



MEMORANDUM

To: Molly Rattigan, Director - Housing & Intergovernmental Affairs
Nancy Johnson, Housing and Community Development Program Manager

From: Liz Tracey, Senior Principal, LeSar Development Consultants (“LDC”)
Sung Ju Park, Senior Principal, LDC

Date: January 25, 2019

Re: Review of Heritage House No Place Like Home – Funding and Grant Co-Applicant Request

Project Background

Heritage House is a proposed affordable housing development to feature 66 units (65 affordable units plus one manager’s unit) of low-income housing in Napa, CA (“Project”) with the total development costs estimated at \$28.6 mm. Bridge Housing originally purchased the site in 2014 and sold the site to the Gasser Foundation in 2016.

Burbank Housing, the Project’s sponsor (“Sponsor”), has requested from the Gasser Foundation the assignment of the land, together with assumption of the County loan originally made to Bridge Housing and assumed by Gasser in 2016 to purchase the entire site. The County loan allocated to the Heritage House Project will be in the amount of \$1,317,985. In addition, Burbank Housing is seeking County approval to serve as co-applicant for funding from the State of California’s No Place Like Home (“NPLH”) programing the amount of \$7,475,609.

The proposed development is designed to be affordable to low-income as well as homeless families/individuals earning between 20% and 50% of Area Median Income (“AMI”). The Project site, an approximately 1.46 acre parcel just to the south of Salvador Creek, will be donated by the Peter A. and Vernice H. Gasser Foundation and used for the purpose of expanding affordable housing opportunities in the City of Napa. Burbank Housing is proposing to develop the Project with the NPLH fund, funding from the City of Napa, and other resources needed to ensure that the Project has sufficient capital for successful development and operations. 38 of the units will be set aside for homeless households, all of which are expected to be supported by project based vouchers.

LDC received a development proforma and financial projections from Burbank Housing, and our analysis is based upon this information, together with a financial audit for Burbank Housing for the year ended 2017.

The County of Napa has requested that LDC review application for Heritage House to 1) assess the feasibility of the Project given the proposed funding structure and 2) analyze the risk profile of the transaction and the sponsor.

In addition to the \$7.47 mm request to co-apply for funding from the NPLH program, and the assignment of \$1.3mm in a County of Napa loan to assume the parcel, the Project is seeking subsidy financing from the following sources, some of which have been committed to the Project:

- \$2.2 mm Affordable Housing Trust Fund loan from the City of Napa (reserved)
- \$2.4 mm loan from the Gasser Foundation (committed)
- \$1.6 mm from other philanthropy sources (in progress and not committed)
- \$500,000 non-competitive funding from the NPLH program via the County of Napa (committed)
- \$50,000 technical assistance funding from the NPLH program via the County of Napa (committed)
- 38 project-based Section 8 vouchers from the Housing Authority of the City of Napa (in progress and not committed, and are available on a non-competitive basis if the NPLH funding is awarded)
- \$869,015 in land and building donation from the Gasser Foundation (committed)
- \$1mm Partnership Health Plan Grant (committed)
- \$1.25mm GP contribution (committed)

Tax credit financing under the proposed capital structure is projected as follows:

- \$9.9 mm in tax credit equity (4% non-competitive federal low-income housing tax credits plus competitive state low-income housing tax credits)

Should the Project not receive state tax credit award from the California Tax Credit Allocation Committee, which could result in a financing gap of up to \$1.57 mm, Burbank Housing may elect to seek other financing options. This alternative may require additional gap funding from the local community or other state funding that may be available in 2019.

Our findings from the analysis along with our recommendation for the next steps are as follows:

Our Findings

A. Sources, Uses, and Income Targeting

1. Sources

County of Napa

The Project proforma shows the County of Napa providing \$1.3 mm in previously expended funding to purchase the property. Also, it assumes that the County of Napa provides \$500,000 non-competitive and \$50,000 technical assistance grant fundings through the NPLH program allocations made to the County as an eligible jurisdiction.

City of Napa

The Project proforma shows the City of Napa providing \$2.2 mm in funding from its Affordable Housing Trust Fund program.

