



Good Neighbors

San Diego  
Housing Commission

- ◆ 1625 Newton Avenue
- ◆ San Diego, California 92113-1038
- ◆ 619/231 9400
- ◆ FAX: 619/544 9193
- ◆ www.sdhc.net

## REPORT

**DATE ISSUED:** March 7, 2006

**Report No.:** HAR06-005

**ATTENTION:** Council President and City Council  
Chair and Members of the Housing Authority

**SUBJECT:** Preliminary Bond Items and Loan for Alabama Manor Apartments  
(Council District 3)

**REQUESTED ACTION:**

Approve funding to preserve an existing 67-unit senior rental complex by authorizing a Housing Commission loan and taking initial steps to issue Housing Authority mortgage revenue bonds. Borrower would acquire and rehabilitate the property and restrict rents below market; issuance of bonds would require Housing Authority approval at a later date.

**STAFF RECOMMENDATION:**

Housing Authority:

- a) Approve a residual receipts loan of up to \$3,600,000 to Community Housing Works to fund the acquisition and rehabilitation and to provide affordability at Alabama Manor Apartments, located at 3622-3628 Alabama Street;
- b) Authorize the President and Chief Executive Officer to execute any and all documents necessary to make the approved loan;
- c) Approve a bond inducement resolution (a “declaration of official intent”) for up to \$6,800,000 in multifamily housing revenue bonds for the acquisition and rehabilitation of the 67-unit Alabama Manor Apartments; and,
- d) Approve an application (and subsequent applications if necessary) to the California Debt Limit Allocation Committee (“CDLAC”) for an allocation of authority to issue tax-exempt “private activity bonds” for the Alabama Manor Apartments.

City Council hold a public hearing (*known as a TEFRA hearing - Tax Equity and Fiscal Responsibility Act*) and adopt a resolution approving the issuance of tax-exempt bonds in an amount up to \$6,800,000 by the Housing Authority.

**SUMMARY**

Alabama Manor Apartments is located at 3622-3628 Alabama Street in the North Park community of Council District 3. It is an existing 67-unit rental housing project that was built in 1984 under a conditional use permit for senior housing (at least 62 years of age). The project currently does not have income or rent restrictions. The proposed project would extend the useful



life of the apartment complex and restrict 66 units of housing for low and very low income households. The proposed acquisition would also ensure that existing tenants whose incomes qualify them for the new rent restrictions would continue to pay affordable rents in the future.

The Housing Commission has been working with the Community Housing Works (CHW) in order to establish a financing plan to acquire and rehabilitate the project. CHW is a California tax-exempt non-profit corporation formed by the 2002 merger of Community Housing of North County (founded in 1988) and San Diego Neighborhood Housing Services (founded in 1982). CHW's mission is to revitalize neighborhoods through creation of affordable housing with services for residents. CHW has participated in the development of over 1,250 affordable rental housing units in San Diego County. CHW has been certified as a Community Housing Development Organization under the federal HOME Program.

The proposed loan of \$3,600,000 would be equal to approximately \$53,731 per restricted unit and \$50,000 per restricted bedroom. In addition, the Housing Commission's investment in the project would leverage approximately \$7,227,189 from other financing sources; \$3,073,008 in tax credits, \$2,653,611 from the State's Multifamily Housing Program (financed from the proceeds of Proposition 46), and \$1,297,800 in a bond-financed mortgage loan.

#### Proposed Financing Mechanisms

CHW, the nonprofit sponsor and development limited partner for the Alabama Manor Apartments, submitted a loan application for gap financing of acquisition and rehabilitation under the Housing Commission's current Notice of Funding Availability (NOFA) for the Construction, Acquisition, and Operation of Affordable Rental Housing. This gap loan will leverage State Proposition 46 funds. The Housing Commission proposed to fund the loan to this development with HOME and local Housing Trust Funds.

