

## OVERVIEW OF HYDE ESTATES FOR KILLEEN HOUSING AUTHORITY

### LIHTC OVERVIEW

The Housing Tax Credit (HTC) program is a dollar-for-dollar federal tax credit for the development of affordable housing investments. Created under the Tax Reform Act of 1986 – it gives incentives for utilization of private equity in the development of affordable housing for lower income Americans. The “credits” are governed by Section 42 of the Internal Revenue Code and provide a dollar-for-dollar reduction in the investor-taxpayer’s federal income tax for a period of ten years. LIHTC accounts for approximately 90% of all affordable rental housing created today stimulating the production and rehabilitation of nearly 2.4 million affordable units since 1986. HTC developments must maintain the affordable units for a 15-year initial compliance period with a subsequent 15-year extended use period. Maximum rents are based upon Area Median Income (AMI) limits.

The Texas Department of Housing and Community Affairs (TDHCA) is the State administering agency, receiving a fixed allocation of credits based upon a per capita allocation of \$1.75. TDHCA awards credits through a competitive annual application process. Typically, top ranked projects, as well as “set aside” category projects sponsored by non-profit organizations and projects serving areas with the greatest [affordable housing] need and those existing developments that are “at-risk” [of losing their affordable units] receive a credit allocation.

### HUD CAPITAL FUND PROGRAM and RENTAL DEMONSTRATION PROGRAM

The Department of Housing and Urban Development (HUD) Public Housing Capital Fund Program (CFP) provides financial assistance to public housing authorities (PHAs) pursuant to 24 CFR 964.225, to make improvements to existing public housing through eligible activities – making physical improvements to public housing stock. A physical needs assessment (PNA) is conducted to review all of the major physical components of property to result in a long-term schedule for replacement of each component and estimated capital cost required to meet the replacement needs. As of December 2011, HUD had a capital needs backlog of \$25.6 billion, with an annual accrual rate of \$3.4 billion, from aging public housing developments- estimating a loss of 10,000 PHA units nationwide due to disposition or demolition. The Rental Demonstration Program (RAD) offers a PHA an opportunity for comprehensive renovations, replacement and expansion of needed housing while generating much needed income and resources. Compared to public housing, RAD has the potential to provide a more stable funding platform and can leverage additional funding for building improvements and development – like through the HTC program. PHAs have the opportunity to select which form of conversion to apply to the units – the Project Based Vouchers (PBV) or long term Section 8 Housing Assistance Payment (HAP) contracts. PBV offers subsidy to the units and the tenants that occupy them – maintaining that subsidy for those designated units; HAP subsidy provides the tenant the option to choose where the subsidy would apply – or taking it away from the designated units.

Under RAD, the PHA will receive capital and operating subsidy from HUD at its current level along with the PBV per unit for operating costs. Funding under RAD is not subject to congressional appropriation reductions once public housing units are converted. All residents of units converted are protected and must be given an opportunity to comment on the conversion of the public housing units. Ownership of the public housing units converts to a public entity or non-profit which helps to facilitate use of the newly converted RAD units. HUD requires interest in the property be preserved by the PHA (ownership).

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The RAD legislation, in the FY 2012 Appropriations Bill (Public Law 112-55), as augmented by RAD rules and revised slightly by the FY 2015 Appropriations Act, considers and codified PHA residents' initial concerns with the RAD conversions, including:

- Continued occupancy with no rescreening upon conversion
- No permanent displacement
- Right to return, if temporarily relocated
- No loss of public housing units, with a de minimis exception
- Limitations on rent increases
- Lease and grievance procedures
- Resident participation and consultation
- Jobs and self-sufficiency
- Long term affordability and public ownership

The 84th Texas Legislature – specifically SB 1804 and HB 2926 directly impacted how RAD will be implemented in Texas allowing for HUD RAD approved participants to apply for the Texas LIHTC program under the “at-risk” set aside for tax credit allocations with provisions on contract rent adjustments, tenant incomes remaining at 30%, RAD underwriting at a 5% vacancy rate, property transfer to a new “partner”, existing PHA land being leased to the “partnership” from the PHA, debt coverage ratios of 1.15-1.35%, proof of bonafide debt for inclusion in eligible basis for credits, and other platform requirements.

