

Revised: November 17, 2022



10400 Detrick Avenue  
Kensington, MD 20895-2484  
(240) 627-9425



## DEVELOPMENT AND FINANCE COMMITTEE

November 18, 2022  
10:00 a.m.

YouTube Link: <https://youtu.be/p-1VX5hBrn0>

### Approval of Minutes:

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1. <b>Minutes:</b> Approval of Development and Finance Committee Minutes of October 24, 2022	3

### Discussion/Action Items:

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1. <b>Emory Grove:</b> Approval of a Predevelopment Budget and for HOC to Fund a Predevelopment Loan to Emory Grove United Methodist Church ("EGUMC") for Design, Entitlement, and Permitting of the Aggregated EGUMC Parcel	7
2. <b>VPC One and VPC Two:</b> Approval of Amended Finance Plan	14

# Minutes

**HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY**

10400 Detrick Avenue  
Kensington, Maryland 20895  
(240) 627-9425

**Development and Finance Committee Minutes**

**October 24, 2022**

For the official record of the Housing Opportunities Commission of Montgomery County, an open meeting of the Development and Finance Committee was conducted via a hybrid model on October 24, 2022, with some participating by online platform/teleconference, and others participating in-person at 10400 Detrick Avenue, Kensington, Maryland beginning at 11:36 p.m., available for viewing [here](#). Those in attendance were:

**Present**

Jackie Simon, Chair – Development and Finance Committee  
Richard Y. Nelson, Jr. – Commissioner  
Jeffrey Merkowitz – Commissioner

**Also Attending**

Chelsea Andrews, Executive Director  
Aisha Memon, General Counsel  
Marcus Ervin

Kayrine Brown, Deputy Executive Director  
Zachary Marks  
Victoria Dixon

**Attending via Zoom**

Paige Gentry, Deputy General Counsel  
Jennifer Washington  
Eugenia Pascual  
Kathryn Hollister  
John Brouille  
Fred Swan  
Jay Shepherd

Timothy Goetzinger  
David Brody  
Alex Torton  
Ellen Goff  
Leidi Reyes  
Len Villicic

**IT Support**

Irma Rodriques  
Aries Cruz  
Genio Etienne

**Commission Support**

Patrice Birdsong, Spec. Asst. to Commission

Commissioner Simon opened the meeting with a welcome and introduction of the Commissioners participating on the Committee and Executive Director Chelsea Andrews.

## **APPROVAL OF MINUTES**

The minutes of the September 28, 2022, Development and Finance Committee open session meeting was approved upon a motion by Commissioner Merkowitz and seconded by Commissioner Nelson. Affirmative votes were cast by Commissioners Simon, Nelson, and Merkowitz.

## **DISCUSSION ITEMS**

### **1. Residences on the Lane: Approval of Amended Finance Plan, Amended Bond Authorizing Resolution, and Draw on the PNC Bank, N.A. Line of Credit to Provide Interim Financing**

Chelsea Andrews, Executive Director, provided an overview and introduction of Jennifer Washington, Acting Director of Mortgage Finance, Victoria Dixon, Senior Multifamily Underwriter, and Len Vilicic, Financial Analyst, who provided the presentation requesting recommendation to the full Commission to (1) approve an amended financing plan; (2) approve a bond authorizing resolution for the issuance and delivery of tax-exempt bonds; and (3) approve an interim loan with short-term taxable draws to the borrower.

Staff addressed the various questions of the Commissioners. A motion was made by Commissioner Nelson, and seconded by Commissioner Merkowitz, to recommend to the full Commission for approval. Affirmative votes were cast by Commissioners Simon, Nelson, and Merkowitz.

