ROSS FINANCIAL

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October 11, 2021

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

Re: Columba Apartments (Updated Report)

Dear Mr. Dorado:

The Chula Vista Housing Authority (the "Authority") has retained Ross Financial as its independent municipal advisor, in part, to analyze the feasibility of issuing tax-exempt and taxable obligations, as the case may be (the "Notes" and "Bonds"), for the Columba Apartments development (the "Development"). This report updates Ross Financial's report, dated September 22, 2021, to reflect the Chelsea's revised pro forma that no longer includes City of Chula Vista HOME and RDA moneys as funding sources for the Development.

This feasibility analysis reviews the following items:

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

Ross Financial has based its analysis of the Development's financial feasibility on materials provided by Chelsea Investment Corporation ("Chelsea"), which has created the developer and the borrower entity (the "Borrower") for the Development. The materials include: (1) the joint application to the California Debt Limit Allocation Committee ("CDLAC") and California Tax Credit Allocation Committee ("CTCAC"), (2) the financing commitments from (a) Citibank, N.A. as construction and permanent lender (the "Lender") for the Notes and (b) CIC Opportunities Fund II LLC for the Bonds, (3) the market study performed by Kinetic Valuation Group in support of the application to CDLAC and CTCAC, 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 or in developing the overall financing structure.

OVERVIEW OF THE DEVELOPMENT

Development Summary. The Development is a new construction multifamily rental housing development that will contain 200 1-bedroom, 2-bedroom and 3-bedroom units in two four and five story residential buildings, serviced by elevators. The Development will consist of 178 affordable units plus 2 restricted manager's units. The Development will contain 34 units with accessible bathrooms and wheelchair barrier-free shower stalls and 21 units with features to assist residents with communication impairments.

The Development will be Type III modified construction with a concrete foundation, stucco exterior and a flat roof. The Development will have 325 parking spaces in a 3-level Type I concrete parking structure – 260 spaces, including 8 accessible, will be covered. The Development will provide: 3,376 square feet of community space, including a computer lab/lounge, four rental offices and a community room; two landscaped courtyards totaling approximately 17,600 square feet, which will include a tot lot, bocce ball, four barbeque areas; and two laundry rooms. Unit amenities include: central heat and air conditioning, window coverings, vinyl flooring in the kitchen and bathrooms, stove/oven, refrigerator, dishwasher and garbage disposal. Service amenities include: adult education and skill building classes, ESL, art, job counseling, financial literacy, health and wellness.

Unit and Affordability Mix. The unit mix and affordability restrictions for Development is expected to be as follows:

Columba	**Unit Mix**	**30% AMI****	**50% AMI****	**60% AMI****
1 Bedroom/1 Bath	56	6	6	44
2 Bedroom/1 Bath	86*	9	9	67
3Bedroom/2Bath	58*	6	6	45
Total Units	**200**	**21**	**21**	**158**

*Includes 1 manager's unit in each unit type that are unrestricted
** AMI = Area median income; Manager's units are not subject to affordability restrictions

Specifically:

- 108 units will be restricted pursuant to the City's bond policy due to its issuance of the Notes and Bonds; and
- The remaining units will be restricted to CTCAC rents

Description of Project Site. The Development is to be constructed on a 3.07 acre site located in the Otay Ranch General Development Plan in the Eastern Urban Center, also known as the Millenia Development. Columba Apartments is surrounded by recent multi-use developments, including office, commercial and high density residential within 0.5 to 1.0 mile from the site. The site is located south of Chelsea's prior projects, known as Duetta and Volta Apartments, completed in 2016.

Ownership of the Development/Borrower. The ownership entity for the Development will be a Millenia CIC, L.P., a single asset California limited partnership consisting of: (a) CIC Millenia, LLC, created by Chelsea, which will serve as Administrative General Partner, (b) Pacific Southwest Community Development Corporation, a California not-for-profit public benefit corporation which will serve as Managing General Partner and (c) a tax credit limited partnership entity created by Raymond James Tax Credit Funds, Inc.

