

PRIVATE ACTIVITY BOND AUTHORITY BOARD MEETING

Governor's Office of Economic Development
Salt Lake City, Utah

MINUTES

Tuesday, April 9, 2013

Members Present

Christopher M. Conabee (Chairman)
Richard K. Ellis
Wilford Clyde
Lee Gardner
Wayne Parker
Kyle Kershaw
Wayne Cushing

Representing

Governor's Office of Economic Development
State Treasurer
Utah State Board of Regents
Salt Lake County
Provo City (via phone)
City of South Salt Lake
Salt Lake County

Excused Members

John T. Crandall
Grant S. Whitaker
Michael Jensen
Jamie Davidson

Governor's Office of Economic Development
Utah Housing Corporation
Tooele County
Orem City

Staff and Visitors

Roxanne Graham
Jenni Osman
John Brereton
William Loos
Cleon Butterfield
David Feitz
Dave Miner
Mark Cornelius
Mike Plaizier

Governor's Office of Economic Development
Governor's Office of Economic Development
Affordable Housing Advisors
Attorney General's Office
Utah Housing Corporation
Utah Higher Education Assistance Authority
Municipal Bond Consulting, Inc.
Cowboy Partners
Housing Plus

WELCOME AND INTRODUCTIONS

The Private Activity Bond Authority (PAB) Board Meeting was held in Salt Lake City, Utah, at the Governor's Office of Economic Development and called to order at 9:04 a.m., by Christopher M. Conabee, Chairman. Mr. Conabee welcomed new Board Member, Wilford Clyde, representing the Utah State Board of Regents, replacing Meghan Holbrook.

APPROVAL OF MINUTES

Chairman Conabee requested a motion to approve the minutes from the January 9, 2013, Board Meeting.

Kyle Kershaw moved and Wayne Parker seconded a motion to approve the minutes of January 9, 2013. The motion carried unanimously.

STATUS OF ACCOUNTS

Chairman Conabee reviewed the 2013 Volume Cap Accounting Summary as shown.

PAB ACCOUNTING SUMMARY January 9, 2013		
	2013 Allocation	2012 MF CF*
Starting Balance	\$ 145,787,500	\$ 75,000,000
Student Loan	\$ 96,318,750	
No applications		
Manufacturing Account	\$ 33,025,000	
No Applications		
Multi-Family Account	\$ 13,525,000	
Unused Cap - Liberty Village	\$ 1,040,000	
Balance	\$ 14,565,000	
Liberty Center	\$ 19,200,000	\$ 19,200,000
Balance	\$ (4,635,000)	\$ 55,800,000
Exempt Facility Account	\$ 2,918,750	
No applications		
Balance - All Accounts	\$ 127,627,500	

* Developer must use UHC as the issuer to use this cap.

Mr. Conabee explained why two different funding options were shown for the Liberty Center Multi-Family Housing application as follows:

- If the applicant chooses Provo City as the bond issuer, the volume cap allocation must come from the 2013 Multi-Family (MF) Account. The remaining balance in this account is not enough to fund the entire project request. If the Board approves the project, partial funding would be given at this meeting for the remaining balance in the MF Account. The applicant would then apply at the July Board Meeting for the balance of their request.
- If the applicant chooses Utah Housing Corporation (UHC) as the bond issuer, the volume cap allocation would come from the 2012 CarryForward cap awarded to UHC in the December 2012, Board Meeting. UHC requested, at that time, that \$75M of the total award be earmarked for 2013 Multi-Family housing projects. If the project receives Board approval, it can be totally funded at this meeting.

VOLUME CAP ALLOCATION REQUESTS

Multi-Family Housing

Liberty Center Apartments

Cowboy Partners requested a \$19,200,000 volume cap allocation from the Multi-Family Account for the Liberty Center Apartments, located in Provo, Utah. This project is a mixed-use multi-family development with 88 affordable units, 87 market-rate units and 10,000 SF of commercial space. Currently the land, owned by the Redevelopment Agency of Provo City, is under contract by the developer.

The project is for the development of 175 units; however, the Redevelopment Agency of Provo City has not secured all the needed ground for this size of development. They are confident the additional parcels can be obtained for the project. In the event this does not happen, the project size would be reduced to approximately 145 units.

