

**PROJECT AREA 2**

**SAN MARCOS, CALIFORNIA**

**SUMMARY REPORT PERTAINING TO THE PROPOSED CONVEYANCE OF  
CERTAIN REAL PROPERTY INTEREST WITHIN THE  
REDEVELOPMENT PROJECT AREA**

**California Community Redevelopment Law  
Section 33433**

**PURSUANT TO PROPOSED  
DEVELOPMENT AND LOAN AGREEMENT  
BETWEEN THE CITY OF SAN MARCOS IN ITS CAPACITY AS THE SUCCESSOR HOUSING AGENCY  
TO THE FORMER SAN MARCOS REDEVELOPMENT AGENCY  
AND  
RICHMAR STATION SAN MARCOS, LP**

**City of San Marcos, California**

**July 2015**

## TABLE OF CONTENTS

	<u>Page</u>
I. Introduction .....	1
II. Costs of the Agreement to the SHA.....	6
III. Estimated Value of the Interest to be Conveyed at the Highest and Best Use Permitted Under the Redevelopment Plan .....	7
IV. Estimated Value of the Interest to be Conveyed at the Use and with the Conditions, Covenants, and Development Costs Required .....	8
V. Compensation which the Developer will be Required to Pay .....	11
VI. Explanation of the Difference, if any, between the Compensation to be Paid to the SHA by the Proposed Transaction and the Fair Market Value of the Interest to be Conveyed at the Highest and Best Use Consistent with the Redevelopment Plan .....	13
VII. Explanation of Why the Conveyance of the Interest will Assist with the Elimination of Blight .....	14
VIII. Limiting Conditions .....	15

## **I. INTRODUCTION**

### **A. Purpose of Report**

This Summary Report (Report) was prepared in accordance with Section 33433 of the California Community Redevelopment Law (California Health and Safety Code Section 33000 et seq) in order to inform the City of San Marcos (City) in its capacity as the Successor Housing Agency to the Former San Marcos Redevelopment Agency (SHA) and the public about the proposed Development and Loan Agreement (Agreement) between the City and Richmar Station San Marcos, LP (Developer).

The Developer intends to build a mixed-use affordable housing community of up to a maximum of 147 rental units affordable to families at Very Low- and Low-income levels (Project). Based on discussions with the Developer, the Project will likely be comprised of 120 rental units. The Project may be constructed in multiple phases on various vacant, underutilized, and/or active commercial properties in an area bounded by West Mission Road to the south, Richmar Avenue to the north, Pleasant Way to the west, and Firebird Lane to the east in San Marcos (Site).

The Report describes and specifies:

- (1) The costs to be incurred by the SHA under the Agreement;
- (2) The estimated value of the interest to be conveyed by the SHA to the Developer pursuant to the proposed Agreement determined at the highest and best use permitted under the Redevelopment Plan;
- (3) The estimated value of the interest to be conveyed at the proposed use and with the conditions, covenants, and development costs pursuant to the proposed Agreement;
- (4) The compensation to be paid to the SHA pursuant to the proposed transaction;
- (5) An explanation of the difference, if any, between the compensation to be paid to the SHA under the proposed transaction, and the fair market value at the highest and best use consistent with the Redevelopment Plan; and
- (6) An explanation of why the conveyance of the interest will assist with the elimination of blight.

## **B. Summary of Findings**

The SHA engaged its economic consultant, Keyser Marston Associates, Inc. (KMA), to analyze the proposed financial terms. Under the terms of the Agreement, the SHA will convey fee simple interest in the parcels owned by the City and SHA (City/SHA Parcels) to the Developer. The principal KMA conclusions are summarized as follows:

- The estimated costs of the Agreement to the SHA total \$22,591,000.
- The estimated fair market value of the interest to be conveyed at its highest and best use is \$5,347,000.
- The estimated re-use value of the interest to be conveyed is *negative* \$13,075,000.
- The estimated value of the compensation to be received by the SHA is *negative* \$11,317,000.

## **C. Description of Area and Proposed Project**

### *City of San Marcos / Redevelopment Project Area 2*

The City of San Marcos (City) is located in the northeastern region of San Diego County bounded by the cities of Escondido to the east, Encinitas to the southwest, Carlsbad to the west, and Vista to the northwest. The City has experienced a boom in residential, commercial, and institutional development over the past 20 years including the development of a new civic center complex, the California State University San Marcos campus, and new master planned communities in the southern portion of the City such as San Elijo Hills and Old Creek Ranch.

The City of San Marcos Redevelopment Project Area 2 is comprised of five sub-areas in west, central, and south San Marcos. The Site is located in central sub-area C, situated north of West Mission Road. Land uses within Project Area 2 allow for a mix of residential, commercial, industrial, public, and institutional uses.

