17872 GILLETTE AVE.
SUITE 350
IRVINE, CA 92614

714 541 4585
INFO@WEBRSG.COM
WEBRSG.COM

Via Electronic Mail

To: Tiffany Allen, Director
Stacey Kurz, Housing Manager
Jose Dorado, Senior Management Analyst
Development Services Department
CITY OF CHULA VISTA

From: Tara Matthews, Principal
Mark Sawicki, Director
Rosa Romero, Associate
Samantha Wu Rose, Research Assistant
RSG, INC.

Date: March 8, 2022

SUBJECT: WORKFORCE HOUSING PROGRAM PROPOSAL - RESIDENCES AT ESCAYA PROJECT

The City of Chula Vista ("City") City Council ("City Council") adopted a policy for a "Workforce Housing" program that serves Moderate Income Rental Households via Resolution No. 2021-199. California Municipal Finance Authority ("CMFA"), a Joint Powers Authority ("JPA"), and HomeFed Corporation ("HomeFed"), also referred to as the Sponsor ("Sponsor"), submitted a proposal pursuant to this program for the Residences at Escaya Project ("Project"). Section II.C. of the Resolution states that "a third party shall be retained to analyze the financial projections, bond fees, property tax revenues, and other financial terms and conditions of the proposal." RSG, Inc. ("RSG") performed a financial evaluation of the proposal and supporting materials, and our analysis and findings are detailed in the following narrative for City Council consideration.

BACKGROUND

Middle-Income/Workforce Housing Programs

There is currently limited Federal, State, or local subsidies or programs to produce or preserve the growing shortfall of below market rate rental housing for moderate and middle-income households, which are those earning from 80% to 120% of area median income ("AMI"). To date, affordable housing programs in California have almost exclusively focused on providing housing for lower-income households, and State and federal funding sources are almost exclusively targeted to households at or below 60% of AMI. This has left a "missing middle," comprised of households that earn too much to qualify for traditional affordable housing programs but not enough to afford market rate housing.

In the last several years, three different entities have developed similar Middle-Income or Workforce Housing Programs, for the purpose of issuing tax-exempt bonds to acquire market rate apartment buildings and convert them into income- and rent-restricted units for households

earning between 61% and 120% of AMI. The three entities include CMFA, California Statewide Communities Development Authority (CSCDA), and the California Community Housing Agency (CalCHA). Each entity was formed as a JPA pursuant to California Government Code Sections 6500-6599.

For the JPA to be granted the authority to serve as the issuer of the bonds for the Project, it is necessary for the City to become a member of the JPA. Cities, counties, and housing authorities become non-voting members of the JPA by adopting a Resolution and executing the JPA Agreement. The city authorizes the JPA to issue bonds at no cost or liability to the city. The Joint Exercise of Powers Agreement provides that the JPA is a public entity, separate and apart from each member executing such agreement. The debts, liabilities and obligations of the JPA do not constitute debts, liabilities or obligations of the members executing such agreement. The debt service on the bonds used to acquire property is supported solely from project revenues and receipts. To date, more than two dozen cities across the State have joined one or more of the three JPAs and have approved similar Middle-Income Housing Program acquisition/conversion transactions, including in South Gate, Carson, Anaheim, Long Beach, Glendale, Pleasant Hill, Dublin, Livermore, Fairfield, and Santa Rosa.

Every project acquired by the JPA becomes exempt from property tax. The JPA records a Regulatory Agreement that restricts rents to be affordable for households at different maximum income-limit mixes between 80% and 120% of AMI. If there are existing tenants of an acquired property who income-qualify, their rents are restricted. For non-qualifying tenants, they may remain in place at market rate. As units turnover, they become income- and rent-restricted for the next tenant. Annual rent increases are capped at 4%.

The Regulatory Agreement period is for up to 35 years while the Project is under JPA ownership and the bonds are outstanding. Through its right to repurchase, a city can opt to extend the affordability restrictions beyond the transaction period and/or convey the property to an entity that can operate it as rent-restricted affordable housing. Alternatively, the city also has the option to allow the property to return to market rate rents and thus convey it for a higher market value.

Under the terms of the Public Benefit Agreement, the JPA grants all financial upside to the underlying member jurisdiction. Between years 15 and 35, the city has a right to purchase the property for the amount of outstanding debt. (This right could be lost, however, if bondholders ever foreclosed on the property.) If the city declines to purchase, the JPA must sell the property and distribute the net proceeds to the city.

