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# McKinney Housing Finance Corporation Sphinx Proposal

James P. Plummer, Partner  
Norton Rose Fulbright US LLP  
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# Project Summary

- 219 Units
- 98% Tax Credit (60% or less of median income)
- Project Financing Gap Without HFC Tax Exemption, approximately \$3,000,000 (Assume \$400,000 tax ÷ .06 x 50%)
- Total Project Cost \$41,183,692

# McKinney Housing Finance Corporation

Expands the City's ability to provide additional incentives for public/private partnerships to facilitate and finance workforce housing or senior developments by providing 100% property tax exemption

## Low Income Tax Credit

Income limited to 60% of median income for tax credit portion of Project

1 person	\$30,840
2 people	\$35,280
3 people	\$39,660
4 people	\$44,040

## **Rents restricted to 30% of 60% of median income**

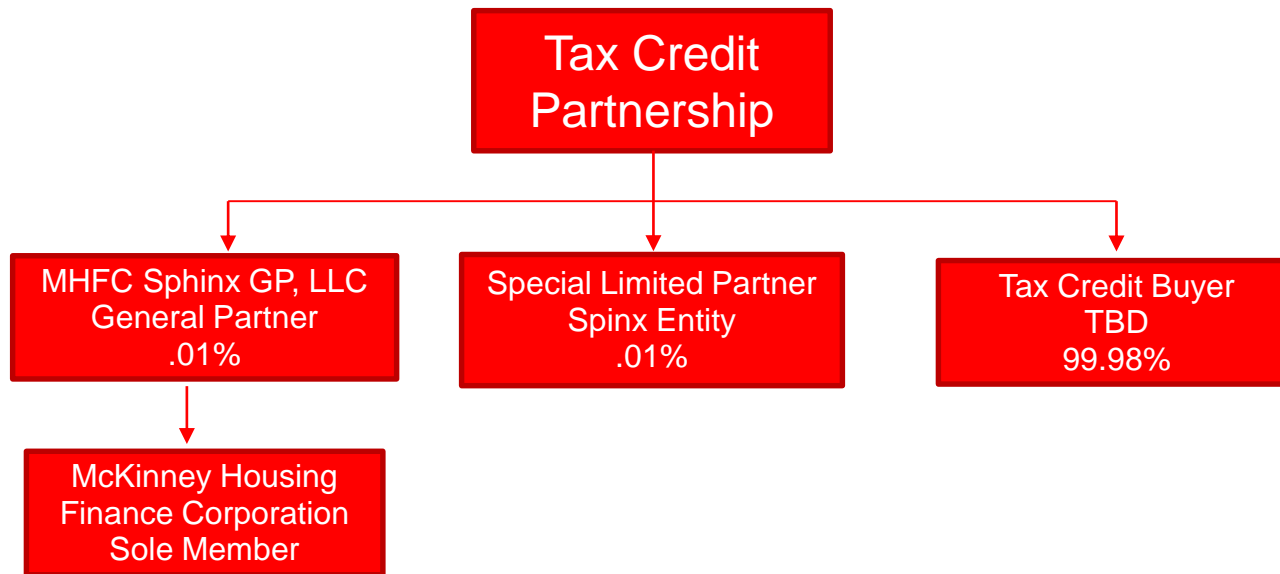
1 bedroom	\$ 826
2 bedroom	\$ 991
3 bedroom	\$1,145



# Risk Shifting Structure

- HFC should not assume the risk of construction, operations or debt
- HFC will enter into a partnership agreement, development agreement and lease of the project with development entity
- Development entity must raise equity and obtain debt and assume all risk
- Lease will have an up-front lease payment sufficient to acquire land
- Development Agreement will require development entity to construct project on leased land
- Development Agreement gives you control over quality
- Also control over admission criteria

