

## ATTACHMENT "A"

### THE CLASSICS AT LAMANDA PARK

#### KEY TERMS AND CONDITIONS OF OWNER PARTICIPATION LOAN AGREEMENT (the "OPLA") (OCTOBER 26, 2007)

##### **I. Developer/Owner Entity**

- A) Developer is Community Builders Group, LLC ("CBG"), a California limited liability company, or any business organization formed or controlled by CBG to act as the developer under the OPLA (the "Developer").
- B) Developer shall have the right, without City consent, to assign its interests and obligations under the OPLA to a third party owned or controlled by Developer; and shall have the right to assign such interests and obligations to an unrelated third party provided that City consents to such assignment.

##### **II. Scope of Development**

- A) The Developer shall construct at 2490 Mohawk Street and 97 & 105 South Altadena Drive. (the "Subject Property") a mixed income 18 unit multi-family rental complex (the "Development").
- B) The Development shall consist of a total of 18 affordable units as described in Paragraph A of Section VIII.
- C) Where feasible, all ground floor units shall be handicapped accessible and incorporate "universal design" standards for handicapped accessibility. Developer may satisfy this requirement by providing for handicapped ingress and egress of ground floor units without developing interior handicapped features such as lowered or raised countertops and toilets, etc.
- D) The Development shall be designed and built in such a manner that provides for amenities suitable for families (e.g., play areas for children), subject to the availability of open space and recreational areas.
- E) The Development shall be designed in accordance with all applicable City codes, including the General Plan.
- F) The Development shall comply with the City's design review process. Developer shall furnish Housing and Community Development staff with concept plans, 50% design documents, and 100% design documents. Developer shall retain authority over final design of the Development, subject to any requirements that may be imposed under the City's design review process.
- G) The Development shall provide 31 on-site subterranean parking spaces subject to other parking standards as may be required by the City.

### **III. Zoning and Land Use Requirements; Environmental Review**

- A) Developer shall take all necessary actions to ensure the Development conforms to applicable zoning and General Plan requirements, including the conditions of approval for any land use entitlements, all environmental mitigation measures and other related requirements. City shall cooperate with Developer to secure all required zoning and land use entitlements.
- B) The Developer shall have prepared all studies and reports necessary to secure CEQA clearance for the Development. Developer shall bear costs of all required environmental studies, surveys, and tests.

### **IV. Site Control**

Developer owns the Subject Property as tenants in common with a third party. The Subject Property has an estimated value of approximately \$2.465 million.

### **V. City Financial Assistance; Other Financing**

- A) City Loan amount shall not exceed \$3,000,000 (Inclusionary Housing Trust Fund - \$1,950,000; State Local Housing Trust Fund Program - \$1,050,000) and may be reduced if Developer is able to obtain other below market-rate financing and/or grants.
- B) City Loan shall be secured by a deed of trust recorded against the Subject Property.
- C) City Loan proceeds shall be applied for certain costs incurred by Developer in connection with the Development. Key provisions of the City Loan include the following:
  - 1) An amount not to exceed \$1.6 million ("Acquisition Portion") may be expended to enable Developer to purchase the interest in the Subject Property currently owned by a third party, so as to enable the Developer to be sole owner of the Subject Property, and to pay Developer and its investor for equity invested and its return on equity for the Subject Property. This portion would be disbursed shortly after execution of the OPLA, upon satisfaction of conditions precedent of:
    - i. submission of documentation reasonably acceptable to the City, detailing the actual purchase price of the Subject Property when acquired in 2005, actual holding costs incurred since acquisition and the remainder as profit, along with the parties to whom such amounts are paid;
    - ii. execution of the promissory note, and execution and recordation of the deed of trust and covenant agreement;
    - iii. receipt by City of a commitment for a lender's policy of title insurance showing Developer as the sole owner of fee title to the Subject Property and the City's covenant agreement and deed of trust in first and second position, respectively; and
    - iv. any other conditions precedent mutually acceptable to the parties.
  - 2) An amount not to exceed \$1.4 million ("Construction Portion") may be disbursed for

construction expenses. These funds shall be disbursed after the Developer secures all other required funding for the Development, upon satisfaction of the City's typical conditions precedent for disbursement of financial assistance. These proceeds shall be disbursed to Developer upon City receipt and approval of invoices for specified eligible expenses associated with the Scope of Development.

- 3) City Loan proceeds shall not be applied towards developer fees and general, administrative, or other "overhead" costs.
- D) The City Loan shall be for a term of 55 years, and accrue 3% simple interest. In the event Developer has completed its obligations under the OPLA in accordance with the Schedule of Performance and in compliance with all OPLA terms, and has maintained and operated the Development in accordance with the OPLA for a period of ten (10) years following Certificate of Completion (the "Interest Forgiveness Date"), repayment of any accrued interest on the City Loan shall be forgiven on that date. At that point, the remaining principal balance of the City Loan shall again commence to accrue 3% interest. If Developer has continued to operate and maintain the development in accordance with the OPLA and all related conditions the accrued interest outstanding as of the maturity date shall be forgiven.
- E) The City Loan, principal and interest, shall be repaid from a portion of the residual receipts for a period of forty-five (45) years, commencing on the Interest Forgiveness Date. It is assumed that the State MHP, as a proposed gap lender ("Gap Lender"), will require, at the most, 50% of the residual receipts. The amount used by the Gap Lender is defined as "Gap Lender Share." The remaining residual receipts (100% less Gap Lender Share), will be shared equally amongst the City and the Developer. By way of example only, if the total amount of residual receipts is \$100.00, and if the Gap Lender Share is 15.4%, then the Gap Lender will receive \$15.40 and the City and the Developer will each receive \$42.30. The City is not a Gap Lender for purposes of this calculation. The City's share will be used to service principal and interest on the City Loan as described above. Upon maturity all unpaid principal and accrued interest (unless forgiven) shall be due and payable. The City Loan, principal and interest, shall be due and payable upon refinance or sale of the Subject Property, unless otherwise agreed to by the City.
- F) The City acknowledges that the liens securing its loan and covenants affecting use of the Subject Property may be subordinate to all institutional debt, as may be required by the lenders. Any such subordination shall not occur until after all conditions for disbursement of the Construction Portion of the City Loan are satisfied.
- G) The Developer shall submit to the City a financing plan to secure other funding as necessary to fully finance the Development. In addition, Developer shall submit to City copies of its funding applications, including but not limited to: California Debt Limit Allocation Committee - Tax Exempt Bond Financing; California Tax Credit Allocation Committee - 4% Tax Credit Financing, and 4) California Department of Housing and Community Development - Multifamily Housing Program and/or other funds as may be required. The City shall assist Developer in securing other financing for the Development.

