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May 15, 2018

Ms. Leilani Hines
Housing Manager
Development Services Department
City of Chula Vista
276 Fourth Street
Chula Vista, CA 1910

Re: Trolley Terrace and Cordova Village Apartments

Dear Ms. Hines:

The City of Chula Vista (the "City") has retained Ross Financial as its municipal advisor to analyze the feasibility of issuing tax-exempt obligations (the "Bonds") in connection with the acquisition-rehabilitation/re-syndication of Cordova + Trolley Apartments, a "scattered sites" project (the "Project").

In connection with this analysis, Ross Financial has reviewed the following materials provided by the City and David Allen, Principal of Trestle Development ("Trestle"), who is advising South Bay Community Services, a California Nonprofit Corporation ("SBCS"), the developer (the "Developer"). The materials include: (1) SBSC's application for financing to the City; (2) outstanding City loan documentation; (3) draft financing commitment from Banner Bank, as construction and permanent lender ("Banner" or the "Lender"), (4) multiple iterations of Trestle's pro forma financial schedules for the Project, (5) financial statements for the two developments that comprise the Project and (6) the Appraisals and Physical Needs Assessments for these developments. Ross Financial also has participated in several telephone conversions with City staff and Trestle. Ross Financial has not visited the sites of Project, and had no role in the selection of the Lender.

TRANSACTION OVERVIEW

Cordova + Trolley Apartments represent two existing affordable housing developments that were completed in 1998 by SBCS with financial assistance from the City. The City has two loans on the Project with an aggregate outstanding total balance of $2,843,695, consisting of $1,857,808 is principal balance and $985,887 in accrued interest. SBCS has requested that the City issue tax-exempt multifamily housing revenue bonds ("Bonds") in the approximate amount of $6,650,000. Banner has executed a letter of intent for the purchase of the Bonds.

The proceeds of the Bonds will be loaned to Cordova Trolley, LP, a California limited partnership (the "Borrower") formed by the Developer. Bond proceeds, together with other funds, will be used by the Borrower to finance the acquisition and rehabilitation of the Project from the existing limited partnerships.

The financing is intended to ensure the Project's long-term physical and economic viability and, in so doing, enable it to lengthen the period for which it will be an affordable housing resource for the City's residents. The useful life of the Project is being extended via its rehabilitation, and the terms of affordability will increase another 55 years.

The Bonds will not be paid from or secured by the general taxing power of the City or any other City asset.

The pro formas do not contemplate any pay down of the City loan. Rather, repayment of the City loan will be from residual receipts, after payment of Project expenses, debt service, partnership management fees and the deferred developer fee. The Borrower's pro forma shows the residual receipts are shared 75%/25% between the City and ownership. Residual receipts are projected to commence in the fourth year after stabilized cash flow.

Overview of the Project

Project Summary. The Project consists of the acquisition-rehabilitation of 58 units located in two separate affordable housing developments. Cordova Village Apartments ("Cordova") contains 40 family units located in six two-story apartment building; Trolley Terrace ("Trolley"), contains 18 family units located in eight two-story apartment building. The unit mix and applicable income restrictions are shown in the following table:

Project/Address	# Units	Unit Mix	Income Restrictions*
Cordova Village ***1280 East J Street***	40	16 2BR/1BA; 16 3BR/2.5BA; 8 4BR/2.5BA	8 @ 50% AMI 31 @ 60% AMI
Trolley Terrace ***750 Ada Street***	18	4 2BR/1BA; 4 3BR/1.5BA; 10 4BR/1.5BA	17@ 40% AMI

* Each project has one unrestricted manager's unit

Both Cordova and Trolley were completed in 1998 by limited partnership entities created by SBSC. The buildings that comprise the Project are conventional wood-framed with concrete slabs on grade, with painted stucco and wood siding exteriors. The Physical Needs Assessment describes the condition of Cordova and Trolley to be "good to fair". As informed by the Physical Needs Assessment, SBSC intends to perform the following rehabilitation work:

- Site Improvements
  - Seal and restripe parking areas
  - Repair concrete walks
  - Improve ADA path of travel/signage
  - Replace grassy areas with hardscape/drought tolerant landscaping
  - Improve lighting
- Common Areas
  - Repaint
  - New flooring
  - New community room furnishings
- Structure Frames and Envelopes
  - New energy efficient windows
  - Repaint
  - Replace roofs;
  - Replace exterior doors as needed
  - Replace/repair damaged balconies
- Mechanical, Electrical and Plumbing
  - Replace sink, faucet and supply lines
  - Replace bath faucets
  - Install low flow toilets/energy efficient light fixtures
  - New energy efficient water heaters
  - New CO_2/smoke detectors
- Unit Interiors
  - Carpet and flooring replacement
  - Appliance replacement
  - Repaint
  - Cabinetry/countertop replacement
  - Refinish tubs
- Accessibility improvements – Per CTCAC requirements
  - Ensure that 10% of the units are fully accessible;
  - 4% of units to accommodate visual and hearing impaired tenants;
  - Install ADA-compliant handrails; and
  - Provide accessible parking stalls.