### Description of Property and Environs

The Site is located on various vacant, underutilized, and commercial active properties in an area bounded by West Mission Road to the south Richmar Avenue to the north, Pleasant Way to the west, and Firebird Lane to the east. The Site is made up of 22 parcels, with ownership divided between the City, the SHA, and four (4) different private property owners. The City/SHA Parcels are comprised of 18 parcels totaling 3.07 acres, as shown below:

	City	SHA	Private	Total
Number of Parcels	5 Parcels	13 Parcels	4 Parcels	22 Parcels
Total Land Area	1.41 Acres	1.66 Acres	0.87 Acres	3.94 Acres

### Proposed Project

Based on current development concepts for the Site, KMA understands that the Developer intends to build a mixed-use development comprising 120 rental residential units, 22,000 square feet (SF) of commercial space, and 276 parking spaces serving the residential and commercial components.

The apartments comprise one-bedroom, two-bedroom, and three-bedroom units with an overall average size of 920 SF. One hundred and nineteen units (119) units will be affordable to Very Low- and Low-income households earning between 30% and 60% of Area Median Income (AMI) and one (1) unit will be available for a resident manager. The Developer will have the flexibility to build out the Project in multiple phases, dependent on availability of funding sources.

### **D. Proposed Transaction Terms**

This section summarizes the salient aspects of the business terms contained in the draft Agreement currently under review.

- The SHA will convey fee simple title to the City/SHA Parcels to the Developer for a purchase price of \$9,466,000 (Purchase Price).
- The Developer will construct 119 residential units, affordable to Very Low- and Low-income families, and one (1) manager unit.

- It is the responsibility of the Developer to ensure that applicable City zoning and land use requirements will permit development of the proposed Project.
- The Developer will be responsible for all development costs, including site preparation, grading, and construction of the Project, and off-site improvements.
- The Developer will construct a high-quality development, built to a minimum of LEED Silver standards and will feature a community room.
- It is the responsibility of the Developer to conform to all applicable Federal and State labor laws including requirements, if any, to pay prevailing wages.
- The Developer will apply to the State of California for 9% Low Income Housing Tax Credits (LIHTC), the California Debt Limit Allocation Committee (CDLAC) for 4% LIHTCs and a tax-exempt bond allocation, and/or other such comparable sources of funds.
- The Developer will contribute \$300,000 toward the Project in the form of deferred developer fee.
- The SHA will contribute up to a total of \$22,541,000 toward the Project, in the form of a residual receipts loan (SHA Loan), as follows:

Description	Amount
Purchase Price	\$9,466,000
Gap Financing	\$13,075,000
<b>Total SHA Loan</b>	<b>\$22,541,000</b>

- The SHA Loan will bear a simple annual interest rate of 3% commencing on the date of disbursement. In the event of a default, the SHA Loan will bear an interest rate of 10% per annum from the date of disbursement and all of the principal and accrued interest shall be immediately due and payable by Developer to SHA.

- The SHA will receive 50% of residual receipts toward repayment of the SHA Loan. Residual receipts will be calculated as the Project's gross income less operating expenses, debt service, and repayment of deferred developer fee. The principal and interest of the SHA Loan may be prepaid in part or whole at any time, without notice or penalty. Any prepayment is first allocated to unpaid interest and then to the principal.
- Affordability restrictions on the Project will remain in effect for a term of 55 years.

## II. COSTS OF THE AGREEMENT TO THE SHA

The estimated costs of the Agreement to the SHA total \$22,591,000, as summarized below.

Description	Amount
City/SHA Parcels Loan (1)	\$9,466,000
SHA Loan – Gap Financing	\$13,075,000
Third Party Costs (2)	\$50,000
<b>Total SHA Costs</b>	<b>\$22,591,000</b>

(1) Per City.

(2) Allowance for legal and economic consultants.

### **III. ESTIMATED VALUE OF THE INTEREST TO BE CONVEYED AT THE HIGHEST AND BEST USE PERMITTED UNDER THE REDEVELOPMENT PLAN**

This section presents an analysis of the fair market value of the City/SHA Parcels at their highest and best use. The proposed use of the City/SHA Parcels must be consistent with the City's current zoning requirements.

In appraisal terminology, the highest and best use can be defined as the legal uses (i.e., the uses allowed under the Redevelopment Plan) that will yield the highest value for the City/SHA Parcels. Therefore, the definition of highest and best use is based solely on the value created and not on whether or not it enhances or carries out the redevelopment goals and policies for Project Area 2. The current zoning allows for mixed-use development uses on the City/SHA Parcels.

