E. Project Financing

The success of the proposed developments rests on their marketability and financial feasibility. Financing must be available to pay for the development costs such as predevelopment, new construction, soft costs, etc. The financing of the project involves two phases (Predevelopment and Construction) and several different types of financing.

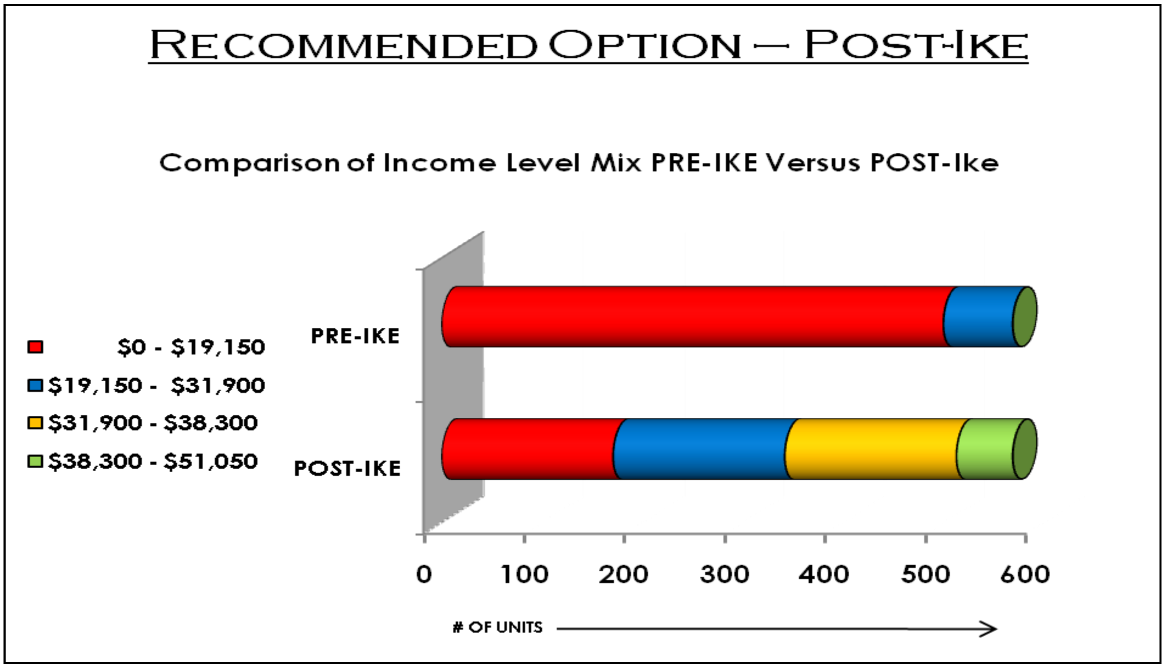
The following two tables show the sources and uses of funds for the redevelopment of the four sites and new scattered sites to create 569 units. The total projected cost is approximately $91.3 M. GHA has firm commitments for a portion of the funding for the project but will find it necessary to compete for both local and national pools of funds.

Site	Total Units	Total Cost
Palm Terrace	40	3,770,000
Oleander Homes	120	22,150,200
Cedar Terrace	110	20,304,350
Magnolia Homes	120	22,150,200
Scattered Sites	179	22,968,206
	569	$91,342,956

