



## Multifamily Private Activity Bonds

### Agenda Item

March 14, 2008

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Presentation, Discussion and Possible Approval of a Resolution Regarding the submission of a calendar year 2008 Application for Allocation of Private Activity Bonds, Notice of Intention to Issue Bonds and State Bond Application to the Texas Bond Review Board and Declaration of Expectation to Reimburse Expenditures with Proceeds of Future Debt for the Texas 5 Portfolio Project

#### Summary

The Texas 5 Portfolio is a pooled private activity bond transaction that includes three (3) multifamily affordable rental developments located in three (3) cities. GP Associates, LLC is an experienced affordable rental housing developer and manager. The Texas 5 Portfolio will be GP Associates' second transaction in Texas and includes properties in Hitchcock, Houston and Temple. In total the properties have 392 units, all of which are supported through the U.S. Department of Housing and Urban Development's ("HUD") Section 8 Project Based Rental Assistance Program. All 392 units are reserved for households earning 60% or less than the area median income ("AMI"). All of the properties were constructed in the early 1970s and will be acquired and receive approximately \$15,000 per unit in rehabilitation. The Texas 5 Portfolio will preserve 392 units of affordable housing, complete more than \$6 million in rehabilitation and utilize approximately \$15 million of the Corporation's private activity bond volume cap.

#### Project

The Texas 5 Portfolio includes the following three (3) properties listed in the table below.

Property	City	County	Units
Branch Village Apartments	Houston	Harris	160
Independent Missionary Village Apartments	Hitchcock	Galveston	72
Wayman Manor Apartments	Temple	Bell	160
Total			392

The transaction involves the acquisition of all three (3) properties from Westside Rehabilitation, a for profit corporation. All three properties have Section 8 project based subsidy contracts that are eligible for renewal or termination. GP Associates will renew contracts with HUD and eliminate all federal debt on the properties. GP Associates will use approximately \$23.6 million in combined private activity bonds, low-income housing tax credits and developer equity to purchase and rehabilitate all 392 units.

Source of funds	Amount
Private Activity bonds	\$15,183,349
Housing Tax Credits	\$7,106,083
Developer Equity	\$843,279
Deferred Fees	\$472,332
<b>Total</b>	<b>\$23,605,043</b>

Excluding contractor fees, overhead and contingencies each property will receive approximately \$15,000 per unit in rehabilitation. The development cost schedule shows that a majority of these funds are used for improvement to building mechanical systems, HVAC, structural improvements and energy upgrades. The rehabilitation budget for each property also includes \$10,000 for new playgrounds or sports courts, and additional funding for security upgrades and fencing.

### **Developer**

The Developer GP Associates, LLC (“GPA”) is an affiliate corporation and shares the same principals as GH Capital, LLC (“GHC”). GPA was formed in 2007 and has substantial prior experience in acquiring, developing and operating large portfolio transactions similar to the Texas 5 Portfolio. Since 2001, GPA and GHC have developed a diverse real estate portfolio focused on multifamily affordable properties throughout the United States. GPA’s principal, Gregory Perlman, has been engaged in the acquisition and rehabilitation of affordable housing since 1993. GPA adheres to a philosophy of renovating affordable housing units to market rate physical conditions and operating with attention to compliance with federal and state regulations. GPA and GHC have completed several large portfolio transactions similar to the Texas 5 Portfolio, including the following:

- KB Portfolio, acquisition and rehab of 1,170 units in 10 properties located in Northeast Ohio involving private activity bonds and tax credits.
- AE Portfolio, acquisition and rehab of 1,909 high rise elderly affordable housing units in Cleveland, Ohio involving private activity bonds and tax credits.
- Thetford Portfolio, acquisition and moderate rehab of 25 Section 8 project-based properties in North Carolina involving conventional financing.
- Cardinal One Portfolio, acquisition and rehab of 10 properties in Dayton, Ohio and surrounding cities involving private activity bonds and tax credits.

