Montgomery County Council

Committee: Joint
Committee Review: Completed
Staff: Linda McMillan, Senior Legislative Analyst
Purpose: To receive testimony/final action - vote expected
Keywords: #HOC_HPF

AGENDA ITEM #6
March 23, 2021
Public Hearing/Action

SUBJECT

Special Appropriation to the Fiscal Year 2021 Operating Budget; Montgomery County Government; Department of Housing and Community Affairs; Montgomery Housing Initiative (Housing Initiative Fund); Housing Opportunities Commission (HOC) Housing Production Fund; $500,000 (Source of Funds: General Fund Designated Reserve for Affordable Housing); Lead Sponsor: County Council

EXPECTED ATTENDEES

Stacy Spann, Executive Director, Housing Opportunities Commission (HOC)
Zachary Marks, Director of Development Real Estate, HOC
Kayrine Brown, Chief Investment and Real Estate Officer, HOC

COUNCIL DECISION POINTS & COMMITTEE RECOMMENDATION

- The Joint Planning, Housing, & Economic Development (PHED) Committee and Government Operations & Fiscal Policy (GO) Committee held a worksession on July 27, 2020 and recommended approval of a $50 million HOC Housing Production Fund. The revolving fund will provide a source of construction bridge financing for affordable housing developments in the HOC pipeline. The Joint Committee requested staff determine the appropriate documents and action required to establish the fund. The Joint Committee recommended that the annual county funding not exceed $3.4 million, that any interest paid by the developments be paid to the Housing Initiative Fund, and that the Council retain the ability to change how the interest payments are used. The full County Council sponsored the introduction of this special appropriation to authorize the Housing Production Fund.
- This special appropriation was introduced on March 9, 2021.

DESCRIPTION/ISSUE

Montgomery County has a shortage of all housing, but particularly affordable housing. The County has tools to support the development of new affordable housing but must find new and innovative ways to leverage funds to increase production to meet the housing goals the Council adopted in Resolution 19-284, Resolution to Support Metro Metropolitan Washington Council of Governments' Regional Housing Targets for Montgomery County.

The Housing Opportunities Commission is the county's public housing agency with a mission to provide affordable housing and supportive services that enhance the lives of low and moderate-income families and individuals so that no one is living in substandard housing. HOC has produced award winning mixed-income housing and has a development and redevelopment pipeline from projects in its portfolios and partnerships with private developers.

HOC can accelerate its development of these pipeline projects with ready access to additional construction bridge financing. During FY21 budget worksessions, the PHED Committee worked with HOC to develop a proposal to create a revolving production fund. HOC would issue the bonds that would provide the capital for the fund. The County Government would make funds available, subject to annual appropriation, to cover the cost of debt service. There will be interest paid from the developments and the PHED Committee considered options on how those funds could be used. This revolving fund would reduce or eliminate HOC's need for upfront investment from the Housing Initiative Fund for individual projects, increasing the availability of HIF funds for other affordable housing production and preservation efforts.

The HOC Housing Production Fund could not be fully vetted before the Council's final action on the FY21 Operating Budget. The Council placed $6.8 million that was recommended for the Housing Initiative Fund into a designated reserve for affordable housing to allow it to act on this proposal and potentially other initiatives during FY21. The funding for this special appropriation is from this designated reserve.

At the June 22, 2020 PHED Committee worksession, HOC provided a presentation on the Housing Production Fund (attached). The presentation provides information on recent HOC developments and pipeline developments. The presentation said that a $50 million fund will provide committed capital for part of HOC's 5,500 unit pipeline.

On July 27 the Joint PHED and GO Committee held a worksession on this proposal. The Joint Committee recommended creation of the fund – restating the Council's strong commitment to increase the housing stock and affordable housing. The Joint Committee recommended a $50 million Housing Production Fund and also recommended that the annual appropriation not exceed $3.4 million. Bonds will have a final maturity of not more than 20 years. Interest from developments will be paid to the HIF, but the Council retains the right to modify that requirement in the future. Depending on the timing of the bond issuance, the operating budget requirements for the first and second year could be less than the $3.4 million maximum.

HOC developments funded using the proceeds of the Housing Production Fund must have at least 20% of the total dwelling units priced to be affordable to households earning 50% or less of the area median income adjusted for household size. An additional 10% of all units will be affordable to households with incomes eligible for a Moderately Priced Dwelling Unit.

