

Austin Housing Finance Corporation Meeting Transcript – 12/15/2016

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[3:54:07 PM]

>> Mayor Adler: Let's to the Austin housing finance corporation stuff. Council, I'm going to recess the city council meeting here today at 3:54. I'm going to call to order the board of commissioners meetings for the Austin housing finance corporation meeting. The time is 3:55, Thursday December 15th, 2016. We are in the city council chambers. We have a quorum of the board present. You want to take us through what we need to be doing here?

>> Yes. We have one item before you today, Rosie Truelove, the swim director of neighborhood housing and community development and the treasurer of the Austin housing finance corporation. We have one item and that's to authorize an increase of \$992,000 to an existing loan to the Chestnut neighborhood revitalization corporation for a total loan not to exceed \$4,954,417 for the construction of mixed use affordable housing ownership located at East 13th and Chicon streets.

>> Mayor Adler: Okay. Is there a motion to a prove this item?

[3:56:09 PM]

Mayor pro tem so moves. Councilmember Houston seconds. Any discussion? Mr. Renteria?

>> Renteria: Yes. I'm very concerned about is this -- this loan -- this section of the loan is forgivable also?

>> Yes.

>> Renteria: And why -- why the high cost? We just give them over two million somewhere, last year, to complete this project. What's causing the high cost? Overrun?

>> There's a number of factors that have influenced this contract or this agreement. And Sarah Andre with the developer is here to answer some specific questions if you would like her to come up, please.

>> Renteria: Yes, please.

>> Hello. Sure, so councilmember Renteria, the cost factor, there are a number of things. Number of things involved in the high cost. First and foremost as you may be aware, construction costs in general are skyrocketing. I have a very similar development on Oak Springs Drive that is at something like 212,000 per unit. Second, the infill site has higher cost factor than an apartment building, for example, that would be built in a green field in kind of the suburbs. You have restrictions on the depth of the site, the width of the site. The zoning does not allow for greater density. If we were -- we're restricted to 15 units per lot. If we could go up to 30 units, that cost would come down because we don't have efficiencies of scale. Those are all issues. I think you all have been apprised of the issues with our electrical utilities that were unforeseen.

[3:58:12 PM]

Now some of those costs have been reduced thanks to a great cooperation from this department and Austin energy. That actually was amazing. But in general costs are -- I mean, the high cost, I agree they are high. It's very painful, but I can also tell you just from my experience in developing multi-family, this isn't unusual at all for this product type or this kind of location. These infill sites are very difficult to squeeze a building in and get any kind of scale.

>> Renteria:

>> Renteria: that really concerns me -- because, I mean, are we really gonna be doing these kind of projects. You come to us saying this is what we need to finish our project and we fund it, and now you're coming back almost for another million dollars to complete this project. It's as that gonna be the last time you come over here asking us for more money on your project? I mean for that kind of money we could have built a lot more further out there. I mean, I'm really concerned that someone didn't do their homework very well when we're having all these cost overruns that -- because unforeseen, we didn't know this, didn't know. You know, that really is concerning me because, you know, we're taking a lot of money that we could use to build affordable housing in other locations and we're spending it on this project and you're saying how many, 15 in one unit and how many in the other unit?

>> The total is 43.

>> Renteria: 43 units, wow, that's a lot.

>> Mayor Adler: Ms. Pool giant --

>> Pool: Hanks, mayor. Ms. Ms. Truelove could speak to us about one of the issues she wrote in a minimum today. Is this pertinent to this particular conversation? It said earlier this year while applying for construction financing beyond ahfc's contribution the proposed new lender discovered a title issue.

[4:00:20 PM]

Did that affect the amount of money that is a part of the loan and that is why we have to come back and ask for additional funding? Or is this a separate issue entirely?

>> They are intertwined. It completely halted all ability to close on that loan. No lender that cannot get clear title to your laundry in the event of default is going to proceed with a loan so that was in April. And it took many months to unravel that and it was one of those issues with we were told it would be a couple weeks and then it was, you know, four, five months, and that is time that we could have been demobilized and not spent money. But, you know, hindsight is 20/20 on that sort of item. It cost money to demobilize, costs money to remobilize so you're per pet tilely every week wag the proand con, do we stop work or keep going? Unfortunately, we kept going when we probably should have stopped.

