

EXPANDED AGENDA

November 2, 2016

4:00 p.m.	I. <u>CONSENT ITEMS</u>	*Res. #
Page 04 15	A. Approval of Minutes of October 5, 2016 B. Authorization to Appoint New Labor Relations Administrator	16-74 (pg. 18)
4:05 p.m.	II. <u>INFORMATION EXCHANGE</u>	
Page 21 25	A. Report of the Executive Director B. Calendar and Follow-up Action C. Correspondence and Printed Matter D. Commissioner Exchange E. Resident Advisory Board F. Community Forum G. Status Report	
4:25 p.m.	III. <u>COMMITTEE REPORTS and RECOMMENDATIONS FOR ACTION</u>	
Page 29 33	A. Budget, Finance and Audit Committee – Com. Nelson, Chair 1. Authorization to submit Fiscal Year 2018 (FY'18) County Operating Budget 2. Approval of Calendar Year 2017 (CY'17) Tax Credit Partnership Budgets	16-75 (pg. 32) 16-76 (pg. 39)
4:35 p.m.	IV. <u>ITEMS REQUIRING DELIBERATION and/or ACTION</u>	
Page 56 85	A. Acceptance of HOC FY'16 Audited Financial Statements, Single Audit Report and Management Letter B. Approval to Increase the Investment in Victory Crossing as Part of the RAD Conversion of Senior Multifamily Properties and Authorization for the Executive Director to Amend the Grant Agreement to Reflect the Increased Investment	16-77 (pg. 60) 16-78 (pg. 90)
	V. <u>*FUTURE ACTION ITEMS</u> A.	
4:45 p.m.	VI. <u>INFORMATION EXCHANGE (continued)</u> A. Community	
	VII. <u>NEW BUSINESS</u>	
	VIII. <u>EXECUTIVE SESSION FINDINGS</u>	
4:50 p.m.	<u>ADJOURN</u>	
5:00 p.m.	<u>EXECUTIVE SESSION</u>	

NOTES:

1. This Agenda is subject to change without notice.
2. Public participation is permitted on Agenda items in the same manner as if the Commission was holding a legislative-type Public Hearing.
3. Times are approximate and may vary depending on length of discussion.
4. *These items are listed "For Future Action" to give advance notice of coming Agenda topics and not for action at this meeting.

5. Commission briefing materials are available in the Commission offices the Monday prior to a Wednesday meeting.

If you require any aids or services to fully participate in this meeting, please call (240) 627-9425 or email commissioners@hocmc.org.

Consent Items

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY

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

Minutes

October 5, 2016

16-10

The monthly meeting of the Housing Opportunities Commission of Montgomery County was conducted on Wednesday, October 5, 2016 at 10400 Detrick Avenue, Kensington, Maryland beginning at 4:10 p.m. Those in attendance were:

Present

Sally Roman, Chair
Jackie Simon, Vice Chair
Christopher Hatcher
Linda Croom
Pamela Byrd

Absent

Richard Y. Nelson, Jr.
Margaret McFarland

Also Attending

Kayrine Brown, Acting Executive Director
Shauna Sorrells
Fred Swan
Vivian Benjamin
Patrick Mattingly
Gail Willison
Hyunsok "Wilson" Choi
Erin Bradley
Ugonna Ibebuchi
Angela McIntosh-Davis
Natalie Kaplan
Bobbie DaCosta
Jennifer Arrington

Kelly McLaughlin, General Counsel
Nowelle Ghahhari, Deputy General Counsel
Ian Williams
Lorie Seals
Zachary Marks
Jim Atwell
Shala Rafiq
Arthur Tirskey
Lynn Hayes
Ethan Cohen
John Vass
Brian Kim
Bonnie Hodge

Resident Advisory Board

Yvonne Caughman

IT Support

Irma Rodriguez

Guest

Paul Kapfer, University of Maryland
Tricia Butureza, HOC Client
JoAnn Nickles, HOC Client
Phyllis Shaw, HOC Client

Commission Support

Patrice Birdsong

The meeting began with approval of the Consent Calendar. The Consent Calendar was adopted upon a motion by Commissioner Croom and seconded by Commissioner Byrd. Affirmative votes were cast by Commissioners Roman, Simon, Hatcher, Croom, and Byrd. Commissioners Nelson and McFarland were necessarily absent and did not participate in the vote.

I. CONSENT ITEMS

- A. Approval of Minutes of September 7, 2016** - The minutes were approved as submitted
- B. Approval of Executive Session Minutes of September 7, 2016** – The minutes were approved as submitted
- C. Ratification of Authorization to Award a Contract for Banking Services to PNC Bank, N.A.**

Resolution: 16-68R

RE: Ratification of Authorization to Award a Contract for Banking Services to PNC Bank, N.A.

WHEREAS, the Housing Opportunities Commission of Montgomery County (“HOC” or the “Commission”) received on June 20, 2016 five (5) banks’ written proposals for banking services; and

WHEREAS, at an Executive Session held on September 7, 2016, HOC adopted Resolution 16-68ES titled: “Authorization to Award Contract for Banking Services to PNC, Bank, N.A.”; and

WHEREAS, the Commission wishes to demonstrate its support for this authorization and ratify Resolution 16-68ES.

NOW, THEREFORE, BE IT RESOLVED by the Housing Opportunities Commission of Montgomery County that it supports the authorization to award a contract for banking services to PNC Bank, N.A and, hereby, ratifies and affirms.

II. INFORMATION EXCHANGE

- A. Report of the Executive Director** – Kayrine Brown, Acting Executive Director, acknowledged and congratulated Shauna Sorrells, Director of Legislative and Public Affairs, and team on hosting the first fund raising gala of the Housing

Opportunities Community Partners held on September 26, 2016. Ms. Brown also gave an update on the closing of Alexander House.

B. Calendar and Follow-up Action

None

C. Commissioner Exchange –

- Vice Chair Simon expressed her support of two bills to be introduced by Councilmember Tom Hucker on protecting neighborhoods from vacant and foreclosed properties. She also encouraged the support of the Commission for this bill. Chair Roman suggested that HOC prepare a letter of support.
- Commissioner Croom announced that she will be attending classes at Montgomery College and unable to attend the November 5, 2016 meeting.

D. Resident Advisory Board (RAB) – Ms. Yvonne Caughman, President of the Resident Advisory Board, reported their continued work on the Memorandum of Understanding (MOU).

E. Community Forum – Tricia Butureza, resident, addressed the Board concerning her eviction. At the recommendation of the Acting Executive Director, Jim Atwell, Internal Auditor and Bobbie DaCosta, Director of Property Management, were asked to speak with Ms. Butureza privately.

Joann Nickles, resident, addressed the Board concerning her participation on the Resident Advisory Board, affordable housing concerns and her work with seniors in her community. Fred Swan, Director of Resident Services, was asked to speak with Ms. Nickles regarding guidelines of participation on the Resident Advisory Board.

Phyllis Shaw, Tobytown homeowner, addressed the Board concerning a pipe that burst in a unit adjacent to her home. Kelly McLaughlin, General Counsel, explained to Ms. Shaw the work that had been done to the HOC unit as well as her unit to correct the problem. It was suggested by Vice Chair Roman that Ms. Shaw speak with Jim Atwell, Internal Auditor, privately to discuss her concerns regarding the water bill with WSSC and the work done in both her unit and HOC's.

F. Status Report – None

III. COMMITTEE REPORTS and RECOMMENDATIONS FOR ACTION

A. Budget, Finance and Audit Committee – *Com. Nelson, Chair*

1. Acceptance of Fourth Quarter FY'16 Budget to Actual Statements

Gail Willison, Chief Financial Officer, and Tiffany Jackson, Budget Officer, were the presenters.

The following resolution was approved upon a motion by Commissioner Hatcher and seconded by Commissioner Croom. Affirmative votes were cast by Commissioners Roman, Simon, Hatcher, Croom, and Byrd. Commissioners Nelson and McFarland were necessarily absent and did not participate in the vote.

Resolution: 16-69

**Re: Acceptance of Fourth Quarter FY'16
Budget to Actual Statements**

WHEREAS, the budget policy for the Housing Opportunities Commission of Montgomery County states that quarterly budget to actual statements will be reviewed by the Commission; and

WHEREAS, the Commission reviewed the Fourth Quarter FY'16 Budget to Actual Statements during its October 5, 2016 meeting; and

WHEREAS, the Agency ended Fiscal Year 2016 with an operating deficit of \$503,281; and

WHEREAS, HOC Budget Policy requires the Agency to end the fiscal year with a balanced budget.

NOW, THEREFORE, BE IT RESOLVED by the Housing Opportunities Commission of Montgomery County that it hereby authorizes staff to transfer \$503,281 from the Opportunity Housing Debt Service Reserve Fund to the General Fund in order to balance the FY'16 Budget.

BE IT FURTHER RESOLVED by the Housing Opportunities Commission of Montgomery County that it hereby accepts the Fourth Quarter FY'16 Budget to Actual Statements.

2. Approval of Property Management Contract for 900 Thayer Avenue

Bobbie DaCosta, Director of Property Management, was the presenter.

The following resolution was approved upon a motion by Commissioner Byrd and seconded by Commissioner Hatcher. Affirmative votes were cast by Commissioners Roman, Simon, Hatcher, Croom, and Byrd. Commissioners Nelson and McFarland were necessarily absent and did not participate in the vote.

RESOLUTION: 16-70

**Re: Approval of Property
Management Contract for 900
Thayer Avenue**

WHEREAS, the Housing Opportunities Commission issued a Request for Proposals (RFP) for pre-construction consulting services and property management of 900 Thayer Avenue Apartments; and

WHEREAS, based on the criteria included in the RFP and pricing from two responding companies, a panel of staff from Property Management, Finance, Compliance and Real Estate scored the results and determined that Edgewood Management is the most qualified to manage 900 Thayer Avenue.

NOW, THEREFORE, BE IT RESOLVED by the Housing Opportunities Commission that the Executive Director is hereby authorized to execute a contract for the term of one (1) year, with two (2) one (1) year renewal options, with Edgewood Management for pre-construction consulting and property management services at 900 Thayer Avenue.

B. Development and Finance Committee – Com. Simon, Chair

- 1. Approval of the Final Development Plan for Alexander House Apartments, Approval of the Acquisition of 122 Units from Alexander House Development Corporation by Alexander House Apartments Limited Partnership, and Authorization for the Executive Director to Enter into an Agreement for the Payment of General Contractor Services from CBP Constructors LLC**

Zachary Marks, Assistant Director of New Development and Brian Kim, Housing Acquisitions Manager, were the presenters.

The following resolution was approved upon a motion by Vice Chair Simon and seconded by Commissioner Croom. Affirmative votes were cast by Commissioners Roman, Simon, Croom and Byrd. Commissioner Hatcher abstained. Commissioners Nelson and McFarland were necessarily absent and did not participate in the vote.

RESOLUTION: 16-71

RE: Approval of the Final Development Plan for Alexander House Apartments, Approval of the Acquisition of 122 Units from Alexander House Development Corporation by Alexander House Apartments Limited Partnership, and Authorization for the Executive Director to Enter Into an Agreement for the Payment of General Contractor Services from CBP Constructors LLC

WHEREAS, the Housing Opportunities Commission of Montgomery County (“HOC” or “Commission”), a public body corporate and politic duly organized under Division II of the Housing and Community Development Article of the Annotated Code of Maryland, as amended, known as the Housing Authorities Law, is authorized

thereby to effectuate the purpose of providing affordable housing, including providing financing for the construction of rental housing properties which provide a public purpose; and

WHEREAS, Alexander House Apartments (the "Development"), currently owned by Alexander House Development Corporation ("Development Corporation"), was originally constructed in 1992 at 8560 Second Avenue, near the Silver Spring Metro Station as a single sixteen-story building with 311 units, 203 parking spaces in a tri-level underground parking garage, management offices, maintenance and engineering rooms, as well as a common outdoor pool shared with Elizabeth House Apartments, the property adjacent to the north; and

WHEREAS, the Development is an important element of the redevelopment of Elizabeth Square; and

WHEREAS, the preliminary and project plan for Elizabeth Square, which was approved on July 23, 2015, includes amendments to the Development; and

WHEREAS, minor site plan amendment approval was achieved for the Development on June 9, 2015, incorporating it seamlessly into the overall plan for Elizabeth Square; and

WHEREAS, the certified site plan for the recommended changes included in the preliminary and project plan is anticipated to be approved by November 2016; and

WHEREAS, on February 3, 2016, the Commission approved the selection of an architectural firm to complete the interior design work in preparation for the renovation of the Property and must now select a general contractor to complete said renovation work at the Property; and

WHEREAS, on May 4, 2016, the Commission approved the selection of general contractor contract with CBP Constructors LLC for the renovations of the Development; and

WHEREAS, the approved Preliminary Development Plan and renovation plan includes HOC's creation of Alexander House Apartments Limited Partnership (the "Partnership") to acquire 40% of the Property in order to avail of equity raised by the syndication of 4% Low Income Housing Tax Credits and a permanent loan funded from the sale of tax-exempt bonds, insured by FHA pursuant to its Risk Share agreement with HOC, and secured by 40% of the Property; and

WHEREAS, the Partnership was created on July 7, 2016, with HOC as the general partner and the Development Corporation as the initial limited partner; and

WHEREAS, On August 3, 2016 the Commission, acting for itself and for and on behalf of the Partnership, approved the selection of R4 Capital as the Low Income Housing Tax Credit Syndicator for the affordable portion of the Development and authorized the Executive Director to negotiate and enter into a Limited Partnership Agreement with R4 Capital; and

WHEREAS, HOC and the Partnership expect to receive a Letter of Reservation of Federal Low Income Housing Tax Credits from the Maryland Department of Housing and Community Development which will enable the Partnership to raise approximately \$15.2 million in equity to pay part of its acquisition and development costs.

NOW, THEREFORE, BE IT RESOLVED by the Housing Opportunities Commission of Montgomery County, acting for itself and as general partner for and on behalf of Alexander House Apartments Limited Partnership, that it hereby:

1. Approves the final development plan with an estimated total cost of \$120,194,570 for the entire building, to be allocated approximately \$68,013,220 to the Corporation's portion of the Development and approximately \$52,181,350 to the Partnership's portion.
2. Approves the acquisition of 122 units by Alexander House Apartments Limited Partnership which will be renovated using Low Income Housing Tax Credit equity and serve residents at or below 60% of the area median income ("AMI") at a pro-rata price of \$28,120,000 which represents 40% of the 305 total units which have an appraised value of \$70,300,000.
3. Authorizes the Executive Director to either (1) sign the general contractor contract with CBP Constructors LLC for the rehabilitation of the entire building in an amount not to exceed \$26,000,000 with the anticipation of being reimbursed by the Development Corporation for its approximately 60% share of the expense, (2) sign a construction contract with CPB Constructors LLC for the rehabilitation of its respective share of the Development for an amount not to exceed \$10,400,000, or (3) reimburse the Development Corporation for its respective share of construction costs in the event the Development Corporation executes a construction contract with CBP Constructors LLC for the entire building, depending on which option R4 Capital requires.

BE IT FURTHER RESOLVED by the Housing Opportunities Commission of Montgomery County, acting for itself and for and on behalf of Alexander House Apartments Limited Partnership as its current general partner, that the Executive Director is authorized, without any further action on their respective parts, to take any and all other actions necessary and proper to carry out the transactions and actions contemplated herein, including the execution of any documents related thereto.

2. Approval of a Preliminary Financing Plan for Alexander House Apartments Limited Partnership (the “Partnership”), the Entity that will own and Operate the 122 Low Income Housing Tax Credit Units at Alexander House Apartments (the “Development”)

Zachary Marks, Assistant Director of New Development, and Vivian Benjamin, Assistant Director of Mortgage Finance, were the presenters.

The following resolution was approved upon a motion by Vice Chair Simon and seconded by Commissioner Byrd. Affirmative votes were cast by Commissioners Roman, Simon, Croom, and Byrd. Commissioner Hatcher abstained. Commissioners Nelson and McFarland were necessarily absent and did not participate in the vote.

RESOLUTION: 16-72

RE: Approval of a Preliminary Financing Plan For Alexander House Apartments Limited Partnership (the “Partnership”), the Entity that will Own and Operate the 122 Low Income Housing Tax Credit Units at Alexander House Apartments (the “Development”)

WHEREAS, the Partnership was created to own 122 units which it will purchase from Alexander House Development Corporation (“Corporation”); and

WHEREAS, the Housing Opportunities Commission of Montgomery County (“HOC” or the “Commission”) will serve as the general partner of the Partnership; and

WHEREAS, the Partnership wishes to borrow construction and permanent financing to rehabilitate the Development and the Commission desires to issue two permanent loan commitments, one to the Partnership and one to the Corporation, to finance the permanent loans for the market-rate and affordable unit portions of the Development in an aggregate amount not to exceed \$74,000,000 (“Permanent Loan”); and

WHEREAS, the Commission has been approved to participate in the HUD Risk Sharing/Federal Financing Bank (FFB) Risk Sharing Program (“HUD/FFB Risk Sharing Program”), under which transactions processed by the Commission can be financed and FHA-insured upon completion of construction; and

WHEREAS, the FFB cannot lock in an interest rate more than 60 days before delivery, but can agree to participate at a rate to be determined in approximately three years or less and the Partnership wishes to investigate the purchase of an interest rate hedge for protection in the event rates should rise above the underwritten rate.

NOW, THEREFORE, BE IT RESOLVED by the Housing Opportunities Commission of Montgomery County, acting for itself and for and on behalf of Alexander House Apartments Limited Partnership as its general partner, that staff is authorized to pursue

short-term construction financing for the Development which will be brought before the Commission for approval.

BE IT FURTHER RESOLVED by the Housing Opportunities Commission of Montgomery County, acting for itself and for and on behalf of Alexander House Apartments Limited Partnership as its general partner, that staff is authorized to arrange permanent takeout loan for the transaction through a permanent loan from the Commission via the HUD/FFB Risk Sharing Program for the Partnership's portion of the Development, such that, when calculated together with the financing for the market-rate unit portion of the Development, the aggregate amount of permanent financing for the entire Development does not to exceed \$74,000,000, which proceeds will repay the Development's construction loans.

BE IT FURTHER RESOLVED by the Housing Opportunities Commission of Montgomery County, acting for itself and for and on behalf of Alexander House Apartments Limited Partnership as its general partner, that staff is authorized to explore the purchase of an interest rate hedge with a highly rated financial institution which will be brought before the Commission for approval.

BE IT FURTHER RESOLVED by the Housing Opportunities Commission of Montgomery County, acting for itself and for and on behalf of Alexander House Apartments Limited Partnership as its general partner, that the Executive Director is hereby authorized, without any further action on their respective parts, to take any and all other actions necessary and proper to carry out the transactions and actions contemplated herein, including the execution of any documents related thereto.

3. Authorization to Extend the Current Bond Underwriters' Contracts for Final Two Years

Kayrine Brown, Chief Investment and Real Estate Officer, was the presenter.

The following resolution was approved upon a motion by Vice Chair Simon and seconded by Commissioner Hatcher. Affirmative votes were cast by Commissioners Roman, Simon, Hatcher, Croom, and Byrd. Commissioners Nelson and McFarland were necessarily absent and did not participate in the vote.