Residences at Escaya Project

The Residences at Escaya is a 272-unit apartment complex situated on 9 acres within the Otay Ranch Community in eastern Chula Vista. Built in 2019, its 14 3-story buildings contain 141 one-bedroom, 111 two-bedroom, and 20 three-bedroom units, and amenities such as a fitness center, swimming pool, clubhouse, hiking trails, and dog park. The current owner is Village of Escaya Apartments LLC, an affiliate of HomeFed (the Sponsor).

SUMMARY OF KEY FINDINGS

Based on our analysis, below is a summary of RSG's key findings:

- The Project is highly leveraged under the financial structure of the Workforce Housing program, with a debt to value of 119% following acquisition. The issuance of $160 million in bonds will entirely fund the acquisition ($135 million), reserve accounts ($15 million), and payment of transaction, JPA and Sponsor fees ($13 million). CMFA will be the owner, but without an equity investment or residual interest.

- Based on RSG's projections, the Project will need to rely on reserves to pay debt service for the first seven years, is not expected to begin repaying principal on the Series A bonds until Year 10, and will not achieve a Net Operating Income ("NOI") to debt service coverage ratio of 1.2x until Year 15.

- Following conversion of all units to restricted rents, the Project would provide minimal rental savings compared to current in-place rents but about $500,000 in annual savings to estimated market rent in the first year. This is partly due to an existing covenant that restricts 30 units for Moderate Income households. The rent savings will grow over the life of the Project as market rents and restricted rents continue to diverge over time. As another reference point, initial rents at Escaya would average $2,463, as compared to the proposed initial rents at CasaLago of $2,810.

- CMFA would share with the City 25% of the $500,000 in bond issuance fees it receives at closing. In addition, CMFA would share an equal amount via its affiliated foundation to fund local charities designated by the City, reducing its upfront fee to $250,000.

- The City is estimated to be currently receiving about $103,000 in property tax from the Project based on its pre-acquisition assessed value. The Sponsor has proposed to provide the City with an equivalent "Host City Charge" to mitigate the revenue loss after purchase by the JPA, since it will be exempt from paying ad valorem property taxes. If not for the exemption, the new assessed value from acquisition would result in property taxes to the City of about $144,000 in the first year.

- RSG projects that by Year 15, when the City has the option to purchase the asset, the estimated Project value of $166 million would not provide adequate proceeds to fully reimburse the other taxing entities for their cumulative foregone property tax, as is contemplated by the Public Benefit Agreement with CMFA. If the City were to "equitably share" the proceeds with other taxing entities, it may realize an overall *negative* net fiscal impact of about $244,000 in present value 2022 dollars.

- RSG projects that by Year 35, approximately $47 million in bond debt would still be outstanding, but the Project value would have grown to $222 million. The City would be able to reimburse the other taxing entities for their cumulative foregone property taxes, and still retain $114 million. The projected net fiscal impact to the City would be about $39 million in present value 2022 dollars.

- The City incurs minimal costs, liabilities, or administrative responsibilities in connection with membership in the CMFA JPA or participation in the Workforce Housing Program. The City is not the bond issuer and provides no funding or credit enhancement to the transaction. The acquisition bonds do not diminish the City's issuing capacity and are backed solely by the Project revenues. On this basis, participation creates a relatively low risk and high return opportunity for the City.

- However, there is the potential that the Project would become unable to meet debt service due to lower rents, higher operating costs, or other unforeseen events. Ultimately, if the bondholders needed to foreclose on the asset to satisfy outstanding debt, the Regulatory Agreement would be terminated and the rent restrictions would be lifted. Rents could then be increased under the maximum State limits, eventually returning to market level rents.

DETAILED FINDINGS

Income Limits and Program Rents

The Workforce Housing program provides reduced affordable rents to qualifying households with incomes at or below 80% (Low) to 120% (Moderate) of AMI based on the Department of Housing and Urban Development ("HUD") for the County of San Diego. The Sponsor is proposing that the Project will have an allocation of income- and rent-restricted units as follows:

- 33.3% of the units for households below 80% AMI,

- 33.3% of units from 81% to 100% AMI, and

- 33.3% of units from 101% to 120% AMI.

