STAFF REPORT

CITY OF YORBA LINDA AND THE SUCCESSOR AGENCY TO THE YORBA LINDA REDEVELOPMENT AGENCY

Administration Department

DATE: **MARCH 21, 2017**

TO: **HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL**

FROM: **PAMELA STOKER, ECONOMIC DEVELOPMENT MANAGER**

SUBJECT: **SECOND AMENDMENT TO THE AFFORDABLE HOUSING AGREEMENT WITH NATIONAL COMMUNITY RENAISSANCE FOR SAVI RANCH II PROJECT (OAKCREST HEIGHTS)**

RECOMMENDATION

It is recommended that the City Council acting as the Housing Successor Entity to the Yorba Linda Redevelopment Agency ("City Council") approve the Second Amendment to the Affordable Housing Agreement between the City and National Community Renaissance ("National CORE") for the Oakcrest Heights (Savi Ranch II) project and provide the City Manager the authority to execute all ancillary documents associated with the Second Amendment.

BACKGROUND

On June 4, 2013, the City Council adopted Resolution No. 2013-5194 approving an Affordable Housing Agreement ("AHA") with National CORE for the construction of a 54-unit affordable rental project located at the southeast corner of Eastpark Drive and Oakcrest Circle, known as Oakcrest Heights in Savi Ranch. A total of 53 of the 54 units will be restricted to extremely low and very low income residents, for which previous documents, including the original AHA and First Amendment, further define the various funding programs, tenant qualifications, site amenities, etc. that pertain to this residential project.

The City entered into the AHA to provide financial assistance in the form of a residual receipts loan to National CORE for the acquisition of the Savi Ranch II site. The loan amount was initially \$3.5 million, but was subsequently reduced down to \$2.42 million as a result of new funds sources and reallocations of funding between Oakcrest Terrace and Oakcrest Heights.

In addition to the \$2.42 million City loan, National CORE secured financing for the full \$26 million project through a conventional loan, two Orange County sponsored fund sources including Mental Health Services Act (MHSA) funds and Affordable Housing Program (AHP) monies. However, the primary source of financing was achieved by successfully securing 9% tax credits in June of 2016 through a competitive process with the California Tax Credit Allocation Committee (TCAC). The award provided nearly a $15 million investment towards the development of the Oakcrest Heights project.

The tax credit investors were prepared to buy the credits for $1.11 per credit, but as a result of possible federal corporate tax reform under the new presidential administration, the equity market experienced a major downturn and many investors changed their minds and pulled out of the intended investments, including the investors for Oakcrest Heights. This delayed the closing of the financing which was scheduled for December 2016. In addition, a Citibank loan commitment expired at the end of the year. Both of these occurrences created a $3.69 million gap in financing the project.

Although a new tax credit investor has come forward at a lower purchase price of $.94 per credit, the gap still needs to be closed in order to proceed with the project. As such, the developer has applied for approximately $1.64 million in additional funding through the MHSA program to secure eight (8) project based vouchers under the Section 8 program. With limited fund sources available and time constraints in utilizing the funding that has already been awarded, National CORE is requesting the City's financial participation be increased with a $2 million loan in order to close the gap and have the Oakcrest Heights development begin construction.

DISCUSSION

National CORE submitted a letter to the City on January 27, 2017 (Attachment B), explaining their unique situation and requesting the City's help in increasing the original loan amount on the Oakcrest Heights project.

The City has already provided a $2.42 million acquisition loan to assist National CORE in purchasing the site in 2013. The request is now to increase that original loan by another $2 million for construction costs and apply the following loan terms to the full loan amount.

City Loan Amount	***Interest Rate***	***Term***	***Residual Receipt Annual Payment***
$4.42 million	3% simple interest	55 year term	27.5%

As normal and standard practice, the City staff requested a complete and full financial analysis on the project to be prepared by Keyser Marston Associates (KMA). The City has utilized KMA in the past to help review certain project proformas and provide a recommendation to the Council as to whether the City's financial participation is truly warranted and necessary in order for the project to proceed. KMA obtained project information, including details on all funding sources, anticipated project costs, operating expenses and revenues, affordability levels and determined if the associated proforma fell within the industry norm. The KMA analysis of the Oakcrest Heights project was recently completed and is included as part of this agenda item as Attachment C.

The analysis concluded that "due to unforeseen market conditions ... the proposed loan terms appear to be reasonable and typical for an affordable housing project with similar funding sources".

Additionally, it should be noted that the City's total financial contribution would equate to $81,800 per unit, which is deemed to be an acceptable and necessary government subsidy for extremely low and very low income units requiring gap financing. The per unit amount is consistent with past subsidies the former Yorba Linda Redevelopment Agency considered and approved for other affordable housing projects in the city.

The Oakcrest Heights project is considered a "shelf–ready" project, since the tax credits have been secured, loans approved, and all building permits for the project have been issued. Therefore, based upon the KMA analysis and the current readiness status of the Oakcrest Heights project, staff would recommend the City Council agree to increase the City's loan amount and approve the Second Amendment to the AHA.

FISCAL IMPACT

The intended funding source for the additional $2 million loan would be from the Low-Moderate Income Housing Asset Fund (LMIHAF). Although this fund does not currently have sufficient monies deposited to fully fund the added loan amount, the recent settlement with the State Department of Finance ensures that housing restricted monies will be released to the City through future Recognized Obligation Payment Schedule (ROPS) disbursements. It is anticipated that approximately $5 million is expected to be deposited into the Successor Agency's Housing Asset Fund over the next 12-18 months. The developer is aware of delayed availability of these funds and is able to postpone the loan draw until LMIHAF's become available.

The LMIHAF is the result of the redevelopment dissolution process and mimics the former 20% Set-Aside Housing Fund, which is established specifically for the purpose of pursuing the City's affordable housing goals. The already housing restricted fund has even more legislative limitations on its expenditures now that redevelopment has dissolved that confine how cities may ultimately spend these monies.

Pursuant to SB341, and found in Section 34176.1 of the California Health & Safety Code, cities are required to allocate at least 30% of its LMIHAF monies toward the development of affordable rental housing that specifically assists extremely low and low income households. This Income Test is applied cumulatively over a five year period. Additionally, SB341 requires cities to report as the number of deed-restricted housing attributed to senior citizens. The Senior Housing Test is retroactive to the prior 10 years for which cities may not provide financial assistance to senior projects if there are more than 50% of the affordable rental units already restricted to low-moderate income seniors.

The new $2 million loan increase must address and comply with the limitations of SB341. The KMA analysis completed both the Income Test and Senior Housing Test, and found this project to be eligible for LMIHAF expenditure

ALTERNATIVES

The Council may choose not to approve the proposed AHA amendment and recommend that National CORE attempt to pursue other forms of possible financing. Under this alternative, the Council should expect that alternate financing may not be feasible and that the project may not be able to proceed.

ATTACHMENTS

1. Attachment A - Second Amendment to the Affordable Housing Agreement with National CORE for Savi Ranch II project
2. Attachment B - National CORE letter of request, dated January 27, 2017
3. Attachment C - Financial Gap Analysis prepared by Keyser Marston Associates, dated March 15, 2017

Approved by:

Mark A. Pulone
City Manager

Certified as to Fiscal Impacts:

Scott Catlett
Finance Director

Exhibit "A"

Second Amendment to the Affordable Housing Agreement

SECOND AMENDMENT TO AFFORDABLE HOUSING AGREEMENT
(Savi Ranch Phase II)

BY AND BETWEEN

THE CITY OF YORBA LINDA, ACTING AS THE HOUSING SUCCESSOR ENTITY TO THE YORBA LINDA REDEVELOPMENT AGENCY

AND

NATIONAL COMMUNITY RENAISSANCE OF CALIFORNIA,
a California nonprofit public benefit corporation

[DATED AS OF MARCH __, 2017, FOR REFERENCE PURPOSES ONLY]

SECOND AMENDMENT TO AFFORDABLE HOUSING AGREEMENT
(Savi Ranch Phase II)

THIS SECOND AMENDMENT TO AFFORDABLE HOUSING AGREEMENT (Savi Ranch Phase II) ("**Second Amendment**") is dated as of April __, 2017, for reference purposes only, and is entered into between the **CITY OF YORBA LINDA**, acting as the Housing Successor Entity to the Yorba Linda Redevelopment Agency pursuant to Health and Safety Code Section 34176 (the "**City**") and **NATIONAL COMMUNITY RENAISSANCE OF CALIFORNIA,** a California nonprofit public benefit corporation (the "**Developer**").

RECITALS

A. On or about June 4, 2013, Developer and City entered into that certain Affordable Housing Agreement (the "**Original Phase II AHA**") for the acquisition and development of approximately 3.2 acres, more or less, of unimproved (vacant) real property for a 54-unit affordable rental housing project with specified amenities ("**Phase II**") located within the area of the City commonly known as "**Savi Ranch**," at the Southeast Corner of Eastpark Drive and Oakcrest Circle, identified as APN 352-117-13 (the "**Phase II Property**"). The Phase II Property is more particularly described in the legal description attached in Exhibit A to the Original Phase II AHA and incorporated herein by this reference.

B. Among other provisions, the Original Phase II AHA provided for City to provide to Developer a loan in an amount not to exceed Three Million Five Hundred Forty Thousand Four Hundred Thirty-Four Dollars ($3,540,434) (the "**Phase II City Acquisition Loan**") to assist Developer in acquiring the Phase II Property upon satisfaction of specified conditions. The Phase II City Acquisition Loan was to be comprised of Three Million Sixty Thousand One Hundred Sixty-Three Dollars ($3,060,163) reallocated from an affordable housing development to be developed within Savi Ranch at 22744 Eastpark Drive, Yorba Linda, California, and commonly known as "**Phase I**" (the "**Phase I Excess Loan Proceeds**") and Four Hundred Eighty Thousand Two Hundred Seventy-One Dollars ($480,271) from funds to be repaid to City from Developer's refinancing of its "**Arbor Villas**" affordable housing project.

C. On or about June 17, 2014, Developer and City entered into that certain First Amendment to Affordable Housing Agreement for Phase II (the "**Phase II AHA First Amendment**"), pursuant to which Developer and City agreed, among other things, to reallocate a portion of the Phase I Excess Loan Proceeds, in the amount of One Million Six Hundred Twenty Thousand Dollars ($1,620,000), back to Phase I for purposes of assisting Developer to obtain nine percent (9%) competitive federal tax credits from the California Tax Credit Allocation Committee for Phase I, thereby reducing the portion of the Phase I Excess Loan Proceeds allocated to Phase II to One Million Four Hundred Forty Thousand One Hundred Sixty-Three Dollars ($1,440,163).

D. The Original Phase II AHA, as amended by the Phase II AHA First Amendment is hereinafter referred to as the "**Phase II AHA**."

E. At the closing of the Arbor Villas refinance in the Fall of 2014, City's outstanding Arbor Villas loan was Two Hundred Ninety-Five Thousand One Hundred Fifty-Eight Dollars ($295,158).

F. In September, 2016, Savi Ranch Housing Partners, L.P., the owner/developer of Savi Ranch Phase I obtained a loan of funds from the Federal Home Loan Bank Affordable Housing Program in the amount of Six Hundred Eighty Thousand Dollars ($680,000) (the "**Savi Ranch I AHP Loan**") reducing the loan amount needed from City for Savi Ranch Phase I.

G. As a result of the reallocation of a portion of the Phase I Excess Loan Proceeds to Savi Ranch Phase I, as described in Recital C above, the Arbor Villas refinance, as described in Recital E above, and the Savi Ranch I AHP Loan, as described in Recital F above, as of the date of this Second Amendment, the total amount of the Phase II City Acquisition Loan is Two Million Four Hundred Fifteen Thousand Three Hundred Twenty-One Dollars ($2,415,321), all portions of which have been disbursed, or deemed to have been disbursed, to Developer.

