

Introduction to Public Facility Corporations

Presented to Canutillo Independent School District

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Canutillo ISD PFC

What is a Public Facility Corporation:

A PFC is a nonprofit corporation created by a sponsoring governmental entity — a city, county, school district, hospital district, housing authority, or special district

PFC Powers:

PFCs have broad powers over public facilities, including financing, acquisition, construction, rehabilitation, renovation and repair. A PFC, once created, has the authority to issue bonds on behalf of its sponsoring public entity, and, once the bonds are funded, the money must be used in accordance with IRS rules and regulations, as well as those imposed by the Texas Attorney General

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PFC's Purpose:

- Expands the District's ability to provide additional incentives for public/private partnership to facilitate and finance workforce housing by providing 100% ad valorem tax exemption – including both property and sales tax
- Will own workforce housing projects
 - Can be general partner or special limited partner brought into public/private partnerships
 - Can be outright owner of projects without post-closing developer involvement

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PFC's Perspective:

- PFC's participation allows for an ad valorem tax exemption
- Creates more mixed income and workforce housing
- Can be used to generate revenue for the PFC
- Depending on the structure, private partner may assume all risk
- Depending on the structure, no monetary investment

Developer's Perspective:

- Property receives an ad valorem tax exemption that it otherwise would not have received, which increases cash flow and/or increases the amount of debt that can be placed on property or decreases the Developer's equity requirement
- Developer gives up ownership and potentially significant revenues due to rent restrictions on at least 50% of the units

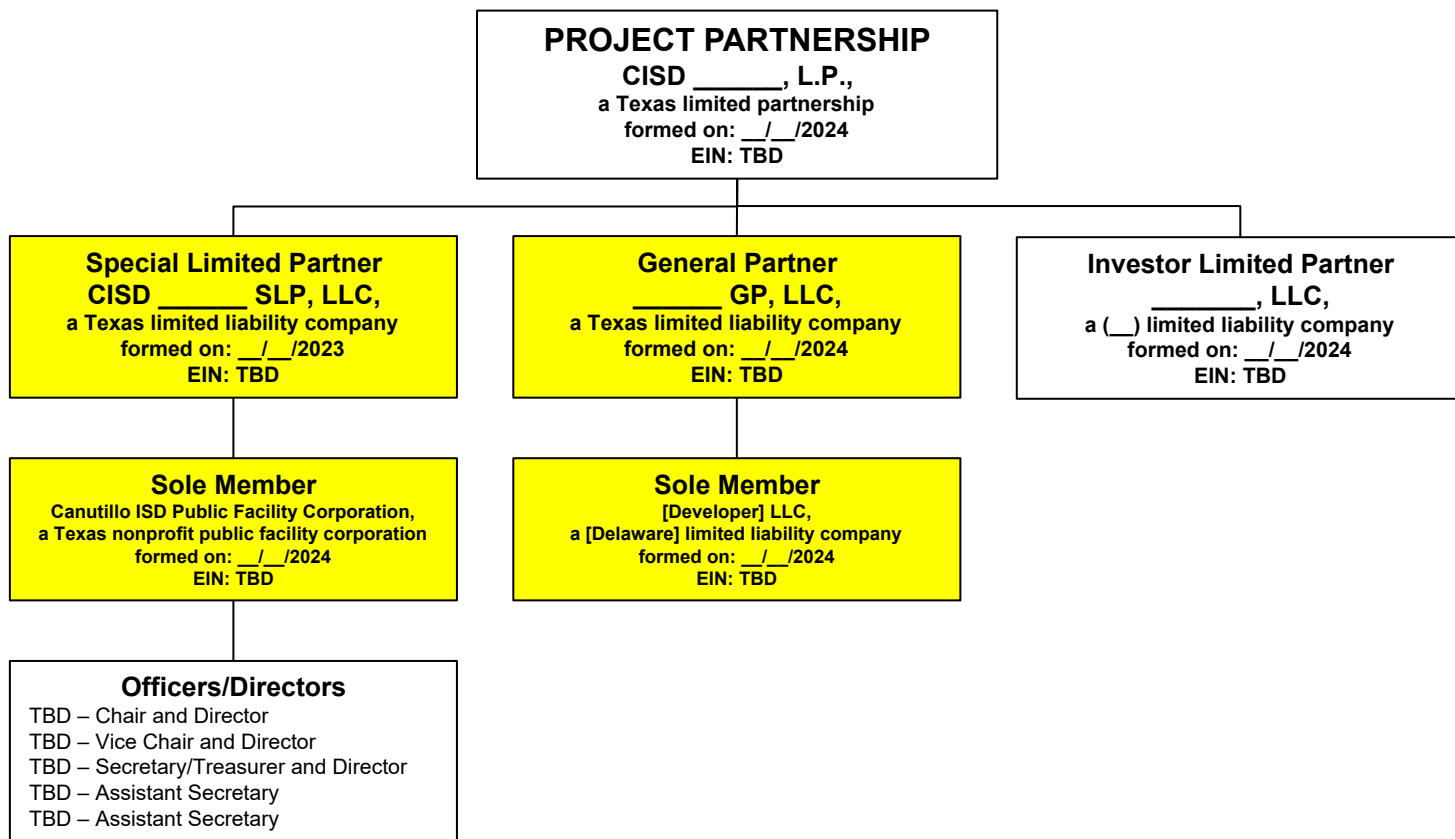
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Risk Shifting Structure:

- 1) PFC should not assume the risk of construction, operations or debt.
- 2) PFC will enter into a partnership agreement, development agreement, and lease of the project with development entity.
- 3) Development entity must raise equity, obtain debt, and assume all risk.
- 4) Development Agreement will require development entity to construct project on leased land.

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Sample Organizational Structure:



Entities/Individuals in yellow have the ability to exercise control

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PFC Abilities and Requirements:

- PFC will create a single member limited liability company to serve as the general partner (GP) or special limited partner (SLP) of the partnership
 - Limited liability company has no assets except for partnership interest
 - PFC Risk of liability in LLC, but it is a separate legal entity with no assets
- PFC will own the land and lease it to the partnership generally for 60 years
- PFC will enter into a joint venture with the construction company to bring about a sales tax exemption for the purchase of materials
- PFC could also issue tax-exempt bonds to help finance the project
 - PFC Bond proceeds loaned to project and used to pay for construction
 - PFC Bonds would be 100%+ financed to include reserve funds and reduce risk of default
 - Could mature upon completion of construction (3 years or less)

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Public Facility Corporation Potential Parameter Fees:

- For a Joint Venture new construction project –
 - \$300,000 Developer Fee paid upfront
 - 15% of property tax savings paid on an annual basis
 - 25% of sales tax savings
 - \$100/unit annual Compliance and Management Fee
 - 15% participation in capital event (subject to certain IRR)

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Worst Case Scenarios:

- Might not make projected profits, but PFC will have no investment in the project
- Should a project fail, the equity provider or lender could take over the project and the PFC could lose control; however, in doing so, the equity provider or lender could jeopardize their tax-exempt status, so this is unlikely
- PFC may not be able to withdraw from the partnership once it is formed
- Because PFC is a political body, meetings are open to the public