KMA conducted an independent review of commercial and residential land sales of sites between one and 10 acres in the City of San Marcos and the adjacent cities of Vista, Escondido, Oceanside, and Carlsbad from January 2012 to the present. As indicated in Table A-1, surveyed sales ranged from \$14 to \$88 per SF of land. The median and average prices per SF were \$19 and \$29, respectively. In KMA's view, many of the comparable sales identified are inferior to the City/SHA Parcels with respect to location, size and shape, and/or prevailing market conditions at time of sale. Given the City/SHA Parcels' prime commercial frontage, and the potential to develop either commercial and/or multi-family uses, KMA concludes that the value of the City/SHA Parcels corresponds to the upper end of the range of comparable land sales, or say \$40 per SF.

#### **Conclusion**

On this basis, then, the KMA analysis concludes that the fair market value of the City/SHA Parcels at their highest and best use is \$5,347,000, or \$40 per SF of land area.

#### IV. ESTIMATED VALUE OF THE INTEREST TO BE CONVEYED AT THE USE AND WITH THE CONDITIONS, COVENANTS, AND DEVELOPMENT COSTS REQUIRED

This section explains the principal conditions and covenants which the Developer of the City/SHA Parcels must meet in order to comply with the Redevelopment Plan. The Agreement contains specific covenants and conditions designed to ensure that the conveyance of the City/SHA Parcels will be carried out in a manner to achieve the City's objectives, standards, and criteria under the Redevelopment Plan. Based on a detailed financial feasibility analysis of the Project, KMA concludes that the fair re-use value of the City/SHA Parcels is *negative* \$13,075,000.

KMA estimated the re-use value of the City/SHA Parcels based on the anticipated income characteristics of the proposed Project. Re-use value is defined as the highest price in terms of cash or its equivalent which a property or development right is expected to bring for a specified use in a competitive open market, subject to the covenants, conditions, and restrictions imposed by the Agreement.

The KMA financial pro forma for the proposed Project is presented in Appendix B.

##### Estimated Development Costs

KMA estimated total development costs for the Project, excluding acquisition costs for the City/SHA Parcels. The estimated development costs for the Project are broken out as follows:

	Development Costs
Acquisition Costs – Private Parcels	\$2,842,000
Direct Costs	\$27,385,000
Indirect Costs	\$10,260,000
Financing Costs	\$4,108,000
<b>Total Development Costs (1)</b>	<b>\$44,595,000</b>

(1) Excludes acquisition costs for City/SHA Parcels.

Total development costs for the Project, excluding acquisition of the City/SHA Parcels, are estimated to be \$44,595,000, or \$290 per SF of gross building area (GBA). Total development costs consist of the following:

- Acquisition costs of the Private Parcels, estimated to total \$2,842,000, or \$75 per SF.
- Direct construction costs, such as site improvements, shell construction, parking, furniture, fixtures and equipment (FF&E), and contingency. The total direct costs are estimated to be \$27,385,000, or \$178 per SF GBA.
- Indirect costs, such as architecture and engineering, permits and fees, legal and accounting, taxes and insurance, developer fee, marketing/lease-up, and contingency. Indirect costs are estimated to total 37.5% of direct costs.
- Financing costs, including loan fees, interest during construction, title/recording/escrow fees, Tax Credit Allocation Committee (TCAC) costs, and operating reserves. These items are estimated to total 15.0% of direct costs.

#### Net Operating Income – Residential

As shown in the following tables, the anticipated stabilized Net Operating Income (NOI) for the residential component of the Project is anticipated to total \$405,000 per year.

Affordability Level	Income Mix
30% AMI	12 Units
40% AMI	30 Units
50% AMI	48 Units
60% AMI	29 Units
Manager Unit	1 Unit
<b>Total Units</b>	<b>120 Units</b>

Description	Amount
Total Rental Income	\$818/Unit/Month
Other Income	\$15/Unit/Month
Vacancy Factor	5.0% of income
Operating Expenses	\$6,116/Unit/Year
<b>Net Operating Income - Residential</b>	<b>\$405,000</b>

#### Net Operating Income - Commercial

The Project will also include up to a total of 22,000 SF of commercial space. The commercial space is conservatively projected to generate annual income of \$66,000, or \$0.50 per SF per month.

### Total Net Operating Income

Based on these assumptions, stabilized annual NOI for the proposed Project is estimated at \$471,000.

### Total Sources of Funds

KMA estimates total available funding sources for the Project comprised of the following:

	Sources of Funds
Supportable Debt	\$5,455,000
Tax Credit Equity	\$25,765,000
Deferred Developer Fee	\$300,000
<b>Total Sources of Funds</b>	<b>\$31,520,000</b>

### Residual Land Value

The residual land value can be estimated as the difference between total available funding sources and total development costs. As shown below, the comparison of total funding sources and total development costs yields a residual land value for the City/SHA Parcels of *negative* \$13,075,000.

	Residual Land Value
Total Sources of Funds	\$31,520,000
(Less) Development Costs (1)	(\$44,595,000)
<b>Residual Land Value – City/SHA Parcels</b>	<b>(\$13,075,000)</b>

(1) Excludes acquisition costs of City/SHA Parcels.

