



KEYSER MARSTON ASSOCIATES

MEMORANDUM

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Affordable Housing
Economic Development

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To: Terri Eggers, Homeless Services Division Manager
Judson Brown, Housing Division Manager
City of Santa Ana

From: Tim Bretz

Date: June 22, 2023

Subject: Bewley Street – Preliminary Financial Gap Analysis

At your request, Keyser Marston Associates, Inc. (KMA) prepared a preliminary financial gap analysis for the project proposed to be developed at 918 North Bewley Street (Site) by Illumination Foundation (Developer). The Site is currently comprised of two residential buildings totaling 7,032 square feet of gross building area (GBA), a 1,230 square foot preschool building, and two storage sheds. The Developer proposes to rehabilitate the existing residential buildings and construct a new accessory dwelling unit on the Site. The Developer proposes to create a total of eleven (11) permanent supportive housing (PSH) units on the Site for the following purposes:

1. Eight (8) units restricted to homeless Transition Age Youth (TAY);
2. Two (2) three-bedroom units structured as shared housing and restricted to homeless senior citizens households; and
3. One (1) unrestricted unit for an on-site manager (Project).

The Developer is requesting financial assistance from the City of Santa Ana (City) for the purposes of developing the Project. The purpose of this KMA analysis is to provide a preliminary evaluation of the Developer's request for assistance from the City.

EXECUTIVE SUMMARY

Estimated Financial Gap

The results of the KMA preliminary financial gap analysis are compared to the Developer’s financial assistance request in the following table:

	KMA	Developer	Difference
Total Development Costs	\$7,339,000	\$7,290,900	(\$48,200)
(Less) Outside Funding Sources	(5,269,500)	(5,269,500)	-0-
Financial Gap	\$2,069,500	\$2,021,300	\$48,200

As shown in the preceding table, KMA estimates the Project’s financial gap at \$2.07 million, which is \$48,200, or less than 3% higher than the Developer’s financial gap estimate. This differential can be considered inconsequential for a Project of this magnitude.

Operating Feasibility

The Developer estimates the Project’s stabilized net operating income (NOI) at approximately \$37,000 in the Project’s first stabilized year of operation. In contrast, KMA estimates the Project’s stabilized NOI at negative \$37,000 in Year 1 and not becoming positive until Year 10. Per discussions with the Developer, the Developer will cover any cash flow losses. This should be included as a provision in the City’s grant agreement and/or regulatory agreement.

Proposed Funding Sources

The following summarizes the proposed funding sources for the Project:

1. The Santa Ana Housing Authority (Housing Authority) proposes to provide eight (8) Section 8 Project-Based Vouchers (PBVs) that are allocated to the Housing Authority by the United States Department of Housing and Urban Development (HUD). The PBVs will be overlaid on the 8 TAY units – and cannot be utilized for the two shared housing units.

2. The Developer has secured \$1 million in fundraising dollars.
3. The Developer has committed to securing at least \$1.50 million in additional fundraising dollars for the Project.
4. Illumination Foundation, or one of its affiliated legal entities, proposes to provide an approximately \$2.77 million loan to the Project.

PROJECT DESCRIPTION

The Developer currently owns the Site. The Site was formerly used by the Sisters of Holy Cross as a convent and preschool. The Site is improved with the following uses:

1. Two (2) two-story residential buildings totaling 7,032 square feet of GBA;
2. A 1,230 square foot preschool building; and
3. Multiple storage sheds and a covered patio.

The Developer proposes to complete the following scope of development:

1. Convert the two residential buildings into eleven rental units comprised of the following unit mix:
 - a. Two (2) one-bedroom units;
 - b. Seven (7) two-bedroom units; and
 - c. Two (2) three-bedroom units.
2. Construct an accessory dwelling unit (ADU) to be used as offices for programming.
3. Renovate the existing preschool building to continue as a preschool use.¹

¹ Per the Developer, Head Start will be responsible for any costs associated with the preschool operation. It is KMA's understanding that costs for the preschool space were not included in the development budget information provided by the Developer.

4. The Project’s residential GBA is estimated at 7,473 square feet, inclusive of the new ADU space.
5. Twenty-nine (29) surface parking spaces will be provided consisting of:
 - a. Twenty (20) parking spaces for the residential component; and
 - b. Nine (9) parking spaces for the preschool component.
6. The Project’s proposed affordability mix is as follows:
 - a. Two (2) one-bedroom units and six (6) two-bedroom units will be restricted to homeless TAY households that earn no more than 30% of the Area Median Income (AMI) as published by the California Department of Housing and Community Development (HCD) for Multifamily Tax Subsidy Programs (MTSP);²
 - b. Two (2) three-bedroom units will be structured as shared housing for homeless senior citizens that earn no more than 50% MTSP AMI; and
 - c. One two-bedroom unit will be unrestricted and reserved for an on-site manager.

FINANCIAL GAP ANALYSIS

KMA prepared a pro forma analysis to assist in evaluating the Developer’s proposal. The analysis is located at the end of this memorandum, and is organized as follows:

Table 1: Estimated Development Costs

Table 2: Stabilized Net Operating Income

Table 3: Financial Gap Calculation

Table 4: Cash Flow Analysis

² Although the Project’s financing does not utilize Tax Credits, the City has elected to utilize the MTSP income and rent limits published by HCD.