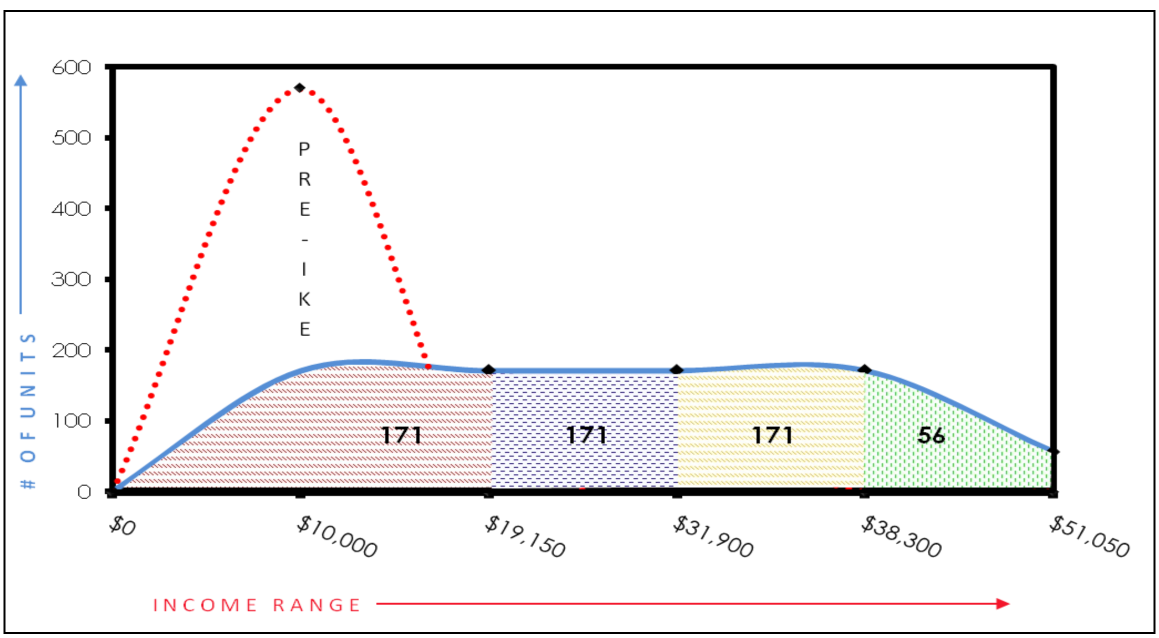
GHA has identified the following funding sources for the developments. Of the $88M total, more than $45M is committed. GHA will be seeking Low Income Housing Tax Credits, CDBG funding, HOPE VI funds, conventional debt and other resources.

Source	
CDBG Funds Round 1	$ 25,000,000
Insurance Funds	$ 14,000,000
Tax Credits	$ 11,000,000
Project Based Voucher	$ 7,354,800
CDBG Funds Round 2	$ 26,000,000
RHF funds	$ 5,000,000
Total Source	$ 88,354,800

In creating the financial models for the development of all four sites, GHA is taking into account the amount of income to be generated through rent at each of the properties and the ability of each of the developments to pay for conventional debt. The following graph shows how the income in the public housing units was generally below 20% of median income prior to Hurricane Ike, the red line below. To be able to take on conventional debt to pay for the development costs GHA will have to tier the resident incomes higher. The blue line on the graph shows a projected distribution in the new units of 10-80% of median income, with the income tiers becoming 10% at 20% of median income, 30% at 50% of median income, 30% at 60% of median income and 30% at 80% of median income.



Income Ranges based on family of four



Income Ranges based on family of four

Board Approved Option

POST-IKE Unit Breakdown by Site & Income Level

INCOME RANGE	Up to $19,150	Up to $31,900	Up to $38,300	Up to $51,050	TOTAL UNITS
Cedar Terrace	33	33	33	11	**110***
Oleander Homes	36	36	36	12	**120**
Palm Terrace	12	12	12	4	**40**
Magnolia Homes	36	36	36	12	**120****
Scattered Sites	24	24	24	7	**79*****
Scattered Clusters	30	30	30	10	**100**
TOTAL UNITS	**171**	**171**	**171**	**56**	**569**

**If GHA secures a HOPE VI grant for the redevelopment of Cedar Terrace, the number of units on the original site would decrease as GHA would develop additional scattered sites in the adjacent area.*
***If GHA secures a HOPE VI grant for the redevelopment of Magnolia Homes, the number of units on the original site would be modified or revised.*
****If GHA secures a HOPE VI grant for the redevelopment of Magnolia Homes and or Cedar Terrace, the total number of scattered sites would be modified or revised.*

Reduction in Density at Sites PRE-IKE Versus POST-IKE

	CEDAR TERRACE	OLEANDER HOMES	PALM TERRACE	MAGNOLIA HOMES
PRE-IKE	136	196	104	133
POST-IKE	110	120	40	120
NEW DENSITY	19% LESS	39% LESS	62% LESS	10% LESS

Possible Financing Sources

Sources	**Uses**	**Sources**	**Uses**
Loans from Lenders	Acquisition Predevelopment Construction	Loans from Lenders	1st mortgage loans
	Construction	Local, State & Federal Agencies	2nd mortgage loans and grants
Grants from Local, State & Federal Agencies	Acquisition Predevelopment Construction	Local, State & Federal Agencies	Down payment assistance and closing costs grants Construction write-down Infrastructure
State HFA	Acquisition, Predevelopment & Construction		3rd mortgage loans and grants
Equity	Construction Predevelopment	Tax credit Syndicator/partner	Construction Predevelopment
Foundations	Construction Predevelopment Down payment & Closing Costs	Homebuyer	Down payment & Closing Costs
GSEs	Construction	HA Self-Sufficiency Program	Down payment & Closing Costs

