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NAHEFFA
National Association of Health and Educational Facilities Finance Authorities

NAHEFFA Fall 2023 Conference

No Homes, No Workers: Regional and National Solutions for Workforce Housing

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What about bonds?

- Your clients are likely facing the same challenges as Dartmouth Health and UVM – lack of affordable housing hurts recruiting and retention.

- Case studies illustrate creative ways to address needs without debt.

- You’re in the bond business, so how can bonds be used for housing and what are some of the recent trends?

Business Considerations

Even where tax exempt bonds are possible, there may be other reasons your borrowers look to alternative financing structures:

- Too much leverage
  - Impact on ratings
  - Balance sheet based financial covenants
- Risk transfer
- When spreads were narrow, soften blow of not using tax exempt (not anymore)

Qualified 501(c)(3) Bonds

- Category of tax exempt private activity bonds
- Federal requirements include:
  - Ownership of financed asset by 501(c)(3) or governmental unit
  - 95% of proceeds must be used in exempt activities of the borrower
  - Proceeds **may not** be used directly or indirectly to provide *residential rental property* (Section 145(d)(1) added in 1988)
    - Legislative history and a 1996 PLR settled on key factor in definition - residential rental property is available to members of the public
    - This prohibition added to avoid end runs around certain limitations in housing bonds
- Need to mind unrelated business income
  - Arises if rental property not in furtherance of charitable purpose
  - Doesn't apply to some rental income
  - Exception doesn't apply to debt-financed property
- State law

Housing Bonds

- Issued by your counterpart, HFAs
- Exempt facility bonds (a different category of PABs)
- Subject to **volume cap**
- Must comply with **income set aside requirements**:
  - 40% of apartments for families with income of 60% of AMI (area median income) or less, or
  - 20% for families with incomes of 50% of AMI or less
- Projects can utilize tax credits for some portion

Governmental Bonds – New trend

- Response to strong demand for workforce housing, limited volume cap, low rates, appetite from buy side
- Billions of tax exempt high yield "essential housing" governmental bonds issued since 2019
- Developer/consultant driven
  - Statute to establish governmental purposes and issuer with jurisdiction
  - Identify building – completed and stabilized [no construction risk or ramp up]
  - Model cash flows/projections (Structure: bullet with "soft" amortization through redemptions from excess cash flows; multiple liens; equity-like deeply subordinate note to developer; rosy projections 3% growth in revenues)
  - Buy in from governmental issuer by pitching: lower rent, management of debt and project by third-parties, rent structure for "middling middle" (e.g., 1/3 80% AMI or less, most 81% and 120% AMI, rents restricted to 30% to 35% of household income, 4% cap on annual increases), fee for governmental issuer
  - Developer fronts deposit, repaid from proceeds at closing plus a fee, ongoing asset management fee and deeply subordinated, high coupon note
- Financings criticized and strain from higher rates impacting transactions

Thank You!

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