The
Long Beach Housing Development Company

MEMORANDUM

DATE: June 15, 2011

TO: Board of Directors
The Long Beach Housing Development Company

FROM: for Amy Bodek, President

PREPARED BY: Patrick Ure, Housing Development Officer

SUBJECT: **Loan Agreement between The Long Beach Housing Development Company and Palm Desert Development Company for a 61-Unit Senior Rental Development located at 3290 East Artesia Boulevard (CD 9)**

RECOMMENDATIONS

1. Approve a loan of up to $12,000,000 to Palm Desert Development Company to provide gap financing for the development of a 61-unit senior rental project located at 3290 East Artesia Boulevard, with conditions;
2. Authorize the President or designee to negotiate and enter into an Agreement with Palm Desert Development Company; and
3. Authorize the President or designee to execute any and all documents necessary to implement the Agreement.

BACKGROUND

On January 20, 2010, The Long Beach Housing Development Company (LBHDC) approved a loan of up to $9,516,000 to Palm Desert Development Company (Developer) to provide gap financing for the development of a 61-unit affordable senior (55+) rental project located at 3290 East Artesia Boulevard. That loan amount was based on a property acquisition cost of $4,970,000, pursuant to a Purchase and Sale Agreement between the Developer and the seller. The loan approval was also contingent upon the award of 9% Low-Income Housing Tax Credits (9% tax credits) and approval of the necessary zone change and project entitlements. The January 2010 staff report is attached for your reference as Exhibit A.

Since that time, the project has received entitlements, including approval of a zone change. However, the Developer was not successful in securing 9% tax credits in both 2010 funding rounds. The demand for 9%

MAKING AFFORDABLE HOUSING HAPPEN

AGENDA ITEM NO. 4

Mailing Address:
110 Pine Avenue
Suite 1200
Long Beach, CA 90802
Tel 562/570-6949
Fax 562/570-5921

tax credits was very strong and highly competitive. In order to proceed with the project, the Developer has assembled a revised financing structure, and is in need of additional gap funds from the LBHDC.

REQUEST FOR FINANCIAL ASSISTANCE

On February 7, 2011, the Developer submitted a revised request for financial assistance totaling $13,860,000. The Developer's revised request was still based on a purchase price of $4,970,000 for the project site. However, since this price was based on an appraisal prepared on December 5, 2008 for the seller, staff obtained an independent appraisal prepared by Lidgard and Associates, Inc. (Lidgard) on March 9, 2011, which estimated the current fair market value of the site at $3,000,000. Following the receipt of the Lidgard appraisal, staff informed the Developer that they would not be able to support a gap loan based on the higher purchase price.

On April 18, 2011, the Developer submitted a revised request for financial assistance totaling $12,500,000. In this request, the Developer still proposes a $4,970,000 land cost, with the seller carrying a residual receipts loan of $1,000,000, effectively reducing the land cost by that amount. Meanwhile, staff asked Keyser Marston Associates, Inc. (KMA) to prepare an analysis of the Developer's request.

The KMA analysis indicated that the required financial gap is about $12,000,000, or about $197,000 per unit. After further negotiations with the seller, the Developer was able to convince the seller to agree to carry a residual receipts loan of $1,500,000, effectively reducing the land price to $3,500,000, and reducing the gap to $12,000,000, which is in line with the gap set by the KMA analysis. The KMA analysis is attached as Exhibit B.

REVISED PROPOSAL

Staff remains very supportive of this project, and is now supportive of the request for assistance given the great deal of effort put forth by the Developer and seller to bring the funding request in line with the warranted assistance identified by the KMA analysis.

Due to the revised funding structure, and the need to increase cash flow to carry a higher permanent loan, the Developer is proposing to modify the affordability structure to reduce the number of very low-income units and increase the number of low-income units. Rents range from $582 to $708 per month for a one-bedroom unit, and from $647 to $789 per month for a two-bedroom unit. The revised affordability structure is as follows:

Original Affordability	Number of Units	Revised Affordability	Number of Units
Very Low	40	Very Low	6
Low	20	Low	54
Manager	1	Manager	1
Total	**61**		**61**

The total development costs are set at $21,521,000, which is about $352,800 per unit. The revised development costs are about $343,000 less than what was included in the original proposal approved by the LBHDC in January 2010. The revised development costs are as follows:

Development Costs			
	January 2010	June 2011	Difference
Property Assemblage Costs	$ 5,370,000	$ 5,422,000	$ 52,000
Direct Costs	11,229,000	10,813,000	(416,000)
Indirect Costs	4,208,000	4,072,000	(136,000)
Financing Costs	1,057,000	1,214,000	157,000
Total Development Costs	**$ 21,864,000**	**$ 21,521,000**	**$ (343,000)**

The revised funding sources include a higher permanent loan, reduced tax credit equity, a deferred developer fee, and a seller carry back loan to effectively reduce the land costs. The revised sources of funds are as follows:

Available Funding Sources			
	January 2010	June 2011	Difference
Bond/Permanent Loan	$ 945,000	$ 1,795,000	$ 850,000
Tax Credit Equity	10,755,000	5,933,000	(4,822,000)
Deferred Developer Fee		237,000	237,000
General Partner Equity	648,000		(648,000)
Interest Income (construction)		56,000	56,000
Seller Carry Back Loan		1,500,000	1,500,000
LBHDC Gap Funds	9,516,000	12,000,000	2,484,000
Total Available Sources	**$ 21,864,000**	**$ 21,521,000**	**$ (343,000)**

CONCLUSION

The LBHDC gap has increased by $2,484,000 above the amount approved by the LBHDC in January 2010. The reason for the increased gap is mostly due to the reduced tax credit equity caused by a change from a 9% tax credit financing structure to tax-exempt bond and 4% tax credit structure.

Staff supports the revised request for a loan of up to $12,000,000, and recommends approval of the recommend action. No LBHDC funds will be disbursed until these awards/approvals are received. The loan will be structured as a residual receipts note at 0% interest and will mature in 55 years.

