



10400 Detrick Avenue  
 Kensington, MD 20895-2484  
 (240) 627-9425



## DEVELOPMENT AND FINANCE COMMITTEE

**May 27, 2022**

**10:00 a.m.**

Livestream: <https://youtu.be/x1gaD3D-C7E>

### Approval of Minutes:

Title	Page
1. <b>Minutes:</b> Approval of Development and Finance Committee Minutes of April 22, 2022	3
2. <b>Minutes:</b> Approval of Development and Finance Committee Closed Session Minutes of April 22, 2022	8

### Discussion/Action Items:

Title	Page
1. <b>Single Family:</b> Approval of Structure, Cost of Issuance Budget, and Adoption of Series Resolution(s) for the Issuance of Single Family Mortgage Revenue Bonds	11
2. <b>Financial Advisor Contract:</b> Approval of Firm to Serve the Commission as its Financial Advisor in Accordance with Request for Proposal (RFP) #2318	25

# Minutes

**HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY**

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

**Development and Finance Committee Minutes**

**April 22, 2022**

For the official record of the Housing Opportunities Commission of Montgomery County, an open meeting of the Development and Finance Committee was conducted via an online platform and teleconference on Friday, April 22, 2022, with moderator functions occurring at 10400 Detrick Avenue, Kensington, Maryland beginning at 10:02 a.m., available for viewing [here](#). Those in attendance were:

**Present**

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

**Also Attending via Online**

Kayrine Brown, Acting Executive Director  
Zachary Marks  
Jennifer Arrington  
Paige Gentry  
Leidi Reyes  
Jay Shepherd  
Marcus Ervin  
John Broullire  
Gio Kaviladze  
Olutomi Adebo

Aisha Memon, General Counsel  
Timothy Goetzinger  
Kathryn Hollister  
Nathan Bovelie  
Eugenia Pascual  
Terri Fowler  
Ellen Goff  
Hyunsuk Choi  
Gail Willison  
Contessa Webster

**IT Support**

Aries Cruz

**Commission Support**

Patrice Birdsong, Spec. Asst. to Commission

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

## **APPROVAL OF MINUTES**

The minutes of the March 25, 2022 Development and Finance Committee open and closed session meetings was approved upon a motion by Commissioner Nelson and seconded by Commissioner Merkowitz. Affirmative votes were cast by Commissioners Simon, Nelson, and Merkowitz.

## **DISCUSSION ITEMS**

### **1. The Metropolitan: Emergency Procurement to Select Contracting Specialists Incorporated as the Waterproofing Contractor for Repairs of the Green Roof at Metropolitan Apartments**

Marcus Ervin, Director of Real Estate, introduced Hyunsuk Choi, Housing Acquisition Manager, who provided a presentation requesting the Development and Finance Committee to recommend to the full Commission approval to (1) select Contracting Specialist Incorporated (CSI) as the waterproofing contractor for waterproofing repairs of the Green Roof at the Metropolitan Apartments; (2) authorize the Acting Executive Director to negotiate and execute a contract; (3) authorize project contingency costs; and (4) accept two separate allocations in the State of Maryland Capital Budget.

A motion was made by Commissioner Nelson and seconded by Commissioner Merkowitz to recommend to the full Commission for approval at the May 4, 2022 monthly meeting. Affirmative votes were cast by Commissioners Simon, Nelson, and Merkowitz.

### **2. HOC Headquarters: Approval of Construction Manager and Revised FY22 Predevelopment Budget and Funding Installment**

Marcus Ervin, Director of Real Estate, introduced Jay Shepherd, Housing Acquisitions Manager, who provided a presentation requesting that the Development and Finance Committee join staff's recommendation to the full Commission to (1) select Jones Lang LaSalle (JLL) Incorporated as the third-party construction manager for the redevelopment of HOC Headquarters site; (2) authorize the Acting Executive Director to execute a contract that obligates HOC for only the pre-construction phase and provides HOC the ability to terminate the contract prior to the construction phase; (3) approve a revised predevelopment budget, previously approved in calendar year 2021, to account for additional soft costs in obtaining building permits prior to closing; (4) affirm the funding of the budget from the PNC Line of Credit; and (5) approve the final installment of development budget funding from the PNC Bank, N.A. Line of Credit.

A motion was made by Commissioner Nelson and seconded by Commissioner Merkowitz to recommend to the full Commission for approval at the May 4, 2022 monthly meeting. Affirmative votes were cast by Commissioners Simon, Nelson, and Merkowitz.

**3. Brooke Park: Approval for the Acting Executive Director to Execute Change Order with Bennett Frank McCarthy Architects, Inc.**

Marcus Ervin, Director of Real Estate, introduced Gio Kaviladze, who provided a presentation requesting the Development and Finance Committee join staff's recommendation to the full Commission to approve change orders #3 and #4 to the Bennett Frank McCarthy Architects, Inc. contract, and to authorize the Acting Executive Director to execute the change orders.

A motion was made by Commissioner Nelson and seconded by Commissioner Merkowitz to recommend to the full Commission for approval at the May 4, 2022 monthly meeting. Affirmative votes were cast by Commissioners Simon, Nelson, and Merkowitz.

**4. Residence on the Lane (Upton): Approval for the Acting Executive Director to Execute Change Order to Closeout Construction Management Services**

Jay Shepherd, Housing Acquisitions Manager, provided a presentation requesting the Development and Finance Committee join staff's recommendation to the full Commission to approve (1) a change order to the CFI Construction, Inc. contract; and (2) approve a contingency, which if used would increase the aggregate contract amount to \$586,000.

A motion was made by Commissioner Nelson and seconded by Commissioner Merkowitz to recommend to the full Commission for approval at the May 4, 2022 monthly meeting. Affirmative votes were cast by Commissioners Simon, Nelson, and Merkowitz.