# Organizational Chart



## Sphinx at Throckmorton Villas

820 E. University Dr., McKinney, TX 75069

Tax Exempt Bonds w/ 4% Tax Credits

2017

### PROJECT SUMMARY

Acreage	12.96	Operating	727,662	3,323
Total Net Rentable Square Footage	234,951	Management Fee	96,830	442
Accessory Structure Sq. Ft.	14,260	Property Taxes	0	0
Low Inc. Rentable & Access. Sq. Ft.	249,211	Reserves	55,000	251
Patio, Balconies & Utility Sq. Ft.	66,542	TTL	879,492	4,016
Total Rentable Sq. Ft. & Patio etc.	315,752			
Commercial Spaces (Sq. Ft.)	12,392.00	0% Units at 30%	Area Median Income	
Total Overall Square Footage	328,144	5.4% Units at 50%	Area Median Income	
Number of Units	219	93% Units at 60%	Area Median Income	
Number of Low Income Units	214.9923	2% Units at Market		
Number of Market Rate Units	4.0077	23% Units 3 bedroom or larger		

### Sources of Funds

	Permanent Amount	% of Ttl Dev. Cost	Construction	% of Ttl Dev. Cost
<b>Debt</b>				
Tax-exempt Bonds	20,217,000	49.1%	24,000,000	58%
Taxable Debt	-	0.0%	-	0%
Other debt - HOME	3,000,000	7.3%	3,000,000	7%
City Soft	-	0.0%	-	0%
McKinney - Fee Waiver & Sales Tax	-	0.0%	-	0%
TDHCA MFDL Match	150,000			
<b>Equity</b>				
Tax Credit Equity @ \$ 1.00	15,688,713	38.1%	9,413,228	23%
Deferred Developer Fee 45%	2,127,979	5.2%	4,769,828	12%
GP Equity	-	0.0%	636	0%
<b>Total Sources of Funds</b>	<b>41,183,692</b>	<b>100%</b>	<b>41,183,692</b>	<b>0%</b>

### Uses of Funds

	Total Costs	Per Unit	Per Sq. Ft.	% of Ttl Dev. Cost
Land & Buildings	1,425,000	6,507	6.07	3.46%
Construction	27,660,696	126,305	117.73	67.16%
Architecture & Engineering	859,000	3,922	3.66	2.09%
Permits & Fees	917,982	4,192	3.91	2.23%
Financing	695,170	3,174	2.96	1.69%
Construction Period Interest	2,310,000	10,548	9.83	5.61%
Bond Costs	534,435	2,440	2.27	1.30%
Tax Credit Costs	79,337	362	0.34	0.19%
Soft Costs	442,201	2,019	1.88	1.07%
Legal	124,000	566	0.53	0.30%
FF&E	224,600	1,026	0.96	0.55%
Pre Stabilization Costs	89,500	409	0.38	0.22%
Reserves	1,051,942	4,803	4.48	2.55%
Developer Fee	4,769,828	21,780	20.30	11.58%
	0			
<b>Total Uses of Funds</b>	<b>41,183,692</b>	<b>188,053</b>	<b>175.29</b>	<b>100.00%</b>
	0.9			

# Housing Finance Corporation ("HFC") Requirements

- HFC would issue bonds to help finance the project
  - 50% of the cost of project must be funded with tax exempt bonds to receive 4% tax credits
  - Bond proceeds loaned to tax credit partnership and used to pay for construction
  - Bonds would not be paid by City, only payable from project
- HFC would create a single member limited liability company to serve as the general partner of the tax credit partnership
  - Limited liability company has no assets except for partnership interest
  - Risk of liability in LLC but it is separate legal entity with no assets
- HFC would own the land and lease it to the tax credit partnership for 75 years
  - Lease will provide an up front lease payment sufficient to pay for the land
- HFC will enter into a joint venture with the construction company to bring about a sales tax exemption for the purchase of materials

# Housing Finance Corporation Fees

**Based on a Bond amount of \$20,000,000**

Issuer Fee to HFC	\$31,250
25% of Developer Fee (Paid over 9 years) to HFC	\$1,192,457
30% Cash Flow Revenue after Developer Fee paid off to year 15	<u>\$700,000</u>
Total Revenue over 15 years	\$1,923,707



# Risks/Considerations

- Worst case scenarios:
  - May not make projected profits but HFC will have no investment in the project
  - Should a project fail, equity provider or lender may take the project and the HFC could lose control of the project; however, in doing so, they would jeopardize their property tax exempt status, so this is unlikely
  - HFC may not be able to withdraw from the partnership once it is formed
  - You can be sued; you should have insurance and indemnities and should not have liability, but you can't stop someone from suing you
  - Interactions with other taxing jurisdictions



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