REVOLVING HOUSING PRODUCTION FUND

FUNDING, STRUCTURE, AND LOGISTICS

Stacy L. Spann, Executive Director

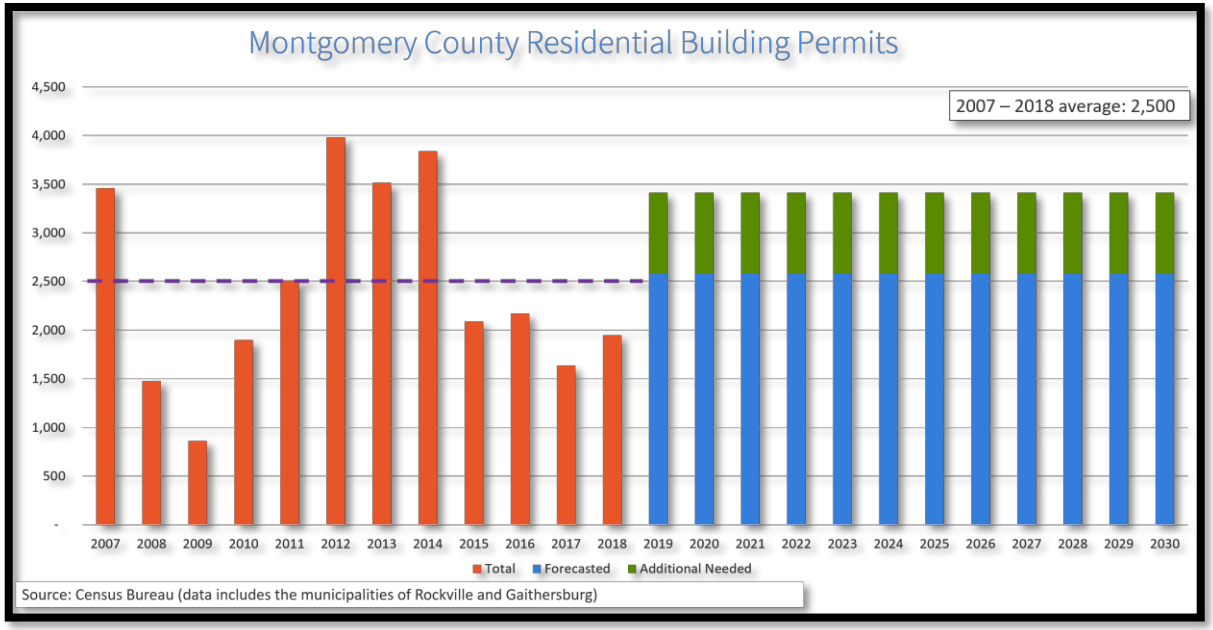
Kayrine Brown
Zachary Marks

June 22, 2020

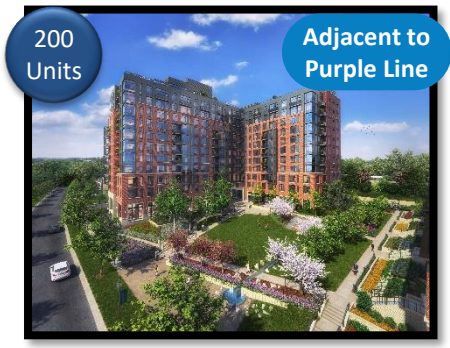
Primary Goal & Delivery Channel

HPF Focus

- Catalyze County pursuit of COG goal of 41,000 units over next 10 years (i.e., 1,000 additional units per year).
- In 2019, the County fell short of the COG-based target for the year by 275 units.
- HOC pipeline expected to grow to 350 units per year starting in 2021.



