



Good Neighbors

San Diego Housing Commission

REPORT

DATE ISSUED: September 1, 2006 REPORT NO: HCR 06-66
ATTENTION: Chair and Members of the Housing Commission ITEM: 105
For the Agenda of September 15, 2006
SUBJECT: Final Authorization to Issue Multifamily Housing Revenue Bonds for Studio 15

REQUESTED ACTION:

Approve funding to develop a 275-unit affordable rental complex by taking the final step to issue housing revenue bonds for Studio 15. Borrower will acquire the site, construct the project, and restrict rents below market.

STAFF RECOMMENDATION:

Recommend that the Housing Authority authorize the issuance of tax-exempt multifamily housing revenue bonds in an amount not to exceed \$20,500,000 for the acquisition and construction of the 275-unit Studio 15 project by Affirmed Housing Group (Affirmed) and its affiliate, Studio 15 Housing Partners, LLC, located at 15th Street and Imperial Avenue in downtown San Diego.

BACKGROUND:

Studio 15 is a new construction community that will create a total of 275 new units. The development will be located on the southwest corner of 15th Street and Imperial Avenue in the East Village neighborhood of downtown San Diego. The location map is included as Attachment 1.

The project would consist of 275 furnished rental housing units and approximately 2,000 square feet of commercial lease space in one four-story building. The design of the exterior elevations avoids a monolithic appearance through various combinations of setbacks, awnings, and other architectural details. The building would have a landscaped interior courtyard: 59 parking spaces would be provided in an underground garage.

The proposed apartments will meet the requirements of "living units" under San Diego Municipal Code Section 103.1959 since they would be larger and have more amenities than typical SRO units. Each apartment will have a bathroom and a kitchenette equipped with a combination microwave/convection oven, a sink with a garbage disposal, and a small refrigerator. The units differ from a standard studio apartment because they are smaller, with living areas averaging 275 square feet rather than the 400 square feet of a typical studio. Maximum allowable occupancy for the proposed units will be one person.

Housing Affordability

As a condition of the proposed financing sources, the project will be restricted for occupancy by, and at rents affordable to, households earning between 40% Area Median Income (AMI) (\$19,300 for a household of one) and 60% AMI (\$29,000 for a household of one). In addition, to comply with state Redevelopment Law, the initial rents will not exceed \$454 (40% AMI), \$568 (50% AMI), and \$660 (60% AMI). Two units will be occupied by on-site managers. Rent and income restrictions for the project are outlined in the chart below:



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| Type | AMI | Number of Units | Restricted Rent (with utility allowance) | Market Rate | Monthly Savings per unit |
|-----------------------------|---------|-----------------|---|-------------|--------------------------|
| Studio/SRO | 40% AMI | 27 | \$483 | \$750 | \$267 |
| Studio/SRO* | 50% AMI | 147 | \$603 | \$750 | \$147 |
| Studio/SRO | 60% AMI | 100 | \$724 | \$750 | \$26 |
| 1 Bedroom** | 60% AMI | 1 | N/A | \$850 | N/A |
| Total | | 275 | | | |
| Total Annual Savings | | | | | \$386,484 |

*Includes one manager's unit; **Manager's unit

Development Team

Affirmed will be the administrative managing member of Studio 15 Housing Partners, LLC, a limited liability corporation that will own and operate Studio 15. Affirmed is a for-profit real estate development firm located in Escondido, California specializing in affordable rental housing. Since 1994, Affirmed has developed over 1,100 units in Southern California and the mid-Atlantic states of West Virginia, Virginia and North Carolina. Since 1994, Affirmed has secured over \$200 million of tax credit, conventional and other financing for affordable housing. Recent developments include new construction as well as acquisition and substantial rehabilitation projects in San Diego County, Riverside County and Ventura County. Affirmed's recent local projects include the 106-unit Tesoro Grove Apartments, the 94-unit Hollywood Palms Apartments, the 50-unit Creekside Trails Apartments, and the 69-unit Auburn Park Apartments. Affirmed's Statement for Public Disclosure and most recent financials are included as Attachments 2 and 3.

Housing Development Partners of San Diego (HDP) will act as the supervisory managing member of a limited liability corporation that will be formed to own and operate Studio 15. HDP is a nonprofit public benefit corporation established by the Housing Commission in 1990 to acquire and develop publicly financed low and moderate-income housing and to provide facilities and services related to housing. The organization is operated as an independent nonprofit corporation by a Board of Directors consisting of two members of the Board of Commissioners of the San Diego Housing Commission, the Chief Executive Officer of the Housing Commission, and four at-large directors. HDP's Statement for Public Disclosure and most recent financials are included as Attachments 4 and 5. None of the Board members of the Housing Commission, nor the CEO of the Housing Commission, receive any remuneration for sitting on the 501(c)(3) nonprofit board.

HDP developed and operates two affordable housing projects in San Diego: Casa Colina del Sol and Knox Glen. Knox Glen is a 54-unit affordable housing development for families located in the San Diego community of Lincoln Park. Casa Colina del Sol is a 75-unit affordable housing project for seniors located in City Heights. In 2002 HDP acquired the Mason Hotel, a 27-unit single-room-occupancy facility located at 1345 Fifth Avenue in downtown San Diego. (A cigarette started a fire in this property in December of 2004; HDP carries fire insurance for the asset and claims have been filed against HDP in connection with the fire.) HDP is also a general partner in the Island Village development, a 280-unit rental complex located in East Village that is very similar to Studio 15.

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Financing Structure

The project has a total development cost of approximately \$41,700,000; sources of funds include tax-exempt bonds, tax credits, a residual receipts loan from the Centre City Development Corporation (CCDC), and a deferred developer fee. Although approximately \$20,500,000 in bonds will be issued for the project, approximately \$12,100,000 of the bond amount will be paid off at conversion to permanent financing, resulting in a permanent bond of approximately \$8,400,000. Permanent financing sources are summarized in the following table.

| Proposed Permanent Financing Sources | |
|---|---------------------|
| CCDC Loan | \$16,500,000 |
| Federal Tax Credits | \$16,000,000 |
| Housing Revenue Bonds | \$8,400,000 |
| Deferred Developer Fee | \$800,000 |
| Total | \$41,700,000 |

The bonds will be sold through a public offering with Capmark Securities acting as the underwriter. The bonds will bear interest at a variable rate determined weekly and will be issued in the minimum denominations of \$100,000. Payments on the bonds will also be secured by a letter of credit provided by Citibank. Based on the financial strength of Citibank, the bonds will be rated AA/A1+ by Standard and Poor's Corporation.

Public Disclosure and Bond Authorization

The following documents will be executed on behalf of the Housing Authority: Official Statement, Trust Indenture, Loan Agreement, Regulatory Agreement, Intercreditor Agreement, and Bond Purchase Agreement. At the time of docketing, all bond documents in substantially final form will be presented to members of the Housing Authority. Any changes to the documents following Housing Authority approval require the consent of the City Attorney's office and bond counsel.

An Official Statement in preliminary form will be used to market the bonds to investors. The official statement will contain limited information about the Housing Authority as the issuer. This information verifies that the Housing Authority is an appropriate issuer of the bonds and that there is no existing or threatened litigation that would jeopardize the validity of the bonds. Financial statements of the Housing Commission or Housing Authority are not included in the official statement. Furthermore, it is necessary for members of the Housing Authority to disclose any knowledge, not available to the general public, about the feasibility of the project. Attachment 6 contains the language regarding the Housing Authority that will be used in the Official Statement.

The bonds will be issued pursuant to a Trust Indenture between the Housing Authority and the trustee. Based upon instructions contained in the Trust Indenture, the trustee will hold all bond funds and other collateral to secure payment of the bonds.

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Under the terms of the Loan Agreement, the Housing Authority will loan the proceeds of the bonds to the borrower in order to acquire and construct the project. The Loan Agreement sets out the terms of repayment and the security for the loan, and the Housing Authority assigns its rights to receive repayments under the loan to the trustee.

