

# AFFORDABLE HOUSING TRUST FUND

## Loan Request for the Truax Park Phase 1 Redevelopment

### 1. What is being requested

- a. A loan of \$1,050,000, for a term of up to 17 years
- b. Annual interest rate of 25 Basis Points over the City of Madison average annual investment rate, as determined by the Local Government Pooled Investment Fund. Rate to reset Annually.
- c. Fully amortizing, with annual payments
- d. Secured in First Position
- e. Loan would be made from the AHTF to the CDA; CDA then lends the funds to the Truax Park Redevelopment Phase 1 Tax Credit, LLC. Thus, the CDA will do the accounting for the loan.

### 2. How does this loan fit into the overall development budget

- a. Total project cost is \$14.2 million. This is made up of the following sources of funds:

Tax Credit Investor Equity	\$9,758,905
WHEDA GAP funds	698,333
CDA Capital Lease	1,846,000
CDA GAP funding	470,738
CDA (AHTF) First Mortgage	1,050,000
HUD Capital funds	400,000

Total            \$14,223,976

- b. Leverage factors:

“Must Pay Debt” (the CDA / AHTF loan) is 7% of total cost. The lower this number, the lower the rent can be for the residents. Note; generally 50% of the monthly rent is dedicated to paying the senior debt in a property. For Truax, 17% of the rent goes to senior debt service. This allows for most residents to be at 30% CMI and only have to pay 30% of that income for rent and utilities.

The CDA / AHTF loan is the last piece in the financial structure to be put into place. Without it, the transaction would not happen. Therefore, there is no question that without the \$1,050,000 in CDA /

AHTF loan, the CDA would lose the benefit of approximately \$10.9 million of third party funding. This is a 10 to 1 leverage ratio of CDA / AHTF loan to outside funding. That is a very significant leverage ratio.

### **3. What is the purpose of the loan**

- a.** The AHTF loan will be part of the Phase 1 \$14.2 million substantial redevelopment of a portion of the present Truax Park housing development.
- b.** The Phase 1 redevelopment consists of 71 existing very low rent Public Housing units
- c.** All 71 units will continue to be located at the CDA Truax Park Affordable Housing Development
- d.** Major Components of the redevelopment consist of:
  - 1. add elevators to make all units accessible
  - 2. add additional storage space adjacent to the units
  - 3. increase unit square forage from 495 Sq. Ft. to 610 Sq. Ft.
  - 4. make bathrooms ADA compliant and larger
  - 5. increase size of kitchen – dining area
  - 6. add additional community space in each building
  - 7. remove and re-develop all unit outside balconies
  - 8. add central air-conditioning to all units
  - 9. change unit heating from Hot Water Baseboard to Forced Warm Air
  - 10. add “Green” and “Sustainable” features throughout the units and common area
  - 11. All units will include new full size energy efficient appliances
  - 12. The appliance package will include dishwashers.
  - 13. Fifty percent of the units will have in unit washers and dryers
  - 14. all units will receive all new bathroom fixtures and all new kitchen cabinets

#### **4. Who lives in the Phase 1 units**

- a. All units at Truax Park (all phases) are considered “Public Housing” units, and thus receive HUD operating support
- b. There is virtually no HUD funding available to improve the units to the extent being done here. This requires Public Housing Authorities, nationwide, to seek alternate funding to make major unit renovations.
- c. All residents pay up to 30% of their income toward rent and utilities
- d. All 71 residents will be at or below 60% CMI per family size
- e. The majority of the residents will be at 30% CMI (e.g. 54 of 71 residents as of May, 2010 were at the 30% CMI level)

#### **5. What is the timetable for the re-development**

- a. The re-development is planned to begin in September, 2010 and will complete mid – summer in 2011
- b. The development budget includes funds to pay the cost of temporarily relocating residents while their units are being remodeled
- c. Temporary relocation costs include cost of moving utility connections, such as telephone, cable, and power

#### **6. What is the impact on local labor and construction materials**

- a. The General Contractor held a Job Fair at the property and had over 75 neighborhood residents attend to learn how they could be part of the redevelopment effort
- b. Based on actual job applications received, between 15 –18 residents are likely to become employed full time by the construction trades. This employment could span the full time period of the redevelopment
- c. In addition to the local residents mentioned above, the majority of the subcontractors are local
- d. The majority of the building materials and equipment will be purchased locally
- e. Twenty Five percent of the total construction budget of roughly \$8.3 million will be dedicated to hiring MBE / WBE firms

## 7. Benefits of a Loan versus a Grant

- a. A Grant reduces the corpus of the AHTF, dollar for dollar
- b. A Grant is generally not paid back
- c. A Grant is a one time influx of capital into a development and can lose it's significance over time
- d. A loan continues to be active for the full term of the loan, in this case up to 17 years (e.g. each time an interest or principal payment is made the loan and it's terms are again on everyone's radar screen)
- e. A loan returns the full principal (e.g. \$1,050,000), plus interest
- f. In the case of this \$1,050,000 loan, the AHTF will grow over time by the value of the interest payments. As an example, at an average annual interest rate of 3%, the AHTF would recoup the entire principal, plus an additional \$348,234
- g. It is quite typical of lenders of below market rate loans to seek special conditions in return for their loan. In the case of the Truax Redevelopment, the development will be kept affordable to persons at 60% of the CMI, or below, for 30 years. In other words, the affordability requirement runs for an additional 13 years after the CDA / AHTF is fully repaid. Typically these sorts of rent restrictions expire when the below market funds are no longer included in the transaction.