

Affordable Housing

Financial Management Challenges for CAAs

Community Action Partnership 2020 Annual Convention

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Who is in our session today?



Poll

Your Role in a CAA?

- **CFO – Fiscal Director**
- **CEO**
- **Housing Developer**
- **Asset Manager**
- **Board Member**
- **Other**

Session Topics

- **Affordable housing basics for CAAs**
- **Housing development finance & process**
- **Asset management**
- **Accounting & reporting challenges**
- **Sponsor opportunities**
- **Sponsor risks**

Your CAA's Role in Affordable Housing

- **Directly own affordable housing units**
- **General partner in LLC**
- **Sponsor single asset entities**
- **Currently developing housing**
- **Asset management**
- **Property management**
- **Resident Services**

CAA Affordable Housing Financial Management Goals

- **Meet key community needs**
- **Manage risks**
- **Maximize opportunities**
- **Enhance CAA sustainability**

Affordable Housing Realities

- **Multiple Entities**
- **Multiple Lines of Business**

Multiple Lines of Business

- **Housing Development**
- **Property and Asset Management**
- **Home ownership**
- **Resident Services**
- **Other human services**

Multiple Entities

- **Direct Ownership**
- **Single Asset Entities** – HUD 811 & 202, LIHPRHA, Rural Development
- **Low Income Housing Tax Credit(LIHTC)** Partnerships or LLC

HUMAN SOLUTIONS, INC. AND OTHER ENTITIES

PROPERTIES OWNERSHIP SCHEDULE

Year Ended June 30, 2018

*Properties Owned Directly by
Human Solutions, Inc.:*

Briarwood East
Carolyn Gardens
Columbia View
Douglas Meadows
Greentree Court
Ivon Court

*Combined Entities: Low Income Housing
Preservation and Resident Homeownership
Act Projects:*

Fairview Arms Housing, Inc. (through November 2017)
The Pines Housing, Inc.

Equity Investments and Consolidated Subsidiaries:

Property	Ownership Entity (OE)	OE Owners	%	HSI Accounting Method for Owner Entity
Ankeny Arms	Ankeny Arms, LP	<ul style="list-style-type: none"> • GP-HSI • LP-HS Ankeny Woods, LLC 	1% 99%	In consolidation In consolidation
Cascade Crossing	Cascade Crossing Development, LLC	• HSI	100%	In consolidation
The Cedars	HS Cedars, LLC	• HSI	100%	In consolidation
Fairview Arms	Fairview Arms, LP	<ul style="list-style-type: none"> • GP-HSI through Fairview GP, LLC • LP-external Investors 	0.01% 99.99%	Was in combination, then equity after 11/17 sale to OE
Gilsan Commons	Gilsan Commons Phase I, LP	<ul style="list-style-type: none"> • GP-HSI through HSI Gilsan Commons, LLC • LP-external Investors 	0.01% 99.99%	In consolidation Equity
Lincoln Woods	Lincoln Woods Housing, LP	<ul style="list-style-type: none"> • GP-HSI • LP-external Investors 	0.01% 99.99%	In consolidation Equity
Park Vista	Park Vista Stark, LP	<ul style="list-style-type: none"> • GP-HSI • GP-HSI through Park Vista Stark Development, LLC 	0.01% 99.99%	In consolidation In consolidation
Rockwood - residential	Rockwood Housing, LP	<ul style="list-style-type: none"> • GP-HSI through Rockwood Building, LLC • LP-external Investors 	0.01% 99.99%	In consolidation Equity
Rockwood - commercial	Rockwood MSC QALICB, Inc.	• HSI controls this 501(c)(3)	NA	In combination
Rosewood - residential	Rosewood Plaza, LP	<ul style="list-style-type: none"> • GP-HSI through 18155 NE Couch Street Associates, LLC • LP-external Investors 	0.01% 99.99%	In consolidation Equity
Rosewood - commercial	Rosewood Commercial Condo, LLC	• HSI	100%	In consolidation
Whispering Winds	Whispering Winds Housing, LP	<ul style="list-style-type: none"> • GP-HSI through Arbor Glen GP, LLC LP-external Investors 	0.01% 99.99%	In consolidation Equity

NOTE: All LLCs above are 100% owned by HSI.