### **2. Sandy Spring Missing Middle: Approval to Select and Execute Contract with Zavos Architecture & Design as Architect; Fourth Phase of Predevelopment Funding, Final Site Design; and Authorization to Submit Site Plan to Planning Commission**

Chelsea Andrews, Executive Director, provided an overview and introduction of Zachary Marks, Chief Real Estate Officer, and Marcus Ervin, Director of Real Estate, who provided the presentation requesting recommendation to the full Commission to (1) authorize submission of the combined Preliminary and Site Plan applications to Planning Commission; (2) approve the fourth tranche funds from the Opportunity Housing Reserve Fund to fund the final Site Plan, record platting and permitting costs; and (3) authorize the Executive Director to negotiate and execute a contract with Zavos Architecture & Design.

There was detailed discussion among Commissioners and Staff. Staff addressed the various questions of the Commissioners. A motion was made by Commissioner Merkowitz, and seconded by Commissioner Nelson, to recommend to the full Commission for approval. Affirmative votes were cast by Commissioners Simon, Nelson, and Merkowitz.

Based upon this report and there being no further business to come before this session of the Development and Finance Committee, a motion was made by Commissioner Nelson and seconded by Commissioner Merkowitz to adjourn. The meeting adjourned at 12:28 p.m.

Respectfully submitted,

Chelsea Andrews  
Secretary-Treasurer

/pmb

# Discussion/Action Items

# EGUMC REDEVELOPMENT AGGREGATION

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## PROVISION OF DEVELOPMENT SERVICES & PREDEVELOPMENT LOAN



**CHELSEA J. ANDREWS, EXECUTIVE DIRECTOR**

**Jay Shepherd, Housing Acquisition Manager**  
**Gio Kaviladze, Senior Financial Analyst**  
**Marcus Ervin, Director Of Development**  
**Zachary Marks, Chief Real Estate Officer**

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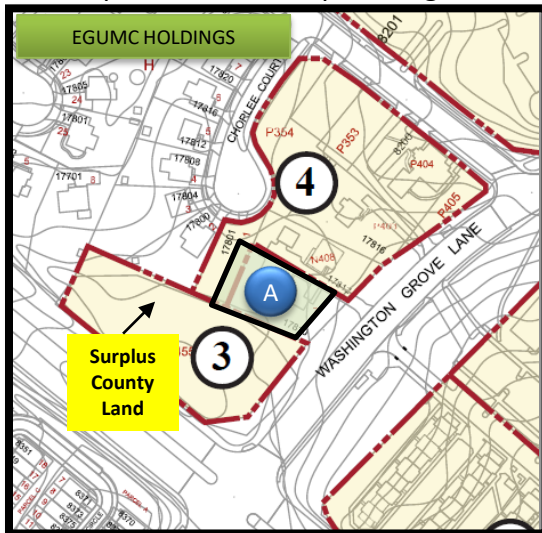
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# Executive Summary

HOC has been working closely with the Emory Grove United Methodist Church (“EGUMC”) to aggregate property for the redevelopment of the Emory Grove community. In 2021, the Commission authorized several actions to provide EGUMC with the funding necessary to acquire 17810 Washington Grove Lane. Staff has also been working with the County’s executive branch to consummate the transfer of three County parcels to HOC, including surplus County land along Midcounty Highway and adjacent to the EGUMC redevelopment aggregation (“Surplus County Land”). The Council is expected to take up the transfer in December 2022.

Once HOC is in possession of the Surplus County Land, it will transfer the parcel to EGUMC, completing the desired redevelopment aggregation. In anticipation of EGUMC’s full control of all parcels sought, HOC staff has been working with EGUMC to develop an initial concept to begin the formal entitlement process.



**A** 17810 Washington Grove Lane

As part of the December 8, 2021 presentation, staff indicated to the Commission that it would likely return to the Commission with recommendations to provide EGUMC with development services and a predevelopment loan to cover all necessary predevelopment costs. With the land assembled, EGUMC now requires development services and desires HOC, as a trusted partner, to provide those services.

