FOUNDATIONS FOR THE FUTURE
Managing the Transition
2013

Mountain Plains / Colorado Joint Conference
National Association of Housing and Redevelopment Officials
The community’s goals and policies

The organization’s goals, policies and capacity

Vision
WHO NEEDS THE HOUSING?

Who is underserved? How do you know?

- Ask staff
  - “where do you have long waiting lists?”
  - “what requests have you been getting?”
- Ensure design is matching the underserved need
- Engage community/neighborhood organizations
WHO:
Market
Demographic
Target AMI
Special Population
Unserved Need

Finance
• Loan
• Bonds
• LIHTC
  • 4%
  • 9%
• HOME
• CDBG
• AHP
• State of Colorado
• Local Grants
• Foundations
• Waivers
• PB Vouchers
• Rental income

Zoning
• By-right or review
• Density
• Uses
• Community outreach
• NIMBY

Team
• Architect
• Attorney
• Surveyor
• Appraiser
• Engineer
• Title Company
• Market Analyst

SITE
Identify
Negotiate
Control (Buy, Option)
Leasing and Management Staff:
You need a large and knowledgeable team!

Team should consist of:

- Project Manager
- Property Manager
- Lease Up Team
- Compliance
- Maintenance
WHY: What do they offer?

1. Assistance with Pro-Forma, making one that will work for the years to come!
2. Assistance with viable PUPA for Property Operation Standards.
3. Design input from the people who work with the tenants daily!
4. Increased knowledge for pre-leasing purposes to ensure a quick lease up!
5. Knowledge of building systems for long term maintenance and preventative maintenance plans.
**Design Considerations**

- Get staff involved in design
- Learn what is needed or lessons learned from prior developments

**Examples:**

1) Washer/dryer connection in larger apartments;
2) Multi-level accessible units with an accessible bedroom/bath downstairs.
WHO:
Market
Demographic
Target AMI
Special Population
Un-underserved Need

Uses (costs)
Design
Entitlements
Community outreach process
Finance (Sources)
Team
Zoning
Proforma

The Development Spiral

It's looking good ... but we need more information!
Can you check this?
• Loan:
  • Construction
  • Permanent
  • Tax exempt bonds
  • Bank qualified tax exempt bonds
  • Private Activity Bonds
• Low income housing tax credits
  • 9%
  • 4%

SOURCES
• State of Colorado
• Affordable Housing Program (FHLB)
• Local jurisdiction
  • Grant
  • Waiver of fees
  • Installation of public infrastructure
  • Bridge, low interest, no interest loan
• Private foundations and trusts
• Your own resources
  • Invest your own money
  • Deferred fees
• Partners
  • Seller discount / joint venture

But … there are strings attached ....
LIHTC Equity

Discuss with potential equity partners...early:

• Pricing in the proforma;
• Investor climate (CDA rich area?, type of housing, etc.)
• Reserve requirements;
• Reporting requirements.

Considerations while underwriting equity sources:

• Be conservative;
• Consider possible reserves;
• Right equity partner (do your due diligence).
..... should be equal but hardly ever are ....
BRIDGING THE GAP

• MODIFY UNIT MIX
• REDUCE OPERATING EXPENSES
• RAISE RENTS
• ADD PROJECT BASED VOUCHERS
• SHORTER LEASE UP PERIOD
• VACANCY ASSUMPTION
• LOAN UNDERWRITING
• LOWER DEBT COVERAGE RATIO
• LOWER INTEREST RATE
• INVESTMENT ASSUMPTIONS
  • $/lihtc
• MORE SOURCES
  • GRANTS (# AND SIZE)
• VALUE ENGINEERING
• DEFER WISH LIST ITEMS
• REDUCE COSTS
  • CHEAPER MATERIALS
  • SHEET VINYL (NOT LVT)
• CITY WAIVER
  • SALES TAX
  • FEES
• SHORTEN CONSTRUCTION PERIOD
**BRIDGING THE GAP WITH MAINTENANCE / VE**

- Make sure that the same standard is applied to new construction and modernization that is applied to maintenance department.
  - Flooring (could also be a good time to try something new with communication from the maintenance department)
  - Same appliances
  - Light fixtures
  - Paint color
Design meets needs of community

Staff input

Past Problem areas

Project given to staff about 6 weeks from end of project. There were 3 and 4 bedroom units with no washer dryer hook-ups

Handicapped unit with two bedrooms upstairs and one handicapped bathroom and bedroom downstairs. How could Head of Household in wheelchair go upstairs?
Operations Budget

• Include your Operations team EARLY in the project;
• Assign an Operations staff member to the development to ensure smooth transition;
• Challenge Operations team to really scrub the operating expenses
Who?
- Market
- Demographic
- Target AMI
- Special Population
- Unserved Need

