



DEVELOPMENT AND FINANCE COMMITTEE

January 21, 2022

10:00 a.m.

YouTube Link: <https://youtu.be/LIn-zdueX0o>

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Closed Session:

The closed committee meeting will be called to order pursuant to Section 3-305(b)(3) and 3-305(b)(13) of the General Provisions Article of the Annotated Code of Maryland.

Minutes

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY

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

Development and Finance Committee Minutes

November 19, 2021

For the official record of the Housing Opportunities Commission of Montgomery County, an open meeting of the Development and Finance Committee was conducted via an online platform and teleconference on Friday, November 19, 2021, with moderator functions occurring at 10400 Detrick Avenue, Kensington, Maryland beginning at 10:01 a.m., available for viewing [here](#). Those in attendance were:

Present

Jackie Simon, Chair – Development and Finance Committee
Richard Y. Nelson, Jr. – Commissioner
Jeffrey Merkowitz – Commissioner

Also Attending via Online

Kayrine Brown, Acting Executive Director
Zachary Marks
Timothy Goetzinger
Ian-Terrel Hawkins
Eugenia Pascual
Millicent Anglin
Marcus Ervin
Jay Shepherd
Fred Swan
Eugenia Pascual
Ellen Goff

Aisha Memon, General Counsel
Victoria Dixon
Jennifer Arrington
Nathan Bovel
Christina Autin
Claire Kim
Darcel Cox
Terri Fowler
Gail Willison
Olutomi Adebo
Hyunsuk Choi

IT Support

Aries Cruz

Commission Support

Patrice Birdsong, Spec. Asst. to Commission

Commissioner Simon opened the meeting with a welcome and introduction of the Commissioners participating on the Committee.

APPROVAL OF MINUTES

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

DISCUSSION ITEMS

- 1. Heritage Emory Grove: Approval of a Predevelopment Budget and Funding of Predevelopment Expenditures for Heritage Emory Grove; Approval to Sign Purchase Agreement for 17810 Washington Grove Lane; Review and Approve Terms for the Direct Transfer of Properties in Assemblage from the County Department of General Services; and Approval to Draw on the PNC Bank, N.A. Real Estate Line of Credit to Fund the Predevelopment Expenditures**

Zachary Marks, Chief Real Estate Officer, provided a presentation on recommending to the full Commission approval to authorize the Acting Executive Director to execute a purchase and sale agreement for the disposition of land and improvements at Emory Grove and Camp Hill Square to Hailey Development LC. The staff also requested approval of funds for associated disposition activities for the sale of Emory Grove Village and Camp Hill Square and for initial master planning activities, and to draw on PNC Real Estate Line of Credit.

There was discussion among the Commissioners and staff. Commissioner Merkowitz suggested that staff provide more history of Emory Grove Village and what happened there, and provide an update on what is taking place now. Commissioner Nelson suggested that some form of outreach be considered to the townhome community near Emory Grove.

A motion was made by Commissioner Nelson to move the item forward to the full Commission for approval at the December 8, 2021 monthly meeting. Commissioner Merkowitz seconded the motion. Affirmative votes were cast by Commissioners Simon, Nelson, and Merkowitz.

- 2. Cider Mill: Approval to Engage Eastern Concrete Construction to Replace Six Roofs at Cider Mill Apartments**

Millicent Anglin, Asset Manager, provided a presentation to recommend to the full Commission approval to engage Eastern Concrete Construction to replace six (6) roofs at Cider Mill Apartments.

Staff addressed questions of the Commissioners. A motion was made by Commissioner Nelson and seconded by Commissioner Merkowitz to recommend to the full Commission at the

December 8, 2021 monthly meeting. Affirmative votes were cast by Commissioners Simon, Nelson, and Merkowitz.

There being no further discussion to come before this open session of the Development and Finance Committee, the meeting adjourned at 10:50 a.m.

Respectfully submitted,

Kayrine Brown
Acting Secretary-Treasurer

/pmb

Discussion/Action Items

M E M O R A N D U M

TO: Housing Opportunities Commission of Montgomery County
Development & Finance Committee

VIA: Kayrine V. Brown, Active Executive Director

FROM: Staff: Jennifer H. Arrington Division: Mortgage Finance Ext. 9589
Richard Freeman Mortgage Finance Ext. 4878

RE: **Paddington Square:** Affirmation of Resolution 21-001^{PS}, Approval of Dwight Capital, LLC, as Successor Lender of Love Funding Corporation, and Approval to Amend the Bylaws of the Paddington Square Development Corporation

DATE: January 21, 2021

STATUS: Consent Deliberation Status Report Future Action

OVERALL GOAL & OBJECTIVE:

To affirm the Refinancing Plan, as approved in the April 2021, Resolution 21-001^{PS}, in accordance with the existing Bylaws of the Paddington Square Development Corporation (the "Corporation"); to approve Dwight Capital, LLC, as the successor lender of Love Funding due to acquisition by Dwight Capital and Love Funding's inability to conduct FHA/HUD lending business; and, to approve an amendment of the existing Bylaws of the Corporation to incorporate certain required FHA provisions of the new loan and in order to expedite future actions of the Corporation.

BACKGROUND:

The Paddington Square Development Corporation (the "Corporation") is a wholly-controlled corporate instrumentality of the Housing Opportunities Commission of Montgomery County ("HOC" or the "Commission") that owns Paddington Square Apartments ("Paddington" or the "Property"), an existing 165-unit, mixed-income, garden style, rental community located on 7.94 acres, north of East-West Highway in the Rosemary Hills neighborhoods in Silver Spring, Maryland. The Corporation acquired the Property on February 4, 2004.

On November 5, 2014, the Board of Directors of the Corporation approved, and on December 18, 2014, closed on a permanent loan in the amount of \$20,741,700 from Love Funding Corporation ("Original Senior Lender") insured under FHA Section 207 pursuant to Section 223(f) of the National Housing Act, as amended (the "223(f) Loan"), assumed an existing Property loan from the Montgomery County's Housing Initiative Fund ("HIF") for approximately \$5.1 million (the "HIF Loan"), and contributed equity of \$738,000 to retire existing debt and pay closing costs.

