

Austin Housing Finance Corporation Meeting Transcript – 4/21/2016

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>> Tovo: Okay, welcome back. I would like to call back to order this meeting of the Austin city council. Councilmember Houston. >> Houston: I would like the record to reflect if I had been present for the vote for habitat -- whatever number that was, I would have voted yes. >> Tovo: Thank you very much for that. That was item 36. Okay. And now I would like to recess this meeting of the Austin city council again and call to order the meeting -- to convene a meeting of the Austin housing finance corporation board of directors. Welcome treasurer Spencer. >> Good afternoon, board of directors. Betsy Spencer, treasurer of the Austin housing finance corporation. Today we have three items before you. One is approving the minutes for the January 28th and February 25th board meetings. The second item is conducting a public hearing recording the issuance of private activity bonds for the cross creek apartments. And the third item would be to approve a resolution authorizing the issuance of said bonds. And I'm available for questions. >> Tovo: Thank you. Is there a motion on those three items? Councilmember Garza moves approval of all three on consent and councilmember Casar seconds that. And the motion I assume was to approve them as well as to close the public hearing. Let me see if we have speakers. Actually, I think we do. Mr. Pena, you are slated to speak on item 3. So if you would like to come up to the podium. James Ross? No James Ross. I'm sorry, you're also -- you're also signed up to speak on item 2 as well. Why don't you begin with item 2 and then we'll go to

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item 3. >> First of all, councilmember Zimmerman, thank you very much for trying to allow me to speak earlier. I appreciate that very much. And to you, mayor and councilmembers, you're supposed to be back at 3:30. Let's be punctual for us taxpayers, okay? I try to be punctual when we have meetings with y'all or out in the community, and let the record reflect, I'm -- that's not good. It doesn't set good policy for the people that are viewing. Anyway, item number 2 and 3 I'll just lump it together. We do need housing. This is to finance the rehabilitation of the cross creek apartments. And I thought it was literally about this funding, but could I ask Ms. Spencer to define what is the parameters of the \$60 million of Austin housing finance corporation bonds? A lot of the people do not understand that that are viewing and they asked me to come and speak and ask Tuesday whether it's taxpayer money or what type of funding mechanism is this. If it's appropriate we would like to hear it from her for the record. >> Tovo: Mr. Pena, how would you like to proceed? >> I really did. That's all I'm asking is for her to respond. >> Tovo: I would be glad to ask Ms. Spencer. I didn't want to interrupt your speaking. Thank you, Mr. Pena. >> So this is issuing private activity bonds, which functions just like debt. This is not city taxpayer dollars,

there is no debt obligation to the city of Austin. They are private activity bond debt bonds that are issued. There will be an investor and then the property owner will repay the bonds just like they would a mortgage or debt. So there's no obligation to the city of Austin.

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>> Tovo: Thank you. Are there any other questions from councilmembers? Councilmember Zimmerman.
>> Zimmerman: Thank you. Before you sit down, I think part of what Mr. Pena might have been asking about, don't let me put too many words in his mouth, but there are lots of ways to borrow money, as you know. And it's still not clear to me why we have the private activity bonds because there are many bond markets, many bond instruments. There's a plethora of financing options available. So I think people are still wondering why do the private activity bonds exist when there are just dozens, if not hundreds of other financing mechanisms that are similar to the private activity bonds? There are public bonds, right? The city issues general obligation bonds, for instance, that people vote on. That's one way that you can fund things. So maybe that's part of the question is they don't understand why these private activity bonds exist and why they're preferred compared to other financing options. >> Are you asking me a question? >> Zimmerman: Yes, there was a question. Why do the private activity bonds exist as opposed to other bonds that can be sold on the market and other ways to borrow money to build housing? Commercial loans, city bonds. There's dozens, if not hundreds of ways to borrow money. What is it about the private activity bond that makes it preferable to any other financing mechanism? >> The cost of capital is lower because the tax exempt status of the private activity bonds allows the borrower to borrow funds at a tax exempt rate as opposed to a taxable rate. >> Zimmerman: Okay. >> Tovo: Just one second. Sits, would you identify yourself. >> I'm mark [indiscernible]. >> Tovo: Director