Estimated Development Costs (Table 1)

KMA reviewed the Developer's development cost estimates, and then independently prepared a pro forma analysis for the Project. The resulting development costs are estimated as follows:

PROPERTY ASSEMBLAGE COSTS

The Developer purchased the Site for \$3.90 million. The Developer did not provide an appraisal for review. The City may want to require the Developer to provide an appraisal to ensure that the purchase price is consistent with the appraised value.

The Developer was required to pay the Seller's broker fees, which were set at \$156,000, or 4% of the purchase price. The total property assemblage costs are estimated at \$4.06 million.

DIRECT COSTS

The direct cost estimates assume that the Project will be subject to State of California prevailing wage requirements. The direct costs applied in this analysis are based on estimates provided by the Developer and can be summarized as follows:

1. The demolition costs are estimated at \$71,000.
2. The site improvement costs are estimated at \$71,000.
3. The rehabilitation and new construction costs for the ADU are estimated at \$2.09 million, or approximately \$190,400 per unit.
4. The general conditions and contractor fee costs are estimated at \$240,000, or 11% of construction costs.
5. The insurance costs are estimated at 1% of construction costs.
6. A direct cost contingency allowance equal to 15% of direct costs is provided, which is reasonable given the proposed scope of development.

KMA estimates the total direct costs at \$2.88 million, or \$261,400 per unit.

INDIRECT COSTS

1. The architecture, engineering and consulting costs are estimated at 3.5% of direct costs.
2. The Developer estimates the public permits and fees costs at \$61,900, or approximately \$5,600 per unit.
3. The taxes, insurance, legal and accounting costs are estimated at 1.5% of direct costs.
4. The Developer did not include an allowance for marketing and leasing costs.
5. The Developer Fee is set at \$183,000, which is equal to 3% of net development costs (total development costs less the developer fee). This estimate is less than typical developer fee amounts for affordable housing projects.
6. KMA included an indirect cost contingency allowance equal to 5% of other indirect costs. The Developer did not include a separate indirect cost contingency allowance in their development budget.

KMA estimates the total indirect costs at \$407,600.

FINANCING COSTS

The Developer intends to utilize the City's financial assistance and other fundraising/grant funds to cover the Project's construction costs. As such, the Developer assumes that the Project will not be subject to construction loan interest and/or construction loan fees during the construction period. KMA utilized this assumption in the pro forma analysis, and did not include any financing costs. If this assumption changes, the KMA analysis may need to be revised accordingly.

TOTAL DEVELOPMENT COSTS

As shown in Table 1, KMA estimates the total development costs at \$7.34 million, which equates to approximately \$667,200 per unit. This estimate is approximately \$48,200, or less than 1% higher than the Developer's estimate. This differential is primarily

attributed to KMA including higher indirect costs, including an indirect cost contingency allowance, in the KMA pro forma analysis.

Stabilized Net Operating Income (Table 2)

The Project's funding sources include a loan provided by the Developer, and fundraising/grant funds secured by the Developer. In addition, the City intends to utilize Homeless Housing, Assistance and Prevention (HHAP) grant funds allocated to the City by HCD. To that end, the City will impose the following affordability requirements on the Project:

INCOME RESTRICTIONS

1. The eight (8) TAY units will be restricted to homeless TAY households earning no more than the 30% MTSP AMI income limits as published by HCD.
2. For the three-bedroom shared housing units, each bedroom shall be restricted to a homeless senior citizen household earning up to the 50% MTSP AMI income limit.

RENT RESTRICTIONS

1. The maximum affordable rent for the eight TAY units will be set at the 30% MTSP AMI rent as published annually by HCD.³
2. For the three-bedroom shared housing units, the total rent payments must not exceed the 50% MTSP AMI rent for a three-bedroom unit. Additionally, each tenant's rent must not exceed the lesser of:
 - a. One-third (1/3) of the 50% MTSP AMI rent for a three-bedroom unit; or
 - b. 30% of the household's actual income (inclusive of Supplemental Security Income (SSI) / State Supplementary Payment (SSP) payments.

³ Each of the TAY units will have a PBV, and thus, each TAY tenant can pay no more than 30% of their income towards rent. For underwriting purposes, KMA set the TAY tenant payments at 30% SSI.

ACHIEVABLE RENTAL INCOME

The Project’s rents must adhere to the most restrictive of the requirements imposed by the funding sources. The rents in this analysis are based on 2022 information published by HUD and HCD. The maximum allowable rents, net of the appropriate utility allowances, are estimated as follows:⁴

Rent Restriction – TAY Units	1- Bedroom Units	2- Bedroom Units
<u>30% MTSP AMI / 30% SSI (PSH)</u>		
Number of Units	2	6
30% MTSP AMI Rent	\$728	\$864
30% SSI Rent	\$306	\$289
Applicable Rent	\$306	\$289

Rent Restriction – Shared Housing Senior Units	3- Bedroom Units
<u>50% MTSP AMI / 30% SSI (PSH)</u>	
Number of Units	2
50% MTSP AMI Rent – Three-Bedroom Unit	\$1,694
1/3 of 50% MTSP AMI Rent	\$565
30% of SSI for Studio Unit	\$313
Applicable Rent	
Per Bedroom	\$313
Per Three-Bedroom Unit	\$939

⁴ Per the Developer, tenants will only pay for electricity. The basic electric utility charge as published by the Housing Authority on October 1, 2022 is estimated at: \$27 for shared housing bedrooms; \$34 for one-bedroom units; and \$51 for two-bedroom units.