H) Project Financing

- The Project total development budget is:

Total Construction Related Costs	\$5,271,210
Total Financing Costs	\$520,000
Total Soft Costs & Developer Fee	\$1,043,500
Total Capitalized Reserves	\$215,000
Total Land (Acquisition) Costs	\$2,465,000

**Total Development Costs** **\$9,514,710**

- Developer estimated “sources and uses” accounting for the construction financing are:

Proposed Sources

Tax-Exempt Construction Loan	\$5,000,000
Tax Credit Equity During Construction	\$2,184,710
General Partner Contribution	\$865,000

**Total Construction Sources** **\$8,049,710**

Proposed Uses

Hard Construction Costs	\$3,548,583
Contractor Fees and Contingency	\$897,627
Professional Fees and Permits	\$825,000
Financing Costs	\$520,000
Partial Developer Fee	\$200,000
Soft Costs	\$243,500
Capitalized Reserves	\$215,000
Acquisition of Land & Buildings (partial)	\$1,600,000

**Total Construction Uses** **\$8,049,710**

- Developer estimated “sources and uses” accounting for the permanent project financing are:

Proposed Permanent Sources

Tax-Exempt Housing Revenue Bonds	\$1,468,459
Tax Credit Equity	\$2,313,742
General Partner Contribution	\$865,000
Deferred Developer Fee	\$368,000
City of Pasadena	\$3,000,000
Estimate of “Green” Incentives	\$100,000
Estimate of Fee Waivers	<u>\$66,000</u>
<i>Subtotal</i>	<b>\$8,181,201</b>

*Proposed Sources – Remaining Gap*  
*California Multifamily Housing Program* **\$1,333,509**

**Total Proposed Permanent Sources** **\$9,514,710**

Proposed Permanent Uses

Hard Construction Costs	\$3,548,583
Contractor Fees and Contingency	\$897,627
Professional Fees and Permits	\$825,000
Financing Costs	\$520,000
Developer Fee	\$800,000
Soft Costs	\$243,500
Capitalized Reserves	\$215,000
Acquisition of Land & Buildings	\$2,465,000

**Total Proposed Sources** **\$9,514,710**

**VI. Schedule of Performance**

The Developer shall comply with all performance elements including securing tax exempt bonds, tax credits and all other required financing upon execution of OPLA and in accordance with the Schedule of Performance. This performance dates set forth in the Schedule of Performance may be extended for any period of *force majeure* (i.e., occurrence necessitating delay outside Developer's control). In addition, a 6-month extension may be granted at the discretion of the Housing and Community Development Administrator.

**VII. Marketing Plan**

Within the limitations of applicable laws, the Developer shall target marketing and advertising efforts toward persons displaced from other housing developments supported by the City or the Pasadena Community Development Commission. Developer shall also select tenants in accordance with the Pasadena Local Preference And Priority System Guidelines.

**VIII. Rental Housing Covenant**

A) The 18 dwelling units in the Development shall be subject to City restrictions specified in a Rental Housing Covenant ("City Covenant"). The restrictions shall include rent and income limits, and non-discrimination provisions, among other things. City shall monitor the Developer's compliance with the City Covenant.

Of the 18 dwelling units in the Development, 15 units shall be restricted pursuant to the City Covenant for occupancy by very low and extremely low income households (7 units @ 50% of area median income; 8 units @ 30%-50% of area median income) for which income and rents shall not exceed Affordable Housing Rent limits. In addition, Developer may designate the remaining 3 units for occupancy by workforce-income households subject to income and rent levels under City's Workforce Housing Guidelines; provided that in the event the Development is not financially feasible the 2 workforce-income units shall be restricted for low-income household units. City acknowledges that more restrictive income criteria may be imposed by other financing sources secured by the Developer.

- B) City Covenant shall run with the land for 55 years for units designated for occupancy by very low and low-income households and 20 years for units designated for occupancy by workforce-income households (121% to 150% of AMI). Developer may elect to rent units designated for workforce-income households up to 180% of AMI after the 20<sup>th</sup> year.

**IX. Equal Employment Opportunity/Affirmative Action**

Developer shall comply with City's EEO/AA policies.

**X. First Source Local Hiring**

Developer shall also comply with City of Pasadena First Source Local Hiring program, Title 14, Chapter 14.80 to the Pasadena Municipal Code.

**XI. Insurance; Indemnity**

- A) Developer shall comply with all applicable City insurance requirements.
- B) Developer agrees to and shall indemnify the City from and against all claims and expenses arising from or in connection with the Developer's and/or their lessees, use of the Subject Property or performance of the obligations under the terms of the OPLA.

