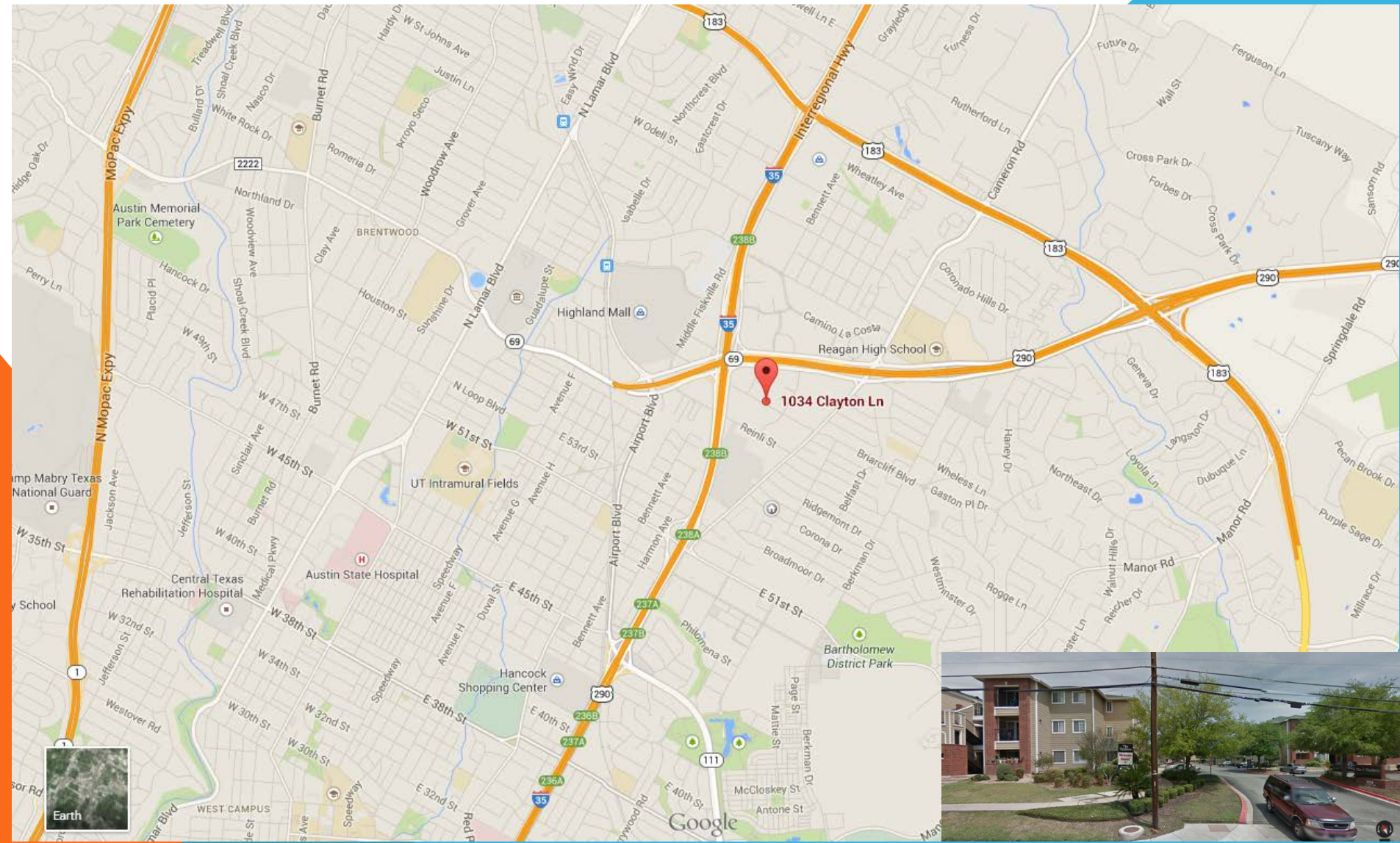




PROPOSAL TO PARTNER WITH THE AUSTIN HOUSING FINANCE CORPORATION

PRESENTATION BY THE AUSTIN HOUSING FINANCE CORPORATION

August 12, 2014




Located near IH 35 and HWY 290; Close to Reagan High School

PRESENTATION PURPOSE

Proposal to partner with Austin Housing Finance Corporation to
Acquire and Rehabilitate the
Timbers Apartments (1034 Clayton Lane)

- Items brought forth for Austin Housing Finance Corporation Board consideration on August 7, 2014 were postponed. Staff was asked to present the concept and structure to CDC.
- Cesar Chavez Foundation (CCF) approached AHFC with a mutually-beneficial proposal to form a partnership whereby the **Timbers Apartments** would be acquired and rehabilitated using the following Financing Mechanisms:
 - 4% tax credits awarded by the TX Dept. of Housing and Community Affairs; and
 - Private Activity Bonds issued by AHFC.

THE CESAR CHAVEZ FOUNDATION

- Founded in 1966.
 - Operates as a 501(c)(3) non-profit organization with the mission to enrich and improve the lives of working families by meeting their essential human, cultural and community needs.
 - The Foundation has been guided by Cesar Chavez' Core Values of knowledge, community, respect, service, and determination.
 - CCF's Housing and Economic Development arm owns and manages over 4,300 units of affordable multi-family housing for low-income families and seniors in Arizona, California, New Mexico, and Texas. (1,137 units in Texas.)
 - CCF Reinvests revenue into tenant services and capital improvements.
 - Has its own in-house construction company, Greenfield Construction, LLC.
 - Based in Los Angeles, CA.
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FINANCING MECHANISMS

LOW-INCOME HOUSING TAX CREDITS

The Low Income Housing Tax Credit (LIHTC)

Program governed by the Internal Revenue Code, not HUD. It is designed as a way to get the private sector to invest in affordable housing.