The Housing Commission also utilizes the Housing Authority's tax-exempt borrowing status to pass on lower interest rate financing (and make federal tax credits available) to developers of affordable housing. The Housing Authority's ability to issue bonds is limited under the U.S. Internal Revenue Code. To issue bonds for a project, the Housing Authority must first submit an application to CDLAC for a bond allocation. Prior to submitting applications to CDLAC, projects are brought before the Housing Commission, Housing Authority, and City Council for approval. Housing Authority bond inducement resolutions must be obtained prior to application submittal and City Council TEFRA resolutions must be secured no later than 15 days after application submittal.

CHW has requested that the Housing Authority submit an application to CDLAC in March to meet the application deadline for CDLAC's May allocation meeting. It is anticipated that the project will receive a bond allocation at the May meeting; however, if necessary, staff will submit up to three additional applications to CDLAC during 2006 to secure a bond allocation for the project. A description of the Multifamily Bond Program and actions that must be taken by the Housing Authority and by the City Council to initiate and finalize proposed bond financings are described in Attachment 8.

### The Borrower

The owner and the borrower would be a still-to-be formed limited partnership or limited liability corporation. Community Housing Works (CHW) would be the managing general partner. A tax credit investor would become the limited partner subsequent to an allocation of four percent tax credits and tax-exempt bonds. CHW's financial statements were reviewed by Housing Commission staff and found to be satisfactory. (See Attachment 5 – Financial Statements)

The project team would be the staff of CHW. CHW's President and CEO is Ms. Sue Reynolds; Ms. Anne Wilson is the Director of Housing and Real Estate Development; Mr. Terry Coyne is the project manager for the proposed development. CHW would also provide property management services for Alabama Manor Apartments. The borrower would contract with John Stewart Company to provide property management services for Alabama Manor Apartments.

CHW teamed with the San Diego Housing Commission on the acquisition and rehabilitation of the 68-unit Bandar Salaam Apartments in City Heights and is currently rehabilitating the 108-unit Las Serenas Apartments in Southeastern San Diego CHW is currently in compliance with the terms of its previous loan from the Housing Commission.

### The Development

Built in 1984, Alabama Manor Apartments is located in the North Park neighborhood. The complex consists of two buildings surrounding a courtyard on a .61 acre site. There is elevator access to all three floors. Laundry facilities are provided on site. The property is located one half block south of University Avenue which is served by the local bus system. It is within two blocks of a chain super market. Morley Field and the adjoining Balboa Park are located four blocks south of the site. Although the existing improvements have been maintained, the complex is suffering the effects of age and could become a detriment to the neighborhood if it is not renovated in the near future. (See Attachment 3 – Location Map)

Planned improvements to the property include many energy efficiency upgrades, such as replacement of windows, refrigerator, range/ovens and electric heating units. To increase the number of units suitable for handicapped households, five percent of the units will be retrofitted for accessibility and an additional five percent of the units will be retrofitted for sight and/or hearing impaired households. Rehabilitation will include miscellaneous repairs to meet federal Housing Quality Standards, community room improvements to meet the needs of the planned resident services activities, roofing repairs, and complete exterior painting of the stucco walls. Safety enhancements will include the installation of three fire-rated doors in common area corridors, seismic bracing of all water heaters, and the installation of an emergency communication device in the elevator. A recently completed physical needs assessment is being used as the basis for the rehabilitation budget until a more specific budget is available. To assure that the anticipated rehabilitation will be completed and all relocation is completed, any overrun of those expenses will be paid out of the developer fee. The final rehab budget will require the approval of the Housing Commission President and Chief Executive Officer.

Of the 67 units, 66 would be occupancy and rent restricted for 55 years by a Housing Commission regulatory agreement recorded against the property.

CHW would tailor a package of tenant services based on the needs of the senior and disabled residents at Alabama Manor Apartments.