H. After the 2016 Presidential election, the pricing for federal tax credits substantially declined, in anticipation of future corporate tax reforms. As a result of the declining prices, the original tax credit investor pulled out of Phase II. The delay in Phase II caused a subordinate loan commitment from Citibank to expire. Developer has identified a new tax credit investor, but now faces a funding gap of approximately Three Million Six Hundred Ninety Thousand Dollars ($3,690,000).

I. Developer has applied for, and anticipates receiving (i) One Million Six Hundred Forty Thousand Dollars ($1,640,000) in additional funding from Orange County Community Services, to be allocated towards the fourteen (14) Mental Health Services Act units at Phase II, and (ii) eight (8) project-based Section 8 vouchers.

J. Developer has requested that City provide additional financial assistance in the amount of Two Million Dollars ($2,000,000).

K. City anticipates receiving certain deposits of funds into its Low and Moderate Income Housing Asset Fund (the "**LMIHAF**") pursuant to Health and Safety Code section 34191.4(b)(2)(C), in connection with the repayment of certain loans entered into between City and the former Yorba Linda Redevelopment Agency (the "**LMIHAF Deposits**"). Use of the LMIHAF Deposits is subject to the requirements in Health and Safety Code section 34176.1.

L. City is willing to provide Developer additional financial assistance out of the LMIHAF Deposits in the amount of Two Million Dollars ($2,000,000) (the "**Phase II City Construction Loan**"), to be used for costs incurred by Developer in developing sixteen (16) units at Phase II restricted for Extremely Low Income Households (the "**ELI Component of the Project**"), in accordance with the terms and conditions of this Second Amendment.

NOW, THEREFORE, in furtherance of the Recitals stated above, incorporated herein by this reference, and the mutual covenants set forth below, Developer and City hereby amend the Phase II AHA and agree, promise and declare as follows:

1. Defined Terms. All capitalized terms used in this Second Amendment shall have the same meanings ascribed thereto in the Phase II AHA, unless otherwise defined herein. As used in this Second Amendment, the term "Developer" shall mean and refer to National Community Renaissance of California, a California nonprofit public benefit corporation ("**National CORE**"), until such time as National CORE has assigned the Phase II AHA, as amended by this Second Amendment, and all other documents and amendments executed by National CORE in connection with the Phase II AHA to Savi Ranch II Housing Partners, L.P., a California limited partnership (the "**Partnership**"), pursuant to an assignment and assumption agreement approved by City in accordance with the Phase II AHA, and after such assignment, the term "Developer" shall mean and refer to the Partnership.

2. Phase II City Construction Loan. Subject to the terms and conditions in this Second Amendment, City agrees to loan to Developer the Phase II Construction Loan. City's obligation to disburse to Developer any portion of the Phase II Construction Loan shall be subject to the satisfaction, or waiver by City in its sole and absolute discretion, of each and all of the following conditions:

(a) Developer shall have executed and delivered to City an Amended and Restated Promissory Note in a form approved by the City Attorney that (i) replaces, in its entirety, the Developer Note, and (ii) evidences and sets forth repayment terms for the Phase II City Acquisition Loan and Phase II City Construction Loan, on substantially similar repayment terms as are set forth in the Developer Note (the "**Amended and Restated Developer Note**");

(b) Developer shall have executed, with signature(s) notarized, and delivered to City a modification to the City Deed of Trust, which was recorded in the Official Records of Orange County on August 6, 2013, as Instrument No. 2013-000467065, in a form approved by the City Attorney to reflect that repayment of the Amended and Restated Developer Note is secured by the City Deed of Trust (the "**Modification**");

(c) Developer and executed, with signature(s) notarized, and delivered to City an amendment to the Regulatory Agreement, which was recorded in the Official Records of Orange County on August 6, 2013, as Instrument No. 2013-00046706, that updates the affordability mix set forth in the Regulatory Agreement (the "**Regulatory Agreement Amendment**");

(d) City shall have received LMIHAF Deposits in an amount sufficient to cover the disbursement request;

(e) Developer shall have closed on all of its Phase II financing;

(f) Developer is not in material default of any term or condition of the Phase II AHA, the Amended and Restated Developer Note, the City Deed of Trust, as amended by the Modification, the Regulatory Agreement, as amended by the Regulatory Agreement Amendment, or this Second Amendment.

Provided all of the conditions set forth in subparagraphs (a) – (f) above have been satisfied, or waived by City in its sole and absolute discretion, Developer may draw down portions of the Phase II City Construction Loan by providing a disbursement request to City after timely completing a portion of the ELI Component of the Project, in a form approved by the City, to the City Manager. Within five (5) days after receipt of a complete disbursement request, City shall make a determination of whether such request is in compliance with the terms hereunder. Within twenty-five (25) days after the City Manager determines that a request is in compliance with the terms hereunder, the City Manager, or his or her designee, shall, subject to the last sentence in this paragraph, disburse the amount requested less a five percent (5%) retention. All requests for payment shall include written evidence of previously paid or pending invoices, such as receipts or invoices from the vendor, and shall also include written evidence that the invoices are for actual development costs that have been incurred as a result of development of the ELI Component of the Project. All requests for payment shall include conditional lien releases covering the work to be reimbursed or paid. Notwithstanding anything herein to the contrary, (i) with the exception of the final disbursement, Developer shall not request disbursements in increments of less than Two Hundred Thousand Dollars ($200,000); and (iii) Developer shall not be entitled to disbursement of the five percent (5%) retention until Developer submits to City unconditional lien releases for all work comprising Phase II.

3. Source of Phase II City Construction Loan Funds. Developer acknowledges and agrees that (i) the sole source of funding for the Phase II City Construction Loan shall be LMIHAF Deposits, and (ii) the LMIHAF Deposits necessary to fund the Phase II City Construction Loan are anticipated to be deposited into the LMIHAF over the course of several years, and it is probable that some or all of the Phase II City Construction Loan will not be disbursed to Developer until long after construction of the ELI Component of the Project has been completed and such units have been rented to Extremely Low Income Households.

4. Use of Phase II City Construction Loan Funds. Notwithstanding anything herein to the contrary, the Phase II City Construction Loan funds shall be allocated to and expended by Developer solely on the ELI Component of the Project.

5. Revised Affordability Mix. The definition of "Prescribed Rent Levels and Tenant Mix" set forth in Section 1.1.107 of the Phase II AHA is hereby replaced, in its entirety, with the following:

> 1.1.107 **Prescribed Rent Levels and Tenant Mix**. All of the following: (a) seven (7) one-bedroom Dwelling Units, all of which shall be available at Affordable Rent and occupied by Extremely Low Income Households; (b) two (2) one-bedroom Dwelling Units, all of which shall be available at Affordable Rent and occupied by 45% Very Low Income Households; (c) seven (7) two-bedroom Dwelling Units, all of which shall be at Affordable Rent and occupied by Extremely Low Income Households; (d) seven (7) two-bedroom Dwelling Units, all of which shall be at Affordable Rent and occupied by 45% Very Low Income Households; (e) ten (10) two-bedroom Dwelling Units, all of which shall be at Affordable Rent and occupied by 50% Very Low Income Households; (f) three (3) two-bedroom Dwelling Units, all of which shall be at Affordable Rent and occupied by Lower Income Households; (g) two (2) three-bedroom Dwelling Units, all of which shall be at Affordable Rent and occupied by Extremely Low Income Households; (h) six (6) three-bedroom Dwelling Units, all of which shall be at Affordable Rent and occupied by 45% Very Low Income Households; (i) six (6) three-bedroom Dwelling Units, all of which shall be at Affordable Rent and occupied by 50% Very Low Income

Households; (j) three (3) three-bedroom Dwelling Unit, which shall be at Affordable Rent and occupied by Lower Income Households; and (k) one (1) manager's unit, which shall not be subject to the affordability restrictions set forth in this Agreement.

6. Notice of Affordability Restrictions. Concurrently with City's recordation of the Regulatory Agreement Amendment, City shall execute and record an Amended and Restated Notice of Affordability Restrictions on Transfer of Property, in a form approved by the City Attorney, that replaces the Notice of Affordability Restrictions on Transfer of Property recorded on August 6, 2014, as Instrument No. 2013-000467067 (the "**Notice**") for purposes of updating the "Affordability Restrictions Summary" of the Notice to reflect the affordability mix set forth in Section 4 above (the "**Amended and Restated Notice**").

7. Project Budget. The Project Budget attached to the Phase II AHA as Exhibit K is hereby replaced, in its entirety, with the budget attached hereto and incorporated herein as Exhibit 1.

8. General Provisions.

(a) Further Actions and Instruments. The parties shall cooperate with and provide reasonable assistance to the other to the extent contemplated hereunder in the performance of all obligations under this Second Amendment and the satisfaction of the conditions of this Second Amendment. Upon the request of either party at any time, the other party shall promptly execute, with acknowledgment or affidavit if reasonably required, and file or record such required instruments and writings and take any actions as may be reasonably necessary under the terms of this Second Amendment to carry out the intent and to fulfill the provisions of this Second Amendment or to evidence or consummate the transactions contemplated by this Second Amendment. City hereby authorizes the City Manager of City to take such other actions and negotiate and execute any additional agreements as may be necessary or proper to fulfill City's obligations under this Second Amendment, including, without limitation, the Modification, Regulatory Agreement Amendment, and Amended and Restated Notice.

(b) Counterparts. This Second Amendment may be executed in any number of counterparts and, as so executed, the counterparts shall constitute one and the same agreement. The parties agree that each such counterpart is an original and shall be binding upon all parties, even though all of the parties are not signatories to the same instrument.

(c) Effect of Amendment. Except as specifically modified by this Second Amendment, the terms and conditions set forth in the Phase II AHA remain binding and in full force and effect.

(d) Exhibits and Recitals Incorporated. All Exhibits referred to in this Second Amendment are hereby incorporated into this Second Amendment by this reference, regardless of whether or not the Exhibits are actually attached to this Second Amendment. Recitals to this Second Amendment are hereby incorporated herein by this reference.

(e) Severability. If any provision of this Second Amendment is deemed to be invalid or unenforceable by a court of competent jurisdiction, that provision shall be severed from the rest of this Second Amendment and the remaining provisions shall continue in full force and effect.

(f) Signature Authority. All individuals signing this Second Amendment for a party which is a corporation, partnership, limited liability company or other legal entity, or signing under a power of attorney or in any other legal capacity, covenant to the other parties hereto that he or she has the necessary capacity and authority to act for, sign and bind the respective entity or principal on whose behalf he or she is signing.

(g) Interpretation of Amendment. The Phase II AHA, as amended by this Second Amendment, integrates all of the terms and conditions mentioned herein and in the Phase II AHA, or incidental thereto, and supersedes all negotiations or previous agreements between the parties with respect to the subject matter hereof and to all or any part of the Phase II Property except as they may be set forth herein.

[Signatures of Developer and City on following page]

IN WITNESS WHEREOF, the City and Developer have executed this Second Amendment as of the day and year set out above.

