

FINANCIAL GAP ANALYSIS  
 BASE OPTIONS  
 HOMELESS SUPPORTIVE HOUSING PROJECT  
 CITY COUNCIL STUDY SESSION - DECEMBER 10, 2013  
 COSTA MESA, CALIFORNIA

|   | Base Options  |                           |  |                    |  |                  |
|---|---|---------------------------|--|--------------------|--|------------------|
|   | Option 1  |                           | Option 2                                 |                    | Option 3   |                  |
| I. Project Type   | Motel Acquisition and Conversion to 100% Homeless Housing |                           | New Construction / 100% Homeless Housing |                    | New Construction / 50% Homeless & 50% Very-Low Income Households |                  |
| II. Total Number of Units in the Project                  | 30  | - 40                      | 20                                       | - 40               | 30   | - 40             |
| III. Total Project Cost                                   | \$14,100,000  | \$14,200,000 <sup>1</sup> | \$13,900,000                             | \$20,000,000       | \$13,400,000   | \$19,200,000     |
| IV. <b>Gross Financial Gap</b>                            |   |                           |  |                    |  |                  |
| Total   | \$7,900,000   | \$7,000,000               | \$9,200,000                              | \$10,700,000       | \$8,600,000  | \$9,400,000      |
| Per Unit  | \$263,300   | \$175,000                 | \$460,000                                | \$267,500          | \$286,700  | \$235,000        |
| V. <b>Financial Gap Allocation</b>                        |   |                           |  |                    |  |                  |
| Gross Financial Gap                                       | \$7,900,000   | \$7,000,000               | \$9,200,000                              | \$10,700,000       | \$8,600,000  | \$9,400,000      |
| (Less) MHSA Funds Allocation <sup>2</sup>                 | NA <sup>3</sup>   | NA <sup>3</sup>           | (1,250,000)                              | (2,500,000)        | (2,000,000)  | (2,500,000)      |
| Remaining Financial Gap                                   | \$7,900,000   | \$7,000,000               | \$7,950,000                              | \$8,200,000        | \$6,600,000  | \$6,900,000      |
| (Less) City HOME Funds Commitment                         | (585,000)   | (585,000)                 | (585,000)                                | (585,000)          | (585,000)  | (585,000)        |
| Remaining Financial Gap                                   | \$7,315,000   | \$6,415,000               | \$7,365,000                              | \$7,615,000        | \$6,015,000  | \$6,315,000      |
| (Less) Allocation of City General Fund Revenue            | (1,000,000)   | (1,000,000)               | (1,000,000)                              | (1,000,000)        | (1,000,000)  | (1,000,000)      |
| Remaining Financial Gap                                   | \$6,315,000   | \$5,415,000               | \$6,365,000                              | \$6,615,000        | \$5,015,000  | \$5,315,000      |
| (Less) Contribution of City Owned Land                    | NA  | NA                        | (2,500,000)                              | (5,000,000)        | (3,750,000)  | (5,000,000)      |
| <b>Financial Gap without an Identified Funding Source</b> | <b>\$6,315,000</b>  | <b>\$5,415,000</b>        | <b>\$3,865,000</b>                       | <b>\$1,615,000</b> | <b>\$1,265,000</b>   | <b>\$315,000</b> |

<sup>1</sup> The development cost for the 30-unit project is \$700,000 less than the cost for the 40-unit project. However, given the high proportion of fixed costs, the required operating reserve for the 30-unit project is \$600,000 higher than the operating reserve for the 40-unit project.

<sup>2</sup> Based on the County's underwriting criteria, no more than 25% of the units in the project can be designated as MHSA units. The maximum contribution to development costs and a capitalized operating reserve is set at \$250,000 per unit. The maximum contribution to the project is set at \$3,000,000.

<sup>3</sup> No motels are currently being offered for sale in Costa Mesa. It is assumed that site control of a motel property could not be achieved within the February 28, 2014 deadline established by the County.

FINANCIAL GAP ANALYSIS  
 ALTERNATE OPTIONS  
 HOMELESS SUPPORTIVE HOUSING PROJECT  
 CITY COUNCIL STUDY SESSION - DECEMBER 10, 2013  
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|   | Alternate Options                                       |             |  |                            |
|---|---|-------------|--|----------------------------|
|   | Option 1  |             | Option 2   |                            |
| I. Project Type   | Acquisition and Renovation of Small Apartment Buildings |             | Develop a Tenant Based Rental Assistance Program |                            |
| II. Project Size  | 4 Units   | 8 Units     | 10 Households                                    | 20 Households <sup>1</sup> |
| III. Total Project Cost                                   | \$1,200,000   | \$2,400,000 | \$3,278,000 <sup>2</sup>                         | \$6,105,000 <sup>2</sup>   |
| IV. <u>Financial Gap Allocation</u>                       |   |             |  |                            |
| Gross Financial Gap <sup>3</sup>                          | \$1,200,000   | \$2,400,000 | \$3,278,000                                      | \$6,105,000                |
| (Less) City HOME Funds Commitment                         | (585,000)   | (585,000)   | (585,000)  | (585,000)                  |
| Remaining Financial Gap                                   | \$615,000   | \$1,815,000 | \$2,693,000                                      | \$5,520,000                |
| (Less) Allocation of City General Fund Revenue            | (615,000)   | (1,000,000) | (1,000,000)                                      | (1,000,000)                |
| <b>Financial Gap without an Identified Funding Source</b> | \$0   | \$815,000   | \$1,693,000                                      | \$4,520,000                |

<sup>1</sup> The Tenant Based Rental Assistance option does not produce units. The estimates represent the number of households that would be served by the program.

<sup>2</sup> The Total Project Cost represents the rental assistance payments over a 15-year term. The annual payments equal \$218,500/year for the 10 Households scenario, and \$407,000/year for the 20 Households scenario.

<sup>3</sup> The project is too small to effectively obtain outside leveraging sources. The net operating income is negative, so no first trust deed debt service can be supported.