Directly Owned Rentals

- **Property is an asset of CAA**
- **Debt is debt of CAA**
- **Profit/loss from operation impact CAA's net income**
- **Cash flow from property impacts CAA's cash**

Nonprofit Single Asset Entity

LIHPRHA, HUD 202 or 811, RD

- **Property is asset of the separate nonprofit entity**
- **Debt is debt of the separate entity**
- **Profit/loss from operation impacts the net worth of the separate entity, not the core nonprofit**

Low Income Housing Tax Credit (LIHTC) Entities

- **For-profit structure - LLC**
- **99%+ owned by investors**
- **CAA is General Partner with less than 1% ownership**
- **Property recorded as asset on the LIHTC books**
- **Debt, acquisition, and development costs recorded on the LIHTC books**

LIHTC Equity

- In the LIHTC
assets – liabilities = owner's equity
- **CAA records its minority interest in the equity of the LIHTC entity as an asset on the CAA's books**

Development Process

- **Site control**
- **Prepare project pro forma**
- **Obtain financing**
- **Construction**
- **Lease-up**
- **Operation**

Financing Housing Development

- **Grants**
- **Commercial Debt**
- **Bond financing**
- **Tax credit investors**
- **Sponsor/owner (CAA) investment**

Affordable Housing by the Numbers

Development Budget		
Uses of Funds		
Site acquisition	658,750	
Construction	8,250,000	
Soft costs	1,363,688	
	<hr/> 10,272,438	
Sources of Funds		
LIHTC equity	7,354,471	Investor pay-in
Loans	2,453,103	6% interest, 30 year term
Owner's equity	150,000	Deferred developer fee
Other sources	314,864	Gap - Grants needed!
	<hr/> 10,272,438	

Developer Fees

How CAAs Pay for the Development Process

- **Developer Fees** are included in the project pro forma Uses of Funds
- Treated differently in directly owned, single asset, and LIHTC projects
- May be split with development partner

Developer Fees for Directly Owned Rentals

- Provides **cash** to core organization (CAA) when collected
- Generally increases **debt** of CAA
- Only developer fees paid through **grant funds** are **income** to CAA

Single Asset Entity

- Developer Fee is part of the cost of the **asset** recorded on the **separate entity's books**
- Payment of Developer Fee increases **debt** of the **separate entity**
- Developer Fee is **income** to the **CAA** sponsoring the development of SAE

LIHTC Developer Fees

- **Developer fee** is part of the cost of developing the property – recorded on the **LIHTC** books as part of the **asset** created through development
- **Obligation to pay** the Developer Fee is recorded on the **LIHTC** books as a **liability**

LIHTC Developer Fee

Impact on CAA

- **Developer Fee from LIHTC is income** to the **CAA** functioning as developer
- When LIHTC pays the Developer Fee, CAA receives cash
- When LIHTC **defers payment** of Developer Fee, **CAA** records **receivable** as an asset – often with constraints on when it can be collected

Impact of Property Operating Income & Expense on CAA differs in:

- **Directly owned properties**
- **Single asset entities**
- **LIHTC properties**

Nonprofit Single Asset Entity

- Property management, asset management, resident services fees may be paid to the core entity (CAA)
- Fees are **expense** of the **separate entity** and **income** to the **core nonprofit (CAA)**
- Payment of fees results in **cash** to core entity (CAA)

LIHTC - Operations Impact

- LIHTC operating **profit/loss** **increases/decreases** the **equity** of the LIHTC
- CAA records **minority share** of the LIHTC net income/loss as income or loss – **impacts CAA net income**

LIHTC Cash Flow Impact

- LIHTC net **cash flow impacts ability to pay** Deferred Developer Fees or other Notes Payable to **CAA**
- **CAA** may be required to **contribute cash** to LIHTC if severe cash flow problems persist

Cash available to sponsor (CAA) depends on the agreement with investors

- **Asset management fee**
- **Resident services fee**
- **Deferred developer fee**
- **Accrued interest**
- **Other??**

“Waterfall” specifies order for paying cash out of the LLC



LIHTC Compliance Risks

- **CAA as general partner - responsible for compliance**
- **For-profit partners are at risk for losing tax credits if project not managed properly**

After Development . . .

