

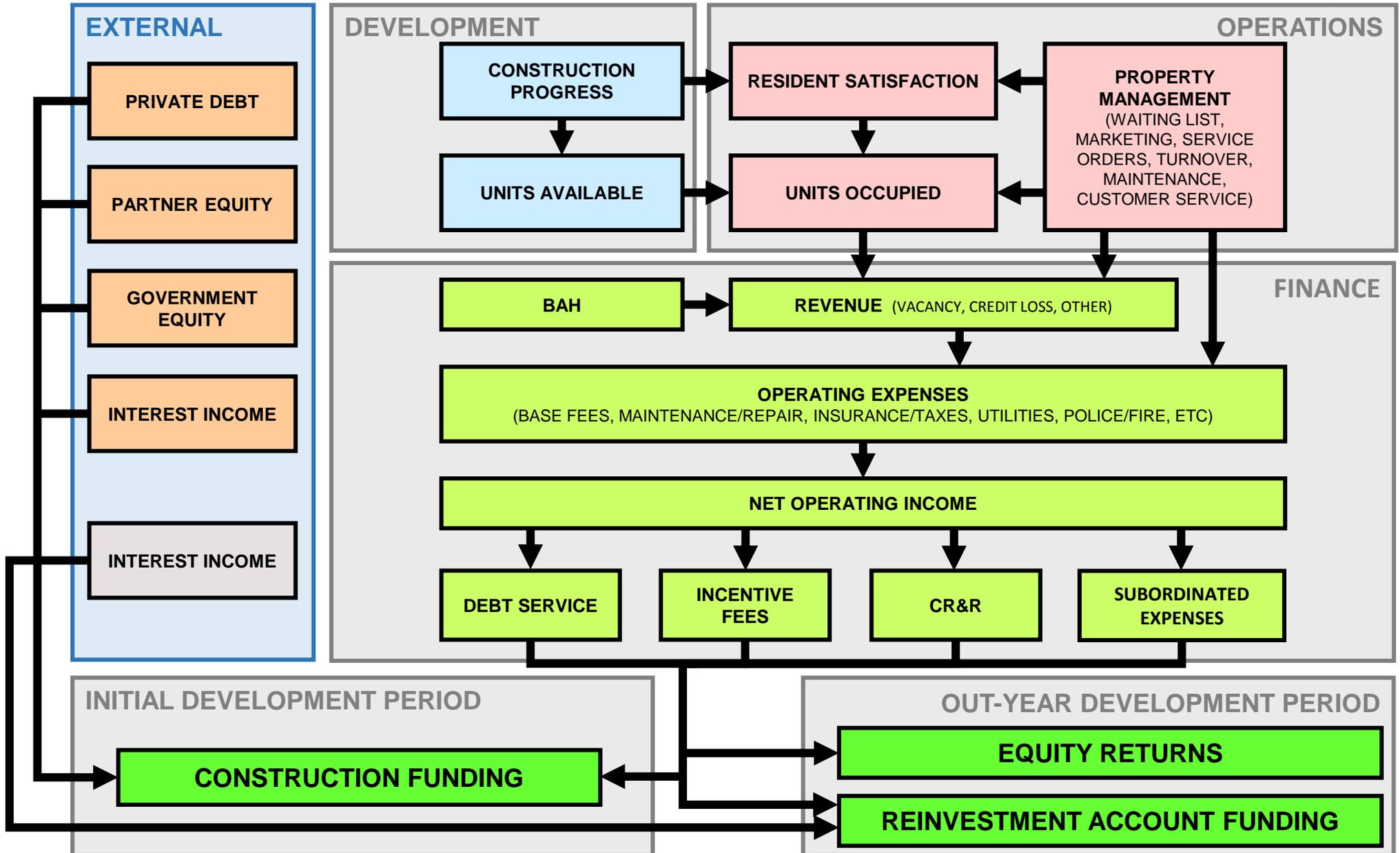


# RCI Financial & Ratings Review

## Housing the Force 2025



# General RCI Funding Structure



## Housing the Force 2025



# Key Parties and Their Roles



- Borrower (AKA Bond Issuer, Development Entity)
  - To whom the bond proceeds are due, less fees and other expenses
  - In MHPI projects, Partnership or the Project Owner themselves are bond issuers
- Creditor (AKA Bondholder, Investor) – To whom the principal and interest payments are obligated
- Underwriter – Securities dealers who determine how much debt the Borrower can support based on market conditions project fundamentals and compete the bonds among pools of qualified investors
  - Principal Commitment: Unsold bonds are purchased at specified rate by Underwriter
  - Agent (“Best Efforts”) Commitment: Unsold bonds result in reduction of debt proceeds received by Issuer
- Bond Trustee
  - Typically largest shareholder or entity appointed by majority shareholder becomes bond trustee
  - Protects the interests of the bondholders
- Bond Servicer – Separate organization that collects principal and interest payments from borrowers and manages borrower escrow accounts (e.g., Capital Repair and Replacement Reserve)