**5. Westside Shady Grove: Approval of Naming Westside Shady Grove in Accordance with HOC Naming Guidelines**

Marcus Ervin, Director of Real Estate, provided a presentation requesting the Development and Finance Committee join staff's recommendation to the full Commission to approve the permanent name, "The Laureate" for HOC at Westside Shady Grove. Staff addressed questions of the Commissioners, including the suggestion to expound on other Poet Laureates as part of the narrative.

A motion was made by Commissioner Merkowitz and seconded by Commissioner Nelson to recommend to the full Commission for approval at the May 4, 2022 monthly meeting. Affirmative votes were cast by Commissioners Simon, Nelson, and Merkowitz.

Commissioner Simon read the Written Closing Statement. A motion was made by Commissioner Nelson and seconded by Commissioner Merkowitz to adopt the statement and close the meeting. Affirmative votes were cast by Commissioners Simon, Nelson, and Merkowitz.

Based upon this report and there being no further business to come before this session of the Development and Finance Committee, the Committee adjourned the open session at 11:46 a.m. and reconvened in closed session at 11:51 a.m.

In compliance with Section 3-306(c)(2), General Provisions Article, Maryland Code, the following is a report of the Development and Finance Committee's closed session held on April 22, 2022 at approximately 11:51 a.m. via an online platform and teleconference, with moderator functions occurring at 10400 Detrick Avenue, Kensington, MD 20895. The meeting was closed under the authority of Section 3-305(b)(3) to discuss (A) the potential acquisition/purchase of the fee simple interest of three multifamily properties (via a purchase and sale agreement) located in Bethesda, Maryland; and (B) the potential acquisition/purchase of multifamily property located in Lyttonsville, Maryland. The meeting was also closed under the authority of Section 3-305(b)(13) to discuss the confidential commercial and financial terms of HOC's acquisition of the three (3) multifamily properties located in Bethesda, Maryland (item A above).

The meeting was closed and the closing statement dated April 22, 2022 was adopted on a motion made by Richard Y. Nelson, Jr., seconded by Jeffrey Merkowitz, with Commissioners Jackie Simon, Richard Y. Nelson, Jr., and Jeffrey Merkowitz voting in favor of the motion. The following persons were present: Jackie Simon, Richard Y. Nelson, Jr., Jeffrey Merkowitz, Kayrine Brown, Aisha Memon, Zachary Marks, Gio Kaviladze, Ellen Goff, Gail Willison, Jennifer Arrington, John Broullire, Fred, Swan, Leidi Reyes, Marcus Ervin, Nathan Bovelleville, Paige Gentry, Timothy Goetzinger, and Patrice Birdsong.

In closed session, the Commission discussed the below topics and took the following actions:

1. **Topic:** The acquisition/purchase of the fee simple interest of three multifamily properties located in Bethesda, Maryland (pursuant to Section 3-305(b)(3)), and the confidential commercial and financial terms of the acquisition (pursuant to Section 3-305(b)(13)).
  - a. **Action Taken:** Staff requested that the Development and Finance Committee recommend to the full Commission (1) authorization for the Acting Executive Director to exit the due diligence period and complete the acquisition of the

property, (2) approval of staff's proposed Financing Plan, and (3) authorization to accept two loans to fund the acquisition. A motion was made by Commissioner Nelson to advance the item to the full Commission meeting on May 4, 2022. Commissioner Merkowitz seconded the motion, with Commissioners Merkowitz, Nelson, and Simon voting in approval. No resolution was presented or approved.

2. **Topic:** The acquisition/purchase of multifamily property located in Lyttonsville, Maryland (pursuant to Section 3-305(b)(3)).

- a. **Action Taken:** Staff provided an update on the potential acquisition opportunity. Staff was directed to continue to follow up on the opportunity. No formal action was presented or taken.

The closed session was adjourned at 12:35 p.m.

Kayrine Brown  
Acting Secretary/Treasurer

/pmb

**HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY**

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

**Development and Finance Committee Closed Session Minutes**

**April 22, 2022**

A Closed Session of the Development and Finance Committee of the Housing Opportunities Commission of Montgomery County was conducted via an online platform and teleconference on Friday, April 22, 2022 at 10400 Detrick Avenue, Kensington, Maryland beginning at 11:51 a.m. Those in attendance were:

**Present**

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

**Also Attending**

Kayrine Brown, Acting Executive Director  
Zachary Marks, Chief Real Estate Officer  
Marcus Ervin  
Fred Swan  
Jennifer Arrington  
Ellen Goff  
Leidi Reyes

Aisha Memon, General Counsel  
Timothy Goetzinger  
Paige Gentry  
John Broullire  
Gio Kaviladge  
Gail Willison  
Nathan Bovel

**Commission Support**

Patrice Birdsong, Spec. Asst. to the Commission

*Pursuant to Sections 3-305(b) and (d) of the General Provisions Articles of the Annotated Code of the State of Maryland, the Closed Session was called to order pursuant to Section 3-305(b)(3) to consider the acquisition of real property for a public purpose and matters directly related thereto; and pursuant to Section 3-305(b)(13) to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter.*

1. **Battery Lane Properties:** Approval of the Financing Plan; Authorization to Exit Due Diligence Period and Complete Acquisition

The meeting began with a presentation by Gio Kaviladze, Senior Financial Analyst, requesting recommendation of the Development and Finance Committee to recommend to the full Commission authorization of the Acting Executive Director to exit due diligence period and complete the acquisition, to propose a financing plan and to accept two loans from EagleBank to fund the acquisition of the Property.



There was discussion among Commissioners and Staff. Commissioner Merkowitz made a comment in regards to the significant difference of the rate cap in terms of the cash flow. A motion was made by Commissioner Nelson, and seconded by Commissioner Merkowitz to recommend to the full Commission for discussion during a closed session to be held on May 4, 2022. Commissioners Simon, Nelson, and Merkowitz voted in approval.

