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Guidelines for the Texas State Affordable Housing Corporation 2005 Private Activity Bond Program

INTRODUCTION

The Texas State Affordable Housing Corporation (the “Corporation”) will be soliciting proposals for multifamily housing properties seeking to use private activity bond cap in the calendar year 2005. All potential Respondents (“Respondents”) are urged to submit complete proposals as early during the acceptance period as possible to ensure adequate review time.

Background – Private activity bonds to finance qualified residential rental facilities are subject to the limitations imposed by federal and state regulations pertaining to private activity bond cap (“volume cap”). In the 78th Regular Session (2003), the Texas Legislature passed S.B. 284, which, among other purposes, awarded 10 percent (10%) of the State’s multifamily volume cap to the Corporation. For 2005, that amount is estimated to be approximately \$39 million.

Although volume cap is limited, the Corporation encourages proposals from developers of new and existing multifamily properties and will use its best efforts to provide bond financing to as many qualified properties as reasonably feasible in target areas identified by the Corporation. A Request for Proposals (“RFP”) has been designed to establish a process for inviting, evaluating, and selecting qualified tax exempt residential rental facilities seeking allocations of volume cap in 2005.

PROGRAM OUTLINE

Research and Identification of Targeted Areas– The Corporation’s Board of Directors (“Board”) will identify specific geographic areas where the allocations will be targeted. There is no predetermined number of target areas. A targeted area must be able to demonstrate measurable local affordable housing needs and community support for any potential affordable housing development. This will be achieved by:

1. Reviewing the Affordable Housing Questionnaire responses and related correspondence received from the survey sent for the 2004 PAB program year;
2. Approaching the cities that expressed an interest in 2004 in participating in the 2005 PAB program;
3. Sending a letter to all mayors and housing directors in cities with a population of 10,000 or more that are registered with the Texas Municipal League and to all county judges of counties registered with the Texas County Progress Directory to explain the program and solicit participation in the 2005 program;
4. Referencing the Texas Department of Housing and Community Affairs’ Annual Report on Housing Need;

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5. Consulting with the appropriate local political entities and their representatives (e.g. city council, mayor, county commissioner, county judge, etc.) located within each geographic area.

The Corporation may also specify the most appropriate development characteristics for each targeted area. This may include, but is not limited to, income levels, special needs population served, project amenities, and social services.

Request for Proposals – Once the Corporation has identified each targeted geographic area and its appropriate development characteristics, an RFP will be issued for each targeted area. The required development characteristics, or technical specifications, for each targeted area will be set forth in its respective RFP.

Evaluation and Allocation – The Corporation will accept proposals in response to the RFPs during a specified submission period. Each proposal will be evaluated and scored, with the highest ranking proposals being presented to the Corporation’s Board for approval. There is no assurance that the Corporation will select a proposal in each targeted area, even if the Corporation receives proposals for housing developments in each targeted area. The Corporation may approve more than one proposal in a particular area.

PROGRAM DEADLINES

Time deadlines (as and if amended) for the proposal evaluation and selection process will be strictly adhered to by the Corporation. Respondents are advised to evaluate their financing goals and development preparedness **prior to** applying for private activity bond volume cap. The Corporation will reject proposals not meeting the minimum technical specifications or otherwise failing to evidence an ability to meet each of the deadlines set forth below. **The current schedule for the process is shown below. The Corporation may amend this schedule by posting the revised schedule on its website (www.tsahc.org).**

August/September 2004	The Corporation’s Staff reviews 2004 questionnaire responses and approaches cities that have expressed an interest in the 2005 PAB program.
September 2004	The Corporation’s Board publishes the 2005 PAB Guidelines for comment.
October 2004	The Corporation’s Board adopts the 2005 PAB Guidelines.
November 2004	The Corporation’s Board designates the target areas for the 2005 program year.
December 2004	The Corporation’s Board issues an RFP for each targeted area.

