City of San Antonio

Agenda Memorandum

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Agenda Item Number: 34.

Agenda Date: 6/19/2014

In Control: City Council A Session

DEPARTMENT: Department of Planning and Community Development

DEPARTMENT HEAD: John M. Dugan

COUNCIL DISTRICTS IMPACTED: District 5

SUBJECT: Conversion of Multifamily Housing Revenue Bonds to a fixed rate for the Cevallos Lofts Apartment project

SUMMARY:

Authorizing the San Antonio Housing Trust Finance Corporation to convert the variable rate demand Multifamily Housing Revenue Bonds, Series 2010, to a fixed rate and authorizing a subordinate taxable fixed rate loan to pay deferred developer fees for the Cevallos Lofts Apartment project.

BACKGROUND INFORMATION:

The Cevallos Lofts Apartments development, located at 1314 South Flores, is a multi-family apartment community comprising of 252 one and two bedroom apartments of which 63 units are for tenants with approximate incomes up to 50% of the area's median income and 189 market rate units.

On March 18, 2010, through ordinance 2010-03-18-0219, City Council approved of the San Antonio Housing Finance Corporation bond issuance for the Cevallos Lofts Apartments project and participation in the transaction by the San Antonio Housing Trust Public Facility Corporation. The City provided $3.6 million in HOME and Neighborhood Stabilization Program (NSP) funds for gap financing to the project.

On June 10, 2014, SAHT Finance Corporation approved a resolution authorizing the conversion of the SAHT Finance Corporation variable rate demand Multifamily Housing Revenue Bonds, Series 2010 to a fixed rate.

ISSUE:

Cevallos Lofts, Ltd. partnership is seeking to take advantage of the low interest rate environment to switch from an underlying variable rate tax-exempt bond structure to a fixed rate bond structure. In doing so, the partnership will benefit from the removal of approximately 160 basis points of floating-rate associated fees, allowing an all-in fixed rate to be set 50 to 60 basis points below the current rate structure and locked in for the next fifteen (15) years. It is estimated that this will increase cash flow to the project by approximately $86,000. The Project also will be able to sell a swap agreement for approximately $600,000 because it will not be needed to hedge the variable rate. These savings enable the taking out a loan to pay the deferred developer fees. The current interest rate on the deferred developer fees is 8% and it is projected that it can be reduced to 6% or less.

This should result in a $793,500 payment to the Corporation. It also shifts the cash flow from a 25% share to the Corporation to a 50% share because the deferred developer fee is being paid off. However, in order to give their consent, the Texas Department of Housing and Community Affairs (TDHCA) is requesting that their loan have an interest rate of 1% and Cevallos Lofts pay down their principal by $33,000 more per year. These conditions can be met while maintaining at least a 1.20 debt service coverage ratio.

ALTERNATIVES:

The Quality of Life Committee may elect to reject the recommendation which would result in a loss of $793,500 in payment to the SAHT PFC and would reduce the share of cash flow down to 25%.

FISCAL IMPACT:

There is no impact to the General Fund. The project is currently tax exempt and will remain tax exempt. The SAHT Finance Corporation and Public Facility Corporation are self-supporting entities through program income and the rate change will be a positive impact to the PFC.

RECOMMENDATION:

Staff recommends authorizing the San Antonio Housing Trust Finance Corporation to convert the variable rate demand Multifamily Housing Revenue Bonds, Series 2010, to a fixed rate and authorizing a subordinate taxable fixed rate loan to pay deferred developer fees for the Cevallos Lofts Apartment project.