The Lindley



Started: 2016

Fenton Silver Spring (900 Thayer)



Started: 2017

Upton II



Started: 2018

Elizabeth House III



Started: 2019

Executive Summary

Highly Efficient

- For $3.4MM in annual appropriated funds over a period of 20 years[1], Montgomery County creates a permanent, revolving $50MM Housing Production Fund ("HPF") that:

Produces new, mixed-income communities	Becomes permanent after 20 years of appropriations	Revolves every four-to-five years yielding $250MM in investment[2]
Provides committed capital for part of HOC's 5,500-unit pipeline	Uses the model of existing revolving MPDU/Property Acquisition Fund	Yields an average of 100 MPDUs per transaction

Self Sufficient

- Without the HPF, these HOC pipeline of new units would need significant upfront HIF investment. So, the HPF *increases* the availability of the HIF for other projects.
- The HPF allows HOC transactions to proceed without using other limited affordable housing resources like LIHTC equity and volume cap, leaving these resources to other worthy projects.

Ready to Execute

- The HPF structure is fully and immediately executable. The first transaction would close in December 2020.

Scalably Designed

- At $50MM, the HPF will fund roughly 3,500[2] units over the 20-year life of the bonds.
- The HPF creates a timely and efficient avenue for private developers and private non-profits to participate in this expansion of housing in the County.
- The HPF can easily be increased by additional appropriations and bond issuance.

[1]If annual project interest paid is sent back to the HIF (as described later in this presentation), the annual net use of the HIF would be only $900,000.
[2]Should Council decide to send project interest paid back to the HPF, construction production increases by $127M during the 20-year life of the bonds, resulting in a total of approximately 4,375 units would be produced over the 20-year life of the bonds.

Primary Goal & Delivery Channel

HPF Channel

- Accelerating HOC's mixed-income housing development pipeline.
- Utilizing public-private partnership ("P3") collaborations for co-investment, risk sharing, bandwidth, and talent diversity.

HOC Identified Pipeline (5,445 Units)

First Five Years	Second Five Years
Total Units	Total Units
3,447	1,998

- Dedicated, revolving construction equity financing funded with County-serviced bond issuance.
- At $50MM, approximately 1,750 of 5,445 units in HOC's identified pipeline would be funded with the HPF.
- HOC has two P3 developments starting in FY21 that would fully utilize all of first $50MM.
- Availability of HPF allows HOC to add to the identified pipeline as funding resources are expanded; HOC has another 2,500 units it could secure reasonably quickly but hasn't pursued for insufficient resources.