RESOLUTION: 16-73

**RE: Authorization to Extend the
Current Bond Underwriters'
Contracts for a Final Two Years**

WHEREAS, the Housing Opportunities Commission of Montgomery County ("Commission"), a public body corporate and politic duly created, organized and existing under the laws of the state of Maryland, is authorized pursuant to the Housing Authorities Law, organized under Division II of the Housing and Community Development Article of the Annotated Code of Maryland ("Act"), to carry out and effectuate the purpose of providing affordable housing; and

WHEREAS, the Act empowers the Commission to make mortgage loans to qualified sponsors to provide for the construction, rehabilitation and long-term financing of multifamily residential housing units in the County for occupancy by persons of eligible income and to perform any other duties that the Commission considers necessary in carrying out the purposes of the Act; and

WHEREAS, the Commission, in furtherance of the purposes of the Act, has established a program to provide for the financing of mortgage loans through the issuance of its multifamily housing bonds (“Program”); and

WHEREAS, in support of the Program, the Commission entered in contracts in January 2011 with Bank of America Merrill Lynch, Morgan Stanley, RBC Capital Markets, LLC, M&T Securities, Inc., PNC Capital Markets, LLC, and J.P. Morgan Chase (collectively, the “Contracts”) to serve as members of the Commission’s bond underwriting team (“Bond Underwriting Team”) to provide services that enable the structuring and sale of bonds to individual and institutional investors, thereby facilitating access to the capital markets and as such allow the Commission to meet its affordable housing goals; and

WHEREAS, the existing procurement policy allows for the selection of investment banking firms to serve as underwriters for an initial four-year term plus two additional two-year extensions for a maximum contract term of eight years; and

WHEREAS, the Contracts have already been extended one time, for a two year term ending on January 28, 2017, and therefore may be extended for a final two year term ending on January 28, 2019; and

WHEREAS, staff projects that while the single family program may be funded from proceeds of publicly issued debt, all of the multifamily financing activities anticipated in the next two years and in the foreseeable future will be funded with a combination of short-term debt and long-term financing under the FHA Risk Share Federal Financing Bank program, reducing significantly the public issuance of multifamily debt; and

WHEREAS, staff is satisfied with the services provided by the Bond Underwriting Team and after considering the anticipated financing pipeline, recommends extending the Contracts’ terms for two years.

NOW, THEREFORE, BE IT RESOLVED, by the Housing Opportunities Commission of Montgomery County, that it approves a two-year extension of the current contract with Bank of America Merrill Lynch, as senior manager of the bond underwriting team, and approves a two-year extension of the current contracts with Morgan Stanley, RBC Capital Markets, LLC, M&T Securities, Inc., PNC Capital Markets, LLC, and J.P. Morgan Chase as co-managers of the bond underwriting team through January 29, 2019.

IV. ITEMS REQUIRING DELIBERATION and/or ACTION

None

V. FUTURE ACTION ITEMS

None

VI. INFORMATION EXCHANGE (CONT'D)

None

VII. NEW BUSINESS

None

VIII. EXECUTIVE SESSION FINDINGS

None

Based upon this report and there being no further business to come before this session of the Commission, a motion was made, seconded and unanimously adopted to adjourn.

The meeting adjourned at 5:13 p.m.

Respectfully submitted,

Stacy L. Spann
Secretary-Treasurer

/pmb

AUTHORIZATION TO APPOINT LABOR RELATIONS ADMINISTRATOR

November 2, 2016

- **Under the terms of the Collective Bargaining Law, Seymour Strongin, Esquire was initially appointed as the Labor Relations Administrator (LRA) for the Housing Opportunities Commission for a five-year term commencing on December 1, 2000. The five-year term concluded on November 30, 2005.**
- **On August 13, 2008, Mr. Strongin was reappointed as the LRA for HOC for an additional five-year term. The five-year term concluded on August 12, 2013.**
- **M. David Vaughn, Esquire was appointed as the new LRA for a five-year term commencing on September 11, 2013. Mr. Vaughn resigned his appointment as HOC's LRA effective July 10, 2015.**
- **HOC and the Municipal and County Government Employees Organization (MCGEO), Local 1994, mutually agreed on the nomination of Sean J. Rogers, Esquire as the new LRA for HOC.**
- **Staff recommends that the Executive Director be authorized to appoint Sean J. Rodgers, Esquire as Labor Relations Administrator for a five-year term commencing on November 2, 2016.**

MEMORANDUM

TO: Housing Opportunities Commission

VIA: Stacy Spann, Executive Director Ext. 9420
Patrick Mattingly, Human Resources Director Ext. 9438

FROM: Louis J. Chaney, Jr., Labor Relations Manager Ext. 9424

RE: Authorization to Appoint Labor Relations Administrator

DATE: November 2, 2016

STATUS:

Consent Deliberation Status Report Future Action

BACKGROUND:

The Housing Opportunities Commission (HOC) established a Labor Relations Administrator (LRA) position in October 1999 as required by the Collective Bargaining Law. At the October 13, 1999 meeting, the Commission adopted Resolution 99-97 authorizing the Executive Director to negotiate a one-year contract with Seymour Strongin, Esquire to serve as LRA to provide for the implementation and administration of the law pertaining to the selection, certification and decertification procedures, prohibited practices, and the choice of a mediator/fact finder.

On October 18, 2000, the Commission adopted Resolution 00-101 extending the contract with Seymour Strongin, Esquire as LRA for two additional months to continue work monitoring union member vote and ratification of the collective bargaining agreement. HOC and the Municipal and County Government Employees Organization (MCGEO) jointly recommended that Seymour Strongin, Esquire, the existing LRA, be appointed as LRA for a five-year term. At the November 8, 2000 meeting, Resolution 00-108 was adopted by the Commission appointing Seymour Strongin, Esquire as LRA for a five-year term commencing on December 1, 2000. The five-year term expired on November 30, 2005. At the August 13, 2008 meeting, Resolution 08-81 was adopted by the Commission reappointing Mr. Strongin as the LRA for HOC for an additional five-year term. The five-year term concluded on August 12, 2013.

HOC and MCGEO jointly recommended that M. David Vaughn, Esquire be appointed to replace Mr. Strongin as the LRA. At the September 11, 2013 Commission Meeting, M. David Vaughn, Esquire was appointed as the LRA for a five-year term. Due to a conflict of interest, Mr. Vaughn resigned his appointment as HOC's LRA effective July 10, 2015.

HOC and MCGEO have mutually agreed on the nomination of Sean J. Rodgers, Esquire as the new Labor Relations Administrator for HOC for a five-year term.

ISSUES FOR CONSIDERATION:

Does the Commission wish to appoint Sean J. Rodgers as Labor Relations Administrator for a five-year term?

BUDGET IMPACT:

The LRA will be paid a daily fee as set forth by the contract with the Housing Opportunities Commission and will be reimbursed for necessary expenses. Per Diem rate is estimated to be \$2,000-\$2,200 per day. The LRA will be employed by the Commission pursuant to an employment contract. Services will be requested as required from time to time to hear disputes regarding unfair labor practices and the selection of mediator/fact finder in the event that collective bargaining reaches an impasse.

TIME FRAME:

For action at the November 2, 2016 Commission meeting.

RECOMMENDATION AND COMMISSION NEEDED:

Staff recommends that the Commission adopt the attached resolution appointing Sean J. Rodgers, Esquire as the Labor Relations Administrator for the Housing Opportunities Commission for a five-year term.

WHEREAS, the Housing Opportunities Commission of Montgomery County (HOC) is required by the Collective Bargaining Law to appoint a Labor Relations Administrator (LRA) to provide for the effective implementation of the law pertaining to the selection, certification, decertification procedures, prohibited labor practices, and the selection of a mediator/fact finder; and

WHEREAS, Seymour Strongin, Esquire was appointed Labor Relations Administrator for the Housing Opportunities Commission for a term of one (1) year in October 1999; and

WHEREAS, Seymour Strongin, Esquire was reappointed as Labor Relations Administrator for the Housing Opportunities Commission for a five (5) year term commencing on December 1, 2000 and ending on November 30, 2005; and

WHEREAS, Seymour Strongin, Esquire was reappointed as Labor Relations Administrator for HOC for a five-year term commencing on August 13, 2008 and ending on August 12, 2013; and

WHEREAS, M. David Vaughn, Esquire, was appointed Labor Relations Administrator for a term of five years on September 11, 2013; and

WHEREAS, M. David Vaughn, Esquire resigned his appointment as Labor Relations Administrator on July 15, 2015; and

WHEREAS, HOC and the Municipal County Government Employees Organization (MCGEO) have completed the process of review of nominees for a new Labor Relations Administrator; and the joint recommendation is that Sean J. Rodgers, Esquire be appointed as Labor Relations Administrator for a five-year term.

NOW, THEREFORE, BE IT RESOLVED by the Housing Opportunities Commission that the following terms and conditions will govern the appointment of the Labor Relations Administrator:

1. Sean J. Rodgers, Esquire is hereby appointed as the Labor Relations Administrator for the Housing Opportunities Commission for a five-year term.
2. The term will commence on November 2, 2016 and will end November 1, 2021.
3. The LRA will be an employee of the Commission and will be paid as a contract employee on a per diem basis and will be reimbursed for necessary expenses.

4. The Executive Director will administer the contract and the LRA will report to the Executive Director.
5. The cost associated with the employment of the LRA will be shared equally with the Municipal County Government Employees Organization and the Housing Opportunities Commission.

I HEREBY CERTIFY that the foregoing Resolution was adopted by the Housing Opportunities Commission of Montgomery County at an open meeting conducted on November 2, 2016.

Information Exchange

HOC Health and Wellness Expo



Saturday October 1st, HOC partnered with Emmanuel Brinklow Seventh-day Adventist Church to host the 2016 Health and Wellness Expo at the Silver Spring Civic Center. At the event, Nearly 200 community members received free clinical assessments and referrals. HOC staff were on hand to enroll attendees in HOC Academy programs, the Family Self-Sufficiency program and provide case management services. Staff also helped register people in need of stable housing on the HOC Housing Path wait list.

Attendees benefited from depression screening, blood pressure screening and diabetes testing, vision screening, pediatric dental services, cholesterol testing, nutrition counseling, teen health and men's health services. Social supports such as WIC and SNAP were also present to assist those in need of additional resources.

The event granted vulnerable families throughout the county access to health care and supportive services that they might otherwise not have received.

OIG Completes Review of HCV Program

In July 2016, the Office of the Inspector General (OIG) completed an eight month review of HOC's Housing Choice Voucher Program. In their report, the OIG found that the Commission did not always conduct adequate inspections to enforce HUD's housing quality standard and offered six recommendations.

HOC is in the process of drafting a response to HUD regarding the final report. Prior to completing its response, I would like to inform the Commission of steps HOC is taking to address the OIG's concerns.

HOC currently procures inspection services from an independent entity; however, it is not clear that HUD "approved" the procurement as required. On July 29th, prior to the issuance of the OIG report, HOC issued a Request for Proposals (RFP) for a new vendor. The RFP specifically states that the vendor must be approved by HUD before a contract can be awarded

Another concern raised by the OIG was whether units met Housing Quality Standards (HQS). While HOC strongly disagrees with the OIG's methodology for most of the HCV units given the lag between the audit and program inspections, we are taking steps to strengthen our program. HOC has initiated a number of activities to ensure that units meet Housing Quality Standards. HOC submitted a request to HUD in May 2016 proposing the use of Montgomery County, Maryland Housing and Building Maintenance Standards as an alternative inspection method. The county inspection code is more stringent than HUD's current protocols, namely, HQS and Uniform Physical Condition Standards (UPCS). Using Montgomery County requirements also allows HOC to apply a uniform inspection standard to all HOC programs which creates operational efficiencies and ensures that our units are maintained at the highest level.

We will keep you informed of developments regarding the OIG report.

HOC Academy

West Point and the Army Research Lab Bring the 2016 West Point Mobile STEM Workshop to HOC



On Saturday, October 15th, HOC was honored to have West Point cadets and faculty as well as staff from the Army Research Lab present the 2016 West Point Mobile STEM Workshop to HOC youth. This year marked the second year HOC hosted the workshop for youth. HOC was also the only housing agency selected to participate this year.



Thirty middle school students spent the day building robots, learning to program their machines, and practicing team work. Through the workshop, youth were able to challenge their problem solving skills and develop technological solutions. The day ended with students' robots competing in races and an award ceremony for participants.

Parents were encouraged to attend a session highlighting STEM career and educational opportunities as well as the important role STEM plays in youth development.

This workshop is a central component of HOC's efforts to expand students' horizons and ensure they have access to enriching programs.

HOC Academy Supports Clients Through Tuition Assistance

One of HOC Academy's goals is to provide adult education and workforce development to HOC customers. Towards that end, the Academy offers tuition assistance to those pursuing certifications or college degrees. To date, HOC Academy has distributed nearly \$24,000 in tuition assistance during 2016. Clients are using assistance to fund a variety of dreams including project management certification, physical therapy, maintenance and construction trades, various health care professions, information technology and college degrees. Several clients are also using funds to position themselves towards greater self-sufficiency by improving their English through ESL classes and meeting general education requirements so they can enroll in college.

Fatherhood Initiative Increases Impact on HOC Families

On Thursday, October 20th, the second cohort of Fatherhood Initiative participants completed their initial classes. As a result of tremendous outreach, staff is proud to report that the second cohort of Fatherhood Initiative participants is nearly double the size of the first. This group is more ethnically diverse and is very engaged with the program.

Since the program started, it has provided over \$2,000 in tuition assistance, introduced new classes to the program and worked diligently to reach more in the community. The program is currently recruiting for its next cohort. The next group of participants is expected to begin classes on November 28, 2016.

Magruder's Discovery Welcomes New Robotics Club

In October, 15 enthusiastic youngsters registered to be part of the first Robotics Club at Magruder's Discovery. Led by instructor Jonathan Mevs, the group will learn computer programming, engineering and mechanics. Students will sharpen their critical thinking skills by applying their knowledge to design robots that help solve real-world issues. This group is sure to have fun learning from Jonathan, a college junior studying Computer Science at the University of Maryland.



This new club allows HOC to expand STEM enrichment to over 200 students this year.

Mortgage Finance

The Mortgage Finance Division Helps Make Homeownership a Reality

In October, the Single Family team helped three families realize their dreams of homeownership. These families purchased homes through the HOC Homeownership program. Of the three, one family used the Housing Choice Voucher Homeownership (HCVH) program after spending several years on the HCVH wait list. The families have been long-time HOC clients; in each case, they have been in HOC programs for at least seven years.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY

November 2016

2	Administrative Worksession (<i>All</i>)	2:30 p.m.
2	HOC Regular Meeting (<i>All</i>)	4:00 p.m.
8	General Election	7 a.m. – 8 p.m.
11	Veteran’s Day (HOC Offices Closed)	
15	Legislative and Regulatory Committee Meeting (<i>Byrd, Croom, Simon</i>)	4:00 p.m.
18	Development and Finance Committee Meeting (<i>Simon, McFarland, Nelson</i>)	10:00 a.m.
21	Resident Advisory Board (<i>Croom</i>)	6:00 p.m.
24-25	Thanksgiving Holiday (HOC Offices Closed)	
28	Agenda Formulation (<i>Roman, Croom</i>)	12:00 noon
28	Budget, Finance and Audit Committee Teleconference (<i>Nelson, Roman, Hatcher</i>)	2:30 p.m.

December 2016

7	HOC Regular Meeting (<i>All</i>)	4:30 p.m.
9	Status/Lunch Meeting w/Executive Director (<i>All</i>) – Location TBD	12:00 noon
16	Development and Finance Committee Meeting (<i>Simon, McFarland, Nelson</i>)	10:00 a.m.
19	Agenda Formulation (<i>Roman, Byrd</i>)	12:00 noon
19	Budget, Finance and Audit Committee Teleconference (<i>Nelson, Roman, Hatcher</i>)	2:00 p.m.
19	Resident Advisory Board (<i>Croom</i>)	6:00 p.m.
26	Christmas Holiday Observed (HOC Offices Closed)	

January 2017

2	New Year’s Holiday Observed (HOC Offices Closed)	
11	HOC Regular Meeting (<i>All</i>)	4:00 p.m.
17	Legislative and Regulatory Committee Meeting (<i>Byrd, Croom, Simon</i>)	4:00 p.m.
20	Development and Finance Committee Meeting (<i>Simon, McFarland, Nelson</i>)	10:00 a.m.
23	Agenda Formulation (<i>Roman, Byrd</i>)	12:00 noon
23	Resident Advisory Board (<i>Croom</i>)	6:00 p.m.

February 2017

1	HOC Annual Meeting Reception (<i>All</i>)	3:30 p.m.
1	HOC Annual Meeting (<i>All</i>)	4:00 p.m.
17	Status/Lunch Meeting w/Executive Director (<i>All</i>) – Location TBD	12:00 noon
17	Development and Finance Committee Meeting (<i>Simon, McFarland, Nelson</i>)	10:00 a.m.
21	Budget, Finance and Audit Committee Meeting (<i>Nelson, Roman, Hatcher</i>)	10:00 a.m.
27	Resident Advisory Board (<i>Croom</i>)	6:00 p.m.

Activities of Interest

TO DO / ACTION

Ref. #	DUE DATE	ACTION	STAFF	STATUS
TD-14-07	Spring 2017	Procurement Policy	Willison	In Progress
TD-15-02	Winter 2017	Update Administrative Guide for Commissioners and Staff	Spann	In Progress
TD-15-03	Winter 2017	Worksession – Assisted Housing and Family Self-Sufficiency Program	Sorrells	To Be Scheduled
TD 16-02	Winter 2017	Personnel Policy	Mattingly	In Progress
TD 16-04	February 2017	Rental Policy Review with staff recommendations	All	
TD 16-05	Fall/Winter	Joint Board Meeting w/Rockville Housing Enterprises and Housing Opportunities Commission	Spann/ Birdsong	

Committee Reports and Recommendations for Action

Budget, Finance & Audit Committee

**AUTHORIZATION TO SUBMIT
FY'18 COUNTY OPERATING BUDGET**

November 2, 2016

- **The FY'18 County Operating Budget submission is due to the County Office of Management and Budget (OMB) on November 10, 2016.**

- **The Agency is required to submit a base budget or Maximum Agency Request Ceiling (MARC) for FY'18 not to exceed \$6,540,930 which is based on the current FY'17 MARC of \$6,513,040 plus an adjustment for health and retirement benefits of \$27,890.**

M E M O R A N D U M

TO: Housing Opportunities Commission

VIA: Stacy L. Spann, Executive Director

FROM: Finance: Gail Willison Ext. 9480
Tiffany Jackson Ext. 9512
Terri Fowler Ext. 9507

RE: Authorization to Submit FY'18 County Operating Budget

DATE: November 2, 2016

STATUS: Consent: [] Deliberation [] Future Action [] Committee Report [X]

OVERALL GOAL & OBJECTIVE:

Authorization to submit FY'18 County Operating Budget.

BACKGROUND:

The FY'18 Operating Budget submission is due to the County Office of Management and Budget (OMB) on November 10, 2016. The Agency is required to submit a base budget or Maximum Agency Request Ceiling (MARC) for FY'18 not to exceed \$6,540,930. The MARC is based on the FY'17 approved MARC of \$6,513,040 plus an adjustment for health and retirement benefits of \$27,890.

For FY'18, OMB is not accepting competition list requests except to include programmatic obligations not already reflected in the MARC or to respond to legal mandates.

The County continues to face a constrained fiscal environment. The August 2016 income tax distribution was \$11.2 million below Finance's estimate. The Wynne decision is projected to produce losses of \$16.7 million in both FY'17 and FY'18, and \$29.9 million in FY'19. The State of Maryland estimates a FY'16-FY'18 revenue shortfall between \$600 million and \$800 million.

