



10400 Detrick Avenue
Kensington, MD 20895-2484
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DEVELOPMENT AND FINANCE COMMITTEE

December 16, 2022
10:00 a.m.

YouTube Link: <https://youtu.be/C839GsLL5jw>

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Minutes

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY

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

Development and Finance Committee Minutes

November 18, 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 a hybrid model on November 18, 2022, with some participating by online platform/teleconference, and others participating in-person at 10400 Detrick Avenue, Kensington, Maryland beginning at 10:11 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

Chelsea Andrews, Executive Director
Aisha Memon, General Counsel
Marcus Ervin

Kayrine Brown, Deputy Executive Director
Paige Gentry, Deputy General Counsel
Richard Congo

Attending via Zoom

Timothy Goetzinger
Victoria Dixon
Jay Shepherd
John Broullires
Frederick Colas

Jennifer Washington
Gio Kaviladze
Leidi Reyes
Ellen Goff
Fozia Malik

IT Support

Irma Rodriques
Aries Cruz
Genio Etienne

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 and Executive Director Chelsea Andrews.

APPROVAL OF MINUTES

The minutes of the October 24, 2022, Development and Finance Committee open session meeting 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. Emory Grove: Approval of a Predevelopment Budget and for HOC to Fund a Predevelopment Loan to Emory Grove United Methodist Church (“EGUMC”) for Design, Entitlement, and Permitting of the Aggregated EGUMC Parcel

Chelsea Andrews, Executive Director, provided an overview and introduction of Marcus Ervin, Director of Real Estate, Zachary Marks, Chief Real Estate Officer, and Jay Shepherd, Housing Acquisitions Manager, who provided the presentation requesting recommendation to the full Commission to (1) authorize the Executive Director to negotiate and enter into a development services agreement between HOC and EGUMC on terms as outlined; and (2) approve a predevelopment budget and loan to the project sponsor.

Staff addressed the various questions of the Commissioners. A motion was made by Commissioner Merkowitz, and seconded by Commissioner Nelson, to recommend to the full Commission for approval with the requirement that staff include additional information on standard termination clauses. Affirmative votes were cast by Commissioners Nelson and Merkowitz. Commissioner Simon abstained.

2. VPC One and VPC Two: Approval of Amended Finance Plan

Chelsea Andrews, Executive Director, provided an overview and introduction of Jennifer Washington, Acting Director of Mortgage Finance, and Jeremiah Battle, Senior Multifamily Underwriter, who provided the presentation requesting recommendation to the full Commission to (1) amend the refinancing plan of VPC One and VPC Two in order to extend the maturity and payment terms of the existing loan; (2) authorize the re-issuance of tax-exempt indebtedness; (3) authorize use of cash from the VPC Debt Service Reserve that is held in the Opportunity Housing Bond fund to pay the financing costs of the extension; and (4) authorize the Executive Director to negotiate and execute all related transactional documents to effect closing, including any and all related tax documents.

Staff addressed questions of the Commissioners. A motion was made by Commissioner Nelson, and seconded by Commissioner Merkowitz, to recommend to the full Commission for approval. 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 meeting adjourned at 11:48 a.m.

Respectfully submitted,

Chelsea Andrews
Secretary-Treasurer

/pmb

Discussion/Action Items

MEMORANDUM

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

VIA: Chelsea J. Andrews, Executive Director

FROM: Staff: Jennifer Hines Washington Division: Mortgage Finance Ext. 9760

RE: **Mortgage Finance:** Approval to Extend the Existing Contracts of the Bond Underwriting Team Consisting of a Senior Manager and Co-Managers in Accordance with the Procurement Policy

Date: December 16, 2022

STATUS: Consent _____ Deliberation X Status Report _____

OVERALL GOAL & OBJECTIVE:

To extend the term of the underwriter services contracts with Bank of America Merrill Lynch, PNC Capital Markets, LLC, Jefferies, LLC, Morgan Stanley, RBC Capital Markets, and Wells Fargo Bank, N.A. (the "Underwriters") for up to four (4) months in order to not disrupt work on an upcoming bond issuance, while staff completes a new procurement.

BACKGROUND:

On January 29, 2019, the Housing Opportunities Commission of Montgomery County (the "Commission") executed a contract with seven (7) firms to perform managing underwriting services. These firms were selected by a then Evaluation Committee (the "Committee") that comprised of two (2) Commissioners, the Executive Director, staff of the Mortgage Finance, Finance, and Executive divisions, and Caine Mitter & Associates Incorporated ("Financial Advisor"). The contracts were for an initial two (2) year term with two (2) optional one-year renewals for a maximum term of four (4) years. Each renewal to extend the contract, requires the Commission's approval in accordance with the Procurement Policy.

On June 29, 2020, M&T Securities ("M&T") notified HOC that its parent company, M&T Bank, had undertaken a thorough evaluation of its business to ensure its product and service offerings align with the strategic imperatives of both M&T Securities and M&T Bank. As a result, M&T no longer participates in the underwriting of public offerings of fixed-rate municipal bonds and has been removed from the HOC underwriting team, effective July 1, 2020.

On September 9, 2020, the Commission approved the first one-year renewal for the six (6) remaining Underwriters, and on September 1, 2021, the Commission approved the second and final of the two (2) renewals, which extend the contract through January 2023.

The Underwriters

Firm	Role
Bank of America Merrill Lynch	Senior Manger
PNC Capital Markets, LLC	Co-Senior Manager
Jefferies LLC	Co-Manager
Morgan Stanley	Co-Manager
RBC Capital Markets, LLC	Co-Manager
Wells Fargo Company	Co-Manager

The Underwriters help to structure HOC's bond issuances and market the bonds to retail and institutional investors to obtain the most favorable pricing so that the loans made with the proceeds of the bonds promote the financial feasibility of HOC's single family and multifamily financing programs. They commit to the Commission to purchase HOC bonds at an agreed upon price prior to the time of the sale regardless of whether they have successfully placed the bonds with investors.

The current group of Underwriters include a senior manager, a co-senior manager and four (4) co-managers. The senior manager leads the syndicate and, with the co-managers, sets the prices for the different series of bonds, takes orders from co-managers and the selling group, and allocates the bonds to investors and the underwriting team. This is known as "running the book" or managing the syndicate. All of the managers and the selling group are expected to sell bonds and are compensated by receiving a fee known as the "takedown" for the bonds they actually place with investors. Institutional investors generally place orders through the senior manager and designate which manager(s) will receive the takedown. Additionally, the senior manager receives a management fee and is reimbursed for certain expenses. The managers are also expected to present new financial structures and ideas that will enhance the Commission's ability to fund mortgage loans. Any member of the team that brings unique financing ideas that enhance the Commission's programs may be elevated to the role of senior manager for a bond issuance. Since the new contracts were executed, Jefferies, PNC and Wells Fargo have been elevated as senior manager for three (3) separate bond issuances.

Request to Extend Existing Underwriter Contracts

With the Commission's approval on November 16, 2022, staff is working in earnest on an approximate \$29 million multifamily bond issuance for Upton II or Residences on the Lane (the "Property") that will fund an estimated \$27.5 million permanent FHA Risk Share mortgage loan. Pricing of the bonds is expected to occur the week of February 6, 2023, bond closing will be on or about February 16, 2023, and the FHA Risk Share mortgage loan is expected to close the following day. The existing contract of our current Underwriter team expires on January 28, 2023. In order to not disrupt the Residences on the Lane transaction and the on-going work of the existing Underwriters, staff recommends that the existing contracts for our team of Underwriters be extended for up to four (4) months to allow for any slippage in the closing of the bonds.