**XII. Property Management**

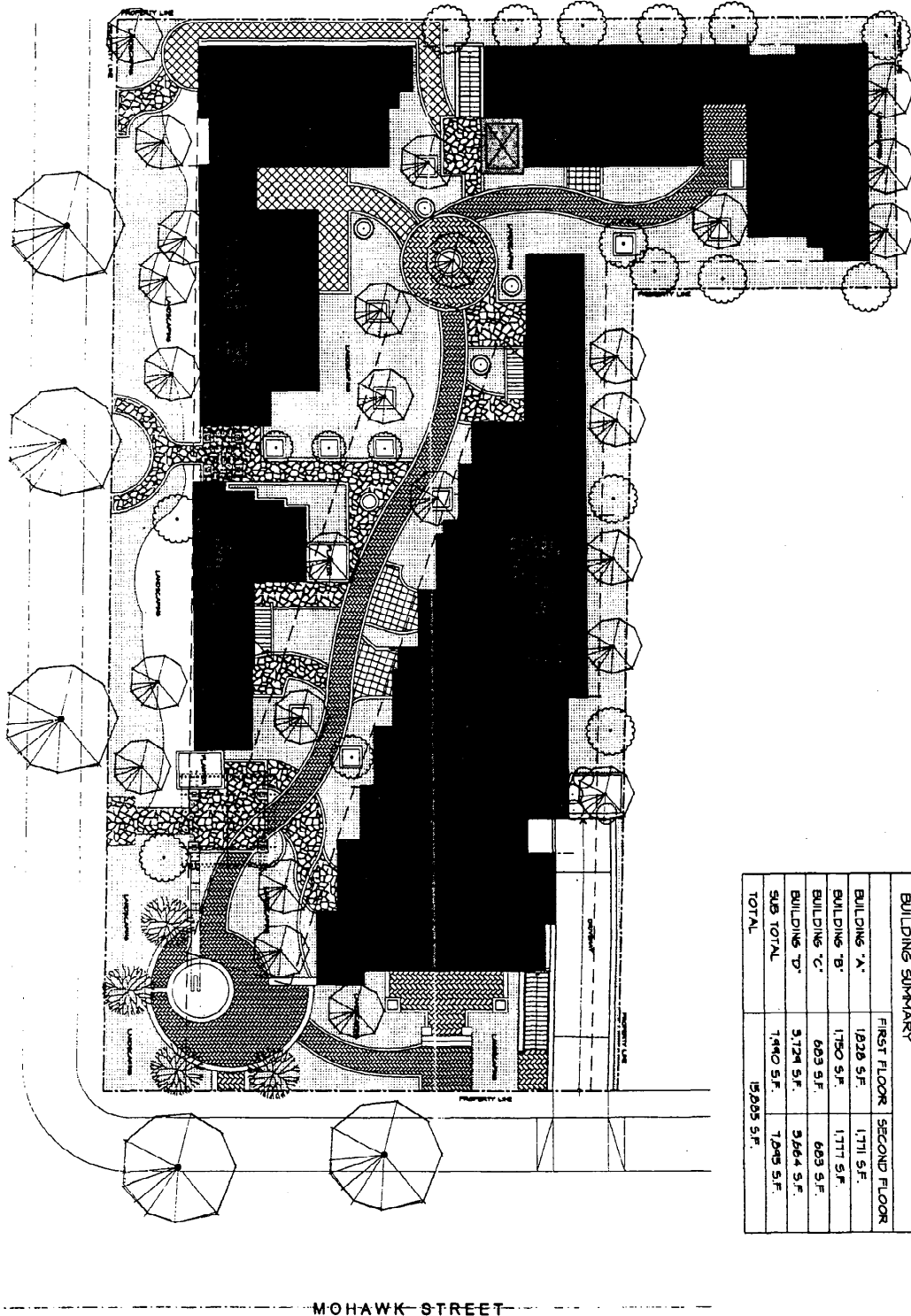
- A) Developer shall be the property manager for the Development or contract out property management to a firm approved by the City. Developer shall submit a Management Plan for the Development to the Housing and Community Development Administrator for approval at the time Developer submits its tax credit application to the state.

**XIII. Payment of Taxes**

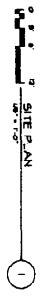
The Developer shall make all property tax payments as assessed by the Los Angeles County Assessor.

# ATTACHMENT "B"

## SITE PLAN THE CLASSICS AT LAMANDA PARK



BUILDING SUMMARY		
	FIRST FLOOR	SECOND FLOOR
BUILDING 'A'	1,828 S.F.	1,771 S.F.
BUILDING 'B'	1,750 S.F.	1,777 S.F.
BUILDING 'C'	603 S.F.	603 S.F.
BUILDING 'D'	5,724 S.F.	3,664 S.F.
SUB TOTAL	11,908 S.F.	7,748 S.F.
TOTAL	19,656 S.F.	



ALTADENA DRIVE

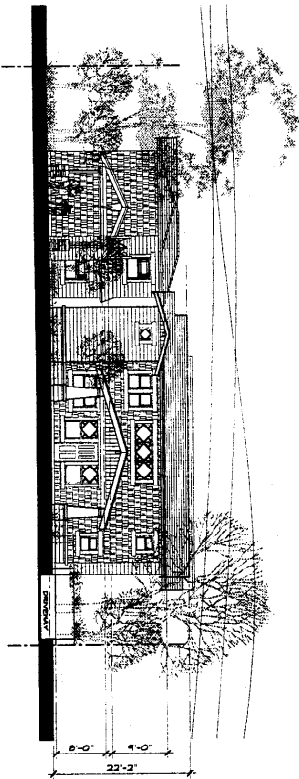
MOHAWK STREET

SEPTEMBER 27, 2007

	TITLE: SITE PLAN	PROJECT NAME: <b>THE CLASSIC AT LAMANDA PARK</b> 18 UNITS AFFORDABLE HOUSING 2480 MOHAWK AVENUE PASADENA, CALIFORNIA CBG COMMUNITY BUILDERS GROUP, LLC.	ARCHITECT:  2280 Highland Avenue, Los Angeles, 90027 323.266.7166 323.266.7166 FAX	REVISIONS: NO. DESCRIPTION DATE BY
	SHEET NO. A2.01	SCALE AS SHOWN	DATE: 09/27/07	DRAWN BY:

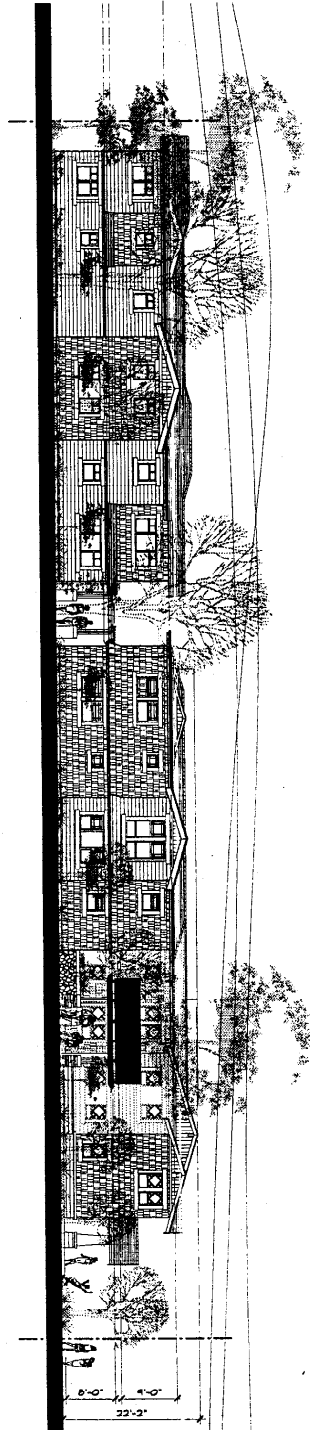
1/8" = 1'-0" MOHAWK STREET ELEVATION

1



1/8" = 1'-0" AYADENA DRIVE ELEVATION

2



SEPTEMBER 27, 2007

10301  
 SHEET NO.  
 DATE: 09/27/07  
 SCALE: AS SHOWN



TITLE:  
**STREET ELEVATIONS**

PROJECT NAME:  
**THE CLASSIC AT LAMANDA PARK**  
 18 UNITS AFFORDABLE HOUSING  
 2490 MOHAWK AVENUE PASADENA, CALIFORNIA  
 91106  
 CBG COMMUNITY BUILDERS GROUP, LLC.

