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Revised: January 28, 2021

BUDGET, FINANCE & AUDIT COMMITTEE

January 29, 2021

10:00 a.m. – via Zoom

Livestream: <https://youtu.be/Rk5JEU6IJCc>

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Minutes

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY

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

Budget, Finance and Audit Committee Minutes

December 15, 2020

For the official record of the Housing Opportunities Commission of Montgomery County, an open meeting of the Budget, Finance and Audit Committee was conducted via an online platform and teleconference on Tuesday, December 15, 2020, with moderator functions occurring at 10400 Detrick Avenue, Kensington, Maryland beginning at 10:03 a.m. Those in attendance were:

Present

Richard Y. Nelson, Jr., Chair – Budget, Finance and Audit Committee
Roy Priest - Commissioner
Frances Kelleher – Commissioner

Guest

Jeffrey Merkowitz - Commissioner

Also Attending

Stacy Spann, Executive Director
Aisha Memon, General Counsel
Terri Fowler
Eugenia Pascual
Claudia Wilson
Nicolas Deandreis
Nilou Razeghi

Kayrine Brown, Deputy Executive Director
Cornelia Kent, Chief Financial Officer
Olutomi Adebo
Francisco Vega
Niketa Patel
Kristyn Greco
Jay Berkowitz

Patrice Birdsong, Spec. Asst. to Commission

Commissioner Nelson opened the meeting of the Budget, Finance and Audit Committee with an introduction of the Commissioners who participate on the Committee, Richard Y. Nelson, Jr., Chair, Roy Priest, and Frances Kelleher. Commissioner Merkowitz joined the meeting as a guest.

DISCUSSION ITEMS

1. Discussion of First Quarter Fiscal Year 2021 Budget to Actual Statement

Cornelia Kent, Chief Financial Officer, introduced Olutomi Adebo, Assistant Budget Officer, who provided the presentation. Ms. Adebo gave a brief update on the impact of COVID-19 on HOC's income statements. Informing that the positive income variance in many properties may be partially off-set by bad debt. At the time the FY'21 Budget was developed property incomes were reduced in an attempt to project the impact of COVID-19 on rent collection. True impact on the income statements will not be reflected until it is 90-days in arrearage to allow for bad debt.

Commissioner Nelson ask if it were possible to give indication of those that are potentially subject to 90-days to get a picture of the Agency. Ms. Kent informed that everything that is receivable is subject to the 90-days, and that there has been a large increase in receivables as well as increase in allowance.

Commissioner Nelson also asked if there was a normal prior to COVID-19. Ms. Kent replied that it was closer to \$1 million and it is much higher, now closer to \$5 million. Both Commissioners Nelson and Kelleher commented that this was distressing but helpful in seeing where the Agency is verses what the numbers are showing. Ms. Kent informed that it is important to note that an expense is being set aside for after 90-days for bad debt and allowances which will reduce the net income.

Ms. Adebo provided a report on Budget to Actual Statements for the Agency through the first quarter of FY'21 consisting of an overall summary and additional detail on the Opportunity Housing properties, the Development Corporation properties, the Public Housing and Housing Choice Voucher (HCV) Programs and all Capital Improvements Budgets.

Commissioner Merkowitz wanted to know if the losses were budgeted for, and if so, is it to be recognized in the next quarter, or as losses that were expected during the quarter that did not materialize.

Ms. Kent explained that rents were reduced during the first quarter to take into consideration the loss. Finance would present a reforecast to the BF&A Committee in late January to take into account the effects of COVID 19 on rental income for the entire FY.

Mr. Spann also explained that it was acknowledged that another adjustment would be made for the FY.

Commissioner Kelleher commented that it was so many moving parts it was not clear as to what would take place. She also wanted to inform listeners that the Agency operates on a fiscal level that begins July – September and the numbers reported are not calendar year.

2. Un-audited Financial Statements for the First Quarter Ended September 30, 2020

Cornelia Kent, Chief Financial Officer, introduced Francisco Vega, Assistant Controller, who provided the presentation. Mr. Vega provided the financial highlights and the overall Agency Net Incomes.

Commissioner Merkowitz inquired if there was a targeted ratio. Mr. Spann explained that the Agency imposes its ratio goals and that most Housing Authorities do not think to do this. Having a sense of liquidity is important based on discussion previously had on rent collections.

Commissioner Kelleher commented that the HAP assistance timing of receipt was the main driver of the offset of the operating expenses.

3. Discussion of Fiscal Year 2021 First Quarter Budget Amendment

Cornelia Kent, Chief Financial Officer, introduced Terri Fowler, Budget Officer, who provided the presentation

Ms. Fowler reported that the Fiscal Year 2021 First Quarter Budget Amendment included some proforma items that are typically done in the First Quarter Budget Amendment as well as changes due to the property extensions in the Opportunity Housing Fund and the renewal of the Fatherhood Grant. Within the General Fund, fees from the Multifamily and Single Family Bonds had a savings in moneys drawn in Fiscal Year 2020. These draws will cover Administrative Expenses in Fiscal Year 2021.