Work to establish a new team of Underwriters is underway. In response to our Request for Proposal #2353 to serve as Managing Underwriter, on November 22, 2022 staff received responses from 12 institutions, and among them are the Commission's six (6) existing Underwriters. An Evaluation Team consisting of select Commissioners, the Executive Director, Mortgage Finance and Finance staff, and the Commission's Financial Advisor will recommend the new team of Underwriters to receive a new contract to the full board of the Commission. Interviews for qualified respondents and the final selection of the new team of Underwriters will conclude in January 2023.

ISSUES FOR CONSIDERATION:

Will the Development and Finance Committee join staff's recommendation to the Commission to grant its approval to extend the existing contracts with Bank of America Merrill Lynch, PNC Capital Markets, LLC, Morgan Stanley, RBC Capital Markets, Jefferies, LLC, and Wells Fargo Bank, N.A. for up to four (4) months?

PRINCIPALS:

Housing Opportunities Commission of Montgomery County
Bank of America Merrill Lynch
Jefferies, LLC
Morgan Stanley
PNC Capital Markets, LLC
RBC Capital Markets
Wells Fargo Company

BUDGET IMPACT:

There is no direct impact on HOC's operating budget. Underwriters are compensated from the proceeds of a bond issuance or from revenues in the respective bond indentures.

TIME FRAME:

For discussion at the meeting of the Development and Finance Committee on December 16, 2022 and for formal action at the January 11, 2023 meeting of the Commission.

STAFF RECOMMENDATION & COMMISSION ACTION NEEDED:

With the acknowledgement that a new procurement is underway, staff requests that the Development and Finance Committee join its recommendation to the Commission to approve an extension for up to four (4) months of the existing contracts with Bank of America Merrill Lynch, PNC Capital Markets, LLC, Morgan Stanley, RBC Capital Markets, Jefferies, LLC, and Wells Fargo Bank, N.A. to continue to serve as Underwriters to the Housing Opportunities Commission pursuant to the terms of the original contract of January 2019 and in accordance with the Procurement Policy.

HOC HEADQUARTERS: APPROVAL TO SELECT A GENERAL CONTRACTOR

PURPOSE-BUILT HEADQUARTERS



CHELSEA J. ANDREWS, EXECUTIVE DIRECTOR

Zachary Marks, Chief Real Estate Officer
Marcus Ervin, Director of Development
Jay Shepherd, Housing Acquisitions Manager

December 16, 2022

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Executive Summary

The Housing Opportunities Commission of Montgomery County ("HOC" or the "Commission"), a public body subject to the statutory provisions for mandatory referral review under Sections 20-301, et. of the Land Use Article of the Maryland Code (2012, as amended), is planning to construct its new headquarters office building ("Building" or "HOC HQ") at the southeast corner of the intersection of Second Avenue and Fenwick Lane in Downtown Silver Spring.

The proposed nine (9) story building is designed with the top floor as a +/- 3,500 square feet amenity floor for all building occupants. The main entrance to the lobby is at the corner of Fenwick Lane & Second Avenue. Overall building height is set to be approximately 132 feet. On April 3, 2019, HOC authorized the Executive Director to execute a Development Agreement and Ground Lease with Promark for the joint development of Property, engaged Design Collective, Inc. for architectural services to design and entitle, and administer construction for the HOC HQ, and subsequently, on May 6, 2020, approved pursuing site development approval for the New HQ under Mandatory Referral.

On August 7, 2020, the first application of the two-step Mandatory Referral process, the Location Review Application, was submitted to Montgomery County Planning Board, and on November 12, 2020, it was unanimously approved. Subsequently, the Mandatory Referral Site Design and Architecture Application were approved on April 15, 2021, and the Administrative Subdivision Plan was approved on May 17, 2021. On May 4, 2022, the Commission approved a revised total predevelopment budget of \$5,020,756 for the design and entitlement of the New HQ and the Approval of the Construction Manager to negotiate and enter into a contract with JLL for construction management services that obligates HOC only for the pre-construction phase.



General Contractor Selection

Design team has completed Construction Development documents and submitted them for Building Permits to finalize permitting and start construction in 2Q 2023.

Staff are working on the Final Development and Financing Plans and will return to the Commission in March 2023.

Staff solicited through RFP #2340 a request for general contracting services to construct HOC HQ.

Staff Recommendation: approval to select Paradigm Contractors, LLC as the General Contractor ("GC") and authorize the Executive Director to negotiate a Guaranteed Maximum Price ("GMP") contract.

Selection of a General Contractor - Criteria

HOC's Procurement Office issued a Request for Proposal (RFP #2340) for general contracting services for HOC Headquarters in accordance with HOC's Procurement Policy. RFP #2340 was released on August 24, 2022, with a due date of November 4, 2022. The RFP was posted to HOC's website and distributed to more than 300 vendors registered in the Montgomery County Central Vendor Registration System ("CVRS"). The applicable vendors receive a notification via the system that there is a solicitation for their review and potential response. A pre-proposal meeting and conference was held virtually on August 31, 2022. Eight (8) firms attended the pre-bid conference. However, the pre-bid conference does not reveal whether a firm intends to submit a response to the RFP.

The scope of work outlined in RFP #2340 included the base building construction, as well as HOC's office interior fit-out. The scoring team received written instructions prior to scoring and currently consists of staff from Risk Management, Facilities, and Real Estate divisions, as well a Promark representative (together, the "General Contractor Scoring Team") who reviewed the responses on November 21, 2022. After corresponding with some of the firms in attendance at the pre-bid conference, they stated that due to the lack of capacity, they did not respond to the solicitation. The Proposals were scored on the following: five (5) evaluation criteria. The maximum points a proposal could receive is 100.

Qualifications/Exp. (Max. 45 Points)	Price (Max. 30 Points)	Additional MFD Participation (Max. 15 Points)	References (Max. 5 Points)	Financial Strength (Max. 5 Points)
Demonstrated experience with projects involving: i) high-rise commercial and/or projects of similar complexity, ii) achieving energy standards beyond code requirements, iii) high performance construction standards and certifications, iv) experience on projects in the Baltimore-Washington Metropolitan area with a preference for Montgomery County.	Lowest priced bid reflecting full project scope shall be awarded full percentage point (30%). For each percentage point that a bid exceeds the lowest full scope bid, that comparative bid's score shall be reduced by 2% (i.e. if a comparative bid is 6% higher than the lowest bid, that comparative bid shall lose 12% in this selection criterion).	The 15% of MFD scoring shall be subdivided in two areas. The first is the GC's direct MFD efforts (5% Direct MFD). All firms can receive 5% MFD effort and any respondents that are a certified MFD firm are awarded the full 5% as well. The second area is MFD subcontractors (10% MFD Subcontracting). Respondents who meet the MFD requirement (i.e., 25%) will score 0% , >25% – 29% will receive 5%, and 30% or above will receive the full 10%.	Reference checks were conducted to evaluate and verify past performance regarding ability for on-time completion and change order management.	Provide confirmation of Respondent performance and payment bond ability for the project from a surety of AM Best class "IX" or higher bearing a minimum AM Best "A" rating or better.