The following table describes the units by size and proposed initial rents:

Unit Type	Unit Size (sq. ft.)	No. of Units	Initial Monthly Rent	Maximum Percent of Area Median Income of Eligible Households	Monthly Utility Allowance	Monthly Housing Cost	Monthly Market Rent	Annual Rent Savings Over Market Rate
Studio	430	1	\$ 346	30%	\$15	\$ 361	\$750	\$ 4,848
1br/1.0ba	480	13	\$ 366	30%	\$21	\$ 387	\$880	\$ 80,184
1br/1.0ba	480	10	\$ 431	35%	\$21	\$ 452	\$880	\$ 53,880
1br/1.0ba	480	37	\$ 621	60%*	\$21	\$ 642	\$880	\$114,996
2br/1.0ba	650	5	\$ 784	60%*	\$27	\$ 811	\$1,204	\$ 25,200
2br/1.0ba	650	1	MGR					
<b>Total</b>		<b>67</b>						<b>\$279,108</b>

\*Please note that rents for 60% AMI units will initially be set at \$642 for a one-bedroom, and \$811 for a two-bedroom to be consistent with current rents at the property.

A total of 66 units would be rent and occupancy-restricted. The project will apply for Proposition 46 funding from the state's Multifamily Housing Program (MHP). To meet MHP requirements, 14 units would be restricted at 30% of the Area Median Income (AMI) (\$16,550 for a family of two) and 10 units would be restricted at 35% AMI (\$19,300 for a family of two). In addition, under bond and tax credit requirements, and 42 units would be restricted at be at 60% AMI (\$33,100 for a family of two).

Preliminary information suggests that the majority of the existing households have incomes at or below 60% AMI, which would allow them to continue living in the units following project completion.

### Proposed Financing Terms

The estimated total development cost is \$10,827,189 (\$161,600 per unit) which includes capitalized reserves. Proposed permanent financing would consist of first position tax-exempt bond financing in the amount of \$1,297,800, a second position \$2,653,611 Multifamily Housing Program (MHP) loan from the California Department of Housing and Community Development, a \$3,600,000 third position loan from the San Diego Housing Commission, \$3,073,008 from four-percent tax credits with National Equity Fund, and a deferred developer fee of \$202,770.

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For the purpose of repayment, the Housing Commission would be in a junior position to \$3,951,411 in other permanent debt consisting of the tax-exempt bond financing and the MHP loan. Debt service beginning after permanent financing would consist of payments on the 30-year amortized bond loan and a required minimum annual payment to MHP equal to .42% of its loan amount (\$11,145). Required minimum annual payments would be made on the 55-year MHP loan for 30 years; after 30 years it converts to a three percent interest amortized loan for the remaining 25 years.

Allowing Alabama Manor to retain 50 percent of the residual receipts strengthens the new ownership entity's ability to maintain the building and provide tenant services with rent revenues. With the approval of the senior lenders, the Housing Commission and MHP would split the remaining 50 percent of residual cash flow based on a pro-rata share of each agency's loan (estimated at 21 percent for MHP and 29 percent for the Housing Commission) for the 55-year term of the Housing Commission loan. Residual receipts payments are not anticipated until after payment of the deferred developer fee (estimated at Year 11).

Any unpaid principal and accrued interest of the Housing Commission loan would be due and payable in a balloon payment at the earlier of the end of the 55-year loan term or when the development is refinanced.

Payments on the permanent loans are summarized in the following table:

<b>Lien Priority</b>	<b>Lender</b>	<b>Beginning Loan Balance</b>	<b>Required Annual Payments</b>	<b>Interest Rate</b>	<b>Projected Payoff Date</b>	<b>Loan Terms</b>
1	Bonds	\$ 1,297,800	\$ 94,778	6.14	12/31/36	30-year /amortized
2	MHP	\$ 2,653,611	\$ 11,145	3.0	12/31/61	55-years / amortized from year-30
3	SDHC	\$ 3,600,000	\$ 0	3.0	12/31/61	55-years / res. receipts
<b>Total</b>		\$ 7,551,411	\$ 105,923			

The Housing Commission's per-unit cost for 67 units would be \$53,731. The permanent loans would be secured by the value of the rehabilitated property. A Housing Commission Declaration of Covenants, Conditions, and Restrictions would be recorded against the property restricting rents and occupancy for 55 years. Terms and payment procedures for the Housing Commission loan are more fully described in Attachment 9.