The Project has an existing covenant that restricts 30 units to Moderate Income households and sets the rents for these units at no greater than 30% x 110% of the 120% income limit for that unit size. The Project's proposed Regulatory Agreement states that the initial and ongoing maximum rents for the 242 converted units will be restricted to not exceed 35% of the qualifying income limits for each unit size and income category. The respective qualifying income limits are stated in Table 1 below:

Table 1: Project Income Limits

Unit Type	Household Size	80% AMI	100% AMI	120% AMI
1-bedroom	2 person	$77,600	$97,000	$116,400
2-bedroom	3 person	$87,280	$109,100	$130,920
3-bedroom	4 person	$96,960	$121,200	$145,440

Table 2 details the proposed initial Project Rents for the Project. Most of the units are being set at rents lower than the maximum (35% of qualifying income) amounts allowed by the Regulatory Agreement. Initial Project Rents range from 23% to 35% of the qualifying income, as shown in Table 3. By starting with lower initial rents, particularly at the 120% AMI level, the Sponsor is

building in some assurance that the scheduled rents will be achieved, and have room to grow modestly over time, without being impacted by the maximum rents allowed under the income limits or by market rent.

Table 2: Project Initial Maximum Monthly Rents

Unit Type	Total Units	80% AMI	100% AMI	120% AMI	Total/Avg
1-bedroom	98	$2,043	$2,156	$2,270	$2,156
2-bedroom	154	$2,380	$2,562	$2,697	$2,546
3-bedroom	20	$2,799	$3,477	$3,786	$3,354
Total/Avg	272	$2,289	$2,483	$2,623	$2,465
	Number of Units	**91**	**91**	**90**	**272**

Table 3: Project Rents as a Percentage of Income Limits

Unit Type	80% AMI	100% AMI	120% AMI
1-bedroom	31.6%	26.7%	23.4%
2-bedroom	32.7%	28.2%	24.7%
3-bedroom	34.6%	34.4%	31.2%

Under the Regulatory Agreement, annual rent increases for all income-qualifying households would be capped at no more than 4%, which is greater protection for tenants than provided under Assembly Bill ("AB") 1482, the recently adopted State tenant protection legislation, which limits rent increases to the change in the Consumer Price Index ("CPI") *plus* 5%. Furthermore, eligible households will only have their rent increased up to the 35% limit.

Based on information provided by HomeFed, an independent appraiser, and RSG market research, asking market rents in the city are in the following range and averages:

- 1-bedroom: $1,414 to $2,577 avg: $2,354
- 2-bedroom: $1,815 to $3,219 avg: $2,974
- 3-bedroom: $2,520 to $3,819 avg: $3,554

According to HomeFed, the Project rents will range from 5% to 10% below market, and up to 7% below the current in-place rents, but are on par with in-place rents on average resulting in minimal annual "rental savings" in the first year compared to the current in-place rents. However, the initial rents represent about a $500,000 "savings" compared to market rents. Rental savings will only grow over time because Project rent increases will be limited to 4% per year (and no greater than 35% of the qualifying income limits) while market rents can increase at whatever rate the market commands. As another point of comparison, the average rents proposed at Escaya are about $350 lower than those proposed at CasaLago.

Operating Expenses

The operating expenses assumed by HomeFed for the Project are based on an evaluation by the firm Greystar, who has been and will continue to be the contracted property management firm for the Project. Greystar has extensive experience managing over 700,000 multifamily units, including 280 properties in Southern California with over 60,000 units. RSG compared these estimated expenses with the projected expenses that the independent appraiser prepared and found that Greystar's overall estimate was similar. The expenses grow by 3% per annum, which is a reasonable assumption.

Host Fee

In conformance with the City's Workforce Housing Policy, HomeFed has included a "Host City Charge" among the operating expenses. The Host City Charge is intended to replace the foregone property tax revenue from the Project after acquisition by CMFA, which is tax-exempt as a government entity. HomeFed has assumed an annual Host City Charge equivalent to the current City share of property tax received, which RSG estimates to be about $103,000. The Host City Charge increases by 2% per annum to match the expected growth from property tax revenue. It should be noted that the proposed purchase price of the Project site is $135,000,000 and, without the property tax exemption, the new assessed value would yield a property tax of approximately $144,000.

Monitoring Fee

HomeFed did not include an annual monitoring fee in its pro forma projections. This is not an explicit requirement of the City's Workforce Housing Policy. However, it would be a reasonable request of the Sponsor to help defray City staff costs for monitoring the Sponsor/Project Administrator's compliance with the Public Benefit and Regulatory Agreements.

