



EXPANDED AGENDA

November 6, 2019

			Res #
4:00 p.m.	I. <u>INFORMATION EXCHANGE</u> A. Resident Advisory Board B. Community Forum		
4:30 p.m. Page 05	II. <u>APPROVAL OF MINUTES</u> A. Approval of Minutes of October 15, 2019 B. Approval of Minutes of October 15, 2019 Administrative Session		
	III. <u>CONSENT</u> A. None		
4:35 p.m. Separate Cover	IV. <u>INFORMATION EXCHANGE (CONTINUED)</u> A. Report of the Executive Director B. Commissioner Exchange		
4:45 p.m.	V. <u>ADMINISTRATIVE AND SPECIAL SESSION RATIFICATION</u> A. None		
4:50 p.m.	VI. <u>COMMITTEE REPORTS and RECOMMENDATIONS FOR ACTION</u>		
Page 27 46 50	A. Budget, Finance and Audit Committee – <i>Com. Nelson, Chair</i> 1. Approval of Calendar Year 2020 (CY'20) Portfolio Budgets 2. Authorization to Submit Fiscal Year 2021-2022 (FY'21-22) County Operating Budget 3. Approval to Extend the Property Management Contract at Timberlawn Crescent		19-102(pg 42) 19-103(pg 49) 19-104(pg 53)
5:30 p.m. Page 55	B. Development and Finance Committee – <i>Com. Simon, Chair</i> 1. Authorization to Select Forefront Company as Fee the Firm with which Commence Negotiations on a Development Services Agreement for the Redevelopment of Avondale Apartments and Approval of Feasibility Funding		19-105(pg 73)
5:40 p.m. Page 76	VII. <u>ITEMS REQUIRING DELIBERATION and/or ACTION</u> 1. Acceptance of HOC Fiscal Year 2019 (FY'19) Audited Financial Statements, Single Audit Report, and Management Letter		19-106(pg 80)
	VIII. <u>*FUTURE ACTION ITEMS</u>		
6:00 p.m.	<u>ADJOURN</u> <i>A closed Administrative Session will be called to order pursuant to Section 3-305(b)(3) and (13) of the General Provisions Article of the Annotated Code of Maryland</i>		

NOTES:

1. This Agenda is subject to change without notice.
2. Public participation is permitted on Agenda items in the same manner as if the Commission was holding a legislative-type Public Hearing.
3. ***Times are approximate and may vary depending on length of discussion.***
4. *These items are listed "For Future Action" to give advance notice of coming Agenda topics and not for action at this meeting.
5. Commission briefing materials are available in the Commission offices the Monday prior to a Wednesday meeting.

If you require any aids or services to fully participate in this meeting, please call (240) 627-9425 or email commissioners@hocmc.org.

Information Exchange

Minutes

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY

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

Minutes

October 15, 2019

19-10

The monthly meeting of the Housing Opportunities Commission of Montgomery County was conducted on Tuesday, October 15, 2019 at 10400 Detrick Avenue, Kensington, Maryland beginning at 4:04 p.m. Those in attendance were:

Present

Jackie Simon, Chair
Roy Priest, Chair Pro Tem
Linda Croom
Frances Kelleher

Absent

Richard Y. Nelson, Vice Chair
Pamela Byrd

Also Attending

Stacy L. Spann, Executive Director
Bonnie Hodge
Charnita Jackson
Cornelia Kent
Olutomi Adebo
Charnita Jackson
Christina Autin
Ellen Goff
Ian-Terrell Hawkins
Eugenia Pascual
Fred Swan
Susan Smith
Vivian Benjamin
Ian Williams
Jennifer Arrington
Terri Fowler
Millicent Anglin

Aisha Memon, Acting General Council
Lynn Hayes
Marcus Ervin
Patrick Mattingly
Heather Grendze
Lorie Seals
Leidi Reyes
Lorie Seals
Darcel Cox
Jay Shepherd
Sherraine Rawlins
Cathy Kramer
Zachary Marks
Jay Berkowitz
Kayrine Brown
Kathryn Hollister

Resident Advisory

Yvonne Caughman, Vice Chair

IT Support

Irma Rodriguez
Gabriel Taube
Michael Tadesse

Commission Support

Patrice Birdsong, Spec. Asst. to the Commission

I. Information Exchange

Chair Simon began with open remarks informing guest of a 40-minutes time limit allotted for Community Forum. Chair Simon also addressed the untimely passing of Shauna Sorrells, Chief Operating Officer, with a moment of silence prior to the convening of the meeting. Chair Simon's remarks are attached.

Resident Advisory Board

- Yvonne Caughman, Vice Chair, updated on activities of Resident Advisory Board.

Community Forum

- Karen Lundregan addressed the Board to inform that she will continue to pursue her alleged ongoing issues of discrimination and retaliation from staff. Ms. Lundregan has ported to the District of Columbia Housing Authority.

II. Approval of Minutes - The minutes were approved as submitted with a motion by Chair Pro Tem Priest and seconded by Commissioner Croom. Affirmative votes were cast by Commissioners Simon, Priest, Croom, and Kelleher. Commissioners Nelson and Byrd were necessarily absent and did not participate in the vote.

A. Approval of Minutes of September 4, 2019

B. Approval of Minutes of September 4, 2019 Administrative Session

III. Consent Items

A. None

IV. Information Exchange Continued

Report of the Executive Director

- In addition to the written report, Mr. Spann reported that there was a conference held on October 15, 2019 by Councilmember Glass and Councilmember Jawando for proposed legislation of Impact Fairness Act; Mr. Spann reported that HOC received a Certificate of Merit Award for The Lindley; and he informed that HOC was asked to investigate live streaming its Board meetings. He informed that the meeting was the first meeting to begin streaming.

Commissioner Exchange

- Chair Simon and Commissioner Kelleher attended the NAHRO Conference in San Antonio, TX on October 9. They were there to receive the Award for The Lindley.

V. ADMINISTRATIVE AND SPECIAL SESSION RATIFICATION

A. None

VI. COMMITTEE REPORTS and RECOMMENDATIONS FOR ACTION

A. Budget, Finance and Audit Committee – Com. Nelson, Chair

1. Acceptance of Fourth Quarter FY'19 Budget to Actual Statements

Cornelia Kent, Chief Financial Officer, and Terri Fowler, Budget Officer, were the presenters.

The following resolution was adopted upon a motion by Chair Pro Tem Priest and seconded by Commissioner Kelleher. Affirmative votes were cast by Commissioners Simon, Priest, Croom, and Kelleher. Commissioners Nelson and Byrd were necessarily absent and did not participate in the vote.

RESOLUTION NO.: 19-93

**Re: Acceptance of Fourth Quarter FY'19
Budget to Actual Statements, and
Approval to Transfer Funds to the
General Fund Operating Reserve from
the General Fund to Balance the FY'19
Budget**

WHEREAS, the Budget Policy for the Housing Opportunities Commission of Montgomery County ("HOC" or "Commission") states that (1) quarterly budget to actual statements will be reviewed by the Commission, and (2) the Commission will end the fiscal year with a balanced budget; and

WHEREAS, the Commission reviewed the Fourth Quarter FY'19 Budget to Actual Statements during its October 15, 2019 meeting; and

WHEREAS, the Agency ended FY'19 with an operating surplus of \$172,037; and

WHEREAS, in order to balance the budget, it is recommended that \$172,037 be transferred to the General Fund Operating Reserve from the General Fund.

NOW, THEREFORE, BE IT RESOLVED by the Housing Opportunities Commission of Montgomery County that it hereby accepts the Fourth Quarter FY'19 Budget to Actual Statements.

BE IT FURTHER RESOLVED by the Housing Opportunities Commission of Montgomery County that it hereby authorizes staff to transfer \$172,037 to the General Fund Operating Reserve from the General Fund to balance the FY'19 Budget.

2. Authorization to Write-off Bad Debt Related to Tenant Accounts Receivable (April 1, 2019 – June 30, 2019)

Cornelia Kent, Chief Financial Officer, and Eugenia Pascual, Controller, were the presenters.

The following resolution was adopted upon a motion by Chair Pro Tem Priest and seconded by Commissioner Kelleher. Affirmative votes were cast by Commissioners Simon, Priest, Croom, and Kelleher. Commissioners Nelson and Byrd were necessarily absent and did not participate in the vote.

RESOLUTION NO.: 19-94

**RE: Authorization to Write off Bad Debt
Related to Tenant Accounts Receivable**

WHEREAS, the current policy of the Housing Opportunities Commission of Montgomery County (“HOC”) is (i) to provide for an allowance for tenant accounts receivable balances that are delinquent for more than ninety (90) days; and (ii) to propose the write-off of former tenant balances; and

WHEREAS, staff periodically proposes the write-off of uncollected former tenant balances which updates the financial records to accurately reflect the receivables and the potential for collection; and

WHEREAS, the proposed write-off of former tenant accounts receivable balances for the period April 1, 2019 – June 30, 2019 is \$224,199, consisting of \$159,519 from Opportunity Housing properties, \$38,123 from RAD properties and \$26,557 from Supportive Housing program.

NOW, THEREFORE, BE IT RESOLVED that the Housing Opportunities Commission of Montgomery County authorizes and directs the Executive Director, without further action on its part, to take any and all actions necessary and proper to write off \$224,199 in bad debt related to (i) tenant accounts receivable balances that are delinquent for more than ninety (90) days, and (ii) former tenant balances, including the execution of any and all documents related thereto.

3. Approval to Extend the use of the PNC Bank Real Estate Line of Credit (RELOC) for the Purpose of Making a Capital Contribution to CCL Multifamily LLC

Cornelia Kent, Chief Financial Officer, and Eugenia Pascual, Controller, were the presenters.

The following resolution was adopted upon a motion by Chair Pro Tem Priest and seconded by Commissioner Kelleher. Affirmative votes were cast by Commissioners Simon, Priest, Croom, and Kelleher. Commissioners Nelson and Byrd were necessarily absent and did not participate in the vote.

RESOLUTION NO.: 19-95

**RE: Approval to Extend the Use of the PNC Bank,
N.A. Real Estate Line of Credit for the Purpose of
Making a Capital Contribution to CCL Multifamily
LLC**

WHEREAS, on July 13, 2016, the Housing Opportunities Commission of Montgomery County (“HOC”) authorized a taxable draw of up to \$11,008,930 (the “Draw”) from the PNC Bank, N.A. Real Estate Line of Credit (the “RELOC”) for the purpose of making a 50% capital contribution to CCL Multifamily LLC for the development of the Chevy Chase Lake Multifamily project (The Lindley);

WHEREAS, on November 7, 2016, HOC closed construction and equity financing for the project and \$2,968,213 was drawn from the RELOC;

WHEREAS, as of June 30, 2019, a total of \$10,156,430 was drawn on the RELOC and \$781,765 was repaid from the sales proceeds of townhome units, leaving a balance of \$9,374,665 that will mature on November 7, 2019;

WHEREAS, staff recommends extending the maturity date of the Draw through November 7, 2020 at a taxable rate of LIBOR plus 58 basis points until a permanent loan is put in place; and

WHEREAS, the estimated cost, as of August 1, 2019, under the RELOC is expected to be approximately \$353,379.

NOW, THEREFORE, BE IT RESOLVED that the Housing Opportunities Commission of Montgomery County hereby approves extending the use of the PNC Bank Real Estate Line of Credit through November 7, 2020 to continue to fund HOC's capital contribution to CCL Multifamily LLC.

BE IT FURTHER RESOLVED by the Housing Opportunities Commission of Montgomery County that the Executive Director, or his designee, is hereby authorized, without any further action on its part, to take any and all other actions necessary and proper to carry out the transaction and actions contemplated herein, including the execution of any documents related thereto.

4. Approval to Release Obligations against the PNC Bank Line of Credit

Cornelia Kent, Chief Financial Officer, and Jennifer Arrington, Assistant Director of Bonds Management, were the presenters.

The following resolution was adopted upon a motion by Chair Pro Tem Priest and seconded by Commissioner Kelleher. Affirmative votes were cast by Commissioners Simon, Priest, Croom, and Kelleher. Commissioners Nelson and Byrd were necessarily absent and did not participate in the vote.

RESOLUTION NO.: 19-96

**RE: Approval to Release Obligation Against the
PNC Bank \$60 Million Line of Credit**

WHEREAS, the Housing Opportunities Commission of Montgomery County (the "Commission") has a \$60 million Line of Credit with PNC Bank, N.A. ("PNC LOC"); and

WHEREAS, in May 2012, the Commission obligated \$10 million of the PNC LOC for the Single Family Mortgage Purchase Program (the "Program") for the purpose of purchasing Mortgage Backed Securities ("MBS"); and

WHEREAS, in October 2015, the Commission reduced the PNC LOC obligation for the Program to \$5 million (the "\$5 Million PNC LOC Obligation"); and

WHEREAS, in December 2018, the Commission approved an additional \$5 million obligation on the PNC LOC for the Program to be used on a revolving basis for the purpose of preserving Single Family volume cap via replacement refunding bonds (the "\$5 Million Revolving PNC LOC Obligation"), creating a total PNC LOC obligation for the Program of \$10 million; and

WHEREAS, the last utilization of the PNC LOC by the Program to purchase MBS was March 17, 2017; and

WHEREAS, in order to free up the Commission's limited financial resources, Caine Mitter has advised HOC staff that releasing the \$5 Million PNC LOC Obligation is appropriate and will not adversely impact activities of the Program; and

WHEREAS, upon releasing the \$5 Million PNC LOC Obligation, the \$5 Million Revolving PNC LOC Obligation will remain, and the unobligated balance of the PNC LOC will be \$4,590,801.

NOW, THEREFORE, BE IT RESOLVED that the Housing Opportunities Commission of Montgomery County authorizes staff to release the \$5 Million PNC LOC Obligation.

BE IT FURTHER RESOLVED by the Housing Opportunities Commission of Montgomery County that the Executive Director, or his designee, is hereby authorized, without any further action on its part, to take any and all other actions necessary and proper to carry out the transaction and actions contemplated herein, including the execution of any documents related thereto.

5. Approval to Renew the Property Management Contract for Barclay Apartments Development Corporation, Barclay One Associates, LP and Fairfax Court Apartments

Charnita Jackson, Director of Property Management, and Millicent Anglin, Asset Manager, were the presenters.

The following resolution was adopted upon a motion by Chair Pro Tem Priest and seconded by Commissioner Kelleher. Affirmative votes were cast by Commissioners Simon, Priest, Croom, and Kelleher. Commissioners Nelson and Byrd were necessarily absent and did not participate in the vote.

RESOLUTION NO.: 19-97

RE: Approval to Renew Property Management Contracts for Barclay Apartments and Fairfax Court for One Year

WHEREAS, the Housing Opportunities Commission of Montgomery County (“HOC”) is the general partner of Barclay One Associates Limited Partnership (“Barclay LP”), and Barclay LP owns 81 units in the development known as Barclay Apartments located in Chevy Chase, Maryland (“Barclay Apartments”);

WHEREAS, HOC owns the development known as Fairfax Court located in Chevy Chase, Maryland (“Fairfax Court,” together with Barclay Apartments, the “Properties”).

WHEREAS, HOC staff desires to renew the current property management contracts at the Properties for one (1) year with CAPREIT;

NOW, THEREFORE, BE IT RESOLVED by the Housing Opportunities Commission of Montgomery County, acting for itself and on behalf of Barclay LP, as its general partner, that the Executive Director, or his designee, is hereby authorized and directed to execute a one (1) year renewal of the property management contract at Barclay Apartments with CAPREIT.

BE IT FURTHER RESOLVED by the Housing Opportunities Commission of Montgomery County that the Executive Director, or his designee, is hereby authorized and directed to execute a one (1) year renewal of the property management contract at Fairfax Court with CAPREIT.

BE IT FURTHER RESOLVED by the Housing Opportunities Commission of Montgomery County that the Executive Director, or his designee, is hereby authorized and directed, without any further action on its part, to

take any and all other actions necessary and proper to carry out the transactions contemplated herein, including the execution of any documents related thereto.

6. Approval to Renew the Property Management Contract at Spring Garden One Associates Limited Partnership

Charnita Jackson, Director of Property Management, and Jay Berkowitz, Asset Manager, were the presenters.

The following resolution was adopted upon a motion by Chair Pro Tem Priest and seconded by Commissioner Kelleher. Affirmative votes were cast by Commissioners Simon, Priest, Croom, and Kelleher. Commissioners Nelson and Byrd were necessarily absent and did not participate in the vote.

RESOLUTION NO.: 19-98

RE: Approval to Renew Property Management Contract for Spring Garden One Associates Limited Partnership

WHEREAS, the Housing Opportunities Commission of Montgomery County (“HOC”) is the general partner of Spring Garden One Associates Limited Partnership (“Spring Garden LP”), and Spring Garden LP owns the development known as Spring Garden located in Silver Spring, Maryland (“Spring Garden”); and

WHEREAS, staff desires to renew the current property management contract at Spring Garden for one (1) year with Edgewood/Vantage Management.

NOW, THEREFORE, BE IT RESOLVED by the Housing Opportunities Commission of Montgomery County, acting for itself and on behalf of Spring Garden One Associates Limited Partnership, as its general partner, that the Executive Director is hereby authorized and directed to execute a one (1) year renewal of the property management contact at Spring Garden.

BE IT FURTHER RESOLVED by the Housing Opportunities Commission of Montgomery County that the Executive Director, or his designee, is hereby authorized and directed, without any further action on its part, to take any and all other actions necessary and proper to carry out the transactions contemplated herein, including the execution of any documents related thereto.

7. Approval to Renew the Property Management Contracts for Metropolitan Development Corporation, Metropolitan of Bethesda LP, Strathmore Court, and Strathmore Court Associates LP

Charnita Jackson, Director of Property Management, and Millicent Anglin, Asset Manager, were the presenters.

The following resolution was adopted upon a motion by Chair Pro Tem Priest and seconded by Commissioner Kelleher. Affirmative votes were cast by Commissioners Simon, Priest, Croom, and Kelleher. Commissioners Nelson and Byrd were necessarily absent and did not participate in the vote.

RESOLUTION NO.: 19-99

**RE: Approval to Renew Property Management
Contracts for The Metropolitan
and Strathmore for One Year**

WHEREAS, the Housing Opportunities Commission of Montgomery County (“HOC”) is the general partner of The Metropolitan of Bethesda Limited Partnership (“Metropolitan LP”), and Metropolitan LP owns 92 units at the development known as The Metropolitan located in Bethesda, Maryland (the “Metropolitan”);

WHEREAS, HOC is the general partner of Strathmore Court Associates Limited Partnership (“Strathmore LP”), and Strathmore LP owns 51 units and HOC owns 151 units at the development known as Strathmore Court located in Bethesda, Maryland (“Strathmore,” together with the Metropolitan, the “Properties”); and

WHEREAS, staff desires to renew the current property management contracts at the Properties for one (1) year with Bozzuto Management Company.

NOW, THEREFORE, BE IT RESOLVED by the Housing Opportunities Commission of Montgomery County, acting for itself and on behalf of The Metropolitan of Bethesda Limited Partnership, as its general partner, that the Executive Director is hereby authorized and directed to execute a one (1) year renewal of the property management contract at Metropolitan with Bozzuto Management Company.

BE IT FURTHER RESOLVED by the Housing Opportunities Commission of Montgomery County, acting for itself and on behalf of Strathmore Court Associates Limited Partnership, as its general partner, that the Executive Director is hereby authorized and directed to execute a one (1) year renewal of the property management contract at Strathmore with Bozzuto Management Company.

BE IT FURTHER RESOLVED by the Housing Opportunities Commission of Montgomery County that the Executive Director, or his designee, is hereby authorized and directed, without any further action on its part, to take any and all other actions necessary and proper to carry out the transactions contemplated herein, including the execution of any documents related thereto.

8. Approval to Renew the Property Management Contracts at CCL Multifamily LLC (The Lindley)

Charnita Jackson, Director of Property Management, and Millicent Anglin, Asset Manager, were the presenters.

The following resolution was adopted upon a motion by Commissioner Croom and seconded by Chair Pro Tem Priest. Affirmative votes were cast by Commissioners Simon, Priest, Croom, and Kelleher. Commissioners Nelson and Byrd were necessarily absent and did not participate in the vote.

RESOLUTION NO.: 19-100

**RE: Approval to Renew Property Management
Contract for The Lindley**

WHEREAS, the Housing Opportunities Commission of Montgomery County (“HOC”) is the managing member of CCL Multifamily LLC, which owns the development known as The Lindley located in Chevy Chase, Maryland (the “Property”); and

WHEREAS, HOC staff desires to renew the current property management contract at the Property through May 2, 2020 with Bozzuto Management Company.

NOW, THEREFORE, BE IT RESOLVED by the Housing Opportunities Commission of Montgomery County, acting on behalf itself and on behalf of CCL Multifamily LLC, as its managing member, that the Executive Director is hereby authorized and directed to execute a renewal of the property management contract at the Property through May 2, 2020 with Bozzuto Management Company.

BE IT FURTHER RESOLVED by the Housing Opportunities Commission of Montgomery County that the Executive Director is hereby authorized and directed, without any further action on its part, to take any and all other actions necessary and proper to carry out the transaction contemplated herein, including the execution of any documents related thereto.

B. Development and Finance Committee – Com. Simon, Chair

1. Approval of a Bond Authorizing Resolution for the Refunding of 2004 Series C and Series D Multifamily Housing Development Bonds (MFHDB)

Kayrine Brown, Chief Investments and Real Estate Officer, and Jennifer Arrington, Assistant Director of Bond Management, were the presenters.

The following resolutions were adopted upon a motion by Chair Pro Tem Priest and seconded by Commissioner Kelleher. Affirmative votes were cast by Commissioners Simon, Priest, Croom, and Kelleher. Commissioners Nelson and Byrd were necessarily absent and did not participate in the vote.

