ROSS FINANCIAL
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May 23, 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:

This feasibility analysis amends and restates the prior analysis performed by Ross Financial dated March 14, 2019. The amended and restated analysis was occasioned by a change in financing structure that was need for compliance with Federal Tax Code requirements.

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") 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 commitments from Citibank, N.A., as construction and permanent lender (the "Lender") and St. Regis Park, LP as purchaser of the tax-exempt subordinate bonds, (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, 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 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 values and p-traps
- New signage and fencing

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

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

*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 4th quarter of 2017;
- Volta Apartments, a 123-unit new construction senior project located at 1734 Solstice Avenue, which opened in the 4th 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, LP (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 by purchasing tax-exempt subordinate revenue bonds secured by certain residual receipts from the Development.

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 awarded the allocation in the requested amount at its meeting of March 20, 2019. The allocation will expire on

September 16, 2019. CTCAC reserved 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 $37,752,376. 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 Senior Note Proceeds	$12,150,000	$12,150,000
Taxable Senior Note Proceeds	6,702,695	0
Tax-Exempt Subordinate Seller Carryback Bond	9,250,000	9,250,000
Taxable Subordinate Seller Carryback Loan	1,850,000	1,850,000
Low Income Housing Tax Credit Equity	984,244	9,842,442
Housing Authority Loan	1,233,734	1,233,734
Accrued Soft Loan Interest	295,824	295,824
Income from Operations/Performance Bond Refund	488,282	747,136
Transferred Reserves	287,057	287,057
Deferred Developer Fees	0	2,096,182
Total	**$33,241,837**	**$37,752,376**
Uses of Funds		
Acquisition	$20,424,770	$20,424,770
Rehab Costs (plus contingency)	8,004,426	8,004,426
Impact and Permit Fees	68,000	68,000
Architectural & Engineering	145,990	148,990
Financing Fees and Interest	2,597,098	3,100,257
Legal and Miscellaneous Soft Costs	1,397,618	1,483,998
Reserves	103,934	350,665
Developer Fee**	500,000	4,171,270
Total	**33,241,837**	**$37,752,376**

* Totals may not add due to rounding
**Cash developer fee is $2,075,088

In aggregate, the sources and uses do not differ materially from ones presented in the March 14th analysis. The primary differences are: (a) the Senior Notes are anticipated to have a tax-exempt and taxable series instead of two tax-exempt series and (b) the Seller carryback financing currently is currently anticipated to be bifurcated into two components: a tax-exempt Seller carry back bond and a taxable loan. The final structure will depend on the final tax analysis. It is possible that the taxable Senior Note may be further divided between a taxable and tax-exempt series and the taxable seller carryback loan may not be needed.

The Financing Approach. The Obligations requested by the Borrower to be issued by the Housing Authority will consist of two basic elements: (a) senior Obligations in the form of tax-exempt and taxable notes (the "Notes") evidencing loans to be made by Citibank, N.A. and (b) tax-exempt seller carryback financing in the form of subordinated bonds to be purchased by the Seller (the "Subordinate Bonds").

The Notes

Housing Authority will issue the Notes in an estimated aggregate amount of $18,852,695 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 either two or three series:
    - The 2019 Series B-1 Note will be issued in the approximate amount of $12,150,000, 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 tax-exempt fixed rate assumed to be 5.15% for underwriting purposes.
    - The 2019 Series B-2 Note will be issued in the approximate amount of $6,702,695, is expected to be repaid within 3 years and will bear interest only at a taxable variable rate that is assumed to be 4.90% for underwriting purposes;
    - The amounts of the 2019 Series B-1 and B-2 Notes remain subject to final underwriting and tax-analysis but amount of the 2019 Series B-1 Note and the Subordinate Bonds will not exceed $21,400,000 in the aggregate. As indicated previously, it is possible that the 2019 Series B-2 Note may be replaced by two series: one taxable and the other tax-exempt.
- Following construction and lease up (at "conversion"),
    - The 2019 Series B-2 Note (whether or not divided into two series) 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 June 19, 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 loans 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.

The primary difference in the Note financing between the current approach and the one described in the March 14th analysis is that interest on the 2019 Series B-2 Note is currently taxable (although the potential remains for a portion of the 2019 Series B-2 Note to be split off into a third series).

The Subordinate Bonds

In the original plan of finance described in the March 14th analysis, the Seller was to provide subordinate carryback in an estimated amount of $12,500,000 to finance a portion of the costs of acquiring the Development. In the revised plan of finance, the amount of Seller carryback financing currently is being reduced to an estimated total of $11,100,000, of which $9,500,000 will be structured as tax-exempt financing in the form of the Subordinate Bonds and the remainder taxable Seller carry back financing. Depending on the final tax analysis, the need for the taxable Seller carry back financing may be reduced or eliminated.