The property is currently under a Conditional Use Permit (CUP) requiring that units be rented to seniors (62 and above). CHW is working with City staff to bring the CUP up to date with the intention of including disabled adults in the client base. This model is the current norm for "senior housing" CUPs. Prior to the loan closing and disbursement of the San Diego Housing Commission loan proceeds, the borrower must provide confirmation satisfactory to the San Diego Housing Commission that the project is in compliance with all terms of the CUP.

### Bond Allocation Amount and Structure

The \$6.8 million allocation that will be sought from CDLAC is approximately 10% higher than the amount for which the project is currently being underwritten (\$6.1 million). The developer has requested this cushion to account for possible increases in the bond amount due to increases in construction costs or decreases in the assumed interest rate. Of the total \$6.1 million bond amount, approximately \$4.4 million in housing revenue bonds will be used to finance the construction phase of the project and will be paid off at conversion to permanent financing. The permanent bond amount (currently estimated at approximately \$1.3 million) would be based upon actual project costs and the project's ability to carry debt.

The developer is currently investigating various ways to structure the issuance of bonds for the project, i.e. sale through a public offering or private placement. However, whatever bond structure is used will have to comply with the Housing Commission's Multifamily Housing Revenue Bond Program policy.

Approval of the bond inducement and TEFRA resolutions do not commit the Housing Authority to issue bonds. In the future, should the Housing Authority, under a separate action, authorize the issuance of bonds for the project, the bonds would not constitute a debt or liability of the Housing Authority or the City of San Diego. Neither the faith and credit nor the taxing power of the City or the Authority would be pledged to the payment of the bonds; security for bond payments would be limited to the value of the property and its revenue sources. The developer is responsible for the payment of all costs under the financing, including the Housing Commission's annual administrative fee.

### Risks and Mitigations

The Housing Commission loan becomes non-recourse upon project completion because Internal Revenue Service regulations make these tax credit investments undesirable if structured otherwise. This would limit the Housing Commission's ability to recover funds upon default because the encumbrance would be on the property and not the other assets of the developer. This risk is typically taken by the Housing Commission for tax credit-financed developments and is deemed mitigated by conservative underwriting assumptions and the equity contribution provided by tax credit financing.

The Housing Commission would be making a loan for a development with a total cost at completion likely exceeding the market value. This is an acceptable risk because the developer is experienced and will extend the service life of the improvements for at least fifteen years while preserving and providing 66 units of affordable housing. Risk to the Housing Commission investment in this project is further mitigated by \$3,073,008 of equity provided through low-income housing tax credits.

### Conclusion

In its Housing Needs Assessment of the rental housing market, the City's Consolidated Plan identifies senior and disabled households as an under-served tenant population. If approved, the recommended actions for this project will provide 66 affordable units for low-income senior and disabled households, and benefit the community by improving the appearance of the property.

Alternative

The Housing Authority could deny approval of these recommendations. A Housing Authority decision to not approve the loan could result in the apartment complex being sold to a for-profit buyer who would likely increase the rents after performing minimum rehabilitation work. There is no requirement to provide rent affordability.

**FISCAL CONSIDERATIONS:**

Approval of these recommendations would result in the expenditure of up to \$3,600,000 in Housing Commission funds.

Approval of the bond inducement and TEFRA resolutions do not commit the Housing Authority to issue bonds. If bonds are ultimately issued for the project, the bonds will not financially obligate the City, the Housing Authority or the Housing Commission because security for the repayment of the bonds will be limited to specific private revenue sources.