As part of HOC’s commitment to the reconciliation at the center of the Heritage Emory Grove effort, staff recommends that HOC provide the development services to EGUMC at cost, forgoing the usual development fee. Additionally, the development services agreement provides greater latitude than typical development services agreements for the two parties to withdraw from the agreement at any time and in the event, EGUMC identifies a successor development services provider. The agreement otherwise provides the standard protections, indemnifications, and requirements HOC typically secures.

# Executive Summary



- SINGLE FAMILY WITH ADU
- SINGLE FAMILY ATTACHED
- DUPLEX - STACKED
- DUPLEX OVER ADMINISTRATION SPACE

**8 Singles**  
**8 Townhouses**  
**20 Stacked Duplexes**  
**36 Total**

**The development services agreement also outlines the terms of a predevelopment loan to be made by HOC to the project.** Structured similarly to the loan HOC made to EGUMC for the acquisition of 17810 Washington Grove Lane, the predevelopment loan would charge a rate equal to the higher of the midterm Applicable Federal Rate and the actual cost of funds to HOC. The predevelopment loan will be secured by a deed of trust against the EGUMC Redevelopment Property and will be repaid to HOC out of the proceeds of the construction financing. **The predevelopment loan and development services agreement would also require that EGUMC meet certain affordability requirements.**

Over the past year, HOC staff has worked with EGUMC to refine the concept plan for the redevelopment, which now yields 36 units (previously 16 lots) in three primary building types. The variety of unit types will allow for better matching with former residents of historic Emory Grove looking to return. EGUMC would also be able to offer a mix of rental and for-sale opportunities. A quarter of the 36 units (9 units) would be restricted under the MPDU program.

HOC staff estimates the total cost to be \$1.65MM to design, entitle, and permit the development as currently envisioned. The monies would be expended over approximately 2.5 years and then repaid from the construction financing for the project.



# Detailed Budget & Core Terms

Staff has developed a projected \$1.65MM budget based on the total development costs accrued at HOC’s Sandy Spring Missing Middle project, which is similar in size, scope, and unit type. These costs would be funded from the Opportunity Housing Reserve Fund (“OHRF”) over the course of the expected 2.5 years of design, entitlement, and permitting process. Upon permit readiness, the construction financing would be raised, and these costs would be reimbursed as part of the total project costs.

<b>Project Cost Type</b>	<b>Amount</b>
<i>Land Planning</i>	\$150,000
<i>Architectural</i>	\$475,000
<i>MEP</i>	\$132,500
<i>Structural</i>	\$65,000
<i>Landscape Architecture</i>	\$10,000
<i>Specialty (incl. ADA &amp; sustainability)</i>	\$150,000
<i>Noise Study</i>	\$9,000
<i>Civil Engineering</i>	\$180,000
<i>Survey</i>	\$20,000
<i>Dry Utility Consultant (incl. test pitting)</i>	\$100,000
<i>Real Estate Counsel</i>	\$150,000
<i>Permitting &amp; Application Fees</i>	\$130,000
<i>Contingency</i>	\$78,575
<b>TOTAL</b>	<b>\$1,650,075</b>

## Development Services Agreement - Terms

### Base Agreement

- Five years, renewed annually;
- Either party may terminate for any reason at any time;
- The acquisition and predevelopment loans will continue to be secured by real property located at 17810 Washington Grove Lane, 17812 Washington Grove Lane, and the aggregated excess county land;
- EGUMC has final design decisions and will enter into all contracts;
- EGUMC will own all development materials;
- HOC is not liable for any third-party errors and omissions; and
- EGUMC will form a community development corporation as the project sponsor.

### Development Fee

- No fee; reimbursement for staff time in lieu of a fee.

### Predevelopment Loan

- HOC provides 100%;
- The predevelopment budget requires Commission approval;
- Interest rate is set to the Applicable Federal Rate determined at the effective date of the agreement (or actual cost of funding);
- Interest accrues until the earlier of the closing of construction financing and the expiration of the loan; and
- Expiration is co-terminus with 17810 WGL acquisition loan (11/29/26).

