perspectives

Federal Reserve Bank of Dallas

BANKING & COMMUNITY PERSPECTIVES

2002, ISSUE 1

THE CHANGING FACE OF PUBLIC HOUSING

WOODHILL
A Bond-able Development

PLUS

BANK-QUALIFIED TAX-EXEMPT OBLIGATIONS
Travis County Housing Authority

A Look at Public Housing Authorities

The country's 3,300-plus public housing authorities are providing affordable, decent and safe rental housing for about 3 million low-income households. According to the Department of Housing and Urban Development, 427 Texas communities have a housing authority. Louisiana has 164 and New Mexico, 50.

Since the 1930s, PHAs have been a key source of housing for very low-income families, the elderly and disabled. Until the 1990s, most PHAs relied solely on public funds to develop and maintain their properties. But many PHAs have worked hard in recent years to develop mixed-income housing, using both public funds and private financing. They are also developing and maintaining quality housing that both residents and their neighbors view positively.

This issue of *Perspectives* looks at how five PHAs have developed innovative programs and how they've financed them. These five PHAs are proud of their businesslike approach. They are accountable to their communities through their boards of directors, which are appointed by city councils or county commissioner courts. The PHAs have audited financial statements and productive relationships with local banks. And they meet frequently with community representatives.

To find out how to contact your local housing authority, go to HUD's web site at www.hud.gov/offices/pih/pha/contacts/index.cfm.

Nancy Vickrey
Assistant Vice President
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WOODHILL
A Bond-able Development

Woodhill Apartments is the biggest mixed-income rehab project the San Antonio Housing Authority (SAHA) has ever taken on. Its scope meant SAHA would have to tap financing sources in addition to the federal money housing authorities have traditionally used. Woodhill was the first development for which SAHA issued publicly rated bonds, allowing for the extensive work needed to the 532-unit project on the city's Northwest side.

SAHA manages and operates 6,078 units of public housing and administers 12,000 Section 8 rental vouchers. Since the 1990s, housing authorities have been encouraged to build mixed-income, but affordable, housing that is made available to both Section 8 voucher holders and the general public. The idea is to avoid the high concentrations of public housing that isolate the poor from the larger community.

The 2,713 units of mixed-income housing SAHA manages were developed with

What Is a Public Facility Corporation?

Chapter 303 of Texas' Local Government Code provides for the creation of public facility corporations with the broadest possible powers to finance or provide for the acquisition, construction and rehabilitation of public facilities at the lowest possible borrowing cost.

A sponsor—such as a municipality, county, school district or housing authority—may create one or more of the nonprofit public facility corporations to:

- Issue bonds to purchase sponsor obligations.
- Finance public facilities on behalf of the sponsor.
- Issue bonds on the sponsor's behalf to finance the cost of the public facilities.
- Loan the proceeds of the obligations to other entities to accomplish the sponsor's purposes.

To learn more about public facility corporations, see the Texas Legislature's web site at www.capitol.state.tx.us/statutes/lg/lg0030300toc.html.

WEBZINE

***e-Perspectives* is on the web at e-perspectives.org. Look for a new issue six times a year.**

Betsy Gleiser, executive vice president of Frost National Bank's Real Estate Division, and Melvin Braziel, SAHA president and CEO, review rehab plans.

both public and private financing. Since 1999 SAHA has created public facility corporations (PFCs) to acquire and redevelop its seven mixed-income developments. The PFCs have made it easier for SAHA to obtain private financing. And using private funds increases SAHA's flexibility, says Diana Kinlaw, vice president of its Development and Asset Management Division. "If SAHA relied solely on public funding, we would have more limited facilities."

Woodhill was part of HUD's property inventory and in bad shape when SAHA purchased it in 1994 for $1 plus a commitment to invest $4.8 million in improvements. HUD provided a list of work items that it estimated would cost $5 million to complete. Once the rehab began, however, it became obvious that more extensive renovation would be needed. SAHA's in-house rehab crew encountered unexpected asbestos, mold, wiring, drainage and foundation problems. SAHA ended up gutting Woodhill's Phase 1, built in 1973, to the framework. Phase 2, which is two years newer, required only exterior work. Ultimately, the cost would run more than double HUD's original estimate.

