

AGENDA ITEM #9
November 24, 2009

PUBLIC HEARING
and ACTION

MEMORANDUM

November 20, 2009

TO: County Council

FROM: Linda McMillan, Senior Legislative Analyst 

SUBJECT: **Public Hearing and Action: Resolution to approve County Guaranteed Bond Financing Plan for the Housing Opportunities Commission: MetroPointe Apartments Development**

This resolution was introduced at the Council's November 3, 2009 session. It will be reviewed by the MFP Committee at their November 23, 2009 session, therefore no Committee recommendation was available at the time of this packet.

Background

On September 19, 2006, the County Council approved Resolution No. 15-1609, *Approval of the County's Guarantee of Notes to be Issued by the Housing Opportunities Commission of Montgomery County to Finance the Construction and Permanent Financing of the Wheaton Metro Kiss & Ride Development*. With this authorization, HOC issued \$36,350,000 in taxable notes with a term that ended on January 1, 2009. These notes financed what is now called MetroPointe, a 173 unit multifamily rental apartment building in the Wheaton Central Business District. It was expected that before January 1, 2009, HOC would issue long-term bonds and that the proceeds would be used to retire the notes.

On November 25, 2008, the Council adopted Resolution No. 16-779, *Approval of the County's Guarantee of \$33,380,000, Housing Opportunities Commission of Montgomery County, Housing Development Bonds, 2008 Issue A, to provide the financing to refund and redeem the outstanding Housing Opportunities Commission of Montgomery County, Housing Development Bonds, 2006 Issue A (Federally taxable) that were guaranteed by the County to provide funding for the Wheaton Metro Kiss & Ride Development*. Economic conditions resulted

in HOC being unable to issue long-term debt as was envisioned in the original financing plan and HOC requested, the County Executive recommended, and the Council approved use of the County's guarantee. HOC expected to be able to provide alternative financing for the development on or before January 1, 2010.

On October 20, 2009, Council President Andrews received a request from HOC asking approval for continued use of the County's guarantee for the issuance of \$33,075,000 in tax-exempt bonds for two years. In its request, HOC notes that turbulence in the financial markets is continuing and they are unable to obtain the long-term financing as expected. On October 28, 2009, Council President Andrews received the County Executive's recommendation that the Council should approve this request. The County Executive's memo says that the proceeds from these new notes will be used to pay-off the matured notes and no new money is being generated. Because this is the case, the County Executive is again waiving the requirement for a feasibility study, as such a study was completed for the issuance of the 2006 notes. Bond counsel has agreed that a truncated application is appropriate as the project is built and in operation (the building is 97% leased.)

The draft approval resolution is attached at © 4-7 for introduction. The County Executive's recommendation is attached at © 1-3. The request from HOC is attached at © 8-15. The full financing application is not attached to this packet. It is available in the Council's Legislative Information Services office and is available on the Council's website as a part of the packet from November 3, 2009, Agenda Item #2(F). It will be attached to the resolution if it is approved.

County Code Section 20-34 requires the County Council to hold a public hearing on this request. The law requires a minimum of 15 days notice.



OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

October 28, 2009

TO: Phil Andrews, President
Montgomery County Council

FROM: Isiah Leggett, County Executive 

SUBJECT: County Guaranteed Bond Financing Plan for the
Wheaton MetroPointe Apartments Development

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RECEIVED
MONTGOMERY COUNTY
COUNCIL

In September 2006, then-County Executive Duncan approved the use of the County's bond guarantee to facilitate the financing of the MetroPointe Apartments Development, then known as the Wheaton Metro Kiss and Ride Development. In 2006, bonds were issued in the amount of \$36.4 million, which matured on January 1, 2009. Approximately two months prior to the bond maturity, HOC approached the County stating that due to the turmoil in the financial markets, HOC was requesting that the County Executive and the Council again approve the use of the County guarantee for one year. The 2006 notes matured on January 1, 2009 and the proceeds of the new 2008 notes were used to pay off the 2006 notes.