Since the Joint PHED and GO Committee session, Council staff, HOC staff, and Executive staff have been working to develop funding and trust agreements and to determine the action needed by the Council to authorize this fund. The resolution attached at (1)-(4) will authorize the fund. Because it is closer to the end of FY21 than originally planned, $500,000 is recommended as the appropriation. Appropriation for FY22 will be considered and acted on during the Council's FY22 budget worksessions.

The County Executive's FY22 Recommended Budget for the Montgomery Housing Initiative/Housing Initiative Fund includes the funding for the estimated cost of debt service and also the expected estimated contribution from developments using the HOC Housing Production Fund.

Attached:

Special Appropriation Resolution	1-4
July 27, 2020 Letter of Support from HOC Executive Director Spann to Council President Katz	5-7
HOC Revolving Housing Production Fund Funding, Structure, and Logistics – June 22, 2020	8-22

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Resolution No.: ____________
Introduced: ____________
Adopted: ____________

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

Lead Sponsor: County Council

SUBJECT: Special Appropriation to the Fiscal Year 2021 Operating Budget
Montgomery County Government
Department of Housing and Community Affairs
Montgomery Housing Initiative (Housing Initiative Fund)
Housing Opportunities Commission (HOC) Housing Production Fund
$500,000 (Source of Funds: General Fund Designated Reserve for Affordable Housing)

Background

1. Section 308 of the County Charter provides that a special appropriation is an appropriation which states that it is necessary to meet an unforeseen disaster or other emergency, or to act without delay in the public interest. Each special appropriation shall be approved by not less than six Councilmembers. The Council may approve a special appropriation at any time after public notice by news release. Each special appropriation shall specify the source of funds to finance it.

2. Montgomery County has had a decades long commitment of providing affordable housing to its residents. The County was one of the first jurisdictions in the nation to use inclusionary zoning to provide moderately price dwelling units. The County has committed local funding to provide housing stabilization, rent supports, rapid re-housing, and permanent supportive housing. The County provides loans and grants to affordable housing partners through the Montgomery Housing Initiative (known as the Housing Initiative Fund) and provides tax relief for affordable housing through the payment in lieu of taxes program. Public land is leveraged to support developments with higher percentages of affordable units, and the Council has included provisions in master plans and sector plans to incentivize affordable housing and promote strategies that result in redevelopment of specific parcels so there is no net loss of affordable units.

3. The County's investments have not been enough to meet the current need for all housing and for affordable housing. The Housing Needs Assessment recently completed for the

Montgomery County Planning Board estimates that between years 2020 and 2040, Montgomery County will add over 63,000 new households. In 2018, there was a gap of almost 48,000 units affordable to households with incomes at or below 50% of area median income. The projections show that higher income households will remain the largest group, but the percent of households with incomes below $50,000 will increase. The study estimates over half of new housing units will be multi-family rental.

4. On November 5, 2019, the Council adopted Resolution 19-284, Resolution to Support Metropolitan Washington Council of Governments' Regional Housing Targets for Montgomery County. The Council's actions stated that, "A sufficient stock of quality housing at all levels of affordability is critical to quality of life, health of residents, and the economic development that will bring increased employment opportunities." The Council committed to goals of producing 10,000 housing units above the current forecast and having 75% of new housing in Activity Centers or near high-capacity transit. Housing is one of the four pillars in the Council Economic Development Platform for Montgomery County, adopted on November 19, 2019, in Resolution 19-300.

5. On June 16, 2020, the Council adopted Resolution 19-493, Declaration of Racism as a Public Health Crisis. The resolution says, "Racism causes persistent discrimination and disparate outcomes in many areas of life, including housing, education, employment and criminal justice, and an emerging body of research demonstrates that racism itself is a social determinant of health. The Health Affairs Policy Brief, "Housing and Health: An Overview of the Literature," says, "Housing is one of the best-researched social determinants of health and selected housing interventions for low-income people have been found to improve health outcomes and decrease health care costs." It further notes that residential instability (moving frequently, falling behind on rent, couch surfing) increases a person's likelihood of experiencing poor health compared to stably housed peers.

6. To meet the County's goals for increased housing and increased availability of affordable housing, new creative and dynamic tools are needed including new tools for financing the production of new mixed-income housing developments with housing units affordable to household earning less than 50% of area median income.

