


MEMORANDUM



The
**Long Beach
Housing
Development
Company**

DATE: June 15, 2011
TO: Board of Directors
The Long Beach Housing Development Company
FROM: 
Amy Bodek, President
PREPARED BY: Norma C. Lopez, Development Project Manager
SUBJECT: **Rehabilitation of Apartment Buildings Located at
1801 and 1823 E. 68th Street and 1528 Freeman
Avenue (CD4 and CD9)**

RECOMMENDATIONS

1. Approve a loan of up to \$2,702,000 to a to-be-formed partnership, in which Abode Communities or its affiliate acts as the general partner, for the rehabilitation of the apartment buildings located at 1801 and 1823 E. 68th Street, and 1528 Freeman Avenue, with conditions;
2. Authorize the President or designee to negotiate and enter into a Loan Agreement with a to-be-formed partnership, in which Abode Communities or its affiliate acts as the general partner;
3. Authorize the President or designee to execute any and all documents necessary to implement the Loan Agreement; and
4. Authorize the reconveyance of the existing LBHDC affordability covenants to allow for a new 55-year covenant.

BACKGROUND

On July 21, 2010 the Board approved a loan up to \$1,920,000 to Abode Communities (Abode) to rehabilitate three buildings it currently owns at 1801 and 1823 E. 68th Street and 1528 Freeman Avenue. The Long Beach Housing Development Company (LBHDC) originally owned these buildings and sold them to Abode in 1999. Abode used loans from Bank of America and three separate loans from the LBHDC and the City that had a balance of about \$1,920,000 at that time to finance the acquisition. The proposal approved by the LBHDC in July 2010 authorized Abode to sell the property to a to-be-formed partnership and pay off the outstanding Bank of America and LBHDC loans. The LBHDC agreed to reloan the outstanding balance of the existing LBHDC loans (\$1,920,000 at the time) to assist with the rehabilitation of the three buildings. The proposed sources included tax-exempt bonds, 4% Tax Credits, California Department of Housing and Community Development (HCD) Multi-Family Housing Program funds (MHP), a seller carry back loan, refundable reserves, net operating income during rehabilitation, a deferred developer fee, and the LBHDC loan funds. A copy of the LBHDC staff report is attached as Exhibit A.

**MAKING
AFFORDABLE
HOUSING
HAPPEN**

AGENDA ITEM NO. 3

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110 Pine Avenue
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Long Beach, CA 90802
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The Board's approval was subject to Abode's receipt of funding commitments from all identified sources, including the MHP funds, which were estimated at \$5,679,000.

Abode applied for MHP funding on May 3, 2010. Their application was denied on November 30, 2010 because it did not score high enough. Abode planned to reapply in 2011, however, due to ongoing budget issues, the State announced that its bond programs, including MHP, were on hold indefinitely. Although some of the bond-funded programs have been reopened, the MHP Program has not. According to staff at HCD, the Governor is unwilling to issue bonds for the MHP Program due to the current unresolved State budget issues. Although MHP has not been eliminated, it is uncertain when or if the MHP Program will resume.

Abode submitted a revised proposal to LBHDC staff in April 2011 that includes a revised affordability structure, a restructured financing plan, a modified scope of work, reduced amenities, and an increased developer fee. Abode's revised proposal requests \$1,920,000 in funding from the LBHDC, which is the same as the original approval of \$1,920,000. Abode's proposal also includes additional funding of about \$782,000 in funding from the Federal Home Loan Bank Affordable Housing Program (AHP). However, if this funding is not received, additional reductions in scope will occur, including the loss of social service programs. Staff was concerned about the potential additional loss in scope, in particular the potential loss of social services. As a result, staff asked Keyser Marston Associates to include the potential gap created if the AHP funds are not awarded in their analysis. Therefore, staff is recommending a loan amount that is about \$782,000 higher than Abode's request. If the AHP funds are awarded, the LBHDC loan funds would be reduced by the amount of the AHP award. A summary of Abode's revised request is attached as Exhibit B.

CHANGES TO PROPOSED PROJECT - AFFORDABILITY

Abode is proposing to modify the affordability restrictions to increase the project's cash flow. The increased cash flow allows Abode to obtain a larger permanent conventional loan, which will help offset the loss of the MHP funds. Although staff is proposing to use HOME funds to provide the LBHDC assistance, staff asked the developer to layer HOME and Redevelopment rent restrictions so that the units could be counted toward the Redevelopment Agency's housing production and replacement obligations. In order to do so, the rents are restricted at the lesser of low-income HOME rents or moderate-income redevelopment rents. Incomes are restricted at the low-income HOME levels. The following chart summarizes the proposed changes to the project's affordability:

AFFORDABILITY					
AMI	RDA	HOME	Existing	Approved	Proposed
30%	Very Low	Low		26	
35%	Very Low	Low		12	
40%	Low	Low		17	
50%	Moderate	Low	10	12	43
60%	Moderate	High		11	35
80%	Moderate	High	28		
110%	Moderate		40*		
RESTRICTED			81	78	78
NON-RESTRICTED (manager)			3	3	3
TOTAL			81	81	81

CHANGES TO PROPOSED PROJECT – PERMANENT FINANCING SOURCES

The most significant changes to the financing sources include the loss of MHP funding, an increase in permanent conventional financing, the addition of AHP funding (if awarded), and an increase in LBHDC assistance (if AHP is not awarded). The following chart provides a summary of the proposed changes to permanent financing sources:

SOURCES (without AHP)			
	Approved	Proposed	Change
Permanent Loan / Bank Mortgage	638,000	3,397,000	2,759,000
Tax Credit Equity	6,761,000	7,028,000	267,000
Seller (Abode) Carry Back Note	7,712,000	7,297,000	(415,000)
MHP	5,679,000		(5,679,000)
FHLBSF / AHP			
Cash Flow During Rehabilitation	175,000	175,000	0
Deferred Developer Fee		480,000	480,000
LBHDC GAP Funds	1,920,000	2,702,000	782,000
TOTAL	\$ 22,885,000	\$ 21,079,000	\$ (1,806,000)
SOURCES (with AHP)			
	Approved	Proposed	Change
Permanent Loan / Bank Mortgage	638,000	3,397,000	2,759,000
Tax Credit Equity	6,761,000	7,028,000	267,000
Seller (Abode) Carry Back Note	7,712,000	7,297,000	(415,000)
MHP	5,679,000		(5,679,000)
FHLBSF / AHP		782,000	
Cash Flow During Rehabilitation	175,000	175,000	0
Deferred Developer Fee		480,000	480,000
LBHDC GAP Funds	1,920,000	1,920,000	0
TOTAL	\$ 22,885,000	\$ 21,079,000	\$ (1,806,000)

CHANGES TO PROPOSED PROJECT – USES OF FUNDS

The most significant changes to the project's use of funds include the following:

- A reduction in the acquisition costs due to an update to the appraisal, which resulted in a lower valuation;
- A reduction in the scope of the rehabilitation, which results in a decrease in hard cost expenditures;
- An increase in architecture and engineering expenses, which is due to the permanent conventional lender's requirement for certain seismic performance levels, and a change from design build to a pre-design of the mechanical and plumbing systems;
- A reduction in relocation costs due to updated relocation estimates and the change in affordability levels, which results in less relocation;
- An increased developer fee. The MHP program previously restricted the developer fee to a maximum of \$1,200,000. Without the MHP restriction, the maximum developer fee, which is set by the tax credit program, is \$1,680,000. Although this is of benefit to the developer, the increased fee actually earns additional tax credits, which reduces the required LBHDC gap funds (if the fee were to be reduced, the amount of tax credits generated would be reduced, and the LBHDC gap would increase).

The following chart provides a summary of the proposed uses of funds:

USES			
Uses	Approved	Proposed	Change
Purchase Price	10,800,000	10,385,000	(415,000)
Relocation	532,000	300,000	(232,000)
Closing Costs	4,000	3,000	(1,000)
Total Assemblage Costs	\$ 11,336,000.00	\$ 10,688,000.00	\$ (648,000.00)
Rehabilitation Costs	6,835,000	4,701,000	(2,134,000)
Furniture Fixtures & Equipment	42,000	100,000	58,000
Contractor / General Conditions	989,000	681,000	(308,000)
Construction Insurance / Bonds	173,000	119,000	(54,000)
Contingency Allowance	841,000	825,000	(16,000)
Total Direct Costs	\$ 8,880,000.00	\$ 6,426,000.00	\$ (2,454,000.00)
Architecture, Engineering & Consulting	194,000	622,000	428,000
Permits & Fees	50,000	50,000	0
Taxes, Insurance, Legal & Accounting	166,000	155,000	(11,000)
Marketing & Leasing	6,000	61,000	55,000
Developer Fee	1,200,000	1,680,000	480,000
Contingency Allowance	93,000	123,000	30,000
Total Indirect Costs	\$ 1,709,000	\$ 2,691,000	\$ 982,000
Predevelopment Interest	9,000	30,000	21,000
Tax-Exempt Bond Interest	421,000	506,000	85,000
Financing Fees	372,000	323,000	(49,000)
Capitalized Operating Reserves	158,000	415,000	257,000
Total Financing Costs	\$ 960,000	\$ 1,274,000	\$ 314,000
TOTAL DEVELOPMENT COSTS	\$ 22,885,000	\$ 21,079,000	\$ (1,806,000)

CHANGES TO PROPOSED PROJECT – SCOPE OF WORK

The proposed scope of work from 2010 is still current with a few modifications, and is attached as Exhibit C. It is expected that the rehabilitation and lease-up will be completed within 18 months from notice to proceed. The proposed scope of work will eliminate the following:

- Photovoltaic and/or solar thermal systems;
- Replacement of HVAC systems and addition of central HVAC;
- Property management office/laundry room relocation; and
- Expansion of the community room.

Although these improvements are desirable, the developer has indicated that they are not essential to the project. Given the limited availability of funds, Abode has eliminated them from the scope of work.

Staff requested a financial gap analysis from Keyser Marston Associates (KMA), attached as Exhibit D. KMA found that the project warranted financial assistance in the amount of \$2,702,000. However, it recommends that staff hold back \$265,000 in contingency funds and that those funds only be released per staff's approval. KMA's opinion is that the contingency should be set at 10 percent, in line with other similar rehabilitation projects, not 15 percent as requested by Abode. Additionally, KMA is recommending that the developer bid the project competitively and use the proceeds of any savings achieved through a lower bid to reduce the LBHDC assistance or to increase the scope of work.

RECOMMENDATIONS AND CONCLUSION

Although the project has been scaled back, it still offers an opportunity to extend the affordable housing restrictions to a term of 55 years and to improve the current stock of affordable housing. This request fits in with the LBHDC's mission to provide safe and livable neighborhoods by promoting, developing and preserving decent safe and affordable housing for the very low-, low- and moderate-income residents of Long Beach. In addition, to guarantee the social services component and the tot lot, staff is making a recommendation to fund the services should the AHP funds not be awarded to Abode. Staff recommends a loan of up to \$2,702,000 under the following terms and conditions:

- The approval is subject to the developer's receipt of binding funding commitments from all the proposed sources listed above (except the AHP funds);
- The proceeds will be disbursed as a permanent funding source and will not be spent until completion of the rehabilitation, although the proceeds may be deposited into an escrow account during construction if required by the other lenders;

- Reconveyance of the existing City affordability covenants will be subject to the approval of the City Council;
- The loan will be secured by a 3rd trust deed on the properties;
- The loan will be structured as a residual receipts loan with a 55-year term and a 3% simple interest rate;
- It is anticipated that 50% of the residual receipts will be applied to the LBHDC loan, and 50% of the residual receipts will be distributed to the developer.
- Additional conditions relating to property maintenance, and funding and expenditure from reserve accounts will be imposed;
- The developer will competitively bid the construction work;
- The LBHDC will maintain control of \$265,000 in contingency funds; and
- The developer will apply for AHP funds and demonstrate its efforts to the satisfaction of the President.

