



Texas Department of Housing and Community Affairs

Governing Board

Board Action Request

File #: 807

Agenda Date: 11/7/2024

Agenda #:

Presentation, discussion, and possible action regarding a Material Amendment to the Housing Tax Credit Application, changes to the ownership structure, and a waiver of 10 TAC §11.9(b)(2) (A) for Avanti Legacy del Sol (HTC #23015)

RECOMMENDED ACTION

WHEREAS, Avanti Legacy del Sol (Development) received a 9% Housing Tax Credit (HTC) award in 2023 for the new construction of 84 multifamily units for the elderly population in Brownsville, Cameron County;

WHEREAS, Avanti Legacy del Sol, LP (Applicant) requests approval for reductions of all units sizes, which would result in a 3.03% reduction to the Net Rentable Area, from 70,719 square feet to 68,573 square feet;

WHEREAS, the Applicant also requests approval for a significant modification of the architectural design, which includes but is not limited to a 34.70% (8,775 square feet) decrease in the common area from 25,290 square feet to 16,515 square feet, removal of all balconies, and removal of the pool to be replaced by more affordable outdoor amenities such as a picnic area and bocce ball court;

WHEREAS, Board approval is required for a reduction of 3% or more in the square footage of the units or common areas and for a significant modification of the architectural design of the Development, as directed in 10 TAC §10.405(a)(4)(D) and (E) and in Tex. Gov't Code §2306.6712 (d)(4) and (5), and the Applicant has complied with the amendment requirements therein;

WHEREAS, to improve the financial feasibility of the Development by obtaining a property tax exemption, the Applicant is seeking to replace H4 Development, Inc., a Historically Underutilized Business (HUB), with Brownsville Housing Opportunity Corporation as the new sole member of a new General Partner, Avanti Legacy del Sol BHOC GP, LLC, and to add a new Special Limited Partner that has as members H4 Development, Inc. and Tamez Landholdings, LLC;

WHEREAS, the HTC Application for the Development received two points for agreeing to include a certified Historically Underutilized Business (HUB) in the ownership structure of the General Partner and materially participating in the development and operation of the Development throughout the Compliance Period, and receiving a combination of ownership interest in the General Partner of the Applicant, cash flow from operations, and developer fee which taken together equal at least 50% and no less than 5% for any category;

WHEREAS, the Applicant requests a waiver of the specific requirement in 10 TAC §11.9(b)(2)(A) that states the HUB must have an ownership interest in the General Partner, allowing the Development to continue to qualify for the two points for Sponsor Characteristics with the HUB in the ownership structure of the Special Limited Partner and continuing to meet the intent of 10 TAC §11.9(b)(2)(A) to have a HUB materially participate in the Development; and

WHEREAS, the requested changes and waiver do not negatively affect the Development, impact the viability of the transaction, impact Tex. Gov't Code §§2306.001, 2306.002, 2306.359, and 2306.6701, or affect the amount of the tax credits awarded;

NOW, therefore, it is hereby

RESOLVED, that the requested amendment to the Housing Tax Credit Application, changes to the ownership structure, and a waiver of 10 TAC §11.9(b)(2)(A) for Avanti Legacy del Sol are each approved as presented at this meeting, and the Executive Director and his designees are each hereby authorized, directed, and empowered to take all necessary action to effectuate the foregoing.

BACKGROUND

Avanti Legacy del Sol received a 9% HTC award in 2023 for the new construction of 84 multifamily units, of which all 84 units are low-income units, for the elderly in Brownsville, Cameron County. In a letter dated September 10, 2024, Enrique Flores, IV, representative and authorized signatory for the Applicant, requested approval for a material amendment, changes to the ownership structure, and an associated waiver related to the requirement to have a HUB in the ownership structure of the general partner. The Applicant also requested approval for a reallocation of tax credits under Force Majeure, but this request will be presented in a separate item.

The proposed changes to the Application include a reduction to the size of all units, which will result in a reduction of 2,146 square feet (3.03%) in the Net Rentable Area from 70,719 to 68,573 square feet; a 34.70% (8,775 square feet) decrease in the common area from 25,290 square feet to 16,515 square feet; a significant modification of the architectural design, which includes a reduction from 30% masonry exterior to approximately 10% masonry exterior; removal of all balconies; removal of the resident services room; reduction in the parking spaces from 110, including 16 carports, to 90 with zero carports; removal of one of the two elevators; and removal of the pool, to be replaced by more affordable outdoor amenities such as a picnic area and bocce ball court, for a total Development budget decrease of approximately \$716,500.

The Applicant states the reason for the requested changes is to reduce development costs to maintain feasibility, and indicates that without reduction to the overall size, the Development is no longer feasible. The Applicant cites increased construction costs and borrowing costs, and increased operating expenses, namely property insurance, and states that these factors were not foreseeable or preventable by Applicant.

Additionally, in a letter dated September 10, 2024, Enrique Flores, IV, representative and authorized signatory for the Applicant, requested approval for proposed changes to the ownership structure for the Development, which requires a waiver of the provision in 10 TAC §11.9(b)(2)(A) that specifies the HUB is required to have an ownership interest in the General Partner. The Applicant is seeking to add a Special Limited Partner, Avanti Legacy del Sol I, LLC, and move the HUB, H4 Development, Inc., from the ownership structure of Avanti Legacy del Sol GP, LLC, the withdrawing General Partner to be replaced by a new General Partner, Avanti Legacy del Sol BHOC GP, LLC, to the newly formed Special Limited Partner, which will be 90% owned and managed by H4 Development, Inc. and 10% owned by Tamez Landholdings, LLC. Brownsville Housing Opportunity Corporation will replace H4 Development, Inc. as sole member of the new General Partner, Avanti Legacy del Sol BHOC GP, LLC. The requested changes to the ownership structure will improve the financial feasibility of the Development by providing an ad valorem tax exemption.

The HTC Application for the Development received two points because the Development was structured to include a Historically Underutilized Business (HUB) in the ownership structure that would have some combination of ownership interest in the General Partner of the Owner, cash flow from operations, and Developer Fee, which taken together equal at least 50% and no less than 5% for any category. The HUB was also required to materially participate in the development and operation of the Development throughout the Compliance Period. However, the proposed change to the ownership structure would result in the HUB no longer meeting the requirements for the two Sponsor Characteristics points awarded at Application because it will no longer be in the ownership structure of the general partner. Therefore, the Applicant requests approval for a waiver of this specific requirement and to allow the Development to continue to qualify for the two Sponsor Characteristics points with the HUB in the ownership structure of the Special Limited Partner. The HUB would continue to be required to meet all other requirements in 10 TAC §11.9(b)(2)(A), including the requirement to materially participate in the development and operation of the Development throughout the Compliance Period. This revised ownership requirement would be codified in the LURA for the Development.

The Applicant submitted a letter of continued support from State Representative Erin Elizabeth Gamez and Resolution No. 2023-016 from the City of Brownsville (the City), passed August 20, 2024, which also states the City's continued support for the Development.

The need for this waiver was not foreseeable at Application and the granting of the waiver better serves the policies and purposes Tex. Gov't Code §§2306.001, 2306.002, 2306.359, and 2306.6701 by improving the feasibility of the Development, and the HUB will continue to materially participate in the Development. The Applicant indicates that the Special Limited Partner will be the functional equivalent of a general partner. Therefore, this proposed structure results in no change to the Development and is merely a change in title, not the HUB member's participation. Therefore, the Development will continue to comply with the intent, purpose and material provisions of the elected Sponsor Characteristics.

The Development was re-underwritten with the proposed amendment and revised financial information. The analysis supports no change to the HTC allocation and demonstrates the Development remains feasible with the proposed changes. Staff also confirmed that the revised design plans and parking will continue to meet accessibility requirements. Additionally, staff reviewed the original Application and scoring documentation against this amendment request and has concluded that, with the exception of the waiver, none of the changes would have affected the scoring or selection of the Application in the competitive round.

Staff recommends approval of the Application amendment, changes to the ownership structure, and the waiver of 10 TAC §11.9(b)(2)(A) as presented herein.



