

**BOARD ACTION REQUEST**

**ASSET MANAGEMENT**

**MAY 26, 2016**

Presentation, Discussion, and Possible Action regarding a material amendment to the Housing Tax Credit (“HTC”)/HOME Application for Merritt Leisure (#15234)

**RECOMMENDED ACTION**

**WHEREAS**, in 2015 Merritt Leisure was awarded an annual allocation of 9% tax credits in the amount of \$786,147 as well as a \$2,000,000 Direct HOME loan at 3% interest rate, 18-year term and 30-year amortization to construct 194 new multifamily units, including 97 HTC and HOME restricted units in the city of Midland;

**WHEREAS**, at the Board meeting of March 31, 2016, the Development Owner’s material amendment to the Housing Tax Credit Application for Merritt Leisure was presented to the Board for approval and the Board denied the request;

**WHEREAS**, on April 14, 2016, the Development Owner submitted a second amendment request identifying significant changes to the Development plan and financing structure that trigger material alterations to the Application under §2306.6712(d)(1) of the Texas Government Code and 10 TAC §10.405(a)(3) and require Board approval;

**WHEREAS**, the requested changes do not change this Application’s priority of allocation at the time of award because the commitment of development funding by Local Political Subdivision is no longer re-scored after Carryover, but if it were to be re-scored today this is the only criteria that would have changed and it would have resulted in a three-point reduction and the Application would have remained ahead of its next closest competitor;

**WHEREAS**, the changes are, according to the Development Owner, due to changes in local market conditions as a result of energy production and pricing volatility;

**WHEREAS**, the changes in the second amendment, except for scoring, are as or more substantive, as described in the charts and narrative below, than the first amendment in that the Development site has been reduced and the number of market rate units has also been reduced but, as described in the supporting materials, has some benefits as well; and,

**WHEREAS**, consistent with staff’s previous recommendation for approval of the prior amendment, staff recommends approval based on an affirmative underwriting re-evaluation and no clear rule based defect;

**NOW, therefore, it is hereby**

**RESOLVED**, that the requested application amendment for Merritt Leisure is as determined by the Board at this meeting and the Executive Director and his designees are

hereby, authorized, empowered, and directed to take all necessary action to effectuate the foregoing.

### **BACKGROUND**

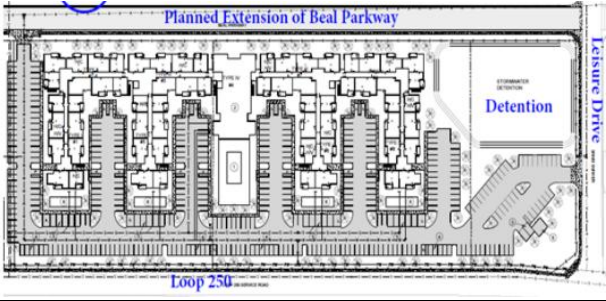
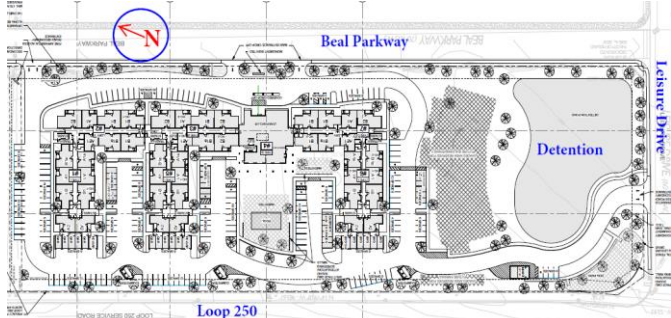
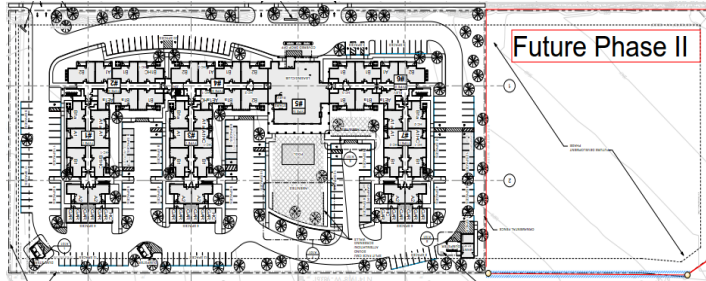
Merritt Leisure applied for Competitive Housing Tax Credits and HOME funding during the 2015 cycle. The Applicant was awarded an annual allocation of 9% tax credits in the amount of \$786,147 as well as a \$2,000,000 Direct HOME loan at 3% interest rate, 18-year term and 30-year amortization, consistent with the 2015-1 HOME and TCAP Multifamily Development Notice of Funding Availability (“NOFA”) approved by the Board in January 2015. On December 21, 2015, the Applicant (DDC Merritt Leisure, Ltd. – Colby Denison) submitted a request to materially amend the application for Merritt Leisure. The request was presented to the Board at its March 31, 2016, meeting. The Applicant has identified as a concern that the oil and gas market, to which much of the Midland economy is tied, is continuing to experience adverse conditions and is not rebounding as hoped. This is placing and will, until oil prices rebound, continue to place downward pressure on rents and occupancy, yet the city of Midland continues to believe it needs additional affordable housing for its elderly population. As a result the Applicant is seeking a way to reconfigure the transaction to reduce personal financial risk as a result of current uncertainty over market conditions in Midland.

At the previous meeting, when the Board was considering the original amendment request, there were concerns expressed over the significant amount of change involved, however, the principal, Colby Denison, was not present and able to address the Board’s concerns. However, under current rules, the amendment request did not appear to be expressly outside the bounds of what can be considered. The amendment generated an in depth policy discussion among Board members regarding the amount of changes to an application. After Board discussion regarding the request and expressions of reluctance to go forward with an Application amendment that was altered substantially from what was originally proposed and approved, the Board denied the Applicant’s amendment request.

Subsequently on April 14, 2016, the Applicant submitted a second amendment request which is the action requested in this item. Although the Board was unable to engage directly with Mr. Denison at the prior meeting, Mr. Denison has had the benefit of reviewing the record of the Board meeting and presumably taken this into account in making this revised request. Staff continues to have concern that the scope of the requested amendment is significant, impacting affordable units, market units, unit mix, and the financing structure. It is noted that like the first amendment request, this request reduces total development costs and reduces the senior debt per unit.

The Applicant continues to state that the deteriorating market conditions in Midland as the reason the changes being requested in this second amendment are necessary and were unforeseeable. Tables summarizing the changes proposed to the Application between the first and current amendments are provided on the following pages.

**Material Alterations as defined in 2306.6712(d) and 10 TAC §10.405(a)(3)**

Application	1 <sup>st</sup> Amendment	2 <sup>nd</sup> Amendment
<p><b><u>A significant modification to the site plan</u></b></p> <p>9 residential buildings 194 total units 97 market rate units</p> 	<p>7 residential buildings 140 total units (28% reduction) 43 market rate units (55% reduction)</p> 	<p>7 residential buildings 140 total units (28% reduction) 27 market rate units (72% reduction)</p> 
<p><b><u>A modification of the residential density of at least 5 percent</u></b></p> <p>Development Site at Application = 9.10 acres Density 21.3 units/acre</p>	<p>Development Site at 1<sup>st</sup> Amendment = 9.10 acres Density 15.3 units/acre (28% decrease)</p>	<p>Development Site at Amendment = 6.16 acres (- 32%) Density 22.7 units/acre (6.5% increase from Application; 48% increase from 1<sup>st</sup> Amendment)</p>

**Material Alterations as defined in 2306.6712(d) and 10 TAC §10.405(a)(3)**

Application						1 <sup>st</sup> Amendment						2 <sup>nd</sup> Amendment					
<b><u>Significant increases in development costs or changes in financing that affect the Department's direct loan financing structure or result in reductions of credit</u></b>																	
Sources and Uses						Sources and Uses						Sources and Uses					
Description	Loan/Equity Amount	Int. Rate	Amort	Term	Synd. Rate	Description	Loan/Equity Amount	Int. Rate	Amort	Term	Synd. Rate	Description	Loan/Equity Amount	Int. Rate	Amort	Term	Synd. Rate
Comm Bank of Texas	\$16,400,000	5.75%	40	18		Citibank-FHA 221(d)(4)	\$10,200,000	4.00%	40	40		Citibank-FHA 221(d)(4)	\$8,300,000	4.25%	40	40	
TDHCA HOME	\$2,000,000	3.00%	30	18		TDHCA HOME	\$2,000,000	3.00%	30	30		TDHCA HOME	\$2,000,000	3.00%	40*	40*	
City of Midland	\$1,600,000	3.00%	30	15		City of Midland	\$0					City of Midland	\$0				
City of Midland MATCH	\$0					City of Midland MATCH	\$0					City of Midland MATCH	\$0				
City of Midland (50% Road Construction)	\$0					City of Midland (50% Road Construction)	\$0					City of Midland (50% Road Construction)	\$225,861	0.00%	0	0	
RBC- Equity	\$7,545,502				0.96	RBC- Equity	\$8,174,212				1.04	RBC- Equity	\$8,174,212				1.04
Deferred Developer Fee	\$673,070					Deferred Developer Fee	\$1,084,409					Deferred Developer Fee	\$698,229				
<b>TDC</b>	<b>\$28,218,572</b>					<b>TDC</b>	<b>\$21,458,621</b>					<b>TDC</b>	<b>\$19,398,302</b>				

\*requested new terms on Department's HOME loan

**Additional Financing Changes Identified Since Application**

Application			1 <sup>st</sup> Amendment			2 <sup>nd</sup> Amendment		
<b><u>Local Political Subdivision financing</u></b>								
\$1.6M City of Midland loan plus up to \$95,000 reimbursement for road but the latter was not considered LPS funding for points. <i>14 pts awarded under this scoring criteria</i>			\$1.6M City of Midland loan withdrawn  <i>-11 pt difference</i>			\$225K - commitment from City of Midland to pay for half of offsite public road. This is a net reduction of \$1,470,000 in local funding from the original application. <i>-3 pt difference</i>		
<b><u>Cost per SF</u></b>								
\$73.49 <i>12 pts awarded under this scoring criteria</i>			\$81.39 <i>-2 pt difference</i>			\$74.94 <i>12 pts remain eligible</i>		

The changes summarized in the tables above still reflect an Application that has been altered substantially from what was initially proposed and originally approved by the Board. Changes of this magnitude are not approvable during the Application review period and thereafter are required to be shown to be unforeseeable or unpreventable by the Applicant unless good cause is found for approval of the amendment. Staff took the position, based upon the Applicant's statements, that the first amendment potentially met this criterion; however, the Board's direction was to the contrary given its denial of the first amendment request.

The most notable change to the financing piece of this request continues to be the elimination of the City of Midland's \$1.6M hard debt loan. The city provided this commitment which supported points for the local political subdivision commitment of development funding point item. The Applicant's latest amendment still eliminates this loan; however, the Applicant provided documentation in the form of another resolution from the City (effective 4/27/2016) that restates their original commitment to provide the \$1.6M loan. In addition the Applicant provided a revised commitment from the city for up to \$226K which is their portion of the cost for road construction. Based on this commitment, the Applicant would still have scored sufficiently high to have received its award.

The Department's REA division has evaluated this second amendment and the impact to the underwriting of this transaction as a result (REA Addendum attached). If the \$1.6 million remains in the total financial structure the deal is over-sourced and there would be cuts to other financing sources (the TDHCA HOME loan would be reduced by \$400,000 and the annual credit recommendation would be reduced by at least \$48,000).

Staff has also learned from discussions with the Applicant's lender that an initial concept meeting with HUD regarding the currently proposed financing structure has not yet occurred. Although the Applicant included a critical path timeline that shows an anticipated submittal to HUD by May 16, 2016, this critical path date and others that follow will likely need to be pushed back by at least 30-60 days, thereby making an already tight timeframe for meeting certain upcoming tax credit benchmarks that much tighter. For example, while not requested to date, staff expects that an extension to the 10% Test expenditure deadline (July 1, 2016) will be needed given the fact that the proposed FHA 221(d)(4) financing has yet to be submitted to HUD for approval, and this HUD process typically takes 60 days at a minimum.

Staff has reviewed the original application and score against the changes which are requested in this amendment and has determined that only the commitment of development funding by Local Political Subdivision would have been affected if it were to be re-scored today. In this case staff re-evaluated the potential impact and found the current commitment from the City of Midland to pay for half of the offsite public roadway valued at \$226K would have resulted in a three point reduction had it been used at the time of award. This Application was 11 points ahead of the first application on the waiting list for this sub-region, and therefore based on scoring alone this Application would remain higher scoring.

As with the first amendment denied by the Board, staff does not have a specific rule by which to recommend denial of this proposed amendment. Staff is offering this requested amendment with a neutral recommendation based on the fact that it meets the Department's underwriting criteria but asking the board to consider all of the issues as it reaches its conclusion and disposition.

**Addendum to Underwriting Report**

TDHCA Application #: **15234** Program(s): **9% HTC/HOME**

**Merritt Leisure**

Address/Location: Northeast quadrant of Leisure Drive and TX Loop 250

City: Midland County: Midland Zip: 79703

APPLICATION HISTORY	
Report Date	PURPOSE
<b>05/10/16</b>	<b>2nd Amendment Request</b>
03/29/16	1st Amendment Request
10/15/15	Change in maturity of TDHCA HOME Loan
06/15/15	Original Underwriting Report

**ALLOCATION**

TDHCA Program	Previous Allocation				RECOMMENDATION				
	Amount	Rate	Amort	Term	Amount	Rate	Amort	Term	Lien
HOME Activity Funds	\$2,000,000	3.00%	30	30	<b>\$2,000,000</b>	<b>3.00%</b>	<b>30</b>	<b>40</b>	<b>2nd</b>
HOME CHDO Expenses	\$50,000				<b>\$50,000</b>				
LIHTC (Annual)	\$786,147				<b>\$786,147</b>				

\* Lien position after conversion to permanent. The Department's lien position during construction may vary.

**CONDITIONS STATUS**

- Receipt and acceptance by HOME Closing:
  - Approved variance for reduced parking or compliance with existing Code, with all required spaces available to tenants at no cost.

**Status:** Pending

  - Documentation clearing environmental issues contained in the ESA report, specifically:
    - Noise Assessment documentation and implementation consistent with current HUD guidelines evidencing that the average exterior Day/Night Noise Level ("DNL") at subject site is below 65 decibels and that the average interior DNL in all buildings is below 45 decibels.

**Status:** Pending
- Should any terms of the proposed capital structure change, the analysis must be re-evaluated and adjustment to the credit allocation and/or terms of other TDHCA funds may be warranted.

**DEAL SUMMARY**

Applicant received a \$786K annual tax credit award and a \$2M HOME loan in the 2015 tax credit cycle as recommended in the prior Report dated June 15, 2015. Carryover documentation package was submitted on November 2, 2015 and the Carryover Agreement was executed by TDHCA on December 17, 2015. The Carryover documentation package contained representations that there were no material changes to the Application since Commitment.

On December 21, 2015, Applicant submitted an amendment request to materially change the design of the development and the capital structure. That request was presented at the March 31, 2016 Board Meeting but was denied. Therefore, this Addendum represents a second Amendment Request from the Applicant.

The amendment request results from Applicant's concern over the feasibility of the Development as originally planned because of deteriorating market conditions in Midland due to the collapse of oil and gas production.

As originally contemplated, the Development was to have 194 units. Of that total, 97 were to be restricted and 97 were to be market rate. In an effort to reduce the Development's market exposure and feasibility risks, Applicant's 1st Amendment Request contemplated a reduction in total units to 140, keeping the originally proposed number of restricted units at 97 and reducing the number of market rate units from 97 to 43 (a 54 unit reduction). This 2nd Amendment Request is still proposing the smaller 140 unit configuration but with an increase in the number of restricted units to 115 and a reduction in the number of market rate units to 25.

Common to the 1st Amendment Request and to this revised request is that Applicant is eliminating 57 two bedroom units and adding 13 efficiency units into the unit mix. Because of this shift towards smaller bedroom sizes, the overall average unit size decreases from 873 square feet to 780 square feet. Total NRA decreases by 60,209 square feet. This shift lowers the overall price point (average rent) downward by \$294/unit, which potentially reduces rental rate risk assuming sufficient demand for the smaller units.

The proposed capital structure has significantly changed with the exception of the TDHCA HOME loan.

While the amounts and terms on the primary debt and equity have changed, the most notable change as presented is the elimination of the City of Midland's \$1.6M hard debt loan. Applicant has stated that the City of Midland is willing to keep its original commitment, but believes that its more recent commitment to pay for 50% of the planned extension of Beal Parkway (a contribution estimated at \$226K) is more valuable. Because the \$1.6M loan no longer exists and as it was being used to qualify as Match for the Department's HOME loan, the Applicant is now indicating that the anticipated property tax savings from the ad valorem tax exemption (50% exemption) will serve as Match.

As indicated in the original Report, REA identified significant risks associated with the Development as it contained 50% market rate units. The Underwriter identified declining rents and occupancies and overall general uncertainty in the Midland economy. The Underwriter at the time identified mitigating factors to some of these risks including the conservative nature of the underwriting and, in general, the risk profile of the Department's HOME loan. Many of the mitigating factors no longer exist such as the DCR, low unemployment and high market occupancies.

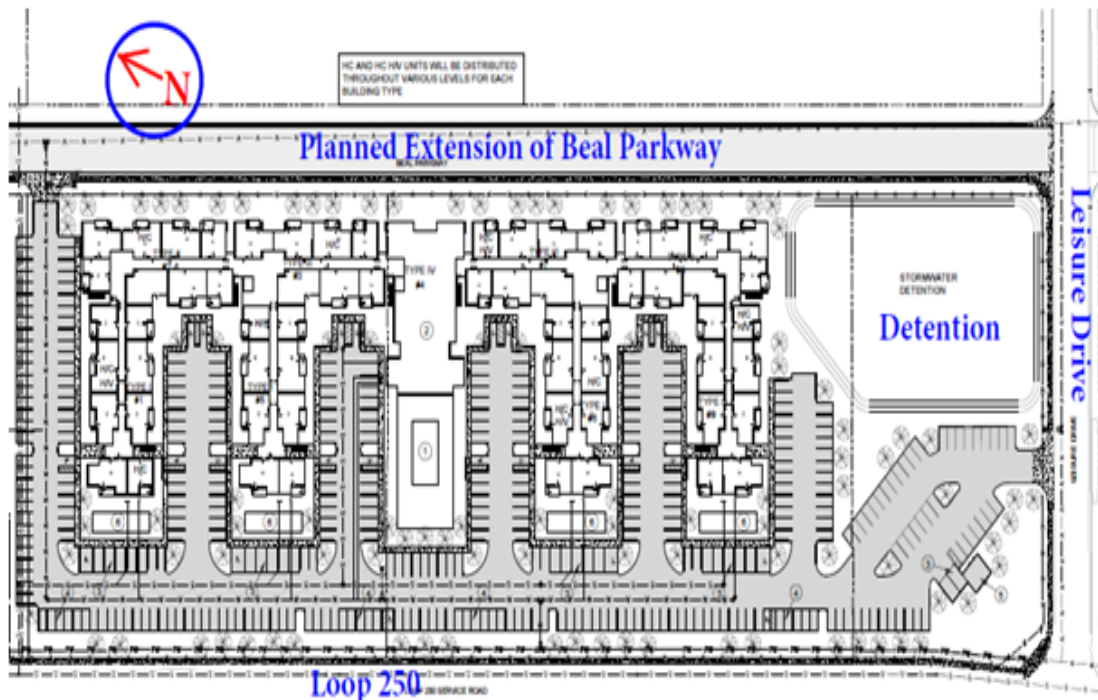
TDHCA#12507, The Azure (formally Champion Homes at Tahoe Lakes) is a 156-unit family property with 125 market rate units (20% HOME units). The property began leasing in February 2015 and is currently 65% occupied (8 units/month lease velocity). REA pro forma rents are similar to the market rents on this property. Most recent leases are \$995 and \$1,295 for one and two bedroom units (property also contains 3 bedroom units). Tenant incomes on this property are as high as \$142K/year.

Although the reduction of the number of market units decreases market risk, the overall risk profile on the Department's HOME loan increases with the amendment. Concerns over the Midland rental market remain as rental rates and occupancies continue to decline. The underwritten DCR on the HOME loan has decreased and both the loan amount per unit and loan to total cost increased.

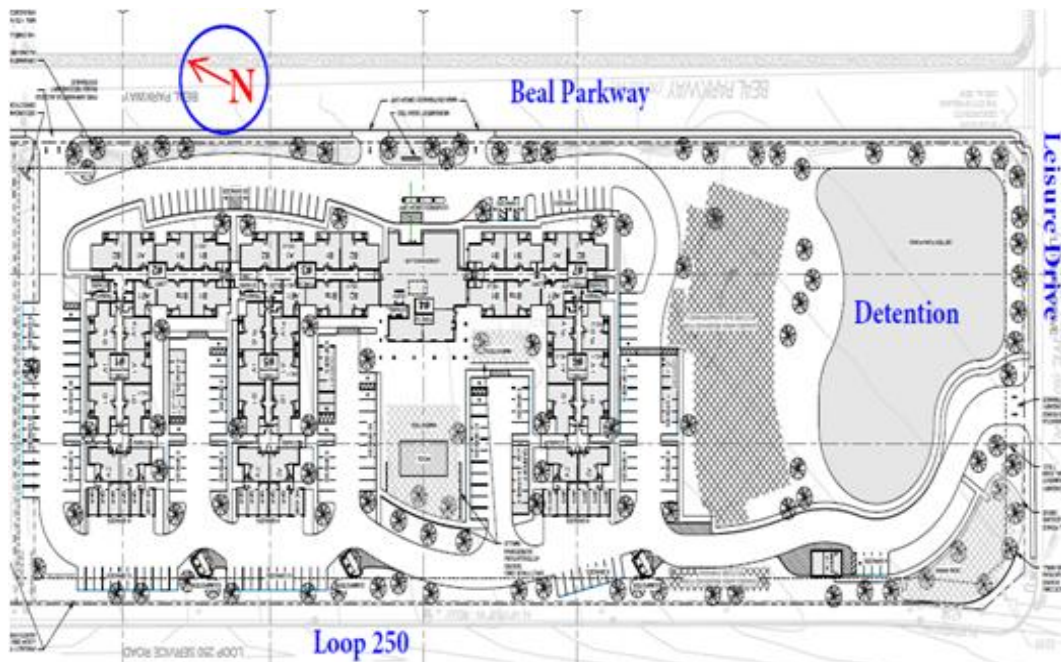
The proposed capital structure includes primary debt as a FHA 221(d)(4) with CitiBank as originator. The formal concept meeting with HUD has not occurred. Applicant provided a timeline for FHA processing and closing based on another transaction that would suggest a potential closing of the financing in September if approved. Based on the delay in getting these proposed changes approved, a September close now seems aggressive. In any event, the Development must be placed in service by December of 2017.

**DESIGN CHANGES**

**ORIGINAL SITE PLAN**

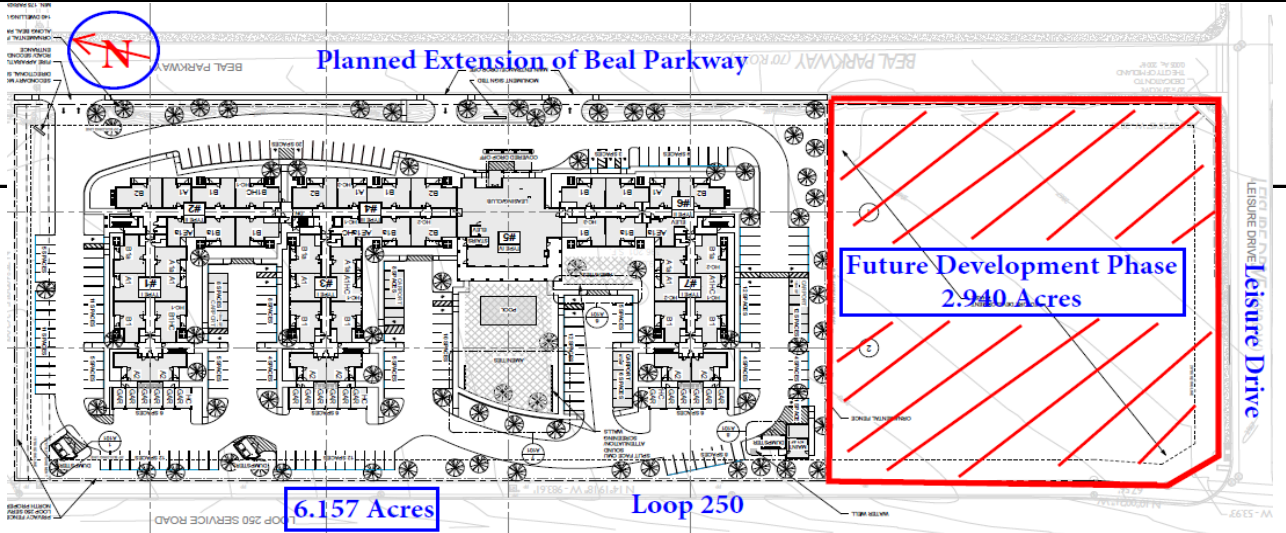


**1ST AMENDED SITE PLAN**





2ND AMENDED SITE PLAN



Comments:

Amended site plan provided in this request shows a hashed area labeled "Future Development Phase". While part of the original application and the 1st Amendment Request, the contemplated site has now been reduced to 6.157 acres and does not include acquisition of the 2.94 acres shown in the hashed area of the site plan. No information was provided regarding a future phase and one is not contemplated in the amendment request.

Applicant stated that their civil engineer recently found out from the City that a regional detention basin applies to this site that precludes on-site detention. It is a playa lake owned and maintained by the City that is about 1.5 miles southeast of the site between W. Wall St. and E. IH20.