Assumptions and Observations

Several important assumptions and observations have been made in analyzing the financial feasibility of the project and preparing a financing plan. These assumptions and observations must be reviewed and verified by the Galveston Housing Authority (GHA). The assumptions and observations must be prioritized in order of importance so that the authority can make final decisions on which direction to go. The following are the assumptions and observations:

Land Acquisition Values & Equity

The GHA owns the properties free and clear of mortgages or liens. The acquisition value of the land and buildings has been derived by using assessment data from the

Property Appraiser's Office and comparable sales in the area. It is difficult to find comparables with similar square footage to the properties since the units previously were not market comparable.

Target Market and Income

The GHA has a mandate to serve families who are low-income, very low-income, and extremely low-income as determined by the US Department of Housing and Urban Development. In addition to GHA's mandate, the approval of the conversion process by HUD requires that the former residents get every opportunity to rent or purchase the newly constructed units if they qualify. GHA will give the former residents of the four sites, other public housing residents, Section 8 assisted residents and income eligible persons on the Authority's waiting lists first priority to rent or purchase the new units. Multiple subsidy sources will be required to make the units affordable to low-and very low-income families.

The following is a chart of typical financing sources and uses:

Funding Source	**Eligible Uses**
CDBG-City	Special Activity-Neighborhood Revitalization
HOME-City	Predevelopment, acquisition, construction
State Housing Finance Agency	All eligible costs
4% Low Income Housing Tax Credits	All eligible basis costs
Low Income Housing Tax Credits	All eligible basis costs
Tax Exempt Bonds	All eligible costs
Federal Resources	
Housing Choice Vouchers	Mortgage subsidy
Replacement Factor Funds	Development Costs for public housing
Capital Grant Funding	Development Costs for public housing
State Funding	
HOME	Acquisition, new construction, rehabilitation
CDBG	Acquisition, new construction, rehabilitation
Bank Resources	
FHLB AHP	Acquisition, predevelopment, permanent/down payment
FHLB CIP	Below market lending, Banks
Predevelopment Program	Predevelopment, non profit only

Subsidy and Funding Sources

Components of the Financing Plan - Homeownership

1. Equity Financing

The GHA has an equity position of approximately 100% in the existing land and buildings. This equity can be used as a source of financing to make the units affordable to the target population. The GHA has several options in applying this type of financing. The equity could be applied as follows:

- As a forgivable grant to the homebuyer that is secured by a subordinate mortgage on each property for a specified period such as 8 years. The grant liability would be reduced beginning on the anniversary of the 4th year and reduced by 20% for each of the next 4 years of successful homeownership. Successful homeownership is understood to mean: 1. Using the house as the primary residence 2. Timely payment of all homeowner's association dues 3. Timely payment of all property taxes 4. Maintain and pay all homeowners insurances, wind storm, flood, and homeowners. If the owner sells or rents the house prior to the end of the period, the remaining unreleased portion of the grant will be payable to GHA from the net proceeds of the sale or is due upon rental or other transfer of the property. The grant could be needed because the buyer has a gap in the amount he or she qualifies for, or the total development cost exceeds the appraised value of the property. **Implications:** The GHA will have to record and track its mortgages. Annual occupancy certification may need to be done to ensure that the grant continues to fulfill its purpose of homeownership. At the end of the grant period, the mortgages will have to be satisfied. No loan servicing will be required.
- As a low or zero interest loan, with no or deferred payments, which is secured by a subordinate mortgage on each property for a specified period such as 10 years. The expectation is that the buyer's economic position should improve because of homeownership and could start payments in the future or be able to refinance as the property appreciates. Monthly principal and interest payments would be due and a balloon payment could be due at the end of the loan period. **Implications:** The GHA would have to include loan servicing, which could be subcontracted to a lender or servicing agent. In addition, there is a risk that the family's projected increase in income or refinancing possibilities are not realized. The GHA could change the terms of the loan or forgive a part or the entire loan.

- As a project based grant to serve as a discount of GHA's initial equity valuation or basis. This grant will be in an amount equal to the difference between development costs and appraised value. **Implications:** If this gap cannot be covered by outside grant sources, GHA can write down the cost. There will be no cash nor tax implication as this is a paper transfer. The price of the units should be in line with appraisals.
- To provide an equity stake for the GHA or its affiliate in the development of tax credit units. If GHA provides the land and assigns the value as either an equity stake or a long-term deferred loan, the GHA will have a smaller payment to the investor at the end of the 15 year tax credit compliance period. In addition, the fact that land costs will not be factored into the overall development costs will reduce the overall costs and the need for conventional debt. **Implications**: Lower cost and therefore more affordable rental units.

