

**Presentation  
on**



**New York City Housing Development Corporation  
and the use of Private Activity Bonds**

**February 4, 2021**

# Public/Private Partnerships for Providing Affordable Housing

- **HDC works with HPD so it can use the issuance of private activity tax exempt bonds coupled with low interest loans and low income housing tax credits to spur the development and preservation of affordable housing**
  - Bond proceeds are used to finance new construction or acquisition/rehabilitation of housing for persons with low and moderate incomes
  - HDC profits coupled with City capital fund low interest loans
- **Private Developers (either charitable or profit-motivated entities) own such developments.**
  - Rules require different levels of affordability and compliance is monitored by HDC.

# Private Activity Bonds

- What are the limits?
  - volume limitation on a per capita basis
    - Volume Cap of \$110 per person (increases at inflation)
    - Minimum of \$325 million per state
  - requires a public hearing (TEFRA)
    - The public hearing requirement may bring “(NIMBY) issues from opponents
  - maximum bond maturity (50 years)
    - relating to life of project
  - qualifying expense requirements (95/5)
    - **Good Costs** include land & depreciable costs for income tax purposes that are paid or incurred after the date of inducement by issuer.
    - **Bad Costs** include costs incurred prior to Inducement by issuer, intangible assets, bond issuance costs and underwriting, as well as loan origination fees amortized over the permanent loan period

# Private Activity Bonds for Housing

- **Qualified residential rental projects:**
- Bond proceeds are used to finance new construction or acquisition and rehabilitation of housing for persons with low and moderate incomes containing separate and complete living facilities
  - Facilities for living, sleeping, eating, cooking and sanitation
  - Open to general public for use on other than a transient basis
- **To be for low and moderate income persons:**
  - 20% of the units must be for people earning 50% of median income or 40% of the units must be for people earning 60% of median income
    - in NYC, it is 25% at 60% of median income because this is such a high-cost region

# Permissible Uses of Housing Bond Proceeds

- **Capital Costs**
  - 95% of the bond proceeds must be used to pay qualified project costs (i.e., “good costs”); 5% of the bond proceeds may be applied to pay “bad costs;” the 5% includes up to 2% for costs of issuance
- **Reimbursements**
  - In order apply bond proceeds to reimburse costs incurred prior to bond issuance, issuer must declare, in any reasonable form, its intent to issue bonds or notes and the maximum principal amount
- **Project description required**
- **Acquisition of Existing Project**
  - If bond proceeds are used to acquire an existing project, rehabilitation expenditures must be equal to or greater than 15% of the acquisition costs made within 2 years of the issuance of the bonds
- **Limitation on Land Acquisition**
  - No more than 25% of housing bond proceeds may be used to acquire land

# Tax-Exempt Private Activity Bonds for Multifamily Housing

## Basic Structure

- Bond issuer: State-law borrowing and lending powers, treated as State or political subdivision under Internal Revenue Code (“Code”) and federal and State securities laws
- Negotiable bonds issued under bond resolution/indenture with bond trustee
- Proceeds loaned to borrower, mortgage/repayments pledged as security

## Advantages

- Tax-exempt interest rate (+ issuer spread, credit enhancement fees)
- 4% LIHTC (with volume cap allocation)

## Variations

- Standalone/conduit or open/parity bond resolution/indenture
- Public offering via underwriter(s) or private placement/direct purchase
- Fixed rate (serial/term bonds) or variable/multi-modal; swaps/caps
- Proceeds invested or draw-down bond
- Type of bond or loan credit enhancement (if any)

## Process

- Counsel: issuer’s, borrower’s, bond, underwriters’, credit enhancer’s
- Other documents: preliminary official statement (“POS”) and final official statement (“OS”) or any private placement memo; bond purchase agreement (“BPA”); credit enhancement; regulatory agreement; tax certificates
- Issuer governing board authorization/delegations
- If a public offering: POS; marketing; pricing; execution of BPA; final OS
- Closing

