA**

I. Available Funding Sources

Tax Credit Equity	1		
Gross Tax Credit Value	-	\$6,174,000	
Syndication Rate		\$1.12 /Tax Credit Dollar	
Net Tax Credit Equity			\$6,915,000
Prop 1C Infill	2		\$988,000
LACDC	2		\$1,818,000
AHP	2		\$360,000
Deferred Developer Fee	2	48% Total Developer Fee	\$546,000
Total Available Funding Sources			\$10,627,000

II. Financial Gap Calculation

Total Development Costs	\$13,181,000
(Less) Total Available Funding Sources	(10,627,000)

Financial Gap	25 Units	\$102,200 /Unit	\$2,554,000
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¹ The Project was awarded Tax Credits in June 2014. Assumes a \$6.2 million requested eligible basis, plus a 130% difficult-to-develop premium, a 7.70% Tax Credit rate and an applicable fraction of 100%. The Developer is voluntarily excluding \$498,000 from the Project's allowable eligible basis to maximize the tiebreaker score.

² Based on Developer estimates.

TABLE 4

HOME UNIT DESIGNATION
 IMMANUEL SENIOR HOUSING
 LONG BEACH, CALIFORNIA

I. Total Units		25
II. <u>Development Cost Test</u>		
HOME Funds Requested	\$2,550,000	
Total Development Cost ¹	\$13,176,000	
HOME Funds as a % of Total Development Cost	19.4%	
Total HOME Units per Development Costs		5
III. <u>Subsidy Limit Test</u>		
HOME Funds Requested	\$2,550,000	
One-Bedroom HOME Subsidy Limit	\$160,615	
Total HOME Units per Subsidy Amount		16
IV. Minimum Number of HOME Designated Units		16 Units

¹ Based on Developer estimate.

**TABLE 5
CASH FLOW ANALYSIS
IMMANUEL SENIOR HOUSING
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>
I. Gross Income										
Rent Income										
Manager's Unit	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Affordable Units	<u>128,400</u>	<u>131,610</u>	<u>134,900</u>	<u>138,273</u>	<u>141,730</u>	<u>145,273</u>	<u>148,905</u>	<u>152,627</u>	<u>156,443</u>	<u>160,354</u>
Gross Rent Income	\$128,400	\$131,610	\$134,900	\$138,273	\$141,730	\$145,273	\$148,905	\$152,627	\$156,443	\$160,354
DHS Operating Subsidy	116,300	119,208	122,188	125,242	128,373	131,583	134,872	138,244	141,700	145,243
Laundry/Miscellaneous Income	<u>2,100</u>	<u>2,153</u>	<u>2,206</u>	<u>2,261</u>	<u>2,318</u>	<u>2,376</u>	<u>2,435</u>	<u>2,496</u>	<u>2,559</u>	<u>2,623</u>
Gross Income	\$246,800	\$252,970	\$259,294	\$265,777	\$272,421	\$279,232	\$286,212	\$293,368	\$300,702	\$308,219
(Less) Vacancy & Collection Allowance	<u>(19,794)</u>	<u>(20,289)</u>	<u>(20,796)</u>	<u>(21,316)</u>	<u>(21,849)</u>	<u>(22,395)</u>	<u>(22,955)</u>	<u>(23,529)</u>	<u>(24,117)</u>	<u>(24,720)</u>
Effective Gross Income	\$227,006	\$232,681	\$238,498	\$244,461	\$250,572	\$256,837	\$263,258	\$269,839	\$276,585	\$283,500
II. Operating Expenses										
General Operating Expenses	\$161,900	\$167,567	\$173,431	\$179,501	\$185,784	\$192,286	\$199,016	\$205,982	\$213,191	\$220,653
Property Taxes	2,500	2,550	2,601	2,653	2,706	2,760	2,815	2,872	2,929	2,988
Affordable Housing Monitoring Fee	3,100	3,209	3,321	3,437	3,557	3,682	3,811	3,944	4,082	4,225
Services	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Replacement Reserve	<u>8,800</u>									
Total Operating Expenses	\$186,300	\$192,125	\$198,153	\$204,391	\$210,847	\$217,528	\$224,443	\$231,598	\$239,003	\$246,666
III. Net Operating Income	\$40,706	\$40,556	\$40,345	\$40,069	\$39,725	\$39,308	\$38,815	\$38,241	\$37,582	\$36,834
IV. CF Available for Contingent Payments	\$40,706	\$40,556	\$40,345	\$40,069	\$39,725	\$39,308	\$38,815	\$38,241	\$37,582	\$36,834
(Less) Asset and Partnership Fees	<u>(15,000)</u>	<u>(15,450)</u>	<u>(15,914)</u>	<u>(16,391)</u>	<u>(16,883)</u>	<u>(17,389)</u>	<u>(17,911)</u>	<u>(18,448)</u>	<u>(19,002)</u>	<u>(19,572)</u>
(Less) Deferred Developer Fee	<u>(25,706)</u>	<u>(25,106)</u>	<u>(24,432)</u>	<u>(23,678)</u>	<u>(22,842)</u>	<u>(21,919)</u>	<u>(20,904)</u>	<u>(19,793)</u>	<u>(18,581)</u>	<u>(17,262)</u>
V. Cash Flow after Contingent Payments	\$0									
VI. Residual Receipt Payments										
City	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
LACDC	<u>0</u>									
Total Residual Receipt Payments	\$0									
VIII. Net Cash Flow to Developer	\$0									