Armed with a reputation for making projects like this work, SAHA put a plan into action. The authority approached Frost National Bank, which made a $4.68 million loan for interim financing of the development.

"SAHA's corporate structure gives it the flexibility to provide both public and mixed-income housing and allows a commercial bank to offer financing," says Betsy Gleiser, executive vice president of Frost's Real Estate Division.

SAHA was able to repay the interim loan and continue renovating the apartments by issuing more than $10.6 million in Standard & Poor's A-rated bonds. The bonds were issued in two amounts: $2,615,000 in bonds maturing in 2015 and $8 million in bonds maturing in 2029. JPMorgan Chase serves as the trustee for both bond issues, which have been sold to a private third party.

The Woodhill project was completed using the Frost loan, the bond issue and rental income generated by the property itself. Rental income, now the source of repayment for the bonds, also enabled SAHA to continue rehab work on other Woodhill units. SAHA went to great lengths to accommodate its tenants during the process. While work on Phase 1 was under

Continued on back page

SAHA vice presidents Diana Kinlaw and Frank Jasso pay a visit to Woodhill.

San Antonio Housing Authority
WOODHILL APARTMENTS REHAB PROJECT

SAHA acquired Woodhill from HUD in 1994 for $1 plus a commitment to spend $4.8 million on rehabilitating the property. However, when the work got started, SAHA discovered the cost to rehab Woodhill far exceeded HUD's original estimates. Extensive interior and exterior work on Phase 1 and minor repairs to the exterior of Phase 2 were completed in September 2001 at a cost of $11,370,000.

FINANCING DETAILS

Interim construction loan **$ 4,680,000**
Frost Bank originated the loan in 1996.

Multifamily housing revenue bonds **$10,615,000**
In 1999, SAHA—through Woodhill Public Facilities Corp.—issued two bonds: $2,615,000 maturing in 2015 and $8 million maturing in 2029. The bonds are the first S&P A-rated bonds SAHA issued. Bond proceeds were used to pay off the interim construction loan and complete the rehab of Phases 1 and 2.

SAHA rental income **$ 755,000**
Rental income from Woodhill helped pay for some of the rehab costs. Rental income is now a source of repayment for the bonds.

THE CHANGING FACE OF PUBLIC HOUSING

Roseland Homes, a Dallas public housing project, was built in 1942.

The Dallas Housing Authority's $75 million redevelopment is turning Roseland Homes into mixed-income affordable housing.

On the edge of downtown Dallas, the city's oldest federally funded public housing is undergoing a major renovation. Roseland Homes' 611 apartments, built in 1942, are being reduced to 486 units. The Dallas Housing Authority (DHA) site will provide 259 apartments for families, 100 high-rise units for the elderly and 40 townhouses for home ownership. On completion, 87 market-rate apartments will be available to the general public.

About 130 miles south of Dallas, the Temple Housing Authority (THA) has built and sold 262 single-family homes and owns and operates student housing at Temple College, a child development center and a senior citizens center.

Along the U.S.–Mexico border, Metro Affordable Housing, a community development corporation and affiliate of the Laredo Housing Authority (LHA), has built 10 of 20 single-family homes and is preparing to build 30 single-room units for transitional housing and a 160-unit multifamily complex.

Sound like yesterday's public housing projects? Hardly.

Public housing authorities are evolving. They have become developers, community partners and social services providers. They are supplying affordable housing in many forms, including improved rental units for housing-choice (Section 8) voucher recipients, single-family homes available for ownership, and apartments and townhouses that rent at market rates. While many PHAs have a ways to go, the Dallas, Temple and Laredo housing authorities are good examples of how the entrepreneurial spirit is bringing a new perspective to public housing.

For many years, public housing meant large concentrations of low-income families in impoverished neighborhoods. But a shift in thinking about how to assist those with very low incomes, as well as legislative changes in the 1990s, has led PHAs to replace centralized projects with smaller, mixed-income developments in scattered sites throughout a community.

Dallas

Partnerships with corporations and financial institutions have been key to expanding DHA's services.

"For our families, providing affordable housing is only the first step," says Ann Lott, DHA president and CEO. "We also have to work on the psychosocial problems people face when they are in a crippling economic situation."

DHA has taken a holistic approach to address these issues, forming partnerships with Bank One, Walgreens, Marriott, Goodwill and others to offer preemployment skills training, GED classes and job fairs. Through a program offered by Bank One and Goodwill of Dallas, DHA residents can receive training for bank teller and other entry-level positions.