The development has a mix of smaller studios and 1- and 2-bedroom apartments, with the 1-bedroom type making up 60% of the total units. The mix and size of the units are typical for a downtown project. With the increase of these affordable housing units in the downtown area it will also provide housing options for all income levels.

John Brereton reviewed the project for the Board adding the following information:

- All the multi-family housing projects developed lately in Provo have been for student housing. The City wanted a development in the historic downtown area to preserve and expand the supply of affordable housing in this area.
- The market value of the land at this location was too high for an affordable housing project, so the City's Redevelopment Agency lowered the land cost to facilitate the development.
- The project area is a few blocks away from NuSkin and the new Provo temple.

John also reviewed the financing details of the project with the following points:

- The developer included the retail construction costs and the revenues from the lease/retail space in the financing and proforma. Adjusting the financing for these costs still meets the minimum DCR requirement of 1.15.
- If the additional land is not acquired, the project will be reduced to 145 units and the bond request will be reduced approximately 20%.
- The tax credits will be sold at the rate of \$.98/\$1.00 of credit. Goldman Sachs is the buyer.
- During the last 24 months, HUD's Denver Office, has funded 75% of their projects for refinancings. Although, primarily interested in the SLC area for multi-family housing projects, they are looking at new areas for developments. They have invited the developer to apply for a 40-year mortgage through the HUD 221(d)(4) Program.
- The interest rate for the bonds is 3.5%. The developer is still deciding who the issuer of the bonds will be; either, Provo City or Utah Housing Corporation. Their final decision will determine if they need to apply for the remaining volume cap per the information under the "Status of Accounts." The bonds are anticipated to close before the end of the year, since the developer plans to start construction within 6 months.

Staff recommends approval of the project providing the developer address the following items at the next Board Meeting:

- The actual size of the project (number of units).
- Prepare and submit a revised operating budget based on new numbers.

Lee Gardner moved and Richard Ellis seconded a motion to approve the \$19,200,000 volume cap allocation to Liberty Center Apartments with the specific cap account determined at a later date after the issuer question has been decided. The motion carried unanimously.

VOLUME CAP ALLOCATION EXTENSION REQUESTS

Single Family Account – Utah Housing Corporation

Utah Housing Corporation (UHC) requested a first extension on the \$119,515,200 total volume cap allocation from the Single Family Account.

Cleon Butterfield provided the following update to the Board on the Single Family Programs:

- Single family production in FY 2012 was \$427M for the First Home Program.
- Review of the last several years shows 70% of the affordable housing needs used the tax-exempt program; however, with current market conditions, UHC has not been able to issue tax-exempt bonds on a routine basis.
- Due to new regulations placed on financial institutions, UHC has acted more like a mortgage banker offering down payment assistance for homebuyers.
- UHC has partnered with Wells Fargo and kicked off a new program called *Homes*. The bond allocation will be used for tax exemption, but the bond issue will be a trust selling certificates on the outside, which are tax-exempt. On the inside of the trust will be mortgage-backed securities like Ginnie Mae, etc.
- The Mortgage Credit Certificate Program, which gives the home buyer a direct tax credit for the interest they pay on their mortgage, is still being designed. It has been developed on the inside for UHC's use, but a viable program still needs to be created for the lending community so they understand how the program works. The requirements for using the program are the same as the First Time Homebuyer Program, but there are tax considerations the buyer needs to be made aware of at closing, e.g., recapture provisions, capital gains tax, etc. This could be a barrier in terms of marketing the program, which might discourage people from using it. The document handling between the lender and UHC also requires extra time. UHC coordinates with 45-50 lenders, so the program needs to be developed as efficiently and stream-lined as possible. Then they will be able to market it so the lenders and homebuyers will understand it.

Questions were raised by the Board regarding the MCC Program, whether it would still be an attractive program when interest rates go up. Cleon's responses were:

- The credit is a percentage of the interest rate paid, so as long as the interest rates are high, the credit will be more valuable.
- If the program is designed correctly, it will be of value to the buyer.
- UHC is Utah's housing finance agency so they do have an industry. In talking to colleagues in other States about similar programs, they found the following: 1) some have similar programs that are quite active; 2) others have tried it, but they do not think it is worth the effort; and 3) others are currently in the process of developing a similar program. UHC thinks they are somewhere in the middle.
- UHC will have a compliant pipeline and when the buyer gets ready to close on their home, they can choose to use either the tax credit certificate or the tax-exempt program, depending on the interest rate. The combination should work really well.

