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

Development and Finance Committee

May 26, 2023
10:00 a.m.

Livestream: https://www.youtube.com/watch?v=aLMT5UhP1KU

HOC's offices are now open to the public. The public is invited to attend HOC's May 26, 2023 Development and Finance Committee meeting in-person. HOC's Board of Commissioners and staff will continue to participate through a hybrid model (a combination of in-person online participation).

Approval of Minutes:

Discussion/Action Items:

Minutes

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY
10400 Detrick Avenue
Kensington, Maryland 20895
(240) 627-9425

Development and Finance Committee Minutes

April 21, 2023

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 April 21, 2023, with some participating by online platform/teleconference, and others participating in-person at 10400 Detrick Avenue, Kensington, Maryland beginning at 10:07 a.m., available for viewing here. Those in attendance were:

Present

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

Also Attending

Chelsea Andrews, Executive Director
Aisha Memon, General Counsel
Zachary Marks
Ellen Goff
Richard Congo
Jeremiah Battle
Daejuana Donahue
Jay Shepherd
Marcus Ervin
Paige Gentry
John Wilhoit
Monte Stanford
Jay Shepherd

Attending via Zoom

Niketa Patel
Ellen Goff
Paulette Dudley
Fred Swan
Sewavi Agbodjan
Timothy Goetzinger
Eugenia Pascal

IT Support

Irma Rodriquez
Aries Cruz
Genio Etienne

Commission Support

Jocelyn Koon, Senior Executive Assistant
Lori Bonnette, Special Assistant to Commission

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

APPROVAL OF MINUTES

The minutes of the March 23, 2023 Development and Finance Committee meeting was approved upon a motion by Commissioner Nelson and seconded by Commissioner Merkowitz. Affirmative votes were cast by Commissioners Simon, Nelson, and Merkowitz.

DISCUSSION ITEMS

1. **Single Family Lending: Approval of New Participating Lenders for the Single Family Mortgage Purchase Program and Primary Residential Mortgage, Inc.**

Chelsea Andrews, Executive Director, provided an overview of presentation and introduced Monte Stanford, Director of Mortgage Finance and Paulette Dudley, Program Specialist who provided the presentation.

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

2. **Scattered Site: Approval of Permanent Financing Plan for Selected Scattered Site Properties**

Chelsea Andrews, Executive Director, provided an overview of presentation and introduced Monte Stanford, Director of Mortgage Finance and Jeremiah Battle, Senior Multifamily Underwriter who provided the presentation.

A motion was made by Commissioner Merkowitz to forward the materials to the full Commission without a Committee recommendation in anticipation of receiving additional information prior to the Commission meeting, which will be presented at such meeting. The motion was seconded by Commissioner Nelson. Affirmative votes were cast by Commissioners Simon, Nelson and Merkowitz.

3. **Single Family: Approval of Structure, Cost of Issuance Budget, and Adoption of Series Resolution(s) for the issuance of Single Family Mortgage Bonds**

Chelsea Andrews, Executive Director, provided a summary of the presentation.

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.

4. **HOC Headquarters: Authorization of the Executive Director to Execute an Early Start Agreement with the General Contractor, Approval of the Reallocation of Savings to the Existing Predevelopment Budget to Fund the Early Start, Approval of the Selection of the Third-party Testing Contractor, and Approval of the Budget for the Third-party Testing Contractor**

Chelsea Andrews, Executive Director, provided options to the Committee, including foregoing the Committee presentation in favor of having a single presentation at the Special Session of the Commission that was scheduled directly following the Committee meeting.

A motion was made by Commissioner Nelson to forward the item to the full Commission for consideration at the imminently scheduled Special Session without a Committee recommendation. The motion was seconded by Commissioner Simon. 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, the Committee adjourned the meeting at 11:30 a.m.