2. **Rollingwood:** Update on Preservation Opportunity of Naturally Affordable Housing in Lyttonsville

Zachary Marks, Chief Real Estate Officer, provided an update on the preservation opportunity of affordable housing in Lyttonsville. Staff was directed to continue to follow up on necessary information and to prepare a Right of First Refusal (ROFR) packet. No action was needed.

Based upon this report and there being no further business to come before this Closed Session of the Development and Finance Committee the meeting adjourned at 12:35 p.m.

Respectfully submitted,

Kayrine Brown  
Acting Secretary-Treasurer

/pmb

# Discussion/Action Items

**APPROVAL OF STRUCTURE, COST OF ISSUANCE BUDGET, AND ADOPTION OF SERIES  
RESOLUTION(S) FOR THE ISSUANCE OF SINGLE FAMILY MORTGAGE REVENUE BONDS**

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**SINGLE FAMILY MORTGAGE FINANCE**



**KAYRINE V. BROWN, ACTING EXECUTIVE DIRECTOR**

**JENNIFER HINES ARRINGTON, ACTING DIRECTOR OF MORTGAGE FINANCE  
PAULETTE DUDLEY, PROGRAM SPECIALIST III**

**MAY 27, 2022**

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# EXECUTIVE SUMMARY

Since the creation of the Single Family Mortgage Purchase Program (the “Program” or “MPP”) in 1979, the Commission has issued multiple series of bonds under the Single Family Mortgage Revenue Bond (“MRB”) Resolution (the “1979 Indenture”) to provide low-interest rate mortgages to first-time homebuyers. The Commission also may issue bonds under the Single Family Housing Revenue Bond (“HRB”) Resolution 2009 Indenture (the “2009 Indenture”) and under the Program Revenue Bond (“PRB”) Resolution 2019 Indenture (the “2019 Indenture”). In addition, the Commission has utilized the practice of issuing refunding bonds in the Program to (i) recycle and extend the life of volume cap it allocates to each bond issue (“Replacement Refunding”) and/or (ii) refinance its outstanding bond debt at a lower bond yield, thus lowering costs of the Program (“Economic Refunding”).



As of May 2022, there are approximately \$500,000 remaining in bond proceeds for the Program; therefore, staff has begun planning for a 2022 issuance of bonds under the 1979 Indenture (the “2022 Bonds”). The 2022 Bonds is anticipated to include:

- **Replacement Refunding bonds** to (1) repay the Program’s \$5 million draw on the PNC Bank, N.A. Line of Credit (“PNC LOC”) made on January 3, 2022 that replacement refunded several series of MRBs, HRBs, and PRBs; and, (2) redeem approximately \$9 million of several series of MRBs, HRBs, and PRBs eligible for July 1, 2022 redemptions. The total amount of Replacement Refunding bonds is estimated to be approximately \$14 million but may exceed that amount depending on the amount of prepayments and repayments received under the Program up to the time of the issuance.
- **New money bonds**, totaling approximately \$19 million of which \$15 million is estimated to be private activity, tax-exempt, will require an allocation of volume cap, and approximately \$4 million is estimated to be taxable and will not require an allocation of volume cap. Total existing volume cap available to the Commission’s for its single family and multifamily program needs in 2022 is approximately \$38 million.

As a result of issuing the 2022 Bonds, up to \$40 million is estimated to be made available to the Program to make new mortgage loans at below-market rates. Assuming an average loan size of \$250,000, this bond issue will generate approximately 160 new mortgage loans. Should volume cap not be made available for the single family program, then the issuance will likely be no more than approximately \$20 million, which will generate approximately 80 loans.

# EXECUTIVE SUMMARY

The 2022 Bonds proposed structure assumes the issuance of four (4) series of bonds that will be fixed or variable rate, tax-exempt non-AMT and/or AMT serial and/or term, par and/or premium bonds, along with taxable serial and/or term bonds with the latest maturity of all bonds to be the year 2052. The bonds are expected to be sold at par or a premium, but may also be sold at a discount.

Currently, 2022 Series A is proposed as fixed rate, non-AMT replacement refunding bonds (approximately \$11.2 million) and new money private activity bonds (approximately \$4 million); 2022 Series B is proposed as fixed rate, AMT replacement refunding bonds (approximately \$2.9 million); 2022 Series C is proposed as fixed rate, taxable new money bonds (approximately \$4 million); and, 2022 Series D is proposed as variable rate, non-AMT new money private activity bonds (approximately \$11 million). As mentioned previously, volume cap will be required for the new money private activity bonds, which are tax-exempt in nature. No volume cap is required for the replacement refunding bonds, given that volume cap is being recycled and extended by executing the replacement refunding.

The cost of issuance is estimated to be approximately \$535,000. This is commensurate with the size and structure of the overall issuance, and will be paid from funds available under the 1979 Indenture.

In addition, up to four (4) Series Resolutions will be drafted to establish, among other things, authorization to issue the bonds, the purpose of the bonds and the application of proceeds, redemption provisions, types of accounts to be created, and authority to execute necessary documents. The Series Resolutions will be prepared by the Commission's bond counsel, Kutak Rock, LLP, which will be presented to the full Commission for approval.

Staff recommends that the Development & Finance Committee join its recommendation to the Commission of the following actions:

1. Approval of the structure and issuance of the 2022 Bonds under the 1979 Mortgage Revenue Bond Resolution in an amount not to exceed \$40 million in aggregate;
2. Approval to allocate up to \$15 million of private activity volume cap to complete the transaction herein proposed;
3. Authorization to execute an interest rate hedge agreement relating to the variable rate 2022 Bonds;
4. Approval of the cost of issuance budget, estimated to be approximately \$535,000 to be funded by the 1979 Indenture; and,
5. Adoption of up to four (4) Series Resolutions authorizing the issuance of the 2022 Bonds.