Kyle Kershaw moved and Lee Gardner seconded a motion to approve the first extension on the \$119,515,200 total volume cap allocation from the Single Family Account to Utah Housing Corporation. The motion carried unanimously.

Multi-Family Housing

Housing Plus requested a first extension on the \$21,000,000 volume cap allocation for the Canyon Crossing at Riverwalk project located in Midvale, Utah.

Mike Plaizier gave the following update to the Board on the development's progress:

- There has been a delay in obtaining financing from HUD due to the sequestration process. They hope to obtain approval by July; maybe August at the latest.
- After HUD has approved the funding it will take 30-45 days to close the bonds. Then construction will begin.

Richard Ellis moved and Lee Gardner seconded a motion to approve the first extension on the \$21,000,000 total volume cap allocation to Housing Plus for the Canyon Crossing at Riverwalk Apartments. The motion carried unanimously.

OTHER BUSINESS AND ADJOURNMENT

Interim PAB GRAMA Request Policy

Bill Loos from the Attorney General's Office recently requested a formal GRAMA Request Policy be put in place for all Boards and Programs in GOED. This is to protect the highly confidential and sensitive information given by perspective companies and applicants to the different programs in the Department.

Board Members were given an Interim PAB GRAMA Request Policy for their review. The policy presented recommendations relating to the confidential information contained in applications submitted for volume cap allocation requests that needs to be protected from GRAMA requests. As an example, the Market Study of a development is a required part of the application. This is a large expense for the developer and contains confidential information on the project. Another developer could submit a GRAMA request and use that Market Study for their own project without having to pay for it and/or use it against the original developer. The policy also outlines the fees charged for fulfilling a GRAMA request.

Bill has reviewed the proposed policy and ensured it is aligned with the State's GRAMA rules.

Board Members were asked to review the policy and send any comments or recommendations to Roxanne before the July Board Meeting. The policy will be formally adopted at that Board Meeting.

PAB Program Funding

Chairman Conabee expressed his concerns to the Board about the financial funding for the PAB Program. The market rates so low that interest rates on tax-exempt bonds are

much higher. This has caused the number of applications submitted for volume cap to be way down from past years. With the fixed costs associated with the program, other ways need to be explored on how the volume cap can best be utilized. A presentation will be given at either the July or October Board Meeting on different uses for the program; however, they do not entail changing the current fee structure.

Municipal Tax-Exempt Financing

Kyle Kershaw asked Richard Ellis about the status of the recently passed Senate Budget Proposal as it relates to the cap on municipal tax-exempt financing. Richard relayed the following points about the Senate's budget:

- There is a proposed a 28% tax-exemption cap for individual income tax.
- Investors would then demand an increase on the rates for tax-exempt financing; possibly, an increase of 40-60 basis points, from the current rates.
- To get any money from this proposal it needs to be made retroactive; if done, it would totally disrupt the market.
- No talk has been heard about it being just prospective, since Congress wants to capture billions of dollars, not tens of thousands of dollars in the first year.
- Aggressive lobbying has been done on the hill by all parties involved; including, the League of Cities and Towns, Association of Counties, Governors Association, entities that receive private activity bond allocations and delegations of State Treasurers. Everyone is pushing hard because this is really an issue. Richard has been a part of several delegations of State Treasurers that have meet with congressional offices on many occasions.
- There is the fear that the huge amount money borrowed on the current interest rates will escalate the interest debt, which would be crippling. If that happens, then it turns into a pass-through, meaning smaller allocation requests for PAB Bonds, building smaller projects and increasing the tax rates for municipalities on general obligation bonds.
- This is just the Senate's version, but it is in play.

Adjournment

Chairman Conabee thanked the Board for their time, efforts and participation in the meeting.

The next Private Activity Bond Authority Board Meeting is scheduled for Wednesday, July 10, 2013, at 9:00 a.m.

The meeting adjourned at 9:46 a.m.

Submitted by:
Roxanne C. Graham