### Conclusion

Based on the foregoing analysis, KMA concludes that the fair re-use value of the interest to be conveyed is *negative* \$13,075,000.

## V. COMPENSATION WHICH THE DEVELOPER WILL BE REQUIRED TO PAY

This section summarizes the total compensation to be paid by the Developer to the SHA for the interest to be conveyed. The net effective compensation to the SHA consists of a combination of Developer payments to the SHA offset by SHA contributions to the Developer.

### Estimate of Developer Payments

KMA estimates Developer payments to the SHA from two sources:

- *Purchase Price* – The Developer agrees to pay the SHA \$9,466,000 for the City/SHA Parcels.
- *Residual Receipts* - The Developer agrees to pay residual receipts to the SHA toward repayment of the SHA Loans. Table B-5 presents the KMA estimate of SHA compensation from the Project's annual cash flow, inclusive of the unpaid balance of the loan and any accrued interest due and payable at the end of Year 55.

As summarized below, assuming an 8.0% discount rate, KMA projects the net present value (NPV) of the residual receipts revenue stream to the SHA to equal approximately \$1,758,000.

Description	Amount
Purchase Price Paid to SHA	\$9,466,000
NPV of Residual Receipts to SHA (1)	\$1,758,000
<b>Developer Payments to the SHA</b>	<b>\$11,224,000</b>

(1) Present value figures expressed in 2015 dollars, at an 8.0% discount rate. Includes Year 56 pay-off.

On this basis then, KMA estimates that Developer payments to the SHA total \$11,224,000.

### Conclusion

Based on the foregoing analysis, KMA concludes that the net effective compensation paid to the SHA for the interest to be conveyed is *negative* \$11,317,000, as shown below:

Description	Amount
Developer Payments to the SHA	\$11,224,000
(Less) City/SHA Parcels Loan	(\$9,466,000)
(Less) SHA Loan	(\$13,075,000)
<b>Total Net Effective Compensation to the SHA</b>	<b>(\$11,317,000)</b>

**VI. EXPLANATION OF THE DIFFERENCE, IF ANY, BETWEEN THE COMPENSATION TO BE PAID TO THE SHA BY THE PROPOSED TRANSACTION AND THE FAIR MARKET VALUE OF THE INTEREST TO BE CONVEYED AT THE HIGHEST AND BEST USE CONSISTENT WITH THE REDEVELOPMENT PLAN**

The fair market value of the interest to be conveyed at the highest and best use consistent with the Project Area 2 Redevelopment Plan is estimated by KMA to be \$5,347,000.

The compensation to be paid to the SHA pursuant to the Agreement is estimated by KMA to be *negative* \$11,317,000.

Factors affecting the difference in compensation and fair market value at highest and best use include:

- The Project will consist of apartment units restricted to Very Low and Low income households for 55 years.
- The Project is proposed to receive subsidies from the Low Income Housing Tax Credit program and other potential funding sources. These funding sources impose specific covenants and restrictions on development and operation of the Project.
- The Project will incorporate high-quality features such as LEED Silver standards.

## **VII. EXPLANATION OF WHY THE CONVEYANCE OF INTEREST WILL ASSIST WITH THE ELIMINATION OF BLIGHT**

The City's Redevelopment Plan contains the goals and objectives and the projects and expenditures proposed to eliminate blight within Project Area 2. These blighting factors include:

- Unsafe, deteriorating, and dilapidated buildings and properties.
- Physical conditions that limit the economic viability and use of lots or buildings such as substandard design, inadequate size, lack of parking, or other similar factors.
- Incompatible adjacent or nearby uses that prevent economic development.
- Residential overcrowding.

Implementation of the proposed Agreement can be expected to assist in the alleviation of blighting conditions through the following:

- Provision of affordable housing opportunities for San Marcos residents.
- Creation of viable housing options within Project Area 2 that span a range of incomes.
- Encouragement new and continuing private investment.

## **VIII. LIMITING CONDITIONS**

The estimates of re-use and fair market value at the highest and best use contained in this report assume compliance with the following assumptions:

1. The ultimate development will not vary significantly from that assumed in this Summary Report.
2. The title of the Site is good and marketable; no title search has been made, nor have we attempted to determine the ownership of the Site. The value estimates are given without regard to any questions of title, boundaries, encumbrances, liens or encroachments. It is assumed that all assessments, if any are paid.
3. The Site will be in conformance with the applicable zoning and building ordinances.
4. Information provided by such local sources as governmental agencies, financial institutions, realtors, buyers, sellers, and others was considered in light of its source, and checked by secondary means.
5. If an unforeseen change occurs in the economy, the conclusions herein may no longer be valid.
6. Development of the Site will adhere to the Schedule of Performance described in the Agreement.
7. Both parties are well informed and well advised and each is acting prudently in what he/she considers his/her own best interest.