# TRANSACTION STRUCTURE: OVERVIEW

The overall financing plan is comprised of the Replacement Refunding of approximately 10 series of MRBs, HRBs and PRBs for approximately \$9 million eligible for redemption on July 1, 2022 and the repayment of the Program’s \$5 million draw on the PNC LOC made on January 3, 2022 for scheduled redemptions; and, the issuance of new money of approximately \$19 million, producing a total issuance of approximately \$33 million. The new issuance will include four (4) series of fixed and variable rate bonds. The following is a discussion of the transaction’s structure. Amounts are approximate.

	2022 Series A (Non-AMT) (Fixed)	2022 Series B (AMT) (Fixed)	2022 Series C (Taxable) (Fixed)	2022 Series D (Non-AMT) (Variable)	Total
<b>Replacement Refunding Bonds</b>	\$11,195,000	\$2,940,000			\$14,135,000
<b>New Money</b>	\$4,000,000		\$3,865,000	\$11,000,000	\$18,865,000
<b>TOTAL</b>	<b>\$15,195,000</b>	<b>\$2,940,000</b>	<b>\$3,865,000</b>	<b>\$11,000,000</b>	<b>\$33,000,000</b>

## Structure of Issuance

- Issue up to \$40 million under the 1979 Indenture.
- Fixed and variable rate, tax-exempt non-AMT and/or AMT serial and/or term, par and/or premium bonds, along with taxable serial and/or term bonds.
- Latest Maturity – year 2052 (30 years).
- Four (4) series of bonds, which currently assumes:
  1. 2022 Series A will include fixed rate, non-AMT Replacement Refunding and new money bonds (est. \$15.2 million);
  2. 2022 Series B will include fixed rate, AMT Replacement Refunding bonds (est. \$2.94 million);
  3. 2022 Series C will include fixed rate, taxable bonds (est. \$4 million); and,
  4. 2022 Series D will include variable rate, non-AMT new money bonds (est. \$11 million).

# TRANSACTION STRUCTURE: HIGHLIGHTS

## Lendable Proceeds via Replacement Refunding and New Money

- Replacement Refunding of approximately \$14 million will be issued to (1) repay the Program’s \$5 million draw on the PNC LOC on January 3, 2022 that refunded several series of MRBs, HRBs, and PRBs; and, (2) redeem approximately \$9 million of several series of MRBs, HRBs, and PRBs scheduled for redemption on July 1, 2022.
- New money issued is estimated at \$19 million and includes zero percent funds. Approximately \$4 million of the new money issued is estimated to be taxable.
- Total lendable proceeds of approximately \$33.6 million will be made available, as a result of the premium bond proceeds, to make mortgage loans and provide funds for down payment and closing cost assistance for first-time homebuyers.
  - Creates funding for approximately 134 FHA and Fannie Mae HFA Preferred first mortgage loans

## Volume Cap / TEFRA

- Replacement refundings do not require an allocation of volume cap, given that existing cap is being recycled and extended by executing the replacement refunding.
- New debt that is tax-exempt private activity in nature will require the use of Bond Cap and satisfaction of Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) requirements. Replacement refunding can require TEFRA, if the maturity is extended beyond the replacement refunded bonds.
- The TEFRA Hearing was held on May 19, 2022.
- The Single Family Program could utilize approximately \$15 million out of the \$38 million in Bond Cap currently available to HOC, leaving approximately \$23 million utilized for multifamily transactions in 2022 or carried forward into 2023. Volume cap deficits may be secured through a request to the Maryland Department of Commerce or through Maryland Community Development Administration (“CDA”). See the Volume Cap chart on page 9.



# TRANSACTION STRUCTURE: HIGHLIGHTS

## **Variable Rate Bonds/ Liquidity**

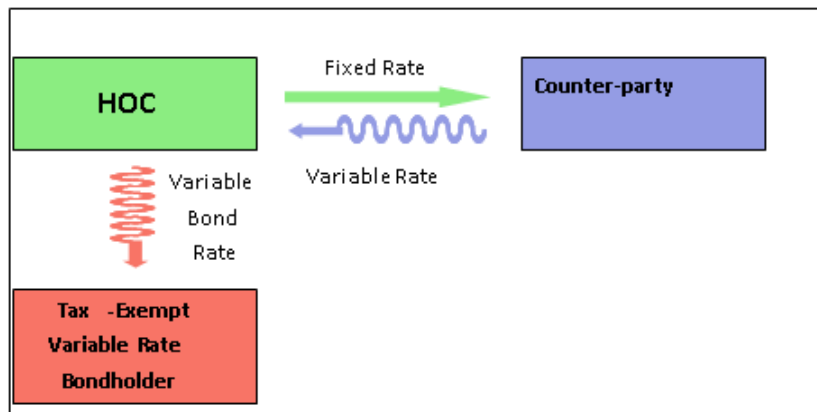
- The 2022 Bonds may include variable rate demand obligations (“VRDOs”), a form of variable debt used by the Commission on prior bond issues to achieve a lower cost of funds. VRDO bonds are long-term debt instruments with interest rates that reset periodically (generally weekly) at a rate that reflects the current market level for short term securities. One of the characteristics of VRDO bonds is the need for liquidity at each periodic remarketing date.
- On each remarketing period date, bondholders of the variable rate securities may tender their bonds with certain notice. If those bonds are not bought by another investor, the liquidity provider steps in to purchase the bonds until they may be successfully remarketed to another investor.
- The Commission’s financial advisor has identified PNC Bank, N.A., as the liquidity provider for variable 2022 Bonds.
- The 1979 Indenture has capacity for additional variable rate debt.
- If a sufficiently low cost of funds can be achieved without variable rate debt, an all fixed-rate issue will be considered.