On April 7, 2021, the Board of Directors of the Corporation approved Resolution 21-001_{ps} (the “Paddington Resolution”), which approved and/or authorized:

1. A refinancing plan, which includes (a) refinancing the Corporation’s 223(f) Loan, pursuant to the terms of a Firm Commitment for FHA Mortgage Insurance under Section 207 pursuant to Section 223(a)(7) of the National Housing Act, as amended, in the approximate amount of \$18,800,000 from the Original Senior Lender to the Corporation (the “New Loan”), (b) re-subordinating the Corporation’s HIF Loan, and (c) using existing cash held in the existing replacement reserve and renovation escrow accounts to fund a new initial replacement reserve of approximately \$4,600 per unit pursuant to the terms of the New Loan (collectively, the “Refinancing Plan”);
2. The Commission’s Executive Director to negotiate and execute a financing commitment with the Original Senior Lender;
3. The Commission’s Executive Director to negotiate and execute re-subordination of the County HIF Loan; and,
4. The Corporation’s acceptance of the New Loan and re-subordination of the HIF Loan.

Affirmation of the Paddington Resolution and Approval of Successor Lender

Staff is on target to close the New Loan by the end of February 2022. The final loan amount will be \$18,683,400 for a term of 35 years at an interest rate of 2.75%, which is 50 basis points lower than originally underwritten and 85 basis points lower than the current rate.

While a financing commitment was executed with the Original Senior Lender in accordance with the Paddington Resolution, the Original Senior Lender (Love Funding Corporation) was acquired by Dwight Capital, LLC, an FHA approved Multifamily Accelerated Processing (“MAP”) lender, and the Original Senior Lender is no longer able to issue new debt under its name. Therefore, Dwight Capital, LLC, will succeed the Original Senior Lender and become the new Senior Lender in the transaction, pursuant to a Firm Commitment for FHA Mortgage Insurance under Section 207 pursuant to Section 223(a)(7) of the National Housing Act, as amended, dated November 23, 2021, as amended.

Dwight Capital, LLC (hereinafter “Dwight Capital” or the “Senior Lender”), is a Delaware limited liability company. Headquartered in New York, New York, Dwight Capital was established in 2014 and has consistently ranked among the highest FHA MAP lenders in the county. During HUD’s 2020 Fiscal Year, Dwight Capital obtained over \$2.42 billion in multifamily and healthcare FHA Firm Commitments. This placed Dwight Capital second among all FHA lenders both by dollar volume and number of transactions. Dwight Capital’s FHA activity spans across 36 states, including Maryland, Washington, D.C. and Virginia. Dwight Capital has a strong underwriting, mortgage and legal team with significant experience working with large developers and housing authorities across the country.

It is further noted that Article VII.2 of the Bylaws of the Corporation (the “Bylaws”) states that the Board of Directors shall obtain the approval of the Commission not more than sixty (60) days in advance of the issue of any bonds, notes or other obligations (together, “Obligations”) of the Corporation. Therefore, as required by the Bylaws, staff requests the Commission’s affirmation of Resolution 21-001_{ps} and approve the Refinancing Plan and the successor Senior Lender for the transaction.

Amendment to Bylaws of Corporation

Article VI of the Bylaws of the Corporation states that any amendment of the Bylaws is subject to the approval of the Commission, and in connection with obtaining the New Loan from the Senior Lender, the Corporation's Bylaws must be amended to add certain FHA-required provisions that will automatically terminate when the New Loan is no longer insured or held by the U.S. Department of Housing and Urban Development ("HUD"). The existing Bylaws include 10 Articles. Adding the new provisions in accordance with FHA will create Article 11, which will read as follows:

"Article XI

Notwithstanding any clause or provision in the Bylaws to the contrary, and so long as the United States Department of Housing and Urban Development ("HUD"), or its successors or assigns, insures or holds any loan to (the "HUD Insured Loan"), including the loan secured by a [deed of trust] lien on Paddington Square Apartments, FHA Project Number 000-11323 in Silver Spring, Montgomery County, Maryland (the "Project") the following provisions apply:

1. The terms listed below shall have the following definitions:
 - a) "Borrower" means Paddington Square Development Corporation.
 - b) "Lender" means the entity identified as "Lender" in the first paragraph of the Security Instrument, or any subsequent holder of the HUD-insured Note.
 - c) "HUD Regulatory Agreement" means the Regulatory Agreement between Borrower and HUD with respect to the Project, as the same may be supplemented, amended or modified from time to time.
 - d) "Security Instrument" means the mortgage or deed of trust from Borrower in favor of Lender, as the same may be supplemented, amended, or modified.
 - e) "HUD-insured Note" means the Note executed by Borrower, and described in the Security Instrument, including all schedules riders, allonges and agenda, as such Note may be amended from time to time.
2. Requirements:
 - a) If any of the provisions of Borrower's organizational documents conflict with the terms of the HUD insured Note, Security Instrument, or HUD Regulatory Agreement ("HUD Loan Documents"), the provisions of the HUD Loan Documents shall control.
 - b) No provision required by HUD to be inserted into the organizational documents may be amended without HUD's prior written approval. Additionally, if there is a conflict between any HUD-required provisions inserted into this Agreement and any other provision of this Agreement, the terms of the HUD-required provisions will govern; and if there is a conflict between any of the provisions in the Articles of Incorporation of the Borrower and any HUD-required provisions of this Agreement, the HUD-required provisions will govern.
 - c) Unless otherwise approved in writing by HUD, Borrower's business and purpose shall consist solely of the acquisition, ownership, operation and maintenance of the Project and activities incidental thereto. Borrower shall not engage in any

other business or activity. The Project shall be the sole asset of the Borrower entity, which shall not own any other real estate other than the aforesaid Project.

