



**DELPHI**

**AFFORDABLE HOUSING GROUP, INC.**

July 17, 2015

Mr. Thomas Crowe  
Superintendent of Schools  
Ector County ISD  
802 N. Sam Houston  
Odessa, TX 79761

Re: ECISD Housing Development Loan

Dear Mr. Crowe:

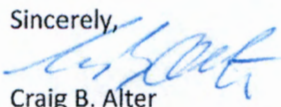
Thank you for meeting with Jill Miller and me on Tuesday to discuss the Odessa Housing Finance Corporation's proposed apartment community called "87<sup>TH</sup>". We are grateful for the interest expressed by ECISD to assist our development of affordable rental housing that will include one hundred apartment units for ECISD teachers.

The achievable loan for the project has been reduced below what the expected operating revenue can support because of the lender's underwriting assumptions reflecting their concern over the fluctuating energy industry. Therefore, it has become necessary to reduce project cost, seek fee waivers and grants from the City of Odessa, defer more developer fee in the project over a longer period, and request a loan from the ECISD.

At your request, a one page project and loan request summary is attached for consideration by the ECISD Governance Committee of the Board. I request that a meeting with the Governance Committee be scheduled prior to July 31, 2015 so that Dan O'Dea, President of Delphi, and I can meet with the Committee prior to the project tax credit funding application being submitted to the Texas Department of Housing and Community Affairs. A meeting within the next two weeks is also essential to maintaining the project funding approval and development schedules.

Thank you for the opportunity to serve the ECISD and the Odessa community. We look forward to meeting with you and the Governance Committee soon.

Sincerely,

  
Craig B. Alter

Vice President of Development

300 Beardsley Lane · Building C, Suite C204 · Austin, Texas 78746 ·  
(512) 494-8200 · (512) 494-8201 Fax  
[www.delphihousing.com](http://www.delphihousing.com)

## ECISD LOAN REQUEST FOR THE 87<sup>TH</sup> APARTMENT PROJECT

The Odessa Housing Finance Corporation (OHFC) and Delphi Affordable Housing Group, Inc. (Delphi) are co-developing a 400 unit apartment project, "87<sup>TH</sup>", along with a 48 acre master planned residential neighborhood located approximately one-quarter mile west of the new Lee Buice Elementary School (see attached). One hundred apartment units are being reserved exclusively for ECISD teachers and employees at lease rates 21%-29% below current market rates and 300 units will be available to households earning the equivalent of or below \$18.58/hour.

Funding for the nearly \$59 million 87<sup>TH</sup> project will consist of five components. Two sources of equity will be provided, tax credit and deferred developer fee. Tax credits awarded to the apartment project through the federal Low Income Housing Tax Credit program administered by the Texas Department of Housing and Community Affairs will be purchased by PNC Real Estate. Proceeds from the tax credit purchase will be provided as up-front project equity at construction loan closing. The co-developers, OHFC and Delphi, earn a developer fee per the tax credit program guidelines; some of which is paid at construction loan closing, the balance of which would be deferred to future payment from the property operating revenue. Therefore, the co-developers are making approximately a \$3 million deferred fee investment in the property. The third funding source, the construction loan, will pay expenses during construction and thereafter until the property achieves a "stabilized" metric at which time the construction loan is converted to the fourth financing piece, the permanent loan. The sum of these funding sources remains \$3.25 million less than the total project cost.

OHFC and Delphi are requesting the fifth funding component from ECISD to fund the remaining project cost, a \$3.25 million loan. The proposed loan structure is a 15 year loan term having a 30 year amortization schedule. Monthly loan payments would be comprised of available cash flow after first lien payment plus a percentage of net cash flow beginning in project operating year 8 once the deferred developer fee is fully paid as required by the tax credit program rules. The final loan balance balloon payment, if any, would be paid at the end of project operating year 15 from property net assets or the \$2.92 million project operating reserve fund that will be released by the equity investor, PNC Real Estate. The proposed annual interest rate for the 30 year loan structure is 4.5%.

Summarizing the loan proposal:

	30 Year Amortizing Loan
Annual Loan Payments	\$197,607
Sum of Loan Payments Through 15 Years	\$2,964,105
% Cash Flow & Balloon Payment Years 8-15	\$2,144,562
Total Loan Payments	\$5,108,667

Project funding is scheduled to close October 30, 2015 at which time the ECISD loan proceeds would be provided to the PNC loan fiscal agent who would release funds to the project on an as-needed construction draw process. The loan must be a "soft" second lien subordinate to the first lienholder, meaning monthly payments are subject to available project cash flow after payment of the first lien. By providing the first lienholder a minimum debt coverage ratio greater than 1.25x to induce making the first lien loan, sufficient excess cash flow is projected to pay not only the "soft" second lien payments but also produce more than \$400,000 net cash flow (increasing each year), after payment of all debt service, for required payments toward the deferred developer fee. Based on the projected property annual income and expenses, the full ECISD monthly loan payments could be made with a vacancy and collection loss rate up to 16%; as compared to the lender's 7% factor used for underwriting the loan. Refer to the attached 15 year operating pro forma for income, expense, and net cash flow details.