



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



DEVELOPMENT AND FINANCE COMMITTEE

March 26, 2021
10:00 a.m. – via Zoom

Approval of Minutes:

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1. Minutes: Approval of Development and Finance Committee Minutes of February 19, 2021	03

Action Items:

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1. Paddington Square: Approval of a Refinancing Plan; Authorization to Negotiate and Execute a Permanent Financing Commitment with Love Funding Corporation; Authorization for Borrower to Accept Loan in Accordance with Refinancing Plan	07
2. Willow Manor: Approval of General Contractor and Approval of Preliminary Development Plan for the Willow Manor Properties	18
3. Financial Advisor Contract: Renewal with Caine Mitter and Associated Incorporated (“CMA”) in Accordance with the Current Contract, Prior Approvals and the Procurement Policy	29

Minutes

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY

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

Development and Finance Committee Minutes

February 19, 2021

For the official record of the Housing Opportunities Commission of Montgomery County, an open meeting of the Development and Finance Committee was conducted via an online platform and teleconference on Friday, February 19, 2021, with moderator functions occurring at 10400 Detrick Avenue, Kensington, Maryland beginning at 10:04 a.m. Those in attendance were:

Present

Jackie Simon, Chair – Development and Finance Committee
Roy Priest - Commissioner
Richard Y. Nelson, Jr. – Commissioner

Also Attending

Stacy Spann, Executive Director	Kayrine Brown, Deputy Executive Director
Aisha Memon, General Counsel	Zachary Marks
Eamon Lorincz, Deputy General Counsel	Jennifer Arrington
Hyunsuk Choi	Marcus Ervin
Emma Fiorentino	Claire Kim
Cornelia Kent	Kathryn Hollister
Jay Berkowitz	Jay Shepherd
Victoria Dixon	Vivian Benjamin
Charnita Jackson	Kristyn Greco
Nathan Bouvelle	Ellen Goff
Gio Kaviladze	Marcus Ervin
Len Vilicic	Erik Smith
Olutomi Adebo	Millicent Anglin

APPROVAL OF MINUTES

The minutes of the January 22, 2021 Development and Finance Committee were approved upon a motion by Commissioner Nelson and seconded by Commissioner Priest. Affirmative votes were cast by Commissioners Simon, Priest and Nelson.

DISCUSSION ITEMS

1. Jubilee: Approval to Sell up to Four (4) Units from MPDU I (64 MPDU) for the Renovation and Adaptive Reuse for Operation by Jubilee Association of Maryland

Kayrine Brown, Deputy Executive Director, introduced Jay Shepherd, Senior Financial Analyst, who provided the presentation. Staff explained that they are requesting approval to acquire up to four (4) units that are currently in HOC's MPDU I / 64 portfolio in order to service the special needs population. Mr. Shepherd explained that the funds received from the State have a sunset provision and must be used by June 30, 2021. Initial funding was received in fiscal year 2010 and second funding was received in fiscal year 2014. If not used, the funds will revert back to the State. Staff recommended prepayment of an outstanding first mortgage loan, cancelation of the Maryland Housing Fund mortgage insurance, and deferment of operating deficit funding in order to facilitate the sale of the units. To facilitate the acquisition and renovation, staff recommended approval of a temporary loan from the revolving PNC line of credit with reimbursement repayment provided from the Department of Mental Health and Hygiene (DHMH) grant and a loan from Montgomery County Department of Housing and Community Affairs (DHCA).

Commissioner Priest wanted a clearer understanding of staff's request. Staff provided an explanation to Commissioners on how the funds will be used. Commissioner Simon had concerns regarding concentration of special needs housing in this particular area. Staff suggested recommendation was to reduce to three homes and provide clearer explanation when presenting to full Commission.

A motion was made by Commissioner Nelson and seconded by Commissioner Priest to recommend the item for approval at the March 3, 2021 monthly Commission meeting. Affirmative votes were cast by Commissioners Simon, Priest and Nelson.

2. Stewartown Homes: Authorization to Select CREA, LLC as Tax Credit Investor and Authorization for the Executive Director to Negotiate and Execute an Operating Agreement

Kayrine Brown, Deputy Executive Director, introduced Gio Kaviladze, Senior Financial Analyst, who provided the presentation to recommend to the full Commission authorization of CREA LLC as the Tax Credit Investor for Stewartown Homes and to authorize the Executive Director to negotiate the terms of Limited Partnership Agreement.

Mr. Kaviladze provided an explanation to why this action would be good for HOC.

A motion was made by Commissioner Priest and seconded by Commissioner Nelson to recommend the item for approval at the March 3, 2021 monthly Commission meeting. Affirmative votes were cast by Commissioners Simon, Priest and Nelson. Commissioner Nelson ended with a comment on replacement reserves wondering if this would be sufficient for the future. Staff will research and provide reasonable plan of action.

3. Stewartown Homes: Amendment of the Financing Plan and Bond Authorizing Resolution for Stewartown Homes

Kayrine Brown, Deputy Executive Director, introduced Victoria Dixon, Senior Multi-Family Underwriter, as presenter. Ms. Dixon provided a presentation requesting the Development and Finance Committee recommend to the full Commission an amendment to the Financing Plan of Stewartown Homes recognizing the new LIHTC investor, approving the funding of a taxable Bridge Loan, and increasing the volume cap allocation. She also requested to amend the Bond Authorizing Resolution increasing the amount of Private Activity Bonds, and to accurately reflect the correct bond series.

A motion was made by Commissioner Nelson and seconded by Commissioner Priest to recommend the item for approval at the March 3, 2021 monthly Commission meeting. Affirmative votes were cast by Commissioners Simon, Priest and Nelson.

A motion was made by Commissioner Priest and seconded by Commissioner Nelson to adjourn the meeting. Affirmative votes were cast by Commissioners Simon, Priest, and Nelson. The meeting adjourned at 11:16 a.m.

Next scheduled meeting is March 26, 2021.

Respectfully submitted,

Stacy L. Spann
Secretary-Treasurer

/pmb

Discussion/Action Items

**APPROVAL OF A REFINANCING PLAN FOR PADDINGTON SQUARE; AUTHORIZATION TO
NEGOTIATE AND EXECUTE A PERMANENT FINANCING COMMITMENT WITH LOVE
FUNDING CORPORATION; AND, AUTHORIZATION FOR THE BORROWER TO ACCEPT LOAN
IN ACCORDANCE WITH REFINANCING PLAN**

SILVER SPRING



STACY L. SPANN, EXECUTIVE DIRECTOR

**KAYRINE V. BROWN
JENNIFER H. ARRINGTON
VICTORIA DIXON**

March 26, 2021
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EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

Paddington Square Development Corporation (the “Borrower”), a wholly owned instrumentality of the Housing Opportunities Commission of Montgomery County (“HOC”), purchased Paddington Square (the “Property”) in 2004. The Property is a 165-unit, mixed-income, garden style, rental community located in Silver Spring on 7.94 acres, north of East-West Highway in the Rosemary Hills neighborhood.