The Wheaton MetroPointe Apartments Development was completed and the grand opening was held on November 13, 2008. Unfortunately, the turmoil in the credit markets continues and it is financially disadvantageous for HOC to fully carry out the original financing plans of the project. Therefore, HOC is again seeking the approval of the Executive and the Council to further use the County's guaranty. This time, the new notes, which will be used to defease the 2008 notes, and will be issued for a two-year period instead of just one year. This will allow HOC more time to complete the permanent financing of the project. Attached for your review are the HOC transmittal letter and Bond Financing Application.

Review of Financing

Pursuant to Section 20-32 of the Montgomery County Code, in order to utilize the Bond Guarantee Program, HOC is to present to the County Executive and the County Council a complete bond financing application. That application is to address 13 facts relevant to the transactions. Some of the facts include:

- Term and conditions of the bonds;
- Estimated bond interest rate, and the basis for the estimate;
- Description of the proposed project with detailed estimates of construction and related costs to bring it to the point of readiness to rent or sell;
- Description of the accounting system for recording and controlling expenditures of bond funds, debt service, operating cost, reserves and revenues;
- Explanation of the use of any reserves relating to bonds issued for the benefit of the project; and
- Explanation of the potential obligations of the county arising from a default with respect to any bonds issued for the benefit of the project.

Upon completion of the Executive's review, the Executive is to submit a recommendation to the Council and comment on the feasibility of the project. A feasibility study was included with the initial Bond Financing Application in 2006, but was waived for subsequent note issues. The feasibility study may be waived by the Executive in the case of projects financed, insured, or assisted by the State or Federal Government.

While each subsequent issuance of notes; that is, in 2006, 2008, and now in 2009, represents a new issuance of notes, the proceeds of each note sale are used to defease the maturity notes. Therefore, there is no new money being generated by subsequent note sales. Essentially, the notes from the original sale are being rolled-over. Section 20-32 does not address, specifically, the possibility of subsequent issues and reissues of the same obligation.

Under these unusual circumstances, County staff and HOC approached the County's bond counsel, McKennon, Shelton, and Henn and asked if the Bond Financing Application could be truncated in light of the fact that the project was built and in operation. Bond counsel agreed that duplication of the original application was not necessary for HOC to be compliant with the Bond Guarantee Program. The attached document was prepared by HOC, in conjunction with bond counsel, and adequately complies with Section 20-32.

Recommendation and Action

It is the intention of the Commission to issue new notes in December 2009 and to again attempt to convert those short-term notes to a permanent long-term debt sometime over the next two years. In order to utilize the County guarantee, the County Code requires that HOC submit both a Bond Financing Application and a feasibility study relative to the proposed project. The Bond Financing Application was truncated

Memorandum to Phil Andrews
October 28, 2009
Page 3

and is attached and I am again waiving the feasibility study requirement for this re-financing of the 2008 notes.

I am requesting that the attached resolution authorizing the bond issuance be introduced by the County Council on November 3, 2009, that a date is established for a public hearing to consider this matter, and that the County Council adopts that resolution subsequent to the public hearing. The Department of Finance conducted a comprehensive review of this request and found the proposed MetroPointe Apartment Development re-financing to be an appropriate use of the County's guarantee. Therefore, I recommend that the County Council approve the resolution.

IL/gww

Attachments

cc: Jennifer E. Barrett, Director, DOF

Resolution No.: _____
Introduced: _____
Adopted: _____

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

By: County Council

SUBJECT: Authority:

- (1) to approve the County's Guarantee of not to exceed \$33,075,000 Housing Opportunities Commission of Montgomery County Housing Development Bonds, 2009 Issue A
- (2) to refund and redeem the outstanding \$33,050,000 Housing Opportunities Commission of Montgomery County Housing Development Bonds, 2008 Issue A, that were guaranteed by the County which financed or refinanced the Wheaton Metro Kiss & Ride Development, now known as the MetroPointe Apartments Development.