Since its formation in 2007, GPA has acquired five (5) properties in South Carolina, two (2) properties in Tennessee and one (1) property in Fort Worth, Texas, totaling 688 units.

### **Review**

Staff’s review of the application included both threshold and scoring criteria. The application met all threshold criteria required under the Corporation’s 2008 RFP for Private Activity Bonds, including underwriting standards. The financing includes approximately \$15.2 million in bonds held by

Citigroup, through its Citi Community Capital entity, and \$7.1 million in tax credit equity provided by Enterprise Community Investments. The bonds will include a swap agreement and variable interest rate. The Corporation will require that issuer and trustee fees are included in the final analysis of debt coverage ratios and cap rate agreements.

Staff's preliminary underwriting analysis has been based on previous rent records for the properties and anticipated income and expense projections. Staff has made the following preliminary assumptions for the purpose of review.

1. The vacancy rate used by Staff was 7% in comparison to the applicant's proposed 5%. The properties may support a 5% rate, but a complete rent roll was not available for review.
2. The income and expense projections increase respectively by 3% and 4% annually. This is in line with projected increases used by TDHCA for tax credit underwriting.
3. Staff believes that the owner's estimates for operating expenses are approximately 10% higher than regional averages. This could provide a cushion for unexpected increases overtime if GPA reduces current expenses to come in line with regional averages.
4. The interest rate used for bonds in Staff's underwriting includes both issuer and trustee fees. Additionally, staff anticipated a cap rate in place for the bonds given the current commitment uses as variable rate swap structure.

Given these assumptions, Staff's preliminary underwriting still meets the Corporation's debt coverage ratio limits and anticipates that the development will maintain feasibility for the term of the bonds.

Staff is concerned about tax credit syndication proceeds that have been trending downward across both 9% and 4% allocations. However, the development budget contains sufficient developer fees that could be deferred without harming either the short or long term feasibility of the development.

### **Recommendation**

Staff is recommending that the Board approve the Resolution regarding the submission of a calendar year 2008 Application for Allocation of Private Activity Bonds, Notice of Intention to Issue Bonds and State Bond Application to the Texas Bond Review Board and Declaration of Expectation to Reimburse Expenditures with Proceeds of Future Debt for the Texas 5 Portfolio Project



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#### **Summary**

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The Corporation received and reviewed submissions from three financial institutions with the assistance of the Corporation's Bond Counsel, Issuer's Counsel and Financial Advisor. The Corporation's staff and advisors approved two of the submissions, and are now recommending those entities to the Corporation's Board to be listed as Approved Trustees under the Program.

Institutions are to be qualified to serve as Approved Trustees under the Program for a three year period without having to update their qualifications. The Corporation reserves the right to deny or cancel the status of an Approved Trustee at any time. Included below is a brief summary of the three submissions.

#### **Bank of Texas**

The Corporation received a submission from the Bank of Texas Corporate Trust Division. The Bank of Texas is a wholly owned subsidiary of BOK Financial Corporation ("BOKF"), a regional financial services company with corporate trust locations throughout the Southwest, Midwest and Mountain States.

Mr. Bill Barber is the manager of Corporate Trust for the Dallas office of Bank of Texas. He has 20 years of experience as an Indenture Trustee and is a Certified Corporate Trust Specialist. Mr. Barber joined Bank of Texas in September 2007. He is supported by Maria Barrera, Trust Officer. Ms. Barrera has over 34 years of banking experience and joined the bank in 2006.

Bank of Texas did not demonstrate experience in managing multifamily bond issues in Texas, and Staff's review questioned the bank's subcontracting of paying agent services to another financial institution.