Reserves

The Project will fund initial reserve accounts totaling about $15 million, which would be used to pay debt service and fees in the first six to seven years until there is sufficient NOI, as well as any potential need to cover operating expenses or capital improvements. The reserve accounts are shown below in Table 4:

Table 4: Project Reserves Accounts

Senior Debt Reserve	$6,334,840
Capitalized Interest	$6,199,788
Coverage Reserve	$1,266,968
Debt Service Reserves subtotal	$13,801,596
Operating Reserves	$425,156
Capital Reserves	$408,000
Extraordinary Expense Fund	$500,000
Total All Reserves	$15,134,753

The types and amounts of reserve accounts are based on standards established by the bond market and are fairly consistent across deals. Appropriate sizing of the reserves is important for the bond buyers and one of the key reasons they are comfortable with purchasing the bonds. As discussed further below under Financial Projections, RSG evaluated the debt service reserves and found them to be reasonable and adequate to provide protection if NOI is lower than projected.

The Senior Debt Service Reserve is the equivalent of one year of interest on the Series A bonds. This reserve is held for the entire period that the bonds are outstanding, regardless of how much principal has been repaid over time. Both the Capitalized Interest and Coverage Reserves are to be released to the Project once NOI exceeds debt service by 20%. HomeFed projects this would occur by Year 12, although RSG projects it may not be achieved until Year 15.

The Operating Reserve is equivalent to three months of operating expenses. This reserve is held for the entire period the Series A bonds are outstanding.

The Capital Reserves of $408,000 are equal to $1,500 per unit. There were no upfront improvements identified in a third-party Property Condition Report prepared by Partner Engineering & Science, Inc. so this balance would be available for unforeseen items and future capital improvements. In addition, the Project pro forma includes an annual deposit of $81,600 ($300 per unit) into the Capital Reserve for ongoing and future improvements. The annual deposit amount escalates by 3% per year in the pro forma and in Year 16 is bumped up to a fixed $1000 per unit per annum. RSG finds this and the other Reserve amounts to be reasonable and adequate.

Fees

There are significant transaction costs for a conversion to Workforce Housing, including costs related to the issuance of the bonds and to the Sponsor for arranging the deal, as shown in Table 5 below. Fees that are paid at closing to the bond underwriters, and a premium to bondholders (known as "original issue discount"), are collectively projected to total $7.5 million. Fees for the

bond issuances are estimated by HomeFed at 3% of the bond par amount (of which CMFA is assumed to receive $500,000). The premium paid to bondholders (known as "original issue discount") is projected to total $3.2 million. This latter amount is derived by the difference in the assumed bond coupon of 4% and the assumed yield on the bonds of 4.25%. This appears to be an appropriate hedge to account for the recent rise in interest rates and yields in the bond market.

Table 5: Project Fees

Original Issue Discount	$	3,199,094
Costs of Issuance (Net of CMFA)	$	4,251,130
Bond Costs	$	7,450,224
CMFA JPA Issuance Fees (at Closing)[1]	$	500,000
HomeFed Fees (at Closing)	$	-
HomeFed Series B Bond	$	5,000,000
Total Sponsor/Agency Fees	$	5,500,000
Total Project Fees	$	12,950,224

[1] CMFA will share 25% with the City, and donate another 25% to charities. This would reduce the fee it retains to $250,000.

CMFA Fees

CMFA would receive a portion of the bond issuance fees, which it would cap at $500,000. Unlike the other JPAs, CMFA shares 25% of all issuance fees directly with its member communities, so the City could expect to receive an estimated $125,000 at closing. In addition, CMFA will make a grant equal to 25% of the issuance fee to the California Foundation for Stronger Communities (“CFSC”) to fund charities designated by the City. A portion of the annual fees received by the CMFA will also be directed to charitable activities within California communities.

CMFA would also receive a $150,000 annual fee during the Project term, with no escalation.

HomeFed Fees

HomeFed would receive no upfront fee payment, which is atypical for Workforce Housing proposals. This fee would have been provided to compensate the Sponsor for identifying and negotiating to purchase the Project. In this case, HomeFed is the current owner and is selling its equity interest in exchange for its new role as Sponsor/Project Administrator.