# Summary and Recommendations

## ISSUES FOR CONSIDERATION

Does the Development & Finance Committee join with staff in recommending to the Commission:

1. Authorization of the Executive Director to negotiate and enter into a development services agreement between HOC and EGUMC (or its designated community development corporation) on terms as outlined herein; and
2. Approval of a predevelopment budget and loan to the project sponsor (to be EGUMC or its designated community development corporation) not to exceed \$1.65MM on terms as outlined herein.

## FINANCIAL IMPACT

There is no adverse impact to the Agency operating budget. The unobligated balance of the OHRF is sufficient to cover the \$1.65MM loan.

## TIME FRAME

For discussion at the November 18, 2022, meeting of the Development & Finance Committee and action at the December 7, 2022, open session of the Commission.

## STAFF RECOMMENDATION AND COMMISSION ACTION NEEDED

EGUMC has requested development and financing assistance in producing housing on property it has aggregated. Many of these parcels were part of the historical Emory Grove community. As part of the wider reconciliation effort that is central to the Heritage Emory Grove redevelopment, staff is recommending providing the development and financing assistance at cost.

The predevelopment loan is for a term equivalent to the term of the acquisition and will bear interest at the midterm applicable federal rate, which shall be established at the effective date of the development services agreement and shall be payable from construction financing proceeds for the development.

**VPC ONE AND VPC TWO: APPROVAL TO AMENDED THE REFINANCING PLAN AND  
AUTHORIZATION TO REISSUE TAX-EXEMPT INDEBTEDNESS OF UP TO \$47 MILLION**

**SCATTERED SITES**



**CHELSEA J. ANDREWS, EXECUTIVE DIRECTOR**

**JENNIFER HINES WASHINGTON, ACTING DIRECTOR OF MORTGAGE FINANCE**

**JEREMIAH BATTLE, SENIOR MULTIFAMILY UNDERWRITER**

**November 18, 2022**

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# EXECUTIVE SUMMARY

**VPC One Corporation (“VPC One”) and VPC Two Corporation (“VPC Two”)**(together the “Corporations” or “VPCs”), are wholly controlled corporate instrumentalities of the Housing Opportunities Commission of Montgomery County (“HOC” or the “Commission”) that own 399 and 280 units, respectively, for a combined total of 679 scattered site properties throughout Montgomery County (“Properties”). Below is a breakdown of the types of properties owned by the Corporations.

Single Family	Town House	Walk Up Apt	High Rise Apt	Total Units
64	497	110	8	679

The VPCs scattered sites provide significant public purpose in that 99% of the units or 670 units are reserved for families and individuals earning between 30% and 80% of the Area Median Income (“AMI”), while eight (8) units are unrestricted and one (1) unit is restricted for a senior household. As of October 30, 2022, the Properties are 93.5% occupied.



**Previously Approved Refinancing Plan** - On November 17, 2017, the Corporations’ Board of Directors and the Commission approved the refinance of the existing debt with a new loan from PNC Bank, N.A. (the “Lender” or “PNC”), maintaining an initial replacement reserve escrow of \$1,200 per unit, funding of a debt service reserve of \$4.8 million, and depositing \$3.57 million to the FHA Risk Share Reserve Account (the “Refinancing Plan”). Subsequently, on December 15, 2017, in order to qualify for the tax-exempt structure of the PNC Facility, HOC approved acting as conduit issuer to in turn lend the proceeds to the VPCs in an amortizing loan amount of \$52 million, as sized to avoid any reduction in the Commission’s general obligation borrowing capacity.