ESTIMATED EFFECTIVE GROSS RESIDENTIAL INCOME

KMA estimates the residential effective gross income (EGI) at approximately \$239,000 based on the following assumptions:

1. The gross rental income is estimated at \$50,600.
2. The PBV subsidy overhang income is estimated at \$215,000 based on the following payment standards:
 - a. \$2,219 for one-bedroom units; and
 - b. \$2,665 for two-bedroom units.
3. A vacancy and collection allowance equal to 10% of gross rental income is assumed, which equates to \$26,600.

ESTIMATED RESIDENTIAL OPERATING EXPENSES

KMA estimates the Project's residential operating expenses at approximately \$107,200 based on the following assumptions:

1. The general operating expenses are estimated at \$9,200 per unit per year. This is within the range for similar small affordable housing projects.
2. KMA assumes the Developer will apply for the property tax abatement that is accorded to non-profit housing organizations that own and operate apartment units that are restricted to households earning less than 80% of the Area Median Income. The Developer assumes that the Project will not be subject to any property tax assessment override cost.
3. The Developer did not include supportive services costs in their pro forma. Per discussions with the Developer, the Developer will provide / pay for supportive services expenses outside of the Project's operating budget. The Developer estimates these costs at \$120,000 per year; however, the City should memorialize this concept in the City's grant agreement and/or regulatory agreement.

4. The Developer provided an allowance for replacement reserve deposits at \$545 per unit per year. This is a reasonable allowance given the small size of the Project.

RESIDENTIAL STABILIZED NET OPERATING INCOME

The Project's residential EGI is estimated at \$239,000, and the operating expenses are estimated at \$107,200. This results in an estimated residential stabilized NOI of \$131,800.

TOTAL PROJECT STABILIZED NET OPERATING INCOME

In addition to the \$131,800 in residential NOI, the Developer intends to lease the preschool space to Head Start. The Developer estimates the preschool lease payments at \$5,000 per month, or \$60,000 per year. When the preschool lease payments are added to the residential NOI, KMA estimates the Project's total NOI at \$191,800.

Financial Gap Calculation

The financial gap is estimated by deducting the available outside funding sources from the Project's total development costs. The outside funding sources anticipated to be received by the Project are described below.

AVAILABLE FUNDING SOURCES

Illumination Foundation Loan

The Developer, or one of its affiliated legal entities, proposes to provide a loan to the Project. The proposed terms of the Illumination Foundation Loan include the following:

1. Interest-only payments based on a variable interest rate set at the Wall Street Journal (WSJ) Prime Rate. The WSJ Prime Rate is currently set at 8.25%.
2. The Developer anticipates repaying this loan through a capital campaign. Therefore, no repayment term was specified. However, the Developer did not provide the loan documents for review.

KMA estimates the Developer will need to provide a \$2.77 million loan to the Project. Based on an 8.25% interest rate, the annual interest rate payments would equate to \$228,500 per year.

Fundraising / Grant Funds

The Developer proposes to utilize the following additional funding sources for the Project:

1. The Developer has secured \$1 million in fundraising dollars.
2. The Developer has committed to securing at least \$1.50 million in additional fundraising dollars for the Project.

TOTAL AVAILABLE FUNDING SOURCES

As shown in Table 3, KMA estimates the outside funding sources available to the Project at \$5.27 million.

ESTIMATED FINANCIAL GAP

Based on the preceding analysis, KMA estimates the Project's financial gap as follows:

Total Development Costs	\$7,339,00
(Less) Total Available Outside Funding Sources	(5,269,500)
Financial Gap	\$2,069,500
Per Unit	\$188,100

As shown in the table above, KMA estimates that the Project exhibits a \$2.07 million financial gap. In comparison, the Developer is requesting \$2.02 million in financial assistance from the City. This represents a \$48,200, or less than 3% differential, which can be considered inconsequential for a Project of this scope.

CASH FLOW ANALYSIS

KMA also conducted a cash flow analysis to evaluate the Project's operating feasibility during the City's 55-year affordability period.

The following describes the basic cash flow assumptions:

1. Year 1 is based on the pro forma rent and expense assumptions presented in the stabilized NOI analysis (Table 2).
2. Additional revenue and expense assumptions are as follows:
 - a. The affordable rental income and PBV subsidy income are escalated at 2.5% per year.
 - b. The general operating expenses and replacement reserve deposits are escalated at 3.5% per year.
 - c. The property taxes are escalated at 2.0% per year.
 - d. The preschool lease revenue is escalated at 3.0% per year.
3. KMA set the interest-only payments on the Illumination Foundation Loan at \$228,500 per year.

As shown in Table 4, the Project's cash flow after debt service is negative in Years 1 - 9. KMA estimates that the operating deficits during this initial 9-year period total approximately \$180,000. In comparison, the Developer's cash flow assumes that the Project's net cash flow remains positive after the Project reaches stabilization in Year 2.

Per discussions with the Developer, the Developer will cover any cash flow losses. This should be included as a provision in the City's grant agreement and/or regulatory agreement.