HomeFed would be granted a Series B bond in the amount of $5 million. The interest on this bond is 10% per annum ($500,000 per year) and payment is subordinated and deferred during the first five to six years while there is insufficient cash flow. The principal and deferred interest are not paid until all Series A bonds have been repaid. This Series B bond is meant to replicate developer equity since under the terms of the Workforce Housing program, all of the residual equity interest will accrue to the City after payment of the bonds. This subordinated Series B bond is intended to

create long-term alignment for the Sponsor to manage the asset properly and generate cash flow so that senior bonds can be paid.

In addition, HomeFed will receive an annual Asset Management Fee for its ongoing role as Project Administrator starting at $290,500 per year, with no escalation indicated in the pro forma. This fee is intended to cover staff costs for administration of the asset including preparation of all reporting, oversight of the property manager and regulatory agreement, compliance with all terms of the indenture, etc.

These fees are similar across all Workforce Housing projects and are intended to conform with the amount of fees generated in other complex, asset-secured bond issuances of this type. For context, RSG compared these fees to a sample of six affordable housing tax-credit equity financed transactions in and around the greater San Diego market area. The total dollar amount of developer fee for the Project is 2.5x greater than the average tax credit project, but on a per unit basis is half the average for these affordable housing projects. The Admin Fee is 5x greater than the average tax credit project, but only 28% greater on a per unit basis.

Acquisition Cost

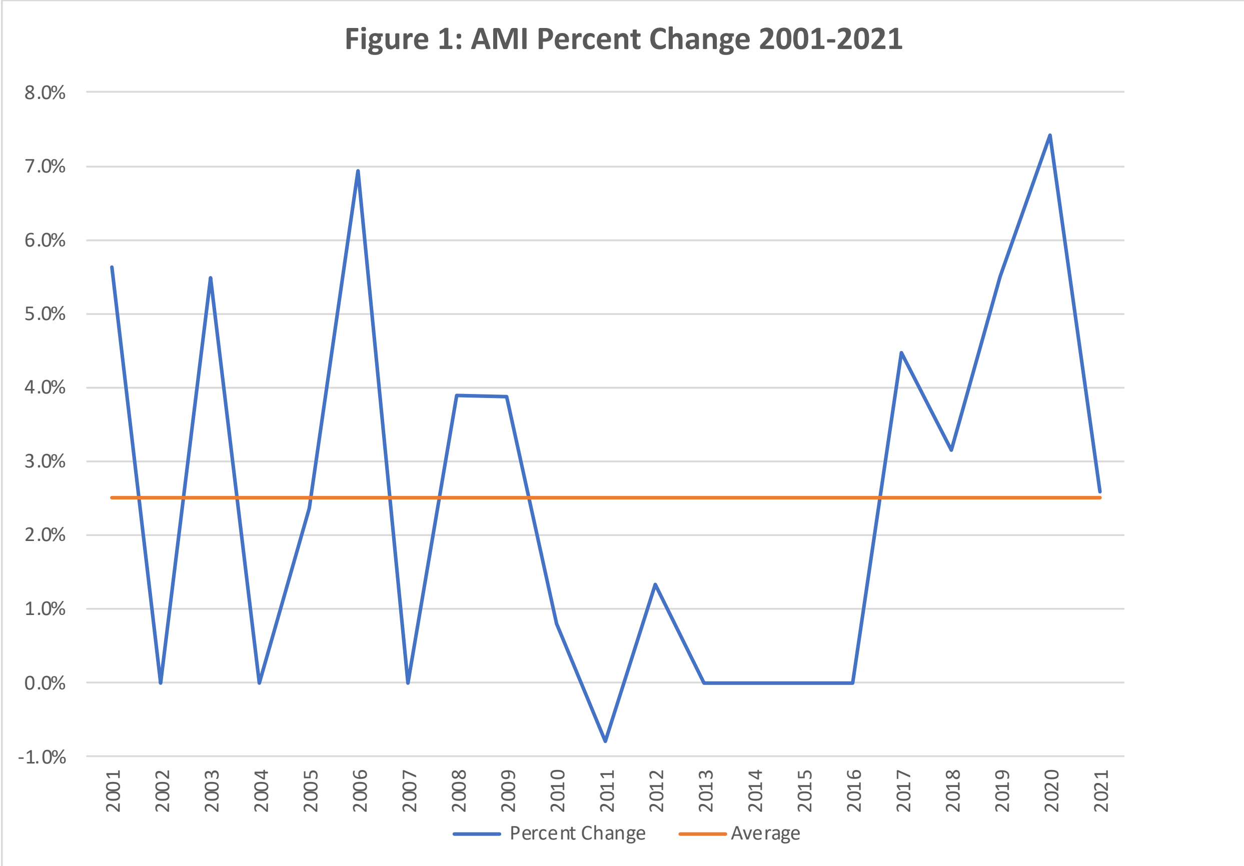
The Sponsor proposes to acquire the property at a market value of $135,00,000. This is consistent with an independent appraisal that determined the fair market "as is" value to be $140,600,000. The current assessed value of the Project is $107,549,574, which would imply that the market value has grown by more than 9% per year on average since construction three years ago.