Ms. Fowler also reported that the Opportunity Housing Fund rate is being adjusted and the unrestricted cash could go to the Agency.

It was reported that Georgian Court and Stewartown are to be re-syndicated to tax credit. The daycare at 9845 Lost Knife Road will create non-dwelling income. The Public Fund – Fatherhood Grant was renewed for one year at a rate higher than the previous grant. There will be capital roll over for Opportunity Housing. Georgian Court and Stewartown were budgeted for property extensions to account for minor renovation.

Ms. Fowler reported that this all projected to a budget surplus.

4. Discussion of Calendar Year 2020 Third Quarter Budget Amendment

Cornelia Kent, Chief Financial Officer, introduced Terri Fowler, Budget Officer, who provided the presentation

Ms. Fowler reported that when the Fiscal Year 2021 Budget was adopted it was anticipated that the Bauer Park Apartment would close in the month of June. The conversion to a tax credit did not take place until the end of September 2020 therefore the budget amendment is being done for calendar year 2020 to account for budget beginning October – December 2020. The property is restricted and there is a small capital budget to account for any work not being done in the renovation budget

5. Write-off of Uncollectible Tenant Accounts Receivable (July 1, 2020 – September 30, 2020)

Cornelia Kent, Chief Financial Officer, introduced Nilou Razeghi, Accounting Manager, who provided a presentation on uncollectible tenant accounts write-off.

Ms. Razeghi reported that the Agency's current policy is to provide an allowance for bad debt on tenants' receivable that have been outstanding for over 90-days on a quarterly basis. The staff also recommends to the Commission the write-off of uncollected receivables from past tenants. The primary reason for write-offs are from tenants who skip, voluntarily left their units, death, purchase a home, transfer due to medical reasons or to enter into another program, and non-compliance of program requirements.

Commissioner Nelson commented that there has been issues with VPC I, VPC II, Scattered Sites and MHLP and wanted to know the type of properties and why they are not performing successfully. Ms. Kent explained that they are Scattered Sites (VPC I & VPC II are former public housing; Scattered Sites I & II are former tax credit scattered sites). Not sure why they are not performing but will provide follow-up.

Commissioner Priest commented that purchasing a home was a good thing and wanted to know why it was included as a write-off. It was explained that the tenant skipped out.

At the request of Commissioner Merkowitz staff will provide report on 30-60 day write-offs.

6. Discussion on Extending the use of the PNC Bank Line of Credit to Finance Commission Approved Actions related to Wheaton Gateway

Cornelia Kent, Chief Financial Officer, introduced Eugenia Pascual, Controller, provided a presentation on extending the use of the PNC Bank Line of Credit to finance Commission approved action related to Wheaton Gateway.

Ms. Pascual requested the Budget, Finance and Audit Committee's approval to recommend to the full Commission authorization to extend the use of the Line of Credit (LOC) to Wheaton Gateway, LLC. She explained that the Commission approved in January 2019 a taxable draw from the PNC Bank Line of Credit to fund the acquisition and other cost related to the Lindsey Ford site. HOC has partnered with Duffie Company to develop the Westside, the Veirs Mill side, under the Gateway concept known as Wheaton Gateway, LLC.

At the recommendation of Commissioner Nelson staff will amend the requested date to September 2022.

7. Renewal of the Property Management Contract at Tanglewood Cluster

Cornelia Kent, Chief Financial Officer, introduced Jay Berkowitz, Asset Manager, who provided a presentation on the renewal of the Property Management Contract at Tanglewood Cluster.

Mr. Berkowitz reported that the Property Management Contract with Tanglewood and Sligo Limited Partnership, 527 Dale Drive, Southbridge Apartments and Manchester Manor is expiring March 31, 2021. The contract provides for three (3) one-year renewals. Per the Commission's procurement policy, the Commission must approve all property management contract renewals. Staff is requesting that the contract be renewed for one year with Residential One Management.

Commissioner Kelleher asked about REAC scores for Southbridge and Dale Drive. Mr. Berkowitz informed that there are no REAC scores for these two properties.

A motion was made by Commissioner Priest and seconded by Commissioner Kelleher to recommend to the full Commission the support of the Budget, Finance and Audit Committee's recommendation of items 1, 3, 4, 5, 6, and 7 for approval at the January 13, 2021 monthly Commission meeting. Affirmative votes were cast by Commissioners Nelson, Priest and Kelleher.

Commissioner Nelson expressed his appreciation to the staff and wished all a happy holiday.

The meeting adjourned at 11:13 a.m. Next scheduled meeting is January 29, 2021.