Addendum to Underwriting Report

TDHCA Application #: 23015 Program(s): 9% HTC

Avanti Legacy del Sol

Address/Location: NWC of Ruben M. Torres Blvd. & Laredo Rd.

City: Brownsville County: Cameron Zip: 78520

APPLICATION HISTORY	
Report Date	PURPOSE
10/21/24	9% HTC Amendment / Force Majeure Request
06/12/23	Original Underwriting Report

ALLOCATION

TDHCA Program	Previous Allocation				RECOMMENDATION				
	Amount	Rate	Amort	Term	Amount	Rate	Amort	Term	Lien
LIHTC (9% Credit)	\$2,000,000				\$2,000,000				

CONDITIONS STATUS

SET-ASIDES

TDHCA SET-ASIDES for HTC LURA		
Income Limit	Rent Limit	Number of Units
30% of AMI	30% of AMI	9
50% of AMI	50% of AMI	17
60% of AMI	60% of AMI	58

ANALYSIS

23015 Avanti Legacy del Sol received a \$2,000,000 LIHTC award from TDHCA in June 2023. The applicant has submitted a Material Application Amendment request related to higher interest rates, increased insurance costs, lower equity pricing, design modifications, and change in ownership.

In addition, the necessary redesign has extended the project's pre-development and construction timelines. The Applicant did not anticipate the unforeseen circumstances and believe constitute a force majeure event as defined in §11.6(5) and are requesting an extension of the placed-in-service deadline to December 31, 2026.

As part of the ownership change, the applicant is requesting restructuring to include the admission of the Brownsville Housing Opportunity Corporation (BHOC) as a new member owning 100% of the new general partner entity, thereby providing property tax exemption to the development.

Design Modification:

The total net rental area per sf decreased from 70,719 to 68,573 (approximately a 3% reduction). The unit sizes were reduced as follows:

- Type A Units: from 675 sf to 655 sf(difference of 20 sf)
- Type A-HC Units: from 681 sf to 655 sf(difference of 20 sf)
- Type B Units: from 933 sf to 906 sf(difference of 27 sf)
- Type B-HC Units: from 956 sf to 906 sf(difference of 50 sf)

Total clubhouse square footage is reduced from 3,504 sf to 2,827 sf along with the removal of the resident services room.

Total corridor square footage is reduced from 16,440 sf to 10,292 sf (difference of 6,148 sf).

Total common area including corridors will be 16,515 square ft.

Carports are being removed from the site plan.

Removal of 1 elevator from original plan of 2 elevators.

Replacing the originally proposed pool with other affordable outdoor amenities such as picnic area and bocce ball court.

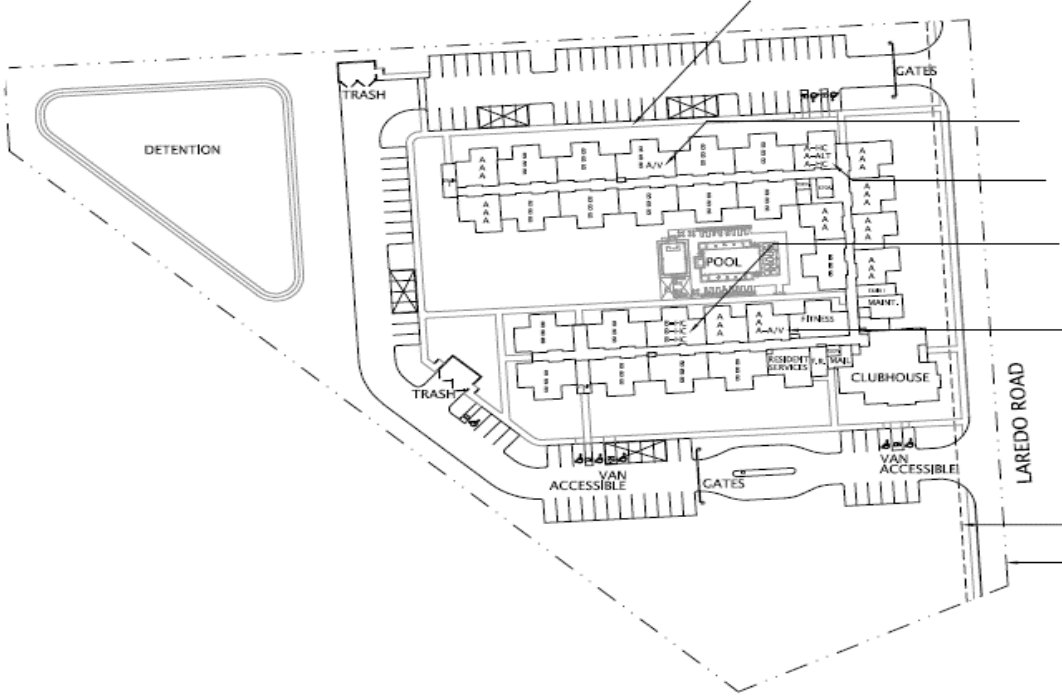
Total parking has decreased from 110 spaces to 90 spaces (20 space decrease). The new parking reduction still meets minimum code compliance of 1 space per unit (84 spaces).

Reducing the amount of masonry to approximately 10%.

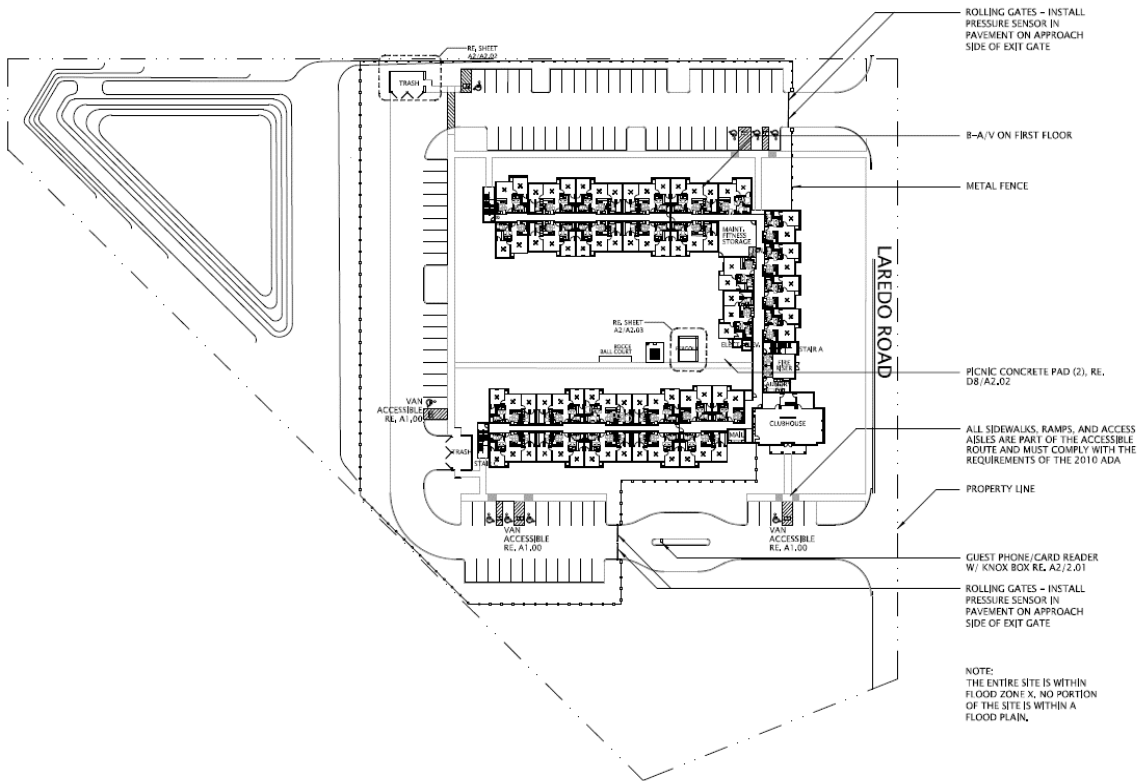
Removal of all balconies from the units.