CONCLUSIONS / RECOMMENDATIONS

The following summarizes the conclusions of the KMA analysis:

1. Based on the currently available information, it is the KMA conclusion that that Developer's request for \$2.02 million in financial assistance from the City is supported by the Project's economics.
2. If the Developer secures additional outside funding sources not envisioned in this analysis, the City's financial assistance amount should be decreased commensurately.
3. The Developer did not include case management / social services expenses in their pro forma submittal. As such, KMA assumes that the Developer will provide/pay for these services outside of the Project's operating budget. The City should memorialize this concept as a provision in the City's grant agreement and/or regulatory agreement.
4. KMA estimates that the Project's net cash flow may be negative during the first nine years of operations. Per discussions with the Developer, the Developer will cover any operating losses during the City's 55-year affordability period. This concept should be included as a provision in the City's grant agreement and/or regulatory agreement.
5. Given that the Developer is proposing to provide a loan to the Project from one of its affiliated legal entities, the City may want to require the Developer to incorporate a standstill provision in the Illumination Foundation Loan documents that prohibits the Illumination Foundation from foreclosing on the Project.
6. The Project may generate significant cash flow after the Illumination Foundation Loan is repaid. The Housing Authority may want to review the Project's operating information prior to renewing the PBV contract at the end of the initial PBV term to ensure that eight (8) PBVs are still required by the Project.
7. The Developer did not provide an appraisal for review. The City may want to require the Developer to provide an appraisal to ensure that the purchase price is consistent with the appraised value.

TABLE 1

**ESTIMATED DEVELOPMENT COSTS
BEWLEY STREET PSH PROJECT
SANTA ANA, CALIFORNIA**

I. <u>Property Assemblage Costs</u>			
Property Acquisition Costs	1		\$3,900,000
Seller Broker Fees		4.0% Purchase Price	156,000
Total Property Assemblage Costs			\$4,056,000
II. <u>Direct Costs</u>			
Demolition	2		\$71,000
Site Improvements			71,000
Rehabilitation & New Construction Costs	3	11 Units \$190,400 /Unit	2,094,400
General Conditions / Profit		11% Construction Costs	240,000
Insurance		1% Construction Costs	24,000
Direct Cost Contingency		15% Other Direct Costs	375,000
Total Direct Costs			\$2,875,400
III. <u>Indirect Costs</u>			
Architecture, Engineering & Consulting		3.5% Direct Costs	\$100,600
Public Permits & Fees	4	11 Units \$5,630 /Unit	61,900
Taxes, Insurance, Legal & Accounting		1.5% Direct Costs	43,100
Marketing/Leasing		11 Units \$0 /Unit	0
Developer Fee	5	3% Net Dev. Costs (Exc. Developer Fee)	183,000
Soft Cost Contingency Allowance		5% Other Indirect Costs	19,000
Total Indirect Costs			\$407,600
IV. Total Financing Costs			\$0
V. Total Rehabilitation & New Const Costs			
			\$3,439,000
Total Development Costs			\$7,339,000

¹ Based on Developer estimate. An appraisal was not provided for review.

² Based on Developer's estimates. The estimates assume that prevailing wage requirements will be imposed on the Project.

³ Based on Developer estimate. Includes the costs to rehabilitate the existing residential buildings and to newly construct an ADU on the Site. Per Developer, Head Start will be responsible for any costs associated with the preschool building.

⁴ Based on Developer estimate. City staff should verify the accuracy of this estimate.

⁵ Based on Developer estimate.

⁶ The Developer did not include any financing costs in their development budget. If the Illumination Foundation Loan accrues interest during the development period, the addition of these interest costs (estimated at \$228,500/year) may increase the Project's financial gap.

TABLE 2

**STABILIZED NET OPERATING INCOME
BEWLEY STREET PSH PROJECT
SANTA ANA, CALIFORNIA**

I. <u>Effective Gross Residential Income</u>	1			
2-Bedroom Manager's Unit		1 Unit @	\$0 /Month	\$0
1-Bedroom Units (TAY PSH) - PBV	2	2 Units @	\$306 /Month	7,300
2-Bedroom Units (TAY PSH) - PBV	2	6 Units @	\$289 /Month	20,800
3-Bedroom Units (Senior PSH - Shared Hsg)	3	2 Units @	\$939 /Month	22,500
<u>Section 8 Subsidy</u>				
1-Bedroom Units (TAY PSH) - PBV		2 Units @	\$1,906 /Month	45,700
2-Bedroom Units (TAY PSH) - PBV		6 Units @	\$2,352 /Month	169,300
(Less) Vacancy and Collection		10.0% Gross Income		(26,600)
Total Effective Gross Residential Income				\$239,000
II. <u>Residential Operating Expenses</u>				
General Operating Expenses		11 Units @	\$9,200 /Unit	\$101,200
Property Taxes	4			0
Supportive Services	5	11 Units @	\$0 /Unit	0
Replacement Reserve		11 Units @	\$545 /Unit	6,000
Total Residential Operating Expenses		11 Units @	\$9,700 /Unit	(\$107,200)
III. <u>Residential Stabilized Net Operating Income</u>				\$131,800
IV. <u>Preschool Income</u>	6			\$60,000
V. <u>Total Project Stabilized Net Operating Income</u>				\$191,800

¹ Per Developer, tenants will only pay for electricity. KMA deducted a utility allowance for Basic Electricity based on the utility allowance schedule published by the Santa Ana Housing Authority on October 1, 2022: \$27 for shared housing bedrooms; \$34 for one-bedroom units; and \$51 for two-bedroom units.