## **Interest Rate Hedge Agreement (“Swap”)**

- Under current market conditions, the rate on a swap is efficient and could result in materially lower borrowing cost in comparison to fixed rate debt. Thus, due to favorable pricing of interest rate hedge agreements, the Commission would enter into an agreement to hedge any variable rate 2022 Bonds. See page 8 for a discussion on swaps.

# TRANSACTION STRUCTURE: SWAP OPTION

An interest rate hedge agreement or swap is a mechanism used in variable rate bond transactions to hedge against the rise in interest rates and obtain a fixed rate that is lower than that available in the market. The swap contract is an agreement between two parties that agree to swap interest rates. The parties are the issuer (the Commission) and a Counterparty (a commercial bank). The Commission would issue variable rate bonds and would have an obligation to pay its investors at a floating interest rate. To protect itself against the possibility of the interest rate on those bonds rising, the Commission would agree to pay the Counterparty a fixed rate. The Counterparty, in turn, would assume the variable rate obligation of the Commission. Thus, the Commission has swapped rates with the Counterparty and now has a fixed rate obligation instead of a variable rate obligation. The flow of payments is depicted below:



Currently, relative to an all fixed rate bond issue, the all-in bond yield reduction of using variable rate with a swap for a portion of the structure would be approximately 100 basis points, depending on the amount of variable/swap used. This is considerably higher than the 20 to 50 basis point benefit that HOC has achieved in recent years when using swaps.

Staff proposes that the Commission pursue entering into a swap agreement with a Moody's highly rated counterparty, such as Bank of America, N.A. (rated Aa2), Wells Fargo, N.A. (rated Aa1) or Royal Bank Canada (rated Aa2). Under such swap agreement, the Commission would pay a fixed rate and receive a floating rate index, such as 100% of SIFMA, 70% of SOFR or some combination thereof. This may be beneficial for the 2022 Bonds because the lower rate on the portion of the bond issue that will be supported by a swap agreement, may be blended in the entire bond issue to reduce the overall mortgage rates for the program.

# VOLUME CAP NEEDS/USES (\$'000)

Year	2017	2018	2019	2020	2021	Projected 2022	Projected 2023
Balance Carried Forward	44,784,313	29,924,685	5,999,987	0	13,125,691	0	22,962,907
Annual Bond Cap Allocation	35,643,087	37,985,728	37,928,940	38,790,691	40,637,867	40,889,349	41,707,136
	-1.7%	6.6%	-0.1%	2.3%	4.8%	0.6%	2.0%
Special Allocation/Adjustment		(6,871,861)	57,793,289		66,626,442	(2,926,442)	0
<b>TOTAL BOND CAP AVAILABLE</b>	<b>80,427,400</b>	<b>61,038,552</b>	<b>101,722,216</b>	<b>38,790,691</b>	<b>120,390,000</b>	<b>37,962,907</b>	<b>64,670,043</b>
<b>HOC PROGRAMS</b>							
Single Family	16,363,435	28,768,565				15,000,000	30,000,000
Alexander House	22,139,280						
Greenhills	12,000,000						
Elizabeth House III			55,000,000				
Residences on The Lane (HOC at the Upton II)			24,000,000				
900 Thayer			22,722,216				
Bauer Park				25,665,000			
Stewartown					16,145,000		
Georgian Court					28,700,000		
Shady Grove					28,990,000		
Willow Manor Properties					46,555,000		
+ Hillandale Gateway Senior							34,900,000
Hillandale Gateway Mixed-Income							20,500,000
Metropolitan							26,000,000
Oaks at Four Corners							28,000,000
Forest Oak							36,000,000
MetroPointe							15,000,000
<b>TOTAL HOC PROGRAMS</b>	<b>50,502,715</b>	<b>28,768,565</b>	<b>101,722,216</b>	<b>25,665,000</b>	<b>120,390,000</b>	<b>15,000,000</b>	<b>190,400,000</b>
<b>PRIVATE DEVELOPERS</b>							
Gaithersburg - Hillside Senior Living		26,270,000					
<b>TOTAL PRIVATE ACTIVITY</b>	<b>0</b>	<b>26,270,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL BOND CAP REMAINING (SHORTFALL)</b>	<b>29,924,685</b>	<b>5,999,987</b>	<b>0</b>	<b>13,125,691</b>	<b>0</b>	<b>22,962,907</b>	<b>(125,729,957)</b>

+TEFRA hearing held on October 26, 2020 for \$48,000,000

# COST OF ISSUANCE BUDGET

Up to \$40 Million MRB Issuance	AMOUNT
<b>Underwriters Spread</b>	
Underwriters Counsel	51,000
Travel/Tax/Miscellaneous	4,314
CUSIP	2,189
DTC	890
Bookrunning	3,537
Takedown	181,750
Management	30,000
<b>Underwriter's Spread - Total</b>	<b>273,680</b>
<b>Other Cost of Issuance</b>	
Bond Counsel	52,000
Financial Advisor	35,000
Financial Advisor - Computer	29,000
Financial Advisor - Swap	20,000
Universal cap	19,250
OS printing	2,500
Rating	43,000
Auditor	6,920
Trustee	4,500
Trustee Counsel	8,000
Program Marketing	30,000
Miscellaneous / Disbursements	11,150
<b>Other Cost of Issuance - Total</b>	<b>261,320</b>
<b>TOTAL COST OF ISSUANCE BUDGET</b>	<b>535,000</b>

The cost of the issuance is estimated to be \$535,000 based upon the not-to-exceed bond issuance amount of \$40 million. The amount of the cost of issuance is commensurate with the size of the overall issue of the 2022 Bonds.

As with other transaction costs for the Single Family Program, the cost of issuance is paid from funds available under the 1979 Indenture.

Revenues generated from the issuance of the 2022 Bonds will accumulate over time in the 1979 Indenture.

