

# ASSET MANAGEMENT 2.0



Arizona  
Department  
*of* Housing



Arizona Housing Forum

August 24, 2018

# PURPOSE OF THE ASSET MANAGEMENT POSITION

To work with owners of multi-family properties which have a State or Federal investment to process:

- Qualified Contract requests;
- Ownership Change requests;
- Loan Payment Deferral requests; and
- coordinate work-outs and identify solutions to minimize the emergence of troubled properties by identifying and proactively addressing potential problems; and
- Assist with underwriting and documentation of projects and loans to avoid pitfalls in the future.



Arizona  
Department  
of Housing

CELEBRATING  
**15**  
YEARS

# Mission, Vision & Values

Creation of safe, decent, affordable housing.

# LIHTC Project Life Cycle

<u>Development Stage</u>	<u>Time Frame</u>	<u>Partners Involved</u>								
		Developer	Investor	Consultant	General Contractor	Property Manager	Local Govt.	HUD	RD	ADOH
LIHTC Application – LIHTC Award	3 Months	✓	✓	✓			✓			✓
LIHTC Award – Construction Start	1 Year	✓	✓	✓	✓		✓	✓	✓	✓
Construction Start – Completion	1 Year	✓	✓	✓	✓		✓	✓	✓	✓
Completion – Stabilized Occupancy	6 Months	✓	✓			✓	✓	✓	✓	✓
Initial Compliance Period	15 Years	✓	✓			✓	✓	✓	✓	✓
Extended Use Period	30 years	✓				✓	✓	✓	✓	✓

# Qualified Contracts

4. Termination Upon Foreclosure or No Buyer Willing to Maintain Low-Income Status.
  - (a) Except as otherwise provided in subparagraph 4(b) hereof, the Extended Use Period for any building which is part of the Project shall terminate:
    - (ii) On the last day of the one-year period beginning on the date (after the 14<sup>th</sup> year of the compliance period) the Owner, or any successor thereto, submits a written request to the Department to find a person to acquire the Owner's interest in the low-income portion of the building, if the Department is unable to present during such period a **qualified contract** (as defined in Section 42(h)(6)(F) of the Code) for the acquisition of the low-income portion of the building by any person who will continue to operate such portion as a qualified low-income building.

# Qualified Contracts

## OVERVIEW

1. When you apply for a Qualified Contract you are asking ADOH to find a buyer for your property.
2. The earliest you can apply is on the first day after completion of the 14<sup>th</sup> year of the compliance period.
3. The Qualified Contract Price is the minimum sales price of the property.
4. If, after one year from the date of the Qualified Contract application and fees are received, a buyer with a qualified contract cannot be found, ADOH will issue a Partial Release of the LURA.
5. The property will remain subject to the 3 year deregulation period during which existing tenants may still rent at the restricted rent levels.

# Qualified Contracts

## SOME THINGS TO REMEMBER

1. If you waived your right to apply for a Qualified Contract you are not eligible to apply.
2. It is highly recommended that you contact ADOH for a Determination of Eligibility before starting the application.
3. In 2012 ADOH started giving points in LIHTC applications that waived their right to apply for a Qualified Contract.
4. The Qualified Contract Price must be calculated by a Certified Public Accountant.
5. Completion of a Qualified Contract or passing of the one year term does not affect any restrictive covenant or regulatory agreement related to other financing that may be in place.

## SUMMARY OF QUALIFIED CONTRACT PRICE

(Must be calculated within ninety (90) days of the Application date)

(A)	Calculation of low-income portion	
(i)	Outstanding indebtedness secured by or with respect to the building (from Calculation Worksheet 1)	\$ _____
(ii)	Adjusted investor equity (from Calculation Worksheet 2)	\$ _____
(iii)	Other capital contributions not reflected in (i) & (ii) (from Calculation Worksheet 3)	\$ _____
(iv)	Total of (i) (ii) and (iii)	\$ _____
(v)	Cash distributions from or available for distribution from the project (from Calculation Worksheet 4)	\$ _____
(vi)	<b>Line (iv) - line (v)</b>	\$ _____
(vii)	Applicable fraction	_____ %
(viii)	<b>Low-income portion of the Qualified Contract line (vi) multiplied by line (vii)</b>	\$ _____
(B)	Fair Market Value of non low-income portion of the building(s) (appraised value) (from Calculation Worksheet 5)	\$ _____
	<b>Total QCP (add line (viii) and line B)</b>	\$ _____



# Qualified Contracts

## **NOW WHAT ???**

1. ADOH reviews the Qualified Contract Price calculation.
2. ADOH determines the final Qualified Contract Price.
3. ADOH announces the availability of the property on its website.
4. ADOH may disqualify prospective buyers who have failed to demonstrate the experience and capacity to manage the project in accordance with the LIHTC rules and the Qualified Allocation Plan.