² Based on Orange County 2022 Incomes distributed by HUD. As pertinent, the rents are based on rents published in 2022 by HCD for MTSP programs and 30% CA SSI.

³ The two 3-bedroom units will be structured as shared housing for senior citizens. KMA assumes that the City will restrict each bedroom's rent to the lesser of: 1/3 of the 50% MTSP AMI rent for a 3-bdrm unit or 30% of each household's income.

⁴ Assumes the Developer will apply for the property tax welfare exemption accorded to non-profit housing organizations that own and operate apartment units restricted to households earning no more than 80% AMI.

⁵ The Developer did not include any supportive service costs in the pro forma. KMA assumes the Developer will provide/pay for case management/social services outside of the Project's operating expenses.

⁶ Based on Developer estimate.

TABLE 3

**FINANCIAL GAP CALCULATION
BEWLEY STREET PSH PROJECT
SANTA ANA, CALIFORNIA**

I. <u>Available Funding Sources</u>	¹		
Illumination Foundation Loan Amount			\$2,769,500
Developer - Committed Fundraising			\$1,000,000
Developer - Additional Fundraising			\$1,500,000
Total Available Funding Sources			\$5,269,500
II. <u>Financial Gap Calculation</u>			
Total Development Costs		See TABLE 1	\$7,339,000
(Less) Total Available Funding Sources			(5,269,500)
Total Financial Gap	11 Units	\$188,100 /Unit	\$2,069,500

¹ Based on Developer estimate.

TABLE 4
CASH FLOW ANALYSIS
BEWLEY STREET PSH PROJECT
SANTA ANA, CALIFORNIA

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>
I. <u>Gross Residential Income</u>¹							
Tenant-Paid Income	\$50,600	\$51,865	\$53,162	\$54,491	\$55,853	\$57,249	\$58,680
PBV Subsidy Income	215,000	220,375	225,884	231,531	237,320	243,253	249,334
(Less) Vacancy Allowance	<u>(26,560)</u>	<u>(27,224)</u>	<u>(27,905)</u>	<u>(28,602)</u>	<u>(29,317)</u>	<u>(30,050)</u>	<u>(30,801)</u>
Effective Gross Base Income	\$239,040	\$245,016	\$251,141	\$257,420	\$263,855	\$270,452	\$277,213
II. <u>Residential Operating Expenses</u>²							
General Operating Expenses	\$101,200	\$104,742	\$108,408	\$112,202	\$116,129	\$120,194	\$124,401
Property Taxes	0	-	-	-	-	-	-
Supportive Services	0	-	-	-	-	-	-
Replacement Reserve	<u>6,000</u>	<u>6,210</u>	<u>6,427</u>	<u>6,652</u>	<u>6,885</u>	<u>7,126</u>	<u>7,376</u>
Total Operating Expenses	\$107,200	\$110,952	\$114,835	\$118,855	\$123,014	\$127,320	\$131,776
III. Residential Net Operating Income	\$131,840	\$134,064	\$136,306	\$138,565	\$140,841	\$143,132	\$145,437
Preschool Income	<u>60,000</u>	<u>61,800</u>	<u>63,654</u>	<u>65,564</u>	<u>67,531</u>	<u>69,556</u>	<u>71,643</u>
IV. Project Net Operating Income	\$191,840	\$195,864	\$199,960	\$204,129	\$208,371	\$212,688	\$217,080
(Less) Interest Only Pmts - Illumination Foundation Loan ³	<u>(228,484)</u>	<u>(228,484)</u>	<u>(228,484)</u>	<u>(228,484)</u>	<u>(228,484)</u>	<u>(228,484)</u>	<u>(228,484)</u>
V. Net Cash Flow	(\$36,644)	(\$32,620)	(\$28,524)	(\$24,355)	(\$20,113)	(\$15,796)	(\$11,404)
Nominal Dollars		\$16,247,243		\$2,524,000	NPV @ 6% Discount Rate		

¹ The affordable rents and PBV subsidy are assumed to increase by 102.5%/year. Assumes Year 1 is at stabilization.

² General operating expenses/supportive services/replacement reserve deposits are assumed to increase by 103.5%/year, and property taxes at 102.0%/year.

³ Based on a \$2,770,000 loan balance and an 8.25% interest rate. Per discussions with the Developer, KMA assumes that this loan will be paid off within the first 10 years of operations through a capital campaign.