"Developer"

NATIONAL COMMUNITY RENAISSANCE OF CALIFORNIA, a California nonprofit public benefit corporation

By:______________________________
Michael M. Ruane
Executive Vice President

"CITY"

CITY OF YORBA LINDA, ACTING AS THE HOUSING SUCCESSOR ENTITY TO THE YORBA LINDA REDEVELOPMENT AGENCY, a California municipal corporation

By:______________________________
Mark Pulone
City Manager

ATTEST:

By:______________________________
Marcia Brown
City Clerk

APPROVED AS TO FORM:
RUTAN & TUCKER, LLP

By:______________________________
Todd O. Litfin
City Attorney

EXHIBIT 1

PROJECT BUDGET

[To be inserted]

Exhibit "B"

National CORE Letter of Request
dated January 27, 2017

NATIONAL COMMUNITY
CORE
RENAISSANCE

January 27, 2017

Mr. Mark Pulone, City Manager
City of Yorba Linda
4845 Casa Loma Avenue
Yorba Linda, CA 92885

**Re: Oakcrest Heights (Savi Ranch II) Apartments
Request for Additional Housing Fund Loan**

Dear Mr. Pulone,

National Community Renaissance (National CORE), Hope Through Housing Foundation (HOPE) and the City of Yorba Linda have been long time partners (nearly 20 years) in community redevelopment and the production of exceptional high quality apartment home communities linked with superior opportunities for advancement for Yorba Linda residents residing in our apartments.

Arbor Villas (under renovation), Villa Plumosa (complete) Oakcrest Terrace (complete) and with the additional loan request approval by the City Council for Oakcrest Heights (sister development to Oakcrest Terrace), National CORE will commence construction and fulfill the promise made to the voters of Yorba Linda under Measure H.

National CORE is not merely about sticks and bricks. Rather, our mission is holistic and we pride ourselves on the measurement of success/benchmarks to opportunities including child development, youth development, senior services, independent living, services for the most vulnerable and special needs – our residents are givers back to the community.

In regards to the Savi Ranch affordable opportunities for development, National CORE and Yorba Linda have worked closely together since late 2009 to identify supportable areas for affordable housing development. The goals included assisting the City to achieve State of California HCD Housing Element Compliance, keep the State of California out of the local land use process/protection of local control, stave off unnecessary lawsuits from others (saving potentially millions to the general fund) and providing the highest quality/highest level of property management with resident opportunities and production of housing understanding the severe shortage of affordable housing and housing affordability.

Long story made short – National CORE placed into escrow the first parcel (Savi Ranch I / Oakcrest Terrace) in 2010. Under existing land use, the development would provide a mere 10 units per acre. CORE believed a higher density, closer to 30/acre would be more appropriate and proceeded to process land use entitlements and Measure Z voter approval based on Measure B's requirement for voter approval.

NATIONAL COMMUNITY RENAISSANCE

9421 Haven Avenue, Rancho Cucamonga, CA 91730
909.483.2444 Fax: 909.483.2448 nationalcore.org

Using its own resources, National CORE sponsored Measure Z and lost by 197 votes. Undeterred and given the strength of the City/CORE partnership, National CORE continued processing the 1st development and in May 2013 placed an additional parcel into escrow (Savi Ranch II / Oakcrest Heights) and proceeded to process that development. In June 2012, National CORE, with unanimous City Council support and through a significant amount of local community meetings and educational materials / support from the City and National CORE, Measure H (the two Savi Ranch parcels – 100% affordable homes) was approved by voters - 60.8% in favor.

National CORE is now at the finish line to commence construction of the final phase sister project Oakcrest Heights and requesting from the City an increase of the loan by $2,000,000.

Oakcrest Heights is now "Shovel Ready". It has been awarded the gold ring of financing by the California Tax Credit Allocation Committee in June 2016. The project was scheduled to close construction financing in December 2016. However, as a result of the major adjustment in the tax credit equity market based on near future corporate tax reform at the federal level, Oakcrest Height's tax credit investment equity has decreased from $17,565,314 to $14,875,131.

The original investor at $17M pulled out of the project and National CORE was unable to close the project in December, 2016. This adjustment is impacting numerous affordable housing projects with 9% allocation in hand. City partners are stepping in and working to increase the soft debt loans to projects and to avoid losing the coveted tax credit equity award by CTAC.

Tax credit investors/syndicators based on various modeling have decreased pricing by 10% to 18%. In addition, Citibank had committed $485,000 in subordinate debt to the Oakcrest Heights project from its Catalyst Funds. However, the commitment and availability for these funds expired at the end of 2016. Since the project was unable to close the construction financing in 2016, these funds are no longer available to the project. That is a total loss of $3,175,183 to the project.

National CORE is working diligently to fund this gap. We have submitted an application for $1,644,300 of County funding and eight (8) project-based rental vouchers to Orange County Community Services. This potential funding became available through a NOFA dated March 2016. National CORE is very confident the additional request will be approved. This is *additional* County funding for the 14 MHSA (special needs) apartment homes (approved for Oakcrest Heights in 2015).

Coupled with the loss of funding, the project costs are increasing due to the delays in closing the financing and beginning construction. These delays have resulted in increased land carrying costs (property taxes and interest on acquisition loans/NCRC lines of credit).

To illustrate the comparison in funding and costs of Oakcrest Heights, please refer to the following tables:

Funding Source	Permanent Sources Prior to Corp Tax Reform Discussion	Permanent Sources After Corp Tax Reform Discussion	Variance
Permanent Mortgage	$2,170,000	$2,610,088	$440,088
Tax Credit Equity	$17,565,314	$14,875,131	($2,690,183)
FHLB AHP Loan	$530,000	$530,000	$0
City of Yorba Linda	$2,418,321	2,418,321	$0
Citibank Subordinate Debt	$485,000	$0	($485,000)
CalHFA MHSA Funds	$1,699,143	$1,699,143	$0
OCCS Loan	$720,000	$1,644,300	$924,300
Deferred Developer Fee	$121,984	$128,137	$6,153
Gap (Request to City)	**$0**	**$2,000,000**	**$2,000,000**
Total Sources	$25,709,762	$25,905,120	$195,358

Project Costs	Project Costs Previous	Project Costs Now	Variance
Acquisition Costs/Closing	$5,805,880	$5,805,880	$0
Fees & Permits/Testing	$2,243,017	$2,187,131	($55,886)
Construction Cost	$13,596,744	$13,596,744	$0
Indirect Construction/Legal	$509,375	$592,233	$82,858
Developer Fee	$1,400,000	$1,400,000	$0
Rent-Up Costs/Reserves	$331,575	$339,131	$7,556
Financing Costs	$1,823,171	$1,984,001	$160,830
Total Project Costs	$25,709,762	$25,905,120	$195,358

National CORE remains committed to the promise made to the voters to complete construction of Oakcrest Heights by the end of 2018. National CORE has shown its commitment in so many ways including in-house costs to date of predevelopment expenses (sharing in the land acquisition not covered by the City loan, property taxes, entitlement and design fees, etc.) in the amount of $5,375,000.

Building plans have been approved and the project is "Shovel Ready". Building permits must be pulled/issued no later than the February 13, 2017 building plan deadline. If the permit is not issued by Feb. 13, the plans expire and the development is now subject to the new codes/redesign/costs/delays.

Building permit issuance on Feb 13 would require payment of permit fees to the city of $700,000 and almost $200,000 in impact fees to the School District.

In summary, National CORE is requesting the City of Yorba Linda to increase the loan by $2,000,000. This additional funding will allow Oakcrest Heights to proceed. Without the additional funding from the City, the project will be required to return the 9% tax credit award and apply again for this very competitive source. This would delay the project completion for at least a year, and very possibly longer. The delay may also result in the loss of other funding sources, such as the MHSA loan and County loan funds and add additional costs resulting from code changes, interest rate increases, land carry costs, construction cost increases, etc.

National CORE wishes to emphasize these points on Oakcrest Heights:

- National CORE is a 20 year trusted partner
- National CORE has worked to help the City regain HCD Hsg. Element Compliance and avoidance of lawsuits/saving taxpayer significant money
- Shovel Ready
- Building Permit Ready – plans expire February 13, 2017 otherwise faces delays/significant costs due to code changes/interest rate increases/construction cost increases/re-application to CTAC
- Returning the 9% CTAC award is unprecedented
- Cannot proceed without the additional loan amount
- Out of the control of National CORE
- Will be completed and leased up by the end of 2018
- Approved by City Voters Measure H
- National CORE has over 1,000 people on our interest and waiting lists and growing daily ready to lease-up at Oakcrest Heights upon completion
- Unprecedented affordable housing crisis in Yorba Linda and Orange County causing seniors, working families, veterans and special needs residents significant harm, overcrowding and homelessness
- The revised loan to Oakcrest Heights totaling $4.4M over 54 units = $81,481 – this is far below the average loans to affordable housing within OC. Average loans per unit in OC exceed $100,000+ up to $178,000 per unit.
- Build permit fees would go to City of approximately $700,000 and $200,000 to school district.
- Total Project Costs = $25,905,000. The City's loan represents 17% of the total cost representing a wonderful investment for the City. This is due to National CORE's leveraging of other outside sources and efficiency on operational costs and construction.
- No other affordable housing new construction/new production opportunity exists in Yorba Linda ready to proceed.
- Job creation, sales tax generation

Thank you very much for your consideration of this request. Please call me with any questions at (619) 405-7842.

Respectfully,

John Seymour
Vice President, Acquisitions and Forward Planning

Exhibit “C”

Financial Gap Analysis Prepared by Keyser Marston Associates
dated March 15, 2017

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

MEMORANDUM

To: Pam Stoker, Economic Development Manager
City of Yorba Linda

From: Julie Romey

Date: March 15, 2017

Subject: Oakcrest Heights – Financial Gap Analysis

At your request, Keyser Marston Associates, Inc. (KMA) performed a financial gap analysis on the 54-unit apartment project (Project) previously proposed by National CORE (Developer) and approved by the City of Yorba Linda (City), acting as the Housing Successor Entity to the Yorba Linda Redevelopment Agency. The Project will be developed on the 3.2-acre site located at the southwest corner of Oakcrest Circle and Eastpark Drive (Site) owned by the Developer. The Project received an award of 9% low income housing tax credits (Tax Credits) from the California Tax Credit Allocation Committee (TCAC) in June 2016 and was set to close escrow in December 2017. Due to unforeseen market conditions, the Developer is now requesting that the City provide an additional $2.00 million in financial assistance to close escrow. The purpose of the KMA analysis is to determine whether the financial request by the Developer is reasonable and necessary.

EXECUTIVE SUMMARY

The Developer will construct 54 apartment units in two three-story buildings consisting of one-, two- and three-bedroom units that will be restricted to extremely-low, very-low and low income households for 55 years. One unit will be set-aside for an on-site manager. In a third building, a 2,749-square foot preschool for 48 children will also be constructed. The Developer previously purchased the Site with excess funds provided by the City to the Phase I project.

The total development costs are estimated at $25.90 million and the Developer plans to use the following funding sources for the Project:

1. A $2.61 million conventional loan.

2. Approximately $14.89 million in net Tax Credit proceeds based on the allocation award to the Project in June 2016 from TCAC.

3. A $1.70 million Mental Health Services Act (MHSA) loan approved by CalHFA.

4. An Affordable Housing Program (AHP) loan approved by the Federal Home Loan Bank (FHLB).

5. An additional $1.64 million loan for the MHSA units from Orange County Community Services (OCCS), which is currently under consideration.

6. Approximately $128,000 of the Developer fee will be deferred to be paid from operations.

7. Previously provided funds from the City for land acquisition, totaling $2.42 million, plus an additional $2.00 million loan from the Housing Successor's low and moderate income housing asset fund (LMIHAF).

Based on the KMA analysis, the Project has an additional $2.00 million financial gap that needs to be filled for the Project to move forward. The proposed loan terms appear to be reasonable and typical for an affordable housing project with similar funding sources included. The proposed transaction will also allow the City to comply with the SB 341 income-targeting requirements.