Background

1. Section 16-201, Division II of the Housing and Community Development Article of the Annotated Code of Maryland, as amended, authorizes Montgomery County, Maryland (the "County") by local law to provide for the guaranty by the County of the principal of and interest on bonds, notes, interim certificates, debentures, or other obligations issued by the Housing Opportunities Commission of Montgomery County ("HOC") to finance the construction and rehabilitation of housing that has rental rates and prices not being offered in adequate quantity in the private sector.
2. Chapter 20, Article VI of the Montgomery County Code establishes procedures for the review and approval of the issuance of HOC notes guaranteed by the County.
3. HOC requested that the County guarantee short term obligations to be issued by HOC for the purpose of providing construction financing for the Wheaton Metro Kiss & Ride Development, a multifamily rental housing development located in Montgomery County, Maryland, now known as the MetroPointe Apartments Development (the "Development"). HOC advised the County that it intended to

issue long-term revenue bonds, which would not be guaranteed by the County, for the permanent financing of this Development.

4. The County Council adopted Resolution No. 15-1609 on September 19, 2006 that provided the County's full faith and credit guarantee for the planned HOC bond issuance, provided the maximum total interest cost could not exceed \$3,366,340 with a rate not exceeding 6.40% on a principal amount not to exceed \$36,350,000.
5. On September 28, 2006, HOC issued its \$36,350,000 Housing Development Bonds, 2006 Issue A (Federally Taxable) (the "2006 Bonds") for the purpose of financing the costs of constructing the Development, with the guarantee provided by the County (the "2006 Guarantee"). The 2006 Bonds had a maturity of January 1, 2009 and the County's guarantee expired on such date.
6. HOC substantially completed the construction of the Development in October 2008. HOC describes the Development as a Class A apartment building with 173 one, two, and three bedroom apartments, of which 53 are income restricted apartments that provide affordable rental housing. The Development is built on a site that was an underused Metro parking lot in the Wheaton Central Business District (the "CBD"). The Development is located on the southeast corner of Georgia Avenue and Reedie Drive in the Wheaton CBD. The address for the Development is 11175 Georgia Avenue, Wheaton, Maryland, atop the existing Metro Kiss and Ride facility. The building stretches the full block of Reedie Drive, between Amherst and Georgia Avenues, and wraps around a garage that provides parking for the residents and a new Kiss and Ride facility for the Metro. The Development has a current mortgage with an outstanding principal balance of \$33,152,608.70.
7. As a result of market conditions, HOC desired to delay the permanent financing and to issue short-term debt to refund and redeem the 2006 Bonds. HOC requested that the County guarantee such short term debt.
8. Under the requirement of Title 16, Division II of the Housing and Community Development Article of the Annotated Code of Maryland, as amended, and Chapter 20, Article VI of the Montgomery County Code, HOC submitted to the County Council and County Executive a Bond Financing Application for the Extension of Financing for MetroPointe Development Apartments, dated October 30, 2008 (the "2008 Bond Financing Application").
9. As required under Chapter 20, Article VI of the Montgomery County Code, the County Executive considered the feasibility of the proposed terms and conditions of the short term debt, and, in a memorandum to the President of the County Council dated November 13, 2008, the County Executive requested that a hearing be held by the County Council to consider the merits of the HOC proposal and further recommended approval of the 2008 Bond Financing Application.