Exhibits:

- January 20, 2010 Staff Report
- April 29, 2011 KMA Analysis

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Exhibit A

MEMORANDUM

The
Long Beach
Housing
Development
Company

DATE: January 20, 2010

TO: Board of Directors
The Long Beach Housing Development Company

FROM: Executive Review Committee

PREPARED BY: Meggan Sorensen, Development Project Manager

SUBJECT: **Loan Agreement between The Long Beach Housing Development Company and Palm Desert Development Company for a 61-Unit Senior Rental Development located at 3290 East Artesia Boulevard (CD 9)**

RECOMMENDATIONS

1. Approve a loan of up to $9,516,000 to Palm Desert Development Company to provide gap financing for the development of a 61-unit affordable senior rental project located at 3290 East Artesia Boulevard, with conditions;

2. Authorize the President or designee to negotiate and enter into an Agreement with Palm Desert Development Company; and

3. Authorize the President or designee to execute any and all documents necessary to implement the Agreement.

DEVELOPER BACKGROUND

Palm Desert Development Company (Palm Desert) is a for-profit residential real estate developer and builder with 30 years of experience. The company primarily develops affordable multi-family residences in Southern California and Arizona, and has also built numerous single-family units. It has successfully completed and currently operates twelve tax credit multi-family communities throughout Riverside County alone. These communities represent approximately 1,000 quality affordable homes for both families and senior citizens. Each of these communities is managed by a full time on-site professional property manager. Palm Desert's in-house development staff includes a dedicated Government Relations Officer to facilitate cooperative relationships with government agencies, neighborhood groups and residents, and an Asset Manager to oversee property management, maintenance and community service programs.

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AGENDA ITEM NO. 3

Mailing Address:
110 Pine Avenue
Suite 1200
Long Beach, CA 90802
Tel 562/570-6949
Fax 562/570-5921

PROJECT DESCRIPTION

The proposed development (Ramona Park Senior Apartments) consists of a 61-unit senior (55+) apartment complex that includes community gardens and courtyards, a pool, classroom/computer lab, community room, exercise and yoga rooms, a program coordinator office and laundry facilities on each of the two residential stories. The table below shows the proposed unit mix.

Affordability	1 Bedroom	2 Bedrooms	Total
Very Low	32	8	40
Low	16	4	20
Manager		1	1
Total	48	13	61

The proposed development site is located at 3290 East Artesia Boulevard, on the south side of Artesia between Obispo and Indiana Avenues, within the North Long Beach Redevelopment Project Area (see attached map). It is adjacent to Ramona Park and is near single and multifamily residences as well as a senior assisted living facility. The 1.7-acre site is currently used as a branch of Farmers and Merchants Bank, with whom Palm Desert has entered into a Purchase and Sale Agreement for the price of $4,970,000.

The site is currently zoned Community Commercial Automotive (CCA) which does not allow residential uses. Palm Desert is working with the City of Long Beach Development Services Department to resolve this issue through a zone change. It is anticipated that the project will receive entitlements (including approval of a zone change) at the Planning Commission meeting scheduled for January 7, 2010.

In addition to working with Development Services staff for several months, Palm Desert has spent over a year gaining the support of the community by presenting the project at approximately 10 neighborhood meetings.

REQUEST FOR FINANCIAL ASSISTANCE

The total project development cost is estimated at $21,864,000. The developer has identified potential funding sources in the amount of $12,348,000, leaving a gap of approximately $9.5 million. Palm Desert's budget showed a financial gap of $9,599,000 and has submitted a request for LBHDC financial assistance in that amount. Staff requested Keyser Marston Associates (KMA) to review the developer's proforma. In KMA's analysis, the warranted assistance from the LBHDC is $9,425,000 (see the attached analysis for more detail). The $174,000 difference is due to an $83,000 disparity between Palm Desert's and KMA's direct cost estimates, and a $91,000 disparity resulting from a 2% difference in the vacancy allowance used to calculate net operating income for the project. Palm Desert was willing to reduce their estimated direct costs by $83,000 to be in line with KMA's cost estimate. However, they argued to keep the higher vacancy allowance and provided letters of support from two different lenders/investors, bringing the gap to $9,516,000 or $158,600 per affordable unit.

The developer intends to apply for tax credit funding in March 2010. The tax credit process is extremely competitive and it is necessary for the developer to show a committed source of funding to score well on the application.

Staff recommends approval of a loan of $9,516,000, contingent upon the award of tax credits as well as approval of the necessary zoning change and project entitlements. No LBHDC funds will be disbursed until these awards/approvals are received. The loan will be structured as a residual receipts note at 0% interest rate and will mature in 55 years.

If the developer obtains funding as planned, it is expected that the project will break ground in November 2010 and LBHDC funds will be released according to the following schedule:

Proposed Timing	Use	Amount
April 2011 (25% Complete)	Construction	$2,375,000
July 2011 (50% Complete)	Construction	$2,375,000
November 2011 (75% Complete)	Construction	$2,375,000
February 2012 (Certificate of Occupancy)	Construction	$2,391,000
Total		**$9,516,000**

The Projects Committee approved Stage I of the Design Review Process for this project on November 10, 2009. Further, the recommended actions were presented and reviewed by the Executive Review Committee at its November 10, 2009 meeting. The ERC recommends full Board approval of these recommendations.