## **APPENDIX A**

---

### **Land Sales Comparables**

TABLE A-1

SELECTED COMMERCIAL AND MULTI-FAMILY RESIDENTIAL LAND SALES COMPARABLES <sup>(1)</sup>

## RICHMAR STATION

## CITY OF SAN MARCOS

<u>Sale Date</u>	<u>Address</u>	<u>City</u>	<u>Sale Price</u>	<u>Acres</u>	<u>\$/SF</u>	<u>Property Description/Proposed Use</u>
10/15/13	185 Old Grove Rd	Oceanside	\$6,197,000	1.61	\$88	Commercial land
04/20/13	Emerald Dr	Vista	\$3,700,000	1.30	\$65	First Baptist Church of Vista
08/17/12	455-465 S Melrose Dr	Vista	\$12,500,000	7.29	\$39	Multi-family
01/22/14	2205 Vista Way	Oceanside	\$6,531,500	4.41	\$34	Commercial, health care
07/11/13	W San Marcos Blvd	San Marcos	\$5,360,000	4.05	\$30	High Tech High Elementary School
12/12/13	1430 S Melrose Dr	Oceanside	\$1,700,000	1.50	\$26	Melrose Commercial Center
01/13/14	701 Howard Ave	Escondido	\$4,000,000	4.49	\$20	Commercial land
06/24/13	1310 Montiel Rd	Escondido	\$3,650,000	4.43	\$19	Pacific Heights (70 townhomes)
05/28/14	426-444 W Washington Ave	Escondido	\$2,600,000	3.18	\$19	Multi-family, general freestanding retail
04/30/12	Emerald Dr @ Highway 78	Vista	\$850,000	1.12	\$17	Creekside Center - undeveloped shopping center pad
09/11/14	157 Nettleton Rd	Vista	\$800,000	1.07	\$17	Outdoor storage yard
09/10/13	1225 N Santa Fe Rd	Vista	\$865,000	1.19	\$17	Commercial, multi-family
02/27/15	2167 N Santa Fe Ave	Vista	\$700,000	1.06	\$15	Commercial land
07/16/13	Melrose Dr N	Vista	\$2,250,000	3.47	\$15	Multi-family
12/12/14	W Mission Rd	San Marcos	\$1,550,000	2.51	\$14	Office/medical land
Minimum			\$700,000	1.06	\$14	
Maximum			\$12,500,000	7.29	\$88	
Median			\$2,600,000	2.51	\$19	
Average			\$3,550,233	2.84	\$29	

(1) Selected sales transactions for land east of I-5 between 1.0 and 10.0 acres in San Marcos, Vista, Oceanside, Escondido, and Carlsbad, January 2012 to present.

Source: CoStar Group, Inc.

Prepared by: Keyser Marston Associates, Inc.

Filename i: \San Marcos\_Richmar Station\_v1;7/31/2015;ibl

## **APPENDIX B**

---

### **Financial Pro Forma Analysis**

TABLE B-1

**PROJECT DESCRIPTION**  
**RICHMAR STATION**  
**CITY OF SAN MARCOS**

---

<b>I. Site Area</b>			
City/SHA Parcels	3.07 Acres	78%	
Private Parcels	<u>0.87</u> Acres	<u>22%</u>	
Total Site Area	3.94 Acres	100%	
<b>II. Gross Building Area</b>			
Net Residential Area	110,400 SF	84%	
Common Area/Circulation	19,800 SF	15%	
Community Room/Manager	<u>1,800</u> SF	<u>1%</u>	
Subtotal - Residential	132,000 SF	100%	
Add: Retail Space	<u>22,000</u> SF		
Total Gross Building Area	154,000 SF		
<b>III. Number of Stories</b>			
	2-3 Stories		
<b>IV. Construction Type</b>			
	Type V		
<b>V. Unit Mix</b>			
	<u>Number of Units</u>		<u>Unit Size</u>
One Bedroom	24 Units	20%	700 SF
Two Bedroom	60 Units	50%	900 SF
Three Bedroom	<u>36</u> Units	<u>30%</u>	<u>1,100</u> SF
Total	120 Units	100%	920 SF
<b>VI. Density</b>			
	30 Units/Acre		
<b>VII. Affordability Mix</b>			
Units @ 30% of AMI	12 Units	10%	
Units @ 40% of AMI	30 Units	25%	
Units @ 50% of AMI	48 Units	40%	
Units @ 60% of AMI	29 Units	24%	
Manager	<u>1</u> Unit	<u>1%</u>	
Total/Average	120 Units	100%	
Average Affordability (excl. Manager units)	48% of AMI		
<b>VIII. Parking</b>			
Parking Type	Surface Parking		
Residential Parking Spaces	210 Spaces	1.75 Spaces/Unit	
Retail Parking Spaces	<u>66</u> Spaces	3.00 Spaces/1,000 SF	
Total Parking Spaces	276 Spaces		