ORIGINAL BUILDING CONFIGURATION												
Building Type	1	2	3	4	5	6	7	8	9			
Floors/Stories	3	3	3	3	3	3	3	3	3			<b>Total Buildings</b>
Number of Bldgs	1	1	1	1	1	1	1	1	1			<b>9</b>
Units per Bldg	24	24	21	8	24	24	21	24	24			
<b>Total Units</b>	24	24	21	8	24	24	21	24	24			<b>194</b>
											<b>Average Unit Size</b>	<b>873 sf</b>
											<b>Net Rentable SF</b>	<b>169,420</b>
											<b>Common Area SF</b>	<b>8,977</b>

AMENDED BUILDING CONFIGURATION (Same as 1st Amendment Request)												
Building Type	1	2	3	4	5	6	7					
Floors/Stories	3	3	3	3	3	3	3					<b>Total Buildings</b>
Number of Bldgs	1	1	1	1	1	1	1					<b>7</b>
Units per Bldg	24	24	24	20	20	21	7					
<b>Total Units</b>	24	24	24	20	20	21	7					<b>140</b>
											<b>Average Unit Size</b>	<b>780 sf</b>
											<b>Net Rentable SF</b>	<b>109,211</b>
											<b>Common Area SF</b>	<b>7,191</b>

Comments:

A single, three-story, elevator served structure sectioned into seven buildings (previously nine). Total NRA decreased 60,209 square feet (35% decrease). Average unit size decreased 93 square feet due to the shift to smaller bedroom sizes. Common area decreased 1,786 square feet because of the reduced corridors.

UNIT MIX DISTRIBUTION					
	APPLICATION		2ND AMENDMENT (Same as 1st Amendment Request)		CHANGE
# Beds	# Units	% Total	# Units	% Total	# Units
Eff	0	0%	13	9%	13
1	66	34%	56	40%	-10
2	128	66%	71	51%	-57
Total	194	100%	140	100%	-54

INCOME DISTRIBUTION					
	APPLICATION		1ST AMENDMENT		CHANGE
Income	# Units	% Total	# Units	% Total	# Units
30%	10	5%	10	7%	0
50%	20	10%	20	14%	0
60%	67	35%	67	48%	0
MR	97	50%	43	31%	-54
Total	194	100%	140	100%	-54

INCOME DISTRIBUTION					
	APPLICATION		2ND AMENDMENT		CHANGE
Income	# Units	% Total	# Units	% Total	# Units
30%	10	5%	12	9%	2
50%	20	10%	24	17%	4
60%	67	35%	79	56%	12
MR	97	50%	25	18%	-72
Total	194	100%	140	100%	-54

INCOME DISTRIBUTION					
	1ST AMENDMENT		2ND AMENDMENT		CHANGE
Income	# Units	% Total	# Units	% Total	# Units
30%	10	7%	12	9%	2
50%	20	14%	24	17%	4
60%	67	48%	79	56%	12
MR	43	31%	25	18%	-18
Total	140	100%	140	100%	0

## SET-ASIDES

### TDHCA SET-ASIDES for HTC LURA

Income Limit	Rent Limit	Number of Units Original Application	Number of Units 1st Amendment	Number of Units 2nd Amendment
30% of AMI	30% of AMI	10	10	12
50% of AMI	50% of AMI	20	20	24
60% of AMI	60% of AMI	67	67	79
Total		<b>97</b>	<b>97</b>	<b>115</b>

### TDHCA SET-ASIDES for TDHCA HOME LURA

Income Limit	Rent Limit	Number of Units Original Application	Number of Units 1st Amendment	Number of Units 2nd Amendment
30% of AMI	30% of AMI	8	8	9
50% of AMI	50% of AMI	20	20	20
60% of AMI	60% of AMI	0	0	0
Total		<b>28</b>	<b>28</b>	<b>29</b>

\*HOME units will float.

## OPERATING PRO FORMA

### SUMMARY- AS UNDERWRITTEN (Applicant's Pro forma)

NOI:	\$711,312	Avg. Rent:	\$797	Expense Ratio:	44.4%
Debt Service:	\$553,821	B/E Rent:	\$696	Controllable Expenses:	\$2,531
Net Cash Flow:	\$157,491	UW Occupancy:	92.5%	Property Taxes/Unit:	\$464
Aggregate DCR:	1.28	B/E Occupancy:	81.1%	Program Rent Year:	2015

Market rent conclusions from the original March 2015 Market Study averaged \$1,540/unit (\$1.79/SF). Market rents from the updated January 2016 Market Study averaged \$1,184/unit (\$1.53/SF), a decline of \$356/unit.

In a January 2016 review of stabilized properties in Midland-Odessa, ALN Apartment Data, Inc. reported average rent of \$1,028 vs. average rent in January 2015 of \$1,268, a decline of \$240/unit. Average occupancy was reported at 88%, a 4% decline since January 2015.

In May 2016, REA contacted the comparable properties directly and found that rents and occupancies have continued to trend down since January. Because of the high risk that rents will continue to erode, REA's underwritten rents were set at approximately 6% to 12% below the current average market rents for the one and two bedroom units, respectively. There are no market comparable efficiency units.

Applicant also took a more conservative approach in budgeting market unit rents, essentially matching REA's assumptions. Moreover, given the proposed capital structure, the deal remains feasible even if all market rate units only achieve 60% maximum program rents.

TDHCA#13016 Westridge Seniors (located across the street from the subject) contains 96 units, of which 84 are restricted. According to CMTS records, the property is fully occupied and achieving the maximum LIHTC rents. The property is not, however, achieving any rent premiums on the market units over 60% rent limits. If the subject was to only achieve 60% rents, the DCR would still remain feasible at 1.18, with projected 15-year cash flow at a surplus of \$1.7M over deferred developer fee.

Assuming that the underwritten rents are achievable, overall feasibility indicators (expense ratio and breakevens) are positive. DCR on the HOME debt is up to 1.28 (vs. the original 1.25 or the 1.17 reflected in the 1st Amendment Request). This dynamic is a result of lower assumed permanent debt made possible by lower land acquisition cost and lower budgeted building cost.

## DEVELOPMENT COST EVALUATION

### SUMMARY- AS UNDERWRITTEN (Applicant's Costs)

Acquisition	\$120,398/ac	\$8,790/unit	<b>\$1,230,621</b>	Contractor Fee	<b>\$1,463,287</b>
Off-site + Site Work		\$16,200/unit	<b>\$2,268,061</b>	Soft Cost + Financing	<b>\$2,691,343</b>
Building Cost	\$74.94/sf	\$58,457/unit	<b>\$8,183,982</b>	Developer Fee	<b>\$2,188,407</b>
Contingency	4.68%	\$3,733/unit	<b>\$522,602</b>	Reserves	<b>\$850,000</b>
<b>Total Development Cost</b>	\$138,559/unit	<b>\$19,398,303</b>		<b>Rehabilitation Cost</b>	<b>N/A</b>

As reflected in the 1st Amendment Request, smaller average unit size and a total reduction in NRA resulted in the cost per foot increasing from \$73.49 to \$81.39, which would have exceeded the \$75 per foot threshold used at application for scoring purposes. However, Applicant's revised building cost budget submitted here reflects a \$58K Building Cost per unit (\$74.94 per square foot) that stays within the \$75 per foot threshold. The REA cost estimate is significantly higher at \$81.48 per square foot). If the REA costs prove real, there is sufficient repayable developer fee for deferral to cover the additional cost.

Since the 1st Amendment Request, Applicant was able to negotiate the purchase of less acreage (6.2 vs. 9.1 acres) at a reduced cost (\$1.2M vs. \$2.0M). Consequently, per unit land cost decreased to \$8.8K (vs. the original \$10.3K or the \$14.3K per unit in the 1st Amendment Request). For a 2016 application, the Applicant has contracted for an adjacent parcel from the same seller for \$7,623/unit [104-unit, general population development].

With 140 units on 6.157 acres, proposed density is 22.7 units/acre. Originally, proposed density was 21.3 units /acre (194 units on 9.1 acres), while density proposed in the 1st Amendment Request was 15.4 units/acre (140 units on 9.1 acres).

## UNDERWRITTEN CAPITALIZATION

### INTERIM SOURCES

Funding Source	Description	Amount	Rate	LTC
TDHCA	HOME	\$2,000,000	3.00%	12%
CITI	Conventional/FHA	\$8,300,000	4.25%	50%
CITI Bridge Loan	Conventional Loan	\$2,971,365	2.70%	18%
RBC	HTC	\$1,634,842	\$1.04	10%
DDC Investments, Ltd	Deferred Fee	\$1,561,922	0.00%	9%
<b>\$16,468,129</b>			<b>Total Sources</b>	

### PERMANENT SOURCES

Debt Source	PROPOSED				UNDERWRITTEN				
	Amount	Interest Rate	Amort	Term	Amount	Interest Rate	Amort	Term	LTC
CITIBANK/FHA 221(d)(4)	\$8,300,000	4.25%	40	40	\$8,300,000	4.25%	40	40	43%
TDHCA	\$2,000,000	3.00%	40	40	\$2,000,000	3.00%	30	40	10%
City of Midland (50% of Road Cost)	\$225,861	0.00%	0	0	\$225,861	0.00%	0	0	1%
<b>Total</b>	<b>\$10,525,861</b>				<b>\$10,525,861</b>				

Comments:

As underwritten, TDHCA's HOME loan maintains a required 30 year amortization and 3.00% rate per the NOFA. While not affecting payments, the term has been extended to match the contemplated permanent 40-year loan.

TDHCA's Home loan requires a match component provided by the Applicant. Previously, the below-market financing on the City of Midland loan was used as match. As this request does not assume City financing, the Applicant is using the property tax exemption as match. The interest rate on the 221(d)(4) is 4.25% plus .25% MIP [pursuant to correspondence from the lender].

Debt per unit on the TDHCA HOME loan decreased from the original \$10,309 (194 units) to \$8,790 (140 units). Debt coverage improved slightly from 1.25 originally to 1.28. TDHCA loan to total cost increased from an original 7% to 10%.

As in the 1st Amendment Request, the proposed Capital structure no longer includes a \$1.6M loan from the City of Midland. The City indicated on January 12, 2016 that although they committed to a loan to assist in qualifying for the tax credits, the Applicant "...has since qualified for the program and no longer needs the loan that was established last year". The loan qualified the Application for 14 points as development funding by a local political subdivision.

At the same time, the City approved spending an estimated \$226K representing half of the costs of the street improvements adjacent to and serving the site. Previously, the City had only indicated that they would consider reimbursing up to \$95K for improvements (page 4 of the feasibility report). The resolution states that the roadway agreement authorized by the resolution may "...allow the Developer to qualify for certain points..." and that the City intends for the agreement to comply with the QAP.

Concern expressed about the \$1.6M loan prompted the Applicant to get another Resolution from the City (effective 4/27/2016) that restates their original commitment to provide that financing. However, the reason Applicant is currently not proposing to borrow that money since the incremental interest savings afforded by that below market rate loan would only amount to an estimated NPV of \$37K, and therefore be worth far less than the City's commitment to pay an estimated \$226K for half of the cost to build the road.

Adding the City's \$1.6M to the currently proposed capital structure would also result in the deal being over sourced. To rectify that, TDHCA's HOME loan would be reduced from \$2M down to \$1.6M pursuant to the REA rules. This would result in there being no deferred developer fee. Consequently, there would be a reduction in equity needed (from \$8.2M to \$7.8M), and this would result in a \$48K annual reduction in the credit recommendation (from \$786K to \$738K).

Equity & Deferred Fees	PROPOSED			UNDERWRITTEN			
	Amount	Rate	% Def	Amount	Rate	% TC	% Def
RBC	\$8,174,212	\$1.04		\$8,174,212	\$1.04	42%	
DDC Investments, Ltd	\$698,229		32%	\$698,229		4%	32%
<b>Total</b>	<b>\$8,872,441</b>			<b>\$8,872,441</b>			
				<b>\$19,398,302</b>	<b>Total Sources</b>		

Comments:

Although total development costs decreased \$8.8M over the original Application and by \$2M over the 1st Amendment Request, the higher applicable fraction of 82% actually results in an increase in eligible basis to \$13.7M (vs. \$11.7M at Application and \$12M in the 1st Amendment Request). Increased basis facilitates the \$8.2M in equity proceeds at the relatively high credit price of \$1.04.

**CONCLUSIONS**

**Recommended Financing Structure:**

<b>Gap Analysis:</b>	
Total Development Cost	\$19,398,302
Permanent Sources	\$10,525,861
Gap in Permanent Financing	\$8,872,441

<b>Possible Tax Credit Allocations:</b>	<b>Equity Proceeds</b>	<b>Annual Credits</b>
Determined by Eligible Basis	\$10,765,712	\$1,035,382
Needed to Fill Gap in Financing	\$8,872,441	\$853,299
Requested by Applicant	\$8,174,212	\$786,147

	<b>RECOMMENDATION</b>	
	<b>Equity Proceeds</b>	<b>Annual Credits</b>
<b>Tax Credit Allocation</b>	<b>\$8,174,212</b>	<b>\$786,147</b>

	<b>Amount</b>	<b>Interest Rate</b>	<b>Amort</b>	<b>Term</b>	<b>Lien</b>
<b>TDHCA HOME Loan</b>	<b>\$2,000,000</b>	<b>3%</b>	<b>30</b>	<b>40</b>	<b>2nd</b>

<b>Deferred Developer Fee</b>	<b>\$698,229</b>	<b>( 32% deferred)</b>
<b>Repayable in</b>	<b>5 years</b>	

Comments:

As underwritten, the originally recommended credit allocation remains unchanged, as does the amount, required rate and amortization of the HOME loan. The recommended 40 year term is only for the purpose of matching the permanent debt.

Underwriter: Gregg Kazak

Manager of Real Estate Analysis: Thomas Cavanagh

Director of Real Estate Analysis: Brent Stewart

**UNIT MIX/RENT SCHEDULE**  
**Merritt Leisure, Midland, 9% HTC/HOME #15234**

LOCATION DATA	
CITY:	Midland
COUNTY:	Midland
PROGRAM REGION:	12
PIS Date:	On or After 2/1/2014
IREM REGION:	NA

UNIT DISTRIBUTION					
# Beds	# Units	% Total	Income	# Units	% Total
Eff	13	9.3%	30%	12	8.6%
1	56	40.0%	40%	-	0.0%
2	71	50.7%	50%	24	17.1%
3	-	0.0%	60%	79	56.4%
4	-	0.0%	MR	25	17.9%
<b>TOTAL</b>	<b>140</b>	<b>100.0%</b>	<b>TOTAL</b>	<b>140</b>	<b>100.0%</b>

Applicable Programs
9% Housing Tax Credits
HOME

Pro Forma ASSUMPTIONS	
Revenue Growth	2.00%
Expense Growth	3.00%
Basis Adjust	100%
Applicable Fraction	81.85%
APP % Acquisition	3.35%
APP % Construction	7.87%
Average Unit Size	780 sf

UNIT MIX / MONTHLY RENT SCHEDULE																						
HTC		HOME (Rent / Income)		UNIT MIX				APPLICABLE PROGRAM RENT			APPLICANT'S PRO FORMA RENTS				TDHCA PRO FORMA RENTS				MARKET RENTS			
Type	Gross Rent	Type	Gross Rent	# Units	# Beds	# Baths	NRA	Gross Rent	Utility Allow	Max Net Program Rent	Delta to Max	Rent psf	Net Rent per Unit	Total Monthly Rent	Total Monthly Rent	Rent per Unit	Rent psf	Delta to Max	Underwritten	Mkt Analyst		
TC 30%	\$380	LH/50%	\$633	1	0	1	556	\$380	\$57	\$323	\$0	\$0.58	\$323	\$323	\$323	\$323	\$0.58	\$0	\$815	\$1.47	\$915	
TC 50%	\$633	0%		2	0	1	556	\$633	\$57	\$576	\$0	\$1.04	\$576	\$1,152	\$1,152	\$576	\$1.04	\$0	\$815	\$1.47	\$915	
TC 60%	\$760	0%		8	0	1	556	\$760	\$57	\$703	\$0	\$1.26	\$703	\$5,624	\$5,624	\$703	\$1.26	\$0	\$815	\$1.47	\$915	
MR		0%		2	0	1	556	\$0	\$57		NA	\$1.47	\$815	\$1,630	\$1,631	\$815	\$1.47	NA	\$815	\$1.47	\$915	
TC 30%	\$407	LH/50%	\$678	3	1	1	664	\$407	\$65	\$342	\$0	\$0.52	\$342	\$1,026	\$1,026	\$342	\$0.52	\$0	\$983	\$1.48	\$1,105	
TC 50%	\$678	LH/50%	\$678	1	1	1	664	\$678	\$65	\$613	\$0	\$0.92	\$613	\$613	\$613	\$613	\$0.92	\$0	\$983	\$1.48	\$1,105	
TC 60%	\$814	0%		3	1	1	664	\$814	\$65	\$749	\$0	\$1.13	\$749	\$2,247	\$2,247	\$749	\$1.13	\$0	\$983	\$1.48	\$1,105	
MR		0%		2	1	1	664	\$0	\$65		NA	\$1.51	\$1,005	\$2,010	\$1,967	\$983	\$1.48	NA	\$983	\$1.48	\$1,105	
TC 30%	\$407	LH/50%	\$678	1	1	1	686	\$407	\$65	\$342	\$0	\$0.50	\$342	\$342	\$342	\$342	\$0.50	\$0	\$998	\$1.45	\$1,121	
TC 50%	\$678	LH/50%	\$678	3	1	1	686	\$678	\$65	\$613	\$0	\$0.89	\$613	\$1,839	\$1,839	\$613	\$0.89	\$0	\$998	\$1.45	\$1,121	
TC 60%	\$814	0%		10	1	1	686	\$814	\$65	\$749	\$0	\$1.09	\$749	\$7,490	\$7,490	\$749	\$1.09	\$0	\$998	\$1.45	\$1,121	
MR		0%		4	1	1	686	\$0	\$65		NA	\$1.49	\$1,021	\$4,084	\$3,991	\$998	\$1.45	NA	\$998	\$1.45	\$1,121	
TC 30%	\$407	0%		1	1	1	691	\$407	\$65	\$342	\$0	\$0.49	\$342	\$342	\$342	\$342	\$0.49	\$0	\$1,001	\$1.45	\$1,125	
TC 30%	\$407	LH/50%	\$678	1	1	1	691	\$407	\$65	\$342	\$0	\$0.49	\$342	\$342	\$342	\$342	\$0.49	\$0	\$1,001	\$1.45	\$1,125	
TC 50%	\$678	0%		1	1	1	691	\$678	\$65	\$613	\$0	\$0.89	\$613	\$613	\$613	\$613	\$0.89	\$0	\$1,001	\$1.45	\$1,125	
TC 50%	\$678	LH/50%	\$678	4	1	1	691	\$678	\$65	\$613	\$0	\$0.89	\$613	\$2,452	\$2,452	\$613	\$0.89	\$0	\$1,001	\$1.45	\$1,125	
TC 60%	\$814	0%		19	1	1	691	\$814	\$65	\$749	\$0	\$1.08	\$749	\$14,231	\$14,231	\$749	\$1.08	\$0	\$1,001	\$1.45	\$1,125	
MR		0%		3	1	1	691	\$0	\$65		NA	\$1.48	\$1,025	\$3,075	\$3,004	\$1,001	\$1.45	NA	\$1,001	\$1.45	\$1,125	
TC 30%	\$488	LH/50%	\$813	1	2	1	850	\$488	\$85	\$403	\$0	\$0.47	\$403	\$403	\$403	\$403	\$0.47	\$0	\$1,093	\$1.29	\$1,228	
TC 50%	\$813	LH/50%	\$813	3	2	1	850	\$813	\$85	\$728	\$0	\$0.86	\$728	\$2,184	\$2,184	\$728	\$0.86	\$0	\$1,093	\$1.29	\$1,228	
TC 60%	\$976	0%		10	2	1	850	\$976	\$85	\$891	\$0	\$1.05	\$891	\$8,910	\$8,910	\$891	\$1.05	\$0	\$1,093	\$1.29	\$1,228	
MR		0%		4	2	1	850	\$0	\$85		NA	\$1.27	\$1,078	\$4,312	\$4,372	\$1,093	\$1.29	NA	\$1,093	\$1.29	\$1,228	
TC 30%	\$488	0%		1	2	1	880	\$488	\$85	\$403	\$0	\$0.46	\$403	\$403	\$403	\$403	\$0.46	\$0	\$1,113	\$1.26	\$1,250	
TC 30%	\$488	LH/50%	\$813	2	2	1	880	\$488	\$85	\$403	\$0	\$0.46	\$403	\$806	\$806	\$403	\$0.46	\$0	\$1,113	\$1.26	\$1,250	
TC 50%	\$813	0%		1	2	1	880	\$813	\$85	\$728	\$0	\$0.83	\$728	\$728	\$728	\$728	\$0.83	\$0	\$1,113	\$1.26	\$1,250	
TC 50%	\$813	LH/50%	\$813	6	2	1	880	\$813	\$85	\$728	\$0	\$0.83	\$728	\$4,368	\$4,368	\$728	\$0.83	\$0	\$1,113	\$1.26	\$1,250	
TC 60%	\$976	0%		22	2	1	880	\$976	\$85	\$891	\$0	\$1.01	\$891	\$19,602	\$19,602	\$891	\$1.01	\$0	\$1,113	\$1.26	\$1,250	
MR		0%		7	2	1	880	\$0	\$85		NA	\$1.25	\$1,100	\$7,700	\$7,788	\$1,113	\$1.26	NA	\$1,113	\$1.26	\$1,250	
TC 30%	\$488	0%		1	2	2	1,000	\$488	\$85	\$403	\$0	\$0.40	\$403	\$403	\$403	\$403	\$0.40	\$0	\$1,291	\$1.29	\$1,450	
TC 50%	\$813	LH/50%	\$813	3	2	2	1,000	\$813	\$85	\$728	\$0	\$0.73	\$728	\$2,184	\$2,184	\$728	\$0.73	\$0	\$1,291	\$1.29	\$1,450	
TC 60%	\$976	0%		7	2	2	1,000	\$976	\$85	\$891	\$0	\$0.89	\$891	\$6,237	\$6,237	\$891	\$0.89	\$0	\$1,291	\$1.29	\$1,450	
MR		0%		3	2	2	1,000	\$0	\$85		NA	\$1.30	\$1,300	\$3,900	\$3,872	\$1,291	\$1.29	NA	\$1,291	\$1.29	\$1,450	
<b>TOTALS/AVERAGES:</b>				<b>140</b>				<b>109,211</b>				<b>\$0</b>	<b>\$1.02</b>	<b>\$797</b>	<b>\$111,575</b>	<b>\$111,487</b>	<b>\$796</b>	<b>\$1.02</b>	<b>\$0</b>	<b>\$1,054</b>	<b>\$1.35</b>	<b>\$1,184</b>

<b>ANNUAL POTENTIAL GROSS RENT:</b>	<b>\$1,338,900</b>	<b>\$1,337,841</b>
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**STABILIZED PRO FORMA**

*Merritt Leisure, Midland, 9% HTC/HOME #15234*

**STABILIZED FIRST YEAR PRO FORMA**

	COMPARABLES		APPLICANT				PRIOR REPORT			TDHCA				VARIANCE	
	Database	Other	% EGI	Per SF	Per Unit	Amount	Amount	Amount	Amount	Per Unit	Per SF	% EGI	%	\$	
	<b>POTENTIAL GROSS RENT</b>				\$1.02	\$797	\$1,338,900	\$2,540,556	\$2,483,898	\$1,337,841	\$796	\$1.02		0.1%	\$1,059
App & Late Fees, Laundry, etc.					\$12.00	\$20,160	27,936								
Parking (Covered Spaces)					\$13.93	\$23,400	28,308								
Total Secondary Income					\$25.93			46,560	\$33,600	\$20.00			29.6%	\$9,960	
<b>POTENTIAL GROSS INCOME</b>						\$1,382,460	\$2,596,800	\$2,530,458	\$1,371,441				0.8%	\$11,019	
Vacancy & Collection Loss					7.5% PGI	(103,685)	(194,760)	(189,784)	(102,858)	7.5% PGI			0.8%	(826)	
Rental Concessions						-							0.0%	-	
<b>EFFECTIVE GROSS INCOME</b>						\$1,278,776	\$2,402,040	\$2,340,674	\$1,268,583				0.8%	\$10,192	

General & Administrative	\$39,312	\$281/Unit	\$36,402	\$260	3.67%	\$0.43	\$335	\$46,964	\$54,500	\$50,963	\$46,964	\$335	\$0.43	3.70%	0.0%	-
Management	\$48,050	5.3% EGI	\$51,111	\$365	5.00%	\$0.59	\$457	\$63,939	\$120,102	\$117,034	\$63,429	\$453	\$0.58	5.00%	0.8%	510
Payroll & Payroll Tax	\$146,319	\$1,045/Unit	\$156,825	\$1,120	12.07%	\$1.41	\$1,102	\$154,306	\$314,985	\$314,985	\$154,306	\$1,102	\$1.41	12.16%	0.0%	-
Repairs & Maintenance	\$77,746	\$555/Unit	\$79,427	\$567	6.02%	\$0.71	\$550	\$77,000	\$106,700	\$106,700	\$77,000	\$550	\$0.71	6.07%	0.0%	-
Electric/Gas	\$31,200	\$223/Unit	\$17,379	\$124	1.62%	\$0.19	\$148	\$20,711	\$37,085	\$24,330	\$20,711	\$148	\$0.19	1.63%	0.0%	-
Water, Sewer, & Trash	\$90,481	\$646/Unit	\$54,353	\$388	4.33%	\$0.51	\$395	\$55,309	\$61,386	\$76,095	\$54,914	\$392	\$0.50	4.33%	0.7%	395
Property Insurance	\$32,386	\$0.30 /sf	\$34,556	\$247	2.85%	\$0.33	\$260	\$36,400	\$53,350	\$48,411	\$34,556	\$247	\$0.32	2.72%	5.3%	1,844
Property Tax 1.9032	\$54,713	\$391/Unit	\$60,089	\$429	5.08%	\$0.59	\$464	\$64,923	\$140,290	\$121,660	\$73,872	\$528	\$0.68	5.82%	-12.1%	(8,949)
Reserve for Replacements	\$41,365	\$295/Unit	\$36,156	\$258	2.74%	\$0.32	\$250	\$35,000	\$48,500	\$48,500	\$35,000	\$250	\$0.32	2.76%	0.0%	-
Supportive Services			\$3,208	\$23	0.47%	\$0.05	\$43	\$6,000	\$25,000	\$25,000	\$6,000	\$43	\$0.05	0.47%	0.0%	-
TDHCA Compliance fees			\$4,007	\$29	0.44%	\$0.05	\$40	\$5,586	\$4,832	\$4,832	\$5,586	\$40	\$0.05	0.44%	0.0%	-
Security			\$4,516	\$32	0.10%	\$0.01	\$9	\$1,325	\$2,000	\$2,000	\$1,325	\$9	\$0.01	0.10%	0.0%	-
<b>TOTAL EXPENSES</b>			<b>\$ 590,513</b>		<b>44.38%</b>	<b>\$5.20</b>	<b>\$4,053</b>	<b>\$567,463</b>	<b>\$968,730</b>	<b>\$940,509</b>	<b>\$ 573,663</b>	<b>\$4,098</b>	<b>\$5.25</b>	<b>45.22%</b>	<b>-1.1%</b>	<b>\$ (6,200)</b>
<b>NET OPERATING INCOME ("NOI")</b>			<b>\$ -</b>		<b>55.62%</b>	<b>\$6.51</b>	<b>\$5,081</b>	<b>\$711,312</b>	<b>\$1,433,310</b>	<b>\$1,400,164</b>	<b>\$694,920</b>	<b>\$4,964</b>	<b>\$6.36</b>	<b>54.78%</b>	<b>2.4%</b>	<b>\$ 16,392</b>