In response to RFP# 2340, HOC received two (2) responsive proposals by the deadline of November 4, 2022, at 12:00 pm, which are listed below. Two (2) additional bids were deemed non-responsive due to their proposal being submitted after the deadline and the completeness of materials.

Paradigm Contractors, LLC (“Paradigm”)

Paradigm has over 30 years of experience in construction. They share with their clients the desire to construct the highest quality buildings in the most timely and cost-effective manner, offering a distinct competitive advantage. Moreover, Paradigm has provided general contracting services for the HOC project Residences on the Lane, formerly HOC at the Upton II. Paradigm’s total value of work billed by the organization in each of the last three (3) years are listed below:

(Values rounded to the nearest \$10,000.)

2021: \$ 110,730,000

2020: \$ 120,070,000

2019: \$ 203,010,000



Southway Builders, Inc. (“Southway”)

Southway is a construction management firm serving public, private, and non-profit clients throughout the Mid-Atlantic. Founded in 1991, Southway delivers award-winning historic restoration, commercial, multifamily, adaptive reuse, and institutional projects. Headquartered in Baltimore, the firm is strongly rooted in the communities in which it serves. Southway’s total value of work billed by the organization in each of the last three (3) years are listed below:

(Values rounded to nearest \$10,000.)

2021: \$ 152,303,000

2020: \$ 107,430,000

2019: \$ 105,646,000



General Contractor RFP and Selection - Scoring

Paradigm scored higher with 91 points. The scores below reflect the average of the individual scores from each General Contractor Scoring Team member. The results of the Scoring Team are summarized below.

Rank	General Contractor	Qualifications (Maximum 45 Points)	Additional MFD Participation (Maximum 15 Points)	References (Maximum 5 Points)	Financial Strength (Maximum 5 Points)	Price (Maximum 30 Points)	Total (Maximum 100 Points)
1	Paradigm	43	10	5	5	28	91
2	Southway	27	5	4	5	30	71

Qualifications:

- Paradigm’s proposal included predominantly high-rise new construction projects within the area with energy goals beyond the code minimum, resulting in the highest score.
- Southway’s proposal did not demonstrate projects of similar complexity or high-rise new construction. However, its proposal included many projects in the area with energy goals beyond the code minimum.

MFD Participation:

- Paradigm’s subcontractor plan included 25.31% MFD participation.
- Southway’s subcontractor plan included 15.94% MFD participation.
- Both respondents demonstrated direct MFD efforts as specified within the RFP.

References:

- HOC has experience with Paradigm on Residences on the Lane, formerly Upton II. The references also spoke highly of Paradigm’s expertise and knowledge regarding the ability for on-time completion, change order history, and quality assurance and control.
- HOC does not have prior experience with Southway. The references spoke well regarding its ability for on-time completion and change order history; however, there was some concern with quality assurance and control.

Financial Strength:

- Both Paradigm and Southway demonstrated financial strength, which included the payment and performance bond letter from the surety.

General Contractor RFP and Selection – MFD and Pricing

General Contractor	Direct MFD Efforts	MFD Subcontracting	MFD Contract Amount	Pricing
Paradigm	Demonstrated commitment to employ MFD personnel MFD related commitments, which include evidence of training and internship programs	25.31%	\$12,463,055	\$49,248,083
Southway	Demonstrated commitment to employ MFD personnel MFD related commitments, which include evidence of training and internship programs	15.94%	\$7,791,366	\$48,892,380

MFD Participation:

- Both respondents demonstrated direct MFD employment efforts for the first area of consideration, which was worth five (5) points.
- For the second area of consideration, Paradigm’s subcontractor plan included 25.31% MFD participation, which was worth five (5) points.
- Southway’s subcontractor plan included 15.94%, which was worth zero (0) points.
- Therefore, Paradigm achieved 10 points, and Southway earned 5 points for the Additional MFD participation.

Pricing:

- Both respondents scored very high regarding the pricing criteria, as their costs differed by less than 1% or \$355,703.
- Southway achieved 30 points with the lowest pricing, and Paradigm scored 28 points per the RFP scoring criteria.

Development Budget – Comparison

HOC HQ: DEVELOPMENT BUDGET SUMMARY

	Total Predevelopment	Total during Construction	Total (\$)	Per GSF	4/28/2022	Change
HARD COSTS						
CONSTRUCTION						
Base Building & Site Work, including Tenant Fit-out	-	49,250,000	49,250,000	599.00	33,049,480	16,200,520
Equipment - Low Voltage	-	1,201,900	1,201,900	14.62	850,000	351,900
FF&E	-	2,472,500	2,472,500	30.07	2,150,000	322,500
FF&E - Artwork	-	205,550	205,550	2.50	184,995	20,555
Signage (outside GC contract)	-	172,500	172,500	2.10	150,000	22,500
Garage 7 Solar Project	-	-	-	-	0	0
HazMat Abatement	-	-	-	-	0	0
Total CONSTRUCTION	-	53,302,450	53,302,450	648.29	36,384,475	16,917,975
Total OFF-SITE WORK	-	665,000	665,000	8.09	500,000	165,000
Total UTILITY FEES	1,025,121	-	1,025,121	12.47	988,541	36,580
Hard Cost Contingency	-	2,749,629	2,749,629	33.44	2,272,381	477,248
Hard Cost Escalation	-	1,649,777	1,649,777	20.07	3,029,841	(1,380,064)
TOTAL HARD COSTS	1,025,121	58,366,856	59,391,977	722.35	43,175,238	16,216,738
SOFT COSTS						
Total ARCHITECTURAL & ENGINEERING, CONSULTANTS	2,175,125	340,000	2,515,125	30.59	2,470,125	45,000
Total PERMITS & FEES	1,051,189	30,000	1,081,189	13.15	1,081,189	-
Total INSPECTIONS & TESTING	-	400,000	400,000	4.86	400,000	-
Total MARKETING	-	-	-	-	-	-
Total OTHER SOFT COSTS - CONSTRUCTION MANAGER	60,000	554,440	614,440	7.47	450,000	164,440
Total LEGAL	360,000	-	360,000	4.38	360,000	-
Total GENERAL & ADMINISTRATIVE	421	9,579	10,000	0.12	10,000	-
Total INSURANCE	190,000	80,000	270,000	3.28	200,000	70,000
Total TAXES DURING CONSTRUCTION	-	180,909	180,909	2.20	180,909	-
Soft Cost Contingency	78,900	247,000	325,900	3.96	309,133	16,766
Total Soft Costs Before Development Fee	3,915,635	1,841,928	5,757,563	70.03	5,461,357	296,206
Development Fee	-	3,257,477	3,257,477	39.62	2,431,830	825,647
TOTAL SOFT COSTS BEFORE FINANCING	3,915,635	5,099,405	9,015,040	109.65	7,893,187	1,121,854
TOTAL DEVELOPMENT COSTS BEFORE FINANCING	4,990,756	63,466,261	68,457,017	832.61	51,118,425	17,338,592
FINANCING COSTS						
TOTAL FINANCING COSTS	30,000	2,445,996	2,475,996	30.11	1,869,145	606,851
TOTAL DEVELOPMENT COSTS	5,020,756	65,912,257	70,933,013	862.72	52,987,570	17,945,443