The Regulatory Agreement will be recorded against the property in order to ensure the long-term use of the project as affordable housing. The Regulatory Agreement will also ensure that the project complies with all applicable federal and state laws.

The Bond Purchase Agreement outlines the terms under which the Housing Authority will issue and the underwriter will purchase the bonds. The Bond Purchase Agreement is executed and delivered by the Housing Authority, the borrower, and the underwriter.

Since the bonds will not be repaid using any City or Housing Authority revenues, it is not appropriate to provide any information about the City's finances. In addition, the bonds will not be subject to continuing disclosure requirements. (For a summary of the Housing Commission's Multifamily Bond Program and actions that must be taken by the Housing Authority and by the City Council to initiate and finalize bond financings, please see Attachment 7.)

Staff has been working with Ross Financial Services, the Housing Commission's Financial Advisor, to perform due diligence concerning the proposed financing and to formulate a recommendation for the Housing Authority. After evaluating the terms of the proposed financing and the public benefits to be achieved, it is the Financial Advisor's recommendation that the bond issuance for the project be authorized. The Financial Advisor's analysis and recommendation to proceed is included as Attachment 8. Staff is also working with the City's Disclosure Practices Working Group to assure that the issuance of Housing Authority bonds is in conformance with the City's requirements.

Conclusion

Studio 15 will provide a total of 275 new rental units in downtown San Diego. The project will provide SRO replacement units for individuals earning between 40% and 60% AMI (\$19,300 to \$29,000 for a household of one). This type of housing is desperately needed to offset the ongoing loss of SRO units in the City.

FISCAL CONSIDERATIONS:

The issuance of bonds will not constitute a financial liability of the Housing Authority, the City, or the Housing Commission. Neither the faith and credit nor the taxing power of the City or the Housing Authority would be pledged to the payment of the bonds; security for bond payments is limited to the value of the property, its revenue sources, and the letter of credit provided by Citibank. All costs of the financing, including compensation for staff efforts in preparing the bonds, will be borne by the developer. The Housing Commission's origination fee as well as the annual administrative fee under the financing will be up to \$47,150 (0.23 percent of the bond amount).

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

On June 20, 2006, the Housing Authority approved a bond inducement resolution of up to \$25,000,000 for the project and the City Council held a public hearing and approved a resolution in compliance with the Tax Equity and Fiscal Responsibility Act (TEFRA). On the same date, the Redevelopment Agency

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approved a CCDC development permit for the project. The issuance of bonds by the Housing Authority is contingent upon approval of a loan by the Redevelopment Agency.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

The Housing Commission Board recommended approval of the bond inducement resolution and the TEFRA hearing and resolution on May 26, 2006. The Housing Commission recommended approval of the proposed bond issuance at its meeting on September 15, 2006. On May 17, 2006, the Centre City Advisory Committee approved the scope and design of the project and on May 24, 2006, the CCDC board recommended approval of a CCDC development permit and a loan for the project.

ENVIRONMENTAL REVIEW:

This project is within the jurisdiction of CCDC. CCDC completed an Environmental Secondary Study for the project in accordance with the Master and Supplemental Environmental Impact Reports (MEIR/SEIR) for the Centre City Community Plan and Planned District Ordinance.

KEY STAKEHOLDERS & PROJECTED IMPACTS:

Low and very-low income households are the intended residents of the project. Affirmed and HDP compose the development team for the project. The owners of Affirmed and the HDP board members are listed in Attachments 2 and 4. The seller of the land for the project is the Jinger Lee Matuzas Trust. Capmark Securities and Boston Capital have been selected to provide debt and equity for the project. Ross Financial Services and Quint & Thimmig have been selected as bond counsel and financial advisor to represent the Housing Authority.

Respectfully submitted,

**Signature on File
With Original Document**

Approved by,

Cissy Fisher
Director of Housing Finance and Development

Carrol Vaughan
Executive Vice President and Chief Operating Officer

- Attachments:
1. Site Map
 2. Affirmed's Developer's Disclosure Statement*
 3. Affirmed's Developer's Financial Statement*
 4. HDP's Developer's Disclosure Statement*
 5. HDP's Developer's Financial Statement*
 6. Issuer Disclosure Information
 7. Multifamily Bond Program Summary
 8. Financial Advisor's Recommendation

Distribution of these attachments may be limited. Copies available for review during business hours at the Housing Commission offices at 1625 Newton Avenue.



Good Neighbors

San Diego Housing Commission

- 1625 Newton Avenue
- San Diego, California 92113-1038
- 619/231 9400
- FAX: 619/544 9193

DEVELOPER'S STATEMENT FOR PUBLIC DISCLOSURE
(add extra **sheets** if you need more **space**)

1. Name of developer: Affirmed Housing Group
2. Address, phone number and ZIP Code:
200 E. Washington Ave, #208, Escondido, CA 92025
3. IRS Number of Developer: 33-0454528
4. If the developer is not an individual doing business under his own name, the developer has the status indicated below and is organized or operating under the laws of California as:

- A corporation
- A nonprofit or charitable institution or corporation
- A partnership known as: _____
- A business association or a joint venture known as _____
- A Federal, State or local government or instrumentality thereof.
- Other (explain)

5. If the developer is not an individual or a government agency or instrumentality, give date of organization: December 18, 1990

6. Names, addresses, phone numbers, title of position (if any) and nature and extent of the interest of the officers and principal members, shareholders, and investors of the developer, other than a government agency or instrumentality, are set forth as follows:

James Silverwood , President and 100% shareholder

5816 Winland Hills Drive

Rancho Santa Fe, CA 92

(760) 738-8401



DISCLOSURE STATEMENT: PAGE 2

- a. If the developer is a corporation, the officers, directors or trustees, and each stockholder owning more than 10% of any class of stock.

James Silverwood - 100% shareholder

- b. If the developer is a nonprofit or charitable institution or corporation, the members who constitute the board of trustees or board of directors or similar governing body. N/A

- c. If the developer is a partnership, each partner, whether a general or limited partner, and either the percent of interest or a description of the character and extent of interest. N/A

- d. If the developer is a business association or a joint venture, each participant and either the percent of interest or a description of the character and extent of interest. N/A

- e. If the developer is some other entity, the officers, the members of the governing body, and each person who has an interest of more than 10%.
N/A

| <u>Name, Address & Zip Code</u> | <u>Phone Number</u> | <u>Position Title (if any) and percent of interest or description of character and extent of interest</u> |
|-------------------------------------|---------------------|---|
|-------------------------------------|---------------------|---|

DISCLOSURE STATEMENT: PAGE 3

7. Name, address and nature and extent of interest of each person or entity (not named in response to Item 6) who has a beneficial interest in any of the shareholders or investors named in response to Item 6 which gives such person or entity more than a computed 10% interest in the developer (for example, more than 20% of the stock in a corporation which holds 50% of the stock of the developer; or more than 50% of the stock in a corporation which holds 20% of the stock of the developer): N/A

| <u>Name, Address and Zip Code</u> | <u>Description of character and extent of interest</u> |
|---------------------------------------|--|
|---------------------------------------|--|

8. Names (if not given above) of officers and directors or trustees of any corporation or firm listed under Item 6 or Item 7 above: N/A
9. Is the developer a subsidiary of or affiliated with any other corporation or corporations or any other firm or firms? If yes, list each such corporation or firm by name and address, specify its relationship to the developer, and identify the officers and directors or trustees common to the developer and such other corporation or firm. NO
10. The financial condition of the developer, as of 11/30/2005 is reflected in the attached financial statement.
11. If funds for the development are to be obtained from sources other than the developer's own funds, a statement of the developer's plan for financing the development: Private Activity Tax-Exempt Bonds provided by the California Debt Limit Allocation Committee (CDLAC), Equity from the sale of 4% Low-Income Housing Tax Credits allocated by the California Tax Credit Allocation Committee (TCAC) and purchased by private investors; deferred payment loan from Centre City Development Corporation (CCDC).