RESOLUTION NO.: 19-101

Re: Approval of a Bond Authorizing Resolution for the Issuance of 2019 Series B and 2019 Series C Multifamily Housing Development Bonds to Refund 2004 Series C and 2004 Series D

A RESOLUTION OF THE HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY AUTHORIZING THE ISSUANCE AND SALE OF ONE OR MORE TAX-EXEMPT AND/OR TAXABLE SERIES OF THE COMMISSION'S MULTIFAMILY HOUSING DEVELOPMENT BONDS IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$17,405,000 (THE "2019 BONDS") FOR THE PURPOSE OF REFUNDING AND REDEEMING CERTAIN PRIOR BONDS OF THE COMMISSION ISSUED TO PROVIDE PERMANENT FINANCING FOR VARIOUS MULTIFAMILY RESIDENTIAL RENTAL PROJECTS FOR OCCUPANCY, IN PART, BY PERSONS OF ELIGIBLE INCOME AND PERMITTING THE COMMISSION TO REALIZE PRESENT VALUE SAVINGS IN ORDER TO CARRYOUT THE PURPOSES OF ITS PROGRAM; AUTHORIZING THE EXECUTION AND DELIVERY OF A SERIES INDENTURE, CERTAIN TAX-RELATED DOCUMENTS, A DISCLOSURE AGREEMENT AND ANY AND ALL RELATED DOCUMENTS; APPROVING THE PREPARATION, EXECUTION AND DISTRIBUTION OF PRELIMINARY AND FINAL OFFERING DOCUMENTS RELATING TO THE 2019 BONDS; AUTHORIZING THE EXECUTION OF ANY OTHER DOCUMENTS NECESSARY FOR THE ISSUANCE OF THE 2019 BONDS AND THE ACCOMPLISHMENT OF THE FINANCING PLAN DESCRIBED HEREIN; AUTHORIZING THE CHAIRMAN, VICE CHAIRMAN OR CHAIRMAN PRO TEM

AND EXECUTIVE DIRECTOR OR OTHER AUTHORIZED REPRESENTATIVE TO PROCEED WITH THE SALE OF THE 2019 BONDS TO BOFA SECURITIES INC., AS REPRESENTATIVE OF ITSELF AND PNC CAPITAL MARKETS, LLC, OR TO ANY OTHER UNDERWRITERS OR TO ANY OTHER INITIAL PURCHASERS AND TO EXECUTE AND DELIVER A CONTRACT OF PURCHASE IN CONNECTION WITH SUCH SALE; AUTHORIZING THE EXECUTIVE DIRECTOR OR OTHER AUTHORIZED REPRESENTATIVE TO ESTABLISH THE TERMS RELATING TO THE 2019 BONDS AND TO MAKE ONGOING DETERMINATIONS RELATING THERETO; APPOINTING THE FINANCIAL ADVISOR AND BOND COUNSEL FOR THE 2019 BONDS; AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, the Housing Opportunities Commission of Montgomery County (the "Commission") is a public body corporate and politic duly organized under Division II of the Housing and Community Development Article of the Annotated Code of Maryland, as amended, known as the Housing Authorities Law (the "Act"), and authorized thereby to issue its notes and bonds from time to time to fulfill its corporate purposes; and

WHEREAS, the Act declares that there exists within Montgomery County (the "County") a critical shortage of decent, safe and sanitary dwelling accommodations available to rent which "persons of eligible income" (within the meaning of the Act) can afford; and

WHEREAS, the Act empowers the Commission to make mortgage loans to qualified sponsors to provide for the construction, rehabilitation and long-term financing of multifamily residential housing units in the County for occupancy by persons of eligible income and to perform any other duties that the Commission considers necessary in carrying out the purposes of the Act; and

WHEREAS, the Commission, in furtherance of the purposes of the Act, has established a program (the "Program") to provide for the financing of mortgage loans through the issuance of its multifamily housing bonds; and

WHEREAS, pursuant to the Act and the Program, the Commission entered into the Trust Indenture, dated as of November 1, 1996 (the "Trust Indenture"), by and between the Commission and U.S. Bank National Association (successor-in-interest to SunTrust Bank), as trustee (the "Trustee"), providing for the issuance of bonds (the "Bonds") from time to time in accordance with the provisions thereof and the provisions of separate series indentures (the "Series Indentures," and together with the Trust Indenture, the "Indenture") specifically authorizing and setting forth the terms of each series of Bonds issued under the Trust Indenture; and

WHEREAS, the proceeds received from the issuance and sale of the Bonds under the Trust Indenture are used to make, purchase or finance mortgage loans (the "Mortgage Loans") or finance mortgage loans through the purchase of Guaranteed Mortgage Securities (as defined in the Trust Indenture); and

WHEREAS, the pledges and assignments made pursuant to the Trust Indenture and the provisions, covenants and agreements therein set forth to be performed by or on behalf of the Commission are for the equal benefit, protection and security of the owners of any and all of the Bonds, each of which, regardless of the time of its issue or maturity, shall be of equal rank without preference, priority or distinction over any other Bond, except as expressly provided in the Trust Indenture or in any Series Indenture; and

WHEREAS, the Commission, in furtherance of the Program, issued its Multifamily Housing Development Bonds 2004 Series C and 2004 Series D pursuant to the Indenture (collectively, the “Prior Bonds”) for the purpose, in part, of providing funds to provide permanent financing for various multifamily residential rental developments located in the County; and

WHEREAS, the Prior Bonds were issued as variable rate demand obligations enhanced by a TD Bank, N.A. direct-pay letter of credit (the “Credit Facility”) and hedged by an interest rate swap between the Commission and Merrill Lynch Capital Services Inc. (the “Swap”); and

WHEREAS, each of the Mortgage Loans funded from the proceeds of the Prior Bonds is insured by the Federal Housing Administration (“FHA”) under Section 542(c) of the Housing and Community Development Act of 1992, as amended, and the regulations promulgated thereunder (the “Risk Sharing Act”); and

WHEREAS, the Commission has determined to issue one or more tax-exempt and/or taxable series of its Multifamily Housing Development Bonds to be designated, subject to the provisions hereof, 2019 Series B and 2019 Series C (together with such other series designation as shall be approved by the Executive Director, the “2019 Bonds”), pursuant to the Trust Indenture and pursuant to one or more series indentures (each, a “Series Indenture”) relating thereto, in part, for the purpose, among other things, of providing (i) financing for the refunding and redemption of the Prior Bonds thereby permitting the termination of the Credit Facility and the Swap, (ii) funding for Costs of Issuance (as defined in the Trust Indenture) and (iii) net present value savings of up to \$1.8 million over the term of the 2019 Bonds (the “Financing Plan”); and

WHEREAS, in connection with the issuance of the 2019 Bonds and the accomplishment of the Financing Plan, the Commission anticipates entering into various documents, including, but not limited to, a Series Indenture, preliminary and final Offering Documents, a Disclosure Agreement, a Contract of Purchase, the Tax-Related Documents and certain other documents relating to the 2019 Bonds and the Financing Plan (each such capitalized term not heretofore defined shall have the meaning as hereinafter set forth);

NOW, THEREFORE, BE IT RESOLVED by the Housing Opportunities Commission of Montgomery County:

- 1. 2019 Bonds.** The 2019 Bonds are hereby authorized to be issued in an aggregate principal amount not to exceed \$17,405,000 of the Commission, to carry out the purposes under the Program as described above. Subject to the following sentence, the Bonds shall be separately designated “2019 Series B” and “2019 Series C.” Notwithstanding the foregoing, the Executive Director is hereby authorized to approve, in consultation with the Financial Advisor and Bond Counsel to the Commission, such greater number of series of Bonds to be issued in connection with the Financing Plan and to determine the designations therefor. The 2019 Bonds are to be issued pursuant to the terms of the Trust Indenture and pursuant to the terms of the Series Indenture. The 2019 Bonds shall be limited obligations of the Commission, secured by and payable solely from moneys pledged therefor under the Indenture. The 2019 Bonds shall be issued as obligations the interest on which is excludable from gross income for federal income tax purposes (the “Tax Exempt 2019 Bonds”) and/or as obligations the interest on which is includable in gross income for federal income tax purposes, subject to the approval of the Executive Director, in consultation with the Financial Advisor and Bond Counsel to the Commission.

2. **Approval of Financing Plan.** The Commission hereby approves the Financing Plan as described above pursuant to the terms and conditions set forth in the Indenture and such other documents approved hereby.
3. **Series Indenture.** The Chairman, the Vice Chairman, or the Chairman Pro Tem and the Executive Director of the Commission, or any authorized designee of the Executive Director, are hereby authorized and directed to execute and deliver the Series Indenture in such form as shall be approved by such officers, the execution of such Series Indenture being conclusive evidence of such approval and of the approval of the Commission, and the Secretary-Treasurer of the Commission, or any other authorized officer of the Commission (an "Authorized Officer"), is hereby authorized and directed to affix the seal of the Commission to the Series Indenture and to attest the same.
4. **Tax-Related Documents.** The Chairman, the Vice Chairman, the Chairman Pro Tem and the Executive Director of the Commission are hereby authorized and directed to execute and deliver a Tax Regulatory Agreement and No Arbitrage Certificate and other documents relating to the Tax-Exempt 2019 Bonds (collectively, the "Tax-Related Documents") restricting the application of the proceeds of the Tax-Exempt 2019 Bonds in such forms as shall be prepared by Bond Counsel and approved by the Chairman, the Vice Chairman, the Chairman Pro Tem or the Executive Director, the execution of the Tax-Related Documents being conclusive evidence of such approval and of the approval of the Commission.
5. **Disclosure Agreement.** The Commission hereby authorizes and approves the execution and delivery of a continuing disclosure agreement (the "Disclosure Agreement") related to the 2019 Bonds, in such form as may be approved by the Chairman, the Vice Chairman or the Chairman Pro Tem and the Executive Director of the Commission, their execution and delivery of the Disclosure Agreement constituting conclusive evidence of such officer's approval of the Disclosure Agreement and the approval of the Commission.
6. **Offering Documents.** The Commission hereby authorizes and approves the preparation and distribution of one or more preliminary offering documents of the Commission and the preparation, execution and distribution of one or more final offering documents (collectively, the "Offering Documents"), each relating to the 2019 Bonds, in such forms as may be approved by the Chairman, the Vice Chairman or the Chairman Pro Tem and the Executive Director of the Commission, their execution and delivery of the Offering Documents constituting conclusive evidence of such officer's approval of the Offering Documents and the approval of the Commission.
7. **Sale of 2019 Bonds.** The Chairman, the Vice Chairman, the Chairman Pro Tem, the Executive Director or other Authorized Representative of the Commission is authorized to proceed with the sale of the 2019 Bonds to BofA Securities, Inc., as representative of itself, PNC Capital Markets LLC, and/or such other underwriters as may be designated by the Commission, or to any other entity as shall be in the best interest of the Commission as determined by the Chairman, the Vice Chairman, the Chairman Pro Tem, the Executive Director or other Authorized Representative of the Commission.

- 8. Contract of Purchase.** The Chairman, the Vice Chairman, the Chairman Pro Tem, the Executive Director or other Authorized Representative of the Commission is authorized to execute a contract of purchase and/or any other form of purchase agreement (the "Contract of Purchase") in connection with the issuance, purchase and sale of the 2019 Bonds.
- 9. Terms; Ongoing Determinations.** The Executive Director or other Authorized Representative of the Commission, as the case may be, is hereby authorized, without further action of or authority from the Board of Commissioners to establish the dates, maturities, interest payment dates, denominations, terms of redemption, registration privileges, security and other terms, and to approve the interest rates on the 2019 Bonds, all of the foregoing to be specified in the related Series Indenture. The Executive Director or other Authorized Representative of the Commission, as the case may be, is hereby authorized, without further action of or authority from the Board of Commissioners, to perform any act, to execute any documents, is hereby authorized, from time to time during the period the 2019 Bonds are outstanding, to make ongoing determinations, as may be required by the terms of the related Series Indenture and any other financing documents relating to the 2019 Bonds, including, but not limited to, the giving and withholding of consents, the selection of certain providers and the refunding and redemption of the Bonds, and the Executive Director or other Authorized Representative of the Commission, as the case may be, is further authorized to execute any and all documents evidencing such determinations as may be deemed necessary and proper.
- 10. Other Action.** The Chairman, the Vice Chairman, the Chairman Pro Tem, the Executive Director or other Authorized Representative of the Commission is hereby authorized and directed to execute and deliver any and all additional documents and instruments necessary or proper to be executed and delivered and cause to be done any and all acts and things necessary or proper for carrying out the transactions contemplated by this Resolution relating to the issuance and sale of the 2019 Bonds and the accomplishment of the Financing Plan.
- 11. Appointment of Financial Advisor and Bond Counsel.** Caine Mitter & Associates Incorporated is hereby appointed as Financial Advisor, and Kutak Rock LLP, Washington, D.C., is hereby appointed as Bond Counsel in connection with the issuance of the 2019 Bonds.
- 12. No Personal Liability.** No stipulation, obligation or agreement herein contained or contained in the 2019 Bonds, the Series Indenture, the Contract of Purchase, the Tax-Related Documents, the Offering Documents, the Disclosure Agreement or in any other agreement or document executed on behalf of the Commission shall be deemed to be a stipulation, obligation or agreement of any Commissioner, officer, agent or employee of the Commission in his or her individual capacity, and no such Commissioner, officer, agent or employee shall be personally liable on the 2019 Bonds or be subject to personal liability or accountability by reason of the issuance thereof.
- 13. Action Approved and Confirmed.** All acts and doings of the officers of the Commission which are in conformity with the purposes and intent of this Resolution and in furtherance of the issuance of the 2019 Bonds, the refunding and redemption of the Prior Bonds and the accomplishment of the Financing Plan are hereby approved, and the execution, delivery and performance of the documents and agreements authorized hereby are in all respects approved and confirmed.
- 14. Severability.** If any provision of this Resolution shall be held or deemed to be illegal, inoperative or unenforceable, the same shall not affect any other provision hereof or cause any other provision hereof to be invalid, inoperative or unenforceable to any extent whatsoever.

15. Effective Date. This Resolution shall take effect immediately.

VII. ITEMS REQUIRING DELIBERATION and/or ACTION

None

VIII. FUTURE ACTION ITEMS

None

Based upon this report and there being no further business to come before this session of the Commission, the open session adjourned at 5:11 p.m. and reconvened in closed session at approximately 5:23 p.m.

In compliance with Section 3-306(c)(2), General Provisions Article, Maryland Code, the following is a report of the Housing Opportunities Commission of Montgomery County's closed session held on October 15, 2019 at approximately 5:23 p.m. at 10400 Detrick Avenue, Kensington, MD 20895. The meeting was closed under the authority of Section 3-305(b)(13) to discuss the financial and commercial terms of potential real estate dispositions.

The meeting was closed on a motion by Chair Pro Tem Priest, seconded by Commissioner Croom, with Commissioners Simon, Priest, Croom, and Kelleher unanimously voting in approval. Commissioners Nelson and Byrd were necessarily absent and did not participate in the vote. The following persons were present during the closed session: Jackie Simon, Roy Priest, Linda Croom, Frances Kelleher, Stacy Spann, Kayrine Brown, Cornelia Kent, Aisha Memon, Christina Autin, Millicent Anglin, Zachary Marks, Charnita Jackson, and Patrice Birdsong.

In closed session, the Commission discussed the financial and commercial terms of potential real estate dispositions. No formal action was taken.

The closed session was adjourned at 6:23 p.m.

Respectfully submitted,

Stacy L. Spann
Secretary-Treasurer

/pmb

Attachment



10400 Detrick Avenue
Kensington, MD 20895-2484
(240) 627-9400



Commissioner Jackie Simon

October 15 - Commission Meeting Remarks

Thank you for attending tonight's Commission meeting.

As always, the Commission provides time on its agenda for members of the public to come and share concerns with the Commission, and we continue to invite anyone to avail themselves of this opportunity.

While we welcome and value community participation during this forum, it has become necessary to require those who speak to recognize the time boundaries so that we can carry out the affordable housing items that are the purpose of tonight's agenda.

Tonight's community forum is limited to 40 minutes. If the

point you wish to raise has been already addressed by a prior speaker, please just acknowledge their remarks, so that everyone may be heard in the time we have available. Remember to respect the 3-minutes allotted to each speaker. For customers and clients unable to address the Commission this evening, please make sure you have provided your information on the meeting sign-in form at the front desk and an HOC staff member will follow-up to assist you.

[Pause]

Before we proceed with this evening's agenda, I would like to take a moment to address the untimely passing of our dear colleague, Chief Operating Officer, Shauna Sorrells.

Shauna was a visionary - a spark for change and innovation across our agency. Many of you - staff, customers and community members alike - may remember her for her kindness as well as her tenacity.

She was always prepared to meet each challenge with passion, poise and a smile. Shauna will be missed by all who had the opportunity to work with and learn from her.

Let's please take a minute to honor Shauna with a moment of silence.

[Silence]

Thank you all.

Consent Items

Information Exchange

Administrative and Special Session Ratifications

Committee Reports and Recommendations for Action

Budget, Finance & Audit Committee

APPROVAL OF CALENDAR YEAR 2020 (CY'20) PORTFOLIO BUDGETS

November 6, 2019

- The Budget, Finance and Audit Committee reviewed the CY'19 Portfolio Budgets at the October 16, 2019 meeting which includes 12 calendar year Tax Credit properties and the Lindley.
- The budgets for Arcola Towers RAD LP (Arcola Towers), Alexander House LP (Alexander House), Barclay One LP (Barclay), Forest Oak Towers LP, Georgian Court Silver Spring LP (Georgian Court), Greenhills Apartments LP, Hampden Lane LP (Lasko Manor), MV Affordable Housing Associates LP (Stewartown), Spring Garden One Associates LP (Spring Garden), Tanglewood/Sligo Hills LP (Tanglewood/Sligo), Waverly House RAD LP (Waverly House), and Wheaton Metro LP (MetroPointe) project \$159,682 in Partnership Management Fees that will be paid to the Agency for CY'20.
- Rent increases for all properties are within the guidelines of HOC's current Rent Policy.
- The partnership documents for the tax credit portions of Strathmore Court and The Metropolitan provided for a partnership fiscal year that coincides with HOC's. Therefore, these budgets are not included with the calendar year partnership budgets.

MEMORANDUM

TO: Housing Opportunities Commission

VIA: Stacy L. Spann, Executive Director

FROM: Staff: Cornelia Kent Division: Finance Ext. 9754
 Terri Fowler Ext. 9507

RE: Approval of Calendar Year 2020 (CY'20) Portfolio Budgets

DATE: November 6, 2019

STATUS: Committee Report: Deliberation [X]

OVERALL GOAL & OBJECTIVE:

To approve the Agency's CY'20 Portfolio Budgets.

BACKGROUND:

Historically, the Agency approved Calendar Year budgets for Tax Credit Partnerships only. The Lindley is operated on a calendar year basis as well and is therefore included in the packet for Approval of Calendar Year'20 (CY'20) Portfolio Budgets.

Tax Credit Partnership Budgets

As Managing General Partner, HOC has a fiduciary responsibility for each of the Tax Credit Partnerships. The current HOC budget policy stipulates that the financial performance and budgets of the Tax Credit Partnerships should be reviewed on the same fiscal year as its partners (December 31). The Tax Credit Partnership Budgets require adoption by the Commission, separate from the Agency's general budget process.

The partnerships that own the remaining 12 calendar year Tax Credit properties are:

- Alexander House LP (Alexander House);
- Arcola Towers RAD LP (Arcola Tower);
- Barclay One Associates LP (Barclay);
- Forest Oak Towers LP (Forest Oak Towers);
- Georgian Court Silver Spring LP (Georgian Court);
- Greenhills Apartments LP (Greenhills);
- Hampden Lane Apartments LP (Lasko Manor);
- MV Affordable Housing Associates LP (Stewartown);
- Spring Garden One Associates LP (Spring Garden);
- Tanglewood/Sligo Hills LP (Tanglewood/Sligo Hills);
- Waverly House RAD LP (Waverly House); and
- Wheaton Metro LP (MetroPointe).

As general partner, HOC is responsible for submitting final copies of the CY'20 Approved Budgets to the limited partners by November 1, 2019.

Attachment 1 includes the initial compliance period end dates, status of the limited partner exit, and extended use after the initial compliance period for all our CY Tax Credit partnership properties.

The partnership agreements for The Metropolitan and Strathmore Court properties provide for a fiscal year consistent with HOC's fiscal year and, therefore, are exceptions to the tax credit process outlined herein. Their budgets are adopted with the budgets for the balance of HOC's properties.

Other Calendar Year Budgets

The Lindley is a newly built, 200-unit high-rise apartment building located in Chevy Chase, Maryland. The unit mix for the building is 120 (60%) market units, 40 (20%) MPDU units restricted at 50% Area Median Income (AMI), and 40 (20%) affordable units restricted at 100% Area Median Income AMI. The property operates on a Calendar Year basis and is categorized as a discretely presented component units.

ISSUES FOR CONSIDERATION:

Tax Credit Partnerships

The budget forecasts the collection of \$267,092 in CY'20 in Asset Management/Investor Service Fees and Partnership Management Fees from the properties (**Attachment 2**). At year end, the Asset Management/Investor Service Fees are paid to the limited partner. If sufficient funds remain, the Partnership Management Fees, or \$159,682, are paid to the general partner (HOC). All unpaid fees are accrued for payment in future years. As a result of the projected deficit for **Lasko Manor**, both the Asset Management/Investor Service Fee and Partnership Management Fees have been excluded from the budget.

As the Managing General Partner, HOC is responsible for funding any cash deficits that occur in the operation of the tax credit projects. **Lasko Manor** is projected to generate losses of \$30,829 which is down from the \$42,233 loss projected for CY'19. As a reminder, Lasko Manor is a project based 12 unit building, located in Bethesda, that provides permanent supportive housing for formerly homeless individuals with incomes below 30% of AMI. The loss will be incorporated into the FY'21 budget process. It should be noted that a portion of this deficit results from the Management Fee paid to HOC.