The Projects Committee has reviewed this item on June 7, 2011, and recommends the Board's approval.

Exhibits:

- A - Staff Report-July 21, 2010
- B - Abode Memorandum
- C - Scope of Work
- D - KMA Analysis

ET:PU:NCL

MEMORANDUM



The Long Beach Housing Development Company

DATE: July 21, 2010

TO: Board of Directors
The Long Beach Housing Development Company

FROM: Ellie Tolentino, Vice President *Ellie Tolentino*

PREPARED BY: Meggan Sorensen, Development Project Manager

SUBJECT: Loan Agreement for the Rehabilitation of Apartment Buildings located at 1801 and 1823 E. 68th Street and 1528 Freeman Avenue (CD4 and CD9)

RECOMMENDATIONS

1. Approve a loan of up to \$1,920,000 to a to-be-formed partnership, in which Abode Communities or its affiliate acts as the general partner, for the rehabilitation of the apartment buildings located at 1801 and 1823 E. 68th Street, and 1528 Freeman Avenue, with conditions;
2. Authorize the reconveyance of the existing LBHDC affordability covenants to allow for a new 55-year covenant;
3. Authorize the President or designee to negotiate and enter into a Loan Agreement with a to-be-formed partnership, in which Abode Communities or its affiliate acts as the general partner; and
4. Authorize the President or designee to execute any and all documents necessary to implement the Loan Agreement.

EXECUTIVE SUMMARY

Abode Communities (Abode, previously called Design Center Development Corporation) currently owns the three apartment buildings located at 1801 and 1823 E. 68th Street and 1528 Freeman Avenue and proposes to substantially rehabilitate these buildings. The Long Beach Housing Development Company (LBHDC) originally owned these buildings and sold them to Abode in 1999 which used loans from Bank of America and three separate loans from the LBHDC and the City that now have a balance of about \$1,920,000 million.

MAKING AFFORDABLE HOUSING HAPPEN

AGENDA ITEM NO. 2

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In order to maximize available funding sources, Abode intends to sell the properties to a related partnership and pay off the outstanding Bank of America and City/LBHDC loans. In turn, Abode requests that the LBHDC re-loans them \$1,920,000 million or an amount equivalent to the loan repayment proceeds. For this new loan, the Developer will make the units affordable to very low, low and moderate-income households for the next 55 years.

DEVELOPER INFORMATION

Abode Communities is a non-profit residential real estate developer with 32 years of experience. Abode's specific strength is building sustainable, multi-family affordable housing to address the needs of Southern California's large workforce, low-income families, seniors and individuals with special needs. Including Grisham Community Housing, Abode currently owns 34 properties that provide homes to more than 4,000 residents.

BACKGROUND

The three subject properties (collectively called Evergreen Apartments) have been owned by Abode since 1999. Before that, these properties were owned by the LBHDC, which purchased them in 1992 using housing set-aside funds and rehabilitated them using HOME funds. The table below provides basic description about the properties. A site map and photos are attached for your information (Attachment A).

	Evergreen I	Evergreen II	Evergreen III	Total
Address	1823 E. 68 th St.	1801 E. 68 th St.	1528 Freeman Ave.	
Year Built	1960	1964	1987	
Unit Mix -				
2-bedrooms	24	26	19	69
3-bedrooms	12	0	0	12
Total Units	36	26	19	81

The two buildings on 68th Street both include a pool, laundry facility, community room and covered parking and a shared property management office. The building on Freeman Avenue includes a laundry facility, elevator, and covered parking.

When the properties were sold, the LBHDC also provided Abode with three separate 30-year loans totaling \$1,548,075, with a 3% simple interest rate and payments to be made from 50% of residual receipts. The loans were funded with a combination of federal HOME funds and housing set-side funds. In return, 40 units were restricted for occupancy by moderate-income, 28 by low-income, and 10 by very-low income households. One unit in each building was left unrestricted to serve as the manager's unit. The restriction period ranges from 30-40 years. To date, including accrued interest

less residual receipts payments, the outstanding total loan amount is approximately \$1,920,000.

PROPOSED REHABILITATION

Abode proposes to substantially rehabilitate the buildings. Exterior improvements will include new roofs; installation of gutters and downspouts; repair of existing water damage; waterproofing and deck resurfacing; replacement of stucco and siding; replacement of deteriorated vehicular gates; installation of enhanced landscape and hardscape; and slight architectural enhancements to improve street appearance such as new porches and balconies, enhanced entries, and updated materials. See attached Conceptual Exterior Modifications for more details (Attachment B).

Interior improvements include full renovation of kitchens and bathrooms, including replacement of all cabinetry, countertops, appliances, bathtubs, toilets and sinks; new flooring throughout units; replacement of doors and windows; major plumbing repairs; new hot water boilers; and replacement of HVAC systems and addition of central HVAC.

Common area improvements will include conversion of a maintenance shop to a service coordinator office at 1528 Freeman Avenue; and renovations of the community rooms and addition of a bathroom at both 1823 and 1801 E. 68th Street.

REQUEST FOR FINANCIAL ASSISTANCE

The total development cost for the project is estimated at \$22,885,000, or \$282,500 per unit, broken down as follows:

Land Assemblage Costs	\$11,336,000
Direct Costs	\$ 8,880,000
Indirect Costs	\$ 1,709,000
Financing Costs	\$ 960,000
Total Development Costs	\$22,885,000

The total land assemblage cost of \$11,336,000 includes \$10,800,000 for acquisition (based on appraised value), \$4,000 for closing costs and \$532,000 for tenant relocation. The difference between the current appraised value and the existing debt on the properties is approximately \$7,712,000.

In order to maximize available funding sources for the proposed rehabilitation, Abode will sell the properties to a to-be-formed partnership to be comprised of Abode Communities or its affiliate acting as the general partner, and a tax credit investor. At the time of sale, Abode will pay off outstanding Bank of America and LBHDC loans and will provide a Seller Carry Back loan in the amount of \$7,712,000 to the new partnership

to help cover the cost of acquisition. The Seller Carry Back loan will be secured with a 4th trust deed for 55 years and will have an interest rate set at the applicable federal funds rate.

The potential funding sources during and after construction include:

Potential Funding - Construction	Amount	Potential Funding - Permanent	Amount
Tax-Exempt Bonds	\$12,470,000	Tax-Exempt Bonds	\$ 642,000
Seller Carry Back Note	\$ 7,712,000	Seller Carry Back Note	\$ 7,712,000
Tax Credit Equity	\$ 1,691,000	Tax Credit Equity	\$ 6,761,000
Deferred Costs	\$ 1,012,000	MHP loan	\$ 5,679,000
		Refunded Reserves/NOI During Rehab	\$ 175,000
Total	\$22,885,000	Total	\$20,969,000
Gap Amount	0	Gap Amount	\$ 1,916,000

While there is no gap during construction, there is a gap of approximately \$1,916,000, or \$24,600 per unit, in permanent financing. Abode has submitted a request for LBHDC financial assistance in that amount.

Staff requested Keyser Marston Associates (KMA) to review the developer's request. KMA's analysis concludes that the requested assistance is warranted (Attachment C).

The \$1,916,000 gap is almost equal to the outstanding balance of the existing LBHDC loans, which will be paid off at the time of sale to the new partnership. Therefore, there is no net increase in LBHDC assistance over what is currently invested in the properties.

CONCLUSION

Staff recommends approval of a loan of up to \$1,920,000 plus accumulated interest at the time of loan closing under the following terms and conditions:

- The approval is subject to the developer's receipt of binding funding commitments from all sources listed above, and will be cancelled if such commitments are not received;
- The exact loan amount will be set by the pay off balance of the existing LBHDC loans at the time the properties are transferred to the LP;
- The proceeds will be disbursed as a permanent funding source and will not be spent until completion of the rehabilitation, although the proceeds may be deposited into an escrow account during construction if required by the other lenders;
- Reconveyance of the existing City affordability covenants will be subject to the approval of the City Council, and this approval will be cancelled if such approval is not granted;
- The loan will be secured by a 3rd trust deed on the properties;

- The loan will be structured as a residual receipts loan with a 55-year term and a 3% simple interest rate;
- It is anticipated that 75% of the residual receipts will be applied to the MHP and LBHDC loans, and 25% of the residual receipts will be distributed to the developer. The actual residual receipts disbursement may change as the transaction is negotiated with the other lenders and the tax credit investor.
- Additional conditions relating to property maintenance, and funding and expenditure from reserve accounts will be imposed.

If approved, the existing affordability covenants, which currently have 20-30 years remaining, will be reconveyed, and a new covenant will be recorded which will impose a new 55-year affordability period. The units will remain a mix of very-low, low and moderate income, though the numbers in each category will change as follows:

	Existing Restrictions	Proposed Restrictions
Very-low	10	38
Low	28	17
Moderate	40	23
Unrestricted	3	3

Abode is planning to submit the application for MHP funds in July 2010, and anticipates obtaining all financing by April 2011. Once all financing is secured, rehabilitation of all three buildings is expected to take approximately twelve months.

Attachments:

- A - Site maps and photos
- B - Conceptual Exterior Modifications
- C - KMA Analysis

ET:PU:MS



MEMORANDUM

DATE: April 4, 2011

TO: Norma Lopez
Development Project Manager
Long Beach Development Services, Housing Services Bureau

CC: Patrick Ure
Housing Development Officer
Long Beach Development Services, Housing Services Bureau

FROM: Dana Trujillo *DT*
Senior Project Manager
Abode Communities

RE: **Evergreen Apartments - Project Update**

Due to the unavailability of MHP funds, the Evergreen Apartments rehab has been modified as follows:

SCHEDULE

The start of construction has been pushed back from March, 2011 to October, 2011 and all other milestones have been adjusted accordingly, as shown below.

CDLAC / TCAC Applications	05/20/11
Bond Allocation / TCAC Reservation	07/20/11
Pull Permit / 100% Const. Docs	10/01/11
Construction Start	10/18/11
Construction End	10/31/12
Lease Up Complete	12/30/12
Permanent Loan Conversion	04/30/13
Placed In Service Application / 8609	06/30/13

AFFORDABILITY RESTRICTIONS

The most significant change with the elimination of MHP funds from the project is the affordability structure. With MHP, we were able to leverage approximately \$5 million in permanent financing reducing the need for a bank mortgage and in turn allowing deeper affordability. With MHP the average affordability was 40% AMI.

Without MHP, the bank mortgage needs to be maximized and thus the affordability is not as low as was previously approved. However, the affordability is still much lower than what is currently restricted at the property. The current affordability averages 92% AMI and after the rehab the average affordability will decrease to 54%.

AMI	RDA	HOME	Existing	Approved	Proposed
30%	Very Low	Low		26	
35%	Very Low	Low		12	
40%	Low	Low		17	
50%	Moderate	Low	10	12	43
60%	Moderate	High		11	35
80%	Moderate	High	28		
110%	Moderate		43*		
RESTRICTED			81	78	78
NON-RESTRICTED (manager)			0*	3	3
TOTAL			81	81	81
AVERAGE AFFORDABILITY			92%	40%	54%

* Under the existing restrictions, the three managers units are restricted as redevelopment moderate units.

RELOCATION

There are currently 8 households whose incomes are higher than 60% AMI. These households will no longer qualify to live at Evergreen Apartments. They will be permanently relocated and will receive federal relocation benefits.