DISCLOSURE STATEMENT: PAGE 4

12. Sources and amount of cash available to developer to meet equity requirements of the proposed undertaking:

a. In banks:

| <u>Name, Address and ZIP Code of Bank</u> | <u>\$ Amount</u> |
|--|------------------|
| Alice Carr Citibank 787 West Fifth Street, 29 th Floor Los Angeles, CA 90071 | \$20,500,000 |

b. By loans from affiliated or associated corporations or firms:

| <u>Name, Address and ZIP Code of Source</u> | <u>\$ Amount</u> |
|---|------------------|
| Boston Capital (line of Credit) One Boston Place, 21 st Floor Boston, MA 02108 | \$1,500,000 |

c. By sale of readily salable assets:

| <u>Description</u> | <u>Market Value</u> | <u>Mortgages or Liens</u> |
|--------------------|---------------------|---------------------------|
| N/A | | |

13. Name and addresses of bank references:

| | | |
|--|---|--|
| Alice Carr Citibank 787 W. 5 th St, 29 th Fl. Los Angeles, CA 90071 | Paul Shipstead Union Bank of California 530 B St., Suite 500 San Diego, CA 92101 | Hank Cunningham Bank of America 450 B St., #450 San Diego, CA 92101 |
|--|---|--|

14. Has the developer or any of the developer's officers or principal members, shareholders or investors, or other interested parties been adjudged bankrupt, either voluntary or involuntary, within the past 10 years? Yes ___ No x
If yes, give date, place, and under what name.

15. Has the developer or anyone referred to above as "principals of the developer" been indicted for or convicted of any felony within the past 20 years? Yes _____
No x

DISCLOSURE STATEMENT: PAGE 5

If yes, give for each case (1) date, (2) charge, (3) place, (4) Court, and (5) action taken. Attach any explanation deemed necessary.

16. Undertakings, comparable to the proposed project, which have been completed by the developer including identification and brief description of each project and date of completion: See attached Project Profiles

17. If the developer or a parent corporation, a subsidiary, an affiliate, or a principal of the developer is to participate in the development as a construction contractor or builder: N/A

- a. Name and address of such contractor or builder:
- b. Has such contractor or builder within the last 10 years ever failed to qualify as a responsible bidder, refused to enter into a contract after an award has been made, or failed to complete a construction or development contract? Yes _____ No x If yes, explain:

c. Total amount of construction or development work performed by such contractor or builder during the last three years: \$ N/A

General description of such work:

d. Construction contracts or developments now being performed by such contractor or builder: N/A

| | | |
|--------------------------------|-----------------|--------------------------------|
| <u>Identification of</u> | | <u>Date to be</u> |
| <u>Contract or Development</u> | <u>Location</u> | <u>Amount</u> <u>Completed</u> |

e. Outstanding construction-contract bids of such contractor or builder: N/A

| | | |
|------------------------|---------------|--------------------|
| <u>Awarding Agency</u> | <u>Amount</u> | <u>Date Opened</u> |
|------------------------|---------------|--------------------|

18. Brief statement respecting equipment, experience, financial capacity, and other resources available to such contractor or builder for the performance of the work involved in the proposed project, specifying particularly the qualifications of the personnel, the nature of the equipment, and the general experience of the contractor: N/A

DISCLOSURE STATEMENT: PAGE 7

19. Does any member of the governing body of the San Diego Housing Commission, to which the accompanying proposal is being made, or any officer or employee of the San Diego Housing Commission who exercises any functions or responsibilities in connection with the carrying out of the project covered by the developer's proposal, have any direct or indirect personal financial interest in the developer or in the proposed contractor? Yes _____ No x
If yes, explain.

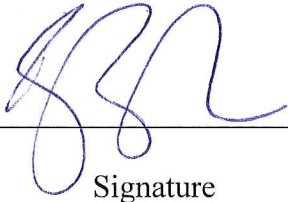
20. Statements and other evidence of the developer's qualifications and financial responsibility (other than the financial statement referred to in Item 10) are attached hereto and hereby made a part hereof as follows:

Please see attached Affirmed Housing Group Corporate Profile

CERTIFICATION

I (We) Affirmed Housing Group certify that this Developer's Statement for Public Disclosure and the attached evidence of the developer's qualifications and financial responsibility, including financial statements, are true and correct to the best of my (our) knowledge and belief.

Date: April 26, 2006



A handwritten signature in blue ink, consisting of stylized, overlapping loops and curves, positioned above a horizontal line.

Signature

Title: Vice President of Development

Address & ZIP Code

200 E. Washington Avenue, #208, Escondido, CA 92025

Affirmed Housing Group

Financial Statements

November 30, 2005

Peter P. Marquardt, CPA
550 West Vista Way, Ste. 202
Vista, CA 92083
(760) 758-6071

Affirmed Housing Group

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PETER P. MARQUARDT

CERTIFIED PUBLIC ACCOUNTANT

PH: (760) 758-6071
FAX: (760) 758-6458

550 West Vista Way, Suite 202
Vista, California 92083

To the Board of Directors
Affirmed Housing Group
Escondido, California

I have reviewed the accompanying balance sheet of Affirmed Housing Group (a California corporation) as of November 30, 2005 and the related statements of income and retained earnings and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Affirmed Housing Group.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression on an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion.

Based on my review, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

My review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles. The information included in the accompanying Schedule 1 is presented only for supplementary analysis purposes. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and I am not aware of any material modifications that should be made thereto.


Peter P. Marquardt
Certified Public Accountant

February 7, 2006

Affirmed Housing Group
Balance Sheet
November 30, 2005

| | | |
|---------------------------------------|---------------------|--|
| Current Assets | | |
| Cash | \$ 328,460 | |
| Accounts Receivable (Note 3) | 2,008,385 | |
| Other Receivables | 1,166,049 | |
| Accrued Interest | 149,006 | |
| Project Advances (Note 2) | 398,696 | |
| Total Current Assets | \$ 4,050,596 | |
| Property & Equipment (Note 2) | | |
| Land | 119,856 | |
| Vehicles | 69,782 | |
| Office Furniture & Equipment | 39,117 | |
| Tenant Improvements | 14,117 | |
| Computer Equipment | 4,923 | |
| Accumulated Depreciation | (112,961) | |
| Total Fixed Assets | 134,834 | |
| Other Assets | | |
| Deferred Tax Asset (Note 6) | 30,207 | |
| Due From Shareholder (Note 5) | 195,765 | |
| Investments in Partnerships | (968,953) | |
| Total Other Assets | (742,981) | |
| Total Assets | \$ 3,442,449 | |
| Current Liabilities | | |
| Accounts Payable | \$ 15,688 | |
| Pension Plan Payable | 55,808 | |
| Accrued Payroll | 14,738 | |
| Payroll Taxes Payable | 2,227 | |
| Current Portion Long-Term Debt | 7,282 | |
| Total Current Liabilities | \$ 95,743 | |
| Long-Term Debt (Note 4) | 26,579 | |
| Deferred Tax Liability (Note 6) | 391,654 | |
| Total Liabilities | 513,976 | |
| Equity | | |
| Common Stock | 2,000 | |
| Retained Earnings | 2,926,473 | |
| Total Equity | 2,928,473 | |
| Total Liabilities & Equity | \$ 3,442,449 | |

See accompanying notes and accountant's review report

Affirmed Housing Group
Statement of Income and Retained Earnings
For the Year Ended November 30, 2005

| | | | |
|--|----|----------|-----------|
| Revenues (Note 2) | | \$ | 2,736,300 |
| Cost of Goods Sold (Note 2) | | | 112,474 |
| Gross Profit | | | 2,623,826 |
| General & Administrative Expenses (Schedule 1) | | | 1,878,892 |
| Operating Income | | | 744,934 |
| Other Income (Expense) | | | |
| Interest Income | \$ | - | |
| Other Income | | - | |
| Interest Paid | | (3,500) | |
| Partnership Losses | | (21,667) | |
| | | | (25,167) |
| Net Income Before Income Tax | | | 719,767 |
| Income Tax Expense (Note 6) | | | 800 |
| Deferred Tax Expense (Note 6) | | | 38,470 |
| Net Income | | | 680,497 |
| Retained Earnings December 1, 2004 | | | 2,245,976 |
| Retained Earnings November 30, 2005 | | \$ | 2,926,473 |