HPF: First $50MM

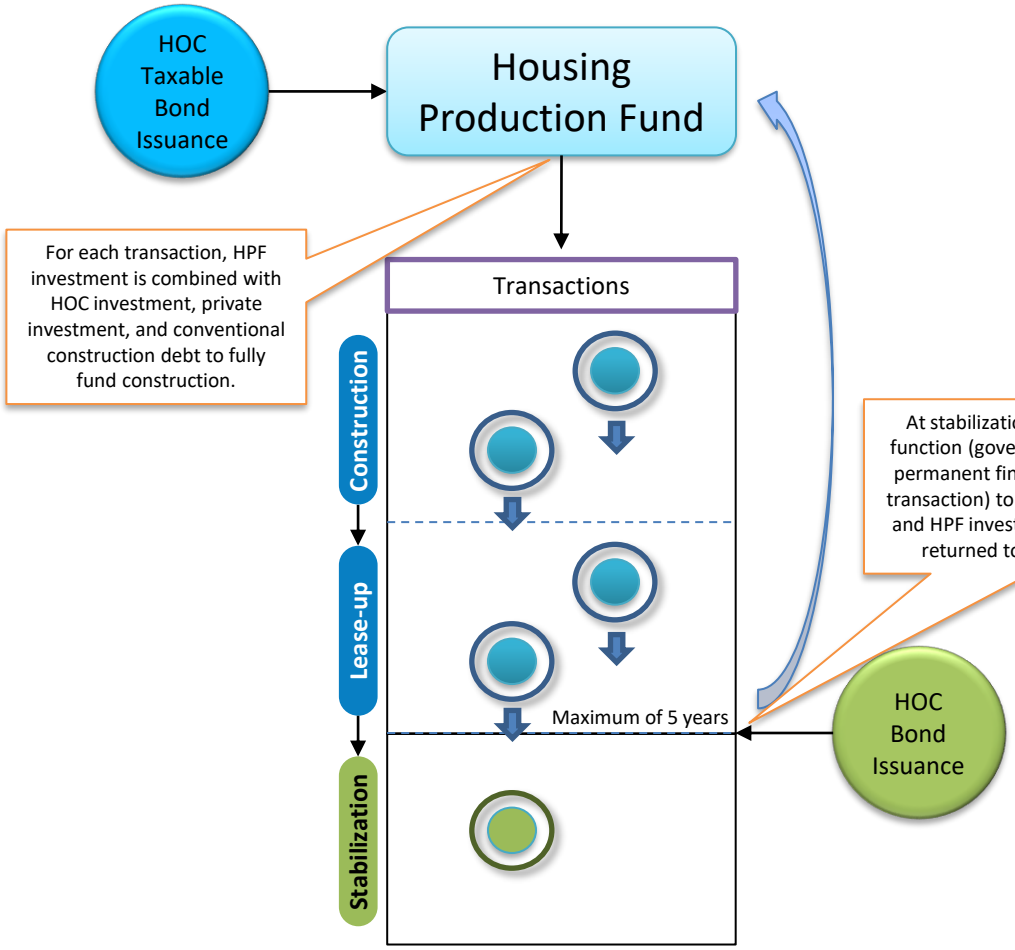


Starts: 2020



Starts: 2021

Production Fund Mechanism



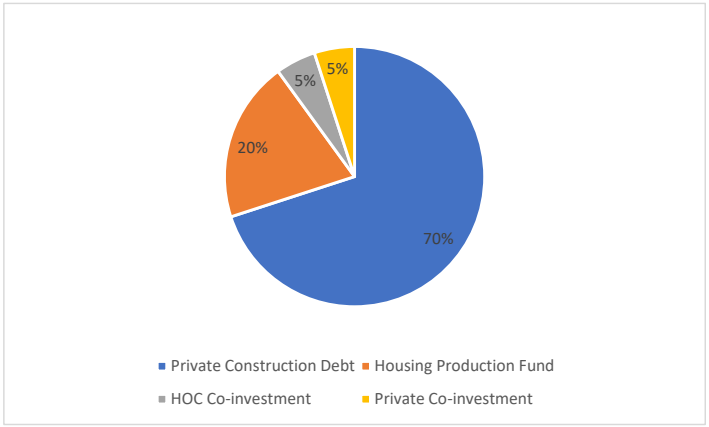
HPF is low-cost, construction-period bridge financing.

Transaction can support greater senior debt once leased up removing need for HPF investment.

Production Mechanism: Structure

P3 Ownership

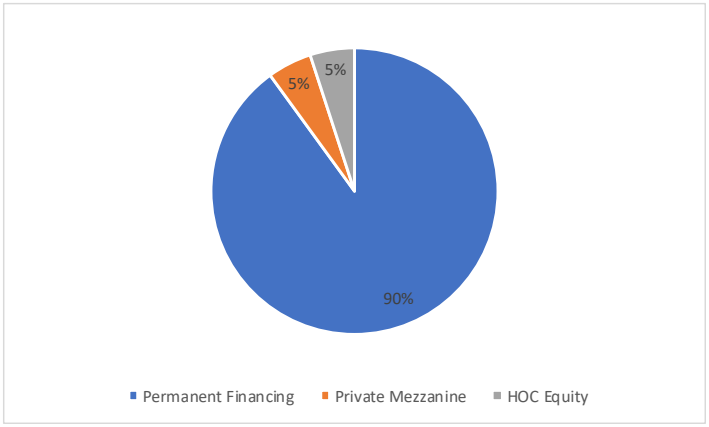
Construction (Years 0-2) | **Lease-up** (Years 2-4)



- Production Fund contributes five-year, low-cost (5%) construction equity.
- Upon stabilization, HOC takes ownership, issues governmental bonds (or other permanent financing as advantageous), and repays the Production Fund loan in full.
- New projects can be invested in upon repayment.