Respectfully submitted,

Chelsea Andrews
Secretary-Treasurer

/pmb

Discussion Items

SCATTERED SITES: APPROVAL OF A REFINANCING PLAN, SELECTION OF JEFFERIES AS BOND UNDERWRITER, COST OF ISSUANCE BUDGET AND FUNDING, AND ADOPTION OF A BOND AUTHORIZING RESOLUTION FOR THE ISSUANCE OF TAX-EXEMPT AND TAXABLE BONDS TO REFUND EXISTING PNC BANK MORTGAGE LOANS FOR SELECT SCATTERED SITE PROPERTIES

CHELSEA J. ANDREWS, EXECUTIVE DIRECTOR

MONTE STANFORD, DIRECTOR OF MORTGAGE FINANCE
JEREMIAH BATTLE, SENIOR MULTIFAMILY UNDERWRITER

May 26, 2023

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EXECUTIVE SUMMARY

BACKGROUND

- **Scattered Site Portfolio**
  - The Housing Opportunities Commission of Montgomery County (“Commission” or “HOC”) owns through various instrumentalities 1,796 of scattered site units located throughout Montgomery County.
  - Ownership types include:
    - HOC direct ownership
    - Limited Partnerships with Low-Income Housing Tax Credit (“LIHTC”) Extended Use Covenants
    - Development Corporation
    - The portfolio was accumulated over decades through various acquisition methods, including the Moderately Priced Dwelling Unit (“MPDU”) Right of First Refusal (“ROFR”) and U.S. Housing and Urban Development (“HUD”) RAD Section 18 Dispositions.
    - Approximately $53 million in senior debt exists within the portfolio of which $51.5 million matures in August 2023.
- **Regulatory Constraints**
  - Thirty-seven percent (669) the units are encumbered by a HUD Use Agreement and various other covenants, Regulatory Agreements, Land Use Restriction Agreements, etc. that restrict rent increases, limit incomes or the ability to dispose of units.
- **Capital Needs**
  - Despite regulatory constraints, increased maintenance costs and deferred maintenance are major concerns.
  - Some properties have been renovated in the past 10-15 years, others have not. Internal due diligence to assess needs is in process.
  - A collaboration among Asset Management, Real Estate, Finance, Property Management and Maintenance divisions is on-going to determine the capital needs among the portfolio over the next three (3) to five (5) years.
- **Public Purpose**
  - The Scattered Sites properties provide significant public purpose in that the majority serve households earning between 30% and 80% of the area median income (“AMI”).
  - Additionally, the majority are townhomes, which provide affordable housing to families.

EXECUTIVE SUMMARY

PREVIOUSLY APPROVED REFINANCING PLAN

In December 2017, the VPC One and VPC Two Corporations' Board of Directors and the Commission approved a five (5) year loan from PNC Bank, N.A. ("the PNC Facility"). VPC One and VPC Two own a combined 679 units. To qualify the PNC Facility for tax exemption, HOC approved acting as a conduit issuer lend the proceeds in an amortizing loan of $52 million.

SELECT SCATTERED SITES CONSIDERED FOR FINANCING

- Several challenges exist that impact the development of a overall Comprehensive Plan and permanent financing of the entire Scattered Site Portfolio that have been discussed with Real Estate, Asset Management, Property Management, and Finance divisions.
  - Inability to execute a LIHTC transaction.
  - Some of the properties are unable to support themselves solely.
  - Impact of policy changes around evictions.
  - Operational efficiencies gained from reduction in arrearages and bad debt.
- **Staff is developing a two (2) phase Comprehensive Plan that (1) tackles the refinancing of select properties (current request), and (2) illustrates a re-development plan for the balance of the portfolio to be developed by Real Estate and Asset Management divisions.**
- Therefore, for Phase One of the Comprehensive Plan, 1,038 units were initially considered to support current financing. However, upon closer review, 808 units were included in the final plan as they generated sufficient net operating income to support the financing.
  - The remaining 230 units are not recommended for financing as staff continues its work on the second phase to evaluate rehabilitation and/or disposition strategies, and address vacancy issues. Furthermore, these units only represent 3% of the existing outstanding debt and generate only 8% of the overall Net Operating Income of the portfolio, as of March 2023.