The rent policy for CY'20 allows for in-place rental increases based on the County Executive's Voluntary Rent Guideline (CE-VRG) of 1.5%. With the exception of **Arcola Towers, Waverly House, and The Lindley**, rent increases for all properties within the portfolio are at or below the CE-VRG. Arcola Towers and Waverly House are projecting increases of 2.8% based on the latest Operating Cost Adjustment Factor (OCAF) that is used to determine rent increases for Project Based Rental

Assistance (PBRA) properties. The blended rent increase at the Lindley is 2.4%; however, it is important to note that all income restricted units will receive increases at or below the CE-VRG.

Income from this portfolio is restricted to the properties. The only revenue that comes to HOC is in the form of a Partnership Management Fee, which is projected to be \$159,682 for CY'20. The proposed CY'20 budgets reflect an increase of \$8,789 or 5.8% in Partnership Management Fees when compared to the CY'19 Approved budgets as a result of the escalation factor applied annually to several of the properties and the ability of Spring Garden to pay its full fee.

The CY'20 Budget for the properties projects increases in operating income on a per unit per annum (PUPA) basis for eleven of the thirteen properties when compared to the CY'19 Budget. The increases at **Georgian Court**, **Spring Garden**, and the **Lindley** are primarily due to lower projected vacancy loss. The increases at **Arcola Towers**, the **Barclay**, **Lasko Manor**, **Tanglewood/Sligo Hills**, **Waverly House**, and **MetroPointe** are driven by the rent increase. **Forest Oak Towers** operating income has increased largely due to the anticipated reimbursement for rental license fees that are charged biannually to the property which will also increase operating expenses by the same amount. **Greenhills** has increased slightly due to reduced concessions and vacancies following renovations. Operating income for **Alexander House** is relatively flat (0.6%) compared to the 2019 budget due to the focus on retaining residents during the Elizabeth House III construction period rather than on increasing rents. **Stewartown** is projecting a decrease in operating income due to the increased vacancy projected at the property to support the planned renovations (**Attachment 3**).

Operating expenses on a PUPA basis for the properties are projected to increase in the CY'20 Budget at eight of the thirteen properties. The increases range from 0.3% to 7.2%. The highest growth rates are at **Forest Oak Towers**, **MetroPointe**, **Greenhills**, and the **Barclay** which project expense growth rates of 7.2%, 6.3%, 6.1%, and 5.5, respectively. The increase for **Forest Oak Towers** is driven by increased benefit and maintenance costs coupled with the \$19,500 rental license fee that is charged biannually and reimbursed as mentioned above. For **MetroPointe**, the increase is largely due to the increased contract management fees coupled with higher liability insurance cost. **Greenhills** operating expenses increased primarily due to increased personnel costs coupled with higher property and liability insurance based on the requirement for private insurance by the limited partner. Increased personnel, utility, and maintenance costs are driving the increase at the **Barclay** (**Attachment 4**). Operating expenses decreased between 7.1% and 4.4% at **Waverly House**, **Tanglewood/Sligo**, **Alexander House**, **Lasko Manor**, and **Arcola Towers**. The majority of the decrease is primarily a result of the properties being added to the County Self Insurance Plan which reduced property insurance costs at each property. In addition, the budgets include a reduction in Bad Debt expense at **Waverly House**, reduced maintenance costs at **Tanglewood/Sligo** and **Lasko Manor**, lower utilities at **Alexander House** and reduced personnel cost at **Arcola Towers**.

The net impact of the changes in operating income and expenses is reflected in the net operating income (NOI) on a PUPA basis for the Tax Credit Portfolio (**Attachment 5**). Changes in NOI from budgeted CY'19 to CY'20 varied across the portfolio. Four properties are projected to have a decrease to NOI: 0.1% at **Forest Oak Towers**, 1.8% at **Stewartown**, 1.9% at the **Barclay**, and 3.0%

at **Greenhills**. The deficit at **Lasko Manor** decreased by approximately 30% from the CY'19 budget. The remaining properties project NOI increases averaging 16.6%.

The minimum Debt Service Coverage Ratio (DSC) requirement of 1.10x or higher is projected to be achieved for all properties except the Lindley which is projecting 1.05x. **(Attachment 6)**. The Lindley operations will be supported by an approximate \$1M operating deficit reserve. The final reserve sizing will be determined at permanent loan conversion in October 2019.

Attachment 7 shows the history of PUPA Replacement for Reserves (RfR) contributions for the portfolio. The fluctuation in the base required contribution between CY'18 and CY'19 reflects changes due to the inclusion of the **Lindley**. Aside from this, the base required contribution amount has remained relatively flat except for growth due to the escalation factor applied annually to several of the properties. Over the years, a few properties in the portfolio have required increases in their annual contributions as well as the use of residual cash to meet their capital needs. For CY'20, **MetroPointe** projects the need for increased RfR contributions to meet its current and future years' capital expenditure needs. In addition, a portion of the capital budget for **Forest Oak Towers** related to the retaining wall will be funded from residual receipts. The CY'20 projection for RfR deposits on a PUPA basis by property, including the base and increased amounts, are depicted in **Attachment 8**.

Capital

Attachment 9 shows the capital budget for each property and proposed funding sources as well as the projected RfR balance as of December 31, 2020 based on the planned contributions and expenditures. Increased RfR contributions above the base requirement are intended to prevent the depletion of the respective property's reserves and support future capital needs denoted in each property's Five Year Capital Plans.

BUDGET IMPACT:

Approval by the Commission of these budgets will allow the Calendar Year Properties to begin operations on January 1, 2020, the beginning of their calendar year.

TIME FRAME:

The Budget, Finance and Audit Committee reviewed the CY'20 Property Budgets at the October 16, 2019 meeting. Action is requested at the November 6, 2019 Commission meeting.

COMMITTEE RECOMMENDATION & COMMISSION ACTION NEEDED:

The Budget, Finance and Audit Committee recommends to the full Commission approval of the proposed CY'20 Portfolio Budgets.

TAX CREDIT COMPLIANCE PERIOD as of October 16, 2019

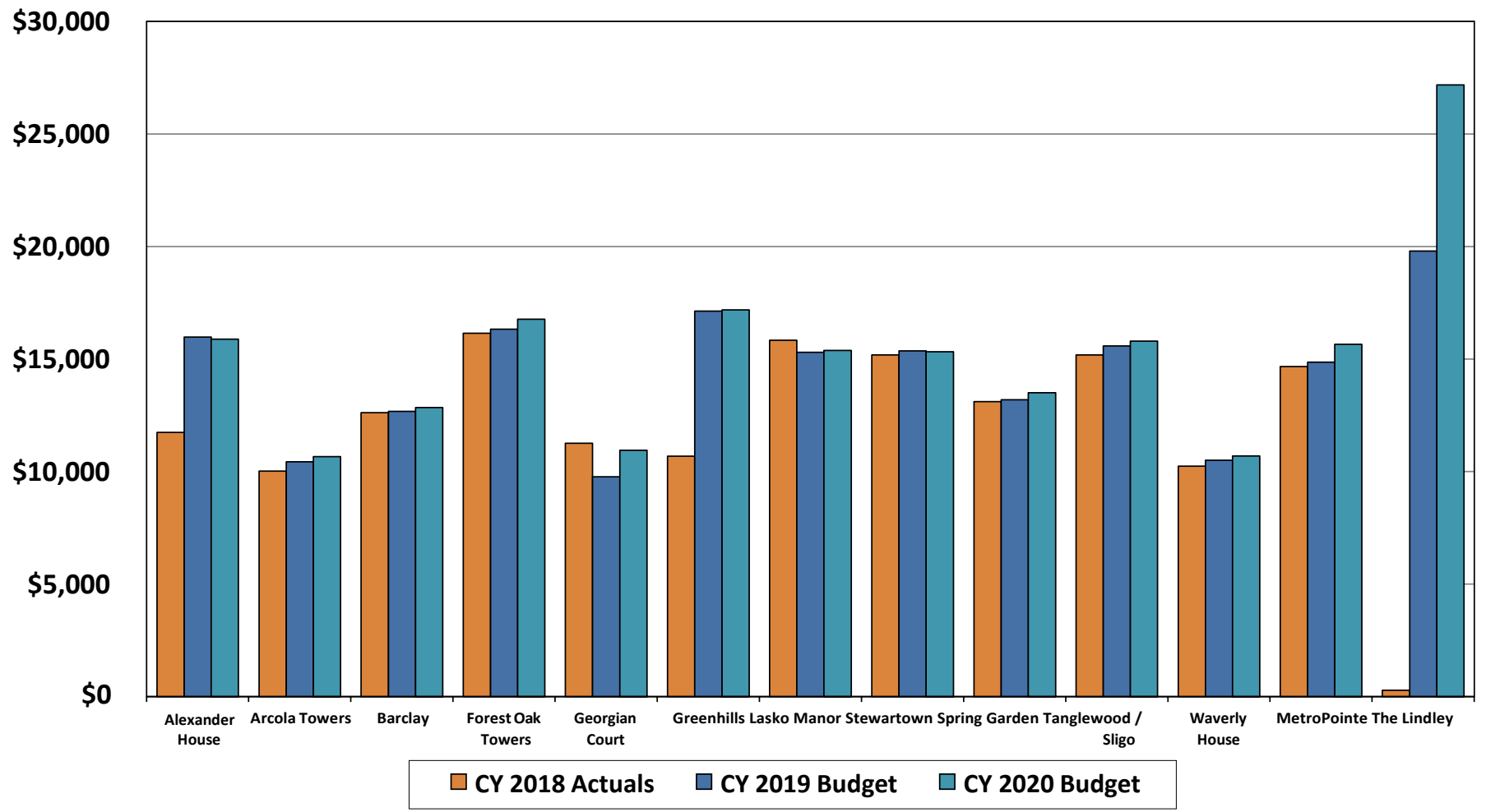
PROPERTIES	# of Units	INITIAL END DATE: December	Status of Limited Partner Exit	Extended Use after Compliance Period
Georgian Court Silver Spring LP	147	2015	Negotiations have been completed with M&T Bank for HOC's purchase of the limited partnership interest in in Georgian Court Silver Spring LP. Documents related to the purchase are being prepared by HOC's and M&T's legal counsel and the transaction is expected to be completed in the fourth quarter of calendar year 2019 when the property will transfer to HOC Year15 LLC, an entity wholly controlled by HOC.	15 Years (2030)
MV Affordable Housing Assoc. LP (Stewartown)	94	2017	Wells Fargo and HOC have reached agreement for HOC to purchase the limited partner's interest in MV Affordable Housing Assoc. LP. Wells Fargo's counsel has prepared draft documents for the transfer of the limited partner's interest and is working with HOC's general counsel to complete the transfer by the end of the fourth quarter of calendar year 2019. The limited partner's interest will transfer to HOC Year15 LLC, and entity wholly controlled by HOC.	15 Years (2032)
Barclay One Assoc. LP	81	2020	Negotiations have been completed with M&T Bank for HOC's purchase of the limited partnership interest in in Barclay One Assoc. LP. Documents related to the purchase are being prepared by HOC's and M&T's legal counsel and the transaction is expected to be completed in the fourth quarter of calendar year 2019 when the property will transfer to HOC Year15 LLC, an entity wholly controlled by HOC. Since the initial 15-year LIHTC compliance period does not expire until December 2020, HOC will be required to post a recapture bond as a condition of the purchase.	40 Years (2060)
Spring Garden One Assoc. LP	82	2021	Ongoing monitoring	25 Years (2046)
Forest Oak Towers LP	175	2022	Ongoing monitoring	25 Years (2047)
Wheaton Metro LP (MetroPointe)	53	2023	Ongoing monitoring	25 Years (2048)
Hampden Lane Apts. LP (Lasko Manor)	12	2026	Ongoing monitoring	25 Years (2051)
Tanglewood / Sligo Hills	132	2027	Ongoing monitoring	25 Years (2052)
Arcola Towers RAD LP	141	2031	Ongoing monitoring	15 Years (2046)
Waverly House RAD LP	157	2031	Ongoing monitoring	15 Years (2046)
Alexander House LP	122	2032	Ongoing monitoring	15 Years (2047)
Greenhills LP	77	2034	Compliance Period begins in 2019	25 Years (2059)

CY 2020 Tax Credit Operating Budget	# of Units	Total Operating Income	Total Operating Expenses	Net Operating Income	Annual Debt Service	Required RfR Deposits	Additional RfR Deposits	Additional RfR Deposits	Loan Management Fees	Cash Flow Before Distribution	Asset Management / Investor Service Fees	Partnership Management Fees	Net Cash Flow
Alexander House LP	122	\$1,937,309	\$774,353	\$1,162,956	\$942,323	\$0	\$46,656	\$0	\$0	\$173,977	\$10,932	\$10,932	\$152,113
Arcola Towers RAD LP	141	\$1,504,143	\$801,275	\$702,868	\$379,108	\$0	\$68,328	\$0	\$0	\$255,432	\$8,131	\$10,500	\$236,801
Barclay One Assoc. LP	81	\$1,040,403	\$464,704	\$575,699	\$438,122	\$0	\$24,300	\$0	\$0	\$113,277	\$20,784	\$12,540	\$79,953
Forest Oak Towers LP	175	\$2,934,858	\$1,179,101	\$1,755,757	\$1,222,252	\$0	\$70,008	\$0	\$0	\$463,497	\$11,760	\$38,556	\$413,181
Georgian Court Silver Spring LP	147	\$1,608,664	\$916,726	\$691,938	\$444,373	\$0	\$51,552	\$0	\$16,000	\$180,013	\$0	\$0	\$180,013
Greenhills Apartments LP	77	\$1,322,578	\$492,801	\$829,777	\$668,175	\$0	\$26,940	\$0	\$0	\$134,662	\$5,775	\$11,550	\$117,337
Hampden Lane (Lasko Manor) LP *	12	\$184,533	\$211,198	(\$26,665)	\$0	\$0	\$4,164	\$0	\$0	(\$30,829)	\$0	\$0	(\$30,829)
MV Affordable Housing Assoc. LP (Stewartown)	94	\$1,440,286	\$929,438	\$510,848	\$375,643	\$0	\$37,596	\$0	\$13,392	\$84,217	\$5,004	\$12,000	\$67,213
Spring Garden One Assoc. LP	82	\$1,107,127	\$562,509	\$544,618	\$443,763	\$0	\$47,786	\$0	\$0	\$53,069	\$20,784	\$20,784	\$11,501
Tanglewood / Sligo LP	132	\$2,084,930	\$965,515	\$1,119,415	\$647,947	\$0	\$42,984	\$0	\$0	\$428,484	\$5,508	\$25,000	\$397,976
Waverly House RAD LP	157	\$1,678,494	\$791,411	\$887,083	\$522,152	\$0	\$76,074	\$0	\$0	\$288,857	\$11,604	\$0	\$277,253
Wheaton Metro LP (MetroPointe)	53	\$829,733	\$470,656	\$359,077	\$222,182	\$0	\$13,250	\$77,150	\$0	\$46,495	\$7,128	\$17,820	\$21,547
Total Tax Credit Properties	1,273	\$17,673,058	\$8,559,687	\$9,113,371	\$6,306,040	\$0	\$509,638	\$77,150	\$29,392	\$2,191,151	\$107,410	\$159,682	\$1,924,059

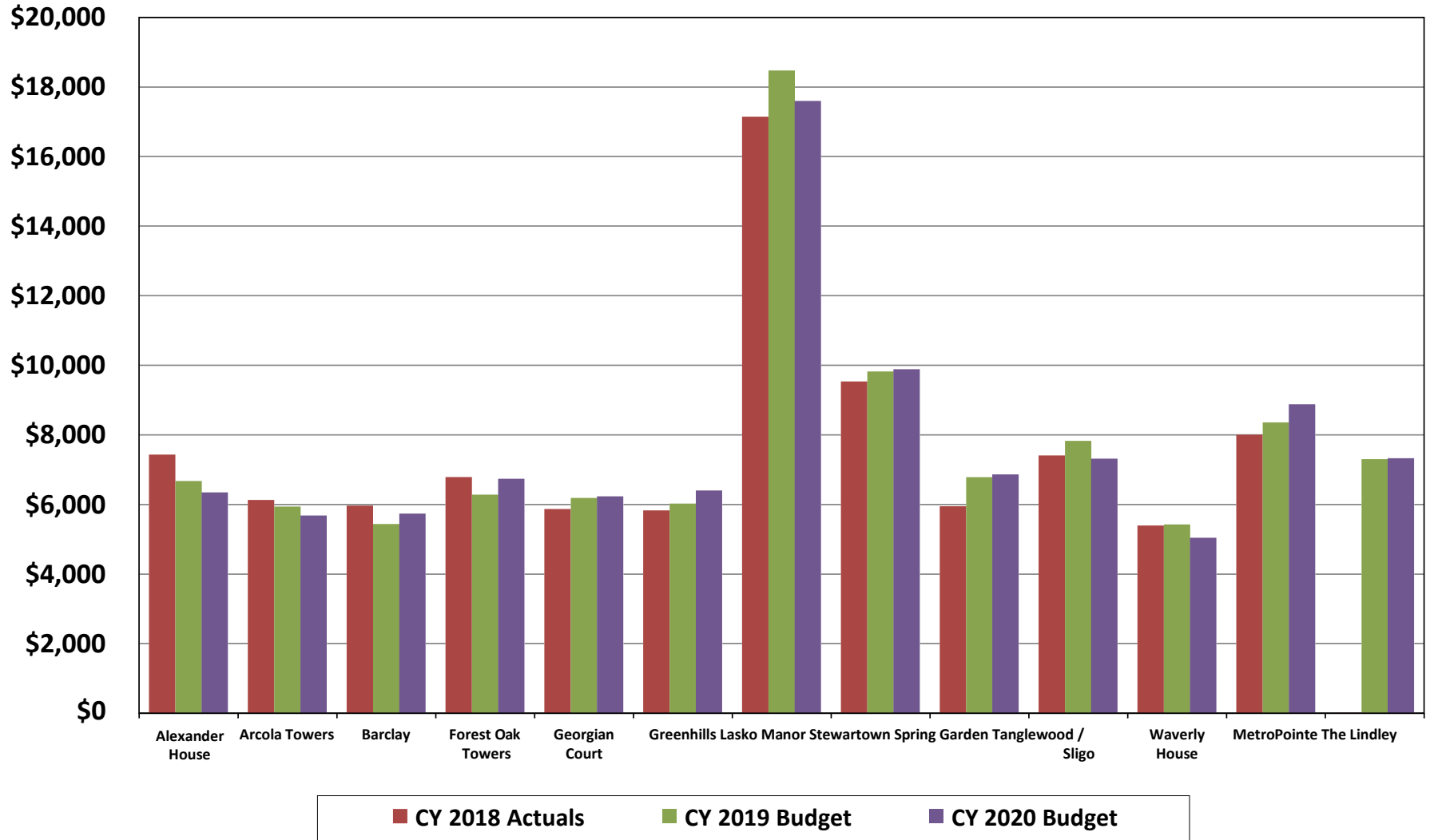
CY 2020 Other Calendar Year Properties Operating Budget	# of Units	Total Operating Income	Total Operating Expenses	Net Operating Income	Annual Debt Service	Operating Reserve	Required RfR Deposits	Additional RfR Deposits	Loan Management Fees	Cash Flow Before Distribution	Asset Management / Investor Service Fees	Partnership Management Fees	Net Cash Flow
CCL Multifamily - The Lindley	200	\$5,435,975	\$1,465,286	\$3,970,689	\$3,733,332	\$3,000	\$50,000	\$0	\$0	\$184,357	\$0	\$0	\$184,357
Total Other Calendar Year Properties	200	\$5,435,975	\$1,465,286	\$3,970,689	\$3,733,332	\$3,000	\$50,000	\$0	\$0	\$184,357	\$0	\$0	\$184,357
GRAND TOTAL All Properties	1,473	\$23,109,033	\$10,024,973	\$13,084,060	\$10,039,372	\$3,000	\$559,638	\$77,150	\$29,392	\$2,375,508	\$107,410	\$159,682	\$2,108,416

* The property operates at a loss and therefore cannot pay Asset Management Fees or Partnership Management Fees.

