Housing Finance Authority of Palm Beach County
100 Australian Avenue, Suite 410
West Palm Beach, FL 33406
(561) 233-3656
FAX: (561) 233-3657
www.pbchfa.org

To: Housing Finance Authority

From: Executive Director

RE: February 10, 2017 regular meeting

Dated: February 2, 2017

Subsequent to the last Authority meeting in December the District 4, 5 and 7 county commissioners have or are expected to appoint three new members to the Authority: Commissioner Berger and Commissioner Bernard have respectively appointed Gary Eliopoulos (effective December 20) and James Harper, Sr. (effective January 10), and Commissioner Kerner is expected to appoint Patrick Franklin at February 7 BoCC meeting (to be effective on that date).

I am in the process of having recognition plaques made for outgoing Authority members Jimmy Weatherspoon and Ray Popkin who had served on the board since 2003 and 2012 respectively. They will ready by the February 10 meeting but at this time neither has confirmed whether they can attend for a presentation.

V. "Old Business" items:

Item (a.) New South Bay Villas Apartments – final approval for the issuance of bonds

Background: The Authority first considered an application prepared by McCurdy Senior Housing, as the development partner with the Palm Beach County Housing Authority ("PBCHA"), in May 2015 for the issuance of up to $16M of bonds to finance a portion of the cost of the acquisition and substantial rehabilitation of the existing South Bay Villas apartments and the demolition/replacement of the adjoining Marshall Heights apartment complex located just west of US 27 on Palm Beach Road/Dr. Martin Luther King, Jr. Blvd. in the City of South Bay. The Authority at that time approved a bond inducement resolution with the developer/purchaser ("Developer"), New South Bay Villas, Ltd., the general partners of which are the PBCHA as 51% majority owner and McCurdy Senior Housing.

Marshal Heights was constructed in 1975 and owned and operated by the PBCHA. South Bay Villas (built in 1988) was acquired by the PBCHA from the NOAH Development Corporation in a 2013 transaction arranged with purchase assistance of approximately $1M of federal Neighborhood Stabilization Program 3 ("NSP") funding from Palm Beach County ("PBC") administered by the PBC Department of Economic Sustainability. PBC also provided $773K of NSP2 funds for the $1.1M cost of the substantial rehabilitation of two buildings totaling 16 units of South Bay Villas that was completed in July of 2015. At the time of inducement the project had an additional award of $2.5M of HOME funds from PBC pursuant to a 2014 competitive RFP which the developer subsequently determined they could not use. This resulted in a request to increase the amount of bonds to not exceeding $18.6M which was approved by the Authority in May of 2016.

The New South Bay Villas ("NSBV") apartments will consist of 131 units made up of the 65 substantially rehabilitated units of the former South Bay Villas, and following demolition, 66 newly constructed units on the former Marshall Heights site. The Developer is purchasing the existing apartment buildings from and entering into a 75-year ground lease ($500K one-time upfront payment then $1 annually) of land with PBCHA. The unit mix will be 3-1 bedroom, 56-2 bedroom, 32-3bedroom, and 40-4 bedroom rented to households at 60% or less of Area Median Income. The Developer and the PBCHA will also enter into a HAP contract providing Section 8 project based assistance vouchers for 130 units resulting in monthly payments to the Developer ranging initially from $955 to $2,027. Permission for the demolition and sale of Marshall Heights was approved by HUD this past October, and the Subsidy Layering Review for the HAP was given in December.

The most recent/final public (TEFRA) hearing on the issuance of the bonds was held by the Authority in August 2016 and the results of the hearing approved by the Board of County Commissioners in September at the same time as the Authority ordinance required approval of the issuance of the bonds, including disclosure of the bond underwriter (RBC Capital Markets) and bond counsel (Bryant Miller Olive). The Authority secured $18.6M of 2016 private activity bond allocation from the Division of Bond Finance, and this amount received a carry-forward at year end.