# SERIES RESOLUTIONS FOR THE 2022 BONDS

For each bond issue, the Commission is asked to approve one or more Series Resolutions which contain specific information about the series of bonds being issued. A Series Resolution authorizes the issuance of one or more series of bonds defining, among other things, the bonds' purpose, redemption provisions, creation of certain accounts, and use of the bond proceeds.

Bond Counsel of the Commission, Kutak Rock, LLP, will prepare no more than four (4) Series Resolutions for the 2022 Bonds.

The Series Resolutions will set forth the structure of the bonds, as described previously herein. The interest rates on the 2022 Bonds will be determined when the bonds are priced. Currently, the 2022 Bonds are expected to price in June 2022.

# SCHEDULE (SUBJECT TO CHANGE)

## April 2022

- Kick-Off Conference Call
- Notify Auditors and Rating Agency of Financing
- Distribute preliminary Cost of Issuance Budget

## May 2022

- Approval of the Structure, Cost of Issuance Budget and Adoption of Series Resolution(s) for the 2022 Bonds (Development & Finance Committee)
- Provide comments to POS, Bond Purchase Agreement and Series Resolutions

## June 2022

- Approval of the Structure, Cost of Issuance Budget and Adoption of Series Resolution(s) for the 2022 Bonds (Commission)
- Receive Auditor's Consent Letter and Verbal Assurances (est. 6/9/2022)
- Receive Rating (est. 6/9/2022)
- Post POS (est. 6/10/2022)
- Bond Sale (est. 6/17/2022)
- Clear OS (est. 6/27/2022)
- Closing (est. 6/29/2022)
- Repay PNC LOC
- Redeem Replacement Refunded Bonds

## ISSUES FOR CONSIDERATION

Will the Development and Finance Committee join staff's recommendation to the Commission in its request of the following:

1. Approval of the structure and issuance of the 2022 Bonds under the 1979 Mortgage Revenue Bond Resolution in an amount not to exceed \$40 million in aggregate?
2. Approval of an allocation of up to \$15 million of private activity volume cap to complete the transaction herein proposed?
3. Authorization to execute an interest rate hedge agreement relating to the variable rate 2022 Bonds;
4. Approval of the cost of issuance budget, estimated to be approximately \$535,000 to be funded by the 1979 Indenture?
5. Adoption of up to four (4) Series Resolutions authorizing the issuance of the 2022 Bonds?

## PRINCIPALS

- Housing Opportunities Commission of Montgomery County
- Caine Mitter & Associates Incorporated – Financial Advisor
- Kutak Rock, LLP – Bond Counsel
- BofA Securities – Senior Managing Underwriter
- PNC Capital Markets – Co-Senior Managing Underwriter
- Jefferies LLC – Co-Manager
- Morgan Stanley – Co-Manager
- RBC Capital Markets – Co-Manager
- Wells Fargo Company – Co-Manager
- Bank of New York Mellon – Trustee

## FISCAL/ BUDGET IMPACT

Expenses of the Single Family Program are borne from excess revenue in the program; therefore, there is no impact on the Commission's operating budget. Savings from reduced bond cost remain with the indenture.

## TIME FRAME

For deliberation at the May 27, 2022 Development & Finance Committee meeting, and for action at the June 8, 2022 Commission meeting.

## STAFF RECOMMENDATION AND COMMISSION ACTION NEEDED

Staff recommends that the Development & Finance Committee join its recommendation that the Commission approve the following actions:

1. Approval of the structure and issuance of the 2022 Bonds under the 1979 Mortgage Revenue Bond Resolution in an amount not to exceed \$40 million in aggregate;
2. Approval to allocate up to \$15 million of private activity volume cap to complete the transaction herein proposed;
3. Authorization to execute an interest rate hedge agreement relating to the variable rate 2022 Bonds;
4. Approval of the cost of issuance budget, estimated to be approximately \$535,000 to be funded by the 1979 Indenture; and,
5. Adoption of up to four (4) Series Resolutions authorizing the issuance of the 2022 Bonds.



**MEMORANDUM**

**TO:** Housing Opportunities Commission, Development & Finance Committee

**VIA:** Kayrine V. Brown, Acting Executive Director

**FROM:** Staff: Jennifer H. Arrington                      Division: Mortgage Finance Ext. 9760

**RE:** **Financial Advisor Contract:** Approval of Firm to Serve the Commission as its Financial Advisor in Accordance with Request for Proposal #2318

**Date:** May 27, 2022

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**STATUS:**        Consent \_\_\_\_\_ Deliberation  X  Status Report \_\_\_\_\_ Future Action \_\_\_\_\_

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**OVERALL GOAL & OBJECTIVE:**

To recommend a qualified firm to provide financial advisory services to the Housing Opportunities Commission of Montgomery County (the “Commission”, “HOC”, “Agency”) that will enable it to continue to operate its single family and multifamily housing bond programs (the “Programs”) in pursuit of its affordable housing goals.

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**BACKGROUND:**

On June 7, 2017, the Commission approved the selection of Caine Mitter & Associates Incorporated (“Caine Mitter” or “CMA”) to serve as financial advisor for a new contract term, initially for two (2) years with three (3) optional one-year renewals for a maximum contract term of five (5) years. Renewals must be approved by the Commission in accordance with the current Procurement Policy. The contract term commenced on July 1, 2017, and the initial two-year term ended June 30, 2019. The subsequent one-year renewals were approved by the Commission on May 8, 2019, February 5, 2020, and April 7, 2021. With the existing contract’s third and final renewal period set to expire on June 30, 2022, a Request for Proposal (“RFP”) #2318 for firms to provide financial advisory services to the Commission was published on HOC’s website and electronically mailed to 24 firms on March 28, 2022. Only one (1) offeror responded – Caine Mitter.