Architect  
**BIRBA GROUP**  
 2580 Aganapan Avenue, Los Angeles 90027  
 310.444.7768 310.444.7666 FAX

REVISIONS									
NO.	DATE	DESCRIPTION							



**ATTACHMENT "C"**  
**FINANCIAL ANALYSIS**

**EXECUTIVE SUMMARY**

**Review of "The Classics at Lamanda Park – Affordable Rental Project"**

**City of Pasadena**

**REVISED 10-22-2007**

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Springsted has been retained by the City of Pasadena, California, (the "City"), to review the financing proposal for the development of affordable housing units, proposed by Community Builders Group (CBG). The development will consist of 18 total housing units, with 15 or 83% restricted to incomes at a maximum of 50% AMI (area median income) and 3 or 17% restricted to incomes at a maximum of 150% AMI. The total development cost to complete construction of a mix of 2 and 3 bedroom units is \$9,514,710. CBG has requested \$3,000,000 from the City of Pasadena. The project has an estimated gap of \$1,333,509 for which CBG will make application to the State MHP.

Springsted examined material provided by the City of Pasadena (Key Terms and Conditions, Owner Participation Loan Agreement dated September 27, 2007 (version 4)) and CBG (Project Summary, Project Costs, Summary Rent Schedule, Debt Schedules, and Operating Pro Forma, construction pro forma). In addition, we examined projected application guidelines for the proposed gap source, State MHP.

Springsted examined the proposed costs of the project and the operating assumptions for reasonableness. We include minor comments that do not overtly affect the projected outcomes.

Springsted prepared a 55-year operating pro forma that calculates annual net operating income, payment on the institutional debt (tax-exempt bond), payment of any deferred developer fees and calculation of residual receipts. A portion of the residual receipts are used to service the City's loan of \$3,000,000, and to repay the State MHP (proposed gap source). The City's loan shall be secured by the completed development and may be subordinate to all institutional debt. The State has indicated they would not subordinate their security position to the City.

Based on the proposed City Loan terms, the City will forgive deferred interest totaling \$895,152 in Year 10. Beginning in Year 11, the City's share of the residual receipts will be used to service principal and interest. The projections indicate that not until Year 46 (2055) will the City begin to retire principal on their loan (this is when all accrued interest has been paid). This results in repayment of principal to the City of \$949,488 through maturity of the loan, with \$2,050,512 due at loan maturity. Furthermore, the projections indicate the State MHP will not recover any loan principal during their loan term. CBG will be responsible to pay \$1,694,785 (accrued interest and entire principal) at loan maturity. Even though the City will receive a greater share of residual receipts than the State MHP, the State will precede the City in a security position. The value of the project at year 30 is insufficient to fully repay the City's loan, accrued interest and principal, when the State has a primary lien position. Not until year 39 (without additional institutional debt) does the value of the project equal the outstanding debt (accrued interest and principal due to both the State and the City).

**EXECUTIVE SUMMARY – Page 2**

**Review of “The Classics at Lamanda Park – Affordable Rental Project”**

**City of Pasadena**

**REVISED 10-22-2007**

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Springsted offers the following conclusions as a result of our analysis:

- With a City commitment of \$3,000,000 (plus green incentives and fee waivers) CBG needs to secure the additional resources necessary to build the 18 units as envisioned by the City.
- The City and CBG should agree upon a financing structure that is flexible on repayment terms until the gap financing source is identified, to ensure the City is in the best security position possible as to repayment and default.
- The City should examine the terms of repayment and determine an objective for cash flow. Terms that forgive interest reduce the repayment opportunity, although these terms help the project's viability. The currently agreed to sharing formula does not repay the City significant principal during the loan term, and would pay even less if the interest was not forgiven. The State MHP source does not allow any interest forgiveness. This difference creates a superior repayment position for the State, but as already stated, helps the project's long-term viability.
- If desirable, the City's loan should match, to the greatest extent possible, those terms afforded to the State MHP or other gap lender. Including determining a process for sharing cash flow for repayment in the short and long-terms alike
- A mix of affordability helps increase cash flow to the project.



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**REVISED 10-22-2007**

**Review of "The Classics at Lamanda Park – Affordable Rental Project"  
City of Pasadena**

**Purpose**

Springsted has been retained by the City of Pasadena, California, (the "City"), to review the financing proposal for the development of affordable housing units in eastern area of the City on the northeast corner of Altadena Drive and Mohawk Street, proposed by Community Builders Group (CBG).

The material we have utilized to complete our review includes:

- City of Pasadena Key Terms and Conditions, Owner Participation Loan Agreement dated September 27, 2007 (version 4);
- CBG provided material dated 8/15/2007 – Project Summary, Project Costs, Summary Rent Schedule, Debt Schedules, and Operating Pro Forma (revised verbally);
- CBG provided construction pro forma dated 7/17/2007 (revised verbally); and
- Notice of Funding Availability (NOFA) from California Multifamily Housing Program (MHP) - release date 8/22/2007.

**Project Description**

The proposed project involves the redevelopment of an approximately three acre residential site. The project includes the demolition of vacant single family homes and the new construction of underground parking with residential units above. The development will consist of 18 total housing units, with 15 or 83% restricted to incomes at a maximum of 50% AMI (area median income) and 3 or 17% restricted to incomes at a maximum of 150% AMI.

**Developer Description**

The proposing developer is Community Builders Group LLC ("CBG"). A real estate development company based in Pasadena founded in 1999. An entity controlled by CBG is the owner of record of the property, purchased in 2005 for \$1,250,000. CBG has completed a variety of affordable housing projects in California, Arizona and Hawaii, to name a few.

**Proposed Financing Structure**

The total development cost to complete construction of a mix of 2 and 3 bedroom units is \$9,514,710. This total cost includes \$2,465,000 for the land acquisition based on a recently completed appraisal by Noble R. Tucker Jr., MAI, SEA, on behalf of CBG. CBG has requested the City to contribute \$3,000,000 in loan proceeds to finance \$1,600,000 of the acquisition and to contribute \$1,400,000 toward the construction of the project. CBG will apply for an allocation of tax exempt housing revenue bonds that include automatic 4% tax credits. Assuming a permanent tax exempt bond size of \$1,468,459, tax credit equity of \$2,313,742, general partner contribution of \$865,000, a deferred developer fee of \$368,000, and green incentives and waiver of fees totaling \$166,000, a \$1,333,509 gap will remain. CBG will make an application through the State of California - Multifamily Housing Program to fill the remaining gap. The application will be made early next year when a new NOFA (Notice of Funding Availability) is announced. We continue the remainder of this report under the assumption the gap is filled by State MHP funding.