### **HOUSING AUTHORITY OF KILLEEN-GREATER KILLEEN HOUSING ALLIANCE, INC. and RAD**

PHA's in Texas are created through the Texas state legislation, Local Government Code, Chapter 392 and owned and operated at the local level by the housing authority. A cooperative agreement must be in place between the PHA and the locality. The Housing Authority of Killeen has had a cooperative agreement in place with the City since the mid 1960's.

The Housing Authority of Killeen, for the purposes of meeting RAD requirements, formed a non-profit entity affiliate – Greater Killeen Housing Alliance, Inc. In 2014, the nonprofit incorporated and registered with the Texas Secretary of State. The governing board is the same as the Housing Authority of Killeen. Housing authority residents were also consulted about the RAD conversion as well as in the election/approval of the board of directors for the nonprofit entity.

After the recent completion of a physical needs assessment, results indicated there was significant need for renovation to the Moss Rose development (75 units) and comprehensive rehabilitation of the High View development (70 Units). In December 2013, after consultation with the resident tenants approving the application and submittal, the Housing Authority of Killeen submitted an application to HUD for the RAD conversion of its public housing units at High View and Moss Rose. The RAD application was approved in March 2015 with priority for Moss Rose; then High View.

Site conditions, aging infrastructure, and age of the individual housing structures (1950's) required consideration for a new location for the Moss Rose units; eligible under significant renovation. The PHA and development partner Housing Solutions Alliance (HSA), LLC of Dallas, Texas are moving forward with the RAD conversion. In order to provide a stronger financial footing, an application will be submitted to TDHCA in the at-risk set aside category for an allocation of housing tax credits. Investor contributions from an award of tax credits can typically provide 75% or more of the financial resources with grants or other private debt providing the balance.

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Existing Units at Moss Rose

### **2016 TDHCA APPLICATION FOR HOUSING TAX CREDITS**

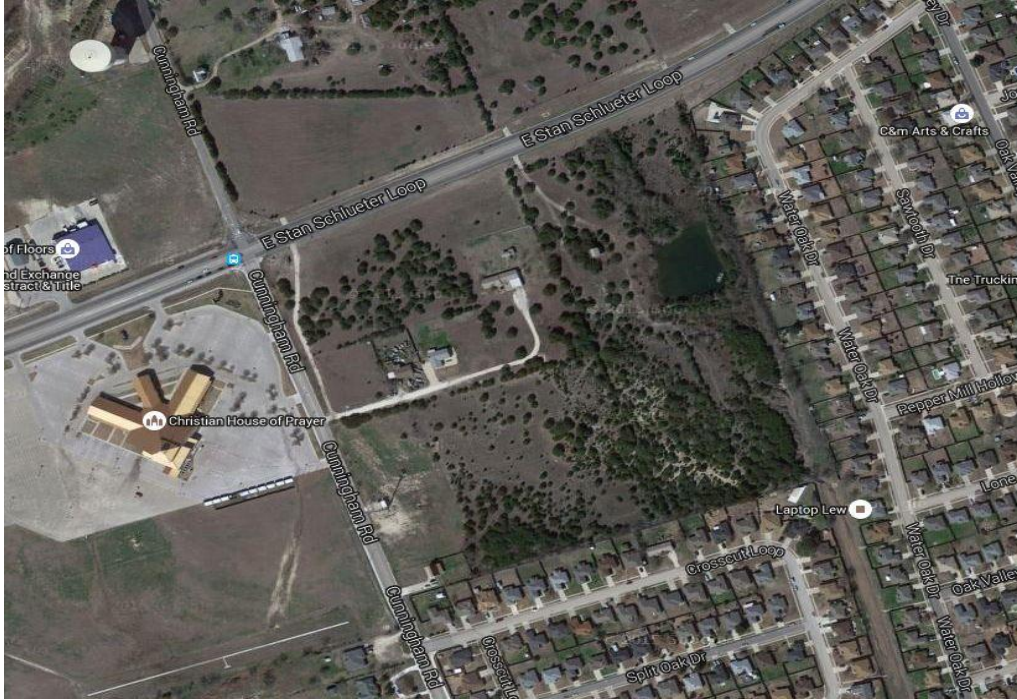
The Housing Authority of Killeen-Greater Killeen Housing Alliance, Inc. and development partner HSA, LLC have developed a strategy to seek a new site and replace the structures at Moss Rose.

