

## ROSS FINANCIAL

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March 14, 2019

Mr. Jose Dorado  
Senior Management Analyst  
City of Chula Vista Housing Division  
276 Fourth Street  
Chula Vista, CA 1910

**Re: St. Regis Park Apartments**

Dear Mr. Dorado:

The Chula Vista Housing Authority (the “Housing Authority”) has retained Ross Financial as its municipal advisor to analyze the feasibility of issuing tax-exempt obligations (the “Notes”) for the St. Regis Park Apartments (the “Development”).

This feasibility analysis reviews the following items:

- Overview of the Development
- Proposed financing approach
- Benefits and risks to Housing Authority
- Public purpose
- Recommendations

Ross Financial has based its analysis of the Development’s financial feasibility on materials provided by the Housing Authority and Chelsea Investment Corporation (“Chelsea”), which has created the development and borrower entity for the Development. The materials include: (1) the application to the California Debt Limit Allocation Committee (“CDLAC”), (2) the financing commitment from Citibank, N.A., as construction and permanent lender (the “Lender”), (3) the market study performed by Kinetic Valuation Group in support of the application to CDLAC, and (4) Chelsea’s pro forma financial schedules for the Development. Ross Financial has not visited the site of the proposed Development and had no role in the selection of the Lender.

### **OVERVIEW OF DEVELOPMENT**

***Development Summary.*** The Development is an acquisition-rehabilitation of a multifamily housing rental development located at 1025 Broadway Avenue in Chula Vista. The Development consists of ten garden-style 2-story wood frame buildings with stucco siding and pitched clay tile roofs that contain 119 one, two- and three-bedroom units, two laundry rooms and a leasing office. The Development was constructed in 1978 as a market rate development and most recently rehabilitated in 2000 when Chelsea

acquired it to convert to affordable housing. Site amenities include a playground, 142 surface parking spaces, two swimming pools, a community room and a computer lab. Unit amenities include blinds, carpeting, a ceiling fan and coat closet as well as a refrigerator, stove/oven and garbage disposal.

The scope of rehabilitation is substantial:

- 12 units will be converted for disabled accessible use
- 5 units will be converted for hearing/visually impaired use
- Patch, seal, stripe pavement and parking areas:
- Replace handrails on stairs
- Repair building exteriors and landscaping
- Install ADA path of travel upgrades
- Install new storm drains
- Replace exterior doors and hardware
- Replace roof
- Replace flooring, fixtures in laundry, leasing office and restrooms
- Replace carpet with vinyl flooring in units
- Replace appliances in units
- Upgrade electrical, including: install GCIs, replace interior and exterior fixtures, new wiring for bath fans, laundry exhaust and boiler
- Install humidstat fans and replace bath fans with fresh air vents
- Install new laundry dryers/venting
- Upgrade plumbing, including: re-pipe units, replace plumbing fixtures, tubs, shower valves and p-traps
- New signage and fencing

The unit mix and affordability restrictions for the Development will not change from its current configuration:

<b>St. Regis Park</b>	<b>Unit Mix</b>	<b>50% AMI**</b>	<b>60% AMI**</b>
1 Bedroom/1 Bath	5	1	4
2 Bedroom/1 Bath	109	22	87
3 Bedroom/1 Bath	5*	1	3
<b>Total Units</b>	<b>119</b>	<b>24</b>	<b>94</b>

\*Includes one manager's unit

\*\* AMI = Area median income; Manager's unit is not subject to affordability restrictions

**Description of Project Site.** The Development sits on 4.31 acres at 1025 Broadway Avenue. Access to the Development is from the east side of Broadway Avenue, which runs north-south and provides access to Moss Street to the north. Moss Street, in turn, runs east-west and provides access to Interstate 5 via Industrial Boulevard.

The Development is located in the Chula Vista Elementary School District and the Sweetwater Union High School District. The nearest schools are: Rice Elementary School, Chula Vista Middle School and Chula Vista High School, located between 0.6 to 1.6 from the Development. According to the market study, the Development is located 1.3 miles from the Scripps Mercy Hospital Chula Vista, 0.3 miles from Walmart, 0.6 miles from CVS, 0.6 miles from Food 4 Less and 1.1 miles from the South Chula Vista Library.