As currently structured, the Subordinate Bonds will have the following features:

- The Subordinate Bonds will be deemed funded by St. Regis Park, L.P., the Seller in an amount of approximately $9,500,000;
- The Subordinate Bonds, as well as the additional Seller carryback financing, will mature in 45 years after the Conversion Date (expected to be June 2020);
- In essence, the Subordinate Bonds will be non-defaulting. Interest and principal on the Subordinate Bonds will be payable monthly, after Conversion, from 90% of available Development cash flow, after payment of operating expenses, debt service on the Notes, and repayments of deferred developer fee;
- Interest on the Subordinate Bonds will be a tax-exempt fixed rate equal to the Applicable Long-Term Federal Rate (“AFR”) for June (when the Bonds will be issued); the AFR for May 2019 is 2.74%.

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 $1,233,734, 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 Subordinate Bonds and remaining 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:

Assumptions	
Vacancy	5%
Revenue Escalation	2%
Expense Escalation	3%
Cash Flow and Coverage	
Stabilized Net Income – First Full Year[1]	$1,547,012
Expenses	(618,121)
Replacement Reserve	(36,771)
Housing Authority Bond Monitoring Fee	(17,000)
Housing Authority Loan Monitoring Fee	(1,044)
Net Operating Income Available for Debt Service	$874,076
Debt Service Coverage[3]	*1.17x*
Note Debt Service[2]	(749,841)
Managing GP Fee	(5,150)
LP Fee	(5,150)
Estimated Net Project Cash Flow	$113,935
Deferred Developer Fee (50% of excess flow)	(56,968)
Available Cash Flow after Deferred Developer Fee	$56,968
Repayment of Seller Loan (90% of excess cash flow)	(51,271)
Available Cash Flow after Deferred Developer Fee	5,697
Repayment of Housing Authority Loan (10% of Excess Cash Flow)	(5,697)
Net Cash Flow for Partnership Admin and GP/LP Distributions	$0

[1] 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

[2] Assumes an initial permanent loan par of $12,500,000 @ 5.15% interest and 35 year amortization

[3] 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:

		Year				
Escalation	**Revenues**	1	2	3	4	5
2.00%	Gross Scheduled Rent	1,628,434	1,661,003	1,694,223	1,728,107	1,762,669
	less 5% vacancy	(81,422)	(83,050)	(84,711)	(86,405)	(88,133)
	Total Net Income	1,547,012	1,577,953	1,609,512	1,641,702	1,674,536
	Expenses					
3.00%	Operating Expenses	(618,121)	(636,665)	(655,765)	(675,438)	(695,701)
3.00%	Replacement Reserve	(36,771)	(37,874)	(39,010)	(40,181)	(41,386)
	Issuer Bond Monitoring Fee	(17,000)	(17,000)	(17,000)	(17,000)	(17,000)
3.00%	Housing Authority Loan Monitoring Fee	(1,044)	(1,075)	(1,108)	(1,141)	(1,175)
	Total Expenses + Reserves	(672,936)	(692,614)	(712,883)	(733,759)	(755,262)
	Net Operating Income	874,076	885,338	896,629	907,943	919,274
5.15%	Bond Debt Service	(749,841)	(749,841)	(749,841)	(749,841)	(749,841)
	Debt Service Coverage	1.17x	1.18x	1.20x	1.21x	1.23x
	Available Cash Flow after Bond Debt Service	124,235	135,497	146,788	158,102	169,433
3.00%	Managing GP Fee	(5,150)	(5,305)	(5,464)	(5,628)	(5,796)
3.00%	LP Fee	(5,150)	(5,305)	(5,464)	(5,628)	(5,796)
	Project Cash Flow after GP and LP Fees	113,935	124,888	135,861	146,847	157,840
	Deferred Developer Fee (50% of excess cash flow)	(56,968)	(62,444)	(67,930)	(73,423)	(78,920)
	Project Cash Flow after Deferred Developer Fee	56,968	62,444	67,930	73,423	78,920
	Repayment of Seller Loan (90% of excess cash flow)	(51,271)	(56,200)	(61,137)	(66,081)	(71,028)
	Project Cash Flow after Seller Note	5,697	6,244	6,793	7,342	7,892
	Repayment of CVHA Loan (10% of excess cash flow)	(5,697)	(6,244)	(6,793)	(7,342)	(7,892)
	Cash Flow after Payment of CVHA Loan	0	0	0	0	0
	Partnership Admin Fee and LP/GP Distributions	0	0	0	0	0

PUBLIC PURPOSE

The Obligations 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 Obligations 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 Obligations provide a vehicle for financing a portion of the acquisition and rehabilitation costs of the Development. As proposed, the Obligations 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 Obligations do not pose undue financial risk to the Housing Authority. The Obligations 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.

The Subordinate Obligations represent the same kind of seller carryback financing contemplated by the original plan of finance – except interest will be tax-exempt.

If the Housing Authority issues the Obligations, the Housing Authority will receive an issuer fee at closing of $56,205 equal to 0.20% times the initial aggregate par amount of the Notes and Subordinate Bonds ($28,102,695) based on current projections). The

Housing Authority also would receive an annual Obligation 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 Obligations based on the following findings:

- The Obligations 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 Subordinate Bonds represent tax-exempt Seller carryback financing.
- The Borrower will pay issuance costs from sources other than Obligation 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