HSA, LLC and Housing Authority of Killeen-Greater Killeen Housing Alliance, Inc. have, for the purposes of an application to TDHCA for housing tax credits, formed a limited partnership known as Killeen Hyde Estates, LP which will be the applicant for 2016 Housing Tax Credits from TDHCA.

The new location is highly competitive in that it provides housing in an ideal location with high performing schools, opportunities for employment and access to transportation, grocery shopping and premier city amenities – Lions Club Park Family Recreation and Aquatics Center. These factors provide for prime development of affordable housing, as well as achieving a high score in the HTC application process.

In late 2015, the Housing Authority of Killeen secured an option to purchase a 13-acre tract of land – conditioned on an award of tax credits and zoning approval. The new proposed development, Hyde Estates, will consist of 76 units configured in duplex and quad-plex type structures located on Cunningham Road east of Stan Schlueter Loop. Site access will be from Cunningham Road with a density of less than six (6) units per acre. The property affords the opportunity to create an open, park-like setting for play areas, covered gazebo seating areas, a perimeter walking trail and bus shelter. A management office / club room for residents, community and business room, as well as Energy Star appliances, high SEER performance HVAC units, LED lighting, and heat pump water heaters. Structures will be primarily ground level with living, dining, kitchen, bed and bath rooms and will be considerably larger than the current units at the Moss Rose development; six (6) two-story units (3 structures) will finish out the development to accommodate larger families with 4-bedrooms.

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Aerial Photograph of Site



Renderings of Proposed Site

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Rendering of Typical Building

Local firms are being used in developing the site design, easement and drainage compliance and local trades and suppliers will be used for the proposed construction of the entire site. The PHA is committed to meeting goals under Section 3 policies utilizing residents when possible as well as Minority and/or Women Business Enterprise (MBE/WBE) owned companies.

### **REQUEST FOR RESOLUTION OF SUPPORT and FUNDING – HYDE ESTATES**

The Killeen Hyde Estates, LP development team is seeking housing tax credits to finance the development of Hyde Estates, an affordable rental housing community. The application process for HTC financing is point based and highly competitive. Applications are evaluated and ranked based on several scoring categories. Applicants with the highest scoring applications are awarded the tax credits. Applicants seek to maximize points in each scoring category to secure the tax credits which will provide the funding necessary to move forward with a proposed development.

There are a number of scoring categories that represent policy objectives of TDHCA. One of these scoring categories is **Local Government Support** and **Commitment of Development Funding by a Local Political Subdivision (“LPS Funding”)**. Under the Local Government Support scoring category, worth 17 points, cities may participate in the HTC application process by supporting the application with a resolution for developments proposed in their jurisdictions – local support from a jurisdiction is highly valued by TDHCA and increases the competitiveness of an application and enhances the success in securing financing (tax credits) for the development. The LPS funding category, worth 1 point, also provides for cities to participate in the HTC application process by committing to a loan, grant, reduced fees or contribution of other value for the benefit of the proposed development. The LPS category has undergone significant changes from the past where large financial contributions were required from a jurisdiction to score competitively, likely due to economic factors experienced by all cities nationwide and in Texas. TDHCA has reduced the LPS funding commitment to anything of value for the development of affordable housing, with the caveat that once submitted, it may not be withdrawn.

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Respectfully, the Killeen Hyde Estates, LP and its development team requests a resolution of ***Local Government Support*** from the Killeen City Council to provide mixed-income housing for residents of Killeen.

Additionally, the Killeen Hyde Estates, LP and its development team request a ***Commitment of Development Funding by a Local Political Subdivision (LPS funding)*** in the form of a loan, grant, reduced fees, or contribution of other value for the benefit of the proposed development in the amount of ten dollars and no/100 (\$10.00).

### **BENEFIT TO THE CITY AND HOUSING AUTHORITY OF KILLEEN**

Investor equity obtained through the Texas Low Income Housing Tax Credit program will allow the Housing Authority of Killeen to implement more than \$9 million in building construction for Hyde Estates while generating revenue for the City through construction and utility permits, new accounts, and increased community participation in local resources. Hyde Estates residents will be protected from displacement, no increase in rent to current residents, receive reduced utility expenses, and provide residents with equal access to quality education and long term affordable quality housing options.