

**Texas State Affordable Housing Corporation
2006 Private Activity Bond Program
Questions and Answers**

1. Are Public Housing Authorities eligible to apply for this program?

Public Housing Authorities are eligible to apply under any of the RFP's.

2. Are you anticipating only one award per targeted RFP?

Each targeted area (RFP) will have approximately \$13.3 million available. We will evaluate each proposal by score and rank under each RFP. More than one proposal may be funded up to the \$13.3 million estimated amount available. However, waiting lists will be established under all RFPs and if others are under-subscribed or no responses are received under other RFPs, we will collapse the available money into the other RFP's with waiting lists. Another option if all monies are used under each RFP during the cycle is for the corporation to apply to the Bond Review Board for allocation of available bond monies when the tiers collapse in August 2006.

3. Will applicants receive additional review points depending on how much matching funding they are able to offer?

We do not have a scoring item for "match" funds. However, there are several scoring items which might be affected by bringing other monies to the table...especially grant funding. For example, Scoring Criteria D through H all relate to some aspect of favorable financing. If grant funds are part of the transaction, this might enable the debt service coverage ratio (DSCR) to increase above 1.25 thus earning 20 points in item D and a possible 15 points in item E. Item F compares the proposal with others received and by having the highest grant contribution (under that RFP), the proposal receives 10 points. If the applicant has experience working with local governments, Item O might be eligible for points. So, although we do not have a specific category for matching funds, there are several other ways to gain points by leveraging monies in other scoring items.

The following questions are from previous program years but are still applicable.

1. **[From 2005 Program Year, But Still Applicable as revised]** Is there a pre-proposal meeting for these RFPs?

A pre-proposal meeting has not been scheduled, but Respondents are encouraged to contact the City representative where the development is proposed to ensure that all city codes and ordinances are followed and that local community support is gained.

2. **[From 2004 Program Year, But Still Applicable]** Will the bond allocation issued by TSAHC be required to meet the Bond Review Boards rent and income guidelines of

Priority 1, Priority 2, and Priority 3? If so, how can a development with market rate units be allocated reservation?

The Legislature by statute has exempted the TSAHC Private Activity Bond program from the restrictions set forth in Section 1372.0321, which is the section of the legislation that creates the Bond Review Board priority system. See Government Code Section 2306.565(j).

3. [From 2004 Program Year, But Still Applicable, as revised] If tax credits are not received, does TSAHC plan to continue with this project?

TSAHC has determined that to make most developments financially feasible, 4% tax credits will be necessary. A response that does not contemplate using the 4% tax credits would be required to provide sufficient evidence to show that the financial feasibility of the Development could be maintained without the tax credits. TSAHC could not give final approval on a transaction that is not financially feasible.

4. [From 2004 Program Year, But Still Applicable, as revised] The Scoring Criteria indicates a Respondent will receive 20 points for the lowest per unit construction cost. Is this referring to the “all in cost” including land, development fees, soft cost and hard cost or just the hard cost? If it is just the hard cost, are you including the contingency, contractor fee and site work cost? Also, how will you determine if the per unit cost is realistic? Isn’t it possible that a respondent will low ball their cost estimate to receive the 20 points and then increase their cost estimate during the closing once they have received the allocation?

The cost per unit calculation includes direct construction hard costs, site work, contingency, contractor profit, overhead and general requirements. The Respondent should use any actual costs already incurred, and any projected costs should be clearly stated as projected costs, with an explanation of the assumptions used to make those projections. The Corporation will underwrite each transaction utilizing the *Marshall and Swift Residential Cost Handbook* for new construction proposals. If the respondent’s cost estimate is within 5% of the underwriter, the respondents estimate will be used for financial analysis. For rehabilitation proposals, all costs indicated in the construction cost breakdown must be consistent with the physical condition assessment submitted or actual construction contract. The Corporation may hire a third party consultant to review underlying documentation and assumptions used to calculate the cost per unit. Any assumptions or projections that the Corporation believes are unreasonable will be thrown out of the calculation or a more reasonable projection will be substituted. If the Corporation determines that the Respondent has “low balled” the estimate intentionally and changes its numbers significantly after being selected, the Corporation reserves the right to discontinue the financing and to induce the alternate selected Development at that time.

5. [From 2004 Program Year, But Still Applicable, as revised] Scoring Criteria D provides points for a strong debt service coverage ratio. What is included in the debt service coverage calculation? Do we include the on-going fees due to the corporation in that

calculation (annual asset oversight fee, annual compliance fee, ongoing obligations of the corporation, etc)?

The debt service coverage ratio means, for any fiscal year, the ratio of stabilized income minus stabilized expenses (stabilized NOI) to the sum of the total annual debt service requirements for all bonds and any other project-related debt. To determine stabilized income, respondents should assume a vacancy rate of 7.5% (5% vacancy plus 2.5% collection loss) unless the market study reflects a higher or lower established vacancy rate for the area. All miscellaneous secondary income should be well explained and anticipated to be in a \$5 to \$15 per unit per month range. Exceptions may be made at the discretion of the underwriter for garage income, pass-through utility payments, pass-through water, sewer and trash payments, cable fees, and child care facilities. For rehabilitation, secondary income must be justified by operating history of the development. Respondents should not assume any income from earnings on funds and accounts held under the trust indenture expected in conjunction with the bond issuance.

To determine stabilized expenses, respondents should include all operating expenses incurred in the operation and maintenance of the properties (as would typically be included under generally accepted accounting principles consistently applied). Such expenses should include at a minimum the following expenses: salaries, plus all salary and related expenses such as insurance and bonuses; advertising and promotion costs; maintenance, excluding replacement reserves; administrative expenses; utilities; management fee; all taxes, and, insurance costs (explain briefly the coverage). Replacement reserves should be included and assumed at the greater of \$200 per unit for new construction and \$300 per unit for rehabilitation or bondholder requirements. Respondents should also include in the expense analysis the Corporations' annual compliance and asset oversight fees, and the Corporation's annual administrative fee.

6. **[From 2004 Program Year, But Still Applicable]** Given that TSAHC is exempt from the Private Activity Bond restrictions, does the financing have to close within the 150 day time frame established by the Bond Review Board? What is the required closing time frame by the Corporation as required by the RFP?

Although TSAHC is exempt from the priority system, we are not exempt from the other Bond Review Board rules governing the private activity bond program. As such, the financing does need to close within the 150 days after the reservation date for the allocation, as established by the Bond Review Board.

7. **[From 2004 Program Year, But Still Applicable]** Is the Respondent subject to the \$15 million maximum tax exempt bond allocation set by the BRB?

Although TSAHC is exempt from the priority system, we are not exempt from the other Bond Review Board rules governing the private activity bond program. As such, the financing is subject to the \$15 million maximum tax exempt bond allocation set by the BRB.