Attachments:
- Map indicating proposed development site
- KMA Analysis

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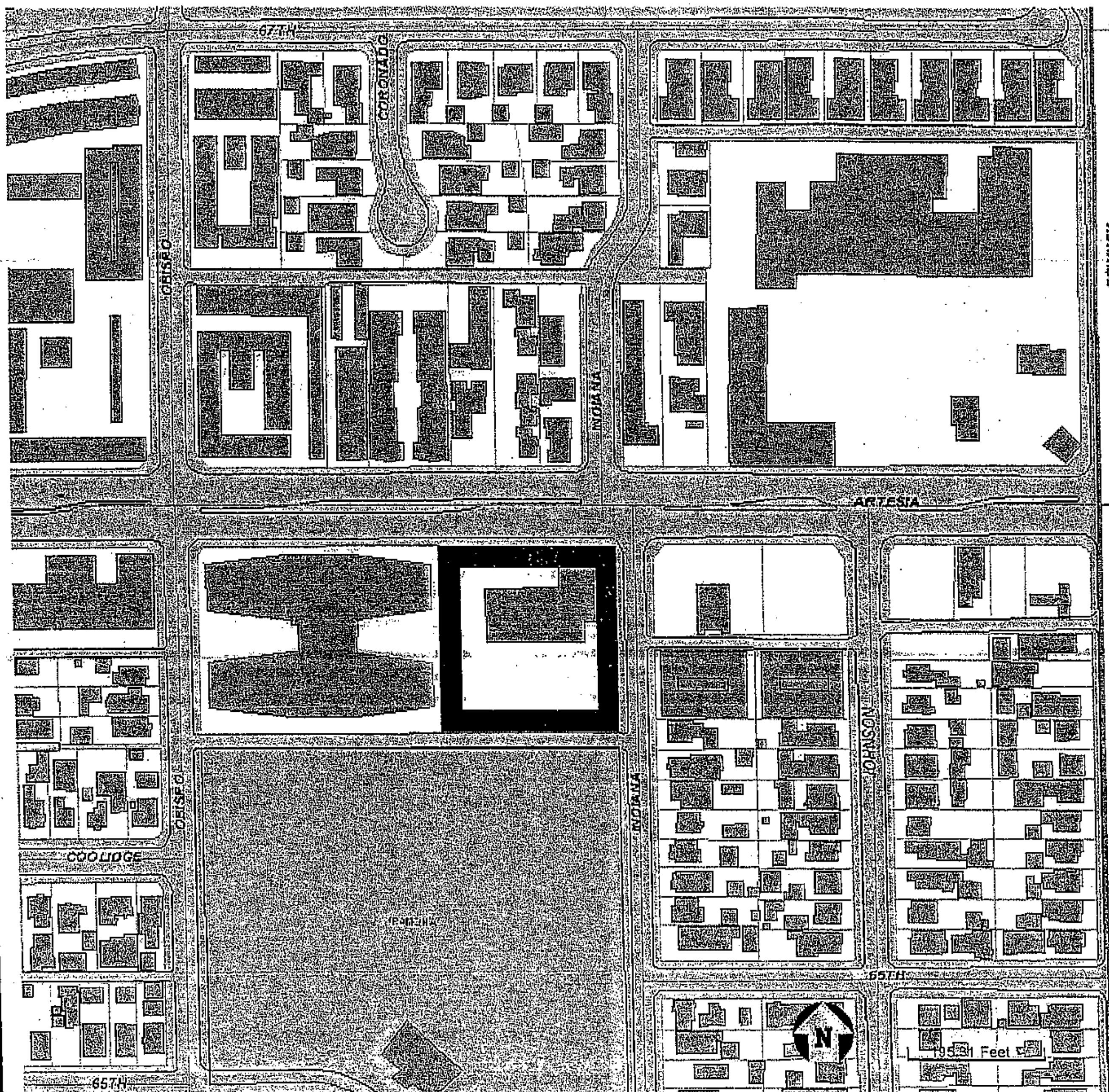
Site for Proposed Ramona Park Senior Apartments



Disclaimer

DISCLAIMER OF DATA ACCURACY: The services provided on this web site are intended for informational purposes only and the GIS data used is compiled from various sources and is subject to constant change. While reasonable effort has been made to ensure the accuracy of the data, the information provided herein may be inaccurate or out of date.

TABLE 1

ESTIMATED DEVELOPMENT COSTS
RAMONA PARK SENIOR APARTMENTS
LONG BEACH, CALIFORNIA

I.	**Land Assemblage Costs**[1]						
	Land Acquisition Costs	74,488	Sf Land	$67	/Sf Land	$4,970,000	
	Demolition Costs[2]	11,650	Sf Building	$34	/Sf Building	400,000	
	Total Land Assemblage Costs	**74,488**	**Sf Land**	**$72**	**/Sf Land**		**$5,370,000**
II.	**Direct Costs**[3]						
	Off-site Improvements					$95,000	
	On-site Improvements[4]	74,488	Sf Land	$20	/Sf Land	1,462,000	
	Podium Parking Costs	67	Spaces	$31,692	/Space	2,123,000	
	Residential Shell Costs[5]	66,076	Sf GBA	$82	/Sf GBA	5,422,000	
	Furnishings, Fixtures & Equipment	61	Units	$1,639	/Unit	100,000	
	Contractor Fees / General Requirements	14%	Construction Costs			1,274,000	
	General Liability Insurance	2%	Construction Costs			218,000	
	Contingency Allowance	5%	Other Direct Costs			535,000	
	Total Direct Costs	**66,076**	**Sf GBA**	**$170**	**/Sf GBA**		**$11,229,000**
III.	**Indirect Costs**						
	Architecture, Engineering & Consulting	7%	Direct Costs			$751,000	
	Permits & Fees[6]	61	Units	$16,206	/Unit	989,000	
	Taxes, Legal & Accounting	1.5%	Direct Costs			168,000	
	Insurance	61	Units	$0	/Unit	-	
	Marketing & Leasing	61	Units	$1,639	/Unit	100,000	
	Developer Fee[7]					2,000,000	
	Contingency Allowance	5%	Other Indirects			200,000	
	Total Indirect Costs						**$4,208,000**
IV.	**Financing Costs**						
	Interest During Construction[8]	$7,851,000	Loan Amount	5.25%	Interest	$605,000	
	Financing Fees						
	Construction Loan	$7,851,000	Loan Amount	2.00	Points	157,000	
	Permanent Loan	$945,000	Loan Amount	2.00	Points	19,000	
	Reserves						
	Operating	61	Units	$1,590	/Unit	97,000	
	TCAC Fees[9]					88,000	
	Total Financing Costs						**$966,000**
V.	**Total Development Costs**	**66,076**	**Sf GBA**	**$330**	**/Sf GBA**		**$21,773,000**

1 Based on Developer estimate.
2 Building size based on information provided in CBRE Appraisal prepared on December 5, 2008.
3 Estimates assume prevailing wage requirements will NOT be imposed on the Project.
4 Includes costs for 27 at-grade parking spaces.
5 Residential gross building area based on information provided in the Building Area chart on the site plan and assumes a 61-unit Project.
6 Based on Developer's per unit estimate. The estimate should be verified by City staff.
7 This amount is the maximum allowed by TCAC in the eligible basis calculation.
8 Includes debt on the 75% of the Tax Credit Equity which will not be funded during construction. Assumes a 16-month construction period with a 60% average outstanding balance and a 8-month absorption period with a 100% average outstanding balance.
9 Includes a $2,000 application fee; $410/unit monitoring fee; and 4% of the gross Tax Credit proceeds for one year.