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# Credit Ratings



- Credit ratings assess the creditworthiness of a debt issuance
- Investors use credit ratings as a financial indicator when deciding whether to invest and, if so, at what levels
- On rated debt associated with RCI Projects, credit ratings are assessed at issuance and are reevaluated based on a variety of factors, including:
  - Housing profile and market demand
  - Financial projections on BAH, expenses and occupancy
  - Base mission and essentiality
  - Health of Project participants and legal structure
  - Initial development period status and risks
  - Credit rating of reserve contract provider/guarantor
- Debt with credit enhancement carries the higher of the credit rating for the specific piece of Project debt or the credit rating of the financial guarantor providing the credit enhancement

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# Credit Ratings



Project	S&P	Moody's
	As of Jul 15	As of Jul 15
Fort Carson, CO	AA / - / -	A1 / - / -
Fort Hood, TX	AA / AA / AA	A3 / - / A3
JB Lewis-McChord, WA	AA- / AA- / AA- / AA-	- / - / - / -
Fort Meade, MD	-	-
Fort Bragg, NC	- / -	Baa3 / Baa3
Presidio of Monterey-NPS, CA	-	-
Fort Stewart-HAAF, GA	- / -	Baa3 / Baa3
Fort Campbell, KY	- / -	- / -
Fort Belvoir, VA	AA / AA / AA-	A1 / A2 / Baa2
Fort Irwin-Moffett FAF-Parks RFTA, CA	AA / AA- / BB+	A2 / Baa1 / Ba2
Fort Hamilton, NY	AA- / A / -	A3 / Baa3 / -
Fort Detrick, MD-WRAMC, DC	-	-
Fort Polk, LA	-	-
Fort Shafter-Schofield Brks, HI	AA / AA / AA- / A+	Aa3 / Aa3 / A3 / Baa2
Forts Eustis-Story, VA	AA / AA- / A+	- / - / -
Fort Leonard Wood, MO	AA / AA / A+ / A-	Baa1 / A3 / Baa3 / Baa3
Fort Sam Houston, TX	AA / AA	- / -

Project	S&P	Moody's
	As of Jul 15	As of Jul 15
Fort Drum, NY	AA- / AA- / AA- / AA-	A3 / A3 / - / -
Fort Bliss, TX-WSMR, NM	A / A	- / -
Fort Benning, GA	AA / AA / AA-	A1 / Baa2 / Baa3
Fort Leavenworth, KS	-	-
Fort Rucker, AL	-	-
Carlisle Brks, PA-Picatinny Ars, NJ	-	-
Fort Gordon, GA	A+ / A-	Baa2 / Baa3
Fort Riley, KS	-	-
Redstone Arsenal, AL	-	-
Fort Knox, KY	A+ / A-	- / -
Fort Lee, VA	-	-
West Point, NY	AA	-
Fort Jackson, SC	A+	-
Fort Sill, OK	A	-
Forts Wainwright-Greely, AK	-	-
Fort Huachuca-Yuma PG, AZ	AA-	-
Aberdeen PG, MD	A+	-

Credit Rating Scale																		
	Investment Grade										Speculative Grade							
S&P	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC	CC
Moody's	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B2	B3	Caa	Ca
Higher	→																	Lower

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# Credit Ratings



Project	Moody's	
	Original	As of Jul 15
Fort Carson, CO	Aaa / Aaa / Aaa	A1 / - / -
Fort Hood, TX	Aaa / - / Aaa	A3 / - / A3
JB Lewis-McChord, WA	Aaa / Aaa / - / -	- / - / - / -
Fort Meade, MD	Aaa	-
Fort Bragg, NC	Aaa / Aaa	Baa3 / Baa3
Presidio of Monterey-NPS, CA	Aaa	-
Fort Stewart-HAAF, GA	Aaa / Aaa	Baa3 / Baa3
Fort Campbell, KY	Aaa / Aaa	- / -
Fort Belvoir, VA	Aaa / Aaa / A3	A1 / A2 / Baa2
Fort Irwin-Moffett FAF-Parks RFTA, CA	Aaa / Aa3 / A3	A2 / Baa1 / Ba2
Fort Hamilton, NY	Aa3 / A3 / -	A3 / Baa3 / -
Fort Detrick, MD-WRAMC, DC	Aaa	-
Fort Polk, LA	Aaa	-
Fort Shafter-Schofield Brks, HI	Aaa / Aaa / Aaa / Aaa	Aa3 / Aa3 / A3 / Baa2
Forts Eustis-Story, VA	- / - / -	- / - / -
Fort Leonard Wood, MO	Aa3 / Aaa / A3 / Baa2	Baa1 / A3 / Baa3 / Baa3
Fort Sam Houston, TX	- / -	- / -