3. None of the following will have any force or effect without the prior written consent of HUD:
 - a) Any amendment that modifies the term of Borrower's existence;
 - b) Any amendment that triggers application of the HUD previous participation certification requirements (as set forth in Form HUD2530, Previous Participation Certification, or 24 CFR § 200.210, et seq.);
 - c) Any amendment that in any way affects the HUD Loan Documents;
 - d) Except as permitted under Section 9 below, any amendment that would authorize any member, manager, partner, owner, officer or director, other than the one previously authorized by HUD, to bind the Borrower entity for any matters concerning the Project which require HUD's consent or approval;
 - e) A change that is subject to the HUD TPA requirements contained in Chapter 13 of HUD Handbook 4350.1 REV-1;
 - f) Any change in a guarantor of any obligation to HUD (including those obligations arising from violations of the HUD Regulatory Agreement); and
 - g) Any grant of a security interest in any of Borrower's assets or mortgaged property.
4. Borrower is authorized to execute a Note and Security Instrument in order to secure a loan to be insured by HUD and to execute the HUD Regulatory Agreement and other documents required by the Secretary in connection with the HUD-insured loan.
5. Any incoming member/partner/owner of Borrower must, as a condition of receiving an interest in the Borrower entity, agree in writing to be subject to the HUD Loan Documents and all other documents required in connection with the HUD-insured loan, to the same extent and on the same terms as the other members/partners/owners.
6. Upon any dissolution, no title or right to possession and control of the Project, and no right to collect the rents from the Project, shall pass to any person or entity that is not bound by the HUD Regulatory Agreement in a manner satisfactory to HUD.
7. The key principals of Borrower identified in the HUD Regulatory Agreement are liable in their individual capacities to HUD to the extent set forth in the HUD Regulatory Agreement.
8. Borrower shall not voluntarily be dissolved or converted to another form of entity without the prior written approval of HUD.
9. Borrower has designated the Housing Opportunities Commission of Montgomery County as its official representative for all matters concerning the Project that require HUD consent or approval. The signature of this representative will bind Borrower entity in all such matters. Borrower may, from time to time, appoint a new representative to

perform this function, provided that the individual so appointed is 2530 Previous Participation Certified, and within three business days of doing so, will provide HUD with written notification of the name, address, and telephone number of its new representative. When a person other than the person identified above has full or partial authority with respect to management of the Project, Borrower will promptly provide HUD with the name of that person and the nature of that person's management authority.

10. Any obligation of the Corporation to provide indemnification under these Bylaws shall be limited to (i) amounts mandated by state law, if any, (ii) coverage afforded under any liability insurance carried by the Corporation and (iii) available surplus cash of the Borrower as defined in the HUD Regulatory Agreement. Until funds from a permitted source for payment of indemnification costs are available for payment, the Corporation shall not (a) pay funds to any members, partners, officers and directors, or (b) pay the deductible on an indemnification policy for any members, partners, officers and directors.
11. Unless otherwise approved by HUD under Section 8 above, the Borrower will remain in existence at least through the term of the HUD Insured Loan."

Finally, in order to expedite future actions of the Corporation, staff recommends that the last sentence of Article VII.2 of the Bylaws be deleted in its entirety, which required the Board of Directors to obtain Commission approval not more than sixty (60) days in advance of the issue of Obligations of the Corporation. Article VII.2, as amended, will read as follows:

2. "The Board of Directors shall not enter into any loan, mortgage bond, promissory note or contract to purchase real property without obtaining the approval of the Housing Opportunities Commission of Montgomery County."

ISSUES FOR CONSIDERATION:

Will the Development and Finance Committee join staff's recommendation to the Commission and the Board of Directors of the Paddington Square Development Corporation to:

1. Affirm the Refinancing Plan, as approved in Resolution 21-001^{PS}, in accordance with the existing Bylaws of the Paddington Square Development Corporation?
2. Approve Dwight Capital, LLC, as the successor lender of Love Funding Corporation, due to its acquisition by Dwight Capital, LLC and Love Funding Corporation's inability to conduct new FHA/HUD lending business?
3. Approve an amendment of the existing Bylaws of the Corporation to incorporate certain required FHA provisions of the new loan and in order to expedite future actions of the Corporation?

PRINCIPALS:

Housing Opportunities Commission of Montgomery County
Dwight Capital, LLC

BUDGET IMPACT:

There is no direct impact of the actions herein requested on HOC's operating budget.

TIME FRAME:

For discussion at the meeting of the Development and Finance Committee on January 21, 2021, and for formal action at the February 2, 2021 meeting of the Commission and the Paddington Square Development Corporation.

STAFF RECOMMENDATION & COMMISSION ACTION NEEDED:

Staff recommends that the Development and Finance Committee join its recommendation to the Commission and the Board of Directors of Paddington Square Development Corporation to:

1. Affirm the Refinancing Plan, as approved in Resolution 21-001_{ps}, in accordance with the existing Bylaws of the Paddington Square Development Corporation;
2. Approve Dwight Capital, LLC, as the successor lender of Love Funding Corporation, due to its acquisition by Dwight Capital, LLC, an FHA approved Multifamily Accelerated Processing lender; and,
3. Approve amending the existing Bylaws of the Corporation to incorporate certain required FHA provisions of the new loan and in order to expedite future actions of the Corporation.

MEMORANDUM

TO: Development and Finance Committee

VIA: Kayrine Brown, Acting Executive Director

FROM: Division: Real Estate
Staff: Zachary Marks, Chief Real Estate Officer Ext. 9613
Marcus Ervin, Director of Development Ext. 9752
Kathryn Hollister, Senior Financial Analyst Ext. 9437

RE: **WILLOW MANOR PROPERTIES:** Approval to Increase DHCA’s Share of Construction Period Interim Cash Flow, a Condition for DHCA to Close the Transaction

DATE: January 21, 2022

STATUS: Consent: Deliberation Status Report Future Action

OVERALL GOAL & OBJECTIVE:

To approve an increase in the distribution of construction period interim cash flow to Montgomery County’s Department of Housing and Community Affairs (“DHCA”) to repay its Housing Initiative Fund loan (“HIF Loan”) for the Willow Manor Properties, a condition of the December 2021 closing.