- The U.S. Treasury allocates a certain dollar amount of tax credits to each state on a per capita basis. The dollar amount of tax credits represents the amount of tax revenue that the U.S. government expects not to realize.
- Each state decides how the tax credits will be allocated on both a competitive and non-competitive basis. Texas Department of Housing and Community Affairs (TDHCA) is responsible for the State's allocation.
- Housing developers apply for an award of tax credits, and if successful, the credits are awarded to the developer to be purchased by investors.
- The purchase of the tax credits generates about 70% of the equity needed to finance an affordable housing development.
- The investors use the credits to offset other tax liabilities over a 10-year period.

FINANCING MECHANISMS


MULTI-FAMILY PRIVATE ACTIVITY BONDS

Housing Finance Corporations, like AHFC, were originally created for the purpose of issuing private activity bonds to finance the development of affordable rental or ownership housing. The authority for HFC's to issue bonds is through both federal and state statutes.


- Private Activity Bonds are referred to as “private activity” because they are not issued for a public purpose such as a library.
- The bonds typically sold to institutional investors in \$100K to \$500K increments.
- ✓ AHFC BONDS DO NOT OBLIGATE TAXPAYER FUNDS.
- ✓ AHFC BONDS DO NOT INCREASE THE CITY'S DEBT.
- ✓ AHFC BONDS ARE REPAYED THROUGH RENTS COLLECTED OVER TIME.
- ✓ AS THE BOND ISSUER, AHFC HAS NO LIABILITY IF THE PROPERTY HAS CASH FLOW OR OPERATIONAL ISSUES.

CESAR CHAVEZ FOUNDATION PROPOSAL


KEY ATTRIBUTES

- ✓ Acquire and rehabilitate property (104 units)
 - ✓ Convert 26 market-rate units to affordable (60% MFI and below) such that the entire complex is affordable.
 - ✓ 55 year affordability period.
 - ✓ AHFC takes title to the land and leases it back to the Limited Partnership. This creates a 100% property tax exemption.
 - ✓ CCF pays AHFC \$100,000 at closing
 - ✓ CCF pays AHFC 30% of cash flow (as defined by HUD upon receiving a HUD-insured mortgage)
 - ✓ CCF is responsible for management and day-to-day operations.
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FACTORS CONSIDERED BY AHFC

- ✓ No investment of AHFC funding is being requested.
 - ✓ The cost to convert 26 units to affordable offsets the amount of foregone property tax.
 - ✓ The AHFC will receive a bond issuer fee at closing of approximately \$40,000.
 - ✓ CCF is paying the required \$5,000 Bond Application Fee.
 - ✓ AHFC will receive an annual monitoring fee throughout the life of the bonds that will range from approximately \$2,100 to \$1,248 as the amount of outstanding bonds decreases over time.
 - ✓ This development will preserve affordable units, and increase the number of affordable units over the existing number.
 - ✓ Based on the draft Memorandum of Understanding, CCF is willing to bear the financial risk of development and operation of the property while AHFC will have little, if no financial risk.
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FACTORS CONSIDERED BY AHFC CONT.

- ✓ Long term affordability: 55 year affordability
 - ✓ Deep affordability: 60% Median Family Income (MFI) and below
 - ✓ Consideration of permanent supportive housing
 - ✓ Preservation of affordable housing:
 - ✓ 104 units total
 - ✓ 26 market rate units to convert to affordable
 - ✓ Family friendly units (two, three, four bedroom units)
 - ✓ Near by retail amenities
 - ✓ Bikable, Good transit
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OWNERSHIP STRUCTURE

The **Internal Revenue Code** requires that tax credit developments be owned by a single-asset entity; that is, an entity that is formed to own nothing else but the tax credit development. This prevents the tax credit property from being subject to recourse for debts or liabilities of other properties owned by the same person or entity.

Typically, the Single-Asset Entity formed is a **Limited Partnership (LP)**. The LP is composed of two partners, a General Partner and a Limited Partner.

The General Partner is usually a subsidiary of the Developer and the Limited Partner is usually a subsidiary of the tax credit Investor. By creating subsidiaries, the Developer and the Investor **limit their liability** to lawsuits, judgments, etc.

The **Cesar Chavez Foundation** has proposed a Limited Partnership structure to own the Timbers Apartments. An AHFC-affiliated non-profit corporation (to be formed) would serve as General Partner. The Limited Partner would be determined at a later time.



OTHER AHFC-RELATED PARTNERSHIPS WITH LAND OWNED BY AHFC

PRIMROSE AT SHADOW CREEK

- 176 units
- Senior Development
- Financed with AHFC Private Activity Bonds, 4% Tax Credits, HOME Funds
- Affordability Start: 2001

VILLAS ON SIXTH

- 160 units
- Family Development
- Financed with 9% Tax Credits and Housing Trust Funds
- Affordability Start: 2005

RETREAT AT NORTH BLUFF

- 240 Units
- Family Development
- Financed with Private Lender Mortgage, Private Investor Equity, and G.O. Bond Funds
- Affordability Start: 2011

QUESTIONS / COMMENTS

