INFORMATION SUMMARY
FOR PROPOSED
AFFORDABLE HOUSING AGREEMENT AND GROUND LEASE WITH
COMMUNITY HOUSINGWORKS, INC.
A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION
"33433 REPORT"

Introduction:

This summary was prepared for the City of Rocklin ("City") to address the provisions of and pursuant to California Health and Safety Code ("HSC") § 33433 with respect to the Affordable Housing Agreement ("AHA") and Ground Lease ("Lease") (collectively, "AHA/Lease") between the City and Community HousingWorks, Inc., a California nonprofit public benefit corporation ("Developer"). The AHA/Lease pertains to the development of an apartment complex consisting of approximately one-hundred and ten (110) units (the "Project") on that certain property located along Pacific Street between Oak and Pine Streets, Rocklin, California (APNs 010-121-001, -002, -004 & -005) and the intersecting alleyway between the parcels ("Site"). In this matter, the City is acting in its capacity as the Successor Housing Entity to the Rocklin Redevelopment Agency since the Site was originally owned by the Rocklin Redevelopment Agency and subsequently sold by the Successor Agency to the Rocklin Redevelopment Agency to the City, wherein the purchase price was exclusively funded with cash from the Successor Housing Entity's Housing Asset Fund.

The proposed AHA with the City, under which the Developer would ground lease the Site from the City, contemplates that the Developer will seek equity funds through federal and state tax credits ("Tax Credit Funding") as well as other private and public funding, upon which the Developer (or an entity related to the Developer) would proceed to develop an approximately one-hundred ten (110) unit family (age unrestricted) apartment complex on the Site, with appropriate amenities. If multifamily housing bonds are issued to provide financing for the Project, under the AHA, the City retains discretion with regard to the selection of bond counsel in an effort to assure that the provisions negotiated for the City under the AHA are preserved and furthered. Any multifamily housing bonds would be payable from rents generated from the Project; the party obligated to bear debt service would be the Developer, and the City would not be liable to make payments toward those bonds.

The Developer has indicated that it will likely propose dividing the Site into two pieces; if that is done, there will be two ground leases, each substantially in the form presented to the City Council with the AHA. If Tax Credit Funding is obtained, then: i) not less than thirty percent (30%) of the total units will be required to be reserved for occupancy by households earning not greater than thirty percent (30%) of the Placer County Median Income, adjusted by family size ("Extremely Low-Income"); ii) not less than fifty percent (50%) of the total units will be required to be reserved for occupancy by households earning not greater than fifty percent (50%) of the Placer County Median Income, adjusted by family size ("Very Low-Income"); and iii) up to twenty percent (20%) of the total units may be reserved for occupancy by households earning not greater than fifty-nine percent (59%) of the Placer County Median Income, adjusted by family size ("Low-Income"). Collectively, the Extremely Low-Income, Very Low-Income and Low-Income reserved units are hereinafter referred to as the "Affordable Units".

The Developer intends to apply to the California Tax Credit Allocation Committee ("TCAC") for 9% and 4% Low-Income Housing Tax Credits ("LIHTC") during TCAC's second application round, which is anticipated to occur during July 2023. In addition, TKE has reviewed the Developer's Project proforma that confirms the use of LIHTC equity funds and private activity multifamily housing bond financing as essential components of the Developer's financing plan. Therefore, since the fiscal viability of the Project requires Tax Credit Funding and private activity bonds for which both funding sources require the Project to provide the Affordable Units (in the mix described above), it is appropriate for this report to assume that the Project's net operating income will be impaired by the inclusion of the Affordable Units (as described above) within the Project and will affect the residual value of the Site, as further described herein.