Chelsea Experience. According to Chelsea, the firm has 35 years of experience in financing, developing and/or rehabilitating multifamily rental housing. This experience encompasses 11,000 units in the Western United States, including more than 6,000 affordable housing units in Chula Vista, San Diego and Carlsbad. Chelsea's most recent activity with the Housing Authority includes:

- St. Regis Park Apartments, a 119-unit family project that Chelsea acquired and rehabilitated in 2000 and again rehabilitated in 2019;
- 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.

CDLAC/CTCAC. On February 4, 2021, the Housing Authority filed a joint application to CDLAC and CTCAC requesting a private activity bond allocation of $52,100,000 for the Development, along with a reservation of 4% Federal and State tax credits. The CTCAC application proposed income set-asides based on income-averaging. On April 28, 2021, CDLAC awarded a private activity bond allocation in the requested amount and CTCAC reserved the requested 4% Federal and State tax credits. The CDLAC allocation will expire on October 25, 2021.

In connection with the CDLAC/CTCAC application process, on January 19, 2021, 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. Three weeks prior, on December 29, 2020, 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. The TEFRA approval was signed January 19, 2021.

PROPOSED FINANCING

Project Costs and Funding. According to most recent projections provided by Chelsea, the total costs of the Development, including construction and all soft costs, are estimated at $102,349,538. The estimated sources of funds will differ during the construction period and following construction and lease-up ("at permanent"), as shown in the following table based on the most recent projections:

Sources of Funds	Construction	Permanent
Tax-Exempt Note Proceeds	$49,500,000	$36,580,000
Taxable Note Proceeds	24,295,706	--
Tax-Exempt Junior Bond Proceeds	2,600,000	2,600,000
Accrued Interest – Junior Bonds	569,507	711,883
Federal Low Income Housing Tax Credits	6,410,970	42,739,797
State Tax Credits	631,061	4,207,072
Seller Note	9,491,775	9,491,775
Bond Deposit Refund	103,500	103,500
Deferred Costs	2,831,508	--
Deferred Developer Fee	5,915,511	5,915,511
Total	**$102,349,538**	**$102,349,538**
Uses of Funds		
Land Cost	$14,491,775	$14,491,775
Offsite Public Improvements	1,250,011	1,250,011
Site Work	1,893,052	1,893,052
Construction	39,571,291	39,571,291
Overhead, Profit, General Conditions	6,128,086	6,128,086
Architectural & Engineering/Design Assist	2,244,892	2,244,892
Contingency Costs (Owner, Hard and Soft)	4,075,001	4,075,001
Impact Fees and Permits	14,634,126	14,634,126
Financing Fees and Interest	7,562,799	7,562,799
Reserves	768,590	768,590
Misc. Soft Costs and Legal	1,316,514	1,316,514
Developer Fee*	8,413,401	8,413,401
Total	**$102,439,538**	**$102,439,538**

*Cash developer fee is $2,304,390 with $5,915,511 deferred

Description of Financing. The expectation (based on the most recent pro forma) is that the Housing Authority will issue:

- The Notes in two series: (a) a tax-exempt series in the estimated amount of $49,500,000 and (b) a taxable series in the estimated amount of $24,295,706.
- The Bonds in one series in the estimated amount of $2,600,000. (Note: The aggregate par of the tax-exempt Note and the Bonds may not exceed $52,100,000)

The Notes will have the following features:

- Each Note will be funded by Citibank, N.A. (the "Lender");
- The Notes will be issued on a draw down basis, with interest payable only on the amounts drawn;
- Following lease-up (expected in 6 months after construction completion) (at "Conversion"), the taxable Note will be repaid in full and the tax-exempt Note will be paid down to a permanent estimated par of $36,580,000. The sources of repayment will be Federal and State low income housing tax credits.
- Prior to Conversion, the tax-exempt Note will bear a variable interest rate equal to 30 Day SOFR + 1.86% and the taxable Note will bear a variable interest rate equal to 30 Day SOFR + 2.36%. SOFR, which stands for "Secured Overnight Financing Rate", is the successor index to LIBOR which is scheduled to be phased out by June 30, 2023. At Conversion, the tax-exempt Note will convert to a fixed rate that will be set at Closing. The rate will be established by reference to a formula (19-year LIBOR +2.20%) and is estimated at 4.10% in the current market. The pro forma assumes a construction loan rate of 3.53% and a permanent loan rate of 4.10%.
- The tax-exempt Note will have a stated maturity of 34 years from Closing (i.e., in 2055) but will be subject to mandatory prepayment in 19 years after Closing (i.e., in 2040). Following Conversion, the tax-exempt Note will amortize on a 40-year basis. The taxable Note is expected to have a stated maturity of approximately 4 years from Closing and will be repaid in full at Conversion as noted above.
- The Notes are expected to close by October 25, 2021.