***Project Ownership/Borrower.*** The ownership entity for the Development will be St. Regis Park CIC, L.P., (the “Borrower”), a single asset California limited partnership consisting of: (1) a limited liability corporation created by Pacific Southwest Community Development Corporation, a 501(c)(3) nonprofit public benefit corporation, which will act as the managing general partner; (2) CIC St. Regis Park LLC, an entity created by Chelsea, which will act as the administrative general partner; and (3) an investor limited partner that will be an entity formed by Raymond James & Associates. According to its application to CDLAC, Chelsea has more than 30 years of experience in financing, developing and/or rehabilitating multifamily rental housing. According to Chelsea, this experience encompasses 6,952 units in Southern California, including more than 4,797 affordable housing units in San Diego County. Chelsea’s most recent development activity in Chula Vista includes:

- Duetta Apartments, a 87-unit new construction family project located at 1715 Orion Avenue, which opened in the 4<sup>th</sup> quarter of 2017;
- Volta Apartments, a 123-unit new construction senior project located at 1734 Solstice Avenue, which opened in the 4<sup>th</sup> quarter of 2017.

***Re-syndication.*** The overall transaction is in the nature of a re-syndication. The Borrower will be acquiring the Development from a seller, St. Regis Park, L.P. (the “Seller”), which was also created by Chelsea. The acquisition and rehabilitation of the Development will qualify for new tax-exempt financing and a re-syndication of tax credits. To assist in funding the acquisition of the Development, the Seller will be providing carry back financing.

***CDLAC/CTCAC.*** On January 18, 2019, the Housing Authority filed a joint application to CDLAC and CTCAC requesting a private activity bond allocation of \$21,400,000 for the Development and new 4% Federal tax credits. CDLAC is expected to award an allocation in the requested amount at its meeting of March 20, 2019. The allocation will expire in 180 days after the allocation award under CDLAC’s policies and procedures – on or about September 16, 2019. CTCAC is expected to reserve 4% Federal tax credits at its meeting also on March 20, 2019.

In connection with the CDLAC application process, on July 17, 2018, the Housing Authority adopted a resolution of intent to issue tax-exempt obligations for the Development and authorized the submission of an application to CDLAC. On the same

date, a TEFRA hearing, duly noticed, was held before the City Council at which time the Development was approved for purposes of Section 147 of the Internal Revenue Code.

## PROPOSED FINANCING

**Project Costs and Funding.** According to most recent projections provided by Chelsea, the total cost of the Development, including construction and all soft costs, is estimated at \$37,691,851. The estimated sources and uses of funds will differ during the construction period and following construction and lease-up (“at permanent”). The following table allocates these sources and uses during construction and at permanent based on the most recent projections, which remain subject to change based on final costs and loan underwriting:

Sources of Funds	Construction	Permanent*
Tax-Exempt Note Proceeds	\$18,808,764	\$11,135,800
Low Income Housing Tax Credit Equity	989,479	9,894,788
Seller Carryback Loan	11,550,000	12,550,000
Housing Authority Loan	1,275,778	1,275,778
Accrued Loan Interest	307,638	307,638
Income from Operations/Performance Bond Refund	681,686	681,686
Deferred Developer Fees and Costs	0	1,846,162
<b>Total</b>	<b>\$33,613,345</b>	<b>\$37,691,851</b>
Uses of Funds		
Acquisition	\$20,424,770	\$20,424,770
Rehab Costs (plus contingency)	7,803,791	7,803,791
Impact and Permit Fees	68,000	68,000
Architectural & Engineering	114,036	114,036
Financing Fees and Interest	3,082,377	3,104,877
Legal and Miscellaneous Soft Costs	1,620,371	1,676,250
Reserves	0	331,807
Developer Fee**	500,000	4,168,320
<b>Total</b>	<b>\$33,613,345</b>	<b>\$37,691,851</b>

\* Totals may not add due to rounding

\*\*Cash developer fee is \$2,322,158

**The Notes and Bank Funding Approach.** Based on the most recent pro forma, the expectation is that Housing Authority will issue the Notes in an estimated aggregate amount of \$18,808,764 (but, in any event, an amount not to exceed \$21,400,000) to finance a portion of the costs of acquiring and rehabilitating the Development. The Notes will have the following features:

- The Notes will be funded by Citibank, N.A. (the “Lender”);
- The Notes will be issued on a draw down basis;
- The Notes will be issued in two series:
  - The 2019 Series B-1 Note will be issued in the approximate amount of \$11,135,800, is expected to mature or be subject to mandatory tender in 17

- years after closing, will amortize on a 35-year basis and will bear interest at a fixed rate assumed to be 5.50% for underwriting purposes.
- The 2019 Series B-2 Note will be issued in the approximate amount of \$7,672,964, is expected to be repaid within 3 years and will bear interest only at a variable rate of interest that is assumed to be 5.29% for underwriting purposes;
- The amounts of the 2019 Series B-1 and B-2 Notes remain subject to final underwriting but will not exceed \$21,400,000 in the aggregate.
- Following construction and lease up (at “conversion”),
  - The 2019 Series B-2 Note will be repaid in full from tax credit investor funds, and
  - The 2019 Series B-1 Note will remain outstanding and will begin amortization
- The Notes are expected to close on or about April 11, 2019.