See accompanying notes and accountant's review report

Affirmed Housing Group
Statement of Cash Flows
For the Year Ended November 30, 2005

Net Cash Flows From Operating Activities

| | | |
|---|----|-----------------------|
| Net income | \$ | 680,497 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | |
| Depreciation expense | | 3,185 |
| Increase in accounts receivable | | (1,838,605) |
| Decrease in other receivables | | 982,141 |
| Decrease in accrued interest | | 36,516 |
| Decrease in project advances | | 65,489 |
| Increase in Deferred Tax Asset | | (7,345) |
| Decrease in due from shareholders | | 29,815 |
| Increase in accounts payable | | 9,836 |
| Increase in pension plan payable | | 6,773 |
| Decrease in accrued payroll | | (2,692) |
| Increase in payroll taxes | | 2,227 |
| Increase in Deferred Tax Liability | | 45,815 |
| Decrease in income tax payable | | (800) |
| Net Cash Provided by Operating Activities | | <u>12,852</u> |
| Cash Flows From Financing Activities | | |
| Purchase of real estate | | 36,350 |
| Decrease in Investments in Partnerships | | 21,667 |
| Decrease in long term debt | | <u>(10,360)</u> |
| Net Cash Provided by Financing Activities | | <u>47,657</u> |
| Increase in cash | | 60,509 |
| Cash balance December 1, 2004 | | <u>267,951</u> |
| Cash balance November 30, 2005 | \$ | <u><u>328,460</u></u> |

See accompanying notes and accountant's review report

Affirmed Housing Group
Notes to Financial Statements
November 30, 2005

Note 1 - Nature of Business

Affirmed Housing Group, a California Corporation, was incorporated December 18, 1990. The company is engaged in projects which consist of the development of affordable apartment complexes.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The company's policy is to prepare financial statements on the accrual basis of accounting. The company uses the modified accelerated cost recovery system and I.R.C. Section 179 expensing for depreciation which are not depreciation methods used under generally accepted accounting principles.

Accounting Basis for Recording Income

The company reports its developer fee project revenue on the percentage completed method of accounting. The completion percentage is based on a contractually determined set of milestones with the customer. As various milestones are met, a percentage of the developer fee is earned.

The account titled "project advances" represents all costs incurred and advanced on projects in process.

Income Taxes

For income tax purposes, the company reports developer fee income on the completed contract method of accounting.

Deferred income taxes may be recorded to reflect differences in the income tax and financial statement methods of accounting for state franchise taxes and in recognizing developer fees from projects.

Property and Equipment

Property and equipment are carried at cost. Depreciation is determined on the federal modified accelerated cost recovery system.

Maintenance and repairs are charged to operations as incurred. Additions and betterments which extend the lives of the assets are capitalized.

Affirmed Housing Group
Notes to Financial Statements (cont.)
November 30, 2005

Note 3 - Accounts Receivable

All receivables are deemed to be collectible.

Note 4 - Long-term Debt

| | |
|---|-----------|
| Vehicle loan payable to an automobile company, monthly installments of \$645.22, including interest, final payment due July 2007, secured by vehicle. | \$ 19,071 |
|---|-----------|

| | |
|---|--------|
| Vehicle loan payable to an automobile company, monthly installments of \$419.29 , including interest, final payment due May 2006, secured by vehicle. | 14,790 |
|---|--------|

| | |
|-----------------------|-----------|
| Less: Current Portion | (7,282) |
| | \$ 26,579 |

Note 5 - Related Party Transactions

The company has a 4% demand loan receivable from its 100% shareholder James Silverwood.

Note 6 - Deferred Income Taxes

The provision for income taxes consist of the following components:

| | |
|----------------------|-----------|
| Current Taxes | \$ 800 |
| Deferred Tax Expense | 38,470 |
| | \$ 39,270 |

The income tax provision differs from the amounts that would be determined through the application of the federal statutory rate due to the effect of state income taxes.

Deferred tax assets in the amount of \$30,207 as of November 30, 2005 have been recognized for deductible temporary differences. Deferred tax liabilities in the amount of \$442,244 as of November 30, 2005 have been recognized for taxable temporary differences.

Affirmed Housing Group
Notes to Financial Statements (cont.)
November 30, 2005

Note 7 - Contingencies

The Company is contingently liable as guarantor of limited partnership construction loans and operating deficit loans.



Good Neighbors

San Diego
Housing Commission

- 1625 Newton Avenue
- San Diego, California 92113-1038
- 619/231 9400
- FAX: 619/544 9193

DEVELOPER'S STATEMENT FOR PUBLIC DISCLOSURE

(add extra sheets if you need more space)

1. Name of developer: **Studio 15 Housing Partners, LLC**
Housing Development Partners of San Diego, Co-Managing Member

2. Address, phone number and ZIP Code:

1625 Newton Ave., Ste. C
San Diego, CA 92113

3. IRS Number of Developer: 33-0427639

4. If the developer is not an individual doing business under his own name, the developer has the status indicated below and is organized or operating under the laws of California as:

A corporation

A nonprofit or charitable institution or corporation

A partnership known as: _____

A business association or a joint venture known as _____

A Federal, State or local government or instrumentality thereof.

Other (explain)

5. If the developer is not an individual or a government agency or instrumentality, give date of organization: April 17, 1990

6. Names, addresses, phone numbers, title of position (if any) and nature and extent of the interest of the officers and principal members, shareholders, and investors of the developer, other than a government agency or instrumentality, are set forth as follows:

There are no shareholders of Housing Development Partners. All board members are volunteers. The board of directors is as follows:

| | |
|--|-------------------------|
| Lynda Buckner Asst. Vice President California Bank & Trust 11622 El Camino Real, Ste 200 San Diego, CA 92130 | Board Member |
| Tom Carter Principal Carter Reese & Assoc 2250 Fourth Ave, Ste. 300 San Diego, CA 92101 | Board Member |
| Robert Henderson Carter Reese & Assoc 2250 Fourth Ave, Ste. 300 San Diego, CA 92101 | Vice President |
| Elizabeth Morris President & Chief Executive Officer San Diego Housing Commission 1625 Newton Ave. San Diego, CA 92113 | President |
| John Pedroarena Coldwell Banker Commercial 4305 University Ave., #600 San Diego, CA 92105 | Chairman of the Board |
| Sal Salas West End Mortgage 587 Third Ave San Diego, CA 92101 | Secretary |
| Tony Yip Brodshatzer, Wallace, Spoon & Yip 555 W. Beech St., Ste. 400 San Diego, CA 92101 | Chief Financial Officer |

- a. If the developer is a corporation, the officers, directors or trustees, and each stockholder owning more than 10% of any class of stock. **N/A**

- b. If the developer is a nonprofit or charitable institution or corporation, the members who constitute the board of trustees or board of directors or similar governing body.
Same as members listed in No. 6 above.

- c. If the developer is a partnership, each partner, whether a general or limited partner, and either the percent of interest or a description of the character and extent of interest. **Developer will become the Managing General Partner of a tax credit limited partnership, with Paramount Financial Group as the limited partner with a 99.99% interest.**

- d. If the developer is a business association or a joint venture, each participant and either the percent of interest or a description of the character and extent of interest. **N/A**

- e. If the developer is some other entity, the officers, the members of the governing body, and each person who has an interest of more than 10%.
N/A

| | | |
|-------------------------------------|---------------------|--|
| | | Position Title (if any) and percent of interest or description of character and extent of interest |
| <u>Name, Address & Zip Code</u> | <u>Phone Number</u> | <u>and extent of interest</u> |

- 7. Name, address and nature and extent of interest of each person or entity (not named in response to Item 6) who has a beneficial interest in any of the shareholders or investors named in response to Item 6 which gives such person or entity more than a computed 10% interest in the developer (for example, more than 20% of the stock in a corporation which holds 50% of the stock of

the developer; or more than 50% of the stock in a corporation which holds 20% of the stock of the developer):

| Name, Address and Zip Code | Description of character and extent of interest |
|-------------------------------|--|
|-------------------------------|--|

None.