HOC Ownership

Stabilized Operations (Years 4+)



- No HIF required (but can be involved to buy down MPDUs to lower affordability)
- No LIHTC required (which makes for a fast, HOC-controlled process in which takeout funding is unlimited).
- Private development partner can either exit upon conversion to HOC ownership or can convert equity to subordinate debt.

Issuance, Interest Capitalization, & the HIF

- With an initial $50MM funding, approximately $250MM in project loans can be issued over the 20-year life of the bonds.
- The developments that use the Fund will pay 5% annually on the loan amount (and can be paid current because interest is capitalized for the construction and lease-up period).
- The $250MM does not include any reinvestment of project interest paid.
- Interest could be paid to the HIF to offset portion allocated to HPF.
- As with the existing MPDU/Property Acquisition Fund in the County's CIP, the Production Fund will continue to serve at this level and frequency after the bonds are paid off.

Leveraging of County Funds

25-to-1

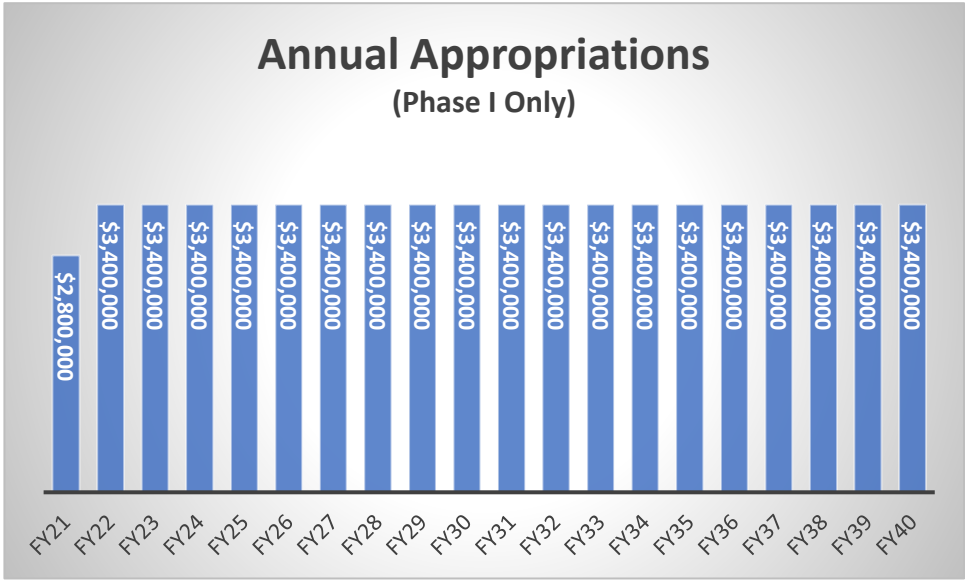
HPF @ $50MM (Project Interest to HIF)

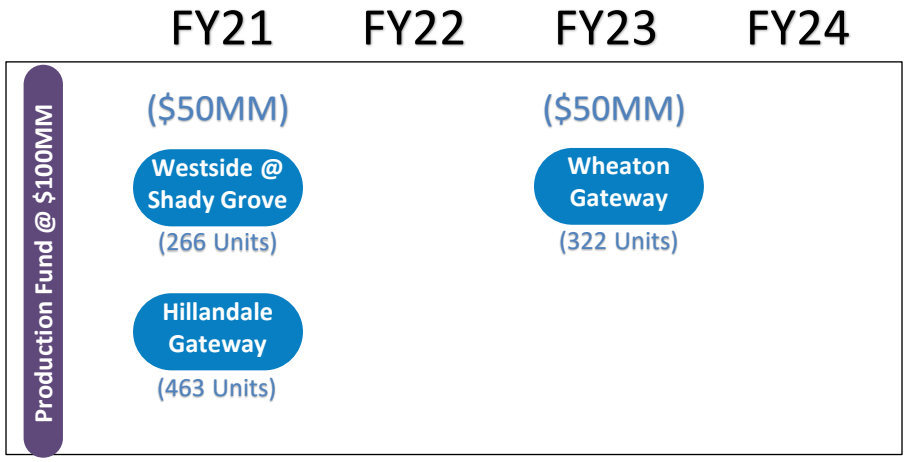
	Bonds Issued	***Bond P+I***	***Project Loans***	***Interest Paid***
FY21	$50,000,000	$2,800,000	$50,000,000	$1,562,501
FY22		$3,400,000		$2,500,000
FY23		$3,400,000		$2,500,000
FY24		$3,400,000		$2,500,000
FY25		$3,400,000	$50,000,000	$2,500,000
FY26		$3,400,000		$2,500,000
FY27		$3,400,000		$2,500,000
FY28		$3,400,000		$2,500,000
FY29		$3,400,000	$50,000,000	$2,500,000
FY30		$3,400,000		$2,500,000
FY31		$3,400,000		$2,500,000
FY32		$3,400,000		$2,500,000
FY33		$3,400,000	$50,000,000	$2,500,000
FY34		$3,400,000		$2,500,000
FY35		$3,400,000		$2,500,000
FY36		$3,400,000		$2,500,000
FY37		$3,400,000	$50,000,000	$2,500,000
FY38		$3,400,000		$2,500,000
FY39		$3,400,000		$2,500,000
FY40		$3,400,000		$2,500,000
			$250,000,000	**$49,062,501**