7. The Housing Opportunities Commission (HOC) is the County's public housing agency with a mission to provide affordable housing and supportive services that enhance the lives of low and moderate- income families and individuals so that no one is living in substandard housing. HOC has a development and redevelopment pipeline from properties in its own portfolio and from properties acquired through partnerships with private developers. HOC can accelerate developments in its mixed-income housing pipeline with availability of construction period bridge financing.

8. The Council agreed to hold $6.8 million recommended for the Housing Initiative Fund operating budget in a Designated General Fund Reserve to allow further consideration of new models that leverage County funds to create larger pools of financing.

9. The Joint Planning, Housing, and Economic Development Committee and Government Operations and Fiscal Police Committee met on July 27, 2020 and reviewed the proposal for the HOC Housing Production Fund that will among other actions create a pool of construction-bridge financing. The Joint Committee agreed that even as the County responds to the pandemic, it must continue to take big steps forward in meeting housing goals. The pandemic has shown a spotlight on the impacts of crowded housing and the need for more affordable housing. The Joint Committee recommended the creation of a $50 million fund in FY21. The Council will continue to look at new options for financing affordable housing production and preservation.

10. Public notice of this special appropriation was provided by news release.

Action

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

A special appropriation to the FY21 Operating Budget of the Montgomery County Government, in the amount of $2,800,000 is approved as follows:

	Personnel Expense	Operating Expense	TOTAL	Source of Funds
Department of Housing and Community Affairs: Montgomery Housing Initiative	$0	$500,000	$500,000	General Fund Designated Reserve for Affordable Housing
TOTAL	$0	$500,000	$500,000	

The County Executive is authorized to enter into an agreement to establish a $50 million revolving HOC Housing Production Fund with terms and provisions deemed appropriate by the County Executive to achieve the purposes of this Resolution (the "Agreement"). Under the agreement, the County may agree to provide the funding necessary for debt service for HOC-issued bonds in an aggregate par amount not to exceed $50 Million Dollars (the "HOC Bonds") for use by the HOC Housing Production Fund. The proceeds of the HOC Bonds including any premium will be made available solely for the uses of the HOC Housing Production Fund.

Any additional funds made available by the County Government for debt service on the HOC Bonds shall be subject to annual appropriation by the Council. The funds made available from the County Government are not expected to exceed $3.4 Million Dollars as appropriated annually while the HOC Bonds are outstanding. If the County Executive enters into the Agreement, such Agreement must state that the payments from the County Government are subject to annual appropriation. Provided however, that the County Government contribution for debt service on the HOC Bonds payable in FY 21 shall not exceed the $500,000 Dollars the special appropriation authorized in this Resolution. This special appropriation of funds is designated for the FY 2021 debt service payments for the HOC Bonds. The Agreement will provide that the HOC Bonds will have a final maturity not to exceed 20 years from the date of issuance.

The Executive may transfer the entire amount appropriated in this special appropriation to the Montgomery Housing Initiative (Housing Initiative Fund) as needed for the purpose of paying debt service the HOC to be used as set forth in this Resolution.

HOC developments funded using the proceeds of HOC Bonds and any other funds in or made available for the HOC Housing Production Fund must have at least 20% of total dwelling units priced to be affordable to households earning 50% or less of the area median income (AMI) adjusted for household size and an additional 10% of all units affordable to households with incomes eligible for a Moderately Price Dwelling Unit.

The HOC Bonds and related documents shall provide that any earnings on the proceeds of the HOC Bonds will be used to pay the debt service on the HOC Bonds.

Any interest paid by the developments funded through the HOC Housing Production Fund in FY2021 and in future years, unless and until modified by the Council, must be paid to the County Government and must be deposited by the County into the Montgomery Housing Initiative (Housing Initiative Fund).

This appropriation is needed to act without delay in the public interest.

This is a correct copy of Council action.