Budget includes 5% Hard Cost Contingency and 3% Escalation Contingency

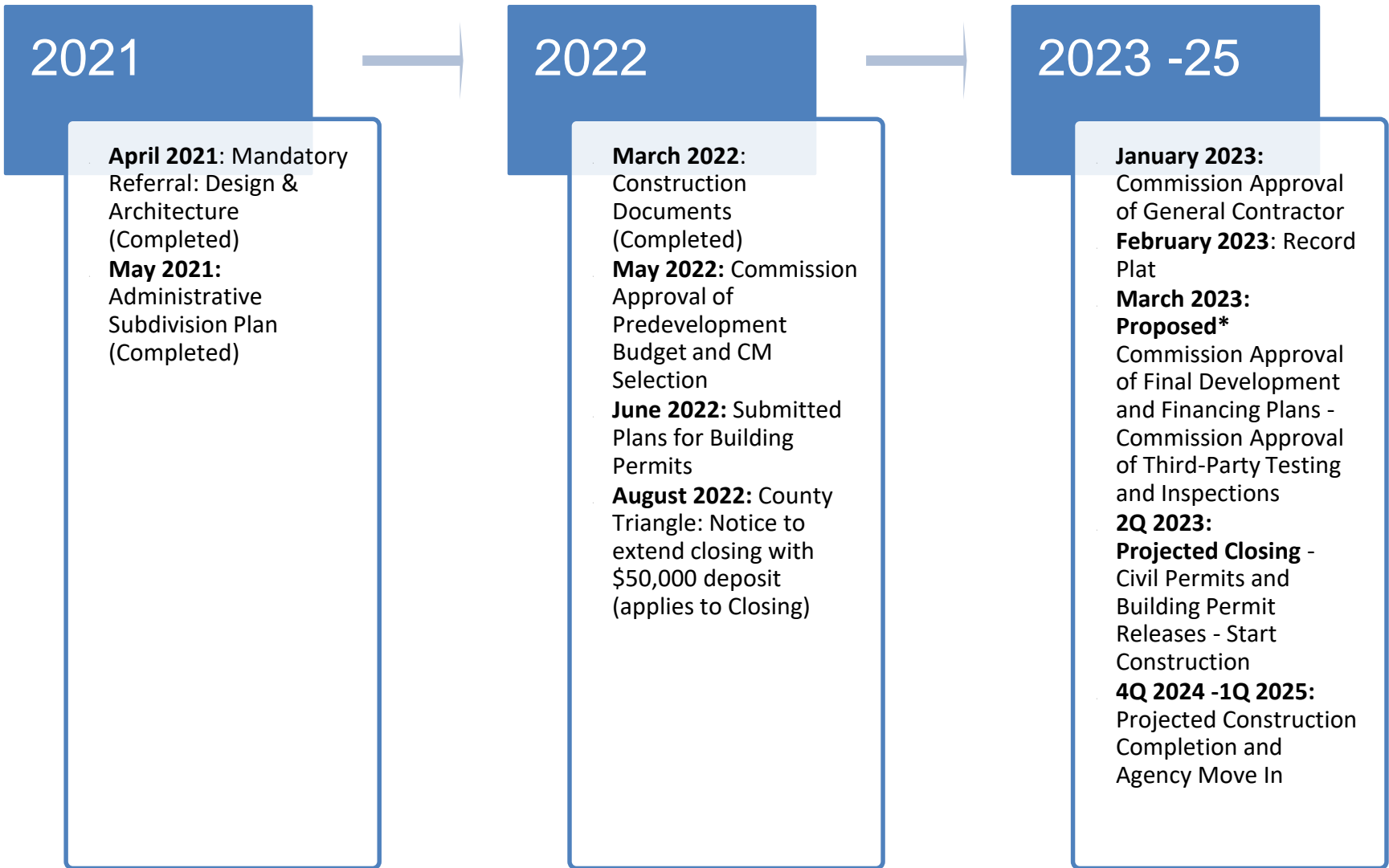
"Other Soft Costs" include both CM and Relocation.

Hard Cost increases are \$16.2MM and result from increased material and labor costs, omissions in the GC pre-construction budget, and greater allowances for contingencies, and change to an all concrete structure from a steel structure (Commission gains flexibility to convert to housing in the future). The Base Building & Site Work cost includes Tenant Fit-out. The total cost, on a per GSF overall is comparable to currently projected Class A buildings in the metropolitan area with similar floorplate size, height and type of construction material.

Soft Cost increases are \$1.1MM and are primarily driven by permits, fee requirements, and continued market price inflation.

Financing Cost increases are \$600,000 and are expectations for higher interest rates in the calculations. It is still contemplated that the Commission will issue tax-exempt governmental bonds under the 2002 Multiple Purpose Indenture to finance a construction and permanent mortgage.

Development Timeline



Prior Commission Actions Related to HOC HQ

RESOLUTION No. 18-69AS – On September 5, 2018, the Commission approved the Predevelopment Budget in the Amount of \$2,116,000 for the Design and Entitlement of Fenwick & Second; Approval to Draw on the \$60 million PNC Bank, N.A. Line of Credit (the “PNC \$60MM LOC”) to Fund the First Installment of Predevelopment Funding in the amount of \$264,500.

RESOLUTION No. 19-45AS₁ – On April 3, 2019, the Commission approved entering into a Ground Lease with Fenwick Silver Spring, LLC, and a Development Services Agreement with Promark Development, LLC for the Development and Ownership of HOC’s New Headquarters Building and Approval of the Architect Selected to Complete Design and Construction Management for the Development. The resolution also authorizes the Executive Director to negotiate and enter into a contract with Design Collective, Inc. for architectural services in an amount not to exceed \$1,100,000 from the \$60MM PNC Bank, N.A. Line of Credit.

RESOLUTION No. 20-37A – On May 6, 2020, the Commission approved the submission of a Mandatory Referral Application for the New HQ, revised the FY21 predevelopment budget for the New HQ to \$2,650,150, and approved the expenditures for CY20 under the second installment of predevelopment funding for \$793,800.

RESOLUTION No. 21-19 (A & B) – On February 3, 2021, the Commission approved a revised total predevelopment budget of \$2,908,300 for the design and entitlement of the New HQ and the use of the PNC Bank, N.A. Line of Credit as the source to fund the final installment of \$750,000.

RESOLUTION No. 22-33 (A & B) – On May 4, 2022, the Commission approved a revised total predevelopment budget of \$5,020,756 for the design and entitlement of the New HQ and the use of the PNC Bank, N.A. Line of Credit as the source to fund the final installment of \$2,112,456 and Approval of the Construction Manager Selected to Complete Construction Management for the Development. The resolution also authorized the Executive Director to negotiate and enter into a contract with JLL for construction management services that obligates HOC only for the pre-construction phase.

Summary and Recommendations

ISSUES FOR CONSIDERATION

Does the Development and Finance Committee wish to join staff's recommendation that the Commission approve the selection of Paradigm Contractors, LLC as the general contractor for the redevelopment of the Fenwick and Second parcel known as the HOC HQ site and authorize the Executive Director to negotiate Guaranteed Maximum Price ("GMP") contract with Paradigm Contractors, LLC?