**Affordable Description**

The City will require 15 of the 18 units to be affordable at or below 50% AMI (low income units). Additionally, eight (8) of the 15 will include rental subsidies increasing the cash flow to the project. The City will commit five (5) as project based Section 8 (HUD) and three (3) as Supportive Housing through the Federal McKinney program. The income restrictions of these eight units will range from 30% to 50% AMI, and are estimated to settle at 35% in order to maximize the request to the State MHP. The remaining seven (7) of the 15 units will be restricted to 50% AMI; and the remaining three (3) of the 18 units will be restricted to incomes at or below 150% AMI (workforce units). The table below outlines the proposed unit and affordability mix. The units with the Section 8 vouchers and Supportive Housing subsidies will collect total rental income at the fair market rent level.

**TABLE A: PLANNED RENTAL STRUCTURE**

Income Level	2 BR / 1 BA Unit	3 BR / 2 BA Unit	Total Units
35% of AMI (with Section 8 Voucher)	3	2	5
35% of AMI (with Supportive Housing)	2	1	3
50% of AMI	6	1	7
150% of AMI (workforce units)	1	2	3
<b>Total Units</b>	<b>12</b>	<b>6</b>	<b>18</b>

**TABLE B: ESTIMATED RENTAL RATES**

Rent Levels	2 BR / 1 BA		3 BR / 2 BA		Low Income Units
	Max Rent	Net Rent *	Max Rent	Net Rent *	
35% of AMI (Section 8 FMR)	\$1,300	\$1,212	\$1,746	\$1,647	
35% of AMI (Supportive Hsg)FMR	\$1,300	\$1,212	\$1,746	\$1,647	
50% of AMI	\$832	\$744	\$961	\$862	
150% of AMI (workforce)	\$2,227	\$2,227	\$2,472	\$2,472	

\* The net rent subtracts an estimated amount attributed to tenant paid utilities. \$88 for the 2 bedroom units and \$99 for the 3 bedroom units for gas, electric and water

The unit and rent combination described in Tables A and B produces gross rental income of \$23,498 per month or \$281,976 in the first year.

**Financing Application Timing**

CBG has prepared a “Subsidy Finance Action Plan” that details the planned application dates and anticipated availability of funds for the non-city sources. The specifics as submitted with verbal modifications are shown in the table below:

**TABLE C: SUBSIDY FINANCE ACTION PLAN**

Funding Source	Application Date	Anticipated Decision	Anticipated Closing	Requested Amount	
Tax Exempt Housing Revenue Bonds	February, 2008	May, 2008	August, 2008	\$1,468,459	1)
4% Tax Credits	Simultaneous with Tax Exempt Bonds	May, 2008	August, 2008	\$2,313,742	2)
State Multifamily Housing Program	January, 2008	April, 2008	June, 2008	\$1,333,509	

- 1) Permanent amount, see description below for interim requirements
- 2) The 4% Tax Credits are automatic with an allocation of tax exempt bonds and therefore the timing shown above matches that of the tax exempt bonds.

The above schedule would result in construction commencing in August, 2008. The anticipated completion timeline is approximately 18 months with planned occupancy occurring in January, 2010.

**Financing Assumptions**

The City's \$3,000,000 loan will be partly used for acquisition and partly for construction. The City plans for \$1,600,000 of the total to be used to repay the investors involved in the 2005 acquisition provided proper documentation accounting for what is included in the \$1.6M is submitted in advance to the City (i.e., actual purchase price, holding costs, return to investors, etc.). The planned tax exempt bond financing requires a minimum of 50% of the adjusted “eligible basis” to be financed with bond proceeds (IRC § 42(h)(4)). The “eligible basis” is the amount of all depreciable development costs that may be included in the calculation for low income housing tax credits. Eligible depreciable costs include hard construction costs and many soft costs, such as architectural and engineering fees, interim financing costs, etc. This rule results in CBG applying for a tax exempt bond allocation significantly greater than the income supports (over-issuance). This practice is common in areas with high construction costs, compared to the area incomes. The resulting bonds from the temporary over-issuance will be repaid with City of Pasadena funds as well as proposed State MHP funds. The repayment will occur upon construction completion. Additionally, the \$1,600,000 of the City of Pasadena funds will be repaid upon the bond issuance, and then re-loaned upon construction completion, along with the remaining \$1,400,000. The total estimated tax exempt bond allocation is \$5,000,000 for construction as detailed below.

**Construction Period Budget**

\$8,049,710 of the total \$9,514,710 is needed for construction. The additional \$1,465,000 is comprised of \$865,000 for land value and \$600,000 of the developer fee, to be paid post-construction. The financing of the \$8,049,710 is estimated as follows:

Proceeds from Construction Loan ( <i>tax-exempt bonds</i> )	\$5,000,000
Tax Credit Equity during construction	\$2,184,710
General Partner Contribution:	<u>\$865,000</u>
<b>Total Sources</b>	<b>\$8,049,710</b>

The repayment of the \$5,000,000 construction period loan, \$865,000 general partner contribution, and \$232,000 of the non-deferred portion of the developer fee will include the following:

Permanently Issued Tax Exempt Bonds	\$1,468,459
Tax Credit Equity after stabilization	\$129,032
City of Pasadena	\$3,000,000
State MHP	\$1,333,509
City of Pasadena "Green" Funds	\$100,000
City of Pasadena Waiver of Fees	<u>\$66,000</u>
<b>Total Sources</b>	<b>\$6,097,000</b>

The remaining contribution by the General Partner (CBG) will be in the form of appreciated land value (\$1.6M paid out, appraised at \$2.465M, difference of \$865,000).

**Detailed Project Sources and Uses – TABLE D**

	Amount	% Total
<b>Uses</b>		
<b>Acquisition</b>	<b>\$2,465,000</b>	<b>26%</b>
<b>Hard Costs</b>		
Building Shell	\$2,370,703	25%
On-Site	\$963,720	10%
Off-Site	\$214,160	2%
Contingency (10% of above hard costs)	\$354,858	4%
Contractor Fees (Overhead, Profit, Gen. Req.)	\$466,819	5%
Permit fees	\$350,000	4%
Permit Fee Contingency	\$75,950	1%
Architectural and Engineering	\$475,000	5%
<b>Total Hard Costs</b>	<b>\$5,271,210</b>	<b>55%</b>
<b>Soft Costs</b>		
Developer Fee	\$800,000	8%
Financing & Other Soft Costs	\$763,500	8%
<b>Total Soft Costs</b>	<b>\$1,563,500</b>	<b>16%</b>
Reserves (Rent-up & Operating)	\$85,000	1%
Transition Reserve	\$130,000	1%
<b>Total Uses</b>	<b>\$9,514,710</b>	<b>100%</b>

