SEGUIN PUBLIC FACILITY CORPORATION

LILY SPRINGS APARTMENTS

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September 6, 2022

BRACEWELL

PFC Purpose

- Vaquero has proposed the construction of a 288 unit apartment project with an estimated cost of $58,071,814
- Principal purpose of PFC is to own the Project and lease it to the development partnership
- Insulates the City from any liability
- Allows for property to be tax exempt if 50% of units leased to people at or below 80% of median income ($66,320)

Developer Rights and Responsibility

- Developer will assume all financial risks
- Developer will bring proprietary capital stack to Project
- They will guaranty construction completion, costs and operations
- They will set rent, budgets and policies
- They will manage day-to-day operations

Benefits

- Provides Workforce Housing
  - 10% at 60%
  - 40% at 80%
  - Adjusted for family size and bedroom size
  - Rents capped

Income	80%	60%
1 person	$46,480	$34,860
2 people	$53,120	$39,840
3 people	$59,760	$44,820
4 people	$66,320	$49,740

Rent	80%	60%
Efficiency	$1,162	$871
1 Bedroom	$1,245	$933
2 Bedroom	$1,494	$1,120
3 Bedroom	$1,725	$1,293

Benefits (continued)

- Enables Class A apartments
  - Current comparable rents don't allow financing for Class A project
  - Project would have a gap without PFC
  - With tax exemption, you can finance Class A
- Allows for input into:
  - Location
  - Design
  - Tenant selection criteria
- Provides housing for business recruitment

Risks

- If Project not successful:
  - Seguin PFC won't make projected profits but will have no investment
  - Seguin PFC may be removed upon foreclosure and lose control, but then they pay taxes
  - Seguin PFC may get sued and have to defend even though it should have no liability; will have insurance and indemnity
  - Because Seguin PFC is a political body, it could have people show up at Council meetings

Term Sheet

- The Term Sheet addresses the terms for the development and financing of the project. It is not legally binding on either party however the parties agree that the definitive documents will reflect these terms. A summary of selected provisions follows.

  – ***Lease***

    - The PFC will own the Project and enter into a 75-year lease between the PFC and a Vaquero-affiliated tenant (the “Tenant”)
    - The rent will consist of (1) prepaid rent in an amount equivalent to the cost of the land; (2) $25,000 per year administrative rent, adjusted annually for CPI beginning in the second year; (3) “Net Cash Flow Rent”; and (4) “Capital Event Rent”

  – ***Net Cash Flow Rent***

    - Beginning in the fourth year, the greater of the twenty-five percent (25%) of (i) Annual Tax Savings, or (ii) Available Cash
    - If insufficient cash flow, accrues to first sale

  – ***Structuring Fee***

    - The PFC will receive a fee equal to $500,000 at closing

Term Sheet (continued)

- ***Capital Event Rent***
  - For the initial capital event, 15% of the balance of proceeds (after repayment of loans, preferred return and capital contributions of equity partners)
  - Likely to occur in year 4
  - For subsequent capital events, 2% of the gross sales price
- ***Affordability***
  - Tenant will set aside or rent 50% of the total units to tenants earning less than 80% of the area median income (“AMI”)
  - Shall include 10% of the total units to tenants earning less than 60% of AMI
- ***Management***
  - Vaquero will designate the property manager for the Project
  - Subject to the PFC’s approval
  - The management fee will equal 3.0% multiplied by the effective gross income of the Project, but in no event less than $8,500.00 per month

Term Sheet (continued)

– ***Project Financing***

- Vaquero will obtain a senior loan from a senior lender to the Tenant to be secured by a first-lien deed of trust on the Tenant's leasehold interest in the Project, and a lien on the PFC's fee interest in the Project
- Vaquero will also obtain one or more equity partners
- The partners will receive an 8% preferred return

– ***Tax Exemption***

- The PFC shall be responsible for obtaining a 100% property tax exemption for the Project and Lease

– ***Construction***

- The Project must be built and maintained as a Class A apartment project
- Needs assessment upon sale or every 7 years
- To obtain a sales tax exemption for the Project, the PFC will either serve as the general contractor or as a joint-venturer in the general contractor
- Tenant will pay the PFC 25% of the sales tax savings on all construction materials