Respectfully submitted,

Stacy L. Spann
Secretary-Treasurer

/pmb

Discussion Items

Budget, Finance & Audit Committee Meeting FY'21 Budget Reforecast

January 29, 2021

FY 2021 Reforecast

| | Unrestricted Net Cash Flow | | |
|---|----------------------------------|---------------------------|-------------------------|
| | (12 Months) Amended Budget | (12 Months) Reforecast | Impact of Reforecast |
| General Fund | | | |
| (1) General Fund | (\$9,011,225) | (\$8,262,809) | \$748,416 |
| Administration of Multifamily and Single Family Fund | | | |
| Multifamily Fund | \$0 | \$0 | \$0 |
| Draw from / (Restrict to) Multifamily Bond Fund | \$0 | \$0 | \$0 |
| Single Family Fund | \$0 | \$0 | \$0 |
| Draw from / (Restrict to) Single Family Bond Fund | \$0 | \$0 | \$0 |
| Opportunity Housing Fund | | | |
| (2) Opportunity Housing Properties | \$2,754,342 | \$2,349,764 | (\$404,578) |
| (2) Development Corporation Property Income | \$6,170,174 | \$5,285,366 | (\$884,808) |
| Restricted Opportunity Housing Properties with Projected Deficits | (\$24,058) | (\$24,058) | \$0 |
| (2) Development Corporation Properties with Projected Deficit | (\$118,024) | (\$322,932) | (\$204,908) |
| OHRF | | | |
| (3) OHRF Balance | \$1,832,266 | \$2,954,888 | \$1,122,622 |
| Excess Cash Flow Restricted | (\$1,832,266) | (\$2,954,888) | (\$1,122,622) |
| Draw from existing funds | \$0 | \$0 | \$0 |
| Net -OHRF | \$0 | \$0 | \$0 |
| SUBTOTAL - General Fund, Multifamily, Single Family, Opportunity Housing | (\$228,791) | (\$974,669) | (\$745,878) |
| Public Fund | | | |
| Housing Choice Voucher Program HAP (2) | \$1,174,934 | \$1,174,934 | \$0 |
| Housing Choice Voucher Program Admin (3) | (\$387,207) | (\$387,207) | \$0 |
| Total -Public Fund | \$787,727 | \$787,727 | \$0 |
| Public Fund - Reserves | | | |
| (2) Draw from / Restrict to HCV Program Cash Reserves | (\$1,174,934) | (\$1,174,934) | \$0 |
| (3) Draw from / Restrict to HCV Program Excess Admin Fee | \$387,207 | \$387,207 | \$0 |
| SUBTOTAL - Public Funds | \$0 | \$0 | \$0 |
| TOTAL - All Funds | (\$228,791) | (\$974,669) | (\$745,878) |
| (4) Draw from General Fund Operating Reserve (GFOR) | \$228,791 | \$974,669 | \$745,878 |

FY 2021 Reforecast Footnotes

- (1) The General Fund reforecast uses the latest forecast for Commitment and Development Fees.
It is worth noting that the forecast includes a Development Fee for Brooke Park of \$259,351.
If the fee is not received, the shortfall in the General Fund will increase by \$103,740 or 40% of the anticipated fee.
- (2) The reforecast includes the additional anticipated impacts of COVID 19 on Rent Receipts / Allowances for Bad Debt through June 2021.
The FY'21 Adopted Budget included a loss of \$2.9 million in Rental Income of which \$2.0 million impacted unrestricted cash.
The FY'21 Reforecast increases this loss by \$2.6 million of which \$1.5 million impacts unrestricted cash.
As a portfolio, we are collecting approximately 80% of current rent charges and 90-92% when including payments for prior months.
- (3) The OHRF reforecast uses the latest forecast for Commitment and Development Fees.
It is worth noting that the forecast includes a Development Fee for Brooke Park of \$259,351.
If the fee is not received, the cash restricted to the OHRF will decrease by \$155,611 or 60% of the anticipated fee.
- * Salary & Benefit Lapse and savings in discretionary expenditures will be used to offset unbudgeted COVID expenses and property performance variances not related to COVID.
- (4) *The projected shortfall in unrestricted property cash flow exceeds the positive impact of the additional Fees in the General Fund resulting in a larger draw from the GFOR than was budgeted.*

units.

BUDGET IMPACT:

The County's Capital Improvements Program is the primary funding source for the Agency's renovations of deeply subsidized scattered sites.

TIME FRAME:

For informal discussion at the January 29, 2021 Committee meeting. For formal Commission action at the February 3, 2021 meeting. Once approved, the savings plan will be submitted to the County.

STAFF RECOMMENDATION

Staff requests that the Budget, Finance and Audit Committee join its recommendation to the full Commission that the Commission authorize the submission of the Reduced County FY'22-27 Capital Improvements Program (CIP) Budget.