2. Debt Financing

The GHA has the ability to provide project subsidy in an amount equal to its initial equity contribution either as a grant or some combination of loan and grant funds. GHA should seek to borrow any debt needed for this project from a pool of lenders who will bring several enhancements to the mix to get the best possible leverage of resources. This would work with a small pool of lenders, sharing first position, wherein GHA would subordinate its equity (value of land and buildings, if any) position to the first mortgage. These lenders would share in a participation loan with negotiated underwriting, terms, and responsibilities.

A lead lender would be selected, one who can handle the construction phase. The pool would be funded on a revolving, participation basis. The size of the revolver would be determined based on the timeline path selected by GHA. If GHA decides to provide additional cash into the deal, perhaps pending funding of soft money commitments, those dollars will go into the deal first, with debt coming in last. Final construction bids, based on the specifications, will allow the GHA to create a final construction budget.

Financing four affordable family developments of approximately $88.5 million will require GHA to secure several sources of funding to leverage its own financial resources. The critical challenge is to identify permanent sources of funding for the redevelopment. While the challenges associated with securing predevelopment and construction financing are not inconsequential, generally funding for those project phases can be secured if permanent sources of funding that can take out construction funding is identified.

3. Low Income Housing Tax Credits

Low income housing tax credits represent the most significant source of funding for affordable housing. The financing strategy will depend heavily upon the best strategy for maximizing equity from investors in the low income housing tax credits for the development.

a. Nine Percent Low Income Housing Tax Credits

Nine percent tax credits are allocated on a competitive basis once a year by the THCDA. Depending on project size as well as other sources of funding for a development, nine percent tax credits can be the best source of funding for an affordable housing development. Nine percent tax credits can generate equity (which means that the funds are not repaid) that represents over 60 percent of total funding for an affordable housing development.

Criteria for allocation of nine percent tax credits include:

- Leveraging of tax credits. In the case of these developments, this criterion can be satisfied by the amount of public funds that will be needed to finance the project.
- Developer and property manager experience. To satisfy this criterion, GHA will have to team with an experienced affordable housing developer.
- Proximity of site amenities, including transit, schools (for family projects), medical clinics or hospitals, libraries, grocery stores, pharmacies, parks and community centers.
- Service amenities provided on-site, such as after school programs, high speed internet access, educational classes, and day care.
- The extent to which the project is part of an overall neighborhood revitalization.
- The use of sustainable building methods.
- Lowest incomes served by the project.
- Readiness to proceed, defined to include start of construction within 150 days after tax credit reservation, enforceable commitments for all construction financing, evidence of environmental clearances and public approvals (except building permits), and design review approval.

Because of the highly competitive allocation process, applications for nine percent tax credits typically secure all points on the application.

b. Four Percent Low Income Housing Tax Credits

Four percent tax credits, while potentially offering lower levels of funding for an affordable housing development compared to nine percent tax credits, nonetheless can provide a significant source of funding for larger affordable housing developments. With small to medium size affordable housing developments, four percent tax credits can generate approximately half of the amount of equity nine percent tax credits. However, there are several issues that should be considered with four percent tax credits:

- Securing an allocation of four percent tax credits is significantly easier than securing an allocation of nine percent tax credits;
- Four percent credits can be used with any state and federal funding; and,
- Four percent credits are accompanied by tax-exempt bond financing, which typically offers somewhat lower interest rates on permanent financing than standard market rate permanent financing from a private lender.

4. State Funding
Texas Multifamily Housing Funding Options

Multifamily HOME Program

(Administered by the HOME Division)
The HOME Investment Partnerships Program helps expand the supply of decent, affordable housing for low and very low income families by providing grants to local governments and nonprofit and for profit developers for housing purposes. The Multifamily HOME activities include rental production for Community Housing Development Organizations (CHDOs) and other applicants, as well as operating expenses for CHDOs.