Prepared by: Keyser Marston Associates, Inc.
Filename: Ramona Park Senior Apts_9%_7 21 09_KH Final; Pro Forma; trb

TABLE 2

STABILIZED NET OPERATING INCOME
RAMONA PARK SENIOR APARTMENTS
LONG BEACH, CALIFORNIA

I.	Gross Residential Income [1]						
	Manager's Unit	1	Unit	$0	/Unit/Month	$0	
	VL Inc Redev/Tax Credit @ 30% Median						
	1-Bedroom Units @ (653-Sf)	5	Units	$386	/Unit/Month	23,160	
	2-Bedroom Units @ (900-Sf)	2	Units	$462	/Unit/Month	11,090	
	VL Inc Redev/Tax Credit @ 35% Median						
	1-Bedroom Units @ (653-Sf)	5	Units	$461	/Unit/Month	27,660	
	2-Bedroom Units @ (900-Sf)	1	Units	$551	/Unit/Month	6,610	
	VL Inc Redev/Tax Credit @ 50% Median						
	1-Bedroom Units @ (653-Sf)	22	Units	$562	/Unit/Month	148,370	
	2-Bedroom Units @ (900-Sf)	5	Units	$626	/Unit/Month	37,560	
	Low Inc Redev/Tax Credit @ 60% Median						
	1-Bedroom Units @ (653-Sf)	16	Units	$687	/Unit/Month	131,900	
	2-Bedroom Units @ (900-Sf)	4	Units	$766	/Unit/Month	36,770	
	Gross Residential Income	61	Units			$423,120	
	Laundry/Miscellaneous Income	61	Units	$15	/Unit/Month	10,800	
	Gross Income					$433,920	
	(Less) Vacancy & Collection Allowance	5%	Gross Income			(21,700)	
	Effective Gross Income						**$412,220**
II.	Operating Expenses						
	General Operating Expenses	61	Units	$4,629	/Unit	$282,390	
	Property Taxes [2]	61	Units	$50	/Unit	3,050	
	Services	61	Units	$344	/Unit	21,000	
	Replacement Reserve	61	Units	$250	/Unit	15,250	
	Total Operating Expenses	61	Units	5,274	/Unit		**$321,690**
III.	**Net Operating Income**						**$90,530**

1 Based on Los Angeles County 2009 Incomes distributed by HUD/HCD. As pertinent, the rents are based on rents published in 2009 by TCAC and California Health and Safety Code Section 50053. Utility Allowances per LBHA 2009 for energy efficient units: $59 for 1-Bdrm units and $73 for 2-Bdrm units.

2 Based on the assumption that the Developer will receive the property tax abatement accorded to non-profit housing organizations that develop income-restricted apartments.

Prepared by: Keyser Marston Associates, Inc.
Filename: Ramona Park Senior Apts_9%_7 21 09_KH Final; Pro Forma;:trb

TABLE 3

FINANCIAL GAP
RAMONA PARK SENIOR APARTMENTS
LONG BEACH, CALIFORNIA

I.	**Available Funding Sources**						
	Permanent Loan						
	Net Operating Income	$90,530	NOI (See Table 2)				
	Income Available for Mortgage	1.20	DCR	$75,442	Debt Service		
	Interest Rate	7.00%	Interest Rate	7.98%	Mortgage Constant		
	Permanent Loan					$945,000	
	Tax Credit Equity [1]						
	Gross Tax Credit Value	$15,148,000					
	Syndication Rate	$0.71	/Tax Credit Dollar				
	Net Tax Credit Equity					$10,755,000	
	General Partner Equity [2]					$648,000	
	Total Available Funding Sources						$12,348,000
II.	**Financial Gap Calculation**						
	Total Development Costs					$21,773,000	
	(Less) Total Available Funding Sources					(12,348,000)	
III.	**Financial Gap**	**61**	**Units**	**$154,500**	**/Unit**		**$9,425,000**

1 Assumes a $12.9 million eligible basis, which includes a 0% voluntary basis reduction, a 130% difficult-to-develop premium, a 9.0% Tax Credit rate and an applicable fraction of 100%.

2 Based on Developer estimate.

Prepared by: Keyser Marston Associates, Inc.
Filename: Ramona Park Senior Apts_9%_7 21 09_KH Final; Pro Forma; trb

Exhibit B

KEYSER MARSTON ASSOCIATES.
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

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

From: Kathleen Head
Tim Bretz

cc: Meggan Sorensen

Date: April 29, 2011

Subject: Ramona Park Senior Apartments - Financial Gap Analysis

At your request, Keyser Marston Associates, Inc. (KMA) prepared a financial analysis for the Ramona Park Senior Apartments proposal submitted by Palm Desert Development Company (Developer) on April 18, 2011. The Project is proposed to be developed on the 1.71-acre property located at 3290 East Artesia Boulevard (Site).[1]

The Developer is proposing to a construct a 61-unit senior apartment complex, targeted to very-low and low income senior households (Project). The Developer is requesting financial assistance totaling $12.5 million from the Long Beach Housing Development Company (LBHDC). The purpose of the KMA analysis is to estimate the financial gap associated with the proposed Project.

EXECUTIVE SUMMARY

Project Description

The Developer proposes to construct a 61-unit apartment complex targeted towards senior households. The Project includes six very-low income units, 54 low income units and one unrestricted manager's unit.

Funding Sources

The Developer identified the following outside funding sources for the Project:

[1] The Los Angeles County Assessor's Office (Assessor) sets the Site size at 74,488 square feet.

1. Tax-exempt Multifamily Bonds that are competitively allocated by the California Debt Limit Allocation Committee (CDLAC);
2. The Low Income Housing Tax Credits (Tax Credits) that are automatically awarded to projects that receive a Bond allocation from CDLAC;
3. A deferred Developer Fee; and
4. Interest and income generated prior to stabilization.

Financial Gap

The financial gap is equal to the difference between the estimated Project costs and the outside funding sources available to the Project. It is anticipated that any LB HDC assistance to the Project will be provided with Property Tax Increment Housing Set-Aside (Set-Aside) funds.