Financing: Total development cost has increased since 2015 from an estimated at $31.2M to $38.8M or $295.9K per unit. Over $4M of the increase is due to rehab costs for the old South Bay Villas units that originally had been anticipated to be funded from other sources, about $500K in construction related costs, $1.1M of acquisition cost, and the balance across all other categories. The funding sources include i) a $3.36M subordinate lien mortgage representing the purchase of the site improvements, ii) $15M from the syndication through R4 Capital of the limited partnership interest in the project that will receive 4% low income housing tax credits, iii) a not-to-exceed $18.5M of tax exempt multifamily housing revenue bonds ("Bonds") issued by the Authority arranged by R4 Capital Funding (as project loan originator/servicer) and purchased by RBC Capital Markets for delivery to Western Alliance Bankers Trust as the bondholder. The interest rate on the Bonds will be established just prior to closing (expected February 17) based on the then 15-year MMD (Municipal Market Data) index (2.54% of January 31) plus 2.15% during construction (26 months) and 2.65% following stabilization conversion. During the construction period the Bonds will be additionally secured by a direct pay letter of credit ("LOC") issued by JPMorgan Chase Bank. The minimum debt service coverage ratio at stabilization/conversion is 1.20x and a maximum 85% loan-to-value ratio. The Bonds are interest-only during the construction period and then amortize over 35 years with a bondholder directed optional mandatory tender April 1, 2034. **The R4 investment committee approvals for both the debt and equity are expected on February 9, the Chase approval for the LOC is expected on or about February 7. While not anticipated any issues resulting from these final approvals will be known before consideration of the Authority authorizing resolution at the February 10 meeting.**

The following is the Developer's most recent projection of all sources and uses of funds:

Uses of funds:			Sources of funds:	
Payment to PBCHA	$ 3,750,000		Tax credits	$15,088,274
Demo and tenant relocation	1,059,111		Bond issue	18,500,000
Construction hard costs	22,807,643		PBCHA sub. loan	3,360,000
Financing costs	2,682,843		Income during constr.	730,990
Soft costs	2,418,653		Defer. Dev. Fee	1,080,428
HUD req. operating reserve	1,048,497			
Developer fee	4,992,945			
Total Uses	$38,759,692		Total Sources:	$38,759,692

Credit Underwriting Report: The complete credit underwriting report ("CUR") from AmeriNat dated February 2 has been posted to the Authority's website. Included in the e-mailed board agenda materials is the "Executive Summary" as well as the "Report Summary" recommending the issuance of full $18.5M Bonds. The recommendation is conditioned upon six remaining items being acceptable to the AmeriNat or waived by RBC Capital Markets, Chase and R4 prior to bond closing: the final executed general construction contract, final plan and cost review, confirmation of property tax exemption, confirmation of the number of parking spaces, confirmation of flood zone designation, and a revised ground lease indicating the up-front payment to the PBCHA.

As a subsequent version of the CUR will be submitted to the Florida Housing Finance Corporation for purposes of their allocation of the 4% low income housing tax credits AmeriNat incorporates certain FHFC underwriting rules that result in several differences from the Developer's source and use of funds which in total are about $900K higher: the major differences are per FHFC formula the developer fee could be 18% of total developer costs which is an additional $800K; they included an operating deficit reserve of $1M, but they also did not use the $731K of interim income during construction. Also in determining the estimated Bond amount at stabilization they assumed a market interest 50 basis point higher than the January 31 MMD index which results in a permanent loan amount of just over $17M. This increases the projected deferred amount of developer fee to $4.1M from the $1M Developer projection. The CUR estimates that the full $4.1M of deferred fee would be paid out from project excess cash flow over 12 years.

The appraisal done as part of the CUR process determined a "Rent Restricted Market Financing Stabilized Value" of $22.7M; market value without the tax exempt bond/low income housing tax credits and HAP contract is $12.1M. The "break-even" ratio (debt service + operating expense/gross revenue) is 85.3%; ratios at or below 85% are considered very good and this property will have a HAP contract on all but one unit to assure the revenue stream.