BACKGROUND:

On December 17, 2021, HOC closed on the resyndication of three existing age-restricted (62+) Low Income Housing Tax Credit (“LIHTC”) rental communities in Montgomery County, MD: Willow Manor at Clopper’s Mill, located at 18003 Mateny Rd in Germantown, MD; Willow Manor at Fair Hill Farm, located at 18301 Georgia Ave in Olney, MD; and Willow Manor at Colesville, located at 601 E Randolph Rd in Silver Spring, MD (together, the “Willow Manor Properties” or “Properties”).

The Willow Manor Properties consist of 286 units that serve households earning up to 40%, 50%, 60% and 80% of AMI. Specifically, 57 units (20%) serve households earning up to 40% AMI, 20 units (7%) serve households earning up to 50% AMI, 189 units (66%) serve households earning up to 60% AMI and 20 units (7%) serve households earning up to 80% AMI.

As part of the resyndication, the Willow Manor Properties were sold to a new tax credit owner entity, HOC at Willow Manor, LLC, of which HOC is the managing member (“HOC MM Willow Manor, LLC”) and PNC Bank and Columbia Housing SLP Corporation (an affiliate of PNC Bank) are the investor and special investor, respectively.

Sources for the transaction included an FHA Risk Share mortgage (“Senior Mortgage”) in the amount of \$49,550,000, LIHTC Equity in the amount of \$30,394,400, County HIF Loan in the amount of \$12,972,776, HOC seller note (“Seller Note”) in the amount of \$7,670,962 and HOC equity in the amount of \$100.

Preserving the affordability of the Willow Manor Properties has been a priority for HOC and DHCA since

2018. In 2018, DHCA entered into a contract to purchase the Properties under Article 53A of the Montgomery County Code, the Right of First Refusal (“ROFR”) Ordinance. DHCA assigned the contract to HOC at closing and provided subordinate financing in the amount of \$19,801,587 for the acquisition (“Acquisition Loan”). The partnership between DHCA and HOC was critical in preserving these affordable senior properties.

The LIHTC resyndication of the Properties enabled a permanent financing structure that maximized the amount of proceeds available to renovate the Properties and repay a portion of the County’s Acquisition Loan, allowing the County to re-invest those funds in other affordable housing endeavors. HOC’s initial analysis of the resyndication projected a \$10,000,000 repayment of the County’s Acquisition Loan; however, due to a number of factors, notably increases in construction costs, HOC’s repayment of the County’s Acquisition Loan was reduced to \$8,147,774, which was \$1,852,226 less than originally projected.

Currently, the repayment of the County HIF Loan is limited to 50% of cash flow available after payment of the asset and partnership management fees. The remaining 50% of available cash flow is distributed to repay the Seller Note. Cash flow distributions will begin after the Properties’ renovations are complete and permanent loan conversion occurs, which is anticipated for December 2024. During the three-year construction period, all interim income will be reserved in the event of unexpected cost overruns. The amount of interim income that will accrue during the construction period (“Retained Cash Flow”) is estimated to be approximately \$7.5 million.

Given the additional County investment left in the transaction, DHCA has requested that the Retained Cash Flow be distributed 75% to repay the County HIF Loan and 25% to repay the Seller Note. All other subsequent cash flow distributions would be split 50%/50%.

The increase in DHCA’s share of Retained Cash Flow distribution would result in DHCA receiving approximately \$5,625,000 of the Retained Cash Flow (an increase of \$1,875,000), and HOC receiving \$1,875,000 of the Retained Cash Flow (a decrease of \$1,875,000), instead of the \$3.75 million each entity would receive if the Retained Cash Flow were distributed 50%/50%.

A 75%/25% split of the Retained Cash Flow would have the following additional implications:

- The County HIF Loan would be repaid about four (4) years earlier and the Seller Note would be repaid about four (4) years later than originally forecasted.
- The investor’s return would drop very slightly (less than 10 basis points). This is largely driven by the fact that the amount of losses the investor can claim over the years are decreased since the interest rate on the HIF Loan (3.5%) is higher than the interest rate on the Seller Note (Applicable Federal Rate). Since more is paid on the County HIF Loan near the beginning, less interest is incurred over the life of the deal.
- Ending partner’s capital would remain above \$0, so there would be no exit tax implications.

DHCA’s steadfast support and commitment to keep additional funds in the Willow Manor Properties was critical to the transaction. As such, staff recommends that the Commission approve increasing the share

of Retained Cash Flow distributed to repay the County HIF Loan from 50% to 75%.

Should the Commission approve staff's recommendation, HOC, acting in the capacity of HOC MM Willow Manor, LLC will need to obtain investor consent to revise the County HIF Loan promissory note, pursuant to Section 6.2(d) of the HOC Willow Manor, LLC amended and reinstated operating agreement.

ISSUES FOR CONSIDERATION:

Will the Development and Finance Committee join staff's recommendation to the Commission to approve increasing the share of Retained Cash Flow distributed to repay the County HIF Loan from 50% to 75%?

BUDGET/FISCAL IMPACT:

There is no impact on the Commission's FY 2022 operating budget. However, the fiscal impact would be a reduction of \$1.875 million in cash flow to HOC if all \$7.5 million of Retained Cash Flow were achieved during the construction period.

PRINCIPALS:

DHCA
HOC at Willow Manor, LLC
HOC MM Willow Manor, LLC
Housing Opportunities Commission of Montgomery County

TIME FRAME:

For discussion at the Development and Finance Committee on January 21, 2022 and formal Commission action on February 2, 2022.

