



# TACOMA HOUSING AUTHORITY

## RESOLUTION 2012-6-27 (3)

DATE: June 27, 2012  
 TO: Board of Commissioners  
 FROM: Michael Mirra, Executive Director  
 RE: Hillside Terrace Phase I - Tax Exempt Bond Lender and Tax Credit Investor Selection

### Background

The Hillside Terrace, Phase I financing structure includes the sale of tax exempt bonds for construction and permanent financing and a 4% tax credit equity investment. On April 25, 2012 THA issued a Request for Letters of Intent/Interest for the Construction/Permanent Lender and the 4% LIHTC Investor Partner for Hillside Terrace Phase I.

The Request for Letters of Intent/Interest was sent to (9) Tax Exempt Bond lenders and (13) Low Income Housing Tax Credit Investors and Syndicators. The Authority received six (6) proposals from lenders and four (4) from investors; all were responsive.

A committee consisting of THA staff (Walter Zisette, Steve Clair, Roberta Schur, Ken Shalik and Todd Craven) reviewed the proposals. THA's financial advisor (CSG Advisors, Inc.) advised the committee. Subsequently, CSG Advisors, Inc. recommended to the committee a shortlist of the top three (3) competitive lenders and top two (2) investors. The committee received best and final offers and conducted interviews on June 5, 2012.

The results from lowest to highest based only on total cost are as follows:

NAME	Chase Bank	Key Bank	Heritage Bank	Enterprise	PNC
<b>Lenders</b>	\$3,868,533	\$3,743,517	\$3,679,828		
Total Cost, Ranking (lowest to highest), Difference from Lowest	3 \$188,706	2 \$63,689	1 \$0		
<b>Investors</b>				\$7,199,950	\$7,250,109
Net Present Value, Ranking, Difference from highest highest				2 \$50,159	1 \$0

Staff, however, recommends choices that are not based on cost alone. They recommend that the Board authorize the executive director to negotiate and if those negotiations are successful execute agreements as follows:

- Lender: Chase Bank
- Investor: Enterprise.

## LENDERS

Among the top three proposals reviewed by the Committee, the terms of the Heritage proposal presented the most savings (in financing costs) to the project. However, the Heritage proposal, for reasons described below, also presents the highest risks to both the project and the agency.

In summary, the Committee's recommends Chase Bank as the project's construction/permanent lender for the following reasons:

- The risks of working with a relatively inexperienced lender such as Heritage on a project like Hillside Terrace, Phase I (with a \$10 million construction loan and \$3 million permanent loan) far exceeds the advantages of the \$160,000 difference in costs (over the full term of the loan) between the Heritage and Chase proposals;
- Chase Bank has more experience than any other lender working with housing authorities on project's comparable to Hillside Terrace, Phase I;
- Chase's lead banker for the project gave the Committee more confidence than any other lead banker that Chase understands the project they are seeking to participate in and that they are motivated to do whatever is necessary to make the project succeed.

The following describes the Committee's full rationale for its recommendation on lender selection:

- Tax Credit project experience. Tax credit project experience is a critical evaluation factor in lender selection because 70% of the \$10 million construction loan needed for Hillside Terrace, Phase I will be paid off with tax credit equity. A lender that lacks experience in working with investors, or has not demonstrated an understanding of tax credit financing, would pose a serious and unnecessary risk to the project and to THA.

From the experience information and references given to us, we were able to find only one tax credit project where Heritage has served as the construction lender. In this project – with the Longview Housing Authority - Heritage is offering a \$400,000 construction line of credit on a project where U.S. Bank is the tax credit investor.

*Both Chase and Key Bank have significant project experience as construction/permanent lenders on tax credit financed projects like Hillside Terrace, Phase I. Heritage Bank's experience with tax credit projects is insignificant.*

- Lender team qualifications. The lead banker for the Chase team has 25 years of project finance experience as both a borrower and a lender. The Chase team has worked with many housing authorities in the region on projects comparable to Hillside Terrace, Phase I. The team lead for Key Bank did not present an in-depth understanding of the project, nor does the Key Bank team lead possess finance experience comparable to that of the Chase team leader. The lead banker for the Heritage team – in their interview – could not confidently describe their proposal or the overall financing strategy that THA is using for the project.
- “Vetted” pre-commitments to the project. Chase has indicated that their proposal has already been vetted by an internal loan committee for underwriting. Other lenders have not made that claim in their proposal. Key Bank did not indicate in their submitted materials nor in their interview that their proposal had been reviewed by a credit or loan committee within the Bank. Heritage points out that following several weeks of underwriting, its board of Directors would need to approve their loan commitment.
- Understanding of the Project. Chase made two visits to the project site before submitting their proposal, and asked extensive questions of THA’s finance consultant regarding assumptions included in the proforma. In their written material and in the interview, no other lender presented as detailed an understanding of all elements of the project.
- Risks of Inexperience. THA’s lender partner on this project will be responsible for a \$10 – 11 million construction loan, and a \$3 – 4 million permanent loan. Specific risks associated with assigning project lending responsibilities of this size to a less experienced lender like Heritage include:
  - The selected tax credit investor will closely examine the capacity and experience of the selected lender. If the tax credit investor determines that the selected lender poses a risk to project completion or may be the source of project delays, the investor will downgrade their initial underwriting of the project in a way that will be detrimental to THA and the project. If the risk perceived by the investor were to result in a one cent reduction in tax credit pricing from the investor, there would be an approximate loss of \$85,000 in tax credit equity to the project that would need to be covered by THA.
  - If uncomfortable with the project type, the local housing market, or the financing structure, construction lenders commonly withdraw their commitment to a project – or to change their underwriting of a project, altering the terms of a proposal before a final loan commitment is made.