RENT DETERMINATION

The actual rents that will be charged to the residents will be the lesser of two rent increases (ranging between 5% and 8%), 10% below market rents, and CTCAC rents. In most cases it is a 5% rent increase or less, however because the result of this process is a vary diversified rent schedule, in cases where the two 5% increases is close to the CTCAC rent, the CTCAC rent is being used. In those *eight* cases, the rent increase ranges between 6% and 8%.

FINANCING – PERMANENT SOURCES

The most significant change in the financing is that MHP is no longer a funding source. The California Housing and Community Development Department (HCD) announced earlier this year that all state housing funds, including MHP, were being frozen and the date of when the funds would be available for issuance was unknown. To replace these funds, the bank mortgage has increased significantly as a result of the increase in rents discussed previously.

In addition, we have applied for a loan from the Federal Home Loan Bank of San Francisco. These funds will help minimize the impact of not having MHP funds in the project. There is a possibility the Evergreen Apartments rehab may not be eligible for these funds. The impact of this possibility is discussed later in the memo in the section title Scope of Work.

	Approved	Proposed	Change
Permanent Loan / Bank Mortgage	642,000	3,397,300	2,755,300
City of Long Beach	1,920,177	1,920,177	(0)
Seller (Abode) Carry Back Note	7,712,402	7,297,402	(415,000)
MHP	5,678,522	-	(5,678,522)
FHLBSF / AHP	-	780,000	780,000
Reserves / Cash Flow from Property	175,347	175,347	-
LP Equity	6,760,888	7,027,968	267,080
GP Equity	100	100	-
Deferred Developer Fee	-	480,000	480,000
TOTAL	22,889,436	21,078,294	(1,811,143)

Other notable changes in the permanent financing include:

- Seller Carry Back Loan from Abode Community Housing – decreased because the appraisal was modified and the total value decreased by \$415,000.
- Limited Partner Equity – The amount of eligible rehab basis (reduced scope of work) and acquisition basis (reduced appraisal) has actually declined, but the price per tax credit has

gone up significantly since we originally underwrote this rehab. As such, there is a net positive impact on total equity.

- Deferred Developer Fee – the change in the developer fee is discussed in the section called Developer Fee.

FINANCING – PERMANENT USES

The most significant change in the permanent uses (project budget) is the reduction in hard costs. Due to the loss of MHP funds, the scope of rehab needed to be reduced, the specifics of which are discussed later in the memo under Scope of Work. Changes in the permanent uses are as follows:

Uses	Approved	Proposed	Change
Acquisition (includes legal)	10,803,500	10,388,000	(415,500)
Hard Costs	8,838,373	6,326,357	(2,512,016)
Permits, Fees & Entitlement	50,000	50,000	-
Architecture & Engineering	80,000	414,000	334,000
Reports / Studies	30,670	24,000	(6,670)
Financing Costs	834,492	845,627	11,135
Relocation	531,550	300,000	(231,550)
Legal	85,000	110,000	25,000
Construction-related	66,000	243,500	177,500
Reserves	158,120	414,936	256,816
Developer Fee	1,200,000	1,680,000	480,000
Related Development Costs	211,731	281,874	70,143
TOTAL	22,889,436	21,078,294	(1,811,142)

Other notable changes in the permanent uses include:

- Acquisition – decreased because the appraisal was modified and the total value decreased by \$415,000. Acquisition legal also decreased by \$500.
- Architecture and Engineering – architecture and engineering is now necessary due to replacement and modification of the mechanical and plumbing systems, seismic upgrades required by the bank, accessibility upgrades required by Uniform Federal Accessibility Act (UFAS) triggered by the use of HOME funds.
- Relocation – number of households requiring permanent relocation decreased from 12 to 8 and estimates from consultant on temporary relocation costs lower than anticipated.

- Construction-related – deputy inspector and third party construction manager needed due to scope of work.
- Reserves – increased to 6 months expenses and debt service.
- Developer Fee – the change in the developer fee is discussed in the section called Developer Fee.

RESIDUAL RECEIPTS SPLIT

With the elimination of MHP, the proposed residual receipt split is 50% to the City of Long Beach and 50% to the project sponsor (Abode Communities), which is the way the residual receipts are split under the existing structure.

	Existing	Approved	Proposed
Abode Communities	50%	44%	50%
City of Long Beach	50%	20%	50%
Other Soft Lenders (MHP)	0%	36%	0%
TOTAL	100%	100%	100%

DEVELOPER FEE

The maximum developer fee allowed by MHP is \$1,200,000. The maximum developer fee allowed by the California Debt Limit Allocation Committee (CDLAC) and the California Tax Credit Allocation Committee is the lesser of \$2,500,000 and 15% of eligible rehab basis plus 5% of eligible acquisition basis. Under the proposed financing structure there is no source that imposes a limit on capitalized developer fee (the amount paid during development); however, to capitalized the full allowable fee would require a reduction in the scope of rehab and therefore Abode Communities is opting to defer \$480,000 and keep the capitalized developer fee at \$1,200,000 and take the balance during operations.

Sources	Approved	Proposed
Maximum Allowed by Funding Sources	1,200,000	1,680,000
Capitalized (paid during development)	1,200,000	1,200,000
Deferred (paid during operations)	-	480,000

SCOPE OF WORK

As a result of the reduction in hard costs, the following items have been removed from the scope of work:

- HVAC
- Solar Thermal
- Purchase PV (possible lease option still available)
- Property Management Office /Laundry Relocation
- Expansion of Community Room

Total Approximate Value: \$2,500,000

If we are unable to secure AHP funds from the Federal Home Loan Bank of San Francisco, the following addition items will need to be value engineered:

- Attic Insulation
- Gutter Replacement
- Retexture Popcorn Ceilings
- New Flooring in kitchen and living areas (replaced in 2009)
- New Interior Lever Hardware
- New Ceiling Fans
- New Closet Doors

Total Approximate Value: \$280,000

In addition, we will have to eliminate the following service-related items:

- Resident Services Program
- Tot Lot (Playground)

Total Approximate Value: \$500,000

ITEMS NEEDED FROM LONG BEACH HOUSING DEVELOPMENT COMPANY

No later than May 19, 2011 we will need the following items from the City:

- Commitment from the City to refinance its existing loan given the changes in the project.
- If the City would like to ensure that the service-related items listed above are included in the project if AHP is not secured, then a conditional commitment for \$500,000 will also be needed. The conditions would be:
 - If Abode Communities secured AHP during the pending round (2011 round A) the additional \$500,000 will not be part of the new City loan.
 - If unsuccessful this round—in which case the \$500,000 will be part of the new city loan—so long as the project is not deemed ineligible for AHP funds, Abode Communities will re-apply for AHP in the next round (2011 round B) and if AHP is secured, the \$500,000 will be returned to the City.

Exhibit C

	EV 1 Palm	EV 2 Sage	EV3 Jasmine
Exterior			
Install New Wrought Iron Fence, Gates, Entry System	x	x	x
Reduce Gap at bottom of exterior stairs	x		
Install Railing at Front Elevation Balconies			x
Install New Pool Fence		x	
Install Covers at Stair Risers		x	
Install New Patio Fences		x	
Front Elevation Upgrades - Frame, Roof, Siding, Trim	x	x	x
Replace all Fascia		x	
Overlay Siding and Trim with Hardi	x		
Repair Damaged Framing at Deck			x
Remove Stone and Install Stucco	x		
Remove Siding and Replace with Stucco			x
Rework Carport Posts		x	
Remove Interior Planter Walls Under Landscape		x	
Tear Off and Replace Roof	x	x	x
Install New Downspouts and Gutters	x	x	x
Repair Stucco for Wall HVAC	x		
Repair Exterior Stucco Walls	x	x	x
Front Elevation Stucco	x		
Painting - Exterior	x	x	x
Building General			
Termite Treatment	x	x	x
Asbestos Abatement Allowance	x	x	
Lead Based Paint Abatement Allowance	x	x	
Common Areas			
Replace Common Area Doors, Frames and Hardware	x	x	x
Install New Dryer Vents	x	x	
Install New Play Area Equipment and Surface		x	
Re-Plaster Pool	x	x	
Laundry Room Upgrades	x	x	x
Main Lobby Upgrades			x
Trash Enclosure Upgrades	x	x	
Build bathroom next to community room	x		
Add BBQ at Courtyard	x	x	
Build Trellis in central area (former Community Room)		x	
Manager Office Upgrades	x		
Office/Bathroom Upgrades (Res. Services)			x
Building Systems - Mechanical, Electrical, Plumbing, Sewer			
Move Clean Out at Unit 6 to Exterior	x		
Clean and Repair Existing Drain System	x	x	
Camera Sewer Lines, Allowance for Repairs	x	x	
Add Venting for Downstairs Unit Range Hoods	x	x	
Upgrade Site Lighting, Relocate Surface Conduit/Wiring	x	x	x
Install New Lighting at Carports	x	x	
New Plumbing Throughout - to one Central Boiler	x	x	
Re-pipe Hot and Cold Water Lines	x	x	
Upgrade to Energy Efficiency Boiler	x	x	x
Elevator Upgrades			x
Units			
Kitchens			
New Flooring - Sheet Vinyl	x	x	x
Cabinets - Demo and Removal	x	x	x
New Cabinets - Kitchens and Bathroom	x	x	x
Kitchen Counters - Solid Surface	x	x	x
Kitchen Counters - Solid Surface Integral Sink	x	x	x
Install New Range Hood/Microwave - 30"	x	x	x
Install New Stoves	x	x	x
Install New Refrigerators - 18 cu ft	x	x	x
1/4 Turn Angle Stops All Sinks	x	x	x

Evergreen Apartments
MHP/4% LIHTC Rehab
Scope of Work

as of 07/12/10

	EV 1	EV 2	EV3
Kitchen Faucet, No Angle Stop	X	X	X
Provide and Install Disposal	X	X	X
New Kitchen 4 Tube Fixtures	X	X	X
Add GFI Outlets - Kitchen	X	X	X
Baths			
New Flooring - Sheet Vinyl	X	X	X
Replace Bathroom Door and Frame with 30"	X	X	X
Mirrors Bathroom Full Width	X	X	X
New Medicine Cabinet - Recessed	X	X	X
Replace Towel Bars	X	X	X
Replace TP Holders	X	X	X
Install Curved Shower Rods, Rings and Curtains	X	X	X
Cabinets - Demo and Removal	X	X	X
New Cabinets - Kitchens and Bathroom	X	X	X
Bathroom with Banjo - Solid Surface	X	X	X
1/4 Turn Angle Stops All Sinks & Toilet	X	X	X
Bath Lav Faucet, No Angle Stop	X	X	X
New Dual Flush Toilet, Wax Ring, Bolt Set	X	X	X
Demo Existing Tubs	X	X	
Install New Fiberglass Tubs and Surrounds	X	X	
New Mixer Valves and Faucets	X	X	
New Shower Heads	X	X	
Add GFI Outlets - Bathroom	X	X	X
New Bathroom Fixture	X	X	X
Bath Fan Motor and Trim Replacement in Existing Can	X	X	X
Install Venting for Bath Fan		X	
Bedrooms			
Carpet and Pad in Bedrooms - Green Label, Low VOC	X	X	X
Replace Closet Doors in Bedrooms and Hallway	X	X	X
Install Hardwired Smoke Detectors in Bed and Hallway	X	X	X
New Bedroom Ceiling Fan with Light Kit	X	X	X
General			
Add Insulation in Attics	X	X	X
New Flooring in Living Area - VCT	X	X	X
Replace Unit Entry Doors and Frames	X	X	X
Install Lever Hardware at Unit Entry	X	X	X
Install Lever Hardware at Unit Interior Doors	X	X	X
Replace Closet Doors in Bedrooms and Hallway	X		
Install Security Screen Doors at Unit Entry	X	X	X
Replace Unit Windows	X	X	X
Replace Sliding Glass Door		X	X
Drywall - General Repairs - Units	X	X	X
Retexture Ceilings (scrape when needed)	X	X	X
Painting - Unit Interiors	X	X	X
Replace All Window Blinds	X	X	X
Replace HVAC wall units	X		
New Dining Ceiling Fan with Light Kit	X	X	X
Replace Plugs, Switches and Plates	X	X	X
Site Work			
Concrete Repairs	X	X	
Remove and Install Select New Asphalt at Parking Areas, Re-Seal	X	X	
New Deck Coating, Metal, Etc	X	X	X
Waterproofing			X
Repour Garage Ramp			X
Build Up Rear Block Wall			X
Repair Block Wall	X	X	
Signs - New Signage	X	X	X
Landscape - Tree Trimming and Stump Removal	X	X	X
Landscape - Upgrade Landscaping, Add Drains	X	X	X
Landscape - Rework/Add Planters	X	X	X