In 2004, the Commission acquired the Property pursuant to its Right of First Refusal, and between 2005 and 2011 completed substantial renovations of the Property utilizing \$2,310,140 of funds from the Opportunity Housing Revenue Fund (“OHRF”) and up to \$9,144,902 of County Housing Initiative loan funds (“County HIF”). In 2014, the Commission and Borrower approved a \$26.8 million refinance plan, which included (a) \$20.7 million permanent loan through Love Funding Corporation, a U.S. Department of Housing and Urban Development Multifamily Accelerated Processing (“MAP”) Lender, (“MAP Lender”) via a Mortgage backed by FHA under the Section 223(f) Program through issuance of mortgage backed securities by Government National Mortgage Association (“GNMA”), with a ten-year lockout restriction (“Senior Loan”); (b) an assumption and subordination of a County HIF loan for approximately \$5.2 million; and, (c) additional equity from the OH Bond Fund and existing reserves of approximately \$853,000 to retire prior soft debt sources and establish reserves.

Considering the current favorable interest rate environment, staff has reviewed the Property’s operational performance and received term sheets to refinance the Senior Loan via an Interest Rate Reduction (“IRR”) loan modification by the existing MAP Lender or obtaining a FHA-Section 223(a)(7), which permits the refinancing of an existing FHA loan. The proposed 223(a)(7) terms, received from the Commission’s MAP Lender Pool, includes payment of the prepayment penalty (\$743,000) to be capitalized into the new interest rate, resulting in lower overall debt service for the Property and significant savings versus completing an IRR loan modification.

Having concluded its review of the term sheets, staff proposes a refinance the existing mortgage under the 223(a)(7) program (“Refinancing Loan”), with the existing MAP Lender, Love Funding Corporation, for approximately \$18.8 million with proceeds sufficient to retire the existing Senior Loan and closing costs. This Property is anticipated to support the Refinancing Loan with a 1.55:1.00 Debt Service Coverage Ratio (“DSCR”). Closing is anticipated to occur by August 31, 2021. Staff further recommends resubordinating the existing County HIF loan, which is a requirement of the Refinancing Loan, and to combine the Property’s existing Replacement Reserve and Renovation Escrow accounts to fund an Initial Replacement Reserve equal to approximately \$4,700 per unit upon closing the Refinancing Loan (together, the “Refinancing Plan”).

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

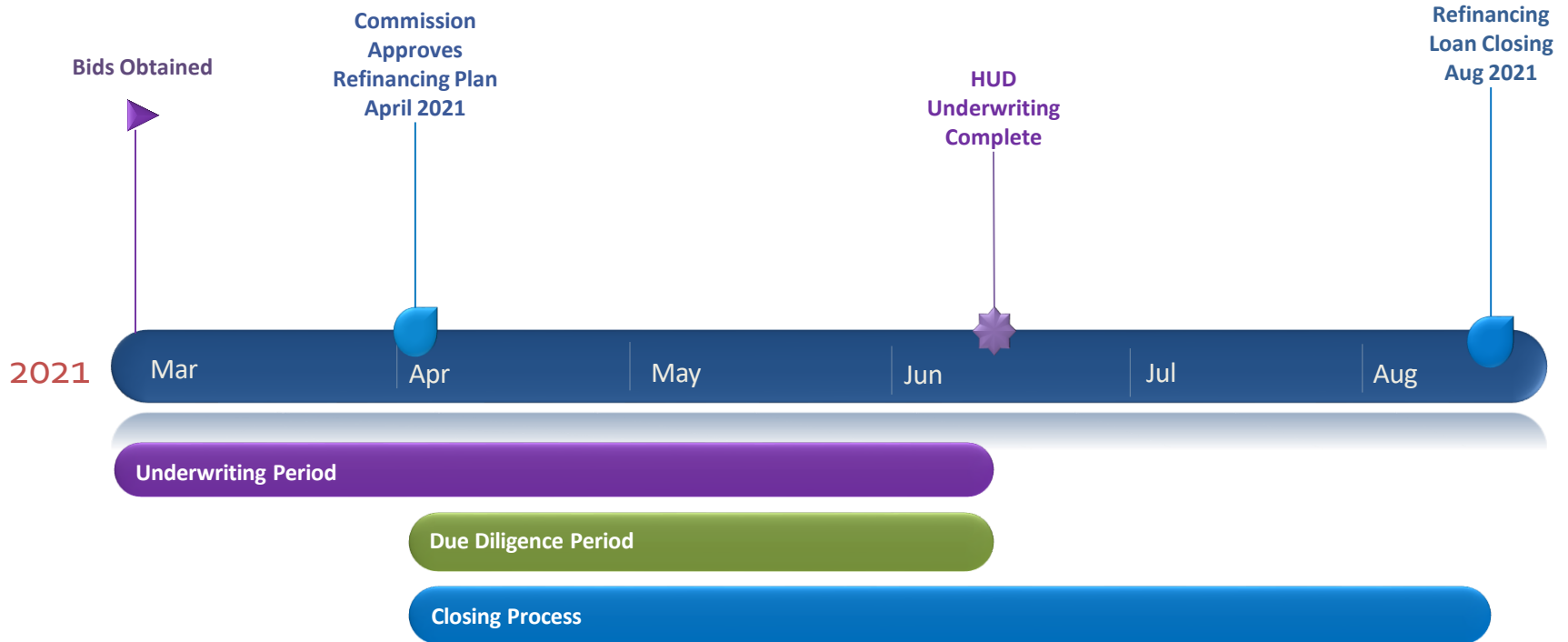
- 1) Approval of the Refinancing Plan for the Paddington Square transaction;
- 2) Authorization to negotiate and execute a financing commitment with Love Funding Corporation;
- 3) Authorization to re-subordinate the County HIF Loan; and
- 4) Authorization for the Borrower to accept the new Refinancing Loan and County HIF loan.



