INVEST • BUILD • GROW

November 22, 2019

City of San Marcos
C/O Shavon Caldwell
Planning Department
630 E. Hopkins
San Marcos, TX 78666

RE: Lantana on Old Bastrop Road

Dear Ms. Caldwell,

Pursuant to our conversations, the following are the points that we believe may help clarify the questions expressed by City Council during the meeting held on November 19, 2019. Those points are as follows:

1. This project will produce numerous income streams for the San Marcos Housing Authority and conservatively $1.391 million dollars of net income to the trust over the next 4-5 years (pursuant to the letter from the Housing Trust and James Plummer of Bracewell Attorneys). We have created a PFC structure to effectuate a Public Private Partnership ("P3") that will allow this to occur and has created the mechanism for this P3 partnership that has not existed prior in the City of San Marcos. San Marcos Housing Authority has voted both to partner with Mission DG and to induce the bonds for the Resolution that will be presenting to the Texas Bond Review Board for the required bonds, which is a supporting structure to the Low-Income Housing Tax Credit Equity and TDHCA requirements. As noted, prior, the San Marcos Housing Authority will also have the right for a preferential buy out for year 15, which will in all likelihood deliver this project to the Housing Authority at that time.

2. One of the council members expressed concerns regarding the quality of this product. It needs to be noted that, as with our firm's other tax credit developments, this project will have granite counter tops, brushed metal appliances, and will in no way shape or form be inferior to any market rate product that we would construct or we believe has been constructed in the marketplace. This is a direct result of the fact that, in any mixed-income project, TDHCA requires the LIHTC Affordable Units to be built to the same specification of any market rate units in that mix. Although there are no unrestricted market rate units in this plan, we will build this project to the same levels and specifications as we would any other project that we have constructed or are planning to construct in the state of Texas. It is also important to note that we will also have to maintain ownership for the 15-year reporting period and recapture period for the LIHTC Equity. Because we, as the developer, stay in the deal, it is important to us that we build

desirable high-quality projects that are both highly marketable but also durable. We therefore build a higher quality and specification than other developers normally would in the instances of a market rate transaction. To wit, the project is built to high quality specifications and built to last because we maintain ownership and report to the State on this structure for the full 15-year period. Please see the attached photos for representative imagery of the high caliber of the proposed project's units.

3. This project will have seasoned local supportive service representatives administering the required supportive services for the Tax Credit Equity that will be more than sufficient and exceed all requirements by TDHCA and the state of Texas. To ensure compliance with the LURA, consistent compliance reporting is required by both the resident supportive services provider and property management. Such compliance is tied to the annual disbursement of the tax credits by TDHCA. We are happy to allow City staff or Council to review our supportive services compliance reporting and would gladly put the City on the same notification schedule that we are required to with TDHCA. So, the City can monitor to its satisfaction and the Council's satisfaction the continued maintenance and implementation of all supportive services included in our application and presentation to City Council of November 19, 2019.

4. The ad valorem waiver is required under a 4% Tax Credit structure, with 100% Affordability at 60% AMI or lower, to make the project financially feasible. With limited rents, a 30-year LURA, and the high quality of construction and broad range of beneficial Supportive Services required for residents, the project produces zero cashflow without it, and does not reach the Debt Service Coverage Ratios (is or higher) required by HUD or the Tax Credit Equity Investors.

Sincerely,

Mark F. Tolley

Partner

CC: Victor Miramontes