# Calculation of Qualified Contract Price

A.	Calculation of low-income portion:	
	(i) Outstanding indebtedness secured by or with respect to the buildings (from Worksheet A)	\$874,294
	(ii) Adjusted investor equity (from Worksheet B)	\$2,450,888
	(iii) Other capital contributions not reflected in (i) or (ii) (from Worksheet C)	\$0
	(iv) Total of (i), (ii) and (iii)	<u>\$3,325,182</u>
	(v) Less cash distributions from or available for distribution from the project (from Worksheet D)	<u>\$(199,469)</u>
	(vi) Line (iv) reduced by line (v)	\$3,125,713
	(vii) Applicable fraction (as set forth in the Tax Credit Allocation Agreement Table A)	<u>72.22%</u>
	(viii) Low-income portion of the Qualified Contract Price (line (vi) multiplied by line (vii))	\$2,257,390
B.	Fair Market Value of non low-income portion of the buildings (from Calculation Worksheet E)	\$325,000
	Unimproved Land Value	\$850,000
	Value of Market Rate Units	<u>\$850,000</u>
	Total Qualified Contract Price (sum of line A(viii) and line B)	<u>\$3,432,390</u>

# Active Arizona Qualified Contract Requests

Allocation Year	Placed in Service Year	Ownership Entity	Project Name	City	Application Received	Qualified Contract Price	Appraised Value	Property Contact
1999	1999	Mesa Valley Housing Associates, L.P.	Sonora Vista I Apartments	Mesa	8/31/2017	\$ 9,189,411	\$ 6,000,000	Jessica Raymond (480) 256-0506
1999	1999	Mesa Valley Housing Associates II, L.P.	Sonora Vista II Apartments	Mesa	9/5/2017	\$ 8,271,764	\$ 5,500,000	Jessica Raymond (480) 256-0506
1997	1999	Villa Nueva Housing Partners L.P.	Villa Nueva Apartments	Yuma	9/6/2017	\$ 5,623,099	\$ 4,300,000	Daniel Terlecki (614) 792-5511
2001	2003	Premier Camp Verde, LLC	Parkway Apartments	Camp Verde	11/21/2017	\$ 5,502,561	\$ 1,245,000	Calvin Akin (262) 790-4560
1996	1998	Coolidge 98, LLC	Canyon Creek Apartments	Coolidge	1/16/2018	\$ 2,829,694	\$ 1,150,000	SergeyShukhat (480) 326-6078
1996	1998	Coolidge 98, LLC	Coronado Apartments	Coolidge	1/16/2018	\$ 2,852,454	\$ 1,100,000	SergeyShukhat (480) 326-6078
1999	2001	Coolidge 98, LLC	Desert View Apartments	Coolidge	1/16/2018	\$ 4,857,313	\$ 1,600,000	SergeyShukhat (480) 326-6078
1995	1996	Las Palomas Village, L.P.	Las Palomas Village Apartments	Sierra Vista	6/4/2018	\$ 6,293,030	\$ 5,600,000	Jessica Raymond (480) 256-0506

# Qualified Contracts

## NON-COOPERATION

1. If the owner fails to cooperate with ADOH in marketing the property, ADOH may suspend the one year Qualified Contract period or deem the project ineligible for a Qualified Contract and the owner will be required to comply with the full term of the Extended Use Period.
2. Failure to cooperate includes, but is not limited to, the Owner's failure to complete the application; respond to ADOH requests for documentation, delay or refuse to allow inspections of the property by prospective purchasers.
3. The owner is not required to accept any purchase offers presented through ADOH, however, if the owner rejects an offer at or above the Qualified Contract Price, the project will remain affordable for the remainder of the Extended Use Period.

# Qualified Contracts

If, after one year from the date the application and fees were received, a Qualified Contract is not obtained, then a Partial Release of the LURA will be executed.

## PLEASE NOTE:

**IF THERE ARE COMPLIANCE ISSUES AT THE PROPERTY, OR IF YOUR PROPERTY DOES NOT MEET OR EXCEED UNIFORM PHYSICAL CONDITION STANDARDS (UPCS) ADOH MAY DELAY OR REVOKE THE PARTIAL RELEASE UNTIL THE ISSUES ARE CORRECTED.**

# Ownership Transfers

- Sale of the property
- Purchase of General Partner (Managing Member) Interest
- Purchase of Limited Partner (Investor Member) Interest
- Guidelines are on the ADOH website

# Ownership Transfers

## PRIMARY CONSIDERATIONS

- Who is the new entity?
  - Do they have a track record with ADOH?
  - How is there track record in other states?
- Will the new owner be able to operate the property and keep it in compliance for the remainder of the extended use period?