EXECUTIVE SUMMARY

Borrower	Paddington Square Development Corporation	
Units/Affordability	165 Units / 41% Restricted	
	14	≤ 50% AMI
	53	≤ 60% AMI
	98	Unrestricted
Refinancing First Mortgage (approx.)	\$18,800,000	
Refinancing Source/Credit Enhancement	HUD / FHA Section 223(a)(7)	
Refinancing Interest Rate (est.)	3.25% (includes 50bps cushion and MIP)	
Amortization	35 Years	
Minimum Debt Service Coverage Ratio	1.11	
Debt Service Coverage Ratio (target)	1.50	
County HIF Loan	\$5,196,232	
Reserves Available for Capital Expenditures	\$768,586	
County Participation	\$5,196,232 Housing Initiative Fund 100% real estate tax abatement	

FINANCING SCHEDULE

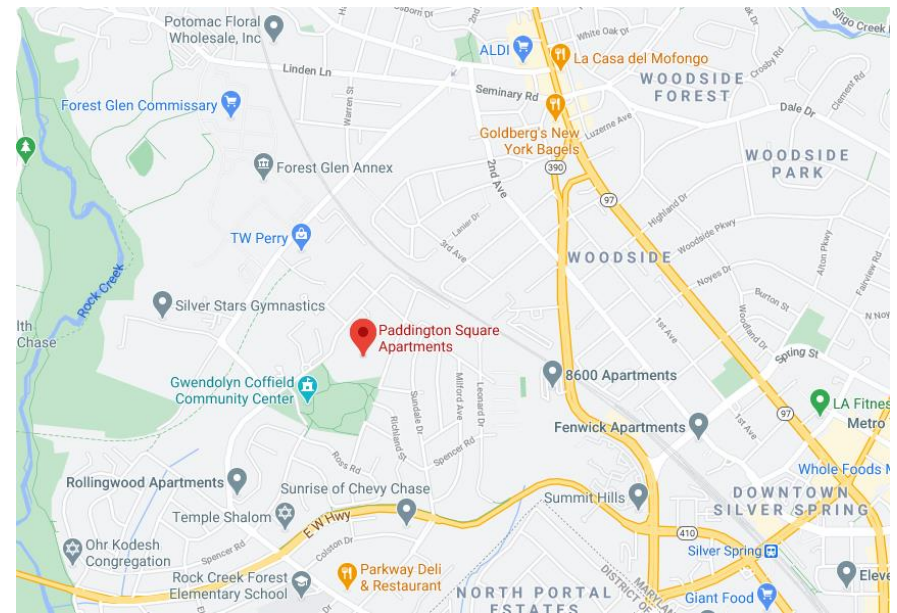


PROPERTY OVERVIEW

Location	8800 Lanier Drive, Silver Spring
Built	1960
Current Owner	Paddington Square Development Corporation
Property Manager	Residential One
Total Units	165
Occupancy	94.5% (3/1/2020)

Unit Mix/Rents	50% AMI		60% AMI		Unrestricted	
	Rent	Count	Rent	Count	Rent	Count
2 BR/1.5 BA	\$1,309	14	\$1,593	50	\$1,650	89
3 BR/2.5 BA	N/A	0	\$1,834	3	\$1,862	8
Total		14		53		97

*Non-residential office unit not in above table



Public Purpose

Paddington is a mixed income community with units currently restricted for households earning 50% and 60% AMI (14 and 53 units, respectively).

Amenities

On-site pool and business center. Neighborhood amenities include the Gwendolyn Coffield Community Center, Rock Creek Park, the Urban Winery, and nearby grocery anchored shopping centers (Aldi and Giant Eagle), various restaurants and services, with additional connectivity via the Silver Spring WMATA Metro Station (Red Line).

Repairs

A new PNCA will be obtained and sufficient funds identified to make any required immediate and short-term repairs.

PERMANENT FINANCING COMPARISON

	Love Funding (EXISTING)	PROPOSED TERMS			
		Love Funding	Love Funding (RECOMMENDED)	Berkadia	AGM
Loan Type	223(f)	Loan Modification	223(a)(7)	223(a)(7)	223(a)(7)
Loan Amount	18,574,278	\$18,574,278	\$18,741,641	\$18,804,745	\$18,780,763
Interest Rate (excl. MIP)	3.60%	2.40%	2.40%	2.50%	2.60%
Annual MIP	0.45%	0.45%	0.35%	0.35%	0.35%
Loan Term	29	29	35	35	35
Amortization (Yrs)	29	29	35	35	35
Debt Service (excl. MIP)	\$ 1,043,155	\$ 889,648	\$ 792,002	\$ 806,713	\$ 817,814
MIP	\$ 83,584	\$ 83,584	\$ 65,596	\$ 65,817	\$ 65,733
Total Annual Savings		\$ 153,507	\$ 269,142	\$ 254,210	\$ 243,193
Financing Fee		0% \$ -	0.00% \$ -	0.25% \$ (47,012)	0.00% \$ -
HUD Application Fee		0% \$ -	0.15% \$ (28,112)	0.15% \$ (28,207)	0.15% \$ (28,171)
Upfront MIP		0% \$ -	0.35% \$ (65,596)	0.35% \$ (65,817)	0.35% \$ (65,733)
Prepayment Premium	4%	paid by investor	paid by investor	paid by investor	paid by investor
Lender Legal / Title		\$ (5,000)	\$ (20,174)	\$ (36,000)	\$ (48,500)
HOC Legal		\$ (20,000)	\$ (20,000)	\$ (20,000)	\$ (20,000)
GNMA Fee		\$ -	\$ -	\$ -	\$ (4,600)
County Fee		\$ (25,981)	\$ (25,981)	\$ (25,981)	\$ (25,981)
Due Diligence Costs		\$ -	\$ (7,500)	\$ (7,450)	\$ (13,500)
Total Closing Costs		\$ (50,981)	\$ (167,363)	\$ (230,467)	\$ (206,485)
First Year Savings		\$ 102,526	\$ 101,778	\$ 23,743	\$ 36,708
Loan Term Savings		\$ 4,400,728	\$ 9,419,957	\$ 8,897,346	\$ 8,511,740
Variance to Next Best Bid			\$ 522,610		

Staff has evaluated two (2) FHA refinancing options for Paddington: (a) an Interest Reduction Loan (“IRR”) modification of the existing 223(f) Senior Loan (only permissible with the existing MAP Lender); and (b) a refinance under the FHA 223(a)(7) program. The existing MAP Lender, Love Funding and two (2) lenders within the Commission’s MAP Lender Pool provided term sheets for consideration. The analysis concluded the following:

- Both the IRR loan modification and 223(a)(7) loans would be FHA insured and the GNMA investor would pay the prepayment penalty to which the current mortgage is subjected.
- Property operations could support a larger loan at the lower achievable interest rates and reduced MIP under a 223(a)(7), resulting in additional cash flow annually.

