



## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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July 22, 2024

Writer's direct dial: 512 475-3296  
Email: [bobby.wilkinson@tdhca.texas.gov](mailto:bobby.wilkinson@tdhca.texas.gov)

Brian McGeady  
Pivotal Housing Partners  
9100 Centre Pointe Drive,  
Building 5, Suite 100  
West Chester, OH 45069

RE: Appeal of Underwriting Analysis – Reserve at Woodland Heights (24178)

Mr. McGeady:

The Department received the above-listed Application on February 29, 2024, which proposes the New Construction of 60 affordable Units in Lufkin, Angelina County. The Application includes 12 one-bedroom, 36 two-bedroom, and 12 three-bedroom Units. The Rent Schedule submitted with the Application incorrectly included the rent allowable for a three-bedroom Unit for 12 of the two-bedroom Units. Because this rent exceeds the allowable limit for two-bedroom Units, the Department issued a deficiency for the Application on June 24, 2024, asking the Applicant to revise the Rent Schedule to be consistent with the allowable rents for each Unit size. The Applicant timely responded to this deficiency, submitting a new Rent Schedule that included the appropriate rent levels for each bedroom size.

When underwritten with the appropriate two-bedroom rents, the Effective Gross Income (EGI) decreases by \$18,826, generating a 1.11 Debt Coverage Ratio (DCR) and negative 15-year cash flow of \$214,547. In order to meet the minimum 1.15 DCR, and in accordance with 10 TAC §11.302(d)(4)(D)(i)(IV), the underwriter assumed a \$95,432 decrease to debt, which required increasing the deferred developer fee by the same amount. This amount of deferred fee cannot be repaid within 15 years.

The Application was determined to be financially infeasible in accordance with 10 TAC §11.302(i)(2), which states that a Development will be determined to be infeasible if:

(2) Deferred Developer Fee. Applicants requesting an allocation of tax credits where the estimated Deferred Developer Fee, based on the underwritten capitalization structure, is



not repayable from Cash Flow within the first 15 years of the long term pro forma as described in subsection (d)(5) of this section.

The Applicant timely appealed this determination on July 16, 2024. The appeal suggests that that the revision of the Rent Schedule created other inconsistencies within that Application, and that these inconsistencies should be curable through the Administrative Deficiency process. With the appeal, the Applicant submitted unsolicited updated operating expenses and a revised 15-year operating pro forma. The appeal also sought to add a revised loan term sheet that propose a new loan amount, and a revised tax credit equity proposal that increases the credit price from \$0.87 to \$0.89. The appeal asks the Department to consider the revised permanent loan amount and the revised tax credit equity proposal in order to meet financial feasibility.

Through the Department's initial underwriting process, the management fee was adjusted to reflect 4% of the reduced EGI, and the senior loan amount was reduced in order to meet the minimum 1.15 DCR. These adjustments addressed the above-noted financial inconsistencies created within the Application by the revised Rent Schedule. Because of this, the revised operating expenses, 15-year pro forma, and term sheets submitted by the Applicant with the appeal were not required to address an inconsistency within the Application.

The Department has reviewed the Application and found no inconsistencies that would necessitate an Administrative Deficiency. Therefore, there was no need to request updated documentation submitted with your appeal. Accordingly, the appeal is denied.

As requested on your appeal form, this appeal has been placed on the agenda for the Department's Governing Board meeting to be held on July 25, 2024. Please review §11.902 of the 2024 QAP for full instruction on the appeals process. Please note that 10 TAC §11.902(g) and Tex. Gov't Code §2306.6715(d) limit Board review of an Application on appeal to the original Application and those documents contained within the Application.

Sincerely,

A handwritten signature in blue ink, appearing to read "R D Wil II".

Bobby Wilkinson  
Executive Director