# LIHTC Project Life Cycle

<u>Development Stage</u>	<u>Time Frame</u>	<u>Partners Involved</u>								
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Construction Start – Completion	1 Year	✓	✓	✓	✓		✓	✓	✓	✓
Completion – Stabilized Occupancy	6 Months	✓	✓			✓	✓	✓	✓	✓
Initial Compliance Period	15 Years	✓	✓			✓	✓	✓	✓	✓
Extended Use Period	30 years	✓				✓	✓	✓	✓	✓





March 27, 2017

## ASSET MANAGEMENT POLICIES AND PROCEDURES

### **Procedures for Changing the Owner, Managing Member/General Partner or Limited Partner/ Investor Member of a Low Income Housing Tax Credit property**

Multi-family residential properties developed using Federal Low Income Housing Tax Credits (LIHTC) provided by the Arizona Department of Housing ("the Department") require the Department's approval for changes to the owner, or members of the Ownership Entity, namely the managing member (for a Limited Liability Company), general partner (for a Limited Partnership), limited partner (for a Limited Partnership), or an investor member (for a Limited Liability Company). This document provides the Department's Policies and Procedures for requesting an ownership change.

#### Key Considerations

The request must demonstrate that the new owner, managing member/general partner, or limited partner/investor member possess the experience and financial capacity necessary to own and operate the property consistent with the Department's objective of providing safe, decent, affordable housing. To this end, the new party must not be involved in any capacity in a project with any State agency that has excessive non-compliance violations, outstanding IRS 8823 Forms, or complaints about their performance and maintenance of existing projects. The Department expects that the seller will convey the property in good condition and; therefore, will only approve requests for properties in which there are no outstanding non-compliance issues.

#### Submitting the Request

To request a change of owner, managing member/general partner, or limited partner/investor member, please submit the following documents through the Asset Management Portal on the Department website:

1. A letter requesting a change to the owner, managing member/general partner, or limited partner/investor member stating the reason(s) for the change.
2. Purchase and Sale Agreement or Assignment and Assumption Agreement.
3. A completed Contact Sheet (see tab labeled "Contact Sheet").
4. Evidence the equity partner has approved the new managing member/general partner.

5. Organization chart illustrating the relationship whether through ownership, control, or contract within the ownership entity between the managing member/general partner and limited partner/investor member.
6. Copy of the limited partnership agreement, operating agreement for a limited liability company, a development services agreement, or similar agreement.
7. Resumes specifically identifying the officers or key employees of the managing member or general partner demonstrating the knowledge and experience necessary to successfully manage the property.
8. Financial Statements of the developer/parent company of the managing member or general partner for the prior two (2) fiscal years.
9. Evidence the new owner, managing member/general partner, or limited partner/investor member are duly formed legal entities authorized to transact business in the State of Arizona and in good standing with the Arizona Corporation Commission or the Arizona Secretary of State. See Exhibit A (tab labeled "Exhibit A") for specific requirements.
10. Fifteen (15) year operating pro forma.

#### Administrative Fees

Administrative Fees to process the request may be submitted by credit card through the Payment Portal on the Department's website or by check. The Fees are as follows:

- \$1,500 for owner or managing member/general partner change.
- \$500 for limited partner/investor member change.

# Loan Payment Deferral Requests

On April 25, 2018 ADOH issued an Information Bulletin (No. 17-18) revising the Loan Payment Deferral Process.

## KEY POINTS:

- Only loans with a cash flow payment provision in the Promissory Note are eligible to request a payment deferral.
- Loan Deferral requests must be submitted via the Asset Management Portal on the ADOH website. **Loan Deferral Requests will not be accepted via email.**
- Based on the audited financial statement and the terms of the Promissory Note, **ADOH will conduct a cash flow analysis and make a determination** whether and to what extent, loan payment may be deferred.
- Loan Deferral requests will not be considered for properties that are out of compliance with applicable CC&Rs and LURAs.

**PROMISSORY NOTE**  
**HOME FUNDS FOR RENTAL DEVELOPMENT PROJECTS**

Contract No: \_\_\_\_\_  
Loan No: \_\_\_\_\_  
Effective Date: \_\_\_\_\_  
Maturity Date: \_\_\_\_\_

For value received, the undersigned, \_\_\_\_\_, an Arizona limited partnership ("Borrower"), together with such party's or parties' successors and assigns, jointly and severally (if more than one) hereby promises to pay to the order of STATE OF ARIZONA, ARIZONA DEPARTMENT OF HOUSING, its successors or assigns, ("the Department") the principal sum of **Six Hundred Seventy Three Thousand Five Hundred Eighty Seven dollars (US\$673,587)** with one (1%) interest on the unpaid balance as hereinafter provided.