**Current Request** - The loan from PNC (the “PNC Facility”) matures on December 21, 2022, and staff is evaluating permanent financing strategies for the Properties. Concurrently, Real Estate and Mortgage Finance are evaluating an overarching refinance, redevelopment and/or disposition plan, relative to all of HOC’s scattered sites properties, and as such, planning efforts have determined that an extension of the note for VPC One and VPC Two to August 2023 would be advantageous. This would align with the maturity date of HOC’s Scattered Sites Two Development Corporation loan with PNC as well, which matures in August 2023, allowing for the refinance of both VPC One and Two, as well as Scattered Sites Two in a single transaction. Notwithstanding the proposed extension to August 2023, PNC Bank is evaluating and is expected to approve a longer extension for a total of 24 months. Any changes to the analysis because of a longer extension will be updated when this item is brought before the full Commission.



# EXECUTIVE SUMMARY

The Scattered Sites Two Development is a 54 unit property financed by an amortizing loan with PNC to which HOC is a co-borrower with a general obligation pledge. A balloon payment of \$3.8 million is expected to be due at maturity.

After several months of discussions, PNC is amenable to the loan extension; however, they have indicated that due to the rising interest rate environment, the cost of funds have increased since the time of the initial deal. The interest rate on the existing tax-exempt loan with PNC is 3.297% and PNC has indicated that the tax-exempt interest rate for the extension would increase to an estimated 4.241%. This increase will trigger a technical re-issuance of the loan for tax purposes, requiring filing of a new 8038-G.

Staff recommends the Development and Finance Committee join in recommending that the Commission to approve the following:

- 1) Amend the Refinancing Plan of VPC One and VPC Two in order to extend the maturity and payment terms of the existing loan with PNC Bank, N.A. to August 2023;
- 2) Authorize the re-issuance of tax-exempt indebtedness in an amount not to exceed \$47 million;
- 3) Authorize use of cash from the VPC Debt Service Reserve that is held in the OH Bond Fund to pay the financing costs of the extension; and,
- 4) Authorize the Executive Director to negotiate and execute all related transactional documents to effect closing, including any and all related tax documents.

# AMENDED REFINANCING PLAN

Staff has completed its underwriting and based upon those findings, an extension and re-issuance of the PNC Facility will provide the following benefits:

1. A savings in debt service by approximately \$562,000 given the change in payment terms from principal and interest to interest only.
  - The original interest rate for the \$52 million facility was 3.297%. Based upon a 30-year amortization, principal and interest payments were \$211,268 per month or approximately \$2.5 million annually.
  - Under Scenario 1 below, the interest rate for the re-issuance of an up to \$47 million facility, is estimated to be 4.241%. Interest only payments will be approximately \$164,448 per month or approximately \$2 million annually.
2. An improvement in Debt Service Coverage Ratio (“DSCR”) by approximately 53 basis points, shown in the table below.
3. An increase in cash flow by approximately \$469,485.

Please see the below comparison chart of Fiscal Year 2022 Actual, Fiscal Year 2023 Budget and the underwritten reissuance projection. Scenario 1 reflects the new terms of the facility and the operational output. Scenario 2 reflects the effects of an interest rate sensitivity analysis that demonstrates the property’s ability to support a DSCR of 1.40:1.00, which avoids any impact to HOC’s General Obligation capacity. The interest rate sensitivity table showing the effects of a 50 basis point increase between the projected base rate of 4.241% to 7.741% follows on page 6.

	FY 2022 Actual	FY 2023 Budget	Underwritten Projections	
			Scenario 1	Scenario 2
<b>Loan Terms</b>				
Loan Amount	\$52,000,000	\$52,000,000	\$46,530,854	\$46,530,854
Outstanding Debt	\$46,769,833	\$46,769,833	\$46,530,854	\$46,530,854
Interest Rate	3.297%	3.297%	4.241%	7.658%
Rate Type	Fixed	Fixed	Fixed	Fixed
Payment Type	P&I	P&I	Interest Only	Interest Only
Amortization (years)	30	30	N/A	N/A
<b>DSCR Analysis</b>				
Net Operating Income	\$5,081,366	\$4,989,012	\$4,989,012	\$4,989,012
Debt Service	\$2,535,212	\$2,535,212	\$1,973,373	\$3,563,481
Cash Flow Before Distributions	\$2,546,154	\$2,453,800	\$3,015,639	\$1,425,531
DSCR	<b>2.00</b>	<b>1.97</b>	<b>2.53</b>	<b>1.40</b>