<u>Previous Authority action on book entry registration:</u> The Authority has a stated policy for the issuance of un-rated bonds that require, among other things, that the bonds be issued as a single bond, can only be sold to an accredited investor with a traveling letter, and that the bonds not be eligible for book entry (i.e. electronic/DTC registration). The guidelines allow the board to waive in its sole discretion any of these restrictions, and while it has on a number of occasions waived the single bond and traveling investor letter requirements, the Authority had not permitted book-entry for non-rated debt. R4 Capital advised that the bank holding company that will be the ultimate purchaser of the Bonds wanted book entry as they are not equipped to hold a physical bond. Staff and both of the Authority's bond counsel firms discussed this at length and came up with a set of limitations/conditions as a recommendation for DTC/book entry eligibility: 1) issuance of one bond that cannot be divided; 2) resale only to Qualified Institutional Buyers known as QIB's; 3) an initial investor letter from both the bond underwriter and initial bond purchaser; 4) a traveling investor letter; and 5) the Fee Guaranty and Environmental Indemnity Agreement to include indemnity for trading in violation of this conditions. R4 Capital provided a letter indicating that the purchaser has agreed to these items, and this was presented to and approved by the Authority at the November 18, 2016 meeting. What we didn't know at the time was the Developer and the individual guarantors had not been consulted about #5 above which put them at potential financial risk for a bond trading violation over which they have no control. The Developer objected to this when they saw #5 in a subsequently circulated draft of the indemnity agreement. The recommendation of staff now is to remove #5 from the indemnity agreement; the indemnification language will now be added to the initial investor and travelling investor letter as set forth in Section 19 of R-2017-01.

<u>Staff recommends a motion: to remove from the Fee Guaranty and Environmental Indemnity Agreement any indemnification requirement for bond trading violations.</u>

<u>Authorizing resolution R-2017-01 and documents:</u> Included in the e-mailed agenda materials is Resolution No. R-2017-01 without exhibits (all exhibits have been posted to the Authority's website) prepared by Bryant Miller Oliver as bond counsel authorizing the issuance of the Bonds, sets forth among others findings of the need to issue the Bonds and for a negotiated sale thereof within certain maturity date and interest rate parameters, authorizes Authority officers to execute the documents for the issuance of the Bonds, accepts the CUR, appoints US Bank as trustee for the Bonds, and waives certain requirements of the Authority's multifamily

housing revenue bond issuance guidelines (as discussed above). The resolution also approves in substantially final form: the Trust Indenture with US Bank as trustee; the Loan Agreement with the Developer; the Land Use Restriction Agreement between the Authority and the Developer; the First Leasehold Mortgage on the project and assignment thereof to US Bank to secure the Bonds; the Bond Purchase Agreement with RBC Capital Markets; the Fee Guaranty and Environmental Indemnity Agreement with the general partner of the Developer, Wallace Sanger, Dwight Stephenson and Harry Darling, individually, and the Harry Darling Family Trust; the Intercreditor Agreement which is to remain in effect while the JPMorgan Chase LOC is outstanding; and the Subordination Agreement for the second mortgage loan from the Developer to secure the PBCHA loan.

Staff recommends a motion: to approve Resolution No. R-2017-01 authorizing the issuance of not to exceed $18,500,000 Multifamily Housing Revenue Bonds (New South Bay Villas) Series 2017.

Item (b.) Update on revolving construction loan with the Community Land Trust of Palm Beach County for Davis Landings West

The Authority entered into an agreement in 2016 with the CLT to provide a first mortgage lien secured revolving construction loan of up to $3.4M for the final build-out of Davis Landings consisting of the new construction of 24 home single family homes ("DLW") of which 16 are detached zero lot line and 6 are townhomes. They were awarded and entered into a $1.747M HOME loan agreement with Palm Beach County for construction that will convert to a down payment assistance second mortgage of up to $79.4K per unit on 22 of the homes. The CLT initially projected that the least amount of loan funding needed would be $1.5M based on their construction schedule/loan draws and cash receipts from home sales therefore the initial loan amount and first mortgage was set accordingly. The agreement allows for one increase in the loan amount up to the $3.4M cap upon written request of the borrower.

Site development construction commenced in July 2016 with the first vertical construction of homes started in mid-October. It is anticipated that the will be the first homes to be completed around mid-April 2017 with the final units by mid-July 2017. As of January 31 the Authority had funded eleven (12) draws with the CLT under the revolving loan totaling $2.9M of which PBC had reimbursed a total of $1.7M from draws under the HOME loan agreement leaving a current balance of $1,190,244. The CLT has by letter dated January 23 has requested an increase up to $3.4M to better facilitate timely construction of the homes and provide additional flexibility with homebuyer closings. While the increase in loan amount will necessitate documentation and recording of a supplement to the first mortgage, the cost of which is to be borne by the CLT, it does not require Authority board action.