10. A public hearing was held on November 25, 2008, to consider the merits of the 2008 Bond Financing Application. HOC's recommendation regarding the proposed financing was provided at and prior to the public hearing.
11. The County Council adopted Resolution No. 16-779 on November 25, 2008 that provided the County's full faith and credit guarantee for the planned issuance of short term debt by HOC, provided the maximum total interest cost could not exceed \$1,481,701 with a rate not exceeding 4.25% per annum on a principal amount not to exceed \$33,380,000.
12. On December 11, 2008, HOC issued its \$33,050,000 Housing Opportunities Commission of Montgomery County Housing Development Bonds, 2008 Issue A (the "2008 Bonds"), with the guarantee provided by the County (the "2008 Guarantee"), and applied the proceeds of the 2008 Bonds to the refunding and redemption of the 2006 Bonds. The 2008 Bonds have a maturity of January 1, 2010 and the 2008 Guarantee will expire on such date.
13. As a result of continuing market conditions, HOC would like to further delay the permanent financing of the Development and is seeking an additional two-year guaranty of the County (the "2009 Guaranty") for the purposes of guaranteeing the issuance of its short term \$33,075,000 Housing Opportunities Commission of Montgomery County Housing Development Bonds, 2009 Issue A (the "2009 Bonds"), the proceeds of which will be applied to the refunding and redemption of the 2008 Bonds.
14. Under the requirement of Title 16, Division II of the Housing and Community Development Article of the Annotated Code of Maryland, as amended, and Chapter 20, Article VI of the Montgomery County Code, HOC submitted to the County Council and the County Executive a Bond Financing Application (the "2009 Bond Financing Application"), attached as Exhibit A and made a part of this Resolution.
15. HOC has confirmed to the County Council and the County Executive (i) the financial stability of the Development, (ii) no event of default has occurred in connection with the 2008 Bonds or the loan of the proceeds of such 2008 Bonds or the Development, (iii) the Development is being used for the purpose for which it was constructed and financed, (iv) the maximum total interest cost to be in effect for the 2009 Bonds as set forth in the 2009 Bond Financing Application, and (v) the documentation and information required by Section 20-33 of the Montgomery County Code in its 2009 Bond Financing Application.
16. As required under Chapter 20, Article VI of the Montgomery County Code, the County Executive has considered the feasibility of the proposed terms and conditions of the 2009 Bonds and, in a memorandum to the President of the County Council dated October __, 2009, the County Executive requested that a hearing be held by the County Council to consider the merits of the HOC proposal and further recommended approval of the 2009 Guaranty.

17. A public hearing was held on November __, 2009, to consider the merits of the 2009 Bond Financing Application and the request for the 2009 Guaranty. HOC's recommendation regarding the proposed financing was provided at and prior to the public hearing.

Action

The County Council for Montgomery County, Maryland approves the following resolution:

1. The full faith and credit guarantee by Montgomery County, Maryland of the 2009 Bonds to be issued in a principal amount not to exceed \$33,075,000 for the benefit of the MetroPointe Apartments Development is approved.
2. The maximum total interest cost on the 2009 Bonds may not exceed \$1,405,688 per annum, as calculated using true interest cost on the 2009 Bonds not exceeding 4.25% per annum.
3. The terms of the 2009 Bonds, the purposes for which the proceeds of the 2009 Bonds may be expended, and the method for controlling the expenditures for the development financed by the proceeds of the 2009 Bonds must be in accordance with the 2009 Bond Financing Application and all applicable law.
4. A commercial bank is authorized to serve as Trustee under the Trust Indenture to be executed by HOC in connection with the issuance of the 2009 Bonds. The Trust Indenture related to the issuance of the 2009 Bonds must be approved by the County Executive and the Director of Finance prior to the issuance of the 2009 Bonds.
5. The Director of Finance is hereby authorized and directed to execute and deliver all documents relative to the issuance and the terms of the 2009 Bonds, the County's guarantee herewith approved for the 2009 Bonds and any other documents or certificates thereof as he deems necessary and appropriate to effectuate the purposes of this resolution. This documentation must include an agreement by HOC to repay the county any amounts drawn on the County's guarantee, with interest (calculated at the rate of interest payable on the 2009 Bonds).
6. This resolution takes effect as authorized under Chapter 20, Article VI of the Montgomery County Code.

Phil Andrews, President, County Council

Date

This is a correct copy of Council action.

Linda M. Lauer, Clerk of the Council

COPY



**HOUSING
OPPORTUNITIES
COMMISSION**
OF MONTGOMERY COUNTY, MD

10400 Detrick Avenue
Kensington, Maryland 20895-2484
(240) 773-9000

October 19, 2009

Honorable Isiah Leggett
County Executive
Montgomery County Council
Executive Office Building
101 Monroe Street
Rockville, Maryland 20850

Re: Bond Financing Application for the Extension of Financing for MetroPointe
Apartments (formerly Wheaton Metro Kiss and Ride Development)

Dear Mr. Leggett:

This letter serves to transmit to the County Executive an update to the Bond Financing Application dated November 7, 2008, prepared by Caine Mitter & Associates, Incorporated, Financial Advisor to the Housing Opportunities Commission (HOC) for the MetroPointe Apartments (the Bond Financing Application). The Bond Financing Application was prepared in accordance with Article VI of the Montgomery County Code. Article VI of the Code provides for the use of the County's General Obligation (GO) backing for bonds issued by HOC to finance affordable housing. Article VI also describes the process required to secure the County's approval to use its GO. The submission of the bond financing application describing the transaction and the bonds to be guaranteed by the County is a part of that process. HOC is providing an update to the bond financing application that was prepared in 2008 as part of a request to the County to extend its GO pledge for new tax-exempt Notes to be issued by HOC for the MetroPointe Apartments Housing Development, and we are seeking your recommendation to the County Council of this action.

On September 19, 2006, the County Council adopted Resolution 15-1609, which authorized the use of the County's GO guarantee of HOC's issuance of \$36,350,000 in taxable Notes. The Notes were issued in November of 2006 (the "2006 Notes") to finance the construction of the MetroPointe Apartments Development. HOC intended to issue long-term bonds on or before January 1, 2009 and use the proceeds to redeem the 2006 County Guaranteed Notes. However, because of the disruption in the financial markets, HOC was unable to issue long-term bonds at that time, and again sought the approval of the County to extend the term of the County Guarantee for one additional year. On November 25, 2008, the County Council adopted Resolution 16-779, which authorized the issuance of \$33,075,000 in tax-exempt Notes (the "2008 Notes"). The 2006 Notes matured on January 1, 2009 and were redeemed in part using the proceeds of the 2008 Notes. A portion of the 2006 Notes were redeemed using an HOC line of credit with PNC Bank. The 2008 Notes are due to mature on January 1, 2010.



of the 2008 Notes. A portion of the 2006 Notes were redeemed using an HOC line of credit with PNC Bank. The 2008 Notes are due to mature on January 1, 2010.

The disruptions which required HOC to seek the County GO support to finance the MetroPointe development have not abated. HOC is therefore requesting that the County agree to extend its GO Guarantee for this transaction for an additional two years. The new County Guaranteed Notes will be tax-exempt in the amount of \$33,075,000. Again, it is HOC's intention to issue long-term bonds to effect a permanent financing at the end of this new two-year period. It is expected that given time and with the measures that the federal government is taking, the financial markets should improve during the term of the 2009 Notes. Nonetheless, should the financial markets not improve by the summer of 2011, HOC will again come to the County and request yet another extension of this facility which has been critical to the success of the MetroPointe transaction.

MetroPointe is a 173-unit multifamily rental apartment development located in the Central Business District of Wheaton. The Development was completed in November 2008 and is 97.10% leased. The property provides a mix of affordable and market rate housing at Georgia Avenue and Reedie Drive over the Wheaton Metro Station. Of the 173 rental apartment units, 30 percent of the units, or 53 apartments, are affordable, while the remaining 120 units are rented at market rates. Of the affordable units, two-thirds, or 35 units, are restricted to residents with incomes at or below 50% of the area median. The remaining 18 units have the benefit of project-based housing choice vouchers and serve tenants with incomes at or below 30% of the area median income. HOC believes this transportation-oriented project to be a key component in the County's plan to address its affordable housing needs.

The ownership is structured as two condominiums. One condominium consists of the 120-apartment unit market rate portion, which is owned by Wheaton Metro Development Corporation, a non-profit corporation created and controlled by HOC. The second condominium consists of the 53-apartment unit affordable housing portion, which is owned by a limited partnership and HOC, with HOC serving as the managing general partner. HOC formed the limited partnership so that it could raise funds through the sale of the Low Income Housing Tax Credits to pay a portion of the project's development costs. While there are two condominiums, the project is operated as a single unit. The mortgage loans for the project are endorsed for mortgage insurance by the Federal Housing Administration ("FHA") under its Risk Sharing Program. Having insurance of the mortgages through FHA is an added protection for the County. Should there be a default with the property, HOC would file a claim on the mortgage insurance and use the proceeds to redeem the County's Notes, making any draw for the County's GO pledge remote.