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Zimmerman? >> Zimmerman: People are familiar I think with municipal bonds. There's a huge municipal bond market in the city of Austin, not the housing financing corporation, but the city of Austin issues hundreds of millions of dollars of, you know, municipal bonds. As you say, they're tax exempt so the high income investor, he likes that because he doesn't have to pay any taxes on the interest that he gets. So we understand that. So compared to the municipal bond why is the private activity bond better than a public municipal bond. >> There are two different source-- purposes for bonds. One is a general purpose, which what you're talking about. When the city of Austin issues municipal bonds. But there are also private activity bonds where the internal revenue code allows certain private functions to benefit from tax exempt financing. One of those is affordable housing. >> Zimmerman: Okay. So final point I will try to make again, voters voted for the so-called affordable housing bonds. I call them the unaffordable, unsustainable housing bonds. I believe the last election we had was for 65 million. Was that in 2013? >> I don't know. >> That's correct. >> Zimmerman: Big public election. I think it was mayor pro tem Sheryl Cole, big election. We're going to have an election, we're going to borrow money for the -- for the subsidized housing. So everybody saw that and they voted on it, but when it comes to these private activity bonds, which are additional significant debt, nobody knows about them and nobody sees them. So I think the public is confused as to why we have an election where we go for the affordable housing bonds and we have 75 million voter approved and here comes tens and tens and tens of millions of additional debt that you call private activity bonds. So people are asking why don't you just have the voters vote on all the debt. >> I'll try to clarify. This is not debt to the city, though. Maybe that's the difference. When Mr. Pena and I spoke in the hallway what he asked me

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to clarify was this transaction debt to the city of Austin. And this is not debt to the city of Austin. I don't know if that clarifies, but it's a different type of debt. It is a debt that the owner will pay back to the bank, not to the city of Austin. >> Tovo: Thank you. >> Zimmerman: Right. So finally, final point, when people build apartments and apartment buildings, they'll do conventional financing and they'll go borrow money from a bank to build their apartment buildings. So again I got the part about the tax advantages, right, of the private activity bonds, but to try to answer his question, the builders could have gone to bank of America and they could get a commercial loan to build their apartment buildings instead of going to the private bond market. They could have gone to a bank, but they have a tax advantage going to the private activity bonds. >> Right. The difference, however, is that the municipal bonds, again, I think it's who is paying the debt. And in this situation you don't have a public entity that actually is owning the project. You have a private party that is owning the project. And under the tax code they allow for certain affordable housing bonds to be issued if the borrower meets certain standards. One of those, the most important standard is to set aside a certain amount of units for low and moderate income citizens. >> And final question before you go, what bond commission is your company -- there's a law firm that will make sure the bonds are all kosher and they comply with the law and you get a commission. The bond lawyer gets a commission when these private activity bonds are issued? >> I don't know if I would call it -- our compensation is based on the size of the transaction, but I don't know if you would call it a commission or not. I've never looked at it that way. >> Zimmerman: Compensation. You get paid for being the bond lawyers. >> Correct. It's also reviewed by the Texas attorney general. >> Zimmerman: Correct. And on, say, a 16 million or 20 million bond, how much would you get, say, if there were \$20 million of private activity bonds, the compensation you would get would be how much?

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>> Tovo: If it's appropriate for you to answer that. >> Zimmerman: It's public information. >> Yeah. For this 16-million-dollar deal it would probably be salamander 100,000. >> Zimmerman: 100,000. Thank you. >> Tovo: Thank you. Are there additional questions? All right. I believe that councilmember Garza's motion included all three items. Mr. Pena, you had said initially that you were merging your comments for two and three. Are you still comfortable with that. >> Thank you, councilmember Zimmerman. You made my comments. >> Tovo: Very good. All in favor of these three items? That is councilmembers Houston, Gallo, Garza, Casar, Houston, Renteria and pool. All opposed? Councilmember Zimmerman. Off the dais is -- excuse me, all of those are director. And director troxclair is off the dais. And president Adler off the dais. >> She's coming. >> Zimmerman: Can we do that vote again so she can be included? I can't make a motion to reconsider it because I voted against? >> Tovo: If there's a motion to reconsider we can take that vote again if councilmember troxclair would like to vote on that? Director Garza votes to reconsider that item. Director Gallo seconds that. All those in favor of reconsidering that item signal by raising your hand? That is unanimous on the dais with president Adler off. Councilmember Garza, would you like to make a motion similar to the the one you made a few minutes ago for approval for the consent agenda? >> Garza: I make the same motion, including closing the public hearing. >> Tovo: Thank you. Councilmember Casar seconds it. All those in favor? The same group as before. Councilmembers Houston, Gallo, Garza, Casar, kitchen, tovo, Renteria and pool all opposed.

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Councilmember Zimmerman and troxclair. President Adler off the dais. That's our last piece of business,

is that right, Treasurer Spencer? >> Yes. >> Tovo: I would like to adjourn the Austin housing finance corporation board of directors and call back to order the meeting of the Austin city council.