

Subject: Franco Center Housing Assistance Payment ("HAP") Contract

Background Information:

April 2009, the Board of Commissioners approved a one-year Project-Based Section 8 Housing Assistance Payment Contract (HAP) for the Franco Center Senior Apartments. The HAP contract will expire on September 30, 2010. According to HUD regulations, the Housing Authority notified the Franco Center residents that the Housing Authority is seeking a renewal of the HAP contract. This report is being presented for informational purposes and will be brought back in March as an action item.

The following are three options available for consideration.

Option #1: Mark-Up-To-Market HAP Contract

The Mark-Up-To-Market Option will allow for the rents to be renewed at the lesser of comparable market rents or 150% of the FMR. Under Mark-Up-to-Market, owners must renew the HAP contract for **a minimum five-year term**. For years two through five, the rent can only be increased annually based upon the HUD Operating Cost Adjustment Factor (**OCAF**) which is typically 4.3%.

Option #2: Operating Cost Adjustment Factor (OCAF) HAP Contract

OCAF Option is for owners who request a renewal of the HAP contract where the Rent Comparable Study indicates that the contract's current rents are at or below comparable market rents, but who are not applying for Mark-Up-To-Market. The OCAF option allows the owner to request either a **one, five, ten, fifteen, or twenty-year term**.

Option #3: Allow HAP Contract to Expire and Not Renew

Should the HAP Contract not be renewed, the Housing Authority must provide the residents of the Franco Center with Housing Choice Vouchers.

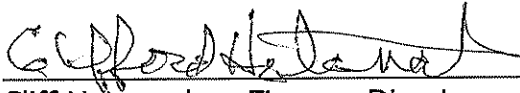
Recommended Action: Option #2, with a one-year term.

Fiscal Impact: If Option #2 is selected, the Annual HAP amount increases by \$39,612; from \$921,216 to \$ 960,828.

Attachments: Feasibility Analysis.

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Funding Certification:

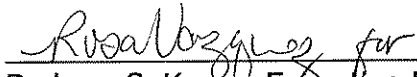


Cliff Hatananka , Finance Director

Approvals:



Rosa Vazquez, Deputy Executive Director



Barbara S. Kauss, Executive Director

Franco Center
 Financial Analysis
 Historic FY2005-06 through FY2008-09
 Projections FY2009-10 through FY2017-18

Net Operating Income

Net Operating Income is the difference between Adjusted Gross Income and expenses other than depreciation and interest of loans. Adjusted Gross Income is made up of Gross Rents and Miscellaneous Income such as Laundry Income, less a deduction for vacancies. Expenses are expenses related to the operation of the project and exclude depreciation and financing costs such as principal and interest.

Net Operating Income is a component used to determine the Fair Market Value of a project. It is also used to determine the amount of financing a project can support.

	historic FY2005-06	historic FY2006-07	historic FY2007-08	unaudited annualized FY2008-09	Budget FY09-10	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16	FY16-17	FY16-17	FY17-18
Gross Income	775,437	872,470	793,896	853,901	921,216	939,640	958,433	977,602	997,154	1,017,097	1,037,439	1,058,188	1,079,351	1,100,938
Other Income	58,300	20,688	122,658	61,414	57,530	58,681	59,854	61,051	62,272	63,518	64,788	66,084	67,406	68,754
Less vacancy loss	<u>-44,915</u>	<u>3,234</u>	<u>9,712</u>	<u>6,692</u>	<u>64,485</u>	<u>65,775</u>	<u>67,090</u>	<u>68,432</u>	<u>69,801</u>	<u>71,197</u>	<u>72,621</u>	<u>74,073</u>	<u>75,555</u>	<u>77,066</u>
Adjusted Gross Income	878,652	889,924	906,842	908,653	914,261	932,546	951,197	970,221	989,625	1,009,418	1,029,606	1,050,198	1,071,202	1,092,626
Summary of Operating Expenses														
Total Maintenance expense	105,571	136,066	166,862	121,873	118,263	120,628	123,041	125,502	128,012	130,572	133,183	135,847	138,564	141,335
Total Utility Expense	194,460	183,816	200,155	177,536	170,321	173,727	177,202	180,746	184,361	188,048	191,809	195,645	199,558	203,549
Total Administrative Expense	162,252	199,365	144,041	140,151	139,755	142,550	145,401	148,309	151,275	154,301	157,387	160,535	163,745	167,020
Total taxes and insurance	15,061	13,213	15,986	23,583	41,882	42,120	43,574	44,446	45,334	46,241	47,166	48,109	49,071	50,053
TOTAL OPERATING EXPENSES	477,344	532,460	527,024	463,143	470,221	479,625	489,218	499,002	508,982	519,162	529,545	540,136	550,939	561,958
Net Operating Income	401,308	357,464	379,818	445,510	444,040	452,921	461,979	471,219	480,643	490,256	500,061	510,062	520,263	530,669

Franco Center
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Schedule of Loans

Franco Center is carrying three bonds/notes, plus owes the Housing Authority for funds advanced.

Bond A is currently an interest only note. Principal payments start in FY2010-11, after Bond B is paid off. Current Interest rate is 6.5%, final payment FY2024-25.

Bond B is currently being amortized. Current interest rate is 6.5%, final payment FY2010-11.