While the property enjoys a good occupancy, it has nonetheless also experienced the impact of the turbulence in the economy, which has required the Commission to continue to provide monetary support in the form of operating and

financing reserves. The Commission has committed up to \$750,000 from its resources to cover operating deficits and to pay debt service through calendar year 2011, the term of the new GO request. The Commission has also committed to fund potential operating deficits related to the project financing through the term of the Notes for \$644,508. Other safeguards include a project replacement reserve to which deposits are made on a monthly basis and a debt service coverage reserve account in the amount of \$230,000 from HOC's General Fund Operating Reserve. This account is held until the project achieves 1.10 debt service coverage and 95% occupancy for 12 consecutive months.

This request for continued Montgomery County GO support is in accordance with the requirements of Chapter 20, Article VI of the Montgomery County Code (the "Code"). Section 20-33 of the County Code authorizes the County to guarantee bonds issued by HOC pursuant to the Maryland Housing Authorities Law, constituting Division II of the Housing and Community Development Article of the Annotated Code of Maryland, as amended, (the "Act"). Also, pursuant to the Code, this is to request that the County Executive recommend that the County Council establish a date for a public hearing to consider this matter and adopt a resolution approving HOC's use of this bond guarantee. Paul Shelton, Esquire of McKennon Shelton & Henn LLP, the County's Bond Counsel, for this matter has prepared the resolution for this transaction.

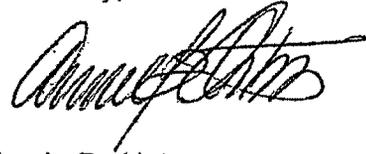
In 2006, the County employed the services of its financial advisor PRAG to review and provide a comprehensive evaluation of this transaction. PRAG's review included an analysis of the market/feasibility and concluded that it was reasonable for the County to proceed to guaranty the Notes to be issued by HOC. The bond financing application and the update provide the most current materials on this transaction and have been made available for review by the County's Department of Finance for the County Executive's Office. HOC's financial advisor has participated in the preparation of the update to the bond financing application. In addition to HOC's continuing financial support for the project, the mortgages for the property are now fully insured by the FHA, making a call on the County's GO more remote. Section 20-33 (c) of the Code provides that "the furnishing of the independent feasibility study or studies may be waived by the County Executive in the case of projects financed, insured, or assisted by State or [the] federal government." Therefore, consistent with the Code, HOC is requesting that the County Executive waive the requirement that HOC provide an independent feasibility study.

It is our intention to issue these Notes on or before December 17, 2009 and use the proceeds to redeem the outstanding Notes on January 1, 2010.

We are asking that you provide the County Council with your recommendation concerning this matter and request that the County Council schedule a hearing to consider this matter at its November 24, 2009 meeting. We would be pleased to meet with you and your staff to respond to questions they may have on this subject or provide additional information.

Honorable Isiah Leggett
October 19, 2009

Sincerely,



Annie B. Alston
Executive Director

cc: Honorable Phil Andrews, President, Montgomery County Council
Jennifer Barrett, Director of Finance, Montgomery County
Richard Y. Nelson, Jr., Director, Department of Housing and Community Affairs



**HOUSING
OPPORTUNITIES
COMMISSION**
OF MONTGOMERY COUNTY, MD

10400 Detrick Avenue
Kensington, Maryland 20895-2484
(301) 929-6700

October 20, 2009

Honorable Phil Andrews, President
County Council of Montgomery County
Montgomery County Council
Council Office Building
100 Maryland Avenue
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Apartments (formerly Wheaton Metro Kiss and Ride Development)

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On September 19, 2006, the County Council adopted Resolution 15-1609, which authorized the use of the County's GO guarantee of HOC's issuance of \$36,350,000 in taxable Notes. The Notes were issued in November of 2006 (the "2006 Notes") to finance the construction of the MetroPointe Apartments Development. HOC intended to issue long term bonds on or before January 1, 2009 and use the proceeds to redeem the 2006 County Guaranteed Notes. However, because of the disruption in the financial markets, HOC was unable to issue long-term bonds at that time and again sought the approval of the County to extend the term of the County Guarantee for one additional year. On November 25, 2008, the County Council adopted Resolution 16-779, which authorized the issuance of \$33,075,000 in tax-exempt Notes (the "2008 Notes"). The



Honorable Phil Andrews
October 20, 2009

2006 Notes matured on January 1, 2009 and were redeemed in part using the proceeds of the 2008 Notes. A portion of the 2006 Notes were redeemed using an HOC line of credit with PNC Bank. The 2008 Notes are due to mature on January 1, 2010.