BACKGROUND STATEMENT

The Developer purchased the Site in June 2013, with assistance from the City in the form of $2.41 million of excess proceeds from Oakcrest Terrace (Phase I). After several delays, the Project received a Tax Credit allocation and was ready to close on the financing in December 2016. However, because of proposed future federal corporate tax reform by the new administration in Washington, DC, the Tax Credit equity market experienced a major downward adjustment. Thus, the original investor who planned to buy the credits for $1.11 per Tax Credit pulled out of the Project. In addition, the $485,000 Citibank subordinated loan commitment expired at the end of 2016.

The Developer has identified a new Tax Credit investor that is willing to pay $0.94 per Tax Credit, which results in a $3.69 million reduction in funding for the Project. The Developer has also applied for an additional $1.64 million in Orange County funds and eight project-based Section 8 vouchers and is waiting for official approval. With the loss in financing sources as well as the costs resulting from delays, the Developer is requesting that the City provide an additional $2.00 million to close the financial gap and enable the Project to proceed.

CHANGES TO PROJECT FINANCING

The following summarizes the changes in Project costs since November 2016:

Project Costs	2017	2016	Difference
Acquisition Costs / Closing	$5,806,000	$5,806,000	$0
Fees & Permits/Testing	2,187,000	2,243,000	(56,000)
Construction Costs	13,597,000	13,597,000	0
Indirect Construction/Legal	592,000	509,000	83,000
Developer Fee	1,400,000	1,400,000	0
Rent-Up Costs/Reserves	339,000	332,000	7,000
Financing Costs	1,984,000	1,823,000	161,000
Total Project Costs	**$25,710,000**	**$25,905,000**	**$195,000**

The following summarizes the changes in the proposed funding sources since November 2016:

Funding Sources	2017	2016	Difference
Permanent Mortgage	$2,610,000	$2,170,000	440,000
Tax Credit Equity	14,875,000	17,565,000	(2,690,000)
FHLB AHP Loan	530,000	530,000	0
City of Yorba Linda	4,418,000	2,418,000	2,000,000
Citibank Subordinate Debt	0	485,000	(485,000)
CalHFA MHSA Funds	1,699,000	1,699,000	0
OCCS Loan	1,644,000	720,000	924,000
Deferred Developer Fee	128,000	122,000	6,000
Total Project Costs	**$25,905,000**	**$25,710,000**	**$195,000**

FINANCIAL GAP ANALYSIS

The City engaged KMA to quantify the financial gap associated with providing affordable housing on the Site given the current market conditions. KMA prepared a pro forma analysis to assist in evaluating the proposed revised deal terms. The analysis is located at the end of this memorandum, and is organized as follows:

Table 1:	Estimated Development Costs
Table 2:	Stabilized Net Operating Income
Table 3:	Financial Gap Calculation
Table 4:	Housing Asset Funds Allocation Test
Table 5:	Cash Flow Analysis

Project Description

The following summarizes the Project:

1. The 3.2-acre Site is zoned RM-30, which allows for up to30 units per acre in density.

2. The Project will include 54 residential units, or a 16.88 unit per acre density, with the following unit mix:

	# of Units	Unit Size (Sf)
One-bedroom Units	9	644
Two-bedroom Units	27	832
Three-bedroom Units	18	1,011
Totals/Averages	**54**	**860**

3. The gross building area for the Project is summarized as follows:

	Square Feet
Gross Living Area	46,457
Leasing Office / Community Space	1,342
Pre-School	2,749
Common Area / Circulation	9,823
Gross Building Area	**60,371**
FAR	**0.43**

4. The Project will provide 113 surface parking spaces, of which 14 spaces will be for guest parking and equates to a 2.09 space per unit parking ratio. The Preschool facility will share parking with the Project and doesn't have any dedicated parking spaces.

5. The City will restrict 53 units to the following income categories for SB 341 purposes:

SB 341 Categories	
Extremely-Low Income Units	16
Very-low Income / Low up to 60% AMI	37
Low Income Units	0
Total City Restricted Units	**53**

6. MHSA will restrict 14 units (7 one-bedroom units and 7 two-bedroom units) to households earning 30% of the Orange County area median incomes (AMI) that meet the MHSA criteria. Eight of these units will also receive Section 8 Project Based Vouchers (PBV).

7. The Tax Credit restrictions area as follows:

TCAC Categories	
30% AMI	16
45% AMI	15
50% AMI	16
60% AMI	6
Total TCAC Restricted Units	**53**

8. The Site is located within the Savi Ranch Freeway Owners Association which is responsible for maintenance of private streets and slopes. As such, the Project is required to pay an annual CAM charge.

9. The on-site amenities of the Project include a tot lot playground, central laundry facilities, picnic and BBQ areas, daycare/preschool, an MHSA office, and a computer lab.

10. The services that will be provided by Hope Through Housing Foundation to the tenants will be free daycare/preschool as well as computer and other classes.

11. The licensed daycare/preschool that will be provided on-site will be operated by Quality Childcare Services, who is a state licensed preschool provider. They will sign a lease agreement with Hope Through Housing and be responsible for all the operating expenses of the service.

Estimated Development Costs (Table 1)

KMA reviewed the Developer's construction cost estimate provided on February 16, 2017. Based on our experience with similar projects in Orange County, KMA found the assumptions to be reasonable. The resulting estimated development costs are as follows:

Land Acquisition Costs

The following summarizes the land assemblage costs:

1. The Developer purchased the Site in June 2013 for $5.80 million, or $42 per square foot of land and $107,400 per unit. KMA has not reviewed the purchase and sale agreement or appraisal for the land purchase.

2. The legal fees associated with acquiring the Site are estimated at $6,000.

The total cost to acquire the Site is $5.81 million, or $107,500 per unit.

Direct Costs

The direct cost estimates assume that the Project will not be subject to prevailing wages and that the Developer will hire a third party General Contractor. The direct costs applied in the analysis are summarized as follows:

1. Offsite improvements costs are estimated at $477,000. These improvements include utility connections, retaining wall along the slopes, sidewalks, asphalt repairs, and some landscaping and irrigation. The Project is required to create a path of travel to the entrance of the Site, which is on a sloped area.

2. Onsite improvements are estimated at $2.29 million, or $16 per square foot of land area.

3. Building shell costs are estimated at $139 per square foot of GBA, with $7.99 million associated with the two residential buildings and $381,000 with the pre-school.

4. A $150,000 allowance is provided for furnishings, fixtures and equipment (FF&E).

5. The contractor and general requirement fees are set at 14% of construction costs, or $1.56 million.

6. Construction insurance and bonds costs are estimated at $251,000, or 2% of construction costs.

7. A $647,000 contingency allowance is provided, or 5% of other direct costs.

The total direct costs are estimated at $13.75 million, which equates to $228 per square foot of GBA and $254,600 per unit.

Indirect Costs

The indirect costs are estimated as follows:

1. Architecture, engineering and consulting costs are estimated at 8% of direct costs.

2. Permits and fees are estimated at approximately $20,000 per unit.

3. Taxes, insurance, legal and accounting costs are estimated at 4% of direct costs.

4. Marketing and leasing costs are estimated at $69,000, or $1,270 per unit.

5. The Developer fee is set at $1.40 million, which is lower than the maximum allowed by TCAC.

6. A $100,00 contingency allowance is provided.

The total indirect costs are estimated at $4.32 million

Financing Costs

The financing costs for the Project are estimated as follows:

1. Predevelopment loan:

    a. Developer's Line of Credit (LOC):

i. Developer used $3.38 million of their LOC to purchase the Site in June 2013. The LOC has a 5.0% interest rate and the total interest cost for the 36-month period thereafter is $507,000.

ii. In June 2016, the Developer obtained a $2.80 million loan from Century Housing to free-up a portion of their LOC. Therefore, from June 2016 through the next 12 months, the LOC interest incurred is expected to be $29,000.

b. Century Loan:

i. In June 2016, the Developer obtained a $2.80 million loan from Century Housing. The loan term is 12 months and the interest rate is approximately 5.50%.

ii. The Century Loan interest expected to be incurred is $154,000.

2. The construction and absorption period interest costs are estimated at $718,000. This estimate is based on the following assumptions:

a. A $17.10 million construction loan;

b. A 3.00% interest rate;

c. An 18-month construction period with an average outstanding balance of 60%; and

d. A six-month absorption period with an average outstanding balance of 100%.

3. The financing fees are estimated at $368,000 based on the following assumptions:

a. The Century Loan fees are estimated at 2.50 points;

b. The construction loan fees are estimated at 1.61 points; and

c. The permanent loan fees are estimated at 0.86 points.

4. The Tax Credit fees are estimated at $131,000 based on the following assumptions:

    a. A $2,000 application fee;

    b. A $410 per unit monitoring fee; and

    c. A 4% of gross Tax Credit proceeds for one year.

5. The operating reserve account is set at $121,000, which equates to approximately three months of operating expenses.

The total financing costs are estimated at $2.03 million.

Total Estimated Development Costs

As shown in Table 1, the total development costs are estimated at $25.90 million, or $479,700 per unit.

Stabilized Net Operating Income (Table 2)

The Project's funding sources include Tax Credits, MHSA funds, and LMIHAF funds. Each of these funding sources imposes specific income and affordability standards. To that end, the Project's income and affordability standards must comport with the more stringent of the following income and affordability standards:

1. Income Restrictions:

2. Affordability Restrictions:

In summary, 53 units will be restricted by TCAC, MHSA and the City for 55 years, with an additional unit unrestricted and set-aside for the on-site manager.

Affordability Restrictions	One-bedroom Units	Two-bedroom Units	Three-bedroom Units	Total Units
TCAC @ 30% AMI / Extremely-Low Income HCD / MHSA / PBV	4	4	0	8
TCAC @ 30% AMI / Extremely-Low Income HCD / MHSA	3	3	0	6
TCAC @ 30% AMI / Extremely-Low Income HCD	0	0	2	2
TCAC @ 45% AMI / Very-Low Income (45%) HCD	2	7	6	15
TCAC @ 50% AMI / Very-Low Income (50%) HCD	0	10	6	16
TCAC @ 60% AMI / Low Income HCD	0	3	3	6
Unrestricted Manager's Unit	0	0	1	1
Total Units	**9**	**27**	**18**	**54**

Achievable Rental Income

The Project rents must adhere to the most restrictive of the requirements imposed by the proposed funding sources. The rents used in this analysis are based on 2016 income and rent information published by TCAC, Orange County (County) and the California Housing and Community Development Department (HCD).

The maximum allowable rents, net of the appropriate utility allowances are estimated as follows:[1]

Rent Restrictions	One-bedroom Units	Two-bedroom Units	Three-bedroom Units
30% AMI TCAC / Extremely-Low Income / MHSA			
TCAC Rents	$490	$588	N/A
MHSA Rents	$230	$222	N/A
HCD Rents	$486	$544	N/A
Applicable Rents	$230	$222	N/A
30% AMI TCAC / Extremely-Low Income			
TCAC Rents	N/A	N/A	$676
HCD Rents	N/A	N/A	$600
Applicable Rents	N/A	N/A	$600
45% AMI TCAC / Very-Low Income (45%)			
TCAC Rents	$753	$904	$1,042
HCD Rents	$748	$838	$927
Applicable Rents	$748	$838	$927
50% AMI TCAC / Very-Low Income (50%)			
TCAC Rents	$841	$1,010	$1,164
HCD Rents	$835	$936	$1,036
Applicable Rents	$835	$936	$1,036
60% AMI TCAC / Low Income			
TCAC Rents	N/A	$1,221	$1,407
HCD Rents	N/A	$1,133	$1,254
Applicable Rents	N/A	$1,133	$1,254
Unrestricted Manager's Unit	N/A	N/A	$0

The following summarizes the PBV Overhang expected to be generated from the eight PBVs.