Financial Projections

The Sponsor provided a pro forma with a multiyear cash flow projection for the 35-year estimated life of the Series A bonds. The Project Rents are assumed to increase by 3% per year and most of the operating expenses are projected to increase by a 3% inflation factor as well (the annual fees to CMFA and HomeFed remain fixed).

Under these projections, the Project needs to rely on Reserves to cover Series A bond debt service in the first six years and does not reach a 1.2x debt service coverage ratio until Year 12. There is insufficient cash flow to begin paying principal on the Series A bonds until Year 9. However, as NOI grows over the long term, the potential value of the asset eventually grows large enough to be greater than the outstanding debt after about Year 12.

As part of our evaluation, RSG prepared an adjusted version of the Sponsor's pro forma. In particular, we applied more conservative rent growth assumptions to the multiyear cash flow projection. A review of AMI growth in San Diego County over the past 10, 15, and 20 years indicates that 2.5% is a more reasonable assumption for rent growth since it is capped by the change in AMI. In fact, in four out of the last ten years, AMI did not increase at all, and from 2010 to 2011 it actually declined. Figure 1 below shows the historical variation in AMI increases.



RSG assumed no increase in AMI-based rents for the first year and a 2.5% increase on average thereafter. After these adjustments to the assumptions, the Project's NOI would be insufficient to cover the Series A bond debt service until Year 8, and a 1.2x debt service coverage does not occur until Year 15. The Project is unable to make any principal payments on the Series A bonds until Year 11. By Year 15, the value of the asset would exceed the outstanding bond debt, based on the projected NOI with the restricted rents in place. This implies that, if the City were to exercise its right in Year 15 to acquire the asset from CMFA for the amount of debt, it would generate only modest surplus proceeds. However, over the longer 35-year term of the projections, the bond debt is substantially reduced and the potential residual value to the City grows commensurately.

Distribution of Sales Proceeds

As part of the Public Benefit Agreement to be executed between the City and CMFA, during the period that is 15 years after issuance of the acquisition bonds through Year 35, the City can exercise a right to cause CMFA to sell the Project to the City or its designee for the amount of all outstanding debt. This right to purchase allows the City to control the asset and retain the equity value of the Project. If the City has not exercised the right to purchase before all Project debt is retired, CMFA shall sell the Project within 90 days at a commercially reasonable price.

Following a sale, CMFA shall apply sales proceeds to prepay, redeem, or defease all outstanding Project debt, pay any fees, amounts due, and transaction costs. The remaining funds ("Surplus Proceeds") shall be transferred to the City and, under the terms of the Public Benefit Agreement, the City is expected to "equitably share (within Host's reasonable discretion) such Surplus Conveyance Proceeds with the other taxing agencies in the County so as to reimburse such taxing agencies for any foregone property tax revenue." The City would retain any Surplus Proceeds in excess of these distributions.

According to projections prepared by HomeFed, Surplus Proceeds from a future sale are projected to be more than $27 million by Year 15, or $223 million by Year 35. (Future sales value is calculated based on a 5% capitalization rate applied to future NOI in Year 15, and a more conservative 6% cap rate by Year 35.) After reimbursements to the other taxing entities for cumulative foregone property taxes, the City would be projected to receive about $7 million by Year 15, or $163 million by Year 35.

However, RSG's more conservative projections indicate lower future Project values. RSG projects Surplus Proceeds would be only about $7 million by Year 15 but will grow to $174 million by Year 35. If the City "equitably shared" the proceeds with the other taxing entities based on foregone tax shares in Year 15, it would net proceeds of about $217,000. However, by Year 35, the Surplus Proceeds would allow the City to reimburse the other taxing entities and still retain about $114 million. In 2022 present value dollars (using a discount rate of 3% per year), this would be equal to $40 million.