TABLE 4
CASH FLOW ANALYSIS
BEWLEY STREET PSH PROJECT
SANTA ANA, CALIFORNIA

	<u>Year 8</u>	<u>Year 9</u>	<u>Year 10</u>	<u>Year 11</u>	<u>Year 12</u>	<u>Year 13</u>	<u>Year 14</u>	<u>Year 15</u>
I. <u>Gross Residential Income</u>¹								
Tenant-Paid Income	\$60,147	\$61,651	\$63,192	\$64,772	\$66,392	\$68,051	\$69,753	\$71,496
PBV Subsidy Income	255,567	261,957	268,506	275,218	282,099	289,151	296,380	303,789
(Less) Vacancy Allowance	(31,571)	(32,361)	(33,170)	(33,999)	(34,849)	(35,720)	(36,613)	(37,529)
Effective Gross Base Income	\$284,143	\$291,247	\$298,528	\$305,991	\$313,641	\$321,482	\$329,519	\$337,757
II. <u>Residential Operating Expenses</u>²								
General Operating Expenses	\$128,755	\$133,261	\$137,925	\$142,753	\$147,749	\$152,920	\$158,272	\$163,812
Property Taxes	-	-	-	-	-	-	-	-
Supportive Services	-	-	-	-	-	-	-	-
Replacement Reserve	<u>7,634</u>	<u>7,901</u>	<u>8,177</u>	<u>8,464</u>	<u>8,760</u>	<u>9,066</u>	<u>9,384</u>	<u>9,712</u>
Total Operating Expenses	\$136,388	\$141,162	\$146,103	\$151,216	\$156,509	\$161,987	167,656	\$173,524
III. <u>Residential Net Operating Income</u>	\$147,755	\$150,085	\$152,426	\$154,775	\$157,132	\$159,496	\$161,863	\$164,233
Preschool Income	<u>73,792</u>	<u>76,006</u>	<u>78,286</u>	<u>80,635</u>	<u>83,054</u>	<u>85,546</u>	<u>88,112</u>	<u>90,755</u>
IV. <u>Project Net Operating Income</u>	\$221,548	\$226,091	\$230,712	\$235,410	\$240,186	\$245,041	\$249,975	\$254,989
(Less) Interest Only Pmts - Illumination Foundation Loan ³	<u>(228,484)</u>	<u>(228,484)</u>	<u>(228,484)</u>	\$0	\$0	\$0	\$0	\$0
V. <u>Net Cash Flow</u>	(\$6,936)	(\$2,393)	\$2,228	\$235,410	\$240,186	\$245,041	\$249,975	\$254,989
Nominal Dollars								

¹ The affordable rents and PBV subsidy are assumed to increase by 102.5%/year. Assumes Year 1 is at stabilization.

² General operating expenses/supportive services/replacement reserve deposits are assumed to increase by 103.5%/year, and property taxes at 102.0%/year.

³ Based on a \$2,770,000 loan balance and an 8.25% interest rate. Per discussions with the Developer, KMA assumes that this loan will be paid off within the first 10 years of operations through a capital campaign.

TABLE 4
CASH FLOW ANALYSIS
BEWLEY STREET PSH PROJECT
SANTA ANA, CALIFORNIA

	<u>Year 16</u>	<u>Year 17</u>	<u>Year 18</u>	<u>Year 19</u>	<u>Year 20</u>	<u>Year 21</u>	<u>Year 22</u>	<u>Year 23</u>
I. <u>Gross Residential Income</u>¹								
Tenant-Paid Income	\$73,284	\$75,116	\$76,994	\$78,919	\$80,892	\$82,914	\$84,987	\$87,112
PBV Subsidy Income	311,384	319,169	327,148	335,327	343,710	352,303	361,110	370,138
(Less) Vacancy Allowance	<u>(38,467)</u>	<u>(39,428)</u>	<u>(40,414)</u>	<u>(41,425)</u>	<u>(42,460)</u>	<u>(43,522)</u>	<u>(44,610)</u>	<u>(45,725)</u>
Effective Gross Base Income	\$346,201	\$354,856	\$363,728	\$372,821	\$382,141	\$391,695	\$401,487	\$411,524
II. <u>Residential Operating Expenses</u>²								
General Operating Expenses	\$169,545	\$175,479	\$181,621	\$187,978	\$194,557	\$201,367	\$208,414	\$215,709
Property Taxes	-	-	-	-	-	-	-	-
Supportive Services	-	-	-	-	-	-	-	-
Replacement Reserve	<u>10,052</u>	<u>10,404</u>	<u>10,768</u>	<u>11,145</u>	<u>11,535</u>	<u>11,939</u>	<u>12,357</u>	<u>12,789</u>
Total Operating Expenses	\$179,597	\$185,883	\$192,389	\$199,123	\$206,092	\$213,305	\$220,771	\$228,498
III. <u>Residential Net Operating Income</u>	\$166,604	\$168,973	\$171,338	\$173,698	\$176,049	\$178,390	\$180,716	\$183,026
Preschool Income	<u>93,478</u>	<u>96,282</u>	<u>99,171</u>	<u>102,146</u>	<u>105,210</u>	<u>108,367</u>	<u>111,618</u>	<u>114,966</u>
IV. <u>Project Net Operating Income</u>	\$260,082	\$265,255	\$270,509	\$275,844	\$281,260	\$286,756	\$292,334	\$297,993
(Less) Interest Only Pmts - Illumination Foundation Loan ³	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
V. <u>Net Cash Flow</u>	\$260,082	\$265,255	\$270,509	\$275,844	\$281,260	\$286,756	\$292,334	\$297,993
Nominal Dollars								

¹ The affordable rents and PBV subsidy are assumed to increase by 102.5%/year. Assumes Year 1 is at stabilization.

² General operating expenses/supportive services/replacement reserve deposits are assumed to increase by 103.5%/year, and property taxes at 102.0%/year.

³ Based on a \$2,770,000 loan balance and an 8.25% interest rate. Per discussions with the Developer, KMA assumes that this loan will be paid off within the first 10 years of operations through a capital campaign.