NPLH

The proforma shows the Sponsor is applying for \$7.5mm in No Place Like Home funding, will be allocated to the 32 units dedicated to the formerly homeless (limited to 49% of total units in the Project). The County of Napa is being requested to serve as a co-applicant for that funding. This resource is competitive; however the Sponsor believes that the readiness of the Project to proceed quickly, in addition to the Project's application pool among small county applicants, should help make the application relatively competitive.

The Peter A. and Vernice H. Gasser Foundation

The Project proforma shows the Gasser Foundation providing \$2.4 mm loan. The Foundation also has agreed to donate the Project Site (i.e., land and existing building; \$869,015).

Other Philanthropy Sources

The Project assumes that it will receive \$1.56 mm grant from some philanthropy sources other than the Gasser Foundation. The developer is actively looking for these funding sources.

General Partner Contribution

Approximately \$2.2 mm of general partner contribution is assumed in the Project proforma. This includes \$1.25mm in developer fee contribution (a non cash item that represents the developer fee that is available but that the Sponsor will instead contribute back to the Project), plus \$1mm in a grant that was made available from the Partnership Health Plan. This grant was made to the Gasser Foundation, which allocated it to Burbank Housing, which is it contributing to the Project.

Tax Credit Equity

Approximately \$10.2 mm of federal and state low-income housing tax credits (\$8,247,076 and \$2,019,093, respectively) are assumed to be allocated for the Project, resulting in total net tax credit equity proceeds of \$9,773,449 after syndication expenses. The pricing for federal credits is assumed at \$1.01 per credit, and state credits at \$0.78 per credit. Based on recent transactions reviewed by LDC, these pricing assumptions are reasonable and achievable for the Project.

2. Uses

a) Development Budget

Cost Per Unit

Burbank's proposed development budget appears reasonable and in line with similar projects for the Napa market with an approximate per-unit development cost at about \$433,114. Worth noting is the Project capitalizes significant amount of operating reserves with development sources (over \$6.8 mm), contributing to the higher per-unit development cost despite the small unit sizes.

Other recent affordable housing projects in the greater Bay Area that have received tax credit awards have ranged in total development costs per unit from just under \$300,000 to over \$600,000, a very wide cost per unit variation. Construction costs are reportedly rising throughout the building industry due to a variety of factors, and the Project budget is not considered excessive. In addition, the construction lender and tax credit investor will typically require a third-party estimate of costs based upon the approved building plans.

Prevailing Wage

The Project is intending to include payment of prevailing wage. Legal counsel opinion on this matter should be a condition of closing.

Capitalized Operating Subsidy Reserves

The Project supports extremely low and very low-income families/individuals with restricted rent and thus requires both capitalized and on-going operating subsidies. The Project would not be economically feasible without these subsidies. Burbank Housing plans to capitalize \$5.99 mm operating subsidy reserves, \$1.8 mm of which will be funded through the NPLH

program. These reserve funding will be disbursed over 20 years to support positive cash flow at the Project. Also, additional reserves of \$856,558 are capitalized for initial operations and transitions during the first six months after the Project completion.

Capitalized Replacement Reserve

The Project development budget does not include any capitalized replacement reserve. Depending on the NPLH program requirement, a capitalized replacement reserve may be required.

b) Operating Proforma

Section 8 Project-Based Vouchers

It is contemplated that the rent subsidy (Project Based Vouchers) is provided for 38 extremely low and very low-income units. This subsidy will generate \$339,948 additional subsidy income annually.

Release from Operating Subsidy Reserves

Annual release (draw) of approximately \$300,000 from two capitalized operating subsidy reserves is assumed according to the Project's operating proforma. This annual release will ensure that the Project generates positive cash flow over the next 20 years. This is necessary due to the social services budget, as well as the very low AMI targeting.

Supportive Services

The operating proforma indicates annual supportive service costs at \$169,365 paid to Burbank Housing's partner, Abode Services. This is consistent with the funding requirements under the NPLH program. Annual supportive service costs per unit is \$4,182 for NPLH units and \$1,077 for non NPLH units.

Operating Expenses

The proforma for the Project shows operating expenses (excluding taxes and supportive service costs) in the amount of \$8,867 per unit per year, including the manager's unit. This operating budget is higher than the minimum TCAC requirements due to the social service expense.