STAFF RECOMMENDATION & COMMISSION ACTION NEEDED:

Staff requests that the Development and Finance Committee join staff's recommendation to the Commission to approve increasing the share of Retained Cash Flow distributed to repay the County HIF Loan from 50% to 75%.

MEMORANDUM

TO: Housing Opportunities Commission of Montgomery County

VIA: Kayrine V. Brown, Acting Executive Director

FROM: Division: Real Estate
Staff: Zachary Marks, Chief Real Estate Officer Ext. 9613
Marcus Ervin, Director of Development Ext. 9752

RE: **Westside Shady Grove:** Approval to Amend the Development Budget to Allocate Net Financing Proceeds from Initial Construction Closing

Date: January 21, 2022

STATUS: Consent: Deliberation Status Report Future Action

OVERALL GOAL & OBJECTIVE:

To obtain approval to amend the development budget to allocate net financing proceeds generated by the bond issuance in the approximate amount of \$2.57 million to be used to repay interest on the interim County Housing Initiative Fund (“HIF”) loan, fund a capitalized interest account for payments on the \$14.3 million loan from the Housing Production Fund (“HPF”), and set aside the remaining proceeds as a soft cost contingency for the 268-unit mixed-income & mixed-use Westside Shady Grove development.

BACKGROUND:

On August 17, 2021, the Housing Opportunities Commission (“HOC”) closed on the issuance of \$50,000,000 in Limited Obligation Bonds (Housing Production Fund) Series 2021 (Federally Taxable) sold by the Commission to PNC Capital Markets, LLC and Wells Fargo Bank, National Association, as underwriters.

The net lendable proceeds (after payment of Cost of Issuance) are \$49,787,500. Developments funded by the HPF will incur interest costs at 5% of the loan and such interest will be remitted to the County annually. The County will pay all bond debt service for 20 years. The interest payments will help to reduce the cost to the County. Once all funds are loaned, the projected annual cost to the County is less than \$600,000.

The bond issuance was unique in that it was the first-ever collaboration of its kind between the County and HOC that created an innovative revolving source of construction financing that will help to expand affordable housing in the County, and is replicable for other localities.

The HPF is utilized in conjunction with additional HOC investment, private investment, and conventional construction debt to finance construction and lease-up phases for new-construction developments. Permanent financing repays the initial HPF investment, which is subsequently returned to the fund for investment into the next HPF development. Developments funded by the HPF are “30/70” new construction developments, so that no less than thirty percent of a project’s total units are affordable to low- and moderate-income residents and no more than seventy percent are market-rate units. The

affordable units are set at two (2) affordability levels. Ten percent (10%) of a project's units are at Moderately Priced Dwelling Unit ("MPDU") rents, which are affordable to a family of four (4) making approximately \$85,000 or less, and twenty percent (20%) of project's units are at 50% of the AMI, which are affordable to a family of four (4) making \$64,500 or less per year¹.

The goal of the HPF is to produce 2,500-3,000 newly constructed units over a twenty-year period. With \$50 million available, it is anticipated that two (2) or more development projects can be undertaken at any given time. On average, each transaction will yield at least 150-180 affordable units and approximately 500-600 total units. At the end of five (5) years, HPF financing is repaid at the permanent financing of the development back to the HPF.

Housing in Montgomery County is in high-demand. The HPF is an innovative financing tool, which produces new, mixed-income communities for Montgomery County residents. It becomes a permanent source of construction financing for HOC free of County encumbrance after twenty (20) years of appropriations. The HPF is projected to revolve every five (5) years resulting in \$250 million of construction loans over a twenty-year period and will provide committed capital for part of HOC's 5,500-unit pipeline.

The Commission formally approved the acceptance of a loan from the HPF on November 3, 2021, and on December 22, 2021, the Commission closed on the first loan in an amount of \$14.3 million evidenced by a Deed of Trust, Loan Agreement, Regulatory Agreement and Promissory Note for the Westside Shady Grove Development, and subsequently repaid the County's \$14.3 million short term Housing Initiative Fund ("HIF") loan that was secured at the initial construction loan closing on January 28, 2021. Framing for the project is nearly complete with interior mechanical and plumbing trades ongoing. Construction is expected to be completed at the end of January 2023, and lease-up is expected to be completed by the end of February 2024, at which time the project would convert to permanent financing; therefore, it is expected that the \$14.3 million HPF loan will be returned to the HPF for a future project at the end of February 2024.



¹ Income numbers are based on the current annual area median income numbers published by HUD for the Washington, DC metro area in March 2021.

Westside Shady Grove

Westside Shady Grove is a \$121 million, 268-unit, transit-oriented, new construction development located next to the Shady Grove Metro Station. Of the 268 units, 30% (80-units) will be affordable, including 67-units at 50% AMI and 13-units at 65% AMI (MPDU income limit). The development predominantly consists of one- and two-bedroom units with a few studios and three-bedroom units. Per HPF guidelines, the loan will carry a term of no more than five (5) years with an interest rate at five percent (5%). The HPF loan will be repaid at the permanent financing to be recycled into a future HOC mixed-income housing development.

HPF Loan Terms	
\$14,300,000	Loan Amount
5.0%	Interest Rate (payable monthly)
5	Maximum Term (years)

Sources of Financing

Sources of Funds	Commission Approved	Construction Closing	Permanent (Projected)
Senior Debt	96,627,228	99,250,000 ²	99,250,000
HOC Equity	5,486,300	5,486,300	5,486,300
EYA / Bozzuto Equity	2,235,944	2,235,944	2,235,944
County Development Loan (HPF / HIF)	15,000,000	14,300,000	-
Mezzanine Loan / Private Equity	-	-	15,067,832
Total	119,349,472	121,272,244	122,040,076

The Commission, via Resolution 20-87, approved a Financing Plan in the amount of \$119 million, including Senior Debt in the amount not to exceed \$100 million of tax exempt bonds the “(2021 A Bonds”) to fund the Senior Debt. The actual construction closing was \$121 million due to closing on a higher Senior Debt, within the Commission-authorized amount, and a smaller County HIF Loan. The higher Senior Debt was made possible by more favorable interest rate at the time of the bond sale.