For latest details on application deadlines check here:
http://www.tdhca.state.tx.us/home-division/mf-home/index.htm

Housing Tax Credit Program

The Housing Tax Credit (HTC) Program receives authority from the U.S. Treasury Department to provide tax credits to nonprofits, for-profit developers, and syndicators (or investors). The targeted beneficiaries of the program are low income families at or below 60% AMFI. The program's purpose is to encourage the development and preservation of rental housing for low income families, provide for the participation of for-profit and nonprofit organizations in the program, maximize the number of units added to the state's housing supply, and prevent losses in the state's supply of affordable housing. HTC is regionally allocated in thirteen (13) state services regions and further distributed in each of those regions into Rural and Urban/Exurban categories.

For latest details on application deadlines check here: http://www.tdhca.state.tx.us/multifamily/htc/index.htm

Tax Credit Exchange Program

The Tax Credit Exchange Program receives authority from the U.S. Treasury Department and Section 1602 of the American Reinvestment and Recovery Act of 2009 "ARRA". The Exchange Program allows for developments that have been allocated tax credits in 2007, 2008 and 2009 to return their credits and "exchange" them for a cash amount. The program is modeled after the Housing Tax Credit Program with some modifications that give priority to developments that are located in Rural areas or are considered At-Risk.

For latest details on application deadlines check here: http://www.tdhca.state.tx.us/recovery/detail-htc-exchange.htm

Tax Credit Assistance Program

Title XII of the Recovery Act appropriated HOME Investment Partnerships (HOME) Program funds to assist in the development of properties that had been awarded low income housing tax credits (HTCs) between October 1, 2006, and September 30, 2009. The Tax Credit Assistance Program (TCAP) provides funding to compensate for the current devaluation of HTCs, which is jeopardizing the financial stability of these affordable rental developments. TCAP funds are to be used to help provide additional financing for shovel-ready developments giving priority to At-Risk and Rural developments. All TCAP funds must be used or returned by February 16, 2012.

For latest details on application deadlines check here: http://www.tdhca.state.tx.us/recovery/detail-tcap.htm

Housing Trust Fund

The Housing Trust Fund (HTF) receives funding from the State of Texas, multifamily bond issuance fees and loan repayments, and is the only State-authorized program for affordable housing. HTF offers below market interest rate loans to nonprofits, units of local government, Public Housing Authorities, Community Housing Development Organizations, and for-profit entities. The targeted beneficiaries of the program are low income households. HTF funds may be used for the acquisition, rehabilitation, and new development of affordable housing, and may provide predevelopment loans and capacity building grants to nonprofits and CHDOs engaged in the development of affordable housing. HTF is regionally allocated in the thirteen (13) state service regions.

For latest details on application deadlines check here: http://www.tdhca.state.tx.us/htf/index.htm

Multifamily Bond Program

The Multifamily Bond Program issues taxable and tax-exempt mortgage revenue bonds (MRBs) to fund loans to nonprofit and for-profit developers. The proceeds of the bonds are used to finance the construction, acquisition, or rehabilitation of multifamily properties, with the targeted beneficiaries being low income households. Property owners are also required to offer a variety of services to benefit the residents of the development. Specific tenant programs must be designed to meet the needs of the current tenant profile and must be approved annually by TDHCA.

For latest details on application deadlines check here: http://www.tdhca.state.tx.us/multifamily/bond/index.htm

Multifamily Preservation

Preservation of existing affordable and subsidized housing stock is a critical element to achieving the Department's mission to provide safe, decent and affordable housing. Given current demographic projections for the state of Texas, stabilization of the existing stock of affordable housing is as equally important as new production in terms of meeting future demand for housing.

For latest details on application deadlines check here: http://www.tdhca.state.tx.us/multifamily/preservation/index.htm

Federal Home Loan Bank AHP Funds

The Federal Home Loan Bank (FHLB) is a privately owned $100 billion financial services organization that works with member financial institutions as a stable source of low-cost financing and community building programs. Its main subsidy program for affordable housing is the Affordable Housing Program (AHP), which provides up to $1,000,000 to developers of affordable housing as a grant or low interest loan. Created from FIRREA legislation, the FHLB system is required to provide this funding for affordable housing.

Basic eligibility requirements include:

- Percentage of units set-aside for very low income households (at or below 50 percent of area median income);
- Use of donated or government-conveyed land;
- Sponsorship by a nonprofit or government entity;
- Percentage of units reserved for formerly homeless persons;
- Promotion of empowerment (e.g. on-site healthcare or day care, employment or other training services, tenant council, etc.);
- Meeting FHLB policy priorities: special needs housing and project readiness;
- The amount of subsidy requested per unit
- Community stability, e.g. being part of a neighborhood stabilization plan, rehabilitating vacant or abandoned properties, not displacing low and moderate income households, use of sustainable growth practices.