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Selena Mendy Singleton, Esq.
Clerk of the Council

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

Revolving Housing Production Fund

Funding, Structure, and Logistics

Stacy L. Spann, Executive Director

Kayrine Brown
Zachary Marks

June 22, 2020

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

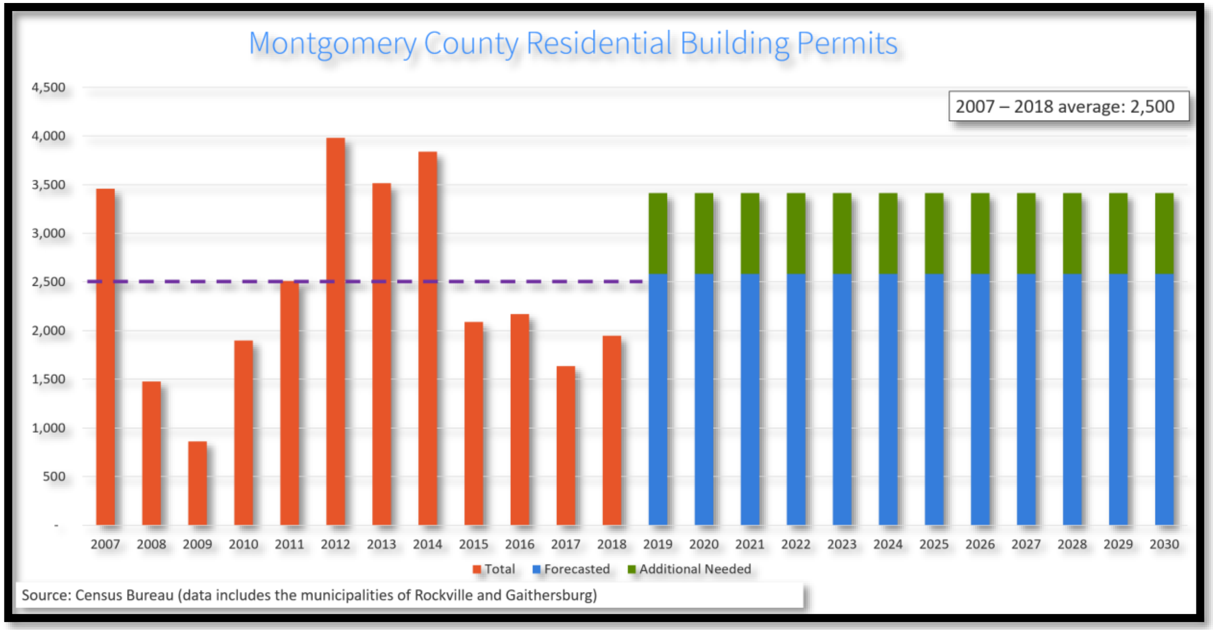
- At \$50MM, the HPF will fund roughly 3,500[2] units over the 20-year life of the bonds.
- The HPF creates a timely and efficient avenue for private developers and private non-profits to participate in this expansion of housing in the County.
- The HPF can easily be increased by additional appropriations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