Revenues are forecasted to increase less than known cost obligations including structural cost increases for debt service, reserves, retiree health insurance, and Maintenance of Effort spending for Montgomery County Public Schools (MCPS). Other factors that affect the cost pressure are labor negotiations underway with the County unions, cost increases in group insurance, pensions, workers compensation, and general inflation, as well operating cost of new facilities and infrastructure, and the demand for service enhancements. Unless economic factors improve in the updated forecasts later this year, the County will have to make difficult choices to balance the budget.

The initial baseline targets were released with the expectation that specific budget reductions and other guidance, if necessary, would be provided after the Department of Finance updates its revenue forecast at the end of November 2016. Similar to last year, any target reduction proposals will be due within two to three weeks. Based on the short time frame necessary for submitting reductions, OMB is urging departments to begin identifying and developing potential reductions in anticipation of any target reductions that may be submitted in late November 2016.

ISSUES FOR CONSIDERATION:

Does the Commission wish to authorize the submission of the FY'18 County Budget MARC of \$6,540,930?

BUDGET IMPACT:

The County Operating Grant is the primary funding source for the Agency's Resident Services Division. The County Operating Grant also funds a large part of the Housing Resources Division.

TIME FRAME:

The Budget, Finance and Audit Committee reviewed the FY'18 MARC submission at the October 11, 2016 meeting. Action is requested at the November 2, 2016 meeting.

STAFF RECOMMENDATION & COMMISSION ACTION NEEDED:

The Budget, Finance and Audit Committee recommends to the full Commission authorization to submit the proposed FY'18 County Operating Budget of \$6,540,930 at the November 2, 2016 meeting in order to meet the submission deadline of November 10, 2016 for the County Operating Budget process.

RESOLUTION NO: 16-75

**RE: Authorization to Submit
FY'18 County Operating Budget**

WHEREAS, the Housing Opportunities Commission (HOC) of Montgomery County wishes to submit a request for County funds for FY'18; and

WHEREAS, the County has instructed HOC to submit a base budget or "MARC" of \$6,540,930 for FY'18 by November 10, 2015.

NOW, THEREFORE, BE IT RESOLVED by the Housing Opportunities Commission of Montgomery County that it hereby submits a request for FY'18 County funds in the amount of \$6,540,930.

I HEREBY CERTIFY that the foregoing Resolution was adopted by the Housing Opportunities Commission of Montgomery County at an open meeting conducted on November 2, 2016.

Patrice Birdsong
Special Assistant to the Commission

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APPROVAL OF CY'17 TAX CREDIT PARTNERSHIP BUDGETS

November 2, 2016

- The Budget, Finance and Audit Committee reviewed the Tax Credit Partnership Budgets at the October 11, 2016 meeting.
- The budgets for the two MPDU Tax Credit Partnerships, Hampden Lane LP (Lasko Manor), Forest Oak Towers LP, Wheaton Metro LP (MetroPointe), Manchester Manor Apartments LP, Tanglewood/Sligo Hills LP, Barclay One LP, Georgian Court Silver Spring LP, MV Affordable Housing Associates LP (Stewartown), Shady Grove Apartments LP, Spring Garden One Associates LP, The Willows of Gaithersburg Associates LP, Arcola Towers RAD LP, and Waverly House RAD LP generate \$485,866 in net cash flow to the Agency for CY'17 which is comprised of \$297,754 in Ground Rent and \$188,112 in Partnership Management Fees.
- Rent increases for all properties are within the guidelines of HOC's current Rent Policy.
- The partnership documents for the tax credit portions of Strathmore Court and The Metropolitan provided for a partnership fiscal year that coincides with HOC's. Therefore, these budgets are not included with the calendar year partnership budgets.

As general partner, HOC is responsible for submitting final copies of the CY'17 Budgets to the limited partners by November 1.

Attachment 1 displays the initial compliance period end dates, status of limited partner exit, and extended use after the initial compliance period for all our CY Tax Credit partnership properties.

The partnership agreements for The Metropolitan and Strathmore Court provide for a fiscal year consistent with HOC's fiscal year and, therefore, are exceptions to the tax credit process outlined herein. Their budgets are adopted with the budgets for the balance of HOC's properties.

ISSUES FOR CONSIDERATION:

The budget forecasts the collection of \$297,754 in CY'17 in ground rent fees from MHLP IX and MHLP X. The budget also forecasts the collection of \$294,114 in CY'17 in Asset and Partnership Management Fees from the multifamily properties (**Attachment 2**). At year end, the Asset Management Fees are paid to the limited partner. If sufficient funds remain, the Partnership Management Fees, or \$188,112, are paid to the general partner (HOC). All unpaid fees are accrued for payment in future years.

As the Managing General Partner, HOC is responsible for funding any cash deficits that occur in the operation of the tax credit projects. **Lasko Manor** is projecting a negative cash flow of \$50,546 for CY'17. The loss will be offset from the projected ground rent income in the General Fund during the FY'18 budget process. It should be noted that a portion of this deficit results from the Management Fee paid to HOC.

Scattered Site Tax Credit Partnerships

In CY'17, the projected ground rent for the portfolio is \$76,507 more than the CY'16 projection of \$221,247. The increase in projected ground rent is a result of lower anticipated vacancy rates and operating expenses in the portfolio. The decrease in vacancy is a result of a concerted effort to improve occupancy at the scattered site properties; these efforts included increased maintenance expenditures, both operating and capital, to improve the condition of the units.

Rent increases for all scattered site properties are budgeted according to a rent calculation model with a 2.1% increase for both renewal and turnover units. The CY'17 Budget for the scattered site properties projects a slight increase in operating income for **MHLP IX** and **MHLP X** compared to budgeted CY'16 projections (**Attachment 3**). The CY'16 actual vacancy loss is lower than was budgeted; however, recent months show an uptick in vacancy, particularly at **MHLP X**. The projected vacancy loss for CY'17 reflects the recent upward trend.

Operating expenses on a per unit per annum (PUPA) basis for the scattered site properties are projected to decrease in CY'17 mainly due to decreases in Personnel related to the Edgewood property assistance contract and Maintenance Expenses to reflect a more normalized level following increased expenditures in CY'15 and CY'16 (**Attachment 4**).

The net effect on CY'17 of lower vacancy losses and lower budgeted operating expenses is that the Net Operating Income (NOI) on a PUPA basis is projected to increase in CY'17 for each property in the portfolio (**Attachment 5**). It should be noted that projected operating results described above are comparing budgeted CY'17 figures with budgeted CY'16 figures. Comparison of CY'17 budgeted projections to CY'16 actual results would likely result in smaller variability in operating results between CY'16 and CY'17.

The minimum Debt Service Coverage Ratio (DSC) requirement of 1.10 or higher is achieved by all properties. The DSC ratio for both **MHLP IX** and **MHLP X**, driven by increases in NOI, has increased for CY'17 when compared to the CY'16 budgeted levels (**Attachment 6**). The Tax Credit compliance period for **MHLP IX** expired December 2013. The original financing structure included HOC and County loans totaling \$1.15 million and \$1.41 million, respectively that were scheduled to begin repayment in September and October of 2016. The intention was to refinance the properties upon donation prior to the repayment dates; however, we have experienced delays in the donation from the limited partner. Staff is requesting an extension on the repayment schedule commencement; therefore, the **MHLP IX** CY'17 budget excludes repayments of the new loans. If these loans were included, debt service would increase by approximately \$208,000 per year, which would decrease the CY'17 DSC from 1.47 to 1.02.

Attachment 7 shows the history of PUPA Replacement for Reserves (RfR) contributions for scattered sites MHLP IX and MHLP X. The base required contribution has not changed over the years. However, the age of the portfolio has required additional pay-go contributions each year to meet the capital needs of the portfolio. The CY'17 projection for PUPA RfR deposits by property, including the base and pay-go amounts, is depicted on **Attachment 8**.

Multifamily Tax Credit Partnerships

The rent policy for CY'17 allows for in-place AMI unit rental increases based on the County Guideline of 2.1%. However, this portfolio includes several properties that fall under superseding rental increase guidelines. Rent increases for this portfolio are budgeted between 1.5% and 2.1%, which staff believes is reasonable and achievable.

Income from this portfolio is restricted to the properties. The only revenue that comes to HOC is in the form of a Partnership Management Fee, which is projected to be \$188,112 for CY'17. As a result of the projected deficit for **Lasko Manor**, both Asset Management and Partnership Management Fees have been excluded from the budget. The proposed CY'17 budgets reflect an increase of \$22,102 or 13.3% when compared to the CY'16 adopted budgets; this increase includes **Arcola Towers** (\$10,500) and **Waverly House** (\$7,736), which were not a part of the CY'16 budgets. Excluding Arcola Towers and Waverly House, Partnership Management Fees would total \$169,876 or 2.3% more than the CY'16 adopted budget.

The CY'17 Budget for the multifamily properties project decreases in operating income on a PUPA basis for eight of the thirteen multifamily properties. The decreases for **Stewartown**,

Georgian Court, and **The Willows** are the result of expiring interest reduction payment subsidies (IRP). **Lasko Manor** decreased 6.6% from the CY'16 budget as a result of lower gross rent based on current tenants coupled with slightly higher vacancies. (**Attachment 9**)

Operating expenses on a PUPA basis for the multifamily properties are projected to increase in the CY'17 Budget at seven of the 13 properties; the increases range from 0.2% to 7.8%. The highest growth rates are at **Spring Garden** and **Tanglewood/Sligo Hills** which project expense growth rates of 7.8% and 6.0%, respectively. The increase for **Spring Garden** is driven by a 15.2% increase in personnel due to the addition of a part-time employee. For **Tanglewood/Sligo Hills**, the increase reflects the addition of a maintenance supervisor combined with higher utilities, liability insurance, and maintenance expenses (**Attachment 10**). **Forest Oak Towers** decreased compared to the CY'16 budget due to the exclusion of the biennial rental license fee.

The net impact of the changes in operating income and expenses is reflected in the net operating income (NOI) on a PUPA basis for the Multifamily Tax Credit Portfolio (**Attachment 11**). Changes in NOI from budgeted CY'16 to CY'17 varied across the portfolio. Seven properties are projected to have a decrease to NOI: 2.7% at **Barclay**, 5.7% at **Tanglewood/Sligo Hills**, and 5.9% at **Spring Garden**; the 236 properties, **Georgian Court**, **Stewartown**, and **The Willows**, are expected to decrease by 9%, 11.4%, and 16.9%, respectively, as a result of expiring IRP subsidies. The deficit at **Lasko Manor** increased by 37% over the CY'16 budget. The remaining properties project NOI increases averaging 2.7%.

The minimum Debt Service Coverage Ratio (DSC) requirement of 1.10 or higher is projected to be achieved for all multifamily properties (**Attachment 12**).

Attachment 13 shows the history of PUPA Replacement for Reserves (RfR) contributions for the multifamily portfolio. Excluding **Arcola Towers** and **Waverly House**, the base required contribution amount has remained relatively flat. Over the years, a few properties in the portfolio have required increases in their annual contributions as well as the use of residual cash to meet their capital needs. For CY'17, **Georgian Court**, **Stewartown**, **Shady Grove**, and **The Willows** continue to project the need for significant increases in RfR contributions to meet their current and future years' capital expenditure needs. The CY'17 projection for RfR deposits by property, including the base and increased amounts, are depicted in **Attachment 14**.

Capital

The age and condition of our portfolio continues to bring capital needs and the funding of those needs to the forefront.

MHLP IX, **MHLP X**, **Forest Oak Towers**, **Manchester Manor**, and **Georgian Court** are relying on current year RfR contributions, which have been increased for all but **Forest Oak** and **Manchester Manor** above the required base RfR escrow contributions in CY'17, to fund the properties' capital needs (**Attachment 15**). Each year, RfR contributions for the Scattered Site properties are increased on a pay-go basis to fund the current years' capital budget. As a result,

if the full capital budget is expended, the respective property would not have reserves available at the beginning of the following year. The reliance on increased current year RfR deposits not only directly reduces the amount of ground rent fees available to HOC but will also result in these properties having insufficient reserves available to meet capital needs beyond CY'17. For the multifamily properties, increased RfR contributions above the base requirement are intended to prevent the depletion of their reserves and support future capital needs denoted in each property's Five Year Capital Plans.

BUDGET IMPACT:

Approval by the Commission of these budgets will allow the Tax Credit Partnerships to begin operations on January 1, 2017, the beginning of their calendar year.

TIME FRAME:

The Budget, Finance and Audit Committee reviewed the CY'17 Tax Credit Partnership Budgets at the October 11, 2016 meeting. Action is requested at the November 2, 2016 Commission meeting.

STAFF RECOMMENDATION & COMMISSION ACTION NEEDED:

The Budget, Finance and Audit Committee recommends to the full Commission approval of the proposed CY'17 Tax Credit Partnership Budgets.

WHEREAS, the Housing Opportunities Commission of Montgomery County is the General Partner who manages the business and is liable for the debts of 15 Tax Credit Partnerships; and

WHEREAS, the limited partners in these 15 Tax Credit Partnerships have contributed money and share in profits but take no part in running the business and incur no liability with respect to the partnership beyond their contributions; and

WHEREAS, the Tax Credit Partnerships are unique within the Housing Opportunities Commission's property portfolio since they are not HOC entities but managed properties and have no separate Boards; and

WHEREAS, the Housing Opportunities Commission has a financial obligation to cover all debts, has an interest in the successful performance of these partnerships and, as such, should review their performances and approve their budgets; and

WHEREAS, as the Budget, Finance and Audit Committee reviewed the CY'17 Budgets at the October 11, 2016 meeting.

NOW, THEREFORE, BE IT RESOLVED by the Housing Opportunities Commission of Montgomery County that it hereby approves the CY'17 Operating Budgets for the 15 Tax Credit Partnerships shown on Attachment 1 of this resolution.

I HEREBY CERTIFY that the foregoing Resolution was adopted by the Housing Opportunities Commission of Montgomery County at an open meeting conducted on November 2, 2016.

Patrice Birdsong
Special Assistant to the Commission

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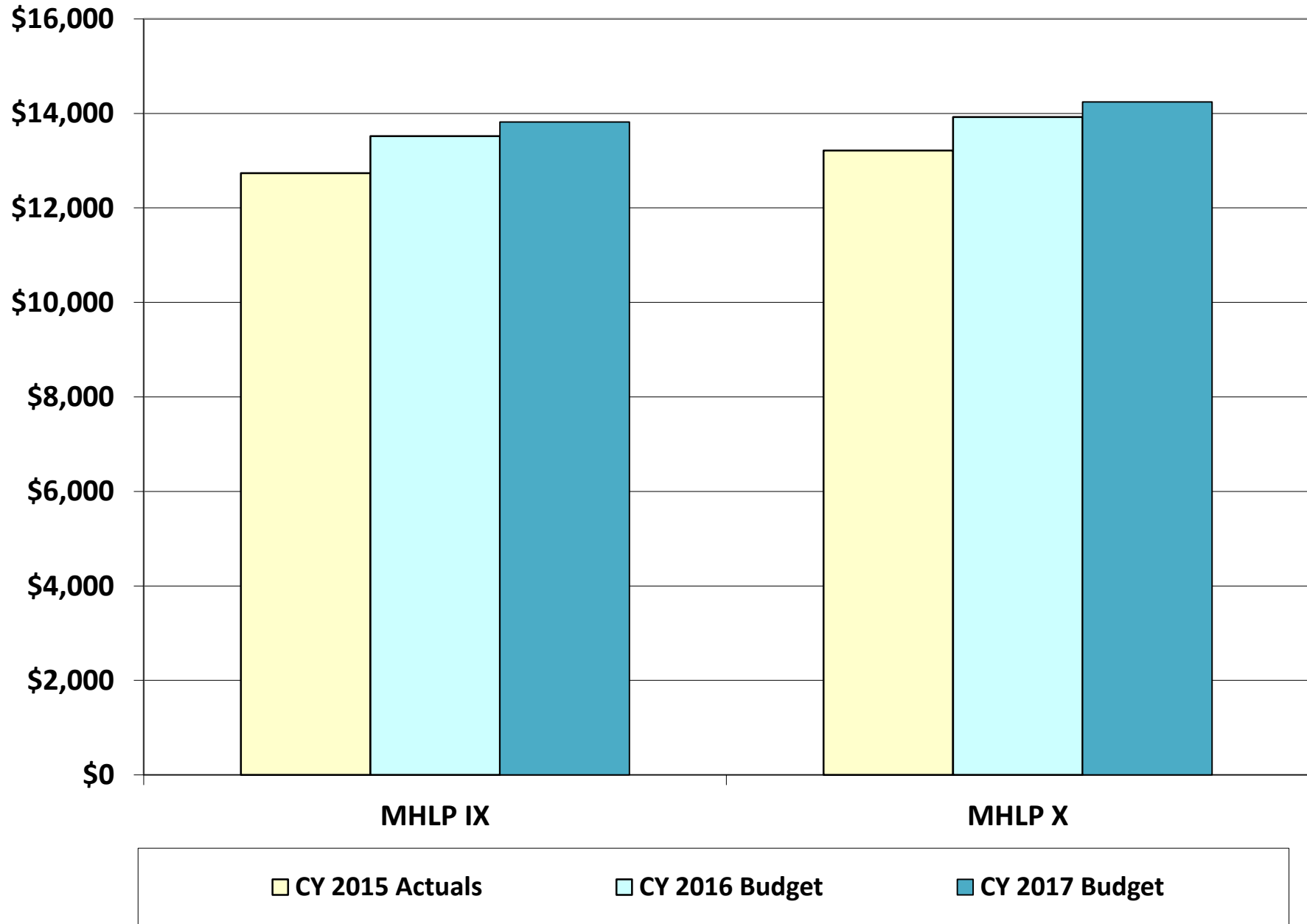
TAX CREDIT COMPLIANCE PERIOD as of October 11, 2016

PROPERTIES	# of Units	INITIAL END DATE: December	Status of Limited Partner Exit	Extended Use after Compliance Period
MHLP IX -Pond Ridge	40	2013	Conducting financial review to determine legal steps with LP.	84 Years (2097)
MHLP IX -MPDU Units	76	2013	Conducting financial review to determine legal steps with LP.	84 Years (2097)
Shady Grove Apts. LP	144	2013	Under review with Morrison Avenue Capital Partners & Censeo Consultants.	15 Years (2028)
The Willows of Gaithersburg Assoc. LP	195	2014	Under review with Morrison Avenue Capital Partners & Censeo Consultants.	15 Years (2029)
MHLP X	75	2015	Conducting financial review to determine legal steps with LP.	15 Years (2030)
Manchester Manor Apts. LP	53	2015	Under review with Morrison Avenue Capital Partners & Censeo Consultants.	15 Years (2030)
Georgian Court Silver Spring LP	147	2015	Under review with Morrison Avenue Capital Partners & Censeo Consultants.	15 Years (2030)
MV Affordable Housing Assoc. LP (Stewartown)	94	2017	Under review with Morrison Avenue Capital Partners & Censeo Consultants.	15 Years (2032)
Barclay One Assoc. LP	81	2020	Under review with Morrison Avenue Capital Partners & Censeo Consultants.	40 Years (2060)
Spring Garden One Assoc. LP	83	2021	Beginning stages - conducted preliminary analysis and determining next steps in process.	25 Years (2046)
Forest Oak Towers LP	175	2022	Beginning stages - conducted preliminary analysis and determining next steps in process.	25 Years (2047)
Wheaton Metro LP (MetroPointe)	53	2023	Beginning stages - conducted preliminary analysis and determining next steps in process.	25 Years (2048)
Hampden Lane Apts. LP (Lasko Manor)	12	2026	Beginning stages - conducted preliminary analysis and determining next steps in process.	25 Years (2051)
Tanglewood / Sligo Hills	132	2027	Beginning stages - conducted preliminary analysis and determining next steps in process.	25 Years (2052)
Arcola Towers LP	141	2031	Ongoing monitoring	15 Years (2046)
Waverly House LP	157	2031	Ongoing monitoring	15 Years (2046)