By making the changes referenced above, the applicant anticipates a construction cost savings of approximately \$716,500.

Old Site Plan



New Site Plan



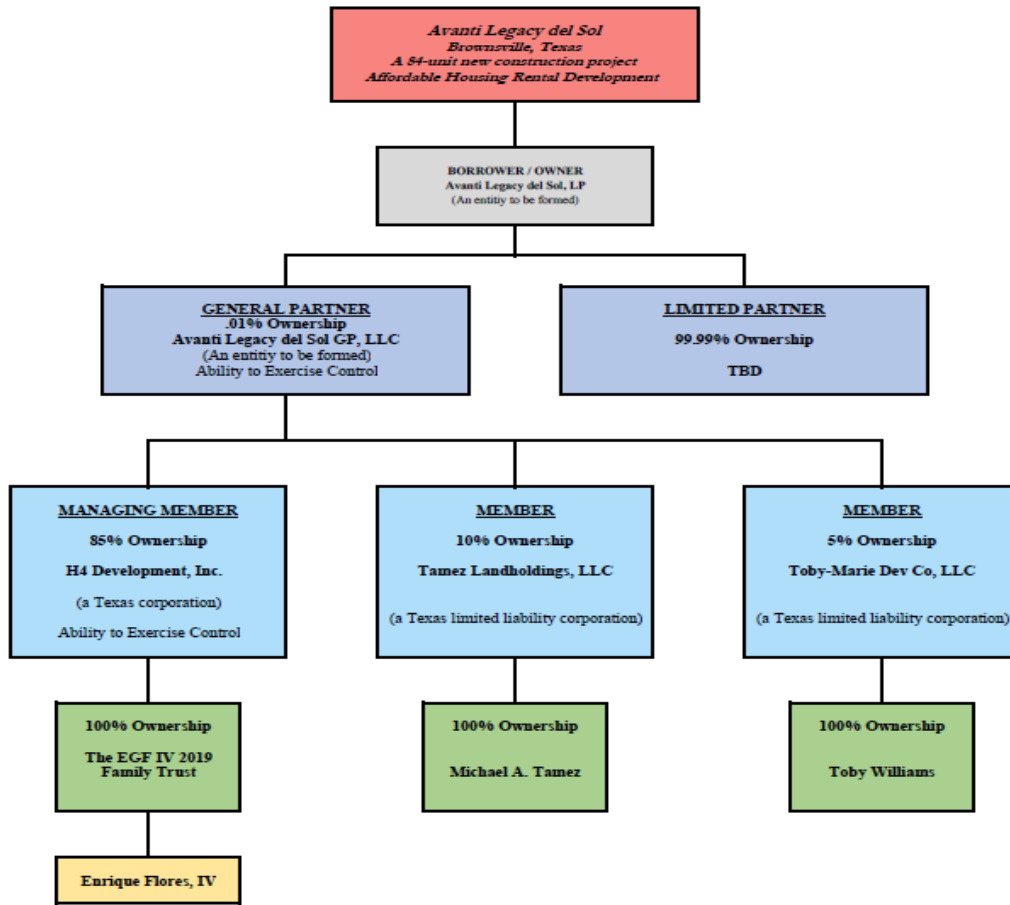
- ROLLING GATES - INSTALL PRESSURE SENSOR IN PAVEMENT ON APPROACH SIDE OF EXIT GATE
- B-A/V ON FIRST FLOOR
- METAL FENCE
- LAREDO ROAD
- PICNIC CONCRETE PAD (2), RE. D8/A2,02
- ALL SIDEWALKS, RAMPS, AND ACCESS AISLES ARE PART OF THE ACCESSIBLE ROUTE AND MUST COMPLY WITH THE REQUIREMENTS OF THE 2010 ADA
- PROPERTY LINE
- GUEST PHONE/CARD READER W/ KNOX BOX RE. A2/2,01
- ROLLING GATES - INSTALL PRESSURE SENSOR IN PAVEMENT ON APPROACH SIDE OF EXIT GATE
- NOTE:
THE ENTIRE SITE IS WITHIN FLOOD ZONE X, NO PORTION OF THE SITE IS WITHIN A FLOOD PLAIN.



A2 SITE PLAN

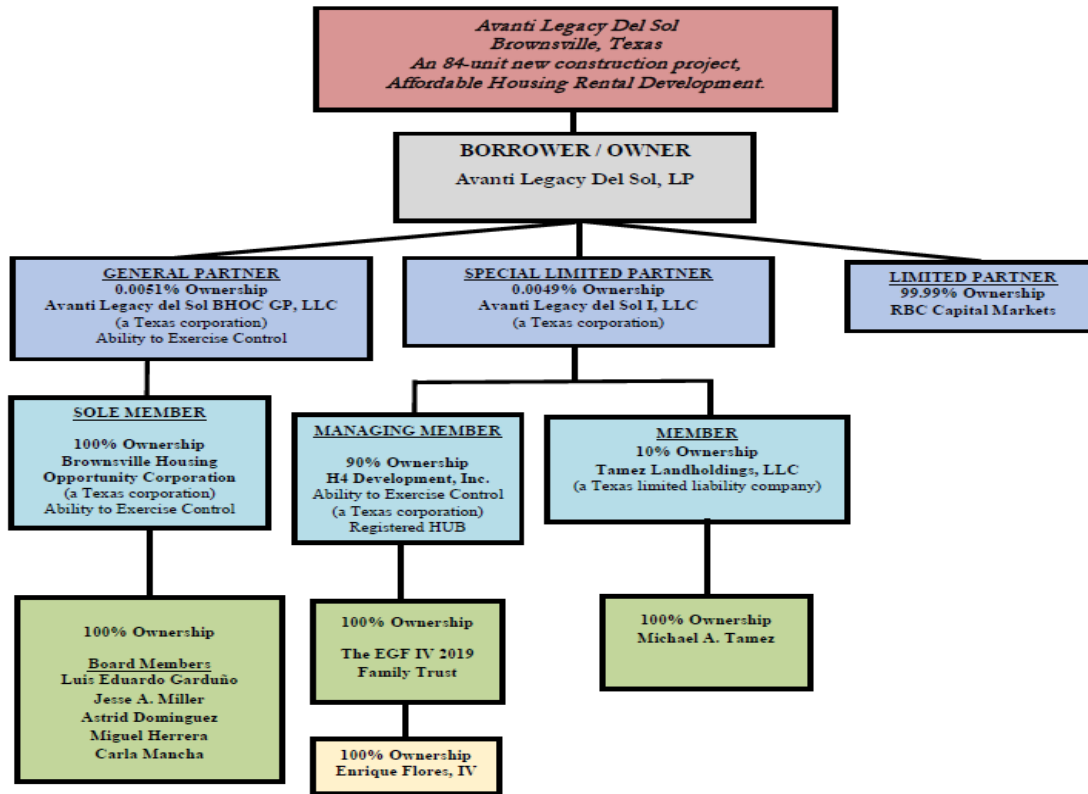
Previous Ownership Structure

Project Ownership Organizational Summary



New Ownership Structure

PROJECT OWNERSHIP ORGANIZATIONAL SUMMARY



Operating Pro Forma

Underwriter is utilizing 2024 program rents.

A 99-year ground lease with Brownsville Housing Opportunity Corporation will facilitate an ad valorem tax exemption for the project.

Property Insurance increased from \$46,200 (\$550 per unit) to \$88,457 (\$1,053 per unit).

Effective Gross Income increased by \$74,559, Total Expenses decreased by \$23,472 and as a result, Net Operating Income increased by \$97,774. Feasibility is dependent on the tax exemption.

Development Cost

The applicant's Building Costs have decreased by \$630,672 and Total Housing Development Costs have decreased by \$542,969.

Underwriter costed the building based on the construction bid from Nations Construction.

Developer fee decreased by \$118,000 from previous underwriting.

Site Acquisition remained the same however, total acquisition increased by \$69,750 due to closing costs and acquisition legal fees.