CAA Asset Management Responsibilities

- **Oversight of property management**
- **Compliance**
- **Portfolio performance**
- **Rehabilitation**
- **Refinancing**
- **Exit strategies**

Planning/Budgeting:

- **Property budgets**
- **Property cash flow projection**
- **Investment in asset management & resident services**
- **Refinance**
- **Major rehabilitation/ redevelopment**
- **15 year exit**

Operations Challenges

- **Internal controls**
- **Purchasing-procurement**
- **Leasing and turn-overs**
- **Compliance**
- **Cost control**

Accounting/Recording:

- **Transition from pre-development to construction to lease-up & operation**
- **Property income and expense**
- **Property balance sheet**
- **Impact on CAA books**
- **Consolidation with CAA financial statements?**

COMMUNITY PARTNERS FOR AFFORDABLE HOUSING, INC.

December 31, 2017

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

ASSETS	CPAH	TAX CREDIT ENTITIES	SINGLE ASSET HUD PROJECTS	ELIMINATIONS	CONSOLIDATED
Cash	\$ 1,266,003	\$ 799,986	\$ 14,868	\$ -	\$ 2,080,857
Cash - restricted	122,785	1,681,759	441,018	-	2,245,562
Receivables - operating	1,493	8,980	3,935	-	14,408
Receivables - grants	96,251	-	-	-	96,251
Prepaid expenses	21,471	16,308	11,016	-	38,745
Tenant security deposits	22,172	155,604	32,039	-	209,815
Predevelopment costs	795,561	-	-	-	795,561
tax credit fees - net	-	183,112	-	-	183,112
Receivables from affiliates	1,994,676	-	-	(1,994,676)	-
Investments in affiliates	1,404,909	-	-	(1,404,909)	-
Subtotal	5,715,271	2,845,749	502,876	(3,399,585)	5,664,311
Fixed assets					
Land and improvements	739,859	2,524,171	323,603	(220,000)	3,367,633
Site improvements	700,044	1,936,765	274,458	-	2,911,267
Buildings and improvements	4,020,870	39,282,572	8,434,081	(4,034,298)	47,703,225
Furnishings and equipment	149,001	1,103,432	205,941	-	1,458,374
Total fixed assets	5,609,774	44,846,940	9,238,083	(4,254,298)	55,440,499
Less accumulated depreciation	2,236,593	12,410,472	2,214,184	(958,572)	15,902,677
Fixed assets - net	3,373,181	32,436,468	7,023,899	(3,295,726)	39,537,822
Total Assets	\$ 9,088,452	\$ 35,282,217	\$ 7,526,775	\$ (6,695,311)	\$ 45,202,133

COMMUNITY PARTNERS FOR AFFORDABLE HOUSING, INC.

December 31, 2017

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - CONTINUED

LIABILITIES AND NET ASSETS	CPAH	TAX CREDIT ENTITIES	SINGLE ASSET HUD PROJECTS	ELIMINATIONS	CONSOLIDATED
Liabilities					
Accounts payable	\$ 16,870	\$ 33,654	\$ 17,284	\$ -	\$ 67,808
Accrued liabilities	21,412	21,007	1,000	-	43,419
Prepaid rents	-	4,423	3,373	-	7,796
Refundable security deposits	22,172	155,604	32,039	-	209,815
Mortgages and notes payable	2,142,391	13,831,289	3,272,094	-	19,245,774
Accrued interest	110,679	420,647	67,291	-	598,617
Deferred revenue	220,000	-	-	(220,000)	-
Payables to affiliates	-	1,993,121	1,555	(1,994,676)	-
Total Liabilities	2,533,524	16,459,746	3,394,636	(2,214,676)	20,173,229
Net Assets					
Unrestricted					
Controlling interests	6,061,782	1,404,825	787,610	(5,439,207)	2,815,010
Noncontrolling interests	-	17,417,647	-	958,572	18,376,219
Total Unrestricted	6,061,782	18,822,472	787,610	(4,480,635)	21,191,229
Temporarily restricted - controlling	493,146	-	3,344,529	-	3,837,675
Total Net Assets	6,554,928	18,822,472	4,132,139	(4,480,635)	25,028,904
Total Liabilities and Net Assets	\$ 9,088,452	\$ 35,282,217	\$ 7,526,775	\$ (6,695,311)	\$ 45,202,133

COMMUNITY PARTNERS FOR AFFORDABLE HOUSING, INC.