Design
- Schematic
- Design Development
- CD’s

Team
- Uses / Costs
- Entitlements
- Building permit
- Community Outreach and engagement

Sources
- Zoning
- Proforma

We are almost there .... let’s go over it again!
Take time to show the staff the building plans, floor plans, elevations, etc.;

Provide the staff with renderings, color boards for finishes including samples of flooring and cabinetry to help sell the concept to future residents.
Who?
- Market
- Demographic
- Target AMI
- Special Population
- Unserved Need

Design
- Schematic
- Design Development
- CD’s

Team
Uses / Costs
Entitlements
Building permit
Community Outreach
Sources
Zoning
Proforma

The Development Spiral

Eureka!
I think this is it!
Great work everyone!
Congratulations !!!
Your zoning application and building permit are: APPROVED
Final plans and Construction drawings
Guaranteed maximum price (GMP)
GC contract
Project schedule
Building permit
Notice to Proceed

Due diligence
Final financial model
Loan, covenant and grant document review
Close partnership / loan / purchase
MODERNIZATION

- Relocate tenants -
- Have a website or weekly communication process - Acacia Elevator
- Make sure they see the relocation hotel before the relocation takes place
- Make sure the resident has transportation to the new place
- If you relocate to another public housing unit you have a lot of paperwork with HUD. If you relocate to a hotel there is less work but more expensive.
OAC
Change orders
Requests for information
Shop drawings
Draw reviews and payment
Inspections

Construction

Weather delays
Material deliveries
Inspection requirements
Schedule problems
Subcontractor issues
Subcontractor delays
CONSTRUCTION

- Have staff **visit the site** - Intake staff managers and maintenance
- Architect and Maintenance Supervisor need to monitor the project so they are aware of problems and shut-off valves.
- Often times the developer or construction company does not want maintenance on site.
Include Maintenance Team

...Maintenance Team needs to be involved in design and throughout the construction phase.

Other considerations:
- Inform Maintenance about warranty repair consideration/who to call;
- Educate staff on building systems, location of shut-offs, etc.
WEBSITE - UP AND RUNNING FOR AT LEAST 120 DAYS OUT

- Floor Plans
- How to Apply - applications on line
- Lease example
- Updates on Construction
- House Rules
- Smoking/ Non smoking units
- Pets
- Accounting ready to take deposits
Lease Up:

Marketing starts with your Ground Breaking Ceremony ... What better press can you have?

Begin Marketing at your Groundbreaking Ceremony By:

- Brochures
- Website
- Create an Interest List
- Send Periodic Updates to Potential Tenants
Lease Up:

Marketing: Keep doing! A lot!

But now ... it is **60 days** until the opening:

- Send out Preliminary Applications
- Create Wait List
- Complete Application Process
- Begin Unit Reservations
- Open Bank Accounts
GET READY FOR COMPLIANCE:
What we need to know and when we need to know it!

Management and Compliance Director should be made aware of all of the funding programs used for Compliance purposes for example:

• It happens all too often that property management doesn’t know that HOME funds are on the property until they are notified of a HOME review!! Why does that matter ??? There is additional paperwork needed!
• Verification Paperwork is only good for 120 days!
• Compliance Director and Project Manager should work on assigning each unit an AMI.
• Annual Re-certifications are to be completed by the 1st day of the Initial Certification Month in the 12 month cycle. In most cases, self certifications can be completed in the 3rd year of residency. First year Compliance is the most important!
• Make sure that your paperwork is done correctly or the consequences are extreme!
Long Term Relationship

Owner, management and CHFA will undergo a long term relationship.

👉 Approximately 30 years
Long Term Relationship

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- Approximately 30 years
Long Term Relationship

Development team should hire and put in place a strong management team. Thoroughly communicate areas of program structure and compliance.

- Management should be well informed and program educated.
- Communication provides a safe-guard against any risks of non-compliance in the first year and potential loss of credits.
Long Term Relationship

Keep all parties informed of various processes.

✓ Better relationships with staff as well as residents. Plan accordingly.

✓ How to retain existing qualified residents.

✓ Prepare non-qualified residents for relocation, if necessary.
1st Year Lease Up

COMMUNICATION!
What management needs to KNOW and HAVE!
1st Year Lease Up

- Land Use Restriction Agreement (LURA)
  - Set aside requirements (How many at 30% - 60%)
  - 100% LIHTC or mixed income property
  - Applicable fraction for each building (if applicable)
  - If mixed, are you meeting your floor/unit fraction?
  - Units equally distributed throughout the project

- Copy of IRS Form 8609

- Regulatory agreement(s)
1st Year Lease Up

- Multiple program requirements and agreements (LIHTC, HOME, Bond)
- How to apply the most restrictive program
1st Year Lease Up

- Who are you serving? (Units set-aside for special needs)

- Current Rent and Income limits

- CHFA approved or current PHA

Utility Allowance
1st Year Lease Up

- Vacant unit – if “once occupied” try to rent a vacant “never occupied” unit first.