- A less experienced lender is likely to require more THA development staff support to explain project milestones, and the requirements of other funders in the project.

## **INVESTORS**

The two top equity proposals (Enterprise and PNC) considered by the Committee were very competitive. After some discussion, the Committee reached a consensus decision to recommend Enterprise Community Investment as the Hillside Terrace, Phase I equity investor in the project. Both proposals and firms were very close in terms of both pricing and experience. The Selection Committee favored Enterprise Community Investments for the following reasons:

- Enterprises' proposed terms on the "back end" (i.e., terms that define the timing and cost of transferring ownership and full control of the property over to THA, its Managing Member, after 10-15 years) were more favorable to THA than those proposed by PNC.
- Enterprises' mission and track record in affordable housing development provided greater assurance to Selection Committee members that Enterprise was a better fit than PNC for THA's mission, organizational values and strategic objectives.

## **Recommendation**

Approve Resolution 2012-6-27 (3) authorizing THA's Executive Director to (a) negotiate and execute the Tax Exempt Bonds issuance and loan commitment letter from Chase Bank for the construction and permanent loan for Hillside Terrace Phase I (2500 Yakima, LLLP), (b) negotiate and execute the commitment letter from Enterprise Community Investments for the purchase of low-income housing tax credits to be allocated to Hillside Terrace Phase I (2500 Yakima, LLLP), (c) negotiate the Operating Agreement between THA as General Partner and Enterprise Community Investment as Limited Investor Partner. The Loan and Operating Agreements will be presented to the Board for its consideration and approval prior to execution.



# TACOMA HOUSING AUTHORITY

## RESOLUTION 2012-6-27(3)

### Hillside Terrace Phase I - Tax Exempt Bond Lender and Tax Credit Investor Selection

**Whereas,** The Housing Authority of the City of Tacoma (the "Authority") on April 25, 2012 solicited Letters of Intent/Interest for the issuance of Tax Exempt Bonds for construction/permanent financing and the purchase of low-income housing tax credits for Hillside Terrace Phase I (2500 Yakima, LLLP) ;

**Whereas,** The Request for Letters of Intent/Interest was sent to (9) Tax Exempt Bond lenders and (13) Low Income Housing Tax Credit investors and Syndicators;

**Whereas,** The Authority received six (6) proposals from lenders and four (4) from investors, all were responsive;

**Whereas,** The Authority interviewed a shortlist of three (3) competitive lenders and two (2) competitive investors with the follow ranking based on cost;

NAME	Chase Bank	Key Bank	Heritage Bank	Enterprise	PNC
<b>Lenders</b>	\$3,868,533	\$3,743,517	\$3,679,828		
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**Whereas,** The selection committee in consultation with CSG Financial Advisors determined Chase Bank to possess the best combination of terms and experience for construction and permanent lending and Enterprise Community Investment offered the best and final terms for the purchase of Low Income Tax Credits. Both offers were determined to be the most advantages to the project and THA; and

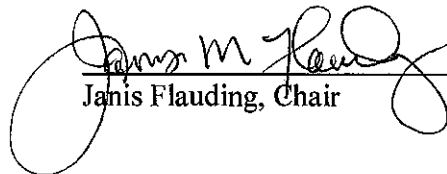
**Whereas,** The Contracting Officer, Michael Mirra, has reviewed the results of the evaluation committee and concurs that the committee's recommendation be accepted for Chase Bank and Enterprise;

**Resolved by the Board of Commissioners of the Housing Authority of the City of Tacoma, Washington that:**

1. The Executive Director has the authority to negotiate and execute the Tax Exempt Bonds issuance and loan commitment letter from Chase Bank for the construction and permanent loan for Hillside Terrace Phase I (2500 Yakima, LLLP);
2. The Executive Director has the authority to negotiate and execute the commitment letter from Enterprise Community Investment for the purchase of low-income housing tax credits to be allocated to Hillside Terrace Phase I (2500 Yakima, LLLP);

3. The Executive Director has the authority to negotiate the Operating Agreement between THA as General Partner and Enterprise Community Investment as Limited Investor Partner.

**Approved: June 27, 2012**

  
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Janis Flauding, Chair