Site work costs increased by \$92,009. The applicant provided an updated recommendation from the CPA that the additional costs are includible in eligible basis.

Underwriter adjusted \$5,000 of Travel expense from Soft Costs to the General & Administrative section of Developer Fee.

Developer Fee total costs is overstated by \$6,357.

The Developer Fee eligible basis is overstated by \$12,410.

Sources of Funds

The construction and loan lender changed from Regions Bank FHA 221(d)(4) to Stellar Bank. The construction loan increased from \$14,820,000 to \$15,545,000 and the interest rate also increased from 7% to 8.5%.

The permanent loan lender changed from Regions Bank to Stellar Bank, the interest rate increased from 5% to 6.82%, amortization decreased from 40 years to 35 years, and term decreased from 40 yrs to 18 yrs.

The Equity capital contribution decreased from \$17,998,200 to \$16,998,300.

The credit price decreased from .90 to .85

The deferred developer fee increased by \$456,931

Underwriter recommends an annual tax credit allocation of \$2,000,000 as previously awarded.

Underwriter: Travis Mason

Manager of Real Estate Analysis: Robert Castillo

Director of Real Estate Analysis: Jeanna Adams

UNIT MIX/RENT SCHEDULE

Avanti Legacy del Sol, Brownsville, 9% HTC #23015

LOCATION DATA	
CITY:	Brownsville
COUNTY:	Cameron
Area Median Income	\$60,400
PROGRAM REGION:	11
PROGRAM RENT YEAR:	2024

UNIT DISTRIBUTION					
# Beds	# Units	% Total	Assisted	MDL	ARP
Eff	-	0.0%	0	0	0
1	30	35.7%	0	0	0
2	54	64.3%	0	0	0
3	-	0.0%	0	0	0
4	-	0.0%	0	0	0
5	-	0.0%	0	0	0
TOTAL	84	100.0%	-	-	-

Pro Forma ASSUMPTIONS	
Revenue Growth	2.00%
Expense Growth	3.00%
Basis Adjust	130%
Applicable Fraction	100.00%
APP % Acquisition	4.00%
APP % Construction	9.00%
Average Unit Size	816 sf

55%	Income	20%	30%	40%	50%	60%	70%	80%	EO / MR	TOTAL
Average	# Units	-	9	-	17	58	-	-	-	84
Income	% Total	0.0%	10.7%	0.0%	20.2%	69.0%	0.0%	0.0%	0.0%	100.0%

UNIT MIX / MONTHLY RENT SCHEDULE

HTC		UNIT MIX				APPLICABLE PROGRAM RENT			APPLICANT'S PRO FORMA RENTS				TDHCA PRO FORMA RENTS				MARKET RENTS		
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	Mrkt Analyst	
TC 30%	\$421	3	1	1	655	\$421	\$78	\$343	\$0	\$0.52	\$343	\$1,029	\$1,029	\$343	\$1	\$0	\$1,000	\$1.53	\$1,000
TC 50%	\$703	5	1	1	655	\$703	\$78	\$625	\$0	\$0.95	\$625	\$3,125	\$3,125	\$625	\$1	\$0	\$1,000	\$1.53	\$1,000
TC 60%	\$843	21	1	1	655	\$843	\$78	\$765	\$0	\$1.17	\$765	\$16,065	\$16,065	\$765	\$1	\$0	\$1,000	\$1.53	\$1,000
TC 60%	\$843	1	1	1	654	\$843	\$78	\$765	\$0	\$1.17	\$765	\$765	\$765	\$765	\$1	\$0	\$1,000	\$1.53	\$1,000
TC 30%	\$506	6	2	2	906	\$506	\$103	\$403	\$0	\$0.44	\$403	\$2,418	\$2,418	\$403	\$0	\$0	\$1,205	\$1.33	\$1,205
TC 50%	\$843	12	2	2	906	\$843	\$103	\$740	\$0	\$0.82	\$740	\$8,880	\$8,880	\$740	\$1	\$0	\$1,205	\$1.33	\$1,205
TC 60%	\$1,012	33	2	2	906	\$1,012	\$103	\$909	\$0	\$1.00	\$909	\$29,997	\$29,997	\$909	\$1	\$0	\$1,205	\$1.33	\$1,205
TC 60%	\$1,012	3	2	2	906	\$1,012	\$103	\$909	\$0	\$1.00	\$909	\$2,727	\$2,727	\$909	\$1	\$0	\$1,205	\$1.33	\$1,205
TOTALS/AVERAGES:		84			68,573				\$0	\$0.95	\$774	\$65,006	\$65,006	\$774	\$0.95	\$0	\$1,132	\$1.39	\$1,132

ANNUAL POTENTIAL GROSS RENT:	\$780,072	\$780,072
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STABILIZED PRO FORMA

Avanti Legacy del Sol, Brownsville, 9% HTC #23015

STABILIZED FIRST YEAR PRO FORMA														
COMPARABLES			APPLICANT				PRIOR REPORT		TDHCA			VARIANCE		
Database	Cameron / Hidalgo County		% EGI	Per SF	Per Unit	Amount	Applicant	TDHCA	Amount	Per Unit	Per SF	% EGI	%	\$
POTENTIAL GROSS RENT				\$0.95	\$774	\$780,072	\$699,468	\$699,468	\$780,072	\$774	\$0.95		0.0%	\$0
App Fees, Deposit Forfeitures, Carports,					\$30.00	\$30,240	30,240							
Total Secondary Income					\$30.00			30,240	\$30,240	\$30.00			0.0%	\$0
POTENTIAL GROSS INCOME						\$810,312	\$729,708	\$729,708	\$810,312				0.0%	\$0
Vacancy & Collection Loss					7.5% PGI	(60,773)	(54,728)	(54,728)	(60,773)	7.5% PGI			0.0%	-
EFFECTIVE GROSS INCOME						\$749,539	\$674,980	\$674,980	\$749,539				0.0%	\$0

General & Administrative	\$31,386	\$374/Unit	\$30,953	\$368	3.92%	\$0.43	\$350	\$29,400	\$29,400	\$29,400	\$30,953	\$368	\$0.45	4.13%	-5.0%	(1,553)
Management	\$27,128	4.3% EGI	\$19,712	\$235	5.00%	\$0.55	\$446	\$37,477	\$33,749	\$33,749	\$37,477	\$446	\$0.55	5.00%	0.0%	0
Payroll & Payroll Tax	\$101,245	\$1,205/Unit	\$79,796	\$950	12.15%	\$1.33	\$1,084	\$91,095	\$91,095	\$91,095	\$91,095	\$1,084	\$1.33	12.15%	0.0%	-
Repairs & Maintenance	\$45,407	\$541/Unit	\$43,402	\$517	6.70%	\$0.73	\$598	\$50,200	\$52,200	\$54,600	\$54,600	\$650	\$0.80	7.28%	-8.1%	(4,400)
Electric/Gas	\$12,732	\$152/Unit	\$16,409	\$195	1.85%	\$0.20	\$165	\$13,900	\$13,900	\$12,914	\$12,732	\$152	\$0.19	1.70%	9.2%	1,168
Water, Sewer, & Trash	\$51,437	\$612/Unit	\$38,272	\$456	5.24%	\$0.57	\$468	\$39,300	\$39,300	\$51,437	\$51,437	\$612	\$0.75	6.86%	-23.6%	(12,137)
Property Insurance	\$53,417	\$0.78 /sf	\$70,577	\$840	11.80%	\$1.29	\$1,053	\$88,457	\$46,200	\$46,200	\$88,457	\$1,053	\$1.29	11.80%	0.0%	-
Property Tax (@ 100%) 2.5937	\$61,696	\$734/Unit	\$47,652	\$567	0.00%	\$0.00	\$0	\$0	\$67,200	\$65,801	\$0	\$0	\$0.00	0.00%	0.0%	-
Reserve for Replacements					2.80%	\$0.31	\$250	\$21,000	\$21,000	\$21,000	\$21,000	\$250	\$0.31	2.80%	0.0%	-
Supportive Services					1.56%	\$0.17	\$140	\$11,723	\$11,723	\$11,723	\$11,723	\$140	\$0.17	1.56%	0.0%	-
TDHCA Compliance fees (\$40/HTC unit)					0.45%	\$0.05	\$40	\$3,360	\$3,360	\$3,360	\$3,360	\$40	\$0.05	0.45%	0.0%	-
TOTAL EXPENSES					51.49%	\$5.63	\$4,594	\$385,912	\$409,127	\$421,280	\$402,834	\$4,796	\$5.87	53.74%	-4.2%	\$ (16,922)
NET OPERATING INCOME ("NOI")					48.51%	\$5.30	\$4,329	\$363,627	\$265,853	\$253,700	\$346,705	\$4,127	\$5.06	46.26%	4.9%	\$ 16,922