**The Financial Advisor**

As the principal regulator in the municipal securities market, the Municipal Securities Rulemaking Board (“MSRB”) develops rules for financial professionals designed to ensure a fair and efficient market by preventing fraud and other unfair practices, establishing professional qualifications, supporting market transparency, and applying uniform practices to the industry. Among these rules are those that regulate the activities of municipal advisors and clarify their obligations to the state and local governments and other municipal entities that engage their services. All municipal financial advisors must be registered with the MSRB, and any of the advisor’s staff that provides financial advisory services must have passed the Series 50 examination.

An effective Financial Advisor to the Commission is expected to perform the following functions:

- Provide advice for the structuring and management of its municipal Programs to optimize the Commission's resources. At the transaction level, it structures bond issuances, prepares quantitative cash flow analyses for each transaction, and provides annual analysis for its parity indentures under which single family and multifamily housing bonds are issued. This ensures that rating-agency-required cash flow stress runs are successful and that the issued securities are yield compliant within the meaning of the Internal Revenue Code ("IRC"). If cash flow services and program structuring are not provided by the Financial Advisor, they would need to be contracted out, as HOC has not built the capability into its operations, preferring instead a contract approach. Though not required, CMA also assumes responsibility for drafting an official statement (equivalent to a prospectus) for each HOC bond issue.
- Coordinate the team that is responsible for various aspects of the bond issuance process such as underwriters, bond counsel, trustees, rating agency, Commission staff, and other professionals as needed. The Financial Advisor necessarily interacts with key housing finance industry participants and has direct access to changes in the industry; therefore, the Commission is provided with current and accurate information about the municipal bond markets and general financial market conditions that may affect the management of its Programs, including investment strategies, regulatory and statutory compliance, housing finance products, and market trends. This is a critical function as the municipal market is dynamic and evolving.
- Assist with Internal Revenue Service ("IRS") audits, Securities & Exchange Commission ("SEC") reviews, MSRB inquiries, continuing disclosure matters, and rating agency reporting and reviews.
- Conduct market surveillance and interact with Federal, State, and local housing participants to recommend the best execution, one that enables HOC to deliver affordable housing efficiently and at the lowest cost.
- Generally inform the Commission of current market conditions and financing techniques being employed to optimize these conditions.

#### **Current Financial Advisor Relationship**

In 2017, Caine Mitter was awarded a new contract term (two (2) years, initially, with three (3) additional on-year extensions), as financial advisor to the Commission. It has been providing financial advisory services to the Commission since 1979, which has enabled the Commission to sell or remarket approximately \$5.8 billion of bonds to fund and maintain its single family and multifamily housing programs. Since January 2017, the Commission has issued approximately \$548.6 million in bonds, which consist of short-term and long-term bonds, draw down bonds, tax-exempt and taxable bonds, and fixed- and floating-rate bonds.

During the contract term, items of note include Caine Mitter successfully implementing structuring techniques, including recyclings, which allowed the Commission to recycle existing private activity bond proceeds without using annual allocated volume cap. For three (3) years (2019 to 2021) the single family program has utilized this strategy in order to remain constant in the market. This same technique was used in 2020 for the multifamily program, whereby the Commission was able to refund \$100 million of Maryland Housing and Community Development maturing private activity bonds and recycle the proceeds to finance The Laureate (formerly, West Side Shady Grove).

CMA was also instrumental in the development of a new General Trust Indenture (hereinafter the “2019 Indenture”) that issues Program Revenue Bonds, which may be private activity bonds or governmental bonds. The 2019 Indenture allows for the issuance of bonds to reimburse the Commission for certain capital expenditures it has incurred, and through the reimbursement, funds are made available for HOC to fund its Programs. The single family program was the first to utilize the 2019 Indenture. Its creation solved for a \$30 million shortfall in volume cap that would have been necessary for a typical tax-exempt, private activity single family bond issuance.

Further, CMA has applied its creativity in the development of the Montgomery County funded \$50 million Housing Production Fund (“HPF”), which was approved by the Commission in May 2021. This fund will provide revolving, low-cost, construction-period financing to HOC’s developments. To fund the HPF and subject to annual appropriation, the County will make annual principal and interest payments of no more than \$3.4 million. This pledge in a Funding Agreement, which funded a bond issuance of \$50 million of HOC-issued bonds. The bonds will be repaid over twenty years, after which the fund will continue to revolve at no additional cost to the County. At \$50 million, the HPF will fund the construction of approximately 3,500 affordable multifamily units over the 20-year life of the bonds.

**Procurement**

The Commission’s current procurement policy provides for the selection of a financial advisor for an initial four-year term and two (2) additional one-year terms.

On March 28, 2022, RFP #2318 for firms to provide financial advisory services to the Commission was published on HOC’s website and electronically mailed to 24 financial advisory firms. On April 18, 2022, staff received one (1) response from Caine Mitter.

Upon review of CMA’s proposal it was determined that it met the minimum qualifications, as noted in RFP #2318, which are listed below.

<i>Minimum Qualifications</i>	<i>Requirement</i>
Prior Experience	Fifteen (15) years of continuous experience in providing financial advisory service to Housing Finance Agencies (“HFAs”); 15 years of continuous experience with at least five (5) local and/or state HFAs; and, experience during the past five (5) years working with HFA programs that involved a variety of single family and multifamily housing bonds issued in stand-alone or under parity indentures and secondary market financings (such as TBA), involving typical and innovative structures.
Insurance Requirements	Ability to meet HOC’s insurance requirements for commercial general liability, umbrella liability, professional/management liability, automobile liability, fidelity bond or crime, worker’s compensation, and cyber insurance.
Capacity	Demonstrate capacity of performing the potential volume and type of services, as required by HOC, and must be available at all times to render services required under the contract.
Registered Municipal Advisor	Be a registered Municipal Advisor pursuant to requirements of the Municipal Securitized Rulemaking Board, and at least one (1) member of the team must have passed the MSRB’s Municipal Advisor Representative Qualification Examination (Series 50).
Technology	Demonstrate sufficient capacity to produce bond cash flows for housing finance programs for rating agencies, and must also demonstrate its capabilities for managing secondary market trades, as well as, analyzing and providing advice on derivative products for the Commission.