Replacement Reserves

The operating proforma shows replacement reserve expense of \$19,800, which is equivalent to \$300 per unit per year. This level of replacement reserve for the Project is lower than the state funding requirement of \$500 per unit per year (per Uniform Multifamily Regulations). A conversation with the Sponsor confirmed that the level of replacement reserve will meet the NPLH program requirements.

Residual Receipts

The structure of the residual receipt payments will be set upon negotiation of the loan documents between the County, the City of Napa, and Burbank Housing, and potentially the Gasser Foundation as well. The development proforma does not show a pro-rata allocation of available cash flow to the funders, due to the minimal level of cash this very low-income project is expected to generate.

3. Income Targeting

The current unit affordability level ranges from 20% - 50% AMI with a weighted average of about 24.5% AMI, a deep affordability target suitable to residents experiencing homelessness. The mix of units is shown below:

Unit Type	% Median Income Affordable	Number of Units	Proposed Net Rent
0 Bedroom	20%	12	\$ 321
	30%	13	\$ 482
	50%	33	\$ 803
1 Bedroom	20%	4	\$ 344
	30%	3	\$ 516

B. Risk Profile

Development Team – Burbank Housing

Burbank Housing is a development and property management firm that has focused on affordable housing in the North Bay Area. It was founded in 1982, and as of 2016 has been led by Larry Florin, its Executive Director. Traditionally, the firm has a good reputation, and it is considered the one of leading affordable housing developers in the North Bay.

Financial Review

Burbank Housing provided its audited financial statements for 2017 (prior year audits have been reviewed and have been satisfactory). Their audits show good fundamentals, including very low leverage, strong net assets of \$25.8 mm in YE 2017. Liquidity was adequate in YE 2017 with approximately \$1.35 mm in cash, an increase from \$921,306 in YE 2016. In YE 2017, Burbank Housing reported net income of \$2.2 mm (increasing from \$1.9mm in YE 2016. It also has good diversity of income sources, including property management income, developer fee, and partnership fees, as well as fundraising.

Burbank Housing expects to generate over \$8 mm in revenue and \$1.5 mm in net operating income in 2019. While developer fee is the primary revenue source for Burbank Housing, it is expected that revenue will stabilize in 2019 and on through Burbank's diversified revenue sources such as partnership management fee and property management fee.

Conclusion

Based on LDC's review of the documents, development budget and proforma, and financial statements of Burbank, the County of Napa should feel comfortable moving forward with this development team, the current unit mix, and development budget.

Next Steps

Based on our analysis of the development proforma and the risk profile of the proposed development, we recommend the following as the next steps to be taken going forward:

1. Requests a final development proforma from Burbank Housing once all funding sources are accounted for, including a final offer letter from a tax credit investor indicating the per credit price the Project will receive, and commitment letter from the City of Napa, the Gasser Foundation, and other philanthropy sources.
2. Confirm with Burbank Housing’s counsel that the Project is or is not subject to prevailing wages.
3. Check whether or not the NPLH program requires a capitalized replacement reserve at closing.
4. Confirm with Burbank Housing that it has secured Section 8 project-based vouchers for 38 low-income units as contemplated.
5. Negotiate with Burbank Housing for residual repayment structure to repay the loans from the County of Napa, assuming the current mix of local funding does not change.

Appendix

1. Sources and Uses Budget
2. Operating Cash Flows

APPENDIX
 PROJECT FINANCIALS

1. Burbank Housing – Heritage House Sources and Uses

Sources		Uses	
NPLH Competitive	\$ 7,475,609	Acquisition	\$ 4,630,000
NPLH Non-competitive	\$ 500,000	Rehabilitation	\$ 9,240,000
NPLH Technical Assistance	\$ 50,000	Architectural	\$ 575,000
County of Napa Acquisition Loan	\$ 1,317,985	Survey & Engineering	\$ 275,000
City of Napa AHTF Loan	\$ 2,200,000	Contingency	\$ 2,098,000
The Gasser Foundation Loan	\$ 2,383,000	Construction Period Expenses	\$ 1,223,869
Other Philanthropy	\$ 1,564,312	Legal	\$ 150,000
Land/Building Donation	\$ 869,015	Capitalized Reserve	\$ 6,853,328
Accrued Deferred Interest	\$ 70,224	Reports & Studies	\$ 24,000
GP Contribution: Developer Fee	\$ 1,251,960	Other	\$ 864,396
GP Contribution: PH Grant	\$ 1,000,000	Developer Costs	\$ 2,651,960
LIHTC Equity	\$ 9,903,448		
Total	\$ 28,585,553		\$ 28,585,553