**Certificate of Funding Availability:**

Certificate No.:	FY07-011
Amount:	\$3,600,000
Revenue Sources:	HOME / HTF
Division:	Housing Finance and Development
Line Item:	Loans

**PREVIOUS HOUSING AUTHORITY And/Or COMMITTEE ACTIONS:**

None

**COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:**

The project was approved 9-0-0 at the March 6, 2006 meeting of the Urban Design Project Review Committee of the Greater North Park Planning Committee. The project is anticipated to be presented at the March 21, 2006 meeting of the Greater North Park Planning Committee.

**KEY STAKEHOLDERS & PROJECTED IMPACTS:**

The proposed project is being developed by Community HousingWorks. The sellers of the property are Michael J. Hall and Ronald A. Crampton. Staff recommends engaging CSG Advisors and Stradling Yocca Carlson & Rauth to represent the Housing Authority as financial advisor and bond counsel on the proposed bond transaction.

Submitted by,

Approved by,

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Cissy Fisher  
Director of Housing Finance and Development

Elizabeth C. Morris  
President and Chief Executive Officer

- Attachments:
1. Development Summary
  2. Development Timeline
  3. Location Map
  4. General Application Forms
  5. Disclosure Statement \*
  6. Financial Statements \*
  7. Multifamily Bond Program Summary
  8. Housing Commission Loan Terms

\*Distribution of this attachment is limited. A copy is available for review at the Housing Commission at 1625 Newton Ave. and the office of the City Clerk, 2<sup>nd</sup> floor, 202 "C" Street.

Information: Mr. Carlos C. de Baca (619) 578-7586

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## ATTACHMENT 1

### DEVELOPMENT SUMMARY

March 7, 2006

Name: Alabama Manor  
Location: 3822-3836 Alabama Street, San Diego  
Description: Rental housing for very low-income and low-income seniors & disabled  
Sponsor: Community Housing Works

#### Unit Affordability

Total # of units: 67  
Assisted units: 66  
Restricted rents: 1 Studio @ \$346 or 30% (AMI)  
60 One-bedroom @ \$366 or 30% (AMI), \$431 (35%) and \$621 (60%)  
5 Two-bedroom @ \$784 or 60% (AMI)

Market rent: Studio units rent for approximately \$750 per month  
One-bedroom units rent for approximately \$880 per month  
Two-bedroom units rent for approximately \$1,204 per month  
Percent of AMI: 14 units at 30 percent, 10 units at 35 percent, 42 units at 60 percent or less  
of Area Median Income  
Affordability: 55 years

#### Development Cost

Total development cost: \$10,827,189  
HC development cost: \$ 3,600,000  
Total development cost for 1 unit: \$ 161,600  
HC cost for 1 unit: \$ 53,731  
HC subsidy per bedroom (72 br's): \$ 50,000

#### Sources of Funds

Tax Exempt Bonds \$ 1,297,800  
Housing Commission Loans \$ 3,600,000  
State MultiFamily Housing Loan \$ 2,653,611  
4% Tax Credits \$ 3,073,008

#### Pro Forma Summary

Estimated annual income: \$ 458,244 (year 1 aggregate)  
Estimated annual expense: \$ 300,625 (year 1 aggregate includes MHP annual expense)  
Annual debt service (1<sup>st</sup>): \$ 94,778 (year 1 aggregate)  
Estimated SDHC residual receipts \$ 2,104 (year 11 – first payment)

## **ATTACHMENT 2**

### **ALABAMA MANOR APARTMENTS**

#### **ESTIMATED DEVELOPMENT TIMELINE**

March 3, 2006	Loan to the Housing Commission for consideration of recommendation for approval
March 28, 2006	Loan to the Housing Authority for approval
April 6, 2006	Multifamily Housing Program Application Deadline
July 26, 2006	Loans closing/Acquisition Date
November 2006	Start of rehabilitation
December 30, 2007	Completion of rehabilitation

## 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:** 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 that the affordability restriction 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 an “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 financing team to perform a due diligence process. The Inducement Resolution does not represent any commitment by the Housing Commission, 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, 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 for the project.