**Evaluation Consideration**

The evaluation criteria outlined in RFP #2318 are summarized below. Given that CMA was the sole respondent, it was determined that neither scoring nor an interview was necessary; nevertheless, CMA’s proposal was evaluated based upon the required criteria.

Financial Advisory Team (40%)	An evaluation of the qualifications, expertise, general reputation and ability to work with HOC of those individuals who will be responsible for the performance of the services; the financial advisory team's expertise in the fields of municipal finance in general, and housing financing in particular; and, the financial advisory team's availability for consultation with or advice to HOC during the contract period. Must also demonstrate knowledge of HOC's programs and financing methods.
Prior Experience in Public Finance and Related Areas (20%)	An evaluation of the quality and quantity of the financial advisor's significant experience and expertise in the area of public finance and related areas with emphasis on: (1) quality and relevance of prior experience in the field of housing finance, particularly with state and local HFAs; (2) quality and relevance of prior experience in or knowledge of public finance and the syndication and sale of bonds; and, (3) quality and relevance of knowledge of the programs and financing of the Commission.
Minority/Female/Disabled Participation (5%)	An evaluation of the extent and quality of the proposed participation by minority owned firms and minority persons in non-minority owned firms.
Presentation (10%)	An evaluation of the clarity, completeness, and responsiveness of the financial advisor’s written proposal and, if determined, oral presentation.
Location of Office (5%)	The location of an office in Montgomery County or elsewhere in the Baltimore, MD and Washington, DC metropolitan area.
Price (20%)	The reasonableness of offeror's rate and fee proposal.

A full summary of the proposal is included as Exhibit 1.

**The Proposal**

Staff has completed its review of the proposal, and Caine Mitter is suitable to serve as Financial Advisor to the Commission. Headquartered in New York, New York, CMA’s team has a collective 130 years of combined relevant financial advisory experience in municipal housing finance, investment banking, bond trading, derivative products, and software development, and has worked with HFAs in 32 states. Its team has advised state and local HFAs on over 2,120 single family and multifamily bond issues, totaling almost \$92 billion and on almost \$25 billion of Mortgage Backed Securities (“MBS”) transactions. These bond issuances have financed multifamily housing, single family housing, and public infrastructure, and have involved the sale of bonds through competitive sale, negotiated sale, and private placement and have included both tax-exempt and taxable bonds. Over the past five (5) years, CMA has advised on 540 single family and multifamily financings combined, totaling almost \$32 billion.

CMA has significant cash flow preparation experience, completes stress runs for all the major rating agencies, and advises on the timing and selection of bonds being redeemed or refunded in order to optimize current and future cash flows and income to the HFA. It is also a leading swap advisor to HFAs, having advised on 171 swap transactions with a total notional amount of over \$3.8 billion. CMA has extensive experience working with and is in constant contact with all three (3) major municipal bond rating

agencies. And, it has consulted with over 20 bond counsel firms to ensure compliance with federal and state tax laws.

The firm's staff of 15 professionals, managers and officers is made of 10 men of which three (3) are people of color (African American, Hispanic, Asian), and five (5) women of which two (2) are Asian and one (1) is African American.

Caine Mitter submitted all required information, and responded satisfactorily to questions concerning knowledge, skills, and abilities.

***Fees***

The fee proposal submitted by CMA was evaluated in five (5) categories: (1) Financial Advisory Services; (2) Cash Flow Analysis, Yield Calculations, Computer Charges; (3) Other Services; (4) Hourly Fees; and, (5) Expense Reimbursements. With Financial Advisory Services making up the bulk of the financial advisor's fee, the fees proposed represent a 20% increase since the last procurement in 2017, as fees did not increase during the existing contract term between 2017 - 2022. The rate of inflation over the course of the last five (5) years is 25.1%, according to the U.S. Inflation Calculator. Fees for the remaining categories increased on average by 23%, while Expense Reimbursements remain at cost for travel and lodging.

**Conclusion**

Staff proposes that Caine Mitter is approved as the Commission's financial advisor for a new contract term. Staff further proposes that the Commission authorize the Executive Director to negotiate and execute a contract fee not to exceed \$500,000 annually.

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**ISSUES FOR CONSIDERATION:**

1. Does the Development & Finance Committee wish to support staff recommendation to the Commission to and select Caine Mitter & Associates Incorporated as its financial advisor for a new contract term, in accordance with RFP #2318?
2. Does the Commission wish to support staff recommendation to authorize the Executive Director to negotiate and execute a contract with Caine Mitter and Associates Incorporated for an annual amount of up to \$500,000 annually at the discretion of the Commission?

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**PRINCIPALS:**

Housing Opportunities Commission  
Caine Mitter & Associates Incorporated

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**BUDGET IMPACT:**

There is no impact to the Commission's operating budget, in general. The Financial Advisor is paid from revenues in the Single Family Indenture and from proceeds of each multifamily financing. Fees paid to the Financial Advisor are included in the cost of issuance budget for each transaction and approved by the Commission.

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**TIME FRAME:**

For discussion at the meeting of the Development and Finance Committee on May 27, 2022 and action at the June 8, 2022 meeting of the Commission.

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**STAFF RECOMMENDATION & COMMISSION ACTION NEEDED:**

Staff recommends that the Development and Finance Committee recommend that the Commission approve Caine Mitter and Associates Incorporated to serve as Financial Advisor to the Housing Opportunities Commission for a new contract term in accordance with the Procurement Policy for an initial term of four (4) years with two (2) one-year renewals.

Staff further recommends that the Development and Finance Committee recommend that the Commission authorize the Executive Director to negotiate and execute a contract with Caine Mitter and Associates Incorporated for an annual amount of up to \$500,000 annually.