

ROSS FINANCIAL

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

October 28, 2020

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

Re: Otay Ranch 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 taxable and tax-exempt obligations (the “Obligations” or the “Note”) for the Otay Ranch 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 Meta Housing Corporation (“Meta”), which has created the development and borrower entity for the Development. The materials include: (1) the joint application to the California Debt Limit Allocation Committee (“CDLAC”) and the California Tax Credit Allocation Committee (“CTCAC”), (2) the financing commitment from Citibank, N.A., as construction and permanent lender (the “Lender”), (3) the market study performed by Novogradac Consulting LLP in support of the joint application to CDLAC, and (4) Meta’s pro forma financial schedules for the Development. Ross Financial has not visited the site of the proposed Development, has had no role in the selection of the Lender and has had no role in the creating the overall financing structure.

OVERVIEW OF DEVELOPMENT

Development Summary. The Development is proposed as the new construction of a multifamily housing rental development located at the northwest corner of La Media Parkway South and Main Street East in Chula Vista. The Development consists of 175 apartments (173 affordable units and 2 manager's units), approximately 10,000 square feet of ground floor commercial space and approximately 51,054 square feet of common area/public space, all located in three four-story buildings. The Development will contain 359 parking stalls of which 286 will be dedicated to residential/guest parking and 73 will be dedicated to commercial. The construction type is Type V-A fully sprinklered construction. The Development will include significant sustainable green energy-efficient features: it will be built to reach the minimum requirements of the GreenPoint Rated Program and to exceed the standards of Title 26 of the California Building Code by 7%.

The unit mix and affordability restrictions for the Development will be as follows:

Otay Ranch Apartments	Unit Mix	50% AMI**	60% AMI**
1 Bedroom/1 Bath	55	41	14
2 Bedroom/1 Bath	74*	7	65
3 Bedroom/2 Bath	46	5	41
Total Units	175	53	120

*Includes two manager's units

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

According to the CDLAC application, residential units will feature fully equipped kitchens and bathrooms, dishwashers, hard flooring and solid surface countertops. Energy efficient and water saving features include: EnergyStar appliances, high-efficiency lighting, solar thermal water preheating, low flow faucets, water conserving toilets and programmable thermostats.

The Development will meet the code and ADA requirements for mobility and sensory access, with 18 units for mobility impairment (equipped with larger door clearances, turning spaces, grab bars, accessible kitchen appliances, removable cabinets, bathtub seats and hand-held shower heads) and 7 units for sensory impairment (equipped with visual fire alarm and doorbell warning systems).

The common area/public spaces will consist of a property management office, game room, computer lab, fitness room, laundry rooms on each floor, community rooms, dog park, tot lot, pool and deck area, and outdoor courtyards.

The commercial uses will consist of a restaurant and retail. No proceeds of the Obligations will be used to fund commercial use and no residential income from the Development will pay for commercial uses in any way.

Description of Project Site. The Development will be constructed on a 5.4 acre site (the “Site”) that currently consists of vacant, undeveloped land. At present, the Site has no frontage and is not accessible by roadways. Upon completion of construction, the Site will have frontage along Main Street East, Main Street West and La Media Road.

The Site is located in a Planned Community or Sectional Planning Area identified as Village 8 West. The immediate neighborhood consists of undeveloped land that, in the future, will become part of Chula Vista Villages. Land use to the north, south, east and west all consists of vacant, undeveloped land. Land use further east consists of Olympian High School, land use further north consists of La Media Road and Santa Luna Street, land use further west consists of single family homes and land use further south consists of vacant undeveloped land and the Otay River.

Project Ownership/Borrower. The ownership entity for the Development will be Otay Affordable I V8, L.P. (the “Borrower”), a single asset California limited partnership consisting of: (1) Otay Affordable I V8, LLC, an entity created by Meta, which will act as the administrative general partner (“AGP”), (2) FFAH V Otay Ranch I, LLC, a limited liability corporation created by Foundation for Affordable Housing, a 501(c)(3) nonprofit public benefit corporation, which will act as the managing general partner (“MGP”); (3) a single purpose entity to be admitted as a non-managing member of the AGP, to be formed by HomeFed Corporation, a California for-profit corporation and current owner of the Site and (4) an investor limited partner that will be an entity formed by Boston Financial Investment Management, L.P. According to its website, Meta has more than 27 years of experience in financing, developing and/or rehabilitating multifamily rental housing. According to Meta, this experience encompasses 7,000 residential units across more than 80 communities in California, including more than 5,500 units in Southern California. Meta’s most recent development activity in Southern California includes:

- Mission Gateway Apartments – a 356-unit new construction family project located at 8811 Sepulveda Avenue, Los Angeles, which began construction in the 3rd quarter of 2020;
- Metro at Buckingham – a 103-unit new construction senior project located at 4018 S. Buckingham Road, Los Angeles, which will open in the 4th quarter of 2020.
- Arminta Square Apartments – a 101-unit new construction family project located at 11050 Arminta Street, Sun Valley, which will open in the 1st quarter of 2020.