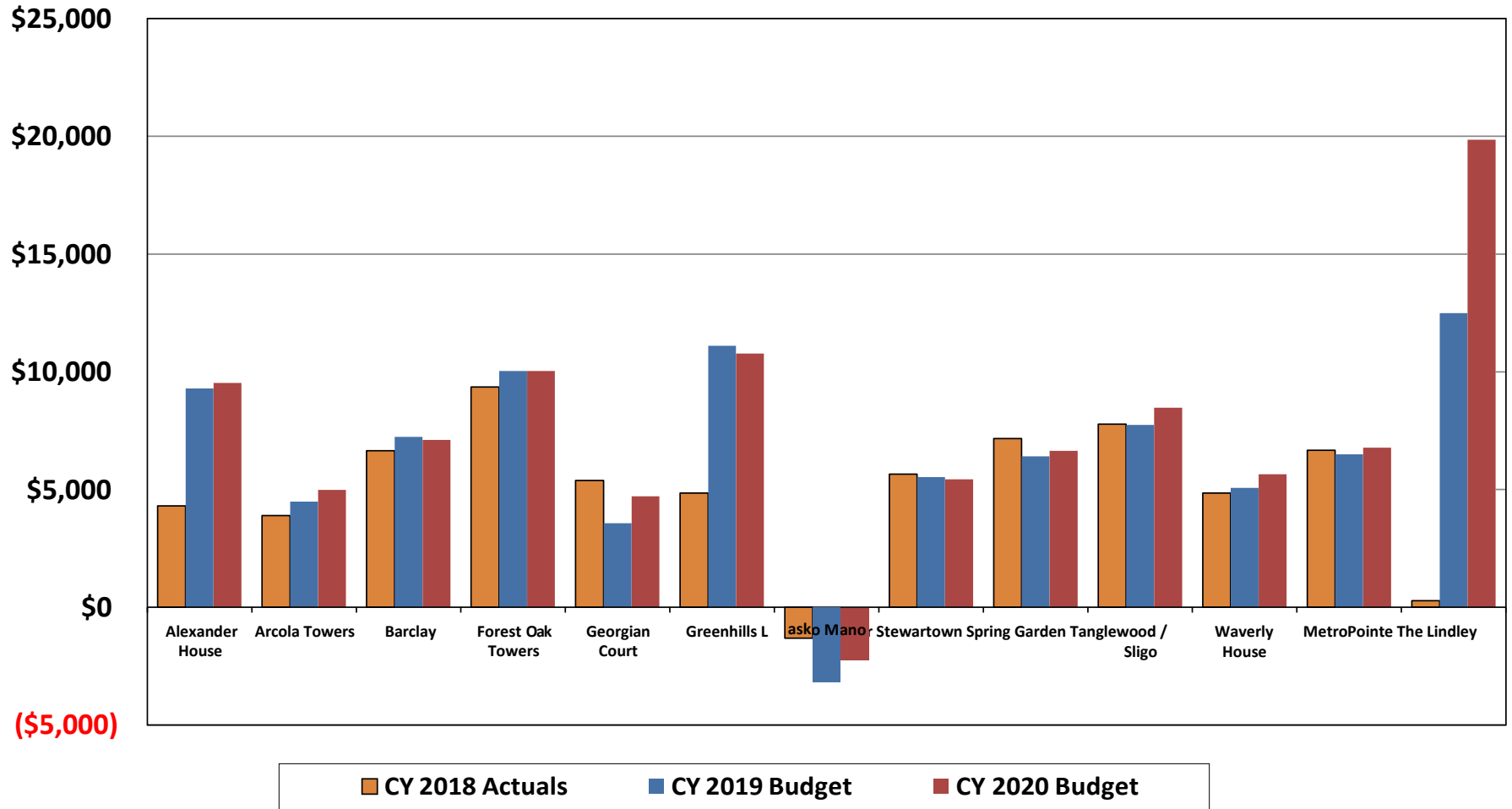
Operating Income (PUPA)



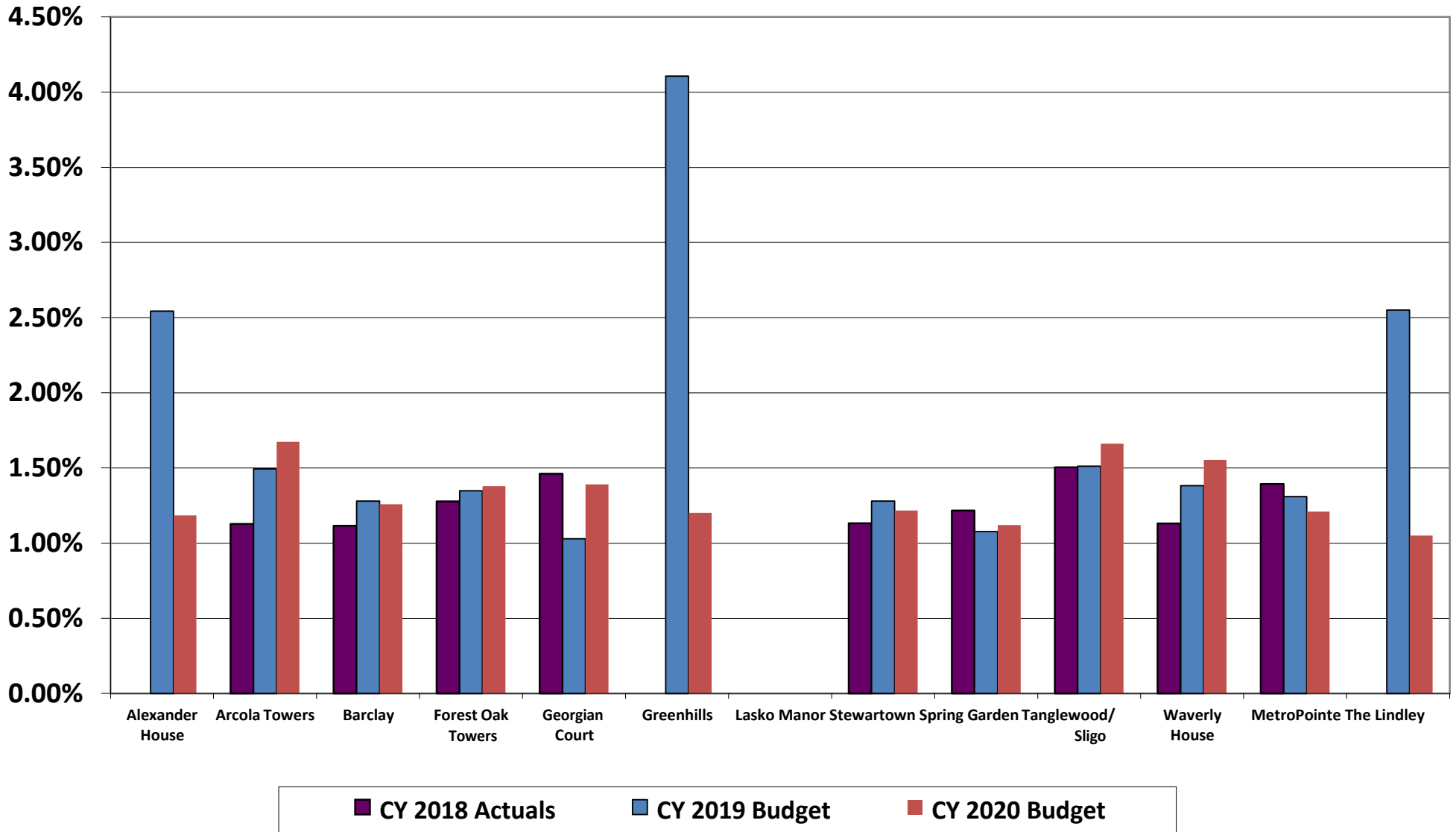
Operating Expenses (PUPA)



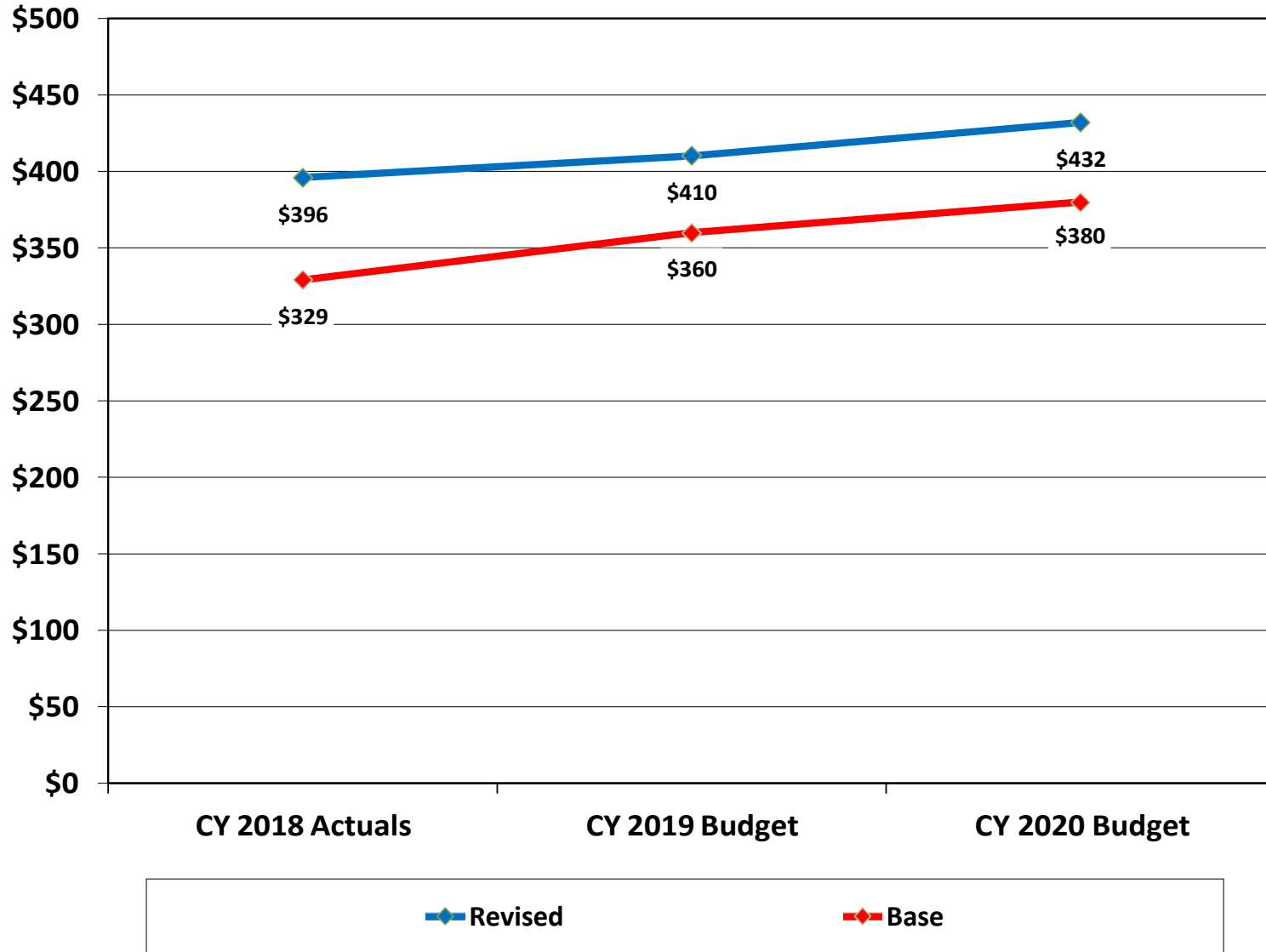
Net Operating Income (PUPA)



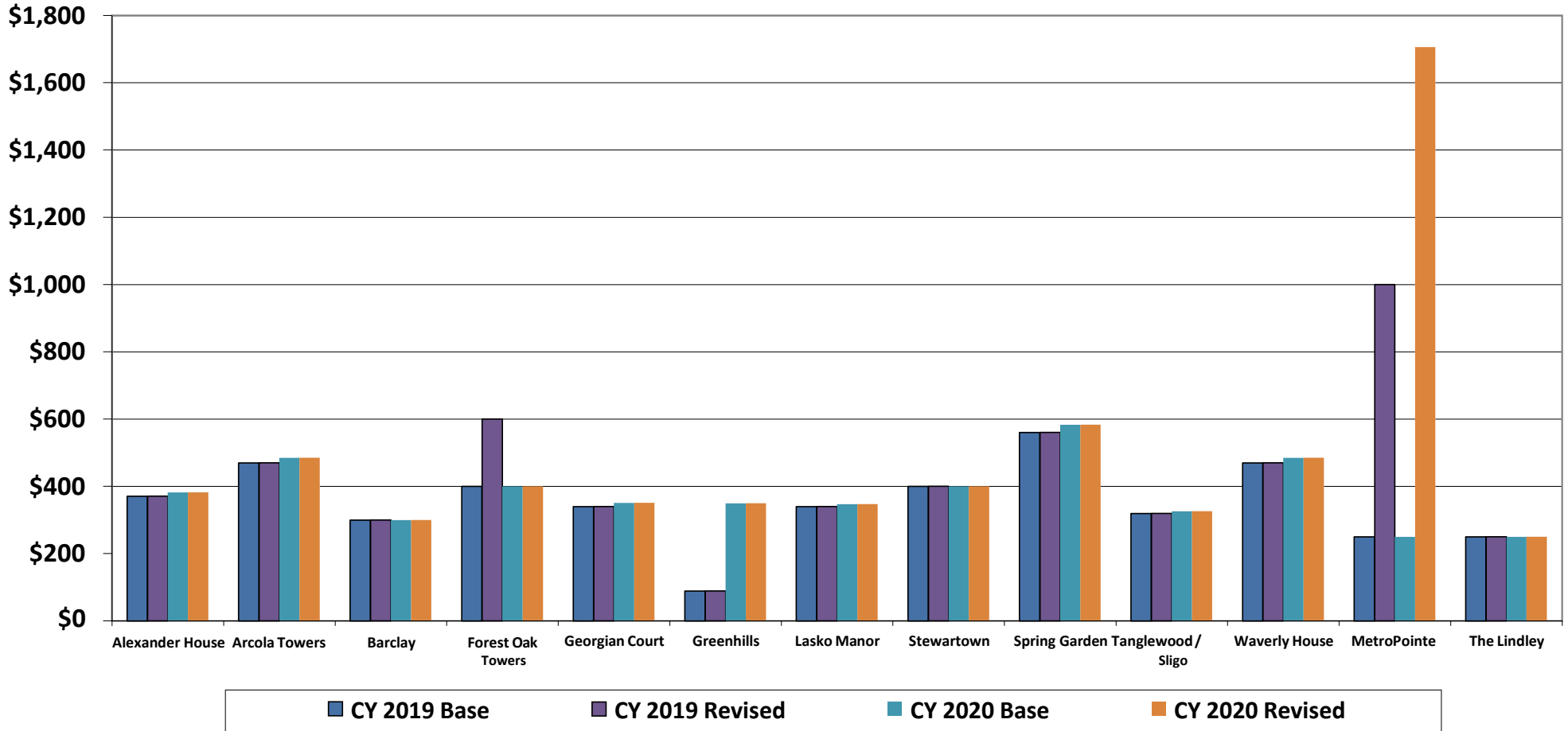
Debt Service Coverage Ratios (DSC)



RfR Contributions (PUPA)



CY 2019 RfR Contributions (PUPA)



CY 2020 Tax Credit Capital Budget	Expenses	Revenue Sources			Projected RfR Balance as of 12/31/2020
		Property Reserves	Residual Cash	Current Year RfR Deposit	
Alexander House LP	\$32,132	\$1,547	\$0	\$30,585	\$16,071
Arcola Towers RAD LP	\$19,550	\$19,550	\$0	\$0	\$486,741
Barclay One Assoc. LP	\$79,400	\$79,400	\$0	\$0	\$124,643
Forest Oak Towers LP	\$302,537	\$102,537	\$200,000	\$0	\$225,858
Georgian Court Silver Spring LP	\$29,605	\$29,605	\$0	\$0	\$196,882
Greenhills Apartments LP	\$10,000	\$10,000	\$0	\$0	\$320,165
Hampden Lane (Lasko Manor) LP *	\$432	\$432	\$0	\$0	\$53,059
MV Affordable Housing Assoc. LP (Stewartown)	\$31,845	\$31,845	\$0	\$0	\$168,316
Spring Garden One Assoc. LP	\$107,625	\$107,625	\$0	\$0	\$143,924
Tanglewood / Sligo LP	\$47,760	\$47,760	\$0	\$0	\$181,856
Waverly House RAD LP	\$14,700	\$14,700	\$0	\$0	\$659,367
Wheaton Metro LP (MetroPointe)	\$45,550	(\$44,817)	\$0	\$90,367	\$33
Total Tax Credit Properties	\$721,136	\$400,184	\$200,000	\$120,952	\$2,576,915
CY 2020 Other Calendar Year Capital Budget	Expenses	Property Reserves	Residual Cash	Current Year RfR Deposit	Projected RfR Balance as of 12/31/2019
CCL Multifamily - The Lindley	\$42,000	\$38,000	\$0	\$4,000	\$46,000
Total Other Calendar Year Properties	\$42,000	\$38,000	\$0	\$4,000	\$46,000
GRAND TOTAL All Properties	\$763,136	\$438,184	\$200,000	\$124,952	\$2,622,915

RESOLUTION NO. 19-102

**Re: Approval of CY'20 Portfolio
Budgets**

WHEREAS, the Housing Opportunities Commission of Montgomery County (“HOC”) is the general partner of the following entities: (1) Arcola Towers RAD LP (Arcola Towers); (2) Alexander House LP (Alexander House); (3) Barclay One Associates LP (Barclay); (4) Forest Oak Towers LP; (5) Georgian Court Silver Spring LP (Georgian Court); (6) Greenhills Apartments LP (Greenhills); (7) MV Affordable Housing Associates LP (Stewartown); (8) Hampden Lane Apartments LP (Lasko Manor); (9) Spring Garden One Associates LP (Spring Garden); (10) Tanglewood/Sligo Hills LP (Tanglewood/Sligo Hills); (11) Waverly House RAD LP (Waverly House); and (12) Wheaton Metro LP (MetroPointe) (together, the “LP Entities”);

WHEREAS, HOC is the managing member of CCL Multifamily LLC (“CCL”), the owner of The Lindley;

WHEREAS, as the general partner of the LP entities and managing member of CCL, HOC manages the businesses and is liable for the debts;

WHEREAS, the limited partners in LP Entities have contributed money and share in profits, but take no part in running the businesses and incur no liability with respect to the LP Entities beyond their contributions;

WHEREAS, since HOC has a financial obligation to cover the debts of the LP Entities and CCL, HOC has an interest in the successful performance of LP Entities and CCL and, as such, should review their performances and approve their budgets; and

WHEREAS, the Budget, Finance and Audit Committee reviewed the CY'20 Budgets of the LP Entities at the October 16, 2019 meeting.

WHEREAS, the Budget, Finance and Audit Committee also reviewed the CY'20 Budget of CCL, which is operated on a Calendar Year basis, at the October 16, 2019 meeting.

NOW, THEREFORE, BE IT RESOLVED by the Housing Opportunities Commission of Montgomery County, acting for itself and on behalf of each of the LP Entities, as each entities’ general partner, that it hereby approves the CY'20 Operating Budgets for the LP Entities, as shown on the attached Exhibit A.

BE IT FURTHER RESOLVED by the Housing Opportunities Commission of Montgomery County, acting for itself and on behalf of CCL Multifamily LLC, as its managing member, that it hereby approved the CY'20 Operating Budget for CCL, as shown the attached Exhibit A.

BE IT FURTHER RESOLVED by the Housing Opportunities Commission of Montgomery County that the Executive Director, or his designee, is hereby authorized and directed, without any further action on its part, to take any and all other actions necessary and proper to carry out the actions contemplated herein.

I HEREBY CERTIFY that the foregoing Resolution was adopted by the Housing Opportunities Commission of Montgomery County at an open meeting conducted on November 6, 2019.

Patrice Birdsong
Special Assistant to the Commission

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EXHIBIT A

CY'20 Operating Budgets

[see attached]

CY 2020 Tax Credit Operating Budget	# of Units	Total Operating Income	Total Operating Expenses	Net Operating Income	Annual Debt Service	Operating Reserve Contribution	Required RfR Deposits	Additional RfR Deposits	Loan Management Fees	Cash Flow Before Distribution	Asset Management / Investor Service Fees	Partnership Management Fees	Net Cash Flow
Alexander House LP	122	\$1,937,309	\$774,353	\$1,162,956	\$942,323	\$0	\$46,656	\$0	\$0	\$173,977	\$10,932	\$10,932	\$152,113
Arcola Towers RAD LP	141	\$1,504,143	\$801,275	\$702,868	\$379,108	\$0	\$68,328	\$0	\$0	\$255,432	\$8,131	\$10,500	\$236,801
Barclay One Assoc. LP	81	\$1,040,403	\$464,704	\$575,699	\$438,122	\$0	\$24,300	\$0	\$0	\$113,277	\$20,784	\$12,540	\$79,953
Forest Oak Towers LP	175	\$2,934,858	\$1,179,101	\$1,755,757	\$1,222,252	\$0	\$70,008	\$0	\$0	\$463,497	\$11,760	\$38,556	\$413,181
Georgian Court Silver Spring LP	147	\$1,608,664	\$916,726	\$691,938	\$444,373	\$0	\$51,552	\$0	\$16,000	\$180,013	\$0	\$0	\$180,013
Greenhills Apartments LP	77	\$1,322,578	\$492,801	\$829,777	\$668,175	\$0	\$26,940	\$0	\$0	\$134,662	\$5,775	\$11,550	\$117,337
Hampden Lane (Lasko Manor) LP *	12	\$184,533	\$211,198	(\$26,665)	\$0	\$0	\$4,164	\$0	\$0	(\$30,829)	\$0	\$0	(\$30,829)
MV Affordable Housing Assoc. LP (Stewartown)	94	\$1,440,286	\$929,438	\$510,848	\$375,643	\$0	\$37,596	\$0	\$13,392	\$84,217	\$5,004	\$12,000	\$67,213
Spring Garden One Assoc. LP	82	\$1,107,127	\$562,509	\$544,618	\$443,763	\$0	\$47,786	\$0	\$0	\$53,069	\$20,784	\$20,784	\$11,501
Tanglewood / Sligo LP	132	\$2,084,930	\$965,515	\$1,119,415	\$647,947	\$0	\$42,984	\$0	\$0	\$428,484	\$5,508	\$25,000	\$397,976
Waverly House RAD LP	157	\$1,678,494	\$791,411	\$887,083	\$522,152	\$0	\$76,074	\$0	\$0	\$288,857	\$11,604	\$0	\$277,253
Wheaton Metro LP (MetroPointe)	53	\$829,733	\$470,656	\$359,077	\$222,182	\$0	\$13,250	\$77,150	\$0	\$46,495	\$7,128	\$17,820	\$21,547
Total Tax Credit Properties	1,273	\$17,673,058	\$8,559,687	\$9,113,371	\$6,306,040	\$0	\$509,638	\$77,150	\$29,392	\$2,191,151	\$107,410	\$159,682	\$1,924,059
CY 2020 Other Calendar Year Properties Operating Budget	# of Units	Total Operating Income	Total Operating Expenses	Net Operating Income	Annual Debt Service	Operating Reserve Contribution	Required RfR Deposits	Additional RfR Deposits	Loan Management Fees	Cash Flow Before Distribution	Asset Management / Investor Service Fees	Partnership Management Fees	Net Cash Flow
CCL Multifamily - The Lindley	200	\$5,435,975	\$1,465,286	\$3,970,689	\$3,733,332	\$3,000	\$50,000	\$0	\$0	\$184,357	\$0	\$0	\$184,357
Total Other Calendar Year Properties	200	\$5,435,975	\$1,465,286	\$3,970,689	\$3,733,332	\$3,000	\$50,000	\$0	\$0	\$184,357	\$0	\$0	\$184,357
GRAND TOTAL All Properties	1,473	\$23,109,033	\$10,024,973	\$13,084,060	\$10,039,372	\$3,000	\$559,638	\$77,150	\$29,392	\$2,375,508	\$107,410	\$159,682	\$2,108,416

* The property operates at a loss and therefore cannot pay Asset Management Fees or Partnership Management Fees.