PHAs are no longer relying solely on HUD money to meet the demand for their services. Instead, they're using a mix of financing.

For example, renovating the Dallas authority's Roseland Homes is costing $75 million. DHA is using $35 million in HOPE VI funds. The remaining $40 million is being funded with low-income tax credits, private activity bonds, the Federal Home Loan Bank's Affordable Housing Program money and loans from several Dallas-area banks.

Says Lott, "Being able to seek out a variety of funding sources gives DHA the opportunity to provide a healthy mix in our housing developments."


Temple Housing Authority develops affordable single-family homes to aid the transition from public housing.

Temple

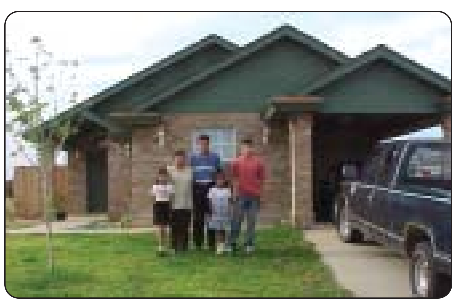
Hal Rose, executive director of THA, caught the entrepreneurial bug years ago. Rose anticipated changes in the role of public housing authorities and began taking cues from HUD in the '90s.

In 1997, THA launched a home-ownership program with the building of 41 single-family homes for families with incomes between 60 and 80 percent of the area median. "The city, banks, mortgage companies, Texas Department of Housing and Community Affairs (TDHCA), builders and the housing authority all came together to make this happen," Rose says.

THA acquired land from the city and developed lots for single-family homes. The city reduced building fees and provided infrastructure. Builders purchased the lots from THA and built homes that were sold to families that had graduated from a home-ownership counseling program. The homes, which sold for under $64,145, range from 950 to 1,150 square feet, with two to four bedrooms and one bath. Among the amenities are exterior brick veneer on all four sides, an engineered foundation, and central air and heat. Of the 262 homes this program produced, 33 were bought by families who were making the move from public housing to home ownership.

THA administers the home-ownership program, obtaining HUD HOME funds through TDHCA and supplements from the city to provide $10,000 in down payment assistance to each buyer. Through the down payment assistance program, borrowers can use funds for down payment and closing costs, as well as for principal reduction or to buy down their interest rate, says Dave Kuebler, vice president and branch manager of Guaranty Residential Lending, a Guaranty Bank subsidiary. The point is to find the best match of lending product and individual. Kuebler stresses that a new home's low maintenance costs can make all the difference in affordability in the long run.

In 2000, HUD recognized THA's Affordable Homeownership Program as a Best Practices winner in Texas.


Laredo Housing Authority's Metro affiliate promotes home ownership through an innovative lease–purchase program.

Laredo

"Families don't want to live in a development labeled as assisted housing," says Jose Ceballos, special projects director for LHA and its Metro affiliate. "Most families strive to live in an area where they feel the pride of home ownership, even if they need a little assistance from us."

To help them accomplish this, Metro tries to build homes that look like other houses in the market. "What goes on behind the scenes to make a house affordable yet attractive is Metro's business; what stands in front of the home is a proud family."

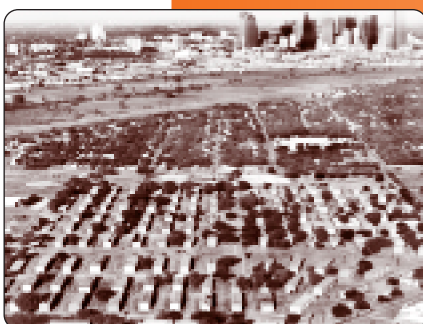
Ceballos says that legislative reform such as HOPE VI and the Quality Housing and Work Responsibility Act (QHWRA) fundamentally changed the way public housing authorities do business. The HOPE VI program works to replace public housing complexes with mixed-income housing; QHWRA allows PHAs to own, operate, assist or otherwise participate in mixed-financing projects.

"Our greatest challenge had been finding a way to meet housing needs in a saturated multifamily market when all we had was our housing-choice vouchers," says Ceballos. "Because landlords can choose to accept or deny the vouchers, many families are driven to colonias or other places of below-standard housing."