8. Names (if not given above) of officers and directors or trustees of any corporation or firm listed under Item 6 or Item 7 above: **N/A**

9. Is the developer a subsidiary of or affiliated with any other corporation or corporations or any other firm or firms? If yes, list each such corporation or firm by name and address, specify its relationship to the developer, and identify the officers and directors or trustees common to the developer and such other corporation or firm. **Housing Development Partners has two Housing Commissioners of the Housing Commission, and the Chief Executive Officer of the Housing Commission, serving on its board of directors as follows:**

Tony Yip, Housing Commissioner and also board member of Housing Development Partners

Sal Salas, Housing Commissioner and also board member of Housing Development Partners

Elizabeth Morris, CEO of Housing Commission and board member of Housing Development Partners

10. The financial condition of the developer, as of 6/30/04 is reflected in the attached financial statement.

11. If funds for the development are to be obtained from sources other than the developer's own funds, a statement of the developer's plan for financing the development:

Financial sources include tax-exempt bonds, 4% tax credits, and a loan from City Redevelopment.

12. Sources and amount of cash available to developer to meet equity requirements of the proposed undertaking: Approximately \$100,000 of developer's existing cash; deferral of developer fee; tax credit equity as shown below:

- a. In banks:

| <u>Name, Address and ZIP Code of Bank</u> | <u>\$ Amount</u> |
|--|------------------|
| Union Bank 530 B St. San Diego, CA 92101 | \$100,000 |

- b. By loans from affiliated or associated corporations or firms:

| <u>Name, Address and ZIP Code of Source</u> | <u>\$ Amount</u> |
|---|------------------|
| Paramount Financial Group 4009 Columbus Road SW Granville, OHIO 43023 | \$12,30,000 |

- c. By sale of readily salable assets:

| <u>Description</u> | <u>Market Value</u> | <u>Mortgages or Liens</u> |
|--------------------|---------------------|---------------------------|
| None proposed | | |

13. Name and addresses of bank references:

Union Bank
530 B Street
San Diego, CA 92101
Randy Ungersma

Red Mortgage Capital, Inc.
P.O. Box 691782
Cincinnati, OH 45269-1782
Veronica Davis
vmdavis@redcapitalgroup.com

14. Has the developer or any of the developer's officers or principal members, shareholders or investors, or other interested parties been adjudged bankrupt, either voluntary or involuntary, within the past 10 years? Yes _____ No X
If yes, give date, place, and under what name.

15. Has the developer or anyone referred to above as "principals of the developer" been indicted for or convicted of any felony within the past 20 years? Yes _____
No X

If yes, give for each case (1) date, (2) charge, (3) place, (4) Court, and (5) action taken. Attach any explanation deemed necessary.

16. Undertakings, comparable to the proposed project, which have been completed by the developer including identification and brief description of each project and date of completion:

Island Village, 1245 Market Street, San Diego CA : 280 living units, new construction, financed with tax exempt bonds, 4% tax credits and a Housing Commission loan, completed September 2003.

Casa Colina del Sol, 5207 52nd Pl, San Diego, CA: preservation of 75 senior units, acquisition and rehab financed with tax exempt bonds and 4% tax credits, with a loan from the Housing Commission, completed December 2004.

17. If the developer or a parent corporation, a subsidiary, an affiliate, or a principal of the developer is to participate in the development as a construction contractor or builder:

Construction Contractor not yet selected.

- a. Name and address of such contractor or builder:
b. Has such contractor or builder within the last 10 years ever failed to qualify as a responsible bidder, refused to enter into a contract after an award has been made, or failed to complete a construction or development contract? Yes _____ No _____ If yes, explain:

- c. Total amount of construction or development work performed by such contractor or builder during the last three years: \$ _____

General description of such work:

- d. Construction contracts or developments now being performed by such contractor or builder:

| <u>Identification of</u> <u>Contract or Development</u> | <u>Location</u> | <u>Amount</u> | <u>Date to be</u> <u>Completed</u> |
|--|-----------------|---------------|---------------------------------------|
|--|-----------------|---------------|---------------------------------------|

- e. Outstanding construction-contract bids of such contractor or builder:

| <u>Awarding Agency</u> | <u>Amount</u> | <u>Date Opened</u> |
|------------------------|---------------|--------------------|
|------------------------|---------------|--------------------|

18. Brief statement respecting equipment, experience, financial capacity, and other resources available to such contractor or builder for the performance of the work involved in the proposed project, specifying particularly the qualifications of the personnel, the nature of the equipment, and the general experience of the contractor:
19. Does any member of the governing body of the San Diego Housing Commission, to which the accompanying proposal is being made, or any officer or employee of the San Diego Housing Commission who exercises any functions or responsibilities in connection with the carrying out of the project covered by the developer's proposal, have any direct or indirect personal financial interest in the developer or in the proposed contractor? Yes _____ No X
If yes, explain.

20. Statements and other evidence of the developer's qualifications and financial responsibility (other than the financial statement referred to in Item 10) are attached hereto and hereby made a part hereof as follows:

Description of developments attached.

CERTIFICATION

I (We) Wendy G. DeWitt certify that this Developer's Statement for Public Disclosure and the attached evidence of the developer's qualifications and financial responsibility, including financial statements, are true and correct to the best of my (our) knowledge and belief.

Date: September 5, 2006

Date: _____

Signature

Signature

Title: Authorized Representative

Title: _____

Address & ZIP Code

HOUSING DEVELOPMENT PARTNERS OF SAN DIEGO

1625 Newton Ave, Ste. C

San Diego, CA 92113

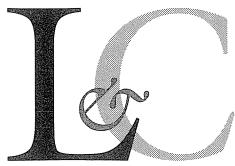
HOUSING DEVELOPMENT PARTNERS OF SAN DIEGO

FINANCIAL STATEMENTS

JUNE 30, 2005



Leaf & Cole, LLP
Certified Public Accountants



Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

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San Diego, California
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619.294.7077 fax
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Michael S. Schreiberman, C.P.A.
Michael J. Zizzi, C.P.A.
Julie A. Firl, C.P.A.
Nicholas M. Gines, C.P.A.

Members
American Institute of Certified Public Accountants
California Society of Certified Public Accountants

To the Trustees
Housing Development Partners of San Diego
1625 Newton Avenue
San Diego, California 92113-1038

We have compiled the accompanying statement of financial position of Housing Development Partners of San Diego (A Nonprofit Organization) as of June 30, 2005, and the related statements of activities and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Organization's financial position, changes in net assets, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

Leaf & Cole, LLP

San Diego, California
January 5, 2006

HOUSING DEVELOPMENT PARTNERS OF SAN DIEGO
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2005

ASSETS

Current Assets:

| | |
|---------------------------------------|----------------|
| Cash | \$ 205,338 |
| Accounts receivable | 192,456 |
| Insurance refund receivable | 398,473 |
| Partnership management fee receivable | 13,333 |
| Prepaid expenses | <u>22,821</u> |
| Total Current Assets | <u>832,421</u> |

Noncurrent Assets:

| | |
|---|------------------|
| Developer fee receivable - Island Palm Apartments, L.P. | 19,829 |
| Developer fee receivable - Casa Colina, L.P. | 685,785 |
| Note receivable - Logan Development, L.P. | 756,897 |
| Construction in progress | 308,218 |
| Land and building, net of accumulated depreciation | <u>1,508,631</u> |
| Total Noncurrent Assets | <u>3,279,360</u> |

TOTAL ASSETS **\$4,111,781**

LIABILITIES AND NET ASSETS

Current Liabilities:

| | |
|---------------------------------------|----------------|
| Accounts payable and accrued expenses | \$ 180,437 |
| Construction payable | 398,473 |
| Tenant security deposits | <u>1,375</u> |
| Total Current Liabilities | <u>580,285</u> |

Long-Term Liabilities:

| | |
|---|------------------|
| Accrued interest payable | 189,534 |
| Share of deficiency in Logan Development, L.P. | 21,039 |
| Share of deficiency in Island Palm Apartments, L.P. | 771 |
| Share of deficiency in Casa Colina, L.P. | 17 |
| Notes payable | <u>1,977,937</u> |
| Total Long-Term Liabilities | <u>2,189,298</u> |

Net Assets:

| | |
|--------------|------------------|
| Unrestricted | <u>1,342,198</u> |
|--------------|------------------|

TOTAL LIABILITIES AND NET ASSETS **\$4,111,781**

See accountant's compilation report.