AUTHORIZATION TO SUBMIT FY'21-22 COUNTY OPERATING BUDGET

November 6, 2019

- The County is moving to a two-year budget cycle.
- Staff has not yet been informed of the deadline for the FY'21-22 Operating Budget submission to the County Office of Management and Budget (OMB); however, the deadline is expected to occur in early November.
- The Agency will be required to submit a baseline budget or Maximum Agency Request Ceiling (MARC) for FY'21 not to exceed \$7,000,790. The MARC is based on the FY'20 approved MARC of \$6,788,049 plus the estimate for increases to compensation, health and retirement benefits and Rental License Fees.
- The Agency also will be required to submit a baseline budget or Maximum Agency Request Ceiling (MARC) for FY'22 not to exceed \$7,184,461. The MARC is based on the estimated FY'21 MARC of \$7,000,790 plus the estimate for increases to compensation, health and retirement benefits and Rental License Fees.

MEMORANDUM

TO: Housing Opportunities Commission

VIA: Stacy L. Spann, Executive Director

FROM: Finance: Cornelia Kent Ext. 9754
Terri Fowler Ext. 9507

RE: Authorization to Submit FY'21-22 County Operating Budget

DATE: November 6, 2019

STATUS: Committee Report : Deliberation [X]

OVERALL GOAL & OBJECTIVE:

Authorization to submit FY'20 County Operating Budget.

BACKGROUND:

The County is moving to a two-year budget cycle. Staff has not yet been informed of the deadline for the FY'21-22 Operating Budget submission to the County Office of Management and Budget (OMB); however, the deadline is expected to occur in early November. Staff has provided OMB with estimated increases for compensation, health and retirement benefits as well as current and anticipated increases in Rental License Fees.

FY'21 Base MARC	Benefit Adjustment	Rental License Adjustment	FY'21 Adjusted MARC
\$6,788,049	\$161,960	\$50,781	\$7,000,790

FY'22 Base MARC	Benefit Adjustment	Rental License Adjustment	FY'22 Adjusted MARC
\$7,000,790	\$169,110	\$14,561	\$7,184,461

The Agency will be required to submit a baseline budget or Maximum Agency Request Ceiling (MARC) for FY'21 not to exceed \$7,000,790. The MARC is based on the FY'20 approved MARC of \$6,788,049 plus the estimate for increases to compensation, health and retirement benefits and Rental License Fees.

The Agency will be required to submit a baseline budget or Maximum Agency Request Ceiling (MARC) for FY'22 not to exceed \$7,184,461. The MARC is based on the estimated FY'21 MARC of \$7,000,790 plus the estimate for increases to compensation, health and retirement benefits and Rental License Fees.

ISSUES FOR CONSIDERATION:

Does the Budget, Finance and Audit Committee wish to authorize the submission of the FY'21-22 County Budget MARCs of \$7,000,790 and \$7,184,461, respectively?

BUDGET IMPACT:

The County Operating Grant is the primary funding source for the Agency's Resident Services Division. The County Operating Grant also funds a large part of the Housing Resources Division.

TIME FRAME:

The Budget, Finance and Audit Committee reviewed the FY'21-22 MARC submission at the October 16, 2019 meeting. Commission action is requested at the November 6, 2019 meeting. Once approved, the FY'21-22 County Operating Budget will be submitted to the County.

COMMITTEE RECOMMENDATION & COMMISSION ACTION NEEDED:

The Budget, Finance and Audit Committee recommends to the full Commission authorization to submit the proposed FY'21-22 County Operating Budgets of \$7,000,790 and \$7,184,461, respectively, at the November 6, 2019 meeting in order to meet the anticipated November submission deadline for the County Operating Budget process.

WHEREAS, the Housing Opportunities Commission of Montgomery County (“HOC”) wishes to submit a request for County funds for FY’21 and FY’22;

WHEREAS, the County has instructed HOC to submit a base budget or Maximum Agency Request Ceiling (“MARC”) for FY’ 21 in an amount not to exceed \$7,000,790, which is based on the FY’20 approved MARC of \$6,788,049 plus the estimate for increases to compensation, health and retirement benefits, and Rental License Fees; and

WHEREAS, the County has instructed HOC to submit a MARC for FY’ 22 in an amount not to exceed \$7,184,461, which is based on the FY’21 estimated MARC of \$7,000,790 plus the estimate for increases to compensation, health and retirement benefits, and Rental License Fees.

NOW, THEREFORE, BE IT RESOLVED by the Housing Opportunities Commission of Montgomery County that it hereby approves submitting a MARC to the County for FY’21 and FY’22 in the amount of \$7,000,790 and \$7,184,461, respectively.

I HEREBY CERTIFY that the foregoing Resolution was adopted by the Housing Opportunities Commission of Montgomery County at an open meeting conducted on November 6, 2019.

Patrice Birdsong
Special Assistant to the Commission

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APPROVAL TO EXTEND THE PROPERTY MANAGEMENT CONTRACT FOR TIMBERLAWN CRESCENT

November 6, 2019

- Bozzuto Management Company's property management contract for Timberlawn Crescent expires **December 31, 2019**. Edgewood was selected through an RFP process to begin providing property management services on January 1, 2020.
- Staff requests an extension of Bozzuto's contract to March 31, 2020 until Timberlawn's clubhouse renovation is complete. If the extension is approved, Edgewood's contract would begin on April 1, 2020.
- Per the Commission's procurement policy, the Commission must approve all property management contract renewals and extensions.
- Construction on Timberlawn's clubhouse renovation began in October 2019 and is expected to be completed in February 2020. In addition to property management services, Bozzuto is also providing construction management oversight. Timberlawn is currently 97% occupied.

M E M O R A N D U M

TO: Housing Opportunities Commission of Montgomery County

VIA: Stacy L. Spann, Executive Director

FROM: Staff: Millicent Anglin Division: Property Management Ext. 9676

RE: Approval to Extend the Property Management Contract at Timberlawn Crescent

DATE: November 6, 2019

STATUS: Consent Deliberation Future Action

OVERALL GOAL & OBJECTIVE:

To authorize the Executive Director to extend the property management contract with Bozzuto Management Company for property management services at Timberlawn Crescent.

BACKGROUND:

Timberlawn Crescent is a 107-unit development with 1, 2, and 3-bedroom apartments located in North Bethesda. The property consists of 103 townhomes and 4 one-bedroom flats. The property is a mixed-income community with 66 affordable units up to 60% AMI. Current occupancy is 97%.

Construction on the property’s clubhouse renovation began in October 2019. Once completed in February 2020, the clubhouse will include a new property management office, business center, community room, and patio area. The general contractor is Visionary Construction Consultants and Bozzuto Construction Company is providing construction management services.

Bozzuto Management Company’s property management contract for Timberlawn Crescent expires December 31, 2019. Edgewood was selected through an RFP process as the property manager effective January 1, 2020. Staff wishes to extend the property management contract with Bozzuto through March 31, 2020, and start Edgewood’s contract on April 1, 2020. This change to the property management contract dates will minimize disruption to residents during the clubhouse renovation. Extending the contract will also ensure seamless coordination between Bozzuto’s property management and construction management departments during the renovation. Though the clubhouse renovation is expected to be completed in February 2020, staff requests extending the property management contract with Bozzuto to March 31, 2020 to ensure Bozzuto will manage through any construction delays, if applicable.

The following table details the property information, including number of units, current property management company, annual contract cost, current contract end date, proposed renewal start and end date and contract terms remaining.

Property	Units	Current Vendor	Annual Renewal Contract Cost	Contract End Date	Proposed Renewal Start Date/End Date	Contract Terms (Remaining Renewals)
Timberlawn Crescent	107	Bozzuto	\$19,938*	12/31/2019	1/1/2020 – 3/31/2020	None

*Reflects prorated fee for 3-month extension.

ISSUES FOR CONSIDERATION:

Does the Commission wish to authorize the Executive Director to extend the property management services contract with Bozzuto Management Company for Timberlawn Crescent through March 31, 2020?

BUDGET IMPACT:

The extension of the property management contract for Timberlawn Crescent through March 31, 2020 will not have a budget impact as the costs associated with the services are factored into the FY2020 property budget. The property management contract is performance based so fees would be lower if revenue declines below budgeted expectations.

TIME FRAME:

At the October 16, 2019 meeting, the Budget, Finance, and Audit Committee reviewed the request to extend Bozzuto’s property management services contract for Timberlawn Crescent. For Commission action at the November 6, 2019 meeting.

STAFF RECOMMENDATION & COMMISSION ACTION NEEDED:

The Budget, Finance, and Audit Committee recommends to the full Commission approval of a 3-month extension to Bozzuto’s property management contract for Timberlawn Crescent.

RESOLUTION NO. 19-104

RE: Approval to Extend Property Management Contract for Timberlawn Crescent for Three Months through March 31, 2020

WHEREAS, the Housing Opportunities Commission of Montgomery County (“HOC”) is the sole member of Timberlawn Pomander Properties LLC, which owns the development known as Timberlawn Crescent located in North Bethesda, Maryland (the “Property”);

WHEREAS, HOC staff desires to extend the current property management contract at the Property for three (3) months through March 31, 2020 with Bozzuto Management Company;

NOW, THEREFORE, BE IT RESOLVED by the Housing Opportunities Commission of Montgomery County, acting for itself and on behalf of Timberlawn Pomander Properties LLC, as its sole member, that the Executive Director, or his designee, is hereby authorized and directed to execute a three (3) month extension of the property management contract at the Property through March 31, 2020 with Bozzuto Management Company.

BE IT FURTHER RESOLVED by the Housing Opportunities Commission of Montgomery County that the Executive Director, or his designee, is hereby authorized and directed, without any further action on its part, to take any and all other actions necessary and proper to carry out the transactions contemplated herein, including the execution of any documents related thereto.

I HEREBY CERTIFY that the foregoing resolution was adopted by the Housing Opportunities Commission at an open meeting conducted on November 6, 2019.

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Patrice M. Birdsong
Special Assistant to the Housing
Opportunities Commission of Montgomery
County

Development and Finance Committee

**AUTHORIZATION TO SELECT FOREFRONT COMPANY AS THE FIRM
WITH WHICH TO COMMENCE NEGOTIATIONS ON A DEVELOPMENT
SERVICES AGREEMENT FOR THE REDEVELOPMENT OF AVONDALE
APARTMENTS AND APPROVAL OF FEASIBILITY FUNDING**

BETHESDA



STACY L. SPANN, EXECUTIVE DIRECTOR

**KAYRINE BROWN
ZACHARY MARKS
KATHRYN HOLLISTER**

November 6, 2019

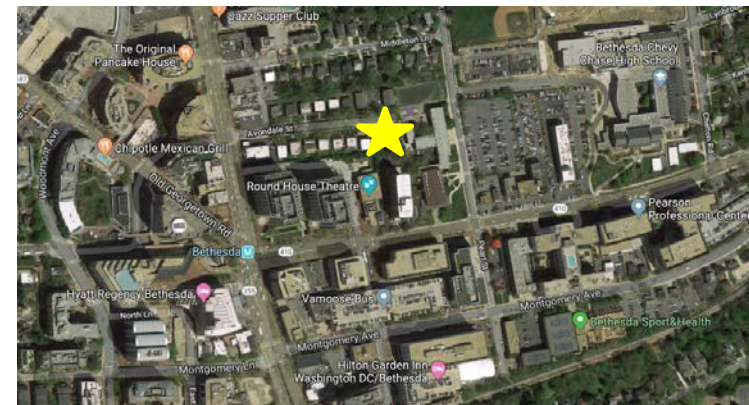
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Executive Summary

- Staff is exploring the redevelopment of the Avondale Apartments, located at 4500-02, 4504-06, 4508-10 and 4527 Avondale Street, Bethesda, MD 20814.
- Acquired in 2015, the Avondale Apartments are situated within the heart of downtown Bethesda, and are located in the Bethesda Central Business District and the Bethesda Overlay Zone which allow for significantly more density than what currently exists on the sites.
- Redevelopment of the sites has many benefits:
 1. Significant increase of net new affordable housing units in one of the County's most desirable areas of opportunity;
 2. Repayment of approximately \$7 million from HOC's \$90 Million PNC Bank, N.A. Real Estate Line of Credit ("RELOC"), which was used to acquire the properties in 2015; and
 3. The potential to incorporate public use and/or community spaces within the development that would provide a public benefit to the surrounding neighborhood, including residents living at HOC's Waverly House.
- On April 1, 2015, the Commission approved the acquisition of Avondale Apartments. (Resolution 15-32ES)
- On April 1, 2015, the Commission approved drawing funds for the acquisition of the Avondale Apartments from the \$90 Million PNC Bank, N.A. Real Estate Line of Credit. (Resolution 15-33ES)



Staff is requesting that the Commission:

1. Authorize the selection of ForeFront Company as the firm with which to begin negotiations for the execution of a Development Services Agreement, subject to final approval by the Commission prior to execution, and conditioned on a commitment from ForeFront Company to include MFD and Small Business firms in the Redevelopment.
2. Authorization to, in the event an agreement cannot be reached with ForeFront Company, either select another Respondent to Task Order #2125-1 and commence negotiations for the Redevelopment or undertake a new procurement for the Redevelopment.
3. Approval to utilize the Opportunity Housing Development Fund to provide Feasibility Funding in the approximate amount of \$275,000 for the Redevelopment, to be repaid upon permanent financing.

Background

HOC acquired the Avondale Apartments in 2015 under the County's Right of First Refusal Ordinance in order to preserve 25 deeply affordable units relative to the Bethesda market. The properties are home to families within a short walk to Bethesda-Chevy Chase high school and countless amenities in downtown Bethesda.

After HOC's acquisition of the properties, staff actively participated in the development of the Bethesda Downtown Sector Plan, which contained a comprehensive amendment to the approved and adopted 1994 Bethesda Central Business District ("CBD") Sector Plan. The Bethesda Downtown Sector Plan was approved and adopted on May 25, 2017 by Montgomery County and included an up-zoning of the Avondale Apartments.

Three of the buildings (4500-02, 4504-06 and 4508-10 Avondale Street) sit on contiguous parcels on the southeast side of Avondale Street directly adjacent to HOC's Waverly House Apartments. Combined, the three parcels make up about 20,000 square feet in area and are zoned CR-1.5 C-0.25 R-1.5 H-70. The fourth building (4527 Avondale Street) is on the northwest side of Avondale Street and is not contiguous to the other parcels. This parcel is zoned CRN-0.75 C-0.0 R-0.75 H-45. Waverly House is zoned CR-4.0 C-4.0 R-4.0 H-175. Avondale Apartments and Waverly House are located within the Bethesda Overlay Zone ("BOZ"), which allows for optional method projects to exceed the maximum zoned density for a particular site through an allocation of density from the BOZ or transferred density from another site in Downtown Bethesda.



★ = Avondale Apartments
★ = Waverly House



Site Characteristics

OPPORTUNITIES

- Significant unused density on the site and from neighboring Waverly House
- Potential additional acquisitions/swaps along Avondale Street
- Shared infrastructure and/or services with Waverly House
- Strong candidate for competitive 9% Low Income Housing Tax Credits (“LIHTC”)
- Located in a Difficult Development Area (“DDA”). Under LIHTC, a project can receive a 30% basis boost — that is, a 30% increase in the amount of credits the project is eligible to receive — if located in a DDA.
- Potential collaboration with neighboring church and school to share amenities (e.g. swimming pool, parking, etc.)
- Potential inclusion of County recreation center or other County services/amenities

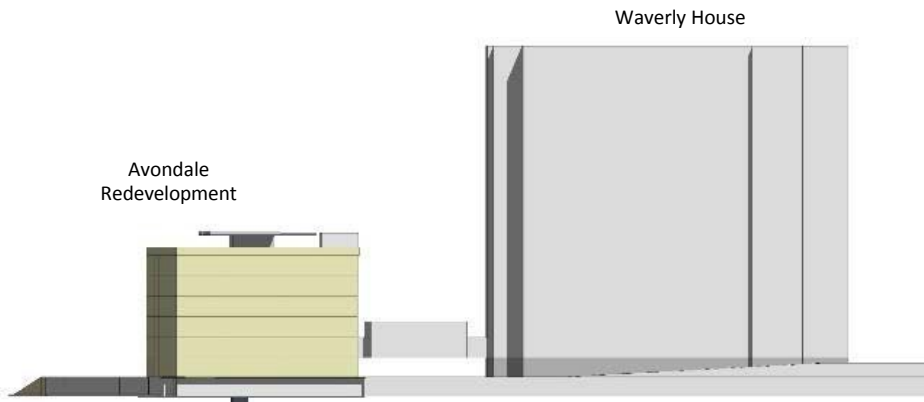
CHALLENGES

- Neighborhood buy-in
- Parking and traffic circulation
- Located at the terminus of a dead-end street
- Isolated site with topographic issues
- Zoning stepdown from Waverly House to north side of Avondale Street
- Not located within an Opportunity Zone. Opportunity Zones provide federal tax incentives for new capital investments.
- Moratorium Creep. In 2016, the Montgomery County Council passed a law to monitor school capacity and institute a development moratorium for areas with enrollment exceeding 120% of projected capacity.

Redevelopment Options

Townscape Design LLC, a zoning and planning consultant to HOC, conducted an initial analysis of the redevelopment of the Avondale Apartments, and arrived at several potential scenarios ranging from a 99-unit mid-rise building (“Option 1”) to a 225-unit high-rise building (“Option 2”). The feasibility phase will further explore these options and others to determine what is most achievable in terms of constructability, financing, market need and Commission objectives.

Option 1



The Option 1 design shows a 99-unit building within an eight story structure, with 44 parking spaces provided below the structure on a single level. The increased height and density is based on the incentives in the Bethesda Sector Plan and the zoning ordinance. The design does not include density transfers from Waverly House or other properties within the BOZ.

Option 2



Option 2 illustrates a 225 unit development with below grade parking. This density can be achieved through incentives in the Bethesda Sector Plan and the zoning ordinance, density transfers from Waverly House (or other properties within the BOZ) and bonus density under the new MPDU law. Option 2 would require deeper parking deck or waiver or off-site agreement or combination, as it is parked at 0.37 parking spaces per unit.

Developer Proposals

Staff solicited proposals via Task Order #2125-1 (“Avondale RFP”) from firms appointed to the Commission’s Real Estate Development and Finance Consultant Pool established under RFQ #2125 (the “Pool”) to serve the Commission as Developer for the redevelopment of the Avondale Apartments. Staff is seeking a development consultant to augment its own development capacity and assist the team in ensuring the Avondale redevelopment achieves its highest and best use as well as Commission priorities.

Five firms responded to the Avondale RFP: CDC Capital, The Concourse Group, ForeFront Company, Fortis Advisory and Urban Focus. Respondents were scored based on the following scoring criteria:

Offeror’s Qualification and Experience (30%):

An evaluation of the qualifications, expertise, and general reputation of the individual(s) who will be responsible for the performance of the required services outlined under the RFP.

Experience of the Firm in Developing Urban, High-Density Residential Development in Montgomery County (30%):

An evaluation of the quality and quantity of the offeror's significant experience and expertise in developing mid- to high-rise multifamily apartment buildings, particularly in urban cores within Montgomery County, with emphasis on the delivery of mixed-income developments.

Minority/Female/Disabled/Small Business Participation (15%):

An evaluation of the extent and quality of the proposed participation by MFD firms and small businesses.

Price (20%):

An evaluation of the value of the services provided at the proposed pricing structure.

Location of Place of Business (5%):

The location of an office in Montgomery County.

Developer Proposals

CDC Capital



CDC assists clients in the design, entitlement, development, financing and construction process of a development life cycle. CDC has provided real estate development services to governmental agencies, religious institutions, non-profit organizations and private developers looking to plan mixed-use communities, to develop senior, workforce, market rate or affordable housing and/or reposition aging properties. During the past five years, CDC has assisted clients to develop 1,321 multifamily units, 296,000 square feet of retail, and 260,495 square feet of public amenity space totaling over \$554 million. Recent experience with the Commission at Alexander House and Elizabeth Square.

The Concourse Group



The Concourse Group (Concourse) is a specialized development and finance consulting firm composed of finance and development veterans. Concourse has 18 years of experience assisting clients in creating and implementing Public Private Partnerships to monetize assets, promote investment, boost economy, and drive efficient operations. Since 2001, Concourse has consulted on more than 120 housing, infrastructure, educational, transportation, utility, energy, hospitality, utility, medical, and mixed-use Public Private Partnership development projects valued at \$18.5 billion nationwide. Recent experience with the Commission as a consultant at Fenton Silver Spring (fka 900 Thayer).

ForeFront Company



ForeFront Company is a seasoned multifamily development company with experience developing more than 25,000 apartment units and 2 million SF of commercial space totaling approximate \$6 billion in total development costs with a specific focus on the Mid-Atlantic Northeast regions. With the combined experience of over 65 years, the team brings in depth knowledge of acquisition, design, development, construction, and management expertise to maximize value creation. No prior experience with the Commission.

Developer Proposals

Fortis Advisory Partners



Fortis Advisory Partners (Fortis) is a real estate investment and development firm. Based in Washington D.C, Fortis Asset Partners specializes in developing mixed-income, mixed-use projects in urban environments, and has led urban projects as both owners and as consultants on behalf of owners. No prior experience with the Commission.

Urban Focus



Urban Focus provides real estate development and consulting services for project feasibility and project management, and assists in locating financing for development opportunities. Urban Focus advises clients on financing, development alternatives, zoning options, environmental actions, architectural design, government regulations and construction related concerns. Established in 2007, Urban Focus is a woman owned company, with locations in Washington DC and New Orleans. No prior experience with the Commission.

