MINUTES

Grand Junction Housing Authority
Board of Commissioners' Meeting
February Regular Meeting

Monday, February 26, 2018
8 Foresight Circle
5:00 pm

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1. Call to Order

Grand Junction Housing Authority (GJHA) Board Chair Tim Hudner called the regular February Board Meeting to order at 5:12 p.m. on February 26, 2018. Board Members present represented a quorum and included John Howe, Tim Hudner, Chris Launer, Phyllis Norris, Tami Beard, and Ivan Geer. Others in attendance included GJHA Chief Executive Officer Jody Kole, Controller Amy Case, Executive Assistant Jane Hart, and members of the Leadership Team that included Tim Spach, Suzy Keith, Krista Ubersox, and Danette Buck. Guests included GJHA attorneys Rich Krohn and Jill Norris.

2. The Highlands 2

Jody Kole gave an overview of the project slated to close tomorrow, February 27, 2018. Construction cost is $11.4 million with equity from Wells Fargo Affordable Housing Community Development Corporation of over $12,373,000 and additional funds from grant sources coming into GJHA which are then loaned to the partnership. At the end of 15 years (at scheduled buy-out of investor limited partners) the purchase price will be calculated as the net of GJHA assuming outstanding debt and paying any exit taxes that investors will have to pay to exit the transaction. The Partnership debt will include the 1st mortgage loan with Bank of Colorado (BOC), the 2nd mortgage loan with Colorado Housing and Finance Authority (CHFA) Healthy Homes Program and all soft notes including a Deferred Developer Fee (which will likely be paid by that time,) funding from City of Grand Junction, Federal Home Loan Bank of Topeka (FHLB), Colorado Division of Housing (CDOH), and a land loan from GJHA.

The operating pro forma, previously provided to Board Members, shows the property will cash flow adequately. The Property is required to maintain a debt coverage ratio of at least 1.15 to 1 (15% more in cash flow than it takes to cover operating expenses including the 1st and 2nd mortgages.) Soft loans will be paid as cash flow permits. The first soft loan that must be paid is the deferred developer fee, and it must be paid in full by year 15 or those costs will be excluded from basis. The projections, as required by Wells Fargo, are conservative assuming 7% vacancy rates across all units and a 5% vacancy rate across units supported by project-based vouchers. GJHA anticipates more cash flow than projected as our typical vacancy rate is around 3% to 3.5%. The healthy cash flow anticipated through the first 15 years will allow the pay down of the Deferred Developer Fee, if any.

Throughout the first build, sub-contractors gave Shaw some recommendations on how to approach things a little differently, to make this second build easier and more efficient. The experience gained in the first phase should allow for an improved process in this second phase.

Jody Kole pointed out that Wells Fargo's equity commitment is 99 cents on the dollar. A recent national survey shows that the national average is 92 cents on the dollar. Wells Fargo agreed to hold this pricing even after the recent tax code changes. Also, Wells Fargo will be the equity investor on both sides of the project which will be helpful for GJHA staff to manage compliance obligations.

Because the tax credit equity has lost value in the last couple of years, other investors were needed. FHLB, Colorado DOH, and the City of Grand Junction contributed to make this transaction whole.

- To obtain the FHLB Grant, GJHA committed to set aside 20% of the units for Veterans, their spouses, their widows, or their widowers for 15 years.

- CDOH funds are a pass through of Housing Trust Fund dollars. Tim Hudner explained that these affordable housing funds, typically earmarked for homelessness prevention, are targeted toward very low income. 16 units will be available for households whose income is at or below 30% of the area median income. 8 will have Project-Based Vouchers, the other 8 are attributable to this Federal source of Housing Trust Funds. Because of the additional 8 units being set aside for this purpose, the standard contribution for this project of $720,000 ($10,000 per home), was increased to $864,000 to help fill funding gaps.

A 135-page partnership agreement was given to board members to review prior to the meeting with a memo describing the obligations GJHA has to the Partners in this project. GJHA expects to earn nearly $1.7 million in Developer Fee over time, additional management fees over time and expects to own the property after the 15-year compliance period.

Settlement statements were not available at the time of this meeting.

Rich Krohn stated that he talked to the finance committee about favorable loan terms and conditions in the loan documents from BOC. Healthy Housing loan terms have been negotiated to a "softer" place as well. GJHA has written commitments from CHFA and BOC as to the documents that will be used at conversion to permanent financing. This conversion should be efficient & inexpensive. He then asked the board for their questions.

- Phyllis Norris asked, regarding Jody Kole's earlier statement that The Partnership would collect more in rents than they pay out, if the amounts coming in from the project will offset the costs, and cost of time, already incurred to get the project to this point.

  Jody Kole answered that operating expenses are separate from pre-development expenses. To date GJHA has invested $1,018,000 in this development and GJHA will be repaid that investment at closing. GJHA will also receive the first installment of the developer fee in the amount of $600,000. Also, a no cost bridge loan will be advanced from GJHA funds to be reimbursed by the CDOH in 45 to 60 days. As far as operating and management expenses, rents will cover all debt service of the first and second mortgage, operations, and management of the property with a net operating income. The net cash flow will be distributed at the end of each year through a "waterfall" which will go to pay debts, any obligations owed to The Limited Partner, then Deferred Developer Fee, then soft notes. GJHA ongoing property management fee will also be a source of net-revenue into the General Fund.