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February 2005	Proposals must be received by the Corporation.
February 2005	Proposals are evaluated, scored, and ranked by the Corporation's Staff. High Scoring Respondents will be notified to appear at the Corporation's Board meeting in February.
February 2005	Respondents with the highest ranking proposals make oral presentations to the Corporation's Board; A target area representative makes an oral presentation to the Board as well.
February 2005	Corporation selects Developments that it intends to fund in 2005 (if any), plus one (1) alternate for each targeted area (if any)
March/April 2005	Respondents and Corporation conduct public hearings.
April/May 2005	Corporation induces selected developments that it intends to fund in 2005.
August 15, 2005	Last date to procure volume cap from the Texas Bond Review Board; Texas Bond Review Board recaptures any unreserved allocations

Once the Corporation provides a preliminary allocation of volume cap for a housing development, the Respondent must work with the Corporation to issue bonds within the time frames set forth above and in Appendix B to the Corporation's RFP. Failure to finalize all aspects of development and bond financings within this time period and to submit all required pre-closing and closing documentation to the Corporation will result in recapture of the allocation. Respondents are advised to review funding sources, commitments and financing structures to ensure they can meet these deadlines for year 2005 submissions. In addition to meeting all requirements relating to private activity bonds set forth in the Internal Revenue Code, as amended, developments using federal Low Income Housing Tax Credits ("LIHTC") in their financing plan must also meet all requirements of Section 42 of the Code, as amended, the United States Fair Housing Act, and all applicable State of Texas laws pertaining to multifamily housing.

While the amount of volume cap available from the Corporation for multifamily developments is limited, the Corporation does encourage applications from multifamily developers and will use its best efforts to fund as many qualified projects as are reasonably feasible. Respondents are advised that the allocation of funds will be competitive and otherwise qualified developments may not receive funding due to the limited amount of available volume cap. Any and all costs incurred in this RFP process

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are the sole responsibility of the Respondent. **Fees charged by the Corporation and its financing team for review of applications are nonrefundable.**

Bond allocations made available under this program are limited to residential rental facilities that meet all relevant qualifications of the Code. Such facilities may involve the rehabilitation of existing rental facilities, new construction of facilities, modernization of public housing facilities, and construction of qualified ‘assisted living’ housing.

SUBMISSION OF PROPOSALS

The following is a list of the information and documents that must be submitted to the Corporation with a proposal in response to one of the Corporation’s Request for Proposals (“RFP”). Additional information will be required. This additional information will be specified in each targeted area’s respective RFP, and as may be required by the Corporation’s Board of Directors, staff, Bond Counsel, or the Financial Advisor.

1. Title page.
2. A summary of the proposed transaction. Describe the proposed Development in detail, including how the Development will meet the specifications set forth in the Detailed Development Description in the RFP and how the Development will meet the Income Structure and Use Restrictions set forth in the RFP. Respondents should also submit cost per unit calculations, including the assumptions that were made to make those calculations.
3. A location map showing the location and approximate outline of the tracts involved.
4. A zoning map showing the existing zoning of the property and surrounding areas, demonstrating that the project, as proposed, is zoned for the intended use.
5. If already submitted, a copy of the application to the Texas Department of Housing and Community Affairs for LIHTC.
6. Evidence that the Respondent either (i) owns the site for the proposed Development or (ii) has a contract or an option to purchase the Development site.
7. Audited financial statements of the Respondent for the last three years. These statements should demonstrate the financial capacity of the Respondent, or the entity that would most likely be responsible for executing all applicable guarantees, and must show a net worth sufficient to provide the necessary resources to construct, operate, and manage the Development. The Respondent shall fully explain any negative audit findings. Provide the names of three banks or other financial institutions that can provide business references and the names and telephone numbers of contact persons. Respondents should be aware that the Corporation is subject to the provisions of the

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Texas Public Information Act, and that information received by the Corporation may be subject to open records requests.

8. An estimated schedule of construction or rehabilitation. If the proposal is for acquisition/rehabilitation, any and all physical needs assessment reports must be submitted.
9. Photographs of the site of the proposed Development.
10. Evidence of local support for the Development from the City.
11. With respect to new construction, a statement from the applicant describing the need in the area for additional affordable housing, as proposed. TSAHC may require that before closing an independent market study be performed by a professional chosen by TSAHC.
12. Submit a proposed fee structure expressed as a percentage of development costs or construction costs, as appropriate. The proposed fees should include the amount and timing of payment of the developer fee, overhead, contractor profit, property management fee, and other similar fees and costs.
13. Provide the proposed ownership structure and identify the various legal entities to be involved in the construction, ownership, operation, and management of the improvements and the nature of their involvement. With respect to the development entity and/or the management agent, a precise description of any joint venture arrangements, including respective equity and decision making interests shall be provided. Describe the roles and responsibilities of each team member on this Development and provide resumes that include qualifying experience. Provide certification by the Respondent stating the nature of any relationship, business or otherwise, (for example, common or related board members) between or among the team members, including the Respondent, the proposed management company (if acquisition), the seller(s) of the land on which the Development will be built, the underwriter or placement agent, and any other party related to the transaction.
14. Certification by the Respondent and Respondent's principal(s) that they are in good standing with the Corporation, TDHCA, and the City, do not have any outstanding compliance issues with the Corporation, TDHCA, or the City, and have not had any compliance issues in the last three years, or full disclosure of any problems and issues.
15. Certification by the Respondent and any underwriter or placement agent for the bonds stating that they have read and understand the Corporation's Guidelines and the RFP acknowledging (a) that all exceptions to the Guidelines and RFP must be requested in writing by the Applicant with an explanation of the need for the exception, (b) that all exceptions to the Guidelines and RFP are subject to the review and/or approval by the Board of Directors of the Corporation, and (c) that complying