- No cash out is permitted under either program; however, under a 223(a)(7), closing costs can be capitalized into a larger supportable loan amount and therefore avoid out-of-pocket expense from HOC.
- Love Funding, the existing MAP Lender, has quoted the best terms under the 223(a)(7) program in regards to both interest rate and closing costs.

PERMANENT FINANCING PLAN

Sources	Amount	Per Unit
a) Permanent Loan	\$ 18,821,868	\$ 114,072
b) County HIF Loan	\$ 5,622,835	\$ 34,078
c) Existing Replacement Reserve	\$ 663,343	\$ 4,020
c) Existing Renovation Escrow	\$ 105,243	\$ 638
d) Investor Cash	\$ 742,971	\$ 4,503
Total Sources	\$ 25,956,261	\$ 157,311

Uses	Amount	Per Unit
Existing Senior Loan (Payoff)	\$ 18,574,278	\$ 112,571
County HIF Loan	\$ 5,622,835	\$ 34,078
Prepayment Penalty	\$ 742,971	\$ 4,503
Financing Costs	\$ 120,091	\$ 728
Title & Legal Costs	\$ 120,000	\$ 727
Due Diligence Costs	\$ 7,500	\$ 45
Initial Replacement Reserve	\$ 768,586	\$ 4,658
Total Uses	\$ 25,956,261	\$ 157,311

The Paddington Financing Plan includes the following sources, which will be used to repay the existing Senior Loan, set aside funds for repairs and replacement reserves, and pay other costs related to closing:

- a) The Refinancing Loan, credit enhanced by FHA Mortgage Insurance in an amount of approximately \$18.8 million, will be sized to repay the existing Senior Loan and capitalize closing expenses, as cash out not permitted. Sizing of the loan is expected to result in a 1.50 DSCR. (Note that the Refinancing Loan does not permit the Borrower to take cash-out of the transaction);
- b) Staff will pursue re-subordination of the existing County HIF loan to remain in the transaction and repaid in accordance with the original loan terms;
- c) Existing funds of the Replacement Reserve and Renovation Escrow will be used to establish a new replacement reserve; and
- d) The new GNMA investor will pay the existing 4% pre-payment penalty fee for the Senior Loan as part of the refinance and roll the expense into the interest rate of the new Refinancing Loan.

STABILIZED PRO FORMA

Stabilized Proforma	HOC Actual CY 2020	Underwritten FY 2021	Variance	Underwritten Per Unit \$
Effective Gross Income (EGI)	\$2,894,633	\$2,788,414	(\$106,219)	\$16,899
Operating Expenses	\$1,335,462	\$1,348,816	\$13,355	\$8,175
Replacement Reserves Contribution	\$57,750	\$57,750	\$0	\$350
Net Operating Income (NOI)	\$1,501,421	\$1,381,848	(\$119,573)	\$8,375
Debt Service	\$1,128,455	\$921,958	(\$206,497)	\$5,588
Capital Expenses	\$128,277	\$0	(128,277)	\$0
Cash Flow Before Distributions	\$244,689	\$459,890	\$215,201	\$2,787
Debt Service Coverage Ratio ¹	1.33	1.50		

¹DSCR is calculated on the senior debt before Capital Expenses.

- The Property has maintained an average occupancy of 98% over the last year (CY2020) with concessions and bad debt of 2.05%; however, with current occupancy of 94.5%, the Property has been underwritten conservatively assuming a 6% vacancy and 2.6% for concessions and bad debt.
- The underwritten stabilized pro forma is based upon actual operations of CY2020, and assumes no rent increases, with expense annual growth rate of 1%. The Property's FY2022 budget has not yet been approved.

- Annual replacement reserves contributions will be established in conformance with its Refinancing Loan at a minimum of \$350 per unit. An October 2019 property condition report projected replacement repairs of \$245/unit/yr (inflated) over a 12 year period ending 2031.
- The Property currently benefits from a 100% real estate tax abatement from the State of Maryland and Montgomery County.
- Prepayment of the new Refinancing Loan will be subject to a declining prepayment penalty during the first 10 years (10,9,8,7,6,5,4,3,2,1,0%).
- The County HIF loan is an existing 35 year Note, accruing interest at 1.0% with debt service at a minimum of 50% surplus cash or sufficient to amortize over 24 years. Staff will negotiate re-subordination to the new Refinancing Loan.
- Subject to interest rate movements, staff anticipates that the Property will support a loan of up to \$18.8 million with a DSCR of 1.50. Sizing is based on an estimated interest rate of 3.25% (including MIP and a 50bps cushion). Current underwriting of the Refinancing Loan projects reduced debt service to result in higher potential cash flow to HOC. Staff recommends to utilize these funds in the following order: (a) repay the intercompany payable to HOC, (b) escrow sufficient funds into a restricted reserve sufficient to pay any future prepayment penalties associated with the Refinancing Loan, and lastly (c) unrestricted cash flow to HOC.

SUMMARY AND RECOMMENDATIONS

ISSUES FOR CONSIDERATION

Will the Development and Finance Committee join staff's recommendation to the Commission for:

- 1) Approval of a Refinancing Plan for the Paddington Square transaction, which includes (a) a Refinancing Loan of approximately \$18,800,000 under the 223(a)(7) program with Love Funding, credit enhanced with mortgage insurance provided by FHA, which will be used to repay the existing senior debt, closing costs and capitalize financing; (b) resubordinating the existing \$5.6 million County HIF loan; and, (c) combine the Property's existing Replacement Reserve and Renovation Escrow accounts to fund an Initial Replacement Reserve equal to approximately \$4,700;
- 2) Authorization to negotiate and execute a financing commitment with Love Funding Corporation;
- 3) Authorization to re-subordinate the County HIF Loan; and
- 4) Authorization for the Borrower to accept the new Refinancing Loan and re-subordination of the County HIF loan?

TIME FRAME

For discussion at the March 26, 2021 meeting of the Development & Finance Committee and for formal action at the April 7, 2021 meeting of the Commission.

FISCAL/BUDGET IMPACT

Closing of the subject refinance is projected to occur in August 2021. There is no adverse impact for the current FY2021 operating budget. The FY22 budget is in process of development and has not yet been approved by the Commission, therefore no adverse impact on the Commission's budget expected.