HPF Cost & Scalability

Phase I - $50MM

Portion of County HIF covers principal and interest for $50MM HOC bond issuance.



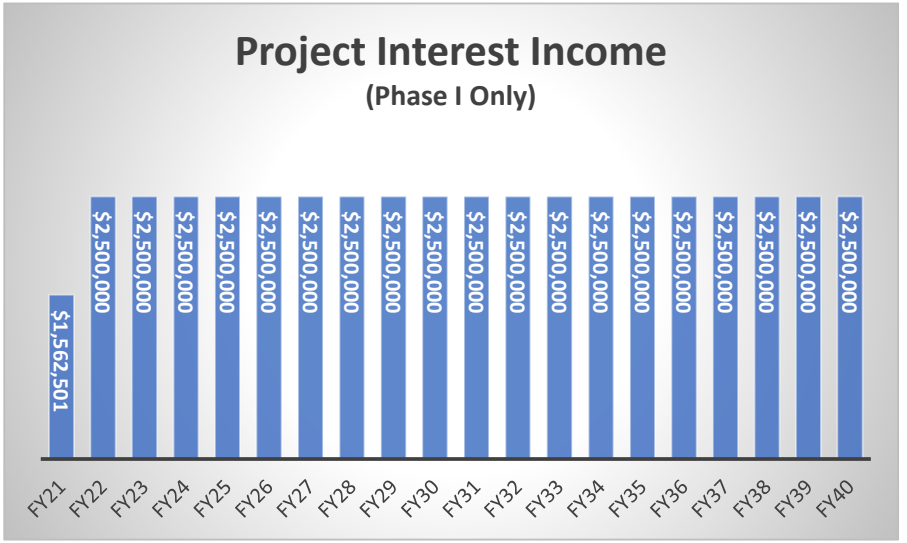


Phase II - $50MM

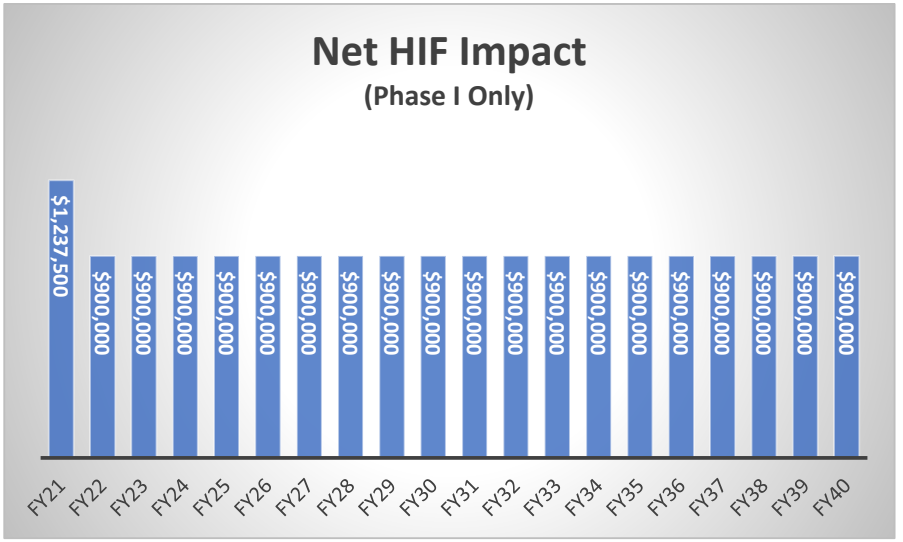
A second $50MM issuance could cover at least a third transaction with an increase in annual appropriations to ~$6.8MM. It may be advantageous to the HPF for this issuance to occur in FY22 to ensure it is done in the current low interest rate environment.