It was originally assumed that interest on the HIF loan would accrue during the construction period, and be due in full at the permanent conversion. This assumption was made because it was unclear if the HPF would be approved and if not, the HIF loan would remain outstanding until the permanent financing. However, final negotiations with the County resulted in the successful closing of the HPF and interest on the HIF being due annually during the construction period, which was not projected in the budget. The excess funds of \$2,578,683 are proposed to be used to repay interest on the County HIF loan, closing costs, and to fund capitalized interest account in an approximate amount of \$1.55 million to account for payments on the HPF loan. The remaining funds of approximately \$564k are proposed to be set aside towards a soft cost contingency to account for any unexpected supply chain issues, inflation, or subcontractor delays through project completion. Staff is returning per the November 3, 2021 approval to formally request amendment to the development budget to perfect this action. Should these funds not be needed during the construction period, they be applied at conversion to reduce the Commission’s required equity contribution.

² Favorable interest rate at the time of the bond sale yielded a higher bond issuance within the Commission approved limit of up to \$100 million of tax-exempt bonds, which funded the higher mortgage.

Summary of past approvals for the Westside Shady Grove development and the HPF

Note that Resolution 20-86 identified the Housing Production Fund as a possible source financing to repay the County's short-term HIF loan.

Date	Res.	Description
4-Sep-19	19-92AS	Approval to Assume all Rights and Obligations Under the Terms of the Purchase and Sale Agreement for the Acquisition of the Underlying County Land Currently Under Contract by EYA/CSP Associates, LLC, an EYA Affiliate; Approval to Complete the Acquisition and Fund the Predevelopment Expenditures; and Authorization to Establish a Single Asset Entity to Own the Development.
5-Dec-19	19-110AS	Approval to Enter into a Joint Pre-Development Agreement and Agreement to Assign with EYA/CSP Associates LLC and EYA BA/SGS Mf D, LLC for the Development of the West Side Shady Grove Multifamily Development known as Building D.
8-Jan-20	20-09	Approval of a Resolution Declaring the Official Intent of the Housing Opportunities Commission of Montgomery County to Reimburse itself with the Proceeds of a Future Tax-Exempt Borrowing for Certain Capital Expenditures to be Undertaken in Connection with the Acquisition and Development of the Property.
1-Jul-20	20-59AS	Authorization to Approve Additional Pre-Development Funding (\$1.07 million) from the County Revolving Opportunity Housing Development Fund.
1-Jul-20	20-56	Adoption of an Authorizing Resolution for the Selection of PNC Bank, National Association, as the Lender of a Tax-Exempt Obligation for the Purpose of Financing Westside Shady Grove.
9-Dec-20	20-86	Approval of a Final Development Plan; Authorization for the Executive Director to Accept the Assignment of Third-Party Contracts for the Development, Ratification of Formation of Additional Legal Entities, Authorization to Accept a Montgomery County Housing Initiative Fund Short-Term Bridge Loan of up to \$15M, and Authorization to Advance Funds in an Amount up to for the Payment to Secure Building Permits and Bind the Builder's Risk Insurance
9-Dec-20	20-87	Approval of the Financing Plan, Feasibility and Public Purpose for Westside Shady Grove Apartments; Authorization to Issue a Loan Commitment to HOC at Westside Shady Grove, LLC for Acquisition, Construction and Permanent Financing for up to \$100 million; and, Authorization for the Borrower to Accept Loan in Accordance with the Finance Plan
5-May-21	21-46	Approval of a Revolving Housing Production Fund Program; Authorizing Resolution for a New Master Resolution to Implement the Revolving Housing Production Fund Program; Approval of Structure, Cost of Issuance Budget, and Adoption of Series Resolution for the Issuance of Limited Obligation Bonds, Series 2021 to Provide Funding for the Revolving Housing Production Fund
03-Nov-21	21-06	Approval of a Subordinate Loan from the Housing Production Fund to HOC at Westside Shady Grove, LLC

ISSUES FOR CONSIDERATION:

Staff requests that the Development and Finance Committee join staff's recommendation to the Commission to approve an amendment to the development budget to allocate net proceeds from the initial closing and generated by the bond issuance in the approximate amount of \$2,578,683 to be used to repay interest on the HIF loan, fund a capitalized interest account for payments on the \$14.3 million loan from the HPF, and set aside remaining funds of approximately \$564k for a soft cost contingency to account for any unexpected supply chain issues, inflation, or subcontractor delays through project completion.

PRINCIPALS:

Housing Opportunities Commission of Montgomery County
HOC at Westside Shady Grove, LLC

FISCAL/BUDGET IMPACT:

There is no impact on the agency's 2022 operating budget.

TIME FRAME:

For discussion at the Development and Finance Committee on January 21, 2022 and formal Commission action on February 2, 2022.

STAFF RECOMMENDATION:

Staff requests that the Development and Finance Committee join staff's recommendation to the Commission to approve an amendment to the development budget to allocate excess proceeds from the bond issuance to be used to repay interest on the HIF loan, fund a capitalized interest account for payments on the HPF loan, and set aside the remaining funds of approximately \$564k for a soft cost contingency to account. This will increase the closing budget from \$119,349,472 to \$121,272,244.

UPTON II: APPROVAL OF THE NAMING AND BRANDING OF HOC AT THE UPTON IN ACCORDANCE WITH HOC NAMING GUIDELINES

Rockville, MD



KAYRINE V. BROWN, ACTING EXECUTIVE DIRECTOR

CHRISTINA AUTIN, DIRECTOR, LEGISLATIVE & PUBLIC AFFAIRS

January 21, 2022

Executive Summary

Upton II (“Upton II” or the “Property”) is a 150-unit, age-restricted apartment community in downtown Rockville, Maryland, owned and operated by the single purpose entity HOC at the Upton II, LLC.