<b>CONTROLLABLE EXPENSES</b>				\$2,531/Unit				\$2,962/Unit	\$2,954/Unit		\$2,528/Unit					
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**CAPITALIZATION / TOTAL DEVELOPMENT BUDGET / ITEMIZED BASIS**

*Merritt Leisure, Midland, 9% HTC/HOME #15234*

DEBT / GRANT SOURCES																				
APPLICANT'S PROPOSED DEBT/GRANT STRUCTURE										AS UNDERWRITTEN DEBT/GRANT STRUCTURE										
DEBT (Must Pay)	MIP	Cumulative DCR		Pmt	Rate	Amort	Term	Principal	1st Amendment Request 3/15/2016	Original Underwriting 6/15/2015		1st Amendment Request 3/15/2016	Principal	Term	Amort	Rate	Pmt	Cumulative		
		Applicant	Applicant						TDHCA	TDHCA	DCR	LTC								
CITIBANK - FHA 221(d)(4)	0.25%	1.61	1.65	431,886	4.25%	40	40	\$8,300,000	\$10,200,000	\$16,400,000	\$16,400,000	\$10,200,000	\$8,300,000	40	40	4.25%	\$452,636	1.57	42.8%	
TDHCA		1.34	1.37	85,916	3.00%	40	40	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	40	30	3.00%	\$101,185	1.28	10.3%	
City of Midland		1.34	1.37	-	0.00%	0	0	\$0	\$0	\$1,076,772	\$1,600,000	\$0	\$0	0	0	0.00%	-	1.28	0.0%	
<b>CASH FLOW DEBT / GRANTS</b>																				
City of Midland (50% of Road Cost)		1.34	1.37	-	0.00%	0	0	\$225,861	\$0	\$0	\$0	\$0	\$225,861	0	0	0.00%	-	1.28	1.2%	
City of Midland MATCH funds (HOME)		1.34	1.37	-	0.00%	0	0	\$0	\$0	\$523,228	\$0	\$0	\$0	0	0	0.00%	-	1.28	0.0%	
				<b>\$517,802</b>	<b>TOTAL DEBT / GRANT SOURCES</b>		<b>\$10,525,861</b>	<b>\$12,200,000</b>	<b>\$20,000,000</b>	<b>\$20,000,000</b>	<b>\$12,200,000</b>	<b>\$10,525,861</b>	<b>TOTAL DEBT SERVICE</b>		<b>\$553,821</b>	<b>1.28</b>	<b>54.3%</b>			
<b>NET CASH FLOW</b>		\$177,118	\$193,510													<b>NET OPERATING INCOME</b>		\$711,312	\$157,491	<b>NET CASH FLOW</b>

EQUITY SOURCES																
APPLICANT'S PROPOSED EQUITY STRUCTURE							AS UNDERWRITTEN EQUITY STRUCTURE									
EQUITY / DEFERRED FEES	DESCRIPTION	% Cost	Annual Credit	Credit Price	Amount	1st Amendment Request 3/15/2016	Original Underwriting 6/15/2015		1st Amendment Request 3/15/2016	Amount	Credit Price	Annual Credit	% Cost	Annual Credits per Unit	Total	
						Applicant	Applicant	TDHCA	TDHCA						15-Year Cash Flow:	\$
RBC	LIHTC Equity	42.1%	\$786,147	1.04	\$8,174,212	\$8,174,212	\$7,545,502	\$7,545,502	\$8,174,212	\$8,174,212	\$1.04	\$786,147	42.1%	\$5,615		
DDC Investments, Ltd	Deferred Developer Fees	3.6%	(32% Deferred)		\$698,229	\$1,084,407	\$673,071	\$673,070	\$1,084,409	\$698,229	(32% Deferred)		3.6%	Total Developer Fee:	\$2,188,406	
Additional (Excess) Funds Req'd		0.0%			\$0	\$2	\$0	\$0	\$0	\$0			0.0%			
<b>TOTAL EQUITY SOURCES</b>		<b>45.7%</b>			<b>\$8,872,441</b>	<b>\$9,258,621</b>	<b>\$8,218,572</b>	<b>\$8,218,572</b>	<b>\$9,258,621</b>	<b>\$8,872,441</b>			<b>45.7%</b>	<b>15-Year Cash Flow:</b>	<b>\$3,362,088</b>	
<b>TOTAL CAPITALIZATION</b>					<b>\$19,398,302</b>	<b>\$21,458,621</b>	<b>\$28,218,572</b>	<b>\$28,218,572</b>	<b>\$21,458,621</b>	<b>\$19,398,302</b>				<b>15-Yr Cash Flow after Deferred Fee:</b>	<b>\$2,663,858</b>	

DEVELOPMENT COST / ITEMIZED BASIS															
APPLICANT COST / BASIS ITEMS					TDHCA COST / BASIS ITEMS					COST VARIANCE					
Eligible Basis	Acquisition	New Const. Rehab	Total Costs	1st Amendment Request 3/15/2016	Original Underwriting 6/15/2015		1st Amendment Request 3/15/2016	Total Costs	Eligible Basis	New Const. Rehab	Acquisition	%	\$		
				Applicant	Applicant	TDHCA	TDHCA							%	
Land Acquisition			\$7,826 / Unit	\$1,095,621	\$1,966,882	\$1,966,882	\$1,966,882	\$1,966,882	\$7,826 / Unit			0.0%	\$0		
Building Acquisition	\$0		\$ / Unit	\$0	\$0	\$0	\$0	\$0	\$ / Unit		\$0	0.0%	\$0		
Closing costs & acq. legal fees, Extensions				\$135,000	\$35,000	\$35,000	\$35,000	\$135,000					\$0		
Off-Sites		\$0	\$3,821 / Unit	\$534,972	\$356,875	\$519,920	\$519,920	\$534,972	\$3,821 / Unit		\$0	0.0%	\$0		
Site Work		\$1,311,339	\$9,367 / Unit	\$1,311,339	\$1,627,788	\$1,803,700	\$1,803,700	\$1,311,339	\$9,367 / Unit	\$1,311,339		0.0%	\$0		
Site Amenities		\$421,750	\$3,013 / Unit	\$421,750	\$512,400	\$665,544	\$665,544	\$421,750	\$3,013 / Unit	\$421,750		0.0%	\$0		
Building Cost		\$8,134,883	\$74.94 /sf	\$58,457/Unit	\$8,183,982	\$8,888,972	\$12,450,423	\$12,489,561	\$8,898,489	\$63,561/Unit	\$81.48 /sf	\$8,774,294	-8.0%	(\$714,507)	
Contingency		\$493,399	5.00%	5.00%	\$522,602	\$569,302	\$771,979	\$771,979	\$522,602	4.68%	4.70%	\$493,399	0.0%	\$0	
Contractor Fees		\$1,381,515	13.33%	13.33%	\$1,463,287	\$1,594,045	\$2,161,542	\$2,161,542	\$1,463,287	12.52%	12.56%	\$1,381,515	0.0%	\$0	
Soft Costs	0	\$1,254,736	\$9,105 / Unit	\$1,274,736	\$1,024,736	\$1,297,955	\$1,297,955	\$1,274,736	\$9,105 / Unit		\$1,254,736	\$0	0.0%	\$0	
Financing	0	\$978,480	\$10,119 / Unit	\$1,416,607	\$1,661,607	\$2,323,782	\$2,323,782	\$2,323,782	\$1,416,607	\$10,119 / Unit	\$978,480	\$0	0.0%	\$0	
Developer Fee	\$0	\$2,096,415	15.00%	15.00%	\$2,188,407	\$2,332,314	\$3,121,845	\$3,121,845	\$2,188,406	14.30%	14.34%	\$2,096,415	\$0	0.0%	\$1
Reserves			\$6,071 / Unit	\$850,000	\$888,700	\$1,100,000	\$1,085,683	\$1,085,683	\$563,742	\$4,027 / Unit			50.8%	\$286,258	
<b>UNADJUSTED DEVELOPMENT COST / ELIGIBLE BASIS</b>		<b>\$0</b>	<b>\$16,072,517</b>	<b>\$138,559 / Unit</b>	<b>\$19,398,303</b>	<b>\$21,458,621</b>	<b>\$28,218,572</b>	<b>\$28,243,393</b>	<b>\$28,243,393</b>	<b>\$19,826,552</b>	<b>\$141,618 / Unit</b>	<b>\$16,711,928</b>	<b>\$0</b>	<b>-2.2%</b>	<b>(\$428,249)</b>
Acquisition Cost	\$0			\$0											
Contingency		\$0													
Contractor's Fee		\$0													
Interim Interest		\$0													
Developer Fee	\$0	\$0			(\$1)										
Reserves					\$0										
<b>TOTAL HOUSING DEVELOPMENT COST / ELIGIBLE BASIS</b>		<b>\$0</b>	<b>\$16,072,517</b>	<b>\$138,559/unit</b>	<b>\$19,398,302</b>	<b>\$21,458,621</b>	<b>\$28,218,572</b>	<b>\$28,243,393</b>	<b>\$19,826,552</b>	<b>\$141,618/unit</b>	<b>\$16,711,928</b>	<b>\$0</b>	<b>-2.2%</b>	<b>(\$428,249)</b>	
<b>TOTAL HOUSING DEVELOPMENT COST (Applicant's Uses are within 5% of TDHCA Estimate):</b>					<b>\$19,398,302</b>										

**CAPITALIZATION / DEVELOPMENT COST BUDGET / ITEMIZED BASIS ITEMS**

*Merritt Leisure, Midland, 9% HTC/HOME #15234*

CREDIT CALCULATION ON QUALIFIED BASIS				
	Applicant		TDHCA	
	Acquisition	Construction Rehabilitation	Acquisition	Construction Rehabilitation
<b>ADJUSTED BASIS</b>	\$0	\$16,072,517	\$0	\$16,711,928
Deduction of Federal Grants	\$0	\$0	\$0	\$0
<b>TOTAL ELIGIBLE BASIS</b>	\$0	\$16,072,517	\$0	\$16,711,928
High Cost Area Adjustment		100%		100%
<b>TOTAL ADJUSTED BASIS</b>	\$0	\$16,072,517	\$0	\$16,711,928
Applicable Fraction	81.85%	81.85%	81.85%	81.85%
<b>TOTAL QUALIFIED BASIS</b>	\$0	\$13,156,061	\$0	\$13,679,447
Applicable Percentage	3.35%	7.87%	3.35%	7.87%
<b>ANNUAL CREDIT ON BASIS</b>	\$0	\$1,035,382	\$0	\$1,076,572
<b>CREDITS ON QUALIFIED BASIS</b>	\$1,035,382		\$1,076,572	

Method	ANNUAL CREDIT CALCULATION BASED ON APPLICANT BASIS		FINAL ANNUAL LIHTC ALLOCATION		
	Annual Credits	Proceeds	Credit Price \$1.0398	Variance to Request	
			Credit Allocation	Credits	Proceeds
<b>Eligible Basis</b>	\$1,035,382	\$10,765,712	----	----	----
<b>Gap</b>	\$853,299	\$8,872,441	----	----	----
<b>Applicant Request</b>	\$786,147	\$8,174,212	<b>\$786,147</b>	<b>\$0</b>	<b>\$0</b>

BUILDING COST ESTIMATE				
CATEGORY	FACTOR	UNITS/SF	PER SF	AMOUNT
Base Cost:	Wrap Style (3 or 4-story)	109,211 SF	\$66.61	7,274,897
Adjustments				
Exterior Wall Finish	2.40%		1.60	\$174,598
Elderly	3.00%		2.00	218,247
9'	0.00%		0.00	0
Roofing			(0.25)	(27,303)
Subfloor			(0.12)	(12,741)
Floor Cover			3.57	389,916
Breezeways	\$0.00	0	0.00	0
Balconies	\$22.36	12,154	2.49	271,717
Plumbing Fixtures	\$970	42	0.37	40,740
Rough-ins	\$475	280	1.22	133,000
Built-In Appliances	\$1,790	140	2.29	250,600
Exterior Stairs	\$2,425	15	0.33	36,375
Heating/Cooling			2.11	230,435
Enclosed Corridors	\$50.40	36,168	16.69	1,822,984
Carports	\$11.82	3,132	0.34	37,020
Garages	\$30.07	4,380	1.21	131,694
Comm &/or Aux Bldgs	\$75.26	7,191	4.96	541,209
Elevators	\$66,000	3	1.81	198,000
Other:	\$0.00	0	0.00	0
Fire Sprinklers	\$2.47	152,570	3.45	376,848
<b>SUBTOTAL</b>			<b>110.69</b>	<b>12,088,236</b>
Current Cost Multiplier	0.99		(1.44)	(157,147)
Local Multiplier	0.88		(13.61)	(1,486,853)
<b>TOTAL BUILDING COSTS</b>			<b>95.63</b>	<b>\$10,444,236</b>
Plans, specs, survey, bldg permits	3.30%		(3.16)	(\$344,660)
Contractor's OH & Profit	11.50%		(11.00)	(1,201,087)
<b>NET BUILDING COSTS</b>		\$63,561/unit	\$81.48/sf	\$8,898,489

## 40-Year Long-Term Pro Forma

*Merritt Leisure, Midland, 9% HTC/HOME #15234*

	Growth Rate	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20	Year 25	Year 30	Year 35	Year 40
EFFECTIVE GROSS INCOME	2.00%	\$1,278,776	\$1,304,351	\$1,330,438	\$1,357,047	\$1,384,188	\$1,528,255	\$1,687,317	\$1,862,934	\$2,056,830	\$2,270,907	\$2,507,264	\$2,768,223
TOTAL EXPENSES	3.00%	\$567,463	\$583,848	\$600,711	\$618,067	\$635,931	\$733,398	\$845,992	\$976,080	\$1,126,403	\$1,300,134	\$1,500,945	\$1,733,087
<b>NET OPERATING INCOME ("NOI")</b>		<b>\$711,312</b>	<b>\$720,503</b>	<b>\$729,727</b>	<b>\$738,980</b>	<b>\$748,257</b>	<b>\$794,857</b>	<b>\$841,325</b>	<b>\$886,854</b>	<b>\$930,427</b>	<b>\$970,773</b>	<b>\$1,006,320</b>	<b>\$1,035,136</b>
<b>MUST -PAY DEBT SERVICE</b>													
CITIBANK - FHA 221(d)(4)		\$452,636	\$452,434	\$452,223	\$452,004	\$451,775	\$450,471	\$448,860	\$446,868	\$444,405	\$441,360	\$437,595	\$432,941
TDHCA		\$101,185	\$101,185	\$101,185	\$101,185	\$101,185	\$101,185	\$101,185	\$101,185	\$101,185	\$101,185	\$101,185	\$101,185
City of Midland		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL DEBT SERVICE		\$553,821	\$553,619	\$553,408	\$553,189	\$552,960	\$551,656	\$550,045	\$548,053	\$545,590	\$542,545	\$538,780	\$534,126
<b>ANNUAL CASH FLOW</b>		<b>\$157,491</b>	<b>\$166,884</b>	<b>\$176,318</b>	<b>\$185,791</b>	<b>\$195,297</b>	<b>\$243,201</b>	<b>\$291,280</b>	<b>\$338,802</b>	<b>\$384,837</b>	<b>\$428,228</b>	<b>\$467,540</b>	<b>\$501,010</b>
<b>CUMULATIVE NET CASH FLOW</b>		<b>\$157,491</b>	<b>\$324,376</b>	<b>\$500,694</b>	<b>\$686,485</b>	<b>\$881,782</b>	<b>\$2,001,782</b>	<b>\$3,362,088</b>	<b>\$4,961,447</b>	<b>\$6,794,369</b>	<b>\$8,850,051</b>	<b>\$11,111,085</b>	<b>\$13,551,929</b>
DEBT COVERAGE RATIO		1.28	1.30	1.32	1.34	1.35	1.44	1.53	1.62	1.71	1.79	1.87	1.94
EXPENSE/INCOME RATIO		44.4%	44.8%	45.2%	45.5%	45.9%	48.0%	50.1%	52.4%	54.8%	57.3%	59.9%	62.6%
Deferred Developer Fee Balance		\$540,738	\$373,854	\$197,535	\$11,745	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Residual Cash Flow		0	0	0	\$0	\$183,552	\$243,201	\$291,280	\$338,802	\$384,837	\$428,228	\$467,540	\$501,010

**Merritt Leisure**  
**(Development Owner: DDC Merritt Leisure, Ltd)**

**TDHCA #: 15234**

**Application 2<sup>nd</sup> Amendment Request**

**Primary Contact:** Colby Denison  
1904 W. 35<sup>th</sup> Street  
Austin, TX 78703  
512 732 1226  
Email: [colby@denisondevelopment.com](mailto:colby@denisondevelopment.com)

**Secondary Contact:** Stacy Swisher  
432 770 7262  
Email: [Stacyswisher4@gmail.com](mailto:Stacyswisher4@gmail.com)



# CROSSROADS

Housing Development Corporation

April 14<sup>th</sup>, 2015

Brent Steward

TDHCA

RE: 2<sup>nd</sup> Amendment Request for Merritt Leisure (TDHCA #15234)

Hello Brent,

Please find enclosed our amendment request for Merritt Leisure. We hope TDHCA and its board will find this request a great improvement to the offering for low income citizens of Midland. This amendment is absolutely required in order to make Merritt Leisure a feasible development. Without 221d4 financing, Merritt Leisure isn't financially feasible given the current state of market rate rents; the heart of the problem in Midland. With the economic decline has come falling market rents. Crossroads, DDC, RBC, Citi and Community Bank of Texas all agree that there is no concern over the affordable units in Midland. The risk and the problem exists with the market rate units; which continue to show deterioration in rents. Reducing the number and % of market rate units is absolutely mandatory to the viability of Merritt Leisure

We believe this amendment represents an improvement to the initial Application for the following reasons:

1. We are offering 18 additional low income units; a 16% increase from Application. The total SF of affordable units has increased 5.5%.
2. The average rent for the affordable units has declined from \$747 to \$738; a 1.2% drop. The change to the unit mix broadens our offering to low income residents.
3. The City of Midland is in the midst of an economic slowdown, and for a 100% age restricted development, 2 Bedroom Units are a luxury. Most units are single occupancy, so the extra bedroom tends to be used as a study, a dining room or an extra bedroom for visiting guests. We have decreased the % of 2 Bedroom Units by 11%, and added 6 of efficiency units. We will restrict 100% of the units to 55 years and older.
4. The City of Midland is completely supportive of these changes, and believe they address the City's adopted plan for providing more affordable housing; specifically for seniors. The City has granted increased density to Merritt Leisure as a result of their support of affordable housing. We are also in a concerted revitalization area where the City's investment is having a real impact on the demographics in the area.
5. The City of Midland is willing to keep the original loan it committed to Merritt Leisure, but fervently believes that the commitment to pay for half of the offsite public road is much more valuable. At over \$225,000 as indicated in the latest estimate of shared cost by the certified engineer, the benefit to Merritt Leisure is substantially great than the "below market" loan it originally committed. We expect to close HUD 221d4 financing for Merritt Leisure at 4.25% and a 40-year amortization schedule. The net present value of the benefit of the 3% at 30 years over the 15-year term is just slightly over \$30,000 as indicated in the following calculation. Thus, the road contribution is much, much more valuable.
6. The existence of the City of Midland loan forces Merritt Leisure to use private bank financing from Community Bank of Texas. The terms of that loan are much worse at 5.75% and a 30-year amortization. We have included the financials for that scenario, and show that no additional affordability is possible with this financing. Thus, we have asked TDHCA to recognize the benefits of the HUD financing matched with the road grant. We are not aware of a single instance of a city the size of Midland making a \$225,000 financial contribution in the form of a loan sourced from their general funds to be used in support of affordable housing. The commitment they've made on the road is the largest grant we have seen from a city from it's own funds since we first participated in

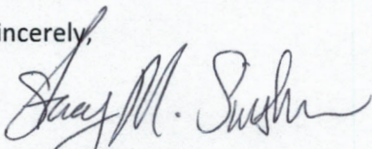


the LIHTC program in 2004. We hope TDHCA recognizes the sacrifice and support this represents to Merritt Leisure from a City in the midst of an economic recession. These offsite improvements are not included in Eligible Basis, so no tax credits would be awarded to help support these costs. This further increases the benefit of this grant.

We have included three scenarios for TDHCA to review demonstrating how this amended development could be structured and financed. We have endeavored to select the option that best benefits the population, the tax credit program, and HOME program target. Matching LIHTC, HOME and HUD 221d4 is by far the most attractive structure that does the most for low income residents. Changing the term to 40 years does even more, and we argue that 3% at 30-year amortization is not necessarily a "below market" loan. HUD 221d4 at 4.25% and 40-year amortization is almost identical to a loan at 3% and 30-year amortization in terms of payment burden to the development. So, we hope TDHCA can follow it's RFP on the underwriting side, but grant Merritt Leisure an amortization and term that match the 221d4 program. We are suggesting that we keep the 3% rate. This gives all financial participants in the transaction cushion for further deterioration in the Midland housing market. As is indicated in our market update and the rent roll, rents have declined again since the last submittal of information to TDHCA, and there is reason to believe that they will continue to decline. SO, underwriting to a a minimum 1.15 SDCR does not seem prudent in this case.

Finally, as the Executive Director of a local CHDO, it has been my life's work to help and support those less fortunate with the development and management of affordable housing. I live in Midland and our non-profit is based just outside of Midland in Big Spring. Our own lives have been impacted from the decline in oil prices as my husband is in the oil and gas business, and we strongly urge TDHCA to support the changes that are required of this Application in order to make this development possible. Without these changes, there is little hope of finding a syndication firm willing to invest in the Midland market. Further, HUD has specifically stated it's nervousness over the market rate units, and the proposed reduction reduces the risk to all financing participants while adding affordable housing stock to the area. Because we are using less land, and because the balance of the land is still zoned for multifamily, the City of Midland will get those market rate units at some time in the future. In this latest cycle in the oil and gas business, thousands of new apartments have been added, and many within the immediate and adjacent areas around Merritt Leisure. Market rate housing exists, and there is little doubt that anyone would argue that more is needed; including the City of Midland. Leisure is located in a prime area of redevelopment with lots of amenities for the residents. It is furthering fair housing because of its direct proximity to high incomes.

Sincerely,



Stacy Swisher

Executive Director, Crossroads Housing Development Corporation

Home Address: 2501 Maxwell Dr.

Midland, TX 79705

# Rent Schedule

NOTE: We have highlighted the areas that have changed from prior Amendment submission in order to assist TDHCA in their underwriting.





## Rent Schedule (Continued)

		% of LI	% of Total	
<b>HOUSING TAX CREDITS</b>	TC30%	10%	9%	12
	TC40%			0
	TC50%	21%	17%	24
	TC60%	69%	56%	79
	<b>HTC LI Total</b>			<b>115</b>
	EO			0
	MR			25
	<b>MR Total</b>			<b>25</b>
	<b>Total Units</b>			<b>140</b>
<b>MORTGAGE REVENUE BOND</b>	MRB30%			0
	MRB40%			0
	MRB50%			0
	MRB60%			0
	<b>MRB LI Total</b>			<b>0</b>
	MRBMR			0
	<b>MRBMR Total</b>			<b>0</b>
	<b>MRB Total</b>			<b>0</b>

		% of LI	% of Total	
<b>HOUSING TRUST FUND</b>	HTF30%			0
	HTF40%			0
	HTF50%			0
	HTF60%			0
	HTF80%			0
	<b>HTF LI Total</b>			<b>0</b>
	MR			0
	<b>MR Total</b>			<b>0</b>
	<b>HTF Total</b>			<b>0</b>
<b>HOME</b>	30%			0
	LH/50%	100%	100%	29
	HH/60%			0
	HH/80%			0
	<b>HOME LI Total</b>			<b>29</b>
	EO			0
	MR			0
	<b>MR Total</b>			<b>0</b>
	<b>HOME Total</b>			<b>29</b>
<b>OTHER</b>	<b>Total OT Units</b>			<b>0</b>

<b>BEDROOMS</b>	0			13
	1			56
	2			71
	3			0
	4			0
	5			0

<b>ACQUISITION + HARD</b>			
<b>Cost Per Sq Ft</b>	\$113.89		
<b>HARD</b>			
<b>Cost Per Sq Ft</b>	\$113.89		
<b>BUILDING</b>			<b>Total Points claimed:</b>
<b>Cost Per Sq Ft</b>	\$ 74.94		<b>12</b>

Applicants are advised to ensure that figure is not rounding down to the maximum dollar figure to support the elected points.

We maintain the cost per SF for scoring purposes.

# Operating Expenses

NOTE: We have highlighted the expenses that have changed from prior Amendment submission in order to assist TDHCA in their underwriting.