Project Ownership/Borrower. The ownership entity for the Project will be Cordova Trolley, LP, a new California limited partnership (the "Borrower") created by SBCS. The Borrower will consist of: (1) Cordova Trolley Management, LLC, a California limited liability corporation formed by SBCS, as general partner, and (2) a tax credit investor limited partner to be created by Red Stone Equity Partners. This kind of ownership structure is typical.

CDLAC/CTCAC. SBSC has requested the Housing Authority of the City of Chula Vista (the "Housing Authority") file, by May 18, 2018, a joint application to the (1) California

Debt Limit Allocation Committee ("CDLAC"), requesting a private activity bond allocation of $6,650,000 for the Project and (2) California Tax Credit Allocation Committee ("CTCAC") for the reservation of 4% Federal Tax Credits. CDLAC and CTCAC are expected to award private activity bond and tax credit allocations at their respective meetings on July 18, 2018. The CDLAC allocation will expire in 180 days after its award.

PROPOSED FINANCING

Project Costs and Funding. According to the most recent projections provided by Trestle, dated May 9, 2018, the total cost of the Project, including acquisition, rehabilitation costs and all soft costs, is estimated at $12,984,751. The estimated sources and uses of funds will differ during the rehabilitation period and following rehabilitation and lease-up ("at permanent"). The following table allocates these sources and uses during rehabilitation and at permanent based on the most recent projections:

Sources of Funds	Construction	Permanent
Tax-Exempt Bond Proceeds	$6,650,000	$3,915,000
City of Chula Vista Loan	2,843,695	2,843,695
Low Income Housing Tax Credit Equity	704,068	3,439,068
Seller Carryback Loan	2,001,154	2,001,154
Existing Reserves	513,057	513,057
Income from Operations	175,000	175,000
Deferred Developer Fee	97,777	97,777
Total	**$12,984,751**	**$12,984,751**
Uses of Funds		
Acquisition (Land and Building)	$6,580,000	$6,580,000
Rehabilitation (including contingency)	2,973,612	2,973,612
Architectural/Engineering/Technical	265,000	265,000
Financing fees and interest	561,200	561,200
Reserves	604,823	604,823
Development and Impact Fees	22,400	22,400
Miscellaneous Soft Costs	561,253	561,253
Developer Fee*	1,416,463	1,416,463
Total	**$12,984,751**	**$12,984,751**

*Cash developer fee is $1,318,686

The largest sources of funds are:

- ***Bonds*** – During construction, the Bond amount is assumed at $6,650,000. Per Banner, the principal of the Bonds cannot exceed 80% of collateral value, consisting of the appraised value of the Projects as improved. The permanent loan amount will be constrained by Project rents, permanent loan interest and debt service coverage (1.15x).

- ***Low Income Housing Tax Credit Equity*** – This amount was based on tax credit pricing of $0.93. While I have seen recent tax credit pricing on larger new construction projects in San Diego as high as $1.00 or so, it would be a stretch to expect this kind of pricing from a small, complex acquisition-rehabilitation project.

- ***Seller Carry Back Financing*** – Following the sale of Cordova and Trolley to the Borrower, the resulting net equity in the projects is $2,001,154 net of outstanding debt. This amount is included in the new financing as a non-cash funding source in the form of seller carryback loan. The acquisition of the assets does not result in cash out to SBCS or the existing owners.

- ***City Loan*** – The pro forma contemplates the City will recast its existing loan and accrued interest as a non-cash funding source for the new transaction. Based on estimated project costs (including developer fee), there would be insufficient sources if the City loan were not recast in full. See Pro Forma discussion below.

The largest items of cost are:

- ***Acquisition Cost*** – This cost equals the combined value ($6,580,000) of the acquired projects as appraised by Colliers.

- ***Rehabilitation Costs*** – These costs $2,973,612 (or $51,269 per unit) represent the amount of financing resources available after payment of all other costs. SBSC's contractor, MFRG Icon, provided a detailed cost breakdown of $3,273,283 (or $56,436 per unit) for a full rehabilitation of the Project. By contrast, in the Physical Needs Assessments for the Project, BASIS Architects and Consultants estimate immediate, short-term and 15 years needs of approximately $2,047,243 in the aggregate.

- ***Developer Fee*** – This is the amount allowed by CTCAC regulations (15% of eligible acquisition cost and rehabilitation cost basis). The cash amount is projected to be $1,318,636. In addition to compensating SBCS for its efforts on the Cordova-Trolley rehabilitation, the Developer Fee provides funding to sustain its mission of providing affordable housing and community services throughout the City. SBCS has maintained, with reason, that if rehabilitation costs increase and/or certain financing assumptions are not realized (e.g., higher interest rates), there would be no other cash source but the developer fee to keep the new financing in balance. The Borrower indicated its willingness to apply favorable variances to reduce the City loan balance.