The Lender will execute an investor letter in which it will represent that it has sufficient knowledge and experience to evaluate the risks and merits associated with making the loan evidenced by the Notes and has indicated its intention to hold the Notes for its account. The Lender may transfer all or a portion of the Notes only to transferees that execute a document with similar representations.

***Housing Authority Financial Involvement.*** The Housing Authority, as successor agency to the Redevelopment Agency of the City of Chula Vista, has an existing loan with respect to the Development in the amount of \$1,387,152, which it funded in June 2000 (the “Original CVHA Loan”) pursuant to a loan agreement secured by a deed of trust and an affordable housing agreement (collectively, the “Original CVHA Loan Documents”). In connection with the issuance of the Notes, the Original CVHA Loan Documents will be terminated and the promissory note, which evidenced the Original CVHA Loan, will be amended, restated and assumed by the Borrower (the “A&R CVHA Note”). Under the terms of the A&R CVHA Note:

- The Borrower will repay the outstanding principal amount (\$1,387,152) of the Original CVHA Loan at the closing of the Notes, leaving an unpaid balance of approximately \$1,275,788, representing accrued interest on the Original CVHA Loan.
- The A&R CVHA Note will bear simple interest at the rate of 3%;
- The A&R CVHA Note will be payable from a percentage of residual receipts (“Residual Receipts”) of the Project after payment of operating expenses, senior debt service, certain other required expenses and application of required percentages of net cash flow for deferred developer fee and repayment of the Seller carry back loan.
- The A&R CVHA Note will mature in 55 years
- The Project will remain subject to the following affordability restrictions:
  - 24 units will be restricted to households with incomes do not exceed 50% AMI, and

- 94 units will be restricted to households with incomes that do not exceed 60% AMI

**Affordability Restrictions.** The Development will be subject to the following regulatory restrictions (collectively, the “Regulatory Agreements”) and terms:

- Tax-Exempt Note Regulatory Agreement requirements (including voluntary elections made to CDLAC) for a 55-year term;
- Tax Credit Regulatory Agreement requirements under which all units must be affordable at 60% AMI for a 55-year term to remain eligible for tax credits; and
- A Declaration of Covenants, Conditions and Restrictions under which all units must be affordable at 60% AMI for the 55 year loan term.

**Development Cash Flow.** The Borrower provided pro forma cash flows for the Development. The following table summarizes key elements of the most recent pro forma:

<b>Assumptions</b>	
Vacancy	5%
Revenue Escalation	2%
Expense Escalation	3%
<b>Cash Flow and Coverage</b>	
Stabilized Net Income – First Full Year <sup>1</sup>	\$1,458,000
Expenses	(618,121)
Replacement Reserve	(36,771)
Housing Authority Bond Monitoring Fee	(17,000)
Housing Authority Loan Monitoring Fee	(1,044)
Managing GP Fee	(5,150)
Estimated Net Operating Income	\$779,914
Note Debt Service <sup>2</sup>	(674,412)
<i>Debt Service Coverage</i> <sup>3</sup>	<i>1.16x</i>
LP Fee	(5,150)
Available Cash Flow	\$100,352
Deferred Developer Fee (50% of excess flow)	(50,176)
Available Cash Flow after Deferred Developer Fee	\$50,176
Repayment of Seller Loan (90% of excess cash flow)	(45,158)
Available Cash Flow after Deferred Developer Fee	5,018
Repayment of Housing Authority Loan (10% of Excess Cash Flow)	(502)
Net Cash Flow for Partnership Admin and GP/LP Distributions	\$4,516

<sup>1</sup> Conversion is projected to occur on June 1, 2020; first full year of stabilized net income reflects projected cash flow for 2021, with revenues and expenses escalated from prior partial year

<sup>2</sup> Assumes an initial permanent loan par of \$11,135,400 @ 5.0% interest and 35 year amortization

<sup>3</sup> Net operating income divided by Note Debt Service

The following table shows the Borrower's most recent projected cash flow for the Development during first full five years following stabilized occupancy:

Escalation	Revenues	Year				
		1	2	3	4	5
2.00%	Gross Scheduled Rent	1,504,644	1,534,737	1,565,432	1,596,740	1,628,675
	<b>less 5% vacancy</b>	(75,232)	(76,737)	(78,272)	(79,837)	(81,434)
	<b>Total Net Income</b>	<b>1,429,412</b>	<b>1,458,000</b>	<b>1,487,160</b>	<b>1,516,903</b>	<b>1,547,241</b>
	<b>Expenses</b>					
3.00%	Operating Expenses	(600,117)	(618,121)	(636,664)	(655,764)	(675,437)
3.00%	Replacement Reserve	(35,700)	(36,771)	(37,874)	(39,010)	(40,181)
	Issuer Bond Monitoring Fee	(17,000)	(17,000)	(17,000)	(17,000)	(17,000)
3.00%	Housing Authority Loan Monitoring Fee	(1,014)	(1,044)	(1,076)	(1,108)	(1,141)
3.00%	Managing GP Fee	(5,000)	(5,150)	(5,305)	(5,464)	(5,628)
	<b>Total Expenses + Reserves</b>	<b>(658,831)</b>	<b>(678,086)</b>	<b>(697,919)</b>	<b>(718,346)</b>	<b>(739,386)</b>
	<b>Net Operating Income</b>	<b>770,581</b>	<b>779,914</b>	<b>789,242</b>	<b>798,557</b>	<b>807,855</b>
	Bond Debt Service	(393,407)	(674,412)	(674,412)	(674,412)	(674,412)
	Debt Service Coverage	1.96x	1.16x	1.17x	1.18x	1.20x
	<b>Available Cash Flow after Bond Debt Service</b>	<b>377,174</b>	<b>105,502</b>	<b>114,830</b>	<b>124,145</b>	<b>133,443</b>
3.00%	LP Fee	(5,000)	(5,150)	(5,305)	(5,464)	(5,628)
	<b>Project Cash Flow after GP and LP Fees</b>	<b>372,174</b>	<b>100,352</b>	<b>109,525</b>	<b>118,682</b>	<b>127,815</b>
	Deferred Developer Fee (50% of excess cash flow)	(186,087)	(50,176)	(54,763)	(59,341)	(63,908)
	<b>Project Cash Flow after Deferred Developer Fee</b>	<b>186,087</b>	<b>50,176</b>	<b>54,763</b>	<b>59,341</b>	<b>63,908</b>
	Repayment of Seller Loan (90% of excess cash flow)	(167,478)	(45,158)	(49,286)	(53,407)	(57,517)
	Project Cash Flow after Seller Note	18,609	5,018	5,476	5,934	6,391
	Repayment of CVHA Loan (10% of excess cash flow)	(1,861)	(502)	(548)	(593)	(639)
	<b>Cash Flow after Payment of CVHA Loan</b>	<b>16,748</b>	<b>4,516</b>	<b>4,929</b>	<b>5,341</b>	<b>5,752</b>
	Partnership Admin Fee and LP/GP Distributions	(16,748)	(4,516)	(4,929)	(5,341)	(5,752)

## PUBLIC PURPOSE

The Notes are expected to result in the long-term affordability of 118 one, two and three-bedroom units in the City of Chula Vista: 24 units will be restricted and affordable to households earning 50% AMI; 94 units will be restricted and affordable to households earning 60% AMI; 1 unit will be occupied by a resident manager.

The Notes and the Regulatory Agreements will require that these affordability levels be maintained for a period of 55 years.

## BENEFITS AND RISKS TO THE HOUSING AUTHORITY

The Notes provide a vehicle for financing a portion of the acquisition and rehabilitation costs of the Development. As proposed, the Notes will result in the long-term affordability of 118 one, two and three-bedroom units in the City of Chula Vista with units restricted to income levels described in "Public Purpose" above.

The Notes do not pose undue financial risk to the Housing Authority. The Notes are not direct obligations of the Housing Authority or the City of Chula Vista. The Notes will evidence loans to be funded by the Lender, which has indicated its intention to hold the Notes for its own account. The 2019 Series B-2 Note is expected to be repaid in full after the Development's construction and lease-up – approximately 41% of the projected aggregate initial issuance amount.

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If the Housing Authority issues the Notes, the Housing Authority will receive an issuer fee at Note closing of \$37,618 equal to 0.20% times the initial aggregate par amount of the Notes (\$18,808,764) based on current projections). The Housing Authority also would receive an annual Note monitoring fee of \$17,000 and a loan monitoring fee of \$1,044 (subject to escalation).

Costs of issuance will be funded by the Borrower from low income housing tax credit contributions and/or other funds of the Borrower.

## **RECOMMENDATIONS**

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

- The Notes will achieve a public purpose by providing 118 affordable units, with all units restricted to income levels at 50% and 60% of AMI.
- The Notes will evidence tax-exempt loans funded by a well-established, highly capitalized bank that is active in affordable housing lending. The Notes will be subject to restrictive transfer limitations at all times.
- The Borrower will pay issuance costs from sources other than Note proceeds.
- Based on estimates provided by the Borrower, there should be sufficient funds to complete the Development and the Development provides adequate cash flow to cover debt service on the Notes.

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

Very truly yours,



Peter J. Ross  
Principal