- What fees are applicable to LIHTC?

  - Parking (garage or covered), employee units, washer and dryers, storage units, etc.
  - Optional vs. non-optional
1\textsuperscript{st} Year Lease Up

- Next Available Unit Rule – (NAUR)
- Full Time Student Rule
- Importance of leasing up by year end. Otherwise, 2/3 rule applies for remainder of compliance period. Loss of credits.
1st Year Lease Up – Misc.

- Green Built –
  - Educating management staff on energy efficiency appliances, thermostats.
  - Provide brochures to residents – Provide training on how to operate to maximize energy efficiencies.
Common Mistakes

✓ Not using proper rent limits – potential over maximum rent households

✓ Utility Allowances – Not using proper source, not updated and not CHFA approved?

✓ Unable to (100%) leased up by year end. (2/3 rule applies)

✓ Transfers that shouldn’t have (separate building project)

✓ Not applying all program requirements

✓ Did not certify households within time frame (if acquisition/rehab)
Form 8609 is submitted to the IRS by the owner once credits are claimed for each building.
8609

- Owner must complete the bottom portion of the form and make certain elections. (Part II)
- For compliance purposes, we review lines 8b, 10a and 10c
Low-Income Housing Credit Allocation and Certification

Part I: Allocation of Credit

A. Name and address of building (see instructions)
B. Name and address of housing credit agency

C. Name, address, and TIN of building owner receiving allocation
D. Employee identification number of agency
E. Building identification number (BIN)

1a Date of allocation
1b Maximum housing credit dollar amount allowable

2 Maximum applicable credit percentage allowable (see instructions)

3a If the eligible basis used in the computation of line 3a was increased, check the applicable box and enter the percentage to which the eligible basis was increased (see instructions):
   □ Building located in the Gulf Opportunity (GO) Zone, Pitts GO Zone, or Wilma GO Zone
   □ Section 42(d)(5)(B) high cost area provisions

3b Percentage of the aggregate basis financed by tax-exempt bonds, if zero, enter ‘0’

4 Percentage of the aggregate basis financed by non-tax-exempt bonds

5 Date building placed in service

6 Check the boxes that describe the allocation for the building (check those that apply):
   □ Newly constructed and federally subsidized
   □ Newly constructed and not federally subsidized
   □ Existing building
   □ Sec. 42(e) rehabilitation expenditures federally subsidized
   □ Sec. 42(e) rehabilitation expenditures not federally subsidized
   □ Not federally subsidized by reason of 40-50 rule under sec. 42(k)(2)(B)
   □ Allocation subject to nonprofit set-aside under sec. 42(h)(5)

Signature of Authorized Housing Credit Agency Official—Completed by Housing Credit Agency Only

Under penalties of perjury, I declare that the allocation made is in compliance with the requirements of section 42 of the Internal Revenue Code, and that I have examined this form and to the best of my knowledge and belief, the information is true, correct, and complete.

Part II: First-Year Certification—Completed by Building Owners with respect to the First Year of the Credit Period

7 Eligible basis of building (see instructions)
8a Original qualified basis of the building at close of first year of credit period

9a If box 9a or box 9b is checked, do you elect to reduce eligible basis under section 42(f)(2)(B)?
   □ Yes
   □ No

9b For market-rate units above the average quality standards of low-income units in the building, do you elect to reduce eligible basis by disproportionate costs of non-low-income units under section 42(f)(2)(B)?
   □ Yes
   □ No

10 Caution: Once made, the following elections are irrevocable:
   □ Elect to begin credit period the first year after the building is placed in service (section 42(f)(1)(A))
   □ Elect not to treat large partnership as taxpayer (section 42(f)(8))
   □ Elect minimum set-aside requirement (section 42(g)(6))
   □ Elect deep rent skewed project (section 142(d)(4)(B))

Under penalties of perjury, I declare that the above building continues to qualify as a part of a qualified low-income housing project and meets the requirements of Internal Revenue Code section 42. I have examined this form and attachments, and to the best of my knowledge and belief, they are true, correct, and complete.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.
Definition of “Project” depends on the election made by the owner on line 8b.

Irrevocable
“Multiple building” project vs. project on it’s own “separate building”...

- If choosing “YES” on line 8b, Form 8609 must include an attachment that indicates which buildings are part of which building project.
Until IRS receives a completed 8609, IRS will continue to look at your development as a single building project.
8609

Risks...