	Units	Monthly Contract Rent/Unit	Monthly MHSA Rent/Unit	PBV Overhang /Unit	Total PBV Overhang
One-bedroom Units	4	$1,333	$230	$1,103	$52,944
Two-bedroom Units	4	$1,600	$222	$1,378	66,144
Totals/Averages	**8**	**$1,467**	**$226**	**$1,241**	**$119,088**

[1] The monthly utility allowances are estimated at $37 for a 1-bedroom units, $45 for a 2-bedroom unit and $54 for a 3-bedroom unit. Allowances are provided by the Developer.

Estimated Net Operating Income (NOI)

The Project's gross income is estimated at $621,914, which includes miscellaneous income averaging $5 per unit per month, and the $119,088 PBV overhang for the 8 PBV units. In addition to the $1.70 million MHSA capital loan, the Project was also awarded a $852,000 Capitalized Operating Subsidy Reserve (COSR). These funds are to be used over a 15 to 20-year period to subsidize the 14 MHSA units share of the operating expenses. The first year COSR is estimated to be $19,286. After applying a 5% vacancy allowance to the non-MHSA units and 10% for the MHSA units, KMA estimates the resulting effective gross income (EGI) at $581,959.

The residential operating expenses are estimated as follows:

1. The general operating expenses are estimated at $4,682 per unit per year. The TCAC annual operating expenses minimum for underwriting purposes in 2017 is $5,000 per unit for elevator serviced buildings designed for large families in Orange County.

2. KMA assumes the Developer will apply for the property tax abatement that is accorded to non-profit housing organizations that own income-restricted apartments. The Developer estimated the property tax assessment overrides at $8,000 per year.

3. The Developer estimates the social services expenses at $12,960 per year, or $240 per unit.

4. The County requires a $55 per MHSA unit monthly monitoring fee, or $2,970 per year.

5. As part of the Savi Ranch Freeway Owners Association, the Project must pay $19,500 per year in CAM charges.

6. The annual capital replacement reserve deposits are estimated at $500 per unit, which is above the minimum requirement by TCAC for new construction projects. This amount is required by CalHFA in the MHSA underwriting process.

As shown in Table 2, the residential operating expenses are estimated to total $323,262, or $5,990 per unit. When the Project's EGI is reduced by the operating expenses, the stabilized net operating income (NOI) is therefore estimated at $258,774.

Financial Gap Calculation (Table 3)

Proposed Funding Sources

The following summarizes the revised funding sources for the Project:

1. **Permanent Loan:** The Developer is working with Citibank to underwrite the permanent loan for the Project. The loan is sized based on the PBV overhang and the NOI based on the base rental income. When included with the MHSA debt service payment, the Project's debt coverage ratio (DCR) is approximately 1.20. The following summarizes the underwriting terms for the total permanent loan of $2.61 million:

    a. Base Income: Assuming that the NOI from the base income is $151,466, a 1.36 DCR, a 6.00% interest rate and a 27.50-year term, the resulting loan amount is $1.50 million.

    b. PBV Overhang: The $107,179 generated from the PBV Overhang, a 1.12 DCR, a 6.00% interest rate and a 20-year term results in a $1.11 million loan.

2. **Tax Credit Equity:** In June 2016, the Project received a $15.74 million gross Tax Credit award from TCAC. Prior to the new federal government administration, the Developer had identified an investor that would pay $1.11 per credit, or $17.56 in total Tax Credit equity. However, since November 2016 and the likelihood of federal tax reform, the investor was no longer willing to provide that level of equity and pulled out of the deal. Since November 2017, the entire Tax Credit equity market has since decreased to between $0.90 to $0.95 per Tax Credit. The Developer was able to identify a new investor that is willing to pay $0.94 per Tax Credit, or $14.88 million, a $2.69 million decrease in Tax Credit equity since 2016.

3. **MHSA Loan:** In 2015, the Project was awarded $1.70 million in MHSA Loan funds from OCCS to provide for 14 MHSA units.

4. **Additional OCCS Loan:** Since the decrease in Tax Credit equity, the Developer has submitted an application to OCCS for an additional $1.64 million to support the MHSA units. OCCS has not yet approved this additional funding source.

5. **AHP Loan:** The Developer has also previously received a $530,000 AHP Loan award from the FHLB.

6. **Deferred Developer Fee:** The Developer plans to defer approximately 9% of the total $1.40 million Developer Fee, or $128,000. The deferred fee will be paid to the Developer from cash flow within the first 15 years of operations.

The total potential funding sources is estimated to be $21.49 million.

Financial Gap Calculation

The following estimates the financial gap associated with the Project:

Financial Gap Calculation	
Total Development Costs	$25,905,000
(Less) Potential Funding Sources	(21,487,000)
Financial Gap	**$4,418,000**
Per Unit	**$81,800**

The City has already provided $2.42 million in financial assistance to the Project based on the City Loan dated August 6, 2013. Therefore, the net unfunded financial gap is $2.00 million, or the amount that the Developer has requested that the City provide to the Project.

SB 341 ANALYSIS (TABLE 4)

Section 34176.1 of the California Health and Safety Code has restricted how the LMIHAF monies are to be allocated to extremely-low and low income households over a five-year period as well as set limitations on the number of senior citizen units that can be assisted by the authority over a 10-year period.

Income Test

Section 34176.1(a)(3)(B) requires that the City must require at least 30% of the LMIHAF to be expended for development of rental housing affordable to and occupied by households earning 30% or less of the AMI (Extremely-Low Income) and Section 34176.1(a)(3)(C) requires that no more than 20% of the LMIHAF to be expended for development of rental housing affordable to and occupied by households earning between 60% and 80% of the AMI (Low Income). The Income Test is applied over five-year period, with the first period being 2014 to 2019. The Income Test is applied cumulatively over the five-year period. It does not need to be met on a project-by-project basis.

The $2.42 million in assistance from the City that was approved in 2013 to purchase the Site, does need to meet the Income Test. However, the new $2.00 million in assistance is required to meet the SB 341 requirements. To allocate the $2.00 million in LMIHAF, KMA separated the financial gap into the three income categories on which the City is allowed to expend the LMIHAF.

Extremely-Low Income Test

As shown in Table 4, KMA estimates that 100% of the Project's $2.00 million additional financial gap can be attributable to 16 Extremely-Low income units. As shown in the following table, prior to this Project, the City has not made any LMIHAF expenditures during the 2014 to 2017 period. The following shows the status of the Extremely Low Income Test:

2014 – 2018 Period	Extremely-Low Income Expenditures	Total LMIHAF Expenditures
2014	$0	$0
2015	0	0
2016	0	0
2017	2,000,000	2,000,000
2018	0	0
Total Anticipated Expenditures	**$2,000,000**	**$2,000,000**
As a % of Total Expenditures	**100%**	**100%**

It is important to understand that penalties are applied if the City fails to comply with the Extremely-Low Income requirement in any five-year period. In the event of failing to meet this requirement, in each following year the remaining funds in the LMIHAF must be spent on households earning 30% or less of the AMI until the City demonstrates compliance with the Extremely-Low Income requirement.

Low Income Test

None of the $2.00 million of the LMIHAF assistance to this Project is attributable to the Low Income units (Table 4). As shown in the following table, prior to this Project, the City has made no LMIHAF expenditure during the 2014 to 2018 period. The following shows the status of the Low Income Test:

2014 – 2018 Period	Low Income Expenditures	Total LMIHAF Expenditures
2014	$0	$0
2015	0	0
2016	0	0
2017	0	2,000,000
2018	0	0
Total Anticipated Expenditures	**$0**	**$2,000,000**
As a % of Total Expenditures	**0%**	**100%**

Penalties will be applied if the City exceeds the cap on Low Income expenditures during any five-year period. Specifically, if the City fails to meet this requirement during the five-year period, in each following fiscal year the City is prohibited from spending any LMIHAF funds on Low Income units until the City demonstrates compliance with the Low Income requirement.

Senior Housing Test

Section 34176.1(b) places a limit on the percentage of deed-restricted rental units that are restricted to senior citizens. This limit is applied retroactively over the past 10 years to units assisted by the City, the former redevelopment agency and/or City. During that period, no more than 50% of the aggregate number of units of deed-restricted rental housing units assisted may be senior citizen units. If this percentage exceeds 50%, then the City cannot expend future LMIHAF funds to assist additional rental senior housing units until the City assists, and construction has commenced, on a number of units that are not age restricted rental units that bring the City back into compliance with the Senior Housing Test.

Based on information provided City staff, none of the restricted units produced in the City over the past 10 years have been restricted to seniors. Thus, the City will be in compliance with the Senior Test after the proposed assistance is provided to the Project.

PROPOSED DEAL TERMS

The following summarizes the terms of the City's assistance to the Project:

1. The City will provide the Project with the additional $2.00 million in financial assistance from LMIHAF, which will be added to the current $2.42 million loan from LMIHAF. The residual receipts loan will have the following revised terms:

    a. A 3.00% simple interest rate;

    b. A 55-year term;

    c. Annual payments of 27.1% of the residual receipts; and

    d. At the end of the term, if there is any outstanding balance, the remaining balance will be due and payable.

    e. The City loan will be subordinated to the permanent loan and possibly the MHSA loan.

CASH FLOW ANALYSIS (TABLE 4)

KMA also conducted a cash flow analysis to estimate the present value of the debt service payments to the City. 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. Additional revenue and expense assumptions are as follows:

    a. The projected residential income, PBV overhang and miscellaneous income are estimated to increase at 2.5% per year. The COSR payment is estimated to increase by 3.8% per year until the $851,000 reserve is depleted, which is anticipated to occur in year 27.

    b. A 5% vacancy and collection allowance is assumed for the nonMHSA units and 10% for the MHSA units.

    c. The general operating expenses, social services, County monitoring fee and Association CAM charges are increased at 3.5% per year. The property taxes are increased at 2.0% per year while the replacement reserves will remain constant.

d. The annual permanent loan debt service payments are $206,916 for 20 years and $111,641 for an additional 10 years. The MHSA payment of $7,136 per year remains constant for 55 years.

e. The Priority Distributions are categorized as follows:

   i. The $128,000 deferred developer fee is to be repaid out of cash flow first.

   ii. Investor Fee - $7,500 in Year 1, increasing at 3.0% per year through Year 15.

   iii. General Partnership Management Fee - $7,500 in Year 1, increasing at 3.0% per year for 55 years.

f. The annual residual receipt payments to the City are based on a $4.42 million loan, 55-year term, 3.00% simple interest rate and annual payments in the form of 27.1% of the residual receipts generated. At the end of the term, the outstanding balance on the City Loan will be due and payable.

3. The City Loan is estimated to be repaid in year 55. The total nominal payments estimated to be made on the loan equate to $20.34 million at the end of the term, which is estimated to have a present value of $494,000, assuming an 8% discount rate.

CONCLUSIONS

Based on the KMA analysis, the Project has an additional $2.00 million financial gap that needs to be filled for the Project to move forward. The proposed loan terms appear to be reasonable and typical for an affordable housing project with similar funding sources included. The proposed transaction will also allow the City to comply with the SB 341 income-targeting requirements.