TABLE B-2

**ESTIMATED DEVELOPMENT COSTS  
RICHMAR STATION  
CITY OF SAN MARCOS**

	<u>Totals</u>	<u>Per Unit</u>	<u>Comments</u>
<b>I. Direct Costs (1)(2)</b>			
Off-Site Improvements (3)	\$515,000	\$4,300	\$3 Per SF Site
Demolition	\$250,000	\$2,100	Allowance
On-Sites/Landscaping	\$1,716,000	\$14,300	\$10 Per SF Site
Parking	\$0	\$0	Included below
Shell Construction	\$23,100,000	\$192,500	\$150 Per SF GBA
FF&E/Amenities	\$500,000	\$4,200	Allowance
Contingency	<u>\$1,304,000</u>	<u>\$10,900</u>	5.0% of Directs
Total Direct Costs	\$27,385,000	\$228,200	\$178 Per SF GBA
<b>II. Indirect Costs</b>			
Architecture & Engineering	\$1,643,000	\$13,700	6.0% of Directs
Permits & Fees (3)	\$5,400,000	\$45,000	\$35 Per SF GBA
Legal & Accounting	\$274,000	\$2,300	1.0% of Directs
Taxes & Insurance	\$274,000	\$2,300	1.0% of Directs
Developer Fee	\$2,000,000	\$16,700	7.3% of Directs
Marketing/Lease-Up	\$180,000	\$1,500	Allowance
Contingency	<u>\$489,000</u>	<u>\$4,100</u>	5.0% of Indirects
Total Indirect Costs	\$10,260,000	\$85,500	37.5% of Directs
<b>III. Financing Costs (4)</b>	<u>\$4,108,000</u>	<u>\$34,200</u>	15.0% of Directs
<b>IV. Total Costs Excluding Acquisition Costs of Private Parcels</b>	<b>\$41,753,000</b>	<b>\$347,900</b>	<b>\$271 Per SF GBA</b>
<b>V. Acquisition Costs - Private Parcels (5)</b>	<u>\$2,842,000</u>	<u>\$23,700</u>	\$75 Per SF Site - Private Parcels
<b>VI. Total Costs Including Acquisition Costs of Private Parcels</b>	<b>\$44,595,000</b>	<b>\$371,600</b>	<b>\$290 Per SF GBA</b>

(1) Does not assume payment of prevailing wages.

(2) Includes pro rata share of general conditions/contractor fee.

(3) Per Developer; not verified by KMA or City.

(4) Includes loan fees, interest during construction, title/recording/escrow fees, TCAC costs, and operating reserves.

(5) KMA estimate; reflects projection of future acquisition costs of third-party private parcels.

TABLE B-3

**NET OPERATING INCOME**  
**RICHMAR STATION**  
**CITY OF SAN MARCOS**

**Residential**

I. Gross Scheduled Income		Units	\$/Month <sup>(1)</sup>	Annual
One Bedroom	@ 30% AMI	2	\$409	\$9,800
One Bedroom	@ 40% AMI	6	\$561	\$40,400
One Bedroom	@ 50% AMI	10	\$713	\$85,600
One Bedroom	@ 60% AMI	6	\$865	\$62,300
<hr/>				
Two Bedroom	@ 30% AMI	6	\$488	\$35,100
Two Bedroom	@ 40% AMI	15	\$671	\$120,700
Two Bedroom	@ 50% AMI	24	\$853 <sup>(2)</sup>	\$245,700
Two Bedroom	@ 60% AMI	14	\$1,035 <sup>(2)</sup>	\$173,900
Two Bedroom	Manager	1	\$0	\$0
<hr/>				
Three Bedroom	@ 30% AMI	4	\$560	\$26,900
Three Bedroom	@ 40% AMI	9	\$771	\$83,300
Three Bedroom	@ 50% AMI	14	\$982 <sup>(2)</sup>	\$165,000
Three Bedroom	@ 60% AMI	9	\$1,192 <sup>(2)</sup>	\$128,700
<hr/>				
Total		120	\$818	\$1,177,400
<hr/>				
Add: Other Income		\$15 /Unit/Month		<u>\$21,600</u>
Total Gross Scheduled Income (GSI)				\$1,199,000
<hr/>				
II. Effective Gross Income (EGI)				
(Less) Vacancy		5.0% of GSI		<u>(\$60,000)</u>
Total Effective Gross Income (EGI)				\$1,139,000
<hr/>				
III. Operating Expenses		\$6,116 /Unit/Year		<u>(\$733,900)</u>
		64.4% of EGI		
<hr/>				
IV. Net Operating Income (NOI) - Residential				<b>\$405,000</b>

**Retail**

I.	Gross Scheduled Income	22,000 SF	\$0.50 /SF/Month	\$132,000
	(Less) Vacancy		50.0% of GSI	<u>(\$66,000)</u>
II.	Total Effective Gross Income (EGI)			\$66,000
	(Less) Operating Expenses			<u>\$0</u>
III. Net Operating Income (NOI) - Retail				\$66,000

(1) Source: Tax Credit Allocation Committee, 2015 Income Limits, March 6, 2015. Reflects rent net of utility allowance

(2) Rents exceed the maximum rent under California Redevelopment Law.