	Amount	% Total
<b>Sources (Permanent)</b>		
Tax-Exempt Bonds	\$1,468,459	15%
Tax Credit Equity	\$2,313,742	24%
General Partner Contribution	\$865,000	9%
City of Pasadena	\$3,000,000	32%
City of Pasadena Green Incentives	\$100,000	1%
City of Pasadena Waiver of Fees	\$66,000	1%
State MHP Funds (the "Gap")	\$1,333,509	14%
Deferred Developer Fee	\$368,000	4%
<b>Total Sources</b>	<b>\$9,514,710</b>	<b>100%</b>

The costs of the project were reviewed as follows:

- Hard construction costs of \$3.3M were examined and compared to "RSMeans Square Foot Costs – 2006 Edition." Further, discussion with CBG determined that they used various contractors' current costs on similar projects to gauge the estimated costs for the project. The estimated project costs are deemed appropriate at this juncture, without material changes to the size and functions of the proposed buildings.
- A 10% contingency is included as well which meets standards for a new construction project.
- The budgeted permit fees are estimated by the City at \$350,000 which includes a 9% cushion for fees based on construction costs not yet finalized. CBG believes the fees may total up to \$425,950, and the City requested the difference of \$75,950 to be shown as a contingency.
- The architecture fees are based on industry standards;
- Developer fee – the proposal is for \$432,000 of the total \$800,000 fee to be paid at closing (with no more than \$200,000 paid during construction) and for \$368,000 to be deferred and paid from project cash flow at an interest rate of 6%. The \$800,000 developer fee is less than the maximum allowed under the tax credit program, and at 9% of the total costs (excluding the fee) is a reasonable fee for this type of project.
- The financing costs and other soft costs are reasonable amounts to assume this early in the financing process. All financing costs should be examined for appropriateness when the completed sources are all identified.
- The reserve deposits are reasonable. The operating reserve is approximately equal to 3 months of operating costs plus debt service. The transition reserve is required by the State MHP program. This amount is calculated to replace lost rental revenue if the Section 8 and Federal McKinney rental subsidies are not reinstated. The transition reserve allows for two years of rental support calculated at the value of the subsidy, and assumes eight (8) units occupied by persons with incomes at 35% AMI.

#### **City Preliminary Financing Requirements**

Based on the Key Terms and Conditions of the Owner Participation Loan Agreement ("OPLA"), the City will loan up to \$3,000,000 as follows: \$1,600,000 for acquisition and \$1,400,000 for construction (after award of allocation of Tax

Exempt Bonds and CBG has secured all other required funding). The loan proceeds cannot be used to pay developer fees and general, administrative or other "overhead" costs.

Again, based on the Key Terms and Conditions of the OPLA, the loan is expected to have a term of 55 years as follows:

- Simple interest at a fixed rate of 3.0% accrues from the date of loan disbursement;
- If CBG has performed under the OPLA from construction through a period of 10 years from certificate of completion, repayment of any accrued interest shall be forgiven;
- From this date forward, the loan will be repaid as to principal and interest through residual receipts (defined in the next bullet), for the remaining 45 year term.
- A portion of the residual receipts will not be used to service the City loan, and based on the above costs and financing is 15.4%, calculated as follows:  $\frac{1}{2}$  of  $(1,333,509 / (1,333,509 + 3,000,000))$ . This is the amount that will be used to service the State MHP loan.
- The remaining percent (again based on the above costs and financing) of 84.6% will be shared equally amongst CBG and the City. Therefore, 42.3% of the residual receipts will be used to service the City loan as to principal and interest. The City Loan, principal and interest, shall be due and payable upon refinance or sale of the Subject Property, unless otherwise agreed to by the City.
- At loan maturity, any outstanding principal is due and payable, and accrued interest shall be forgiven if CBG has operated and maintained the project according to terms within the OPLA.
- The loan shall be secured by the completed development and may be subordinate to all institutional debt. The State has indicated they would not subordinate their security position to the City.

### **Operating Cash Flow**

The maximum rents described above for the 15 low-income units are for incomes reported by the U.S. Department of Housing and Urban Development (HUD) in March of 2007. HUD updates the incomes each year at approximately the same time. The maximum rent will be established at the time the tenant occupies the unit, and will adjust each year thereafter. The income of the tenant will be examined to determine if it is less than applicable maximum (30% to 50% of AMI) based on the family size. The maximum rent will be determined based on the number of bedrooms in the unit itself. The maximum rent will be 30% of the imputed income for the number of bedrooms in the unit. The maximum rent is inclusive of any tenant paid utilities. Currently, the estimated tenant paid utilities are set at the estimated maximum. A reduction in tenant paid utilities will increase the allowable net rents collected and the projected income. The maximum rents and incomes for the workforce units are set by the City of Pasadena, and will be annually updated.



The proposed funding mechanisms require the following income and rent restrictions:

**TABLE E: ESTIMATED INCOME AND RENT RESTRICTIONS**

Source	Income Served	# of Persons per Bedroom	Family Size		Rent Restrictions
			2 BR Units	3 BR Units	
City of Pasadena	30% - 50% AMI	1.5	3	4.5	Annual Affordable Housing Rent Limits
State Multifamily Housing Program	35% - 50% AMI	1.5	3	4.5	Published annually by State based on HUD data
Tax Credit/Tax-Exempt Bonds	The above limits meet the tax credit and tax-exempt bond threshold				
City of Pasadena – Workforce Housing Guidelines	Up to 150% AMI				Workforce Housing Income Limits, Sales Prices, Rental Rates (quoted current as of 7/10/2007)

CBG projects additional income from vending and late payments at \$20 per unit per month. The total first year gross income is \$286,296. A 5% vacancy is applied resulting in an effective gross income for the first year of \$271,981. Although a vacancy factor is necessary, the City believes demand will be very high and 100% occupancy will be easily achieved. Revenues are expected to increase at 2.5% per year, as required by the State Multifamily Housing Program underwriting guidelines.

The following expenditure assumptions have been utilized by CBG:

- Operating expenses of \$3,400/unit;
- Management Fee of 5% of effective gross income;
- Property taxes of \$25,000 – 1.25% of estimated appraised value;
- Replacement reserve deposits of \$450 per unit; and
- Expenditures inflate 3.5% annually.

The above expenditures when subtracted from the effective gross income result in a net operating income of \$164,082.