## Laws

- Issuer’s statute/other State law
- Securities Act of 1933 § 3(a)(2) and related exemptions
- Rules 10b-5 and 15c2-12 under Sec. Exchange Act of 1934
- State “Blue Sky” laws
- Code §§ 103, 141-142, 146-150 and related Treasury Regulations

## HDC Multi-Family Developments

Mixed-Middle (M2) Program

**Alvista Towers, Jamaica, Qns**



\*Formerly LAMP  
Source: Preliminary Official Statement

**Via Verde, 700 Brook Avenue | LAMP– Bronx**



**Gateway Elton | ELLA Program – Brooklyn**



# 4% Tax Credits Come with Bonds, 9% Allocated Credits Are Different

- 9% tax credits are allocated to the state housing agencies each year. The total annual 9% credits are limited as a per capita amount for each state and they are generally called “competitive” credits.
- Developers apply for these credits through the state allocating agency. This can be a very competitive process.
- There is no ceiling of 4% tax credits for partnerships using tax-exempt bonds to finance their projects. However, the 4% tax credits are **not** “unlimited.” The total amount of 4% tax credits available is limited by the amount volume cap tax-exempt bonds allocated to LIHTC projects.
- The amount of 4% credits is effectively limited through what is called the **50% test**.

# Tax Exempt Bonds Come with LIHTC: 50% Test

- In most instances pursuant to IRC Sec. 42(h) each building must receive an allocation of LIHTC from the state tax credit agency in order to qualify for tax credits
- A project may qualify for tax credits “as of right” if **50%** or more of the aggregate basis of such building (and the land on which the building is located) is financed by tax-exempt volume cap bonds (private activity bonds).
- The as of right credits are only allocated at the 4% level and is a less generous subsidy.
- Reserves that may be required by an investor are not considered for purposes of determining the total development costs for the test.
- The allocating agency determines if the bond financed project has met the requirements of the qualified allocation plan and needs the credits for the project’s viability.
- The test is performed in initial sizing for bond issuance and when the project is completed.

# What is Income Averaging?

- A new minimum set aside option.
- At least 40% of the units must be LIHTC with an **average** income and rent level of 60%
- Units are designated based on 10% increments between 20% and 80% AMI and rent for that unit is determined based on that designation.
  - i.e. Owner designates that unit will be rented to a person earning 70% or less of AMI and rent is set to be affordable at 70% AMI.
  - Does not look at tenant's actual income other than to determine eligibility.

# Income Averaging

- Created a third minimum set aside: Sec. 42(g)
  - At least 20% of units of the residential units are both rent restricted and occupied by households whose income is 50% or less of AMI
  - At least 40% of units of the residential units are both rent restricted and occupied by households whose income is 60% or less of AMI
  - **At least 40% of the residential units must be rent restricted and occupied by households with income limits (designated in 10% increments from 20% - 80%) that on average are 60% or less of AMI**

# Competition for Volume Cap

- New York State gets an allocation of approximately \$2 Billion in bonds that can be used for private activities.
- The State then allocates 1/3 of the cap to state issuers, 1/3 to local issuers and 1/3 is held in reserve.
- New York City gets a share of the local amount equal to its percentage of the state's population. Overall this allocation is around 14% of the total allocation (\$301 million in 2020).
  - Additional allocations are made to NYCHDC pursuant to specific requests but the demand for bonds exceeds the amount available
  - HDC manages its pipeline in conjunction with the City to best use volume cap for affordable housing
- NYS HFA is also an active issuer of bonds for affordable housing throughout the State.
- Currently there is a lot of competition for volume cap, the process can be complex and HDC has sought alternative finance vehicles

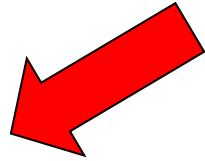
# Recycled Bonds Background

- Recycled Bonds recognize the value of preserving volume cap for affordable housing by re-using bond authority that used to be burned off in traditional tax credit transactions and is similar to recycling authority for single family housing revenue bonds.
- Enacted into Federal Law under the Housing and Economic Recovery Act of 2008 (Section 3007).
- HDC has recycled approximately \$3 billion in bonds and financed 130 projects with over 40,000 units.