STAFF RECOMMENDATION & COMMISSION ACTION NEEDED

Staff requests the Development and Finance Committee join its recommendation to the Commission to approve the following actions for Paddington Square:

- 1) Approval of a Refinancing Plan for the Paddington Square transaction, which includes (a) a new Refinancing Loan of approximately \$18,800,000 under the 223(a)(7) program with Love Funding, credit enhanced with mortgage insurance provided by FHA, which will be used to repay the existing senior debt and capitalize financing and closing costs; and (b) re-subordination of the County HIF loan.
- 2) Authorization to negotiate and close on the new Refinancing Loan with Love Funding Corporation;
- 3) Authorization to negotiate re-subordination of the County HIF loan to the new Refinancing Mortgage; and
- 4) Authorize the Borrower to accept the new Refinancing Loan and County HIF loan.

Willow Manor Properties: Approval of a Preliminary Development Plan, Including Selection of General Contractor Silver Spring, Germantown and Olney, MD



STACY L. SPANN, EXECUTIVE DIRECTOR

**KAYRINE V. BROWN
ZACHARY MARKS
KATHRYN HOLLISTER**

March 26, 2021
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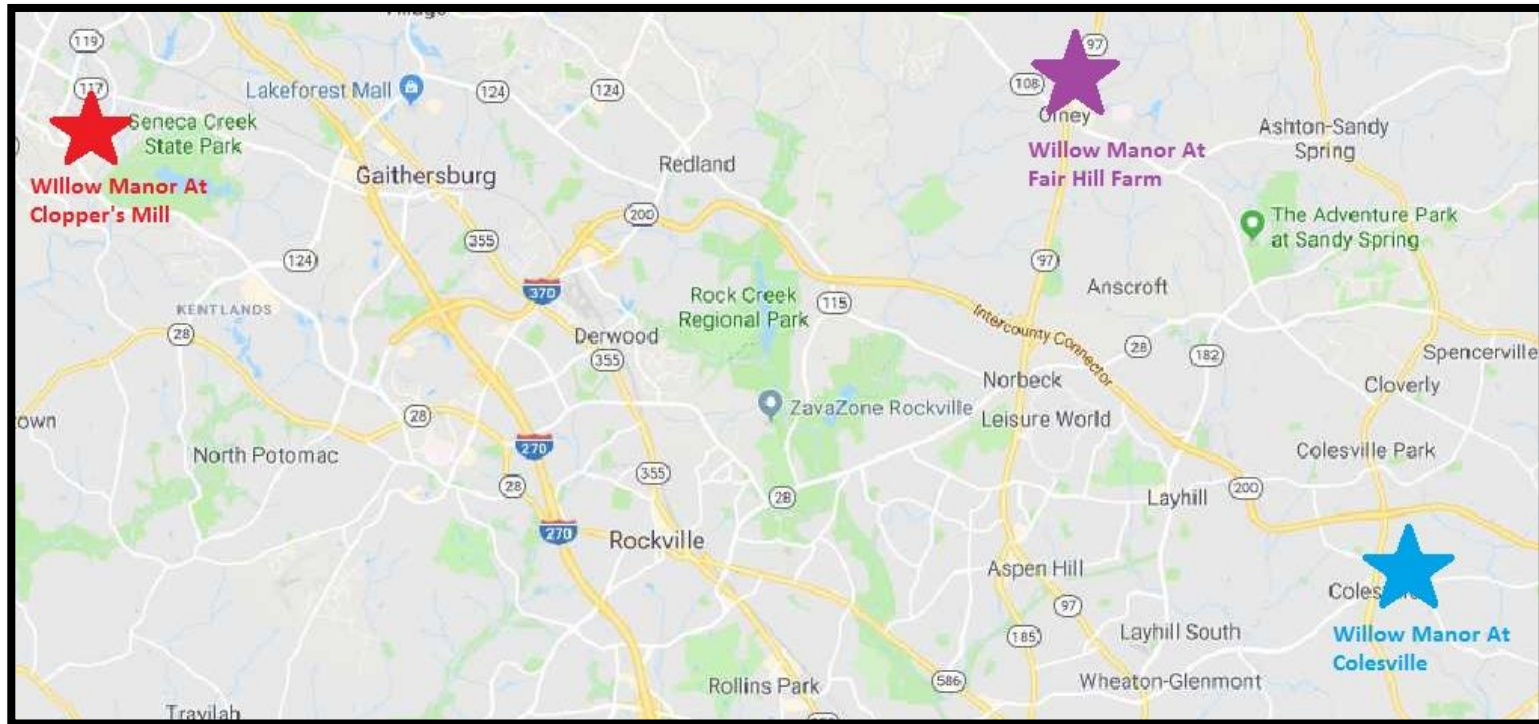
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Executive Summary

- On November 1, 2018, HOC acquired the following properties (collectively, the “Willow Manor Properties” or “Properties”) under Article 53A of the Montgomery County Code, the Right of First Refusal (“ROFR”) Ordinance. The properties were built approximately 16 years ago, and have not been renovated since constructed.
 1. **Willow Manor at Clopper’s Mill (“Clopper’s Mill”)**, consisting of 102 age-restricted (62+) Low Income Housing Tax Credit (“LIHTC”) and market-rate apartments in Germantown and constructed in 2005;
 2. **Willow Manor at Fair Hill Farm (“Fair Hill Farm”)**, consisting of 101 age-restricted (62+) LIHTC apartments in Olney and constructed in 2005; and
 3. **Willow Manor at Colesville (“Colesville”)**, consisting of 83 age-restricted (62+) LIHTC apartments in Silver Spring and constructed in 2004.
- On April 1, 2020, the Commission approved a predevelopment plan and funding in the amount of \$400,000 to pursue a LIHTC resyndication of the properties, which will finance the renovation and permanent financing of the Properties. The Commission also approved to resyndicate the properties as a single scattered site transaction and to evaluate the introduction of Income Averaging at Clopper’s Mill, thereby restricting the market-rate units to 80% AMI as part of the resyndication.
- **Staff is requesting Commission Approval of a Preliminary Development Plan, which includes the following:**
 1. Approval of the selection of Nastos Construction, Inc. as the General Contractor for the renovation of the Properties.
 2. Approval to hold up to a 7% vacancy (a total of 20 units across the three properties) beginning April 2021 through completion of construction in approximately May 2023 in order to facilitate phasing of the renovation.
 - As of 2/25/2021 the properties were 91.6% occupied (24 vacant units across the three properties).
 3. Approval to restrict all existing market rate units to 80% AMI as part of the LIHTC scattered site resyndication. Staff has reviewed the incomes for current market-rate households and have determined the following (as of 3/4/2021):
 - Eleven (11) households have incomes at or below 80% AMI, based on 2020 LIHTC income limits (LIHTC income limits will change on 4/01/2021);
 - Six (6) households have incomes above 80% AMI, based on 2020 LIHTC income limits. However, two (2) of these households will be moving out prior to April 1, 2021.
 - Three (3) units are vacant.