CDLAC/CTCAC. On November 15, 2019, the Housing Authority filed a joint application to CDLAC and CTCAC requesting a private activity bond allocation of \$35,000,000 for the Development and new 4% Federal tax credits. In addition, the Borrower also applied to CTCAC for a reservation of State tax credits. CDLAC awarded the allocation in the requested amount at its meeting of February 18, 2020. As a result of three-month extension granted by CDLAC on April 13, 2020 due to the impacts of

COVID-19, the allocation will expire on November 18, 2020. CTCAC reserved State tax credits and 4% Federal tax credits at its meeting on January 15, 2020.

In connection with the CDLAC application process, on October 1, 2019, 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. Because one year has elapsed since the TEFRA hearing and approval, a new TEFRA hearing and approval will be required before the Obligations can be issued.

PROPOSED FINANCING

Project Costs and Funding. According to most recent projections provided by Meta, the total cost of the Development, including construction and all soft costs, is estimated at \$73,407,980. The estimated sources 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 Senior Note Proceeds	\$35,000,000	\$35,000,000
Taxable Subordinate Note Proceeds	18,500,000	3,319,000
Seller Carryback	3,000,000	3,000,000
Low Income Housing Tax Credit Equity (Federal)	6,937,967	23,353,740
State Tax Credit Equity	974,702	3,280,922
Deferred Operating Reserve	1,317,368	0
Deferred Developer Fee	7,782,944	5,459,319
CDLAC Deposit Refund	0	100,000
Total	\$73,512,980	\$73,512,980
Uses of Funds		
Construction Costs (including site work)	\$42,430,071	\$42,430,071
Contingency Costs	2,070,079	2,070,079
Impact and Permit Fees	7,720,705	7,720,705
Architectural & Engineering	2,671,782	2,671,782
Financing Fees and Interest	5,752,702	5,752,702
Legal and Miscellaneous Soft Costs	2,866,473	2,866,473
Reserves	1,601,168	1,601,168
Developer Fee**	8,400,000	8,400,000
Total**	\$73,512,980	\$73,512,980

* Numbers may not add due to rounding

**Cash developer fee is \$2,940,681

The Financing Approach. The Obligations requested by the Borrower to be issued by the Housing Authority will consist of senior Obligations in the form of a tax-exempt note (the “Note”) evidencing a loan to be made by Citibank, N.A. (“Lender”). In addition, the

Lender will be making a taxable loan (the “Taxable Loan”) directly to the Borrower that will be subordinate to the Note.

The Note

Housing Authority will issue the Note in the anticipated amount of \$35,000,000 to finance a portion of the costs of constructing the Development. The Note will have the following features:

- The Note will be purchased and funded by the Lender on a draw down basis;
- The Note will be issued in a single series;
- The Note will be senior to the Taxable Loan
 - The Taxable Loan will be in the estimated amount of \$18,500,000 during construction and will be paid down at Conversion from tax credit proceeds to \$3,319,000;
 - The Taxable Loan will bear a variable rate during construction (currently estimated at 3.80%) and a fixed rate at permanent (currently estimated at 4.03%)
- The Note will bear a variable rate during construction (currently estimated at 3.50%) and a fixed rate at permanent (currently estimated at 3.58%).
- The Note is anticipated to mature in 33 years and will amortize on a 40-year basis.
- The Note is subject to mandatory prepayment at the end of 19 years.
- The Note is expected to close on or before November 18, 2020, unless extended by CDLAC.

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 loans evidenced by the Note and has indicated its intention to hold the Note for its account. The Lender may transfer all or a portion of the Note only to transferees that execute a document with similar representations.

Housing Authority Financial Involvement. The Housing Authority does not have any financial involvement with the Development. However, it will execute an Inclusionary Housing Agreement with the Borrower that will contain affordability restrictions that will mirror those contained in the tax-exempt Note Regulatory Agreement.

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

- Inclusionary Housing Agreement requirements which contain similar restrictions as contained in the Tax-Exempt Note Regulatory Agreement.