The operating assumptions presented by CBG are reasonable, for the most part. The property tax amount should not inflate at 3.5% per year based on Proposition 13 and related legislation and further, CBG indicated that for most of their other affordable projects, a flat \$25,000 may be more appropriate. The attached pro forma inflates the property tax at 2% per year. If CBG brings in a non-profit partner for this project (to increase the scoring potential in the application for State MHP funds), efforts should be made to reduce the project's property tax liability by establishing the non-profit corporation as the managing partner. The replacement reserve may need to be sized at \$650 per unit

per State MHP underwriting standards (an additional operating cost of \$3,600), but could be done through capitalization of funds. Furthermore, additional deposits to the operating reserve should be shown at a level equal to inflationary increases of the operating costs (\$3,780) to ensure full funding (3 months of operating costs plus debt service) if withdrawals are needed due to insufficient cash flow.

### **Debt Service Assumptions**

We have prepared an operating pro forma that assumes debt service based on the tax exempt bond issue. The principal amount is \$1,468,459, amortized over a 30 year term at a 6% interest rate. This results in annual debt service of \$105,650. Annual asset management fees are then subtracted (\$5,000 to the limited partner and \$12,000 to the general partner). The debt is sized in order to repay the deferred developer fee at a 6% rate by the end of the 10<sup>th</sup> year. However, the proposed State MHP program requires a minimum annual payment of 0.42% of the outstanding principal balance (equals \$5,601 for \$1,333,509 of principal). This minimum amount is deducted prior to repayment of the deferred developer fee.

We have estimated the available cash flow to service debt for the City and State MHP based on the following assumptions:

- CBG's pro forma of revenues and expenses;
- Repayment of Developer fee occurs during the first ten years, with no funds due on the City loan, and with only the minimum payment on the State MHP loan;
- Beginning in Year 11, the State MHP loan receives its share of 50% of the residual receipts, based on the total soft funds (City's \$3M plus State MHP amount of \$1,333,509), amounts to total of 15.4% of residual receipts; and
- City and CBG split remainder of residual receipts, which amounts to 42.3% to City for servicing their loan, and 42.3% to CBG for their use.

The attached 55-year operating pro forma projects the City will forgive deferred interest totaling \$895,152 in Year 10. Beginning in Year 11, the City's share of the residual receipts will be used to service principal and interest. However, the projections indicate insufficient revenue to pay the interest when due, which shall accrue until all is repaid through loan maturity. The projections indicate that not until Year 46 (2055) will the City begin to retire principal on their loan (this is when all accrued interest has been paid). This results in repayment of principal to the City of \$949,488 through maturity of the loan. The outstanding balance of \$2,050,512 will be due and payable at loan maturity. Although the projections don't show any unpaid accrued interest at loan maturity, the City agrees to forgive any provided the terms of the OPLA are met. Furthermore, the projections indicate the State MHP will not recover any loan principal during their loan term. CBG will be responsible to pay any accrued interest and all of the principal at loan maturity. This amount is projected to be \$1,694,785. Together with the City loan, the total resources necessary at loan maturity (55-years) is \$3,745,297.

### City Risk Profile

We have assumed the following for the financing and security relative to the City's \$3,000,000 loan:

- \$1,600,000 loaned to remove 3<sup>rd</sup> party entity from land, security is land itself with an appraised value of \$2,465,000 (154% Loan to Value).
- Once CBG has secured all the financing for the complete project, the City's amount will be repaid by construction period financing of tax exempt bonds (in order to meet the 50% requirement discussed in "Financing Assumptions" on page 3).
- Upon construction completion and during lease-up, the permanent financing will occur whereby the full \$3,000,000 will be committed by the City. The security for the City's loan will be the project itself, behind the institutional lender (tax-exempt bonds) and the State MHP source.
- The estimated value of the project, based on the first year's NOI is approximately \$2.5M (utilizing a 6.5% capitalization rate).
- Based on the project maintaining all units affordable for a 55-year period, the value is projected to increase to \$4.56M by year 30 when the institutional debt matures (tax-exempt bonds), and to \$7.13M when the City and State loans mature.
- Even though the City will receive a greater share of residual receipts than the State MHP, the State will precede the City in a security position.
- The value of the project at year 30 is insufficient to fully repay the City's loan, accrued interest and principal, when the State has a primary lien position. Not until year 39 (without additional institutional debt) does the value of the project equal the outstanding debt (accrued interest and principal due to both the State and the City).

The risk prior to construction is minimal with the loan fully collateralized by the land. There is risk during construction even though the bonds will fund the construction costs because it is likely that the City's loan agreement will be assigned and/or pledged to repay the construction financing. Most of the risk in almost any project is during the construction phase – this project is no different. The risk is that the project will not be completed after construction has started, but we can assume that CBG is likely to complete the project having placed significant collateral at risk. The construction contingency of 10% helps mitigate any potential for cost overruns. Any payments to CBG other than overhead costs during construction should be withheld until construction is complete. The City should consider requiring performance guarantees backed with a performance bond to further mitigate this risk.

The City's repayment risk for their loan with interest during a 55-year term is high. The projected cash flow available to service the City's loan does not begin to retire principal until Year 46; furthermore, this repayment assumes no additional institutional debt is necessary beyond the initial 30-year term (there is a high likelihood that rehabilitation of the units will need to occur, which again, will likely require additional hard debt). However, the City is protected in that any refinance of the institutional debt, or sale of the property containing the project requires the principal of their loan to be repaid, along with any outstanding interest. A very likely scenario will be the procurement of additional tax-exempt housing revenue bonds in order to financially maintain the affordability requirements of the project. However, the City is at a disadvantage in their collateral position regarding the State MHP loan. The State will not forgive any interest or principal for their loan and this liability will erode the City's collateral position.

Although the Key Terms and Conditions of the OPLA indicate a revenue sharing mechanism to repay the secondary debt of the project, the City should annually examine the operation and maintenance of the project, especially if significant cash flow to CBG is not reinvested in the project.

### **Overall Risk Profile**

The greatest amount of risk for both parties, CBG and the City, will be during the pre-development stage and construction stage. Once the project is completed, there is little likelihood that cash flow would be reduced and inhibit the project's ability to pay the institutional debt. However, the likelihood that revenues would increase at the same pace as expenditures is low, resulting in reduced ability to pay subordinate debt through cash flow alone. As stated above, the long-term viability of the project is critical to providing repayment to subordinate lenders, through the sale and/or refinancing of the project.