TABLE 4
CASH FLOW ANALYSIS
BEWLEY STREET PSH PROJECT
SANTA ANA, CALIFORNIA

	<u>Year 24</u>	<u>Year 25</u>	<u>Year 26</u>	<u>Year 27</u>	<u>Year 28</u>	<u>Year 29</u>	<u>Year 30</u>	<u>Year 31</u>
I. <u>Gross Residential Income</u>¹								
Tenant-Paid Income	\$89,289	\$91,522	\$93,810	\$96,155	\$98,559	\$101,023	\$103,548	\$106,137
PBV Subsidy Income	379,391	388,876	398,598	408,563	418,777	429,246	439,978	450,977
(Less) Vacancy Allowance	(46,868)	(48,040)	(49,241)	(50,472)	(51,734)	(53,027)	(54,353)	(55,711)
Effective Gross Base Income	\$421,813	\$432,358	\$443,167	\$454,246	\$465,602	\$477,242	\$489,173	\$501,403
II. <u>Residential Operating Expenses</u>²								
General Operating Expenses	\$223,259	\$231,073	\$239,160	\$247,531	\$256,195	\$265,161	\$274,442	\$284,048
Property Taxes	-	-	-	-	-	-	-	-
Supportive Services	-	-	-	-	-	-	-	-
Replacement Reserve	<u>13,237</u>	<u>13,700</u>	<u>14,179</u>	<u>14,676</u>	<u>15,189</u>	<u>15,721</u>	<u>16,271</u>	<u>16,841</u>
Total Operating Expenses	\$236,495	\$244,773	\$253,340	\$262,207	\$271,384	\$280,882	\$290,713	\$300,888
III. Residential Net Operating Income	\$185,317	\$187,585	\$189,827	\$192,039	\$194,218	\$196,360	\$198,460	\$200,514
Preschool Income	<u>118,415</u>	<u>121,968</u>	<u>125,627</u>	<u>129,395</u>	<u>133,277</u>	<u>137,276</u>	<u>141,394</u>	<u>145,636</u>
IV. Project Net Operating Income	\$303,732	\$309,553	\$315,454	\$321,435	\$327,495	\$333,635	\$339,854	\$346,150
(Less) Interest Only Pmts - Illumination Foundation Loan ³	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
V. Net Cash Flow	\$303,732	\$309,553	\$315,454	\$321,435	\$327,495	\$333,635	\$339,854	\$346,150
Nominal Dollars								

¹ The affordable rents and PBV subsidy are assumed to increase by 102.5%/year. Assumes Year 1 is at stabilization.

² General operating expenses/supportive services/replacement reserve deposits are assumed to increase by 103.5%/year, and property taxes at 102.0%/year.

³ Based on a \$2,770,000 loan balance and an 8.25% interest rate. Per discussions with the Developer, KMA assumes that this loan will be paid off within the first 10 years of operations through a capital campaign.

TABLE 4
CASH FLOW ANALYSIS
BEWLEY STREET PSH PROJECT
SANTA ANA, CALIFORNIA

	<u>Year 32</u>	<u>Year 33</u>	<u>Year 34</u>	<u>Year 35</u>	<u>Year 36</u>	<u>Year 37</u>	<u>Year 38</u>	<u>Year 39</u>
I. <u>Gross Residential Income</u>¹								
Tenant-Paid Income	\$108,790	\$111,510	\$114,298	\$117,155	\$120,084	\$123,086	\$126,163	\$129,318
PBV Subsidy Income	462,251	473,808	485,653	497,794	510,239	522,995	536,070	549,472
(Less) Vacancy Allowance	(57,104)	(58,532)	(59,995)	(61,495)	(63,032)	(64,608)	(66,223)	(67,879)
Effective Gross Base Income	\$513,938	\$526,786	\$539,956	\$553,455	\$567,291	\$581,473	\$596,010	\$610,910
II. <u>Residential Operating Expenses</u>²								
General Operating Expenses	\$293,989	\$304,279	\$314,929	\$325,951	\$337,359	\$349,167	\$361,388	\$374,036
Property Taxes	-	-	-	-	-	-	-	-
Supportive Services	-	-	-	-	-	-	-	-
Replacement Reserve	<u>17,430</u>	<u>18,040</u>	<u>18,672</u>	<u>19,325</u>	<u>20,002</u>	<u>20,702</u>	<u>21,426</u>	<u>22,176</u>
Total Operating Expenses	\$311,419	\$322,319	\$333,600	\$345,276	\$357,361	\$369,869	\$382,814	\$396,212
III. <u>Residential Net Operating Income</u>	\$202,518	\$204,467	\$206,355	\$208,178	\$209,930	\$211,605	\$213,196	\$214,698
Preschool Income	<u>150,005</u>	<u>154,505</u>	<u>159,140</u>	<u>163,914</u>	<u>168,832</u>	<u>173,897</u>	<u>179,114</u>	<u>184,487</u>
IV. <u>Project Net Operating Income</u>	\$352,523	\$358,972	\$365,496	\$372,093	\$378,762	\$385,501	\$392,310	\$399,185
(Less) Interest Only Pmts - Illumination Foundation Loan ³	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
V. <u>Net Cash Flow</u>	\$352,523	\$358,972	\$365,496	\$372,093	\$378,762	\$385,501	\$392,310	\$399,185
Nominal Dollars								