# Example of Recycling Volume Cap Courtlandt Avenue Apartments, the Bronx

PENALTY:  
\$7.1 million lost  
after two years

SOLUTION Create  
Recycled Bonds



# Benefits of Recycled Bonds

- In states where there is a scarcity of volume cap recycling creates additional financing capacity.
- Allows Issuers to prioritize their use of new money volume cap allocated for multifamily housing to be used on projects which need “as of right” LIHTC, maximizing public benefits.
- Recycling is a tool to encourage more affordability in mixed income projects. Such projects need to satisfy the normal tax-exempt bond rules of affordability in order to qualify for the tax-exempt financing.
- Permits more efficient use of volume cap for 80/20 financings with a portion of the bonds that are in excess of the 50% requirement (for LIHTC) utilize recycled cap.
- Permits more efficient use of volume cap and leveraging private financing through use of “bifurcated” condominium structure.

# The Bradford - Example



Rendering of the Bradford,  
Recycled Bonds: \$20.7 Million  
1% Subsidy Loan: \$6.8 Million

- The Bradford include below-grade parking and 9,700 square feet of ground-level commercial space.
- The Bradford is the first HDC project to be funded partially with New Market Tax Credits generated by the commercial and part of the residential portion of the project.
- Goldman Sachs provided the new markets equity and the construction loan.

# Recycled Bonds as Preservation Tool: Tivoli Towers

- Tivoli Towers is a 320 unit rental tower in the Crown Heights section of Brooklyn.
- Originally built in 1975; Tivoli has a Section 236 contract.
- Decoupling the contract led to rents (with most tenants getting enhanced vouchers) that are higher than would be normally eligible for tax exempt bonds.
- Underwriting to the decoupled rents allowed for more bond proceeds than would have happened in a tax credit deal.
- Significant rehab funds provided under recycled loan.



Tivoli Towers

Recycled Bonds: \$37.2 Million  
Funds for Rehab: \$16 Million  
Restructured 2<sup>nd</sup> Loan: \$6 Million

# St. Ann's Prior to Construction



## Use of Recycled Bonds at St. Ann's Terrace

- St. Ann's Terrace is the nation's first moderate-income housing complex to use recycled bonds.
- Developed on a 3.5-acre site formerly zoned for industrial use in the Melrose neighborhood of the South Bronx.
- St. Ann's Terrace is a mixed-use development with more than 600 residential units, 45,000-square-feet of ground floor commercial space and underground parking.
- The moderate income component financed with recycled bonds includes 166 units and commercial space.



St. Ann's Terrace Fully Constructed.

St. Ann's Terrace has converted to perm.  
Recycled Bond: \$25.8 million  
1% Subsidy Loan: \$14.1 million

# ABH Mixed-Income Financing

Financed with HDC Fixed-Rate Tax-Exempt Recycled Bond Proceeds and Subsidy through HDC's New Housing Opportunities Program (New HOP) and HPD's Mixed Income Rental Program (MIRP). Extended 421a benefits for residential and ICAP for retail/parking to abate taxes for 25 years.

| USES-Const. & Perm. | Total               | Per Unit         | % of Total     | Notes   |
|---------------------|---------------------|------------------|----------------|---|
| Acquisition Cost    | \$11,200,000        | \$67,470         | 16.18%         | \$40 PSF (Part of \$24MM Total)                                 |
| Construction Cost   | \$46,882,039        | \$282,422        | 67.74%         | \$185 Per Residential SF;<br>Average \$80 PSF on Retail/Parking |
| Soft Cost           | \$11,123,754        | \$67,011         | 16.07%         | \$40 PSF- No Developer Fee                                      |
| <b>TOTAL USES</b>   | <b>\$69,205,793</b> | <b>\$416,902</b> | <b>100.00%</b> |   |

- Acquisition Costs not distributed proportionately, but rather by what each project could support.