# AMENDED REFINANCING PLAN

	Interest Rate Sensitivity- Loan amount \$46,530,854							
	base	+50bps	+50bps	+50bps	+50bps	+50bps	+50bps	+50bps
<b>Interest Rate</b>	4.241%	4.741%	5.241%	5.741%	6.241%	6.741%	7.241%	7.741%
<b>Debt Service</b>	\$1,973,373	\$2,206,028	\$2,438,682	\$2,671,336	\$2,903,991	\$3,136,645	\$3,369,299	\$3,601,953
<b>DSCR</b>	2.53	2.26	2.05	1.87	1.72	1.59	1.48	1.39

Costs of the extension are not expected to exceed \$100,000, representing legal expenses of PNC and HOC, which staff proposes to pay using funds from the VPCs held by the Commission in the OH Bond Fund. At the proposed interest rate, the Properties will generate approximately \$469,485 of additional cash flow which will be restricted to the VPC Debt Service Reserve that is held in the OH Bond Fund until refinance of the transaction is completed in 2023.

Prior to maturity of the extension, which will align with the August 2023 maturity date of HOC’s Scattered Sites Two Development Corporation separate PNC loan, staff will return to the Commission with an overarching redevelopment, refinance, and/or disposition plan, relative to all of HOC’s scattered sites properties totaling 1,395 units. It is important to note that if finding a permanent, long-term financing solution proves difficult by spring 2023, the Commission has the ability to self-finance the transaction by way of issuing governmental bonds under the Multiple Purpose indenture. Bonds issued in the Multiple Purpose indenture are backed by the full faith and credit of the Commission.

## ISSUES FOR CONSIDERATION

Does the Development & Finance Committee wish to join staff recommendation to the Commission to approve the following:

- 1) Amend the Refinancing Plan of VPC One and VPC Two in order to extend the maturity and payment terms of the existing loan with PNC Bank, N.A. to August 2023?
- 2) Authorize the re-issuance of tax-exempt indebtedness in an amount not to exceed \$47 million?
- 3) Authorize use of cash from the VPC Debt Service Reserve that is held in the OH Bond Fund to pay the financing costs of the extension?
- 4) Authorize the Executive Director to negotiate and execute all related transactional documents to effect closing , including any and all related tax documents?

## TIME FRAME

For deliberation at the November 18, 2022 meeting of the Development and Finance Committee, and formal action of the Commission at its monthly meeting on December 7, 2022.

## BUDGET/FISCAL IMPACT

There is no adverse impact on the Commission's FY2023 Operating Budget. Debt service required on the interest-only loan will be lower than existing, which is estimated to result in \$469,485 additional cash flow which staff proposes to restrict the Debt Service Reserve account.

Costs of the extension are estimated not to exceed \$100,000, representing legal expenses of PNC and HOC, which staff recommends to be paid from cash restricted to the VPC Debt Service Reserve that is held by the Commission in the OH Bond Fund.

## STAFF RECOMMENDATION & COMMISSION ACTION NEEDED

Staff recommends the Development and Finance Committee to join in recommendation that the Commission approve the following:

- 1) Amend the Refinancing Plan of VPC One and VPC Two in order to extend the maturity and payment terms of the existing loan with PNC Bank, N.A. to August 2023;
- 2) Authorize the re-issuance of tax-exempt indebtedness in an amount not to exceed \$47 million;
- 3) Authorize use of cash from the VPC Debt Service Reserve that is held in the OH Bond Fund to pay the financing costs of the extension; and,
- 4) Authorize the Executive Director to negotiate and execute all related transactional documents to effect closing, including any and all related tax documents.