Exhibit D

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

SAN FRANCISCO
A. JERRY KEYSER
TIMOTHY C. KELLY
KATE EARLE FUNK
DEBBIE M. KERN
ROBERT J. WETMORE
REED T. KAWAHARA

From: Julie Romey

Date: May 31, 2011

Subject: Evergreen Apartments – Revised Financial Gap Analysis

LOS ANGELES
KATHLEEN H. HEAD
JAMES A. BABE
PAUL C. ANDERSON
GREGORY D. SOO-HOO
KEVIN E. ENGSTROM
JULIE L. ROMEY
DENISE BICKERSTAFF

At your request, Keyser Marston Associates, Inc. (KMA) reviewed the revised pro forma submitted by Abode Communities (Developer) for the already approved project located at 1823 and 1801 East 68th Street and 1528 Freeman Avenue (collectively referred to as "Property"). The project includes the substantial rehabilitation of three apartment buildings totaling 81 residential units (Project).

SAN DIEGO
GERALD M. TRIMBLE
PAUL C. MARRA

The Developer did not receive a Multi-Family Housing Program (MHP) funding award which was a previously assumed funding source. As such, the Developer requests changes to the previously agreed upon deal terms. The primary purpose of the KMA analysis is to identify the financial gap associated with the revised proposal. In addition, KMA is to compare the proposed transaction between the Developer and the Long Beach Housing Development Company (LBHDC) with the approved deal structure.

EXECUTIVE SUMMARY

The Developer currently owns the Property, which was acquired from the LBHDC in 1999. In order to maximize the available funding sources for the proposed rehabilitation of the Property, the Developer will sell the Property to a related limited partnership and pay off the outstanding Bank of America and LBHDC loans. In July 2010, the LBHDC agreed to assist the proposed Project with \$1.92 million in financial assistance. No new funding sources were to be needed as the financial gap amount equaled the outstanding balance of the three LBHDC loans.

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Subject: Evergreen Apartments – Revised Financial Gap Analysis

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However, the Project did not receive an MHP funding award, which equaled approximately 25% of the estimated total development costs. In addition, the State of California, which administers the MHP loan program, placed a pause on bonds issuances and the program is now on hold. Therefore, the Developer has re-approached the LBHDC with an alternative proposal that scales back the rehabilitation, decreases the affordability restrictions and adds a deferred Developer fee.

The revised funding sources that are anticipated to be utilized to finance the Project are as follows:

1. Tax-exempt mortgage revenue bonds that are competitively allocated by the California Debt Limit Allocation Committee (CDLAC);
2. Low income housing tax credits (Tax Credits) that are automatically awarded by the California Tax Credit Allocation Committee (TCAC) generated from the acquisition and rehabilitation costs;
3. Seller Carry Back financing; and
4. Federal HOME funds that have been allocated to the City of Long Beach (City) by the Housing and Urban Development department (HUD).

The following summarizes the results of the KMA analysis:

1. The financial assistance requested by the Developer, \$2.70 million, or \$34,600 per affordable unit, is warranted. However, the revised financial gap amount will exceed the amount of the outstanding balance of the three LBHDC loans at the time of the Property transfer, which total approximately \$1.94 million. Therefore, an additional \$760,000 of HOME funds will be needed to meet the financial assistance request. It should be noted that the Developer plans to apply for Affordable Housing Program (AHP) funds, which will be used to off-set the LBHDC assistance if the funds are awarded to the Project.
2. In addition, KMA recommends the following caveats be added to the deal terms:
 - a. The Developer should be required to select a contractor through a competitive bid process and any savings resulting from this process should be either used to decrease the LBHDC loan or used to increase the scope of work.
 - b. The LBHDC should hold back \$265,000 of the proposed contingency allowance to be used only if there are significant cost overruns. If these

funds are not needed, then they should be either applied to the LBHDC loan or used to increase the scope of rehabilitation.

3. LBHDC plans to utilize HOME funds to fill the gap. The proposed transaction meets the HOME layering analysis requirements.
4. The following summarizes the proposed change in rent restrictions:¹

	Existing Redevelopment Restrictions	Previously Approved Redevelopment Restrictions	Proposed Redevelopment Restrictions
Very-Low Income	0	38	0
Low Income	0	17	0
Moderate Income	40	23	78
Total Units	40	78	78
Term	21 Years Remaining	55 Years	55 Years

	Existing HOME Restrictions	Previously Approved HOME Restrictions	Proposed HOME Restrictions
Low HOME	10	67	43
High HOME	28	11	35
Total Units	38	78	78
Term	21 Years Remaining	55 Years	55 Years

5. The recommended LBHDC loan terms are as follows:
 - a. The proceeds will be disbursed at the time of permanent loan closing;
 - b. The loan will be secured with a third trust deed on the Property;
 - c. A 55-year term;
 - d. A 3% simple interest rate; and
 - e. The annual loan payments should be based on 50% of the residual receipts.

¹ The existing restrictions were recorded in 1992. The rents charged are the lesser rents per the rent restrictions placed each unit.

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BACKGROUND STATEMENT

In 1992, the LBHDC acquired the following apartment buildings:

	Evergreen I	Evergreen II	Evergreen III
Address	1823 E. 68 th St.	1801 E. 68 th St.	1528 Freeman Ave.
Year Built	1960	1964	1987
Unit Mix			
2-Bedrooms	24	26	19
3-Bedrooms	12	0	0
Total Units	36	26	19
Management Office	Shared Management Office		None
Amenities:	Pool, Laundry, Community Room, Covered Parking	Pool, Laundry, Community Room, Covered Parking	Laundry, Covered Parking

The LBHDC also placed the following income and rent restrictions on the units in 1992:

	Evergreen I	Evergreen II	Evergreen III
High HOME	14	9	5
Low HOME	3	3	4
Moderate Income	18	13	9
Unrestricted	1	1	1
Total Units	36	26	19
Covenant Term	40 Years	40 Years	40 Years

In 1999, LBHDC sold the Property to the Developer and provided three loans as follows:

	Evergreen I	Evergreen II	Evergreen III
Loan Amount	\$695,825	\$510,250	\$342,000
Funding Source	HOME Funds	HOME Funds	Set-Aside Funds
Loan Date	11/1/1999	11/1/1999	11/1/1999
Loan Term	30 Years	30 Years	30 Years
Interest Rate	3% Simple	3% Simple	3% Simple
Payments	50% of Residual Receipts	50% of Residual Receipts	50% of Residual Receipts
<u>Current Balance</u> ²			
Principal	\$695,825	\$510,250	\$342,000
Accrued Interest	224,888	174,806	117,135
(Less) Payments	(64,689)	(50,301)	(8,122)
Current Balance	\$856,024	\$634,755	\$451,013

² Current balances are as of March 31, 2011.

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July 2010 Deal Terms

In July 2010, the LBHDC approved a proposal by the Developer to sell the Property to a related partnership and pay off the outstanding Bank of America and LBHDC loans. The LBHDC agreed to reloan the outstanding loan balances, estimated at \$1.92 million in July 2010, back to the Project. The Developer also agreed to the following rehabilitation scope of work:

1. Landscape improvements, including the addition of planters and native trees and shrubs at all three buildings;
2. Asbestos and lead-based paint abatement;
3. Photovoltaic and/or solar thermal systems;
4. The following exterior improvements:
 - a. Replacement of roofs;
 - b. Installation of gutters and downspouts;
 - c. Replacement of stucco and siding;
 - d. Slight architectural enhancement to improve street appearance;
 - e. Repair water damage; and
 - f. Waterproofing and deck resurfacing.
5. The following interior improvements:
 - a. Full renovation of kitchens and bathrooms, replacing all cabinetry, countertops, appliances, bathtubs, toilets and sinks;
 - b. Replacement of flooring throughout units;
 - c. Replacement of doors and windows;
 - d. Major plumbing repairs;
 - e. Replacement of hot water boilers; and
 - f. Replacement of HVAC systems and addition of central HVAC.

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6. The following common area improvements:
- a. Conversion of maintenance shop to service coordinator office;
 - b. Addition of common bathroom at Evergreen I community room; and
 - c. Renovation of Evergreen I and II community rooms.

The proposed Project funding sources included tax-exempt bonds, 4% Tax Credits, MHP funds, a Seller Carry Back loan, refundable reserves, net operating income (NOI) during rehabilitation and deferred Developer fees.

KMA prepared a pro forma analysis to evaluate the Developer's revised 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 Analysis
Table 4:	Cash Flow Analysis

PROJECT DESCRIPTION

The revised scope of development currently proposed can be described as follows:

- 1. The Project will include 81 residential units located in three apartment buildings, which are owned and operated by the Developer.
- 2. The proposed unit mix is as follows:

Two-bedroom Units	69
Three-bedroom Units	12
Total Units	81

- 3. The following amenities will be offered at the Property:
 - a. Swimming pools at Evergreen I and II;
 - b. New play area equipment at Evergreen II;
 - c. Laundry room upgrades at all three properties; and
 - d. BBQ's at Evergreen I and II.

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4. The Project includes 117 surface parking spaces, which equates to a parking ratio of 1.44 spaces per unit.
5. While 78 units will be restricted to moderate income households for California Redevelopment Law purposes, the units will be further restricted to 43 very-low income households and 35 low income households for HOME Program purposes. Three two-bedroom units will be unrestricted and set-aside for use of the three on-site managers.
6. The Developer anticipates the rehabilitation and lease-up period will be approximately 18 months.
7. A relocation consultant has been hired to oversee the relocation of existing tenants. Approximately eight to 12 units will be rehabilitated within each cycle and the temporarily relocated tenants will be relocated for four to five days. The residents will have the option of staying at an extended stay hotel or receive a cash payment to be used for their own arrangements. However, approximately 10 units will receive permanent relocation benefits as they are over-income under the new affordability mix.

FINANCIAL GAP ANALYSIS

Estimated Development Costs (Table 1)

KMA reviewed the Developer's estimated development costs, dated April 4, 2011, and found the estimates to be reasonable for the revised scope. The following summarizes the development cost assumptions:

Assemblage Costs

The following costs are included in the Property assemblage costs:

1. The purchase price is estimated at \$10.38 million, or \$128,200 per unit. This value has been validated by RYMAR Appraisal Services, Inc. (Appraiser) in three appraisals dated May 26, 2010. The appraisals take into account the existing income and affordability restrictions.
2. The relocation costs are estimated at \$300,000. This estimate was provided by the Developer and will need to be verified by the Relocation Consultant. The estimate assumes the following:
 - a. Ten households will need to be permanently relocated. Assuming \$20,000 per household, the permanent relocation estimate is \$200,000.