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with the Guidelines and RFP does not guarantee approval of the transaction by either the Corporation's Board of Directors or the Texas Bond Review Board.

16. Certification by the Respondent and Respondent's principal(s) that they have not been involved during the past five years and are not currently involved in litigation regarding the development and/or financing of a property under the Corporation's or TDHCA's multifamily bond programs, the LIHTC program, or any City program, or full disclosure of any litigation.

17. Certification by the Respondent and Respondent's principal(s) that they do not have outstanding issues with the Internal Revenue Service regarding tax-exempt bond financed or LIHTC properties, or full disclosure of any outstanding issues.

18. If applicable, describe and provide supporting evidence (e.g., certification by a governmental agency) of the status as a minority business enterprise (MBE) and/or women owned business enterprise (WBE), or, if applicable, describe your firm's history of utilizing MBEs and WBEs.

19. Describe past experience working on affordable housing developments with TDHCA, the Corporation, and local government entities, including cities or local housing finance corporations. Include a description of the work, and name and telephone number for a contact representative at each (maximum of 4 examples for each government entity with which you worked).

20. Describe experience in the development of similar large family affordable housing developments. Include the name and address of the property(s), property description, description of the participation of the Respondent, LIHTC allocation year (if applicable), and the name and telephone number of a reference person for each property (maximum of 4 examples).

21. Describe experience in the development of properties using tax-exempt bond financing and/or LIHTC. Include the name and address of the property(s), property description, whether new construction or acquisition and rehabilitation, whether 9% or 4% LIHTC and allocation year, description of the participation of the Respondent, identification of any participation by a housing-related nonprofit or City or other public entity where the property is located, and the name and telephone number of a reference person(s) for each property (maximum of 4 examples of properties completed using both LIHTC and tax-exempt bond financing, and if no properties completed using both financing methods, list a maximum of 4 properties completed using either tax-exempt bond financing or LIHTC and specify which was used).

22. Submit a schedule of Sources and Uses of Funds. The Sources and Uses schedule should identify by name all companies or individuals to receive payments, including, but not limited to, developer's fees, real estate commissions, underwriting fees, operating working capital (if any) and borrower's working capital(if any), and should specify whether the payments will be from bond proceeds or other proceeds. Submit

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also a general Development and Operating Proforma that presents the primary elements of the Development and operating costs, as well as the necessary operating projections for the Development. It is understood that these are preliminary estimates. For the estimate, the Respondent should assume that the Development will pay all ad valorem taxes.

The narrative of the financing plan should clearly identify the amount of the Corporation or City resources that are needed to make the Development financially feasible as well as the amount of tax-exempt volume cap allocation and Low-Income Housing Tax Credits and other private resources that will likely be available for the Development. The plan should also identify any anticipated cash investment by the Respondent.

The financing plan should include an initial proforma and a reasonably detailed 10-year projected operating budget in balance. The development proforma should show all sources and uses of development funds and reasonably detailed explanation for development costs, including all fees for professional services, working capital, and other expenses. The 10-year proforma should show rents or other payments for each distinct type of housing unit. It should also break operating expenses into typical, separate categories. Trending assumptions should be clearly stated and documented. A Year One Operating Budget must be included.

23. Provide a list of all properties for which the Respondent or Respondent's principals have received TDHCA housing construction or rehabilitation funding. Please list the property name, the name of the legal owner of the property, the type of funding, and the city where the property is located.

24. Income and Rent Restrictions.

At a minimum, all proposals will be required to meet the following income and rent restrictions:

- (a) **Minimum Income Restrictions.** A minimum of twenty percent of the units in a Qualified Residential Rental Project must have Gross Rents that are restricted to households with incomes no greater than fifty percent (50%) of the Area Median Income, adjusted for family size, or at least forty percent (40%) of the units in the project must be affordable to families with incomes at or below 60 percent (60%) of median family income, adjusted for family size.
- (b) **Rent Restrictions.** Gross monthly rent charged on an income restricted unit will not exceed 30% of the applicable area median income.
- (c) **Minimum Term of Restrictions.** Income and rent restrictions must be maintained for a qualified project period to be determined in accordance with federal and state law.