| SOURCES-Const. & Perm. | Total               | Per Unit         | % of Total     | Notes                        |
|------------------------|---------------------|------------------|----------------|------------------------------|
| HDC TE Recycled        | \$25,830,000        | \$155,602        | 37.32%         | 5.5 % Base, 6.2% at Perm     |
| HDC Second Mortgage    | \$14,110,000        | \$85,000         | 20.39%         | 1% Interest Only (I/O)       |
| HPD 3rd City Capital   | \$13,898,350        | \$83,725         | 20.08%         | 1% I/O 100% Deferred @ Perm. |
| Reso A Funds           | \$1,500,000         | \$9,036          | 2.17%          | 0% Interest                  |
| Developer Equity       | \$13,867,443        | \$83,539         | 20.04%         | New HOP Program requires 10% |
| <b>TOTAL SOURCES</b>   | <b>\$69,205,793</b> | <b>\$416,902</b> | <b>100.00%</b> |                              |

- 1<sup>st</sup> Perm Loan term restricted to 28 years by Recycled Bond Legislation Constraints. Amortization based on 35 yrs .

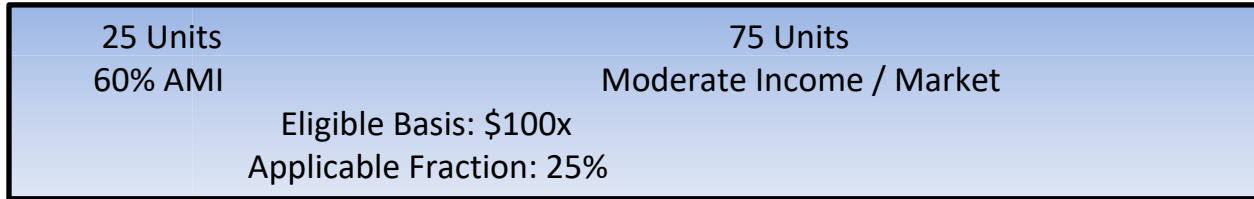
# Bifurcated Structures

- Creatively using condominium structure as a tool for mixed income financings where only the low-income units are financed with private activity bonds and LIHTC.
- Mixed income developers have the following priorities:
  - Qualify for tax abatements (in NY §421(a) Real Property Tax)
  - Finance qualifying units with LIHTC
  - Lower financing costs by utilizing tax-exempt bond financing
- In a Bifurcated Deal:
  - All units targeting low-income tenants are owned in a single condominium unit by a single purpose entity and financed using Tax-Exempt Bonds
  - All other units (*e.g.*, market-rate, commercial) are owned in a separate condominium unit or units by a different entity. These are financed using Taxable Bonds or traditional bank loans.

## Bifurcated Structures (Cont'd)

- By financing only the low-income units instead of all units with tax-exempt bonds, the amount of volume cap needed to meet the 50% test is greatly reduced.
- There is no need for deep rent skewing and annual income certification since all of the units in the tax-exempt financed condo are low income and satisfy the LIHTC requirements.
- Under federal law, only the low-income condo is considered a low income building and the market component is irrelevant, but for New York law, the development is considered to be one unified project and will qualify for the property tax exemption.

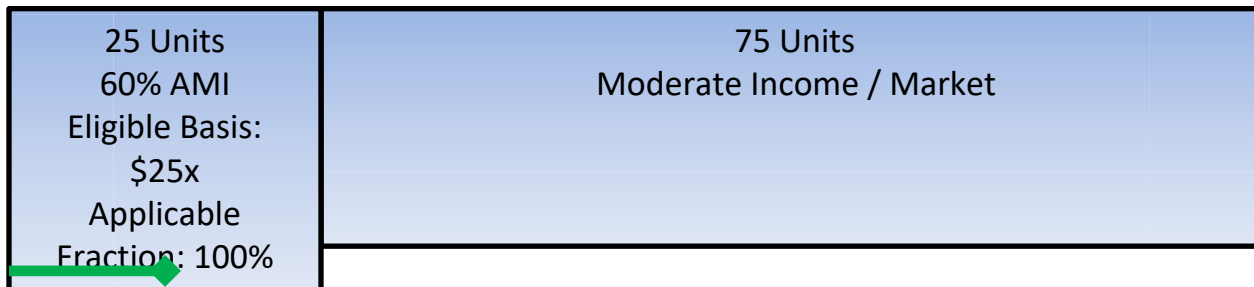
## Illustration of Bifurcated Structure (NYC Example)