[Please note that it is unusual for the members of 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, etc.
- **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 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. Since the Housing Authority is not responsible, in any way, for bond repayment, there are no financial statements or summaries about the Housing Authority or the City that are included as part of the offering document. The offering document includes a paragraph that describes that the Housing Authority is 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 that details 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 bonds. This is the extent of the disclosure required of the Housing Authority, 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 might have an impact on the viability of the project.

## ATTACHMENT 8

### HOUSING COMMISSION LOAN TERMS AND PAYMENT PROCEDURES

Total Development Cost:	The estimated total development cost is \$10,827,189 including rehabilitation, interest costs, contractor overhead and profit, and a \$905,260 developer fee.
Appraised Value:	An appraisal dated February 16, 2006, estimates the “as-is” market value at \$7,300,000, which is \$5,000 more than the \$7,295,000 purchase price.
Loans-to-Value:	Loans-to-value based on the as-is valuation is approximately 103 percent.
Housing Commission Loan Amount:	The proposed \$3,600,000 Housing Commission loan would leverage \$7,227,189 from other sources.
Housing Commission Loan Terms:	A 55-year residual receipts loan at three percent simple interest per year.
Housing Commission Cost Per Unit:	Estimated total per-unit cost of \$53,731 for 67 units.
Security:	The Housing Commission loan would be subordinate to the first and second position liens and secured by the value of the rehabilitated property.
Recourse:	Prior to completion of rehabilitation, this would be a recourse loan to CHW’s still to be determined limited partnership or LLC, a single asset entity, after which it would become a non-recourse loan to comply with tax credit rules.
Housing Commission Loan Payments:	The borrower would begin making annual residual receipts payments after completion of rehabilitation and following the repayment of the deferred developer fee. The borrower would retain 50 percent of the residual receipts. For the 55-year term of the Housing Commission loan, there will be an annual residual receipts payment to the Housing Commission estimated to be 29 percent of the total residual cash flow. Should the size of the MHP loan change prior to closing, the Housing Commission’s share of residual cash flow would be adjusted. At Year 30, the MHP loan converts to an amortizing loan. Any unpaid principal and accrued interest would be due in a balloon payment at the

earlier of the end of the 55-year loan term or upon project refinancing.

Debt Service:	Combined annual payments on the first and second (MHP) loans would be \$105,923.
Debt Service Coverage:	A debt service ratio of 1.42 in year one on the first position loan. The second position MHP residual receipts loan would have a minimum annual payment of .42 percent of its loan amount (\$11,145) through Year 30, after which it becomes an amortizing loan.
Affordability Restrictions:	A Housing Commission Declarations of Covenants, Conditions, and Restrictions with a 55-year term of affordability recorded against the property.
First Deed of Trust:	An estimated 30-year tax-exempt bond loan of \$1,297,800 would be in first position at the bond market interest rate at the time of closing (estimated at 6.14 percent).
Second Deed of Trust:	A 55-year, three percent simple interest residual receipts loan of \$2,653,611 from MHP. A .42% MHP loan annual expense payment (\$11,145) is also required from this source.
Third Deed of Trust:	A 55-year, three percent simple interest residual receipts loan of \$3,600,000 from the Housing Commission.
Management Plan:	The management plan has been approved by Housing Commission staff. The management plan will be subject to periodic review and approval by the Housing Commission.
Operating Expense:	Per-unit operating expenses are estimated to be \$374 per month (\$4,487 per year). This includes the .42% (\$11,145) MHP loan annual expense payment.
Pro Forma Assumptions:	Income increases are projected at 2.5 percent per year; operating expenses at 3.5 percent per year; vacancy rate at 5 percent per year.
Reserves:	A total annual replacement reserve of \$30,500 (\$455 per unit) included in the pro forma is subject to the approval of the senior lenders. Use of the replacement reserve would be subject to the reasonable approval of the President and Chief Executive Officer of the Housing Commission. In addition, a capitalized operating reserve of \$103,322 is included in the development budget.