

EXHIBIT D

AFFORDABLE HOUSING PLAN

As stated in Section II.9 of the Term Sheet to which this exhibit is attached, DEVELOPER will submit during the entitlement process, an Affordable Housing Plan meeting the requirements and objectives set forth in this Exhibit D.

A. Satisfaction of Reuse Plan Requirements

DEVELOPER will satisfy the Reuse Plan requirements for affordable housing at Capehart and Hillside. DEVELOPER will provide for a range of housing for moderate, low and very low income residents that will remain affordable in perpetuity. Consistent with the requirements of the Navy Purchase Agreement, 24% of the units will be affordable to very low income households, 49% to low income households and 27% to moderate income households. Based on approval of 648 total units, the number of units in each income category will be as follows:

<i>Income Level</i>	<i>Rental Units</i>	<i>For Sale Units</i>	<i>Total/Percentage</i>
Very Low	72 2-bedroom units (Hillside) 81 3-bedroom units (Capehart)		153 units/24% of total
Low	72 2-bedroom units (Hillside) 72 3-bedroom units (Capehart)	40 2-bedroom units (Capehart) 136 3-bedroom units (Capehart)	320 units/49% of total
Moderate		107 3-bedroom units (Capehart) 68 4-bedroom units (Capehart)	175 units/27% of total
Total	297 units	351 units	648 units/100% of total

DEVELOPER'S proposal achieves greater affordability than required under the Reuse Plan as requested by the City Council and staff. The affordability levels in the Reuse Plan are 50% for the very low income units, 80% for the low income units and 120% for the moderate income units. The actual rents will be set to average no more than 40% of the area median income for the very low income rental units and 60% for the low income rental units. The sales prices will be set at an average of 70% of the area median income for the low income for sale units and an average of 100% of the area median income for the moderate income for sale units.

B. Proposed Methods of Financing

Financing for the Capehart and Hillside rental units will be provided primarily through three funding sources: 1) tax-exempt bonds; 2) Low Income Housing Tax Credit equity; and 3) redevelopment agency tax increment funds. In addition, predevelopment funding will be provided by Lennar Communities and Brookfield Homes. DEVELOPER is assuming the use of 4% Low Income Housing Tax Credits in conjunction with tax-exempt private activity bonds. The tax credits will be syndicated to a private corporate investor. DEVELOPER has assumed conservative assumptions of investor capital contribution of \$0.85 per federal credit dollar allocated, a 99% partnership interest, and 60% of the equity provided up-front at the partnership closing.

Tax-exempt bonds will be credit-enhanced by an institution providing a “AAA” rating and will be sold publicly. The analysis is based on a 1.20 debt service coverage and 90% loan-to-value with a 30-year amortization. The debt calculation is based on a 6.75% interest rate.

DEVELOPER is currently assuming the use of redevelopment agency tax increment financing to fund all infrastructure costs and a portion of other improvements associated with the Capehart/Hillside rental housing. It is assumed that tax allocation bonds issued to fund these rental housing costs will be repaid with the tax increment revenues generated by the entire project redevelopment area.

The Hillside rental housing development requires redevelopment agency financing to fund approximately \$5.5 million of off-site infrastructure and improvements, on-site improvements, and a portion of building construction and demolition/rehabilitation costs. Similarly, the Capehart rental housing development needs to fund approximately \$6.8 million in infrastructure, improvements, and building construction costs with redevelopment agency financing. However, the total redevelopment agency assistance of \$12.3 million (1999 dollars) is needed one to two years prior to sufficient tax increment revenues becoming available to issue tax allocation bonds to fund the infrastructure and construction costs. Current plans are to obtain gap financing when needed for these costs through a third party lender, with the backing if necessary of DEVELOPER. This gap financing, with attributable interest, will be paid off through the issuance of tax allocation bonds.

In future dollars, that \$12.3 million becomes \$13.4 million. Excess increment in the first few years that is retained by the agency after covering its costs totals \$2.7 million and can be applied directly to reduce the required bond issuances, leaving \$10.7 million in hard costs. Interest carry on the gap financing at 10.0% per year amounts to another \$2.1 million, bringing the total reimbursement funded through tax allocation bonds to \$12.8 million. A total of \$14.7 million in tax allocation bonds is required to generate the reimbursement funds, after accounting

for a reserve fund and issuance costs that amount to approximately 12.5% of the total bond issues.

An interest rate of 6.5% is assumed for the tax allocation bonds. This is considered a conservative interest rate given current tax allocation bond rates of approximately 5.25% for insured deals to 6.00% for triple-B rated, uninsured deals. The bonds are assumed to have a 30-year term, which would allow the bonds to be retired prior to the time that the maximum amount of cumulative tax increment revenues is reached. The Redevelopment Plan points out that the maximum amount of tax increment that may be allocated to the agency is \$134.8 million. Issuance costs of 5.0% and a reserve fund of approximately 7.5% (maximum annual debt service) of the total bond sale are assumed.