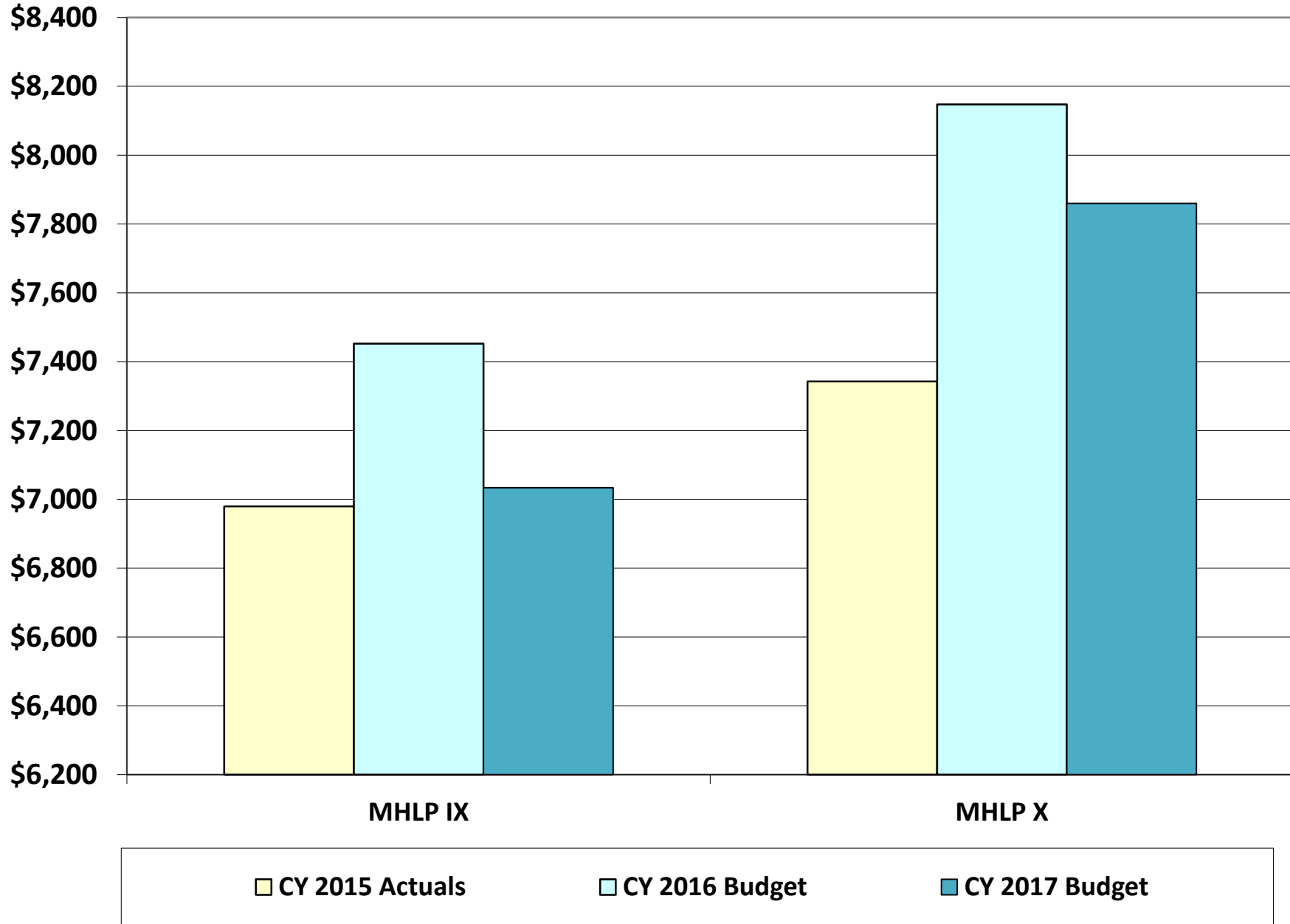
Tax Credit CY 2017 Operating Budget	# of Units	Total Operating Income	Total Operating Expenses	Net Operating Income	Annual Debt Services	Required Annual Escrow for RfR	Additional Escrow for RfR	Operating Cash Flow	Ground Rent	Net Cash Flow
MHLP IX	116	\$1,602,851	\$815,949	\$786,902	\$476,404	\$46,400	\$40,800	\$223,298	\$223,298	\$0
MHLP X	75	\$1,068,023	\$589,480	\$478,543	\$307,209	\$23,000	\$53,700	\$94,634	\$74,456	\$20,178
Total Scattered Sites	191	\$2,670,874	\$1,405,429	\$1,265,445	\$783,613	\$69,400	\$94,500	\$317,932	\$297,754	\$20,178

Tax Credit CY 2017 Operating Budget	# of Units	Total Operating Income	Total Operating Expenses	Net Operating Income	Annual Debt Services	Required Annual Escrow for RfR	Additional Escrow for RfR	Partners Tax Expense	Loan Management Fees	Cash Flow Before Distribution	Asset Management/ Investor Service Fees	Partnership Management Fees	Net Cash Flow
Hampden Lane Apts. LP (Lasko Manor)	12	\$170,049	\$216,569	(\$46,520)	\$0	\$4,026	\$0	\$0	\$0	(\$50,546)	\$0	\$0	(\$50,546)
Arcola Tower LP	141	\$1,303,410	\$772,648	\$530,762	\$207,509	\$63,450	\$0	\$0	\$0	\$259,803	\$15,464	\$10,500	\$233,839
Waverly House LP	158	\$1,477,400	\$849,852	\$627,548	\$87,294	\$70,650	\$0	\$0	\$0	\$469,604	\$18,032	\$7,736	\$443,836
Forest Oak Towers LP	175	\$2,752,854	\$1,052,163	\$1,700,691	\$1,229,300	\$70,000	\$0	\$0	\$0	\$401,391	\$10,752	\$35,280	\$355,359
Wheaton Metro LP (MetroPointe)	53	\$694,801	\$429,839	\$264,962	\$222,631	\$13,250	\$0	\$0	\$0	\$29,081	\$6,528	\$16,308	\$6,245
Manchester Manor Apts. LP	53	\$708,524	\$487,074	\$221,450	\$169,235	\$21,409	\$0	\$0	\$6,132	\$24,674	\$0	\$19,832	\$4,842
Tanglewood & Sligo Hills LP	132	\$1,949,614	\$913,513	\$1,036,101	\$651,250	\$39,600	\$0	\$0	\$0	\$345,251	\$5,000	\$25,000	\$315,251
Barclay One Assoc. LP	81	\$1,053,067	\$459,348	\$593,719	\$440,901	\$37,404	\$0	\$0	\$0	\$115,414	\$18,480	\$11,148	\$85,786
Georgian Court Silver Spring LP	147	\$1,662,898	\$959,862	\$703,036	\$545,173	\$47,179	\$22,821	\$0	\$16,000	\$71,863	\$0	\$0	\$71,863
MV Affordable Housing Assoc. LP (Stewartown)	94	\$1,497,532	\$870,989	\$626,543	\$327,945	\$37,600	\$50,000	\$0	\$13,392	\$197,606	\$5,004	\$12,000	\$180,602
Shady Grove Apts. LP	144	\$2,096,384	\$1,052,142	\$1,044,242	\$580,561	\$68,400	\$117,600	\$0	\$21,096	\$256,585	\$8,268	\$19,834	\$228,483
Spring Garden One Assoc. LP	83	\$1,075,896	\$537,627	\$538,269	\$446,575	\$42,484	\$0	\$0	\$0	\$49,210	\$18,474	\$18,474	\$12,262
The Willows of Gaithersburg Assoc. LP	195	\$2,127,227	\$1,389,339	\$737,888	\$369,806	\$78,000	\$90,000	\$0	\$18,132	\$181,950	\$0	\$12,000	\$169,950
Total Multifamily	1,468	\$18,569,656	\$9,990,965	\$8,578,691	\$5,278,180	\$593,452	\$280,421	\$0	\$74,752	\$2,351,886	\$106,002	\$188,112	\$2,057,772

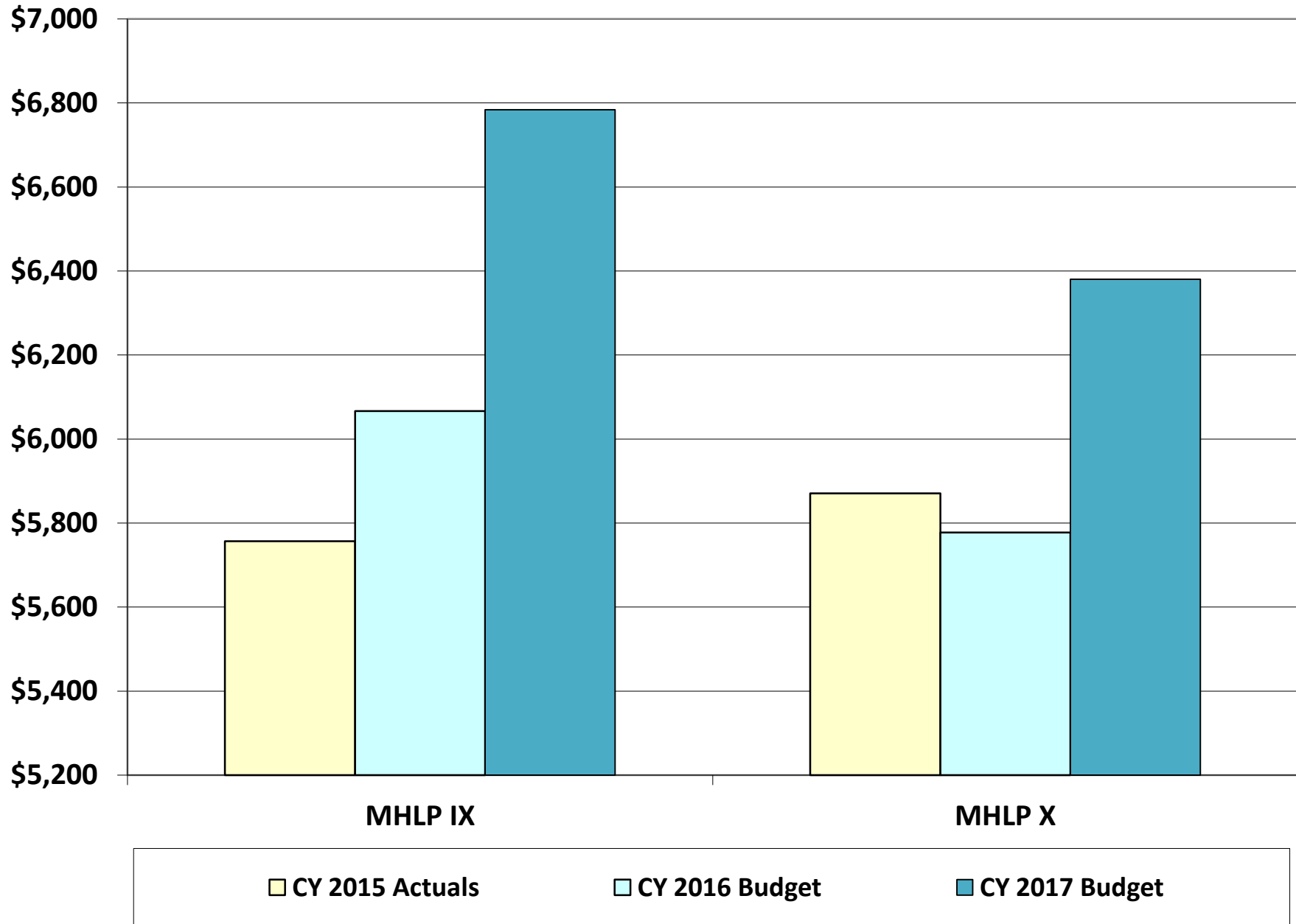
Operating Income (PUPA) - Scattered Sites



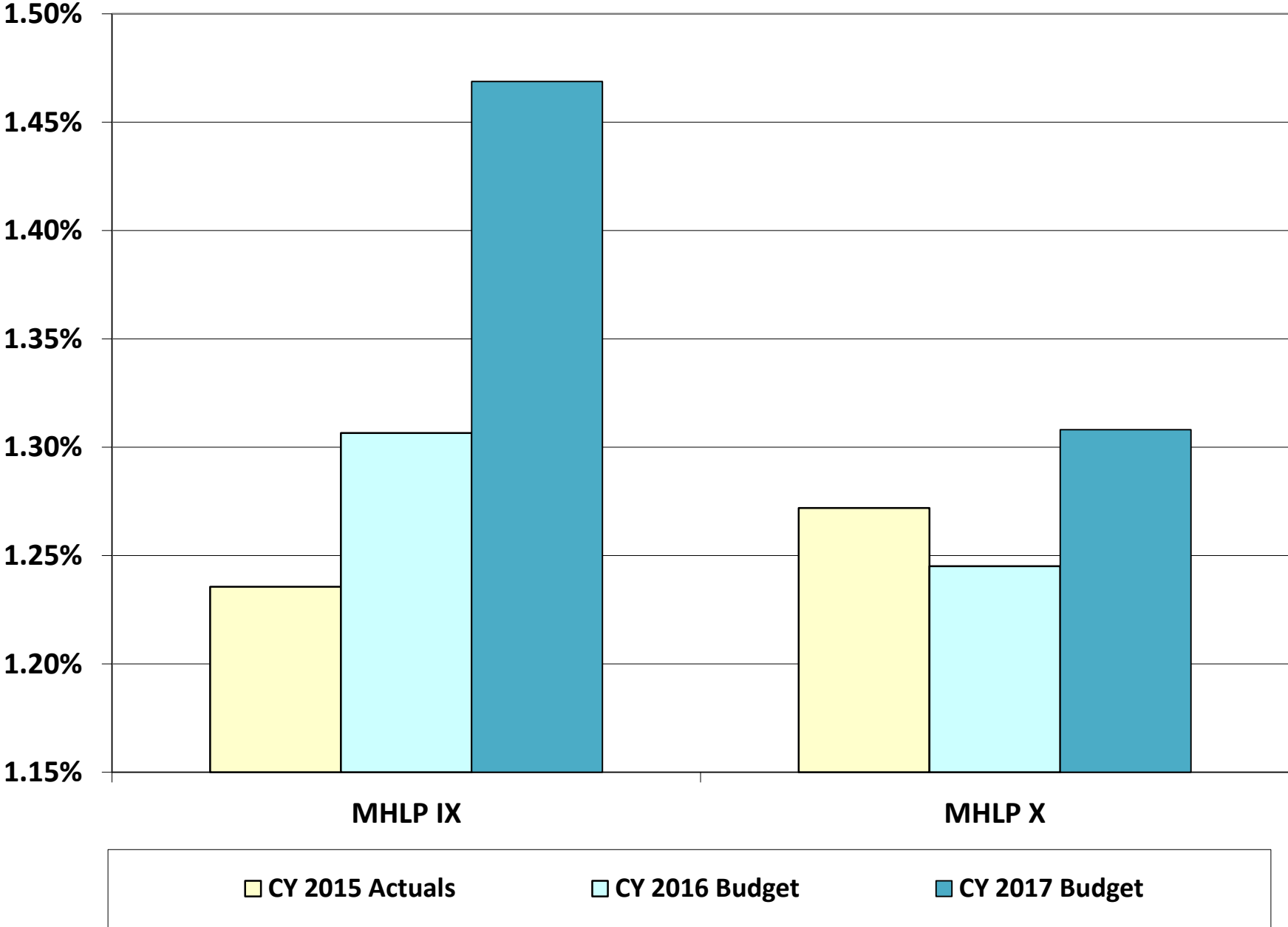
Operating Expenses (PUPA) - Scattered Sites



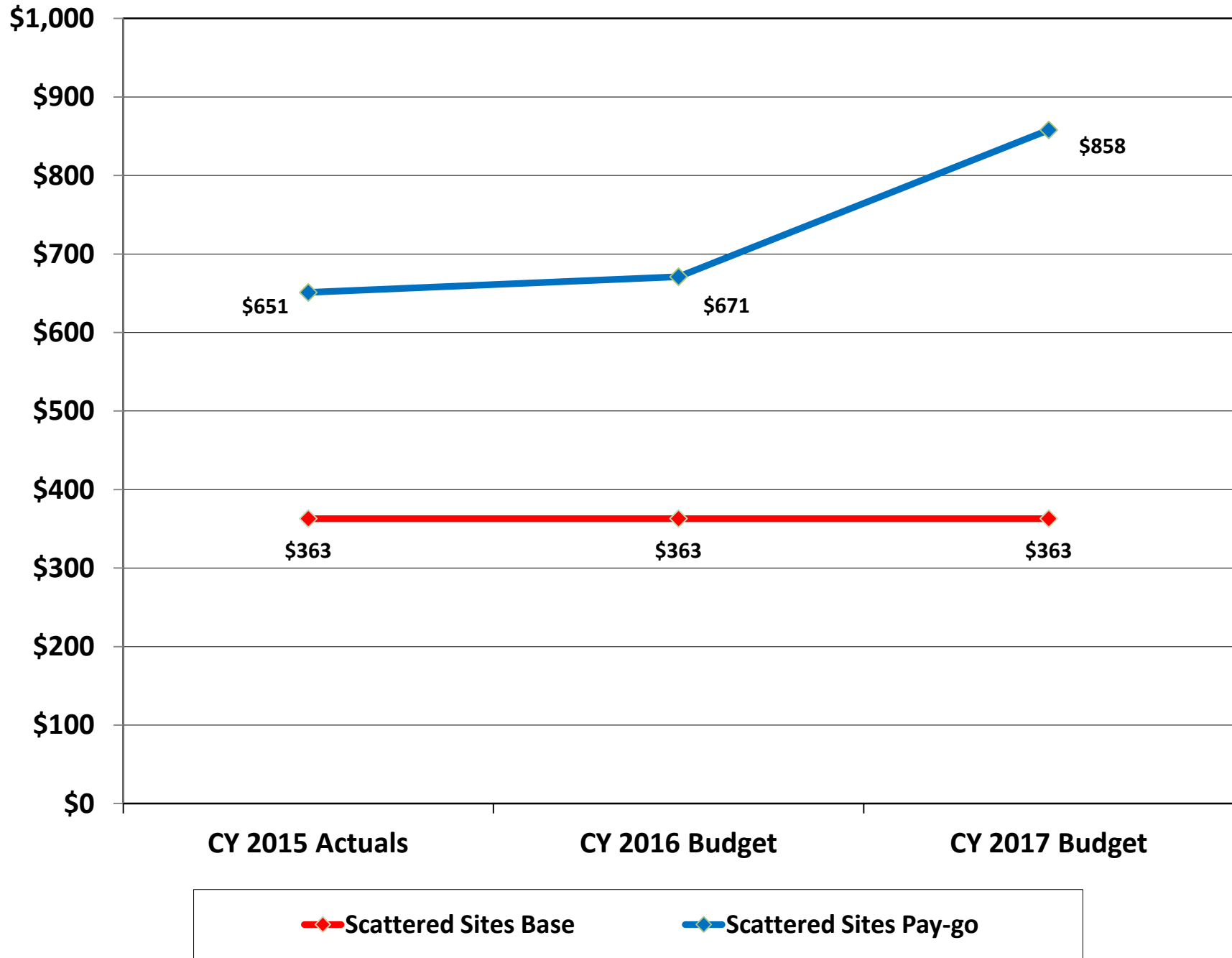
Net Operating Income (PUPA) - Scattered Sites