BUDGET/FISCAL IMPACT

There is no adverse impact on the Commission's FY2023 Operating Budget.

TIME FRAME

For discussion at the December 16, 2022 meeting of the Development and Finance Committee and formal action in an open meeting of the Commission on January 11, 2023.

STAFF RECOMMENDATION AND COMMISSION ACTION NEEDED

Staff requests that the Development and Finance Committee join its recommendation to the Commission to approve The selection of Paradigm Contractors, LLC as the general contractor for the redevelopment of the Fenwick and Second parcel known as the HOC HQ site and authorize the Executive Director to negotiate a contract with Paradigm Contractors, LLC.

HILLANDALE GATEWAY: AUTHORIZATION TO EXECUTE A CONTRACT WITH CBG BUILDING GROUP AND PROVIDE LIMITED NOTICE TO PROCEED FOR EARLY START CONSTRUCTION WORK; APPROVAL OF EARLY START BUDGET AND FUNDING

10100, 10110, 10120, AND 10140 NEW HAMPSHIRE AVE, SILVER SPRING, MD



CHELSEA J. ANDREWS, EXECUTIVE DIRECTOR

**Kathryn Hollister, Senior Financial Analyst
Gio Kaviladze, Senior Financial Analyst
Marcus Ervin, Director of Development
Zachary Marks, Chief Real Estate Officer**

December 16, 2022

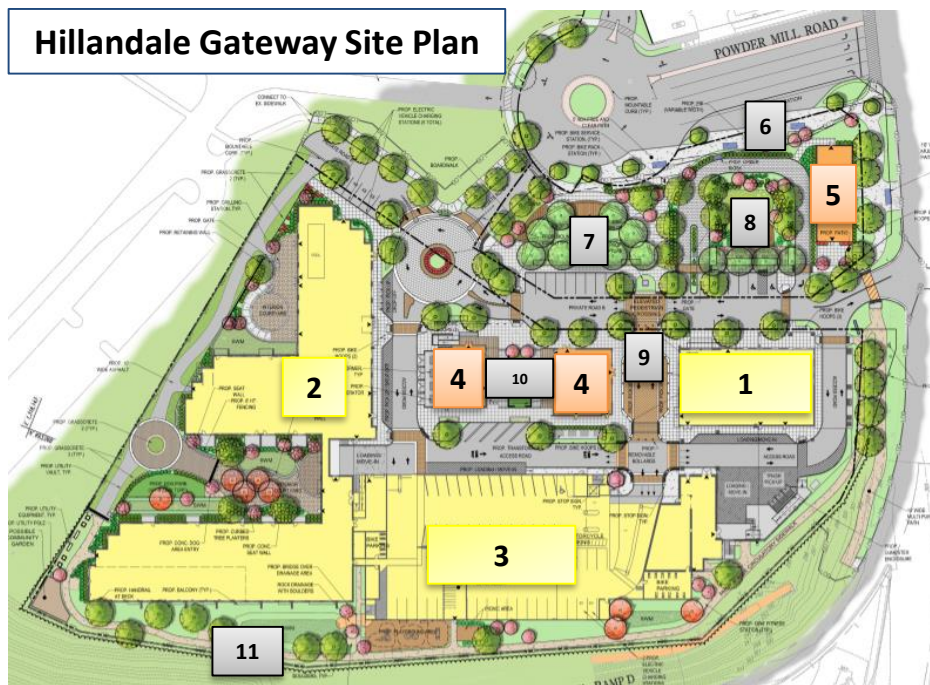
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Background

Hillandale Gateway will be a new mixed-use, mixed-income, multigenerational community located at 10100, 10110, 10120 and 10140 New Hampshire Avenue in Silver Spring, MD, on the site of Holly Hall Apartments, a former 96-unit Public Housing community. Hillandale Gateway will be the first major multifamily investment in the East County in decades and will create its first destination mixed-use community. Hillandale Gateway will also set the bar for innovation and energy efficiency in residential development in the mid-Atlantic.

Hillandale Gateway will include a total of 463 residential units. The development will comprise two residential buildings – one, a 155-unit Net Zero Energy, age-restricted (age 62+) senior building (“AR Building”); the other, a 308-unit Passive House, non-age restricted multifamily building (“NAR Building”). In addition to residential units, the site will have a drive-thru coffee shop, above-ground parking garage, commercial/retail/restaurant space, and public and private green space.



KEY

Buildings:

1. 155-unit Senior Building “AR”
2. 308-unit Multifamily Building “NAR”
3. Parking Garage
4. Retail Pads
5. Drive-thru Coffee Shop

Site:

6. Transit station
7. Open green with amphitheater/ event stage
8. Urban plaza and natural area
9. Festival street with removable bollards
10. Flexible lawn space and dining terraces
11. Perimeter loop path

Development Highlights

- **Affordability:** Hillandale Gateway will be a contemporary, amenity-rich mixed-income development in a location with convenient access to major arterials, services, recreational activities and amenities. Hillandale Gateway will provide a full spectrum of affordability, not only site-wide, but in the AR and NAR Buildings individually.
- **Economic Development:** Hillandale Gateway will bring worthy new amenities and improvements to the Hillandale neighborhood and eastern Montgomery County, and is intended to be the catalyst for achieving broader transformations in Hillandale, attracting the new restaurants, new shops, new residents, new businesses, and new jobs that the White Oak Science Gateway Master Plan specifically seeks to encourage.
- **Sustainability:** Hillandale Gateway will incorporate a variety of methodologies in an effort to set new benchmarks for sustainability and high-performance development in Montgomery County. By using Passive House construction methodologies, the energy consumption of the buildings will be significantly reduced. At the same time, the site will include a renewable energy system (in the form of rooftop solar on both the senior and multifamily building and on the parking garage), which the Development Team anticipates will be sufficient to allow the AR building to become a Zero-Net Energy building – producing as much energy as it consumes.
- **Resiliency:** During periods of grid outage, Hillandale Gateway will be used to provide a resiliency center for residents and the surrounding neighborhood. Resiliency hubs are designed to provide emergency heating and cooling capability; refrigeration of temperature sensitive medications; plug power for charging of cell phone, computer batteries, and certain durable medical equipment; and emergency lighting.
- **Public Open Space:** At the entrance of Hillandale Gateway will be a centralized green space (“Central Green”), usable by the public as well as residents, consisting of approximately 17,000 square feet of contiguous open space. This public open space will include an amphitheater and will be a centerpiece and foreground for the development, establishing a focal point for the multi-building project. The site will provide additional open space, walkable sidewalks, a "loop path", streetscaping, a programmable “Festival Street”, landscaping and other site improvements, all of which will be dispersed throughout the entirety of the site.
- **Transportation:** The Development Team intends to design and construct more than \$1 million in Local Area Transportation Improvement Program (“LATIP”) improvements along the frontage of the site on Powder Mill Road. The Development Team has worked closely with MCDOT to design a new bus transit center featuring a pedestrian-friendly drop-off area, bus shelters, restroom facilities for bus drivers, and other related infrastructure improvements. Another transportation feature is that the site will provide 70 electric vehicle (“EV”) charging stations within the structured parking garage, with the ability to electrify the entire garage (661 parking spaces) in the future.
- **Digital Equity:** HOC is partnering with the County to provide MoCoNet (free internet service) to residents in the AR Building; staff is also exploring providing this service to low-income residents at the NAR Building.