Map Overview



1. Willow Manor at Clopper's Mill, 18003 Mateny Rd, Germantown, MD 20874
2. Willow Manor at Fair Hill Farm, 18301 Georgia Ave, Olney, MD 20832
3. Willow Manor at Colesville, 601 E Randolph Rd, Silver Spring, MD 20904

Property Overview



- All three Willow Manor properties are senior (62+) rental communities that have reached the end of their initial 15-year LIHTC compliance period. Colesville’s initial 15-year compliance period ended on December 31, 2019; Clopper’s Mill and Fair Hill Farm initial compliance periods ended on December 31, 2020.
- The properties are of similar construction and design. The properties have been well maintained and are in good condition, but are in need of updating to remain marketable and improve operational performance.
- Property amenities include: fitness center, library, business center, community room, kitchen, billiards room, movie room, health room, hospitality suite, laundry room and shuttle service.
- Habitat America (“Habitat”) manages all three properties. Habitat was formed in 1988 and is a woman-owned and operated third-party property management firm with over 30 years of experience. Habitat manages more than 85 senior, affordable and market-rate apartment communities in Maryland, Delaware, Pennsylvania, Virginia and Washington, DC.

Willow Manor Properties: Unit and Affordability Mix			
UNIT TYPE	UNIT COUNT	UNIT SIZE	TOTAL SQFT
1 BED / 1 BATH	71	666	47,294
2 BED / 1 BATH	130	907	117,879
2 BED / 1.5 BATH	7	953	6,671
2 BED / 2 BATH	78	982	76,632
	286	869	248,476

AMI TARGET	UNIT COUNT
40%	57
50%	20
60%	189
Market*	20
	286

*A scattered site LIHTC syndication requires that 100% of the units are income-restricted. Staff is proposing restricting the 20 market rate units at the Properties to 80% AMI.

Each property has six (6) units that are Americans with Disabilities Act (“ADA”) accessible (18 total ADA units).

Renovation Scope of Work

Staff is proposing a preliminary development plan that would modernize residential units, update common area amenities, and improve site conditions. Staff's proposed renovation scope of work includes the following:

- Common area upgrades including but not limited to new flooring, painting, elevator cab interiors, furniture and fixtures.
- Unit kitchen upgrades including but not limited to new cabinets, countertops, fixtures, flooring and painting.
- Unit bathroom upgrades including new bath/shower surrounds, flooring and fixtures. ADA bathrooms will receive new roll-in shower pans.
- Energy efficiency upgrades including LED lighting, Energy Star appliances and low-flow plumbing fixtures.
- Replacement of unit and common area mechanical systems including HVAC units and hot water heaters.
- Improvements to the building exteriors and sites, including paving and roof replacement where needed.
- Staff is also evaluating adding alternate items including ceiling fan/light combos in all bedrooms and upgraded flooring in the lobby entryways.

Current Property Conditions

Typical Kitchen



Typical Bathroom



Typical Living Room



Typical Lobby



General Contractor Procurement

- Staff issued Request for Proposal No. 2236, General Contracting Services for the Renovation of the Willow Manor Properties (“RFP #2236” or “RFP”) on December 23, 2020 for the scope of work listed on the previous slide. Staff held a pre-bid conference on January 5, 2021 and proposals were due by 12:00PM on February 26, 2021.
- Staff received three proposals on or before the RFP deadline. One proposal was received after the deadline, and was therefore not evaluated. The scoring criteria and results are summarized below.

Respondent	Criteria 1 35 Possible Points	Criteria 2 15 Possible Points	Criteria 3 10 Possible Points	Criteria 4 5 Possible Points	Criteria 5 5 Possible Points	Criteria 6 30 Possible Points	TOTAL 100 Points Possible
Nastos Construction, Inc.	28	12	10	5	5	30	90
KANE Construction, Inc.	22	0	10	5	5	15	57
Hooten Construction, LLC.	34	13	2	3	3	0	54

Max Points	RFP #2236 Scoring Criteria
35	Criteria 1: Contractor Qualifications, showing experience with similar project types.
15	Criteria 2: Low Income Housing Tax Credit (“LIHTC”) Experience, showing successful track record with LIHTC projects, with a preference for scattered site LIHTC projects in the State of Maryland.
10	Criteria 3: Minority/Female/Disabled Participation. MFD participation above the minimum requirement of 25% of contracts for subcontract work and/or supplies (based on total contract value). Range of scoring will be from 0 to 10 points. Respondents who meet the MFD subcontracting minimum requirement (i.e., 25%) will score zero (0) points. Respondents subcontracting 25 – 30% will receive 5 points, and respondents subcontracting 30% or above will receive 10 points. However, in the event the General Contractor is a certified MFD firm and subcontracts above 35% will receive an additional 10 bonus points.
5	Criteria 4: Demonstrated ability for on-time completion.
5	Criteria 5: Financial Strength
30	Criteria 6: Price Proposal Sheet (30%). Range of Values will be from 0 to 30. Lowest Price will score thirty percent (30%) and the highest price will score zero percent (0%)
100	Total Possible Points

GC Bid Comparison



Proposal Date	NASTOS CONSTRUCTION		KANE CONSTRUCTION		HOOTEN CONSTRUCTION	
	Total	Per Unit	Total	Per Unit	Total	Per Unit
26-Feb-21						
Net Construction Costs	\$9,407,107	\$32,892	\$12,009,523	\$41,991	\$12,276,011	\$42,923
Builder's General Overhead	\$188,142	\$658	<i>Included in Net Construction Costs</i>	<i>Included in Net Construction Costs</i>	\$245,520	\$858
Bond Premium	\$84,664	\$296	<i>Included in Net Construction Costs</i>	<i>Included in Net Construction Costs</i>	\$200,409	\$701
Builder's Profit	\$564,426	\$1,974	\$600,477	\$2,100	\$636,218	\$2,225
General Liability	<i>Included</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>	\$187,823	\$657
Cost of Certification	<i>Included in General Requirements</i>	<i>Included in General Requirements</i>	<i>Included</i>	<i>Included</i>	\$15,000	\$52
General Requirements	\$564,426	\$1,974	<i>Included in Net Construction Costs</i>	<i>Included in Net Construction Costs</i>	\$1,703,598	\$5,957
Total Construction Costs	\$10,808,765	\$37,793	\$12,610,000	\$44,091	\$15,264,579	\$53,373

Staff Recommendation: Nastos Construction, Inc.