Based on the criteria listed above, both the family and senior developments can be competitive for AHP funding.

6. Potential Local Resources

Potential local resources include the City of Galveston's CDBG Disaster funds. GHA anticipates a $25M allocation of funds from the disaster recovery pool. There is the potential for a second allocation of funding in the same range.

Other Potential Sources of Funding

A. HUD 202 Funds

The HUD 202 program represents a potential source of funding for the senior housing development. Although funding for this program is highly competitive, the capital advance portion of the program can provide a substantial amount of leverage for GHA. For example, in the 2007 funding round, HUD 202 awards generated subsidies in the amount of $130,000 to $140,000 per unit. The largest awards in 2007 were approximately $10 million to $12 million.

B. **Replacement Housing Factor Funds**

The Capital Fund Formula Rule at 24 CFR 905.10(i) provides that a public housing agency (PHA) may receive Replacement Housing Factor (RHF) funding for a period of up to 5 years. A PHA may be given RHF funding only if the PHA did not receive funding for public housing units under public housing development, Major

Reconstruction of Obsolete Public Housing, HOPE VI or other programs that would otherwise provide replacement housing. Beginning with funding provided in Fiscal Year (FY) 2000, RHF funding can only be used for replacement public housing. The average allocation is about $5,000 per unit. RFF funding can only used for the development of public housing units. Funding is competitive and the national pool varies based on the HUD budget.

C. Capital Grant Funding

Under the Capital Fund Financing Program (CFFP), a PHA may borrow private capital to make improvements and pledge, subject to the availability of appropriations, a portion of its future year annual Capital Funds to make debt service payments for either a bond or conventional bank loan transaction. Generally no more than 33% of the PHA's current annual CF grant adjusted for any proposed or planned demolition or disposition or other activity that would result in a reduction of the PHA units count or otherwise reduce CFP Funds appropriated or available to the PHA. The term is limited to no more that 20 years. CFP funds can only be used for the development of rental public housing units or the creation of a public housing homeownership program.

D. Brownfields

If GHA does find hazardous conditions on site through the environmental review process, Brownfields funding from the EPA is a potential funding source. There are three types of funding available; Brownfields Assessment Grants (each funded up to $200,000 over three years), Brownfields Revolving Loan Fund (RLF) Grants (each funded up to $1,000,000 over five years) and Brownfields Cleanup Grants (each funded up to $200,000 over three years). These grants may be used to address sites contaminated by petroleum and hazardous substances, pollutants, or contaminants (including hazardous substances co-mingled with petroleum). GHA as a quasi-governmental entity or as a non-profit could apply for funding. Funding in Fiscal Year 2008 was $72million nationally. Funding is competitive.

E. Fannie Mae

Fannie Mae has a “Modernization Express” product that allows a housing authority to borrow funds for the development of public housing. Repayment is made using the authority’s public housing capital grant funds. The maximum borrowing is equal amount that be repaid on a monthly basis using up to 30% of the cap grant allocation. The lending rate is tax exempt and the term can be up to twenty years.

F. HOPE VI

Since 1993, HOPE VI has been the mechanism driving the revitalization of the Nation's most distressed public housing developments providing grants and unprecedented flexibility to address the housing and social service needs of their residents. Any public housing authority (PHA) that operates public housing units is eligible to apply for HOPE VI funding.

HOPE VI permits expenditures for the capital costs of demolition, construction, rehabilitation, development of replacement housing and community and supportive services. It encourages PHA's to seek new partnerships with private entities to create mixed-finance and mixed-income affordable housing that is radically different from the traditional public housing "projects". PHA's administer the program, and can use the grants in conjunction with modernization funds or other HUD funds, as well as local and state contributions, public and private loans, and low-income tax credit equity. While it is required that most of the funds be used for capital costs, a portion of the grant may be used for community and supportive services.

Annually, appropriations are distributed through a national competition. PHA's are required to respond to a Notice of Funding Availability (NOFA) published in the Federal Register by submitting an application to HUD. According to HUD, on average, approximately $115 million has been appropriated for HOPE VI grants each year since fiscal year (FY) 2004.

Amendments

This Redevelopment Plan may be modified at anytime. The modification must be adopted by the Galveston Housing Authority and its governing board of the political subdivision in which the project is located, upon notice and after public hearing, as required for the original Redevelopment Plan.

This plan is subject to approval by the Department of Housing and Urban Development. The Galveston Housing Authority is subject to all statutory, regulatory and executive order requirements applicable to the development of public housing.