Attachments

TABLE 1

ESTIMATED DEVELOPMENT COSTS
OAKCREST HEIGHTS (SAVI RANCH II)
YORBA LINDA, CALIFORNIA

I.	**Assemblage Costs** [1]						
	Land Acquisition Costs [2]	139,392	Sf Land	$42	/Sf Land	$5,800,000	
	Legal Fees		Allowance			6,000	
	Total Assemblage Costs	54	Units	$107,519	/Unit		**$5,806,000**
I.	**Direct Costs** [3]						
	Off-site Improvements		Allowance			$477,000	
	On-site Improvements	139,392	Sf Land Area	$16	/Sf Land Area	2,295,000	
	Parking Costs [4]	113	Spaces			0	
	Residential Shell Costs	57,622	Sf GBA	$139	/Sf GBA	7,986,000	
	Pre-School Shell Costs	2,749	Sf GBA	$139	/Sf GBA	381,000	
	Furnishings, Fixtures & Equipment	54	Units	$2,778	/Unit	150,000	
	Contractor Fees / General Requirements	14%	of Construction Costs			1,559,000	
	Construction Insurance / Bonds	2%	of Construction Costs			251,000	
	Contingency Allowance	5%	of Other Direct Costs			647,000	
	Total Direct Costs	60,371	Sf GBA	$228	/Sf GBA		**$13,746,000**
II.	**Indirect Costs** [1]						
	Architecture, Engineering & Consultants	8%	of Direct Costs			$1,132,000	
	Permits & Fees	54	Units	$20,039	/Unit	1,082,000	
	Taxes, Insurance, Legal & Accounting	4%	of Direct Costs			542,000	
	Marketing & Leasing	54	Units	$1,270	/Unit	69,000	
	Developer Fee [5]					1,400,000	
	Contingency Allowance	2%	of Other Indirect Costs			100,000	
	Total Indirect Costs						**$4,325,000**
III.	**Financing Costs** [1]						
	Developer Line of Credit [6]	$3,381,679	Loan Amount	5.00%	Interest	$536,000	
	Century Loan [7]	$2,800,000	Loan Amount	5.50%	Interest	154,000	
	Construction Interest [8]	$17,100,000	Loan Amount	3.00%	Interest	718,000	
	Financing Fees						
	Century Loan	$2,800,000	Loan Amount	2.50	Points	70,000	
	Construction Loan	$17,100,000	Loan Amount	1.61	Points	276,000	
	Permanent Loan	$2,611,000	Loan Amount	0.86	Points	22,000	
	Tax Credit Fees [9]	54	Units	$2,419	/Unit	131,000	
	Capitalized Operating Reserves	3	Months	$44,182	/Month	121,000	
	Total Financing Costs						**$2,028,000**
IV.	**Total Development Costs**	54	Units	$479,722	/Unit		**$25,905,000**

1 Based on Developer's assumptions.
2 The Site was purchased by the Developer in 2013.
3 Based on Developer's estimates; assumes prevailing wage requirements will not be imposed on the Project.
4 Costs are included in the on-site improvement cost estimate.
5 Within the TCAC maximum and equals the maximum developer fee that can be included in eligible basis.
6 Developer used LOC to purchase the property in 2013; $2.80 million was paid back with the Century Loan in June 2016; assumed term is 48 months.
7 Developer obtained a predevelopment loan in June 2016 to free up LOC; term is assumed to be 12 months.
8 Assumes a 24-month period and a 60% average outstanding balance during the construction period and 100% outstanding during the 6-month absorption
9 Includes a $2,000 application fee; $410/unit monitoring fee; and 4% of the gross Tax Credit proceeds for one year.

Prepared by: Keyser Marston Associates, Inc.
Filename: Yorba Linda - 03.15.17; PF ANALYSIS; jlr

TABLE 2

STABILIZED NET OPERATING INCOME
OAKCREST HEIGHTS (SAVI RANCH II)
YORBA LINDA, CALIFORNIA

I.	**Project Revenue (FEDERAL HH SIZES)** [1]						
	Manager Unit(s)	1	Units	$0	/Month	$0	
	ELI HCD/30% Median/MHSA/PBV						
	1-Bedroom Units @ (644-Sf)	4	Units	$230	/Month	11,040	
	2-Bedroom Units @ (832-Sf)	4	Units	$222	/Month	10,656	
	ELI HCD/30% Median/MHSA						
	1-Bedroom Units @ (644-Sf)	3	Units	$230	/Month	8,280	
	2-Bedroom Units @ (832-Sf)	3	Units	$222	/Month	7,992	
	EL Inc CRL/30% Median						
	3-Bedroom Units @ (1,011-Sf)	2	Units	$600	/Month	14,400	
	VLI-45% HCD/45% Median						
	1-Bedroom Units @ (644-Sf)	2	Units	$748	/Month	17,952	
	2-Bedroom Units @ (832-Sf)	7	Units	$838	/Month	70,392	
	3-Bedroom Units @ (1,011-Sf)	6	Units	$927	/Month	66,744	
	VLI - 50% HCD/50% Median						
	2-Bedroom Units @ (832-Sf)	10	Units	$936	/Month	112,320	
	3-Bedroom Units @ (1,011-Sf)	6	Units	$1,036	/Month	74,592	
	Low Inc HCD/60% Median						
	2-Bedroom Units @ (832-Sf)	3	Units	$1,133	/Month	40,788	
	3-Bedroom Units @ (1,011-Sf)	3	Units	$1,254	/Month	45,144	
	PBV Overhang						
	1-Bedroom Units @ (644-Sf)	4	Units	$1,103	/Month	52,944	
	2-Bedroom Units @ (832-Sf)	4	Units	$1,378	/Month	66,144	
	Total Potential Gross Rental Income	**54**	**Units**			**$599,388**	
	Add: MHSA Subsidy	14	Units	$115	/Unit/Month	19,286	
	Add: Miscellaneous Income - NonMHSA [2]	40	Units	$5	/Unit/Month	2,400	
	Add: Miscellaneous Income - MHSA [2]	14	Units	$5	/Unit/Month	840	
	Total Potential Gross Income						**$621,914**
	(Less) Vacancy Allowance - NonMHSA [2]	5.0%	of NonMHSA & Misc Inc				(22,237)
	(Less) Vacancy Allowance - MHSA [2]	10.0%	of MHSA & Misc Inc				(3,881)
	(Less) Vacancy Allowance - PBV Overhang	10.0%	of PBV Overhang				(11,909)
	(Less) Vacancy Allowance - COSR	10.0%	of COSR				(1,929)
	Effective Gross Income						**$581,959**
II.	**Operating Expenses** [2]						
	General Operating Expenses	54	Units	$4,682	/Unit	$252,832	
	Property Taxes	54	Units	$148	/Unit	8,000	
	Services	54	Units	$240	/Unit	12,960	
	County Monitoring Fee	54	Units	$55	/Unit	2,970	
	Association CAM Charges	54	Units	$361		19,500	
	Replacement Reserve	54	Units	$500	/Unit	27,000	
	Total Operating Expenses	54	Units	$5,990	/Unit		**$323,262**
IV.	**Net Operating Income**						**$258,697**

[1] The monthly rent is the lesser of the 2016 TCAC and HCD restricted rents; the following utility allowances have been deducted from the gross rents: $37/1-bedroom units, $45/2-bedroom units, and $54/3-bedroom units.

[2] Based on Developer's estimates.

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TABLE 3

FINANCIAL GAP ANALYSIS
OAKCREST HEIGHTS (SAVI RANCH II)
YORBA LINDA, CALIFORNIA

I.	**Potential Funding Sources**						
	A. Supportable Permanent Financing						
	Base Rent ($151,466)	1.36	DCR	6.00%	Interest	**$1,502,000**	
		$111,641	Debt Service	27.50	Amort. Term		
	PBV Overhang ($107,179)	1.12	DCR	6.00%	Interest	**$1,109,000**	
		$95,275	Debt Service	20.00	Amort. Term		
	Total Permanent Debt					**$2,611,000**	
	B. Tax Credit Equity	$15,824,607	Gross Value	94.00%	Synd. Rate	**$14,875,000**	
	C. MHSA Funds					**1,699,000**	
	D. FHLB AHP Loan					**530,000**	
	E. OCCS Funds					**1,644,000**	
	D. Deferred Developer Fee	9%	of Developer Fee			**$128,000**	
	Total Potential Funding Sources						**$21,487,000**
II.	**Financial Gap Calculation**						
	Total Development Costs					$25,905,000	
	(Less) Total Potential Funding Sources					(21,487,000)	
III.	**Financial Gap**	54	Units	$81,800	/Unit		**$4,418,000**
		23	City Units	$192,087	/Unit		
IV.	**City Assistance**						
	Land Loan	Residual Receipts Loan				$2,418,321	
	LMIHAF	Residual Receipts Loan				2,000,000	
	Total City Assistance	23	City Units	$192,100	/Unit		**$4,418,321**

Prepared by: Keyser Marston Associates, Inc.
Filename: Yorba Linda - 03.15.17; PF ANALYSIS; jlr

TABLE 4

HOUSING ASSET FUND ALLOCATION
OAKCREST HEIGHTS (SAVI RANCH II)
YORBA LINDA, CALIFORNIA

		City Restricted Units				Unrestricted	Total
		ELI Units	VLI/Lwr Units	LI Units	Total	Units	Project
I.	**Number of Units**	**16**	**37**	**0**	**53**	**0**	**53**
II.	**Net Operating Income**						
	EGI - NonMHSA Units	$13,794	$408,701	$0	$422,495	$0	$422,495
	EGI - MHSA Units	34,927	0	0	34,927	0	34,927
	EGI - PBV Overhang	107,179	0	0	107,179	0	107,179
	EGI - COSR	17,357	0	0	17,357	0	17,357
	Effective Gross Income	**$173,258**	**$408,701**	**$0**	**$581,959**	**$0**	**$581,959**
	(Less) Operating Expenses	(97,589)	(225,673)	0	(323,262)	0	(323,262)
	Net Operating Income	**$75,669**	**$183,028**	**$0**	**$258,697**	**$0**	**$258,697**
	NOI (w/o EGI - PBV Overhang)	**($31,510)**	**$183,028**	**$0**	**$151,518**		
III.	**Conventional Loan**	**($312,000)**	**$1,814,000**	**$0**	**$1,502,000**	**$0**	**$1,502,000**
	(1.25 DCR, 6.0% Interest, 30 Years)						
IV.	**Total Development Costs**	**$7,820,377**	**$18,084,623**	**$0**	**25,905,000**	**0**	**$25,905,000**
V.	**Financial Gap Calculation**						
	Total Development Costs	$7,820,000	$18,085,000	$0	$25,905,000	$0	$25,905,000
	(Less) Conventional Loan	312,000	(1,814,000)	0	(1,502,000)	0	(1,502,000)
	(Less) Overhang Loan	(1,109,000)	0	0	(1,109,000)	0	(1,109,000)
	(Less) Tax Credit Equity	(1,520,000)	(13,355,000)	0	(14,875,000)	0	(14,875,000)
	(Less) MHSA Loan	(1,699,000)	0	0	(1,699,000)	0	(1,699,000)
	(Less) AHP Loan	(160,000)	(370,000)	0	(530,000)	0	(530,000)
	(Less) City Land Loan	0	(2,418,000)	0	(2,418,000)	0	(2,418,000)
	(Less) OCCS Loan	(1,644,000)	0	0	(1,644,000)	0	(1,644,000)
	(Less) Deferred Developer Fee	0	(128,000)	0	(128,000)	0	(128,000)
	Financial Gap	**$2,000,000**	**$0**	**$0**	**$2,000,000**	**$0**	**$2,000,000**
VI.	**SB 341 Income Test**						
	% of Total Funds Subject to SB 341	100%	0%	0%	100%		
		Minimum 30%	N/A	Maximum 20%	N/A		

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Filename: Yorba Linda - 03.15.17; SB 341; trb