**HOUSING DEVELOPMENT PARTNERS OF SAN DIEGO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

Revenue:

| | |
|-------------------------------|----------------|
| Developer fee | \$685,785 |
| Rental income | 59,996 |
| Interest income | 58,081 |
| Other revenue | 40,423 |
| Partnership management fee | 13,333 |
| Laundry and vending income | 272 |
| Share of loss in partnerships | <u>(2,502)</u> |
| Total Revenue | <u>855,388</u> |

Expenses:

Program Services:

Housing Services:

Mason Hotel:

| | |
|-------------------------|----------------|
| Interest expense | 63,283 |
| Repairs and maintenance | 40,741 |
| Depreciation | 38,008 |
| Other | 18,489 |
| Management fee | 13,044 |
| Utilities | 9,731 |
| Payroll | 8,259 |
| Legal | 4,290 |
| Property taxes | 2,813 |
| Insurance | 1,451 |
| Payroll taxes | <u>1,026</u> |
| Total Mason Hotel | <u>201,135</u> |

Other Housing Services:

| | |
|------------------------------|---------------|
| Outside services | 49,746 |
| Legal | <u>1,777</u> |
| Total Other Housing Services | <u>51,523</u> |

| | |
|------------------------|----------------|
| Total Program Services | <u>252,658</u> |
|------------------------|----------------|

(Continued)

See accountant's compilation report.

**HOUSING DEVELOPMENT PARTNERS OF SAN DIEGO
STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Expenses: (Continued)

Supporting Services:

| | |
|---------------------------|---------------|
| Outside services | \$ 12,436 |
| Insurance | 8,625 |
| Accounting | 5,860 |
| Miscellaneous | 1,254 |
| Consultant | 1,097 |
| Legal | <u>444</u> |
| Total Supporting Services | <u>29,716</u> |

Total Program and Supporting Services 282,374

Change in Net Assets 573,014

Net Assets, Beginning of Year 769,184

NET ASSETS, END OF YEAR \$1,342,198

See accountant's compilation report.

**HOUSING DEVELOPMENT PARTNERS OF SAN DIEGO
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005**

Cash Flows From Operating Activities:

| | |
|--|-----------------|
| Change in net assets | \$573,014 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation | 38,008 |
| Share of loss in partnerships | 2,502 |
| (Increase) Decrease in operating assets: | |
| Accounts receivable | (179,465) |
| Insurance refund receivable | (398,473) |
| Partnership management fee receivable | (13,333) |
| Prepaid expenses | (19,162) |
| Developer fee receivable | (685,785) |
| Increase (Decrease) in operating liabilities: | |
| Accounts payable and accrued expenses | 133,512 |
| Construction payable | 398,473 |
| Tenant security deposit | (2,478) |
| Accrued interest payable | <u>63,283</u> |
| Net Cash Used by Operating Activities | <u>(89,904)</u> |

Cash Flows From Investing Activities:

| | |
|---------------------------------------|------------------|
| Note receivable payments | |
| Construction in progress | (175,387) |
| Net Cash Used by Investing Activities | <u>(110,661)</u> |

Cash Flows From Financing Activities:

| | |
|---|----------------|
| Proceeds from notes payable | 180,370 |
| Net Cash Provided by Financing Activities | <u>180,370</u> |

Net Decrease in Cash (20,195)

Cash, Beginning of Year 225,533

CASH, END OF YEAR \$205,338

Supplemental Disclosures:

Interest paid \$ 10,523

See accountant's compilation report.

Attachment 6

Issuer Disclosure Information

The Issuer is the Housing Authority of the City of San Diego, a public body, corporate and politic duly organized and existing under the laws of the State of California. The Issuer is authorized to issue the Bonds and to loan the proceeds thereof to the Borrower for the purpose of financing the Project. The Issuer was created on October 3, 1968 by resolution of the City Council of the City of San Diego (the “Council”). Members of the Council serve as members of the Issuer.

In January 1979, a seven member commission (the “San Diego Housing Commission”) took office to administer the functions of the Issuer. The San Diego Housing Commission is responsible for the development of low income rental projects, implementation of financing to promote low income housing production, management of many public housing projects, operation of rent subsidy programs and rehabilitation of existing housing stock. Unless the context otherwise requires, the San Diego Housing Commission will take all actions with respect to the program and the Indenture, Loan Agreement, Regulatory Agreement and related documents on behalf of the Issuer.

The seven members of the San Diego Housing Commission are appointed by the Mayor and approved by the Council. Sal Salas currently serves as Chair of the San Diego Housing Commission. Oversight of the San Diego Housing Commission is provided by the Issuer.

The members of the Council also serve as the commissioners of the Issuer, and as the Issuer has authorized the issuance of the Bonds. The City of San Diego (the “City”) is currently under investigation by the U.S. Attorney’s Office, the Federal Bureau of Investigation, the Securities and Exchange Commission, the District Attorney’s Office of the County of San Diego and the City Attorney’s Office, each in some respect involving the City’s pension system and/or related securities offerings disclosure. To date, the investigations do not involve any housing bonds issued by the City or any bonds issued by the Issuer. Notwithstanding the fact that the Bonds are not payable from any funds of the City, the Issuer can provide no assurance that a significant negative development with respect to the City’s overall financial condition or the pending investigations would not have any negative impact on the value of the Bonds in the secondary market. It is uncertain when any of the investigations will be completed, and the Issuer can provide no assurance as to whether any other investigations will be initiated. The Issuer has no reason to believe that any pending or future investigation would adversely impair the ability of the Issuer to pay principal of and interest on the Bonds.

To the best knowledge of the Issuer, there is no action, suit or proceeding pending or threatened litigation restraining or enjoining the issuance, sale, execution or delivery of the Bonds, the Indenture, the Loan Agreement or the Regulatory Agreement, or in any way contesting or affecting the validity of the foregoing.

ATTACHMENT 7
HOUSING COMMISSION MULTIFAMILY
HOUSING REVENUE BOND PROGRAM

Summary

General Description: The multifamily housing bond program provides below-market financing (based on bond interest being exempt from income tax) for developers willing to set aside a percentage of project units as affordable housing. Multifamily housing revenue bonds are also known as “private activity bonds” bonds because the projects are owned by private entities, often including nonprofit sponsors and for-profit investors.

Bond Issuer: Housing Authority of the City of San Diego. There is no direct legal liability to the City, the Housing Authority or the Housing Commission in connection with the issuance or repayment of bonds; there is no pledge of the City’s or the Housing Authority’s faith, credit or taxing power. The bonds do not constitute a general obligation of the issuer because security for repayment of the bonds is limited to specific private revenue sources, such as project revenues. The developer is responsible for the payment of costs of issuance and all other costs under each financing.

Affordability: The minimum requirement is that at least 20% of the units are affordable at 50% of Area Median Income (AMI). Alternatively, a minimum of 10% of the units may be affordable at 50% AMI with an additional 30% of the units affordable at 60% AMI. The Housing Commission requires the affordability restriction to be in place for a minimum of 15 years. In practice, projects financed by multifamily housing bonds are affordable for a minimum of 30 years. Bonds may also be combined with other financing sources to create deeper affordability and longer terms of restriction.

Rating: Generally “AAA” or its equivalent with a minimum rating of “A” or, under conditions that meet IRS and Housing Commission requirements, bonds may be unrated for private placement with institutional investors (typically, large banks). Additional security is normally achieved through the provision of outside credit support (credit enhancement) by participating financial institutions that underwrite the project loans and guarantee the repayment of the bonds. The credit rating on the bonds reflects the credit quality of the credit enhancement provider.