## ANNUAL OPERATING EXPENSES

<b>General &amp; Administrative Expenses</b>			
Accounting	\$	9,600	
Advertising	\$	9,500	
Legal fees	\$	1,000	
Leased equipment	\$	3,464	
Postage & office supplies	\$	5,000	
Telephone	\$	5,400	
Other	\$	11,000	
Other	\$	2,000	
Total General & Administrative Expenses:			\$ 46,964
Management Fee:	Percent of Effective Gross Income:	5.00%	\$ 63,939
<b>Payroll, Payroll Tax &amp; Employee Benefits</b>			
Management	\$	99,791	
Maintenance	\$	73,888	
Other	\$	39,047	
Other	\$		
Total Payroll, Payroll Tax & Employee Benefits:			\$ 212,726
<b>Repairs &amp; Maintenance</b>			
Elevator	\$	9,000	
Exterminating	\$	4,000	
Grounds	\$	23,000	
Make-ready	\$	6,000	
Repairs	\$	29,000	
Pool	\$	2,000	
Other	\$	4,000	
Other	\$		
Total Repairs & Maintenance:			\$ 77,000
<b>Utilities (Enter Only Property Paid Expense)</b>			
Electric	\$	20,711	
Natural gas	\$		
Trash	\$	21,390	
Water/Sewer	\$	33,919	
Other	\$		
Other	\$		
Total Utilities:			\$ 76,020
Annual Property Insurance:	Rate per net rentable square foot:	\$ 0.33	\$ 36,400
<b>Property Taxes:</b>			
Published Capitalization Rate:	10.00%	Source:	Property Tax Advocates
Annual Property Taxes	\$	64,923	
Payments in Lieu of Taxes	\$		
Total Property Taxes:			\$ 64,923
Reserve for Replacements:	Annual reserves per unit:	\$ 250	\$ 35,000

More affordable units = lower rent = lower management fees.

Reduced because of increased affordability and thus lower NOI.

<b>Other Expenses</b>				
Cable TV		\$		
Supportive Services (Staffing/Contracted Services)		\$	6,000	
TDHCA Compliance fees		\$	5,586	
TDHCA Bond Administration Fees (TDHCA as Bond Issuer <u>Only</u> )		\$		
Security		\$	1,325	
Other		\$		
Other		\$		
Total Other Expenses:				\$ 12,911
TOTAL ANNUAL EXPENSES	Expense per unit:	\$	4471	\$ 625,883
	Expense to Income Ratio:		<b>48.94%</b>	
NET OPERATING INCOME (before debt service)				\$ 652,893
<b>Annual Debt Service</b>				
	<i>Conventional Loan</i>	\$	431,886	
	<i>TDHCA HOME Funds</i>	\$	85,916	
	<i>City of Midland</i>	\$		
		\$		
TOTAL ANNUAL DEBT SERVICE	Debt Coverage Ratio:		1.26	\$ 517,802
NET CASH FLOW				\$ 135,091

Updated for current Sources and Uses including the increase to 40 year amortization for HOME funds.

Pro Forma

## 15 Year Rental Housing Operating Pro Forma

**All Programs Must Complete the following:**

The pro forma should be based on the operating income and expense information for the base year (first year of stabilized occupancy using today's best estimates of market rents, restricted rents, rental income and expenses), and principal and interest debt service. The Department uses an annual growth rate of 2% for income and 3% for expenses. Written explanation for any deviations from these growth rates or for assumptions other than straight-line growth made during the proforma period should be attached to this exhibit.

INCOME	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15
POTENTIAL GROSS ANNUAL RENTAL INCOME	\$1,338,900	\$1,365,678	\$1,392,992	\$1,420,851	\$1,449,268	\$1,600,109	\$1,766,650
Secondary Income	\$ 43,560	\$ 44,431	\$ 45,320	\$ 46,226	\$ 47,151	\$ 52,058	\$ 57,476
POTENTIAL GROSS ANNUAL INCOME	\$1,382,460	\$1,410,109	\$1,438,311	\$1,467,078	\$1,496,419	\$1,652,168	\$1,824,127
Provision for Vacancy & Collection Loss	(\$103,685)	(\$105,758)	(\$107,873)	(\$110,031)	(\$112,231)	(\$123,913)	(\$136,809)
Rental Concessions	\$0						
EFFECTIVE GROSS ANNUAL INCOME	\$1,278,776	\$1,304,351	\$1,330,438	\$1,357,047	\$1,384,188	\$1,528,255	\$1,687,317
EXPENSES							
General & Administrative Expenses	\$46,964	\$48,373	\$49,824	\$51,319	\$52,858	\$61,277	\$71,037
Management Fee	\$ 63,939	\$ 65,857	\$ 67,833	\$ 69,868	\$ 71,964	\$ 83,426	\$ 96,713
Payroll, Payroll Tax & Employee Benefits	\$ 212,726	\$ 219,108	\$ 225,681	\$ 232,451	\$ 239,425	\$ 277,559	\$ 321,767
Repairs & Maintenance	\$ 77,000	\$ 79,310	\$ 81,689	\$ 84,140	\$ 86,664	\$ 100,468	\$ 116,469
Electric & Gas Utilities	\$ 20,711	\$ 21,333	\$ 21,973	\$ 22,632	\$ 23,311	\$ 27,024	\$ 31,328
Water, Sewer & Trash Utilities	\$ 55,309	\$ 56,968	\$ 58,677	\$ 60,437	\$ 62,250	\$ 72,165	\$ 83,659
Annual Property Insurance Premiums	\$ 36,400	\$ 37,492	\$ 38,617	\$ 39,775	\$ 40,969	\$ 47,494	\$ 55,058
Property Tax	\$ 64,923	\$ 66,871	\$ 68,877	\$ 70,943	\$ 73,071	\$ 84,710	\$ 98,202
Reserve for Replacements	\$ 35,000	\$ 36,050	\$ 37,132	\$ 38,245	\$ 39,393	\$ 45,667	\$ 52,941
Other Expenses	\$ 12,911	\$ 13,298	\$ 13,697	\$ 14,108	\$ 14,531	\$ 16,846	\$ 19,529
TOTAL ANNUAL EXPENSES	\$625,883	\$644,659	\$663,999	\$683,919	\$704,436	\$816,635	\$946,704
NET OPERATING INCOME	\$652,893	\$659,692	\$666,439	\$673,128	\$679,751	\$711,620	\$740,613
DEBT SERVICE							
First Deed of Trust Annual Loan Payment	\$431,886	\$431,886	\$431,886	\$431,886	\$431,886	\$431,886	\$431,886
Second Deed of Trust Annual Loan Payment	85,916	85,916	85,916	85,916	85,916	85,916	85,916
Third Deed of Trust Annual Loan Payment	0	0	0	0	0	0	0
Other Annual Required Payment							
Other Annual Required Payment							
<b>NET CASH FLOW</b>	\$135,091	\$141,890	\$148,637	\$155,326	\$161,949	\$193,818	\$222,811
Debt Coverage Ratio	1.26	1.27	1.29	1.30	1.31	1.37	1.43
Other (Describe)							
Other (Describe)							

By signing below I (we) are certifying that the above 15 Year pro forma, rent schedule and operating expense schedule have been reviewed and generally meet current lender underwriting parameters for the loan terms indicated in the term sheet. (Signature only required if using this pro forma for points under §11.9(e)(1) relating to Financial Feasibility)

Phone: \_\_\_\_\_

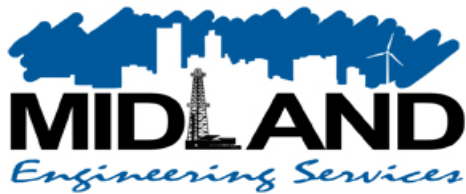
Email: \_\_\_\_\_

\_\_\_\_\_  
Signature, Authorized Representative, Construction or  
Permanent Lender

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Date

# Off-site Cost



**DDC Merritt Leisure**  
 Lot 1A, Block 162, Wilshire Park, Section 20  
 Midland, TX

**ENGINEER'S OPINION OF PROBABLE COSTS**  
 March 29, 2016

Submitted to City for Approval  
 with the Resolution for  
 Commitment to build road.

ITEM NO.	DESCRIPTION	UNITS	QUANTITY	UNIT COST	TOTAL COST	DEVELOPER SHARE	DEVELOPER COST	MIDLAND SHARE	MIDLAND COST
<b>BEAL PARKWAY PAVING</b>									
1	ROW Preparation	LF	1107	10.00	\$ 11,070.00	50.00%	\$ 5,535.00	50.00%	\$ 5,535.00
2	24" Curb & Gutter	LF	2214	15.00	\$ 33,210.00	50.00%	\$ 16,605.00	50.00%	\$ 16,605.00
3	Excavation	CY	1448.7	5.00	\$ 7,243.33	50.00%	\$ 3,621.67	50.00%	\$ 3,621.67
4	Scarify / Shape / Compact Sub-grade	SY	6519.0	3.50	\$ 22,816.50	50.00%	\$ 11,408.25	50.00%	\$ 11,408.25
5	Base Rock - Bott Lift (Material Only)	TN	1232.1	9.50	\$ 11,704.86	50.00%	\$ 5,852.43	50.00%	\$ 5,852.43
6	Base Rock - Top Lift (Material Only)	TN	1092.6	9.50	\$ 10,379.79	50.00%	\$ 5,189.89	50.00%	\$ 5,189.89
7	Shape / Compact Base Rock - Bottom Lift	SY	6519.0	3.50	\$ 22,816.50	50.00%	\$ 11,408.25	50.00%	\$ 11,408.25
8	Shape / Compact Base Rock - Top Lift	SY	5781.0	3.50	\$ 20,233.50	50.00%	\$ 10,116.75	50.00%	\$ 10,116.75
9	Tack Coat	SY	5781.0	1.00	\$ 5,781.00	50.00%	\$ 2,890.50	50.00%	\$ 2,890.50
10	HMAC (Material Only)	TN	667.7	80.00	\$ 53,416.44	50.00%	\$ 26,708.22	50.00%	\$ 26,708.22
11	Installation of HMAC Surface Course	SY	5781.0	4.00	\$ 23,124.00	50.00%	\$ 11,562.00	50.00%	\$ 11,562.00
12	5' Sidewalk - West Side of Beal	SF	5555.0	6.75	\$ 37,496.25	50.00%	\$ 18,748.13	50.00%	\$ 18,748.13
13	8' Sidewalk - East Side of Beal	SF	8872.0	6.75	\$ 59,886.00	50.00%	\$ 29,943.00	50.00%	\$ 29,943.00
14	Erosion Protection (\$/100 LF)	LS	11.1	1000.00	\$ 11,100.00	50.00%	\$ 5,550.00	50.00%	\$ 5,550.00
15	Construction Staking (\$/100LF)	LS	11.1	500.00	\$ 5,550.00	50.00%	\$ 2,775.00	50.00%	\$ 2,775.00
16	Traffic Control / Job Site Safety (\$/100LF)	LS	11.1	250.00	\$ 2,775.00	50.00%	\$ 1,387.50	50.00%	\$ 1,387.50
17	Contingency (nearest \$100)	%	1.0	15%	\$ 50,800.00	50.00%	\$ 25,400.00	50.00%	\$ 25,400.00
18	Construction Administration (% of Construction Total)	%	1.0	5%	\$ 19,500.00	50.00%	\$ 9,750.00	50.00%	\$ 9,750.00
	<b>Subtotal</b>				<b>\$ 408,903.17</b>	<b>50.00%</b>	<b>\$ 204,451.59</b>	<b>50.00%</b>	<b>\$ 204,451.59</b>
<b>LEISURE DRIVE PAVING</b>									
1	New Pedestrian Ramp	EA	2	2500.00	\$ 5,000.00	50.00%	\$ 2,500.00	50.00%	\$ 2,500.00
2	New 5' Wide Sidewalk, 4" concrete, Leisure Drive	SF	1650	6.75	\$ 11,137.50	50.00%	\$ 5,568.75	50.00%	\$ 5,568.75
3	24" Curb & Gutter	LF	330	15.00	\$ 4,950.00	50.00%	\$ 2,475.00	50.00%	\$ 2,475.00
4	Excavation	CY	97.78	5.00	\$ 488.89	50.00%	\$ 244.44	50.00%	\$ 244.44
5	Scarify / Shape / Compact Sub-grade	SY	440.00	3.50	\$ 1,540.00	50.00%	\$ 770.00	50.00%	\$ 770.00
6	Base Rock - Bott Lift (Material Only)	TN	83.16	9.50	\$ 790.02	50.00%	\$ 395.01	50.00%	\$ 395.01
7	Base Rock - Top Lift (Material Only)	TN	41.58	9.50	\$ 395.01	50.00%	\$ 197.51	50.00%	\$ 197.51
8	Shape / Compact Base Rock - Bottom Lift	SY	440.00	3.50	\$ 1,540.00	50.00%	\$ 770.00	50.00%	\$ 770.00
9	Shape / Compact Base Rock - Top Lift	SY	220.00	3.50	\$ 770.00	50.00%	\$ 385.00	50.00%	\$ 385.00
10	Tack Coat	SY	220.00	1.00	\$ 220.00	50.00%	\$ 110.00	50.00%	\$ 110.00
11	HMAC (Material Only)	TN	25.41	80.00	\$ 2,032.80	50.00%	\$ 1,016.40	50.00%	\$ 1,016.40
12	Installation of HMAC Surface Course	SY	220.00	4.00	\$ 880.00	50.00%	\$ 440.00	50.00%	\$ 440.00
13	Erosion Protection (\$/100 LF)	LS	3.30	1000.00	\$ 3,300.00	50.00%	\$ 1,650.00	50.00%	\$ 1,650.00
14	Construction Staking (\$/100LF)	LS	3.3	500.00	\$ 1,650.00	50.00%	\$ 825.00	50.00%	\$ 825.00
15	Traffic Control / Job Site Safety (\$/100LF)	LS	3.3	250.00	\$ 825.00	50.00%	\$ 412.50	50.00%	\$ 412.50
16	Contingency (nearest \$100)	%	1	15%	\$ 5,300.00	50.00%	\$ 2,650.00	50.00%	\$ 2,650.00
17	Construction Administration (% of Construction Total)	%	1	5%	\$ 2,000.00	50.00%	\$ 1,000.00	50.00%	\$ 1,000.00
	<b>Subtotal</b>				<b>\$ 42,819.22</b>	<b>50.00%</b>	<b>\$ 21,409.61</b>	<b>50.00%</b>	<b>\$ 21,409.61</b>
	<b>Total (Base Bid)</b>				<b>\$ 451,722.39</b>	<b>50.00%</b>	<b>\$ 225,861.20</b>	<b>50.00%</b>	<b>\$ 225,861.20</b>



# Site Work Cost

## Site Work Cost Breakdown

This form must be submitted with the Development Cost Schedule as justification of Site Work costs.

Column A: The Site Work activity reflected here must match the Site Work activity reflected in the Development Cost Schedule.

Columns B and C: In determining actual construction cost, two different methods may be used:

The construction costs may be broken into labor (Column B) and materials (Column C) for the activity; **OR**

The use of unit price (Column B) and the number of units (Column C) data for the activity.

Column D: To arrive at total construction costs in Column D:

If based on labor and materials, add Column B and Column C together to arrive at total construction costs.

If based on unit price measures, Column B is multiplied by Column C to arrive at total construction costs.

Column E: Any proposed activity involving the acquisition of real property, easements, rights-of-way, etc., must have the projected costs of this acquisition for the activity.

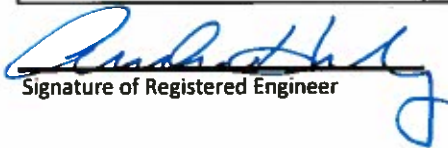
Column F: Engineering/architectural costs must be broken out by the Site Work activity.

Column G: Figures for Column G, Total Activity Cost, are obtained by adding together Columns D, E, and F to get the total costs.

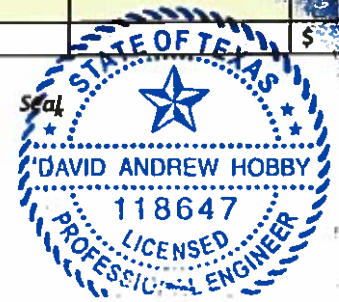
**\*\*This form must be completed by a Third-Party engineer licensed to practice in the State of Texas. His or her signature and registration seal must be on the form.\*\***

**For Site Work costs that exceed \$15,000 per Unit and are included in Eligible Basis, a CPA letter allocating which portions of those site costs should be included in Eligible Basis and which ones may be ineligible must be submitted behind this tab.**

A. Activity	B. Labor or Unit Price	C. Materials or # of Units	D. Total Construction Costs	E. Acquisition Costs	F. Engineering / Architectural Costs	G. Total Activity Costs
Curbs	\$21.00/SQ.FT.	5,440	\$114,240.00	-	-	\$114,240.00
Sidewalks	\$6.75/SQ.FT.	13,500	\$91,125.00	-	-	\$91,125.00
Asphalt Pavement	\$4.00/SQ.FT.	92,876	\$371,504.00	-	-	\$371,504.00
Driveways	\$9.00/SQ.FT.	1,160	\$10,440.00	-	-	\$10,440.00
Earthwork	\$14.00/SQ.FT.	29,800	\$417,200.00	-	-	\$417,200.00
Fencing	\$50.00/SQ.FT.	1,935	\$96,750.00	-	-	\$96,750.00
Electric Service	\$55,000/EA	1	\$55,000.00	-	-	\$55,000.00
Gas Service	\$15,000/EA	1	\$15,000.00	-	-	\$15,000.00
8" Backflow Preventer	\$12,000/EA	2	\$24,000.00	-	-	\$24,000.00
8" Water Line Fittings	\$20,000/EA	1	\$20,000.00	-	-	\$20,000.00
Fire Hydrant	\$8,000/EA	5	\$40,000.00	-	-	\$40,000.00
8" C-900 Fire Line	\$45.00/L.FT.	704	\$31,680.00	-	-	\$31,680.00
2" Water Meter	\$3,000/EA	4	\$12,000.00	-	-	\$12,000.00
8" Sewer Tap	\$400.00/EA	1	\$400.00	-	-	\$400.00
Sewer Manhole	\$7,300/EA	4	\$29,200.00	-	-	\$29,200.00
8" Sewer Line	\$50.00/L.FT.	591	\$29,550.00	-	-	\$29,550.00
<b>Total</b>						<b>\$ 1,358,089.00</b>

  
Signature of Registered Engineer

04-11-16 Andrew Hobby  
Printed Name  
04-11-16  
Date



# Development Cost Schedule



<b>BUILDING COSTS (Continued):</b>			
Finishes	2,551,493		2,551,493
Specialties			
Equipment	273,499		273,499
Furnishings			
Special Construction			
Conveying Systems (Elevators)	185,197		185,197
Mechanical (HVAC; Plumbing)	1,160,647		1,160,647
Electrical	1,000,978		1,000,978
<b>Individually itemize costs below:</b>			
Detached Community Facilities/Building			
Carports and/or Garages	49,099		
Lead-Based Paint Abatement			
Asbestos Abatement (Rehabilitation Only)			
Structured Parking			
Commercial Space Costs			
Other (specify) - see footnote 1			
<b>Subtotal Building Costs</b>	\$8,183,982	\$0	\$8,134,883
<b>TOTAL BUILDING COSTS &amp; SITE WORK</b>			
<b>(including site amenities)</b>			
Contingency	5.00%	\$522,602	\$493,399
<b>TOTAL HARD COSTS</b>		\$10,974,645	\$0
			\$10,361,371
<b>OTHER CONSTRUCTION COSTS</b>			
General requirements (<6%)	6.00%	627,123	592,078
Field supervision (within GR limit)			
Contractor overhead (<2%)	2.00%	209,041	197,359
G & A Field (within overhead limit)			
Contractor profit (<6%)	6.00%	627,123	592,078
<b>TOTAL CONTRACTOR FEES</b>		\$1,463,286	\$0
			\$1,381,516
<b>TOTAL CONSTRUCTION CONTRACT</b>			
		\$12,437,931	\$0
			\$11,742,887
<b>SOFT COSTS<sup>3</sup></b>			
Architectural - Design fees		239,718	239,718
Architectural - Supervision fees		100,000	100,000
Engineering fees		157,690	157,690
Real estate attorney/other legal fees		100,000	80,000
Accounting fees		35,000	35,000
Impact Fees		150,000	150,000
Building permits & related costs			
Appraisal		10,000	10,000
Market analysis		6,500	6,500
Environmental assessment		5,168	5,168
Soils report		10,660	10,660
Survey		25,000	25,000
Marketing			
Hazard & liability insurance		40,000	40,000
Real property taxes		70,000	70,000
Personal property taxes			
Tenant relocation expenses			
FF&E		325,000	325,000
Other (specify) - see footnote 1			
<b>Subtotal Soft Cost</b>		\$1,274,736	\$0
			\$1,254,736

FINANCING:			
<b>CONSTRUCTION LOAN(S)<sup>3</sup></b>			
Interest	700,000		399,230
Loan origination fees	102,000		102,000
Title & recording fees	99,000		99,000
Closing costs & legal fees	49,250		49,250
Inspection fees	50,000		50,000
Credit Report			
Discount Points			
Lender 3rd Party Reports	20,000		20,000
<b>PERMANENT LOAN(S)</b>			
Loan origination fees			
Title & recording fees			
Closing costs & legal			
Bond premium			
Credit report			
Discount points			
Credit enhancement fees			
Prepaid MIP	51,000		
FHA Application Fee	30,000		
GNMA Fee	3,000		
<b>BRIDGE LOAN(S)</b>			
Interest	205,000		205,000
Loan origination fees	54,000		54,000
Title & recording fees			
Closing costs & legal fees			
Other (specify) - see footnote 1			
Other (specify) - see footnote 1			
<b>OTHER FINANCING COSTS<sup>3</sup></b>			
Tax credit fees	52,357		
Tax and/or bond counsel			
Payment bonds			
Performance bonds			
Credit enhancement fees			
Mortgage insurance premiums			
Cost of underwriting & issuance			
Syndication organizational cost	1,000		
Tax opinion			
Contractor Guarantee Fee			
Developer Guarantee Fee			
Other (specify) - see footnote 1			
Other (specify) - see footnote 1			
<b>Subtotal Financing Cost</b>	\$1,416,607	\$0	\$978,480
<b>DEVELOPER FEES<sup>3</sup></b>			
Housing consultant fees <sup>4</sup>			
General & administrative			
Profit or fee	2,188,407		2,096,415
<b>Subtotal Developer Fees</b> 15.00%	\$2,188,407	\$0	\$2,096,415 15.00%
<b>RESERVES</b>			
Rent-up	200,000		
Operating	650,000		
Replacement			
Escrows			
<b>Subtotal Reserves</b>	\$850,000	\$0	\$0
<b>TOTAL HOUSING DEVELOPMENT COSTS<sup>5</sup></b>	\$19,398,302	\$0	\$16,072,518



# Sources & Uses

NOTE: We have highlighted the costs that have changed from prior Amendment submission in order to assist TDHCA in their underwriting.





Briefly describe the complete financing plan for the Development, including a discussion of the sources of funds. The information must be consistent with all other documentation in this section. Provide sufficient detail so that the reader can understand all terms related to each source that are not readily apparent above or in the term sheets.

[Please see description attached under this tab](#)

## Merritt Leisure Financing Narrative

Merritt Leisure will utilize an FHA 221d4 construction/permanent loan from Citibank ("Citi") and TDHCA HOME funds. Finally, Equity contributions from RBC Capital Markets ("RBC") will be added to these sources to finance the construction and long term operations of Merritt Leisure. EQUITY INSTALLMENTS from RBC will total \$8,174,212 or \$1.04 per tax credit dollar. Proceeds from the tax credit syndication will provide funding throughout the construction and Placed in Service period according to a pay-in schedule described in the Syndication Agreement letter. Due to the timing of equity installments, the development will utilize a BRIDGE LOAN from Citi with a limit of \$3,100,000. The final interest rate will be determined at closing based on LIBOR plus 250 bps. Today current assumed UW rate is 2.7% and a term of 36 months. The HOME LOAN from TDHCA in the amount of \$2,000,000 bears an interest rate of 3% and a 40 year term with a 40 amortization. The FHA 221d4 CONSTRUCTION/PERMANENT LOAN from Citi will be in the amount of \$8,300,000. The final permanent interest rate will be determined at the time of rate lock which will occur prior to the Initial Loan closing. Today the current assumed UW rate is 4.25% with a 40 year amortization and 40 year term. The Developer Profit will be 15% of eligible cost, less any deferred developer fees and will be paid by the closing of the permanent mortgage loan and the final equity installment. Any deferred developer fees will be repaid from net cash flow of the development, after payment of all operating expenses including reserves, debt payments, asset mgmt. fees and any other items required by the Syndication agreement.