HPF Project Interest Income – Paid into HIF

Projects using the HFP pay 5% annual interest back to HPF for use. These funds could be used to offset HIF impact or increase HPF.



If used to offset impact to HIF, net impact to HIF is less than $1MM annually (other than the first year).



HPF Project Interest Income – Reinvested in HPF

Were project interest (at 5%) reinvested, the initial $50MM would result in $377MM in loans.

Leveraging of County Funds

37-to-1

HPF @ $50MM (Project Interest Reinvested in HPF)

	Bonds Issued	*Bond P+I*	*Project Loans*	*Interest Paid*
FY21	$50,000,000	$2,800,000	$50,000,000	$1,562,501
FY22		$3,400,000		$2,500,000
FY23		$3,400,000		$2,500,000
FY24		$3,400,000		$2,500,000
FY25		$3,400,000	$60,539,063	$2,902,214
FY26		$3,400,000		$3,026,954
FY27		$3,400,000		$3,026,954
FY28		$3,400,000		$3,026,954
FY29		$3,400,000	$72,911,733	$3,498,023
FY30		$3,400,000		$3,645,586
FY31		$3,400,000		$3,645,586
FY32		$3,400,000		$3,645,586
FY33		$3,400,000	$87,813,069	$4,212,931
FY34		$3,400,000		$4,390,654
FY35		$3,400,000		$4,390,654
FY36		$3,400,000		$4,390,654
FY37		$3,400,000	$105,759,865	$5,073,949
FY38		$3,400,000		$5,287,994
FY39		$3,400,000		$5,287,994
FY40		$3,400,000		$5,287,994
			$377,023,730	**$73,803,182**

Legacy of Mixed-Income Success



Timberlawn

1989



Alexander House

1992



Strathmore

1996



Metropolitan

1997



MetroPointe

2008



The Lindley

2018

HOC originated the mixed-income model in the County and continues to be the leader in mixed-income development.

Channel Strengths

Size of Existing HOC Pipeline: HOC has identified nearly 5,500 units of new construction potential in properties it owns, controls, or are controlled by the County (and could be transferred to HOC). HOC has another 2,500 units it could reasonably secure quickly but hasn't pursued for insufficient resources.

Revolvability: HOC is particularly adept at financing stabilized properties. Its ability to secure high-LTV permanent financing will allow HOC to repay Production Fund monies upon stabilization (within 4-5 years of construction start). This certainty of take-out/repayment within a relatively short term is a core distinction from typical uses of the HIF.

Uses Existing Talent, Resources, and Precedent: HOC already has the track record of delivering the mixed-income model, experienced staff, housing advisors, developer relationships, and capital partners to deliver housing in volume. The Fund structure follows, nearly exactly, that of the MPDU/PAF revolving fund that the County established decades ago: 1) funded via bond issuance (long since paid off), 2) interim in nature, 3) replenished through HOC permanent financing, 4) available on demand, and 5) HOC controlled.

Permanent Governmental Ownership: Take-out financing that repays Production Fund draws also leads to HOC ownership/control of the properties upon stabilization.

Project Self-sufficiency: Unlike typical uses of the HIF, these projects would reliably refund the HIF after five years. HIF loans are typically outstanding for decades.