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- b. The remaining 71 households will need to be temporarily relocated for four nights during the rehabilitation period. The Developer assumed that 65% of the temporarily relocated households (46 households) will elect to take a \$50 per night cash payment which totals to \$9,200.
- c. The remaining 35% of the households (25 households) are expected to utilize the hotel for four nights, which at \$150 per night totals to \$15,000.
- d. The Relocation Consultant budget for the report and relocation services is \$75,000.

3. The Developer estimates the closing costs at \$3,000.

The Property assemblage costs are estimated to total \$10.69 million, or \$132,000 per unit. The following summarizes the changes in the assumptions since July 2010:

	May 2011	July 2010	Difference
Purchase Price	\$10,385,000	\$10,800,000	(\$415,000)
Relocation Costs	300,000	532,000	(232,000)
Closing Costs	3,000	4,000	(1,000)
Total Assemblage Costs	\$10,688,000	\$11,336,000	(\$648,000)

The purchase price assumed in the July 2010 analysis was based on the May 2010 appraisals. However, after the July 2010 analysis, an error was discovered in the appraisal and the value has been since adjusted down by \$415,000. The \$232,000 decrease in relocation costs is due to the proposed change in the income and affordability restrictions which reduces the number of households that will need to be permanently relocated.

Direct Costs

Based on the assumption that the Project will be subject to prevailing wage and Davis-Bacon requirements, KMA found the rehabilitation costs prepared by the Developer to be reasonable for the proposed scope of development. The direct costs applied in the analysis can be summarized as follows:

- 1. The Developer estimates the rehabilitation costs at \$58,000 per unit, or \$4.70 million. The following items will be removed from the previously approved scope of work:
 - a. The photovoltaic and/or solar thermal systems;
 - b. Purchase PV;

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- c. Replacement of HVAC systems and addition of central HVAC;
 - d. Property management office/laundry room relocation; and
 - e. Expansion of the community room.
2. A \$100,000 allowance for furnishings, fixtures and equipment was provided.
 3. Contractor fees and general conditions are estimated at 14% of construction costs; or \$681,000. TCAC allows a fee of up to 14%; however, since July 2010, the construction market has become more competitive and the typical fee is 12% for similar projects based on KMA's experience. KMA recommends that the Developer be required to obtain estimates from at least three contractors through a competitive bid process in order to ensure that a competitive fee will be charged.
 4. A \$119,000, or 3% of construction costs, construction bond and insurance allowance is provided.
 5. An \$825,000, or 15% of other direct costs, contingency allowance was assumed. A 10% allowance is typical for rehabilitation projects. Given that the Developer owns the Property, this level of contingency appears to be excessive. KMA recommends that \$265,000 of the proposed contingency allowance be set-aside in an account controlled by the LBHDC and only used if there are significant cost increases. If this additional contingency is not needed, additional rehabilitation work can be added to the scope of work.

The direct costs are estimated to total \$6.43 million, or \$79,300 per unit. The following illustrates the difference in the estimates since the July 2010 analysis:

	May 2011	July 2010	Difference
Rehabilitation Costs	\$4,701,000	\$6,835,000	(\$2,134,000)
FF&E	100,000	42,000	58,000
Contractor Fees / General Conditions	681,000	989,000	(308,000)
Construction Insurance / Bonds	119,000	173,000	(54,000)
Contingency Allowance	825,000	841,000	(16,000)
Total Direct Costs	\$6,426,000	\$8,880,000	(\$2,454,000)

The decrease in rehabilitation costs, contractor fees/general conditions, bonds and contingency allowance are due to the decrease in the scope of work being proposed. The \$58,000 increase in FF&E is due to the Developer deciding to do a typical start up budget for site and common area furnishings since the existing Property does not have any.

Indirect Costs

KMA reviewed the Developer's indirect cost estimates and found the assumptions to be reasonable. The following summarizes the assumptions:

1. The architecture, engineering and consulting costs are estimated at \$622,000, or 10% of direct costs.
2. The Developer estimated the public permit and fees at \$50,000, or \$600 per unit.
3. The taxes, insurance, legal and accounting costs are estimated at \$155,000, or 3% of direct costs.
4. Marketing and leasing costs are estimated at \$61,000, or approximately \$752 per unit.
5. The Developer fee is set at \$1.68 million, which is the maximum allowed Developer fee under the TCAC regulations.
6. A \$123,000, or 5% contingency allowance, is included.

The total indirect costs are estimated at \$2.69 million. The following compares the May 2011 estimates to the July 2010 estimates:

	May 2011	July 2010	Difference
Architecture, Engineering & Consulting	\$622,000	\$194,000	\$428,000
Permits & Fees	50,000	50,000	0
Taxes, Insurance, Legal & Accounting	155,000	166,000	(11,000)
Marketing & Leasing	61,000	6,000	55,000
Developer Fee	1,680,000	1,200,000	480,000
Contingency Allowance	123,000	93,000	30,000
Total Indirect Costs	\$2,691,000	\$1,709,000	\$982,000

The architecture, engineering and consulting costs increased by \$428,000 due to the bank's requirement of certain seismic performance for rehabilitation projects, which wasn't known in July 2010. This change has increased the engineering costs. In addition, the Developer previously assumed that the Project would be a design-build and they are now assuming a pre-design of the mechanical and plumbing systems which also increases the engineering costs. The decrease in the taxes, insurance, legal and accounting budget is due to the lowering of assumed property taxes.

The marketing and leasing costs have increased because the Developer previously assumed a limited lease-up scenario because the Project will primarily include existing tenants. However, as the process progressed, the Developer has re-evaluated this

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stance since they will have to do a full lease-up and qualify all existing residents, create files, and do brand new paperwork. The contingency allowance increase occurred due to the increase in the estimated indirect cost estimates.

The Developer fee has increased by \$480,000 since the Project will no longer be regulated by MHP limitations on fees which limited the fee to \$1.20 million. Under the TCAC regulations, the Developer fee is based on 15% of the eligible basis and the entire Developer fee can be included in the eligible basis for calculating the Tax Credit equity. The inclusion of \$480,000 in additional Developer fee increases the Tax Credit equity by \$204,000, which will be received to cover Project costs by the end of the construction period. Since the Developer will defer the entire \$480,000 increase, the Project will receive \$204,000 in additional Project financing. The impact to the LBHDC is that while the LBHDC loan is reduced by \$204,000, no loan payments can be made on the LBHDC loan until the \$480,000 deferred Developer fee has been paid to the Developer with Project cash flow.

Financing Costs

The financing costs for the Project are estimated as follows:

1. Predevelopment Interest – The Developer has used an existing line of credit (LOC) for predevelopment costs. The interest paid on the LOC over the 12-month predevelopment period is estimated at \$30,000.
2. Rehabilitation Period Interest:
 - a. Tax-exempt bonds:
 - i. To qualify to receive the automatically awarded Tax Credits, at least 50% of the Project costs must be financed with Tax-Exempt Bonds allocated by CDLAC. However, the Project's stabilized NOI cannot support a bond of this size. Thus, the \$3.40 million Series A Tax-Exempt bonds (Series A Bonds) will be secured by the NOI and the \$6.01 million Series B Tax-Exempt bonds (Series B Bonds) will be secured by the public assistance.
 - ii. The total Tax-Exempt Bonds issued is expected to total \$11.21 million, which fulfills the "50% Test".
 - iii. The bond interest rate is set at 5.01%.

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- iv. It is assumed that the Series B Bonds will be paid off once the Project reaches stabilized occupancy.
- b. Terms:
 - i. The rehabilitation and absorption period for the Project is estimated at 18 months.
 - ii. The average outstanding balance on the Tax-Exempt Bonds is estimated at 60%.
- c. The origination fees for Tax-Exempt Bonds are estimated at 1.82 points and \$75,000 for issuance costs.
- 3. Capitalized operating reserves are set at six months of the operating expenses and debt service.
- 4. The Tax Credit costs are estimated based on the following assumptions:
 - a. A \$2,000 application fee;
 - b. A Tax Credit allocation fee equal to 1% of the first year's gross federal Tax Credit amount; and
 - c. A \$410 per unit compliance monitoring fee.

The total financing costs are estimated at \$1.27 million. The following summarizes the difference in the estimates between 2010 and 2011.

	May 2011	July 2010	Difference
Predevelopment Interest	\$30,000	\$9,000	\$21,000
Tax-Exempt Bonds Interest	506,000	421,000	85,000
Financing Fees	323,000	372,000	(49,000)
Capitalized Operating Reserves	415,000	158,000	257,000
Total Financing Costs	\$1,274,000	\$960,000	\$314,000

Total Development Costs

As shown in Table 1, the total development costs are estimated at \$21.08 million, or \$260,200 per unit. It should be noted that approximately 50% of the estimated total development costs are reserved for assemblage costs.

The following summarizes the changes in the estimated total development costs since the July 2010 analysis:

	May 2011	July 2010	Difference
Assemblage Costs	\$10,688,000	\$11,336,000	(\$648,000)
Direct Costs	6,426,000	8,880,000	(2,454,000)
Indirect Costs	2,691,000	1,709,000	982,000
Financing Costs	1,274,000	960,000	314,000
Total Development Costs	\$21,079,000	\$22,885,000	(\$1,806,000)

Stabilized NOI (Table 2)

Income Restrictions

The Project must comply with the income restrictions imposed by the various funding programs. The Developer is proposing to set-aside 78 units to very-low and low income households in accordance with the HOME Program guidelines. The units will also be restricted to 78 moderate income households for California Redevelopment Law purposes. The more restrictive restriction will prevail. Therefore, the Project is subject to the following income restrictions:

	Number of Units	
	Two-bedroom Units	Three-bedroom Units
Designated Requirements ³		
Section 50093 / 50% Tax Credits / Low HOME	37	6
Section 50093 / 60% Tax Credits / High HOME	29	6
No Income Restrictions	3	0
	69	12

Affordability Restrictions

The rents applied to all the units must reflect the most stringent requirements imposed by the various funding sources.⁴

³ The LBHDC requires that moderate income units comply with the California Health and Safety Code Section (Section 50093) as referenced in the table above. The Tax Credit and HOME income restrictions are defined under United States Code, Title 26, Section 142 (d)(2)(B).

⁴ The affordable rents are estimated based on the strictest of: the calculation methodology established under Section 50053 of the Health and Safety Code and rents that are published annually by TCAC and HUD.

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The 2010 maximum allowable rents, net of the appropriate utility allowances, are as follows:⁵

	Two- bedroom Units	Three- bedroom Units
<u>Moderate Income / 50% Median/Low HOME</u>		
Section 50093	\$2,086	\$2,310
50% of TCAC Median	\$973	\$1,120
Low HOME	\$973	\$1,120
Applicable Rent	\$973	\$1,120
<u>Moderate Income / 60% Median/High HOME</u>		
Section 50093	\$2,086	\$2,310
60% of TCAC Median	\$1,182	\$1,361
High HOME	\$1,265	\$1,450
Applicable Rent	\$1,182	\$1,361

NOI Calculation

The Project's estimated gross residential income is approximately \$1.02 million. However, the existing rent on many of the units is below the applicable rent due to current market conditions. The HOME regulations don't let a developer to increase rents by an amount that is detrimental to the existing tenants without triggering relocation benefits. The Developer estimates that the stabilized rental income will total \$863,880, which is \$158,100 lower than the rental income that could potentially be generated at stabilization. When \$9 per unit per month in laundry and miscellaneous income is added, the gross income is estimated to be \$872,628. When a 5% vacancy and collection allowance is deducted, the effective gross income (EGI) totals \$828,998.