Year Ended December 31, 2017

CONSOLIDATING STATEMENT OF ACTIVITIES

	CPAH	TAX CREDIT ENTITIES	SINGLE ASSET HUD PROJECTS	ELIMINATIONS	CONSOLIDATED
Support and Revenues					
Support					
Grants	\$ 269,848	\$ -	\$ -	\$ -	\$ 269,848
Contributions	25,621	-	-	-	25,621
Total Support	295,469	-	-	-	295,469
Revenues					
Net rental revenue	275,276	2,511,507	608,481	-	3,395,264
Laundry and tenant charges	-	76,803	9,377	-	86,180
Fees and losses - affiliates	135,605	-	-	(135,605)	-
Interest income	5,277	1,392	168	-	6,837
Interest income - affiliates	73,295	-	-	(73,295)	-
Special events - net	85,480	-	-	-	85,480
Other revenue	81	-	1,851	-	1,932
Total Revenues	575,014	2,589,702	619,878	(208,900)	3,575,694
Total Support and Revenues	870,483	2,589,702	619,878	(208,900)	3,871,163
Expenses					
Personnel costs	440,619	326,183	88,560	-	855,362
Professional fees	124,119	71,889	20,140	-	216,148
Program supplies	9,784	-	-	-	9,784
Telephone	12,556	25,760	3,651	-	41,967
Office supplies	2,148	13,371	7,185	-	22,704
Utilities	40,200	366,663	88,202	-	495,065
Bad debt expense	-	25,997	27,792	-	53,789
Administrative expenses	15,593	15,527	9,336	-	40,456
Insurance	15,605	82,578	37,960	-	136,143
Maintenance and repairs	49,899	355,324	133,798	-	539,021
Property management fee	18,708	132,995	38,485	-	190,188
Real property taxes	11,006	-	-	-	11,006
Miscellaneous	18,851	6,682	4,179	-	29,712
Mortgage interest	117,722	424,822	135,089	-	677,633
Interest expense - affiliates	-	73,295	-	(73,295)	-
Fees - affiliates	-	67,175	12,440	(79,615)	-
Fees - Limited Partners	-	21,007	-	-	21,007
Monitoring fees - LIHTC	-	15,064	-	-	15,064
Total Expenses before depreciation and amortization	876,820	2,024,332	606,817	(152,910)	3,355,049
Change in Net Assets before depreciation and amortization					
	(6,327)	565,370	13,061	(55,990)	516,114
Depreciation and Amortization					
Depreciation	182,915	1,904,126	219,267	(119,354)	1,586,954
Amortization	-	22,266	-	-	22,266
Total Depreciation and Amortization	182,915	1,926,392	219,267	(119,354)	1,628,220
Change in Net Assets	\$ (189,242)	\$ (761,022)	\$ (206,206)	\$ 63,364	\$ (1,093,106)

Relationship with another NFP

Relationship	Consolidation
Controlling financial interest through direct or indirect ownership of a majority voting interest or sole corporate membership	Required
Control of a related but separate NFP through a majority voting interest in the board of that NFP by means other than ownership or sole corporate membership and an economic interest	Required
Economic interest with control through means other than above	Permitted but not required
Either an economic interest or control of the other NFP but not both	Precluded

Consolidation of Limited Partnerships

ASC 810-20-25

- **General Partner is presumed to control a limited partnership regardless of the extent of the general partner's ownership interest in the limited partnership.**
- **Certain rights of the limited partners can overcome the presumption of control.**

Consolidation of Limited Partnerships

continued

- If the presumption of control is not overcome, then **general partner should consolidate the limited partnership.**
- If the **presumption of control is overcome**, then **don't consolidate**. General partner accounts for its investment in the limited partnership using equity method of accounting.