- Founded in 1993.
- Headquartered in Lanham, MD.
- MDOT certified MBE General Contractor.
- Experienced in residential, commercial and municipal (e.g. schools, courts and parks) construction and rehabilitation.
- Extensive experience working with State and local government agencies throughout the DMV area (including Montgomery County and the City of Gaithersburg).
- Team has prior experience working with public housing authorities.
- Successful completion of multiple acquisition/rehab LIHTC projects in Maryland and DC.
- Current bonding capacity of \$50 million aggregate (\$20 million per project).



Sources and Uses & Operating Proforma

The resyndication of the Willow Manor properties is anticipated to generate \$21.9 million in LIHTC equity. The LIHTC equity, in conjunction with tax-exempt bond proceeds, would generate enough sources to: 1) fully repay the outstanding senior loans; 2) fully fund the renovations; 3) generate a Developer Fee for HOC in the amount of \$5 million; and 4) repay approximately 60% of the outstanding County HIF loans (see table below). HOC would earn a 2% commitment fee (approximately \$900K) on the tax-exempt bond issuance for the transaction. Due to the limited scope of the renovation, the transaction will close into a permanent mortgage with FHA Final Endorsement at the LIHTC closing.

USES OF FUNDS	AMOUNT	PER UNIT
Construction Costs ¹⁾	\$11,889,642	\$41,572
Fees Related To Construction Costs	\$551,770	\$1,929
Financing Fees and Charges	\$3,928,207	\$13,735
Acquisition Costs - Senior Debt Repayment	\$29,104,988	\$101,766
Acquisition Costs - MCO HIF Loan Repayment	\$19,801,587	\$69,236
Acquisition Costs - HOC Loan Repayment ²⁾	\$400,000	\$1,399
Acquisition Costs - Seller Proceeds ³⁾	\$393,425	\$1,376
Relocation Costs	\$600,000	\$2,098
Developer's Fees	\$5,025,168	\$17,571
Syndication Costs	\$252,500	\$883
Guarantees and Reserves ⁴⁾	\$3,176,347	\$11,106
TOTAL	\$75,123,633	\$262,670

SOURCES OF FUNDS	AMOUNT	PER UNIT
Tax-Exempt Bonds ⁵⁾	\$45,293,626	\$158,369
LIHTC Equity ⁶⁾	\$21,945,044	\$76,731
Deferred County HIF Loan	\$7,884,963	\$27,570
Funding Gap / (Surplus)	\$0	\$0
TOTAL	\$75,123,633	\$262,670

STABILIZED OPERATING PROFORMA	Year 1	Per Unit
RENTAL INCOME		
Rental Income	\$5,048,364	\$17,652
Other Income	\$72,965	\$255
Less: Vacancy Loss/Bad Debt	(\$358,493)	(\$1,253)
NET RENTAL INCOME	\$4,762,835	\$16,653
TOTAL OPERATING EXPENSES		
Admin & Operating Expenses	\$623,566	\$2,180
Maintenance Expenses	\$498,299	\$1,742
Contract Management Fee	\$161,788	\$566
Utility Expenses	\$261,823	\$915
Taxes & Insurance	\$145,271	\$508
Replacement Reserve Contribution	\$100,100	\$350
TOTAL EXPENSES	\$1,790,846	\$6,262
NET OPERATING INCOME	\$2,971,989	\$10,392
Debt Service Payments	\$2,583,366	\$9,033
NET CASH FLOW	\$388,624	\$1,359
DSCR	1.15	

TRANSACTION ASSUMPTIONS

- 1) Includes 10% construction cost contingency.
- 2) OHRF loan for feasibility and predevelopment.
- 3) Based on appraised as-is restricted value of the properties, less outstanding debt.
- 4) Includes upfront replacement reserve deposit of \$1200 per unit.
- 5) Assumes 30 year term; 2.22% bond yield; 0.35% loan management fee (payable to HOC); 0.03% trustee fee; 100 basis points cushion; and 0.25% MIP.
- 6) Assumes 92 cents per dollar of LIHTC credit.

Preliminary Development Plan

Timeline	Dates
Submit LIHTC Application	April 2021
Approval of LIHTC Syndicator / Limited Partnership Agreement	June 2021
Approval of Final Development Plan and Finance Plan	September 2021
LIHTC Closing	October 2021
Construction Start	November 2021
Construction Complete	May 2023

Predevelopment Funding	Source	Authorized	Obligated*	Spent*	Remaining*
Resolution 20-31	OHRF	\$ 400,000	\$ 240,772.33	\$ 101,824.07	\$ 298,175.93

*As of 3/04/2021

Approvals Needed:

- 1) Approval of the selection of Nastos Construction, Inc. as the General Contractor for the renovation of the Properties.
- 2) Approval to hold up to a 7% vacancy (a total of 20 units across all three (3) properties) beginning in April 2021 until completion of construction in approximately May 2023 in order to facilitate renovation phasing. The properties were 91.6% occupied (24 vacant units) as of February 25, 2021.
- 3) Approval to restrict all existing market rate units to 80% AMI as part of the LIHTC application and scattered site resyndication. Staff has reviewed the incomes for current market-rate households and have determined the following:
 - Eleven (11) households have incomes at or below 80% AMI, based on 2020 LIHTC income limits;
 - Six (6) households have incomes above 80% AMI, based on 2020 LIHTC income limits; however, two (2) of these households will be moving out prior to April 1, 2021; and
 - Three (3) units are vacant.

Approvals Previously Authorized by the Commission:

- Approval to permanently finance the three (3) Willow Manor Properties as a single scattered site transaction.
- Approval to pursue LIHTC resyndication of the properties.
- Approval to fund a predevelopment budget in the amount of \$400,000.

Summary and Recommendations

Issues for Consideration

Does the Development & Finance Committee wish to join staff's recommendation to the Commission to:

1. Approve the selection of Nastos Construction, Inc. as the General Contractor for the renovation of the Properties;
2. Approve to hold up to a 7% vacancy (a total of 20 units across all three properties) from April 2021 until completion of construction in approximately May 2023 in order to facilitate renovation phasing;
3. Approve the public purpose at the Properties, which restricts all existing market rate units to 80% AMI as part of the LIHTC application and scattered site resyndication?

Budget /Fiscal Impact

The investment will raise approximately \$21.9 million of tax credit equity for the renovation of the properties. The budget and fiscal impact will be presented with the Final Development Plan.

Time Frame

For formal action at the April 7, 2021 meeting of the Commission.