>> Pool: Is the \$992,000 amount that -- what this request is, does that represent the piece that didn't get the original funding because of the title loan issue? Or the title issue?

>> No. It's much more complicated than that in terms of how all the dollars fit together, although that was a contributing factor to the tune of about \$400,000.

>> Pool: Okay. Thank you.

>> Mm-hmm.

>> Mayor Adler: Any further discussion on this item? Ms. Houston.

>> Houston: Thank you.

>> Mayor Adler: Then Mr. Zimmerman.

>> Houston: Thank you all so much. Please assure them that we've had these same conversations, and I even said could we sell the property, make a profit and then that wasn't something that we could do. So I think this is the last time. I think the money that we would grant, if you all choose to grant it today, they could use to leverage some additional funding to be able to complete the project without coming back. Is that correct?

[4:02:21 PM]

>> That's absolutely correct. There's \$2 million loan coming from the Texas state affordable housing corporation and a \$4 million loan coming from frost bank that will round up the balance of the construction costs for this project but both of those are contingent on this funding copying through from the city -- from the Austin housing finance corporation.

>> Mayor Adler: Mr. Zimmerman.

>> Zimmerman: Thank you, Mr. Mayor. I'm looking at the backup material here for what you might call the capital stack, and I believe with this additional 992,000 it will be up to about 12.7 million is that right?

>> The total development costs, yes.

>> Zimmerman: Yeah, total costs. You're proposing to add 992,000. So in the stack, I don't have an overhead of it, but the 992 is a line item and right below that is the frost bank loan that you mentioned for \$4 million. Do we know what the interest rate and the terms of that loan -- is that 25, 30 years? Is it 3%, 4%?

>> No. That is a short-term construction loan. It is -- so 24 months and I have a letter stating the terms. I don't want to misrepresent the interest rate, but it's in the 5% range, I think 5.25.

>> Zimmerman: Okay. It's a construction loan then.

>> Yes, sir.

>> Zimmerman: Okay. But the 992,000 would be joined with about the 3.9 million. And that is --

>> Yes, sir.

>> Zimmerman: That's the grant disguised as a loan? Because it's not gonna be paid back, right? There's no interest rate. There's no term, and there's no penalty for default. Is that correct?

>> Correct.

>> Zimmerman: For the 4.8 million?

>> Correct.

>> Zimmerman: Okay. So I'm gonna be voting against this. This came up almost two years ago when I started to really investigate these deals, and it just seemed -- to me it seems very, very misleading if not dishonest to say something is a loan when there's no intention to collect any interest, no intention to have it paid back, and no default provision if it's not repaid, so it's really a grant.

[4:04:27 PM]

It's not a loan.

>> Mayor Adler: Okay. Any further discussion on this?

>> Renteria: I have one quick -- where is this money coming perfect?

>> It's coming from general obligation bonds.

>> Renteria: What?

>> General obligation bonds. And through this we will get 33 permanently affordable units.

>> Renteria: At what mfi?

>> 80% or less.

>> Renteria: And can you give us the breakdown?

>> No, sir, I cannot give it to you. I do not actually have our home buyers financial information. A third party wheel house verifies their income for us.

[Indiscernible] Laysperson is no longer allowed to do the . I can't give you the breakdown of one is at 65, one is at 72, seven are at 78 because I don't have that information. It's not -- I don't see any of their

financials. That is all under community wheel house, but we can generate a report from them that does say what the break-out is.

>> Mayor Adler: Any further discussion? Take a take. Those in favor of approving this item please raise your hand.

[4:06:29 PM]

Those opposed? Renter votes no, troxclair, Zimmerman, both vote no. The others voting aye. This item passes. Thank you. I think that's the last item we had on our agenda.

>> That's the last item.

>> Mayor Adler: We'll adjourn the meeting with the board. And then the time is 4:06 we're adjourned and now we're back into the regular meeting.