Developer Scoring

Respondent	Criteria 1 Offeror's Qualification and Experience <i>(30 Points)</i>	Criteria 2 Experience of the Firm in Developing Urban, High-Density Residential Development in Montgomery County <i>(30 Points)</i>	Criteria 3 MFD/Small Business Participation <i>(15 Points)</i>	Criteria 4 Price <i>(20 Points)</i>	Criteria 5 Office in Montgomery County <i>(5 Points)</i>	TOTAL <i>(100 Maximum Points)</i>
ForeFront Company	30	28	4	18	0	80
CDC Capital	21	25	12	17	0	74
Concourse Group	24	21	10	17	0	71
Urban Focus	24	24	12	10	0	70
Fortis Advisory	16	18	12	11	0	56

The Avondale RFP scoring committee consisted of four staff members from Real Estate Development, Asset Management and Budget divisions. In addition to receiving RFPs, the scoring committee conducted interviews with each Respondent to determine how they meet the evaluation considerations included in the RFP and for the Respondent to present initial considerations regarding the opportunities and challenges with the Avondale redevelopment, including but not limited to: the potential aggregation of neighboring sites; potential financing tools; recommended construction type; and proposed tenant demographics (senior, multifamily, etc.).

Criteria 1 is intended to evaluate an Offeror's experience and performance leading developments from concept through stabilization. Criteria 2 evaluates an Offeror's experience and performance leading developments that are similar to Avondale Apartments (urban, high-density, new construction projects, particularly within Montgomery County). Criteria 3 evaluated both the Offeror's certification as a Minority/Female/Disabled or Small Business and Offeror's MFD and Small Business policies. For Criteria 4, value was determined by: 1) the Developer's proposed pricing based on a 225-unit development (quotes ranged from approximately \$2 Million to \$7 Million), 2) the proposed staffing (both quantity and experience of team members assigned) and 3) whether the pricing is fixed or variable. Criteria 5 considered whether the Respondent currently has an office location in Montgomery County.

ForeFront Company scored highest, receiving 95% of the possible points in the experience and value categories (Criteria 1, 2 and 4). ForeFront has an MFD policy, but is not a MFD or small business. ForeFront does not have an office in Montgomery County. ForeFront received only 4 (20%) of the possible points in the remaining categories (Categories 3 and 5).

ForeFront Company

In addition to receiving the highest score among the five respondents, Staff believes ForeFront is the strongest candidate to lead the redevelopment from feasibility through stabilization.

- **Greatest experience with urban, high-rise development.** No other respondent demonstrated as much experience with urban, high-rise development as ForeFront (examples shown on right).
- **Greatest experience leading developments from feasibility to stabilization.** While other respondents possessed significant experience as development consultants, ForeFront possessed the most experience as a lead developer.
- **Extensive urban re-zoning, entitlement and planning experience.** Proven experience obtaining community, political and planning support on complex, high-density projects
- **Success in Montgomery County.** ForeFront's managing members have worked on multiple Montgomery County developments including Westchester at Rockville Station, Gaithersburg Station, and the entitlement of 8240 Fenton Street, Silver Spring, MD (the 900 Thayer development, now known as Fenton Silver Spring), prior to HOC's purchase of the property.



The Luman (Tysons, VA)
398 Multifamily Units + 12K SF Retail



Hoffman Town Center (Alexandria, VA)
1242 Multifamily Units + 46K SF Retail (residential towers)
and 670K SF Office and 29K SF Retail (National Science Foundation Headquarters)



60 South Broadway (White Plains, NY)
707 Multifamily Units + 83KSF Retail



The Lively (Jersey City, NJ)
180 Multifamily Units + 3K SF Retail + 14K SF
Community Arts Center

ForeFront Company

In addition, Forefront had the **best sense of what to do with the Avondale site given its constraints and opportunities**. ForeFront exhibited a clear understanding of the opportunities and challenges with the site and proposed a number of creative development strategies to maximize unit count (shown below).

Option 1

Option 2

Option 3



ForeFront Company

While not required under the RFP, ForeFront offers the following additional benefits:

- **Immense construction management experience including one of the foremost construction managers in Prescient buildings.** This first-hand experience not only benefits the Avondale redevelopment, but other HOC new construction projects using Prescient systems. Forefront has more than 800 units under construction or in development using Prescient construction.
- **Potential equity partner.** In addition to being the developer of the Avondale, ForeFront could be a potential joint venture partner and contribute their own equity to the deal, should the Commission wish to partner on the redevelopment.



ForeFront's 305-unit Prescient project under construction in downtown Atlanta, GA.

Minority/Female/Disabled Participation

While ForeFront has extensive development financing experience and expansive relationships with conventional capital sources, ForeFront is less experienced in affordable housing development and finance compared to other respondents. ForeFront is also not certified as a Minority/Female/Disabled (“MFD”) or Small Business, an important element of the Commission’s procurement.

To increase MFD participation, staff recommends that the firm selected as the fee developer must include in its development services agreement (“DSA”), a firm commitment to include MFD and Small Business firms in the Redevelopment. Staff will bring a negotiated DSA to the Commission for approval before being executed by HOC and ForeFront. In the event an agreement cannot be reached with ForeFront Company, the Commission may either select another Respondent to the Solicitation and commence negotiations for the Redevelopment or undertake a new procurement for the Redevelopment.

ForeFront Company

ForeFront Managing Members

Tim Mulcahy

Mr. Mulcahy is involved in the entire spectrum of the development including all implementation, operational, financing, and investment decisions. Prior to joining ForeFront, Mr. Mulcahy was the Division President for Lennar Multifamily, President and Partner of Redbrick Development Group, and President and Partner of Metropolitan Development Group where he initiated the development and/or construction of a combined 4,578 units.

George Vomvolakis

Mr. Vomvolakis leads the construction efforts and team for each ForeFront project. Besides establishing the direction and goals of the construction department, Mr. Vomvolakis is involved with pre-construction services, design coordination, scheduling, contracting with subcontractors, construction sequencing, delivery, and close-out. Prior to joining ForeFront, Mr. Vomvolakis was the Vice President of Construction for Lennar Multifamily, Vice President of Construction for Facchina Construction, and Executive Vice President of Fortune Johnson where he oversaw the approval and/or construction of a combined 8,773 units.

Michael Perine

Mr. Perine leads the development efforts and team for each ForeFront project, including pre-development services, negotiation of contracts and term sheets, design, permitting, development, and management. Prior to joining ForeFront, Mr. Perine was the Executive Vice President of Hoffman Company, where he successfully placed 6.4M SF of development under approved preliminary site plans, 3.6M SF of development under approved final site plans and 2.7M SF of construction under building permits.

Feasibility Budget

Feasibility Budget

Avondale Feasibility Budget	Price
Developer Services (ForeFront)	\$125,000
Due Diligence and Feasibility Consultants (Including Architect, Civil and Landscape Engineer, Land Use Attorney and Legal Counsel)	\$100,000
Contingency	\$50,000
TOTAL	\$275,000

Feasibility Phase Objectives:

- Pursue (or rule out) aggregation of neighboring properties
- Engage BCC and Our Lady of Lourdes for possible collaboration
- Engage County on the potential collocation of public services and/or amenities
- Fully investigate all site opportunities and constraints
- Determine maximum unit count the site can yield
- Solve for parking and traffic circulation issues
- Build development team, including MFD affordable housing consultant

Staff is requesting \$275,000 for six months of feasibility funding for the Avondale redevelopment. This includes \$125,000 for the engagement of ForeFront during the 6-month feasibility phase; \$100,000 to engage an architect, civil and landscape engineer, land use attorney, legal counsel and other consultants to conduct site due diligence and analyze feasibility; and \$50,000 as a contingency. Staff recommends utilizing the Opportunity Housing Development Fund (OHDF) as the source of this feasibility funding, to be repaid upon permanent financing. The OHDF had a balance of \$4,478,183 as of October 15, 2019.

About OHDF

The OHDF is a revolving loan fund from which HOC is authorized to use up to \$4.5 million at any one time. The project provides funds to temporarily cover project planning, site improvements, building construction loan guarantees, construction financing, short-term financing (including second trusts), insurance for permanent financing, notes and bonds, and associated professional and financing fees for housing developments undertaken by HOC or its designees. This fund is to be repaid when permanent financing is obtained or when other sources of financing are made available from HOC housing developments. If sufficient funds are not available in the MPDU/Property Acquisition Fund, this fund can also be used, upon County approval, for the acquisition of sites and/or existing properties for low and moderate-income, single, or multi-family housing facilities, which are to be owned and operated by HOC or its designees.

Development Timeline

Development Timeline



Summary and Recommendations

ISSUES FOR CONSIDERATION

Does the Commission wish to:

1. Authorize the selection of ForeFront Company as the firm with which to begin negotiations for the execution of a Development Services Agreement, subject to final approval by the Commission prior to execution, and conditioned on a commitment from ForeFront Company to include MFD and Small Business firms in the Redevelopment?
2. Authorization to, in the event an agreement cannot be reached with ForeFront Company, either select another Respondent to Task Order #2125-1 and commence negotiations for the Redevelopment or undertake a new procurement for the Redevelopment?
3. Approval to utilize the Opportunity Housing Development Fund to provide Feasibility Funding in the approximate amount of \$275,000 for the Redevelopment, to be repaid upon permanent financing?

BUDGET FISCAL/IMPACT

There is no impact on HOC's operating budget, as OHDF funds bear no interest. The fiscal impact is that these funds, if approved, will not be available for use on other projects. The OHDF had a balance of \$4,478,183 as of October 15, 2019. If approved, the OHDF's available balance will be reduced by \$275,000, to \$4,203,183.

COMMITTEE RECOMMENDATION

The Development and Finance Committee met on October 24, 2019 and voted to advance this item to the full Commission for approval, conditioned on the resolution including language that that the negotiated development services agreement must include a firm commitment by the selected firm to include MFD and Small Business firms in the Redevelopment.

TIME FRAME

For action at the November 6, 2019 hearing of the Commission.

Summary and Recommendations

STAFF RECOMMENDATION AND COMMISSION ACTION NEEDED

Staff recommends that Commission accept the recommendation of the Development and Finance Committee and:

1. Authorize the selection of ForeFront Company as the firm with which to begin negotiations for the execution of a Development Services Agreement, subject to final approval by the Commission prior to execution, and conditioned on a commitment from ForeFront Company to include MFD and Small Business firms in the Redevelopment.
2. Authorization to, in the event an agreement cannot be reached with ForeFront Company, either select another Respondent to Task Order #2125-1 and commence negotiations for the Redevelopment or undertake a new procurement for the Redevelopment.
3. Approval to utilize the Opportunity Housing Development Fund to provide Feasibility Funding in the approximate amount of \$275,000 for the Redevelopment, to be repaid upon permanent financing.

RESOLUTION No.: 19-105

RE: Authorization to Select ForeFront Company as the Firm with which to Commence Negotiations on a Development Services Agreement for the Redevelopment of Avondale Apartments and Approval of Feasibility Funding

WHEREAS, the Housing Opportunities Commission of Montgomery County (“HOC” or the “Commission”) acquired four rental apartment buildings consisting of 25 units located at 4500-02, 4504-06, 4508-10 and 4527 Avondale Street, Bethesda, MD 20814 (“Avondale Apartments” or the “Sites”) in 2015 under the County’s Right of First Refusal Ordinance; and

WHEREAS, HOC is evaluating the redevelopment of Avondale Apartments (the “Redevelopment”) to increase the supply of affordable and market-rate units on the Sites; and

WHEREAS, in April 2019, staff solicited proposals via Task Order #2125-1 (the “Solicitation”) from its Real Estate Development and Finance Consultant Pool established under RFQ #2125 to provide responses to a request for pricing proposals to serve the Commission as Fee Developer for the Redevelopment; and

WHEREAS, five firms responded to the Solicitation (the “Respondents”) and were evaluated on five scoring criteria: Offeror’s Qualification and Experience; Experience of the Firm in Developing Urban, High-Density Residential Development in Montgomery County; Minority/Female/Disabled/Small Business Participation; Price; and Location of Place of Business; and

WHEREAS, ForeFront Company (“ForeFront”) scored highest among the Respondents; therefore, staff proposes that the scoring results from the Solicitation are accepted and negotiations commence on a Developer Services Agreement (the “DSA”) with ForeFront; and

WHEREAS, one of the stated goals of the Commission is to foster small business development and to increase participation of businesses that are owned by minorities, women, and disabled persons (collectively “MFD”); and

WHEREAS, to increase the participation of MFD and small business firms in this engagement, the Commission requires that the DSA with ForeFront (or any selected firm) must include a firm commitment to include MFD and small business firms in the Redevelopment, and that the DSA be approved by the Commission prior to its execution; and

WHEREAS, the Commission reserves the right to either select another Respondent to the Solicitation or to resolicit should the Commission not approve the negotiated DSA between HOC and ForeFront; and

WHEREAS, staff is requesting funding in the amount of \$275,000 to conduct feasibility studies for the Redevelopment, including a contingency of \$50,000 (the “Feasibility Funding”); and

WHEREAS, the County’s revolving Opportunity Housing Development Fund (“OHDF”) may be used to provide Feasibility Funding and be repaid from permanent financing proceeds.

NOW, THEREFORE, BE IT RESOLVED that the Housing Opportunities Commission of

Montgomery County accepts the scoring results from the Solicitation and selects ForeFront Company as the firm with which the Executive Director is authorized to begin negotiations for the execution of a Development Services Agreement, subject to final approval by the Commission prior to execution, and conditioned on a commitment from ForeFront to include MFD and small business firms as members of its Redevelopment team.

BE IT FURTHER RESOLVED by the Housing Opportunities Commission of Montgomery County that, in the event an agreement cannot be reached with ForeFront Company, the Commission may either select another Respondent to the Solicitation and commence negotiations for the Redevelopment or undertake a new procurement for the Redevelopment.

BE IT FURTHER RESOLVED that the Housing Opportunities Commission of Montgomery County authorizes the utilization of the OHDF to provide Feasibility Funding in the approximate amount of \$275,000 for the Redevelopment, to be repaid upon permanent financing.

BE IT FURTHER RESOLVED by the Housing Opportunities Commission of Montgomery County that the Executive Director, or his designee, is authorized, without any further action its part, to take any and all other actions necessary and proper to carry out the transactions and actions contemplated herein, including the execution of any documents related thereto.

I HEREBY CERTIFY that the foregoing resolution was approved by the Housing Opportunities Commission of Montgomery County at a regular open meeting conducted on November 6, 2019.

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Patrice M. Birdsong
Special Assistant to the Commission

Deliberation and/or Action

Acceptance of HOC FY'19 Audited Financial Statements, Single Audit Report, and Management Letter

November 6, 2019

- HOC received an unqualified audit opinion on the Financial Statement Audit.
- HOC received an unqualified audit opinion on the Housing Choice Voucher Program; the Continuum of Care Program; the Section 8 Project Based Cluster Program and the Housing Finance Agencies Risk Sharing Program.
- There are significant deficiencies reported in the internal controls over compliance for the Housing Choice Voucher Program and the Section 8 Project Based Cluster Program.
- HOC received a Management Letter with two items: (1) Audits of Blended Component Units; (2) Contributions to Pension Subsequent to Measurement Date.

M E M O R A N D U M

TO: Housing Opportunities Commission

VIA: Stacy L. Spann, Executive Director

FROM: Cornelia Kent, Chief Financial Officer Finance Ext. 9754
 Eugenia Pascual, Controller Finance Ext. 9478
 Francisco Vega, Assistant Controller Finance Ext. 4873

RE: Acceptance of HOC FY’19 Audited Financial Statements, Single Audit Report,
 and Management Letter

DATE: November 6, 2019

STATUS: Deliberation X

OVERALL GOAL & OBJECTIVE:
 Acceptance of the FY’19 Audited Financial Statements, Single Audit Report, and Management Letter of the Housing Opportunities Commission (HOC). The Audited Financial Statements must be published by December 1, 2019.

BACKGROUND:
 HOC’s auditor, CliftonLarsonAllen LLP (CLA), prepared the results of the FY’19 Audited Financial Statements, Single Audit Report, and Management Letter. Each Commissioner has had an opportunity to review the audit and request additional information from the auditor.

ISSUES FOR CONSIDERATION:

Financial Statement Audit

The final audited financial statements for FY’19 will be distributed to the Commission by CliftonLarsonAllen LLP on November 6, 2019. The Commission received an unqualified audit opinion on the financial statements for the year ended June 30, 2019. A draft of Management’s Discussion and Analysis (MD&A) is included with this memorandum. The MD&A is intended to provide the reader with an overview and analysis of the financial activities of the Commission for the year ended June 30, 2019.

The financial statements for HOC’s tax credit component units are presented on separate pages. The information is based on each tax credit partnership’s audited financial statement as of December 31, 2018 with the exception of the Strathmore Court Limited Partnership and The Metropolitan Limited Partnership which are presented as of June 30, 2019.

Single Audit Report

Attached is the final draft of the Single Audit Report for FY'19. The signed bound copies will be distributed by CliftonLarsonAllen LLP on November 6, 2019. No changes are expected. HOC received an unqualified opinion on the housing choice voucher program, the Continuum of Care program, the Section 8 Project Based Cluster Program and the Housing Finance Agencies Risk Sharing Program. There are significant deficiencies reported in the internal control over compliance for the Housing Choice Voucher Program, and the Section 8 Project Based Cluster Program.

Finding 2019-001: Housing Choice Voucher Cluster, CFDA No. 14.871/14.879

Condition/Context: During our testing, we noted the Commission's internal controls did not always ensure that tenant files included all required documentation. We also noted that income and expenses were not always properly calculated, and as a result, HAP expense was not always properly calculated.

Management's Action Taken in Response to Finding: The Commission acknowledges the eligibility finding and continues to address the issue. The HRD Management Team along with the Compliance Team will continue to conduct monthly trainings and quality control reviews. Systemic findings will be discussed in monthly staff meetings and non-systemic errors will be addressed individually. Staff with poor performance will be held accountable for their work and counseled pursuant to the HOC Collective Bargaining Agreement and Personnel Policy. Staff have demonstrated improvement in the quality of work, as three of the seven identified errors were for actions processed in fiscal year 2018 though reflected on the fiscal year 2019 HAP register.

Lynn Hayes is the contact responsible for this corrective action.

Finding 2019-002: Housing Choice Voucher Cluster, CFDA No. 14.871/14.879

Condition/Context: During our testing, we noted that the Commission's internal controls did not always ensure that annual inspections or failed inspections were performed timely and/or properly documented.

Management's Action Taken in Response to Finding: The Commission has continued to make modifications to the inspection procedures. The modifications include, but are not limited to:

- Regularly meeting with and working close to our third party vendor(s).
- Providing all internal staff with HQS training.
- Ensuring inspections are scheduled timely.
- Weekly reporting on inspection schedules.
- Upgrading the mailing policy to ensure notices are mailed, emailed and detailed inspection information is provided via our external client portal.

Renee Harris is the contact responsible for this corrective action.

Finding 2019-003: Section 8 Project Based Cluster

Condition/Context: During our testing, we noted that the Commission’s internal controls did not always ensure that annual inspections were performed timely and/or properly documented.

Management’s Action Taken in Response to Finding: HOC acknowledges and accepts the finding for not performing an annual inspection on one of our Project Based Cluster units. The Property Management Team along with the Compliance Team will coordinate to ensure proper internal controls are in place to conduct timely annual inspections and quarterly control reviews.

Charnita Jackson is the contact responsible for the corrective action.

Management Letter

A requirement when performing an audit of an entity’s financial statements is to write a Management Letter which communicates audit related findings related to internal controls to Management’s Commission as required by SAS No. 112.

The Commission received Management Letter comments in the following areas: Audits of Blended Component Units and Contributions to Pension Subsequent to Measurement Date. Please see attached letter and management’s response.

BUDGET IMPACT:

None. A funding source for the audit is budgeted during the HOC budget process each year.

TIME FRAME:

Action is requested at the November 6, 2019 Commission meeting. The Audited Financial Statements must be published by December 1, 2019.

STAFF RECOMMENDATION & COMMISSION ACTION NEEDED:

Staff recommends to the full Commission acceptance of the HOC FY’19 Audited Financial Statements, Single Audit Report, and Management Letter.

RESOLUTION NO. 19-106

**RE: Acceptance of HOC FY'19
Audited Financial Statements
Single Audit Report, and
Management Letter**

WHEREAS, the independent auditors, CliftonLarsonAllen LLP, presented their report for FY'19, which included the FY'19 Audited Financial Statements, Single Audit Report, and Management Letter, to the Housing Opportunities Commission of Montgomery County (the "Commission"); and

WHEREAS, at a meeting held on November 6, 2019, the Commission reviewed the FY'19 Audited Financial Statements, Single Audit Report, and Management Letter.

NOW, THEREFORE, BE IT RESOLVED by the Housing Opportunities Commission of Montgomery County that the Commission accepts the FY'19 Audited Financial Statements, Single Audit Report, and Management Letter prepared by CliftonLarsonAllen LLP.

I HEREBY CERTIFY that the foregoing Resolution was adopted by the Housing Opportunities Commission of Montgomery County at an open meeting conducted on November 6, 2019.

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**Patrice M. Birdsong
Special Assistant to the Commission**

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

As management of the Housing Opportunities Commission of Montgomery County, Maryland (the Commission), a component unit of Montgomery County, Maryland, we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information furnished in the audited basic financial statements and related notes. This discussion and analysis is focused on the activities of the Commission as a primary governmental entity.

Financial Highlights

The Commission's net position decreased by \$3.2 million during fiscal year 2019, compared to the \$234.3 million balance at June 30, 2018.

The Commission's current ratio (ratio of current assets to current liabilities) increased from 2.52 at June 30, 2018 to 2.97 at June 30, 2019 due to a decrease in the short-term mortgage, notes, loans and bonds payable.

Outstanding mortgage and construction loans receivable decreased from \$288.4 million at June 30, 2018 to \$265.8 million at June 30, 2019. This is attributed to a decrease in Single Family mortgage loans receivable due to loan pay-offs and regular loan amortization and a decrease in Multifamily mortgage receivable due to consolidation of Montgomery Homes Limited Partnership (MHLP) IX and Montgomery Homes Limited Partnership (MHLP) X within Opportunity Housing Sub-fund.