A minimum debt service coverage of 125% is also assumed. Bonds limited to \$7.5 million are issued in 2003 so that 125% coverage can be achieved based on increment collected the same year. The next year, \$7.2 million in tax allocation bonds are issued to fully reimburse the gap financing and interest carry on the gap financing. Due to the rate of proposed development, tax increment revenues available to support debt service on bonds following the second bond issue attain a coverage factor of approximately 240%, which increases to approximately 270% the following year and generally continues to increase each year thereafter.

Please refer to Exhibit B for additional discussion regarding the overall tax increment financing for the Project.

Alternatives for Achieving Ranges of Affordability

DEVELOPER would provide mechanisms to be in place to insure the ongoing affordability of the units, the affordability ranges within each income category, and the ability for residents to improve their economic situation without fear of losing their housing.

The three guiding principles of this affordability spectrum plan are:

- Serve a range of households within each category while preserving marketability and abiding by the requirements of applicable financing programs.
- Insure that the initial affordability mix of the units is maintained into the future.
- Prevent households from being forced out of their units if their income increases.

(a) Rental Units

DEVELOPER proposes to finance the rental units with Low Income Housing Tax Credits. Under the Tax Credit program, the maximum low income rent is set at 60% of the area median

income. Households earning between 51% and 60% of the area median income would be eligible to live in the low income rental units. For the very low income units, DEVELOPER has set its rents at an average of 40% of the area median income. Therefore, the rents can be set at 30%, 40% and 50% of the area median income providing for a spectrum of rents within the very low income affordability category.

(b) For Sale Units

In creating a spectrum of affordability for the for sale units, an effort must be made to prevent overly restrictive affordability bands that would cause a difficult or delayed marketing and sales process. Our approach would include the creation of a “targeted pricing” structure that would serve different bands within the affordability range, yet still is market driven and buyer friendly. For example, the low income category would have two price points, one at say 65% of the area median income and one at 75% of the area median income. During initial sales, households in the lower part of the income category would be qualified based on the lower price point. Those who can afford more based on a higher income or down payment would be candidates for the higher price point homes. Higher income households would not be eligible to buy the lower priced units.

Since the prices for the moderate homes are already market driven, our approach would be to continue with a market approach by pricing different product types at levels that serve various income bands. For example, a townhouse would serve a lower band than a duplex, with the single family detached product serving the highest band. Again, higher income households could be restricted from buying the lower-priced units. Further analysis is needed on the incomes of those to whom the local preferences are targeted to make sure that this pricing approach does not create any adverse impacts.

D. On-going Administration and Compliance Procedures

DEVELOPER would be responsible for the ongoing administration and compliance monitoring of both the rental and the for sale affordable housing units at Capehart and Hillside.

(a) Rental Units

The affordable rents proposed would be restricted through a recorded regulatory agreement as required by the Tax Credit program. The incomes for the residents will be certified upon initial lease up of a unit and recertified annually to comply with the Tax Credit program, thereby insuring the ongoing affordability of the units. As regulated by the Tax Credit program, the initial occupancy mix of units must remain the same for the full regulatory period, which must be for a minimum of 55 years. After a very low or low income household qualifies for occupancy

and moves in (“initial occupancy”), their income can rise to 140% of the area median income with no effect on qualification of the unit for Tax Credits as long as the rent remains restricted to very low and low income households. However, once a unit is vacated, it must be rented to a qualified very low or low income household.

(b) For Sale Units

Resale controls vary greatly from development to development depending on the needs and goals of the local jurisdiction. DEVELOPER will work with the City to structure the resale controls to best suit the City’s requirements for the Capehart for sale units. These resale controls would be recorded against the property and would insure that, upon resale, the housing would maintain the initial affordability mix by restricting the sales price. Once they have purchased a home, the homeowner could improve their economic situation and earn more than the HUD defined low or moderate income categories without needing to sell their unit.

As for maintaining the affordability bands into the future, the resale controls would restrict price appreciation to the corresponding increase in area median income. This would assure that the sales prices would continue to be affordable to the same “price points” for the life of the unit.

In the future, resales will be monitored by a third party subcontractor to DEVELOPER. DEVELOPER will retain a qualified mortgage broker or other party to determine resale prices according to rules agreed upon between DEVELOPER and the City. The mortgage broker will be charged with certifying incomes of the prospective buyer(s). Each new buyer will enter into a new resale agreement which will start the clock running again on the resale restrictions for that unit.