- John Howe asked why the grants from FHLB and the Housing Trust Fund are structured as loans to the LLLP?

  Jody Kole answered that grants to the project would reduce the eligible basis on which the tax credits are calculated. The grants come into GJHA and then are loaned to the partnership.

- Tim Hudner asked if there are other risks to consider?

  Rich Krohn stated that, as with all construction projects, builder's risk insurance will be in place. Additionally, he indicated there may be some risk above other projects due to people living in the first phase in proximity to the ongoing construction but otherwise would be comparable to any other project GJHA has done. Compliance requirements are prodigious but the GJHA has over 20 years of experience with this, having completed several similar projects.

- Phyllis Norris wanted to know if anything is in place that would trigger the CEO, and in turn the Board, if anything starts "slipping."

  Jody Kole replied that there are "milestones" to be met.
    - By October 1 of this year, The Partnership must show that 10% of project costs are spent. This is expected by March or April of this year.
    - The project must be completed by December 31, 2020 but is expected by Spring 2019.
    - The project needs 90 days of break-even operation before converting to permanent financing.
    - The project must complete and submit tax returns every year, approved by Limited Partners.
    - Audits will be conducted to ensure leases are made to eligible people. With one incorrect tenant in the 1st year, the tax credits can be lost forever. After that, GJHA can lose tax credit for a full year if a unit is rented to an over-income person.
    - Rich Krohn added that there is a 21-month construction loan term with a 3-month extension and a 12-month construction schedule. This means there will be a 100% cushion for the project to be completed on time.

- Phyllis Norris asked, "Does the staff know what to do?"

  Jody Kole responded that the GJHA staff is well trained and is periodically re-certified. Amy Case pointed out that GJHA is earning a $109,000 early leasing completion bonus on phase I. (GJHA was aiming for this bonus to be in the $50,000 range.) Additionally, the accounting staff completed their 1st year Highlands audit with no findings.

- Tami Beard asked what would happen if a mistake was made and the tax credit was lost?

  Jody Kole restated that if in year one the GJHA leased a Highlands 2 unit to an ineligible tenant and the Limited Partner lost money, GJHA would have to make them whole.

  Amy Case added that GJHA hires one of the industry's leading audit firms in the nation to scour every 1st year file.

- Ivan Geer asked about construction costs, specifically material pricing, "What is Shaw giving us?"

  Jody Kole answered that Shaw has re-priced. Labor hasn't gone up very much, some materials have. Price was locked in on lumber, steel, and concrete early on. The budget has absorbed a little inflation, but all have been vigilant in watching prices over last 6 months.

- Chris Launer asked, "Do we have a fixed price contract with Shaw?"

  Jody Kole responded, "Yes, it is a stipulated sum contract," and explained that anything unspent, out of the $227,000 contingency, comes back to the owner.

- Tami Beard asked, "How much of our contingency did we spend on phase one?"

  Jody Kole responded that approximately half of phase one contingency was spent. Some of that was spent some on upgrades and some on planning ahead for phase two. For example, in preparation for phase two, contractors framed the entry ways and windows in the wall where the two buildings will join. Tim Spach added that phase two is now ready for foundation. Jody Kole also mentioned that the building footprint has been covered with heavy duty plastic to preserve compaction and keep moisture out.

- Phyllis Norris asked about the drainage underneath the property and where it is.

  Rick Krohn responded that the drainage starts at South East corner and goes to the South West corner then flows north to Buthorn Drain. Phyllis Norris added that it pulls out more than what was flowing in before. Rich Krohn explained it's like a retention pond underground at the end of our storage that only releases into Buthorn when it's not over capacity, so it won't flood or strain capacity.

Rich Krohn summarized Resolution No. 2018-02-01 for the Board. To Chris Launer's question, "How did we arrive at the amount as the value of the land?" Jody Kole explained that GJHA obtained an appraiser's estimate of value per buildable unit from Arnie Butler. The estimated unit value was multiplied by 72, the number of units to get the price.

Chris Launer made a motion to approve *Resolution No. 2018-02-01 Approving Conveyance of 825 Bookcliff Property to The Highlands LLLP and Related Actions* with a correction made to page 1 recital D in which date of the contract will read February 27, 2018. A second by Tami Beard and unanimous vote approved Resolution No. 2018-02-01 with changes to the date.

Rich Krohn summarized Resolution No. 2018-02-02 for the Board and noted Page 1, Recital E will be filled in with the amount $12,373,763.00. This resolution approves the tax credit transaction earlier described for the development and financing of The Highlands 2. Recital I on Page 2 describes the financing structure. The Deferred Developer Fee Loan cited on Page 2 Recital I (4) (f) of the Resolution will change to an approximate amount of $408,002.

Phyllis Norris asked, if the developer fee is more, will the City of Grand Junction be asked to pay more? Jody Kole explained the City will pay only the Development Impact Fees which is different than the Deferred Developer Fee which is earned throughout the milestones of the project.

- Tami Beard made a motion to approve *Resolution No. 2018-02-02 Concerning Development of The Highlands 2* with corrections as discussed to Page 1, Recital E and to Page 2 Recital I (4)(f). A second by Ivan Geer and unanimous vote approved Resolution No. 2018-02-01 with changes.

3. Adjourn

The regular February Board meeting concluded at 6:10 p.m. with a motion by Tim Hudner, a second by Phyllis Norris, and a unanimous vote.