PROPOSED CURRENT FINANCING PLAN

- The current financing plan for VPC One Corporation, VPC Two Corporation, Scattered Sites Two Development Corporation and Montgomery Homes LP, totaling $64.915 million
- The plan includes: a) a permanent loan backed by a pledge of the Commission GO and funded with governmental bonds issued in the Multiple Purpose Indenture (2002 Indenture), which will repay the existing debt of the ownership entities; and b) existing reserves held by PNC Bank, N.A. for the entities, and c) existing replacement reserve funds held by the four entities

EXECUTIVE SUMMARY

CORE SCATTERED SITES AND CURRENT RECOMMENDATION

- The following projects, highlighted in BLUE, make up the Core Scattered Sites.
- Debt amounts shown are as of March 2023.

Project Name	*Ownership*	*# of Units*	*%*	*Senior Debt*	*HOC Debt*	*County Debt*
VPC1 & VPC2	VPC One Corporation VPC Two Corporation	679	66%	$47,576,432	-	-
Scattered Sites 2	Scattered Sites Two Development Corporation	54	5%	$3,874,500	-	$585,474
MHLP X	Montgomery Homes LP	75	7%	$1,569,473	$1,073,578	$703,796
MPDU I	HOC	64	6%	-	$895,000	-
MPDU II	TPM Development Corp	59	6%	-	-	-
MPDU III	Sligo Hills Development Corp.	23	2%	-	-	-
MHLP VII	HOC	35	3%	-	$489,000	-
MHLP8	HOC	49	5%	-	-	-
	TOTAL	**1,038**		**$53,020,405**	**$2,457,947**	**$1,289,270**

- Mortgage Finance staff evaluated permanent financing strategies for the Core Scattered Sites, and received indicative financing quotes from Berkadia and PNC Bank, N.A. ("PNC"). These quotes were compared to an HOC bond issuance, structured by Jefferies, LLC (one of the Commission's bond underwriters)(hereinafter "Jefferies").
- Staff's analysis has determined that the structure most advantageous for HOC, both financially and fiscally, is HOC's issuance of tax-exempt and taxable bonds to fund mortgage loan(s) for a 35-year term.
- The properties' Net Operating Income of $5.2 million will support a permanent mortgage amount of $59.6 million with an estimated 4.950% blended interest rate (both tax-exempt and taxable), achieving a Debt Service Coverage Ratio of 1.45:1.00, thus proving to be feasible.
- Any changes to the analysis and structure will be updated before this item is brought to the full Commission.

Housing Opportunities Commission OF MONTGOMERY COUNTY

EXECUTIVE SUMMARY

CORE SCATTERED SITES AND CURRENT RECOMMENDATION

Staff recommends that the Development and Finance Committee join its recommendation to the Commission of the following actions:

1. Approval of a Refinancing Plan for VPC One Corporation, VPC Two Corporation, Scattered Sites Two Development Corporation and Montgomery Homes LP, totaling $64.915 million, includes the following sources: a) a permanent loan backed by a pledge of the Commission GO, which will repay the existing debt of the ownership entities; and b) existing reserves held by PNC Bank, N.A. for the entities;
2. Approval to select Jefferies, LLC, among the Commission's bond underwriters, as the Senior Manager for the upcoming bond issuance;
3. Adoption of a Bond Authorizing Resolution for the issuance and delivery of tax-exempt and taxable indebtedness within the Multipurpose Indenture in an aggregate principal amount not to exceed $61 million to fund the Permanent Loan for the transaction of up to $60 million; and,
4. Approval of a cost of issuance budget, estimated to be approximately $750,000, to be funded by bond proceeds.

PERMANENT FINANCING PLAN

The properties included in the current proposed financing plan (808 units) are presented below and represent the Core Scattered Sites to be refinanced.