The amount of U. S. Department of Housing and Urban Development (HUD) Section 8 Housing Assistance Payments (HAP) administered by the Commission increased by 7.4% from \$102.5 million in fiscal year 2018 to \$110.1 million in fiscal year 2019.

During fiscal year 2019, the Multifamily Sub-fund retired and refunded bonds in the amount of **\$30.6** million which consisted of \$29 million from the 1996 indenture, \$1.2 million from the 2002 Multipurpose Bonds and \$0.4 million from the other indentures.

The Single Family Sub-fund retired and refunded bonds in the amount of \$18.4 million which consisted of \$12.8 million from the 1979 indenture and \$5.6 million from the 2009 indenture.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The annual financial report is comprised of three components: management's discussion and analysis, the financial statements, and notes to the financial statements.

The financial statements are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private-sector business. These statements are prepared in conformity with generally accepted accounting principles in the United States of America (GAAP) as applied to governmental units using the economic resources measurement focus and the accrual basis of accounting. Under this basis of accounting, revenues are recognized in the period they are earned, while expenses are recognized in the period they are incurred. Depreciation and amortization of capital and deferred assets are recognized in the statement of revenues, expenses, and changes in net position.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

The statement of net position presents information on all of the Commission's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the residual amount reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information on how the Commission's net position changed during the fiscal year.

The statement of cash flows explains the sources and uses of cash during the fiscal year.

The Commission maintains only proprietary funds. Such funds are accounted for in a manner similar to that of businesses operating in the private-sector. Proprietary funds provide both long- and short-term financial information. The following is a brief description of the activity accounted for in each of the sub-funds.

Sub-Funds

General Sub-Fund - the Commission's primary operating fund. The entire administration and overhead of the Commission is maintained within this fund. In addition, in FY 2014, HUD required all public housing authorities to implement a Central Office Cost Center (COCC). As a result, the General Sub-fund was split into two components: one to reflect Agency overhead related to Federal programs and corresponding Fee Income, and one to reflect the Agency overhead related to Non-Federal Programs. All activities are consolidated for reporting purposes under the General Sub-Fund.

Opportunity Housing Sub-Fund - accounts for properties that provide affordable housing to low and moderate income residents. Properties owned by the Commission make up the primary assets in this fund.

Public Sub-Fund - accounts for grants from federal, state, and county governments. These grants are used to provide Housing Assistance Payments and supportive services for residents. Activities related to Public Housing and the Housing Choice Voucher Programs are maintained in this fund.

Single Family Sub-Fund - accounts for taxable and non-taxable bonds. These bonds are used to finance mortgage loans for qualifying first-time homebuyers. The primary assets are mortgage loans receivable and restricted cash and investments.

Multifamily Sub-Fund - accounts for taxable and non-taxable bonds. These bonds are used to finance the acquisition, rehabilitation, and/or construction of affordable multifamily housing. The primary assets are mortgage loans receivable and restricted cash and investments.

Discretely Presented Component Units

Real Estate Limited Partnerships - The Commission is the managing general partner in 14 real estate limited partnerships. Twelve of the partnerships have calendar year ends and two have a June 30 fiscal year end.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County,
Maryland) MANAGEMENT'S DISCUSSION AND
ANALYSIS YEAR ENDED JUNE 30, 2019

The Commission is the sole member and 100% owner of HOC at Hillandale Gateway LLC (HOC Hillandale), a Maryland limited liability company, which is addressed as a blended component unit. HOC Hillandale is an owner member of Hillandale Gateway LLC, which has a December 31 fiscal year end and is included as a discrete component unit.

The Commission is the managing member and 50% owner of CCL Multifamily LLC, a Maryland limited liability company, which is addressed as a partnership with a private foundation. CCL Multifamily LLC, in turn, owns the Lindley, a 200-unit mixed-income apartment building under construction with projected completion by January 2019. This entity has a December 31 fiscal year end and is included as a discrete component unit.

The Commission is a partner of a joint venture known as Wheaton Gateway LLC which will undertake the redevelopment of Wheaton Gateway, consisting of the Lindsay Ford parcels, Ambassador Apartments and Mattress Firm property located in Wheaton, Maryland. This entity has a December 31 fiscal year end and is included as a discrete component unit.

Accordingly, the amounts that comprise the aggregate Balance Sheet and Statement of Operations of the Discretely Presented Component Units described above are as of and for the respective year ends that fall within the year ended June 30, 2019.

Additionally, the Commission has two component units that were reported as discrete component units in fiscal year 2018, but converted to blended component units during fiscal year 2019 upon the assignment of the limited partnership interests to HOC YR 15LLC.

Blended Component Units

Development Corporation - The Commission has 41 properties that are considered blended component units and presented with the Opportunity Housing Sub-Fund in the appropriate fund financial statement and combining statements.

Financial Analysis of the Commission as a Whole

The Commission's total net position in fiscal year 2019 decreased by 1.4%.

Net investment in capital assets is -37.2% of the Commission's net position. These capital assets are used primarily to provide housing to low-income residents.

44.2% of the Commission's net position reflects cash and investments, which are restricted as to their use. The preponderance of these restricted assets are used to finance and fund low-income housing.

93.0 % of the Commission's net position is unrestricted. These non-restricted resources are used in 93.1 The operations of the Commission.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

Housing Opportunities Commission's Net Position
(In millions of dollars)

	<u>2019</u>	<u>2018</u>	<u>Change(\$)</u>	<u>Change(%)</u>
Assets:				
Current Assets	\$ 279.4	\$ 345.7	\$ (66.3)	(19.2)%
Other Assets	142.1	117.7	24.4	20.7%
Capital Assets	674.6	562.0	112.6	20.0%
Mortgage and Construction Loans Receivable, Net of Current	258.2	270.5	(12.3)	(4.5)%
Total Assets	<u>1,354.3</u>	<u>1,295.9</u>	<u>58.4</u>	<u>4.5%</u>
Deferred Outflows of Resources	32.5	12.4	20.1	162.1%
Liabilities:				
Current Liabilities	50.0	40.2	9.8	24.4%
Current Portion of Long-Term Debt and Bonds Payable	43.7	97.0	(53.3)	(54.9)%
Total Current Liabilities	<u>93.7</u>	<u>137.2</u>	<u>(43.5)</u>	<u>(31.7)%</u>
Noncurrent Liabilities:				
Bonds Payable	455.2	482.7	(27.5)	(5.7)%
Other Liabilities	589.7	442.5	147.2	33.3%
Total Liabilities	<u>1,138.6</u>	<u>1,062.4</u>	<u>76.2</u>	<u>7.2%</u>
Deferred Inflows of Resources	17.1	11.6	5.5	47.4%
Net Position				
Net Investment in Capital Assets	(86.0)	(38.0)	(48.0)	126.3%
Restricted for:				
Debt Service	95.7	85.7	10.0	11.7%
Customer Deposits and Other	2.0	1.8	0.2	11.1%
Closing Cost Assistance Program	4.4	4.3	0.1	2.3%
Unrestricted	215.0	180.5	34.5	19.1%
Total Net Position	<u>\$ 231.1</u>	<u>\$ 234.3</u>	<u>\$ (3.2)</u>	<u>(1.4)%</u>

Total assets of the Commission increased by \$58.4 million or 4.5%, with a corresponding increase in total liabilities of \$76.2 million or 7.2% from fiscal year 2018.

The increase in total assets was largely attributed to the acquisition of The Manor at Clopper's Mill, The Manor at Fair Hill, The Manor at Colesville ("the three Manor properties") and properties at 8800 Brookville, 11250 Veirs Mill and 9845 Lost Knife Road. In addition, renovation expenses at 900 Thayer Avenue ("Thayer"), Alexander House Development Corporation ("Alexander House") and pre-development expenses at Elizabeth House III as well as the transfer of MHL P IX and MHL P X also contributed to the increase in capital assets.

Based on Government Accounting Standards Board (GASB) 53, *Accounting and Financial Reporting for Derivative Instruments*, the termination value of all swaps, either negative or positive, are presented

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

as either deferred outflows or inflows in the statement of net position. HOC had a negative fair value of \$19.8 million at June 30, 2019 compared to a net negative fair value of \$2.3 million at June 30, 2018.

Housing Opportunities Commission's Changes in Net Position
(In millions of dollars)

	2019	2018	Change(\$)	Change(%)
Operating Revenues				
Dwelling Rental	\$ 90.2	\$ 77.5	\$ 12.7	16.4%
Governmental Grants	134.0	128.5	5.5	4.3%
Investment Income	6.1	4.4	1.7	38.6%
Unrealized Gains (Losses) on Investments	4.7	(2.9)	7.6	(262.1)%
Interest on Mortgages and Construction Loans Receivable	8.8	9.7	(0.9)	(9.3)%
Management Fees and Other Income	12.3	13.1	(0.8)	(6.1)%
Total Operating Revenues	256.1	230.3	25.8	11.2%
Operating Expenses				
Housing Assistance Payments	110.1	102.5	7.6	7.4%
Administration	43.8	43.8		0.0%
Maintenance	22.3	18.7	3.6	19.3%
Depreciation and Amortization	18.2	15.6	2.6	16.7%
Utilities	6.2	5.9	0.3	5.1%
Fringe Benefits	12.3	10.9	1.4	12.8%
Interest Expense	23.9	22.7	1.2	5.3%
Other Expenses	14.0	13.1	0.9	6.9%
Total Operating Expenses	250.8	233.2	17.6	7.5%
Operating Income (Loss)	5.3	(2.9)	8.2	(282.8)%
Nonoperating Revenues, Net	0.5	1.6	(1.1)	(66.9)%
Income Before Contributions	5.8	11.7	(5.9)	(50.4)%
Transfers From Discrete Component Units	(9.2)	4.3	(13.5)	100.0%
Capital Contributions	0.2	2.0	(1.8)	(90.0)%
Change in Net Position	(3.2)	18.0	(21.2)	(117.8)%
Total Net Position - Beginning of Year, as Restated	234.3	216.3	18.0	8.3%
Total Net Position - End of Year	\$ 231.1	\$ 234.3	(\$3.2)	(1.4%)

In January 2006, HUD issued PIH Notice 2006-03, which requires that the Annual Budget Authority (ABA) that the Commission receives be reported as income in the same fiscal year regardless of the total housing assistance payments incurred. As of June 30, 2019, the Commission has recorded all ABA received as income.

Dwelling rent increased by \$12.7 million attributed to an increase in the number of units leased due to acquisition of the three Manor properties, MV Gateway LLC (Cider Mill) and the transfer of Manchester

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
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MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

Manor Apartments LP, Shady Grove Apartments LP, The Willows LP, Camp Hill Square, MHLP IX and MHLP X from component units to Opportunity Housing portfolio.

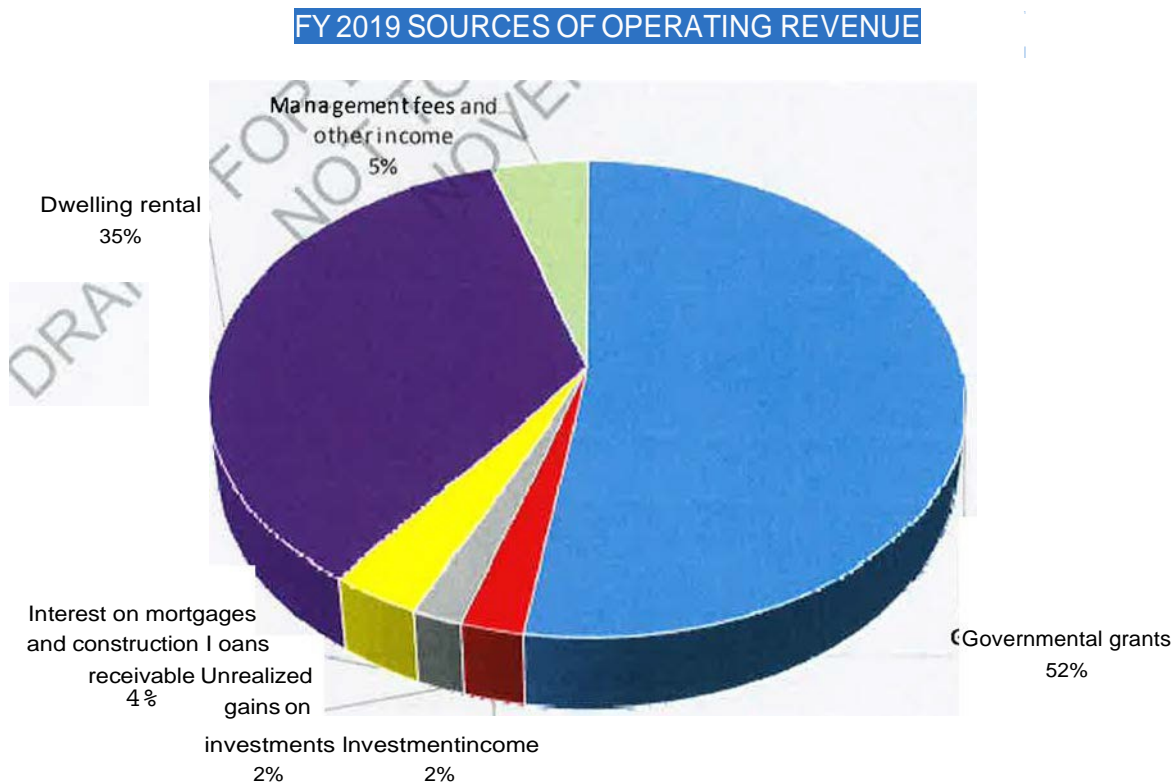
Governmental grants increased by \$5.5 million as a net result of an increase in HUD subsidies and a decrease in County grants.

Unrealized gains on investments increased by \$7.6 million in FY 2019. The unrealized gains in FY 2019 **were** due to changes in interest rates and the investing environment.

Housing Assistance Payments (HAP) - Revenue increased by \$7.6 million in FY 2019 is due to an increase in voucher utilization.

Maintenance expense increased by \$3.6 million in FY 2019 attributed primarily to MV Gateway LLC (Cider Mill), the three Manor properties and the six former discrete component units. Other Opportunity Housing properties including RAD 6 Development Corporation, VPC One Corporation, VPC Two Corporation, Strathmore Court at White Flint and Montgomery Arms Development Corporation **also** contributed to the increase.

The following chart illustrates the Commission's sources of revenue as a percentage of total operating revenue. The primary sources of operating revenue for the Commission are grants from federal, state, and local governments, and dwelling rental income.

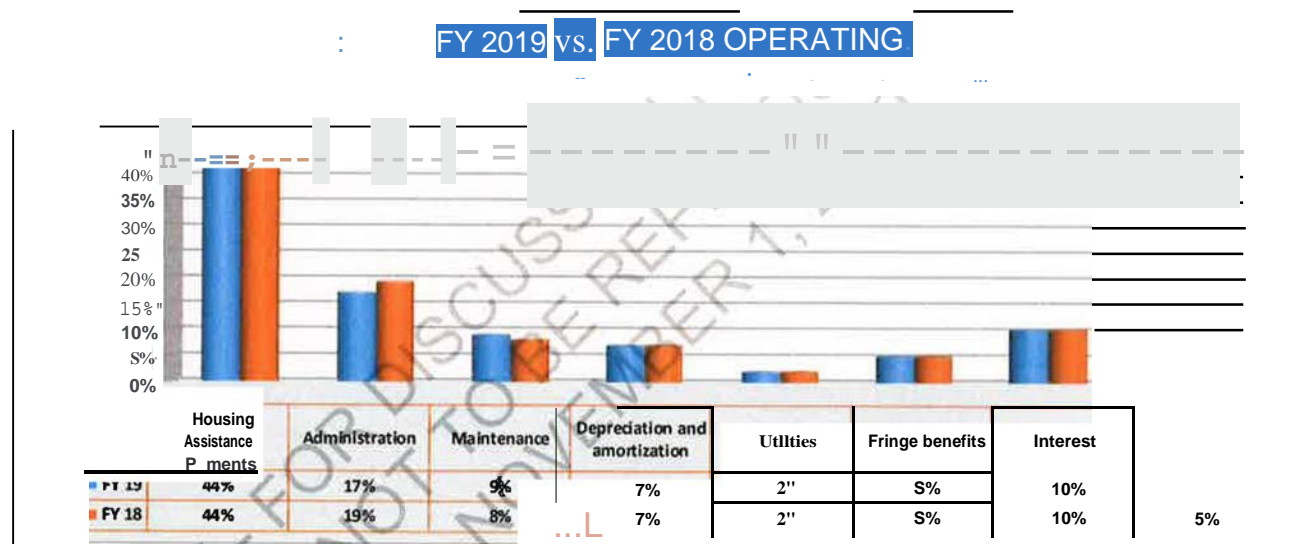


HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
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MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

Nonoperating revenue decreased by \$14.1 million mainly due to a drop in property sales. In FY 2018, net gain from the sale of Greenhills Apartments and 10 Chevy Chase lake townhouse units amounted to \$13.5 million as compared to \$4.1 million from the sale of 15 Chevy Chase Lake townhouse units in FY 2019. An increase of \$5.0 million in interest expense offset by an increase of \$0.3 million of other income also contributed to a decrease in non-operating revenue.

In addition, transfers from component units in fiscal year 2019 resulted in a decrease in net position of approximately \$9.2 million compared with an increase in net position of approximately \$4.3 million in fiscal year 2018.

The following chart is a comparison of the Commission's current and prior year operating expenses as a percentage of total expenses:



Housing Assistance Payments are the major contributor to the total operating expenses of the Commission and remain flat at 44% of the total operating expenses.

The proportionate shares of administrative expenses, maintenance, depreciation & amortization, fringe benefits, interest expense and other expense categories have not changed significantly from the prior year.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

Housing Opportunities Commission's Capital Assets
Net of Accumulated Depreciation
(In millions of dollars)

	<u>2019</u>	<u>2018</u>	<u>Change(\$)</u>	<u>Change(%)</u>
Property and Equipment, Net of Depreciation	\$ 674.6	\$ 562.0	\$ 112.6	20.0%

Real property is depreciated using the straight line method over a 40-year period. During the year, the Commission acquired assets of approximately \$134.8 million which includes transfers of \$13.1 million, while disposing of capital assets with a net book value of approximately \$3.9 million. Depreciation expense of \$18.2 million also decreased the net book value of the assets. The increase is largely attributable to the purchase of the three Manor properties, 8800 Brookville, 11250 Veirs Mill, 9845 Lost Knife Road as well as renovation expenses at Alexander House and Thayer and pre-development expenses at Elizabeth House. Furthermore, MHLP IX and MHLP X were acquired back by the Commission.

Housing Opportunities Commission's Outstanding Debt
(In millions of dollars)

	<u>2019</u>	<u>2018</u>	<u>Change(\$)</u>	<u>Change(%)</u>
Multifamily Bonds	\$ 273.4	\$ 303.9	\$ (30.5)	(10.0)%
Single Family Mortgage Purchase Program Bonds	204.3	222.8	(18.5)	(8.3)%
Mortgage Notes and Loans Payable	422.4	356.1	66.3	18.6%
Loans Payable to Montgomery County	107.3	58.1	49.2	84.7%
Total	\$ 1,007.4	\$ 940.9	\$ 66.5	7.1%

The following are key elements of the Commission's outstanding debt as of June 30, 2019:

- As of June 30, 2019, \$273.4 million of Multifamily mortgage bonds was outstanding. Sources of payments for the bonds are Multifamily mortgages receivable of \$269.90 million and restricted cash, cash equivalents and investments of \$40.1 million.
- As of June 30, 2019, \$204.3 million of Single Family mortgage bonds was outstanding. Sources of payment for the bonds are Single Family mortgages receivable of \$72.2 million and restricted cash, cash equivalents and investments of \$163.8 million.

The outstanding debt is secured by real estate or by first mortgages on real estate. The exception is the closing cost assistance program.

Note 8 (Bonds, Mortgage Notes, and Loans Payable) provides detailed information about long-term debt activity.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

Economic Outlook

HOC's FY 2020 budget reflects the urgency of our mission and aligns with the Commission's 2018 - 2022 strategic plan. As Housers, our work is focused on just three things: Getting People Housed; Keeping People Housed; and Helping Customers Reach Their Fullest Potential.

One of the most important ways we do this is by creating Community Connected Housing and serving the whole family. Community Connected Housing exists in "healthy" neighborhoods that provide strong employment, educational and recreational access as well as environmental amenities that include local service institutions. HOC has set a course that continues to invest in housing assets so we expand and preserve the county's affordable housing supply. We will do this by enhancing affordability and increasing the availability of housing resources within the County.

To accomplish this, HOC employs diverse financing and development strategies to get people housed and meet the range of affordable housing needs in the county. One example is the way we have maximized HUD's Rental Assistance Demonstration (RAD) Program. We are positioned to increase the overall supply of mixed-income affordable housing in Montgomery County, creating integrated communities where crucial resources exist. HOC's ability to pivot toward more sustainable funding has resulted in significant reinvestment in our real property assets. As a result, we are able to provide stable, high-quality and amenity-rich affordable housing on which families can depend.

HOC will keep people housed by ensuring that the units are maintained to the highest standards and that customers remain connected to their community. By offering service connections and counseling services to at-risk households, HOC helps increase housing stability for vulnerable populations, including seniors and persons with disabilities. Over the past year, HOC customers have benefited from increased programming on financial literacy and budget counseling in addition to other supportive services that helps keep families housed. Developing and implementing interventions that meet customers where they are along the spectrum of housing needs is crucial to stemming housing loss for at-risk populations.

The research findings are clear, Montgomery County is among the best communities in the country for vulnerable children to live and grow so they have the best opportunity to reach their potential and meet their basic needs. One of the most basic of needs we all have is shelter. We believe a community like Montgomery County deserves world-class housing options so that all of its citizens may thrive.

Request for information

This financial report is designed to provide a general overview of the Commission's finances for interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, 10400 Detrick Avenue, Kensington, Maryland, 20895.

**HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND
(A COMPONENT UNIT OF MONTGOMERY COUNTY, MARYLAND)**

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2019

DRAFT - FOR DISCUSSION PURPOSES ONLY
NOT TO BE REPRODUCED
NOVEMBER 1, 2019

**HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND
(A COMPONENT UNIT OF MONTGOMERY COUNTY, MARYLAND)
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DRAFT - FOR DISCUSSION PURPOSES ONLY
NOT TO BE REPRODUCED
NOVEMBER 1, 2019



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
Housing Opportunities Commission of
Montgomery County, Maryland
Kensington, Maryland

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the Housing Opportunities Commission of Montgomery County, Maryland (the Commission), a component unit of Montgomery County, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated REPORT DATE. Our report includes a reference to other auditors who audited the financial statements of Georgian Court Silver Spring Limited Partnership, MV Affordable Housing Associates Limited Partnership, Strathmore Court Associates Limited Partnership, Arcola Towers RAD Limited Partnership, Waverly House RAD Limited Partnership, Alexander House Apartments Limited Partnership, Spring Garden One Associate Limited Partnership, Barclay One Associates Limited Partnership, Wheaton Metro Limited Partnership, Forest Oak Towers Limited Partnership, Tanglewood and Sligo Limited Partnership, CCL Multifamily LLC, Hampden Lane Limited Partnership, and Greenhills Apartments Limited Partnership as described in our report on the Commission's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The audits of all of the discretely presented component units were not performed in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

Baltimore, Maryland
REPORT DATE



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE,
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Commissioners
Housing Opportunities Commission of
Montgomery County, Maryland
Kensington, Maryland

Report on Compliance for Each Major Federal Program

We have audited the Housing Opportunities Commission of Montgomery County's (the Commission), a component unit of Montgomery County, Maryland compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Commission's major federal programs for the year ended June 30, 2019. The Commission's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The Commission's basic financial statements include the operations of discretely presented component units which may have received federal awards, and which are not included in the schedule of expenditures of federal awards for the year ended June 30, 2019. Other auditors were separately engaged to perform and have separately reported on the results of the audits of the component units in accordance with OMB Circular Uniform Grant Guidance, if required.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Commission's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Grant Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for each major federal program. However, our audit does not provide a legal determination of the Commission's compliance.

Opinion on Each Major Federal Program

In our opinion, the Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-001, 2019-002 and 2019-003. Our opinion on each major federal program is not modified with respect to these matters.

The Commission's responses to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. The Commission's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commission's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Grant Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2019-001, 2019-002 and 2019-003, w we consider to be significant deficiencies.

The Commission's responses to the internal control over compliance findings identified in our audit are described in the accompanying corrective action plan. The Commission's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the Commission as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements. We issued our report thereon dated REPORT DATE, which contained unmodified opinions on those financial statements. We did not audit the discretely presented component units as of and for the year ended June 30, 2019. The federal expenditures, where applicable, for the discretely presented component units are not included in the accompanying schedule of expenditures of federal awards. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

CliftonLarsonAllen LLP

Baltimore, Maryland
REPORT DATE

**HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND
(A COMPONENT UNIT OF MONTGOMERY COUNTY, MARYLAND)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	Federal CFDA #	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Housing and Urban Development				
Direct Programs:				
Section 8 Housing Choice Vouchers	14.871	-	\$ -	- \$ 115,251,492
5 Year Mainstream Vouchers	14.879	-	-	180,349
Total Housing Choice Vouchers Cluster				115,431,841
Section 8 Housing Assistance Payments Program Special Allocations	14.195	-	\$ -	3,725,172
Lower Income Housing Assistance Program MOD Rehab	14.856	-	-	332,421
Total Section 8 Project Based Cluster				4,057,593
Public Housing Capital Fund	14.872	-	-	251,614
Public and Indian Housing	14.850	-	-	736,988
Continuum of Care	14.267	-	-	4,026,204
Family Self-Sufficiency	14.896	-	-	360,353
Housing Finance Agencies (HFA) Risk Sharing Program (Beginning Loan Balance)	14.188	-	-	144,857,228
Subtotal - Direct Program				269,721,821
Pass-through Department of Housing and Urban Development via Montgomery County Department of Health and Human Services:				
Home Investment Partnerships Program	14.239	-	-	15,489
Total Department of Housing and Urban Development				269,737,310
Department of Health and Human Services				
Pass-through Department of Health and Human Services via State Office on Aging and Montgomery County Department of Family Resources:				
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	-	-	633,660
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	AAA-14/FY 18	-	46,434
Total Federal Financial Awards				\$ 270,417,404

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND
(A COMPONENT UNIT OF MONTGOMERY COUNTY, MARYLAND)
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Housing Opportunities Commission of Montgomery County, Maryland (the Commission), under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the Commission, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Commission.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through, entity identifying numbers are presented where available.

NOTE 3 INDIRECT COST RATE

The Commission has elected to not use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 4 NONCASH FEDERAL ASSISTANCE

The Commission did not receive any noncash Federal assistance for the year ended June 30, 2019.

NOTE 5 LOANS OUTSTANDING

The Commission had the following loan balance outstanding at June 30, 2019:

Federal Grantor/Program Title	CFDA Number Outstanding	Amount
U.S. Department of Housing and Urban Development		
HFA Risk Sharing Program	14.188	<u>\$ 143,285,434</u>
Total Outstanding		<u><u>\$ 143,285,434</u></u>

**HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND**
(A Component Unit of Montgomery County, Maryland)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ yes X no
 - Significant deficiency(ies) identified? _____ yes X none reported
3. Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? _____ yes X no
 - Significant deficiency(ies) identified? X yes _____ none reported
2. Type of auditors’ report issued on compliance for major federal programs:
- Unmodified 14.871/14.879
Unmodified 14.267
Unmodified 14.195/14.856
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ X yes _____ no

Identification of Major Federal Programs

CFDA Number(s)	Name of Federal Program or Cluster
14.871/14.879	Housing Choice Voucher Cluster
14.267	Continuum of Care
14.195/14.856	Section 8 Project-Based Cluster

- Dollar threshold used to distinguish between Type A and Type B programs: \$ 3,000,000
- Auditee qualified as low-risk auditee? _____ yes X no

**HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND
(A COMPONENT UNIT OF MONTGOMERY COUNTY, MARYLAND)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section II – Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

Section III – Findings and Questioned Costs – Major Federal Programs

2019 – 001

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program Title: Housing Choice Voucher Cluster
CFDA Number: 14.871/14.879
Award Period: July 1, 2018 through June 30, 2019
Type of Finding: Significant Deficiency in Internal Control over Compliance, Compliance

Criteria or specific requirement: 24 CFR 982.516 requires the PHA to annually obtain and document in the family file the third-party verification of reported family annual income. As a condition of admission or continued occupancy, the PHA must require the tenant and other family members to provide necessary information, documentation, and releases for the PHA to verify income eligibility (24 CFR sections 5.230, 5.609, and 982.516).

Condition: During our testing, we noted that the Commission's internal controls did not always ensure that tenant files included all required documentation. We also noted that income and expenses were not always properly calculated, and as a result, HAP expense was not always properly calculated.

Questioned costs: Unable to determine.

Context: During our testing of 40 tenant files, exceptions were noted in 7 files (with multiple exceptions in some files). 1 file was missing Declaration of Citizenship forms for 2 household members at the time of the audit; 6 files had either unsubstantiated or unreported income, or income was calculated incorrectly; 3 files contained evidence of bank accounts owned by tenants, but tenants did not report them and the Commission did not request self-certification by the tenant or bank statements. As a result of these exceptions, HAP was not calculated correctly for 6 files tested.

Cause: The Commission did not follow established procedures as documented in its HCVP Administrative Plan to ensure that tenant files included all required documentation and that income and assets were properly calculated.

Effect: The Commission did not obtain all required documentation and releases at the time of recertification to support housing assistance payment calculations. The Commission may have made incorrect payments to landlords.

Repeat Finding: This finding is a repeat of a finding in the immediately prior year. Prior year finding number was 2018-001.

**HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND
(A COMPONENT UNIT OF MONTGOMERY COUNTY, MARYLAND)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

2019 – 001 Continued

Recommendation: We recommend the Commission review the checklists used by housing specialists when they complete an annual recertification to ensure the checklist adequately identifies all information required. We also recommend management identify the specialists responsible for the erroneous files and investigate whether findings represent a systemic problem or are limited to a few specialists. Additional training for housing specialists would also improve accuracy.

Views of responsible officials: There is no disagreement with the audit finding.

2019 – 002

Federal Agency:	U.S. Department of Housing and Urban Development
Federal Program Title:	Housing Choice Voucher Cluster
CFDA Number:	14.871/14.879
Award Period:	July 1, 2018 through June 30, 2019
Type of Finding:	Significant Deficiency in Internal Control over Compliance, Compliance

Criteria or specific requirement: 24 CFR sections 982.158(d) and 982.404(b) states that the PHA must inspect the units leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS). The PHA must prepare a unit inspection report.

Condition: During our testing, we noted that the Commission's internal controls did not always ensure that annual inspections were performed timely and/or properly documented.

Questioned costs: \$29,381

Context: Out of 40 units tested for annual HQS testing requirements, exceptions were noted for 5 units. 5 units did not have an annual inspection performed within 1 year of the previous inspection and 2 of the 5 units had no inspections during fiscal year 2019.

Cause: The Commission did not follow established procedures as documented in its HCVP Administrative Plan to ensure that annual inspections were completed within the required time frame and that all relevant parties were notified of the outcome of the inspections.

Effect: The Commission did not perform certain annual inspections in the time frame required by their HCVP Administrative Plan and HUD regulations. The Commission disbursed housing assistance payments to landlords for ineligible units.

Repeat Finding: This finding is a repeat of a finding in the immediately prior year. Prior year finding number was 2018-002.

Recommendation: We recommend the Commission review their annual HQS inspection process to ensure that units are inspected at least once per year.

Views of responsible officials: There is no disagreement with the audit finding.

**HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND
(A COMPONENT UNIT OF MONTGOMERY COUNTY, MARYLAND)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

2019 – 003

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program Title: Section 8 Project Based Cluster
CFDA Number: 14.195/14.856
Award Period: July 1, 2018 through June 30, 2019
Type of Finding: Significant Deficiency in Internal Control over Compliance, Compliance

Criteria or specific requirement: In accordance with HUD's Uniform Physical Condition Standards and Inspection Requirements codified in 24 CFR Part 5, Subpart G, and HUD's Uniform Physical Conditions Standards for Multifamily Properties, codified at 24 CFR Part 200, Subpart P, the Commission must maintain and operate units to provide decent, safe and sanitary housing. The PHA must prepare a unit inspection report.

Condition: During our testing, we noted that the Commission's internal controls did not always ensure that annual inspections were performed timely and/or properly documented.

Questioned costs: Unable to determine

Context: Out of 40 units tested for Uniform Physical Condition Standards and Inspection Requirements testing, an exception was noted for 1 unit which did not have an annual inspection performed during fiscal year 2019.

Cause: The Commission did not follow established procedures as required in the Uniform Physical Condition Standards and Inspection Requirements to ensure that inspections were completed within the required time frame and that all relevant parties were notified of the outcome of the inspections.

Effect: The Commission did not perform certain annual inspections in the time frame required by the Uniform Physical Condition Standards and Inspection Requirements. The Commission may have disbursed housing assistance payments to landlords for ineligible units.

Repeat Finding: No

Recommendation: We recommend the Commission review their Uniform Physical Condition Standards inspection process to ensure that units are inspected at least once per year.

Views of responsible officials: There is no disagreement with the audit finding.



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**HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND
(A COMPONENT UNIT OF MONTGOMERY COUNTY, MARYLAND)
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2019**

U.S. Department of Housing and Urban Development

The Housing Opportunities Commission of Montgomery County, Maryland respectfully submits the following summary schedule of prior audit findings for the year ended June 30, 2019.

Audit period: July 1, 2018-June 30, 2019

The findings from the prior audit's schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the prior year.

FINDINGS—FINANCIAL STATEMENT AUDIT

There were no financial statement findings in the prior year.

FINDINGS— FEDERAL AWARD PROGRAMS AUDITS

2018 – 001 Material Weakness in Internal Control over Compliance. Compliance

Federal Program: 14.871/14.879 – Housing Choice Voucher Cluster

Condition: During our testing of 40 tenant files, exceptions were noted in 6 files. 5 files had either unsubstantiated or unreported income, or income was calculated incorrectly, and 1 file had family expenses calculated incorrectly. As a result, HAP was not calculated correctly for 6 files tested.

Status: Repeat finding (2019-001).

Reason for finding's recurrence: The corrective action plan was implemented in November 2018 and is still on-going.

Corrective Action: The Commission acknowledges the eligibility finding and continues to address the issue. The HRD Management Team along with the Compliance Team will continue to conduct monthly trainings and quality control reviews. Systemic findings will be discussed in monthly staff meetings and non-systemic errors will be addressed individually. Staff with poor performance will be held accountable for their work and counseled pursuant to the HOC Collective Bargaining Agreement and Personnel Policy. Staff have demonstrated improvement in the quality of work, as three of the seven identified errors were for actions processed in fiscal year 2018 though reflected on the fiscal year 2019 HAP register.

Lynn Hayes is the contact responsible for this corrective action.



**HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND
(A COMPONENT UNIT OF MONTGOMERY COUNTY, MARYLAND)
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2019**

2018 – 002 Material Weakness in Internal Control over Compliance. Compliance

Federal Program: 14.871/14.879 – Housing Choice Voucher Cluster

Condition: Out of 40 units tested for annual HQS testing requirements, exceptions were noted for 7 units. 7 units did not have an annual inspection performed within 1 year of the previous inspection, 5 of which had no inspection during fiscal year 2018. Out of 40 units tested for failed inspection testing requirements, exceptions were noted for 13 units. There were 6 instances where the inspection was not properly documented (i.e. inspection report), 3 instances where a failed unit did not document the re-inspection within the required time frame, 5 instances where the Commission did not properly abate the housing assistance payment, and 4 instances where the Commission did not document that they notified the landlord and tenant of the results of the inspection.

Status: Repeat finding (2019-002).

Reason for finding's recurrence: The corrective action plan was implemented in November 2018 and is still on-going.

Corrective Action: The Commission has continued to make modifications to the inspection procedures. The modifications include but are not limited to:

- Regularly meeting with and working close with our third party vendor(s).
- Providing all internal staff with HQS Training.
- Ensuring inspections are scheduled timely.
- Weekly reporting on inspection schedules
- Upgrading the mailing policy to ensure notices are mailed/emailed and detailed inspection information is provided via our external client portal.

Renee Harris is the contact responsible for this corrective action.

2018 – 003 Significant Deficiency in Internal Control over Compliance. Compliance

Federal Program: 14.871/14.879 – Housing Choice Voucher Cluster

Condition: Out of 40 files tested for rent reasonableness for new tenants, 1 file was missing documentation comparing the unit to three similar units. We were therefore also unable to determine if the rent was reasonable before the tenant moved into the unit. Out of 40 files tested for rent reasonableness for changes in contract rent, 2 exceptions were noted. 1 file was missing documentation comparing the unit to three similar units, and 1 rent determination was performed after the effective date.

Status: Finding has been cleared in fiscal year 2019.



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**HOUSING OPPORTUNITIES COMMISSION OF
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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2019**

2018 – 004 Material Weakness in Internal Control over Compliance. Compliance

Federal Program: 14.267 – Continuum of Care

Condition: Out of 40 files tested, exceptions were noted in 8 files. 2 files lacked proper documentation for income reported, 1 file had family expenses calculated incorrectly, and 5 files incorrectly calculated the tenant portion of rent so it exceeded the limits as defined by HUD regulations.

Status: Finding has been cleared in fiscal year 2019.

2018 – 005 Significant Deficiency in Internal Control over Compliance. Compliance

Federal Program: 14.267 – Continuum of Care

Condition: Out of 40 files tested, 2 files were missing documentation comparing the unit to three similar units for determination of rent reasonableness.

Status: Finding has been cleared in fiscal year 2019.

If the U.S. Department of Housing and Urban Development has questions regarding this schedule, please call Lynn Hayes 240-627-9622.



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**HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND
(A COMPONENT UNIT OF MONTGOMERY COUNTY, MARYLAND)
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2019**

U.S. Department of Housing and Urban Development

The Housing Opportunities Commission of Montgomery County, Maryland respectfully submits the following corrective action plan for the year ended June 30, 2019.

Audit period: July 1, 2018-June 30, 2019

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS—FINANCIAL STATEMENT AUDIT

There are no financial statement findings during the fiscal year under audit that would require a corrective action plan.

FINDINGS—FEDERAL AWARD PROGRAMS AUDITS

2019-001 Housing Choice Voucher Cluster – CFDA No. 14.871/14.879

Recommendation: We recommend the Commission review the checklists used by housing specialists when they complete an annual recertification to ensure the checklist adequately identifies all information required. We also recommend that management identify the specialists responsible for the erroneous files and investigate whether findings represent a systemic problem or are limited to a few specialists. Additional training for housing specialists would also improve accuracy.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The Commission acknowledges the eligibility finding and continues to address the issue. The HRD Management Team along with the Compliance Team will continue to conduct monthly trainings and quality control reviews. Systemic findings will be discussed in monthly staff meetings and non-systemic errors will be addressed individually. Staff with poor performance will be held accountable for their work and counseled pursuant to the HOC Collective Bargaining Agreement and Personnel Policy. Staff have demonstrated improvement in the quality of work, as three of the seven identified errors were for actions processed in fiscal year 2018 though reflected on the fiscal year 2019 HAP register.

Name of the contact person responsible for corrective action: Lynn Hayes, Director of Housing Resources Division (HRD)

Planned completion date for corrective action plan: Ongoing



**HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND
(A COMPONENT UNIT OF MONTGOMERY COUNTY, MARYLAND)
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2019**

2019-002 Housing Choice Voucher Cluster – CFDA No. 14.871/14.879

Recommendation: We recommend the Commission review their annual HQS inspection process to ensure that units are inspected at least once per year.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The Commission has continued to make modifications to the inspection procedures. The modifications include, but are not limited to:

- Regularly meeting with and working close to our third party vendor(s).
- Providing all internal staff with HQS Training.
- Ensuring inspections are scheduled timely.
- Weekly reporting on inspection schedules
- Upgrading the mailing policy to ensure notices are mailed, emailed and detailed inspection information is provided via our external client portal.

Name of the contact person responsible for corrective action: Renee Harris, Inspections Program Coordinator.

Planned completion date for corrective action plan: Ongoing



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**HOUSING OPPORTUNITIES COMMISSION OF
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CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2019**

2019-003 Section 8 Project Based Cluster – CFDA No. 14.195/14.856

Recommendation: We recommend the Commission review their annual inspection process to ensure that units are inspected at least once per year.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: HOC acknowledges and accepts the finding for not performing an annual inspection on one of our Project Based Cluster units. The Property Management Team along with the Compliance Team will coordinate to ensure proper internal controls are in place to conduct timely annual inspections and quarterly quality control reviews.

Name of the contact person responsible for corrective action: Charnita Jackson, Director of Property Management

Planned completion date for corrective action plan: Ongoing

If the U.S. Department of Housing and Urban Development has questions regarding this plan, please contact Lynn Hayes at 240-627-9622.

Management
Housing Opportunities Commission of Montgomery County
Kensington, Maryland

In planning and performing our audit of the financial statements of Housing Opportunities Commission of Montgomery County (the Commission) as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and other matters that are opportunities to strengthen your internal control and improve the efficiency of your operations. Our comments and suggestions regarding those matters are summarized below. A separate communication dated **REPORT DATE**, contains our written communication of significant deficiencies and material weaknesses in the Commission's internal control. This letter does not affect our report on the financial statements dated **REPORT DATE**, nor our internal control communication dated **REPORT DATE**.

AUDITS OF BLENDED COMPONENT UNITS

The Commission has forty-one (41) development corporations or other entities included in the financial statements of the Commission as blended component units. The Commission engages other auditors to provide audited financial statements for certain blended component units. Our audit of the Commission's financial statements does not rely on these reports of other auditors as we perform audit procedures over the same balances.

Our audit of the Commission uses a materiality threshold that is significantly higher than that of any of the individual audited blended component units. As a result, the other auditors may identify and record adjusting entries to the books of the blended component units that would not be identified during the audit of the Commission.

The separate audits of most blended component units are not final upon issuance of the Commission's audited financial statements. This allows the possibility that adjusting entries recorded during the separate audit of a blended component unit may not be included in the correct fiscal year of the Commission's audited financial statements. The variances resulting from these timing differences are not material to the financial statements of the Commission for the year ended June 30, 2019. However, based on the number of separate audits performed it is possible that the variances could be material in a future fiscal year.

We recommend the Commission strongly encourage the auditors of the separate audits to complete (or substantially complete) their audits by October 15th each year to provide the most relevant amounts for the Commission's financial statement audit. In addition, the Commission should consider utilizing other auditors to complete some audits to minimize the number of audits completed by any firm as this would allow for more audits occurring simultaneously.

MANAGEMENT RESPONSE

Management acknowledges and agrees with the auditor's findings. Management will continue to work with auditors engaged on the blended component units to complete their audits by October 15th of each year to provide the most relevant amounts for the Commission's financial statement audit. The Commission goes through a competitive bid process to select audit firms for the blended component unit engagements. The Commission must balance the bids received, with the skills required to complete the audit engagements. Every effort will be made to continue to utilize different firms to avoid audit concentrations.

CONTRIBUTIONS TO PENSION SUBSEQUENT TO MEASUREMENT DATE

The Commission did not make an adjustment to the pension for contributions subsequent to the June 30, 2018 measurement date.

We recommend that the Commission review the pension and ensure the subsequent contributions are included in the calculation of pension each year.

MANAGEMENT RESPONSE

Management acknowledges and agrees with the auditor's comments. Management will be more diligent in the review of the year-end adjusting entries related to pension contributions to ensure fiscal year-end adjustments are complete.

* * *

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various Commission personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

This communication is intended solely for the information and use of management, the Board of Commissioners, and others within the Commission, and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Baltimore, Maryland
REPORT DATE

Future Action

Adjourn

Administrative Session