CONTROLLABLE EXPENSES							\$2,665/Unit						\$2,867/Unit			
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CAPITALIZATION / TOTAL DEVELOPMENT BUDGET / ITEMIZED BASIS

Avanti Legacy del Sol, Brownsville, 9% HTC #23015

DEBT / GRANT SOURCES																			
APPLICANT'S PROPOSED DEBT/GRANT STRUCTURE										AS UNDERWRITTEN DEBT/GRANT STRUCTURE									
DEBT (Must Pay)	Fee	Cumulative DCR		Pmt	Rate	Amort	Term	Principal	Principal	Prior Underwriting		Principal	Term	Amort	Rate	Pmt	Cumulative		
		UW	App							Applicant	TDHCA						DCR	LTC	
Stellar Bank	0.00%	1.26	1.33	274,251	6.82%	35	18.0	\$3,650,000	\$3,650,000	\$3,650,000	\$3,650,000	\$3,650,000	18.0	35	6.82%	\$274,312	1.33	16.8%	
CASH FLOW DEBT / GRANTS																			
City of Brownsville		1.26	1.33		0.00%	0	0.0	\$500	\$500	\$500	\$500		0.0	0	0.00%		1.33	0.0%	
				\$274,251	TOTAL DEBT / GRANT SOURCES				\$3,650,500	\$3,650,500	\$3,650,500	\$3,650,500	TOTAL DEBT SERVICE				\$274,312	1.33	16.8%
NET CASH FLOW		\$72,454	\$89,376											APPLICANT NET OPERATING INCOME	\$363,627	\$89,315	NET CASH FLOW		

EQUITY SOURCES															
APPLICANT'S PROPOSED EQUITY STRUCTURE						Prior Underwriting		AS UNDERWRITTEN EQUITY STRUCTURE							
EQUITY / DEFERRED FEES	DESCRIPTION	% Cost	Annual Credit	Credit Price	Amount	Prior Underwriting		Amount	Credit Price	Annual Credit	% Cost	Annual Credits per Unit	Allocation Method		
						Applicant	TDHCA								
Regions Affordable Housing, LLC	LIHTC Equity	78.3%	\$2,000,000	\$0.85	\$16,998,300	\$17,998,200	\$17,998,200	\$16,998,300	\$0.8499	\$2,000,000	78.3%	\$23,810	Previous Allocation		
Avanti Legacy del Sol Development, LLC	Deferred Developer Fees	4.9%	(45% Deferred)		\$1,055,168	\$598,237	\$598,237	\$1,048,811		(45% Deferred)	4.8%		Total Developer Fee:		
Additional (Excess) Funds Req'd		0.0%			\$0	\$0	\$0	\$0			0.0%		\$2,345,643		
TOTAL EQUITY SOURCES		83.2%			\$18,053,468	\$18,596,437	\$18,596,437	\$18,047,111			83.2%				
TOTAL CAPITALIZATION					\$21,703,968	\$22,246,937	\$22,246,937	\$21,697,611						15-Yr Cash Flow after Deferred Fee:	\$669,981

DEVELOPMENT COST / ITEMIZED BASIS															
APPLICANT COST / BASIS ITEMS					Prior Underwriting		TDHCA COST / BASIS ITEMS					COST VARIANCE			
Eligible Basis	Acquisition	New Const. Rehab	Total Costs	Total Costs	Prior Underwriting		Total Costs	Total Costs	Eligible Basis		%	\$			
					Applicant	TDHCA			New Const. Rehab	Acquisition					
Land Acquisition			\$27,679 / Unit	\$2,325,000	\$2,325,000	\$2,325,000	\$2,325,000	\$27,679 / Unit			0.0%	\$0			
Closing costs & acq. legal fees				\$69,750	\$0	\$0	\$69,750				0.0%	\$0			
Off-Sites		\$0	\$ / Unit	\$0	\$0	\$0	\$0	\$ / Unit	\$0		0.0%	\$0			
Site Work		\$1,781,310	\$21,206 / Unit	\$1,781,310	\$1,689,301	\$1,689,301	\$1,781,310	\$21,206 / Unit	\$1,781,310		0.0%	\$0			
Site Amenities		\$944,490	\$11,244 / Unit	\$944,490	\$993,407	\$993,407	\$944,490	\$11,244 / Unit	\$944,490		0.0%	\$0			
Building Cost		\$7,505,315	\$110.00 /sf	\$89,798/Unit	\$7,543,030	\$8,173,702	\$8,768,852	\$7,543,030	\$89,798/Unit	\$110.00 /sf	\$7,505,315	0.0%	\$0		
Contingency		\$716,178	7.00%	7.00%	\$718,818	\$759,949	\$759,949	\$718,818	7.00%	7.00%	\$716,178	0.0%	\$0		
Contractor Fees		\$1,532,622	14.00%	14.00%	\$1,538,271	\$1,626,290	\$1,626,290	\$1,538,271	14.00%	14.00%	\$1,532,621	0.0%	\$0		
Soft Costs	\$0	\$1,803,966	\$23,194 / Unit	\$1,948,332	\$1,811,516	\$1,811,516	\$1,948,332	\$23,194 / Unit	\$1,803,966		0.0%	\$0			
Financing	\$0	\$1,313,386	\$25,631 / Unit	\$2,153,014	\$1,936,481	\$1,936,481	\$2,153,014	\$25,631 / Unit	\$1,313,386		0.0%	\$0			
Developer Fee	\$0	\$2,352,000	15.08%	15.04%	\$2,352,000	\$2,470,000	\$2,470,000	\$2,345,643	15.00%	15.00%	\$2,339,590	0.3%	\$6,357		
Reserves			6 Months	\$329,953	\$461,291	\$461,291	\$329,953	6 Months			0.0%	\$0			
TOTAL HOUSING DEVELOPMENT COST (UNADJUSTED BASIS)				\$0	\$17,949,267	\$258,381 / Unit	\$21,703,968	\$22,246,937	\$22,842,087	\$21,697,611	\$258,305 / Unit	\$17,936,856	\$0	0.0%	\$6,357
Acquisition Cost	\$0				\$0	\$0									
Contingency		\$0			\$0	\$0									
Contractor's Fee		(\$1)			(\$0)	\$0									
Financing Cost		\$0													
Developer Fee	\$0	(\$12,410)	15.00%	15.00%	(\$6,357)	\$0									
Reserves					\$0	\$0									
ADJUSTED BASIS / COST				\$0	\$17,936,856	\$258,305/unit	\$21,697,611	\$22,246,937	\$22,842,087	\$21,697,611	\$258,305/unit	\$17,936,856	\$0	0.0%	\$0
TOTAL HOUSING DEVELOPMENT COSTS (Applicant's Uses are within 5% of TDHCA Estimate):								\$21,697,611							