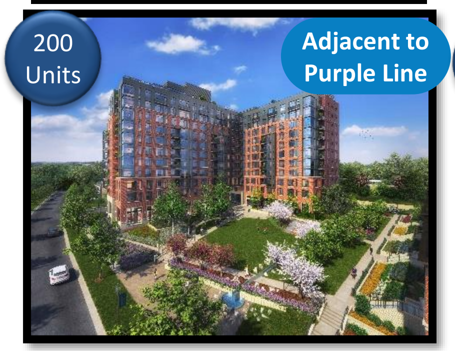
Primary Goal & Delivery Channel

HPF 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

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 3,447	Total Units 1,998

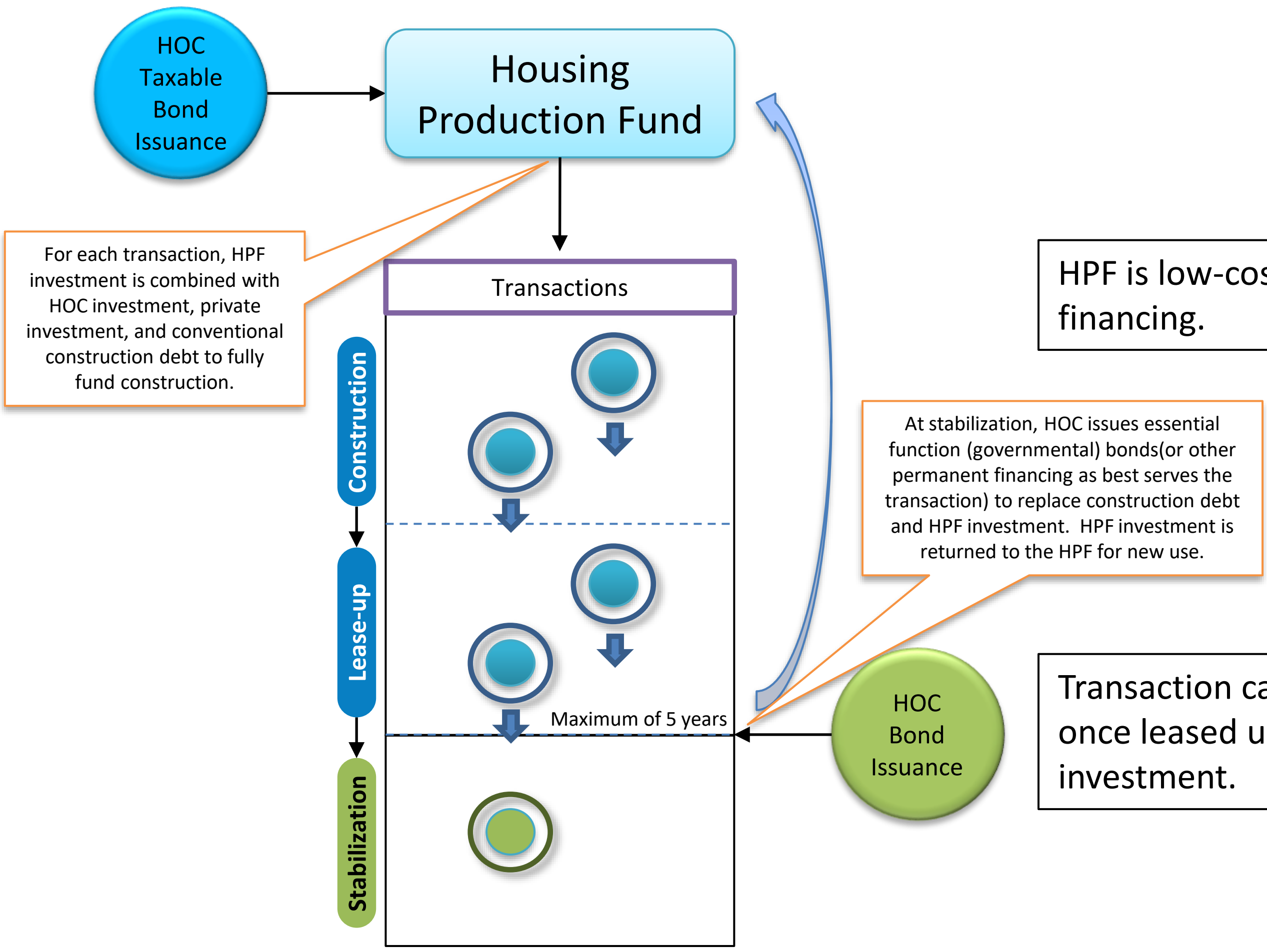
- Dedicated, revolving construction equity financing funded with County-serviced bond issuance.
- At $50MM, approximately 1,750 of 5,445 units in HOC's identified pipeline would be funded with the HPF.
- HOC has two P3 developments starting in FY21 that would fully utilize all of first $50MM.
- Availability 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.

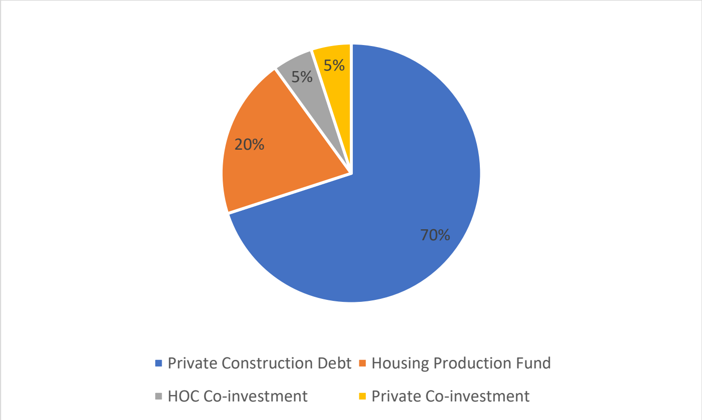
Transaction can support greater senior debt once leased up removing need for HPF investment.