(3) Assumes that the Project will qualify for tax-exempt status.

**TABLE B-4**

**FINANCING DEFICIT  
RICHMAR STATION  
CITY OF SAN MARCOS**

---

**I. Sources of Funds**

Permanent Loan (1)	\$5,455,000
Market Value of Tax Credits (2)	\$25,765,000
Deferred Developer Fee (3)	\$300,000
Income During Lease-up	<u>\$0</u>
Total Sources of Funds	\$31,520,000

**II. (Less) Development Costs - Including Private Parcels Acquisition Costs** (\$44,595,000)

<b>III. Residual Land Value - City/SHA Parcels</b>	<b><u>(\$13,075,000)</u></b>
<b>Per Unit</b>	<b><u>(\$109,000)</u></b>

**IV. (Less) Acquisition Costs - City/SHA Parcels** **\$71 /SF** **(\$9,466,000)**

<b>V. Financing Deficit</b>	<b><u>(\$22,541,000)</u></b>
-----------------------------	------------------------------

---

**VI. Proposed City/SHA Sources of Funds**

Acquisition - City/SHA Parcels	\$9,466,000
Acquisition - Private Parcels	\$2,842,000
SHA Loan - Gap Financing	<u>\$10,233,000</u>
<b>Total City/SHA Sources</b>	<b>\$22,541,000</b>

**TABLE B-4 (CONT'D.)****FINANCING DEFICIT  
RICHMAR STATION  
CITY OF SAN MARCOS**

---

**(1) Supportable Debt**

Net Operating Income (NOI) - Residential	\$405,000
Net Operating Income (NOI) - Commercial	<u>\$66,000</u>
Total NOI	\$471,000
Interest Rate	6.00%
Term (in years)	30
Debt Coverage Ratio	1.20
Annual Debt Service	\$392,500
Supportable Debt	\$5,455,000

---

**(2) Low Income Housing Tax Credits (Federal)****Estimate of Eligible Basis:**

Total Development Costs	\$44,595,000
(Less) Ineligible Costs	14% <u>(\$6,030,000)</u>
Eligible Basis	\$38,565,000

**Tax Credit Proceeds:**

Maximum Eligible Basis	\$38,565,000
(Less) Basis Amount Voluntarily Excluded	35% <u>(\$13,497,800)</u>
Total Requested Unadjusted Eligible Basis	\$25,067,200
Impacted Bonus Factor	130% \$32,587,400
Tax Credit Qualified Units/Applicable Factor	100% \$32,587,400
Tax Credit Rate @	7.53% \$2,453,800
Total Tax Credits @	10 \$24,538,000
Limited Partner Share	100.0% \$24,538,000
Present Market Value @	105.0% \$25,765,000

---

**(3) Estimate of Deferred Developer Overhead Fee**

Eligible Basis	\$38,565,000
(Less) Developer Fee	<u>(\$2,000,000)</u>
Unadjusted Eligible Basis	\$36,565,000
Total Developer Overhead Fee	5.5% \$2,000,000
Developer Overhead Fee	\$2,000,000
Total Deferred Developer Overhead Fee	15.0% \$300,000