**Merritt Leisure  
Midland, Midland County, Texas**

Benefits of "Below Market" Interest Rates

		<u>Interest Rate</u>	<u>Amortization</u>	<u>Term</u>	<u>Payment</u>	<u>Annual Savings</u>
HOME	\$ 2,000,000	3.00%	30	30	\$ 101,185	\$ (2,884)
Midland	\$ 2,000,000	3.00%	30	15	\$ 101,185	\$ (2,884)
HUD 221d4	\$ 2,000,000	4.25%	40	40	\$ 104,069	

20 Year US Treasury		2.18%	
Year	Savings	NPV	
1	\$ 2,884	\$ 2,884	
2	\$ 2,884	\$ 2,762	
3	\$ 2,884	\$ 2,703	
4	\$ 2,884	\$ 2,646	
5	\$ 2,884	\$ 2,589	
6	\$ 2,884	\$ 2,534	
7	\$ 2,884	\$ 2,480	
8	\$ 2,884	\$ 2,427	
9	\$ 2,884	\$ 2,375	
10	\$ 2,884	\$ 2,324	
11	\$ 2,884	\$ 2,275	
12	\$ 2,884	\$ 2,226	
13	\$ 2,884	\$ 2,179	
14	\$ 2,884	\$ 2,132	
15	\$ 2,884	\$ 2,087	
NPV of savings of Below Market Loan		<u>\$ 36,623</u>	

**Merritt Leisure**  
**(Development Owner: DDC Merritt Leisure, Ltd)**

**TDHCA #: 15234**

**Amendment 2 Deficiency Response**

**Primary Contact:** Colby Denison  
1904 W. 35<sup>th</sup> Street  
Austin, TX 78703  
512 732 1226  
Email: [Colby@denisondevelopment.com](mailto:Colby@denisondevelopment.com)

**Secondary Contact:** Stacy Swisher  
432 770 7262  
Email: [Stacyswisher4@gmail.com](mailto:Stacyswisher4@gmail.com)

## DDC Merritt Leisure, Ltd.

---

1. According to your cover letter less land is being used for this development and acquisition costs reflected in your revised total development cost schedule have decreased. Therefore, please provide:
  - a. a revised site plan identifying the correct acreage of the development; and
  - b. a revised real estate contract
    - Revised Site plan is attached under this tab
    - Revised Real Estate Contract is attached under this tab

# Revised Site Plan



**Progress Print**  
 Not for regulatory approval, permitting, or construction.  
 Registrant's Name: Andrea Freiburger  
 Registrant's Number: 19520

DRAWN BY: AF  
 CHECKED BY: SAI  
 PROJECT #: 131-0115

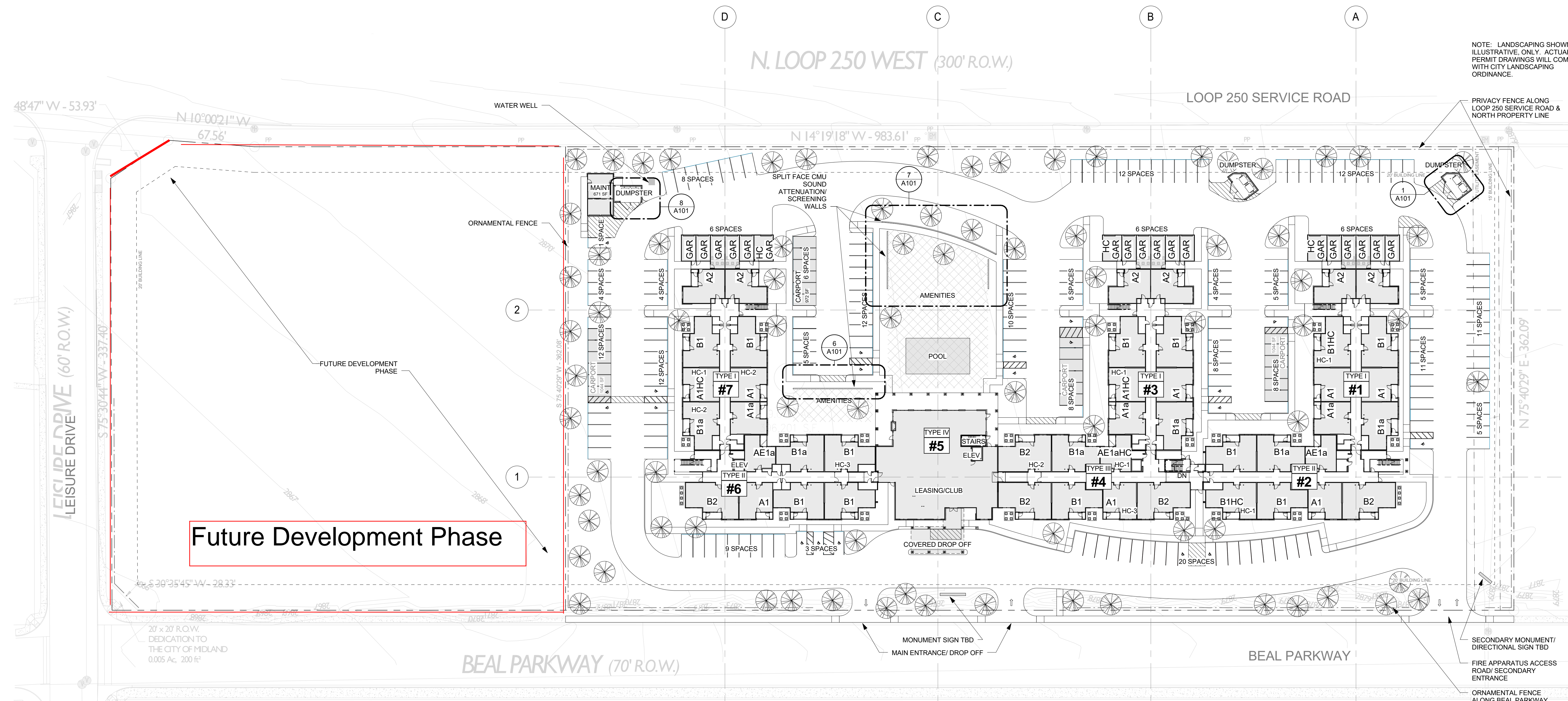
**DDC MERRITT LEISURE, LTD.**  
 1904 W. 35TH STREET  
 AUSTIN, TX 78703

**MERRITT LEISURE**  
 BEAL PARKWAY  
 MIDLAND, TX 79703

REVISIONS  
 T.B.D.  
 ISSUED FOR PERMIT  
 03/23/16  
 ISSUED FOR BID  
 03/23/16  
 ISSUED FOR CONSTRUCTION  
 T.B.D.  
 DWG NAME

DATE  
 04/25/16  
 DESCRIPTION  
**ARCHITECTURAL SITE PLAN**  
 SHEET

**A100**



NOTE: LANDSCAPING SHOWN IS ILLUSTRATIVE ONLY. ACTUAL PERMIT DRAWINGS WILL COMPLY WITH CITY LANDSCAPING ORDINANCE.

PRIVACY FENCE ALONG LOOP 250 SERVICE ROAD & NORTH PROPERTY LINE

**Future Development Phase**

20' x 20' R.O.W. DEDICATION TO THE CITY OF MIDLAND  
 0.005 Ac, 200 ft<sup>2</sup>

PARKING REQUIRED PER CITY OF MIDLAND				
UNIT LABEL	# OF BEDROOMS	SPACES REQUIRED	TOTAL # OF UNITS	TOTAL SPACES REQUIRED
AE1a	0	1.25	9	11
AE1	0	1.25	3	4
AE1b	0	1.25	1	1
A1a	1	1.25	9	11
A1	1	1.25	29	36
A2	1	1.25	18	23
B1a	1	1.25	18	23
B1	2	1.25	39	49
B2	2	1.25	13	16
B2_HC	2	1.25	1	1
<b>TOTALS</b>			<b>140</b>	<b>175</b>

MERRITT LEISURE								
UNIT TYPE	# OF BEDROOMS	# OF BATHS	SQ. FT. PER UNIT	BUILDING TYPE				TOTAL # OF RESIDENTIAL BUILDINGS
				I	II	III	IV	
AE1a	0	1	556			3	3	3
AE1	0	1	556			3	2	1
AE1b	0	1	556					1
A1a	1	1	664			3	3	3
A1	1	1	691			6	3	3
A2	1	1	686			4		2
B1a	2	1	850			3	3	3
B1	2	1	880			6	9	3
B2	2	2	1,000			2	8	1
B2_HC	2	2	989			1		1
<b>TOTALS (ALL INSTANCES)</b>						<b>72</b>	<b>40</b>	<b>20</b>
<b>TOTALS (ALL INSTANCES)</b>								<b>7</b>
<b>TOTALS (ALL INSTANCES)</b>								<b>140</b>
<b>TOTALS (ALL INSTANCES)</b>								<b>109,200</b>

NET RENTABLE SQUARE FEET FROM RENT SCHEDULE: 109,200

140 DWELLING UNITS  
 MIN. 175 PARKING SPACES TO BE PROVIDED  
 MIN. 5% OF ALL UNITS WILL BE ACCESSIBLE FOR PEOPLE WITH MOBILITY IMPAIRMENT.

MIN. 2% OF ALL UNITS WILL BE ACCESSIBLE FOR PEOPLE WITH HEARING AND/OR VISUAL IMPAIRMENT  
 HC AND HV UNITS WILL BE DISTRIBUTED THROUGHOUT THE BUILDING, AS DESIGNATED WITH HC-1, 2, OR 3 FOR THE FLOOR LEVEL.

SITE DENSITY CALCULATION:  
 TOTAL PROJECT AREA: 6.16 ACRES  
 UNITS: 140 UNITS  
 DENSITY: 22.7 UNITS/ACRE

## Revised Real Estate Contract



# Amendment to Commercial Contract – Unimproved Property

**Date:** March 31, 2016

## Recitals

### Parties:

Seller: J. Durwood Owen and Kathleen McKenzie Owen Revocable Living Trust

Buyer: Denison Development & Construction, Inc. or Assigns

*Contract Date:* January 8, 2015

*Closing Date:* Buyer has paid and Seller has received the extension payment per the Amended Exhibit B of the Contract extending the Closing Date to March 31, 2016. In the event of a contradiction of terms between this Amendment and prior Amendments or the Original Contract, the terms of this Amendment shall prevail.

*Maintenance of Property:* Buyer will reimburse Seller for all City/county required clean-up/ground maintenance through Closing on the Property.

## Amendments to Contract (Including Prior Executed Amendments)

### Closing Date

The Parties hereby agree to extend the Closing Date to **August 31<sup>st</sup>, 2016** (Fourth Extension). Buyer shall deposit additional Earnest Money in the amount of Twenty-Thousand Dollars (\$20,000.00) to the Title Company upon execution of this amendment by both Parties, and such funds shall be non-refundable, and non-applicable to the Sales Price. Such Fourth Extension shall be released to the Seller by the Title Company.

### Permitted Extensions to Closing Date

Buyer shall also be granted two (2) further thirty (30) day extensions of the Closing date by depositing an additional Fifty-Thousand Dollars (\$50,000.00) of additional Earnest Money to the Title Company for each extension. Such additional Earnest Money deposits shall be non-refundable, and non-applicable to the Sales Price.

### Property (Exhibit A to the Contract)

#### 2. PROPERTY:

A: "Property" means that real property situated in Midland County, Texas at West Loop 250 and Leisure Ave., Midland, TX (address) and that is legally described on the attached Exhibit A or as follows: Lots 1 and 2, Block 162, and South 378 feet of Lot 1, Block 163, Wilshire Park Addition, Sec. 9, and all of the former EXECUTIVE DR., Midland, Texas

Buyer shall have hereby have the option (but not the requirement) to reduce the land size by a minimum of 2.5 Acres. A revised Exhibit A has been hereto attached and shows the contemplated reduction in land size. Buyer and Seller acknowledge that a reduction in land size requires Texas Dept of Housing and Community Affairs (TDHCA) approval by both staff and the board of directors, and such approval is anticipated on the last Thursday of May.

## Amendment to Commercial Contract – Unimproved Property

TDHCA requires a minimum of 45 days to post such amendments per their public notification requirements in their rules.

Should Buyer opt to reduce the land size and leave Seller with the balance of the original Property, Buyer and/or Assigns agrees not to oppose and will support any and all rezoning or re-platting of the remainder of the land.

### Signed

Seller:

The J. Durwood Owen and Kathleen McKenzie Owen Revocable Living Trust

By:  \_\_\_\_\_

By: \_\_\_\_\_

TRUSTEE

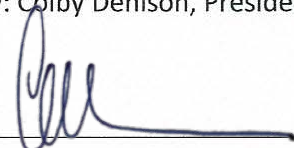
20 April 2016

By: \_\_\_\_\_

Buyer:

Denison Development & Construction, Inc. or Assigns

By: Colby Denison, President

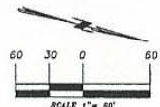
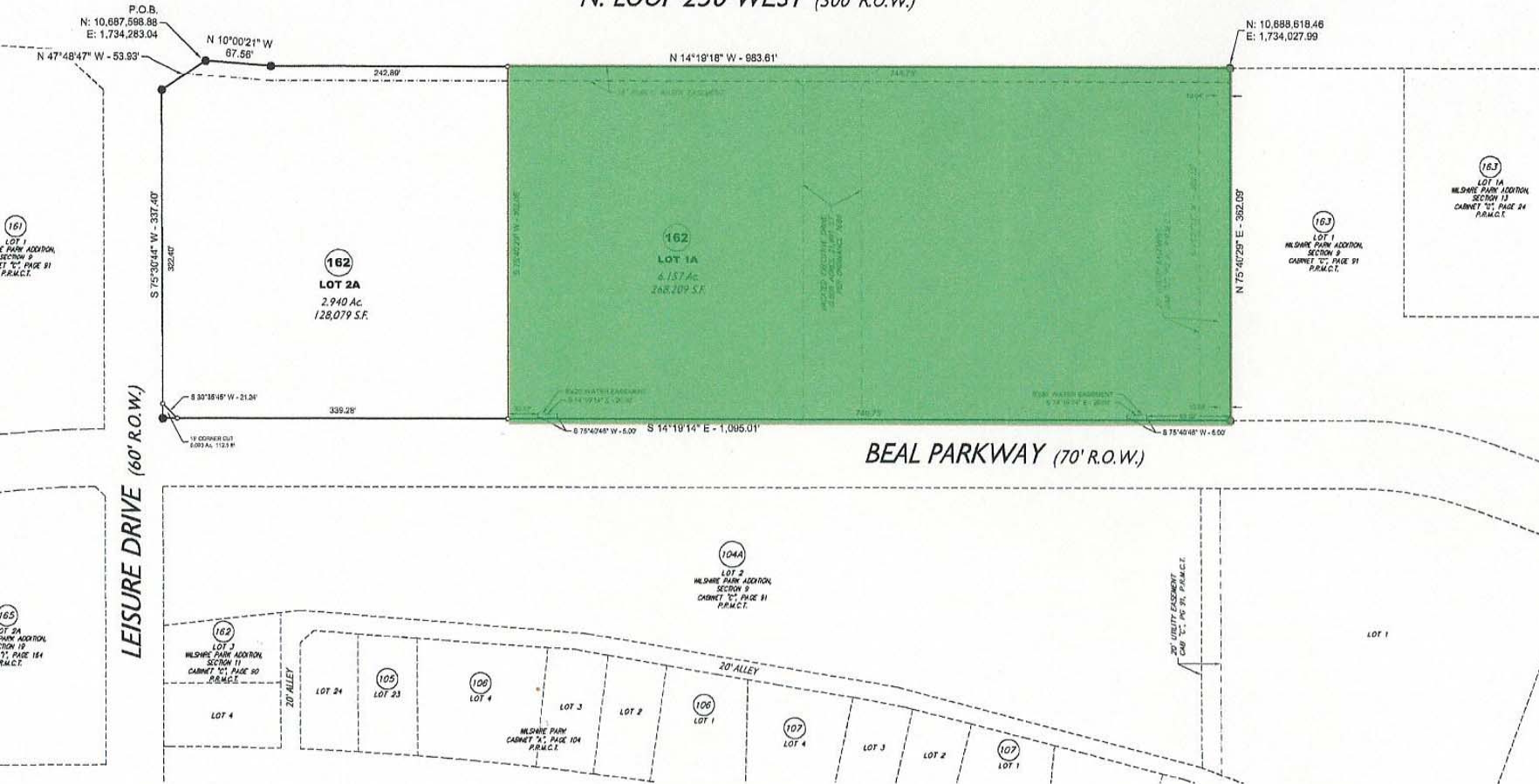
 \_\_\_\_\_



# WILSHIRE PARK, SECTION 20

N. LOOP 250 WEST (300' R.O.W.)

BEING A REPLAT OF LOTS 1 & 2, BLOCK 162; 3.138-ACRES OF THE SOUTH HALF OF LOT 1, BLOCK 162 AND THE PREVIOUSLY VACATED 0.505 ACRES OF EXECUTIVE DRIVE ALL OUT OF WILSHIRE PARK ADDITION, SECTION 9, CITY AND COUNTY OF MIDLAND TEXAS.



**GRID**  
BEARINGS, DISTANCES, COORDINATES AND ACREAGE SHOWN HEREON ARE GRID, NAD83(CORS96), TEXAS CENTRAL ZONE (4203), US FEET.

**LEGEND**

- DENOTES FOUND 1/2" IRON ROD
- DENOTES SET 1/2" IRON ROD
- CAS MARKED "SFW FRM 101173 UNLESS NOTED OTHERWISE
- DENOTES PROPERTY BOUNDARY LINE
- DENOTES LOT LINE
- - - DENOTES EASEMENT LINE
- - - DENOTES ADJACENT LOT LINE

**CERTIFICATE OF APPROVAL**

This is to certify that the above and foregoing plat of PARK, SECTION 20, was approved by proper action of Planning and Zoning Commission of the City of Midland on this \_\_\_\_\_ day of \_\_\_\_\_, 2016.

JANE WOLF, CHAIRMAN

JESSICA CARPENTER, SECRETARY

PLAT FILED FOR RECORD  
MIDLAND COUNTY, TEXAS  
NO. \_\_\_\_\_ CABINET \_\_\_\_\_  
DATE \_\_\_\_\_ PAGE \_\_\_\_\_

**John F. Watson & Company**  
LAND & DEVELOPMENT SERVICES  
PROFESSIONAL LAND SURVEYORS  
200 N. LEXAVER, SUITE 200 MIDLAND, TEXAS 79701  
TEL: 432.709.1111 FAX: 432.709.1112  
www.jfwland.com  
New Pattern for Responsible Development  
JOB NO. 16-0000 FIELD BOOK 1  
DRAFT REV. 1

**SURVEYOR'S CERTIFICATE**  
KNOW ALL MEN BY THESE PRESENTS:  
That I, Phillip J. Sublett, a Registered Professional Land Surveyor of the State of Texas, do hereby certify that this plat was prepared from an actual and accurate survey of the land and that all other monuments shown hereon were properly located under my supervision, in accordance with the Subdivision Act, Chapter 201, Texas Property Code, in Midland, Texas.

PRELIMINARY. THIS DOCUMENT SHALL NOT BE RECORDED FOR ANY PURPOSE OR SHALL NOT BE USED OR VIEWED OR RELIED UPON AS A FINAL SURVEY DOCUMENT.

Phillip J. Sublett, Registered Professional Land Surveyor

**UTILITY COMPANY'S CERTIFICATE**  
This plat has been checked for accessibility of utilities.

- AT&T ENERGY BY: \_\_\_\_\_
- AT&T BY: \_\_\_\_\_
- SUDDENLINK COMMUNICATION BY: \_\_\_\_\_
- SHARYLAND UTILITIES BY: \_\_\_\_\_
- GRANDE COMMUNICATION BY: \_\_\_\_\_
- ONCOR ELECTRIC DELIVERY BY: \_\_\_\_\_

**ACKNOWLEDGEMENT**  
THE STATE OF TEXAS  
COUNTY OF \_\_\_\_\_

Before me, the undersigned authority, a Notary Public in and for the State of Texas, on this \_\_\_\_\_ day of \_\_\_\_\_, 2016, \_\_\_\_\_ known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he was acting as owner, and that he executed the same for the purposes and consideration therein expressed, and in the capacity therein stated. Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 2016.

NOTARY PUBLIC IN AND FOR THE STATE OF TEXAS

**OWNER'S CERTIFICATE**  
THE STATE OF TEXAS  
COUNTY OF \_\_\_\_\_

WHEREAS, J DURWOOD & KATHLEEN OWEN REVOCABLE LIVING TRUST, is the record owner of a tract of land situated in the SW/4 of Section 31, Block 39, 7-1-5, T&R RR Co Survey, County of Midland,

NOW, THEREFORE, KNOW ALL MEN BY THESE PRESENTS:  
That, J DURWOOD & KATHLEEN OWEN REVOCABLE LIVING TRUST, being the owner of the land shown on this plat designated as WILSHIRE PARK ADDITION, SECTION 20, an Addition to the City of Midland, Midland County, Texas and whose name is subscribed hereto, do hereby dedicate to the public use forever the streets, and easements shown thereon.

WITNESS my hand at Midland, Texas, this \_\_\_\_\_ day of \_\_\_\_\_, 2016.

By: \_\_\_\_\_

A PORTION OF THIS ADDITION, DISTANCES AND BOUNDS MAY BE A CITY ORDINANCE AND STATE AND SUBJECT TO FINES AND PENALTIES FOR VIOLATION OF A SITE PLAN BY THE CITY OF MIDLAND AND MAY BE REQUIRED BEFORE DEVELOPMENT OF ANY LOT AND A BUILDING PERMIT MAY BE OBTAINED.  
BEARINGS, DISTANCES AND ACREAGE HEREON ARE NAD83 (CORS96), TEXAS CENTRAL ZONE, UTILIZING CITY AND COUNTY OF MIDLAND SURVEY MARKER "JSC&D" COMBINED SCALE FACTOR = 999.9995.

BY: KATHLEEN OWEN, TRUSTEE  
BY: J DURWOOD, TRUSTEE

**WILSHIRE PARK SECTION 20**

20 APR 2016

## DDC Merritt Leisure, Ltd.

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2. Total Development Cost Schedule- your revised schedule reflects total site work costs of \$1,311,339; however, you provided a site work cost breakdown totaling \$1,358,089. Please reconcile this difference and revise the exhibit(s) as appropriate.
  - In the Development Cost Schedule - Site Work Cost Subtotal is 1,311,339 + the fencing is \$96,750 = \$1,408,089 which is the new certified site work cost breakdown. Please see new Certified Site Cost breakdown under this tab.

## Site Cost Breakdown

## Site Work Cost Breakdown

This form must be submitted with the Development Cost Schedule as justification of Site Work costs.

Column A: The Site Work activity reflected here must match the Site Work activity reflected in the Development Cost Schedule.

Columns B and C: In determining actual construction cost, two different methods may be used:

The construction costs may be broken into labor (Column B) and materials (Column C) for the activity; **OR**

The use of unit price (Column B) and the number of units (Column C) data for the activity.

Column D: To arrive at total construction costs in Column D:

If based on labor and materials, add Column B and Column C together to arrive at total construction costs.

If based on unit price measures, Column B is multiplied by Column C to arrive at total construction costs.

Column E: Any proposed activity involving the acquisition of real property, easements, rights-of-way, etc., must have the projected costs of this acquisition for the activity.

Column F: Engineering/architectural costs must be broken out by the Site Work activity.

Column G: Figures for Column G, Total Activity Cost, are obtained by adding together Columns D, E, and F to get the total costs.

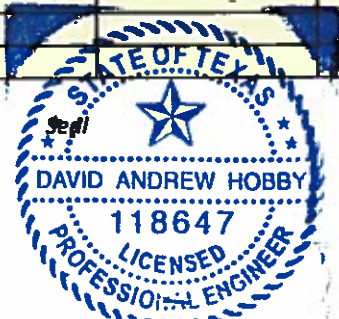
**\*\*This form must be completed by a Third-Party engineer licensed to practice in the State of Texas. His or her signature and registration seal must be on the form.\*\***

**For Site Work costs that exceed \$15,000 per Unit and are included in Eligible Basis, a CPA letter allocating which portions of those site costs should be included in Eligible Basis and which ones may be ineligible must be submitted behind this tab.**

A.	B.	C.	D.	E.	F.	G.
Activity	Labor or Unit Price	Materials or # of Units	Total Construction Costs	Acquisition Costs	Engineering / Architectural Costs	Total Activity Costs
Curbs	\$21.00/SQ.FT.	5,440	\$114,240.00	-	-	\$114,240.00
Sidewalks	\$6.75/SQ.FT.	13,500	\$91,125.00	-	-	\$91,125.00
Asphalt Pavement	\$4.00/SQ.FT.	92,876	\$371,504.00	-	-	\$371,504.00
Driveways	\$9.00/SQ.FT.	1,160	\$10,440.00	-	-	\$10,440.00
Earthwork	\$14.00/SQ.FT.	29,800	\$417,200.00	-	-	\$417,200.00
Fencing	\$50.00/SQ.FT.	1,935	\$96,750.00	-	-	\$96,750.00
Electric Service	\$55,000/EA	1	\$55,000.00	-	-	\$55,000.00
Gas Service	\$15,000/EA	1	\$15,000.00	-	-	\$15,000.00
8" Backflow Preventer	\$12,000/EA	2	\$24,000.00	-	-	\$24,000.00
8" Water Line Fittings	\$20,000/EA	1	\$20,000.00	-	-	\$20,000.00
Fire Hydrant	\$8,000/EA	5	\$40,000.00	-	-	\$40,000.00
8" C-900 Fire Line	\$45.00/L.FT.	704	\$31,680.00	-	-	\$31,680.00
2" Water Meter	\$3,000/EA	4	\$12,000.00	-	-	\$12,000.00
8" Sewer Tap	\$400.00/EA	1	\$400.00	-	-	\$400.00
Sewer Manhole	\$7,300/EA	4	\$29,200.00	-	-	\$29,200.00
8" Sewer Line	\$50.00/L.FT.	591	\$29,550.00	-	-	\$29,550.00
Water Well & Storage	\$50,000/EA	1	\$50,000.00	-	-	\$50,000.00
<b>Total</b>						<b>1,408,089.00</b>

  
Signature of Registered Engineer

Andrew Hobby  
Printed Name  
04-25-16  
Date





## DDC Merritt Leisure, Ltd.

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3. Please provide current loan and equity commitments consistent with the amounts and terms reflected and described in your revised sources and uses exhibit and financing narrative. Additionally, we request to have a conference call with Mahesh regarding the FHA loan and talk through his timing with the concept meeting, etc. Please propose dates and times once you coordinate with Mahesh on your end for this call.



## RBC Letter



April 22, 2016

DDC Merritt Leisure, Ltd.  
c/o Colby W Denison  
1904 W 35<sup>th</sup> Street  
Austin, Texas 78703

**Re: Merritt Leisure  
Midland, Texas**

Dear Colby:

Thank you for providing us the opportunity to submit a proposal on Merritt Leisure (the “Project”). This letter serves as an indication of RBC’s interest in acquiring an ownership interests in DDC Merritt Leisure, Ltd., a Texas to-be-formed Limited Partnership, or similar entity to be formed (the “Partnership”). RBC Tax Credit Equity, LLC, its successors and assigns (“RBC”) will acquire a 99.98% interest, and RBC Tax Credit Manager II, Inc. (“RBC Manager”) will acquire a .01% interest (collectively, the “Interest”) in the Partnership.

1. **Project and Parties Involved.**

- (a) The Project, located in the City of Midland, State of Texas will consist of 140 apartment units. Within the Project 115 units will be occupied in compliance with the low-income housing tax credit (“LIHTC”) requirements of Section 42 of the Internal Revenue Code. The remaining 25 units will be market-rate units.
- (b) The parties involved with the Project are as follows:
  - (i) **General Partner.** The General Partner is DDC Merritt Leisure GP, LLC, a to-be-formed single purpose, taxable entity.
  - (ii) **Developer.** The Developers are DDC Investments, Ltd., a Texas Limited Partnership, and Crossroads Housing Development Corporation, a Texas non-profit corporation (CHDO).
  - (iii) **Guarantors.** Subject to RBC’s review and approval of financial statements, the Guarantors are the General Partner, the Developer and other entities deemed necessary by RBC, on a joint and several basis.