The Bonds will have the following features:

- The Bonds will be purchased by CIC Opportunities Fund III, LLC (the "Fund"), which was formed by Chelsea. Due to Federal Tax limitations, no more than 49% of the Fund will consist of principals of Chelsea, the Borrower or related entities;
- The Bonds will be issued on a cash basis with proceeds delivered at Closing and held by U.S. Bank National Association as trustee;
- The interest on the Bonds will be at a tax-exempt rate of 7.50%;
- The Bonds will be issued as subordinate obligations payable from residual revenues of the Development after payment of the Notes;
- The expected stated maturity of the Bonds is 45 years;
- The Bonds will close at the same time as the Notes, by October 25, 2021.

The Lender will execute a document representing that it has sufficient knowledge and experience to evaluate the risks and merits associated with making the loans evidenced by the Notes and 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 Fund will execute a similar document with respect to the Bonds and is expected to hold the Bonds through maturity or prior repayment.

Affordability Restrictions. The Development will be subject to the following regulatory restrictions and terms:

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

- Tax Credit Regulatory Agreement requirements under which all tax credit units must be affordable at or below 60% AMI for a 55-year term to remain eligible for tax credits.

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

	Columba
Assumptions	
Vacancy	5%
Revenue Escalation	2%
Operating Expense Escalation	3%
Cash Flow and Coverage	
Stabilized Net Income – First Full Year	$3,367,387
Expenses	(1,141,382)
Resident Services	(13,320)
Replacement Reserve	(50,000)
Authority Bond Monitoring and Admin Fee	(21,000)
Net Operating Income	$2,141,685
Tax-Exempt Note Debt Service[1]	(1,861,978)
Debt Service Coverage[2]	1.15x
Net Project Cash Flow	**$279,707**
MGP and LP Fees	(12,500)
Deferred Developer Fee (50% of excess flow)	(133,604)
Available Cash Flow after Deferred Developer Fee	133,604
Junior Bond	(133,604)
Net Cash Flow for Seller Loan	0
Net Cash Flow for Partnership Admin Fees and Distributions	0

[1] Assumes an initial permanent loan par of $36,580,000 at 4.10%
[2] Net operating income divided by sum of 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	3,544,618	3,615,510	3,687,821	3,761,577	3,836,809
	less 5% vacancy	(177,231)	(180,776)	(184,391)	(188,079)	(191,840)
	Total Net Income	3,367,387	3,434,735	3,503,430	3,573,498	3,644,968
	Expenses					
3.00%	Operating Expenses	(1,141,382)	(1,175,623)	(1,210,892)	(1,247,219)	(1,284,635)
3.00%	Services	(13,320)	(13,720)	(14,131)	(14,555)	(14,992)
3.00%	Replacement Reserves	(50,000)	(51,500)	(53,045)	(54,636)	(56,275)
	Issuer Bond Monitoring and Admin Fee	(21,000)	(21,000)	(21,000)	(21,000)	(21,000)
	Total Expenses + Reserves	(1,225,702)	(1,261,843)	(1,299,068)	(1,337,410)	(1,376,903)
	Net Operating Income	2,141,685	2,172,892	2,204,361	2,236,088	2,268,065
	Permanent Note Service	(1,861,978)	(1,861,978)	(1,861,978)	(1,861,978)	(1,861,978)
	Debt Service Coverage	**1.15x**	**1.17x**	**1.18x**	**1.20x**	**1.22x**
	Available Cash Flow after Permanent Loan Debt Service	279,707	310,914	342,383	374,110	406,087
3.00%	Managing GP Fee	(5,000)	(5,150)	(5,305)	(5,464)	(5,628)
	LP Fee	(7,500)	(7,500)	(7,500)	(7,500)	(7,500)
	Project Cash Flow after MGP and LP Fees	267,207	298,264	329,579	361,146	392,960
	Deferred Developer Fee (50% of excess cash flow)	(133,604)	(149,132)	(164,789)	(180,573)	(196,480)
	Project Cash Flow after Deferred Developer Fee	133,604	149,132	164,789	180,573	196,480
	Junior Bond (75% of Available Cash Flow after Deferred Dev. Fee)	(133,604)	(149,132)	(164,789)	(180,573)	(196,480)
	Project Cash Flow after Junior Bond	0	0	0	0	0
	Seller Loan (12.5% of Available Cash Flow)	0	0	0	0	0
	Partnership Admin Fee (90% of Available Cash Flow)	0	0	0	0	0
	LP and GP Distributions					