Staff Recommendation and Commission Action Needed

Staff requests that the Development and Finance Committee join staff's recommendation to the Commission to:

1. Approve the selection of Nastos Construction, Inc. as the General Contractor for the renovation of the Properties and authorize the Executive Director to negotiate a contract with Nastos;
2. Approve to hold up to a 7% vacancy (a total of 20 units across all three properties) beginning April 2021 until completion of construction in approximately May 2023 in order to facilitate renovation phasing;
3. Approve the public purpose at the Properties, which restricts all existing market rate units to 80% AMI as part of the LIHTC application and scattered site resyndication.

MEMORANDUM

TO: Housing Opportunities Commission, Development & Finance Committee

VIA: Stacy L. Spann, Executive Director

FROM: Staff: Brown/Arrington Division: Mortgage Finance Ext. 9589/9760

RE: **Financial Advisor Contract:** Approval to Renew with Caine Mitter and Associates Incorporated (“CMA”) in Accordance with the Current Contract, Prior Approvals and the Procurement Policy

Date: March 26, 2021

STATUS: Consent _____ Deliberation X Status Report _____

OVERALL GOAL & OBJECTIVE:

To renew the term of the financial advisory services contract with Caine Mitter and Associates Incorporated (“CMA”) in accordance with the current contract and Procurement Policy, thereby, enabling the Housing Opportunities Commission of Montgomery County (“HOC” or “Commission”) to meet its affordable housing goals.

BACKGROUND:

On May 18, 2017, the Commission approved a new contract for CMA after completing a full procurement and approved a two-year contract with three optional one-year renewals that must be approved by the Commission in accordance with the current Procurement Policy.

The contract term commenced on July 1, 2017. Two prior renewals have been approved by the Commission, the last of which ends on June 30, 2021. This request represents the final renewal but a new solicitation will commence prior to its expiration.

The Financial Advisor

CMA is an independent financial advisory firm that, acting through its personnel, has been in the business of providing financial advisory and quantitative services to state and local housing finance agencies for over 40 years, specializing in single family and multifamily housing finance as well as the fiscal management for local and state housing finance agencies. Its principal, Thomas P. Caine, has been in the business for over 44 years. CMA also acts as swap advisor and investment bidding agent for both single family and multifamily programs and provides a broad array of services to its clients.

Financial advisors are heavily regulated and the principal regulator is the Municipal Securities Rulemaking Board (“MSRB”). The MSRB develops rules for financial professionals designed to ensure a fair and efficient market by preventing fraud and other unfair practices, establishing professional qualifications, supporting market transparency, and applying uniform practices to the industry. Among these rules are those that regulate the activities of municipal advisors and clarify their obligations to the state and local governments and other municipal entities that engage their services.

All municipal financial advisors must be registered with the MSRB and any of the advisors' staff that provides financial advisory services must have passed the Series 50 examination. CMA is a registered municipal advisor within the context of the MSRB.

An effective financial advisor to the Commission is expected to among other things, provide advice for the structuring and management of its municipal housing finance programs to optimize the Commission's resources. At the transaction level, it structures bond issuances, prepares quantitative cash flow analyses for each transaction, and provides annual analysis for its parity indentures under which single family and multifamily housing bonds are issued. This ensures that rating-agency-required cash flow stress runs are successful and that the issued securities are yield compliant within the meaning of the Internal Revenue Code ("IRC"). If the financial advisor does not provide cash flow services and program structuring, they would need to be contracted out. Further, the financial advisor generally informs the Commission of current market conditions and financing techniques being employed to optimize these conditions.

Staff believes that CMA continues to be highly effective as financial advisor to the Commission.

- Since the beginning of the current contract in 2017, CMA has advised the Commission on eight (8) publicly issued series of tax-exempt bonds representing \$366.295 million in securities. Moody's Investors Services ("Moody's") rated the bonds, which were issued under the Commission multifamily and single family parity indentures.
- The firm has acted as pipeline manager for the Commission's single family mortgage program, including the financing of \$53.1 million of mortgages through the sale of mortgage backed securities in the secondary market since 2017.
- The firm has provided financial advice on a number of swap transactions, which are directly related to the financing of the Commission's real estate development activities, aimed at mitigating interest rate risks during the construction of developments until they can be placed in service. This includes Elizabeth House, Alexander House, and Upton II transactions.
- CMA has also applied its creativity in the development of the County Housing Production Fund and executed the financing of Westside Shady Grove by recycling multifamily volume cap by accessing a little used area of the tax code.
- Finally, CMA has been steady in its guidance of HOC with Moody's Investors Services and its rating of the Commission, its programs, and the quarterly reviews it conducts, GIC investments, liquidity facility extensions, general obligations analysis, indenture management, and ancillary cash flow and financial matters.

As discussed previously with the Commission, CMA uses a proprietary software, Flow, to complete its cash flow and financial analyses and the Commission and staff continue to be satisfied with its performance in this area. HOC's bond accounting staff is largely responsible for preparing financial tables and data, to include copies of the indenture audits with all schedules, mortgage balances, accrued interest schedules, foreclosure information, approved bond draw used in the cash flow preparation. Further, Moody's issues rating for all of the Commission's publicly issued bonds and reviews all cash flows cash flows prior to issuing or affirming a rating based on its established rating methodologies, confirming that the cash flows accurately reflect such methodologies. Finally, HOC's Bond Counsel, Kutak Rock, LLP, reviews the cash flows for all transactions issued under the Commission's parity indentures.

Staff remains confident in Caine Mitter and Associates Incorporated's representation of HOC as financial advisor.

ISSUES FOR CONSIDERATION:

Does the Development and Finance Committee support staff's recommendation that the Commission approve a third and final renewal of the current financial advisor services contract with Caine Mitter and Associates Incorporated for one year in accordance with the current contract and Procurement Policy?

PRINCIPALS:

Housing Opportunities Commission
Caine Mitter & Associates Incorporated

BUDGET IMPACT:

There is no impact to the Commission's operating budget, in general. The Financial Advisor is paid from revenues in the Single Family Indenture and from proceeds of each multifamily financing. Fees paid to the Financial Advisor are included in the cost of issuance budget for each transaction or are approved by the Commission.

TIME FRAME:

For discussion at the meeting of the Development and Finance Committee on March 26, 2021 and formal action at the April 7, 2021 meeting of the Commission.

STAFF RECOMMENDATION & COMMISSION ACTION NEEDED:

Staff recommends that the Development and Finance Committee support staff's recommendation that the Commission approve a third and final renewal of the current financial advisor services contract with Caine Mitter and Associates Incorporated for one year in accordance with the current contract and Procurement Policy, effective July 1, 2021.