2. Burbank Housing – Operating Cash Flows

Assumptions																						
Rent Increase - Residential Tenant Rent	2.50%	Pem Loan - % Debt Svc Yr 0	0.0%																			
Rent Increase - Section 8	2.50%	Pem Loan - % Debt Svc Yr 1	8.3%																			
Rent Increase - NA	2.50%	Pem Loan - % Debt Svc Yr 2	100.0%																			
Rent Increase - Commercial Rents	2.50%	Pem Loan - % Debt Svc Yr 3	100.0%																			
Expenses Increase:	3.50%	Pem Loan - % Debt Svc Yr 4	100.0%																			
Reserve Increase:	0.00%	(1,239,205)																				
Credit Period Year:																						
	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	
GROSS POTENTIAL INCOME - RESIDENTIAL																						
Draw from NPLH COSR	1,822,457	0	432,587	485,343	497,476	509,913	522,661	535,728	549,121	562,849	576,920	591,343	606,127	621,280	636,812	652,732	669,050	685,777	702,921	720,494	738,506	756,969
Draw from Operating Subsidy Reserve (Non-HCD)	0	32,891	35,499	38,478	41,838	44,981	48,522	52,266	56,224	60,405	64,819	69,475	74,386	79,562	85,014	90,755	91,123	91,123	91,123	91,123	91,123	91,123
Draw from Services Reserve	0	92,075	163,264	174,897	184,866	194,874	205,538	216,677	228,310	240,455	253,135	266,370	280,162	294,594	309,630	325,315	347,348	370,765	395,237	420,809	447,524	475,200
Incremental Income: Section 8	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Misc. Income	0	309,869	347,659	356,350	365,259	374,390	383,750	393,344	403,178	413,257	423,588	434,178	445,033	456,158	467,562	479,251	491,233	503,514	516,101	529,004	542,229	555,786
Vacancy Loss - Residential	10.0%	0	4,378	4,909	5,032	5,158	5,287	5,419	5,555	5,693	5,836	5,982	6,131	6,284	6,442	6,603	6,768	6,937	7,110	7,288	7,470	7,657
Vacancy Loss - Section 8	10.0%	0	(43,696)	(49,025)	(50,251)	(51,507)	(52,795)	(54,115)	(55,468)	(56,854)	(58,276)	(59,732)	(61,226)	(62,756)	(64,325)	(65,933)	(67,582)	(69,271)	(71,003)	(72,778)	(74,598)	(76,463)
		0	(30,987)	(34,766)	(35,835)	(36,826)	(37,839)	(38,875)	(39,934)	(40,918)	(41,926)	(42,959)	(43,918)	(44,903)	(45,816)	(46,759)	(47,825)	(48,923)	(50,051)	(51,210)	(52,399)	(53,628)
GROSS EFFECTIVE INCOME		0	796,915	952,883	986,347	1,018,599	1,051,960	1,086,467	1,122,161	1,159,081	1,197,272	1,236,775	1,277,637	1,319,905	1,363,626	1,408,851	1,455,632	1,504,078	1,554,078	1,605,855	1,659,414	1,714,817
Operating Expenses w/ Standard Inflation	3.5%	0	688,061	778,876	806,137	834,351	863,554	893,778	925,060	957,437	990,948	1,025,631	1,061,528	1,098,681	1,137,135	1,176,935	1,218,128	1,260,762	1,304,889	1,350,580	1,397,829	1,446,753
TOTAL EXPENSES		0	688,061	778,876	806,137	834,351	863,554	893,778	925,060	957,437	990,948	1,025,631	1,061,528	1,098,681	1,137,135	1,176,935	1,218,128	1,260,762	1,304,889	1,350,580	1,397,829	1,446,753
NET OPERATING INCOME		0	108,834	174,007	180,211	184,248	188,406	192,689	197,100	201,644	206,324	211,145	216,110	221,224	226,491	231,916	237,505	243,260	249,189	255,295	261,585	268,063
REPLACEMENT RESERVE	19,800	0	18,050	19,800	19,800	19,800	19,800	19,800	19,800	19,800	19,800	19,800	19,800	19,800	19,800	19,800	19,800	19,800	19,800	19,800	19,800	19,800