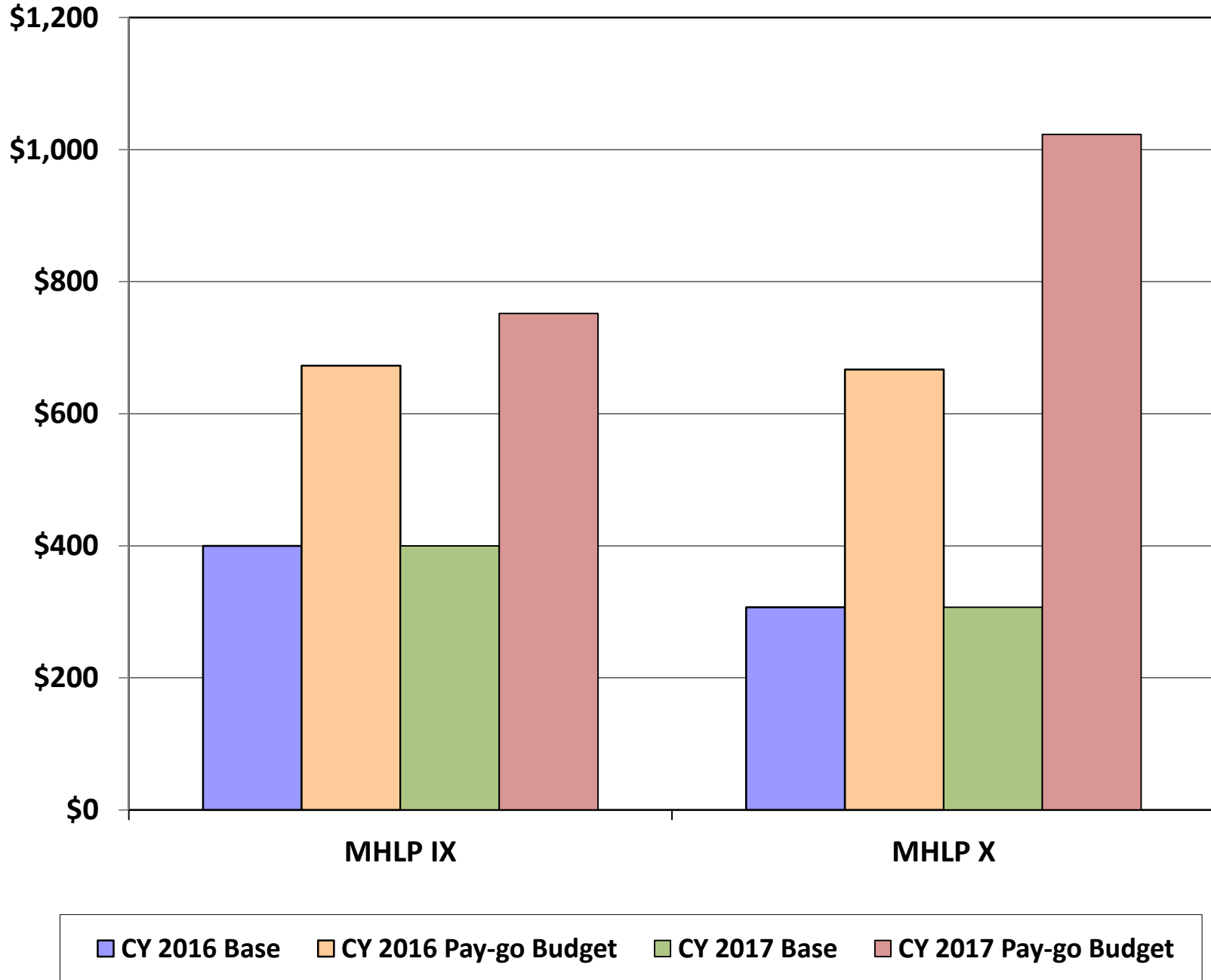
Debt Service Coverage Ratios (DSC) - Scattered Sites



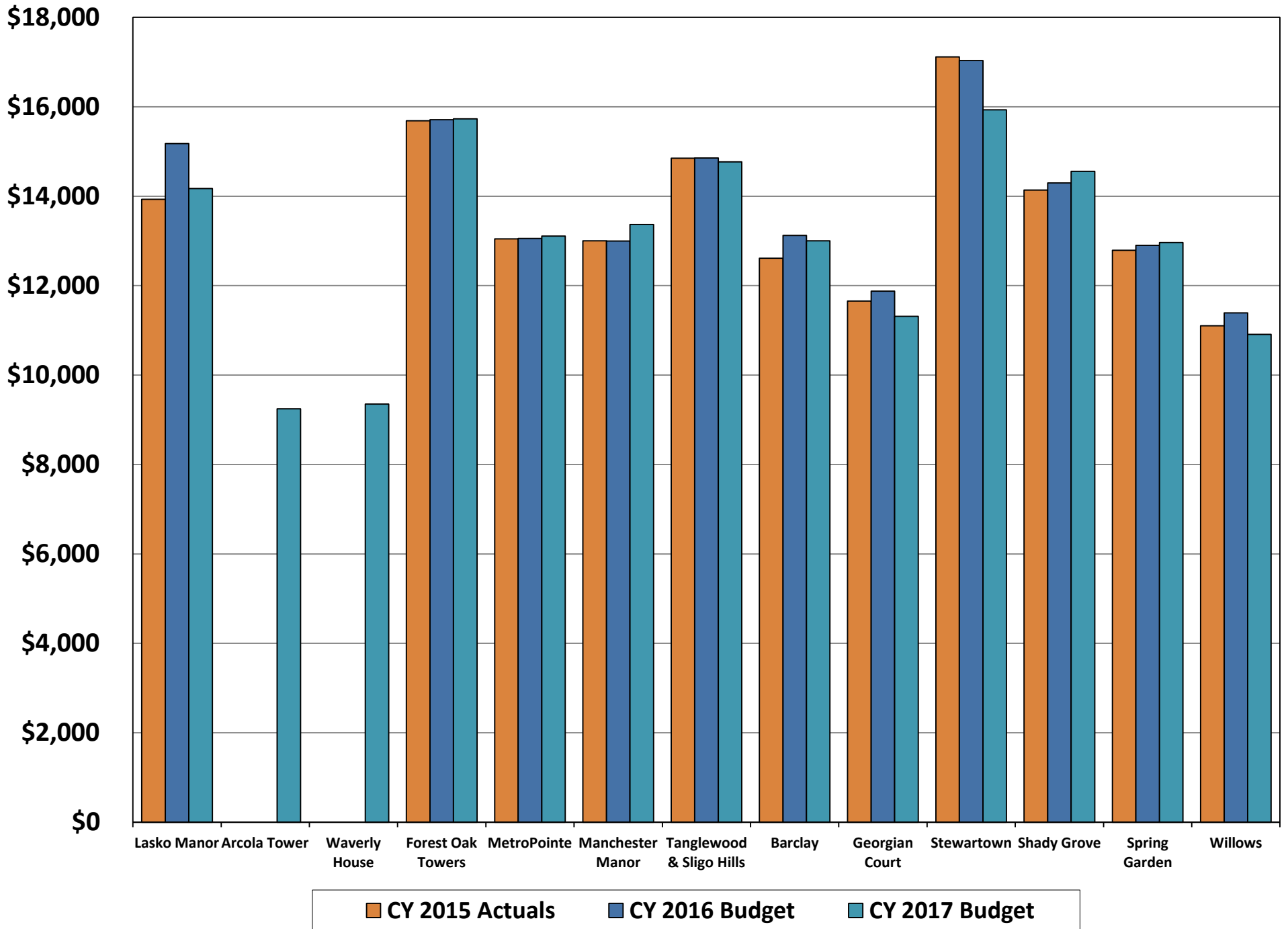
RfR Contributions (PUPA) - Scattered Sites



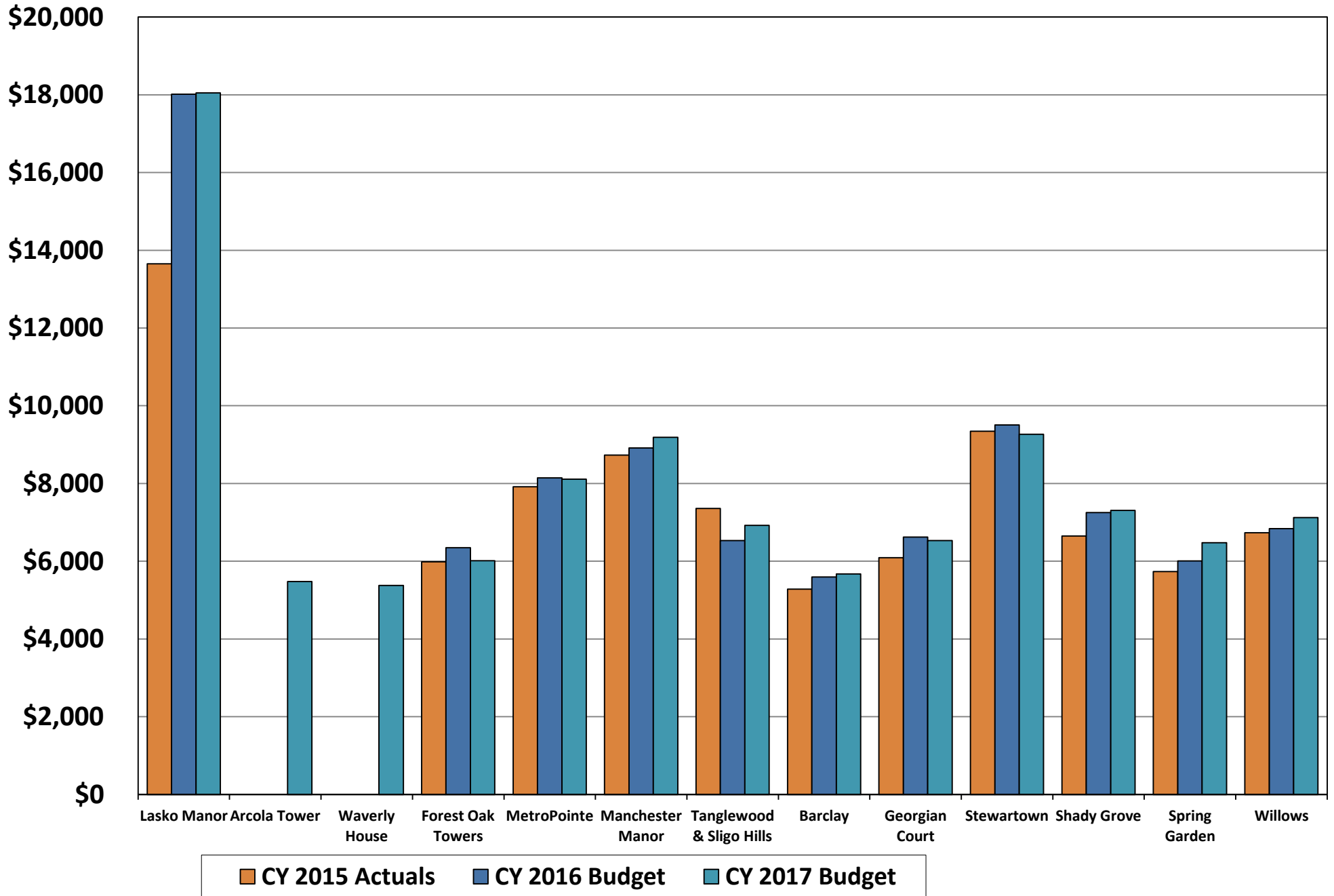
CY 2016 and CY 2017 RfR Contributions (PUPA) - Scattered Sites