#### **Regions Bank**

Regions Bank is a publicly traded corporation with retail and commercial banking locations in 22 States across the Southeast and Midwest. The Corporate Trust Department in Texas is led by Mr. Cary Gilliam. Mr. Gilliam has over 20 years of experience in corporate trust administration. Prior to joining Regions in 2006, Mr. Gilliam worked for JPMorgan Chase Bank. Mr. Gilliam is a Certified Corporate Trust Specialist.



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#### **Wells Fargo Banks, N.A.**

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Wells Fargo Corporate Trust has worked with numerous local and statewide multifamily bond issuances in Texas and includes Harris County Housing Finance Corp., Capital Area Housing Finance Corp., and Southeast Texas Housing Finance Corp., among their clients. Wells Fargo currently administers over 1,500 multifamily mortgage revenue bonds at over \$17.2 billion par value nationally. Since 1998 they have been appointed to 269 multifamily issues within Texas with a par value of \$2.87 billion.

#### **Recommendation**

Staff recommends that the Corporation accept the qualifications of Regions Bank and Wells Fargo Banks for listing as Approved Trustees to service multifamily bonds issued by the Corporation. Each qualified Trustee shall have their contact information listed on the Corporation's website and be allowed to contract for Trustee services with developers and applicants to the Program.

The Corporation shall play no roll in the selection of Trustee selected by developers or applicants. The Corporation also reserves the right to terminate the qualifications of any Approved Trustee for participation in the Corporation's multifamily bond programs at any time.



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# Marketing and Development

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## Marketing

Prior to 2006, marketing and public relations activities of the Corporation centered around the Single Family Bonds Programs, but little or none was done to promote the other programs or the Corporation as a whole.

In the fall of 2006, the Corporation established a formal marketing program. The primary objective of the marketing and public relations program is to promote the Corporation's programs to the groups who are served by or could use our programs. A secondary objective is to promote the Corporation as a whole to those in the housing industry.

### *Goals for 2007-2009*

**Goal 1:** Single family - Market to associations whose members are eligible for our programs, market to parts of the state with low loan origination, market new program initiatives, such as HomeWorks, and the Interim Construction Land Acquisition Loan Program.

**Goal 2:** Multifamily - Market Private Activity Bond program and market Direct Lending program through website, email marketing and advertisements.

**Goal 3:** Asset and Compliance - Market asset oversight and compliance services through the TSAHC website, email marketing and advertisements.

**Goal 4:** Corporation—Create quarterly newsletter, create corporation brochure, create new booth display for conferences.

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## Fundraising and Grant Program

The Corporation is a state entity that does not receive state appropriated funds. A 501(c)(3) since 2001, the Corporation must be self-sufficient. It is our belief that in order to further the Corporation's mission we need to expand our visibility and identify new and innovative resources to meet the affordable housing needs of low-income Texans.

Although the Corporation has been a 501(c)(3) nonprofit entity for several years, we did not actively pursue fundraising and grant opportunities until 2006. At the direction of the Board of Directors, the Corporation included fundraising as part of its 2005-2007 Business Plan. In 2006 the Corporation made considerable strides in this area by developing a Fundraising and Grant Program Action Plan and by searching out available grant funding for affordable housing. The Corporation has invested significant time and resources to expand fundraising efforts in support of our housing programs. Executing this new focus has required educating potential funders about the Corporation and its mission, primarily because of our unique quasi-governmental status.

The Corporation has seen some success. In mid-2006, the Corporation received a \$1 million equity investment award from Wells Fargo. In mid-2007, the Corporation received a \$15,000 grant from Freddie Mac.

### *Goals for 2007 –2009*

**Goal 1:** Update the Fundraising and Grant Program Action Plan that establishes activities and a timeline.

**Goal 2:** Pursue donations, grants, and sponsorships for all program needs as set forth in our Fundraising and Grant Program Action Plan.

## Marketing and Development

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**Goal 3:** Raise a total of \$75,000 through donations, grants, and sponsorships for our affordable housing programs over the next two years.

**Goal 4:** Add donation ability to the Corporation's website.

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