**RECITALS**

- A. Borrower undertakes the construction and/or rehabilitation of the Project more fully described in Exhibit A, below.
- B. Borrower applied to the Department for rental development financing for the Project including Borrower's application for financing including any representations, declarations, certifications, documents, materials, reports, appraisals or studies, provided by Borrower to the Department;
- C. In reliance on submittals and representations by Borrower, the Department has agreed to loan HOME Funds to the Project, provided that Borrower agrees to abide by the terms and provisions of the Loan Documents, Department Guidance, such Federal Guidance as the Department has deemed applicable to the Project, and the direction of the Department to enforce the same including but not limited to the affordability requirements, occupancy restrictions, project characteristics, and suitability of the units for occupancy.

**AGREEMENT**

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth, and of all other valuable consideration, Borrower and the Department agree as follows:

1. **Incorporation.** The above recitals are incorporated herein and made part of this Note.
2. **Defined Terms.** As used in this Note:
  - "Amortization Schedule" means the schedule of payments attached to this Note as Exhibit B.
  - "CCR's" means the Declaration of Covenants, Conditions, and Restrictions executed by Borrower as Declarant in favor of the Department in partial consideration for the Department making the Loan and for the purpose of binding the Project to the specific requirements of the Department.

# Loan Payment Deferral Requests

## Sample Language in Note

- a) Borrower shall make annual payments of unpaid principal and accrued interest according to the Amortization Schedule attached to this Note as Exhibit B by no later than the Payment Due Date of each year beginning in 2016. **Notwithstanding the foregoing, in the event that Cash Flow is less than the annual payment described in the Amortization Schedule for a given year, payment of the Cash Flow amount shall satisfy the Borrower's annual payment obligation for that year.** Payment of the amount of unpaid principal and accrued interest for any given year shall be deferred to the Maturity Date. In the event that Lender determines that the annual payment amount tendered by Borrower is insufficient, Lender will invoice Borrower for the amount of insufficiency and Borrower shall remit payment of the invoiced amount within 30 days after the date of the invoice.



# Loan Payment Deferral Requests

## Sample Cash Flow Definition in Note

"Cash Flow" means for the twelve-month period ending on December 31st preceding the Payment Due Date, the following amount: **the sum of gross rent revenues** (less rental taxes and tenant security deposits) **and other income received by the Borrower from the operation of the Property** including without limitation amounts withheld from security deposits returned to tenants; **less (a) annual accrued debt service for any Permitted Encumbrances, (b) actual operating expenses** (including but not limited to utilities, supplies, repair and maintenance costs, property taxes, property management fees, and insurance escrows and reserves, and **amounts deposited in any replacement reserve account**); and excluding allowable depreciation; **(c) payment of any unpaid deferred developer fee amount;** and **(d) payments of reasonable asset management fees** in accordance with the Participation Agreement. Cash Flow shall be calculated based on the Borrower's audited financial statements for the twelve-month period ending on December 31st preceding the Payment Due Date.

# Arizona Housing Forum Example

## Calculation of Cash Flow

	<u>2016 Actual</u>
Net Rental Income	\$340,997
Other Income	\$53,131
<b>Effective Gross Income</b>	<b>\$394,128</b>
Less: Operating & Maintenance Expense	\$27,969
Utility Expense	\$23,001
Administrative Expense	\$118,049
Taxes & Insurance	\$39,828
Replacement Reserve Deposit	\$3,517
<b>Net Operating Income</b>	<b>\$181,764</b>
Less: First Mortgage Debt Service	\$44,184
<b>Cash Flow</b>	<b>\$137,580</b>
Less: Asset Management Fee	\$3,212
Deferred Developer Fee	\$63,369
<b>Cash Flow Available for ADOH Debt Service</b>	<b>\$70,999</b>
<b>Due to ADOH Loan</b>	<b>\$37,327.04</b> (full payment)

# Additional Considerations in Loan Deferral Requests

- Why can't a payment be made?
  - What is the fundamental problem with the property?
- When does the initial 15 year compliance period end?
- When does the first mortgage mature?
  - Will a balloon payment be due?
- Are other lenders involved?
- When does our loan mature?
- When does the affordability period end?



# Loan Payment Deferral Requests

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- Loan Deferral requests will not be considered for properties that are out of compliance with applicable CC&Rs and LURAs.

# Information Bulletins

- Are you on the ADOH mailing list?
- Do you receive the Information Bulletins?
- Do you read the Information Bulletins?



# THE ASSET MANAGEMENT PAGE ON THE ADOH WEBSITE