- Transfers from building to building
- Not meeting the minimum set asides

- Owner must provide a signed copy to CHFA within 90 days of your first filing.
8609
Common errors when completing 8609 form...

- No attachment with each 8609 when electing multiple building project.
- Not electing anything on line 8b.
- Were you 100% leased up in the year you are claiming credits?
- Did you properly elect the 20/50 or 40/60.
8609

Needing to change the election on line 8b?

- Changing from “separate building” project to “multiple building” project, request a late election:
  - Section 9100 Relief

- Changing from “multiple building” project to “separate building” project:
  - Private Letter Ruling (PLR)
1st Year Files/Records

Per the record retention requirements:

- 1st year tenant records must be kept for approximately 21 years

Owner should also...

- Keep a copy of your first filing of your 8609’s (completed and signed by the owner)
Acquisition/Rehab

When did acquisition occur?

- Convey acquisition date with management staff. This is an important component to compliance.
Acquisition/Rehab

- Certifying residents (requirements)
  - Residents who are proven to be qualified within 120 days (before or after) acquisition, have an acquisition “effective date”.
  - Qualified paperwork outside of 120 days the effective date is the date when household signs “certification date”.

Acquisition/Rehab

Potential Risk – Loss of tax credits

- In some cases....If credits begin the first full month after acquisition, not completing certifications within the 120 day period can result in no credits on those particular units until the (certification) paperwork is complete.
Acquisition/Rehab

- Even if credits are deferred until following year households should be certified within 120 days from acquisition.

- Once proven “qualified” households can continue to remain even if household is over income at the start of the credit period or at the time rehab is placed in service.

- If over 140% of the current income limit, apply the next available unit rule.
Communication

- Keeping the “experienced” management team well informed is KEY to maintaining compliance and a successful 1st year lease up.
Hand off notes from Development

Make a flow chart: Picture is worth a 1000 words ....

2-3 pages
Key information
Contacts
Expectations
Commitments
Covenants
Staffing

4-6 months prior to first occupancy assign a specific staff member to start managing the lease-up process.
What Management needs from the Developer:

- The Unit Mix and AMI Assignment: by groundbreaking.
- The estimated month of completion
- What programs are we required to complete compliance documents are reports for?
- Copies of the LURA
- Copies of any other Regulatory Agreements
Notify Operations/Property Management at least a month in advance when units will turned over;

When is the punch list going to be complete?
Very important to make sure the communication has flowed throughout the process

Upper management communicate to all staff members the project of the new development

When is the punch list going to be completed?

Is there a model that can be finished early so staff can show the unit for quick lease up?
Inform accounting to set up bank accounts, software systems, other accounting-related items;

When is the Wait List developed?

Need to over lease?

Schedule turnover process with maintenance.
GRAND OPENING!
You have to market and work with the developer all along so that you are ready to move tenants in the day the units are available.

Once the developer gives the project over to the Housing Authority then the locks have to be changed and coordination of the move-in.

We track the new unit from the developer or modernization the same way and we do a unit turn over with Notice of Possession of Unit.
NOTICE OF POSSESSION OF UNIT

NOTIFICATION OF POSSESSION OF UNIT

ADDRESS: ________________________________

DATE OF POSSESSION: ___________________

SCHEDULED INSPECTION: __________ TIME: __________ INSPECTOR: __________

KEYS TURNED IN: YES NO

GOALS and OBJECTIVES:

______________________________________________________________________________

HOUSING MANAGEMENT
SPECIALIST: __________________________ DATE: __________

______________________________________________________________________________

Date to start unit: __________ Date approximate finish: __________

PROJECTED DAYS FOR MAINTENANCE PREP: __________

• Will unit be modernized: YES NO

MAINTENANCE: __________________________ DATE: __________

______________________________________________________________________________

PREP NOTES:

______________________________________________________________________________

PAINTER: Start Date: __________ Completion Date: __________

TECH: Start Date: __________ Completion Date: __________

CLEANING: Start Date: __________ Completion Date: __________
Annual Budget and on-going Financial Goals:

- Management to meet with Owners/Developer’s for financial goal understanding. Including Debt Coverage Requirements.

- Property Management will create the initial budget based on the Unit/AMI mix and the rents determined for lease up as well as known expenses.

- On-going budgets will be prepared by Property Management and presented to Owners/Board of Directors on an annual basis with back up documentation.
Goodbye Development Team! (They are off to the next project!)

- Property Manager and any other on-site staff deal with any ongoing tenant issues.
- On-Site Maintenance should work with the Construction Team for any necessary Warranty work and completing a Preventative Maintenance Schedule.
- Community gatherings and meetings.
- Quarterly resident meetings held by the Property Management staff to ensure the satisfaction of tenants.
- Annual Resident Satisfaction Survey
Managing the Transition
2013

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