CAPITALIZATION / TOTAL DEVELOPMENT BUDGET / ITEMIZED BASIS

Avanti Legacy del Sol, Brownsville, 9% HTC #23015

	CREDIT CALCULATION ON QUALIFIED BASIS			
	Applicant		TDHCA	
	Acquisition	Construction Rehabilitation	Acquisition	Construction
ADJUSTED BASIS	\$0	\$17,936,856	\$0	\$17,936,856
Deduction of Federal Grants	\$0	\$0	\$0	\$0
TOTAL ELIGIBLE BASIS	\$0	\$17,936,856	\$0	\$17,936,856
High Cost Area Adjustment		130%		130%
TOTAL ADJUSTED BASIS	\$0	\$23,317,913	\$0	\$23,317,913
Applicable Fraction	100.00%	100.00%	100%	100%
TOTAL QUALIFIED BASIS	\$0	\$23,317,913	\$0	\$23,317,913
Applicable Percentage	4.00%	9.00%	4.00%	9.00%
ANNUAL CREDIT ON BASIS	\$0	\$2,098,612	\$0	\$2,098,612
CREDITS ON QUALIFIED BASIS	\$2,098,612		\$2,098,612	

Method	ANNUAL CREDIT CALCULATION BASED ON APPLICANT BASIS		FINAL ANNUAL LIHTC ALLOCATION		
	Annual Credits	Proceeds	Credit Price \$0.8499	Variance to Request	
			Credit Allocation	Credits	Proceeds
Eligible Basis	\$2,098,612	\$17,836,420	----	----	----
Needed to Fill Gap	\$2,123,402	\$18,047,111	----	----	----
Previous Allocation	\$2,000,000	\$16,998,300	\$2,000,000	\$0	\$0

Long-Term Pro Forma

Avanti Legacy del Sol, Brownsville, 9% HTC #23015

	Growth Rate	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20	Year 25	Year 30	Year 35
EFFECTIVE GROSS INCOME	2.00%	\$749,539	\$764,529	\$779,820	\$795,416	\$811,325	\$895,768	\$989,000	\$1,091,936	\$1,205,586	\$1,331,064	\$1,469,602
TOTAL EXPENSES	3.00%	\$385,912	\$397,115	\$408,646	\$420,515	\$432,733	\$499,417	\$576,489	\$665,580	\$768,576	\$887,663	\$1,025,372
NET OPERATING INCOME ("NOI")		\$363,627	\$367,415	\$371,174	\$374,901	\$378,592	\$396,351	\$412,511	\$426,356	\$437,010	\$443,401	\$444,231
EXPENSE/INCOME RATIO		51.5%	51.9%	52.4%	52.9%	53.3%	55.8%	58.3%	61.0%	63.8%	66.7%	69.8%
MUST -PAY DEBT SERVICE												
Stellar Bank		\$274,312	\$274,312	\$274,312	\$274,312	\$274,312	\$274,312	\$274,312	\$274,312	\$274,312	\$274,312	\$274,312
Adjustment to Debt Per §11.302(c)(2)												
TOTAL DEBT SERVICE		\$274,312	\$274,312	\$274,312	\$274,312	\$274,312	\$274,312	\$274,312	\$274,312	\$274,312	\$274,312	\$274,312
DEBT COVERAGE RATIO		1.33	1.34	1.35	1.37	1.38	1.44	1.50	1.55	1.59	1.62	1.62
ANNUAL CASH FLOW												
		\$89,315	\$93,103	\$96,863	\$100,590	\$104,280	\$122,039	\$138,199	\$152,045	\$162,698	\$169,089	\$169,919
Deferred Developer Fee Balance		\$959,496	\$866,393	\$769,530	\$668,941	\$564,661	\$0	\$0	\$0	\$0	\$0	\$0
CUMULATIVE NET CASH FLOW		\$0	\$0	\$0	\$0	\$0	\$10,532	\$669,981	\$1,403,603	\$2,197,263	\$3,031,874	\$3,882,327



AVANTI LEGACY DEL SOL

September 10, 2024

Rosalio Banuelos
Multifamily Asset Division
Texas Department of Housing and Community Affairs
221 E. 11th Street
Austin, TX 78701

RE: Avanti Legacy Del Sol (TDHCA #23015) – Request for Material Amendment & Return of 2023 Credits and Request for 2024 Allocation of Credits Pursuant to Section 11.6(5) Force Majeure

Dear Mr. Banuelos,

Pursuant to §11.6(5) of the 2023 Qualified Action Plan, H4 Development Inc. ("Sponsor") respectfully requests an allocation of 2024 credits in exchange for the return of 2023 credits for the Avanti Legacy del Sol Development. This letter is not a request for additional tax credits but rather a request to ensure compliance with the 10% test and placed-in-service deadlines, which we anticipate extending to July 1, 2025, and August 31, 2026, respectively, with a 2024 housing tax credit commitment.

Additionally, in accordance with Section 10.405 of the Post Award and Asset Management Requirements, we respectfully submit this letter as a formal request for a material amendment to reduce the square footage of the clubhouse, adjust unit sizes, and remove unit balconies for the Avanti Legacy del Sol development ("Development"), in response to significant financial challenges arising from recent market shifts.

The Economic Issues

The Development Team has been diligently working to advance Avanti Legacy Del Sol as originally proposed and awarded. At the time of application, underwriting projected a permanent loan of \$3,650,000 at an interest rate of 5.00%, insurance costs at \$550 per unit, and equity pricing at \$0.90. Unfortunately, recent market shifts have significantly impacted these estimates.

Market volatility has caused the permanent loan rate to increase to 6.82%, resulting in an additional \$200,000 in total interest costs. Additionally, equity pricing has dropped to \$0.85, leading to an approximately \$1,000,000 reduction in equity. Because the Development is in a Tier 1 county, it has also faced an abnormal increase in insurance premiums to \$1,050 per unit, drastically decreasing the available loan proceeds. Collectively, these changes have contributed to a project budget shortfall of approximately \$1.5 million.

The combined effects of higher interest rates, increased insurance costs, and lower equity pricing have reduced the Development's debt capacity, jeopardizing the project's financial feasibility. Without

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AVANTI LEGACY DEL SOL

critical modifications to the deal structure and design, the project cannot proceed as originally envisioned.

Proposed Design Modifications

In response to these economic challenges, the Development Team has proactively explored all possible solutions. After extensive value engineering, we have identified targeted design adjustments to help mitigate the financial impact. However, given the magnitude of the market shifts, design changes alone cannot fully offset the financial shortfall.

To address these challenges effectively, we propose a two-pronged strategy. First, we are requesting a change to the ownership structure to include an affiliate of the Housing Authority of the City of Brownsville as a member of the Applicant's general partner (submitted under separate cover). This allows the Development to benefit from tax abatement.

Second, we are requesting a material amendment to the Application to implement several key design changes, including reducing the square footage of the clubhouse, adjusting unit sizes, and removing unit balconies. Specifically, these changes include:

- 1) Reducing the clubhouse square footage from 3,504 to 2,827 square feet;
- 2) Removing the resident services room;
- 3) Reducing the corridor square footage from 16,440 to 10,292 square feet (difference is 6,148 square feet);
- 4) Removing carports from the site plan;
- 5) Removing an elevator;
- 6) Replacing the pool with other affordable outdoor amenities like a picnic area and bocce ball court;
- 7) Reducing parking provided from 110 spaces to 90 spaces, which is still code compliant;
- 8) Reducing the amount of masonry to approximately 10%;
- 9) Removing balconies from the units; and
- 10) Reducing the total net rentable from 70,719 to 68,573 square feet (approximately a 3% reduction). The unit sizes were reduced as follows:
 - a. Type A Units: from 675 square feet to 655 square feet (difference is 20 square feet);
 - b. Type A-HC Units: from 681 square feet to 655 square feet (difference is 20 square feet);
 - c. Type B Units: from 933 square feet to 906 square feet (difference is 27 square feet); and
 - d. Type B-HC Units: from 956 square feet to 906 square feet (difference is 50 square feet).

By making the changes referenced above, we anticipate a construction cost savings of approximately \$716,500—a significant step toward balancing the project's sources and uses, as detailed in Exhibit B.

Force Majeure Request

The restructuring of ownership mentioned above along with the necessary redesign has extended the project's pre-development and construction timelines. These unforeseen circumstances were not anticipated when we submitted our application in 2023, and we believe they constitute a force majeure event as defined in §11.6(5) and request an extension of the placed-in-service deadline to December



AVANTI LEGACY DEL SOL

31, 2026. Currently, Developer expects financial closing to occur on or before December 2, 2024. With a 16- to 18-month construction schedule and a 6-month buffer requested by our investor, the development is only feasible with a December 31, 2026, placed-in-service deadline. Please see Exhibit E for a more detailed timeline to completion.