The first units having been delivered in late December 2021, selection of a permanent name for Upton II is required to support ongoing marketing and leasing efforts as more units come online and to create a unique brand for the Property.

In November 2021, staff shared with Commissioners the “Guidelines for Naming of HOC Properties and Facilities,” which details the principles and process by which staff will work to generate permanent names for HOC owned properties and facilities

In alignment with the “Guidelines for Naming of HOC Properties and Facilities,” Legislative and Public Affairs (“LPA”) staff developed a set of recommendations for discussion and consideration by HOC’s Real Estate Development and Property Management teams and for the Acting Executive Director’s approval.

The Acting Executive Director and staff request that the Development and Finance Committee join the recommendation to the Commission to approve “Residences at the Print Shop” as the permanent name for Upton II in Rockville, Maryland.



Guidelines for Naming of HOC Properties & Facilities

The naming of HOC-owned properties and facilities shall be the function of the Board of Commissioners.

The general principles to be considered, either collectively or individually, in all HOC property name selections indicate the proposed name must:

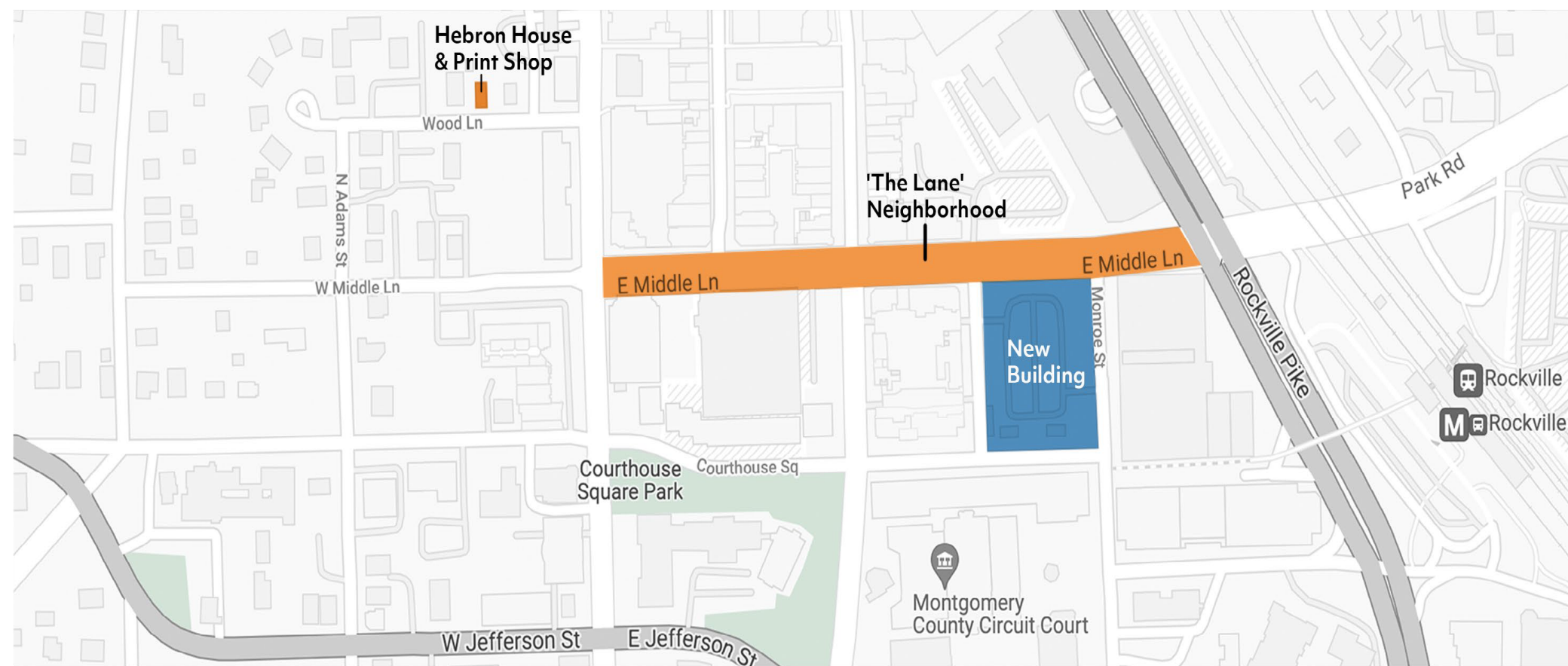
1. Have a strong positive image and should stand the test of time;
2. Have appropriate regard for the facility's location, geography, natural land feature, and/or history;
3. Commemorate places, people or events that are of continued importance to the town, region, and/or state, and
4. Recognize outstanding accomplishments by an individual for the good of the community. Individuals should be distinguished persons who are preeminent in their field of endeavor and/ or have contributed meaningfully to the agency's mission and/or to the community. Quality of the contribution should be considered along with the length of service by the individual.

In generating an appropriate recommended permanent name for Upton II, staff chose to focus on the local history (Principle 2) of downtown Rockville, with a particular emphasis on thriving Black businesses in Rockville and the contribution of Black business owners to the Rockville economy (Principles 1 and 4).

Local History: Rockville's African American Heritage Walking Tour

Staff used research compiled by the City of Rockville for their African American Heritage Walking Tour to draw relevant inspiration for permanent name recommendations for Upton II. The Walking Tour – which is available in an interactive format online¹ – focuses on the history and contributions of Black individuals, families, businesses, and institutions in downtown Rockville, Maryland. Staff chose to focus on the local history of downtown Rockville, with an emphasis on successful Black businesses.

Two markers on the Walking Tour factored prominently in the final name recommendation: “The Lane” neighborhood and the Hebron House and Print Shop – both located proximate to Upton II, as shown in the map below.



