

The Challenge

- Rural projects are too small to economically recapitalize in a 4% LIHTC, syndicated transaction
 - High transaction costs per unit
 - Limited investor interest

The Challenge

- Rural nonprofit owners may have limited staff and financial resources and/or have a “thin bench” vulnerable to ebb and flow
- Connection between local organizations and local projects is great strength
- How can local organizations pool their projects so as to achieve scale, while taking maximum advantage of local connections?

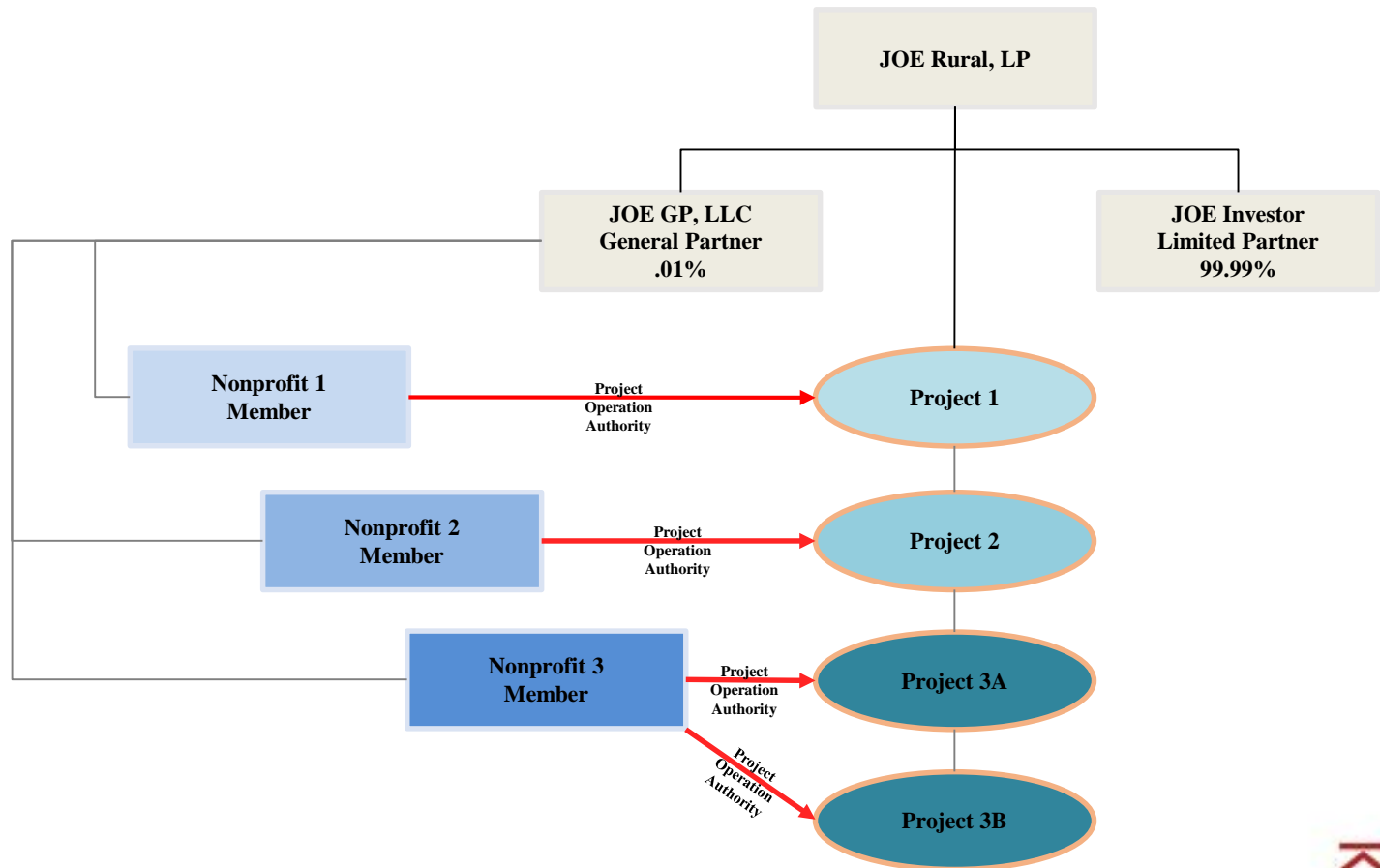


Rural Joint Ownership Entity (R-JOE)

- Conventional tax credit partnership with general partner and investor limited partner
- All projects in same state
- Local nonprofits are all members in JOE GP, LLC
- JOE GP has all conventional rights and responsibilities, but with respect to each project, delegates those responsibilities to the Project Member.



Rural Joint Ownership Entity Ownership & Responsibility Structure



Obligations of Project Member

- Structure and oversee development/rehab
- Engage and oversee property manager
- Provide or arrange for asset management and reporting
- Guarantee completion, tax compliance, operating deficits



Rights of Project Member

- Receive some or all of the attributable developer fee
- Receive property management fee;
- Receive portion of Project cash flow
 - as payment from R-JOE on seller note, and/or
 - as special allocation within JOE GP operating agreement
- Hold first priority Right of First Refusal and Purchase Option.



Backstop Role of JOE GP

- Cross-subsidize Projects (intended)
- Ability to assist challenged Project or Member
- Ability to rescind delegation and take over Project
- Backstop individual project guarantees



JOE GP: Structuring and operational challenges

- Ability to Monitor and Intervene
- Staffing
 - Dedicated?
 - On call from other members?
 - Reinforced by consultants?
- Reserves and equity
 - Contributed by Members?
 - Portion of Developer Fees or Cash Flow
- Caution in Accepting Challenged Projects/Members



Exposure of Members

- If JOE GP not seriously capitalized, Members would need to guarantee each other
 - Hopefully limit guarantee to portion of assets or otherwise
- Members could use Contribution Agreement to share risk



Project Acquisition

- Fee purchase, not interest transfer
 - Need to comply with various tax rules (related party, ten-year rule, etc.)
 - Assessed value
 - Seller note
- Each Project a separate bond “project”, but could be single issuance
- Will underwriters respect cross-subsidy potential?
- Could be project-specific subordinate debt
- Project-level reserves required?



Questions?

- Reception of HFAs, Lenders and Investors
- Tradeoff of Local Autonomy and Group Responsibility
- Can Pooled Reserves and Guaranties Reduce Overall Levels?
- Willingness of Strong Groups to be Exposed to Weak?