The combination of unexpected insurance cost increases and declining equity pricing has created challenges well beyond our control. Additionally, the restructuring required to address these financial issues has naturally contributed to the need for additional time. These factors together justify the request for an extension to ensure the project's successful completion. Given these challenges, the project requires a credit refresh to remain viable and continue providing much-needed housing for our seniors in Texas. Madhouse Development has a proven track record of delivering high-quality, affordable housing, and Avanti Legacy del Sol is a crucial part of this ongoing mission.

Conclusion

The requested changes and, consequently, the request for additional time, are essential to making the Development feasible. The Developer anticipates that these changes will result in a deferred developer fee higher than originally proposed, reflecting our commitment to ensuring the project's success despite challenging financial conditions. Our primary objective is not to secure additional fees but to reduce total development costs, address lender and investor concerns, and deliver much-needed affordable housing to the community.

We firmly believe that the proposed changes (1) do not negatively impact the site's design, (2) improve the Development's financial outlook, and (3) would not have adversely affected the selection of the Development in the 2023 award cycle. We appreciate your consideration of this amendment request and are available to provide any further information or clarification as needed.

Enclosed please find the revised application documents for staff's consideration:

- Exhibit A – Architectural Plans
- Exhibit B – Financial Exhibits
 - Rent Schedule
 - Annual Operating Expenses
 - 15 Year Rental Housing Operating Pro Forma
 - Development Cost Schedule
 - Schedule of Sources of Funds
- Exhibit C – Support Letter from State Representative and City of Brownsville
- Exhibit D – Project Timeline

Sincerely,

Enrique Flores, IV

Authorized Signatory of Avanti Legacy Del Sol, LP



AVANTI LEGACY DEL SOL

September 10, 2024

Rosalio Banuelos
Multifamily Asset Division
Texas Department of Housing and Community Affairs
221 E. 11th Street
Austin, TX 78701

RE: Avanti Legacy del Sol (TDHCA #23015) – Request for Ownership Transfer

Dear Mr. Banuelos,

In accordance with Section 10.406(a) of the Post Award and Asset Management Requirements, please accept this letter as our formal request for an ownership transfer to change the ownership structure to reflect the admission to Applicant of The Brownsville Housing Opportunity Corporation (“BHOC”) as a new general partner.

The Economic Issues

The Development Team has been diligently working on designing and finalizing Avanti Legacy del Sol, a project that was proposed and awarded with high hopes and meticulous planning. During the initial application, our underwriting assumed an insurance cost of \$550 per unit and an equity pricing of \$0.90.

However, we now find ourselves facing an unexpected and dramatic challenge. Like many developers today, we have experienced a significant and unforeseen rise in insurance costs. Despite extensive searching and negotiations, the best insurance rate we could secure is \$1,050 per unit—an astonishing 150% increase from our initial estimate. This substantial hike has dramatically impacted our financial projections. Moreover, we are grappling with a decline in equity pricing to \$0.85, resulting in a loss of approximately \$1 million in projected equity for the project.

This dual blow of skyrocketing insurance costs and reduced equity pricing has put us in a precarious position. Due to these adverse developments, the project, without a significant modification to the deal structure, is no longer financially feasible.

Ownership Transfer

To combat the unexpected and significant economic changes, the Development Team put in effort to come up with creative solutions. As a result, we are respectfully requesting a change to the ownership structure to reflect the admission of the BHOC as a new member owning 100% of the new general partner entity, thereby providing property tax exemption to the Development. Property tax exemption will allow the Development to be financially feasible. With the additional income earned by the

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AVANTI LEGACY DEL SOL

Development, the Applicant is able to increase permanent loan debt that helps cover the financing gap.

The City of Brownsville continues to strive to provide affordable housing to its community. With the community's lack of affordable housing development prospects, it's imperative we provide senior affordable housing units to this underserved community. To meet its housing demands, the Housing Authority of the City of Brownsville agreed to partner with the Applicant to ensure the viability of this Development.

In an effort to ensure transparency, the City of Brownsville has approved an amendment providing the city's continued support for the Development, including its request for property tax exemption. The resolution was approved in a public city council meeting on August 20, 2024, and is included under Exhibit A.

Satisfaction of HUB Requirements through Special Limited Partner

Under the legal analysis for the 100% property tax exemption, BHOC must own 100% of the general partner. A new general partner entity will be formed that will be 100% controlled by BHOC. The current members of the general partner will transfer into a new entity, Avanti Legacy del Sol I, LLC, which will become a special limited partner owning 0.0049% of the Limited Partnership. See organization charts for more detail. H4 Development, Inc. (the "HUB") is the managing member of Avanti Legacy Del Sol I, LLC, and a historically underutilized business. Although the HUB will no longer be a part of the general partner, the HUB will continue to be an active and participatory partner in the deal.

Section 11.9(b)(2) of the QAP requires that the HUB participate in the general partner entity, receive certain cash flow and developer fee, and materially participate in the development. The HUB's participation through the general partner will no longer be possible in light of the property tax exemption requirements described above. However, the HUB will nevertheless continue to materially participate in the development as initially proposed, except that this participation would now occur through Avanti Legacy del Sol I, LLC, as the special limited partner. In such capacity, the HUB will still be: (1) regularly, continuously, and substantially involved in providing services integral to the Development Team; and (2) involved with the Development Services or in the provision of on-site tenant services during the Development's Affordability Period.

Furthermore, "General Partner" is defined in the QAP to include "the functional equivalent of a general partner." In this instance, it is anticipated that the Applicant's operating agreement will provide that Avanti Legacy del Sol I, LLC, as special limited partner, will have the substantial management and control authority typically associated with a general partner. In this way, the HUB will continue to materially participate, and Avanti Legacy del Sol I, LLC will be the functional equivalent of a general partner.

We believe these changes in the ownership structure comply with the intent and purpose of the elected Sponsorship Characteristics for the reasons described above. Consequently, we request a waiver of



AVANTI LEGACY DEL SOL

the requirement for the HUB to participate through the general partner, allowing the Sponsor Characteristic requirements to be met through the special limited partner instead.

Conclusion

The addition of an affiliate of the City of Brownsville as a general partner is the solution needed to make this Development financially feasible. Additionally, although the HUB is no longer a member of the general partner, the HUB will continue to act essentially as a general partner and materially participate in the development. The lower total development cost allows the Development Team to address lender and investor concerns and ensures that quality, affordable housing is provided to a community in need.

After your review of this amendment request, should you have any questions or require additional information, please do not hesitate to contact us at your convenience.

Sincerely,

Enrique Flores, IV

Authorized Signatory of Avanti Legacy Del Sol, LP



ERIN ELIZABETH GÁMEZ



TEXAS STATE REPRESENTATIVE
DISTRICT 38

August 1, 2024

Cody Campbell, Director of Multifamily Programs
Texas Department of Housing and Community Affairs
221 E. 11th Street
Austin, TX 78701

Re: TDHCA #23015 Avanti Legacy del Sol, Brownsville, Texas

Dear Mr. Campbell,

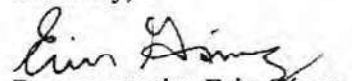
As State Representative for the area, I would like to express my continued support for Avanti Legacy del Sol in Brownsville, Texas. This apartment community for seniors is in my district and provides much-needed affordable housing to elderly families living on low to moderate incomes.

I firmly believe that we need more affordable housing options in District 38. Unfortunately, building affordable housing is extremely difficult. With high interest rates, rising construction costs, and decreasing equity pricing, developments with 9% housing tax credits have suffered. However the people behind the Avanti Legacy del Sol have not given up. They have partnered with the Housing Authority of the City of Brownsville to make the deal financially feasible through the use of property tax abatement. This partnership, which I support, will allow the Applicant to build Avanti Legacy del Sol with the available capital sources and without the need for supplemental credits thanks to the partnership's unique tax-exempt position. The Developers of the transaction should be commended for their efforts to identify non-traditional resources to subsidize the development costs of the apartment community.