1. <https://www.arcgis.com/apps/MapTour/index.html?appid=4986c0caa4834eafa5c03cd3a84dd913>

Local History: “The Lane” and the Hebron House & Print Shop



The Property, located in downtown Rockville, is surrounded by significant markers of African American history in Montgomery County. According to the City of Rockville’s African American Heritage Walking Tour, East Middle Lane (running just north of the Property) was an area historically known as ‘The Lane’ or ‘The Back Lane’. Initially sold to and settled by freed slaves, the land was considered unsuitable for planting or for white development due to its marshy, low-lying soil. The Lane was the site of the first Clinton A.M.E. Zion Church in 1890 and many residences. Homes and businesses continued to sprout up on the surrounding lots, providing living quarters, goods, and services to African American citizens when they could not obtain them elsewhere. The Lane was a historical center for African American people, buildings, and events. It was the birthplace of Father Divine; it was the home field for Rockville’s colored baseball team; it was the site of community gatherings at the Elks Lodge; it was where Black folks could grab a sandwich at Mr. Kelly’s; and it was home to many citizens who lived in the single-family homes and duplexes along Cairo and Sarah Streets. This area was home to a thriving Black economy and community populated by successful African American businesses and culturally significant gathering places for several decades.

However, as early as the 1930s, the City of Rockville began to consider downtown revitalization projects. Discussions initially revolved around improving housing conditions for residents on the Lane, but by the 1950s and ‘60s, focus shifted towards commercial revitalization of the entire downtown area resulting in the removal of the remainder of the African American community in the downtown core.

Despite the effects of revitalization efforts, one of the most successful Black business ventures in the county to survive was a print shop operated by Jesse and Celestine Hebron, just two blocks from the current site of Upton II. The Hebrons started their printing business in 1932 on Falls Road and moved their shop and home to downtown Rockville in 1945 after Mr. Hebron returned from World War II. The Print Shop owned by the Hebrons provided services to corporations, individuals, churches, and other entities throughout Montgomery County and beyond for over 50 years.

Residences at the Print Shop



The recommended permanent name – “Residences at the Print Shop” – is an acknowledgement of downtown Rockville’s Black history and the economic and cultural significance of a community that was overlooked for decades as a result of the revitalization efforts that occurred. In alignment with the agency’s commitment to diversity, equity, and inclusion, this name recognizes and lifts up that history.

“The Print Shop” recalls the successful printing business that Jesse and Celestine Hebron ran in downtown Rockville for over 50 years and is symbolic of the history of Black businesses and their historic contribution to Rockville’s economy and evolution toward what it is today.

Staff plans to create a marker outside the Property that details the inspiration for the name and denotes the rich African American history that surrounds the Property.

While this may take more time and require copyright approvals, staff will also explore including a montage of photographs from our historical research to highlight the importance of African Americans businesses in Rockville’s history and provide further insight into the naming of the Residences at the Print Shop.

At the same time the recommended name honors the history of its surroundings, it also feels contemporary and will contribute to a unique brand that will attract customers. A search by staff has determined there is no other residential building with this particular name in the market or region.

Summary and Recommendations

Issues for Consideration:

Does the Development and Finance Committee join staff's recommendation to the Commission to approve "Residences at The Print Shop" as the permanent name for Upton II in Rockville?

Time Frame:

For deliberation at the Development and Finance Committee on January 21, 2022, and Commission formal action at the Commission meeting on February 2, 2022.

Budget/Fiscal Impact:

There is no budget or fiscal impact for the Commission. All costs and expenses related to the naming and branding of Upton have been included and will be borne by the Property's development budget.

Staff Recommendation and Commission Action Needed:

Staff recommends the Development and Finance Committee recommend approval of "Residences at The Print Shop" as the permanent name for Upton II in Rockville to the full Commission.

Closing Statement

Written Statement for Closing a Meeting (“Closing Statement”)

Date: January 21, 2022

A. Pursuant to Section 3-305(b) and (d) of the General Provisions Article of the Annotated Code of Maryland, I move to adjourn this open session to a closed session only:

- 3. “To consider the acquisition of real property for a public purpose and matters directly related thereto;” and
- 13. “To comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter.”

B. For each provision checked above, the topic to be discussed and the reason for discussing that topic in closed session is provided below.

Statutory Citation	Topic	Reason for closed-session discussion
§3-305(b)(3)	<p>The acquisition/purchase of (A) the fee simple interest (via a purchase and sale agreement) of three multifamily properties located in Bethesda, Maryland; and (B) three separate multifamily properties (via a purchase and sale agreement or ground lease) located in Bethesda, Maryland.</p> <p>[NOTE: Part (A) was previously discussed at a closed Commission meeting on September 1, 2021, and Part (B) was previously discussed at a closed Commission meeting on January 12, 2022. This meeting is the continuation of those initial discussions]</p>	<p>The meeting must be closed in order to ensure HOC can purchase the properties. Public discussion of these items could harm HOC’s ability to negotiate and could result in HOC not being able to purchase the properties.</p>
§3-305(b)(13)	<p>The confidential commercial and financial terms of HOC’s potential purchase of both of the above referenced acquisitions.</p>	<p>Section 4-335 of the Maryland Public Information Act prevents disclosure of confidential commercial or financial information obtained from a third-party. The meeting must be closed to the public in order to protect confidential commercial and financial information provided to HOC from private financial institutions regarding the financing of the above referenced acquisitions. All such information to be discussed is customarily and actually treated as private by the financial institutions, and has been provided to HOC under an assurance of privacy.</p>

C. This statement is made by Jackie Simon, Chair of the Development and Finance Committee.

D. Recorded vote to close the meeting:

- Date: January 21, 2022 Time: _____ Location: Zoom (LiveStream on YouTube)
- Motion to close meeting made by: _____
- Motion seconded by: _____
- Commissioners in favor: _____
- Commissioners opposed: _____
- Commissioners abstaining: _____
- Commissioners absent: _____

Officer’s Signature: _____

Closed Session