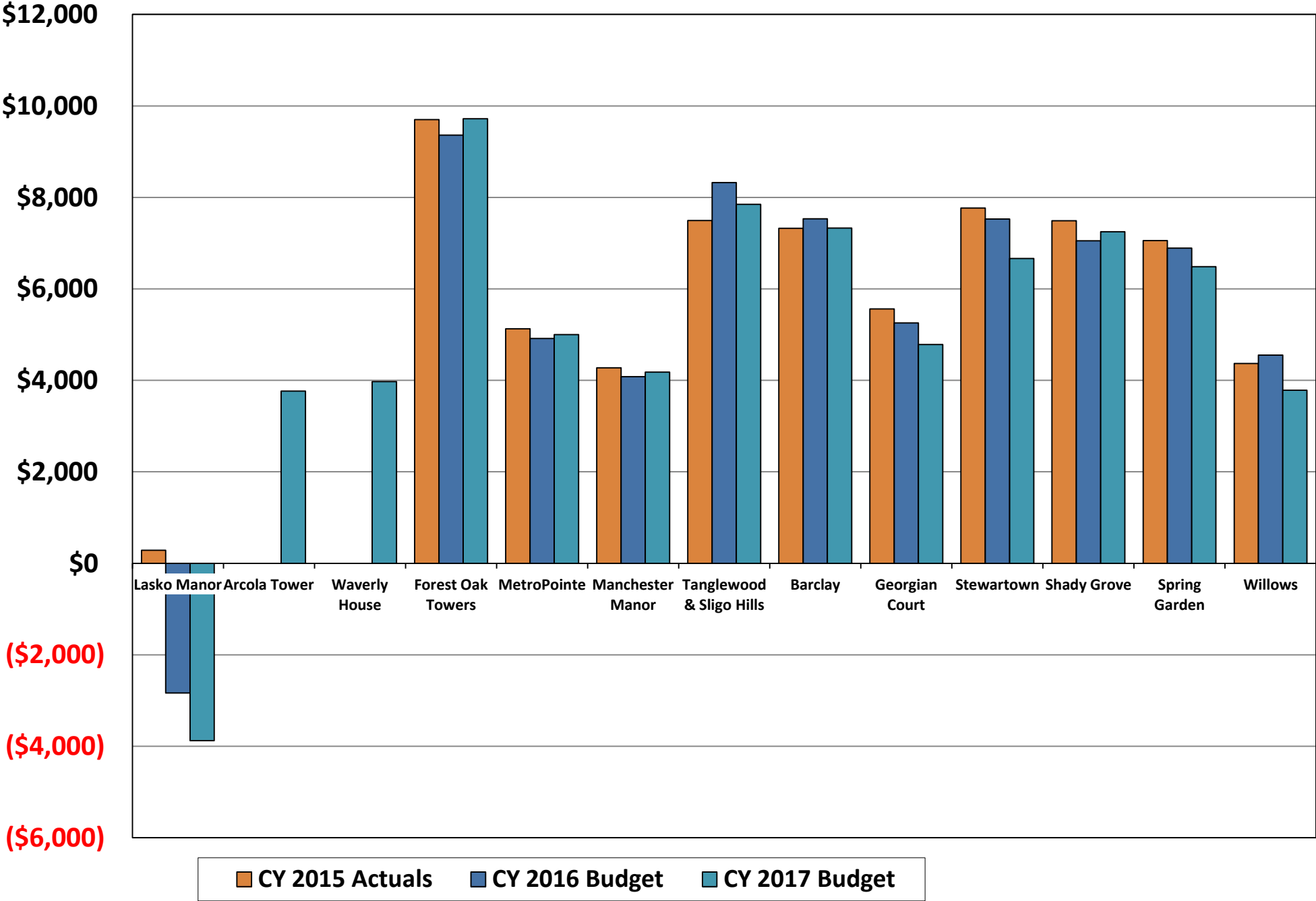
Operating Income (PUPA) - Multifamily



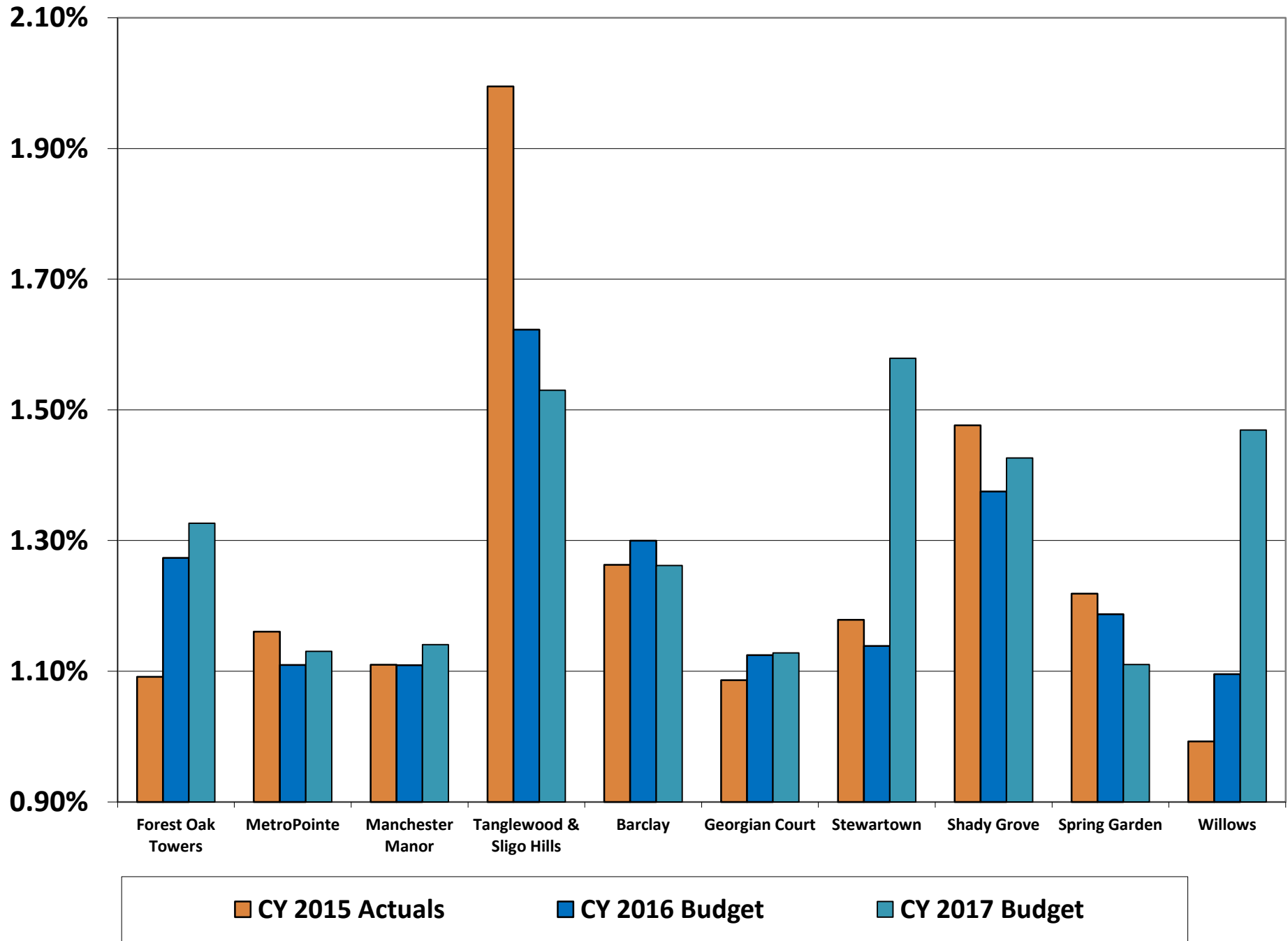
Operating Expenses (PUPA) - Multifamily



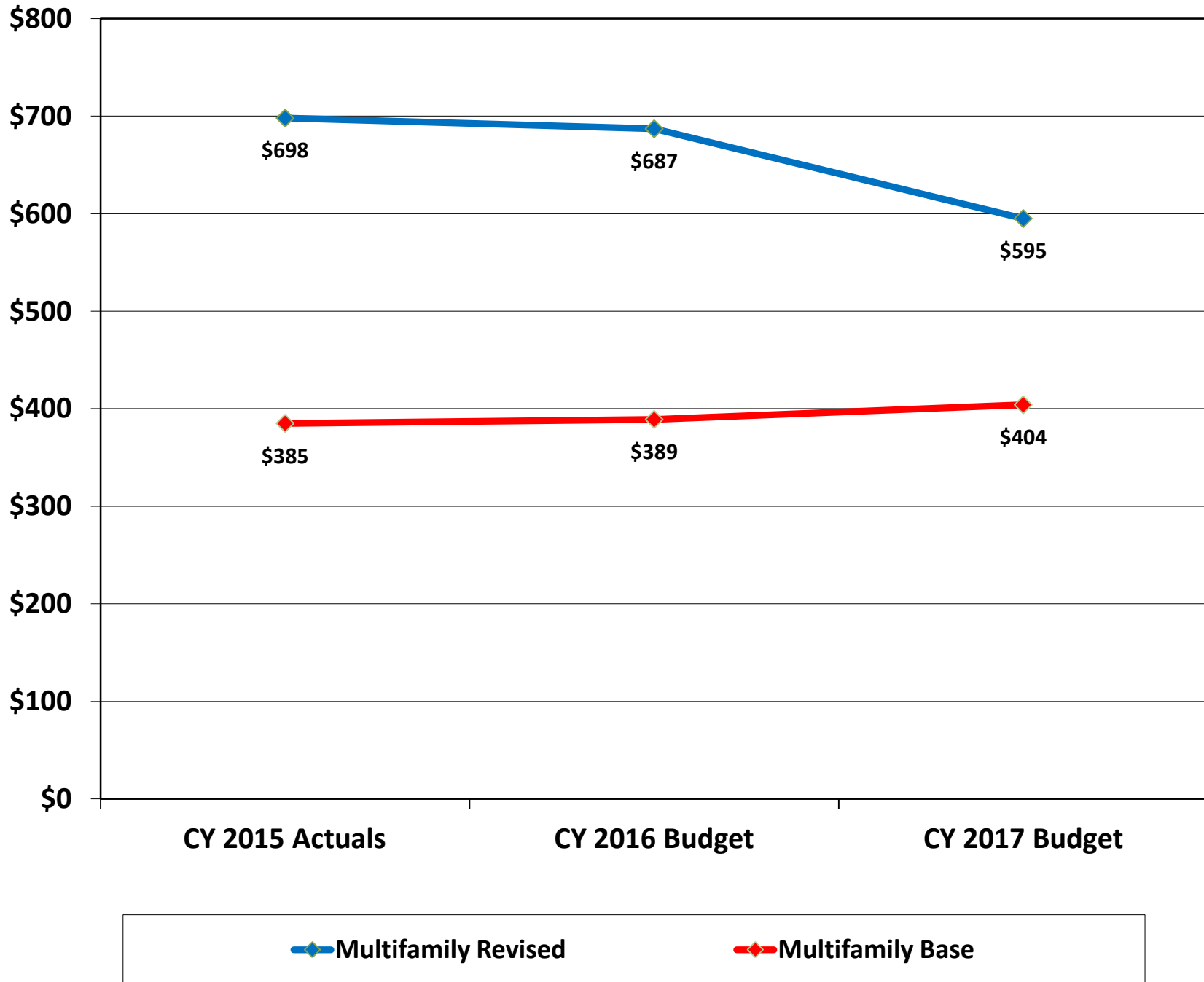
Net Operating Income (PUPA) - Multifamily



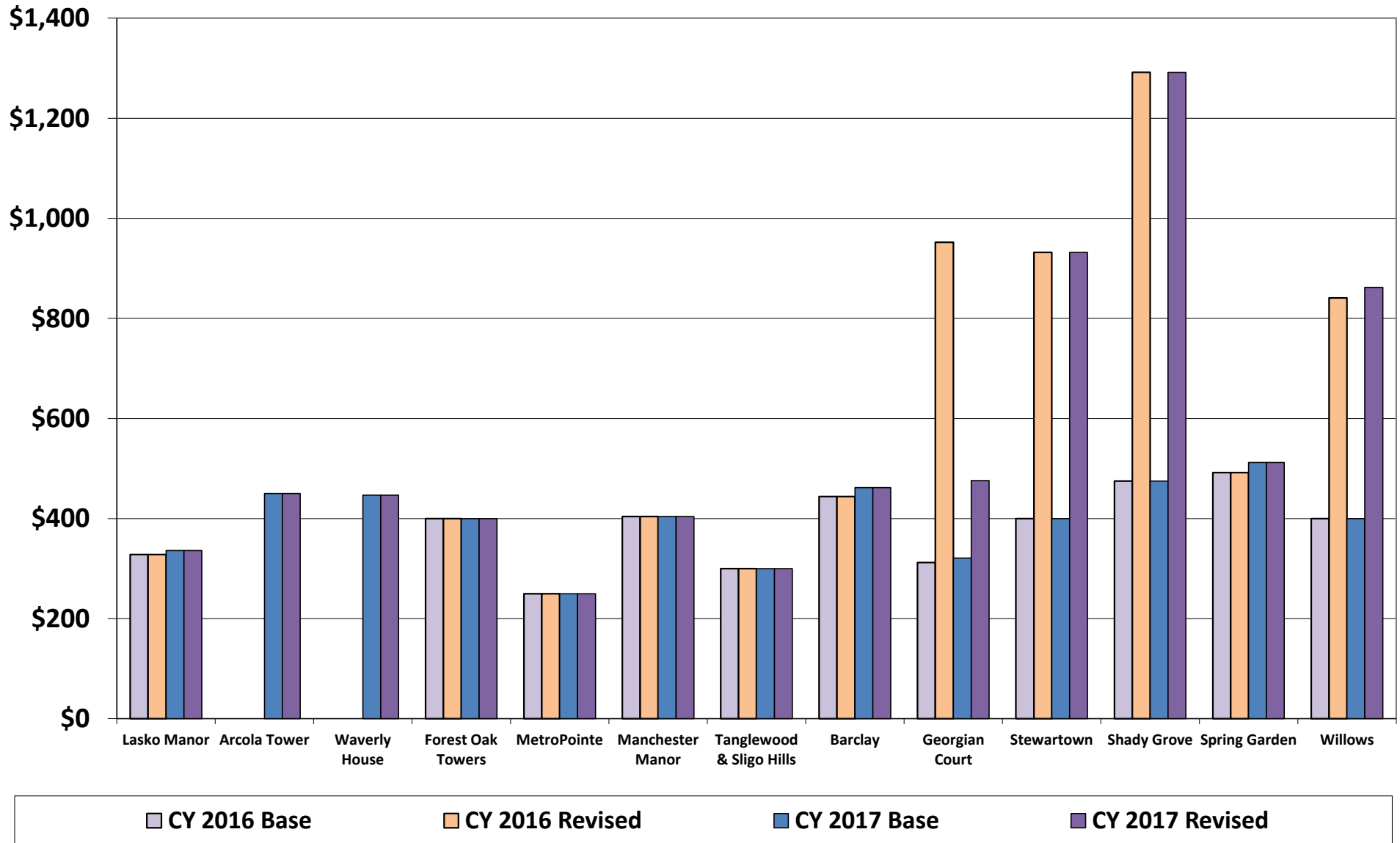
Debt Service Coverage Ratios (DSC) - Multifamily



RfR Contributions (PUPA) - Multifamily



CY 2016 and CY 2017 RfR Contributions (PUPA) - Multifamily



Tax Credit CY 2017 Capital Budget	Total Expenses	Revenue Sources		
		Property Reserves	OH Fund Property Reserve Loan	Current Year RfR Deposit
MHLP IX	\$87,200	\$0	\$0	\$87,200
MHLP X	\$76,700	\$0	\$0	\$76,700
Total Scattered Sites	\$163,900	\$0	\$0	\$163,900

Tax Credit CY 2017 Capital Budget	Total Expenses	Revenue Sources		
		Property Reserves	Residual Cash	Current Year RfR Deposit
Hampden Lane Apts. LP (Lasko Manor)	\$3,450	\$3,450	\$0	\$0
Arcola Tower LP	\$10,000	\$10,000	\$0	\$0
Waverly House	\$10,000	\$10,000	\$0	\$0
Forest Oak Towers LP	\$84,695	\$43,544	\$0	\$41,151
Wheaton Metro LP (MetroPointe)	\$29,074	\$29,074	\$0	\$0
Manchester Manor Apts. LP	\$51,409	\$49,016	\$0	\$2,393
Tanglewood & Sligo Hills LP	\$31,400	\$31,400	\$0	\$0
Barclay One Assoc. LP	\$90,600	\$90,600	\$0	\$0
Georgian Court Silver Spring LP	\$135,539	\$86,931	\$0	\$48,608
MV Affordable Housing Assoc. LP (Stewartown)	\$87,580	\$87,580	\$0	\$0
Shady Grove Apts. LP	\$185,755	\$185,755	\$0	\$0
Spring Garden One Assoc. LP	\$43,870	\$43,870	\$0	\$0
The Willows of Gaithersburg Assoc. LP	\$167,170	\$167,170	\$0	\$0
Total Multifamily	\$930,542	\$838,390	\$0	\$92,152

Deliberation and/or Action

Acceptance of HOC FY'16 Audited Financial Statements, Single Audit Report, and Management Letter

November 2, 2016

- HOC received an unqualified audit opinion on the Financial Statement Audit.
- HOC also received an unqualified audit opinion on the Single Audit Report with no instances of material weaknesses identified related to internal control over financial reporting or major programs. However, there is one significant deficiency identified within the internal controls over major programs which is reported as a Major Federal Programs Finding.
- HOC received a Management Letter with three items: (1) Single Family Loan – Allowance; (2) Information Technology Comments; and (3) Landlord Overpayments.

as of December 31, 2015 with the exception of the Strathmore Court Limited Partnership and The Metropolitan Limited Partnership which are presented as of June 30, 2016.

Single Audit Report

Attached is the final draft Single Audit Report for FY'16. The signed bound copies will be distributed by CliftonLarsonAllen LLP on November 2, 2016. No changes are expected. There are no instances of material internal control weaknesses identified. HOC received an unqualified audit opinion and is qualified as a low-risk audit. However, there is one significant deficiency within the internal control over major programs which is reported as a Major Federal Programs Finding.

Finding 2016-001: Public Housing Capital Fund, CFDA 14.872

Condition/Context

During discussions with the client requesting these reports, it was noted that the Commission did not submit the reports related to the 2015 Section 3 cycle.

Management's Response:

Management acknowledges the finding and has implemented procedures to ensure that future reports will be submitted timely, including establishing an account on the SPEARS reporting website and assigning Section 3 reporting to the Compliance Department.

Darcel Cox is the contact responsible for this corrective action and the expected completion date is December 31, 2016.

Management Letter

A requirement when performing an audit of an entity's financial statements is to write a Management Letter which communicates audit related findings related to internal controls to Management's Commission as required by SAS No. 112.

The Commission received Management Letter comments in the following areas: Single Family – Allowance, Information Technology, and Landlord Overpayments. Please see attached letter and management's response.

BUDGET IMPACT:

None. A funding source for the audit is budgeted during the HOC budget process each year.

TIME FRAME:

Action is requested at the November 2, 2016 Commission meeting. The Audited Financial Statements must be published by December 1, 2016.

STAFF RECOMMENDATION & COMMISSION ACTION NEEDED:

Staff recommends to the full Commission acceptance of the HOC FY'16 Audited Financial Statements, Single Audit Report, and Management Letter.

RESOLUTION NO: 16-77

**RE: Acceptance of HOC FY'16
Audited Financial Statements
Single Audit Report, and
Management Letter**

WHEREAS, the independent auditors, CliftonLarsonAllen LLP, presented their report for FY'16 to the Commission; and

WHEREAS, at a meeting held on November 2, 2016, the Commission reviewed the HOC FY'16 Audited Financial Statements, Single Audit Report, and Management Letter.

NOW, THEREFORE, BE IT RESOLVED by the Housing Opportunities Commission of Montgomery County that the Commission accepts the HOC FY'16 Audited Financial Statements, Single Audit Report, and Management Letter prepared by CliftonLarsonAllen LLP.

I HEREBY CERTIFY that the foregoing Resolution was adopted by the Housing Opportunities Commission of Montgomery County at an open meeting conducted on November 2, 2016.

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**Patrice M. Birdsong
Special Assistant to the Commission**

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

As management of the Housing Opportunities Commission of Montgomery County, Maryland (the Commission), a component unit of Montgomery County, Maryland, we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information furnished in the audited basic financial statements and related notes. This discussion and analysis is focused on the activities of the Commission as a primary governmental entity.

Financial Highlights

- The Commission's net position increased by \$38.6 million (or 21.2%) from \$181.8 million at June 30, 2015 to \$220.4 million at June 30, 2016.
- The Commission's current ratio (ratio of current assets to current liabilities) decreased from 3.11 at June 30, 2015 to 2.40 at June 30, 2016 as the bond proceeds for the renovation of the RAD 6 Development Corporation (RAD 6) properties were drawn and disbursed.
- Outstanding mortgage and construction loans receivable increased from \$269.3 million at June 30, 2015 to approximately \$314.6 million at June 30, 2016. This is attributed to the seller notes receivable from Arcola Towers RAD LP and Waverly House RAD LP as well as a receivable from the Chevy Chase Lake Apartment land sale.
- The amount of U.S. Department of Housing and Urban Development (HUD) Section 8 Housing Assistance Payments (HAP) administered by the Commission increased by 1.2% from \$90.3 million in fiscal year 2015 to \$91.4 million in fiscal year 2016.
- The Multifamily Sub-fund issued bonds in the amount of \$35.9 million under the 1996 indenture for the redevelopment of the Arcola Towers RAD LP and Waverly House RAD LP properties. During fiscal year 2016, the Multifamily Sub-Fund retired and refunded bonds in the amount of \$15.7 million which consisted of \$14.4 million from the 1996 indenture, \$0.6 million from the 2002 Multiple Purpose Bonds, \$0.4 million from the 1982 indenture, and \$0.3 million from other indentures.
- The Single Family Sub-fund issued bonds in the amount of \$43.9 million under the 1979 indenture to finance mortgage loans for qualifying first-time home buyers. During fiscal year 2016, the Single Family Sub-fund retired and refunded bonds in the amount of \$27.6 million which consisted of \$18.2 million from the 1979 indenture and \$9.4 million from the 2009 indenture.

HOUSING OPPORTUNITES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The annual financial report is comprised of three components: management's discussion and analysis, the financial statements, and notes to the financial statements.

The financial statements are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private-sector business. These statements are prepared in conformity with generally accepted accounting principles in the United States of America (GAAP) as applied to governmental units using the economic resources measurement focus and the accrual basis of accounting. Under this basis of accounting, revenues are recognized in the period they are earned, while expenses are recognized in the period they are incurred. Depreciation and amortization of capital and deferred assets are recognized in the statements of revenues, expenses, and changes in net position.

The statement of net position presents information on all of the Commission's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the residual amount reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information on how the Commission's net position changed during the fiscal year.

The statement of cash flows explains the sources and uses of cash during the fiscal year.

The Commission maintains only proprietary funds. Such funds are accounted for in a manner similar to that of businesses operating in the private-sector. Proprietary funds provide both long- and short-term financial information. The following is a brief description of the activity accounted for in each of the sub-funds.

Sub-Funds

General Sub-Fund – the Commission's primary operating fund. The entire administration and overhead of the Commission is maintained within this fund. In addition, in FY 2014, the Department of HUD required all public housing authorities to implement a Central Office Cost Center (COCC). As a result, the General Sub-fund was split into two components: one to reflect Agency overhead related to Federal programs and corresponding Fee Income, and one to reflect the Agency overhead related to Non-Federal Programs. All activities are consolidated for reporting purposes under the General Sub-Fund.

Opportunity Housing Sub-Fund – accounts for properties that provide affordable housing to low and moderate income residents. Properties owned by the Commission make up the primary assets in this fund.

Public Sub-Fund – accounts for grants from federal, state, and county government. These grants are used to provide Housing Assistance Payments and supportive services for residents. Activities related to Public Housing and the Housing Choice Voucher Programs are maintained in this fund.

HOUSING OPPORTUNITES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

Single Family Sub-Fund – accounts for taxable and non-taxable bonds. These bonds are used to finance mortgage loans for qualifying first-time homebuyers. The primary assets are mortgage loans receivable and restricted cash and investments.

Multifamily Sub-Fund – accounts for taxable and non-taxable bonds. These bonds are used to finance the acquisition, rehabilitation, and/or construction of affordable multifamily housing. The primary assets are mortgage loans receivable and restricted cash and investments.

Discretely Presented Component Units

Real Estate Limited Partnerships – The Commission is the managing general partner in 17 real estate limited partnerships. Steen of the partnerships have calendar year ends and two have a June 30 fiscal year end.

The Commission is the sole member and 100% owner of HOC at Hillandale Gateway LLC (HOC Hillandale), a Maryland limited liability company, which is addressed as a blended component unit. HOC Hillandale is an owner member of Hillandale Gateway LLC, which has a June 30 fiscal year end and is included as a discrete component unit.

Accordingly, the amounts included for each discretely presented component unit that comprise the aggregate component unit column in the combined financial statements are as of and for the respective year ends that fall within the year ended June 30, 2016.

Blended Component Units

Development Corporation – The Commission has 21 properties that are considered blended component units and presented with the Opportunity Housing Sub-Fund in the appropriate fund financial statement and combining statements.

Financial Analysis of the Commission as a Whole

The Commission's total net position in fiscal year 2016 increased by 21.2%.

Net investment in capital assets is -8.8% of the Commission's net position. These capital assets are used primarily to provide housing to low-income residents.

38.1% of the Commission's position reflects cash and investments, which are restricted as to their use. The preponderance of these restricted assets are used to finance and fund low-income housing.

70.7% of the Commission's net position is unrestricted. These non-restricted resources are used in the operations of the Commission.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

Housing Opportunities Commission's Net Position
(In millions of dollars)

	2016	2015	Change (\$)	Change (%)
Assets:				
Current and Other Assets	\$ 423.5	\$ 339.5	\$ 84.0	24.7%
Capital Assets	384.5	372.1	12.4	3.3%
Mortgage and Construction Loans Receivable	314.6	269.3	45.3	16.8%
Total Assets	1,122.6	980.9	141.7	14.4%
Deferred Outflows of Resources	16.3	11.6	4.7	40.5%
Liabilities:				
Current Liabilities (Including Current Portion of Long-Term Debt and Bonds Payable)	176.1	109.1	67.0	61.4%
Noncurrent Liabilities:				
Bonds Payable	508.5	502.8	5.7	1.1%
Other Liabilities	229.3	195.3	34.0	17.4%
Total Liabilities	913.9	807.2	106.7	13.2%
Deferred Inflows of Resources	4.6	3.5	1.1	31.4%
Net Position				
Net Investment in Capital Assets	(19.3)	(10.4)	(8.9)	85.6%
Restricted for:				
Debt Service	77.8	75.0	2.8	3.7%
Customer Deposits and Other	2.8	2.0	0.8	40.0%
Closing Cost Assistance Program	3.4	1.5	1.9	126.7%
Unrestricted	155.7	113.7	42.0	36.9%
Total Net Position	\$ 220.4	\$ 181.8	\$ 38.6	21.2%

Total assets of the Commission increased by \$141.7 million or 14.4%, with a corresponding increase in total liabilities of \$106.7 million or 13.2% from fiscal year 2015.