The KMA analysis results in a financial gap of $12.1 million, as compared to the Developer's request for $12.5 million in financial assistance. This equates to an approximately $400,000 differential. This represents an approximately 3% differential.

It is important to note, that the Developer has agreed to purchase the Site for $4.97 million, while an appraisal prepared by Lidgard and Associates, Inc. (Lidgard) on March 9, 2011 estimates the current fair market value of the Site at $3.0 million. To mitigate a portion of the $1.97 million premium associated with the Site's sales price, the property owner has agreed to treat $1.0 million of the sales price as a loan that will be repaid from the cash flow generated by the Project over time. In accordance with the City of Long Beach (City) staff direction, KMA has used the $4.97 million purchase price in this financial gap analysis.

BACKGROUND

The Site is owned by Farmers and Merchants Bank (Owner) and is currently improved with an 11,650 square foot bank branch (Improvements). The remaining portion of the Site is improved with a 75 space surface parking lot. The Owner will vacate the Improvements upon transfer of the Site to the Developer, and the Owner will be responsible for any associated relocation costs.

PROJECT DESCRIPTION

The proposed scope of development can be described as follows:

1. The Project includes 61 units, which equates to a density of 36 units per acre.

2. The Site is zoned CCN – Community R-4-N, which allows for the proposed Project.

3. The gross building area (GBA) for the Project is 66,076 square feet. The Project's gross leasable area totals 43,044 square feet, which consists of the following:

	Number of Units	Unit Size (Sf)
One-Bedroom Units	48	653
Two-Bedroom Units	13	900
Totals/Averages	61	706

4. The Project will include the following affordability mix per California Redevelopment Law (CRL):

Very-Low Income Units	6
Low Income Units	54
Unrestricted Manager's	1
Total Units	61

5. The Project will be served by a one-level podium parking garage that will include 67 parking spaces, plus an additional 27 surface parking spaces. This equates to a parking ratio of 1.5 parking spaces per unit.

FINANCIAL GAP ANALYSIS

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 estimate, and then independently prepared a pro forma analysis for the Project. The resulting development costs are estimated as follows:

Property Assemblage Costs

KMA estimated the property assemblage costs at $5.42 million. This estimate includes the following components:

1. The purchase price of the Site is set at $4.97 million.

2. The Developer estimates the cost to demolish the Improvements at $400,000.

3. The Developer estimates the property holding costs at $52,000.

The close of escrow is contingent upon the following events:

1. Obtaining an inducement resolution from the Agency for a Tax-Exempt Multifamily Bond to finance the Project;

2. Obtaining a Bond allocation from CDLAC;

3. Receipt of the Tax Credits that are automatically awarded to projects that receive a Bond allocation from CDLAC, and the successful closing of an equity agreement with a Tax Credit investor;

4. If required, approval and/or recordation of a lot split, zone change and general plan amendment;

5. Obtaining final City approval of entitlements; and

6. The approvals from the Federal Reserve Bank of San Francisco and the California Department of Financial Institutions that are required for all Bank branching changes, which are not unique to this transaction.

Direct Costs

The direct cost estimates are based on the assumption that the Project will not be subject to Davis Bacon or State of California prevailing wage requirements. The direct costs applied in the analysis can be summarized as follows:

1. The Developer provided a $95,000 allowance for off-site improvements. The City's Public Works Department staff should verify the accuracy of this assumption.

2. The on-site improvements are estimated at $20 per square foot of land area, or $1.46 million. These costs include grading, utilities, landscaping, surface parking spaces and a pool.

3. The podium parking costs are estimated at approximately $19,000 per space, or $1.26 million.

4. The residential shell costs are estimated at $5.94 million, or $90 per square foot of GBA.

5. A $140,000 allowance is provided for furnishings, fixtures and equipment.

6. KMA included a 14% allowance for contractors' fees and general requirements, which is the maximum allowed by the California Tax Credit Allocation Committee (TCAC).

7. An allowance for general liability insurance and construction bonds at 2% of construction costs is provided.

8. KMA provided a direct cost contingency allowance of 5% of other direct costs.

KMA estimates the direct costs at $10.81 million, or $164 per square foot of GBA.

Indirect Costs

KMA utilized the following assumptions for estimating the indirect costs:

1. The architecture, engineering and consulting (A&E) costs are estimated at 7% of direct costs.

2. The Developer estimated the public permits and fees costs at $14,900 per unit. The City staff should verify the accuracy of this estimate.

3. The taxes, insurance, legal and accounting costs are estimated at 1.5% of direct costs, or $162,000.

4. The Developer provided a $60,000 allowance for marketing and leasing costs.

5. The Developer Fee is set at $1.99 million, which is the maximum amount allowed by TCAC.

6. A soft cost contingency allowance equal to 5% of other indirect costs is provided.

KMA estimates the total indirect costs at $4.07 million.

Financing Costs

The Project is proposed to be financed with Tax-Exempt Multifamily Bonds allocated by CDLAC. To comply with Internal Revenue Service (IRS) requirements, the Bond must equal at least 50% of the Project's property acquisition costs plus eligible Tax Credit basis. To meet the 50% test for the Project, the Bond must equal at least $10.29 million.

The Project's estimated net operating income can only support a $1.8 million Bond (Series A Bond). Therefore a Series B Bond must be issued to cover the greater of the funds required to meet the 50% test, or the construction costs for which construction period financing is not available. In this case, the $8.49 million required to meet the 50% test exceeds the $5.67 million in unfunded construction costs. Thus, the Series B Bond is set at $8.49 million.

The financing costs for the Project are estimated as follows:

1. The construction loan interest costs are estimated at $703,000 based on the following assumptions:

    a. The construction period interest cost estimate is based on a 5.25% interest rate, a 16-month construction period, and a 60% average outstanding balance.

    b. The absorption period interest costs are based on a 5.25% interest rate, a 6-month absorption period, and a 100% average outstanding balance.

2. The financing fees are set at 3.5 points, which totals $360,000.

3. The capitalized operating reserve is based on three months of operating expenses and debt service payments. This equates to $117,000.