Approval Process:

- **Inducement Resolution:** The bond process is initiated when the issuer (Housing Authority) adopts the Inducement Resolution to establish the date from which project costs may be reimbursable from bond proceeds (if bonds are later issued) and to authorize staff to work with the financing team to perform a due diligence process. The Inducement Resolution does not represent a commitment by the Housing Commission, the Housing Authority, or the developer to proceed with the financing.
- **TEFRA Hearing and Resolution (Tax Equity and Fiscal Responsibility Act of 1982):** To assure that projects making use of tax-exempt financing meet appropriate governmental purposes and provide reasonable public benefits, the IRS Code requires that a public hearing be held and that the issuance of bonds be approved by representatives of the governmental unit with jurisdiction over the area in which the project is located (City Council). This process does not make the City financially or legally liable for the bonds or the project.

[Note: It is uncommon for the City Council to be asked to take two actions at this stage in the bond process---one in their capacity as the City Council (TEFRA hearing and resolution) and another as the Housing Authority (bond inducement). Were the issuer (Housing Authority) a more remote entity, the TEFRA hearing and resolution would be the only opportunity for local elected officials to weigh in on the project.]

- **Application for Bond Allocation:** The issuance of these “private activity bonds” (bonds for projects owned by private developers, including projects with nonprofit sponsors and for-profit investors) requires an allocation of bond issuing authority from the State of California. To apply for an allocation, an application approved by the Housing Authority and supported by an adopted inducement resolution and by proof of credit enhancement (or bond rating) must be filed with the California Debt Limit Allocation Committee (CDLAC). In addition, evidence of a TEFRA hearing and approval must be submitted prior to the CDLAC meeting.
- **Final Bond Approval:** The Housing Authority retains absolute discretion over the issuance of bonds through adoption of a final resolution authorizing the issuance. Prior to final consideration of the proposed bond issuance, the project must comply with all applicable financing, affordability, and legal requirements and undergo all required planning procedures/reviews by local planning groups.
- **Funding and Bond Administration:** All monies are held and accounted for by a third party trustee. The trustee disburses proceeds from bond sales to the developer in order to acquire and/or construct the housing project. Rental income used to make bond payments is collected from the developer by the trustee and disbursed to bond holders. If rents are insufficient to make bond payments, the trustee obtains funds from the credit enhancement provider. No monies are transferred through the Housing Commission or the Housing Authority and the trustee has no standing to ask the issuer for funds.

Bond Disclosure: The offering document (typically a Preliminary Offering Statement or bond placement memorandum) discloses relevant information regarding the project, the developer, and the credit enhancement provider. Because the Housing Authority is not responsible for bond repayment, there are no financial statements or summaries about the Housing Authority or the City included as part of the offering document. The offering document includes a paragraph that states that the Housing Authority is a legal entity with the authority to issue multifamily housing bonds and that the Housing Commission acts on the behalf of the Housing Authority to issue the bonds. The offering document also includes a paragraph stating that there is no pending or threatened litigation that would affect the validity of the bonds or curtail the ability of the Housing Authority to issue the bonds. This is the extent of disclosure required of the Housing Authority, the Housing Commission, or the City. However, it is the obligation of members of the Housing Authority to disclose any material facts known about the project, not available to the general public, which may have an impact on the viability of the project.

ROSS FINANCIAL

1736 Stockton Street, Suite One • San Francisco, CA 94133 • (415) 912-5612 • FAX (415) 912-5611

September 7, 2006

Mr. Peter Armstrong
San Diego Housing Commission
1625 Newton Avenue
San Diego, CA 92113-1038

Re: Studio 15 Apartments

Dear Mr. Armstrong:

The San Diego Housing Commission (the “Commission”) has retained Ross Financial as its financial advisor to analyze the feasibility of issuing bonds for the Studio 15 Apartments (the “Project”). The feasibility analysis reviews the following items:

- Project Overview
- Proposed Financing
- Benefits and Risks to Commission
- Public Purpose
- Recommendations

Ross Financial has based its analysis of the Project’s feasibility on materials provided by Affirmed Housing Group (the “Developer”) on behalf of Studio 15 Housing Partners, LLC (the “Borrower”), Citigroup USA (through Citibank Community Development) (the “Lender”) and Commission Staff. The materials include: the application to the California Debt Limit Allocation Committee (“CDLAC”), the Lender’s financing commitment, the market feasibility study prepared by Novogradic & Company and the Developer’s proposed financial schedules for the Project. Ross Financial has not visited the site of the proposed Project.

PROJECT OVERVIEW

Project Summary. The Project will consist of 273 affordable studio units with an average size of 265 square feet, and two non-revenue generating manager’s units. The studio units will be restricted as follows:

- 27 units will be restricted to households with income levels up to 40% of area median income (“AMI”);
- 146 units will be restricted to households with income levels of up to 50% AMI; and
- 100 units will be restricted to households with income levels of up to 60% AMI.

Description of Project Site. The proposed Project is located at 70 15th Street, San Diego 92101. The Project site is a rectangular shaped 0.5 acre parcel, with frontage along the

south side of Imperial Avenue and the west side of 15th Street. The site is currently improved with a one-story warehouse, which will be razed as part of the development process. The Project site is located within the East Village Neighborhood, in City Centre Redevelopment Project area. Adjacent land uses consist of a mixture of office, social services centers, commercial, residential and warehouses. The site is located along a major bus route and is adjacent to the 12th and Imperial trolley station.

Project Ownership/Borrower. The ownership entity for the Project will be Studio 15 Housing Partners, LLC, a California limited liability corporation (the “Borrower”). The partnership will consist of Affirmed Housing Group (or an affiliate) as managing member/developer, Housing Development Partners (or an affiliate), a not-for-profit entity, as a managing member, and Boston Capital (or an affiliate) as the investor limited member.

According to its application to CDLAC, the Developer has 16 years experience in developing/rehabilitating multifamily rental housing. During this period, it has developed or rehabilitated 22 projects accounting for 1,602 units. It has developed 4 projects in San Diego County.

Affirmed Housing Group replaced Barone Galasso and Associates as the primary developer for the Project.

CDLAC. In June 2006, the Housing Authority filed an application to CDLAC requesting \$20,500,000 of private activity bond allocation for the Project. At its July 19, 2006 meeting, CDLAC awarded the Project the requested allocation. The bond allocation will revert back to CDLAC if bonds are not issued for the Project by November 6, 2006.

In connection with the CDLAC application process, on June 20, 2006, the Housing Authority adopted a resolution of intent to issue bonds for the Project; the resolution also approved submittal of an application to CDLAC. On June 20, 2006, a TEFRA hearing was held before the City Council at which time the Project was approved.

PROPOSED FINANCING

Project Costs and Funding. According to projections provided by the Borrower, the total Project costs, including construction and lease-up interest and other soft costs, will be approximately \$39,441,346 during construction and \$41,708,346 following construction and lease-up (“at permanent”). The estimated sources of funding these costs and their uses will differ during the construction period and at completion of construction and lease-up, as shown in the following table:

| Sources | Construction | Permanent |
|-----------------------------------|---------------------|---------------------|
| Tax-Exempt Bond Proceeds | \$20,500,000 | \$8,426,000 |
| Developer Equity | | 805,000 |
| Low Income Hsg. Tax Credit Equity | 7,392,746 | 15,979,346 |
| Agency Loan (CCDC) | 11,548,600 | 16,498,000 |
| Total | \$39,441,346 | \$41,708,346 |
| | | |
| Uses | | |
| Land | \$4,309,071 | \$4,309,071 |
| Construction Costs | 24,414,775 | 24,414,775 |
| Interest and Fees | 1,951,000 | 2,354,433 |
| Soft Costs | 8,766,500 | 10,630,067 |
| Total | \$39,441,346 | \$41,708,346 |

The Borrower expects that the bonds to be issued by the Housing Authority in the amount of \$20,500,000 (the “Bonds”) will be paid down in two installments in an aggregate amount of approximately \$12,074,000. The first Bond pay down will occur after construction completion; the second Bond pay down will occur at conversion of the financing to permanent. The sources of funding for the Bond pay down will be tax credit equity and the Redevelopment Agency loan (see “Redevelopment Agency Financial Involvement” below). The amount of Bonds outstanding at conversion to permanent financing is estimated to be \$8,426,000.