Production Mechanism: Structure

P3 Ownership

Construction (Years 0-2)

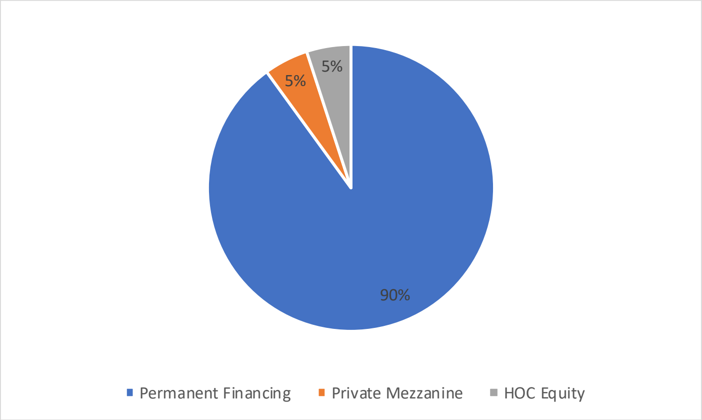
Lease-up (Years 2-4)



- 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.

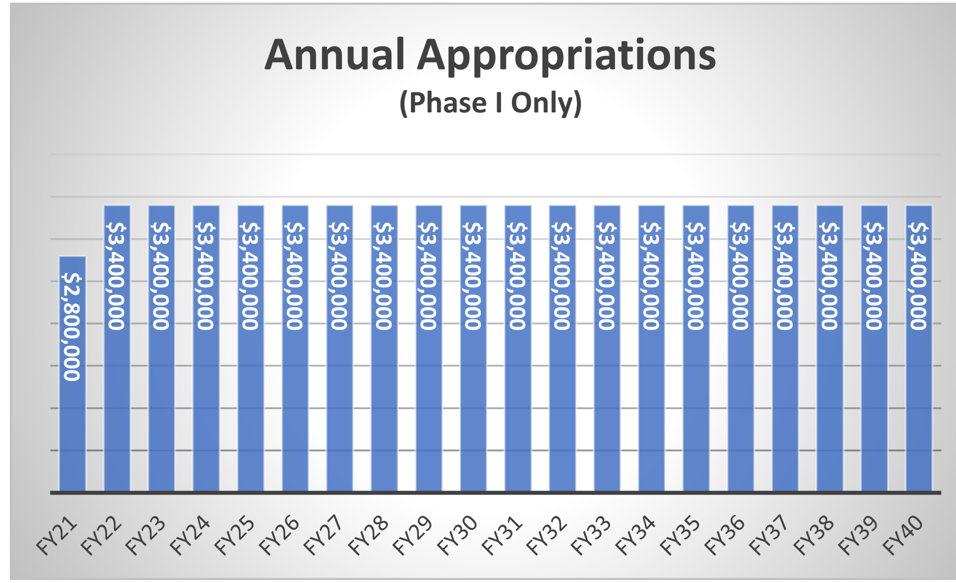
Leveraging of County Funds

25-to-1

HPF @ $50MM (Project Interest to HIF)

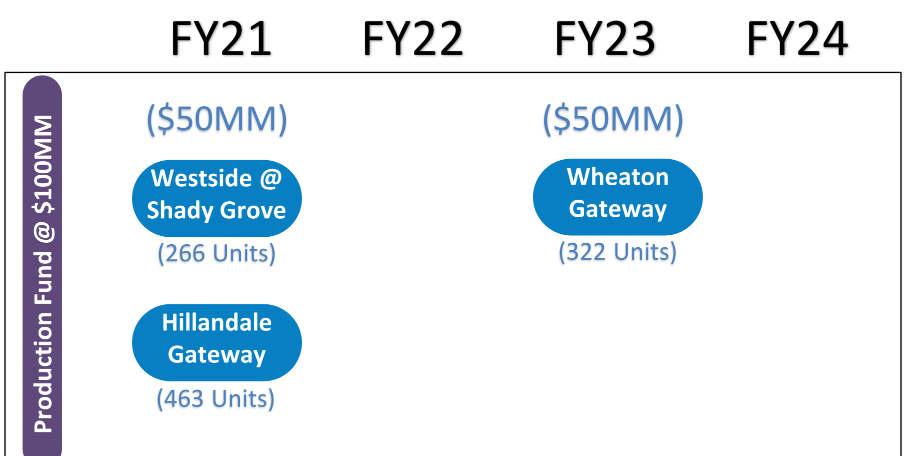
	Bonds Issued	***Bond P+I***	***Project Loans***	***Interest Paid***
FY21	$50,000,000	$2,800,000	$50,000,000	$1,562,501
FY22		$3,400,000		$2,500,000
FY23		$3,400,000		$2,500,000
FY24		$3,400,000		$2,500,000
FY25		$3,400,000	$50,000,000	$2,500,000
FY26		$3,400,000		$2,500,000
FY27		$3,400,000		$2,500,000
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.