No action of the board is required for this item.

Item (c.) Update on proposed loan participation with the Florida Community Loan Fund for Neighborhood Renaissance projects

At the December meeting the board considered a request from the Florida Community Loan Fund (http://www.fclf.org/), a state-wide affordable housing lender, for Authority participation in proposed new construction loans to Neighborhood Renaissance for two new construction projects. The request was for participation in one or both loans with minimum participation amounts of $555,333 for the Arts Lofts and $1M for Mango Cove and projects respectively. FCLF had issued commitments to NR provide: 1) a $1,666,000 construction loan with a term of 24 months, a fixed rate of 5%, and a 50% pre-sale requirement; and 2) for Mango Cove a 24-month $3M construction line of credit at a fixed rate of 5% with an option to convert to a 7-year balloon perm loan at 5.5%, and FCLF would take-out the Authority's participation following completion of construction. The Authority approved the reservation of not less than $1.6M and not more than $2.5M of revolving loan program funds for and gave conceptual approval of construction loan participations for one or both projects, and authorized staff to negotiate loan terms and conditions for consideration by the Authority.

The following is a summary of the projects and projected costs as initially presented:

Arts Lofts at West Village – NR has entered into a development agreement in September 2015 with the Lake Worth Community Redevelopment Agency for the construction of up to eleven residential townhomes on a site at 110 N F Street in Lake Worth to include studio/work space with garages, parking and some commercial space which now must be completed by November 25, 2017. NR has closed on the site (donated by LWCRA) and is seeking construction financing for 8 townhomes with a projected total cost of $2.7M; sources (based upon the FCLF loan commitment amount) and uses of funds are as follows:

Uses:	Total	Per unit
Land	$ -0-	$ -0-
Construction costs	1,973,969	246,746
Financing and general dev.	473,889	59,236
Developer fee	302,363	37,795
Total costs	$2,750,221	$252,658
Sources:		
Construction loan (*)	$1,666,000	$208,250
LWCRA funds NSP2 grant	700,000	87,500
Deferred developer fee	302,363	37,795
Other developer equity	81,858	10,232
Total	$2,750,221	$252,658
(*) not to exceed 85% LTV		

The townhomes will be 2 bedroom/2.5 bath with 1,306 square feet of living area, a 339 square foot studio, and a one car garage. NR provided an August 30, 2016 appraisers valuation of the typical Art Lofts townhome showing as-built value of $245K. The LWCRA requires that the buyers must be artists whose incomes do not exceed 120% of AMI adjusted for family size (i.e. currently range from $56,250 for one person to $80,640 for a four person household) Using a $240,900 net sales price results in an $11.8K per home or roughly $90K potential total shortfall that would reduce the Developer Fee by like amount. The LWCRA completed the construction of 17 similarly styled but significantly larger "artist" townhomes just east of this site back in 2012. NR indicates they have a list of 40 interested purchasers that they are currently working to pre-qualify. The loan commitment letter from FCLF requires 4 pre-sales before funding is released; NR advised $700K will be disbursed before construction loan proceeds are drawn. The development agreement between NR and the LWCRA requires the completion of construction within a certain time frame otherwise the LWCRA has the right to repurchase any units that have not received a certificate of occupancy.

Mango Cove – NR purchased a now vacant site located just north of Forest Hill Boulevard on Florida Mango Road between I-95 and Congress Avenue earlier this year borrowing $1M from FCLF which they intend to develop, own and operate a 36-unit workforce (income capped at 120% of area median income) income restricted rental apartment complex consisting of 2 bedroom/2 bath units of approximately 925 square feet. Site amenities are to include walk paths along the small lake behind the buildings, a tot-lot, and a play court and picnic area. They anticipate an approximate 12 month construction period. NR has provided a Source & Use of funds totaling $7.9M or $219K per unit is summarized as follows:

Uses:	
Land loan repayment	$1,175,000
Total construction and contingency	4,900,280
Financing cost	181,504
General development cost	868,674
Operating reserve & lease up	155,935
Developer fee	610,639
Total Uses	$7,892,032
Sources:	
NR equity from unit sales	$4,207,500
Construction loan	3,253,349
Grants	200,000
Deferred developer fee	231,183
Total Sources:	$7,892,032

The $4.2M of equity is expected to come from proceeds of future sales of a portion of NR's portfolio of mostly single family homes currently held as rentals that had been acquired and rehabilitated using NSP2 funding provided through PBC. Under the terms of the NSP2 agreement program revenues must be recycled for housing limited to occupants at 120% AMI. Subsequent to the December Authority meeting NR was advised by PBC that $500K of sales revenue must be repaid. FCLF has by letter dated February 1 advised that they are considering an increase in the loan amount from $3M to $3.8M to accommodate the $3.25M NR had initially requested plus the additional $500K of unforeseen expense. Unless the Authority board has other requirements I am comfortable with what would be our pro-rata increase in a loan participation for Mango Cove subject to due diligence review (FCLF will share all NR provided budgets, pro-forma's, agreements, and contracts, as well as third party appraisals, plan & cost review, and environment reports. FCLF will be preparing the loan documents and participation agreement which Authority staff will review and comment. FCLF has advised that they will not require market studies and I agree that 1) it is of no consequence to the Authority on Mango Cove as we'll be taken out at the end of construction, and 2) the unique nature of the targeted buyer (artists) limitations on the Arts Lofts makes a study problematic.

No action of the board is required for this item.

VI. "New Business" items:

Item (a.) Consider master line of credit agreement with Habitat for Humanity of South Palm Beach County

The Authority entered into a $500K revolving construction loan agreement with HFHSPBC and its community land trust affiliate in December of 2013 for the new construction of up to 4 homes in Ocean Breezes West and up to 4 on scattered sites. The loan was secured by a first mortgage on each home site. One home funded with proceeds of that loan remains to be sold but HFHSPBC has advised that the $77K loan balance will be repaid in full on or before the March 31 loan maturity date.

I met with HFHSPBC executive director Randy Nobles and CFO Reg Hoskins back in November to discuss another loan for lot acquisition in the Pearl City/Lincoln Court area of Boca Raton. I advised them that rather than creating a new loan program for each project that staff was then in the process of coming up with a master line of credit starting with a loan request from the West Palm Beach Housing Authority. The line would authorize a maximum dollar amount set by the Authority board but each individual project loan could be entered into without having to get board approval each time. The individual project loans would require either a pledge of anticipated grant funds or a first mortgage on the property.

Included in the agenda materials is a January 27 request and application (less financial statements) from the HFHSPBC for a loan amount of up to $500K for acquiring lots in either of these two east Boca Raton neighborhoods with a term of 36 months. Repayment is proposed to be a minimum 2.5% principal reduction monthly with a to-be-determined lot release payment amount.

Staff recommends a motion: to give conceptual approval for a master line of credit in an

amount not to exceed $500,000 with Habitat for Humanity of South Palm Beach County, the reservation of an additional $500K of surplus funds under the Revolving Loan Fund, and authorize staff to prepare loan terms and documents for presentation and final approval at the March 10 meeting.

Prior to action on the HFHSPBC request the Authority had reserved $6.15M of surplus for its Revolving Loan Fund program, and if approved this amount would increase by $500K for the following borrowers or loan participation.

Borrower:	Reservation or loan dated:	Maturity:	Reservation amount
HFASPBC	To be considered 2/10/17	36 months	$ 500,000
PBC CLT	5/23/16	5/23/18	3,400,000
WPBHA	11/18/16	36 months	250,000
FCLF loan participation	12/09/16 reservation	24 months	2,500,000
Totals:			$6,650,000

Item (b.) Consider updated Internal Operating Procedures

The Authority has a formal set of Internal Operating Procedures that incorporates most of its activities. The last update to these was in later half of 2014, and with several policy matters having been implemented by the Authority since that time as well as new board members this seemed an appropriate opportunity for another update. What I propose is a review and opportunity to discuss not only the proposed updates but any other matters or concerns the board may have and then take action on a final revised document at a subsequent meeting.

No action of the board is required for this item.