4. The Tax Credit fees are estimated at $34,000 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 $1.21 million.

Total Development Costs

As shown in Table 1, KMA estimates the total development costs at $21.52 million, or $352,800 per unit. In comparison, the Developer estimated the total development costs at $21.79 million, or $357,200 per unit. The difference equals $270,000, which represents an approximately 1% differential. A difference of this magnitude can be considered insignificant.

Stabilized Net Operating Income (Table 2)

Income and Affordability Restrictions

The Project's funding sources include Set-Aside funds and Tax Credits. Each funding source imposes specific income and affordability restrictions. TCAC publishes rent standards for projects receiving Tax Credits, and the California Redevelopment Law (CRL) defines a calculation methodology to determine the affordable rents for projects assisted with Set-Aside funds. In order for the Agency to be allowed to count the units in the Project towards the fulfillment of the production requirements and expenditures proportionality requirements imposed by CRL, the rents must comply with the CRL affordable housing cost definition.

Based on the funding sources proposed to be used, the Project's income and affordability standards must comport with the more stringent of the following standards:

1. Income Restrictions: The tenants' household income cannot exceed the stricter of:

    a. CRL income restrictions, which are defined under California Health and Safety Code Section (Section) 50105 for very-low income households and Section 50079.5 for low income households; and

    b. The Tax Credit income restrictions defined in the United States Code, Title 26, Section 142 (d)(2)(B).

2. Affordability Restrictions: The rents applied to the units must reflect the more stringent of:

    a. CRL very-low and low income rents based on the calculation methodology defined in Section 50053; and

    b. The Tax Credit rents published annually by TCAC.

Net Operating Income

Based on 2010 income information distributed by the California Housing and Community Development Department (HCD) and TCAC, the rents, net of the appropriate utility allowance, are estimated as follows:[2]

Rent Restriction	One-Bedroom	Two-Bedrooms
Very-Low Income/50% Tax Credit Median		
CRL Rents	$582	$647
TCAC Rents	$728	$870
Applicable Rents	**$582**	**$647**
Low Income/60% Tax Credit Median		
CRL Rents	$708	$789
TCAC Rents	$884	$1,057
Applicable Rents	**$708**	**$789**

KMA estimates the Project's gross income at $522,800, which includes miscellaneous income averaging $15 per unit per month. When a 5% vacancy and collection allowance is applied, KMA estimates the effective gross income (EGI) at $496,600.

KMA estimates the operating expenses as follows:

1. The general operating expenses are estimated at $4,600 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 income-restricted apartments. As such, the property tax liability is limited to assessment overrides; these costs were estimated by the Developer at $1,500 per year.
3. The Developer estimated the cost to provide social services at $17,200 per year.
4. The Developer estimated the annual capital replacement reserve deposit at $350 per unit, which is above the minimum amount of $250 per unit required by TCAC.

As shown in Table 2, the operating expenses are estimated to total $320,300, or $5,250 per unit. When the Project's EGI is reduced by the operating expenses, KMA estimates the stabilized NOI at approximately $176,400.

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[2] The monthly utility allowance is $48 for a one-bedroom unit and $62 for a two-bedroom unit.

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 anticipated to be received by the Project are described in the following sections of this analysis.

Available Outside Funding Sources

Tax-Exempt Bonds

Based on the following underwriting assumptions, KMA estimates that the Project can support a $1.8 million Tax-Exempt Multifamily Bond:

1. A 120% debt service coverage ratio;
2. A 7.25% interest rate; and
3. A 30-year amortization period.

Tax Credit Proceeds

The Project's eligible Tax Credit basis is equal to the lesser of the Project's depreciable costs, or the basis limits established by TCAC. In this case, KMA estimates the depreciable costs at $15.6 million, and the threshold basis limit applied by TCAC equals $16.6 million. Thus, the Tax Credit basis must be set at $15.6 million.

KMA estimated the net Tax Credit proceeds as follows:

1. KMA calculated the gross Tax Credit amount supported by the Project at $6.9 million, based on the following assumptions:
   a. The Project is located in a "Difficult to Develop" census tract. This allows the eligible Tax Credit basis to be increased by 30%.
   b. KMA set the annual Tax Credit rate at 3.4%, which is based on the current CDLAC application. This rate is applied over the 10-year Tax Credit period.
2. 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 the Developer's assumption that 70% of the proceeds will be funded at the completion of construction, KMA estimates the proceeds at $0.86 per gross Tax Credit Dollar.

Based on the preceding calculations, KMA estimates the net Tax Credit equity at $5.93 million. However, it is important to understand that the volatility in the financial markets makes it extremely difficult to accurately predict the underwriting standards that will ultimately be applied to the Tax Credits. It is possible that the proceeds will vary from the amounts estimated in this analysis.

Deferred Developer Fee

The Developer Fee provided for in the development cost budget can be included in the Project's Tax Credit eligible basis. Therefore, Tax Credit proceeds are generated by the Developer Fee. To maximize the Tax Credit dollars, while minimizing the Project's financial gap, the Developer is proposing to take the maximum Developer Fee allowed by TCAC, but to defer 33% of the revenue. This $654,000 deferral must be repaid from cash flow generated by the Project over time.

Interest and Pre-Stabilization Income

The Developer included $56,000 in interest and pre-stabilization income as a permanent funding source.

Owner Loan

The Owner has agreed to accept a deferred payment loan for $1 million of the proposed $4.97 million sales price for the Site. This loan will be repaid from the cash flow generated by the Project over time.

Total Available Outside Funding Sources

KMA estimates the total available outside funding sources at $9.44 million. However, if market conditions change, it is possible that the proceeds from the identified funding sources will vary from the amounts estimated in this analysis.

Financial Gap Calculation

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

Total Development Costs	$21,521,000
(Less) Total Available Funding Sources	9,438,000
Financial Gap	$12,083,000
Per Unit	$198,100

9% TAX CREDIT SCENARIO

KMA analyzed an additional scenario that assumes the Project applies for the competitively awarded 9% Tax Credits rather than the Tax-Exempt Bond/4% Tax Credit alternative. It should be noted that the competition for 9% Tax Credits is extremely intense, especially for senior citizen projects. In addition, the tie breaker calculations for 9% Tax Credits rewards projects that include disproportionately high local public assistance amounts.