TABLE 6

CASH FLOW ANALYSIS
OAKCREST HEIGHTS (SAVI RANCH II)
YORBA LINDA, 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 - MHSA Units	102.5% /Year		$21,696	$22,238	$22,794	$23,364	$23,948	$24,547	$25,161	$25,790
	Gross Residential Income	102.5% /Year		442,332	453,390	464,725	476,343	488,252	500,458	512,970	525,794
	PBV Overhang	102.5% /Year		119,088	122,065	125,117	128,245	131,451	134,737	138,106	141,558
	COSR	103.8% /Year		19,286	20,011	20,763	21,544	22,354	23,194	24,066	24,971
	Miscellaneous Income - MHSA Units	102.5% /Year		840	861	883	905	927	950	974	998
	Miscellaneous Income	102.5% /Year		2,400	2,460	2,522	2,585	2,649	2,715	2,783	2,853
	Total Potential Gross Income			**$605,642**	**$621,026**	**$636,804**	**$652,985**	**$669,581**	**$686,602**	**$704,059**	**$721,964**
	(Less) Vacancy Allowance - MHSA Units	10.00%		(16,091)	(16,518)	(16,956)	(17,406)	(17,868)	(18,343)	(18,831)	(19,332)
	(Less) Vacancy Allowance	5.00%		(22,237)	(22,793)	(23,362)	(23,946)	(24,545)	(25,159)	(25,788)	(26,432)
	Effective Gross Income			**$567,314**	**$581,716**	**$596,486**	**$611,633**	**$627,168**	**$643,100**	**$659,441**	**$676,200**
III.	**Operating Expenses**										
	General Operating Expenses	103.5% /Year		$252,832	$261,681	$270,840	$280,319	$290,131	$300,285	$310,795	$321,673
	Property Taxes	102.0% /Year		8,000	8,160	8,323	8,490	8,659	8,833	9,009	9,189
	Social Services	103.5% /Year		12,960	13,414	13,883	14,369	14,872	15,392	15,931	16,489
	County Monitoring Fee	103.5% /Year		2,970	3,074	3,182	3,293	3,408	3,527	3,651	3,779
	Association CAM Charges	103.5% /Year		19,500	20,183	20,889	21,620	22,377	23,160	23,970	24,809
	Replacement Reserves	100.0% /Year		27,000	27,000	27,000	27,000	27,000	27,000	27,000	27,000
	Total Operating Expenses			**$323,262**	**$333,511**	**$344,117**	**$355,091**	**$366,447**	**$378,197**	**$390,357**	**$402,939**
V.	**Net Operating Income**			**$244,052**	**$248,205**	**$252,369**	**$256,542**	**$260,721**	**$264,903**	**$269,084**	**$273,260**
	(Less) Annual Debt Service			(206,916)	(206,916)	(206,916)	(206,916)	(206,916)	(206,916)	(206,916)	(206,916)
	(Less) Annual Debt Service - MHSA	0.42% Loan Amt		(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)
VI.	**Available Cash Flow**			**$30,001**	**$34,153**	**$38,317**	**$42,490**	**$46,669**	**$50,851**	**$55,032**	**$59,209**
VII.	**Contingent Payments**										
	Deferred Developer Fee			$30,001	$34,153	$38,317	$25,530	$0	$0	$0	$0
	Asset Management Fee			0	0	0	16,961	22,858	8,695	8,955	9,224
	General Partnership Fee			0	0	0	0	23,812	24,701	8,955	9,224
	Total Contingent Payments			**$30,001**	**$34,153**	**$38,317**	**$42,490**	**$46,669**	**$33,396**	**$17,911**	**$18,448**
VIII.	**Residual Receipts**			**$0**	**$0**	**$0**	**$0**	**$0**	**$17,455**	**$37,121**	**$40,760**
	City Loan	27.1% of RR		$0	$0	$0	$0	$0	$4,730	$10,060	$11,046
		$494,000 NPV @ 8.0%									

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TABLE 6

CASH FLOW ANALYSIS
OAKCREST HEIGHTS (SAVI RANCH II)
YORBA LINDA, 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 - MHSA Units	$26,434	$27,095	$27,773	$28,467	$29,179	$29,908	$30,656	$31,422	$32,208	$33,013	$33,838
	Gross Residential Income	538,939	552,412	566,222	580,378	594,887	609,760	625,004	640,629	656,644	673,060	689,887
	PBV Overhang	145,097	148,725	152,443	156,254	160,160	164,164	168,268	172,475	176,787	181,206	185,737
	COSR	25,909	26,883	27,894	28,942	30,030	31,159	32,331	33,546	34,807	36,116	37,473
	Miscellaneous Income - MHSA Units	1,023	1,049	1,075	1,102	1,130	1,158	1,187	1,217	1,247	1,278	1,310
	Miscellaneous Income	2,924	2,997	3,072	3,149	3,228	3,308	3,391	3,476	3,563	3,652	3,743
	Total Potential Gross Income	**$740,327**	**$759,162**	**$778,479**	**$798,292**	**$818,614**	**$839,458**	**$860,836**	**$882,764**	**$905,256**	**$928,326**	**$951,989**
	(Less) Vacancy Allowance - MHSA Units	(19,846)	(20,375)	(20,918)	(21,477)	(22,050)	(22,639)	(23,244)	(23,866)	(24,505)	(25,161)	(25,836)
	(Less) Vacancy Allowance	(27,093)	(27,770)	(28,465)	(29,176)	(29,906)	(30,653)	(31,420)	(32,205)	(33,010)	(33,836)	(34,682)
	Effective Gross Income	**$693,388**	**$711,016**	**$729,096**	**$747,639**	**$766,658**	**$786,165**	**$806,172**	**$826,693**	**$847,741**	**$869,329**	**$891,471**
III.	**Operating Expenses**											
	General Operating Expenses	$332,931	$344,584	$356,645	$369,127	$382,047	$395,418	$409,258	$423,582	$438,407	$453,751	$469,633
	Property Taxes	9,373	9,561	9,752	9,947	10,146	10,349	10,556	10,767	10,982	11,202	11,426
	Social Services	17,066	17,663	18,281	18,921	19,583	20,269	20,978	21,713	22,472	23,259	24,073
	County Monitoring Fee	3,911	4,048	4,189	4,336	4,488	4,645	4,808	4,976	5,150	5,330	5,517
	Association CAM Charges	25,678	26,576	27,507	28,469	29,466	30,497	31,565	32,669	33,813	34,996	36,221
	Replacement Reserves	27,000	27,000	27,000	27,000	27,000	27,000	27,000	27,000	27,000	27,000	27,000
	Total Operating Expenses	**$415,959**	**$429,432**	**$443,374**	**$457,801**	**$472,730**	**$488,178**	**$504,164**	**$520,706**	**$537,825**	**$555,539**	**$573,870**
V.	**Net Operating Income**	**$277,428**	**$281,584**	**$285,722**	**$289,839**	**$293,929**	**$297,987**	**$302,009**	**$305,987**	**$309,916**	**$313,790**	**$317,602**
	(Less) Annual Debt Service	(206,916)	(206,916)	(206,916)	(206,916)	(206,916)	(206,916)	(206,916)	(206,916)	(206,916)	(206,916)	(206,916)
	(Less) Annual Debt Service - MHSA	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)
VI.	**Available Cash Flow**	**$63,376**	**$67,532**	**$71,670**	**$75,787**	**$79,877**	**$83,935**	**$87,957**	**$91,935**	**$95,864**	**$99,738**	**$103,550**
VII.	**Contingent Payments**											
	Deferred Developer Fee	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	Asset Management Fee	9,501	9,786	10,079	10,382	10,693	11,014	11,344	0	0	0	0
	General Partnership Fee	9,501	9,786	10,079	10,382	10,693	11,014	11,344	11,685	12,035	12,396	12,768
	Total Contingent Payments	**$19,002**	**$19,572**	**$20,159**	**$20,764**	**$21,386**	**$22,028**	**$22,689**	**$11,685**	**$12,035**	**$12,396**	**$12,768**
VIII.	**Residual Receipts**	**$44,375**	**$47,960**	**$51,511**	**$55,023**	**$58,491**	**$61,907**	**$65,268**	**$80,250**	**$83,829**	**$87,342**	**$90,782**
	City Loan	$12,026	$12,997	$13,960	$14,911	$15,851	$16,777	$17,688	$21,748	$22,718	$23,670	$24,602

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TABLE 6

CASH FLOW ANALYSIS
OAKCREST HEIGHTS (SAVI RANCH II)
YORBA LINDA, 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 - MHSA Units	$34,684	$35,551	$36,440	$37,351	$38,285	$39,242	$40,223	$41,229	$42,259	$43,316	$44,399
	Gross Residential Income	707,134	724,812	742,933	761,506	780,544	800,057	820,059	840,560	861,574	883,114	905,191
	PBV Overhang	190,380	195,140	200,018	205,018	210,144	215,398	220,782	226,302	231,960	237,759	243,703
	COSR	38,882	40,344	41,860	43,434	45,067	46,761	48,519	25,510	0	0	0
	Miscellaneous Income - MHSA Units	1,343	1,376	1,411	1,446	1,482	1,519	1,557	1,596	1,636	1,677	1,719
	Miscellaneous Income	3,837	3,933	4,031	4,132	4,235	4,341	4,449	4,561	4,675	4,792	4,911
	Total Potential Gross Income	**$976,260**	**$1,001,156**	**$1,026,693**	**$1,052,888**	**$1,079,757**	**$1,107,318**	**$1,135,590**	**$1,139,758**	**$1,142,104**	**$1,170,657**	**$1,199,923**
	(Less) Vacancy Allowance - MHSA Units	(26,529)	(27,241)	(27,973)	(28,725)	(29,498)	(30,292)	(31,108)	(29,464)	(27,586)	(28,275)	(28,982)
	(Less) Vacancy Allowance	(35,549)	(36,437)	(37,348)	(38,282)	(39,239)	(40,220)	(41,225)	(42,256)	(43,312)	(44,395)	(45,505)
	Effective Gross Income	**$914,183**	**$937,478**	**$961,372**	**$985,881**	**$1,011,020**	**$1,036,806**	**$1,063,256**	**$1,068,038**	**$1,071,206**	**$1,097,986**	**$1,125,436**
III.	**Operating Expenses**											
	General Operating Expenses	$486,070	$503,082	$520,690	$538,914	$557,776	$577,299	$597,504	$618,417	$640,061	$662,463	$685,650
	Property Taxes	11,654	11,888	12,125	12,368	12,615	12,867	13,125	13,387	13,655	13,928	14,207
	Social Services	24,916	25,788	26,690	27,624	28,591	29,592	30,628	31,700	32,809	33,957	35,146
	County Monitoring Fee	5,710	5,910	6,117	6,331	6,552	6,781	7,019	7,264	7,519	7,782	8,054
	Association CAM Charges	37,489	38,801	40,159	41,564	43,019	44,525	46,083	47,696	49,366	51,093	52,882
	Replacement Reserves	27,000	27,000	27,000	27,000	27,000	27,000	27,000	27,000	27,000	27,000	27,000
	Total Operating Expenses	**$592,839**	**$612,468**	**$632,781**	**$653,802**	**$675,554**	**$698,064**	**$721,359**	**$745,464**	**$770,410**	**$796,224**	**$822,938**
V.	**Net Operating Income**	**$321,344**	**$325,010**	**$328,591**	**$332,079**	**$335,466**	**$338,742**	**$341,898**	**$322,574**	**$300,797**	**$301,762**	**$302,498**
	(Less) Annual Debt Service	(206,916)	(111,641)	(111,641)	(111,641)	(111,641)	(111,641)	(111,641)	(111,641)	(111,641)	(111,641)	(111,641)
	(Less) Annual Debt Service - MHSA	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)
VI.	**Available Cash Flow**	**$107,292**	**$206,233**	**$209,814**	**$213,302**	**$216,689**	**$219,965**	**$223,121**	**$203,797**	**$182,020**	**$182,985**	**$183,721**
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 Partnership Fee	13,151	13,546	13,952	14,371	14,802	15,246	15,703	16,174	16,660	17,159	17,674
	Total Contingent Payments	**$13,151**	**$13,546**	**$13,952**	**$14,371**	**$14,802**	**$15,246**	**$15,703**	**$16,174**	**$16,660**	**$17,159**	**$17,674**
VIII.	**Residual Receipts**	**$94,141**	**$192,687**	**$195,862**	**$198,931**	**$201,887**	**$204,719**	**$207,418**	**$187,623**	**$165,360**	**$165,826**	**$166,047**
	City Loan	$25,512	$52,218	$53,079	$53,910	$54,711	$55,479	$56,210	$50,846	$44,813	$44,939	$44,999