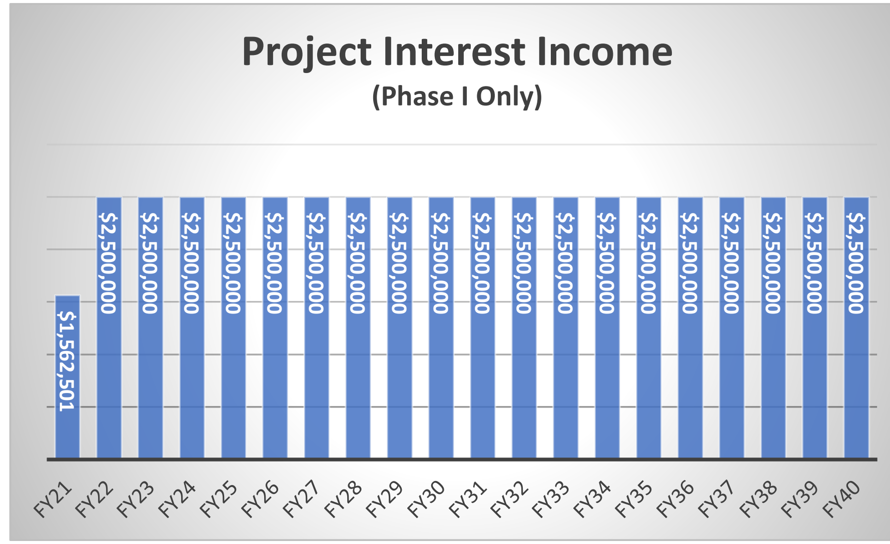


Phase II - $50MM

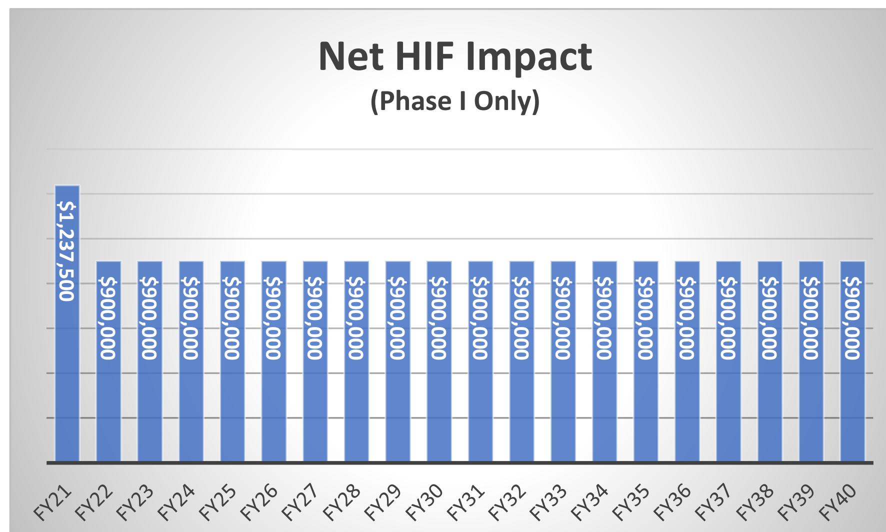
A second $50MM issuance could cover at least a third transaction with an increase in annual appropriations to ~$6.8MM. It may be advantageous to the HPF for this issuance to occur in FY22 to ensure it is done in the current low interest rate environment.

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

107 Units | 53 Aff

Timberlawn

1989

305 Units | 122 Aff

Alexander House

1992

202 Units | 51 Aff

Strathmore

1996

308 Units | 92 Aff

Metropolitan

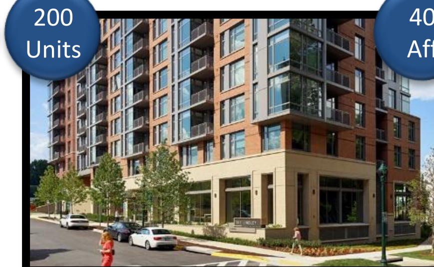
1997

173 Units | 53 Aff

MetroPointe

2008

200 Units | 40 Aff



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.