To address the situation, the housing authority created Metro as a nonprofit subsidiary; then Metro obtained status as a community housing development organization. As such, Metro is able to access HOME funds from HUD.

Next, Metro forged community partnerships to develop affordable housing. Metro joined with the city of Laredo, Fannie Mae and International Bank of Commerce (IBC) to build 20 single-family homes for a lease–purchase program. These homes are available to families living in public housing or participating in the housing authority's family self-sufficiency program.

Metro built the homes on land provided by the city and used the city's HOME funds to partially finance the construction. IBC originated the lease–purchase mortgage loans to Metro, and Fannie Mae purchased the loans through a product created specifically for Metro. Fannie Mae worked with Metro to tailor mortgage guidelines that helped housing authority residents qualify.



Juan Garcia/The Dallas Morning News

During the lease period, families make rental payments equal to the monthly principal, interest and taxes on the mortgage. They also use a savings account to set aside money that will go toward a down payment. In addition, borrowers are required to contribute a 1 percent down payment from their own funds.

Prospective homebuyers have one to three years to achieve qualifying credit status and become eligible to assume the loan from Metro, giving families the time to resolve any past credit problems while saving money for the down payment.

"Having the housing authority form Metro as its development entity has helped create more affordable housing in Laredo," says IBC Vice President Fernando de la Cerda. "We are helping develop homeowners and long-standing contributors to the community." ■

—Veronica Garza
Jackie Hoyer

PUBLIC HOUSING IN THE UNITED STATES

1933

National Industrial Recovery Act of 1933 creates the Public Works Administration, allowing for the construction of public housing.

1937

Cedar Springs Place in Dallas becomes the first public housing project in Texas built under the PWA.

Housing Act of 1937 establishes and funds the Public Housing Administration.

Santa Rita Courts in Austin becomes the first public housing development in the nation built under the Housing Act of 1937.

1940

Lanham Act of 1940 provides federal funds to build public housing for defense industry workers.

1948

10,332 public housing units are constructed in Texas over the first 10 years of public housing.

1953–55

West Dallas complex of 3,500 barracks-style homes becomes the largest public housing development in the nation.

1965

Department of Housing and Urban Development is created as a Cabinet-level agency to administer the public housing program.

Section 23 program authorizes housing authorities to lease units from private owners and sublease them to low-income tenants.

1968

Fair Housing Act bars discrimination based on race, color, religion, national origin, sex, familial status and disability in the sale and rental of housing and other real estate transactions.

1974

Housing and Community Development Act of 1974 increases low-income families' choice of housing with Section 8 tenant-based certificates.

1987

Housing and Community Development Act of 1987 creates a voucher program that requires families to pay approximately 30 percent of their adjusted incomes toward rent.

1993

HOPE VI program encourages PHAs to seek new partnerships with private entities to create mixed-finance and mixed-income affordable housing.

1998

Quality Housing and Work Responsibility Act creates incentives and opportunities for residents to work, become self-sufficient and ultimately transition into private housing.

BANK-QUALIFIED TAX-EXEMPT OBLIGATIONS

Travis County Housing Authority

Bank of America originated a bank-qualified tax-exempt obligation to finance the Travis County Housing Authority's office building. Kathaleen Ford-Smith of Bank of America and TCHA's Wiley Hopkins check building plans.

Travis County Housing Authority (TCHA) manages more than 200 affordable and public housing units in the small communities surrounding Austin. TCHA administers 575 housing-choice vouchers for low-income families, runs a family self-sufficiency program and is developing both affordable and market-rate housing. All of this takes office space, and until 2001, TCHA lacked a permanent home.

But then TCHA Executive Director Wiley Hopkins found a suitable 7,800-square-foot building in East Austin. The building, vacant for almost a year, was located in a low-income neighborhood.

"I felt the building was an anchor in the neighborhood's revitalization effort, and the central location would be easy for our clients," he says. TCHA had the 10 percent down payment for the $725,000 building but needed a way to finance the remainder.

Looking at the Options

Public housing authorities (PHAs) can receive tax-exempt financing for public facilities, such as the office building TCHA wanted to buy. Tax-exempt financing can also be used for low-cost financing of affordable housing owned by PHAs.