THE PRO FORMA

The pro forma for the Project has undergone several iterations over the past months over the initial one, dated March 22, 2018, reviewed by Ross Financial. The major changes prompted by Ross Financial's input resulted in additional construction resources of approximately $730,000.

- **Treatment of existing reserves** – The Project has existing reserves of $513,057, which will be transferred to the new Borrower. The initial pro forma incorporated the existing reserves in both the acquisition price of the Project and in the new reserve requirement – in effect, a double counting. The current pro forma corrects this approach and provides greater clarity as to their use.
- **Permanent Loan amount** – This now has been adjusted for 2018 rents and is approximately $165,000 larger than the originally projected permanent loan. The final interest rate on the permanent loan, to be set at closing, will determine the eventual amount.
- **Hard Costs** - The latest pro forma uses additional resources for rehabilitation scope – apparently enabling all of the units to be rehabilitated rather than a portion of them. The current pro forma increases rehabilitation costs by approximately 35% from the March 22nd pro forma.
- **Developer Fee** – This essentially has remained constant throughout the multiple pro formas.

The City has expressed the desire to have a portion of the City Loan repaid upfront as part of this financing. Any repayment would have the effect of reducing rehabilitation scope and/or the Developer Fee. This represents a policy decision for City Staff and Council – e.g., whether a reduced rehabilitation scope is worth the trade-off for a partial repayment of the City Loan.

The City should bear in mind that, assuming no change in Federal tax law, SBCS and the City will have another opportunity after 15 years to re-syndicate the Project once more.

THE BONDS

The Housing Authority is being asked to issue the Bonds in an estimated amount of $6,650,000 to finance a portion of the costs of the Project. Per the Banner Bank letter of intent, the Bonds will have the following features:

- The Bonds will be purchased directly by Banner
- During rehabilitation and lease up (approximately 24 months plus one 6 month extension), the Bonds will bear a variable interest rate based on a formula equal to 80% of the sum of 30 Day LIBOR plus 2.50% (As of May 10, 2018, the effective rate would be approximately 3.54%)
- Following rehabilitation and lease up (at "conversion"),
    - The Bonds will be paid down to approximately $3,915,000 from tax credit investor funds,
    - The interest rate on the outstanding Bonds will bear a fixed rate for a 17-year term. The rate (to be set at Bond closing) will equal 80% of the sum

of the 10 year Treasury Rate plus 3.00% (As of May 10, 2018, the effective rate would be approximately 5.40%).
  - Minimum debt service coverage at conversion is 1.15%
- The Bonds will amortize on a 35-year basis.

The direct purchase approach is appropriate for the proposed financing, given its size and relative complexity.

Affordability Restrictions. In addition to the City's affordability requirements, the Project will be subject to the following regulatory restrictions and terms:

- Tax-Exempt Bond Regulatory Agreement requirements (including voluntary elections made to CDLAC) for a 55-year term; and

- 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

PROJECT CASH FLOW

The following table summarizes key elements of the most recent pro forma:

Assumptions	
Vacancy	5%
Revenue Escalation	2.5%
Expense Escalation	3.5%
Cash Flow and Coverage	
Stabilized Net Income – First Full Year	$689,780
Vacancy	(35,053)
Expenses	(358,411)
Estimated Net Operating Income	$307,592
Permanent Bond Debt Service	(252,037)
Debt Service Coverage	1.22x
Available Cash Flow	$55,555
LP Asset and Partnership Management Fees	(46,968)
Excess cash flow	8,587
Deferred Developer Fee (100% of excess flow)	(8,587)

The pro forma projects that the deferred Developer Fee will be repaid after six years – at which point residual receipts will become available to begin repayment of the City Loan.

PUBLIC PURPOSE

The Bonds will maintain in the long-term affordability of 56 two, three and four bedroom units in the City of Chula Vista, of which 17 units will be restricted and affordable to households earning up to 40% of AMI, 8 units will be restricted and affordable to households earning up to 50% of AMI, and 31 units will be restricted and affordable to households earning up to 60% of AMI, with 2 unrestricted units occupied by resident managers.

The Bond and Tax Credit Regulatory Agreements will require that affordability levels be maintained for a period of 55 years.

The Bonds will enable the Borrower to make needed improvements to two affordable housing projects in the City, resulting in improved energy and operating efficiency.

BENEFITS AND RISKS TO THE CITY

The Bonds provide a vehicle for financing a portion of the acquisition and rehabilitation costs of the Project. As proposed, the Bonds will result in the long-term affordability of 56 two, three and four-bedroom units in the City with units restricted to income levels described in "Public Purpose" above.

The Bonds, per se, do not pose undue financial risk to the Housing Authority or the City. The Bonds are not a direct obligation of the Housing Authority or City. Banner will purchase the Bonds for its own account, subject to transfer restrictions consistent with the City and CDLAC requirements.

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

Very truly yours,

Peter J. Ross
Principal