TABLE B-5

**55-YEAR CASH FLOW PROJECTION**  
**RICHMAR STATION**  
**CITY OF SAN MARCOS**

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>55</u>
<b>I. Gross Scheduled Income (GSI)</b>	\$1,331,000	\$1,364,275	\$1,398,382	\$1,433,341	\$1,469,175	\$1,505,904	\$1,543,552	\$1,582,141	\$1,621,694	\$1,662,237	\$5,049,714
(Less) Vacancy	<u>(\$126,000)</u>	<u>(\$68,214)</u>	<u>(\$69,919)</u>	<u>(\$71,667)</u>	<u>(\$73,459)</u>	<u>(\$75,295)</u>	<u>(\$77,178)</u>	<u>(\$79,107)</u>	<u>(\$81,085)</u>	<u>(\$83,112)</u>	<u>(\$252,486)</u>
<b>II. Effective Gross Income (EGI)</b>	\$1,205,000	\$1,296,061	\$1,328,463	\$1,361,674	\$1,395,716	\$1,430,609	\$1,466,374	\$1,503,034	\$1,540,610	\$1,579,125	\$4,797,228
(Less) Operating Expenses	<u>(\$733,900)</u>	<u>(\$792,105)</u>	<u>(\$815,750)</u>	<u>(\$840,177)</u>	<u>(\$865,414)</u>	<u>(\$891,487)</u>	<u>(\$918,425)</u>	<u>(\$946,256)</u>	<u>(\$975,011)</u>	<u>(\$1,004,721)</u>	<u>(\$4,118,518)</u>
<b>III. Net Operating Income</b>	\$471,100	\$503,956	\$512,713	\$521,497	\$530,302	\$539,122	\$547,949	\$556,777	\$565,598	\$574,404	\$678,710
(Less) Debt Service	<u>(\$392,500)</u>	<u>(\$392,500)</u>	<u>(\$392,500)</u>	<u>(\$392,500)</u>	<u>(\$392,500)</u>	<u>(\$392,500)</u>	<u>(\$392,500)</u>	<u>(\$392,500)</u>	<u>(\$392,500)</u>	<u>(\$392,500)</u>	<u>\$0</u>
<b>IV. Project Cash Flow</b>	\$78,600	\$111,456	\$120,213	\$128,997	\$137,802	\$146,622	\$155,449	\$164,277	\$173,098	\$181,904	\$678,710
<b>V. (Less) Limited Partner Asset Mgmt. Fee</b>	(\$7,500)	(\$7,725)	(\$7,957)	(\$8,195)	(\$8,441)	(\$8,695)	(\$8,955)	(\$9,224)	(\$9,501)	(\$9,786)	\$0
(Less) General Partner Asset Mgmt. Fee	<u>(\$20,000)</u>	<u>(\$20,600)</u>	<u>(\$21,218)</u>	<u>(\$21,855)</u>	<u>(\$22,510)</u>	<u>(\$23,185)</u>	<u>(\$23,881)</u>	<u>(\$24,597)</u>	<u>(\$25,335)</u>	<u>(\$26,095)</u>	<u>(\$98,682)</u>
Total Asset Management Fees	(\$27,500)	(\$28,325)	(\$29,175)	(\$30,050)	(\$30,951)	(\$31,880)	(\$32,836)	(\$33,822)	(\$34,836)	(\$35,881)	(\$98,682)
<b>VI. Total Cash Flow</b>	\$51,100	\$83,131	\$91,038	\$98,947	\$106,851	\$114,742	\$122,613	\$130,456	\$138,262	\$146,022	\$580,028
<b>VII. Developer Fee Repayment</b>											
Beginning Balance	\$300,000	\$257,120	\$181,034	\$94,956							
Interest (1)	2.74% \$8,220	\$7,045	\$4,960	\$2,602							
(Less) Cash Flow Credit	<u>(\$51,100)</u>	<u>(\$83,131)</u>	<u>(\$91,038)</u>	<u>(\$97,558)</u>							
Ending Balance	\$257,120	\$181,034	\$94,956	\$0							
<b>VIII. Cash Flow for Distribution</b>	\$0	\$0	\$0	\$1,389	\$106,851	\$114,742	\$122,613	\$130,456	\$138,262	\$146,022	\$580,028
<b>IX. SHA Loan Repayment</b>											
Beginning Balance	\$22,541,000	\$23,217,230	\$23,893,460	\$24,569,690	\$25,245,225	\$25,868,030	\$26,486,889	\$27,101,813	\$27,712,815	\$28,319,914	\$48,254,444
Interest	3.00% \$676,230	\$676,230	\$676,230	\$676,230	\$676,230	\$676,230	\$676,230	\$676,230	\$676,230	\$676,230	\$676,230
(Less) Cash Flow Credit of	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$695)</u>	<u>(\$53,425)</u>	<u>(\$57,371)</u>	<u>(\$61,306)</u>	<u>(\$65,228)</u>	<u>(\$69,131)</u>	<u>(\$73,011)</u>	<u>(\$290,014)</u>
Ending Balance	\$23,217,230	\$23,893,460	\$24,569,690	\$25,245,225	\$25,868,030	\$26,486,889	\$27,101,813	\$27,712,815	\$28,319,914	\$28,923,133	\$48,641,000
NPV of Payments to SHA @ Years 1-55 (2)	8.0%	\$1,758,000									

**Assumptions:**

Income Escalation	2.5%	Property Taxes Escalation	0.0%
Vacancy (% of GSI)	5.0%	CFD Assessments Escalation	2.59%
Operating Expense Escalation	3.5%	Replacement Reserves Escalation	0.0%
Management Fee (% of EGI)	5.0%	Monitoring Fee Escalation	0.0%
Services/Amenities	3.5%	Asset Management Fee Escalatio	3.0%

**Cash Distribution:**

SHA	50.0%
Developer	50.0%
Total	100.0%

(1) Reflects long-term Applicable Federal Rate (July 2015), per Internal Revenue Service.

(2) Includes Year 56 pay-off.