HELP loan is interest and principal deferred until maturity in FY2014 - 15. Interest rate is 3.0%

Intercompany Loan - Throughout the history of Franco Center, Operational Reserves or Agency Owned Housing has advanced funds for capital improvements and operations.

In FY2007-08 interest was charged for the use of money and a note was recognized in the Agency's financial statements. Interest for the first two years has been deferred. This analysis assumes interest is to be paid annually with no specified settlement date for the loan principal.

The table below is a list of loans loans. Payments for interest and principal are shown on separate lines. If interest is deferred, it is shown as accrued.

	historic FY2005-06	historic FY2006-07	historic FY2007-08	unaudited historic FY2008-09	Budget FY09-10	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18
Net Operating Income	401,308	357,464	379,818	445,510	444,040	452,921	461,979	471,219	480,643	490,256	500,061	510,062	530,669
DEBT SERVICE													
First Mortgage													
Interest Paid	240,500	240,500	240,500	240,500	240,500	237,792	227,663	216,531	204,913	192,942	180,131	166,075	135,525
Principal Paid	0	0	0	0	0	125,000	165,000	175,000	180,000	190,000	210,000	225,000	245,000
Interest accrued	240,500	240,500	240,500	240,500	240,500	0	0	0	0	0	0	0	0
Total Paid	0	0	0	0	0	362,792	392,663	391,531	384,913	382,942	390,131	391,075	380,525
Second Mortgage													
Interest Paid	37,736	29,115	21,720	14,359	6,554	244	0	0	0	0	0	0	0
Principal Paid	105,000	110,000	115,000	120,000	130,000	30,000	0	0	0	0	0	0	0
Interest accrued	142,736	139,115	136,720	134,359	136,554	30,244	0	0	0	0	0	0	0
Total Paid	0	0	0	0	0	30,244	0	0	0	0	0	0	0
Third Mortgage													
Interest Paid	0	0	0	0	0	0	0	0	0	386,513	0	0	0
Principal Paid	0	0	0	0	0	0	0	0	0	1,800,000	0	0	0
Interest accrued	0	0	35,513	54,000	54,000	54,000	54,000	54,000	54,000	27,000	0	0	0
Total Paid	0	0	0	0	0	0	0	0	0	2,186,513	0	0	0
Fourth Mortgage													
Interest Paid	0	0	0	0	35,086	35,086	35,086	35,086	35,086	35,086	35,086	35,086	35,086
Principal Paid	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest accrued	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Paid	0	0	0	0	35,086	35,086	35,086	35,086	35,086	35,086	35,086	35,086	35,086
Total All Bonds/Loans													
Interest Paid	278,236	269,615	262,220	254,859	282,140	273,121	262,748	251,617	239,998	614,540	215,217	201,161	170,611
Principal Paid	105,000	110,000	115,000	120,000	130,000	155,000	165,000	175,000	180,000	1,990,000	210,000	225,000	245,000
Interest accrued	0	0	77,148	89,086	54,000	54,000	54,000	54,000	54,000	27,000	0	0	0
Total Paid	383,236	379,615	377,220	374,859	412,140	428,121	427,748	426,617	419,998	2,604,540	425,217	426,161	415,611

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Loan Value of Property

A bank will loan money against a property based on the Net Operating Income (NOI). The bank wants to make sure the borrower will be able to make the payments on a loan. Debt Service Ratio is a calculations used to determine how much a bank is willing to loan. The bank looks at the Net Operating Income (NOI) and compares it to loan payments. The loan payment is based on principal, rate and length of time of the loan. Additionally, bank will apply a safety factor to insure they will get paid.

	historic FY2005-06	historic FY2006-07	historic FY2007-08	historic FY2008-09	unaudited annualized Budget FY09-10	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16	FY16-17	FY16-17	FY17-18
Loan Balances														
Bond A	3,700,000	3,700,000	3,700,000	3,700,000	3,700,000	3,410,000	3,410,000	3,235,000	3,055,000	2,865,000	2,655,000	2,430,000	2,195,000	1,950,000
Bond B	160,000	30,000	0	0	0	0	0	0	0	0	0	0	0	0
HELP Loan (incl accrued interest)	1,889,513	1,943,513	1,997,513	2,051,513	2,105,513	2,051,513	2,051,513	2,105,513	2,159,513	0	0	0	0	0
Interco Loan	1,246,240	1,246,240	1,246,240	1,246,240	1,246,240	1,246,240	1,246,240	1,246,240	1,246,240	1,246,240	1,246,240	1,246,240	1,246,240	1,246,240
Total Loan Balance at fiscal year-end	6,995,753	6,919,753	6,818,753	6,707,753	6,586,753	6,707,753	6,460,753	6,460,753	4,111,240	4,111,240	3,901,240	3,676,240	3,441,240	3,196,240

Property Needs Assessment Study May 2008

1,248,641

Loan Value Based on Debt Coverage Ratio

Assuming DCR 1.20	1.2
20 yrs @ 5.00% = constant .0792	0.0792
20 yrs @ 6.00% = constant .0860	0.0860
30 yrs @ 5.00% = constant .0645	0.0645
30 yrs @ 6.00% = constant .0720	0.0720
Assuming DCR 1.10	1.1
20 yrs @ 5.00% = constant .0792	0.0792
20 yrs @ 6.00% = constant .0860	0.0860
30 yrs @ 5.00% = constant .0645	0.0645
30 yrs @ 6.00% = constant .0720	0.0720