The increase in total assets was largely due to an increase in loans receivable from the sale of Arcola Towers Apartments and Waverly House Apartments to their respective Limited Partnerships and the partial sale of land from Chevy Chase Lake Apartments to Eakin, Youngentob & Associates (EYA) as well as an increase in cash and investments due to the new bonds issued under the Multi-family Sub-fund 1996 Indenture and the Single Family Sub-fund 1979 Indenture.

Based on Government Accounting Standards Board (GASB) 53, *Accounting and Financial Reporting for Derivative Instruments*, the changes in fair values of hedging derivative instruments are presented as either deferred inflows or outflows in the statement of net position. HOC has experienced an increase in fair value of \$.07 million in both the Single Family Sub-Fund and the Multifamily Sub-Fund in its interest rate swaps liability.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

Housing Opportunities Commission's Changes in Net Position
(In millions of dollars)

	2016	2015	Change (\$)	Change (%)
Operating Revenues:				
Dwelling Rental	\$ 68.3	\$ 68.5	\$ (0.2)	(0.3)%
Intergovernmental Grants	116.0	115.2	0.8	0.7%
Investment Income	3.5	5.5	(2.0)	(36.4)%
Unrealized Gains (Losses) on Investments	3.4	(0.4)	3.8	(950.0)%
Interest on Mortgages and Construction loans receivable	12.1	13.9	(1.8)	(12.9)%
Management Fees and Other Income	10.2	11.2	(1.0)	(8.9)%
Total Operating Revenues	213.5	213.9	(0.4)	(0.2)%
Operating Expenses:				
Housing Assistance Payments	91.4	90.3	1.1	1.2%
Administration	35.6	34.5	1.1	3.2%
Maintenance	17.4	17.0	0.4	2.4%
Depreciation and Amortization	13.9	15.7	(1.8)	(11.5)%
Utilities	5.4	5.8	(0.4)	(6.9)%
Fringe Benefits	10.4	10.7	(0.3)	(2.8)%
Pension Expense	0.8	(1.0)	1.8	(180.0)%
Interest Expense	22.3	23.8	(1.5)	(6.3)%
Other Expenses	9.9	9.9	-	0.0%
Total Operating Expenses	207.1	206.7	0.4	0.2%
Operating Income	6.4	7.2	(0.8)	(11.1)%
Nonoperating Revenues, Net	28.8	1.2	27.6	2300.0%
Income Before Contributions	35.2	8.4	26.8	319.0%
Capital Contributions	3.4	0.2	3.2	1600.0%
Change in Net Position	\$ 38.6	\$ 8.6	\$ 30.0	348.8%

In January 2006, HUD issued PIH Notice 2006-03, which requires that the Annual Budget Authority (ABA) that the Commission receives be reported as income in the same fiscal year regardless of the total housing assistance payments incurred. As of June 30, 2016, the Commission has recorded all ABA received as income.

Intergovernmental grants increased by \$0.8 million as a result of an increase in County, State and HUD subsidies.

Dwelling rental income decreased by \$0.2 million as a net result of the disposition of Arcola Towers Apartments and Waverly House Apartments, and the demolition of the Chevy Chase Lake Apartment building in conjunction with the Chevy Chase Lake modernization project.

Investment interest income decreased by \$2.0 million in FY 2016. The higher investment interest income in FY 2015 was due to the termination of two swap agreements yielding about \$1.9 million of income for the Commission.

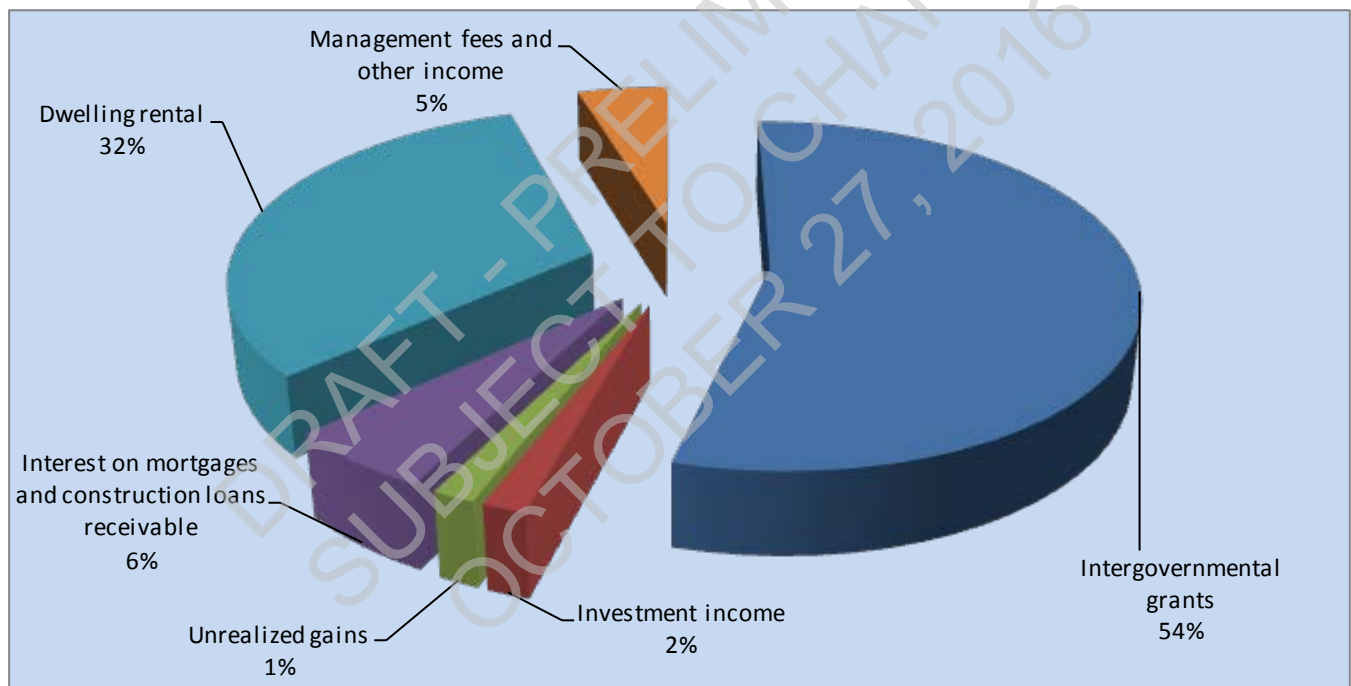
HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

Interest on mortgages receivable decreased by \$1.8 million as a result of a decrease in the average outstanding mortgages in both the Single Family Sub-fund and the Multifamily Sub-fund.

Management fees and other income decreased by \$1.0 million due to a decrease in the number of Moderately Priced Dwelling Units (MPDU) sold this year and a decrease in loan management fees and other income.

The following chart illustrates the Commission's sources of revenue as a percentage of total revenue. The primary sources of revenue for the Commission are grants from federal, state, and local governments, and dwelling rentals income.

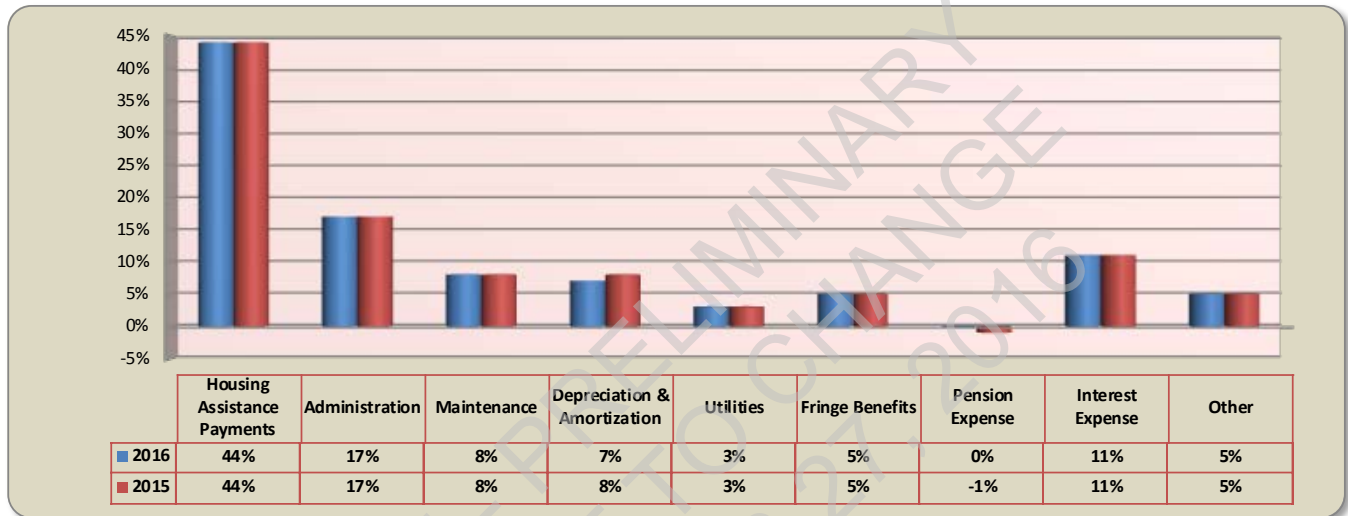
FY 2016 SOURCES OF REVENUE



HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

The following chart is a comparison of the Commission's current and prior year operating expenses as a percentage of total expenses:

FY 2016 OPERATING EXPENSES



Housing assistance payments are the major contributor to the total operating expenses of the Commission and remains flat at 44% of the total operating expenses.

The proportionate shares of administrative expenses, maintenance, utilities, fringe benefits, interest expense and other expenses have not changed from the prior year.

The decrease in depreciation and amortization is due to the disposition of Arcola Towers Apartments, Waverly House Apartments, Chevy Chase Lake Apartments and the transfer of former public housing units to the new development corporation entities.

Pension expense is a new line item added in FY 2015 as a result of the GASB No. 68 implementation. Under the new accounting standards, pension expense is calculated based on several factors including the value of plan assets, funding and contributions made to the Plan. The increase in pension expense in FY 2016 is due to the changes in the most recent valuation of the County's pension plan.

Housing Opportunities Commission's Capital Assets
Net of Accumulated Depreciation
(In millions of dollars)

	2016	2015	Change (\$)	Change (%)
Property and Equipment, Net of Depreciation	\$ 374.0	\$ 361.1	\$ 12.9	3.6%
Capitalized Lease (Net of Amortization)	10.5	11.0	(0.5)	(4.5)%
Total Capital Assets, Net	\$ 384.5	\$ 372.1	\$ 12.4	3.3%

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

Real property is depreciated using the straight line method over a 40 year period. During the year, the Commission acquired assets of approximately \$45.7 million, while disposing of capital assets with a net book value of approximately \$19.6 million. The increase is largely attributable to the renovation work at VPC One Development Corporation and VPC Two Development Corporation, the RAD 6 multifamily properties and TPM/Pomander Court and the acquisition of a real estate property at 900 Thayer Avenue in Silver Spring. The decrease in capital assets is due to the sale of Arcola Towers Apartments, Waverly House Apartments, a portion of the Chevy Chase Lake land, demolition of the Chevy Chase Lake Apartment building and the equity contribution of the Capital One site property to Hillandale Gateway LLC.

In FY 2016 the Commission acquired nine (9) multifamily properties through the U.S. Department of HUD Rental Assistance Demonstration Program. These properties are scattered throughout Montgomery County, Maryland. These units are intended to serve low to moderate income individuals and families.

Note 4 (Capital Assets) provides detailed information about capital asset activity.

Housing Opportunities Commission's Outstanding Debt
(In millions of dollars)

	2016	2015	Change (\$)	Change (%)
Multifamily Bonds	\$ 311.1	\$ 290.9	\$ 20.2	6.9%
Single Family Mortgage Purchase Program Bonds	253.1	236.9	16.2	6.8%
Mortgage Notes and Loans Payable	144.6	124.7	19.9	16.0%
Capitalized Lease Obligation	19.9	19.9	-	0.0%
Loans Payable to Montgomery County	66.7	64.5	2.2	3.4%
Total	\$ 795.4	\$ 736.9	\$ 58.5	7.9%

The following are key elements of the Commission's outstanding debt as of June 30, 2016:

- As of June 30, 2016, \$311.1 million of multifamily mortgage bonds was outstanding. Sources of payments for the bonds are multifamily mortgages receivable of \$304.5 million and cash, cash equivalents and investments of \$76.1 million.
- As of June 30, 2016, \$253.1 million of Single Family mortgage bonds was outstanding. Sources of payment for the bonds are Single Family mortgages receivable of \$115.5 million and cash, cash equivalents and investments of \$167.3 million.

The outstanding debt is secured by real estate or by first mortgages on real estate. The exception is the closing cost assistance program.

Note 8 (Bonds, Mortgage Notes, and Loans Payable) provides detailed information about long-term debt activity.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

Economic Outlook

The FY 2017-2018 HOC Budget reflects the urgency of the work at hand – reducing the gap between affordable housing needs and supply, connecting vulnerable families to education and job training opportunities, and maintaining a focus on portfolio investments to ensure quality affordable housing remains available for the long term. HOC has accomplished what was once considered impossible – repositioning nearly all of its former public housing real estate to a more sustainable model, embarking on affordable housing development in some of the most amenity rich communities the county has to offer, and enhancing service delivery to support current and future customers. Notably, HOC is accomplishing all of this while curtailing its reliance on Public Housing's unpredictable federal funding stream.

As an agency, HOC assessed the challenges that needed to be confronted and faced them head-on to find new, innovative and more efficient ways to serve its customers. In order to continue to meet these challenges, HOC must create its own path forward. The Agency has recognized the need to, re-position, re-invent and re-imagine how it meets the affordable housing needs for the approximately 14,500 families we serve – families that depend on our efforts every day, as well as the over 30,000 individuals currently on the waiting list.

The rising need for affordable housing comes at a time when the County and the State are continuing to estimate revenue shortfalls over the next several years. It is incumbent upon the Commission and management to work closely with our partners in identifying ways to meet the needs of low and moderate income County residents while facing a constrained fiscal environment.

Request for information

This financial report is designed to provide a general overview of the Commission's finances for interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, 10400 Detrick Avenue, Kensington, Maryland, 20895.

**HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)**

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2016

DRAFT - PRELIMINARY
SUBJECT TO CHANGE
OCTOBER 27, 2016

**HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)
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DRAFT - PRELIMINARY
SUBJECT TO CHANGE
OCTOBER 27, 2016

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
Housing Opportunities Commission of
Montgomery County, Maryland
Kensington, Maryland

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the Housing Opportunities Commission of Montgomery County, Maryland (the Commission), a component unit of Montgomery County, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated _____, 2016. Our report includes a reference to other auditors who audited the financial statements of Montgomery Homes Limited Partnership IX, Montgomery Homes Limited Partnership X, Shady Grove Apartments Limited Partnership, Manchester Manor Apartments Limited Partnership, Georgian Court Silver Spring Limited Partnership, MV Affordable Housing Associates Limited Partnership, Barclay One Associates Partnership, Strathmore Court Associates Limited Partnership, Metropolitan of Bethesda Limited Partnership, Spring Garden One Associate Limited Partnership, Forest Oak Towers Limited Partnership, the Willows of Gaithersburg Associates Limited Partnership, Hampden Lane Limited Partnership, Tanglewood and Sligo Limited Partnership and Wheaton Metro Limited Partnership, as described in our report on the Commission's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The audits of all of the discretely presented component units were not performed in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

Baltimore, Maryland
_____, 2016

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND
REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Commissioners
Housing Opportunities Commission of
Montgomery County, Maryland
Kensington, Maryland

Report on Compliance for Each Major Federal Program

We have audited the Housing Opportunities Commission of Montgomery County's (the Commission), a component unit of Montgomery County, Maryland compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Commission's major federal programs for the year ended June 30, 2016. The Commission's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The Commission's basic financial statements include the operations of the discretely presented component units which may have received federal awards, and which are not included in the schedule of expenditures of federal awards for the year ended June 30, 2016. Other auditors were separately engaged to perform and have separately reported on the results of the audits of the component units in accordance with OMB Circular Uniform Grant Guidance, if required.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Commission's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Grant Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Commission's compliance.

Opinion on Each Major Federal Program

In our opinion, the Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2016-001. Our opinion on each major federal program is not modified with respect to this matter.

The Commission's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Commission's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commission's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Grant Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-001 that we consider to be a significant deficiency.

The Commission's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Commission's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Uniform Grant Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Uniform Grant Guidance

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the Commission as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements. We issued our report thereon dated _____, 2016, which contained unmodified opinions on those financial statements. We did not audit the discretely presented component units as of and for the year ended June 30, 2016. The federal expenditures, where applicable, for the discretely presented component units are not included in the accompanying schedule of expenditures of federal awards. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Uniform Grant Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

CliftonLarsonAllen LLP

Baltimore, Maryland
_____, 2016

**HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA #	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Housing and Urban Development				
Direct Programs:				
Section 8 Housing Choice Vouchers	14.871	-	\$ -	\$ 95,176,097
5 Year Mainstream Vouchers	14.879	-	-	<u>122,023</u>
Total Housing Choice Vouchers Cluster				95,298,120
Public Housing Capital Fund	14.872	-	-	3,675,820
Public and Indian Housing	14.850	-	-	3,927,335
Continuum of Care	14.267	-	-	3,530,051
Section 8 Moderate Rehabilitation	14.856	-	-	327,524
Resident Opportunity and Supportive Services	14.870	-	-	<u>652,183</u>
Subtotal - Direct Program				107,411,033
Pass-through Department of Housing and Urban Development via Montgomery County Department of Health and Human Services:				
Home Investment Partnerships Program	14.239	-	-	<u>117,147</u>
Total Department of Housing and Urban Development				107,528,180
Department of Health and Human Services				
Pass-through Department of Health and Human Services via State Office on Aging and Montgomery County Department of Family Resources:				
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	-	-	48,177
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	-	-	<u>41,389</u>
Total Federal Financial Awards				<u>\$ 107,617,746</u>

See accompanying Note to the Schedule.

**HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Housing Opportunities Commission of Montgomery County, Maryland (the Commission), under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Commission, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Commission.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Commission has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

DRAFT - PRELIMINARY
SUBJECT TO CHANGE
OCTOBER 27, 2016

**HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ yes X no
 - Significant deficiency(ies) identified? _____ yes X none reported
3. Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? _____ yes X no
 - Significant deficiency(ies) identified? X yes _____ none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes _____ no

Identification of Major Federal Programs

CFDA Number(s)	Name of Federal Program or Cluster
14.871/879	Housing Choice Voucher Cluster
14.872	Capital Fund Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 3,000,000

Auditee qualified as low-risk auditee? X yes _____ no

**HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Section II – Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

Section III – Findings and Questioned Costs – Major Federal Programs

2016 – 001

Federal agency: U.S. Department of Housing and Urban Development

Federal program title: Public Housing Capital Fund

CFDA Number: 14.872

Award Period: July 1, 2015 through June 30, 2016

Type of Finding: Significant Deficiency in Internal Control over Compliance

Criteria or specific requirement: Pursuant to 24 CFR Part 135.90, direct recipients of HUD financial assistance should submit reports to HUD for the purpose of determining the effectiveness of Section 3. Direct recipients include public housing authorities, entitlement communities, states, and certain NOFA grantees that utilize HUD funding for construction and rehabilitation activities.

The U.S. Department of Housing and Urban Development (HUD) disabled their Section 3 Summary Reporting System in 2012 due to technical errors and issues with information security. HUD re-launched the Section 3 Performance Evaluation and Registry System (SPEARS) on August 24, 2015. In a letter on that date, HUD announced that Section 3 reports (form HUD-60002) for the 2013 and 2014 periods were due no later than December 15, 2015.