### **City Considerations – Issuer of Tax Exempt Housing Revenue Bonds**

It is anticipated that the City of Pasadena will be requested to issue the tax exempt housing revenue bonds to finance the proposed housing project. The following is the general process to consider:

- 1) Application for the Issuance of Bonds is submitted to the Issuer (additionally, application for the federal tax exempt bond allocation is made through the State of California-SDLAC);
- 2) Staff and financial advisor analyze the merits of the application and make a determination to recommend for or against issuing;
- 3) Elected governing body considers adopting Resolution of Intent (to issue bonds) which allows for both the issuer and applicant to move ahead in good faith. (Resolution is generally deemed to be valid for one year)
- 4) Applicant determines whether bonds will be sold in a public offering or private placement and usually selects either the underwriter or the institution for the private placement (could be a bank, insurance company, mutual fund, etc.).
- 5) Applicant works with bond counsel, financial advisor (if one is utilized), to structure and document the deal, including drafting Official Statement (used in public offering) or Private Placement Memorandum, draft the Bond Indenture/Trust Agreement, Loan or Lease Document and related legal documents (1-2 months)
- 6) Usually during step 5, but sometimes after step 5 is completed, a TEFRA public hearing is conducted by the Issuer. Published Notice in local paper is required a couple of weeks before the hearing occurs.
- 7) In California, the applicant must file a Notice with the State Treasurer's office detailing the transaction and participants at least 45 days before the issue is sold.
- 8) Sale of bonds is completed establishing interest rates and terms/conditions/covenants etc, subject to Issuer passing final bond ordinance or bond resolution.

- 9) Issuer passes bond ordinance or resolution.
- 10) Several days or weeks later, the bond issue is closed and proceeds are deposited with the Trustee Bank and the funds are invested in permitted investments during the construction period.
- 11) Within 30 days after closing, all the final bond details are required to be filed with the State Treasurer.

### **Conclusions**

Springsted offers the following conclusions as a result of our analysis:

- With a City commitment of \$3,000,000 (plus green incentives and fee waivers) CBG needs to secure the additional resources necessary to build the 18 units as envisioned by the City.
- The City and CBG should agree upon a financing structure that is flexible on repayment terms until the gap financing source is identified, to ensure the City is in the best security position possible as to repayment and default.
- The City should examine the terms of repayment and determine an objective for cash flow. Terms that forgive interest reduce the repayment opportunity, although these terms help the project's viability. The currently agreed to sharing formula does not repay the City significant principal during the loan term, and would pay even less if the interest was not forgiven. The State MHP source does not allow any interest forgiveness. This difference creates a superior repayment position for the State, but as already stated, helps the project's long-term viability.
- If desirable, the City's loan should match, to the greatest extent possible, those terms afforded to the State MHP or other gap lender. Including determining a process for sharing cash flow for repayment in the short and long-terms alike
- A mix of affordability helps increase cash flow to the project.

A 55-year operating pro forma is included on the following three pages





**The Classics at Lamanda Park**  
**Mixed Income Project (15 Affordable Units at 60% AMI and 3 Workforce Units at 150% AMI)**  
 Springsted Prepared Pro Forma - October 4, 2007

Year	# of Units	2005												2006												2007											
		41	42	43	44	45	46	47	48	49	50	51	52	53	54	55																					
<b>REVENUES</b>		\$131,171	\$134,450	\$137,811	\$141,267	\$144,748	\$148,208	\$152,118	\$155,921	\$159,519	\$163,514	\$167,910	\$172,107	\$176,410	\$180,920	\$185,341																					
Supportive Housing Unit (50% AMI)	3	\$17,008	\$175,988	\$190,295	\$194,803	\$199,438	\$204,170	\$209,000	\$208,087	\$214,315	\$219,972	\$225,184	\$230,786	\$236,804	\$242,477	\$248,777																					
MHP Units 50% AMI	7	\$23,290	\$228,872	\$234,694	\$240,488	\$246,170	\$252,132	\$258,448	\$265,022	\$271,868	\$278,990	\$286,400	\$294,110	\$302,130	\$310,460	\$319,100																					
Section 8 Units (50% AMI)	5	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0																					
60% AMI	6	\$231,065	\$236,831	\$242,752	\$248,821	\$255,042	\$261,418	\$268,052	\$274,940	\$282,081	\$289,478	\$297,130	\$305,037	\$313,193	\$321,600	\$326,475																					
Workforce Units (150%)	3	\$788,725	\$787,841	\$787,040	\$787,331	\$787,820	\$788,508	\$789,395	\$790,482	\$791,769	\$793,256	\$794,943	\$796,830	\$798,917	\$801,204	\$803,691																					
Other Income (per unit per month)	\$20																																				
Gross Income																																					
Less Vacancy																																					
Effective Gross Income		\$730,287	\$748,544	\$767,263	\$786,438	\$806,100	\$826,253	\$846,898	\$868,032	\$889,744	\$912,128	\$935,292	\$959,240	\$984,063	\$1,008,766	\$1,033,349																					

Year	2005	2006	2007
<b>EXPENSES</b>			
Operating	\$242,307	\$250,787	\$258,855
Management Fee	\$36,514	\$37,427	\$38,333
Property Taxes (inc. 2%)	\$55,201	\$56,306	\$57,411
Replacement Reserves	\$32,070	\$33,192	\$34,354
Total Expenses	\$366,092	\$377,712	\$386,713
Net Operating Income	\$364,195	\$370,832	\$377,644

Year	2005	2006	2007
<b>Calculation of Debt Service</b>			
Net Operating Income (Year 1)	\$184,082		
Term	30		
Interest Rate	6.00%		
Coverage (Locked Into)	7.65		
Principal Amount of Bonds	\$1,488,450		
Debt Service (Tax Exempt Bonds)		\$360,832	\$360,832
Cash Flow After Perm Debt	\$364,195	\$370,832	\$377,644
Less Asset Management Fee to LP			
Less Asset Management Fee to GP			
Cash Flow After Perm Debt & Asset Mgmt	\$364,195	\$370,832	\$377,644

Year	2005	2006	2007
<b>Minimum Payment (MHP/State Loan) 6.4%</b>			
Cash Flow After NHP Minimum Payment	\$347,195	\$353,832	\$360,544
Deferred Developer Fee Principal \$28,000			
Interest Rate 6.00%			
Interest Principal			
Cumulative Principal Paid			
Cash Flow After Developer Fee (Residual Receipts)	\$347,195	\$353,832	\$360,544
City of Pasadena (Cash Flow to Loan)			
Principal Amount	\$3,000,000		
Interest Rate	3.00%		
Ratio	42.3%		
Interest Accrued			
Principal			
Cumulative Principal Paid			
Outstanding Balance			
State MHP (Cash Flow to Loan)			
Principal Amount	\$1,332,619		
Interest Rate	3.81%		
Ratio	15.4%		
Interest Accrued			
Principal			
Cumulative Principal Paid			
Outstanding Balance			
Net Cash Flow After Subordinated Debt Ratio			

Year	2005	2006	2007
Net Cash Flow After Subordinated Debt	\$148,888	\$149,098	\$152,638
Ratio	42.3%		