The disruptions which required HOC to seek the County GO support to finance the MetroPointe development have not abated. HOC is therefore requesting that the County agree to extend its GO Guarantee for this transaction for an additional two years. The new County Guaranteed Notes will be tax-exempt in the amount of \$33,075,000. Again, it is HOC's intention to issue long-term bonds to effect a permanent financing at the end of this new two-year period. It is expected that given time, and with the measures that the federal government is taking, the financial markets should improve during the term of the 2009 Notes. Nonetheless, should the financial markets not improve by the summer of 2011, HOC will again come to the County and request yet another extension of this facility which has been critical to the success of the MetroPointe transaction.

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The ownership is structured as two condominiums. One condominium consists of the 120-apartment unit market rate portion, which is owned by Wheaton Metro Development Corporation, a non-profit corporation created and controlled by HOC. The second condominium consists of the 53-apartment unit affordable housing portion, which is owned by a limited partnership and HOC, with HOC serving as the managing general partner. HOC formed the limited partnership so that it could raise funds through the sale of the Low Income Housing Tax Credits to pay a portion of the project's development costs. While there are two condominiums, the project is operated as a single unit. The mortgage loans for the project are endorsed for mortgage insurance by the Federal Housing Administration ("FHA") under its Risk Sharing Program. Having insurance of the mortgages through FHA is an added protection for the County. Should there be a default with the property, HOC would file a claim on the mortgage insurance and use the proceeds to redeem the County's Notes, making any draw for the County's GO pledge remote.

While the property enjoys a good occupancy, it has nonetheless also experienced the impact of the turbulence in the economy, which has required the

Honorable Phil Andrews
October 19, 2009

Commission to continue to provide monetary support in the form of operating and financing reserves. The Commission has committed up to \$750,000 from its resources to cover operating deficits and to pay debt service through calendar year 2011, the term of the new GO request. The Commission has also committed to fund potential operating deficits related to the project financing through the term of the Notes in the amount of \$644,508. Other safeguards include a project replacement reserve to which deposits are made on a monthly basis and a debt service coverage reserve account in the amount of \$230,000 from HOC's General Fund Operating Reserve. This account is held until the project achieves 1.10 debt service coverage and 95% occupancy for 12 consecutive months.

This request is in accordance with the requirements of Chapter 20, Article VI of the Montgomery County Code (the "Code"). Section 20-33 of the County Code authorizes the County to guarantee bonds issued by HOC pursuant to the Maryland Housing Authorities Law, constituting Division II of the Housing and Community Development Article of the Annotated Code of Maryland, as amended, (the "Act"). Also, pursuant to the Code, HOC has requested that the County Executive provide the County Council with its recommendations including a request that the County Council establish a date for a public hearing to consider this matter and adopt a resolution approving HOC's use of the County guarantee.

This Bond Financing Application along with the update provide the most current materials on this transaction and has been thoroughly reviewed by the County's Department of Finance for the County Executive's Office. A separate recommendation will be provided by the County Executive.

It is our intention to issue these Notes on or before December 17, 2009 and use the proceeds to redeem the outstanding Notes on January 1, 2010.

We are asking that the County Council schedule a hearing to consider this matter at its November 24, 2009 meeting. We would be pleased to meet with you and your staff of the County Council to respond to questions they may have on this subject or provide additional information.

Honorable Phil Andrews
October 20, 2009

Sincerely,


Annie B. Alston
Executive Director

cc: Honorable Isiah Leggett, County Executive, Montgomery County Council
Jennifer Barrett, Director of Finance, Montgomery County
Richard Y. Nelson, Jr., Director, Department of Housing and Community Affairs