2. **Purchase Price.** The Interest in the Partnership will be acquired for a total capital contribution of \$8,174,212. This capital contribution is based on the Project receiving the tax credits described in Paragraph 3 and represents a price per tax credit dollar of \$1.04. The capital contribution, subject to adjustments set forth in Paragraph 5 below, will be payable to the Partnership in installments as set forth on **Exhibit A**.

3. **LIHTC.** The Project anticipates receiving a reservation of 2016 LIHTC in the amount of \$786,147 annually. The total LIHTC anticipated to be delivered to the Partnership is \$7,861,470. The LIHTC will be available to the Partnership beginning in 2017.

4. **Funding Sources.** The purchase price is based upon the assumption that the Project will receive funding on the terms and conditions listed on **Exhibit B**.

5. **Adjustments.**

- (a) **Downward Capital Adjustment.** The amount of LIHTC to be allocated to RBC during the credit period (“Certified LIHTC”) will be determined promptly following receipt of cost certification from the accountant and Form 8609. If the Certified LIHTC is less than Projected LIHTC, RBC’s capital contributions will be reduced by an amount (the “Downward Capital Adjustment”) equal to the product of (i) \$1.04 multiplied by (ii) the difference between Projected LIHTC and Certified LIHTC.
- (b) **Late Delivery Adjustment.** The amount of LIHTC allocated to RBC for 2017 will be determined at the time the Project is fully leased. If the amount of the LIHTC allocated to RBC for calendar year 2017 is less than the amounts shown in Paragraph 3, RBC’s capital contribution shall be reduced by an amount (the “Late Delivery Adjustment”) equal to the difference between the amount shown in Paragraph 3 (adjusted for any Downward Capital Adjustment) and the amount of the LIHTC allocated to RBC for calendar year 2017 less the present value (using a 12% discount rate) of the additional LIHTC projected to be received in 2027.
- (c) **Payment by General Partner.** If the Downward Capital Adjustment and the Late Delivery Adjustment exceed the total of all unfunded capital contributions, then the General Partner will make a payment to the Partnership equal to the amount of such excess, and the Partnership will immediately distribute such amount to RBC as a return of its capital contribution. Except to the extent otherwise stated herein, this payment will not give rise to any right as a loan or capital contribution or result in any increase in the General Partner’s capital account.

6. **General Partner and Guarantor Obligations.** In addition to Paragraph 5(c) above, the General Partner is responsible for items 6(a) through 6(f) below. Any amounts advanced by the General Partner will not be considered as loans or capital contributions reimbursable or repayable by the Partnership unless otherwise stated herein.

- (a) **Construction Completion.** The General Partner will guarantee construction completion in accordance with approved plans and specifications and will pay for any construction costs, costs to achieve permanent loan closing, repayment of all construction financing and costs necessary to fund reserves required to be funded at or before permanent loan closing.
- (b) **Operating Deficits.**
  - (i) **Pre-Stabilization.** The General Partner will guarantee funding of operating deficits until the date (the “Stabilization Date”) which is the first day of the month following a 3-month period (such 3-month period to commence after the permanent loan closing) in which the Project has maintained an average 1.15 debt service coverage; and
  - (ii) **Post-Stabilization.** Commencing with the Stabilization Date and continuing until the Release Date (defined below), the General Partner will guarantee funding of operating deficits in an amount equal to 6 months of operating expenses, debt service, and replacement reserves. Any funds paid by the General Partner under this Paragraph 6(b)(ii) shall be treated as an unsecured loan to the Partnership with interest at the rate of 8% per annum, to be repaid out of cash flow, refinancing, sale and liquidation proceeds as provided in Paragraph 9 hereof.

The “Release Date” is the later of:

- (A) the fifth anniversary of the Stabilization Date,
- (B) the date the Project has achieved an average debt service coverage of 1.15 for the 12-month period immediately prior to the Release Date, and
- (C) the date the Project has achieved a 1.15 debt service coverage for each of the 3 months immediately prior to the Release Date.

- (c) LIHTC Shortfall or Recapture Event. To the extent not already addressed by the Downward Capital Adjustment or the Late Delivery Adjustment, if the actual amount of LIHTC for any year is less than Projected LIHTC, the General Partner will guarantee payment to RBC of an amount equal to the shortfall or recapture amount, plus related costs and expenses incurred by RBC.
- (d) Repurchase. The General Partner will repurchase RBC's interest upon the occurrence of certain events described in the Project Entity Agreement.
- (e) Environmental Indemnity. The General Partner will indemnify RBC against any losses due to environmental condition at the Project.
- (f) Developer Fee. The General Partner will guarantee payment of any developer fee remaining unpaid at the end of the LIHTC compliance period.
- (g) Guarantors. The Guarantors will guarantee all of the General Partner's obligations. Prior to the Stabilization Date, the Guarantors will maintain a net worth and liquidity level as determined by RBC after review of the Guarantors' financial statements.

7. **Reserves.**

- (a) Operating Reserves. An operating reserve in the amount of six months of operating reserves, debt service coverage and replacement reserves will be established and maintained by the General Partner concurrent with RBC's final capital contribution. Withdrawals from the operating reserve will be subject to RBC's consent. Expenditures from operating reserves will be replenished from available cash flow as described in Paragraph 9(b) below.
- (b) Replacement Reserves. The Partnership will maintain a replacement reserve, and make contributions on an annual basis equal to the greater of (i) \$250 per unit and (ii) the amount required by the permanent lender. The amount of the contribution will increase annually by 3%. Annual contributions will commence with substantial completion of the Project.

8. **Fees and Compensation.** The following fees will be paid by the Partnership for services rendered in organizing, developing and managing the Partnership and the Project.

- (a) Developer Fee. The Developer will earn a developer fee of \$2,188,407.  
  
The deferred portion of the developer fee shall accrue interest at 8% per annum commencing as of the date of RBC's final capital contribution. Payment of the deferred fee will be subordinate to all other Partnership debt as well as operating expense and reserve requirements
- (b) Incentive Management Fee. An incentive management fee will be payable to the General Partner on an annual basis in an amount equal to 90% of net cash flow as set forth on Paragraph 9(b) below.
- (c) Property Management Fee. The property management fee will not exceed 5% of gross rental revenues. The management agent and the terms of the property management agreement are subject to the prior approval of RBC. If the management agent is an affiliate of any Guarantor, its fee will be subordinated to payment of operating costs and required debt service and reserve payments.
- (d) Asset Management Fee. The Partnership will pay RBC Manager an annual asset management fee of \$5,000 which will increase by 3% annually.

9. **Tax Benefits and Distributions.**

- (a) **Tax Benefits.** Tax profits, tax losses, and tax credits will be allocated 99.98% to RBC, .01% to RBC Manager and .01% to the General Partner.
- (b) **Net Cash Flow Distributions.** Distributions of net cash flow (cash receipts less cash expenditures, payment of debt service, property management fee and asset management fee), will be made as follows:
  - (i) to RBC in satisfaction of any unpaid amounts due under Paragraphs 5 and 6 above and for any other amounts due and owing to RBC;
  - (ii) to RBC Manager for any unpaid asset management fees;
  - (iii) to the operating reserve to maintain the balance required in Paragraph 7(a);
  - (iv) to the payment of any unpaid developer fee;
  - (v) to the payment of any debts owed to the General Partner or its affiliates;
  - (vi) 90% of the remaining cash flow to the General Partner as an incentive management fee; and
  - (vii) the balance to the General Partner, RBC and RBC Manager in accordance with their percentage interests described in Paragraph 9(a).
- (c) **Distributions upon Sale, Liquidation or Refinance.** Net proceeds resulting from any sale, liquidation or refinance will be distributed as follows:
  - (i) to payment in full of any Partnership debts except those due to RBC, RBC Manager or the General Partner and/or their affiliates;
  - (ii) to the setting up of any required reserves for contingent liabilities or obligations of the Partnership;
  - (iii) to RBC, in satisfaction of any unpaid amounts due under Paragraphs 5 and 6 above and for any other amounts due and owing to RBC;
  - (iv) to RBC Manager for any unpaid asset management fees;
  - (v) to RBC for any excess or additional capital contributions made by it;
  - (vi) to the payment of any debts owed to the General Partner or its affiliates including any unpaid developer fee;
  - (vii) to RBC Manager, 1% of such proceeds as a capital transaction administrative fee;
  - (viii) to RBC in an amount equal to any projected federal income tax incurred as a result of the transaction giving rise to such proceeds; and
  - (ix) the balance, 80% to the General Partner, 19% to RBC and 1% to RBC Manager.

10. **Construction.** The General Partner will arrange for a fixed or guaranteed maximum price construction contract. The Contractor's obligations will be secured by a letter of credit in an amount not less than 15% of the amount of the construction contract or a payment and performance bonds in an amount not less than the amount of

the construction contract. The Project will establish a construction contingency in an amount not less than 5% of the construction costs, or such greater amount as RBC may reasonably require following its review of construction documents. RBC, may, in its sole discretion, engage a construction consultant (i) to review plans and specifications and (ii) evaluate the construction progress by providing monthly reports to the Partnership.

11. **Due Diligence, Opinions and Projections.**

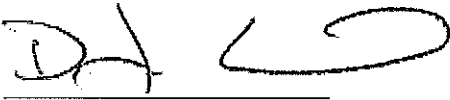
- (a) **Due Diligence.** The General Partner will provide RBC with all due diligence items set forth on its due diligence checklist, including but not limited to, financial statements for the Guarantors, schedule of real estate owned and contingent liabilities, plans and specifications, a current appraisal, a current (less than 6 months old) market study, a current (less than 6 months old) Phase I environmental report, rent and expense data from comparable properties, site/market visit and title and survey. The General Partner agrees to reasonably cooperate with RBC (including signing such consents as may be necessary) in obtaining background reports on the Developer, Guarantors and other Project entities as determined by RBC.
- (b) **Legal Opinions.** The General Partner's counsel will deliver to RBC a local law opinion satisfactory to RBC. RBC's counsel will prepare a tax opinion and the General Partner agrees to cooperate to provide all necessary documentation requested by RBC's counsel.
- (c) **Diligence Reimbursement.** The Partnership will reimburse RBC \$50,000 toward the costs incurred by RBC in conducting its due diligence review and for the costs and expenses of RBC's counsel in connection with the preparation of the tax opinion. RBC may deduct this amount from its first capital contribution.
- (d) **Projections.** The projections to be attached to the Project Entity Agreement and that support the Tax Opinion will be prepared by RBC based on projections provided by the General Partner. RBC's projections will include development sources and uses, calculation of eligible basis, operating and construction period cash flow analysis, 15-year operating projection, 30-year debt analysis and 15-year capital account analysis.

12. **Closing Contingencies.** RBC's obligation to close on the purchase of the Interest will be contingent upon RBC's receipt, review and approval of all due diligence including the items set forth on its due diligence checklist as well as the following:

- (a) **Project Entity Documents.** Preparation and execution of RBC's standard Project Entity Agreement and other fee agreements containing representations and warranties, covenants, consent rights, and indemnities, each on terms and conditions satisfactory to RBC.
- (b) **Information and Laws.** No adverse change in the information you have provided to us and no adverse change in existing law.
- (c) **Anticipated Closing Date.** The closing occurring on or before July 1, 2016.

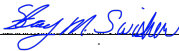
If the foregoing is in accordance with your understanding of the terms and conditions, please indicate your acceptance on the enclosed copy and return it to the undersigned.

Very truly yours,


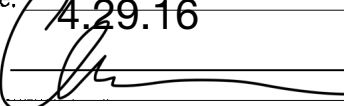
By:   
Name: Dan Kierce  
Title: Director

The undersigned approves and accepts the terms of this Letter of Intent.

**GENERAL PARTNER:**

By:   
Its: Executive Director  
Date: 04/29/16

**GUARANTORS:**

By:   
Its: Managing Member  
Date: 4.29.16  
By:   
Its: \_\_\_\_\_  
Date: \_\_\_\_\_



**EXHIBIT A  
CAPITAL CONTRIBUTIONS**

<u>Conditions</u>	<u>Amount</u>	<u>Anticipated Funding Date</u>
i) 15.00% upon the later of: (a) the execution of the Partnership Agreement, (b) closing of the financing sources described in Exhibit B, and (c) receipt and approval of all due diligence items on RBC's due diligence checklist.	\$1,226,132	July 1, 2016
ii) 35.00% upon the later of: (a) receipt of final Certificates of Occupancy for all of the units, (b) receipt of an architect's certificate of substantial completion, (c) receipt of a preliminary cost certification accompanied by a General Partner certification, and (d) January 1, 2018.	\$2,860,974	January 1, 2018
iii) 47.55% upon the later of: (a) receipt of a final cost certification from an independent certified public accountant, (b) achievement of 100% qualified occupancy, (c) permanent loan conversion, including 90 days of 90% occupancy and 90 days at a 1.20 Debt Service Coverage Ratio, and (d) January 1, 2019.	\$3,887,106	January 1, 2019
iv) 2.45% upon the later of: (a) achievement of the Stabilization Date, (b) receipt of the IRS Form 8609, and (c) April 1, 2019.	\$200,000	April 1, 2019
<b>Total:</b>	<b>\$8,174,212</b>	

## **EXHIBIT B SOURCES**

### Construction Loan/Permanent Loan.

- Non-recourse: Yes
- Lender: Citibank - or a Lender acceptable to RBC
- Amount: \$8,300,000
- Maturity: 36 month construction term; 40 year perm term
- Interest Rate: 4.25%
- Amortization: 40 years
- Collateral: 1<sup>st</sup> mortgage on Project (or other collateral acceptable to RBC)

### HOME Loan

- Source: TDHCA
- Amount: \$2,000,000
- Maturity: 40 years
- Interest Rate: 3%
- Amortization: 40 years
- Collateral: 2nd mortgage on Project (or other collateral acceptable to RBC)

### Local Government Loan

- Source: City of Midland
- Amount: \$225,861
- Maturity: 15 years
- Interest Rate: 0%
- Amortization: N/A
- Collateral: 3rd mortgage on Project (or other collateral acceptable to RBC)

## DDC Merritt Leisure, Ltd.

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3. Please provide current loan and equity commitments consistent with the amounts and terms reflected and described in your revised sources and uses exhibit and financing narrative. Additionally, we request to have a conference call with Mahesh regarding the FHA loan and talk through his timing with the concept meeting, etc. Please propose dates and times once you coordinate with Mahesh on your end for this call.



# CITI Term Sheet



April 27, 2016

Mr. Colby Denison  
Denison Development  
1904 W. 35<sup>th</sup> Street  
Austin, Texas 78703

**Re: Commitment for a FHA 221(d)(4) construction/permanent period loan in an amount not to exceed \$8,300,000 relating to a multifamily rental project to be known as DDC Merritt Leisure, Ltd., Austin, TX (the "Property")**

Dear Mr. Denison:

Citibank, N.A. ("CITI") is pleased to offer to Colby Denison ("Sponsor") this commitment ("Commitment") for financing, subject to the terms, requirements and conditions which follow. All capitalized terms used herein, unless otherwise defined, shall have the meaning set forth on Exhibit A annexed hereto and incorporated herein by this reference (the "Commitment Terms"). CITI's decision to issue this commitment was made in reliance upon the representations and material supplied by Sponsor and Sponsor's representatives, as more particularly described on Exhibit B annexed hereto. CITI understands that Sponsor intends to submit this Commitment to the current property owner ("Seller") with respect to the acquisition of the Property. **This Commitment is subject to, among other things, CITI completing due diligence to confirm the representations made by Sponsor and obtaining final credit committee approval.**

**In connection with this Commitment, CITI will be acting solely as a principal and not as your agent, advisor or fiduciary. CITI has not assumed a fiduciary responsibility with respect to this Commitment, and nothing in this Commitment or in any prior relationship between you and CITI will be deemed to create an advisory, fiduciary or agency relationship between us in respect of this Commitment. You should consider carefully whether you would like to engage an independent advisor to represent or otherwise advise you in connection with this Commitment, if you have not already done so.**

**A. Transaction Summary.** The terms of the financing transaction that are the subject of this Commitment are as follows:

1. On the closing date (the "Closing Date"), CITI shall provide a construction/permanent period loan to Borrower (the "Loan") to acquire the Property.
2. The Loan proceeds shall be disbursed in accordance with a loan agreement (the "Loan Agreement") executed and delivered in connection with the Loan. CITI will administer and direct the disbursement of the Loan.
3. On or before the maturity date of the Loan, the Loan shall be repaid in full. In the event that the Loan is not repaid in full on or before the maturity date, at the option of CITI, the Loan will be subject to acceleration, and all obligations of CITI with respect to the transaction contemplated by this Commitment shall terminate.

**B. Conditions Precedent to Closing.** The obligation of CITI to provide the Loan is subject to satisfaction of the following conditions precedent ("Conditions Precedent to Closing"), in each case in a

manner acceptable to CITI. The form and substance of all documents and items submitted by Borrower hereunder must be acceptable to CITI and its counsel.

1. Credit Approval. This Commitment is subject, among other things, to CITI obtaining final credit committee approval. Sponsor understands and agrees that this Commitment is subject to final approvals as set forth in Part E.4. of this Commitment and is not an agreement to make a loan. Any documentation will be forthcoming only after final approval of the underwriting by CITI's credit committee. The financing will be documented separately and will contain terms and conditions that may be in addition to or in substitution of those set forth in the Commitment.

2. Documents. Borrower shall duly authorize, execute and deliver or cause to be delivered at closing a Multifamily Note, a Multifamily Deed of Trust, or Mortgage, where appropriate (the "Security Instrument"), a Guaranty or Guarantees (including a Completion and Payment Guaranty for the Interim Phase), an Environmental Indemnity Agreement, Assignments and any other financing statement, agreement or document required by CITI in connection with the Loan (collectively, the "Mortgage Documents"). Where appropriate, the Mortgage Documents shall be acknowledged, recorded and filed in the public record, and all recording receipts promptly delivered to CITI.

3. Title Insurance. Borrower shall promptly deliver to CITI a commitment for a mortgagee's title insurance policy, prepared in accordance with CITI's title insurance instructions, along with a pro forma policy in the form included in such instructions. The title insurance commitment and policy must satisfy all of the requirements of such instructions and include such other coverage and endorsements as CITI may require. The company and/or agent issuing the commitment shall be acceptable to CITI in all respects. Borrower shall also furnish CITI with copies of all instruments affecting title to the Property including, but not limited to, all instruments referenced in Schedule B of the pro forma policy.

4. UCC Search/Perfection. Borrower shall commission UCC searches in the real estate records and personal property records of the following jurisdictions and shall furnish written reports of such searches to CITI: (i) the jurisdiction where the Property is located, (ii) any other jurisdiction in which Borrower has its principal office for the conduct of its business, (iii) in the central UCC filing location specified by the law of the state where the Property is located, and (iv) any other office where filing is necessary to perfect the security interest in the Collateral (as hereinafter defined). All such searches shall be updated to the time of recordation of the Mortgage Documents and shall show no security interests affecting the Property, Guarantor or Borrower, other than those naming CITI as the secured party. Borrower shall cause the appropriate filing of financing statements, on forms supplied by CITI, evidencing CITI's perfected first priority security interest in all personal property, machinery, equipment, building materials, contract rights, furniture, fixtures, royalties, receivables and other rights related thereto, as well as all leases, rents, revenues and proceeds therefrom and all proceeds of the foregoing (collectively, the "Collateral"). Such filing shall be in compliance with both the Uniform Commercial Code, as adopted in the state in which the Property is located, and all other applicable laws affecting the perfection of security interests. Borrower shall furnish to CITI, promptly upon recordation, receipted or time stamped copies of the filed financing statements.

5. Authority. Borrower shall furnish to CITI certified documents satisfactory to CITI evidencing Borrower's power and authority to enter into the Mortgage Documents. If Borrower is a corporation, such documents shall include Borrower's Articles of Incorporation, Bylaws, corporate resolution relevant to the Loan and a Certificate of Good Standing from the state of incorporation and the state where the Property is located. If Borrower is a partnership, such documents shall include a copy of the partnership agreement and partnership certificate, and the above-referenced corporate documents for any corporate general partner of Borrower. If Borrower

is a limited liability company, such documents shall include a copy of the Articles of Organization and Operating Agreement and the Certificate of Authenticity or Certificate of Good Standing from the state of organization and the state where the Property is located.

6. Leases. The standard form of lease used at the Property shall be subject to the prior written approval of CITI. All new leases and renewals of existing leases shall be made on the approved standard form of lease unless otherwise agreed to by CITI. There must be no commercial leases affecting the Property, except for any laundry lease and other commercial lease disclosed in writing to and approved in writing by CITI and its counsel prior to the date of this Commitment. Any current commercial lease or laundry lease must be subordinated to the lien of the Mortgage Documents. Borrower agrees that any future commercial lease or laundry lease or renewal of any current commercial lease or laundry lease will contain language acceptable to CITI subordinating said lease to the lien of the Mortgage Documents. There must be no default under any current commercial lease or laundry lease.

7. Borrower's Management Agreement. Borrower shall furnish to CITI a copy of Borrower's management agreement. The management agreement must be with a professional management company and both the management company and the terms of the management agreement must be approved in writing by CITI. Borrower shall not make or permit to be made any changes to the management agreement without the prior written approval of CITI. Without limiting the foregoing, the management agreement must be terminable by owner on 30 days' notice, with or without cause and without payment of any termination fee. If required by CITI, a portion of the management fee may be required to be subordinated to debt service and other amounts payable with respect to the Loan.

8. Rent Roll. If applicable, Borrower shall promptly furnish a copy of the rent roll for the Property, with an updated rent roll to be delivered contemporaneously with closing.

9. Appraisal. CITI shall have received an appraisal of the Property satisfactory to CITI.

10. Opinion of Borrower's Counsel. Borrower shall deliver to CITI a written opinion by Borrower's counsel approved by CITI, addressed to CITI, and in the form furnished or approved by CITI's counsel.

11. Insurance. Borrower shall deliver to CITI an insurance policy evidencing the existence of insurance relating to the Property, which evidence shall include "paid" premium invoices, conforming in all respects to CITI's insurance requirements as provided to Borrower in a separate package, as same may, from time to time, be modified. Such insurance for the Property shall include, without limitation, coverage for acts of terrorism and, if applicable, flood insurance (as more particularly set forth in Paragraph 17 below). In addition, Borrower must deliver prior to closing (i) the original, or a copy certified by the insurance agent, of the policy(ies) of insurance; or (ii) the insurance binder; or (iii) a certificate of insurance (Acord Form 28 (property) or Acord Form 27 (liability) or other form, satisfactory to Lender, provided by the insurance agent; or (iv) original letter from the insurance carrier on the primary layer, signed by an officer of such carrier, attaching the form of insurance policy pursuant to which coverage is being provided, and, if applicable, original letter from each insurance carrier on the excess layers, signed by an officer of such carrier(s) agreeing that it is bound to the form of insurance policy delivered by the primary carrier (*i.e.*, agreeing to "follow form" to the primary carrier). The letter must set forth the date by which the policy will be delivered to CITI, which must not be more than sixty (60) days following closing. All mortgagee/loss payee/additional insured endorsements must be attached to the letter.

12. Permits/Occupancy. Borrower shall deliver to CITI evidence satisfactory to CITI that all applicable governmental authorities have authorized construction of the Improvements and the development and, if applicable, the operation of the Property as a multifamily residential unit,

including, without limitation, occupancy permits (if applicable) and building permits. Any nonresidential occupancy must be approved in writing by CITI.

13. Zoning/Subdivision. Borrower shall deliver to CITI certification from the local governmental authority (i) that the use of the Property as a multifamily residential complex complies with all zoning and subdivision ordinances and regulations applicable to the Property and that it is either a legal, conforming use or a legal, nonconforming use acceptable under CITI's underwriting standards, (ii) that the Property has been properly subdivided, and (iii) that the improvements on the Property can be rebuilt on the same location to their presently existing size, shape and density if partially or totally destroyed.

14. Access/Utilities. Borrower shall deliver to CITI evidence satisfactory to CITI that the Property is located on a publicly dedicated and maintained roadway or acceptable easement thereto, is served by public water and sewer systems, electricity and telephone service, and receives adequate municipal services (fire, police, transportation, among others).

15. Other Compliance. Borrower shall deliver to CITI evidence satisfactory to CITI that the Property, and Borrower's operation thereof, will be constructed in compliance with all local and/or state building, safety, health and fire codes, all clean air and water acts and other Hazardous Materials Laws (as hereinafter defined), and all equal opportunity, anti-discriminatory and fair housing requirements.

16. Survey. Borrower shall deliver to CITI a current, certified, "boundary" or "as-built" (as applicable) ALTA survey of the Property, with monuments, and surveyor's certificate, prepared by a registered engineer or surveyor approved by CITI. The survey and surveyor's certificate shall be satisfactory in form and substance to CITI and shall contain those matters set forth in CITI's survey instructions.

17. Flood Zone Map/Certification/Insurance. Borrower shall deliver to CITI a certification from Borrower's architect, engineer or surveyor stating whether the Property is located in a designated special Flood Plain Hazard area, as designated by appropriate federal agencies. If all or any portion of the Property is at any time during the term of the Loan, located in such an area, Borrower shall provide satisfactory evidence to CITI of the existence of flood insurance policies in the maximum amount required pursuant to applicable laws covering all of the improvements on the Property which lie within, are bounded by, or are in any way affected by such area.

18. Operating Documents. Borrower shall furnish copies of any form documents used for the Property and any equipment leases, licenses, franchises, permits, contracts, and any other agreements required for the operation, use, management or occupancy of the Property, and all such items shall be subject to written approval by CITI.

19. Financial Statements of Borrower and Guarantor. CITI shall receive, for its review and approval detailed financial statements for Borrower, any principal of Borrower and each Guarantor, certified by Borrower, such principal or the Guarantor, as the case may be. CITI may also require updated and/or recertified financial statements as of the Closing Date and again at regular intervals during the Interim Phase.