The operating expenses are estimated as follows:

1. The general operating expenses at \$5,565 per unit per year. This estimate is within the typical range for similar family rehabilitation projects.
2. The Developer has indicated that the Project will be entitled to receive the property tax abatement that is accorded to non-profit housing organizations that own income restricted rental units. Therefore, the Developer assumed that a minimal \$15,000 property tax assessment override expense will be incurred by the Project.
3. The Developer estimates the social services provision costs at \$40,000 per year. The proposed scope of social services to be provided has not yet been defined.

⁵ Monthly utility allowances: \$75 for two-bedroom units and \$100 for three-bedroom units.

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However, a full-time resident services coordinator will be located at the Property and will provide referral services, conduct workshops, bring in speakers, etc. It is also the Developer's intention to provide an after-school program with a partner.

4. A \$332 per unit per year replacement reserve deposit is provided.

As shown in Table 2, the operating expenses are estimated to total \$532,660, or approximately \$6,580 per unit. When the Project's EGI is reduced by these operating expenses, the stabilized NOI is estimated at \$296,338. The following compares the NOI estimated in 2010 with the current estimates:

	May 2011	July 2010	Difference
Effective Gross Income	\$828,998	\$632,480	\$196,518
(Less) General Operating Expenses	(450,750)	(398,100)	(52,650)
(Less) Property Taxes	(15,000)	(15,000)	0
(Less) Tenant Services	(40,000)	(50,000)	10,000
(Less) MHP Payment	0	(23,850)	23,850
(Less) Replacement Reserve	(26,910)	(41,720)	14,811
Net Operating Income	\$296,338	\$103,810	\$192,528

While the decrease in the level of affordability explains the \$196,518 increase in EGI, the Developer has reassessed the impact of energy efficiency on the operating expenses, which caused the increase in general operating expenses. The tenant services estimate was lowered by \$10,000 since the removal of the eight special needs units allows for the elimination of the case worker position. The replacement reserve assumptions are slightly above the TCAC minimum requirement for rehabilitation projects.

Potential Funding Sources (Table 3)

The following summarizes the potential funding sources for the Project.

Tax-Exempt Bonds

The Developer will apply for approximately \$11.21 million in tax-exempt bonds allocation, of which \$7.82 million will be secured by public assistance that will be available at the completion of the Project.

The remaining \$3.40 million will be secured by the Property and is calculated as follows:

1. A 1.15 debt coverage ratio, which results in a \$257,685 annual debt service payment;
2. A first trust deed security;

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3. A 6.50% interest rate; and
4. A 30-year amortization period.

Tax Credit Equity Proceeds

Tax Credit Basis

It can be assumed that the Project's eligible Tax Credit basis is equal to the lesser of the depreciable costs for the Tax Credit units, or the basis limits established by TCAC. KMA and the Developer calculated the eligible Tax Credit basis as follows:

1. The Project's depreciable costs total \$18.73 million, of which \$9.39 million is associated with the acquisition costs.
2. The basis limits applied by TCAC equal \$23.73 million.
3. The depreciable costs are less than the TCAC basis limits. As such, the eligible Tax Credit basis is estimated at \$18.73 million.

Net Tax Credit Proceeds

The net Tax Credit proceeds are estimated as follows:

1. The gross Tax Credit amount supported by the proposed Project is calculated at \$7.17 million based on the following assumptions:
 - a. The Project is located in a "Difficult to Develop" census tract. This allows the non-acquisition eligible Tax Credit basis to be increased by 30%.
 - b. The current Tax Credit rate is 3.33% and is applied to the 10-year Tax Credit period.
2. The net syndication value supported by the Tax Credits is ultimately determined based on competitive market conditions and on the timing of the disbursements. Based on the Developer's assumption that 14% of the proceeds will be funded during construction, the Tax Credit equity rate is estimated at \$0.98 per Tax Credit. This estimate reflects the recent increase in Tax Credit equity rates.

Therefore, the net Tax Credit proceeds are estimated at \$7.03 million.

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Seller Carry Back Loan

The purchase price of the Property is \$10.38 million. After the current owner pays off the existing Bank of America and LBHDC loans, the remaining balance will be carried back by the current owner, which is also the Developer. The Developer is currently estimating the Seller Carry Back Loan at \$7.30 million.

Refundable Reserves and NOI During Rehabilitation

The Developer estimates that approximately \$175,000 of refundable reserves and NOI will be available to off-set the Project costs during the rehabilitation period.

Deferred Developer Fee

The Developer proposes to defer \$480,000 of the Developer fee. This deferral must be repaid within 15 years through Project cash flow.

Total Potential Funding Sources

The total potential funding sources for the Project is estimated at \$18.38 million. The following compares the changes in the funding sources since July 2010;

	May 2011	July 2010	Difference
Tax-Exempt Bonds	\$3,397,000	\$642,000	\$2,755,000
Tax Credit Equity	7,028,000	6,761,000	267,000
MHP Loan	0	5,679,000	(5,679,000)
Seller Carry Back Loan	7,297,000	7,712,000	(415,000)
NOI During Rehab	175,000	175,000	0
Deferred Developer Fee	480,000	0	480,000
Total Funding Sources	\$18,377,000	\$20,969,000	(\$2,592,000)

Financial Gap Calculation (Table 3)

The Project's financial gap is equal to the difference between the potential funding sources, and the estimated development costs for the Project. The financial gap is calculated as follows:

Total Development Costs	\$21,079,000
(Less) Total Funding Sources	(18,377,000)
Financial Gap	\$2,702,000
Per Affordable Unit	\$34,600

The following summarizes the difference in the financial gap since July 2010:

	May 2011	July 2010	Difference
Total Development Costs	\$21,079,000	\$22,885,000	(\$1,806,000)
(Less) Total Funding Sources	(18,377,000)	(20,969,000)	2,592,000
Financial Gap	\$2,702,000	\$1,916,000	\$786,000
Per Affordable Unit	\$34,600	\$24,600	\$10,000

Therefore, KMA concludes that the Developer's request of \$2.70 million in financial assistance is warranted. It is anticipated that 100% of the assistance will be financed with HOME funds. It should be noted that at the time of the Property transfer, it is estimated that the existing LBHDC loans will be \$1.94 million; therefore, an additional \$760,000 of HOME funds will be needed to meet the financial assistance request.

LAYERING ANALYSIS

The HOME Program limits the amount of funds that can be allocated to a project based on the size and unit type of the Project. The following calculates the maximum allowable HOME funds that can be allocated to the Project:

	Number of Units	\$/Unit	Maximum HOME Funds
2-Bedroom Units	66	\$175,536	\$11,585,376
3-Bedroom Units	12	227,086	2,726,032
Totals/Averages	78	\$183,467	\$14,310,408

The proposed transaction allocates \$2.70 million HOME funds to the Project.

Layering Requirements

The 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 proposed financial assistance meets the HOME layering requirements to provide affordable housing.

HOME Unit Designation

Recipients of HOME funds must designate HOME units in proportion to the amount of HOME assistance contributed to the development. As currently proposed, the Project will receive \$2.70 million in HOME funds. This represents 15% of the Project costs and as such at least 15% of the units must be designated as HOME units. This represents 13 units of the 81-unit Project.

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The HOME Program also establishes the maximum subsidy limits based on the number of bedrooms in the 81 units to be \$14.31 million. If \$2.70 million in HOME funds is to be provided, 16 units must be designated as HOME units.

To comply with the proportionality test and the maximum subsidy limit test, 16 units must be designated as HOME units. The proposed affordability restrictions meet the findings of the HOME unit designation analysis.

CASH FLOW ANALYSIS (TABLE 4)

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

1. Year 1 is based on the pro forma rent and expense assumptions presented in the stabilized analysis (Table 2).
2. The projected income is increased at 2% per year.
3. A 5% vacancy and collection allowance is provided.
4. The general operating expenses, social services and replacement reserves are increased at 3% per year.
5. The property taxes are increased at 2% annually.
6. The asset management fee is set at \$3,000 per year, increasing with inflation over the life of the Project.
7. The partnership management fee is set at \$12,000, increasing with inflation during the 15-year partnership agreement.
8. The \$415,000 in capitalized operating reserves is assumed to accrue interest at 1% per year. The reserve is estimated to be first accessed in Years 25 through 30 and again in Years 48 through 55 and will be depleted by Year 55.
9. The following illustrates the residual receipts distribution:
 - a. Fifty percent (50%) of the residual receipts are applied to the LBHDC Loan.

- b. The remaining 50% of the residual receipts will be allocated to the Developer.

The LBHDC Loan is estimated not to be repaid until the end of the 55-year loan term. The LBHDC Loan balance at the end of the loan term is expected to total \$12.99 million. In addition, the Project is expected to have a negative cash flow by Year 25 through Year 30 and again from Year 48 through Year 55. However, the operating reserve will be available to meet the operating gap.

The following summarizes the estimated payments to the LBHDC and the Developer over the 55-year loan term:

	Nominal Payments	Present Value @ 8% Discount Rate
Total Payments to LBHDC	\$13,431,000	\$214,000
Total Payments to Developer	\$275,000	\$23,000

The following compares the payments to the LBHDC in the current proposal and the July 2010 approved proposal:

	May 2011	July 2010	Difference
Year 55 Loan Balance	\$12,988,000	\$4,960,000	\$8,028,000
Payments – Nominal	\$13,431,000	5,080,000	\$8,351,000
Payments – Present Value	\$214,000	\$10,400	\$203,600

CONCLUSIONS AND RECOMMENDATIONS

Based on the preceding analysis, KMA concludes the following:

1. The Developer's request of \$2.70 million in financial assistance is warranted.
2. The following summarizes the proposed changes to the previously approved agreement between the Developer and LBHDC:
 - a. The LBHDC loan will be increased to \$2,702,000, of which approximately \$1,942,000 will be from the existing LBHDC loan and \$760,000 is to be additional HOME funds.
 - b. Decrease the scope of work for the rehabilitation of the Property.

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- c. Decrease the affordability level of the Project as follows:

	Previously Approved Redevelopment Restrictions	Proposed Redevelopment Restrictions
Very-Low Income	38	0
Low Income	17	0
Moderate Income	23	78
Total Units	78	78
Term	55 Years	55 Years

	Previously Approved HOME Restrictions	Proposed HOME Restrictions
Low HOME	67	43
High HOME	11	35
Total Units	78	78
Term	55 Years	55 Years

- d. Require the Developer to competitively bid for a general contractor. Any cost savings realized should be either used to decrease the LBHDC loan amount or increase the scope of work.
- e. Hold back \$265,000 of the contingency allowance. If the allowance is not used, the LBHDC loan amount should be decreased or the scope of rehabilitation should be increased.
- f. Allow the Developer fee to be increased to \$1.68 million, with the requirement that at least \$480,000 of the fee must be deferred and paid with Project cash flow.
- g. The LBHDC loan payment increased from 19% of the residual receipts to 50% of the residual receipts due to the elimination of the MHP loan.