Typically, the tax-exempt financing is in the form of a bond. The cost to issue the bonds is high, so most bond issues are for $10 million or more to be cost-effective. Issuing a bond requires legal opinions on the tax-exempt status of the issuing entity and the project, and the bond must be underwritten and rated by a credit rating firm.

In this case, TCHA needed to finance only $697,000 to purchase the building. But it also needed low-cost, tax-exempt financing to make the deal work. The housing authority created a subsidiary, Travis County Public Facility Corp., to purchase the building and lease it to the housing authority and other nonprofits. Under Texas law, the PFC qualifies for tax-exempt financing.

Hopkins approached Kathaleen Ford-Smith, a vice president at Bank of America, seeking financing using a bank-qualified tax-exempt obligation (QTEO).

According to Ford-Smith, banks can originate QTEOs for public facility corporations that issue less than $10 million in bonds during a calendar year. Like a bond transaction, to qualify as tax-exempt financing the project must receive a legal opinion regarding the tax-exempt status of the PFC and the project. However, Ford-Smith explains, banks can carry the debt on its books rather than sell the bond on the open market. The bank will not have to pay income tax on the interest income and can take an expense deduction of up to 80 percent of the cost of funds.

"Booking the debt as a QTEO saves the borrower money because there is no debt rating and the underwriting fees are lower," she says. "Because the cost of originating the debt is less, originating smaller tax-exempt obligations can be justified."

Putting the Package Together

Bank of America originated a QTEO to the public facility corporation for $697,000 at 6¼ percent interest. The term of the debt is seven years, with a 15-year amortization. The debt will be repaid from rental income generated by leasing about two-thirds of the building to other governmental entities or nonprofits and income from ongoing TCHA operations.

The cost of originating the tax-exempt financing was far lower than the fees for issuing bonds going to the open market. Among the costs were attorney fees for creating the PFC and the legal opinion on the project's tax-exempt status, as well as the loan origination fee.

The loan probably would not have been economically feasible without tax-exempt financing, says Ford-Smith. Taxable financing for a building such as the one TCHA bought would cost at least 8 percent a year, with loan origination fees of about $8,000. The 6¼ percent interest rate for the Bank of America loan lowers the monthly payment by more than $670 and over the term of the loan saves TCHA almost $56,000 in interest. These savings significantly exceed the additional cost of originating the loan as a tax-exempt obligation.

"Typically, tax-exempt financing is good business," says Ford-Smith. "The lower interest rate helps make the credit risk more reasonable, and the debt can be structured as a profitable transaction for the bank." ■

—Nancy Vickrey

For Tax Treatment of QTEOs
Sections 256(b), 265(b)(3), 103(a) and 142(d)(3) of the Internal Revenue Code provide guidance on the tax treatment of bank-qualified tax-exempt obligations.

Woodhill

Continued from page 3

way, tenants were temporarily relocated to Phase 2 and other properties.

Woodhill has received project-based Section 8 funding for the 50 units it's required to rent to very low-income people. The remaining units are priced to target individuals and families whose incomes fall between 50 and 80 percent of the area median, a group with a big demand for housing. "That's our income target for our privately financed properties. We can't go below 50 percent of the median income because the numbers don't work," says Melvin Braziel, SAHA president and CEO.

Today, Woodhill Phase 1 consists of 25 buildings housing 212 apartments, two laundry rooms, an office, equipment storage space and a pool. In Phase 2, 16 buildings house 320 apartments, two laundry rooms, an equipment and maintenance shed, a clubhouse and a pool.

"Woodhill is a good-looking development that, compared with other multifamily properties, would probably be rated as a B because it's older and has low-maintenance landscaping," says Frank Jasso, SAHA vice president of Architectural and Construction Services.

Located in one of San Antonio's fastest growing neighborhoods, Woodhill is close to a new class A property and adjacent to new single-family housing. "The increased competition in the area forces us to keep the property looking good," Jasso says.

SAHA properties enjoy a good reputation in San Antonio, Braziel says. But he and SAHA staff members work hard to maintain community support by talking to the neighbors of proposed SAHA property. When talking to them, Braziel always asks, "When a private-sector property needs repair, who can you complain to? If SAHA messes up, you know who to call."

The city council appoints the SAHA board, he points out. "We can't ignore the community. We have to respond." ■

—Diana Mendoza

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