20. Environmental Assessment Report. CITI shall receive and approve a written report or reports from CITI's independent environmental inspectors confirming that the Property and any site within the vicinity of the Property (i) has not contained and does not currently contain any Hazardous Material or underground storage tanks or any other pollutants that could be detrimental to the Property, human health or the environment, (ii) does not contain radon gas in levels unacceptable to CITI, (iii) complies with all applicable Hazardous Material Laws and has not been identified by any environmental regulatory body as a site containing Hazardous Material or underground storage tanks, (iv) shows no other environmental problem that would bring the



Property within the purview of any federal, state or local environmental law or ordinance, and (v) contains no residual effect due to the removal of storage tanks or Hazardous Material. All deficiencies with respect to any environmental matters which CITI deems to be material shall be corrected by Borrower at its own expense to the satisfaction of CITI. "Hazardous Material" means and includes, without limitation, mold, asbestos and any substance containing asbestos, the group of organic compounds known as polychlorinated biphenyls, flammable explosives, radioactive materials, lead-based paint, chemicals known to cause cancer or reproductive toxicity, pollutants, effluents, contaminants, emissions or related materials and any items included in the definition of hazardous or toxic wastes, materials or substances under the Hazardous Material Laws. "Hazardous Material Laws" mean and include, all federal, state and local statutes, ordinances, regulations, orders, and decrees now or hereafter promulgated in connection with preserving the environment and/or the handling, storage, transport and disposal of Hazardous Material.

21. Separate Tax Parcel(s). The Property shall constitute one or more separate and distinct tax parcels for purposes of all real estate taxes and assessments. There shall be no overlap whatsoever between the Property and any other property which will not be subject to the first lien of the Security Instrument. Borrower shall also furnish the most recent tax bills for the Property.

22. Low-Income Housing Tax Credits ("LIHTC"). CITI must approve any land use restriction agreement or regulatory agreement regulating or restricting the use or manner of operation of the Property and requiring that the Property be operated as a residential rental project occupied by individuals of low income (as provided for in the Treasury Regulations under Section 42(g) of the Internal Revenue Code). Such regulatory agreement must provide that the Property shall at all times be operated in such manner as to comply with the requirements of the Internal Revenue Code, the Treasury Regulations and IRS Rulings for obtaining and for preserving the LIHTC. In addition, the eligibility of the Property for LIHTC shall be evidenced to CITI in a manner satisfactory to CITI. Such regulatory agreement must be reviewed and approved in writing by CITI.

23. Equity and Funding Conditions. If applicable, CITI must approve the partners/members (including the Tax Credit Investor), the applicable investment agreement, and the organizational documents of Borrower. CITI must receive and approve evidence satisfactory to CITI in all respects that the amount of the equity contribution is projected to be at least the level used by CITI in underwriting the transaction. In addition, prior to the Closing Date, CITI must receive and approve evidence satisfactory to CITI in all respects that Borrower (i) has timely received all required equity contributions to be made to Borrower as of the Closing Date, (ii) has fully funded, for the benefit of the Property, all cash required to be invested in the Property as of the Closing Date, and (iii) has made satisfactory arrangements to fund all cash required to be funded after the Closing Date. Borrower must also provide and CITI must approve in writing any developer's agreement relating to the Property.

24. Interim Phase Budget. If applicable, CITI will require satisfactory evidence that other funds and Loan Proceeds are adequate to complete the Improvements and carry the costs of the Property (including but not limited to interest, taxes, insurance, and operating costs), as determined by CITI based upon its review of scope of work, the Appraisal and other relevant information. Citibank reserves the right to receive, review and approve all project expenditures made prior to closing.

25. Architectural Consultant and Construction Inspector. If applicable, CITI shall have approved an architectural consultant to monitor the progress of the Improvements (the "Architectural Consultant") and Borrower and the Architectural Consultant shall have executed and delivered to CITI a Construction Monitoring Agreement in form and substance acceptable to CITI, pursuant to which the Architectural Consultant shall agree to certify hard cost progress payments

and to provide the certifications required pursuant to this Commitment upon completion of the Improvements. In addition, CITI will enter into an agreement directly with a construction inspector (“Construction Inspector”) for the benefit of CITI, but at the sole cost and expense of Borrower, to review the plans and specifications, contracts and budget for the Improvements and to monitor the progress of the construction of the Improvements in the manner required by CITI.

26. Approved Plans. If applicable, CITI and its engineering consultants and the Construction Inspector shall have received and approved the plans and specifications for the Improvements (such plans and specifications, as approved by CITI are referred to herein as the “Approved Plans”), the budget for completion of the Improvements, a fixed or a guaranteed maximum price contract for completion of the Improvements with a general contractor acceptable to CITI and a construction draw schedule for the Improvements.

27. Change Orders. If applicable, the Approved Plans and the Construction Contract, and any change orders issued thereunder, will be subject to the approval of CITI.

28. Contractors. If applicable, the architect, general contractor and such other contractors and subcontractors with respect to the Property as shall be identified by Borrower and approved by CITI shall have acknowledged the collateral assignment of their respective contracts to CITI and agreed in writing to continue performance on behalf of CITI under their respective contracts without additional cost in the event of a default by Borrower, which agreements shall be in form and substance acceptable to CITI and its counsel.

29. Payment and Performance Bonds. To the extent indicated on Exhibit A hereto, Borrower shall be required to deliver to CITI payment and performance bonds with respect to its contractor and major subcontractors (as determined by CITI).

30. Additional Documents. Upon request by CITI, Borrower shall furnish CITI with any documentation being furnished to any other party lending or investing in the Property (including CITI), including any plans for the Improvements, construction budgets, contracts and disbursement requests. In addition, Borrower shall deliver to CITI all other documents, instruments and other items required by CITI in connection with the financing of the Project.

31. Fees and Expenses. Borrower shall have paid the Origination Fee (as hereinafter defined) and any other costs and expenses then due and payable pursuant to the provisions of this Commitment.

**C. Fees and Expenses**. Borrower shall be responsible for the following fees and expenses in connection with the financing:

1. Application Fee. Borrower hereby acknowledges requirement of an application fee (the “Application Fee”) of \$30,000, which amount shall be non-refundable. In the event additional funds are required to complete CITI’s review and due diligence, Borrower will be advised of such costs in advance. Any and all additional costs will be billed to Borrower as they are incurred. The Application Fee is applicable toward third party reports, underwriting and processing (in the minimum amount of \$5,000), and CITI’s legal fees.

2. Origination Fee. The Origination Fee as set forth in Exhibit A shall be due and payable on the Closing Date. The Origination Fee reflects a fee payable to CITI in exchange for providing financing for the Project.

3. Conversion Fee. Not applicable.

4. HUD Fees. Borrower hereby acknowledges requirement of a HUD application fee, HUD inspection fee which shall be due at application to HUD for the FHA insurance; the

Ginnie Mae fee which shall be due upon closing; and the rate lock fee which shall be due upon execution of the Rate Lock Agreement and shall be refunded post-closing.

5. Fees and Expenses. Borrower shall pay when due, whether or not a Loan closing occurs, all reasonable and actual expenses, fees and charges with respect to the Loans and their processing and closing, or in any way connected therewith, including, without limitation, appraisal fees, survey costs, title insurance costs, architectural fees, engineering fees, inspection fees, mortgage or similar taxes and all attorneys' fees and legal costs of CITI. Without limiting the foregoing, Sponsor specifically agrees to pay all costs relating to document preparation and review of real estate due diligence items by counsel to CITI.

**D. Assignment; Acceptance; Termination.**

1. Acceptance. In order for this Commitment to be effective, Sponsor must execute a copy of this Commitment and return it to CITI within five (5) business days after the date first set forth above (the "Outside Acceptance Date"), time being of the essence.

2. Expiration. This Commitment must be accepted, and the closing must occur prior to the Outside Closing Date set forth in Exhibit A , or this Commitment shall terminate and be of no further force and effect. Sponsor may request an extension of this Commitment (not to exceed ninety (90) days), which extension shall be in CITI's sole discretion.

3. Termination. CITI may terminate this Commitment at any time if:

a. Any material adverse change (financial or otherwise) shall occur at any time prior to the Closing Date with respect to (i) the Property, the proposed Improvements, and/or the other security for the Loan, or (ii) the credit of Borrower and/or Sponsor (and/or any of the principals of Borrower and/or Sponsor) or any Guarantor or any other person or entity connected with the Loan, or (iii) any other source of repayment of the Loan.

b. Any part of the Property shall have been taken in condemnation or other like proceeding, or any such proceeding is pending or threatened as of the Closing Date, or any part of the Property is damaged and not repaired to CITI's satisfaction prior to the Closing Date.

c. If requested, certifications of the non-occurrence of (a) and (b) above, in form acceptable to CITI, are not executed by Borrower on the Closing Date, or if Borrower has not delivered on the Closing Date updated personal financial statements for any Guarantor.

d. After acceptance of this Commitment, the Loan is not closed on or prior to the Outside Closing Date (as the same may be extended pursuant to Section E2. hereof).

e. If, in CITI's sole judgment, CITI's underwriting and due diligence indicate the reasonable possibility of a material adverse change in the Property, the proposed Improvements, the Sponsor, the Borrower and/or any Guarantor.

f. If the OFAC representation and warranty in Section F5. is no longer true and correct.

Upon termination, Sponsor shall pay to CITI any other reasonable damages CITI may have incurred due to non-delivery of the Loan. **Sponsor's or Borrower's obligation to pay all amounts due under this Commitment shall survive the termination or expiration of this Commitment.** If Sponsor or Borrower fails or refuses to comply with the terms of this Commitment, CITI, at its option, shall have the right to enforce any rights and remedies it may have at law or in equity,

including, but not limited to, the collection of costs and expenses arising out of such breach, including reasonable attorneys' fees and disbursements.

4. Final Underwriting. By accepting this Commitment, Sponsor expressly acknowledges that the obligation of CITI to provide the Loan is subject to the completion of final loan underwriting by CITI, final CITI loan committee approval, and the satisfaction of any additional or differing conditions including interest rates that may be required by CITI as a result of such committee approval. By accepting this Commitment, Sponsor expressly acknowledges that the obligation of CITI to provide the financing described in this Commitment is subject to the satisfaction of the obligations and terms and conditions required by Citi for acquisition projects.

#### **E. Miscellaneous**

1. Further Assurances. Sponsor hereby expressly acknowledges that CITI intends to incur costs upon Sponsor's acceptance of this Commitment. Upon acceptance of the Commitment, Sponsor shall be strictly obligated to close the transaction contemplated hereby. Sponsor acknowledges that failure to close the transaction will subject CITI to substantial costs and damages. Therefore, Sponsor hereby expressly agrees:

- a. To perform all of the requirements, terms and conditions contained herein at the time and in the manner herein and as required by CITI.
- b. Refrain from taking any action that would result in CITI's inability to arrange for the provision of the Loan.
- c. Upon the request of CITI, to re-execute or ratify any of the Mortgage Documents.

2. Indemnification for Brokerage Commissions. Sponsor acknowledges and agrees that any fees due for Loan origination services shall be Sponsor's sole responsibility. Borrower and Sponsor shall indemnify and hold CITI harmless from and against any and all claims, demands and liability for brokerage commissions, assignment fees, finders' fees or other compensation whatsoever arising from the issuance of this Commitment or the making of the Loan that may be asserted against CITI **by any person or entity. Sponsor's and Borrower's obligation to indemnify CITI hereunder shall survive the termination or expiration of this Commitment.**

3. Authorization. Sponsor and the undersigned Guarantor hereby authorize CITI to obtain and forward any and all credit information, including credit reports and financial statements and all other information of any kind received or reasonably required in connection with this Commitment to any potential investor.

4. Exclusivity. The terms and provisions of this Commitment are intended for the sole and exclusive benefit of CITI and Borrower, and not for the benefit of, nor for the purpose of being relied upon, by any other party.

5. OFAC Provisions. Sponsor hereby represents and warrants that no portion of the Property has been or will be purchased, improved, equipped or furnished with proceeds of any illegal activity. Sponsor further represents and warrants that to the best of Sponsor's knowledge, after having made diligent inquiry, Sponsor, Borrower, each Person owning a direct or indirect interest in Borrower, each Guarantor, each person owing a direct or indirect interest in each Guarantor, the Property Manager, and each tenant at the Property: (a) is not currently identified on OFAC List, and (b) is not a Person with whom a citizen of the United States is prohibited to engage in transactions by any trade embargo, economic sanction, or other prohibition of United States law, regulation, or Executive Order of the President of the United States. The Sponsor further acknowledges and agrees that it shall have a continuing obligation during the processing of this Commitment to notify CITI promptly if it knows or has reason to believe that the representations and warranties contained herein are no longer correct. Sponsor has implemented procedures, and

will consistently apply those procedures throughout the term of the Loan, to ensure the foregoing representations and warranties remain true and correct during the term of the Loan. For the purposes hereof, “OFAC List” means the list of specially designated nationals and blocked persons subject to financial sanctions that is maintained by the U.S. Treasury Department, Office of Foreign Assets Control and any other similar list maintained by the U.S. Treasury Department, Office of Foreign Assets Control pursuant to any Requirements of Law, including, without limitation, trade embargos, economic sanctions, or other prohibitions imposed by Executive Order of the President of the United States, which OFAC List is accessible through the internet website <http://www.treasury.gov/ofac/downloads/tl1sdn.pdf> and “Person” means an individual, partnership, limited partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, governmental authority or other entity of whatever nature.

6. Borrower’s Representations. The validity of this Commitment and CITI’s obligations hereunder shall at all times be subject to the accuracy and validity of all information and representations furnished by Sponsor to CITI with regard to the Loan and Tax Credits, which shall have been and shall continue to be true and not misleading in all material respects.

7. Loan Data. All inspections, reports, appraisals, environmental studies or other data submitted to, commissioned for, conducted or produced by or for CITI are for its benefit and use and shall be the property of CITI. No right of inspection or approval contained in this Commitment shall be deemed to impose upon CITI any duty or obligation whatsoever to take any action or to notify any person with respect thereto, and no liability shall be imposed upon any such party and no warranty shall be deemed or construed to arise by reason of any inspection undertaken or approval given by any such party, its agents, employees or representatives, any such inspections and approvals being made solely for the benefit of such party. **The provisions of this paragraph shall survive the termination or expiration of this Commitment.**

8. Discretion. In any instance where the consent or approval of CITI may be given or is required, or where any determination, judgment or decision is to be rendered by CITI under this Commitment, the granting, withholding or denial of such consent or approval and the rendering of such determination, judgment or decision shall be made or exercised by CITI (or its designated representative) at its sole and exclusive option and in its sole and absolute discretion.

9. Waiver. CITI reserves the right, in its sole discretion, to waive in whole or part any of the terms, requirements and conditions in this Commitment, the Mortgage Documents or other documents referenced herein; provided, however, that such waiver shall in no event be construed to constitute a waiver of the applicable terms, requirements or conditions as they may apply in the future.

10. Successors and Assigns. Sponsor acknowledges and agrees that CITI at its option may assign or otherwise transfer the Loan and all documents evidencing and securing the Tax Credits including, but not limited to, this Commitment, to other parties subsequent to the execution of this Commitment. Neither Sponsor nor Borrower may assign its rights, interest, or obligations under this Commitment without first obtaining CITI’s prior written consent. This Commitment shall be binding upon the successors and permitted assigns of Borrower.

11. Governing Law. This Commitment shall be governed by and construed in accordance with the laws of the State of New York. Sponsor agrees that any legal action that may arise out of this Commitment will be commenced only in the United States District Court, Southern District of New York, or New York State Courts sitting in New York County, New York, and Sponsor hereby submits to the jurisdiction of any such court. All Mortgage Documents (other than this Commitment) shall be governed by the laws of the State where the Property is situated. **The**

**governing law election with respect to this Commitment shall survive the termination or expiration of this Commitment.**

12. WAIVER OF TRIAL BY JURY. SPONSOR AGREES NOT TO ELECT A TRIAL BY JURY WITH RESPECT TO ANY ISSUE ARISING OUT OF THIS PRELIMINARY COMMITMENT OR THE RELATIONSHIP BETWEEN CITI AND BORROWER OR SPONSOR THAT IS TRIABLE OF RIGHT BY A JURY AND WAIVES ANY RIGHT TO TRIAL BY JURY WITH RESPECT TO SUCH ISSUE TO THE EXTENT THAT ANY SUCH RIGHT EXISTS NOW OR IN THE FUTURE. THIS WAIVER OF RIGHT TO TRIAL BY JURY IS GIVEN BY SPONSOR KNOWINGLY AND VOLUNTARILY WITH THE BENEFIT OF COMPETENT LEGAL COUNSEL AND APPLIES TO ALL ACTIONS WHETHER ARISING IN CONTRACT, TORT, EQUITY OR OTHERWISE. **THIS PROVISION SHALL SURVIVE THE TERMINATION OR EXPIRATION OF THIS COMMITMENT.**

13. Survival. The covenants, terms and conditions set forth in this Commitment shall not survive the Closing Date (unless expressly provided to the contrary). In the event of any conflict between this Commitment and the Mortgage Documents, the Mortgage Documents shall prevail.

14. Confidentiality The provisions of this Commitment and all of the terms and conditions contained herein are confidential and Sponsor shall not share this Commitment, or the terms and conditions contained herein, with any third party. **This confidentiality provision shall survive the termination or expiration of this Commitment.**

15. Anti Tying Policy. CITI maintains a policy of strict compliance with the anti-tying provisions of the U.S. Bank Holding Company Act of 1956, as amended, and the regulations issued by the Federal Reserve Board implementing the anti-tying rules (collectively, the "Anti-tying Rules"). Moreover, our credit policies provide that credit must be underwritten in a safe and sound manner and be consistent with Section 23B of the Federal Reserve Act and the requirements of federal law. Consistent with these requirements and our Anti-tying Policy:

- a. The extension of commercial loans or other products or services to you by CITI or any of its subsidiaries will not be conditioned on your taking other products or services offered by CITI or any of its subsidiaries or affiliates, unless such a condition is permitted under an exception to the Anti-tying Rules.
- b. CITI will not vary the price or other terms of any product or service offered by CITI or its subsidiaries on the condition that you purchase another product or service from CITI or any CITI affiliate, unless CITI is authorized to do so under an exception to the Anti-tying Rules.
- c. CITI will not require you to provide property or services to CITI or any affiliate of CITI as a condition to the extension of a commercial loan to you by CITI or any of its subsidiaries, unless such a requirement is reasonably required to protect the safety and soundness of the Loan.
- d. CITI will not require you to refrain from doing business with a competitor of CITI or any of its affiliates as a condition to receiving a commercial loan from CITI or any of its subsidiaries, unless the requirement is reasonably designed to ensure the soundness of the Loan.

[No Further Text on this Page]

If you have any questions relating to this Commitment, or if we can be of any further assistance, please do not hesitate to let us know.

Very truly yours,

CITIBANK. N.A., a national banking association


By: 

Name: Gregory S. Goldberg

Title: Authorized Signatory

The undersigned hereby accepts the foregoing Commitment and agrees to be bound by the terms, requirements and conditions set forth herein.

Date: 4.28.16

**SPONSOR:**  
By: 

Name: Colby Denison

Title: Auth Rep



## EXHIBIT A

### PRELIMINARY COMMITMENT TERMS

This Exhibit A is an integral part of, and establishes additional terms, conditions and requirements of, the Commitment to which this is annexed.

#### **SUMMARY OF MORTGAGE LOAN TERMS**

Project:	DDC Merritt Leisure, Ltd., a 140-unit family project.
Maximum Loan Amount:	An amount estimated to be \$8,300,000
Number of Units:	140
Low-Income Units:	12 units @ 30% of AMI 24 units @ 50% of AMI 79 units @ 60% of AMI 25 units @ Market Rate
Permanent Period Interest Rate:	4.50% (includes 0.25% for MIP) Underwriting assumes .50% rate cushion
Origination Fee:	1.0% of the Maximum Loan Amount.
Guarantor(s):	Anticipated to be Colby Denison.
Outside Closing Date:	150 days from the date of this commitment.
Loan Sizing Criteria:	<u>Maximum Loan to Value: 87%.</u> <u>Minimum Debt Service Coverage Ratio: 1.15</u>
Approved Subordinate Financing:	The terms, conditions and documentation of the Approved Subordinate Financing, if any, including the form of subordination agreement subordinating the Approved Subordinate Financing to the Loan, are subject to the review and approval of HUD and CITI in their sole discretion.

**EXHIBIT B**

**Initial Due Diligence Completed**

1. Review of proposed income and expense statements (budget).
2. Review of estimated sources and uses statement.
3. Review of Borrower assumptions.
4. Assumes Colby Denison is the guarantor and meets mortgage credit requirements.

## DDC Merritt Leisure, Ltd.

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4. Department staff continues to be concerned regarding this development's ability to meet approaching HTC and HOME deadlines. Therefore, please provide a critical path timeline showing key dates for financing approvals and development site plan and building permit approvals.



## Critical Path Timeline

# DDC Merritt Leisure, Ltd.

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Merritt Leisure  
Midland, Midland County, Texas

May-16	Submit to HUD
Jun-16	HUD Review
Jul-16	HUD Review
Aug-16	HUD Review and Closing Process
Sep-16	Close Debt & Equity
Oct-16	Construction Commencement
Nov-16	Construction in Process
Dec-16	Construction in Process
Jan-17	Construction in Process
Feb-17	Construction in Process
Mar-17	Construction in Process
Apr-17	Construction in Process
May-17	Construction in Process
Jun-17	Construction in Process
Jul-17	Construction in Process
Aug-17	Construction in Process
Sep-17	Construction in Process
Oct-17	Construction / CO's / Lease-Up
Nov-17	Construction / CO's / Lease-Up
Dec-17	Final CO

RESOLUTION NO. 2016-129

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MIDLAND, TEXAS COMMITTING TO MAKE A LOAN WITH CONDITIONS TO DDC MERRITT LEISURE, LTD. TO PAY FOR COSTS ASSOCIATED WITH THE PROPOSED MERRITT LEISURE HOUSING DEVELOPMENT; THE PROPOSED DEVELOPMENT IS LOCATED AT THE NORTHEAST QUADRANT OF LEISURE DRIVE AND SOUTH TEXAS LOOP 250 WEST; PROVIDING NO WAIVER OF GOVERNMENTAL IMMUNITY OR SOVEREIGN IMMUNITY; PROVIDING AN EFFECTIVE DATE; AND AUTHORIZING AND DIRECTING THE CITY SECRETARY TO CERTIFY THE RESOLUTION TO THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

WHEREAS, the Texas Department of Housing and Community Affairs (the "TDHCA") rules governing the Competitive Housing Tax Credit Program (the "TDHCA Rules") provide for an applicant to be awarded points for a resolution from a unit of local government confirming its commitment of qualifying funding; and

WHEREAS, pursuant to Resolution No. 2015-034 (the "Financing Resolution"), the City of Midland, Texas ("City") committed to provide a loan in the amount of \$1,600,000.00 (the "Loan") to DDC Merritt Leisure, Ltd. (the "Borrower") to pay for costs associated with the proposed Merritt Leisure development of the property located at the northeast quadrant of Leisure Drive and South Texas Loop 250 West, situated in the City of Midland, Texas (the "Project"); and

WHEREAS, in July 2015, the Project was awarded a commitment of Competitive Housing Tax Credits by the TDHCA; and

WHEREAS, due to changes in economic conditions in the City, the Borrower proposed an amendment to its financial and development plans for the Project, including the elimination of certain market rate residential units, which is consistent with the existing and anticipated demand in the area; and

WHEREAS, the Borrower has advised that the Project would benefit from the interest rates and terms associated with mortgage insured financing from the US Department of Housing and Urban Development, but that the Loan terms would not allow the Borrower to access such financing; and

**WHEREAS**, in lieu of the Loan, the City proposed to benefit the Project with a Public Improvement Development Agreement under which the City would contribute on-half and the Borrower would contribute on-half of the costs of streets, curbs, gutters, sidewalks, and traffic controls adjacent to the Project (the "Improvements"), pursuant to Resolution No. 2016-012 (the "Development Resolution"); and

**WHEREAS**, the City and Borrower believed that the benefits of the Public Improvement Development Agreement would outweigh the benefits of the Loan and allow the Borrower to access more favorable financing; and

**WHEREAS**, the Borrower and City believed that a change of City participation from the Loan to the Improvements would comply with the TDHCA Rules because it would not change the Borrower's competitive position with regard to the Competitive Housing Tax Credit Program award; and

**WHEREAS**, when the Borrower presented its proposed amendment to the TDHCA, including the change of City participation from the Loan to the Improvements, such amendment request was rejected; and

**WHEREAS**, the City is committed to the Project and the development of affordable housing in this revitalization area, and is willing to reinstate the Financing Resolution to the extent required by the TDHCA;

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MIDLAND, TEXAS:**

**SECTION ONE.** That the Development Resolution remains in full force and effect, to be utilized if the TDHCA permits the City to provide the Improvements in lieu of the Loan.

**SECTION TWO.** That, notwithstanding any provision of the Development Resolution to the contrary, the Financing Resolution is hereby reinstated to be in full force and effect, to be utilized if the TDHCA requires the City to provide the Loan in lieu of the Improvements.

**SECTION THREE.** That if the Loan is made under this authority, it will be evidenced by a Promissory Note (the “Note”), which will have a term of at least 15 years with a 30-year amortization and shall bear interest at a rate equal to 3% per annum.

**SECTION FOUR.** That this Resolution constitutes the commitment of the City to make the Loan to Borrower on the terms and conditions described herein (this “Loan Commitment”). This Loan Commitment is conditioned upon: (1) the City’s receipt and approval of loan documents in final form, with the approval or disapproval of the loan documents being in the sole discretion of the City; (2) no material adverse change in Borrower or the Project or the circumstances surrounding Borrower’s development of the Project that would, in the City’s sole judgment, make the Loan unacceptable to the City; (3) approval by the City’s legal counsel and financial advisors of the documents evidencing the Loan; (4) Borrower maintains its commitment of Tax Credits for the Project from the TDHCA; (5) availability to the City of collateral sources provided by Borrower upon such terms as are acceptable to the City in its sole discretion and in an amount that the City finds sufficient to fund the Loan at the time of closing; and (6) Borrower paying all costs associated with the Loan including City loan origination fees, attorney fees, financial advisor fees, and all other related costs and fees assessed by the City.