Attachments

TABLE 1

ESTIMATED DEVELOPMENT COSTS
EVERGREEN APARTMENTS
LONG BEACH, CALIFORNIA

I. Land Assemblage Costs			
Land Acquisition Costs	81 Units	\$128,210 /Unit	\$10,385,000
Relocation Costs	81 Units	\$3,704 /Sf Land	300,000
Closing Costs	0.0% of Acquisition Costs		3,000
Total Land Assemblage Costs	81 Units	\$132,000 /Unit	\$10,688,000
II. Direct Costs			
Residential Rehabilitation Costs	81 Units	\$58,042 /Unit	\$4,701,000
Furnishings, Fixtures & Equipment	81 Units	\$1,235 /Unit	100,000
Contractor Fees / General Requirements	14% of Construction Costs		681,000
Construction Insurance / Bonds	3% of Construction Costs		119,000
Contingency Allowance	15% of Other Direct Costs		825,000
Total Direct Costs	81 Units	\$79,300 /Unit	\$6,426,000
III. Indirect Costs			
Architecture, Engineering & Consultants	10% of Direct Costs		\$622,000
Permits & Fees	81 Units	\$617 /Unit	50,000
Taxes, Insurance, Legal & Accounting	2% of Direct Costs		155,000
Marketing & Leasing	81 Units	\$752 /Unit	61,000
Developer Fee			1,680,000
Contingency Allowance	5% of Other Indirect Costs		123,000
Total Indirect Costs	81 Units	\$33,200 /Unit	\$2,691,000
IV. Financing Costs			
Land Loan Interest	\$300,000 Loan Amount	7.00% Interest	\$30,000
Construction Interest	\$11,215,000 Loan Amount	5.01% Interest	\$506,000
Financing Fees			
Origination Fees	\$11,215,000 Loan Amount	1.82 Points	204,000
Issuance Fees	\$11,215,000 Loan Amount	0.71 Points	79,000
Tax Credit Fees	81 Units	\$523 /Unit	40,000
Capitalized Reserves			
Operating	6 Months	\$65,862 /Month	415,000
Replacement	81 Units	\$0 Months	0
Total Financing Costs	81 Units	\$15,700 /Unit	\$1,274,000
V. Total Development Costs	81 Units	\$260,235 /Unit	\$21,079,000

TABLE 2

STABILIZED NET OPERATING INCOME
 EVERGREEN APARTMENTS
 LONG BEACH, CALIFORNIA

I. Project Revenue			
Manager Unit(s)	3 Units	\$0 /Month	
<u>Mod Inc CRL/50% Median/Low HOME</u>			
2-Bedroom Units @ (850-Sf)	37 Units	\$973 /Month	
3-Bedroom Units @ (1,050-Sf)	6 Units	\$1,120 /Month	
<u>Mod Inc CRL/60% Median/High HOME</u>			
2-Bedroom Units @ (850-Sf)	29 Units	\$1,182 /Month	
3-Bedroom Units @ (1,050-Sf)	6 Units	\$1,361 /Month	
Total Potential Gross Rental Income	81 Units		\$863,880
Add: Miscellaneous Income	81 Units	\$9 /Unit/Month	8,750
Total Potential Gross Income			\$872,628
(Less) Vacancy & Collection Allowance ²	5% of Potential Gross Income		(43,630)
Effective Gross Income			\$828,998
II. Operating Expenses ²			
General Operating Expenses	81 Units	\$5,565 /Unit	\$450,750
Property Taxes	81 Units	\$185 /Unit	15,000
Services	81 Units	\$494 /Unit	40,000
Operating Reserve	81 Units	\$0 /Unit	0
Replacement Reserve	81 Units	\$332 /Unit	26,910
Total Operating Expenses	81 Units	\$6,580 /Unit	\$532,660
III. Net Operating Income			\$296,338

TABLE 3

FINANCIAL SURPLUS / (GAP) CALCULATION
 EVERGREEN APARTMENTS
 LONG BEACH, CALIFORNIA

I. Potential Funding Sources			
A. Tax-Exempt Bonds			
Net Operating Income	\$296,338	NOI	
Income Available for Mortgage	1.15	DCR	\$257,685 Debt Service
Interest Rate / Mortgage Constant	6.50%	Int. Rate	7.58% Mort. Constant
Supportable Permanent Financing			\$3,397,000
B. Tax Credit Equity	\$7,172,112	Gross Value	98.00% Synd. Rate
			\$7,028,000
C. Seller Carry Back Loan			\$7,297,000
D. Cash Flow During Rehabilitation			\$175,000
E. Deferred Developer Fee	29%	Developer Fee	\$480,000
Total Potential Funding Sources			\$18,377,000
II. Financial Surplus / (Gap) Calculation			
Total Potential Funding Sources			\$18,377,000
(Less) Total Development Costs			(21,079,000)
Financial Surplus / (Gap)	78	Aff. Units	(\$34,600) /Unit

TABLE 4

CASH FLOW ANALYSIS
EVERGREEN APARTMENTS
LONG BEACH, CALIFORNIA

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
I. Potential Gross Income									
Gross Residential Income		\$863,878	\$881,156	\$898,779	\$916,754	\$935,089	\$953,791	\$972,867	\$992,324
Miscellaneous Income		8,750	8,925	9,104	9,286	9,471	9,661	9,854	10,051
Total Potential Gross Income		\$872,628	\$890,081	\$907,882	\$926,040	\$944,561	\$963,452	\$982,721	\$1,002,375
(Less) Vacancy & Collection Allowance		(43,631)	(44,504)	(45,394)	(46,302)	(47,228)	(48,173)	(49,136)	(50,119)
Effective Gross Income		\$828,997	\$845,577	\$862,488	\$879,738	\$897,333	\$915,279	\$933,585	\$952,257
II. Operating Expenses									
General Operating Expenses		\$450,750	\$464,273	\$478,201	\$492,547	\$507,323	\$522,543	\$538,219	\$554,366
Property Taxes		15,000	15,300	15,606	15,918	16,236	16,561	16,892	17,230
Social Services		40,000	41,200	42,436	43,709	45,020	46,371	47,762	49,195
Replacement Reserves		26,910	27,717	28,549	29,405	30,287	31,196	32,132	33,096
Total Operating Expenses		\$532,660	\$548,490	\$564,791	\$581,579	\$598,867	\$616,671	\$635,006	\$653,887
III. Add: Operating Reserve		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IV. Net Operating Income		\$296,337	\$297,087	\$297,697	\$298,159	\$298,465	\$298,608	\$298,579	\$298,370
(Less) Annual Debt Service		(257,685)	(257,685)	(257,685)	(257,685)	(257,685)	(257,685)	(257,685)	(257,685)
Available Cash Flow		\$38,651	\$39,402	\$40,011	\$40,473	\$40,780	\$40,923	\$40,894	\$40,685
VII. Contingent Payments									
Deferred Developer Fee		\$38,651	\$39,402	\$40,011	\$40,473	\$40,780	\$40,923	\$40,894	\$40,685
Asset Management Fee		0	0	0	0	0	0	0	0
General Partner Fee		0	0	0	0	0	0	0	0
Total Contingent Payments		\$38,651	\$39,402	\$40,011	\$40,473	\$40,780	\$40,923	\$40,894	\$40,685
VIII. Residual Receipts		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
LBHDC		0	0	0	0	0	0	0	0
Developer		0	0	0	0	0	0	0	0
			50% of RR						
			\$214,000 NPV @ 8.0%						
			50% of RR						
			\$23,000 NPV @ 8.0%						

TABLE 4

CASH FLOW ANALYSIS
EVERGREEN APARTMENTS
LONG BEACH, CALIFORNIA

	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19
I. Potential Gross Income											
Gross Residential Income	\$1,012,171	\$1,032,414	\$1,053,062	\$1,074,124	\$1,095,606	\$1,117,518	\$1,139,869	\$1,162,666	\$1,185,919	\$1,209,638	\$1,233,831
Miscellaneous Income	<u>10,252</u>	<u>10,457</u>	<u>10,666</u>	<u>10,880</u>	<u>11,097</u>	<u>11,319</u>	<u>11,545</u>	<u>11,776</u>	<u>12,012</u>	<u>12,252</u>	<u>12,497</u>
Total Potential Gross Income	\$1,022,423	\$1,042,871	\$1,063,729	\$1,085,003	\$1,106,703	\$1,128,837	\$1,151,414	\$1,174,442	\$1,197,931	\$1,221,890	\$1,246,328
(Less) Vacancy & Collection Allowance	<u>(51,121)</u>	<u>(52,144)</u>	<u>(53,186)</u>	<u>(54,250)</u>	<u>(55,335)</u>	<u>(56,442)</u>	<u>(57,571)</u>	<u>(58,722)</u>	<u>(59,897)</u>	<u>(61,094)</u>	<u>(62,316)</u>
Effective Gross Income	\$971,302	\$990,728	\$1,010,542	\$1,030,753	\$1,051,368	\$1,072,395	\$1,093,843	\$1,115,720	\$1,138,035	\$1,160,795	\$1,184,011
II. Operating Expenses											
General Operating Expenses	\$570,997	\$588,127	\$605,770	\$623,943	\$642,662	\$661,942	\$681,800	\$702,254	\$723,321	\$745,021	\$767,372
Property Taxes	<u>17,575</u>	<u>17,926</u>	<u>18,285</u>	<u>18,651</u>	<u>19,024</u>	<u>19,404</u>	<u>19,792</u>	<u>20,188</u>	<u>20,592</u>	<u>21,004</u>	<u>21,424</u>
Social Services	<u>50,671</u>	<u>52,191</u>	<u>53,757</u>	<u>55,369</u>	<u>57,030</u>	<u>58,741</u>	<u>60,504</u>	<u>62,319</u>	<u>64,188</u>	<u>66,114</u>	<u>68,097</u>
Replacement Reserves	<u>34,089</u>	<u>35,111</u>	<u>36,165</u>	<u>37,250</u>	<u>38,367</u>	<u>39,518</u>	<u>40,704</u>	<u>41,925</u>	<u>43,183</u>	<u>44,478</u>	<u>45,812</u>
Total Operating Expenses	\$673,331	\$693,355	\$713,977	\$735,213	\$757,083	\$779,605	\$802,799	\$826,685	\$851,284	\$876,617	\$902,705
III. Add: Operating Reserve	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IV. Net Operating Income	\$297,971	\$297,372	\$296,566	\$295,540	\$294,285	\$292,790	\$291,044	\$289,035	\$286,751	\$284,179	\$281,306
(Less) Annual Debt Service	<u>(257,685)</u>	<u>(257,685)</u>	<u>(257,685)</u>	<u>(257,685)</u>	<u>(257,685)</u>	<u>(257,685)</u>	<u>(257,685)</u>	<u>(257,685)</u>	<u>(257,685)</u>	<u>(257,685)</u>	<u>(257,685)</u>
Available Cash Flow	\$40,285	\$39,687	\$38,880	\$37,855	\$36,600	\$35,105	\$33,359	\$31,350	\$29,065	\$26,493	\$23,621
VII. Contingent Payments											
Deferred Developer Fee	\$40,285	\$39,687	\$38,880	\$37,855	\$36,600	\$35,105	\$33,359	\$31,350	\$29,065	\$26,493	\$23,621
Asset Management Fee	0	0	0	0	35,127	35,105	33,359	31,350	29,065	26,493	23,621
General Partner Fee	0	0	0	0	0	0	0	0	24,514	26,493	23,621
Total Contingent Payments	\$40,285	\$39,687	\$38,880	\$37,855	\$36,600	\$35,105	\$33,359	\$31,350	\$29,065	\$26,493	\$23,621
VIII. Residual Receipts											
LBHDC	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Developer	0	0	0	0	0	0	0	0	0	0	0