Volume Cap:  $50\% \times \$100x = \underline{\$50x}$

**Problem**

Qualified Basis:  $25\% \times \$100x = \underline{\$25x}$



Volume Cap:  $50\% \times \$25x = \underline{\$12.5x}$

**Solution**

Qualified Basis:  $100\% \times \$25x = \underline{\$25x}$

## Bifurcated Structures (Cont'd)

- The bifurcated structure allows the developer to sell the credits for the low-income units without allocating the tax credit investor the income from the market rate units.
- Tax credit investors may prefer this structure because:
  - They are able to acquire the credits and the losses generated by the low-income units
  - Once construction is completed and the low-income units are placed in service, the tax-exempt debt is retired with the proceeds of the tax credits. There is no permanent tax-exempt debt outstanding for the low-income units.
  - Compliance is easier on an all low-income development.

# Mixed Income Housing – HPS Example



Rendering of the HPS-C South  
TDC--\$704 Million  
NYC Subsidy Loan: \$140 Million  
New Volume Cap: \$48.5 Million  
Recycled Bonds: \$184 Million  
Forw. funding from prepayments : \$153 million  
Perm. Forward Commit: \$386.8 Million

- Hunters Point Site C North and South will have a combined 1192 units in a slightly less than a million square feet complex.
- 240 units below 60% ami, 479 units below 130% ami and the rest at market rates.
- HDC offered a forward permanent rate and arranged a forward firm approval from HUD for FHA/HFA risk sharing mortgage insurance on the \$386.8 million permanent loan.
- Wells Fargo and JPMC provided bank lending for the construction loan.
- The project utilized a bifurcated approach to use new volume cap solely on the low income units.
- HDC to fund a portion of forward from its forward securitizations.
- HDC issued the recycled bonds as cash supported bonds for 5 years and will later be remarketed as VRDO with HDC arranging liquidity and entered into a 5 year forward swap with RBC on \$184 million

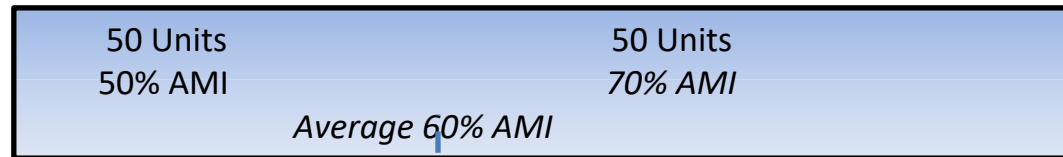
# Recycled Bond Analysis in Mixed Income Developments

|  |                      |
|--|----------------------|
| <b>Total Tax Exempt Bonds Issued</b>   | <b>\$131,315,000</b> |
| Total Development Costs  | \$275,866,884.00     |
| Qualified Costs (80% of total development costs as per preliminary 95-5)               | \$220,693,507.20     |
| Land Costs (split pro-rata between LIHTC & Non-LIHTC Units)                            | \$8,525,000.00       |
| LIHTC Units Share of Qualified Costs (20.238% of Qual'd Costs as per preliminary 95-5) | \$44,663,951.99      |
| Based on lower of:   |                      |
| 1) % of LIHTC Unit SF to total building SF   |                      |
| 2) % of LIHTC Unit to total Units  |                      |
| 3) % of LIHTC Unit Hard Costs to total Hard Costs                                      |                      |
| Volume Cap Bonds Required to Meet 50% Test for LIHTC Units (assumes 51.5% for cushion) | \$23,001,935.27      |
| Maximum Permitted Recycled Bonds on LIHTC Units  | \$21,662,016.71      |
| (Difference between Volume Cap Bonds and LIHTC Share of Qualified Costs)               |                      |
| Volume Cap Bonds Required on Moderate/Middle Income Units                              | \$0.00               |
| Maximum Permitted Recycled Bonds on Non-LIHTC Units                                    | \$86,648,066.86      |
| 4x Maximum Permitted Recycled Bonds on LIHTC Units                                     |                      |
| Total New Issue Bonds (rounded to nearest \$5,000)                                     | \$23,005,000         |
| Total Recycled Bonds, LIHTC + Non-LIHTC Units (rounded to nearest \$5,000)             | <u>\$108,310,000</u> |
| <b>Total Tax-Exempt Bonds</b>  | <b>\$131,315,000</b> |