HOC Analysis					
Property	**VPC1**	**VPC2**	**SS2**	**MHLP10**	**Total**
Units	399	280	54	75	**808**
% of Units	49%	35%	7%	9%	**100%**
Existing PNC Debt Service Reserves[1]	$2,446,912	$1,713,088	$0	$0	**$4,160,000**
Notes Payable - HOC	$0	$0	$0	$1,073,578	**$1,073,578**
Notes Payable-County	$0	$0	$585,474	$703,796	**$1,289,270**
Mortgage Payable	$27,059,184	$20,517,249	$3,874,500	$1,569,473	**$53,020,405**
Total Outstanding Debt	$27,059,184	$20,517,249	$4,459,974	$3,346,847	**$55,383,254**
% of Total Overall Debt	49%	37%	8%	6%	**100%**
Net Operating Income (NOI)	2,477,420	2,156,155	168,350	422,831	**5,224,756**
% of Total NOI	47%	41%	3%	8%	**100%**

[1]Funded from and will be returned to the FHA Risk Share Account

Mortgage Finance's due diligence included analyzing historical income and expenses, normalizing assumptions by adjusting for the financial effects of COVID, identifying opportunities for operational efficiencies, and ensuring that the sizing and structure of any new financing will not have an adverse impact on HOC's fiscal budget.

To date, Mortgage Finance staff has met with staff from the Real Estate, Property Management, and Asset Management divisions, as well as the Budget Office, to coordinate the due diligence process. Page 8 shows historical income and expenses, as compared to Underwriting Assumptions for the new financing. The properties' Net Operating Income of $5.2 million will support a permanent mortgage amount of $59.6 million at an estimated blended interest rate of 4.95% (to be confirmed at the time the bonds are priced), achieving a Debt Service Coverage Ratio of 1.45:1.00

Mortgage Finance staff has concluded that the Core Scattered Sites, specifically VPC One and VPC Two have contributed significant cash flow to HOC, which will continue post financing. The transaction is underwritten based on the trailing 13-month financial results from March 2023

PERMANENT FINANCING PLAN: UNDERWRITING ASSUMPTIONS

UW Assumptions	
Rental Income	
Gross Rental Income	$13,907,585
Vacancy, Bad Debt, Concessions	-$1,554,007
Net Rental Income	**$12,353,578**
Operating Expenses	
Administrative	$198,594
Allocated Overhead	$1,830,703
General Expenses (Other Taxes)	$291,588
HOA	$1,582,774
Insurance	$203,418
Maintenance	$1,011,230
Payroll	$1,496,023
Replacement Reserves Contribution	$418,571
Real Estate Taxes	$3,163
Tenant Services	$3,521
Utilities	$89,236
Total Operating Expenses	**$7,128,821**
Net Operating Income	**$5,224,756**
Debt Service	$3,603,280
DSC	1.45

Bad Debt	5.10%
Concessions	0.47%
Physical Vacancy	5.61%

- Operating projections are based on five years of operating data for the properties that are being financed.
- Per unit operating expenses are $8,820 which are high but not unexpected for the scattered site portfolio.
- Debt Service Coverage at 1.45 gives sufficient cushion to operations; therefore this financing is not expected to adversely impact HOC's fiscal position or budget.

PERMANENT FINANCING OPTIONS

INDICATIVE FINANCING OPTIONS OBTAINED

Mortgage Finance staff received indicative quotes from Berkadia and PNC, and reviewed them against an HOC bond issuance, structured by Jefferies. Caine Mitter Associates (hereinafter “Caine Mitter”), the Commission’s Financial Advisor, assisted with a comparative analysis of all of the indicative quotes. Shown on page 10 and 11 is a comparison of the viable quotes and the financing outcomes. Outlined in green is staff’s proposal~~s~~ (Option 3), which is an HOC bond issuance, structured by Jefferies, a member of the Commission’s bond underwriting team. This option provides the most advantageous, permanent financing solution, given its long-term amortization, and the amount of proceeds raised for the repayment of existing subordinate debt, and anticipated renovations to be performed in Phase Two of the Comprehensive Plan.

Please note that considering the Commission is seeking long-term financing, Berkadia’s proposals were eliminated from comparison analysis due to its inclusion of a balloon payment requirement in years 5, 7 and 10. Upon comparison of the remaining quotes, PNC’s offerings included 1) a variable/swap option, which staff believes should be set aside for transactions that do not have better options but are highly important to the Commission and 2) a 25-year fixed rate Private Placement option that required a higher cost of issuance as well as the funding of a Debt Service Reserve; therefore, does not generate sufficient financing proceeds.