TABLE 4

CASH FLOW ANALYSIS
EVERGREEN APARTMENTS
LONG BEACH, CALIFORNIA

	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30
I. Potential Gross Income											
Gross Residential Income	\$1,258,507	\$1,283,677	\$1,309,351	\$1,335,538	\$1,362,249	\$1,389,494	\$1,417,283	\$1,445,629	\$1,474,542	\$1,504,033	\$1,534,113
Miscellaneous Income	12,747	13,002	13,262	13,527	13,798	14,074	14,355	14,642	14,935	15,234	15,539
Total Potential Gross Income	\$1,271,254	\$1,296,679	\$1,322,613	\$1,349,065	\$1,376,046	\$1,403,567	\$1,431,639	\$1,460,272	\$1,489,477	\$1,519,266	\$1,549,652
(Less) Vacancy & Collection Allowance	(63,563)	(64,834)	(66,131)	(67,453)	(68,802)	(70,178)	(71,582)	(73,014)	(74,474)	(75,963)	(77,483)
Effective Gross Income	\$1,207,692	\$1,231,845	\$1,256,482	\$1,281,612	\$1,307,244	\$1,333,389	\$1,360,057	\$1,387,258	\$1,415,003	\$1,443,303	\$1,472,169
II. Operating Expenses											
General Operating Expenses	\$790,393	\$814,105	\$838,528	\$863,684	\$889,594	\$916,282	\$943,770	\$972,084	\$1,001,246	\$1,031,283	\$1,062,222
Property Taxes	21,852	22,289	22,735	23,190	23,653	24,127	24,609	25,101	25,603	26,115	26,638
Social Services	70,140	72,244	74,412	76,644	78,943	81,312	83,751	86,264	88,852	91,517	94,263
Replacement Reserves	47,187	48,602	50,061	51,562	53,109	54,702	56,344	58,034	59,775	61,568	63,415
Total Operating Expenses	\$929,572	\$957,241	\$985,735	\$1,015,080	\$1,045,300	\$1,076,423	\$1,108,474	\$1,141,482	\$1,175,476	\$1,210,484	\$1,246,537
III. Add: Operating Reserve	\$0	\$0	\$0	\$0	\$0	\$719	\$6,103	\$11,910	\$18,158	\$24,866	\$32,053
IV. Net Operating Income	\$278,119	\$274,605	\$270,747	\$266,532	\$261,944	\$257,685	\$257,685	\$257,685	\$257,685	\$257,685	\$257,685
(Less) Annual Debt Service	(257,685)	(257,685)	(257,685)	(257,685)	(257,685)	(257,685)	(257,685)	(257,685)	(257,685)	(257,685)	(257,685)
VI. Available Cash Flow	\$20,434	\$16,919	\$13,062	\$8,847	\$4,259	\$0	\$0	\$0	\$0	\$0	\$0
VII. Contingent Payments											
Deferred Developer Fee	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Asset Management Fee	0	0	0	0	0	0	0	0	0	0	0
General Partner Fee	20,434	16,919	13,062	8,847	4,259	0	0	0	0	0	0
Total Contingent Payments	\$20,434	\$16,919	\$13,062	\$8,847	\$4,259	\$0	\$0	\$0	\$0	\$0	\$0
VIII. Residual Receipts	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
LBHDC	0	0	0	0	0	0	0	0	0	0	0
Developer	0	0	0	0	0	0	0	0	0	0	0

TABLE 4

CASH FLOW ANALYSIS
EVERGREEN APARTMENTS
LONG BEACH, CALIFORNIA

	Year 31	Year 32	Year 33	Year 34	Year 35	Year 36	Year 37	Year 38	Year 39	Year 40	Year 41
I. Potential Gross Income											
Gross Residential Income	\$1,564,795	\$1,596,091	\$1,628,013	\$1,660,573	\$1,693,785	\$1,727,661	\$1,762,214	\$1,797,458	\$1,833,407	\$1,870,075	\$1,907,477
Miscellaneous Income	15,849	16,166	16,490	16,820	17,156	17,499	17,849	18,206	18,570	18,942	19,320
Total Potential Gross Income	\$1,580,645	\$1,612,258	\$1,644,503	\$1,677,393	\$1,710,941	\$1,745,160	\$1,780,063	\$1,815,664	\$1,851,977	\$1,889,017	\$1,926,797
(Less) Vacancy & Collection Allowance	(79,032)	(80,613)	(82,225)	(83,870)	(85,547)	(87,258)	(89,003)	(90,783)	(92,599)	(94,451)	(96,340)
Effective Gross Income	\$1,501,613	\$1,531,645	\$1,562,278	\$1,593,523	\$1,625,394	\$1,657,902	\$1,691,060	\$1,724,881	\$1,759,378	\$1,794,566	\$1,830,457
II. Operating Expenses											
General Operating Expenses	\$1,094,089	\$1,126,911	\$1,160,719	\$1,195,540	\$1,231,406	\$1,268,349	\$1,306,399	\$1,345,591	\$1,385,959	\$1,427,537	\$1,470,364
Property Taxes	27,170	27,714	28,268	28,833	29,410	29,998	30,598	31,210	31,834	32,471	33,121
Social Services	97,090	100,003	103,003	106,093	109,276	112,554	115,931	119,409	122,991	126,681	130,482
Replacement Reserves	55,318	57,277	59,295	61,374	63,516	65,721	67,993	70,332	72,742	75,225	77,781
Total Operating Expenses	\$1,283,667	\$1,321,905	\$1,361,285	\$1,401,841	\$1,443,608	\$1,486,622	\$1,530,921	\$1,576,543	\$1,623,527	\$1,671,914	\$1,721,747
III. Add: Operating Reserve	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IV. Net Operating Income (Less) Annual Debt Service	\$217,945	\$209,739	\$200,992	\$191,682	\$181,786	\$171,279	\$160,139	\$148,338	\$135,852	\$122,652	\$108,710
Available Cash Flow	\$217,945	\$209,739	\$200,992	\$191,682	\$181,786	\$171,279	\$160,139	\$148,338	\$135,852	\$122,652	\$108,710
VII. Contingent Payments											
Deferred Developer Fee	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Asset Management Fee	0	0	0	0	0	0	0	0	0	0	0
General Partner Fee	217,945	209,739	200,992	191,682	181,786	171,279	160,139	148,338	135,852	122,652	108,710
Total Contingent Payments	\$217,945	\$209,739	\$200,992	\$191,682	\$181,786	\$171,279	\$160,139	\$148,338	\$135,852	\$122,652	\$108,710
VIII. Residual Receipts											
LBHDC	\$0	\$0	\$0	\$92,555	\$140,807	\$129,071	\$116,664	\$103,560	\$89,730	\$75,146	\$59,780
Developer	0	0	0	46,278	70,403	64,536	58,332	51,780	44,865	37,573	29,890
	0	0	0	46,278	70,403	64,536	58,332	51,780	44,865	37,573	29,890

TABLE 4

CASH FLOW ANALYSIS
EVERGREEN APARTMENTS
LONG BEACH, CALIFORNIA

	Year 42	Year 43	Year 44	Year 45	Year 46	Year 47	Year 48	Year 49	Year 50	Year 51	Year 52
I. Potential Gross Income											
Gross Residential Income	\$1,945,626	\$1,984,539	\$2,024,230	\$2,064,714	\$2,106,009	\$2,148,129	\$2,191,091	\$2,234,913	\$2,279,611	\$2,325,204	\$2,371,708
Miscellaneous Income	19,707	20,101	20,503	20,913	21,331	21,758	22,193	22,637	23,090	23,551	24,022
Total Potential Gross Income	\$1,965,333	\$2,004,640	\$2,044,733	\$2,085,627	\$2,127,340	\$2,169,887	\$2,213,284	\$2,257,550	\$2,302,701	\$2,348,755	\$2,395,730
(Less) Vacancy & Collection Allowance	(98,267)	(100,232)	(102,237)	(104,281)	(106,367)	(108,494)	(110,664)	(112,878)	(115,135)	(117,438)	(119,787)
Effective Gross Income	\$1,867,067	\$1,904,408	\$1,942,496	\$1,981,346	\$2,020,973	\$2,061,392	\$2,102,620	\$2,144,673	\$2,187,566	\$2,231,317	\$2,275,944
II. Operating Expenses											
General Operating Expenses	\$1,514,474	\$1,559,909	\$1,606,706	\$1,654,907	\$1,704,554	\$1,755,691	\$1,808,362	\$1,862,613	\$1,918,491	\$1,976,046	\$2,035,327
Property Taxes	33,783	34,459	35,148	35,851	36,568	37,299	38,045	38,806	39,582	40,374	41,181
Social Services	134,396	138,428	142,581	146,858	151,264	155,802	160,476	165,290	170,249	175,356	180,617
Replacement Reserves	90,415	93,127	95,921	98,799	101,763	104,816	107,960	111,199	114,535	117,971	121,510
Total Operating Expenses	\$1,773,068	\$1,825,923	\$1,880,356	\$1,936,415	\$1,994,149	\$2,053,607	\$2,114,843	\$2,177,908	\$2,242,857	\$2,309,747	\$2,378,635
III. Add: Operating Reserve	\$0	\$0	\$0	\$0	\$0	\$0	\$12,223	\$33,235	\$55,291	\$78,429	\$102,692
IV. Net Operating Income (Less) Annual Debt Service	\$93,998	\$78,485	\$62,140	\$44,931	\$26,824	\$7,785	\$0	\$0	\$0	\$0	\$0
VI. Available Cash Flow	\$93,998	\$78,485	\$62,140	\$44,931	\$26,824	\$7,785	\$0	\$0	\$0	\$0	\$0
VII. Contingent Payments											
Deferred Developer Fee	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Asset Management Fee	0	0	0	0	0	0	0	0	0	0	0
General Partner Fee	50,398	51,910	53,468	44,931	26,824	7,785	0	0	0	0	0
Total Contingent Payments	\$50,398	\$51,910	\$53,468	\$44,931	\$26,824	\$7,785	\$0	\$0	\$0	\$0	\$0
VIII. Residual Receipts											
LBHDC	\$43,600	\$26,575	\$8,673	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Developer	21,800	13,287	4,336	0	0	0	0	0	0	0	0
	21,800	13,287	4,336	0	0	0	0	0	0	0	0

TABLE 4

CASH FLOW ANALYSIS
EVERGREEN APARTMENTS
LONG BEACH, CALIFORNIA

	Year 53	Year 54	Year 55
I. Potential Gross Income			
Gross Residential Income	\$2,419,142	\$2,467,525	\$2,516,875
Miscellaneous Income	<u>24,503</u>	<u>24,993</u>	<u>25,493</u>
Total Potential Gross Income	\$2,443,645	\$2,492,518	\$2,542,368
(Less) Vacancy & Collection Allowance	<u>(122,182)</u>	<u>(124,626)</u>	<u>(127,118)</u>
Effective Gross Income	\$2,321,463	\$2,367,892	\$2,415,250
II. Operating Expenses			
General Operating Expenses	\$2,096,387	\$2,159,278	\$2,224,057
Property Taxes	42,005	42,845	43,702
Social Services	186,035	191,616	197,365
Replacement Reserves	<u>125,155</u>	<u>128,910</u>	<u>132,777</u>
Total Operating Expenses	\$2,449,583	\$2,522,650	\$2,597,901
III. Add: Operating Reserve	\$128,120	\$154,758	\$14,507
IV. Net Operating Income	\$0	\$0	(\$168,144)
(Less) Annual Debt Service	<u>0</u>	<u>0</u>	<u>0</u>
VI. Available Cash Flow	\$0	\$0	(\$168,144)
VII. Contingent Payments			
Deferred Developer Fee	\$0	\$0	\$0
Asset Management Fee	0	0	0
General Partner Fee	<u>0</u>	<u>0</u>	<u>0</u>
Total Contingent Payments	\$0	\$0	\$0
VIII. Residual Receipts	\$0	\$0	(\$168,144)
LBHDC	0	0	12,987,959
Developer	0	0	(168,144)