Executive Summary

General Contractor (“GC”) Contract

- It is common practice for HOC to enter into early start agreements (“Early Start Agreements”) with general contractors for its new construction and renovation transactions. An Early Start Agreement allows for a limited scope of construction to proceed prior to the full construction closing, and can help reduce overall development duration and project costs.
 - Examples of recent projects with Early Starts include: Willow Manor Properties, Georgian Court, Shady Grove, The Leggett (formerly known as Elizabeth House III) and Fenton Silver Spring (formerly known as 900 Thayer).
- Typically with Early Start Agreements, the Commission approves the full GC contract value (“Guaranteed Maximum Price” or “GMP” contract value) at the same time it approves the Early Start Agreement. In the case of Hillendale Gateway, staff is requesting approval of the portion of the general contract that covers the Early Start phase **only** and will return to the Commission in mid-2023 for approval of the full GMP contract value. Reasons for this two-step approach include:
 - Hillendale Gateway’s last repricing exercise (in June 2022) was at the height of historic construction cost increases and were based on Hillendale Gateway’s previous structural system design (Prescient). Per the September 14, 2022 Commission approval, Hillendale Gateway is currently being redesigned to a concrete structure. The redesigned permit set is expected to be approved in Q2-2023 and the switch to concrete is estimated to result in significant construction cost savings.
 - Construction prices are stabilizing and there are early signs that prices may start to come down.
 - The closer the pricing is to the date the actual work will be performed, the more aggressive subcontractors will be in their bids. There is a substantial amount of site work and long lead time items required prior to vertical construction, and repricing the vertical portion of the work closer to when the site is ready for vertical construction is expected to yield more competitive subcontractor bids.
- Staff is in the process of negotiating the major points of the two-phase contract with the GC (CBG Building Group). The cost of the Early Start work would not exceed \$11.5M.
- **Staff Recommendation: Execute a contract with CBG Building Group and provide a Limited Notice to Proceed with Early Start construction work for an amount not to exceed \$11.5M.**

Executive Summary

Early Start Budget and Funding

- For Hillandale Gateway, the benefits of an Early Start include:
 - 1) **maintaining the current development path, and**
 - 2) **positioning the development team to best manage construction cost risk.**
- The Early Start scope of work proposed for Hillandale Gateway consists of all work needed to bring the site ready for vertical construction and includes buying out critical path trades and long lead items.
- The cost of the Early Start is \$14.5M and includes hard construction costs (\$11.5M, as discussed on the previous slide), soft costs, and contingency.
 - Only 50% of the Early Start costs are projected to be drawn before the full construction closing; however, staff is requesting the entire Early Start budget be obligated in case the construction closing is significantly delayed.
- Staff recommends using the Housing Production Funds (“HPF”) as the source for the Early Start, as Hillandale Gateway meets the funding and affordability requirements of the program.
- **Staff Recommendation: Approve the Early Start budget for Hillandale Gateway and authorize the use of the HPF as the Early Start funding source.**

Project Status & Current Development Path

At the September 14, 2022, Commission meeting, the Commission approved the change in Hillandale Gateway’s structural system from Prescient to concrete. As discussed at that meeting, the switch pushed back the building permit approval by 6-8 months but does not impact the overall start date for vertical construction, given the extent of site work and long lead-time items that must precede vertical construction (see the table below on the right). Approval of an Early Start allows the development timeline to stay on schedule and has the added benefit of allowing the development team to manage construction costs, as it provides time for construction prices, which have seen historical increases over the past 12+ months, to cool. CBG has seen construction prices stabilize over the past month and there are early signs that prices may start to come down. Certain materials like lumber have already seen price reductions. Other indicators that costs may come down include reduction in material lead times and subcontractors proactively reaching out to GCs for work.



Early Start Keeps Vertical Construction Timeline on Track

	<u>Site Work Start</u>	<u>Site Work End</u>	<u>Permit Issuance</u>	<u>Vertical Start</u>	<u>Vertical Start Delay</u>
Stay with Prescient	1-2023	11-2023	9-2022	12-2023	0 Months
Switch to Concrete	1-2023	11-2023	6-2023	12-2023	0 Months

Since the September Commission meeting, the development team has been working toward revising Hillandale Gateway’s permit set and is on track to resubmit it to the Department of Permitting Services (“DPS”) in January 2023. Building permits are expected to be approved in Q2 2023.

Staff requests an Early Start approval to ensure the shortest development duration and yield project timing and cost management advantages.

Proposed Predevelopment Timeline



GC Contract

In March 2022, the Commission approved the selection of CBG Building Company (“CBG”) as the general contractor (“GC”) for Hillandale Gateway and authorized negotiation of the contract.

Staff has negotiated the significant points of a two-phase contract and is requesting approval to execute the contract once negotiations are finalized. The contract would allow for a limited notice to proceed (“LTNP”) for early start construction work (“Early Start”) in an amount not to exceed \$11.5M. The cost of the Early Start construction work as of December 6, 2022 (\$11,036,258 or 4.26% of total budget) is shown on the top right.

The contract’s LNTN will authorize CBG to prepare the site for vertical construction. The Early Start scope of work includes, but is not limited to: mobilization, buying out critical path materials and subcontractors, site grading, sediment control measures, installation of dry and wet utilities, and road improvements.

Staff will return to the Commission in mid-2023 for approval of a Guaranteed Maximum Price for the GC contract (“GMP Amendment”) and to authorize a full notice to proceed (“NTP”) for the vertical construction of the project as part of the Final Development Plan. The development team believes the timing of the GMP will be beneficial to the project, as construction prices are stabilizing and there are early signs that prices may start to come down.

Sources and uses for the development of Hillandale Gateway is shown on the bottom right. Staff will bring the Hillandale Gateway Finance Plan to the Commission for approval prior to full construction closing.

Early Start Construction Contract Breakdown

Description of Work		Total Cost
Code	Item	
190-00	Net Construction Costs (021-00 Through 180-00)	\$8,961,693
200-00	Builder's General Overhead	\$1,077,548
210-00	Bond Premium (Sub Bonds - GC Bond Not Incl)	\$92,669
220-00	Builder's Profit	\$449,919
230-00	Other (Insurance)	\$132,060
010-00	General Requirements (from page 1)	\$119,200
230-01	Contractor Contingency	\$203,169
240-00	Total Construction Costs	\$11,036,258

Sources and Uses

USES OF FUNDS	AMOUNT	PER UNIT
Construction Contract	\$176,552,078	\$381,322
Construction Contingency	\$4,553,247	\$9,834
Construction Related Costs	\$13,969,775	\$30,172
Design & Engineering	\$9,157,487	\$19,779
Other Development Costs	\$26,017,609	\$56,194
Financing Fees & Charges	\$2,195,000	\$4,741
Construction Interest: Senior Loan	\$16,339,633	\$35,291
Construction Interest: Other Loans	\$7,201,273	\$15,554
Capitalized Operating Costs	\$1,023,915	\$2,211
Guarantees & Reserves	\$1,500,000	\$3,240
TOTAL USES OF FUNDS	\$258,510,017	\$558,337
SOURCES OF FUNDS	AMOUNT	PER UNIT
Senior Loan	\$150,938,366	\$326,001
HOC Equity	\$10,950,000	\$23,650
Tax Credit Equity	\$45,621,651	\$98,535
HIF Loan	\$16,000,000	\$34,557
HPF Loan	\$35,000,000	\$75,594
TOTAL SOURCES OF FUNDS	\$258,510,017	\$558,337

Early Start Budget and Funding

Early Start Budget

Staff is requesting approval of an Early Start budget and funding not to exceed \$14.5M. The Early Start scope of work proposed for Hillandale Gateway consists of all work needed to bring the site “ready” for vertical construction. It includes buying out critical path trades (earthwork, dry and wet utilities, etc.) and long lead times items (precast parking garage design, ductile iron pipes, etc.).