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CASH FLOW ANALYSIS
BEWLEY STREET PSH PROJECT
SANTA ANA, CALIFORNIA

	<u>Year 40</u>	<u>Year 41</u>	<u>Year 42</u>	<u>Year 43</u>	<u>Year 44</u>	<u>Year 45</u>	<u>Year 46</u>	<u>Year 47</u>
I. <u>Gross Residential Income</u>¹								
Tenant-Paid Income	\$132,550	\$135,864	\$139,261	\$142,742	\$146,311	\$149,969	\$153,718	\$157,561
PBV Subsidy Income	563,209	577,289	591,721	606,514	621,677	637,219	653,149	669,478
(Less) Vacancy Allowance	<u>(69,576)</u>	<u>(71,315)</u>	<u>(73,098)</u>	<u>(74,926)</u>	<u>(76,799)</u>	<u>(78,719)</u>	<u>(80,687)</u>	<u>(82,704)</u>
Effective Gross Base Income	\$626,183	\$641,838	\$657,884	\$674,331	\$691,189	\$708,469	\$726,180	\$744,335
II. <u>Residential Operating Expenses</u>²								
General Operating Expenses	\$387,128	\$400,677	\$414,701	\$429,215	\$444,238	\$459,786	\$475,879	\$492,534
Property Taxes	-	-	-	-	-	-	-	-
Supportive Services	-	-	-	-	-	-	-	-
Replacement Reserve	<u>22,952</u>	<u>23,756</u>	<u>24,587</u>	<u>25,448</u>	<u>26,338</u>	<u>27,260</u>	<u>28,214</u>	<u>29,202</u>
Total Operating Expenses	\$410,080	\$424,433	\$439,288	\$454,663	\$470,576	\$487,046	\$504,093	\$521,736
III. <u>Residential Net Operating Income</u>	\$216,103	\$217,405	\$218,596	\$219,668	\$220,613	\$221,422	\$222,088	\$222,599
Preschool Income	<u>190,022</u>	<u>195,722</u>	<u>201,594</u>	<u>207,642</u>	<u>213,871</u>	<u>220,287</u>	<u>226,896</u>	<u>233,703</u>
IV. <u>Project Net Operating Income</u>	\$406,125	\$413,127	\$420,190	\$427,310	\$434,484	\$441,710	\$448,983	\$456,301
(Less) Interest Only Pmts - Illumination Foundation Loan ³	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
V. <u>Net Cash Flow</u>	\$406,125	\$413,127	\$420,190	\$427,310	\$434,484	\$441,710	\$448,983	\$456,301
Nominal Dollars								

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TABLE 4
CASH FLOW ANALYSIS
BEWLEY STREET PSH PROJECT
SANTA ANA, CALIFORNIA

	<u>Year 48</u>	<u>Year 49</u>	<u>Year 50</u>	<u>Year 51</u>	<u>Year 52</u>	<u>Year 53</u>	<u>Year 54</u>	<u>Year 55</u>
I. <u>Gross Residential Income</u>¹								
Tenant-Paid Income	\$161,500	\$165,537	\$169,676	\$173,918	\$178,266	\$182,722	\$187,290	\$191,973
PBV Subsidy Income	686,215	703,370	720,955	738,978	757,453	776,389	795,799	815,694
(Less) Vacancy Allowance	<u>(84,771)</u>	<u>(86,891)</u>	<u>(89,063)</u>	<u>(91,290)</u>	<u>(93,572)</u>	<u>(95,911)</u>	<u>(98,309)</u>	<u>(100,767)</u>
Effective Gross Base Income	\$762,943	\$782,017	\$801,567	\$821,606	\$842,147	\$863,200	\$884,780	\$906,900
II. <u>Residential Operating Expenses</u>²								
General Operating Expenses	\$509,773	\$527,615	\$546,082	\$565,195	\$584,976	\$605,451	\$626,641	\$648,574
Property Taxes	-	-	-	-	-	-	-	-
Supportive Services	-	-	-	-	-	-	-	-
Replacement Reserve	<u>30,224</u>	<u>31,282</u>	<u>32,376</u>	<u>33,510</u>	<u>34,682</u>	<u>35,896</u>	<u>37,153</u>	<u>38,453</u>
Total Operating Expenses	\$539,997	\$558,897	\$578,458	\$598,704	\$619,659	\$641,347	\$663,794	\$687,027
III. <u>Residential Net Operating Income</u>	\$222,946	\$223,120	\$223,109	\$222,902	\$222,488	\$221,853	\$220,986	\$219,873
Preschool Income	<u>240,714</u>	<u>247,935</u>	<u>255,373</u>	<u>263,034</u>	<u>270,925</u>	<u>279,053</u>	<u>287,425</u>	<u>296,047</u>
IV. <u>Project Net Operating Income</u>	\$463,660	\$471,055	\$478,482	\$485,937	\$493,413	\$500,907	\$508,411	\$515,921
(Less) Interest Only Pmts - Illumination Foundation Loan ³	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
V. <u>Net Cash Flow</u>	\$463,660	\$471,055	\$478,482	\$485,937	\$493,413	\$500,907	\$508,411	\$515,921
Nominal Dollars								

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