The purpose of this alternative analysis is to estimate the amount of LBHDC financial assistance that would be necessary to create a competitive 9% Tax Credit application. As part of this analysis, KMA utilized the affordability mix included in the Developer's 2009 9% Tax Credit submittal, which includes:

1. Forty (40) very-low income units;
2. Twenty (20) low income units; and
3. One unrestricted manager's unit.

As part of the analysis, KMA reviewed the tie breaker scores from the second 2010 9% Tax Credit round and determined that it is most likely that the Developer would need to obtain a tie breaker score of at least 125% to receive an award of 9% Tax Credits. Therefore, KMA solved for the amount of LBHDC assistance necessary to reach this tiebreaker score.

Based on the identified criteria, KMA estimates that the LBHDC would need to provide $12.37 million in financial assistance for the Project to be competitive for an award of 9% Tax Credits. This financial assistance amount is approximately equal to the estimated financial gap for the Tax-Exempt Bond/4% Tax Credit alternative.

CONCLUSIONS/RECOMMENDATIONS

The results of the KMA financial gap analysis can be summarized as follows:

1. The proposed purchase price for the Site is $1.97 million higher than the Site's current appraised value. This premium price impacts the Project in the following ways:
   a. The Owner has agreed to defer $1 million of the price. The repayment of this loan will reduce the cash flow available to repay the LBHDC loan to the Project over time.

b. The remaining $970,000 million of the premium purchase price for the Site, plus the associated carrying costs, increases the Project's financial gap by approximately $1 million.

2. Based on the results of the preceding analysis, KMA estimates the Project's financial gap at $12.1 million. Comparatively, the Developer is requesting $12.5 million in LBHDC assistance. The $400,000 difference represents an approximately 3% differential.

3. To meet the 50% Test requirement imposed on Tax-Exempt Multifamily Bonds allocated by CDLAC, KMA estimates that the Project requires $8.49 million in Bond funds that cannot be supported by the Project's net operating income. These funds will be obtained in the form of a Series B Bond that must remain in place during the Project's construction and rent-up period. The Developer is requesting that the LBHDC purchase these Bonds using a portion of the financial assistance funds that will be allocated to the Project. This structure is commonly applied in Tax-Exempt Bond transactions.

4. It is the KMA assumption that the LBHDC assistance to the Project will be structured as a residual receipts note. This loan should be secured by a subordinated deed of trust against the property and evidenced by a promissory note and a subordinated regulatory agreement. KMA recommends that the loan be structured as follows:

   a. The loan should have a 55-year term.

   b. The Project's revenues should be distributed in the following priority order:

      i. Approved operating expenses;

      ii. Approved deposits into reserves accounts;

      iii. Debt service on the Tax-Exempt Multifamily Bond financing;

      iv. Repayment of deferred Developer Fees;

      v. Payment of asset management fees and partnership management fees for the first 15 years of operation that should be capped at $30,000 in the first year, and then escalated at 3% per year thereafter;

vi. Repayment of any general partner development loans and contributions; and

vii. Payment of any Tax Credit equity adjusters to the limited partner.

c. The LBHDC should receive 50% of the cash flow remaining after the approved distributions.

d. It is our understanding that the LBHDC has agreed not to impose any interest payment requirement on the loan.

e. Any outstanding principal and interest balance of the residual receipts loan should become due and payable at the end of the 55-year term. The repayment period should be extended if the Developer agrees to extend the income and affordability covenants.

5. The Owner is proposing to treat $1 million of the sales price for the Site as a deferred payment loan. It is the KMA recommendation that the following funds should be made available for debt service payments:

a. The Developer can commit some or all of their 50% share of the Project's cash flow to the repayment of the obligation; and

b. After the LBHDC loan has been repaid, the Developer can commit some or all of the Project's cash flow to the repayment of this obligation.

CASH FLOW ISSUES

KMA reviewed the Developer's 30-year cash flow for the Project and identified the following items for consideration by the LBHDC:

1. The Developer's cash flow projection does not include any reimbursement payments on the $654,000 in deferred Developer Fees. This is an issue, because the IRS requires that any deferred Developer Fee be repaid within 13 years. The Developer stated that the managing general partner will make a capital contribution to the partnership prior to Year 13 to pay off any outstanding balance on the deferred Developer Fee. The LBHDC should require the Developer to provide a letter from the managing general partner verifying that they are willing to make this payment.

2. The Developer included $54,500 in partnership fees in Year 1, and increased these fees by 3% each year thereafter. KMA recommends that the partnership fees that are paid prior to the residual receipts calculations be limited to $30,000 in Year 1, with 3% annual increases thereafter. No limitation should be placed on partnership fees paid out of the Developer's share of the Project's residual receipts.

TABLE 1

ESTIMATED DEVELOPMENT COSTS
6 VERY-LOW INCOME UNITS AND 54 LOW INCOME UNITS
RAMONA PARK SENIOR APARTMENTS
LONG BEACH, CALIFORNIA

I.	**Property Assemblage Costs**						
	Property Acquisition Costs [1]	74,488	Sf Land	$67	/Sf Land	$4,970,000	
	Demolition Costs [2]	11,650	Sf Building	$34	/Sf Building	400,000	
	Holding Costs [3]					52,000	
	Total Property Assemblage Costs	**74,488**	**Sf Land**	**$73**	**/Sf Land**		**$5,422,000**
II.	**Direct Costs** [4]						
	Off-site Improvements					$95,000	
	On-site Improvements [5]	74,488	Sf Land	$20	/Sf Land	1,462,000	
	Podium Parking Costs	67	Spaces	$18,804	/Space	1,260,000	
	Residential Shell Costs [6]	66,076	Sf GBA	$90	/Sf GBA	5,940,000	
	Furnishings, Fixtures & Equipment					140,000	
	Contractor Fees / General Requirements	14%	Construction Costs			1,226,000	
	General Liability Insurance / Const Bonds	2%	Construction Costs			175,000	
	Contingency Allowance	5%	Other Direct Costs			515,000	
	Total Direct Costs	**66,076**	**Sf GBA**	**$164**	**/Sf GBA**		**$10,813,000**
III.	**Indirect Costs**						
	Architecture, Engineering & Consulting	7%	Direct Costs			$757,000	
	Permits & Fees [7]	61	Units	$14,948	/Unit	912,000	
	Taxes, Ins, Legal & Accounting	1.5%	Direct Costs			162,000	
	Marketing & Leasing	61	Units	$984	/Unit	60,000	
	Developer Fee [8]					1,987,000	
	Contingency Allowance	5%	Other Indirects			194,000	
	Total Indirect Costs						**$4,072,000**
IV.	**Financing Costs**						
	Interest During Construction [9]						
	Series A Bond	$1,795,000	Loan Amount	5.25%	Interest	$123,000	
	Series B Bond	$8,494,000	Loan Amount	5.25%	Interest	580,000	
	Financing Fees						
	Series A Bond	$1,795,000	Loan Amount	3.50	Points	63,000	
	Series B Bond	$8,494,000	Loan Amount	3.50	Points	297,000	
	Operating Reserves	3	Months Op Exp and Debt Svc Pmts			117,000	
	TCAC Fees [10]					34,000	
	Total Financing Costs						**$1,214,000**
V.	**Total Development Costs**	**61**	**Units**	**$352,800**	**/Unit**		**$21,521,000**