Project	Moody's	
	Original	As of Jul 15
Fort Drum, NY	Aaa / Aaa / - / -	A3 / A3 / - / -
Fort Bliss, TX-WSMR, NM	Aaa / -	- / -
Fort Benning, GA	Aaa / Aa3 / A3	A1 / Baa2 / Baa3
Fort Leavenworth, KS	Aaa	-
Fort Rucker, AL	Aaa	-
Carlisle Brks, PA-Picatinny Ars, NJ	Aaa	-
Fort Gordon, GA	Aaa / Aaa	Baa2 / Baa3
Fort Riley, KS	Aaa	-
Redstone Arsenal, AL	Aaa	-
Fort Knox, KY	Aaa / Aaa	- / -
Fort Lee, VA	Aaa	-
West Point, NY	-	-
Fort Jackson, SC	-	-
Fort Sill, OK	-	-
Forts Wainwright-Greely, AK	-	-
Fort Huachuca-Yuma PG, AZ	-	-
Aberdeen PG, MD	-	-

## Credit Rating Scale

S&P	Investment Grade										Speculative Grade								
	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC	CC	
Moody's	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B2	B3	Caa	Ca	
Higher	→																		Lower

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# Credit Enhancement



- Financial guarantor provides credit enhancement
  - Bond insurance is a guarantee to fund debt obligation payments to investors should a Borrower not be able to pay
  - Decreased non-payment risk provided by bond insurance allows for lower borrowing costs
  - Bond insurance “wraps” the debt – investors assess the rating of the debt based on the credit rating of the enhancer as opposed to the fundamentals
- Financial guarantor acts in the role of bondholder representative
- Downgrades of credit enhancer may impact credit ratings of Project debt
  - Project continues to pay for credit enhancement, regardless of the rating
  - Investors may attribute little to no value to enhancement because of concerns with ability of enhancer to fulfill obligations
- Downgrades of credit enhancer that also provides/guarantees a reserve contract for the debt service reserve fund (DSRF) could cause possible requirement for cash funding of DSRF or replacement with a entity with the required rating without refund of up-front payment for reserve contract
- Ambac Assurance Corporation (Ambac) & National Public Finance Guarantee Corporation (National) insure more than 50% of RCI debt

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# Debt Service Reserve



- A debt service reserve fund (DSRF) is a requirement of the rating agencies/ investors to provide protection in the event of a inability of the Project to fund debt payments through NOI / construction funds / capitalized interest
- DSRF requirement is typically 12 months of Maximum Annual Debt Service (MADS)
- DSRF requirement can be fulfilled in a variety of ways
  - Cash funding – funds are escrowed at project closing
  - Surety policy – credit enhancer provides “insurance policy” to cover the DSRF requirement
  - Liquidity facility – third party provides a commitment to provide liquidity in the event of a need to draw upon the DSRF
- Be sure of what components of the recurring debt service payments that the reserve contract (surety policy/liquidity facility) can be used to cover

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# Debt Coverage Ratio



- Reported DCR – DCR calculated in accordance with legal documents
- Natural DCR – DCR calculated as Net Operating Income from Operating Statement / Debt Payment, which indicates the extent to which NOI is covering debt obligations
- Why would they be different? In accordance with the legal documents, the Reported DCR may include...
  - Use of capitalized interest during the IDP
  - Interest earnings on the GIC accounts or reserve accounts
  - Budgeted operating expenses versus actual operating expenses
  - CRR deposits versus actual CRR expenses
  - Differences in timing for reported amounts
- Reported DCR performance over prescribed periods of time is used at multiple Projects to trigger cash trap provisions which protect the parties receiving the debt payments
  - Cash traps alter cash waterfall operations after the disbursement(s)/deposit(s) for debt service obligations to retain funds within the lockbox system of accounts instead of making normal disbursements/deposits (generally, impacts cash flow available for equity returns and Reinvestment Account deposits at a minimum)
  - Remedy provisions to lift the cash trap provisions generally involve specific reported DCR performance over outlined time periods but could also include other actions

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# Movement of Reinvestment Account Funds



- Existing provisions within the Operating/Partnership Agreements allow for the movement of Reinvestment Account funds amongst the RCI Projects of the same Partner with the consent of both the Army and the Partner
- Generally, the Project sending out funds must have one year's worth of maximum annual debt service in its Reinvestment Account after the outflow of funds
- Movement of Reinvestment Account funds requires a Major Decision approved by OASA (IE&E)

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