**SECTION FIVE.** That the Loan Commitment automatically expires, without any further action needed by the City, upon the Borrower’s failure to satisfy any one of the numbered conditions described above.

**SECTION SIX.** That this Resolution does not constitute an agreement for providing goods and/or services to the City as discussed in Subchapter I of Chapter 271 of the Texas Local Government Code, and that the City does not waive, to the maximum extent allowed by law, any constitutional, statutory or common law right to sovereign immunity or governmental immunity from liability or suit. The City expressly does not consent to be sued or be liable. To the greatest extent allowed by law, nothing in this Resolution constitutes a waiver of the City’s governmental immunity, and this Resolution shall not constitute nor be



interpreted as a waiver of the City's governmental immunity under Subchapter I of Chapter 271 of the Texas Local Government Code, nor shall it constitute nor be interpreted as a waiver of the City's governmental immunity for the benefit of any third party.

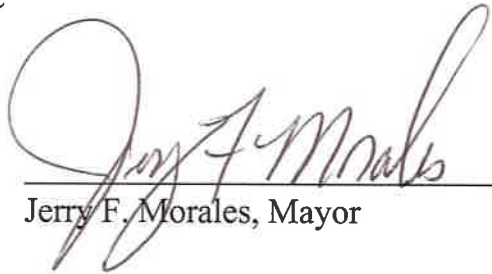
**SECTION SEVEN.** That for and on behalf of the governing body of the City of Midland, Texas, Amy M. Turner, City Secretary, is hereby authorized, empowered, and directed to certify this resolution to the TDHCA.

**SECTION EIGHT.** That this resolution shall become effective on April 27, 2016.

On motion of Council member         Lacy        , seconded by Council member         Robnett        , the above and foregoing resolution was adopted by the City Council of the City of Midland at a regular meeting on the 26th day of         April        , A.D., 2016, by the following vote:

Council members voting "AYE": Hotchkiss, Love, Sparks, Morales, Dufford, Lacy, Robnett

Council members voting "NAY": None

  
\_\_\_\_\_  
Jerry F. Morales, Mayor

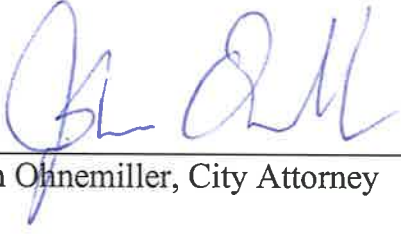
ATTEST:

  
\_\_\_\_\_  
Amy M. Turner, City Secretary

RECOMMENDED AND APPROVED:

  
\_\_\_\_\_  
Courtney Sharp, City Manager

APPROVED ONLY AS TO FORM:

A handwritten signature in blue ink, appearing to read "JOHN OHNEMILLER", written over a horizontal line.

John Ohnemiller, City Attorney

# Option B

For informational purposes. We wish to show that keeping the 30 year amortization on the HOME funds reducing our ability to offer more affordable housing and therefore simultaneously providing Leisure with the best foundation for long term success.

# Rent Schedule



## Rent Schedule (Continued)

		% of LI	% of Total	
<b>HOUSING TAX CREDITS</b>	TC30%	10%	8%	11
	TC40%			0
	TC50%	20%	16%	22
	TC60%	70%	54%	76
	<b>HTC LI Total</b>			<b>109</b>
	EO			0
	MR			31
	<b>MR Total</b>			<b>31</b>
	<b>Total Units</b>			<b>140</b>
	<b>MORTGAGE REVENUE BOND</b>	MRB30%		
MRB40%				0
MRB50%				0
MRB60%				0
<b>MRB LI Total</b>				<b>0</b>
MRBMR				0
<b>MRBMR Total</b>				<b>0</b>
<b>MRB Total</b>				<b>0</b>

		% of LI	% of Total	
<b>HOUSING TRUST FUND</b>	HTF30%			0
	HTF40%			0
	HTF50%			0
	HTF60%			0
	HTF80%			0
	<b>HTF LI Total</b>			<b>0</b>
	MR			0
	<b>MR Total</b>			<b>0</b>
	<b>HTF Total</b>			<b>0</b>
	<b>HOME</b>	30%		
LH/50%		100%	100%	29
HH/60%				0
HH/80%				0
<b>HOME LI Total</b>				<b>29</b>
EO				0
MR				0
<b>MR Total</b>				<b>0</b>
<b>HOME Total</b>			<b>29</b>	
<b>OTHER</b>	<b>Total OT Units</b>			<b>0</b>

<b>BEDROOMS</b>	0			13
	1			56
	2			71
	3			0
	4			0
	5			0

<b>ACQUISITION + HARD</b>			
<b>Cost Per Sq Ft</b>	\$113.89		
<b>HARD</b>			
<b>Cost Per Sq Ft</b>	\$113.89		
<b>BUILDING</b>			
<b>Cost Per Sq Ft</b>	\$ 74.94		
		<b>Total Points claimed:</b>	<b>12</b>

Applicants are advised to ensure that figure is not rounding down to the maximum dollar figure to support the elected points.

# Operating Expenses

## ANNUAL OPERATING EXPENSES

<b>General &amp; Administrative Expenses</b>			
Accounting	\$	9,600	
Advertising	\$	9,500	
Legal fees	\$	1,000	
Leased equipment	\$	3,464	
Postage & office supplies	\$	5,000	
Telephone	\$	5,400	
Other	<i>Other office expense</i>	\$ 11,000	
Other	<i>HAA Dues, Forms, Uniforms</i>	\$ 2,000	
Total General & Administrative Expenses:			\$ 46,964
Management Fee:	Percent of Effective Gross Income:	5.00%	\$ 64,951
<b>Payroll, Payroll Tax &amp; Employee Benefits</b>			
Management	\$	99,791	
Maintenance	\$	73,888	
Other	<i>Taxes and benefits</i>	\$ 39,047	
Other			
Total Payroll, Payroll Tax & Employee Benefits:			\$ 212,726
<b>Repairs &amp; Maintenance</b>			
Elevator	\$	9,000	
Exterminating	\$	4,000	
Grounds	\$	23,000	
Make-ready	\$	6,000	
Repairs	\$	29,000	
Pool	\$	2,000	
Other	<i>Fire Safety</i>	\$ 4,000	
Other			
Total Repairs & Maintenance:			\$ 77,000
<b>Utilities (Enter Only Property Paid Expense)</b>			
Electric	<i>Exist prop adj for local \$</i>	\$ 20,711	
Natural gas	\$		
Trash	<i>Existing portfolio</i>	\$ 21,390	
Water/Sewer	<i>Exist prop adj for local \$</i>	\$ 33,919	
Other	\$		
Other	\$		
Total Utilities:			\$ 76,020
Annual Property Insurance:	Rate per net rentable square foot:	\$ 0.33	\$ 36,400
<b>Property Taxes:</b>			
Published Capitalization Rate:	10.00%	Source:	Property Tax Advocates
Annual Property Taxes	\$	66,467	
Payments in Lieu of Taxes	\$		
Total Property Taxes:			\$ 66,467
Reserve for Replacements:	Annual reserves per unit:	\$ 250	\$ 35,000
<b>Other Expenses</b>			



Cable TV	\$		
Supportive Services (Staffing/Contracted Services)	\$	6,000	
TDHCA Compliance fees	\$	5,346	
TDHCA Bond Administration Fees (TDHCA as Bond Issuer <u>Only</u> )	\$		
Security	\$	1,325	
Other	\$		
Other	\$		
Total Other Expenses:			\$ 12,671
TOTAL ANNUAL EXPENSES	Expense per unit: \$	4487	\$ 628,199
	Expense to Income Ratio:	<b>48.36%</b>	
NET OPERATING INCOME (before debt service)			\$ 670,823
Annual Debt Service			
<i>Conventional Loan</i>	\$	431,886	
<i>TDHCA HOME Funds</i>	\$	101,185	
<i>City of Midland</i>	\$		
	\$		
TOTAL ANNUAL DEBT SERVICE	Debt Coverage Ratio:	1.26	\$ 533,071
NET CASH FLOW			\$ 137,752

Pro Forma

## 15 Year Rental Housing Operating Pro Forma

**All Programs Must Complete the following:**

The pro forma should be based on the operating income and expense information for the base year (first year of stabilized occupancy using today's best estimates of market rents, restricted rents, rental income and expenses), and principal and interest debt service. The Department uses an annual growth rate of 2% for income and 3% for expenses. Written explanation for any deviations from these growth rates or for assumptions other than straight-line growth made during the proforma period should be attached to this exhibit.

INCOME	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15
POTENTIAL GROSS ANNUAL RENTAL INCOME	\$1,360,788	\$1,388,004	\$1,415,764	\$1,444,079	\$1,472,961	\$1,626,268	\$1,795,531
Secondary Income	\$ 43,560	\$ 44,431	\$ 45,320	\$ 46,226	\$ 47,151	\$ 52,058	\$ 57,476
POTENTIAL GROSS ANNUAL INCOME	\$1,404,348	\$1,432,435	\$1,461,084	\$1,490,305	\$1,520,111	\$1,678,326	\$1,853,007
Provision for Vacancy & Collection Loss	(\$105,326)	(\$107,433)	(\$109,581)	(\$111,773)	(\$114,008)	(\$125,874)	(\$138,976)
Rental Concessions	\$0						
EFFECTIVE GROSS ANNUAL INCOME	\$1,299,022	\$1,325,002	\$1,351,502	\$1,378,532	\$1,406,103	\$1,552,451	\$1,714,032
EXPENSES							
General & Administrative Expenses	\$46,964	\$48,373	\$49,824	\$51,319	\$52,858	\$61,277	\$71,037
Management Fee	\$ 64,951	\$ 66,900	\$ 68,907	\$ 70,974	\$ 73,103	\$ 84,746	\$ 98,244
Payroll, Payroll Tax & Employee Benefits	\$ 212,726	\$ 219,108	\$ 225,681	\$ 232,451	\$ 239,425	\$ 277,559	\$ 321,767
Repairs & Maintenance	\$ 77,000	\$ 79,310	\$ 81,689	\$ 84,140	\$ 86,664	\$ 100,468	\$ 116,469
Electric & Gas Utilities	\$ 20,711	\$ 21,333	\$ 21,973	\$ 22,632	\$ 23,311	\$ 27,024	\$ 31,328
Water, Sewer & Trash Utilities	\$ 55,309	\$ 56,968	\$ 58,677	\$ 60,437	\$ 62,250	\$ 72,165	\$ 83,659
Annual Property Insurance Premiums	\$ 36,400	\$ 37,492	\$ 38,617	\$ 39,775	\$ 40,969	\$ 47,494	\$ 55,058
Property Tax	\$ 66,467	\$ 68,461	\$ 70,515	\$ 72,630	\$ 74,809	\$ 86,724	\$ 100,537
Reserve for Replacements	\$ 35,000	\$ 36,050	\$ 37,132	\$ 38,245	\$ 39,393	\$ 45,667	\$ 52,941
Other Expenses	\$ 12,671	\$ 13,051	\$ 13,443	\$ 13,846	\$ 14,261	\$ 16,533	\$ 19,166
TOTAL ANNUAL EXPENSES	\$628,199	\$647,045	\$666,456	\$686,450	\$707,043	\$819,657	\$950,207
NET OPERATING INCOME	\$670,823	\$677,957	\$685,046	\$692,082	\$699,060	\$732,794	\$763,824
DEBT SERVICE							
First Deed of Trust Annual Loan Payment	\$431,886	\$431,886	\$431,886	\$431,886	\$431,886	\$431,886	\$431,886
Second Deed of Trust Annual Loan Payment	101,185	101,185	101,185	101,185	101,185	101,185	101,185
Third Deed of Trust Annual Loan Payment	0	0	0	0	0	0	0
Other Annual Required Payment							
Other Annual Required Payment							
<b>NET CASH FLOW</b>	\$137,752	\$144,887	\$151,975	\$159,012	\$165,989	\$199,724	\$230,754
Debt Coverage Ratio	1.26	1.27	1.29	1.30	1.31	1.37	1.43
Other (Describe)							
Other (Describe)							

By signing below I (we) are certifying that the above 15 Year pro forma, rent schedule and operating expense schedule have been reviewed and generally meet current lender underwriting parameters for the loan terms indicated in the term sheet. (Signature only required if using this pro forma for points under §11.9(e)(1) relating to Financial Feasibility)

Phone: \_\_\_\_\_

Email: \_\_\_\_\_

\_\_\_\_\_  
Signature, Authorized Representative, Construction or  
Permanent Lender

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Date

# Development Cost Schedule











# Sources & Uses

## Financing Narrative and Summary of Sources and Uses

*Describe all sources of funds. Information must be consistent with the information provided throughout the Application (i.e. Financing Narrative, Term Sheets and Development Cost Schedule).*

Financing Participants	Funding Description	Construction Period		Lien Position	Permanent Period					Lien Position
		Loan/Equity Amount	Interest Rate (%)		Loan/Equity Amount	Interest Rate (%)	Amort - ization	Term (Yrs)	Syndication Rate	
<b>Debt</b>										
TDHCA	<a href="#">HOME</a>	\$2,000,000	3%	2	\$ 2,000,000	3%	30	30		2
TDHCA	<a href="#">TCAP Loan Repayments</a>	\$0	0%		\$ -	0%	0	0		
TDHCA	<a href="#">Mortgage Revenue Bond</a>	\$0	0%		\$ -	0%	0	0		
Citi	Conventional/FHA	\$8,300,000	4.25%	1						
Citi	Conventional/FHA				\$ 8,300,000	4.25%	40	40		1
City of Midland (See Offsite Costs)	Local Government Loan				\$ 225,861					
***See city resolution										
Citi Bridge Loan	Conventional Loan	\$3,008,865	2.70%	3						
<b>Third Party Equity</b>										
RBC	<a href="#">HTC</a>	\$ 786,147	\$ 1,634,842		\$ 8,174,212				1.04	
<b>Grant</b>										
<b>Deferred Developer Fee</b>										
DDC Investments, Ltd		\$ 1,524,422			\$ 340,729					
<b>Other</b>										
<b>Total Sources of Funds</b>		\$ 16,468,129			\$ 19,040,802					
<b>Total Uses of Funds</b>					\$ 19,040,802					

# Option C

	Amount	Rate	Amortization	Term
CBoT	\$ 6,400,000	5.75%	30	15
TDHCA HOME	\$ 2,000,000	3.00%	30	30
City of Midland	\$ 1,600,000	3.00%	15	30

For informational purposes. We wish to show that the inclusion of the Midland loan in the amount of \$1.6 million will force Leisure to use Community Bank of Texas as it's interim and permanent financing source. As a result, no additional affordable housing is possible, and the financial stability of the deal is jeopardized.

# Rent Schedule



Non Rental Income	\$12.00	per unit/month for:	<i>App &amp; Late Fees, Laundry</i>	1,680
Non Rental Income	13.93	per unit/month for:	<i>Parking (Covered Spaces)</i>	1,950
Non Rental Income	0.00	per unit/month for:		
<b>+ TOTAL NONRENTAL INCOME</b>	<b>\$25.93</b>	per unit/month		3,630
<b>= POTENTIAL GROSS MONTHLY INCOME</b>				120,539
- Provision for Vacancy & Collection Loss		% of Potential Gross Income:	7.50%	(9,040)
- Rental Concessions ( <i>enter as a negative number</i> )			<b>Enter as a negative value</b>	
<b>= EFFECTIVE GROSS MONTHLY INCOME</b>				111,499
<b>x 12 = EFFECTIVE GROSS ANNUAL INCOME</b>				1,337,983

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## Rent Schedule (Continued)

		% of LI	% of Total	
<b>HOUSING TAX CREDITS</b>	TC30%	10%	7%	10
	TC40%			0
	TC50%	22%	15%	21
	TC60%	68%	47%	66
	HTC LI Total			97
	EO	Same as Orig App		0
	MR			43
	MR Total			43
	Total Units			140
	<b>MORTGAGE REVENUE BOND</b>	MRB30%		
MRB40%				0
MRB50%				0
MRB60%				0
MRB LI Total				0
MRBMR				0
MRBMR Total				0
MRB Total				0

		% of LI	% of Total	
<b>HOUSING TRUST FUND</b>	HTF30%			0
	HTF40%			0
	HTF50%			0
	HTF60%			0
	HTF80%			0
	HTF LI Total			0
	MR			0
	MR Total			0
	HTF Total			0
	<b>HOME</b>	30%		
LH/50%		100%	100%	28
HH/60%				0
HH/80%				0
HOME LI Total				28
EO				0
MR				0
MR Total				0
HOME Total			28	
OTHER	Total OT Units			0

<b>BEDROOMS</b>	0			13
	1			56
	2			71
	3			0
	4			0
	5			0

<b>ACQUISITION + HARD</b>			
Cost Per Sq Ft	\$113.89		
<b>HARD</b>			
Cost Per Sq Ft	\$113.89		
<b>BUILDING</b>			
Cost Per Sq Ft	\$ 74.94		
			<b>Total Points claimed:</b>
			12

Applicants are advised to ensure that figure is not rounding down to the maximum dollar figure to support the elected points.

# Operating Expenses

## ANNUAL OPERATING EXPENSES

<b>General &amp; Administrative Expenses</b>			
Accounting	\$	9,600	
Advertising	\$	9,500	
Legal fees	\$	1,000	
Leased equipment	\$	3,464	
Postage & office supplies	\$	5,000	
Telephone	\$	5,400	
Other	<i>Other office expense</i>	\$ 11,000	
Other	<i>HAA Dues, Forms, Uniforms</i>	\$ 2,000	
Total General & Administrative Expenses:			\$ 46,964
Management Fee:	Percent of Effective Gross Income:	5.00%	\$ 66,899
<b>Payroll, Payroll Tax &amp; Employee Benefits</b>			
Management	\$	99,791	
Maintenance	\$	73,888	
Other	<i>Taxes and benefits</i>	\$ 39,047	
Other			
Total Payroll, Payroll Tax & Employee Benefits:			\$ 212,726
<b>Repairs &amp; Maintenance</b>			
Elevator	\$	9,000	
Exterminating	\$	4,000	
Grounds	\$	23,000	
Make-ready	\$	6,000	
Repairs	\$	29,000	
Pool	\$	2,000	
Other	<i>Fire Safety</i>	\$ 4,000	
Other			
Total Repairs & Maintenance:			\$ 77,000
<b>Utilities (Enter Only Property Paid Expense)</b>			
Electric	<i>Exist prop adj for local \$</i>	\$ 20,711	
Natural gas			
Trash	<i>Existing portfolio</i>	\$ 21,390	
Water/Sewer	<i>Exist prop adj for local \$</i>	\$ 33,919	
Other			
Other			
Total Utilities:			\$ 76,020
Annual Property Insurance:	Rate per net rentable square foot:	\$ 0.33	\$ 36,400
<b>Property Taxes:</b>			
Published Capitalization Rate:	10.00%	Source:	Property Tax Advocates
Annual Property Taxes	\$	69,641	
Payments in Lieu of Taxes	\$		
Total Property Taxes:			\$ 69,641
Reserve for Replacements:	Annual reserves per unit:	\$ 250	\$ 35,000
<b>Other Expenses</b>			



Cable TV	\$		
Supportive Services (Staffing/Contracted Services)	\$	6,000	
TDHCA Compliance fees	\$	4,866	
TDHCA Bond Administration Fees (TDHCA as Bond Issuer <u>Only</u> )	\$		
Security	\$	1,325	
Other	\$		
Other	\$		
Total Other Expenses:			\$ 12,191
TOTAL ANNUAL EXPENSES	Expense per unit: \$	4520	\$ 632,841
	Expense to Income Ratio:	<b>47.30%</b>	
NET OPERATING INCOME (before debt service)			\$ 705,142
Annual Debt Service			
<i>Conventional Loan</i>	\$	448,184	
<i>TDHCA HOME Funds</i>	\$	101,185	
<i>City of Midland</i>	\$	80,948	
	\$		
TOTAL ANNUAL DEBT SERVICE	Debt Coverage Ratio:	<b>1.12</b>	\$ 630,317
NET CASH FLOW			\$ 74,825

Not Feasible given current market rents.

Pro Forma

## 15 Year Rental Housing Operating Pro Forma

**All Programs Must Complete the following:**

The pro forma should be based on the operating income and expense information for the base year (first year of stabilized occupancy using today's best estimates of market rents, restricted rents, rental income and expenses), and principal and interest debt service. The Department uses an annual growth rate of 2% for income and 3% for expenses. Written explanation for any deviations from these growth rates or for assumptions other than straight-line growth made during the proforma period should be attached to this exhibit.

INCOME	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15
POTENTIAL GROSS ANNUAL RENTAL INCOME	\$1,402,908	\$1,430,966	\$1,459,585	\$1,488,777	\$1,518,553	\$1,676,605	\$1,851,107
Secondary Income	\$ 43,560	\$ 44,431	\$ 45,320	\$ 46,226	\$ 47,151	\$ 52,058	\$ 57,476
POTENTIAL GROSS ANNUAL INCOME	\$1,446,468	\$1,475,397	\$1,504,905	\$1,535,003	\$1,565,703	\$1,728,663	\$1,908,584
Provision for Vacancy & Collection Loss	(\$108,485)	(\$110,655)	(\$112,868)	(\$115,125)	(\$117,428)	(\$129,650)	(\$143,144)
Rental Concessions	\$0						
EFFECTIVE GROSS ANNUAL INCOME	\$1,337,983	\$1,364,743	\$1,392,037	\$1,419,878	\$1,448,276	\$1,599,013	\$1,765,440
EXPENSES							
General & Administrative Expenses	\$46,964	\$48,373	\$49,824	\$51,319	\$52,858	\$61,277	\$71,037
Management Fee	\$ 66,899	\$ 68,906	\$ 70,973	\$ 73,103	\$ 75,296	\$ 87,288	\$ 101,191
Payroll, Payroll Tax & Employee Benefits	\$ 212,726	\$ 219,108	\$ 225,681	\$ 232,451	\$ 239,425	\$ 277,559	\$ 321,767
Repairs & Maintenance	\$ 77,000	\$ 79,310	\$ 81,689	\$ 84,140	\$ 86,664	\$ 100,468	\$ 116,469
Electric & Gas Utilities	\$ 20,711	\$ 21,333	\$ 21,973	\$ 22,632	\$ 23,311	\$ 27,024	\$ 31,328
Water, Sewer & Trash Utilities	\$ 55,309	\$ 56,968	\$ 58,677	\$ 60,437	\$ 62,250	\$ 72,165	\$ 83,659
Annual Property Insurance Premiums	\$ 36,400	\$ 37,492	\$ 38,617	\$ 39,775	\$ 40,969	\$ 47,494	\$ 55,058
Property Tax	\$ 69,641	\$ 71,730	\$ 73,882	\$ 76,099	\$ 78,382	\$ 90,866	\$ 105,338
Reserve for Replacements	\$ 35,000	\$ 36,050	\$ 37,132	\$ 38,245	\$ 39,393	\$ 45,667	\$ 52,941
Other Expenses	\$ 12,191	\$ 12,557	\$ 12,933	\$ 13,321	\$ 13,721	\$ 15,906	\$ 18,440
TOTAL ANNUAL EXPENSES	\$632,841	\$651,826	\$671,381	\$691,522	\$712,268	\$825,714	\$957,229
NET OPERATING INCOME	\$705,142	\$712,916	\$720,656	\$728,356	\$736,008	\$773,299	\$808,211
DEBT SERVICE							
First Deed of Trust Annual Loan Payment	\$448,184	\$448,184	\$448,184	\$448,184	\$448,184	\$448,184	\$448,184
Second Deed of Trust Annual Loan Payment	101,185	101,185	101,185	101,185	101,185	101,185	101,185
Third Deed of Trust Annual Loan Payment	80,948	80,948	80,948	80,948	80,948	80,948	80,948
Other Annual Required Payment							
Other Annual Required Payment							
<b>NET CASH FLOW</b>	\$74,825	\$82,599	\$90,339	\$98,039	\$105,691	\$142,983	\$177,894
Debt Coverage Ratio	1.12	1.13	1.14	1.16	1.17	1.23	1.28
Other (Describe)							
Other (Describe)							

By signing below I (we) are certifying that the above 15 Year pro forma, rent schedule and operating expense schedule have been reviewed and generally meet current lender underwriting parameters for the loan terms indicated in the term sheet. (Signature only required if using this pro forma for points under §11.9(e)(1) relating to Financial Feasibility)

Phone: \_\_\_\_\_

Email: \_\_\_\_\_

\_\_\_\_\_  
Signature, Authorized Representative, Construction or  
Permanent Lender

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Date

# Development Cost Schedule











# Sources & Uses

## Financing Narrative and Summary of Sources and Uses

*Describe all sources of funds. Information must be consistent with the information provided throughout the Application (i.e. Financing Narrative, Term Sheets and Development Cost Schedule).*

Financing Participants	Funding Description	Construction Period		Lien Position	Permanent Period					Lien Position
		Loan/Equity Amount	Interest Rate (%)		Loan/Equity Amount	Interest Rate (%)	Amort - ization	Term (Yrs)	Syndication Rate	
<b>Debt</b>										
TDHCA	<a href="#">HOME</a>	\$2,000,000	3%	2	\$ 2,000,000	3%	30	30		2
TDHCA	<a href="#">TCAP Loan Repayments</a>	\$0	0%		\$ -	0%	0	0		
TDHCA	<a href="#">Mortgage Revenue Bond</a>	\$0	0%		\$ -	0%	0	0		
CBoT	Conventional/FHA	\$11,100,000	4.00%	1						
CBoT	Conventional/FHA				\$ 6,400,000	5.75%	30	15		1
City of Midland	Local Government Loan			3	\$ 1,600,000	3.00%	30	15		3
<b>Third Party Equity</b>										
RBC	<a href="#">HTC</a>	\$ 786,147	\$ 1,603,419		\$ 8,017,096				1.02	
<b>Grant</b>										
<b>Deferred Developer Fee</b>										
DDC Investments, Ltd		\$ 1,510,713			\$ 1,059,997					
<b>Other</b>										
	<b>Total Sources of Funds</b>	\$ 16,214,132			\$ 19,077,093					
	<b>Total Uses of Funds</b>				\$ 19,077,093					