# Illustration of Income Averaging in LIHTC Portion of Bifurcated Structure (NYC Example)

## § 42

- Minimum set-aside elected: 25% at designated %'s AMI, average of which  $\leq 60\%$
- Sufficiently over-income unit ceases to count toward minimum % if: "...any residential rental unit in the building (of a size comparable to, or smaller than, such unit) is occupied by a new resident whose income exceeds ...the imputed income limitation designated with respect to" that next available unit



## § 142(d)

- Minimum set-aside elected: 25% at 60% AMI or 20% at 50% AMI
- Sufficiently over-income unit ceases to count toward minimum % if: "... any residential unit of comparable or smaller size in the same project is occupied by a new resident whose income exceeds the applicable income limit" (60% AMI or 50% AMI)

## Case Study: Bronx Commons (Melrose, The Bronx)

### **305 total units**

- 16 units reserved for Formerly Homeless
- 166 Low-Income units affordable to households between 30% and 60% AMI
- 122 Middle-Income units with rents between 70% and 90% AMI
- 1 superintendent

*The Bifurcated Structure saved approximately \$30 million in volume cap*



## Case Study: Bronx Commons (Melrose, The Bronx)

| Construction Sources                     |                      |
|--|----------------------|
| HDC 1 <sup>st</sup> Mortgage             | \$61,770,000         |
| <i>HDC Volume Cap</i>                    | <i>\$48,555,000</i>  |
| <i>HDC Recycled Bonds</i>                | <i>\$13,214,000</i>  |
| HDC 2 <sup>nd</sup> Mortgage             | \$26,386,513         |
| HPD 3 <sup>rd</sup> Mortgage             | \$40,177,800         |
| HPD 4 <sup>th</sup> Mortgage (Our Space) | \$2,240,000          |
| HPD Reso A Mortgage                      | \$7,857,000          |
| Accrued Interest                         | \$4,347,881          |
| Private Funds for BMHC                   | \$811,483            |
| LIHTC Equity                             | \$2,367,903          |
| WHEDco Sponsor Loan                      | \$300,000            |
| Deferred Developer's Fee                 | \$16,127,000         |
| Deferred Reserves                        | \$1,897,684          |
| Citi DOJ Subsidy                         | \$1,000,000          |
| <b>Total Construction Sources</b>        | <b>\$165,283,265</b> |
| Uses                                     |                      |
| Acquisition Cost                         | \$275,003            |
| Construction Cost                        | \$120,716,499        |
| Soft Cost                                | \$27,064,763         |
| Developer's Fee                          | \$17,227,000         |
| <b>Total Uses</b>                        | <b>\$165,283,265</b> |

| Permanent Sources                        |                      |
|--|----------------------|
| HDC 1 <sup>st</sup> Mortgage             | \$21,525,000         |
| HDC 2 <sup>nd</sup> Mortgage             | \$26,386,513         |
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| HPD 4 <sup>th</sup> Mortgage (Our Space) | \$2,240,000          |
| HPD Reso A Mortgage                      | \$7,857,000          |
| Accrued Interest                         | \$4,347,881          |
| NYS CIF                                  | \$1,000,000          |
| Private Funds for BMHC                   | \$811,483            |
| SLIHC Equity                             | \$4,420,000          |
| LIHTC Equity                             | \$45,831,939         |
| Deferred Developer's Fee                 | \$5,336,703          |
| Solar Credit                             | \$548,945            |
| WHEDco Sponsor Loan                      | \$300,000            |
| Citi DOJ Subsidy                         | \$1,000,000          |
| Developer Equity                         | \$3,500,000          |
| <b>Total Permanent Sources</b>           | <b>\$165,283,265</b> |