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TABLE 6

CASH FLOW ANALYSIS
OAKCREST HEIGHTS (SAVI RANCH II)
YORBA LINDA, 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 - MHSA Units	$45,509	$46,647	$47,813	$49,008	$50,233	$51,489	$52,776	$54,096	$55,448	$56,834	$58,255
	Gross Residential Income	927,821	951,017	974,792	999,162	1,024,141	1,049,745	1,075,988	1,102,888	1,130,460	1,158,722	1,187,690
	PBV Overhang	249,795	256,040	262,441	269,002	275,727	282,620	289,686	296,928	304,351	311,960	319,759
	COSR	0	0	0	0	0	0	0	0	0	0	0
	Miscellaneous Income - MHSA Units	1,762	1,806	1,851	1,897	1,945	1,993	2,043	2,094	2,147	2,200	2,255
	Miscellaneous Income	5,034	5,160	5,289	5,421	5,557	5,696	5,838	5,984	6,134	6,287	6,444
	Total Potential Gross Income	**$1,229,921**	**$1,260,669**	**$1,292,186**	**$1,324,491**	**$1,357,603**	**$1,391,543**	**$1,426,332**	**$1,461,990**	**$1,498,540**	**$1,536,003**	**$1,574,403**
	(Less) Vacancy Allowance - MHSA Units	(29,707)	(30,449)	(31,210)	(31,991)	(32,791)	(33,610)	(34,451)	(35,312)	(36,195)	(37,099)	(38,027)
	(Less) Vacancy Allowance	(46,643)	(47,809)	(49,004)	(50,229)	(51,485)	(52,772)	(54,091)	(55,444)	(56,830)	(58,250)	(59,707)
	Effective Gross Income	**$1,153,572**	**$1,182,411**	**$1,211,972**	**$1,242,271**	**$1,273,328**	**$1,305,161**	**$1,337,790**	**$1,371,235**	**$1,405,515**	**$1,440,653**	**$1,476,670**
III.	**Operating Expenses**											
	General Operating Expenses	$709,647	$734,485	$760,192	$786,799	$814,337	$842,838	$872,338	$902,870	$934,470	$967,176	$1,001,028
	Property Taxes	14,491	14,781	15,076	15,378	15,685	15,999	16,319	16,645	16,978	17,318	17,664
	Social Services	36,376	37,649	38,967	40,331	41,742	43,203	44,715	46,280	47,900	49,577	51,312
	County Monitoring Fee	8,336	8,628	8,930	9,242	9,566	9,901	10,247	10,606	10,977	11,361	11,759
	Association CAM Charges	54,732	56,648	58,631	60,683	62,807	65,005	67,280	69,635	72,072	74,595	77,206
	Replacement Reserves	27,000	27,000	27,000	27,000	27,000	27,000	27,000	27,000	27,000	27,000	27,000
	Total Operating Expenses	**$850,583**	**$879,191**	**$908,796**	**$939,433**	**$971,137**	**$1,003,947**	**$1,037,900**	**$1,073,036**	**$1,109,398**	**$1,147,027**	**$1,185,968**
V.	**Net Operating Income**	**$302,989**	**$303,220**	**$303,176**	**$302,838**	**$302,191**	**$301,214**	**$299,890**	**$298,198**	**$296,117**	**$293,626**	**$290,701**
	(Less) Annual Debt Service											
	(Less) Annual Debt Service - MHSA	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)
VI.	**Available Cash Flow**	**$295,853**	**$296,085**	**$296,040**	**$295,702**	**$295,055**	**$294,078**	**$292,754**	**$291,062**	**$288,982**	**$286,490**	**$283,565**
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 Partnership Fee	18,204	18,751	19,313	19,893	20,489	21,104	21,737	22,389	23,061	23,753	24,465
	Total Contingent Payments	**$18,204**	**$18,751**	**$19,313**	**$19,893**	**$20,489**	**$21,104**	**$21,737**	**$22,389**	**$23,061**	**$23,753**	**$24,465**
VIII.	**Residual Receipts**	**$277,649**	**$277,334**	**$276,727**	**$275,810**	**$274,565**	**$272,974**	**$271,017**	**$268,673**	**$265,921**	**$262,738**	**$259,100**
	City Loan	$75,243	$75,158	$74,993	$74,744	$74,407	$73,976	$73,446	$72,810	$72,065	$71,202	$70,216

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TABLE 6

CASH FLOW ANALYSIS
OAKCREST HEIGHTS (SAVI RANCH II)
YORBA LINDA, 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 - MHSA Units	$59,712	$61,204	$62,734	$64,303	$65,910	$67,558	$69,247	$70,978	$72,753	$74,572	$76,436
	Gross Residential Income	1,217,382	1,247,816	1,279,012	1,310,987	1,343,762	1,377,356	1,411,790	1,447,085	1,483,262	1,520,343	1,558,352
	PBV Overhang	327,753	335,947	344,345	352,954	361,778	370,822	380,093	389,595	399,335	409,318	419,551
	COSR	0	0	0	0	0	0	0	0	0	0	0
	Miscellaneous Income - MHSA Units	2,312	2,370	2,429	2,490	2,552	2,616	2,681	2,748	2,817	2,887	2,959
	Miscellaneous Income	6,605	6,770	6,940	7,113	7,291	7,473	7,660	7,852	8,048	8,249	8,455
	Total Potential Gross Income	**$1,613,763**	**$1,654,107**	**$1,695,460**	**$1,737,847**	**$1,781,293**	**$1,825,825**	**$1,871,471**	**$1,918,258**	**$1,966,214**	**$2,015,369**	**$2,065,754**
	(Less) Vacancy Allowance - MHSA Units	(38,978)	(39,952)	(40,951)	(41,975)	(43,024)	(44,100)	(45,202)	(46,332)	(47,490)	(48,678)	(49,895)
	(Less) Vacancy Allowance	(61,199)	(62,729)	(64,298)	(65,905)	(67,553)	(69,241)	(70,972)	(72,747)	(74,565)	(76,430)	(78,340)
	Effective Gross Income	**$1,513,586**	**$1,551,426**	**$1,590,212**	**$1,629,967**	**$1,670,716**	**$1,712,484**	**$1,755,296**	**$1,799,179**	**$1,844,158**	**$1,890,262**	**$1,937,519**
III.	**Operating Expenses**											
	General Operating Expenses	$1,036,064	$1,072,326	$1,109,857	$1,148,702	$1,188,907	$1,230,518	$1,273,587	$1,318,162	$1,364,298	$1,412,048	$1,461,470
	Property Taxes	18,018	18,378	18,746	19,120	19,503	19,893	20,291	20,697	21,110	21,533	21,963
	Social Services	53,108	54,967	56,891	58,882	60,943	63,076	65,283	67,568	69,933	72,381	74,914
	County Monitoring Fee	12,171	12,597	13,037	13,494	13,966	14,455	14,961	15,484	16,026	16,587	17,168
	Association CAM Charges	79,908	82,705	85,599	88,595	91,696	94,905	98,227	101,665	105,223	108,906	112,718
	Replacement Reserves	27,000	27,000	27,000	27,000	27,000	27,000	27,000	27,000	27,000	27,000	27,000
	Total Operating Expenses	**$1,226,267**	**$1,267,971**	**$1,311,130**	**$1,355,793**	**$1,402,014**	**$1,449,847**	**$1,499,348**	**$1,550,576**	**$1,603,591**	**$1,658,455**	**$1,715,233**
V.	**Net Operating Income**	**$287,319**	**$283,455**	**$279,082**	**$274,174**	**$268,702**	**$262,637**	**$255,948**	**$248,602**	**$240,567**	**$231,807**	**$222,286**
	(Less) Annual Debt Service											
	(Less) Annual Debt Service - MHSA	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)	(7,136)
VI.	**Available Cash Flow**	**$280,183**	**$276,319**	**$271,946**	**$267,038**	**$261,566**	**$255,501**	**$248,812**	**$241,467**	**$233,431**	**$224,671**	**$215,150**
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 Partnership Fee	25,199	25,955	26,734	27,536	28,362	29,213	30,089	30,992	31,922	32,879	33,866
	Total Contingent Payments	**$25,199**	**$25,955**	**$26,734**	**$27,536**	**$28,362**	**$29,213**	**$30,089**	**$30,992**	**$31,922**	**$32,879**	**$33,866**
VIII.	**Residual Receipts**	**$254,984**	**$250,364**	**$245,212**	**$239,502**	**$233,204**	**$226,288**	**$218,723**	**$210,475**	**$201,510**	**$191,792**	**$181,284**
	City Loan	$69,101	$67,849	$66,453	$64,905	$63,198	$61,324	$59,274	$57,039	$54,609	$51,976	$49,128

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TABLE 6

CASH FLOW ANALYSIS
OAKCREST HEIGHTS (SAVI RANCH II)
YORBA LINDA, CALIFORNIA

		Year 53	Year 54	Year 55
I.	**Potential Gross Income**			
	Gross Residential Income - MHSA Units	$78,347	$80,305	$82,313
	Gross Residential Income	1,597,311	1,637,243	1,678,174
	PBV Overhang	430,040	440,791	451,811
	COSR	0	0	0
	Miscellaneous Income - MHSA Units	3,033	3,109	3,187
	Miscellaneous Income	8,667	8,883	9,105
	Total Potential Gross Income	**$2,117,397**	**$2,170,332**	**$2,224,591**
	(Less) Vacancy Allowance - MHSA Units	(51,142)	(52,421)	(53,731)
	(Less) Vacancy Allowance	(80,299)	(82,306)	(84,364)
	Effective Gross Income	**$1,985,957**	**$2,035,605**	**$2,086,496**
III.	**Operating Expenses**			
	General Operating Expenses	$1,512,621	$1,565,563	$1,620,358
	Property Taxes	22,403	22,851	23,308
	Social Services	77,536	80,250	83,058
	County Monitoring Fee	17,769	18,391	19,034
	Association CAM Charges	116,663	120,746	124,972
	Replacement Reserves	27,000	27,000	27,000
	Total Operating Expenses	**$1,773,992**	**$1,834,800**	**$1,897,730**
V.	**Net Operating Income**	**$211,965**	**$200,805**	**$188,765**
	(Less) Annual Debt Service			
	(Less) Annual Debt Service - MHSA	(7,136)	(7,136)	(7,136)
VI.	**Available Cash Flow**	**$204,829**	**$193,669**	**$181,629**
VII.	**Contingent Payments**			
	Deferred Developer Fee	$0	$0	$0
	Asset Management Fee	0	0	0
	General Partnership Fee	34,882	35,928	37,006
	Total Contingent Payments	**$34,882**	**$35,928**	**$37,006**
VIII.	**Residual Receipts**	**$169,948**	**$157,741**	**$144,623**
	City Loan	$46,056	$42,748	$18,020,331

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