¹ The affordable rents, DHS operating subsidy and laundry/miscellaneous income are assumed to increase by 2.5%/year.

² Assumes 8.0% vacancy and collection allowance, and that Year 1 is at stabilization.

³ General operating expenses are assumed to increase by 3.5%/year, property taxes at 2.0%/year and replacement and operating reserves remain constant.

⁴ The Project does not include a conventional loan.

⁵ Assumes fees increase at 103.0%/year.

TABLE 5
CASH FLOW ANALYSIS
IMMANUEL SENIOR HOUSING
LONG BEACH, CALIFORNIA

	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
I. Gross Income										
Rent Income										
Manager's Unit	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Affordable Units	164,363	168,472	172,684	177,001	181,426	185,961	190,611	195,376	200,260	205,267
Gross Rent Income	\$164,363	\$168,472	\$172,684	\$177,001	\$181,426	\$185,961	\$190,611	\$195,376	\$200,260	\$205,267
DHS Operating Subsidy	148,874	152,596	156,411	160,321	164,329	168,437	172,648	176,964	181,388	185,923
Laundry/Miscellaneous Income	2,688	2,755	2,824	2,895	2,967	3,041	3,117	3,195	3,275	3,357
Gross Income	\$315,925	\$323,823	\$331,919	\$340,217	\$348,722	\$357,440	\$366,376	\$375,535	\$384,924	\$394,547
(Less) Vacancy & Collection Allowance	(25,338)	(25,971)	(26,620)	(27,286)	(27,968)	(28,667)	(29,384)	(30,119)	(30,872)	(31,643)
Effective Gross Income	\$290,587	\$297,852	\$305,298	\$312,931	\$320,754	\$328,773	\$336,992	\$345,417	\$354,052	\$362,904
II. Operating Expenses										
General Operating Expenses	\$228,376	\$236,369	\$244,642	\$253,204	\$262,067	\$271,239	\$280,732	\$290,558	\$300,728	\$311,253
Property Taxes	3,047	3,108	3,171	3,234	3,299	3,365	3,432	3,501	3,571	3,642
Affordable Housing Monitoring Fee	4,373	4,526	4,684	4,848	5,018	5,194	5,375	5,563	5,758	5,960
Services	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Replacement Reserve	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800
Total Operating Expenses	\$254,596	\$262,803	\$271,297	\$280,087	\$289,183	\$298,597	\$308,340	\$318,422	\$328,856	\$339,655
III. Net Operating Income	\$35,991	\$35,048	\$34,001	\$32,844	\$31,571	\$30,175	\$28,652	\$26,995	\$25,196	\$23,249
IV. CF Available for Contingent Payments										
(Less) Asset and Partnership Fees	(20,159)	(20,764)	(21,386)	(22,028)	(22,689)	(23,370)	(24,071)	(24,793)	(25,196)	(23,249)
(Less) Deferred Developer Fee	(15,832)	(14,285)	(12,615)	(10,816)	(8,882)	(6,806)	(4,582)	(2,202)	0	0
V. Cash Flow after Contingent Payments	\$0									
VI. Residual Receipt Payments										
City	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
LACDC	0	0	0	0	0	0	0	0	0	0
Total Residual Receipt Payments	\$0									
VIII. Net Cash Flow to Developer	\$0									