OPERATING RESERVE	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mandatory Annual HCD Payment	0.42%	0	0	0	23,559	25,843	25,843	25,843	25,843	25,843	25,843	25,843	25,843	25,843	25,843	25,843	25,843	25,843	25,843	25,843	25,843	25,843
Ground Lease - Minimum Payment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Local Compliance Fee	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
NET REMAINING INCOME		0	90,784	130,648	134,568	138,605	142,763	147,046	151,457	156,001	160,681	165,501	170,466	175,580	180,848	186,273	191,861	197,617	203,546	209,652	215,942	222,420
NET COMMERCIAL CASH FLOW		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
NET CASH FLOW		0	90,784	130,648	134,568	138,605	142,763	147,046	151,457	156,001	160,681	165,501	170,466	175,580	180,848	186,273	191,861	197,617	203,546	209,652	215,942	222,420
CASH FLOW (RESERVED)/RELEASED FOR CONVERSION		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
OPERATING RESERVE DRAW		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Remaining Net Cash Flow		0	90,784	130,648	134,568	138,605	142,763	147,046	151,457	156,001	160,681	165,501	170,466	175,580	180,848	186,273	191,861	197,617	203,546	209,652	215,942	222,420
Debt Service Coverage Ratio (All Debt)		NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Debt Service Coverage Ratio (Excluding Subordinate Debt)		NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
TCAC NET CASH FLOW TESTS:																						
Percent Gross Revenue	#DIV/0!	12.16%	15.99%	15.67%	15.74%	15.82%	15.90%	15.98%	16.05%	16.13%	16.21%	16.29%	16.37%	16.45%	16.53%	16.61%	16.69%					
25% Debt Service Test	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Altamira:																						
Year 15 Test - Greater of: (a) 2% Gross Income OR (b) lesser of \$25,000 or \$500/unit																						25,000
DISTRIBUTION OF CASH FLOW																						
Operating Reserve (% of op expenses)	0.0%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LP AMF 1		0	625	7,725	7,957	8,195	8,441	8,695	8,955	9,224	9,501	9,786	10,079	10,382	10,693	11,014	11,344	11,685	12,035	12,396	12,768	13,151
GP PMF 2		0	1,875	23,175	23,870	24,586	25,324	26,084	26,866	27,672	28,502	29,357	30,238	31,145	32,080	33,042	34,033	35,054	36,106	37,189	38,305	39,454
Below-the-line services Expenses		0	88,284	99,748	102,741	105,823	108,998	112,268	115,636	119,105	122,678	126,358	130,149	134,053	138,075	142,217	146,484	150,878	155,405	160,067	164,869	169,815
General Partner		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Limited Partner		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL Cumulative to GP:		0	2,500	78,916	81,562	84,297	87,125	90,048	93,069	96,192	99,420	102,758	106,207	109,773	113,460	117,270	121,210	125,282	129,491	133,843		
TOTAL Cumulative to LP:		0	625	7,725	7,957	8,195	8,441	8,695	8,955	9,224	9,501	9,786	10,079	10,382	10,693	11,014	11,344	11,685	12,035	12,396		
Maximum Net Cash Flow to GP:	90%	0	6,250	77,250	79,568	81,955	84,413	86,946	89,554	92,241	95,008	97,858	100,794	103,818	106,932	110,140	113,444	116,848	120,353	123,964		
Excess Distributions to GP:		0	0	1,866	1,995	2,343	2,712	3,102	3,515	3,951	4,413	4,900	5,414	5,956	6,528	7,130	7,765	8,434	9,138	9,880		