Early Start Budget	Cost
Hard Construction Costs (GC Contract Value)	\$11,500,000
Soft Costs	\$1,000,000
Contingency	\$2,000,000
TOTAL	\$14,500,000

The Early Start budget includes 1) hard construction costs in an amount not to exceed \$11.5M (the GC contract amount, as discussed on the previous slide), 2) soft costs related to the Early Start work (such a governmental and utility fees), and 3) contingency for unforeseen conditions.

Funding and HPF Requirements

Staff recommends the Early Start budget be funded by a loan from the Housing Production Fund (“HPF”). The HPF was the first-ever collaboration of its kind between the County and HOC. It created an innovative revolving source of construction financing that will help expand affordable housing in the County and is replicable for other localities.

The HPF can be used for new construction projects in which 20% of the units are affordable to households earning 50% of AMI, and 10% of the units are MPDUs. Hillandale Gateway exceeds these affordability requirements (in April 2022, the Commission approved a site-wide affordability mix of 25% at or below 50% AMI and, 16% at MPDU levels). Additional program requirements are listed to the right.

Required Affordability

- 10% of project units at MPDU rents (65% and 70% for garden and high rise, respectively)
- 20% of project units at 50% AMI

Project Interest Payments

- Rate fixed at 5%, interest only
- Projected payments fully capitalized
- Developer remits semi-annual interest payments to Trustee

Term of Investment

- Not longer than five years
- Repaid as part of refinancing

Program Control

- HOC determines target developments
- Each loan approval by an internal HOC Investment Committee
- Annual reporting to Council

County Payments

- Remits semi-annual to Trustee per Funding Agreement
- Receives semi-annual payments from Trustee (developer interest)

Commission Ownership

- Projects funded by the HPF owned or controlled by HOC or an affiliate
- Takeout financing will be presented with each HPF loan approval

Early Start: Benefits and Risks

Benefits

- Allows development activities to move forward—specifically, site work and long lead-time items that must precede vertical construction—while building permits are finalized in Q2 2023 (as discussed in more detail on slide 7).
- Reduces overall time until the project is built, stabilized and permanently financed, reducing carrying costs (e.g. ground lease payments, monthly project fees, etc.). In the case of Hillandale Gateway, an Early Start would result in approximately **\$450K in cost savings**, versus if construction did not mobilize until full construction closing (discussed in more detail on slide 12).
- Reduces the full construction financing duration of the project, making the project more attractive to construction lenders and LIHTC investors.
 - For example, even a 1 cent (\$0.01) increase in LIHTC pricing would generate an additional **\$500,000 in LIHTC equity** proceeds for the development.
- HPF is a competitively-priced financing source (fixed annual interest at 5%) and is almost on par with the Applicable Federal Rate.
- Use of the HPF allows other HOC sources (OHRF, RELOC, etc.) to be used for projects that may not qualify for HPF (renovations, acquisitions, projects that have not yet reached feasibility/entitlement, etc.).
- Unforeseen site conditions (e.g. underground issues that are uncovered during site work that must be mitigated prior to vertical construction) have the potential to significantly impact project costs and schedule. Uncovering these issues (if present) earlier in the process and prior to full construction closing brings more certainty to the development budget and timeline moving forward.