Citizens of Brownsville deserve the opportunity to live in a safe and comfortable environment, and Avanti Legacy del Sol will provide this opportunity for elderly households in my district. Additionally, the demand for affordable senior housing in Brownsville is significant and growing. As our senior population continues to increase, it is imperative that we address this need promptly. By approving the material amendment requested for Avanti Legacy del Sol, the TDHCA Board will be supporting a project that not only meets current housing demands but also anticipates future needs, ensuring long-term stability and support for our elderly residents.

Please feel free to call me my office at 512-463-0606 or reach me by email at Erin.Gamez@house.texas.gov, if you have any questions.

Sincerely,


Representative Erin Gámez
House District 38

RESOLUTION NO. 2023-016

A RESOLUTION OF THE CITY OF BROWNSVILLE, TEXAS, AUTHORIZING THE CITY MANAGER TO AMEND THE RESOLUTION OF SUPPORT FOR THE PROPOSED DEVELOPMENT OF AN AFFORDABLE RENTAL HOUSING PROJECT LOCATED NEAR THE NORTHWEST CORNER OF RUBEN M. TORRES BOULEVARD AND LAREDO ROAD, NAMED AVANTI LEGACY DEL SOL.

WHEREAS, the City Manager is authorized to amend the Resolution of Support for the proposed development of an affordable rental housing community for seniors located near the northwest corner of Ruben M. Torres Boulevard and Laredo Road, named Avanti Legacy del Sol; and

WHEREAS, on January 7, 2023, the City of Brownsville approved a Resolution of Support for Avanti Legacy del Sol in relation to its application to the Texas Department of Housing and Community Affairs for the 2023 Competitive 9% Housing Tax Credits; and

WHEREAS, Competitive 9% Housing Tax Credits were awarded to Avanti Legacy del Sol, but since then, significant economic changes have adversely affected its development, including increases in construction costs, interest rates, and property insurance; and

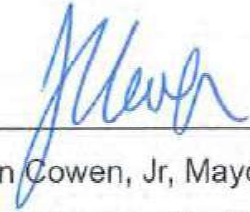
WHEREAS, Avanti Legacy del Sol is proposing to enter into partnership with the Brownsville Housing Opportunity Corporation, a nonprofit subsidiary of the Housing Authority of the City of Brownsville to collaborate on the development and implement a property tax exemption by including the Brownsville Housing Opportunity Corporation as the new General Partner for the transaction.

NOW, THEREFORE, BE IT RESOLVED that the City of Brownsville, represented by its governing body, reaffirms its support for the proposed Avanti Legacy del Sol apartments, located near the northwest corner of Ruben M. Torres Boulevard and Laredo Road, Brownsville, Texas. Further, the City strongly endorses the partnership with the Brownsville Housing Opportunity Corporation of the Housing Authority of the City of Brownsville, to obtain a property tax exemption to ensure the development of this critically needed affordable housing.

BE IT FURTHER RESOLVED, that the Avanti Legacy del Sol provides for the creation of needed affordable housing and will additionally support the City's efforts to promote a more vital economy and that the City, acting through its governing body hereby

authorizes, empowers, and directs City Manager of the City of Brownsville, Texas to certify this Amended Resolution to the Texas Department of Housing and Community Affairs.

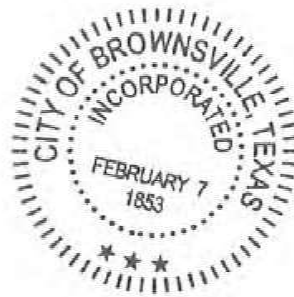
DULY PASSED, ADOPTED AND APPROVED by the City Commission of the City of Brownsville, Texas on the 20th day of August 2024.



John Cowen, Jr, Mayor
City of Brownsville, Texas



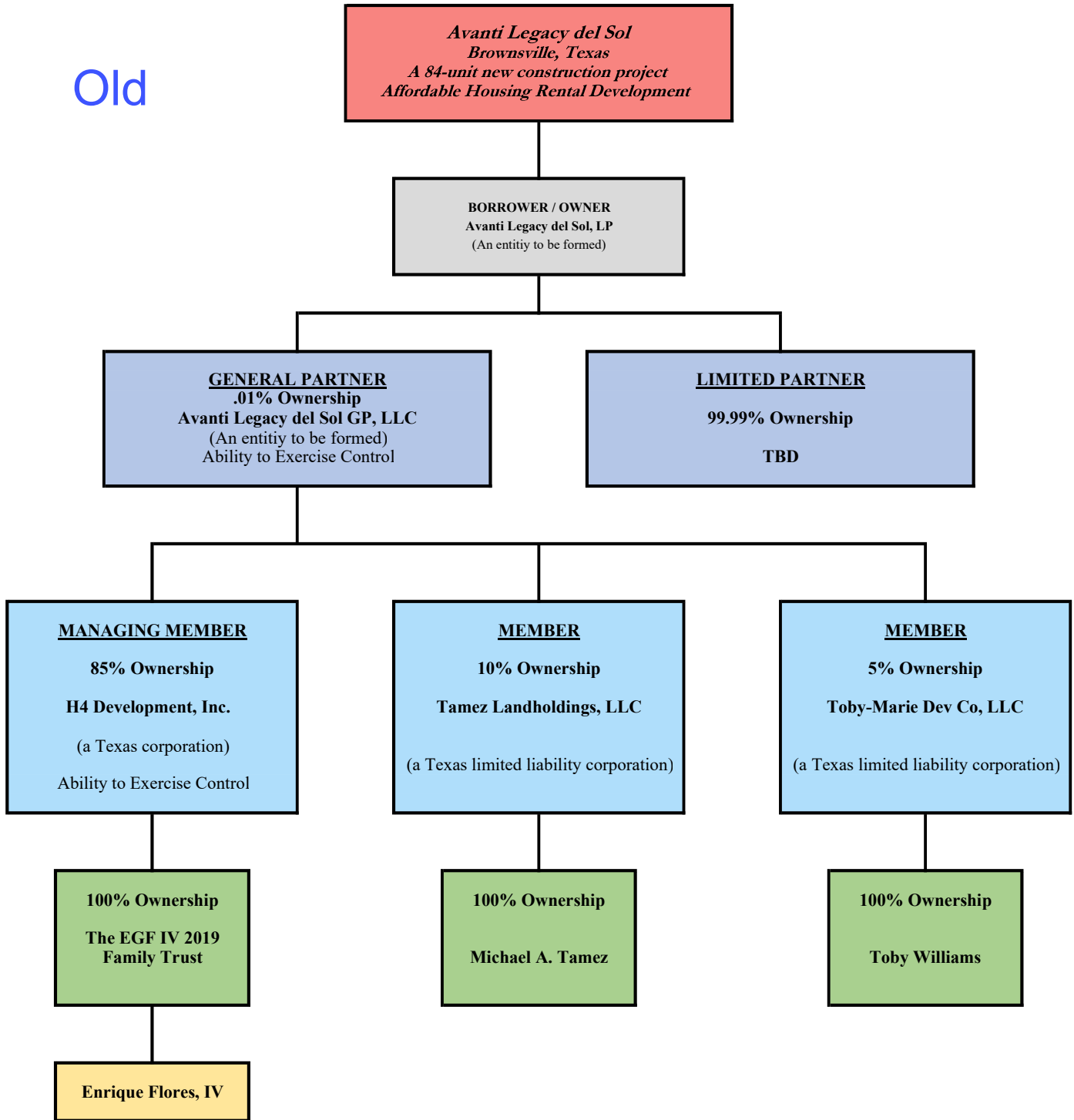
Marina Zolezzi, Acting City Secretary



AVANTI LEGACY DEL SOL, LP

Project Ownership Organizational Summary

Old



PROJECT OWNERSHIP ORGANIZATIONAL SUMMARY

New