Property Financial Reporting:

- **GAAP based financial statements**

Balance Sheet, Income Statement, Statement of Cash Flows

- **IRS reporting**

- **Investor reporting**

- **Lender reporting**

- **Waterfall calculation & reporting**

Financial Monitoring Roles

- **Property manager**
- **Asset Manager**
- **Sponsor CFO**
- **Sponsor Board and/or committees**

Overseeing Performance Financial Indicators

Revenue Side	<ul style="list-style-type: none">▪ Vacancy rate▪ Collection rate▪ Turnover rate
Expense Side	<ul style="list-style-type: none">▪ Operating expenses PUPY▪ Expense categories per unit (e.g., Maintenance)
Debt	<ul style="list-style-type: none">▪ Debt Coverage Ratio (over time)
Net Cash Flow	<ul style="list-style-type: none">▪ Net Cash Flow per year (organizational goals)▪ Net Cash Flow PUPY

Sponsor Oversight of Projects

- **Ensure effective asset management**
- **Monitor portfolio performance**
- **Identify and address portfolio risk**
 - Cash flow
 - Overall financial health
 - Condition
 - Compliance

Sponsor Info Needs

- **Timely, accurate, complete property financial statements**
- **Timely audits of all entities**
- **Asset management dashboard**
- **Asset manager alerts & recommendations**

Portfolio Performance Indicators - Impact on the financial health of the sponsor?

- **Economic vacancy rate**
- **Total operating expenses – PUPY**
- **Maintenance expenses – PUPY**
- **Net Income (loss)**
- **Net cash flow**
- **Net cash flow after soft debt payments**
- **Debt coverage ratio**

Dashboards & Reporting

Sample Dashboard:

Property and Financial Data						
	# of Units	Unit Density	Economic Occupancy	Physical Occupancy	Net Operating Income (NOI)	Cashflow
		Average Bedroom Size	Net rental income - uncollected rent (bad debt + aged receivables)/ gross potential rent	For current month	Revenue - Expenses (incl reserve deposits but excludes major/capital replacement items)	NOI - Debt
			>95%	>95%	+	+
Calendar Year						
Property	71	3.3	89%	97%	197,144	403
Property	44	3.3	96%	97%	142,771	20,797
Property	43	3.6	88%	98%	155,666	49,283
Property	32	2.8	99%	100%	83,509	27,871
Fiscal Year						
Property	28	3.5	98%	96%	38,199	(5,695)
Property	108	1.8	99%	97%	28,813	(52,779)
Property	25	1.7	70%	96%	34,669	34,669
Property	6	2.7	84%	83%	(737)	(8,310)
Property	24	2.5	99%	100%	20,782	7,908
Property	NA	NA	100%	100%	21,871	828

The dashboard can include important details about each property like unit density, year built, funding sources and number of buildings.

Organizations tend to bog down their board with reporting, often including pages of financials and lengthy summaries.

The board's focus needs to be on risks, the actions to mitigate these risks, and the results from these actions.

Providing the board with a Dashboard that includes only the most relevant information (tailored to your specific portfolio) will assist them with where to focus their time and energy

Property Performance Risks to Sponsor?

- **Demand for cash to meet operating expenses**
- **Partnership agreement requirements**
- **Negative impact on competitive awards**
- **Negative impact with prospective lenders**

High Level Sponsor Risks

- **Development cost over-runs**
- **Compliance failures**
- **Poor portfolio performance**
- **Insufficient cash flow to cover costs of oversight**
- **Reputational risk**

High Level Sponsor Opportunities

- **Provide needed housing**
- **Manage effectively with strong resident services**
- **Realize substantial unrestricted developer fees**
- **Some properties yield positive operating cash flow**
- **Integrate housing with services**

Next Steps

- **Map** current housing structures & responsibilities for oversight
- Property performance **dashboard**
- Evaluate **asset management**
- Determine **full cost** of development and asset management activities
- Identify appropriate Board **oversight**