Consistent with the foregoing, the structure of the AHA requires the Developer to ground lease the Site from the City (whether via one ground lease or two) for a term of 87 years. The amount of ground rent to be paid is to be determined but may be nominal. With respect to the City loan proposed under the AHA (which would be in the original principal amount of $2,600,000: an amount consistent with that previously contemplated by the City in its approval of a Preliminary Commitment Letter), that loan would be repayable from residual receipts: this means that the loan would be payable from Project-generated revenues remaining after taking into account operating costs and other debt service payments. The Developer has indicated that it intends to subdivide the Site, at its expense, into two portions and each portion would be developed with a separate financing package utilizing, among other tools, 9% or 4% LIHTCs, private activity multifamily housing bonds, which would be issued as conduit bonds without City liability, and a loan from the City from its Housing Asset Fund, which consists of low- and moderate-income ("LMI") housing assets of the former Rocklin Redevelopment Agency. Housing Asset Funds may only be used for affordable housing purposes in the City.

The City acquired the Site from the Successor Agency to the Rocklin Redevelopment Agency for a price of $560,000, which was exclusively funded with cash from the Successor Housing Entity's Housing Asset Fund. Fair market value was confirmed pursuant to the Integra Realty Resources, Sacramento, appraisal dated May 24, 2019, without any extraordinary assumptions (i.e., an "as is, where is" valuation).

The City's acquisition of the Site was in furtherance of the: i) Rocklin Redevelopment Agency Redevelopment Plan; ii) City's General Plan (Housing Element); and iii) the applicable Regional Housing Needs Allocation ("RHNA") plan that designated Rocklin to produce several thousand lower income housing units during the period of 2021-2029. The need for an HSC § 33433 summary report was prompted by the funding source used for the City's acquisition of the Site (i.e., former Rocklin Redevelopment Agency assets).

1. Cost of Project (AHA/Lease) to City:

The overall Project is anticipated to produce a net cost to the City of $3,160,000. This conclusion is based upon the following data:

a. **Land Acquisition Cost**: The Site was acquired by the City for $560,000.

b. **Clearance Costs:** None, the Site was vacant at the time of acquisition.

c. **Relocation Costs:** None, the Site was vacant at the time of acquisition.

d. **Improvement Costs**: None, the City has not incurred any improvement costs.

e. **Finance Costs**: The City exclusively funded the acquisition price with cash from the Successor Housing Entity's Housing Asset Fund.

f. **Other Costs:** The development of the Project requires a City soft money loan of $2,600,000.

g. **Offsetting Revenue:** The City anticipates receiving repayment of the City loan amount of $2,600,000, plus a modest rate of interest. It is likely that in the early term of the loan, payments will be non-existent or de minimis; payments will be irregular in schedule. The AHA provides, consistent with discussions with the Developer, that the Developer will use efforts to secure additional financing sources and will submit a detailed and refined financing plan for review by the City at a later date. Given the many variables involved, it is not possible to estimate the amount of such funds at this time.

2. Estimated value of the interest to be conveyed or leased, determined at highest and best use permitted by the Redevelopment Plan:

The Developer's preliminary financing plan for development of the Project with Affordable Units is very similar to the financing plans presented by affordable housing developers seeking financing for other affordable rental housing projects in California. Although some variances may be included for portions of such financing plans and the Developer may seek additional financing sources, by and large, the basic sources of financing are identical (i.e., 9% or 4% LIHTCs and private activity multifamily housing bonds). These financing sources require that projects they approve include Affordable Units (as described above). The practical effect of including Affordable Units with below-market rental rates is to significantly diminish a project's net operating income, which among other matters, limits the project's capability of obtaining debt financing and the residual lease payments attributable to the land. Further, these requirements render the value of the interest to be conveyed to a negative number, which triggers the need for additional preferential or soft financing.

With respect to the Project, based upon its current proposal, the Developer estimates that the Project will require approximately $53.7 million to develop. Overall, it is estimated that the Project's projected cash flow only supports approximately 82% of the Project's costs (including permanent scheduled debt and LIHTC equity). The remaining 18% includes a variety of soft financing sources. Consequently, the Developer's financing plan includes a $2.6 million residual receipts loan from the City ("City Loan") (also funded from the Successor Housing Entity's Housing Asset Fund) and a Developer fee contribution of approximately $2.5 million. The Developer may seek additional financing sources and will likely present in the future a somewhat modified financing plan; the review of such a plan is contemplated and provided for under the AHA.

