Strategic Housing Finance Corporation of TRAVIS COUNTY

strategichfc.org

WORKFORCE HOUSING DEAL TERMS

PROJECT SCREENING CONSIDERATIONS	
General	• Strategic HFC will determine project fit through review of the prescreening and formal application. Criteria include but are not limited to developer track record, geographic location, and portfolio concentration. • This term sheet is subject to revision by Strategic HFC
Unit Sizes	• Preference for projects that include 2BR units or larger. Projects that consist primarily of 1BR/studio units will be considered on a case-by-case basis.
Acquisition	• Considered on a case-by-case basis. Projects over 5 years old require third-party market analysis and Physical Needs Assessment or comparable information on condition.
Mixed Use Design	• Considered on a case-by-case basis • Non-residential uses must be condo-ed separately from residential use and Strategic HFC will not participate in ownership of non-residential condo
Tax Abatement Eligibility	• Deal structure must comply with Chapter 394 of Texas Local Government Code which regulates Housing Finance Corporations. • Emergency Service District (ESD) and conservation/reclamation district taxes ARE NOT tax-exempt under the HFC partnership structure.

Threshold Requirements	

Affordability Set-Asides	• Income-restricted units must be distributed in proportion to the non-income-restricted units by bedroom count and have the same finishes and amenities.
	• A maximum of 10% of total units may have unrestricted rents, and the remaining 90% of units must be affordable to households earning no more than 120% AMI.
	  ○ At least 15% of units must be set aside for and affordable to households earning 50% AMI or less.
	  ○ At least 35% of units must be set aside for and affordable to households earning 100% AMI or less.

Public Benefit Analysis	The project must pass a two-part public benefit test:
	State Regulatory Requirement:
	• At underwriting, Strategic HFC's board must make a good faith determination, based on the underwritten rents reflected in the developer's final proforma, that the development will return at least 50% of the value of the abated ad-valorem taxes in the form of reduced rent on an annual basis for a 3-year period:
	  ○ For new construction, the three (3) tax years follow the tax year when the project first achieves 90% occupancy.
	  ○ For acquisitions, the 3rd, 4th, and 5th tax year follow the tax year in which Strategic HFC acquires the project.
	  ○ Obtain a third-party HB21 underwriting assessment reflecting and confirming that the project will comply with the annual 50% rent reduction test under §394.9026(c)(2) over the initial 15-year operating period of the partnership.
	Strategic HFC Public Benefit Analysis
	• In addition to the regulatory requirements above Strategic requires the project to meet a minimum Public Benefit Score of 90 (inclusive of bonus points). The public benefit score is calculated as rental reductions plus projected Strategic HFC financial participation and fees over the initial 15-year operating period and must equal at least 90% of the estimated abated taxes for that same time period.
	• Up to ten bonus points are available for meeting Strategic HFC policy priorities

Annual Audit-Public Benefit Test	• Property will be required to submit an annual audit to TDHCA that demonstrates the project was in compliance with HB21 requirements for the previous tax year including annually meeting the 50% rent reduction test.

Bonus Points	
BONUS CATEGORY	**POINTS**
Public Sector Workers	4
Architecture	2
Decarbonization	1
Service Access	1
Transportation Access	2
TOTAL	**10**

Note: One bonus point equals one additional percentage of rent reduction, calculated as a share of the estimated abated tax value.
See Strategic HFC Bonus Points Addendum for additional information on qualifying for these elective bonus points.

Fees	
Partnership Application Fee	$15,000 due upon submission of the formal application and credited to origination fee at close
Origination Fee	50 basis points of total development cost or purchase price
3rd Party Fees	• HB21 Underwriting Assessment: Estimated up to $10K, payable up front or as required by the selected third-party underwriter. • Legal: Estimated $165K
General Contractor Fee for Construction Sales Tax Exemption	Fixed payment based on the number of units at $1200 per door. Half of the fee is paid at close of construction financing and the remaining half is paid when the last Certificate of Occupancy is received.
3rd Party Construction Monitoring	Not to exceed $3500/month
Ground Lease	Annual lease payment based upon 10% of the abated value of taxes Payments begin after the first year of stabilization and escalate 3% annually thereafter.
Partnership Management Fee	Minimum $100 per unit per year, with 3% annual escalator
Net Cash Flow	Minimum 4% pari passu with cash flow distribution to equity partner
Cash from Sale/Refinance	Minimum 1% of net proceeds after payment of transaction costs, outstanding debt and replenishing replacement reserves

Additional Required Deal Terms	
Purchase Option and Right of First Refusal	Required

Tenant Protections	Require adoption of the Strategic HFC Lease Addendum, which includes, but is not limited to, the tenant protection listed below:
	• Properties may not refuse to accept Housing Choice Vouchers (HCV) OR impose requirements that voucher holders make more than 250% of the tenant's portion of the rent
	• Properties must publicly post their policies on participation in HCV Program on their website
	• Properties must affirmatively market their property to voucher holders AND notify the local Public Housing Authorities
	• No qualifying tenant will be denied continued occupancy of a unit in the Development because such tenant's income increases to exceed the qualifying limit for a qualifying unit
	• All leases must contain provisions that
	  ○ Prohibit retaliation for participating in tenant organizing
	  ○ That are only non-renewable for cause
	  ○ Contain a 30-day notice of non-renewal
	• Properties must disclose all recurring optional and mandatory fees collected from tenants- at the time of application for residency
	• Fees collected for accepting, reviewing, and processing applications for residency are limited to actual, reasonable, and customary costs incurred, but not to exceed $100 per household, to be reviewed annually
	• Late fees, or other penalty payments collected for non-payment of rent, are limited to 5% of the tenant's portion of the rent, or 5% of the outstanding non-rent balance

Affordability/Hold Period	Minimum affordability period of 15 years governed by a LURA and with a minimum partnership hold period of 5 years, commencing at property stabilization, as marked by conversion to permanent financing.

<table>
<tr><th colspan="2">Underwriting Guidelines</th></tr>
<tr><td>Distribution of Affordable Units</td><td>Income-restricted units must be distributed in proportion to the non-income-restricted units by bedroom size.</td></tr>
<tr><td>Market Rents</td><td>For new construction or acquisition of property in operation less than 5 years: Developer to submit 5 comparable properties within 3 miles of property that support the estimated maximum market rent for the project
For acquisition of properties in operation 5 years or more: 3rd party market study required, as-is and as-renovated, if applicable.</td></tr>
<tr><td>Tax Estimate</td><td>Developer proposed, underwritten by a Financial Advisor. The taxable value is typically estimated as 80% of the Total Development Cost.</td></tr>
<tr><td>Capitalization Rate</td><td>5%</td></tr>
<tr><td>Affordable Rents</td><td>The rent limit on an income-restricted unit must not exceed 30% of the imputed household income limitation for that unit, adjusted for family size, as determined by HUD.
All non-optional fees and utility allowance must be deducted from the rent limit.
Non-optional fees refer to any recurring fee required as a condition of occupancy, including those for the use of a common area, amenity, or facility reasonably associated with the property.
Strategic HFC requires a utility allowance deduction, which should come from the applicable housing authority schedule or a third-party utility allowance schedule, subject to staff approval.</td></tr>
<tr><td>Underwriting Period</td><td>15 Years</td></tr>
<tr><td>Escalators</td><td>2% for revenue; 3% for expenses</td></tr>
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