Production of Mixed-income Communities: Projects that use the HIF are typically 100% or near-100% affordable. HPF-funded communities would provide total affordable units per project similar to the high end of typical HIF transactions but in a fully economically integrated setting.

Value of P3 During the Construction Phase

Expertise & Bandwidth: HOC typically partners with the private sector on new construction developments to gain access to the best expertise in the market and to prevent staff capacity from being an obstacle to increasing housing production.

Aligning Risk: HOC requires that its partners co-invest and bear risk in these transactions to ensure our partners do not have incentives that compete with the best outcomes for the County, HOC, and its mission.

Leveraging Private Funds: HOC's partners help bear the cost of predevelopment expenditures such that capital resource availability is not an obstacle to increasing housing production.

Spurring Additional Opportunities to HOC: Private developers are more likely to afford HOC participation in their pipelines if a predictable P3 framework exists. The HPF creates a timely and efficient avenue for private developers and private non-profits to participate in this expansion of housing in the County.

Sizing & Logistics of the Bond Issuance

- The Bond Issue: Bonds would be taxable in nature to maintain maximum flexibility of ownership of housing development during the construction phase. Tax-exempt financing for housing, with private ownership would require an allocation of state ceiling private activity volume cap. Montgomery County is allocated approximately $38 million annually, by formula.
- Security for the Bonds: The bonds would not be a general obligation of Montgomery County or HOC and security for the bonds would be subject to annual appropriation by the County, which the bond market understands and prices accordingly.
- Bond Amortization: Full amortization of the bonds over 20 years based on a level debt payment; therefore, annual debt service payment from the HIF is known and constant.
- HOC and Trustee Management of Funds: HOC management of the bond issuance would also aid in both maintaining financing efficiency and accounting at the point of permanent financing/HPF repayment. All funds and accounts are held by a Trustee and utilized in accordance with the governing documents under the indenture.
- Governing Documents: Production Fund would be drawn by HOC on demand and in accordance with provisions of the indenture. An agreement between HOC and the County pledging debt service payments and detailing program parameters would be created. This would include annual reporting to Council.
- Timing: Bond issuance can proceed within 90-120 days of Council approval.
- Debt service payments: Semi-annual payments are made to the Trustee for benefit of bondholders on January 1 and July 1.

Notes on Further Efforts

Leveraging Private Funds: HOC is talking with private capital providers that operate in the affordable housing realm to provide funds to pair with Production Fund loans. While the returns required by the private capital providers are a little higher than the Fund 5% rate; when paired with the Fund loan, the blended rate is still supportable. This would lower the amount of capital required as a Fund loan for each transaction (and increase the number of transactions that could be served by Fund loans).

Additional Opportunities: This structure will be attractive to many private developers with active developments. It is likely these developers will commit their developments to future HOC ownership/control in exchange for the ability to access the Production Fund.

Base Affordability: Projects accessing this fund will typically have 25%-30% of units set aside as affordable at or below MPDU limits.

Deeper Affordability: Among potential options to discuss, decreasing the 5% project interest rate in exchange for deeper affordability or reinvesting some of annual interest sent to HIF back into a project for the same purpose. HOC will also use other resources toward deepening affordability on a deal-by-deal basis.

Housing Opportunities Commission
OF MONTGOMERY COUNTY

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

July 27, 2020

The Honorable Sidney Katz
President, Montgomery County Council
Montgomery County Council
100 Maryland Ave
Rockville, MD 20850

Re: Special appropriation and CIP amendment – HOC - $2,800,000 for Housing Production Fund

Dear Council President Katz:

On behalf of the Housing Opportunities Commission of Montgomery County (HOC), thank you for the opportunity to affirm HOC's emphatic support of the Housing Production Fund. In November 2019, the Council adopted a resolution to support the Metropolitan Washington Council of Governments' Regional Housing Targets for Montgomery County and committed to goals of producing 10,000 housing units above the current forecast. To meet the County's goals for increased housing and increased availability of affordable housing, new creative and dynamic tools are needed to finance the production of mixed-income housing developments with units affordable to households earning less than 50% of area median income. Under this proposal, the County will provide annual funding through the Capital Improvements Program and Capital Budget that HOC will use to pay the cost of $50 million in HOC-issued bonds. The proceeds from these bonds will be used as low-cost, construction-period bridge financing and will support creation of nearly 8,800 units of new housing on properties owned or controlled by HOC.