## Case Study: One Flushing (Flushing, Queens)



### **232 total units**

- 117 Permanently Affordable Low-Income units, including 66 units set aside for Seniors
  - 10 units affordable to households at or below 40% AMI
  - 56 units affordable to households at or below 50% AMI
  - 51 units affordable to households at or below 60% AMI
- 54 units affordable to households at or below 100% AMI (with rents at 80% AMI)
- 60 units affordable to households at or below 130% AMI (with rents set at 100% AMI)
- 1 superintendent unit

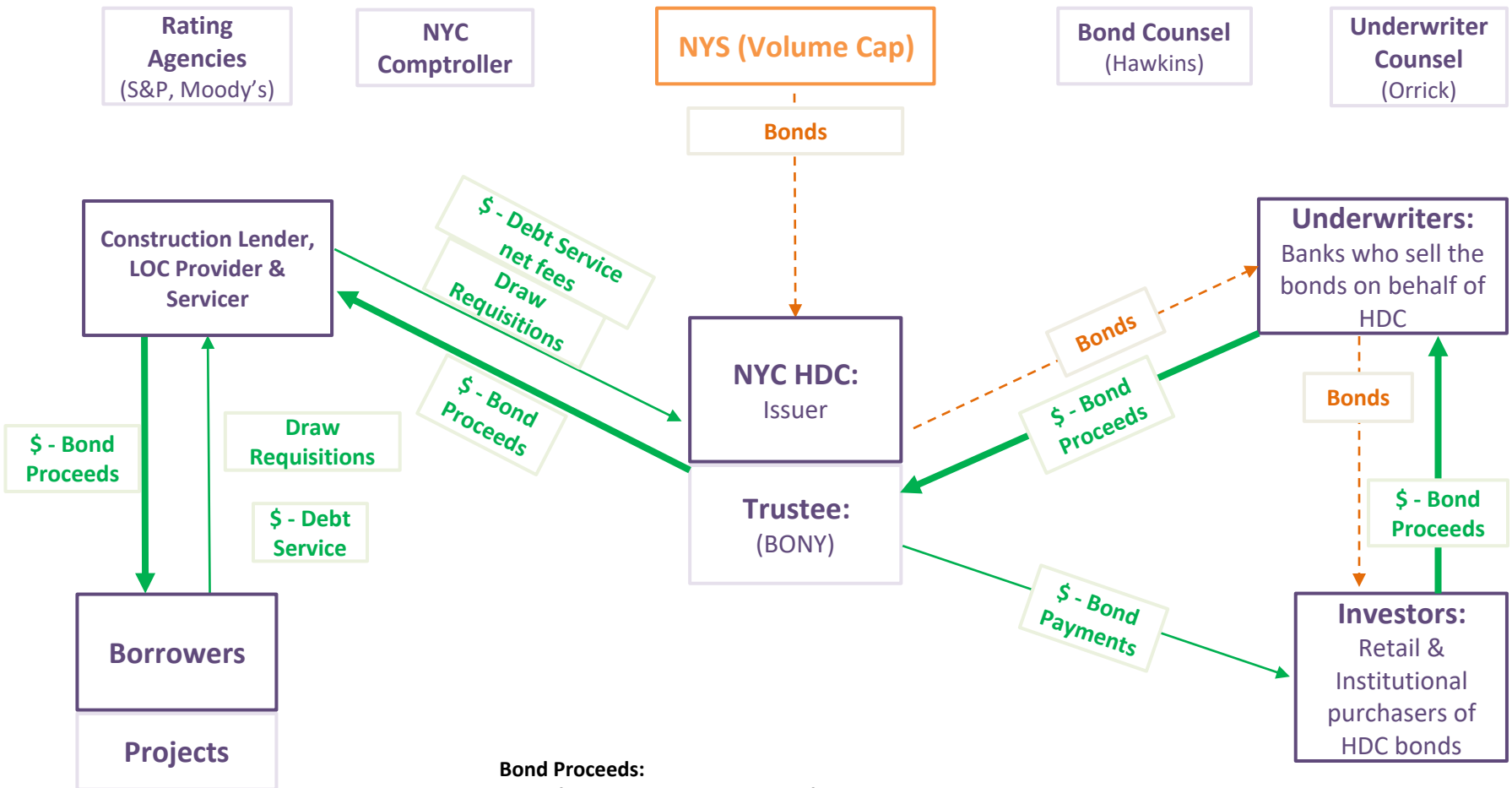
***The Bifurcated Structure saved approximately \$33 million in volume cap***