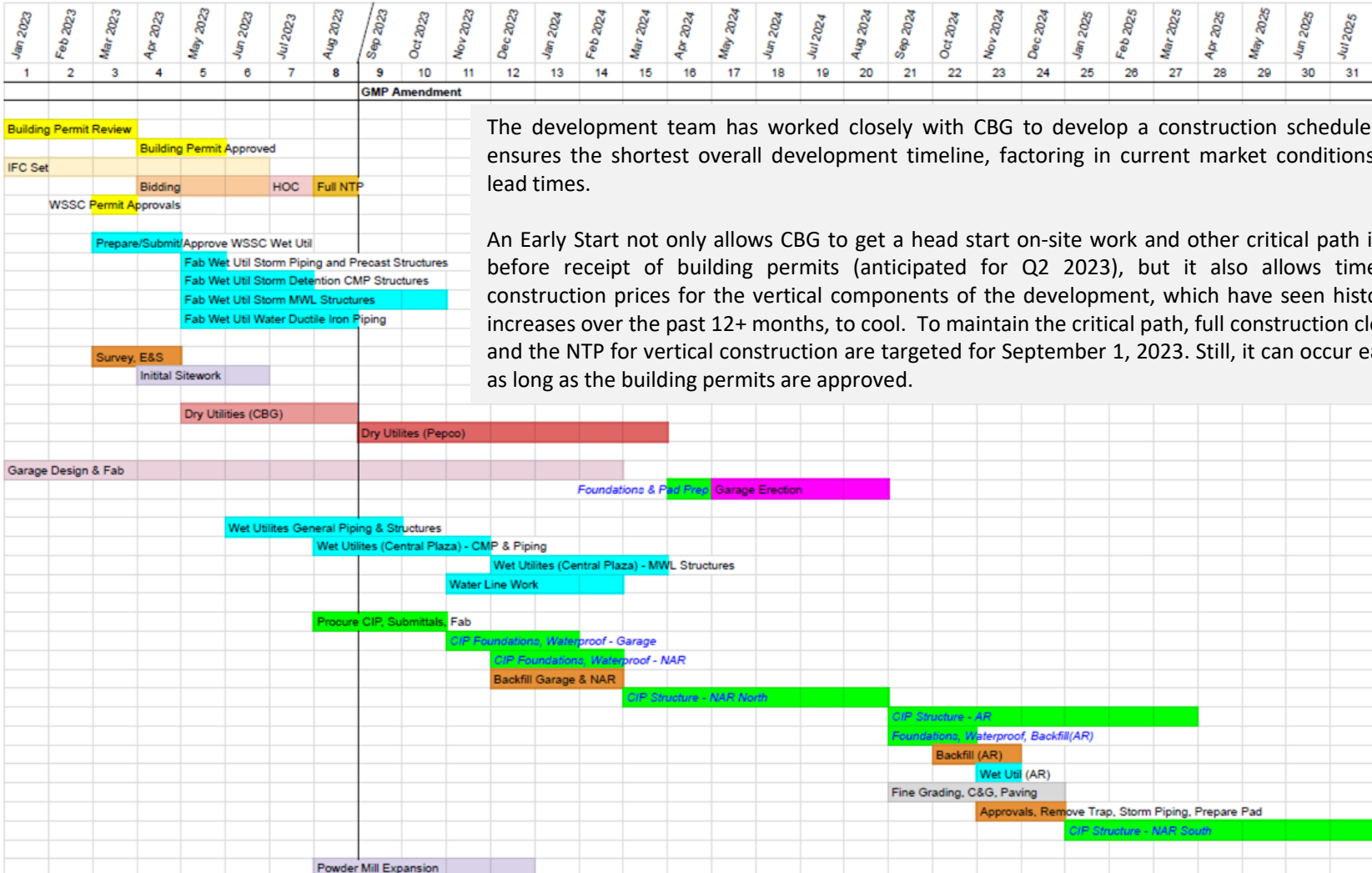
Risks

- Staff requests obligating funding for the full Early Start budget, even though it is not projected to be spent before construction closing. However, this risk is mitigated by the fact that the value of the site “as ready” for vertical construction (after completion of the Early Start scope of work) is more than the cost of the Early Start work and predevelopment costs combined. The “as-is” value of the leasehold interest in the land (the market value based on its current condition without any of the Early Start work completed) is approximately \$24M.
- HPF principal must be paid within five years from when it is drawn. If the permanent conversion is delayed, HOC would need to identify a source to repay the HPF.

Construction Schedule

Hillandale Gateway
Early Start Scope

— CBG
Sequencing & Schedule Summary

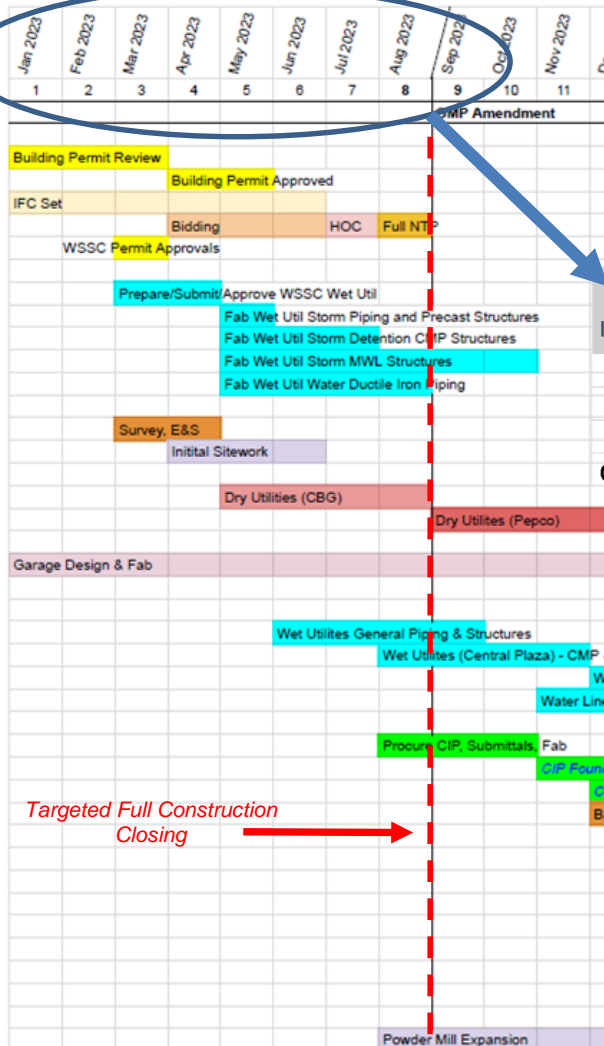


The development team has worked closely with CBG to develop a construction schedule that ensures the shortest overall development timeline, factoring in current market conditions and lead times.

An Early Start not only allows CBG to get a head start on-site work and other critical path items before receipt of building permits (anticipated for Q2 2023), but it also allows time for construction prices for the vertical components of the development, which have seen historical increases over the past 12+ months, to cool. To maintain the critical path, full construction closing and the NTP for vertical construction are targeted for September 1, 2023. Still, it can occur earlier as long as the building permits are approved.

HPF Draw Schedule

Hillandale Gateway Early Start Scope



While staff is requesting that the Commission obligate \$14.5M in HPF funds for the full Early Start budget, it is anticipated that only \$7.2M (~50%) would be drawn before September 1, 2023, which is the targeted full construction closing date. Interest expense on the Early Start draws total approximately \$123K through August 2023 and can be paid from previously approved and obligated predevelopment funds.

HPF Draw and Interest Projections	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23
Monthly Draws	\$435,739	\$1,112,038	\$708,841	\$703,551	\$964,549	\$1,105,327	\$1,074,689	\$1,115,121	\$1,091,379
Cumulative Draws	\$435,739	\$1,547,778	\$2,256,619	\$2,960,170	\$3,924,718	\$5,030,045	\$6,104,734	\$7,219,855	\$8,311,234
Monthly Interest	\$1,816	\$6,449	\$9,403	\$12,334	\$16,353	\$20,959	\$25,436	\$30,083	\$34,630
Cumulative Interest	\$1,816	\$8,265	\$17,667	\$30,001	\$46,354	\$67,313	\$92,749	\$122,832	\$157,462

Note:* The potential cost savings due to a shortened overall development period are approximately \$458,500.

PROJECTED SAVINGS DUE TO EARLY START	Per Month	Total*
Ground Lease Payments	\$29,750	\$178,500
Development Fees	\$20,000	\$120,000
Project Management Fees	\$6,667	\$40,000
Preconstruction Construction Management	\$20,000	\$120,000
TOTAL	\$76,416.67	\$458,500

*Compared to a scenario where there is no Early Start, and construction begins 30 days after receipt of building permits.

Summary and Recommendations

ISSUES FOR CONSIDERATION

Does the Development & Finance Committee wish to join Staff's recommendation to the Commission that it:

- Authorize the Executive Director to execute a contract with CBG for an amount not to exceed \$11.5MM and to provide a Limited Notice to Proceed ("LNTP") for the Early Start work?
- Approve an Early Start budget for Hillandale Gateway in an amount not to exceed \$14.5M?
- Authorize the Housing Production Fund ("HPF") as a source for the Early Start work in an amount not to exceed \$14.5M?

BUDGET/FISCAL IMPACT

There is no adverse impact on the Commission's FY2023 Operating Budget. The HPF has sufficient unobligated funds to meet this request.

TIME FRAME

For discussion at the December 16, 2022 meeting of the Development and Finance Committee and formal action in an open meeting of the Commission on January 11, 2023.

STAFF RECOMMENDATION AND COMMISSION ACTION NEEDED

As these approvals would allow Hillandale Gateway to maintain its development timeline and better position the development team to manage construction cost risk, staff is recommending that the Development and Finance Committee join staff's recommendation that the Commission:

- Authorize the Executive Director to execute a contract with CBG for an amount not to exceed \$11.5MM and to provide a Limited Notice to Proceed ("NTP") for the Early Start work?
 - The contract would allow CBG to perform Early Start work under a Limited Notice to Proceed ("LNTP").
 - Staff will return to the Commission for approval of an amended GC contract for full construction of the project in the summer of 2023.
- Approve an Early Start budget for Hillandale Gateway in an amount not to exceed \$14.5M.
 - The Early Start budget includes hard construction costs (GC contract amount), soft costs, and contingency.
- Authorize the Housing Production Fund ("HPF") as a source for the Early Start work in an amount not to exceed \$14.5M.