HUD clarified the Section 3 reporting periods in letters dated January 2016 and February 22, 2016 stating that Public Housing Authorities must submit their Section 3 reports by January 10th of each year following the completion of their fiscal cycle. HUD considers a fiscal cycle from July 1, 2014 to June 30, 2015 to be a 2015 Section 3 report which would therefore be due by January 10, 2016.

Condition/Context: During discussions with the client requesting these reports, it was noted that the Commission did not submit the reports related to the 2015 Section 3 cycle.

Questioned costs: None

Cause: The Commission had staffing turnover during the year and the report was not completed timely.

Effect: The lack of internal controls over this compliance requirement resulted in noncompliance.

Repeat Finding: No

**HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Recommendation: We recommend the Commission review the new SPEARS reporting website, establish an account and assign specific individuals in the procurement and/or Compliance Departments with the responsibility for the preparation, review and submission of these reports by January 10th of each year for the prior fiscal year.

Views of responsible officials: Management acknowledges the finding and has implemented procedures to ensure that future reports will be submitted timely, including establishing an account on the SPEARS reporting website and assigning Section 3 reporting to the Compliance Department. Darcel Cox, Compliance Oversight Manager, is the contact responsible for this corrective action and the expected completion date is December 31, 2016.

Section IV – Prior Year Findings

2015– 001

During this year's testing of PIC reporting for the Housing Choice Voucher Cluster, we determined that corrective action was implemented. No instances of noncompliance were noted during the current year audit.

DRAFT - PRELIMINARY
SUBJECT TO CHANGE
OCTOBER 27, 2016

Management
Housing Opportunities Commission of Montgomery County
Kensington, Maryland

In planning and performing our audit of the financial statements of Housing Opportunities Commission of Montgomery County (the Commission) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and other matters that are opportunities to strengthen your internal control and improve the efficiency of your operations. Our comments and suggestions regarding those matters are summarized below. A separate communication dated November ____, 2016, contains our written communication of significant deficiencies in the Commission's internal control. This letter does not affect our communication dated November ____, 2016.

SINGLE FAMILY LOAN – ALLOWANCE

Management should review single family loans on an annual basis and determine whether an allowance for loan losses is necessary. This determination should include a review of historical loss percentages, current delinquencies, loan payment history and other factors affecting the existing portfolio. Management should clearly document the assessment of these factors and the calculation of any loan loss, if determined necessary.

We recommend the Commission review outstanding loans and assess the collectability on an annual basis with an adjustment to allowance for doubtful account if necessary.

Management Response

Management has reviewed the past five years of history for foreclosure and short sales for the Single Family portfolio. In the past five years, the total foreclosed loans taken in as Real Estate Owned (REO) with a final loss or gain on sale was \$15,541,710 which represents six percent (6%) of the current \$249.5 million portfolio. Management also noted that the average annual REO amount over the past five years was \$3.108 million which returned a loss of approximately 3.89% (-\$665,404).

However, a significant portion of these REO losses (\$524,918) occurred in loans from three pools of private mortgage insurance which were subject to a one percent (1%) deductible (\$300,000 each). This meant that no payments were made to HOC for loan losses under those pools until the deductible was met. If we adjust for those loans, we believe the allowance for loan losses would be as low as \$34,026.

Applying the same analysis to short sales, we noted that losses were only reported for FY'12 and FY'13 (small gains in FY14, FY15, FY16) and that \$543,630 of the total losses of \$564,131 were also for loans with the one percent (1%) pool insurance deductible. However, with an adjustment that removes those loans, the allowance for losses from short sale would be \$24,636.

Therefore, management concludes that an allowance for loan losses under normal foreclosure and short sale disposition should be between \$25,000 and \$35,000. Further, market and economic conditions continue to improve; therefore, we expect to see fewer foreclosures and higher net sales proceeds from REO sales. Short sales have already begun to return net gains to the portfolio.

INFORMATION TECHNOLOGY

Our review of information technology (IT) controls and tests of general controls noted several areas where the Commission can strengthen their controls. Inadequate IT general controls can place the Commission's financial information and other sensitive information at risk. The following items were noted:

1. Three users retained access to the Commission's computer network after their termination. In addition, two of the three users identified also retained access to Yardi after their termination which allowed them access to financial and sensitive personally identifiable information. The terminations of these employees were effective between December 2015 and April 2016, but the employees' access remained in place through October 2016.

We recommend the Commission perform periodic access reviews of the network and other applications to ensure terminated users are removed from the Network and applications in a timely manner. Access for terminated individuals should occur within one week if the termination was planned, but should occur immediately for unexpected terminations as the nature of those terminations increases the risk of potential data loss.

Management Response

Management acknowledges and agrees with the auditor comments. Management will request a list of terminations weekly and ensure all users listed are inactive both on the network and applications. If a terminated user is found to be active in the system, all access will be removed immediately.

2. The Commission did not provide documentation to support the current administrator access level for 34 users so a determination of whether administrator access is appropriate for current application and network administrators for 2016 could not be completed.

We recommend Commission review the administrators for the applications and Network to ensure administrators are appropriate based on job responsibilities within the organization.

Management Response

Management acknowledges and agrees with the auditor comments. Management will implement quarterly reviews to ensure network and application administrators' access are appropriate based upon job responsibilities.

LANDLORD OVERPAYMENT

Landlord overpayments for Housing Choice Voucher participants can occur when tenants move or change units without providing proper notification to the Commission. These overpayments occur on a routine basis throughout the year. When this occurs the Commission seeks reimbursement from the landlord but the timing of repayments depends on how quickly the Commission received notification and when they notified the landlord. A balance due from landlords at the end of each fiscal year is reasonable based on the timing of these factors, but the Commission's current year balance due from landlords increased by \$76,526 over the prior year.

We recommend the Commission review the process for requesting repayments from landlords to determine whether it efficiently identifies overpayments and requests repayments. Upon notification of a tenant leaving a unit, the Commission should immediately stop payments to the landlord for that tenant. The Commission should also assess prior payments to the landlord to determine whether any overpayments exist based on the tenant move-out date and request from the landlord accordingly. On a monthly basis the Commission should review all amounts due from landlords to assess the need for follow up activity. This will also help determine whether amounts can be withheld from landlords who receive payments for other tenants.

Management Response:

The Commission acknowledges the \$76,526 increase in the landlord receivable balance from the prior year. The debt accrues when tenants die or move without providing notification to the Commission. Additionally, the landlord abatement process contributes to the receivable balance.

When a unit fails to meet the Housing Quality Standards (HQS) and the owner does not complete the necessary repairs within the time period specified by the PHA, the payment to the owner is abated. The abatement is effective the day after the failed inspection. All Housing Assistance Payments (HAP) are remitted to landlords on the first day of each month. An overpayment may occur if the HAP is placed in abatement after the monthly check run or first day of the month.

The Commission currently monitors the receivable balance and sends overpayment letters to landlords monthly. During the past fiscal year, we collected \$68,273. Additionally, we will begin to notify credit bureaus of any landlord who fails to re-pay the Commission the outstanding debt. The Commission immediately stops payments to landlords upon notification that the tenant has vacated the unit

This communication is intended solely for the information and use of management, and others within the Commission, and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

[City, State]

**APPROVAL TO INCREASE THE INVESTMENT IN VICTORY CROSSING AS PART OF THE RAD
CONVERSION OF SENIOR MULTIFAMILY PROPERTIES AND AUTHORIZATION FOR THE
EXECUTIVE DIRECTOR TO AMEND THE GRANT AGREEMENT TO REFLECT THE INCREASED
INVESTMENT**

November 2, 2016

- On August 5, 2015, the Commission authorized the Executive Director to enter a grant agreement not to exceed \$1,800,000 with Victory Housing, Inc.
- Victory Housing, Inc. would then lend the money to the Victory Crossing community to fund its construction so that HOC can transfer to Victory Crossing the assistance from 39 former Public Housing units converted under the Rental Assistance Demonstration (“RAD”) program.
- The amount of the grant agreement is the difference between the senior mortgage proceeds Victory Crossing would be able to secure without the 39 RAD units present and the amount it could secure with the 39 RAD units present.
- Subsequent to the August 5, 2015 approval, the Commission approved a change in the originating property of the 39 units to one with a lower voucher payment standard. This lowers Victory Crossing’s senior mortgage proceeds under the RAD scenario.
- Additionally, there has been a recent regulatory change in the cost of the mortgage insurance premium; and the interest rate at closing will be lower than was projected in August of 2015. While this increases senior mortgage proceeds under both scenarios, the spread between the two scenarios grows.
- Lastly, due to existing conflicts among the Project Based Section 8 program, Federal Housing Administration (“FHA”) loan programs, and Montgomery County’s zoning code related to special exceptions for elderly housing within single-family zones, Victory Housing, Inc. had to abandon its pursuit of an FHA mortgage and secure a senior loan through Freddie Mac instead so that the 39 RAD units could be placed at Victory Crossing.
- The final grant amount (excluding the sunk costs related to the abandonment of the FHA mortgage are \$1,825,000. This projected grant amount in August of 2015 was \$1,761,000. So, the grant amount increased by \$64,000, \$25,000 over the approved limit. The sunk costs related to the abandonment of the FHA mortgage total \$82,027.93. So, staff seeks a \$110,000 increase to the approved limit of the grant amount.
- Even with the increased cost of placement to \$1,910,000, Victory Crossing remains a cost effective RAD relocation project at \$49,000 per unit.
- Closing was originally expected in 2015 but will now occur midway November 2016.

M E M O R A N D U M

TO: Housing Opportunities Commission of Montgomery County

VIA: Stacy L. Spann, Executive Director

FROM: Division: Real Estate
Staff: Kayrine V. Brown, Chief Investment & Real Estate Officer Ext. 9589
Zachary Marks, Assistant Director of New Development Ext. 9613

RE: Approval to Increase the Investment in Victory Crossing as Part of the RAD Conversion of Senior Multifamily Properties and Authorization for the Executive Director to Amend the Grant Agreement to Reflect the Increased Investment

DATE: November 2, 2016

COMMITTEE REPORT: Deliberation X

OVERALL GOAL & OBJECTIVE:

Transfer of rental assistance and permanent relocation of residents from 13 units at Waverly House and 26 units at Elizabeth House converted to Project Based Vouchers (“PBVs”) via the Rental Assistance Demonstration (“RAD”) program.

BACKGROUND:

On August 5, 2015, the Commission authorized the Executive Director to enter a grant agreement not to exceed \$1,800,000 with Victory Housing, Inc. Victory Housing, Inc. would then lend the money to the Victory Crossing community to fund its construction. In exchange, Victory Crossing agrees to place 39 PBVs at RAD payment standards below the maximum rent levels on most of the 39 Low Income Housing Tax Credit units the vouchers would be paired with. The amount of the grant agreement is the difference between the senior mortgage proceeds Victory Crossing would be able to secure without the 39 RAD units present and the amount it could secure with the RAD units present.

Grant Agreement Sizing (August 5, 2015 Approval)						
<i>Average</i>	<i>U/W NOI</i>	<i>U/W NOI</i>	<i>Interest</i>	<i>MIP</i>	<i>Proceeds</i>	<i>Proceeds</i>
<i>RAD Rent</i>	<i>(w/o RAD)</i>	<i>(w/ RAD)</i>	<i>Rate</i>	<i>Spread</i>	<i>(w/o RAD)</i>	<i>(w/ RAD)</i>
\$789	\$641,950	\$517,175	4.70%	0.45%	\$9,057,759	\$7,297,214

At the time of the August 5, 2015 Commission approval, all 39 RAD units were expected to come from Holly Hall. The average RAD payment standard for the 39 converted Holly Hall units was \$789 per unit per month. HOC and Victory Housing, Inc. were projecting the interest rate at closing to be 4.70% (before MIP). Also at the time, the mortgage insurance premium (“MIP”) was 45 basis points.

Victory Crossing expected to close and start construction in approximately five weeks. During the intervening time, changes have occurred that have driven up the gap between the senior mortgage proceeds Victory Crossing would be able to secure without the 39 RAD units present and the amount it could secure with the RAD units present:

1. Change of Originating Property: Following its August 5, 2015 approval of the Grant Agreement, the Commission later approved changes to the origin of the converting Public Housing units to be sent to Victory Crossing. Instead of the 39 units to come from Holly Hall, the units would now come from Waverly House (13 units) and Elizabeth House (26 units).

The RAD payment standard for the units coming from Waverly House is lower than that for Holly Hall. To be able to merge the 39 units into a single Housing Assistance Payment contract (for ease of property compliance), the payment standard for units coming from Elizabeth House would be lowered to match that of the units coming from Waverly House. The new average payment standard for the 39 units would be \$776 per unit per month, which decreases supportable proceeds by \$161,461.

2. Lower Actual Underwriting Interest Rate at Closing: Calculating the likely Grant Agreement investment amount more than nine months ago, neither HOC staff nor Victory Housing, Inc. expected Victory Crossing’s closing rate to be 35 basis points lower (inclusive of the MIP reduction discussed below) than the 4.70% rate used at the time for sizing assumed debt proceeds. Additionally, the Federal Housing Administration (“FHA”) within the United States Department of Housing and Urban Development (“HUD”) made a regulatory change to the cost of MIP lowering it to 25 basis points. While this increases supportable proceeds under both scenarios by the same factor, the spread in total dollars raised between each scenario increases (as the base NOI is larger under the scenario where RAD units are not present).
3. Change of Loan Product from FHA 221(d)4 to Freddie Mac Tax Exempt Loan: An existing conflict between discrimination limits under Federal affordable housing programs – in this case, FHA loans and Project Based Section 8 – and Montgomery County’s special exception zoning code for age-restricted housing within single-family zones required Victory Housing, Inc. to pursue a Freddie Mac Tax Exempt Loan (“TEL Loan”), which does not have the same conflicts, in lieu of an FHA program loan. The TEL Loan actually produced slightly higher proceeds to the Victory Crossing financing than the FHA 221(d)4 loan did.

The total difference in supportable proceeds between the two scenarios is now projected to be \$64,421. The cost of abandoning the FHA 221(d)4, for which Victory Crossing already had firm approval from HUD, is \$82,028. Given that the change was made to accommodate the HOC RAD units, HOC staff agrees that HOC should also bear the cost for the switch (which does not account for the six-month delay to closing that the change caused). This pushes the total investment amount associated with the Grant Agreement to \$1,907,449. HOC staff is seeking a final grant amount of \$1.91MM (rounded for convenience).

Grant Agreement Sizing (Current)						
<i>Average</i>	<i>U/W NOI</i>	<i>U/W NOI</i>	<i>Interest</i>	<i>MIP</i>	<i>Proceeds</i>	<i>Proceeds</i>
<i>RAD Rent</i>	<i>(w/o RAD)</i>	<i>(w/ RAD)</i>	<i>Rate</i>	<i>Spread</i>	<i>(w/o RAD)</i>	<i>(w/ RAD)</i>
\$776	\$620,850	\$505,229	4.10%	0.25%	\$9,799,517	\$7,974,551

While the lower underwriting rate at closing produces significantly more proceeds for the project than expected, CDA has stated that all increased senior mortgage proceeds will be used to decrease Community Development Administration’s commitment of \$2.5MM in Rental Housing Works (“RHW”) funds. So, Victory Housing, Inc. is not in position to allow any of the increased debt proceeds to offset the greater cost to HOC of the placement of RAD units. In the long run, the smaller RHW loan will benefit Victory Housing, Inc. and HOC as co-members of the Victory Crossing general partnership.

Even with the increased cost of placement at \$1.91MM, Victory Crossing remains the second-most cost effective RAD relocation project (\$49,000 per unit) behind Park View at Aspen Hill at approximately \$30,000 per unit (the low cost achieved as a result of its 9% Low Income Housing Tax Credit award).

ISSUES FOR CONSIDERATION:

Does the Commission wish to:

1. Authorize the Executive Director to execute the grant agreement with Victory Housing, Inc. for the placement of 39 RAD units at Victory Crossing for an amended aggregate amount not to exceed \$1,910,000?
2. Approve an increase in the funding of the grant amount from the Opportunity Housing Reserve Fund (“OHRF”) of \$110,000?

PRINCIPALS:

Housing Opportunities Commission of Montgomery County
 Maryland’s Department of Housing and Community Development
 DHCD’s Community Development Administration
 Montgomery County’s Department of Housing and Community Affairs
 Wells Fargo

BUDGET/FISCAL IMPACT:

There is no budget impact. The \$1,800,000 already approved as the maximum amount of the grant is already included as an obligation of the OHRF. At the not-to-exceed amount, this would increase the use of the OHRF by as much as \$110,000.

TIME FRAME:

Action at the open session of the Commission on November 2, 2016.

STAFF RECOMMENDATION & COMMISSION ACTION NEEDED:

Staff recommends that the Commission:

1. Authorize the Executive Director to execute the grant agreement with Victory Housing, Inc. for the placement of 39 RAD units at Victory Crossing for an amended aggregate amount not to exceed \$1,910,000.
2. Approve an increase in the funding of the grant amount from the Opportunity Housing Reserve Fund ("OHRF") of \$110,000.

RESOLUTION No:16-78

RE: Approval to Increase the Investment in Victory Crossing as Part of the RAD Conversion of Senior Multifamily Properties and Authorization for the Executive Director to Amend the Grant Agreement to Reflect the Increased Investment

WHEREAS, Victory Crossing (the “Property”) is a planned 105-unit senior rental community that will have 91% of units income and rent restricted in conjunction with the Low Income Housing Tax Credit equity being used to finance the construction of the Property; and

WHEREAS, HOC wishes to transfer to the Property the assistance from 39 former Public Housing units converted via the Rental Assistance Demonstration (“RAD”) program; and

WHEREAS, on August 5, 2015, the Commission authorized the Executive Director to enter into a grant agreement not to exceed \$1,800,000 (“Grant Agreement”) with Victory Housing, Inc.; and

WHEREAS, Victory Housing, Inc. would then lend \$1,800,000 to the Victory Crossing community to fund its construction; and

WHEREAS, the amount of the grant agreement is the difference between the senior mortgage proceeds Victory Crossing would be able to secure without the 39 RAD units present and the amount it could secure with the 39 RAD units present; and

WHEREAS, subsequent to the August 5, 2015 approval, the Commission approved a change in the originating property of the 39 units to one with a lower voucher payment standard; and

WHEREAS, subsequent to the August 5, 2015, approval, changes occurred in the senior mortgage product and underwriting terms for Victory Crossing increasing difference between the senior mortgage proceeds Victory Crossing would be able to secure without the 39 RAD units present and the amount it could secure with the 39 RAD units present by \$64,000; and

WHEREAS, costs in the amount of \$82,027.93 were incurred related to the change in mortgage product made to further effect the placement of the 39 RAD units.

NOW, THEREFORE, BE IT RESOLVED by the Housing Opportunities Commission of Montgomery County that the Executive Director is authorized to execute the Grant Agreement with Victory Housing, Inc. for the placement of 39 RAD Units at Victory Crossing for an amended aggregate amount not to exceed \$1,910,000.

BE IT FURTHER RESOLVED by the Housing Opportunities Commission of Montgomery County that an increase in the funding of the grant amount from the Opportunity Housing Reserve Fund from \$1,800,000 to \$1,910,000 is approved.

I HEREBY CERTIFY that the foregoing resolution was adopted by the Housing Opportunities Commission at a regular meeting conducted on November 2, 2016.

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Patrice Birdsong
Special Assistant to the Commission

Future Action

Information Exchange

New Business

Executive Session Findings

Adjourn

Executive Session