Bond Amount and Credit Enhancement. The Borrower proposes that the Housing Authority issue \$20,500,000 of tax-exempt bonds (the “Bonds”) to finance a portion of the construction costs of the Project. The Bonds will be issued as variable rate demand bonds with credit-enhancement provided by a letter of credit from Citibank, N.A. (“Citibank”). The letter of credit is expected to be for an initial term of 14 years, consisting of an initial four year term (through October 1, 2010) and two five year extensions (through October 1, 2015 and 2020). The expected rating on the Bonds, based on the Citibank letter of credit, will be “AA/A-1+” from Standard & Poor’s.

During the construction period, anticipated to be 30 months (subject to two three-month extensions), the Bonds will pay interest only. After the construction and lease-up period, following the pay down to \$8,426,000, the Bonds will amortize over a 30- year period.

Under a Reimbursement Agreement between the Lender and the Borrower, the Borrower will be required to obtain an interest rate hedge from Citibank. The interest rate hedge is a financial arrangement that reduces the rate volatility associated with variable rate obligations. In this instance, the interest rate hedge will mitigate the effect of the variable rate interest rate on the ability of Project rents to cover debt service. The hedge is expected to be in the form of either (1) an interest rate collar in which the variable interest rate would be capped or (2) a fixed payor interest rate swap under which the

Borrower would receive variable rate payments from Citibank and pay Citibank a fixed interest rate. The Housing Authority will not be a party to the interest rate hedge.

The Bond issue is expected to close on October 12, 2006.

Housing Authority Financial Involvement. Besides acting as the Bond issuer, the Housing Authority will not be providing any financial assistance to the Project.

Redevelopment Agency Financial Involvement. The Redevelopment Agency (the "Agency"), through CCDC, is providing subordinate financing in the amount of \$16,498,000. This subordinate funding will be used to fund land acquisition and Project construction, and will remain in place as a permanent source of funds.

The Agency's subordinate financing will be in the form of a residual receipts loan with the following basic terms:

- Interest Rate: 3% simple interest
- Payments: Beginning at issuance of Certificate of Occupancy
- Term: 55 years
- Affordability: 27 units @ 40% AMI; 146 units @ 50% AMI; 100 units @ 60% AMI

Affordability Restrictions. The Project will be subject to the following regulatory restrictions and regulatory terms:

- Tax-Exempt Bond Regulatory Requirements (includes voluntary elections made to CDLAC) for a 55-year term;
- Tax Credit Regulatory Requirements under which all units must be affordable at 60% AMI for a 55-year term to remain eligible for tax credits; and
- Agency's Agreement Affecting Real Property (Including Rental Restrictions) under which the units will be restricted for 55 years.

Project Cash Flow. According to the pro forma cash flow provided by the Borrower, Project income from rents and other income (e.g., laundry) is estimated at \$1,864,952 for the first year of stabilized occupancy (assuming a 5% vacancy factor). Project expenses are estimated at \$1,115,951 (including replacement reserves). As a result, first year net operating income (gross revenues less expenses) is estimated at \$749,101.

The Borrower has estimated debt service on the Bonds (following construction and lease-up) to be approximately \$638,708 per year (assuming an all-in interest rate of 6.00%).

Net operating income, thus, is anticipated to cover annual debt service by 1.17 times in the first year of stabilized occupancy, according to the Borrower's pro forma cash flow.

The forecast cash available after expenses (including reserves) and debt service is estimated by the Borrower to be \$110,293 in the first year of stabilized occupancy.

The Borrower has escalated projected revenues and expenses at rate of 2.5% and 3.5% per year, respectively.

The table below shows the Borrower's projected cash flow for the Project during first five years following stabilized occupancy:

| Escalation | | Year | | | | |
|------------|------------------------------------|-----------|-----------|-----------|-----------|-----------|
| | | 1 | 2 | 3 | 4 | 5 |
| 2.50% | Rental Income | 1,934,232 | 1,982,588 | 2,032,152 | 2,082,956 | 2,135,030 |
| 2.50% | Other Income | 28,875 | 29,597 | 30,337 | 31,095 | 31,873 |
| | Total Gross Income | 1,963,107 | 2,012,185 | 2,062,489 | 2,114,052 | 2,166,903 |
| | less 5% vacancy | (98,155) | (100,609) | (103,124) | (105,703) | (108,345) |
| | Total Net Income | 1,864,952 | 1,911,575 | 1,959,365 | 2,008,349 | 2,058,558 |
| 3.50% | Total Expenses + Reserves | 1,115,951 | 1,152,528 | 1,190,384 | 1,229,563 | 1,270,112 |
| | Net Operating Income | 749,001 | 759,047 | 768,981 | 778,786 | 788,446 |
| | Debt Service | 638,708 | 638,708 | 638,708 | 638,708 | 638,708 |
| | Projected Cash Available | 110,293 | 120,339 | 130,273 | 140,078 | 149,738 |
| | Debt Service Coverage Ratio | 1.17 | 1.19 | 1.20 | 1.22 | 1.23 |

PUBLIC PURPOSE

The Bonds will result in the long-term affordability of 273 studio units in the City of San Diego: 27 units will be restricted and affordable to households earning 40% AMI; 146 units will be restricted and affordable to households earning 50% AMI; and 100 units will be restricted and affordable to households earning 60% AMI.

The Bond and Tax Credit Regulatory Agreements and the Agency's Agreement Affecting Real Property (Including Rental Restrictions) will require that these affordability levels be maintained for a period of 55 years.

BENEFITS AND RISKS TO THE COMMISSION

The proposed bond issue provides a vehicle for financing the construction of the Project. As proposed, the Bonds will result in the long-term affordability of 273 studio units in the City of San Diego with units restricted to income levels described in "Public Purpose" above.

The Bonds do not pose undue financial risk to the Housing Authority. The Bonds are not a direct obligation of the Housing Authority or the City of San Diego. Payments of Bond

Mr. Peter Armstrong
Re: Studio 15 Apartments
September 7, 2006
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principal and interest will be made from draws under a letter of credit issued by Citibank. The Bonds are expected to receive "AA/A-1+" ratings from Standard & Poor's based on the Citibank letter of credit.

If the Housing Authority issues the Bonds, the Commission would receive a fee at bond closing of \$47,150, equal to 0.23% times the par amount of the Bonds (\$20,500,000). The Commission would also receive an annual payment of \$47,150 during the construction period. Following conversion of the Project to the permanent financing phase and the expected reduction of Bond principal to \$8,426,000, the Commission would receive an annual payment of \$19,379.80.

Costs of issuance will be funded from the Agency loan. The Borrower has agreed to indemnify the Housing Authority and Commission as to matters relating to the Bond issue. However, the Borrower is a single purpose entity with no significant assets or sources of income other than the Project and is generally not required to make up any cash flow shortfalls.

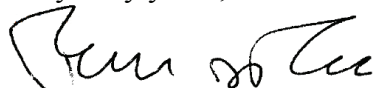
RECOMMENDATIONS

Ross Financial recommends that the Housing Authority proceed with the issuance of the Bonds based on the following findings:

- The Bonds would achieve a public purpose by providing 273 affordable units, with units restricted to income levels at or below 60% of AMI.
- The Bonds will have a high rating based on the letter of credit from Citibank, N.A.
- The Borrower has agreed to indemnify the Housing Authority, the Commission and the City regarding matters relating to the financing. Issuance costs will be paid by the Borrower from the Agency loan.
- Based on estimates provided by the Borrower as reviewed and confirmed by Citibank, there should be sufficient funds to complete the Project and the Project provides adequate cash flow to cover debt service.

If there is any additional information you require concerning the Studio 15 Apartments, Ross Financial will be pleased to provide a supplemental analysis.

Very truly yours,



Peter J. Ross
Principal