PUBLIC PURPOSE

The Notes and Bonds are expected to result in the long-term affordability of 198 one, two and three-bedroom units in the City of Chula Vista: 21 units will be restricted and affordable to households earning 30% of AMI; 21 units will be restricted and affordable to households earning 50% of AMI; and 156 units will be restricted and affordable to households earning 60% of AMI. Two units will be occupied by resident managers and will be unrestricted.

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

BENEFITS AND RISKS TO THE AUTHORITY

The Notes and Bonds provide a vehicle for financing a portion of the construction costs of the Development. As proposed, the Notes and Bonds will result in the long-term affordability of 198 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 and Bonds do not pose undue financial risk to the Housing Authority. The Notes and Bonds 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 Notes are expected to be paid down to $36,580,000 following conversion. The Bonds will be purchased by the Fund, which also has indicated its intention to hold the Bonds for its own account; the Fund consists of individuals that are principals of Chelsea and understand the risks associated with the Development.

The primary risk is construction and lease-up risk – that the Development is not completed and/or leased up in a timely fashion. Given the development and project management experience of Chelsea, the target tenant population and the demand for affordable units, this risk seems remote. This risk is borne entirely by the Lender and the Fund, which includes Chelsea principals.

If the Housing Authority issues the Notes and Bonds in the amounts shown in the report, the Authority would receive an issuer fee at Note/Bond closing of $152,791: equal to 0.20% times the initial aggregate par amount of the Notes and Bonds. The Authority also would receive estimated annual fees of $21,000 to monitor the Notes.

Costs of issuance will be funded by the Borrower from low income housing tax credit contributions and/or other funds. The Borrower has agreed to indemnify the Housing Authority and Authority as to matters relating to the Notes and Bonds. However, the Borrower is a single purpose entity with no significant assets or source of income other than the Development and is generally not required to make up any cash flow shortfalls. Accordingly, Chelsea will be providing its indemnification.

RECOMMENDATIONS

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

- The Notes and Bonds will achieve a public purpose by providing an aggregate of 198 affordable units, with all units restricted to income levels at 30%, 50% and 60% of AMI.
- The Notes will evidence tax-exempt and taxable 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 Bonds will be purchased by a Fund comprised of principals of Chelsea and other individuals who understand real estate risk and the risk of the Development. The Bonds are payable only from residual receipts from the Development after payment of the Notes and cannot default due to insufficient cash flow. The Fund and its participants expect to hold the Bonds through maturity and the Bonds will be subject to restrictive transfer limitations at all times.
- The Borrower has agreed to indemnify the Housing Authority and the Authority regarding matters relating to the financing. The Borrower will pay issuance costs from sources other than Note or Bond proceeds.

- Based on estimates provided by Chelsea on behalf of the Borrower, there should be sufficient funds to complete the Development and the Development provides adequate cash flow to cover permanent loan debt service on the Note. The Bonds are payable from residual receipts from the Development and are not subject to default and acceleration in the event that cash flow is insufficient.

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