PERMANENT FINANCING PLAN: COMPARATIVE ANALYSIS

	OPTION 1 HOC GO Bonds	OPTION 2 HOC GO Bonds	OPTION 3 HOC GO Bonds	OPTION 4 PNC	OPTION 5 PNC
Non-AMT or Tax-Exempt					
Type of Financing	Public Offering	Public Offering	Public Offering	Private Placement	LOC Supported VRDN
Structure	Fixed	Fixed	Fixed	Fixed	Variable/Swap
Amortization (Years)	25	30	35	25	25
Balloon Year	n.a.	n.a.	n.a.	n.a.	n.a.
Par Amount of Bonds	48,685,000	48,685,000	48,685,000	48,685,000	48,685,000
Bond Yield	4.418%	4.594%	4.729%	5.380%	3.567%
Annual Debt Service	3,236,312	3,006,135	2,859,235	3,564,635	2,959,290
DSC Required	1.45x	1.45x	1.45x	1.25x	1.25x
DSC Non-AMT only	1.61x	1.74x	1.83x	1.47x	1.77x
Annual NOI for Required DSC	4,692,653	4,358,896	4,145,891	4,455,794	5,224,756
Taxable					
Type of Financing	Public Offering	Public Offering	Public Offering	n.a.	n.a.
Structure	Fixed	Fixed	Fixed		
Amortization (Years)	25	30	35		
Bond Yield	5.779%	5.866%	5.933%		
Remaining Annual NOI	532,103	865,860	1,078,865		
Annual Debt Service Combined	3,603,280	3,603,280	3,603,280		
DSC Non-AMT and Taxable Combined	1.450	1.450	1.450		
Par Amount of Bonds	4,820,000	8,385,000	10,920,000	-	-
Total Bonds	**53,505,000**	**57,070,000**	**59,605,000**	**48,685,000**	**48,685,000**

Housing Opportunities Commission
OF MONTGOMERY COUNTY

PERMANENT FINANCING PLAN: COMPARATIVE ANALYSIS

	OPTION 1 HOC GO Bonds	OPTION 2 HOC GO Bonds	OPTION 3 HOC GO Bonds	OPTION 4 PNC	OPTION 5 PNC
Type of Financing	Public Offering	Public Offering	Public Offering	Private Placement	LOC Supported VRDN
Structure	Fixed	Fixed	Fixed	Fixed	Variable/Swap
Amortization (Years)	25	30	35	25	25
Balloon Year	n.a.	n.a.	n.a.	n.a.	n.a.
Total Bonds	**53,505,000**	**57,070,000**	**59,605,000**	**48,685,000**	**48,685,000**
Payoffs/Net Cash					
VPC 1 Bonds/Loans Payable	27,059,184	27,059,184	27,059,184	27,059,184	27,059,184
VPC 2 Bonds/Loans Payable	20,517,249	20,517,249	20,517,249	20,517,249	20,517,249
SS2 Bonds/Loans Payable	3,820,200	3,820,200	3,820,200	3,820,200	3,820,200
MHLP10 Bonds/Loans Payable	1,111,137	1,111,137	1,111,137	1,111,137	1,111,137
Notes Payable - HOC*	1,073,578	1,073,578	1,073,578	1,073,578	1,073,578
Notes Payable - County*	1,289,270	1,289,270	1,289,270	1,289,270	1,289,270
Net Balance - Gap/(Surplus)	2,199,382	4,734,382	(6,185,618)	(6,185,618)	(1,365,618)
Additional Contribution					
Equity Contribution Cost of Issuance	700,000	730,000	750,000	950,000	563,485
Equity Contribution DSRF	n.a.	n.a.	n.a.	3,786,902	3,184,285
Total Contribution Requirement	700,000	730,000	750,000	4,736,902	3,747,770
Net Cash to HOC (Before Financing and Commitment Fees)	**(2,065,618)**	**1,469,382**	**3,984,382**	**(10,922,520)**	**(9,933,388)**

PERMANENT FINANCING PLAN: SOURCES & USES

HOC Analysis- Sources & Uses	
	SOURCES
Senior Loan	$59,605,000
Existing PNC Reserves	$4,160,000
Existing Replacement Reserves	$1,150,292
TOTAL SOURCES	**$64,915,292**
	USES
Debt Repayment	$54,870,618
Replacement Reserves	$1,150,292
Financing Fees and Charges[1]	$2,682,225
TOTAL USES	**$58,703,135**
Funding Gap / (Surplus)	$6,212,157

[1]Financing Fees and Charges are estimated at 4.5% of senior loan, including an HOC Commitment Fee (and Cost of Issuance.