It is important to note that the Developer has reflected within its proforma an assumed value of the City's contribution of the Site to the Project (pursuant to a residual receipts lease) of $4,400,000. This amount is included within the proforma for accounting purposes only and relates to maximizing the Project's eligibility for LIHTCs and does not indicate an actual purchase price. For the purpose of quantifying the cash shortfall in the Project's budget, TKE has subtracted the value of the LIHTCs (approximately $37 million), the permanent scheduled debt (approximately $7 million) and the accounting estimate for land value (approximately $4.4 million) from the Project's total development cost of approximately $53.7 million. The result is a cash shortfall of approximately $5.3 million.

Therefore, by using the approach described in the preceding paragraph, the Developer's financing plan for the Project that includes the required Affordable Units results in a shortfall of approximately $5.3 million, which contributes to a negative land value of approximately $5.3 million. Given the history of the Site with respect to its use solely for affordable housing purposes, it is the opinion of the undersigned that the estimated value of the interest to be conveyed or leased, determined at highest and best use permitted by the Redevelopment Plan, is a negative value of approximately $5.3 million.

3. Estimated value of the interest to be conveyed or leased, determined at the use and with the conditions, covenants and development costs required by the sale or lease:

The estimated value of the interest to be conveyed or leased, determined at the use and with the conditions, covenants and development costs required by the sale or lease, is a negative value of approximately $5.3 million.

4. The purchase price or sum of the lease payments which the lessor will be required to pay during the term of the lease:

The City anticipates receiving a modest amount of residual receipts lease revenue from the Project during the 87 year term of the Lease. Such funds are anticipated to be de minimis in amount and irregular in schedule. As a result, it is not possible to estimate the amount of such funds at this time.

5. Explanation of the reason (if applicable) why the sales price or lease rate paid to the City may be less than market value of the property as determined at its highest and best use:

As noted above, since the fiscal viability of the Project requires Tax Credit Funding and private activity bonds for which both funding sources require the Project to provide the Affordable Units (in the mix described above), it is appropriate for this report to assume that the Project's net operating income will be impaired by the inclusion of the Affordable Units (as described above) within the Project and will affect the residual value of the Site, as further described herein. As more particularly described above, the estimated value of the interest to be conveyed or leased, determined at the use and with the conditions, covenants and development costs required by the sale or lease, is a negative value of approximately $5.3 million.

6. Explanation of why the sale or lease of the property will assist in the elimination of blight:

Although the Site was acquired by the former Rocklin Redevelopment Agency for blight elimination and/or prevention purposes, the Project is an affordable rental housing project that will include attractive design features and amenities that will enhance the general neighborhood it is located within, which is anticipated to set a standard for its neighborhood that will contribute to the avoidance of blighting conditions going forward. The AHA includes the requirements that the Developer will follow the City's normal and customary planning process, including without limitation design review.

Certification: I certify that this report complies with the reporting requirements of HSC § 33433. Further, I do not have a present or perspective interest in the Site, the Project, or the parties to the AHA/Lease. My engagement to prepare this report was not contingent upon developing or reporting predetermined results. The statements of fact contained herein, and the substance of this report are based on public records, data provided by the City, reports provided by its consultants or as otherwise noted herein. This report reflects my personal, unbiased professional analyses, opinions and conclusions. If any of the underlying assumptions related to the AHA/Lease change after the date provided below, then the undersigned reserves the professional privilege to modify the contents and/or conclusions of this report.

Respectfully Submitted,
TKE ENGINEERING, INC.

STEVEN H. DUKETT
Managing Director
Development Services

Dated: October 17, 2022