PROPOSAL EVALUATION AND SELECTION PROCESS

Upon compliance with the response requirements set forth in the RFP, the Corporation and the City will conduct a preliminary review of all Responses. If all of the Response requirements are met and the proposed Development meets the Corporation's and the City's purposes and guidelines, the Development will be scored by the Corporation in accordance with the criteria identified in Appendix A to the RFP. (The Corporation will provide a copy of the Response to the City. The City may evaluate each Response and may provide its written comments regarding its evaluation to the Corporation staff.)

The Corporation's Board of Directors will have an opportunity to call any Respondent before the Board (at the Board's discretion) to review the following items:

- The amount of volume cap that will reasonably support the financing structure (recognizing the limits of the Corporation's allocation);
- Evidence of community support for the Development;
- Qualifications of Development team;
- Evidence of financial feasibility of the Development and cost efficiency of bond financing structure – The Corporation reserves the right to impose a cap on any volume cap requests;
- Evidence of commitment of all long term development financing sources;
- Evidence of long term affordability of rents for persons with low income;
- Evidence and support of adequate market for the units;
- Demonstration that the Development will not adversely impact existing affordable housing properties in the identified market area; and
- Other information relating to the RFP, the proposed Development, or the Respondent.

The City will also have an opportunity to appear before the Board to make its comments on the Responses.

Based on public testimony before the Corporation's Board of Directors regarding a Response, the Corporation's Board may award 15 points to one Development that has the clear support from the local elected officials, including city council members and the mayor. If support is divided, the Board may choose not to award the 15 points to any Development and the staff score would remain unchanged.

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The Corporation reserves the right in its sole discretion to modify, suspend or amend this program at any time, with or without further notice to any interested party. All costs incurred in the response or development process are the sole responsibility of the Respondent. All decisions of the Corporation are subject to such additional conditions, restrictions and requirements as determined by the Corporation in its sole discretion. In addition, the Corporation's selection of Developments for possible allocation of private activity bond cap is subject to final allocation approval by the Texas Bond Review Board.

At the same Board meeting at which oral presentations are made, the Board may select Development(s) and alternate Developments based on the final scores of the Responses. **The Corporation reserves the right not to approve any Responses, even one that is awarded the most points in the initial or final scoring of the Responses.** The Corporation also reserves the right to approve more than one Response. After being chosen, Respondent(s) will need to hold the required TEFRA hearings.

At the Board's next meeting following the TEFRA hearing for a Development, the Board may take preliminary official action to adopt an inducement resolution evidencing the Corporation's intent to issue obligations with respect to the Development, if all the requirements set forth herein are met and the public comment at the TEFRA hearings shows sufficient support for the Development. In order for the Corporation to take preliminary official action, the preliminary review of the Response must demonstrate with reasonable certainty that:

(a) the Response, the obligations, and the Development will qualify for final approval by the Corporation in accordance with the RFP and the requirements set forth in Appendix B; and

(b) all governmental approvals with respect to the obligations, the LIHTC, and the Development will be obtained.

If the Corporation does not grant preliminary approval of the Response, the Corporation will so advise the Respondent.

Any preliminary official action of the Corporation should not be construed as an indication as to the marketability of obligations, or as the final approval of the Development by the Corporation, its Financial Advisor or Bond Counsel. Rather, it is an indication that the Corporation will attempt to issue its obligations for the Development subject to, (i) a readiness to proceed by the Respondent with financing structure approval process, (ii) the Respondent's continuing compliance with these Regulations and cooperation in providing any and all requested information to the Corporation, (iii) approval by the Texas Bond Review Board of the sale of obligations, (iv) market conditions and terms acceptable to the Corporation and to its staff and consultants, and (v) acceptable evidence of local support for the Development and approval by the Texas Attorney General of the issuance of the obligations.

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AFTER THE CORPORATION'S ADOPTION OF THE INDUCEMENT RESOLUTION, IT IS THE RESPONDENT'S RESPONSIBILITY TO PROCEED WITH REASONABLE DISPATCH TO COMPLETE THE BOND FINANCING PROCESS IN A TIMELY MANNER, INCLUDING, BUT NOT LIMITED TO, THE PAYMENT OF ANY FEE DEPOSITED AND THE PROVISION OF REQUIRED INFORMATION, DOCUMENTS, ETC. NECESSARY TO PROCEED.