- Assumptions on interest rates per CMA are 4.729% on the tax exempt debt and 5.993% on the taxable debt, for a blended rate of approximately 4.950%.
- Rates are as of March 2023; however, the current rate environment are volatile and final rates will not be determined until the bonds are priced. This is expected to occur the end of July 2023.
- The Existing PNC Reserves were required for the 2017 funding in lieu of HOC's general obligation pledge. The amount reflects 8% of the then loan amount of $52 million, which was funded from the Commission's FHA Risk Share account. Upon closing of the proposed financing, the funds will be returned to the account.
- The Existing Replacement Reserve is a Source and a Use of funds.
- A DSCR of 1.45 was used as a minimum in order to not negatively impact HOC's Moody's rating with a 0.05 cushion.
- The estimated Restricted Surplus will be utilized as a source in Phase Two of the Comprehensive Plan to be developed by Real Estate and Asset Management.

ISSUES FOR CONSIDERATION

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

1) Refinancing Plan for VPC One Corporation, VPC Two Corporation, Scattered Sites Two Development Corporation and Montgomery Homes LP, totaling $64.9 million, includes the following sources: a) a permanent loan backed by a pledge of the Commission GO, which will repay the existing debt of the ownership entities; and b) existing reserves held by PNC Bank, N.A. for the entities;

2) Selection of Jefferies, LLC, among the Commission's bond underwriters, as the Senior Manager for the upcoming bond issuance;

3) Adoption of a Bond Authorizing Resolution for the issuance and delivery of tax-exempt and taxable indebtedness in an aggregate principal amount not to exceed $61 million to fund the Permanent Loan for the transaction of up to $60 million; and,

4) Approval of cost of issuance budget, estimated to be approximately $750,000 to be funded by proceeds?

TIME FRAME

For deliberation at the May 26, 2023 meeting of the Development and Finance Committee, and formal action of the Commission at its monthly meeting on June 14, 2023.

BUDGET/FISCAL IMPACT

The debt service of the proposed new permanent financing is an increase of approximately $400K when compared to the proposed FY 2024 budget. However, previously imposed annual debt service reserve contributions for VPC One and VPC Two will be removed, which has the potential to result in increased annual cash flow to HOC. Staff will continue to work with the Budget Office to determine the accounting and mechanics of the Scattered Sites cash flows to HOC and incorporate the impacts of the permanent financing in a future FY 2024 Budget Amendment. Costs associated with closing on Permanent Financing will be paid from the projected Costs of Issuance budget.

STAFF RECOMMENDATION & COMMISSION ACTION NEEDED

Staff recommends that the Development and Finance Committee join its recommendation to the Commission of the following actions:

1. Approval of a Refinancing Plan for VPC One Corporation, VPC Two Corporation, Scattered Sites Two Development Corporation and Montgomery Homes LP, totaling $64.9 million, includes the following sources: a) a permanent loan backed by a pledge of the Commission GO, which will repay the existing debt of the ownership entities; and b) existing reserves held by PNC Bank, N.A. for the entities;
2. Approval to select Jefferies, LLC, among the Commission's bond underwriters, as the Senior Manager for the upcoming bond issuance;
3. Adoption of a Bond Authorizing Resolution for the issuance and delivery of tax-exempt and taxable indebtedness within the Multipurpose Indenture in an aggregate principal amount not to exceed $61 million to fund the Permanent Loan for the transaction of up to $60 million; and,
4. Approval of cost of issuance budget, estimated to be approximately $750,000 to be funded by proceeds.

Adjourn