The supply of affordable housing is at the heart of **every** significant challenge communities around the country are trying to tackle: issues of race and equity, climate change, economic development, maintaining a strong workforce and generally ensuring all of its citizens can have a strong quality of life. Now, amidst a global pandemic and health crisis, the critical need for increased affordable housing and the benefits it provides is unmistakable. Families are enduring job and income loss as well as childcare and remote learning challenges. Moreover, they face impossible decisions when it comes to the health and safety of their loved ones at home during the COVID-19 pandemic – particularly households with multiple families or generations that reside together in order to afford the high cost of living here in Montgomery County. The most progressive communities are trailblazers in this space – specifically in taking care to keep people and community, individuals and families, seniors and children at the center of the result. In this case, those results are housing focused. We are endeavoring to take a moonshot – thereby creating a scalable, easily replicated path that others will be able to follow. We believe that this is the most appropriate place at which Montgomery County finds itself – at the forefront of affordable housing innovation.

We thank PHED Chair Councilmember Hans Riemer, and PHED Councilmembers Andrew Friedson and Will Jawando, for their efforts to examine, fund, and provide the runway for new, sustainable affordable housing development. Throughout its history, Montgomery County has demonstrated its commitment to creating affordable housing. Beginning in 1974, the County led the way with the nation's first inclusionary zoning law and has since provided the best example for how to create economically integrated communities that extend opportunities for all. The Housing Opportunities Commission contributes to that commitment by investing in its deeply affordable housing units including our former Public Housing units. Unlike Montgomery County's mixed-income approach, federal programs were historically characterized by concentrating poor families within properties isolated from the resources and opportunities that would help them climb the socioeconomic ladder. That model has left a deep and harmful legacy on communities and families and is antithetical to HOC's approach. In fact, since the 1970s, HOC has operated mixed-income affordable housing across the county, starting with the first MPDU units. Today, if you look at the housing HOC is building around this great county, I hope you see the quality of affordable housing this community and its citizens deserve – sustainable, mixed-income, high-quality, amenity-rich, community-connected housing.

Montgomery County is a destination where some of the country's most effective and progressive affordable housing tools are being maximized. The need to preserve and expand the supply of housing at every price point in every area is critical to being a community that reflects the principles of equity and diversity as well as access to opportunity – values that we as a community hold dear. As the County's Housing Authority – and we pride ourselves on being your preeminent partner in the development of affordable housing – HOC relies on a mixed-income financial structure and public private partnerships to ensure that the affordable units within new developments are supported by a stable, internal funding stream from market rate units in each development. We are heartened that this initiative will make It easier for non-profit developers and HOC specifically to operationalize socially and fiscally sound mixed-income models – bringing to fruition communities like The Lindley and West Side Shady Grove – and properties with significant affordability and no federal subsidies attached.

In fulfillment of our mission, HOC provides affordable housing to nearly 14,000 households, provides various housing related services for elderly customers and those with disabilities, and coordinates services to ensure families remain stably housed. Faithful to that mission, our Board of Commissioners has been unwavering in their commitment to providing more long-term, deeply affordable units in every property we develop or manage. HOC's mission and track record in developing mixed-income communities that provide robust opportunities while maintaining long-term affordability speaks for itself.

We thank the Council and PHED Chair Councilmember Riemer for your steadfast commitment to ensuring all Montgomery County residents have access to high-quality affordable housing for many years to come. We see this as a crucial first step toward a long-term commitment to reaching Montgomery County's affordable housing goals and look forward to working with the Council and our county partners to execute this fund and other innovations in the future. Should you have questions, please feel free to reach me at stacy.spann@hocmc.org.

Sincerely,



Stacy L. Spann
Executive Director

cc: Montgomery County Council; PHED Chair Councilmember Hans Riemer