1 An appraisal prepared by Lidgard and Associates, Inc. on March 9, 2011 estimated the fair market value of the property at $3.0 million. However, LBHDC staff has instructed KMA to utilize a purchase price of $4.97 million in the KMA analysis. Thus, the purchase price is $1.97 million higher than the appraised value of the property.

2 Based on Developer estimate. Building size based on information provided in CBRE Appraisal prepared on December 5, 2008.

3 Based on Developer estimate.

4 Estimates assume prevailing wage requirements will NOT be imposed on the Project.

5 Includes costs for 27 at-grade parking spaces.

6 Residential gross building area based on information provided in the Building Area chart on the site plan and assumes a 61-unit Project.

7 Based on Developer's per unit cost estimate. The estimate should be verified by City staff.

8 This amount is the maximum allowed by TCAC.

9 Includes debt on the 71% of the Tax Credit Equity which will not be funded during construction. Assumes a 16-month construction period with a 60% average outstanding balance and a 6-month absorption period with a 100% average outstanding balance.

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

Prepared by: Keyser Marston Associates, Inc.
Filename: Ramona Park_4%_9% TC_4 29 11_$5 MM Land; Pro Forma; trb

TABLE 2

STABILIZED NET OPERATING INCOME
6 VERY-LOW INCOME UNITS AND 54 LOW INCOME UNITS
RAMONA PARK SENIOR APARTMENTS
LONG BEACH, CALIFORNIA

I.	**Gross Residential Income**[1]						
	Manager's Unit	1	Unit	$0	/Unit/Month	$0	
	VL Inc Redev/Tax Credit @ 50% Median						
	1-Bedroom Units @ (653-Sf)	4	Units	$582	/Unit/Month	27,940	
	2-Bedroom Units @ (900-Sf)	2	Units	$647	/Unit/Month	15,530	
	Low Inc Redev/Tax Credit @ 60% Median						
	1-Bedroom Units @ (653-Sf)	44	Units	$708	/Unit/Month	373,820	
	2-Bedroom Units @ (900-Sf)	10	Units	$789	/Unit/Month	94,680	
	Gross Residential Income	61	Units			$511,970	
	Laundry/Miscellaneous Income	61	Units	$15	/Unit/Month	10,800	
	Gross Income					$522,770	
	(Less) Vacancy & Collection Allowance	5%	Gross Income			(26,140)	
	Effective Gross Income						**$496,630**
II.	**Operating Expenses**						
	General Operating Expenses	61	Units	$4,593	/Unit	$280,200	
	Property Taxes[2]	61	Units	$25	/Unit	1,530	
	Services	61	Units	$282	/Unit	17,200	
	Replacement Reserve	61	Units	$350	/Unit	21,350	
	Total Operating Expenses	61	Units	$5,250	/Unit		**$320,280**
III.	**Net Operating Income**						**$176,350**

1 Based on Los Angeles County 2010 Incomes distributed by HUD/HCD. As pertinent, the rents are based on rents published in 2010 by TCAC and California Health and Safety Code Section 50053. Utility Allowances per LBHA 2010 for energy efficient units: $48 for 1-Bdrm units and $62 for 2-Bdrm units.

2 Based on the assumption that the Developer will receive the property tax abatement accorded to non-profit housing organizations that develop income-restricted apartments.

Prepared by: Keyser Marston Associates, Inc.
Filename: Ramona Park_4%_9% TC_4 29 11_$5 MM Land; Pro Forma; trb

TABLE 3

FINANCIAL GAP CALCULATION
6 VERY-LOW INCOME UNITS AND 54 LOW INCOME UNITS
RAMONA PARK SENIOR APARTMENTS
LONG BEACH, CALIFORNIA

I.	**Available Funding Sources**						
	Tax-Exempt Financing						
	Net Operating Income	$176,350	NOI (See Table 2)				
	Income Available for Mortgage	1.20	DCR	$146,958	Debt Service		
	Interest Rate	7.25%	Interest Rate	8.19%	Mortgage Constant		
	Permanent Loan					$1,795,000	
	Tax Credit Equity [1]						
	Gross Tax Credit Value	$6,898,000					
	Syndication Rate	$0.86	/Tax Credit Dollar				
	Net Tax Credit Equity					$5,933,000	
	Deferred Developer Fee [2]					$654,000	
	Interest and Pre-Stabilization Income [2]					$56,000	
	Farmers and Merchants Bank Loan [3]					$1,000,000	
	Total Available Funding Sources						$9,438,000
II.	**Financial Gap Calculation**						
	Total Development Costs					$21,521,000	
	(Less) Total Available Funding Sources					(9,438,000)	
III.	**Financial Gap**	**61**	**Units**	**$198,100**	**/Unit**		**$12,083,000**

1 Assumes a $15.6 million eligible basis, which includes a 130% difficult-to-develop premium, a 3.4% Tax Credit rate and an applicable fraction of 100%.

2 Based on Developer estimate.

3 Farmers and Merchants Bank has agreed to provide a $1.0 million loan to the Project to be paid out of the Project's residual receipts.

Prepared by: Keyser Marston Associates, Inc.
Filename: Ramona Park_4%_9% TC_4 29 11_$5 MM Land; Pro Forma; trb