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:

Assumptions	
Vacancy	5%
Revenue Escalation	2%
Expense Escalation	3%
Cash Flow and Coverage	
Stabilized Net Income – First Full Year ¹	\$2,956,274
Expenses	(747,449)
Replacement Reserve	(43,750)
Housing Authority Bond Monitoring Fee	(17,000)
Net Operating Income Available for Debt Service	\$2,100,519
Tax-Exempt Note Debt Service ²	(1,659,352)
Taxable Loan Debt Service ³	(167,186)
<i>Debt Service Coverage⁴</i>	<i>1.15x</i>
Cash Flow after Debt Service	274,213
LP Fee	(10,000)
AGM Fee	(20,000)
MGP Fee	(12,000)
Estimated Net Project Cash Flow	\$231,980
Deferred Developer Fee (Priority Payment)	(231,980)
Available Cash Flow after Deferred Developer Fee	\$0
Repayment of Seller Loan	\$0
Repayment of Deferred Developer Fee (Remaining Portion)	\$0

¹ Conversion is projected to occur on November 2023

² Assumes an initial permanent tax-exempt note par of \$35,000,000 @ 3.58% interest and 40 year amortization

³ Assumes initial permanent taxable loan par of \$3,319,000 @ 4.03% interest and 40 year amortization

⁴ Net operating income divided by total tax-exempt and taxable 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	2,956,274	3,015,399	3,075,707	3,137,222	3,199,966
2.00%	Other Income	100,257	102,262	104,307	106,393	108,521
	less 5% vacancy	(147,814)	(150,770)	(153,785)	(156,861)	(159,998)
	Total Net Income	2,908,717	2,966,892	3,026,229	3,086,754	3,148,489
	Expenses					
3.00%	Operating Expenses*	(747,449)	(768,666)	(790,496)	(812,956)	(836,064)
	Replacement Reserve	(43,750)	(43,750)	(43,750)	(43,750)	(43,750)
	Issuer Bond Monitoring Fee	(17,000)	(17,000)	(17,000)	(17,000)	(17,000)
	Total Expenses + Reserves	(808,199)	(829,416)	(851,246)	(873,706)	(896,814)
	Net Operating Income	2,100,518	2,137,476	2,174,983	2,213,048	2,251,675
	Tax-exempt Note	(1,659,352)	(1,659,352)	(1,659,352)	(1,659,352)	(1,659,352)
	Taxable Note	(167,186)	(167,186)	(167,186)	(167,186)	(167,186)
	Total Debt Service	(1,826,538)	(1,826,538)	(1,826,538)	(1,826,538)	(1,826,538)
	Debt Service Coverage	1.15x	1.17x	1.19x	1.21x	1.23x
	Available Cash Flow after Bond Debt Service	273,980	310,938	348,445	386,510	425,137
3.00%	LP Fee	(10,000)	(10,300)	(10,609)	(10,927)	(11,255)
3.00%	AGP Fee	(20,000)	(20,600)	(21,218)	(21,855)	(22,510)
3.00%	MGP Fee	(12,000)	(12,360)	(12,731)	(13,113)	(13,506)
	Project Cash Flow after GP and LP Fees	231,980	267,678	303,888	340,615	377,866
	Deferred Developer Fee (Priority Payment)	(231,980)	(267,678)	(303,888)	(340,615)	(377,866)
	Project Cash Flow after Priority Deferred Developer Fee	0	0	0	0	0
	Repayment of Seller Loan	0	0	0	0	0
	Deferred Developer Fee	0	0	0	0	0

*Most expenses escalate at 3%; other expense components may vary

PUBLIC PURPOSE

The Note is expected to result in the long-term affordability of 173 one, two and three-bedroom units in the City of Chula Vista: 53 units will be restricted and affordable to households earning 50% AMI; 120 units will be restricted and affordable to households earning 60% AMI; 2 units will be occupied by resident managers.

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 Note provides a vehicle for financing a portion of the construction costs of the Development. As proposed, the Note will result in the long-term affordability of 173 one, two and three-bedroom units in the City of Chula Vista with units restricted to income levels described in “Public Purpose” above.

The Note does not pose undue financial risk to the Housing Authority. The Note is not a direct obligation of the Housing Authority or the City of Chula Vista. The Note will evidence a loan to be funded by the Lender, which has indicated its intention to hold the Note for its own account. Approximately 85% of the subordinate Taxable Loan is expected to be repaid after the Development’s construction and lease-up.

If the Housing Authority issues the Note, it will receive an issuer fee at closing of \$70,000 equal to 0.20% times the initial aggregate par amount of the Note (\$35,000,000) based on current projections). The Housing Authority also would receive an annual Obligation monitoring fee of \$17,000.

Mr. Jose Dorado
Re: Otay Ranch Apartments
October 28, 2020
Page 8 of 8

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

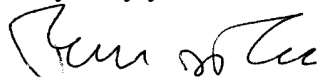
RECOMMENDATIONS

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

- The Note will achieve a public purpose by providing 173 affordable units, with all units restricted to income levels at 50% and 60% of AMI.
- The Note will evidence a tax-exempt loan funded by a well-established, highly capitalized bank that is active in affordable housing lending. The Note 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 Note and the subordinate Taxable Loan made by the Lender.

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