It should be noted that both the HomeFed and RSG projections reflect a value based on the assumption that the income- and rent-restrictions would continue beyond the period that the CMFA Regulatory Agreement would apply to the Project. The City can maintain the affordability restrictions by executing a new regulatory agreement upon re-conveyance and recording it against the property.

Summary Projected Fiscal Impact

As mentioned above regarding the Project fees, CMFA would share with the City 25% of the bond issuance fees it receives at closing. CMFA would cap its fee at $500,000, which means the City could expect to receive $125,000 after closing.

Following acquisition of the Project by CMFA, the property will be exempt from paying the ad valorem property tax (1%) because it would be government-owned. Any direct levies or special taxes and assessments, including local government and school bonds, would still be collected. Therefore, the City would have a loss of annual property taxes for up to 35 years, beginning at approximately $103,000 in the first year, which is the amount the General Fund would receive if the Project were a taxable, privately-owned, market-rate apartment complex. However, the Sponsors have agreed to remit an annual Host City Charge to mitigate the loss of property tax starting at $107,000 in Year 1 and increasing at 2% per year. If not for the tax exemption, the City may have received about $144,000 in property tax based on the new assessed value from the acquisition. The net cumulative loss of property tax revenue to the City is estimated to be about $646,000 through Year 15 and about $1.9 million through Year 35 (or $508,000 and $1.1 million, respectively, in present value 2022 dollars).

As part of the Public Benefit Agreement, the City will have the right to cause a sale of the Project after Year 15 and before Year 35 (or when the bonds are fully repaid, if earlier), and the City will receive all net surplus proceeds after payment of all outstanding debt, transaction costs, and other required distributions. Using RSG's more conservative projections, if the City "equitably shared" proceeds with the other taxing entities, it would receive minimal net proceeds if it caused a sale by Year 15. However, the City may yield about $114 million if the Project is sold in 35 years, even after reimbursing the other taxing entities for their cumulative foregone property taxes of $60 million. The net proceeds to the City are estimated at $40 million in present value 2022 dollars.

As shown in Table 6 below, under RSG's modified projections, the City would receive a *negative* net fiscal impact of about $244,000 if the Project were sold in Year 15 (in present value 2022 dollars). However, by Year 35 the net fiscal benefit would be about $39 million (in present value 2022 dollars). The projected sale proceeds by Year 35 would far exceed the projected cumulative foregone property tax.

Table 6: Fiscal Impact Summary

If Project Sold in Year 15	In 2022 Dollars[1] (Present Value)	Year 1	Year 1-15
25% of CMFA fee shared with City	$ 125,000	$ -	$ -
Foregone Property Tax	$ (1,967,090)	$ (144,492)	$ (2,498,760)
Host City Charge	$ 1,458,875	$ 107,161	$ 1,853,183
Projected Surplus Proceeds[2]	$ 139,560	$ -	$ 217,430
Projected Net Fiscal Impact	$ (243,655)		

[1] *based on a 3% discount rate for future years*

[2] *assumes "equitable" share of proceeds with other taxing entities*

If Project Sold in Year 35	In 2022 Dollars[1] (Present Value)	Year 1	Year 1-35
25% of CMFA fee shared with City	$ 125,000	$ -	$ -
Foregone Property Tax	$ (4,179,756)	$ (144,492)	$ (7,223,802)
Agency reimbursement	$ 3,099,878	$ 107,161	$ 5,357,468
Projected Net Surplus Proceeds[3]	$ 40,341,754	$ -	$ 113,516,148
Projected Net Fiscal Impact	$ 39,386,877		

[3] *assumes proceeds shared with other taxing entities*

Other Considerations

The City incurs no costs, liabilities, or administrative responsibilities in connection with membership in the CMFA JPA or participation in the Workforce Housing Program (other than staff and consultant time to review and approve the transaction and documentation). The City is not the bond issuer and provides no funding or credit enhancement to the transaction. The acquisition bonds do not diminish the City's issuing capacity and are backed solely by the Project revenues. On this basis, participation creates a relatively low risk and high return opportunity for the City.

However, there is potential that the Project is unable to meet debt service due to lower rents, higher operating costs, or other unforeseen events. Ultimately if the bondholders needed to foreclose on the asset to satisfy outstanding debt, the Regulatory Agreement would be terminated and the rent restrictions would be lifted and rents could be increased under State limits, eventually back up to market rents.