## Case Study: One Flushing (232-Unit Development in Flushing, Queens)

| Construction Sources   |                      |
|--|----------------------|
| HDC 1 <sup>st</sup> Mortgage   | \$55,470,000         |
| <i>HDC Volume Cap</i>  | \$23,595,000         |
| <i>HDC Recycled Bonds</i>  | \$31,875,000         |
| HDC 2 <sup>nd</sup> Mortgage   | \$14,502,852         |
| HDC 2 <sup>nd</sup> Mortgage Accrued and Deferred Interest   | \$494,547            |
| HDC 3 <sup>rd</sup> Mortgage (City Capital & Reso A Funds Granted from HPD to HDC)                                 | \$15,449,852         |
| HDC 3 <sup>rd</sup> Mortgage (City Capital & Reso A Funds Granted from HPD to HDC) – Accrued and Deferred Interest | \$951,711            |
| HDC 4 <sup>th</sup> Mortgage (Goldman Sachs DOJ Grant Funds)   | \$5,100,000          |
| HDC 4 <sup>th</sup> Mortgage (Goldman Sachs DOJ Grant Funds) – Accrued and Deferred Interest                       | \$35,063             |
| Citibank DOJ Funds   | \$2,220,000          |
| Citibank DOJ Funds – Accrued and Deferred Interest   | \$61,050             |
| Developer Equity (BCP Funding)   | \$2,000,000          |
| HPD 5 <sup>th</sup> Mortgage – OER Jump Start  | \$250,000            |
| NYSERDA Capital Contribution   | \$103,950            |
| LIHTC Equity   | \$4,371,500          |
| Deferred Developer's Fee   | \$8,256,575          |
| Other (Reserves Deferred During Construction)  | \$1,694,856          |
| Developer Equity   | \$5,000,000          |
| <b>Total Construction Sources</b>  | <b>\$115,961,956</b> |

| Permanent Sources  |                      |
|--|----------------------|
| HDC 1 <sup>st</sup> Mortgage   | \$42,785,000         |
| <i>HDC Volume Cap</i>  | \$10,910,000         |
| <i>HDC Recycled Bonds</i>  | \$31,875,000         |
| HDC 2 <sup>nd</sup> Mortgage   | \$14,502,852         |
| HDC 2 <sup>nd</sup> Mortgage Accrued and Deferred Interest   | \$494,547            |
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| Developer Equity (BCP Funding)   | \$2,000,000          |
| HPD 5 <sup>th</sup> Mortgage – OER Jump Start  | \$250,000            |
| NYSERDA Capital Contribution   | \$207,900            |
| LIHTC Equity   | \$21,443,000         |
| Deferred Developer's Fee   | \$5,460,981          |
| Other (Reserves Deferred During Construction)  | \$0                  |
| Developer Equity   | \$5,000,000          |
| <b>Total Construction Sources</b>  | <b>\$115,961,956</b> |
| Uses   |                      |
| Acquisition Cost   | \$2                  |
| Construction Cost  | \$82,757,200         |
| Soft Cost  | \$24,638,179         |
| Developer's Fee Residential  | \$8,566,575          |
| <b>Total Uses</b>  | <b>\$115,961,956</b> |

# How Money Moves - Construction in an Open Resolution Deal



## Bond Proceeds:

- Upfront lump sum upon sale of bonds

## Bond Payments:

- Interest paid semi-annually,
- Principal payments happening at varying and predetermined intervals (serials and term bonds; sinking funds)

*Note: "Negative Arbitrage" during construction results from the discrepancy in total amount borrowed from investors (right side of chart), vs. total amount lent to borrower (left side)*