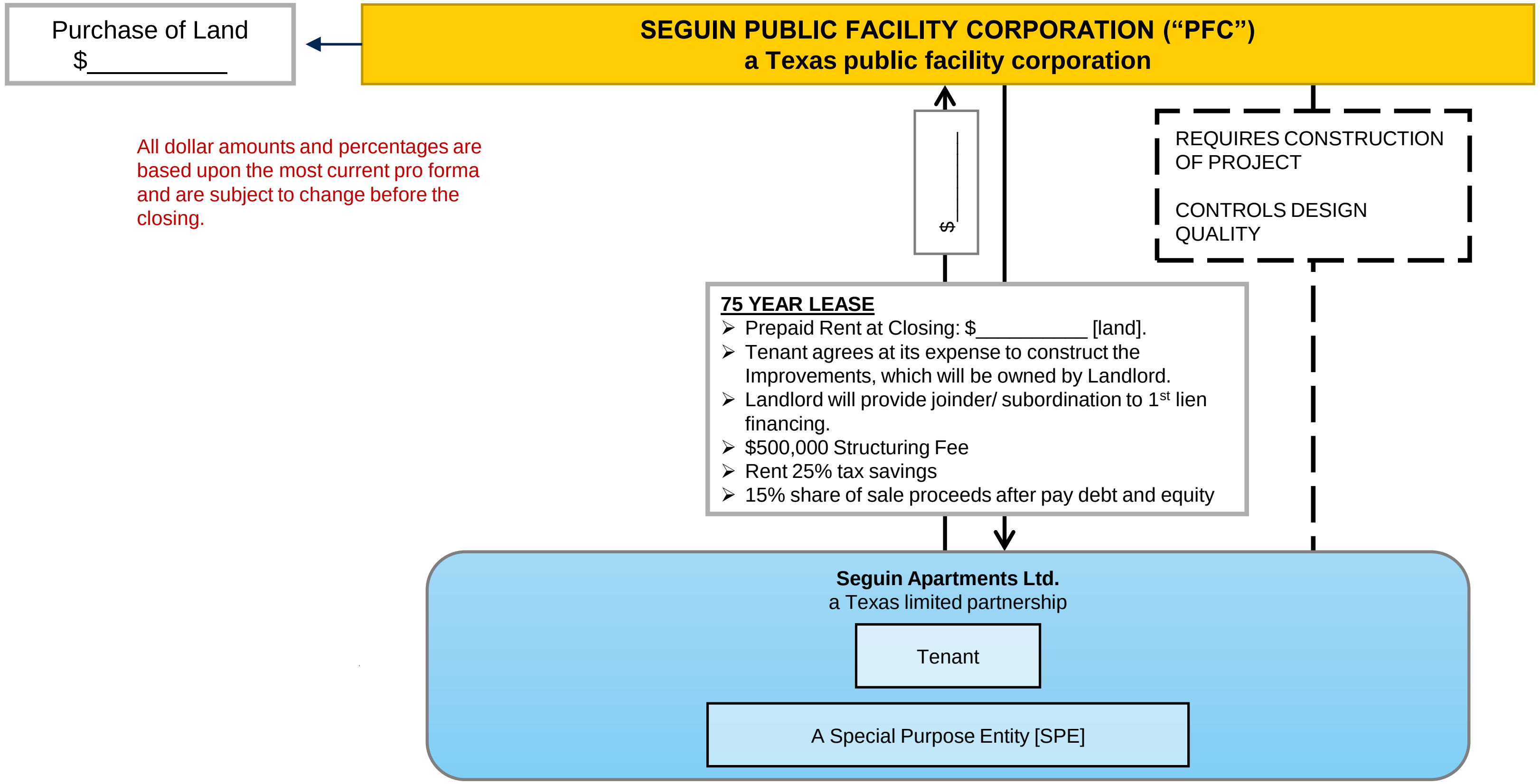
– ***Developer Fee***

- Vaquero will receive a developer fee in an amount not to exceed 5% of the total development costs of the Project

– ***Guaranties***

- The PFC will not be required to provide any financial guaranties or investment with respect to the financing or construction of the Project

Seguin - Structure



All dollar amounts and percentages are based upon the most current pro forma and are subject to change before the closing.

Seguin – Structure